

HSBC Global Connections

Trade Forecast Update: Czech Republic 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
- Czech Republic's trade growth 2012-2026 will be 91.74%
- Czech companies to increase trade activity by 5.41% annually over the next 15 years
- Czech Republic's largest, fastest growing export sector will be printing and ancillary machinery, at an annualised rate of 12.78% to 2016

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.

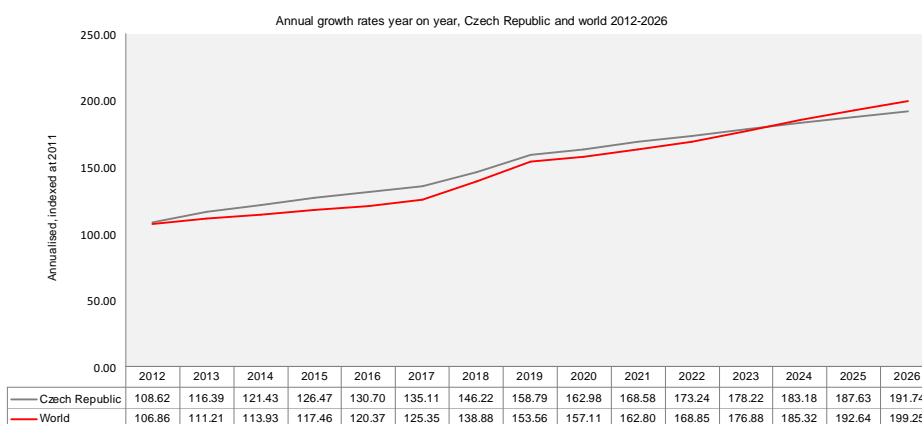
The Trade Forecast predicts that trade in the Czech Republic will grow at an annualised rate of 5.21% to 2016, but between 2017-2021 this growth will increase substantially to 6.57%. This equates to growth of 91.74%. Annualised total trade growth in the Czech Republic to 2026 will 5.41%. This which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Czech Republic's trade outlook

The Czech Republic has typically relied upon the demand for products including vehicles for growth. However, government measures to cut the budget deficit to below 3% of GDP by 2013 are limiting domestic demand growth. The euro zone crisis has had a significant effect on the economy, as two-thirds of its export market lie within the region. Worsening economic performance and weakening demand suggest there are challenges ahead in 2012.

The Czech Republic's trade based to 2011, will grow faster than the world until 2024, but the pace of trade growth following this - when the world climbs out of the current downturn - will be slower in here than for the world.

The Trade Forecast predicts that the Czech Republic will increase its alternative (electrical) energy exports to Germany by 7.01% over the next five years and, as a sector which is set to grow globally by over 9%, this represents an exciting growth opportunity for the country.



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

The Czech Republic's largest export partners are Germany, Slovakia and Poland, while its largest import partners are Germany, China and Poland. European countries dominate the Czech Republic's trade due to the close supply chain links and its role as a key part in those supply chains. Germany is the destination for six out of 10 of the Czech Republic's top emerging export sectors, reflecting the dominance of its neighbour on its trade growth. Exports to Russia will grow the fastest at 8.61% to 2016 (annualised), while exports to Switzerland will grow by 7.66% and to Poland by 7.04%. Emerging export sectors are largely from outside of Europe due to a lack of growth currently in the European economy. Annualised export growth with Paraguay is set to increase at 16.69%, Peru by 13.57% and Uruguay by 11.67% to 2016. Although China will grow its imports an annualised rate of 9.85%, imports from Singapore are forecast to increase by 13.16%, from South Korea by 11.96% and from Thailand by 11.38%, as exports from the Asia Pacific region become more competitive.

Czech Republic's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Czech Republic's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Germany	5.55%	Laos	19.70%	Germany	4.17%	Oman	19.74%
Slovakia	6.39%	Paraguay	16.69%	China	9.85%	Norway	17.96%
Poland	7.04%	Bermuda	16.40%	Poland	7.30%	Paraguay	15.49%
France	6.50%	Kenya	15.51%	Slovakia	5.84%	Bermuda	14.08%
United Kingdom	6.76%	Rwanda	15.26%	Russian Federation	5.87%	Cayman Islands	13.56%
Italy	6.37%	Cayman Islands	14.69%	Italy	4.05%	Kuwait	13.40%
Austria	5.30%	Libya	14.37%	France	3.11%	Singapore	13.16%
Netherlands	6.44%	Peru	13.57%	Austria	4.90%	Iceland	12.41%
Russia	8.61%	Cyprus	12.95%	Netherlands	4.54%	Jordan	12.41%
Belgium	5.79%	Zimbabwe	12.80%	Japan	4.95%	South Korea	11.96%

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.

Sector watch

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

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Commodities not elsewhere specified	Slovakia	15.45%	Parts, accessories, except covers, for office machines	China	8.83%
Printing and ancillary machinery	Germany	14.85%	Petroleum oils, oils from bituminous minerals, crude	Russia	3.77%
Commodities not elsewhere specified	Germany	14.24%	Petroleum gases and other gaseous hydrocarbons	Russia	9.07%
Diodes, transistors, semi-conductors, etc	Germany	13.08%	Parts and accessories for motor vehicles	Germany	2.51%
Television receivers, video monitors, projectors	Germany	9.52%	Automatic data processing machines (computers)	China	9.82%
Automatic data processing machines (computers)	UK	9.06%	Parts for radio, tv transmission, receive equipment	China	12.42%
Motor vehicles for transport of persons (except buses)	Belgium	8.71%	Electronic integrated circuits and microassemblies	Netherlands	10.02%
Motor vehicles for transport of persons (except buses)	France	8.44%	Diodes, transistors, semi-conductors, etc	China	20.56%
Automatic data processing machines (computers)	Germany	7.85%	Motor vehicles for transport of persons (except buses)	Germany	4.33%
Parts and accessories for motor vehicles	Slovakia	7.21%	Commodities not elsewhere specified	Germany	17.28%

NB: Fastest growing import and export sectors by partner are developed from the country's 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 10 fastest growing partners by sector were selected for this table.

The sector opportunity

Alternative energy: The Trade Forecast is predicting that world trade in electrical energy will increase by 9.01% and Europe will have a key part to play in this. Within Europe, the Czech Republic will be increasing its electrical energy exports to Germany alone by 4.85% and this presents a significant opportunity for Czech business to work with global German energy suppliers.

Electrical equipment manufacture: Manufacturing at the high value end of production is the stalwart of the Czech trade system and all of the four fastest growing export sectors are in this field. The integration of the Czech Republic into the European supply chain, especially in computing cannot be understated. Exports of computers to Germany are set to grow at an annualised rate of 7.85% on what is already a substantial market. As a result, imports from China of diodes, semi-conductors and transistors are set to increase by 20.58% annually to 2016 and of integrated circuitry from the Netherlands by 10.02%. Businesses who wish to take advantage of this will need to remain highly innovative and grow their international activities by between 7.50% and 14.85% if they are to keep up with the pace of internationalisation.

Automotive production: The Czech Republic is integral to the European car manufacture supply chain and produces finished cars, automotive components and raw materials. The country's auto industry is expanding, with a record number of vehicles being produced in 2011 and forecasts for a greater number to be produced in 2012. The Trade Forecast expects exports of cars to Belgium to increase by 8.71%, to France by 8.44% and to the UK by 6.85% annually to 2016, suggesting despite flat demand in Europe, there are emerging trade corridors in this sector. The Czech Republic will increasingly export car components for manufacture elsewhere: exports to Slovakia will increase by 7.21% annualised to 2016 and to France by 6.93%. Key drivers of access to this market are high-level skills and innovation which businesses need to develop if they are to grow at 7.50% annualised rate of trade growth in this sector.

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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.