

HSBC Global Connections

Trade Forecast Update: Indonesia

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
- Indonesia's trade forecast to grow 106.56% to 2026
- Indonesia's companies to increase trade activity annually over the next 15 years by 6.44%
- Indonesia's fastest emerging export sector is cinematographic cameras and projectors, which will grow at an annualised rate of 44.70% over the next five years

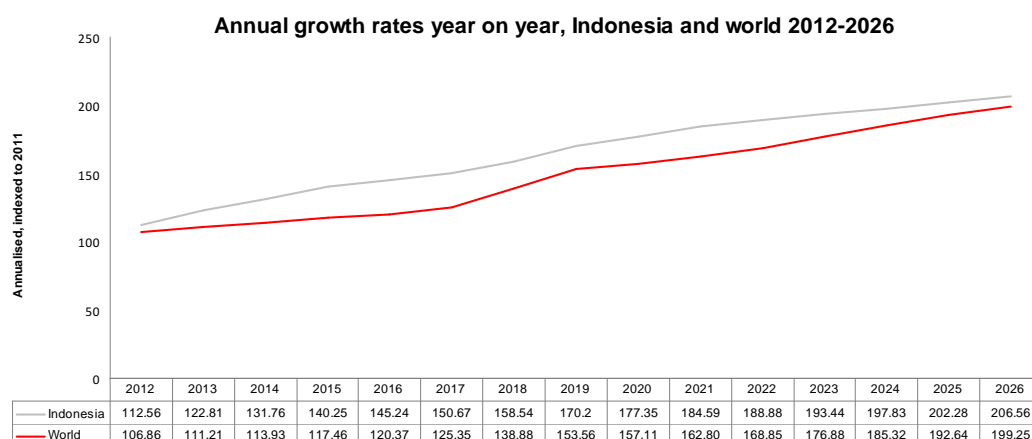
Trade overview

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 Indonesia will grow at an annualised rate of 7.16% over the next five years to 2016 but that it will increase with annualised growth between 2017 and 2021 at 7.44%. Slower expected growth in the near term is expected due to the slowdown in global trade in the fall out of the European financial crisis. Despite this, throughout the period trade growth in Indonesia remains above the world trend and trade will continue to drive the country's economic development. Annualised total trade growth in Indonesia over the next 15 years will be 6.44%: the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Indonesia's trade outlook

Indonesia provides much of the energy resource needed by the Asia Pacific region and is growing its trade base in manufacturing. Although it is still an emerging economy, its trade index, based to 2011, will grow at a much faster rate than the world average throughout the duration of the forecast to 2026 at 106.56%. The trade forecast predicts that Indonesia will increase its exports of petroleum gases and other gaseous hydrocarbons to Singapore by 19.95% over the next five years and its imports of automatic data processing machines to China by 15.72% over the same time period. The world index is due to experience accelerated growth after 2015 in Latin America and the Asia Pacific regions, which will drive the rapidly increased expansion of world trade.



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

Indonesia's largest export partners are Japan, China and Singapore with annualised growth predicted to increase at an annualised rate of 5.28%, 8.93% and 8.19% respectively. Its largest emerging export markets are predominantly in Asia, with export trade to Malaysia forecast to grow at a rate of 10.51%, to the Philippines at 10.28% and India at 9.69%, annually to 2016. An exception is Italy; where exports are forecast to grow annually over the next five years by 9.57%, largely due to an 8.6% growth in the footwear sector. Emerging export partners include Uruguay, Kazakhstan and Paraguay with the focus on exports of coal.

China, Japan and Singapore all also play important roles as Indonesia's key import partners. In the case of China, much of the increase is due to growth in imports of palm oil which is both a major export and a major import sector for Indonesia. Fast growing large importers include Hong Kong, Brazil and Korea, who are all forecast to grow at significant annualised rates of 14.20%, 11.73% and 11.66% respectively.

Indonesia's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Indonesia's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Japan	5.28%	Uruguay	16.41%	China	11.94%	Qatar	17.32%
China	8.93%	Kazakhstan	14.27%	Japan	11.25%	Hungary	17.20%
Singapore	8.19%	Paraguay	13.78%	Singapore	10.50%	Colombia	17.10%
USA	5.79%	Czech Republic	12.97%	Malaysia	10.54%	Hungary	16.32%
South Korea	7.70%	Kenya	12.97%	USA	10.60%	Hungary	17.20%
Malaysia	10.51%	Peru	11.45%	South Korea	11.66%	Colombia	17.10%
India	9.69%	Rwanda	11.37%	Thailand	9.61%	Cambodia	15.84%
Thailand	8.26%	Brazil	11.09%	Australia	7.38%	Uruguay	15.16%
Australia	7.33%	Cambodia	10.75%	Saudi Arabia	5.70%	Malta	14.66%
Netherlands	8.12%	Russia	10.66%	India	10.77%	Hong Kong	14.20%
Philippines	10.28%	Bangladesh	10.63%	Germany	9.66%	Mexico	13.91%

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

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Petroleum gases and other gaseous hydrocarbons	Singapore	19.95%	Automatic data processing machines (computers)	China	15.72%
Coal, briquettes, ovoids etc, made from coal	China	16.13%	Aircraft, spacecraft, satellites	USA	15.01%
Palm oil and its fractions, not chemically modified	Malaysia	13.34%	Motor vehicles for the transport of goods	Japan	14.84%
Coal, briquettes, ovoids etc, made from coal	Philippines	13.28%	Radio and TV transmitters, television cameras	China	14.33%
Coal, briquettes, ovoids etc, made from coal	Malaysia	12.94%	Parts and accessories for motor vehicles	Thailand	11.05%
Coal, briquettes, ovoids etc, made from coal	India	12.57%	Soya-bean oil-cake and other solid residues	Argentina	10.67%
Petroleum coke, bitumen and other oil industry residues	Japan	12.19%	Oils petroleum, bituminous, distillates, except crude	Malaysia	10.06%
Coal, briquettes, ovoids etc, made from coal	Korea	12.03%	Petroleum oils, oils from bituminous materials, crude	Malaysia	9.51%
Refined copper and copper alloys, unwrought	Japan	11.64%	Soya beans	USA	9.49%
Palm oil and its fractions, not chemically modified	Bangladesh	11.20%	Oils petroleum, bituminous, distillates, except crude	South Korea	9.22%

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

Energy: Indonesia supplies coal and petroleum gas to the Asia Pacific region and exports are forecast to grow significantly as regional trade corridors open up. Exports of coal are forecast to increase at annual rates to Thailand (10.87%) and China (16.13%) to 2016. Rapidly growing partners include the Philippines, Malaysia, India and Korea. Exports of petroleum gas to Singapore will increase by 19.95% while coke and bitumen exports to Japan will increase by 12.19%. Indonesia is a net importer of oil and non crude oil imports are forecast to grow from Malaysia by 10.06% and from South Korea by 9.22%. This growth in energy commodity trade demonstrates both that Indonesia is a key supplier to the region and also the region's demand for energy is rapidly accelerating as its trade and economic development expands. The challenge for businesses in these sectors is to grow fast enough to keep up with the growth in international activity in the energy sectors.

Food commodities: Indonesia has a strong agricultural base and exports and imports of food commodities are a vital part of the country's trade mix. Indonesia will be increasing imports in wheat and meslin, a grain mix, from Australia over the next five years at an annualised rate of 8.47% while imports of soya from the USA are set to increase annually by 9.49% over the same period. Palm oil exports to China, Bangladesh and Malaysia are set to increase at annual rates of 10.43%, 11.20% and 13.34%, respectively, over the next five years. Two key emerging export sectors beef (24.99%) and ground nut oil (23.46%) will grow significantly both annualised to 2016. Food commodity trade is important in providing raw food stuffs for processing and feature strongly in the trade portfolios both of Latin American and Asian economies. The sector is growing fast globally and key players include Brazil, Argentina, Indonesia and China. Businesses in these sectors need to watch growth between these corridors carefully and expand their operations accordingly.

Manufacturing: Indonesia's manufacturing sector is technologically sophisticated with emerging export sectors like cinematic cameras and recording equipment forecast to grow over the next five years due to new regional supply chains. Indonesia is a major importer of road transport vehicles from Japan which are forecast to increase at 14.84% and cars from Thailand which are forecast to increase by 8.57% annually over the next five years. The burgeoning manufacturing sector will increase its regional dominance as it develops but there is evidence that businesses should be looking to the top end of the supply chain as this is where growth is likely to be in the future.

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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