

HSBC Global Connections

Trade Forecast Update: Argentina

February 2012

Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86% in the next 15 years (2012-2026)
- International trade growth will accelerate from 2014
- Companies to increase trade activity by 4.70% annually to achieve projected growth
- Fastest growing emerging sectors support trade infrastructure and the transportation of goods around the world
- Argentina's trade growth from 2012 to 2016 will be 162.79%
- Argentina's companies to increase trade activity annually by 5.88% over the next 15 years
- Argentina's fastest emerging export sector is bindings for foundaries, a key infrastructure component, which will grow at an annualised rate of 17.28% over the next five years

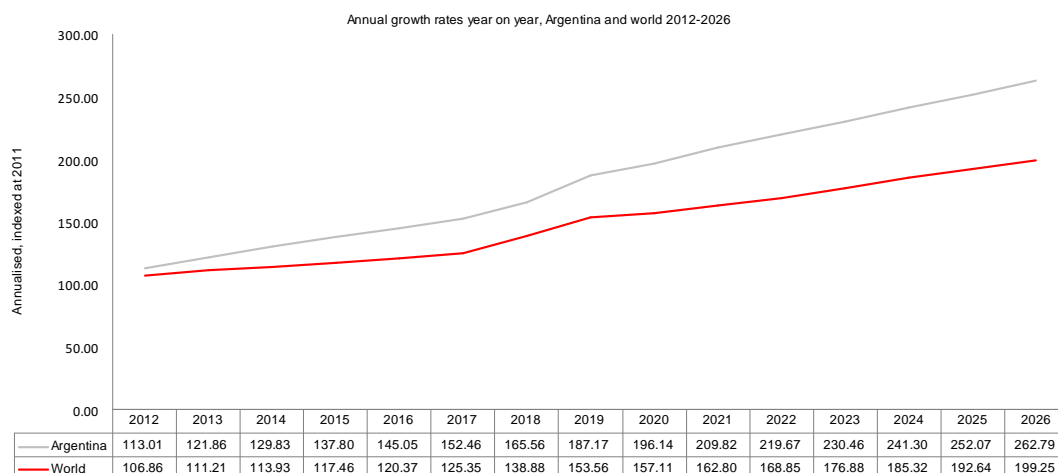
Trade overview

As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. After 2014 the global economy ends a period of slow growth and contraction and sees an upturn in trade in line with GDP forecasts. Over the next five years it is forecast that world trade will grow at an annualised rate of 3.78% (see below graph for year-on-year predictions), due primarily to the expectation of an earlier recovery of the overall global economy. In the period 2017-2021, the Forecast predicts even more rapid annualised growth at 6.23%, as world demand for traded goods recovers its dynamism. As a result world trade is predicted to grow by 86.00% in the next 15 years, taking total trade activity in that year to \$53.8 trillion.

The Trade Forecast predicts that trade in Argentina will grow at an annualised rate of 6.61% over the next five years to 2016 and that it will increase even more substantially after that with growth between 2017 - 2021 at 6.94% annualised. This equates to growth of 162.79% due to the speed at which the Latin American economy is developing in terms of infrastructures. Annualised total trade growth in Argentina over the next 15 years will be 5.88%, which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Argentina's trade outlook

Argentina's trade will grow faster than the world average throughout the whole trade forecast period to 2026. The Forecast predicts that Argentina's growth will be at 6.16%, higher than the rate of growth that is average for the world in 2012. It forecasts that by 2016 Argentina's total trade growth will be 24.99% above average growth for the world and by 2026 the gap will have widened further to 63.55%. World growth is because of accelerated growth after 2015 in Latin America and Asia Pacific, and Argentina is well-placed to take advantage of this with key trade corridors emerging with Brazil, Chile and China.



Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking:

"Where once businesses followed economic investment, now, forward-thinking companies lead, taking matters into their own hands and making business happen. Whether that's taking advantage of shorter-term growth in international trade, which despite economic uncertainty sits at \$1trillion a year, or by creating new supply chains that open up trade corridors, businesses are connecting themselves to future opportunities. The reality is that growth opportunities lie internationally. The companies that succeed will be planning for that today."

Trade corridors and trends

Brazil, China and Chile are Argentina's largest export partners with export trade forecast to grow over the next five years at an annualised rate of 8.21%, 3.16% and 3.55% respectively. Exports to Brazil will be driven by an emerging automotive supply chain between the two countries. Exports to Switzerland will grow by 11.76% (to 2016) driven by exports of gold. Large inter-regional export partners include Colombia and Venezuela; exports are forecast to grow by 11.59% and 9.19% to 2016. Export trade with Canada, Vietnam and Indonesia are also forecast to increase, demonstrating that Argentina is not only reliant on intra-regional trade.

Brazil, China and the USA are Argentina's largest import partners. Imports from Brazil, like exports, are dominated by the emerging automotive supply chain corridor between the two countries. China's imports are also forecast to increase substantially, making it the second fastest growing large import partner; most of which will be accounted for by imports growth in the consumer electronics sector. For example, the Trade Forecast predicts that electrical appliances for line telephony imports will increase by 15.07% and computers by 11.61%, both annually to 2016. Argentina's fastest growing import partner is South Korea which will increase its imports into the country at an annual rate of 11.48% over the next five years. Other emerging import partners reflect the rapidly growing manufacturing and infrastructure sectors in Argentina, with imports from India, Thailand, Turkey and the Czech Republic in oil, iron and steel, automobiles and engineering sectors.

| Argentina's Largest (2012) Export Partners Ordered by Value | CAGR (2012) | Emerging Growth Export Partner | % | Argentina's Largest (2012) Import Partners Ordered by Value | CAGR (2012) | Emerging Growth Import Partner | % |
|---|-------------|--------------------------------|--------|---|-------------|--------------------------------|--------|
| Brazil | 8.21% | Canada | 14.74% | Brazil | 6.49% | Qatar | 19.30% |
| China | 3.16% | Vietnam | 12.12% | China | 10.75% | Slovakia | 13.66% |
| Chile | 3.55% | Switzerland | 11.76% | USA | 7.32% | Norway | 13.11% |
| USA | 3.07% | Colombia | 11.59% | Germany | 9.62% | Turkey | 12.96% |
| Netherlands | 8.28% | Indonesia | 10.74% | Mexico | 8.52% | Ecuador | 12.86% |
| Spain | 5.81% | Romania | 10.68% | France | 9.12% | Czech Republic | 12.76% |
| Uruguay | 8.19% | Japan | 10.68% | Japan | 7.64% | Ireland | 12.31% |
| Germany | 8.40% | Paraguay | 10.02% | Italy | 8.04% | Vietnam | 11.98% |
| Italy | 7.32% | Bolivia | 10.02% | Paraguay | 4.00% | Canada | 11.82% |
| Venezuela | 9.19% | Egypt | 9.69% | Spain | 9.14% | South Korea | 11.48% |

N.B. Emerging Growth Import and Export Partners are trade partners that are growing most quickly over the period, albeit potentially from a small base. CAGR stands for compound annual growth rate.

Sector watch

The table below shows Argentina's fastest growing export and import sectors by partner:

| Export Sector | Export Partner | CAGR (2012-16) | Import Sector | Import Partner | CAGR (2012-16) |
|--|----------------|----------------|--|----------------|----------------|
| Gold, unwrought, semi-manufactured, powder form | Canada | 20.10% | Electric apparatus for line telephony, telegraphy | China | 15.70% |
| Prepr binder for foundry | Netherlands | 18.28% | Motor vehicles for transport of persons (except buses) | Mexico | 12.98% |
| Soya-bean oil-cake and other solid residues | UK | 13.33% | Spark-ignition internal combustion engines | Brazil | 12.60% |
| Soya-bean oil-cake and other solid residues | Vietnam | 12.58% | Automatic data processing machines (computers) | China | 11.61% |
| Motor vehicles for the transport of goods | Brazil | 12.36% | Oils petroleum, bituminous, distillates, except crude | USA | 11.35% |
| Motor vehicles for transport of persons (except buses) | Brazil | 12.21% | Parts and accessories for motor vehicles | Brazil | 10.74% |
| Soya-bean oil-cake and other solid residues | South Africa | 11.99% | Aircraft, spacecraft, satellites | France | 9.69% |
| Soya-bean oil-cake and other solid residues | Indonesia | 11.98% | Motorcycles, bicycles etc with auxiliary motor | China | 9.23% |
| Gold, unwrought, semi-manufactured, powder form | Switzerland | 11.47% | Organic-inorganic compounds, nes | China | 8.71% |
| Maize (corn) | Algeria | 10.62% | Aircraft, spacecraft, satellites | USA | 7.91% |

N.B. The fastest growing import and export sectors by partner are developed from the top 50 export and import partners and are selected alongside the trade sectors that constituted values of above \$100 million at the end of 2010. The top ten fastest growing partners by sector were selected for this table.

Sector opportunities

Automotive industry: Argentina's automotive sector is growing rapidly. Its exports of cars will increase by 11.46% and exports of car components will increase by 9.84%, both annually to 2016. Key to this is the trading relationship with Brazil and its role in the global automotive supply chain. The global automotive sector is highly interdependent internationally and its supply chain operates across borders - as the emerging corridor between Brazil and Argentina illustrates. This opens up markets across Latin America and the world using Brazil's well established distribution infrastructure. Businesses wishing to take advantage of this opportunity will understand the global requirements for innovation, niche production and high quality and will need to grow their international activities at a rate of above 11.46% in order to use this as a springboard to greater trade presence.

Agricultural commodities: Argentina is a major producer of agricultural commodities and the sector is dominated by exports of maize and soya in all its forms. Soya accounts for three of the top four largest export sectors. Exports of soya cake and solids will increase by 8.84%, exports of soya oil by 5.80% and exports of soya beans by 5.90%, all annualised to 2016. Destinations for maize include Algeria (10.62% to 2016). Exports of soya cake, used in animal feed, will increase by 13.33% to the UK, 12.58% to Vietnam, 11.99% to South Africa, 11.98% to Indonesia and 9.52% to Malaysia suggesting that emerging markets are increasing their demand for this commodity. This presents an opportunity for Argentina's agricultural businesses: trade will increase, particularly in the Asia Pacific region and, as demand for animal feed increases with greater economic development in those countries, these will become more important trade corridors.

Infrastructure and oil: With the pace of trade development in Argentina, demand for oil and infrastructure is increasing. Oil imports from the USA are forecast to increase by 11.35% and of iron ore from Brazil by 6.66%, both annually to 2016. As evidence of Argentina's growing demand for electricity, Paraguay will become a major importer of electrical energy with forecast growth of 5.07% over the same period. Alongside this, Argentina's exports of binders (moulds) for foundries to the Netherlands will increase by 18.28% and unwrought aluminum exports to the USA will increase by 9.05% suggesting that Argentina is part of a global infrastructure supply chain. The oil and infrastructure sectors are large and complex, dominated by large global companies with specific niche requirements. As this sector grows in Argentina, businesses have an opportunity to work with established companies to internationalise their activities and will need to expand rapidly in order to use these trade corridors to expand.

HSBC Trade Connections

Trade Forecast

The Trade Forecast predicts how trade is going to develop over the next five, 10 and 15 years. It forecasts overall trade growth (exports, imports and total trade) globally, in global regions, and individual countries. Spanning 37 countries, it covers the top 10 sectors for exports and imports for each of these. The forecast has a unique approach to understanding the drivers of trade from a business perspective, informed by: trade trends, macroeconomic and market influences trade (for example GDP, oil prices, inflation, foreign direct investment), and business environment influences on trade (including regulation, demographics, access to capital and finance). The research has been commissioned by HSBC and undertaken by Delta Economics. The economic and business narratives stem from a broader documentary search that includes material from National Statistical Offices, the World Bank and International Monetary Fund, economic blogs, the Economist Intelligence Unit, Bloomberg, the Financial Times and other professional and financial services news websites.

About HSBC Commercial Banking

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