

HSBC Global Connections

Trade Forecast Update: Asia Pacific 21 February 2012

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

Global trends

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

Asia Trends

China to become the world's leading trading nation by 2016

Vietnam, Bangladesh and Peru are Asia's top emerging trade partners

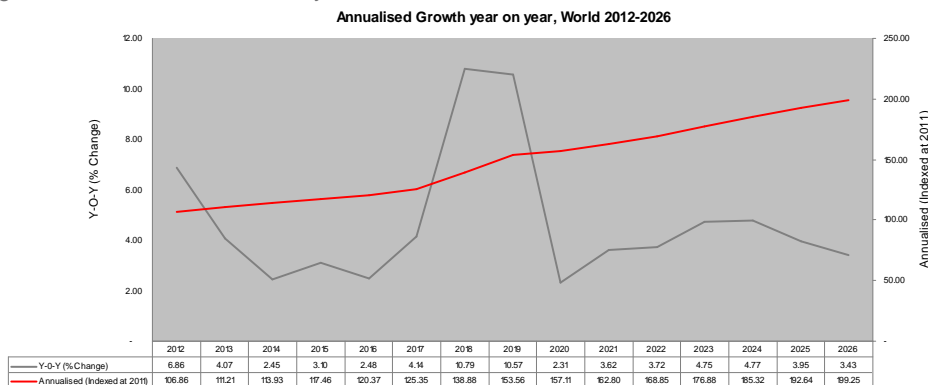
The printing sector is set to become the fastest emerging sector in Asia Pacific as global supply chains locate production facilities in the region

Global trade overview

As the world continues to face economic challenges, the overall trend for international trade is positive. The point at which trade is expected to accelerate has been revised to 2014, rather than the previous estimate of 2015, when the global economy's period of slow growth and contraction will end, resulting in an upturn in trade.

With expectations of an earlier global economic recovery, world trade is forecast to grow at an annualised rate of 3.78% over the next five years. As global demand for traded goods recovers its dynamism, the Forecast predicts a more rapid annualised growth of 6.23% between 2017-2021. As a result world trade is predicted to grow by 86% in the next 15 years.

As the global economy starts to improve in 2014, the uplift in demand for Asia-Pacific's exports will drive global trade recovery. Trade growth in the Asia Pacific region is expected to be stronger than in the developed world, with a 6.5% annualised growth rate over the next five years.



To fuel the predicted uplift in trade, companies across the world are expected to increase their trade activity by 4.7%. With demand flat in some of the domestic markets, in particular Europe and North America, many businesses are searching overseas for alternative trade partners and are exploring key sectoral opportunities to remain competitive.

To discover where this trade growth will be generated, the Forecast looked in depth at sectors which revealed an expansion in those sectors that support the process of trading and that drive economic growth. These include containers and packaging – the expanding sector of crates, containers and boxes transporting goods around the world, and growth in the moulds making iron and steel infrastructure products used in the railway, road and building projects being built to facilitate trade. World infrastructure trade, for instance, will increase by 110% and oil and gas by 103% to 2026. This is supported by growth in sectors such as rolled iron and steel bars, where annualised increases in trade of 7.4% are forecast over the next five years.

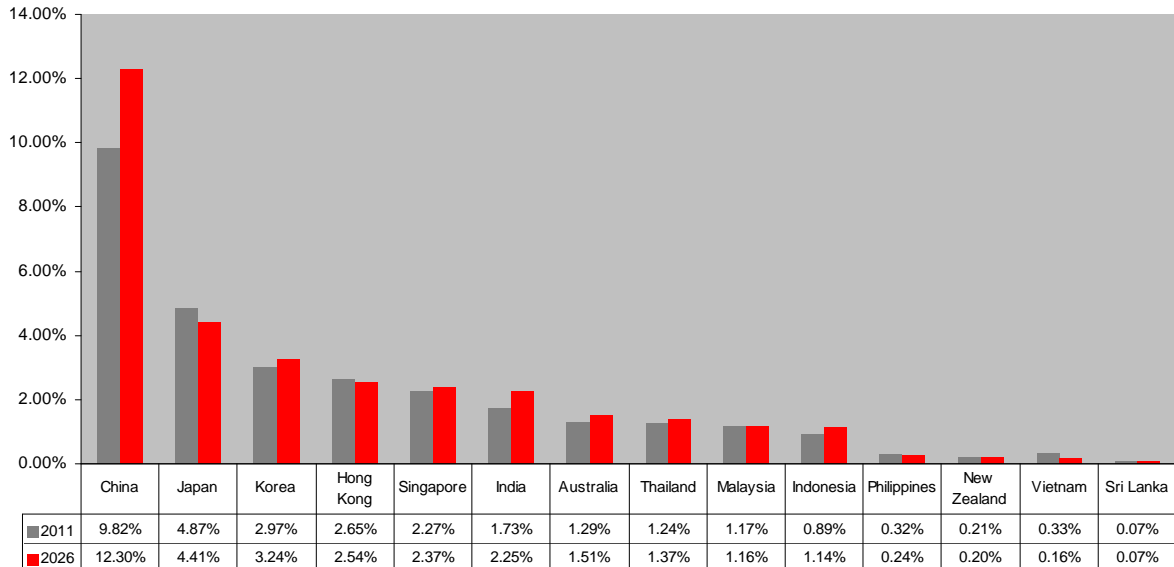
For the Asia Pacific region, this infrastructure growth is particularly important as its fastest emerging sectors are largely in commodities (iron ore and coal) and intermediate products (textiles, filtering equipment and centrifuges, pumps and shafts, cranks and gears) suggesting that the region is producing for final assembly elsewhere. However, a growing focus on machinery and control equipment, that are also fast growing sectors, suggests a shift over the next five years towards higher value production. The Trade Forecast predicts that the fastest emerging trade sector is printing (a broad sector covering printing machinery and the components for it e.g. from large scale flexographic machinery to small equipment for use in the home such as ink-jet printers), where annualised growth will be 11.45% over the next five years, demonstrating the role that Asia-Pacific is playing in global supply chains.

The Trade Forecast predicts that the fastest emerging trade sector globally is electrical energy, where annualised growth will be 9.14% over the next five years. This sector encompasses all energy generated from non-fossil fuel sources, representing a clear shift in the balance of world trade towards newer energy sources such as nuclear, wind and solar.

Share of world trade

The Trade Forecast predicts an increase in the share of world trade for the majority of Asia Pacific's countries between 2011 and 2026. China and India, the region's two economic powerhouses, are expected to see their respective shares of world trade increase from 9.82% and 1.73% in 2011 to 12.30% and 2.25% in 2026. South Korea is predicted to also see an increase to 3.24% from 2.97%. Countries which are forecast to see a fall in share of world trade are; Malaysia from 1.17% in 2011 to 1.16% in 2026 and the Philippines from 0.32% to 0.24%. Sri Lanka is expected to remain the same at 0.07% over the 15 year period.

APAC Countries - Share of World Trade 2011-2026 (%)



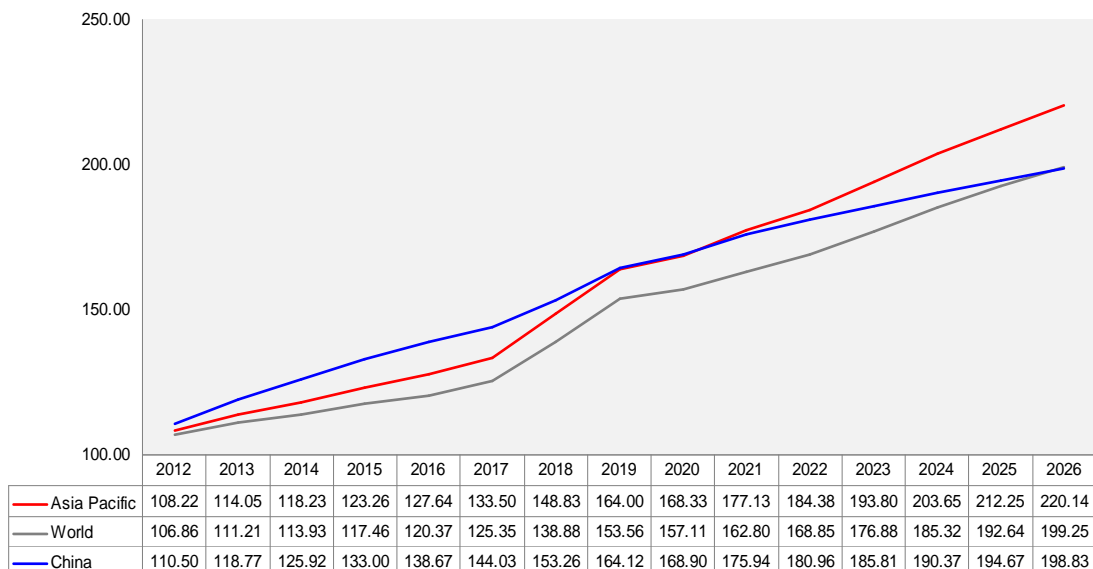
Asia Pacific's growth rates, 2011-2026

Trade in the Asia Pacific region is set to grow over the next five years at an annualised rate of 6.5%. The region will play an important role in aiding global recovery and the uplift in trade predicted from 2014 will take effect more quickly in Asia Pacific than in the rest of the world due to rising demand for exports from within the region. The growth in exports comes both from intra-regional trade and new trade routes with Latin America and the Middle East and North Africa, particularly in commodities and motor vehicles.

Asia Pacific's annual trade growth rates will consistently outperform the world average with the gap widening throughout time over the next 15 years. The region's annualised growth index (with a 2011 base) will increase by 111.92 points compared to the significantly lower global index which is predicted to increase by 92.39 points.

While the figures are positive and indicate buoyant trading conditions, the region's ability to achieve these rates of growth will be affected by external economic and environmental factors such as the Eurozone debt crisis and natural disasters.

Index of Trade Growth, 2012-26, Asia Pacific, World and China



Trade corridors

The growth in Asia's exports will come from intra-regional trade and south-south trade routes with Latin America and MENA, particularly in commodities and motor vehicles. Of Asia Pacific's top 10 largest exporters and importers, eight are from within the region - China, Japan, South Korea, Hong Kong, Thailand, Malaysia, Indonesia and Singapore. The region's top emerging trade partners in the next five years have been identified as Vietnam and Bangladesh in the trade of textiles and rice and Peru, Norway and Brazil in the trade of iron ore, soya and oil. Emerging trade partners are those countries which are expected to experience the biggest uplift in trade over the next five years – this can often be from a small base.

The two additional markets in the region's top 10 are the USA and Germany. The USA has a strong trade profile in Asia Pacific's largest sector (non-crude oil) and their largest import sector is printing and ancillary machinery which is the region's largest emerging sector. This underlines the growing importance of future trade between the USA and Asia Pacific. Germany is Europe's economic powerhouse and has a strong trade profile within Asia Pacific which is predicted to continue due to the German automotive industry expressing interest in expanding into India.

Asia Pacific's Current Largest and Top emerging Trade Partners (Total Trade)			
Current Largest (2012)		Emerging Growth Partners (annualised Volume Growth, 2012-2016)	
China	1	Vietnam	9.60%
USA	2	Bangladesh	9.33%
Japan	3	Peru	9.12%
South Korea	4	Norway	9.11%
Germany	5	Brazil	9.10%
Hong Kong	6	Poland	8.97%
Thailand	7	Egypt	8.95%
Malaysia	8	Venezuela	8.60%
Indonesia	9	India	8.42%
Singapore	10	Iran	8.38%

Asia-Pacific's fastest growing exporters and importers

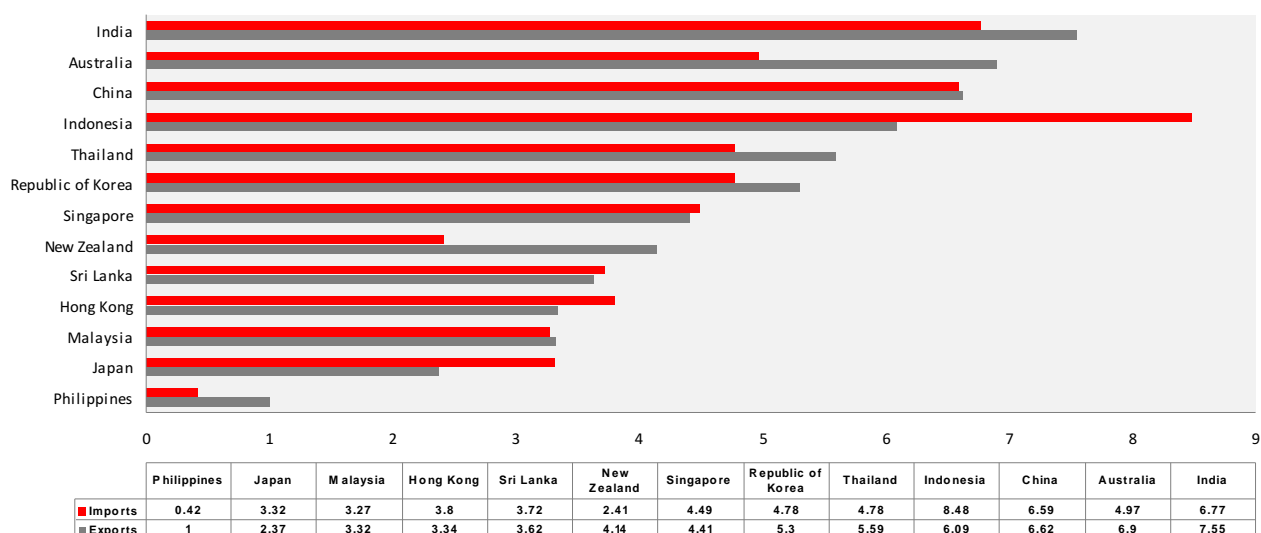
Intra-regional trade is a key driver of growth within Asia Pacific. Some of this can be attributed to the move by the world's largest businesses to broaden their supply chains across the region, integrating themselves into manufacturing processes and, therefore, trade. Additionally almost all of the countries in the region are expected to have strong export figures over the period, largely in the motor vehicles and commodities sectors, as trade routes continue to develop with Latin America and MENA.

The region's fastest growing exporters and importers over the next five years are expected to be India, Australia, China and Indonesia. India is Asia Pacific's fastest growing exporter with a forecast annual rate of 7.55% over the next five years. This growth will primarily be driven by exports in motor vehicles and iron and steel.

As China expands its global reach, especially into South America and Africa but also into Europe and North America, it's dominance in the energy and manufacturing sectors will continue to drive strong imports and exports to 2016 at annual rates of 6.59% and 6.62% respectively.

Indonesia is another of the region's fastest growing importers and exporters with forecast annual growth rates over the next five years of 8.48% and 6.09% respectively. Australia is also set to grow quickly in terms of exports at an annual rate of 6.9%, this will be largely driven by trade in commodities such as coal and iron ore – especially to China.

Fastest Growing Asia-Pacific Exporters and Importers in next 5 years



Sector Trends

Asia Pacific plays a key role in all core sectors. The Trade Forecast predicts that the region will become a net exporter across all broad sector categories such as agricultural, commodities, foodstuffs, manufacturing and energy. In other words, it will be running a total trade surplus and exporting more than it imports. For example, infrastructure sector exports are expected to increase at an annualised rate of 5.22% between 2012 and 2016 and imports by 3.79% annually.

Whilst intra-regional trade within Asia Pacific grows as demand for more sophisticated consumer goods increases, it's reliance on exporting its components for manufacturing production outside the region (e.g. electrical apparatus, integrated circuits and electrical transformers) means it is to some extent reliant on strong demand elsewhere in the world. The emerging sectors highlighted in the table below largely continue this trend; the printing and ancillary machinery, jerseys/pullovers/cardigans and the electrical apparatus for telephony sectors are expected to grow by 11.45%, 10.36% and 10.15% annually by 2016, growing due to increased demand in other parts of the world.

Asia Pacific's Current Largest and Top Emerging Trade Sectors (Total Trade Volumes)			
Current Largest (2012) ordered by value		Emerging Growth Sectors (Annualised Growth, 2012-2016)	
Oils petroleum, bituminous, distillates, except crude	7.73%	Printing and ancillary machinery	11.45%
Electric apparatus for line telephony, telegraphy	10.15%	Coal, briquettes, ovoids etc, made from coal	11.06%
Petroleum oils, oils from bituminous minerals, crude	6.34%	Jerseys, pullovers, cardigans, etc, knit or crochet	10.36%
Electronic integrated circuits and microassemblies	4.99%	Electric apparatus for line telephony, telegraphy	10.15%
Motor vehicles for transport of persons (except buses)	2.28%	Passenger and goods transport ships, boats	9.93%
Diodes, transistors, semi-conductors, etc	7.09%	Iron ores and concentrates, roasted iron pyrites	9.91%
Printing and ancillary machinery	11.45%	Liquid, gas centrifuges, filtering, purifying machines	9.27%
Machines (not elsewhere specified)	8.10%	Pumps for liquids	8.90%
Electric transformers, static converters and rectifiers	8.29%	Automatic regulating or controlling equipment	8.81%
Clocks with watch movements except vehicle panel	7.91%	Shafts, cranks, gears, clutches, flywheel, pulleys etc	8.47%

Commodities and energy

Two of the region's largest sectors are non-crude and crude petroleum oils and bitumen - substantial components of the region's trade flows. As Asia grows, its demand for oil is set to grow exponentially. Over the next five years for instance, India's trade in the oil sector is forecast to increase by almost 10%, which is above the region's total expected trade growth, demonstrating the robustness of this sector.

Although not a top 10 emerging sector, the region will begin to lead the global market in alternative energy supply such as Thorium - a by-product of the mining industry which is growing in importance as a nuclear alternative. Large investments are being made into this sector by China and Germany in the aftermath of the Fukushima disaster.

Printing sector

Albeit off a small base, there are opportunities within the commercial printing sector in Asia Pacific. This sector is broad and includes machines for printing and the parts for these machines. The region is already a dominant force within this sector, ahead of both North American and European markets. The Trade Forecast suggests that this trend will continue to 2016 with an expected growth in trade of 11.45% as global manufacturers of printing equipment take advantage of higher skills and innovation levels outside of China and start to distribute manufacturing facilities in other countries within the region.

Up-skilling

Many countries within the Asia Pacific region are beginning to develop the skills of their workforces as a way to compete more competitively in global trade opportunities. For example India, Thailand and Indonesia have strong comparative advantages in the production of clothing particularly in light of the 15 -20% increase in Chinese wages over the past three years. This shift in garment production towards smaller emerging economies has already been witnessed in Cambodia whose garment exports grew by 35% year-on-year in 2011 and Sri Lanka who have made investments to become Asia's apparel hub and are predicted to generate export revenues of \$5 billion by 2015.



Simon Constantinides,
Head of Global Trade and
Receivables Finance,
Asia Pacific (ex Hong
Kong and Macau)

“Our research provides clear optimism for the region’s trade prospects in a somewhat challenging environment.

Over the next 15 years, trade in Asia and globally is expected to grow 120% and 86%, respectively. The world’s largest businesses are continuing to broaden their supply chains across Asia Pacific, increasingly integrating into the manufacturing process and, therefore, trade.

This creates opportunities, and a need for businesses of all sizes to define their international strategy and involvement in the region’s next wave of positive trade momentum, which we forecast to begin in 2014.”

HSBC Global 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.

This Forecast also considers the impact of *people* on trade growth too as the development of skills and innovation in an individual country has considerable impact on its ability to grow trade in the long term. This often leads to a restructuring of trade towards higher-end production as skills and expertise develop. This deeper analysis sets the precedent for future Trade Forecasts.

About HSBC Commercial Banking

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