

# HSBC Global Connections

## Trade Forecast Update: Hong Kong 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)
- China to become the world's leading trading nation by 2016
- Global trade to accelerate sooner than expected - from 2014, rather than 2015
- Hong Kong's trade is forecast to grow faster than world trade with annualised growth rates of 4.46% until 2018
- Vietnam will be Hong Kong's fastest growing largest exporter in next five years
- Major opportunities for Hong Kong businesses in electronics and precious metals sectors

### 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 trade recovery both within the region and in the rest of the world. Indexed to a base at the end of 2011, the Trade Forecast predicts a 99.25% increase in world trade to 2026 and 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.

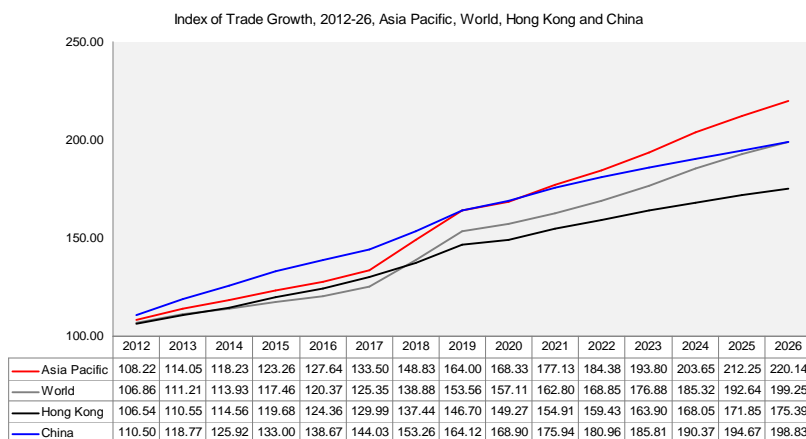
### Hong Kong's trade overview

Hong Kong's trade is forecast to be higher than the global average, between 2012 and the beginning of 2018 at an annualised rate of 4.47% compared to a world average of 3.84% over the same period. After this period, Hong Kong's trade growth will stabilise, along with the global economy. Hong Kong's annualised growth rate over the 15 year period (2012-2026) is 3.57% which equates to growth in trade values of 75.39% to 2026. Hong Kong's trade index, based to 2011, will grow faster than the world average until 2018, due to Hong Kong's key role as a hub between China and the opening of trade routes between Latin America and Asia-Pacific after 2015.

Intra-regional trade will remain important. As a key link in China's growing consumer electronics sector, Hong Kong is China's 3<sup>rd</sup> largest export partner, after USA and Japan.

The forecast predicts that China will become the world's largest trading nation by 2016. China's trade will grow at a significantly faster rate than the world average with an annualised growth rate of 6.61% over the next five years to 2016, increasing to 7.41% between 2017 and 2021. This equates to growth indexed to a base in 2011 of 98.83% over the next 15 years.

The forecast predicts trade in Hong Kong and China will grow by 3.57% and 6.29% annually over the next 15 years. Hong Kong's trade with Vietnam and India will grow by a total of 11.28% and 9.76% over the next 15 years.



Emerging trade along the south-south route with Africa and Latin America will be dominant over the next five years. Trade corridors will open up particularly within exports to the Netherlands in the electric apparatus for line telephony and telegraphy sector, which is set to grow by 8.82% and with the USA by 5.47%.

Terence Chiu, HSBC's Head of Global Trade and Receivables Finance Hong Kong and Macau, said:

“As confidence returns to the global economy, export growth from Asia-Pacific will provide a catalyst to reignite the global trade sector. With its proximity to China, Hong Kong will play a central role in the resumption of trade flows globally and see its status as an international trading hub evolve significantly. We expect China's trade volumes to double over the next 15 years and, as it further matures, we anticipate that international businesses in Hong Kong will strengthen operations to take advantage of these opportunities”.

## Trade corridors and trends

Hong Kong's largest export partners are China, the USA and Japan. The Trade Forecast predicts that these corridors will grow annually over the next five years at rates of 4.57%, 1.16% and 3.48% respectively. The importance of the Asia-Pacific region in Hong Kong's current export trade routes can clearly be seen and its emerging export partners are also largely in Asia-Pacific and Latin America. Interestingly, exports to Egypt are forecast to increase at 12% annually to 2016 and to Qatar by 9.77%, reflecting the speed at which these two countries are increasing their trade routes into and out of Asia. Vietnam will be Hong Kong's fastest growing largest export partner over the next five years, with trade increasing 11.28%.

Hong Kong's largest importers are China, Japan and the USA and the Trade Forecast predicts that trade with each of these countries will increase annually by 3.63%, 3.86% and 7.27% respectively to 2016. Imports are growing annually from Switzerland (10.33%), France (8.93%) and the UK (8.82%) to 2016, reflecting growing trade in electronics goods and the import of pharmaceuticals from these countries into the Asia Pacific region. Of the emerging import partners, Poland is the fastest growing, reflecting its integration in global electrical goods supply chains from South Korea and China through Hong Kong's hub. Russia and Kazakhstan are forecast to increase at nearly 12% each reflecting increased demand for oil and gas.

Hong Kong's Emerging Growth Importers and Exporters (2012-2016)

Hong Kong's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Exporters	%	Hong Kong's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Importers	%
China	4.57%	Egypt	12.00%	China	3.63%	Poland	13.72%
USA	1.16%	Slovakia	11.70%	Japan	3.86%	Uruguay	12.86%
Japan	3.48%	Vietnam	11.28%	USA	7.27%	Vietnam	12.79%
Germany	4.63%	Russia	10.66%	Thailand	7.96%	Russia	11.96%
India	9.76%	Qatar	9.77%	Singapore	2.82%	Kazakhstan	11.92%
UK	1.30%	India	9.76%	South Korea	4.64%	Chile	11.83%
Singapore	5.28%	Saudi Arabia	9.67%	Switzerland	10.33%	Mexico	11.55%
Korea	2.81%	Indonesia	9.43%	Malaysia	4.12%	Slovakia	11.42%
Netherlands	5.98%	Argentina	8.88%	Germany	6.15%	Venezuela	11.40%
Australia	6.20%	Poland	7.95%	Philippines	4.77%	Ghana	11.22%

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 Hong Kong's fastest growing export and import sectors by partner:

Hong Kong'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)
Electrical apparatus for line telephony, telegraphy	Netherlands	8.82%	Prepared unrecorded sound recording media	China	9.90%
Gold, unwrought, semi-manufactured, powder form	China	8.82%	Electrical apparatus for line telephony, telegraphy	Japan	9.32%
Printing and ancillary machinery	China	8.19%	Printing and ancillary machinery	Japan	9.25%
Diamonds, not mounted or set	China	7.84%	Printing and ancillary machinery	China	8.97%
Articles for funfairs, table and parlour games	China	7.16%	Oils petroleum, bituminous, distillates, except crude	China	7.68%
Articles for funfairs, table and parlour games	Germany	6.39%	Watches with case of, or clad with, precious metal	Switzerland	7.40%
Electrical apparatus for line telephony, telegraphy	USA	5.47%	Electronic integrated circuits and microassemblies	Thailand	7.07%
Liquid crystal devices, lasers, optical appliances	China	5.00%	Jewellery and parts, containing precious metal	China	6.25%
Diamonds, not mounted or set	India	4.89%	Diamonds, not mounted or set	USA	6.05%
Electrical capacitors, fixed, variable or adjustable	China	4.48%	Electrical capacitors, fixed, variable or adjustable	China	5.94%

N.B. The fastest growing import and export sectors by partner are developed from the countries 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

Hong Kong has a dominant service sector that falls outside of the merchandise trade statistics. It is nevertheless a key hub between China and emerging Asia, Europe and Latin America and this role is particularly striking in two sectors:

**Consumer Electronics:** Hong Kong is a key link in the global supply chain for consumer electronics and will play a vital role in the emerging intra-regional trade in this sector in the Asia-Pacific region. Exports of electrical apparatus for line telephony will increase, while imports of computers from Thailand will increase by 5.77% annualised to 2016. Hong Kong is both an importer and exporter of components and end products, with its supply chain embedded in Asia-Pacific but also extending to Europe. This is a highly competitive and very international sector but businesses in it will need to expand by above 10% to take advantage of this, especially in Asia-Pacific where trade is growing more quickly than in Europe or North America.

**Gold, Diamonds and Jewellery:** Hong Kong is a gateway for trade in precious metals and jewellery. Exports of gold will expand annually over the next five years to China by 8.82% and to the UK by 3.76%. While no one country dominates imports of gold it is Hong Kong's fastest growing import sector with annualised forecast growth of 15.19% over the next five years. Trade in un-mounted diamonds is increasing in importance with exports set to grow at an annualised rate of 7.43% and imports by 5.73% over the next five years. Diamond exports to India will increase by 4.89% while imports from Belgium will increase by 5.13% and from the USA 6.05%. As the sector expands, so too will business opportunities for international trade and the emerging corridor with India, a major gold trading nation, offers international businesses access to a big market in the Asia-Pacific region.

## 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. With 7,500 dedicated relationship managers, Commercial Banking contributed over US\$4 billion in profit before tax to the Group in the half-year to 30 June 2011.