

HSBC Global Connections

Trade Forecast Update: China

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
- China's trade forecast to grow 98.83% to 2026
- China's companies to increase trade activity annually over the next 15 years by 6.29%
- China's fastest emerging export sector is tin ore which will grow at an annualised rate of 22.20% over the next five years

Trade overview

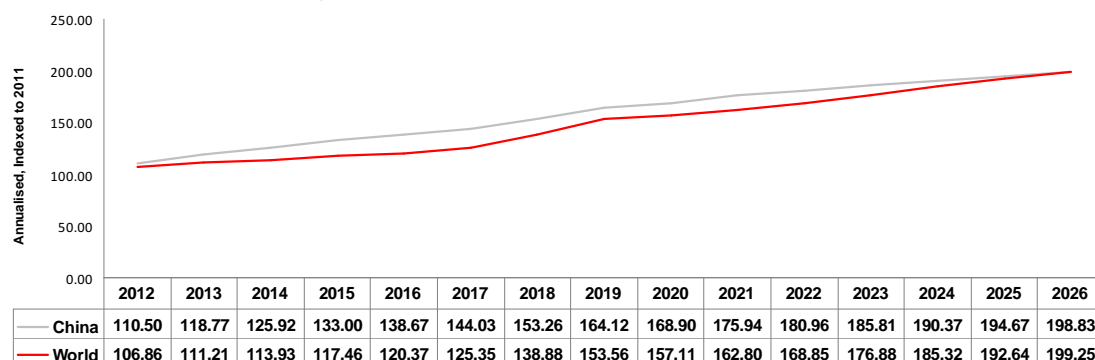
As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. 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 China will grow at an annualised rate of 6.61% over the next five years to 2016 and that this rate of growth will increase to 7.41% between 2017 and 2021. This equates to growth indexed to a base in 2011 of 98.83%. China's trade structure reflects its status as an emerging economy and is heavily focused on imports of commodities alongside exports of semi-finished products. Annualised total trade growth in China over the next 15 years will be 6.29%: the rate at which companies will need to increase their international activities if they are to keep pace with this change.

China's trade outlook

China's trade index, based to 2011, will grow at a significantly faster rate of growth than the world average until 2026, when it falls below the world average of 99.25%, to 98.83%. Latin America and Asia Pacific are driving the rapid increased of world trade growth after 2015. Some slowing of the rate of Chinese trade growth is inevitable and the Trade Forecast predicts it will be the largest trading nation globally by 2016. This means that in volume terms annual volume changes will inevitably diminish. The Trade Forecast predicts that China will increase its exports of radio and TV transmitters and television cameras to South Korea by 13.85% over the next five years, and its imports of printing and ancillary machinery by 13.23% over the same period suggesting that the consumer electronics and printing sectors will continue to propel its trade growth.

Annual growth rates year on year, China and world 2012-2026



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

China's largest export partners are the USA, Japan and Hong Kong and the Trade Forecast predicts that growth to these markets will increase annually to 2016 at 5.91%, 5.61% and 4.67% respectively. This suggests they will retain their dominance as leading export destinations. India is the fastest growing large trading partner with expected export growth over the next five years at an annualised rate of 11.25% reflecting rapidly expanding exports of electrical apparatus for line telephony, which the Trade Forecast predicts will grow at 12.00% annually over the next five years. Malta is a smaller but rapidly growing export partner as consumer electronic and pharmaceutical trade increases here. Brazil is a larger emerging export market for China with forecast growth of 11.77% in agricultural commodities, car components and consumer electronics. The growth in African nations as export destinations reflects the importance of Africa to China's supply of commodities and infrastructures globally.

The Trade Forecast predicts that imports from China, Korea and the USA will grow at an annualised rate of 6.27%, 6.93% and 7.62% respectively to 2016, highlighting the distribution of the Chinese supply chain in consumer electronics across the Asia Pacific region. Brazil is a fast growing importer with a predicted 10.79% increase in non-crude oil imports annually over the next five years. Four of the top emerging import partners are major oil exporters with growth forecast above 14.00% annually to 2016 for Georgia, Qatar, Bahrain, Egypt and Uruguay, reinforcing China's growing demand for energy.

China's Emerging Growth Importers and Exporters (2012-2016)							
China's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Exporters	%	China's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Importers	%
USA	5.91%	Brunei Darassulam	14.33%	Japan	6.27%	Georgia	16.30%
Japan	5.61%	Malta	13.74%	Korea	6.93%	Latvia	14.40%
Hong Kong	4.67%	Laos	13.13%	USA	7.62%	Qatar	14.35%
South Korea	7.31%	Uruguay	12.76%	Germany	7.90%	Bahrain	14.22%
German	7.81%	Rwanda	12.66%	China	5.62%	Egypt	14.20%
India	11.25%	Cyprus	12.42%	Thailand	7.48%	Uruguay	14.17%
UK	7.37%	Libya	12.39%	Malaysia	8.97%	Slovakia	13.64%
Netherlands	7.92%	Zimbabwe	12.22%	Australia	8.43%	Cyprus	13.59%
Russia	8.03%	Peru	12.00%	Russia	7.35%	Bolivia	13.52%
Singapore	8.51%	Paraguay	11.82%	Indonesia	9.65%	Ecuador	13.51%

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 China's fastest growing export and import sectors by partner:

China's Fastest Growing Export and Import Sectors by Partner (2012-2016)					
Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Radio and TV transmitters, television cameras	Korea	13.85%	Electric apparatus for line telephony	South Korea	12.70%
Printing and ancillary machinery	Netherlands	12.94%	Motor vehicles (excepts buses)	USA	11.54%
Printing and ancillary machinery	USA	12.83%	Printing and ancillary machinery	Japan	10.89%
Printing and ancillary machinery	Japan	12.76%	Oils petroleum, Bituminous, distillates, except crude	Venezuela	10.86%
Printing and ancillary machinery	Hong Kong	12.71%	Petroleum oils, oils from bituminous minerals, crude	Brazil	10.79%
Electronic apparatus for line telephony, telegraphy	Korea	12.31%	Iron ores and concentrates, roasted iron pyrites	South Africa	10.68%
Electronic apparatus for line telephony, telegraphy	India	12.00%	Petroleum oils, oils from bituminous minerals, crude	Venezuela	10.51%
Passenger and goods transport ships, boats	Hong Kong	11.92%	Petroleum oils, oils from bituminous minerals, crude	Kuwait	9.93%
Automatic data processing machines (computers)	UAE	11.70%	Petroleum oils, oils from bituminous minerals, crude	Kazakhstan	9.27%
Prepared unrecorded sound recording media (non-photo)	Hong Kong	10.76%	Petroleum oils, oils from bituminous minerals, crude	Libya	8.64%

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

Commodities, infrastructure and economic development: Despite the trade dominance of China in the consumer electronics and automotive sectors, it is still an emerging economy with a seemingly insatiable growing demand for oil and iron ore. Nine out of the top 15 emerging import sectors are in food and food commodities and these are forecast to grow rapidly over the next five years reflecting more sophisticated consumer tastes. Similarly, imports of glass sheets, bitumen and asphalt will increase over the next five years reflecting growing demand both within specific sectors like automobiles and ship-building but also for building and infrastructure development generally. These dominant sectors for China reflect the speed with which it is broadening its base of economic development. Imports and exports are highly internationalised and businesses seeking to take advantage of these opportunities can work with international partners across a range of sectors to access them.

Ship building: China is emerging as a major ship-building nation. Its imports of tin ore used in anti-corrosion steel plating, as well as being a product used in the preparation of metal alloys once processed, reflects the need for raw materials for ship-building amongst other sectors. Exports of passenger and goods ships will increase, fuelled by exports to Hong Kong, Singapore and Germany. This is a vast sector and as trade grows and new trade routes open, so too will the sector. Businesses wishing to take advantage of this as a means of fuelling their growth need to internationalise their activities by nearly 12.00%.

Consumer electronics: This is the largest and fastest growing sector for China and offers opportunities for businesses throughout the supply chain, especially in the Asia Pacific region. The consumer electronics sector is a myriad of supply chains and inter-connections, but as China's trade in this sector grows, businesses need to work increasingly within the Asia Pacific region to build their international activities.

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

Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.