HSBC Global Connections

Trade Forecast Update: Global

February 2012

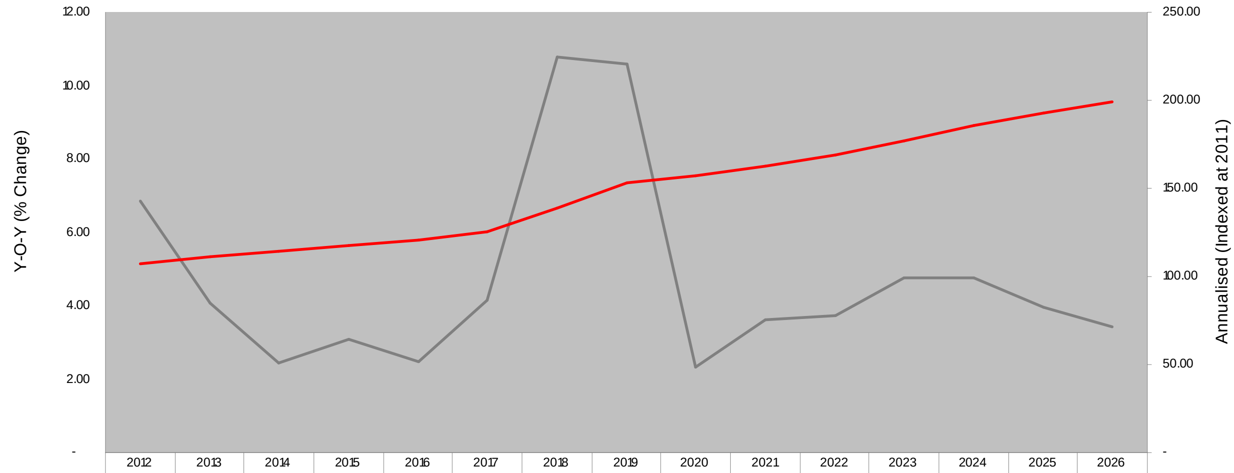
Forecast exploring the future of world trade and the opportunities for international businesses

- World trade to grow by 86.00% 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

Global 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.

Annualised Growth year on year, World 2012-2026



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Y-0-Y (% Change)	6.86	4.07	2.45	3.10	2.48	4.14	10.79	10.57	2.31	3.62	3.72	4.75	4.77	3.95	3.43
Annualised (Indexed at 2011)	106.86	111.21	113.93	117.46	120.37	125.35	138.88	153.56	157.11	162.80	168.85	176.88	185.32	192.64	199.25

This quarter the Trade Forecast looks in detail at sectors, focusing on where growth is coming from around the world. According to the Trade Forecast the acceleration in trade growth is driven by two key trends; trade fuelling trade and corridor creators.

We can expect to see trade expansion in **trade fuelling trade**; the sectors which support the process of trading and that drive economic growth. World infrastructure trade will increase by 110.00% and oil and gas by 103.00% to 2026. This is supported by growth in sectors such as rolled iron and steel bars where annualised increases in trade of 7.40% are forecast over the next five years.

Companies across the world are expected to increase trade activity by 4.70%, fuelling the trade uplift being outlined. With demand flat in many domestic markets, for example Europe and North America, **corridor creators** will come to the fore: businesses that seek out the best trade partners to drive competitive advantage, regardless of location, and exploring key sectoral opportunities.

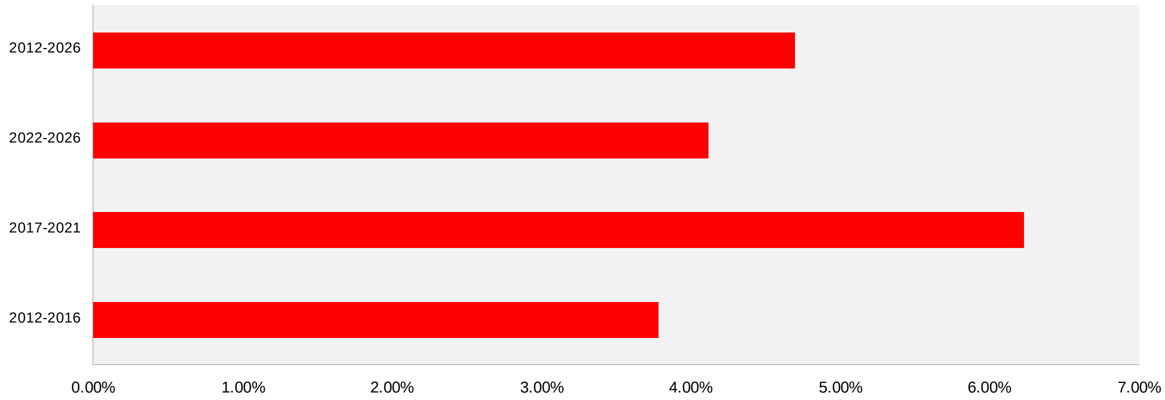
The Trade Forecast predicts that the fastest emerging trade sector is electrical energy, where annualised growth will be 9.14% over the next five years. This sector encompasses all energy generated from non-fossil fuel sources, representing a clear shift in the balance of world trade towards newer energy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

Global trade outlook - growth rates, 2012-2026

The world economy is expected to slow down during 2012 as the risks of contagion from the euro crisis, the impact of natural disasters during 2011 and the sluggish growth in developed economies persists. The Trade Forecast suggests that between 2012 and 2014 world trade will continue to grow, but at a slower rate before then accelerating after the middle of 2014, leading to improved economic performance globally: a trend which will continue to 2020. From 2021 on it is predicted that growth in world trade will decelerate as international trade stabilises around the world.

The Trade Forecast predicts over the whole period that world trade will grow due to stronger growth after 2014 and robust emerging economies. Emerging economy trade growth, especially in Latin America and Asia, will be stronger than developed world trade growth. For example, the Trade Forecast predicts that trade growth in the Asia Pacific region will be 6.50% annualised over the next five years and in Latin America will be 6.70%. This compares to the 3.78% forecast for the world as a whole. It is also explained by data revealing a move up the 'value chain' in emerging economies as consumers become more sophisticated and the skills and innovation base allows higher end production in emerging economies – particularly India, Indonesia, Vietnam and Malaysia. Yet in China or Brazil there is a much smaller skills and innovation effect on trade, suggesting that these countries are not using trade in the same way to fuel their economic development.

Annualised growth in world trade 2012-26



	2012-2016	2017-2021	2022-2026	2012-2026
World growth	3.78%	6.23%	4.12%	4.70%

The world's fastest growing exporters and importers

The growth opportunities in the emerging world demonstrate the pace of change in these economies over the next five years. **Trade hubs** are emerging: countries that are developing or expanding their role as gateways in key trade corridors or between regions. Egypt is forecast to take in imports at a rate of 10.31% annually over the next five years and to increase its exports by 9.26% over the same period, some of which is driven by reconstruction but also representing it as a strong market for infrastructure producers. The country is predicted to have great potential as a key trade hub in the future as a route between Africa and Europe. So, despite current geopolitical issues, and although its situation remains volatile, Egypt has the potential for substantial trade growth and the prospects for its economy are positive.

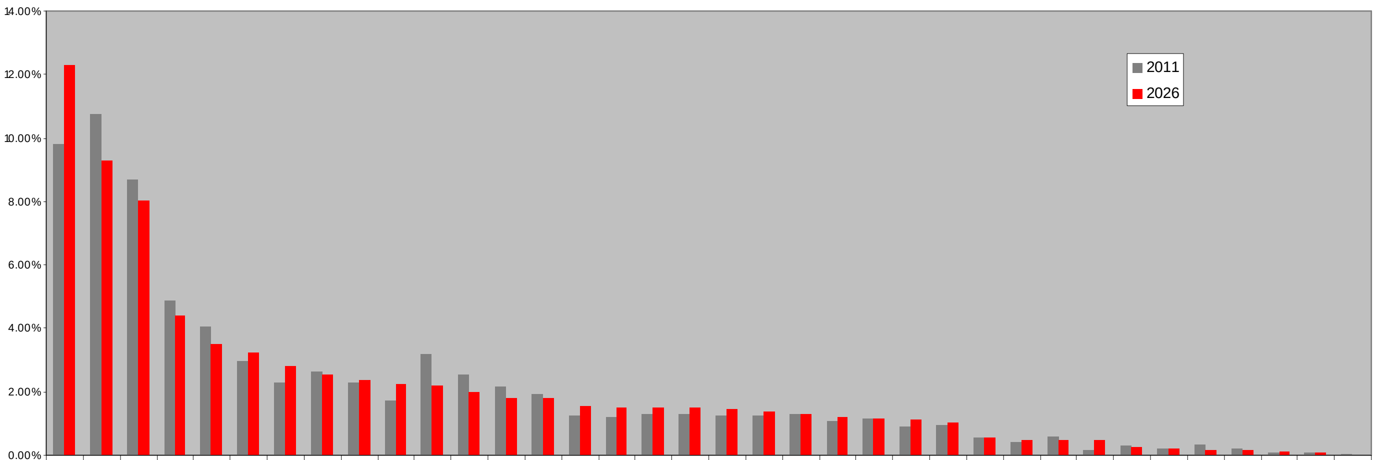
Similarly, Panama, ahead of the Canal widening scheduled for completion in 2014, is developing shipping lanes to Singapore and between North and South America and is forecast to expand imports by 8.80% and exports by 9.52% over the next five years. This is largely because the two represent such important ports and are developing their hub status due to this. India outstrips China both in terms of growth in imports (annualised growth of 6.81% compared to 6.60% in China) and exports (annualised growth of 7.60% compared to 6.61%% in China) between now and 2016. New oil and gas, manufacturing and pharmaceuticals trade routes opening up within Asia and into Africa are driving this, creating new corridors in the Southern Silk route. The Trade Forecast for Brazil is for imports to grow particularly strongly at 8.51% pulling in infrastructure-based imports to fuel the growth expected around the oil and gas sectors and the World Cup in 2014. Poland is the only European nation that makes the top-10 emerging trade corridors: its integration into the European supply chain structures means that it will see exports grow by 5.90% over the next five years.

Emerging Growth Importers and Exporters (2012-2016)					
Current Largest Trading Nations (US$ value)	CAGR % (2012)	Emerging Growth Importers	CAGR %	Emerging Growth Exporters	CAGR %
USA	2.00	Egypt	10.31	Egypt	9.26
China	6.60	Panama	8.80	Panama	9.52
Germany	3.20	Indonesia	8.50	Paraguay	8.85
Japan	2.80	Brazil	8.00	India	7.55
France	2.40	Peru	7.70	Australia	6.97
Italy	2.20	Russia	7.40	Columbia	6.70
Netherlands	4.00	Argentina	6.80	China	6.62
United Kingdom	-0.4	India	6.80	Peru	6.40
Belgium	2.60	China	6.60	Indonesia	6.09
South Korea	5.10	Saudi Arabia	6.30	Poland	5.93

Share of world trade

Countries which will see increases in their share of world trade to 2026 include South Korea, which will replace the UK as the sixth largest trading nation due to trade expansion, particularly in infrastructure imports into the MENA region; Singapore, which will account for 2.40% of world trade by 2026 reinforcing its role as a major shipping hub connecting the emerging economies, and India which will grow by 0.50% to 2.25% of world trade in total. There are declines in share of world trade for many of the developed world nations. This does not suggest a decline in the trade competitiveness of these economies but rather points to a substantial shift of the global supply chain to emerging economies. China will overtake the USA as the world's largest trading nation by 2016. It alone will account for 12.30% of world trade. Although China's imports and exports are not set to grow as fast as India's, for example, the sheer size of the trade base from which this growth is happening means that China will become the world's trade powerhouse.

Share of World Trade 2011-2026 (%)



	CHN	USA	D	JPN	FRA	KOR	RUS	CHI, HKG, SAR	SGP	IND	UK	CAN	SPN	MEX	UAE	BRA	AUS
2011	9.82%	10.75%	8.68%	4.87%	4.06%	2.97%	2.31%	2.65%	2.27%	1.73%	3.20%	2.53%	2.15%	1.95%	1.27%	1.22%	1.29%
2026	12.30%	9.28%	8.06%	4.41%	3.51%	3.24%	2.80%	2.54%	2.37%	2.25%	2.20%	1.97%	1.83%	1.81%	1.54%	1.51%	1.51%

	SAU	POL	THA	CHE	TUR	MYS	INA	CAZE	ZAF	ARG	IRL	EGY	PHL	NZL	VTN	QAT	PAN	LKA	MLT
2011	1.31%	1.26%	1.24%	1.30%	1.10%	1.17%	0.89%	0.95%	0.54%	0.42%	0.59%	0.18%	0.32%	0.21%	0.33%	0.20%	0.10%	0.07%	0.02%
2026	1.50%	1.45%	1.37%	1.28%	1.20%	1.16%	1.14%	1.05%	0.56%	0.49%	0.47%	0.46%	0.24%	0.20%	0.16%	0.16%	0.15%	0.07%	0.02%

Sector overview

The Trade Forecast focuses on sectors this quarter in order to provide a picture of where new opportunities might lie for businesses and where the real drivers of trade flows are in the global economy.

The world’s largest traded sectors are oil and gas, automobiles, plastics and petrochemicals, telephony equipment and iron and steel. The Trade Forecast predicts that all these sectors will grow over the next five years. Demand for commodities and infrastructure are fuelled by economic development and demand for cars appears resilient at present although this may change due to the market’s dependence on consumer demand.

The Trade Forecast predicts that the sectors in the table below are all set to grow at above the 3.78% rate forecast for trade in the world as a whole over the next five years, with the opportunities in emerging growth sectors outlined in more detail overleaf. The Trade Forecast predicts an increase in the trend of **trade fuelling trade**, which will see rapid growth of sectors that support world trade. Eight of the top 10 emerging fast growth sectors are part of this trend, including Containers and Packaging - which reflects a greater transportation of goods around the world - and Binding Products for Foundries – needed to create products for increased railway, road and building infrastructure projects that directly facilitate international trade.

Current Largest and Top emerging Sectors (Total Trade)			
Largest (2012, US$ Billions)		Emerging Growth Sectors (Annualised Growth, 2012-2016)	
Non-crude oil and petrol	221	Electrical energy	9.14%
Crude oil, Petrol	111	Containers, packaging and plastics	9.02%
Motor vehicles (except buses)	95	Preparations and binding for Foundries	8.85%
Petrochemicals (ethylene polymers)	70	Coal, Briquettes	8.52%
Therapeutic medicines	68	Food preparations	7.73%
Electrical appliances for telephony	64	Electrical power control boards	7.67%
Petrol and hydorcarbons	61	Petrol and gas	7.57%
Printing and ancilliary machinery	59	Wheat and meslin	7.41%
Hot rollled Iron and Steel bars > 600mm	57	Iron ore and steel	7.39%
Car Parts	146	Plastics	7.39%

The sector opportunity

For business, the opportunities offered by international trade vary according to sector. While, as outlined on the previous page, the largest trading sectors in the world are oil and gas, petrochemicals, motor vehicles and electronic goods and equipment, in each of these sectors there are large global businesses with supply chains reaching across the world to ensure that the production and trade in these goods operates efficiently and growth continues. Conditions are changing as environmental and competitiveness pressures require businesses to locate closer to the markets in which they wish to trade: this offers businesses the opportunity to integrate into these supply chains. Key emerging sectors in the world trade system that the Trade Forecast has identified as presenting opportunities for businesses are:

Electrical Energy - *all non-fossil fuel energy e.g. nuclear, hydro-electric, solar, wind and alternative e.g. Thorium*
All of the global regions are developing capacity in this sector but the Trade Forecast has revealed it is most visible in Europe where an increase in the trade of Thorium alone of 14.47% over the next five years is predicted. Businesses in this sector can take advantage of financial support available for research and production. Small to mid-sized companies will benefit from providing their specialist or niche expertise with larger global companies.

Containers and Packaging - *crates, boxes, and containers for packaging goods and transporting them globally*
While all regions have capacity in this sector the Trade Forecast predicts an increase of 9.77% annually over the next five years in Latin America and 8.89% in North America. This is a highly competitive sector where price and quality are vitally important.

Binding Products for Foundries - *moulds into which molten iron and steel and other similar products are poured*
An increase in the trade of these products is an indicator of growth and the Trade Forecast expects the rate of growth in this sector to be 8.85% over the next five years. Despite depressed economic conditions this demonstrates that infrastructure development is underpinning mid-term growth and to capitalise on this, businesses must consider transportation requirements and their closeness to market.

Coal - *coal and products made from coal such as briquettes*
Demand in the coal sector is a good indicator of future energy demand and the Trade Forecast predicts that trade in this sector will grow by 8.52% globally by 2016, driven by greater economic development around the world. Growth in the Asia Pacific (11.06%), Latin American (9.35%) and North American (9.04%) regions is predicted to be above that for the world. China accounts for half of world production of coal and is both the largest producer and consumer of coal. Businesses seeking to internationalise in this sector therefore need to factor in the impact of strong Chinese demand and growth.

Processed Food - *processed and pre-prepared, non-perishable foods*
No one region dominates this sector but the fact that it is rapidly expanding suggests that market demand globally is moving beyond basic foodstuffs towards the consumption of more sophisticated food. Companies in this sector need to look at supply chains carefully as local content is important in the global food industry.

Electrical Control Systems and Boards - *electrical equipment to control the use of electrical energy sources*
While this sector does not feature as a top 10 emerging sector for any of the global regions it is fundamental to power supply across the world. In the Asia Pacific region the Trade Forecast predicts that the related sector of automated regulating and control equipment will grow by 8.81% and in North America, the related area of electric transformers and static conductors will grow by 8.50%. For businesses in this sector there are increasing trade opportunities as new electrical energy sources develop, particularly in Asia, Europe and North America. As an innovative sector the rate of change is fast and businesses will need to react quickly and grow their international activity at nearly 8.00% per year over the next five years to keep up.

Infrastructure – *a broad sector ranging from iron and steel bars to engineering consultancy*
As it covers so many different areas infrastructure is the world's largest sector and is fundamental to economic growth across the world. The Trade Forecast predicts the sector will grow by 110.00% over the next 15 years - an annualised growth rate of 5.60% year on year for the next 15 years. Companies that can build vital infrastructures should be looking at where trade growth is fastest. In turn, commodity and intermediate goods like iron and steel and coal require substantial transport and communications and logistics infrastructures to support them - this provides opportunities for wider businesses such as those involved in rail and road construction.

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Macroeconomic trends

The world economy is fragile and the risks attached to potential contagion from the eurozone crisis have made consumers and producers alike nervous about buying goods or services in an uncertain environment. The OECD and the IMF are predicting slower growth in 2012 globally at 3.3% and there are signs that the European Union in particular may be entering a recession. Emerging economies will not be immune to this with China, India, Indonesia and South Korea all showing marked slowdown. Yet there are positive signs; some economists are predicting that 2012 will not be as bad as expected and indeed unemployment in the USA, alongside good growth data is fuelling optimism over the resilience of the USA's economy to the current crisis.

China and India, according to analysts, are forecast to account for more than half of world growth in 2012. This is reflected in the pace of trade growth that we are seeing in these two countries. Although China is growing from a larger base, India's trade is forecast to grow quickly over the next five years at nearly 8%. Both countries' growth will be slower than in previous years, with China, because of its greater export dependency, being more affected in the near term.

Global manufacturing Purchasing Mangers Indices (PMI) are either slowing or contracting in Europe but globally, and particularly in the USA, Japan, Australia, China, India, Turkey and Russia, there is evidence of growth in December 2011's figures. Alongside this the Trade Forecast is predicting slower growth in manufacturing than infrastructure or commodities, for example, which reflects flat global demand for manufactured products, particularly in the near term.

Manufacturing trade is set to grow by 72%, which is below the average for the world as a whole. This is due to two things, flat demand in the next three years within Europe and North America, and the bedding down of supply chains in emerging economies to feed local demand. Emerging Asian economies in particular are still major producers of manufactured goods, but these are being traded increasingly within the regional geography as global businesses locate closer to local markets. The same is the case in Latin America where the rise of manufacturing trade represents closer integration into supply chains to resource regional markets.

Trade trends and corridors

MENA, Latin America and Asia Pacific all demonstrate growth in trade that is greater than average for the world and, as demand in Europe and North America is likely to remain flat, it is trade corridors in these regions that offer the greatest prospect for businesses both within those regions and beyond. The Trade Forecast predicts that trade growth within these regions is growing faster than trade with countries in the developed world. For example, of the top 10 emerging trade corridors in Asia Pacific, eight are from the region itself, and all of the top 10 emerging trade corridors in Latin America are from within the region.

Egypt, a large economy recovering from its political crisis 12 months ago, is predicted to have great potential as a key trade hub in the future as a route between Africa and Europe. So, despite current geopolitical issues, and although its situation remains volatile, Egypt has the potential for substantial trade growth and the prospects for its economy are positive.

Indonesia remains a key emerging trading nation with overall trade growth forecast at 7.16% annualised over the next five years. The recent upgrading of Indonesia's credit status by the ratings agencies reinforces the fact that its economy is set for growth through trade, particularly within the Asia Pacific region, but also with North America as it becomes more integrated into global supply chains.

International trade powerhouses

The challenge to existing trade powerhouses is that trade corridors are increasingly emerging within regions and, as global companies increasingly require their supply chains to be located close to the market as much for cost reasons as for access to those markets, this trend is likely to become more noticeable. It is international trade at the high value end of the market that will fuel this and, as the alternative energy and pharmaceutical sectors grow and as emerging economies increasingly require high end engineering to build infrastructures, this is likely to play into the hands of these powerhouses.

In 2012, the top trading nation will remain the USA. It alone accounts for some $2.64 trillion in trade value, although China is rapidly closing the gap. By 2016 China will have overtaken the USA as the largest trading nation. Indeed, the top 10 largest trading nations are all forecast to grow over the next five years, except the UK which is forecast to slow slightly by -0.40%. The growth in trade in the developed economies, such as the USA and Germany, is slower at 2.00% and 3.20%, respectively, than the sustained and impressive annualised growth of 6.60% for China and 5.10% for South Korea predicted by the Trade Forecast. These economies will see growth in their imports as well as in their exports, with China's imports in the near term forecast to increase more rapidly than its exports, even though it will keep its overall trade surplus. This suggests that its role as the global trade powerhouse is undiminished by the current negative economic outlook. Its demand for commodities, energy and infrastructure are strong and growing and as these are imported, provides a platform for more to be produced in the future.

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 4.70% a year at which international businesses will have to grow their revenue, contacts, assets, operations and workforce to achieve this forecast may feel challenging for some, but the reality is that growth opportunities are both numerous, and lie internationally. The short-term pace of economic development in emerging nations coupled with slow domestic growth in developed nations is driving the trend. The companies that succeed will be planning for that today.

"We hope that the insights and opportunities outlined within HSBC *Global Connections* help businesses to achieve their ambitions through trade - whether that be with new markets or through expanding current trade relationships. At HSBC we continue to work with businesses across the world to help them realise their full potential. In fact we have committed to facilitating $750billion of world trade by 2013."

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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.