

HSBC Global Connections

Trade Forecast Update: India

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
- India's trade forecast to grow 106.21% to 2026
- Indian companies to increase trade activity annually over the next 15 years by 6.56%
- India's fastest growing large export sector is predicted to be motor vehicles (excl. buses) at 13.43% annualised to 2016

Trade overview

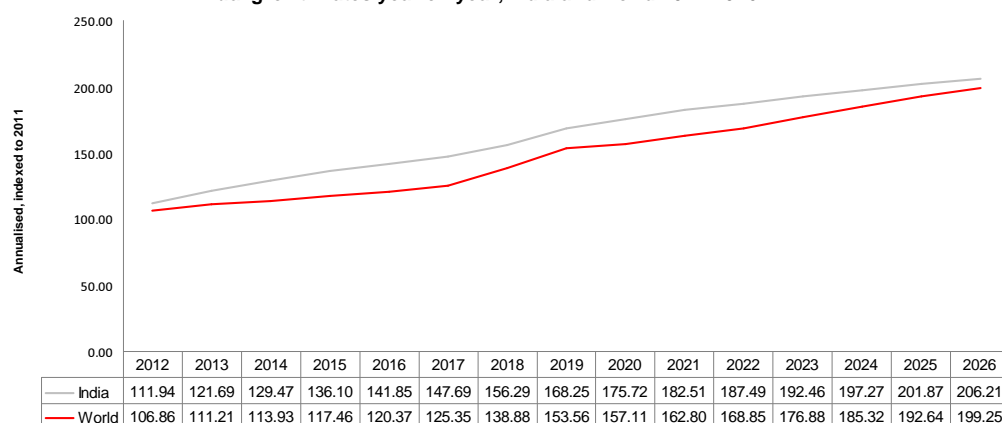
As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. 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 India will grow at an annualised rate of 7.10% to 2016. This is forecast to increase substantially between 2017 and 2021, at 7.68%. This equates to growth, indexed to a base in 2011, of 106.21%. Annualised total trade growth in India over the next 15 years will be 6.56%, which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

India's trade outlook

India's trade is forecast to grow a rate that is faster than average world growth. The Trade Forecast predicts that world growth, particularly after 2015, will be driven by acceleration of trade in Asia Pacific and Latin America. India's trade will be driven by increasing exports in its largest sectors - such as motor vehicles, iron, steel and cotton - as well as its fastest emerging sectors - such as preserved fruit and nuts, and cocoa paste. A significant driver of India's growth is the expansion of its trade corridors within some of the largest global sectors. For example, exports of non-crude oil and petrol are forecast to increase significantly with countries including France, Indonesia, Japan, Korea, the Netherlands and Brazil, while imports of crude oil and petrol will expand with Oman, Qatar, Venezuela and Egypt.

Annual growth rates year on year, India 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

The USA is India's largest export partner with exports set to grow at an annualised rate of 5.38% over the next five years. Exports to the UAE will grow by 8.61%, fuelled by gold exports, while exports to China will increase by 9.51%, driven by refined copper exports and iron ores for construction materials and cotton. India's exports into Malta will grow at a rate of 18.75% over the next five years, suggesting an integration into European supply chains. Emerging export destinations, including Indonesia, France, UAE and Indonesia, demonstrate the reach of India's exports across the Asia Pacific, MENA and European regions. India's largest import partners are China, the USA and the UAE. Trade is forecast to grow with each over the next five years, reflecting demand for fuel from many oil producing and re-exporting countries in Asia, the Middle East, South America and Africa, electronic apparatus for telephones from China, and diamonds from the UAE. Fast growing import partners such as Oman, Qatar, and Venezuela reflect an increased demand for coal and oil as the Indian economy becomes more resource hungry with growth.

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

India's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	India's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
USA	5.38%	Malta	19.07%	China	9.91%	Colombia	19.05%
UAE	8.61%	Ecuador	12.69%	USA	7.57%	Ethiopia	17.43%
China	9.51%	Rwanda	12.68%	UAE	8.32%	Paraguay	15.89%
Singapore	7.09%	Bahrain	12.34%	Germany	7.14%	Cambodia	15.20%
United Kingdom	5.64%	Peru	12.17%	South Korea	8.84%	Vietnam	15.00%
Germany	7.83%	Romania	12.14%	Australia	6.22%	Venezuela	14.12%
Netherlands	9.36%	Malaysia	11.81%	Indonesia	8.95%	Algeria	14.01%
Saudi Arabia	9.42%	Uruguay	11.59%	Japan	7.58%	Brazil	13.61%
Belgium	6.70%	Chile	11.58%	Saudi Arabia	7.70%	Philippines	12.27%
South Korea	9.76%	Indonesia	11.49%	Singapore	6.32%	Poland	12.03%

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

India'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)
Oils petroleum, bituminous, distillates, except crude	France	18.83%	Petroleum oils, oils from bituminous minerals, crude	Oman	18.30%
Gold, silversmith wares of or clad with precious metal	UAE	17.75%	Petroleum oils, oils from bituminous minerals, crude	Qatar	14.92%
Refined copper and copper alloys, unwrought	China	16.89%	Petroleum oils, oils from bituminous minerals, crude	Venezuela	14.13%
Oils petroleum, bituminous, distillates, except crude	Indonesia	15.10%	Electric apparatus for line telephony, telegraphy	China	13.82%
Oils petroleum, bituminous, distillates, except crude	Japan	13.75%	Coal, briquettes, ovoids etc, made from coal	South Africa	13.32%
Cotton, not carded or combed	China	12.12%	Petroleum oils, oils from bituminous minerals, crude	Egypt	10.70%
Medicaments, therapeutic, prophylactic use, in dosage	USA	12.04%	Coal, briquettes, ovoids etc, made from coal	Indonesia	10.57%
Oils petroleum, bituminous, distillates, except crude	Rep. of Korea	11.07%	Oils petroleum, bituminous, distillates, except crude	Singapore	10.47%
Oils petroleum, bituminous, distillates, except crude	Netherlands	10.34%	Petroleum gases and other gaseous hydrocarbons	Qatar	9.91%
Oils petroleum, bituminous, distillates, except crude	Brazil	8.70%	Diamonds, not mounted or set	Hong Kong	9.34%
Diamonds, not mounted or set	UAE	7.36%	Diamonds, not mounted or set	UAE	9.09%
Jewellery and parts, containing precious metal	UAE	6.61%	Petroleum oils, oils from bituminous minerals, crude	Kuwait	9.02%
Oils petroleum, bituminous, distillates, except crude	UAE	6.59%	Petroleum oils, oils from bituminous minerals, crude	Nigeria	9.02%
Iron ores and concentrates, roasted iron pyrites	China	4.26%	Petroleum oils, oils from bituminous minerals, crude	Saudi Arabia	9.02%

N.B. 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 and Infrastructure: India's trade growth is dominated by commodities, such as oil, gold and diamonds and material for infrastructural development. Its imports reflect this with a burgeoning demand for oil and raw materials to fuel the development of infrastructures across the agricultural and industrial sectors. India is a major exporter of infrastructural materials and thus exports of iron and steel piping, and refined copper and copper alloys will increase. In return, India processes iron and steel slag and waste, and imports of those are set to increase. These are vital sectors for the global economy and integrated into supply chains across a range of sectors from roads and transport infrastructures to electronic equipment. Opportunities for businesses to expand their international trade through this are evident. They will need to grow rapidly in order to take advantage of India's rising importance in world infrastructures.

Automotives: Car exports are set to increase at an annualised rate of 13.43% and imports of car parts, fuelling this expansion of exports, are set to increase by 10.12%. This is a fast growing trade sector and is highly global in its reach and operations. Businesses working within the sector will have to internationalise at rates of above 10.00% in order to take advantage of the opportunities that are emerging from this sector.

Medicine: India has a strong and established generic drugs sector which has grown rapidly, especially into Africa and emerging economies in the Asia Pacific region. Exports in this sector are forecast to grow annually over the next five years at a rate of 9.81%. The sector is largely export-driven at present and trade within its traditional routes are set to become more established, although there is evidence that trade with Europe and the USA is also growing, which suggests the Indian medical sector is becoming more closely integrated into the global supply chain. India's research base in the sector is also world class and businesses entering this market know and understand its global nature. The sector and its speed of growth represent exciting opportunities for India to compete at the high end of the global trading system.

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

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