HSBC Global Connections

Trade Forecast Update: Japan

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
- Japan's trade forecast to grow 78.56% to 2026
- Japan's companies to increase trade activity annually over the next 15 years by 4.02%
- Japan's fastest growing large export sector will be apparatus for line telephony and telegraphy at an annualised rate of 11.83% over the next five years, fuelled by trade links with China in the consumer electronics sector

Trade overview

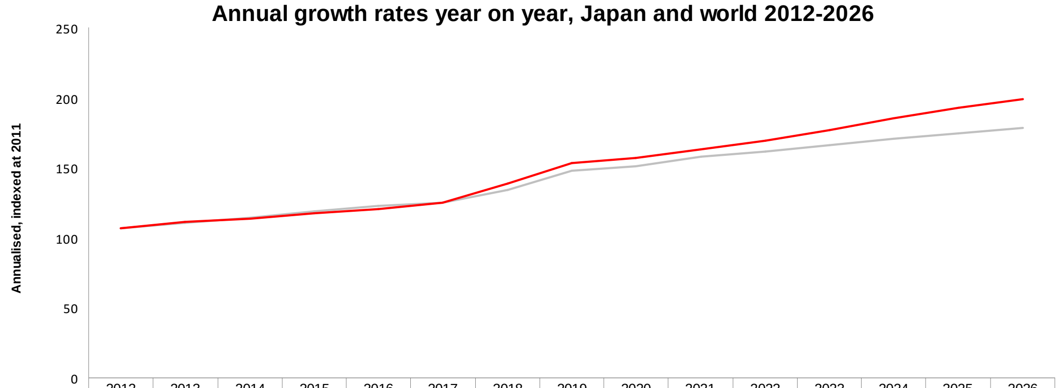
As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. 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 Japan's trade will grow at an annualised rate of 2.82% over the next five years to 2016. This will increase substantially between 2017-2021, at 5.71%. The slower growth in the near term can be accounted for by the aftermath of the Tsunami in 2011 as well as the uncertainties surrounding the Eurozone crisis and its impact on the world economy and world trade. Even so, this equates to growth (indexed to a base in 2011) of 78.56%. Annualised total trade growth in Japan over the next 15 years will be 4.02%: the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Japan's trade outlook

Japan's trade is forecast to grow faster than the world average until 2017, when growth begins to slow. This gap gets greater towards the end of the trade forecast period, in 2026. World growth is being driven by accelerated growth after 2015 in Latin America and Asia Pacific and Japan is well placed to take advantage of this. The slowing of trade growth towards the end of the forecast period does not suggest that Japan's trade competitiveness is diminishing, but rather that its businesses are capitalising on emerging trade corridors and expertise in the Asia Pacific region in particular. Evidence of this comes from the fact that, of Japan's 15 largest export partners, 10 are in the Asia Pacific region. China is overwhelmingly Japan's largest trading partner; by sector some seven out of the 15 top emerging export corridors are with China.

Annual growth rates year on year, Japan and world 2012-2026



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Japan	106.6	110.78	114.09	118.96	122.39	124.67	133.83	147.64	150.83	157.68	161.96	166.29	170.45	174.44	178.55
World	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

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."

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Trade corridors and trends

Japan's largest export partner is China, which dominates its trade in consumer electronics. Exports here are forecast to grow 6.01% annually over the next five years. Similarly, exports to South Korea, Japan's second largest export partner, are forecast to grow at 4.14% annually to 2016. Japan will grow its exports with Thailand, Singapore and Hong Kong, to a large extent due to the strength of the consumer electronics supply chain in the Asia Pacific region. Four out of five of Japan's top emerging export trade partners are in Latin America: Peru, Uruguay, Chile and Brazil, and these are all forecast to grow substantially. For example, exports to Brazil will grow annually to 2016 by 9.30%, accounted for by printing, ancillary machinery and cars. Japan's fastest growing large import partners are Russia, Canada and China. In all of these countries the trade expansion is accounted for by demand for energy, consumer electronics and infrastructure in Japan; imports from Russia in non-crude oil will increase by 11.44% while imports of iron ore from Brazil will increase by 5.99%, both annualised to 2016. Additionally, China is forecast to increase its imports to Japan by 4.76, predominantly importing printing and ancillary machinery.

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

Japan's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Japan's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
China	6.01%	Switzerland	10.78%	China	4.76%	Algeria	10.14%
South Korea	4.14%	Peru	10.62%	USA	2.97%	Netherlands	10.10%
USA	0.39%	Uruguay	9.59%	South Korea	4.14%	Lithuania	9.74%
Thailand	5.23%	Chile	9.54%	Indonesia	3.35%	Poland	9.37%
Hong Kong	3.38%	Brazil	9.30%	Thailand	4.68%	Nigeria	9.18%
Singapore	5.55%	Bangladesh	9.04%	Australia	2.72%	Ecuador	9.10%
Germany	3.09%	India	8.93%	Germany	2.89%	Argentina	8.49%
Netherlands	5.59%	Cambodia	8.83%	Malaysia	4.87%	Russia	7.86%
Malaysia	5.32%	Paraguay	8.82%	Russia	7.86%	Peru	7.82%
Indonesia	8.51%	Vietnam	8.73%	Canada	5.28%	Kenya	7.63%

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

Japan'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)
Electric apparatus for line telephony, telegraphy	China	12.00%	Printing and ancillary machinery	China	12.32%
Electrical switches, connectors, etc, for < 1kV	China	6.04%	Oils petroleum, bituminous, distillates, except crude	Russia	11.44%
Ferrous waste or scrap, ingots or iron or steel	China	6.73%	Medicaments, therapeutic, prophylactic use, in dosage	USA	10.40%
Gold, unwrought, semi-manufactured, powder form	UK	11.72%	Coal, briquettes, ovoids etc, made from coal	Canada	9.61%
Motor vehicles for transport of persons (except buses)	Oman	9.02%	Petroleum oils, oils from bituminous minerals, crude	Russia	9.40%
Oils petroleum, bituminous, distillates, except crude	Singapore	12.61%	Electric apparatus for line telephony, telegraphy	China	8.31%
Oils petroleum, bituminous, distillates, except crude	China	7.39%	Air conditioning equipment, machinery	China	7.87%
Parts of aircraft, spacecraft, etc	USA	8.31%	Radio and TV transmitters, television cameras	China	7.07%
Passenger and goods transport ships, boats	Singapore	10.91%	Copper ores and concentrates	Indonesia	6.52%
Plastic plate, sheet, film not cellular, reinforced	South Korea	7.92%	Iron ores and concentrates, roasted iron pyrites	Brazil	5.99%

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

Automotives and transport: Japan's top two export sectors, cars and car components, are world class and highly innovative with forecast growth annually over the next five years of 1.51% and 4.10% respectively. This is substantial growth and, as the sector and its supply chain are internationalised, reflects the emergence of new corridors, for example between Poland and Japan, where Poland exports Japanese products. Similarly, Japanese exports of aircraft and spacecraft components to the USA are forecast to increase annually at 8.31% over the next five years. These highly sophisticated and global supply chains are run and managed through large global corporations with exacting standards. Businesses operating in the sector will need to expand operations by between 1.51% and 4.10% in order to keep pace.

Consumer electronics: This sector dominates Japan's exports and imports, especially with China. Exports of electrical appliances for line telephony are set to increase (11.83%) while exports of printing and ancillary machinery are set to increase by 11.13% annually over the next five years. Imports from China are also set to increase; in printing and ancillary machinery by 12.32%, in electrical applications for line telephony by 8.31%, in radio and TV transmitters by 7.07% and in electrical integrated circuits by 4.65%. In turn, exports to China in related sectors will also increase; electrical appliances by 12.00%, electrical switches by 6.04%, and printing and ancillary machinery by 11.05%. This trade route is critical to the Japanese trade structure. Businesses seeking to internationalise their activities at the 12.00% or above rate necessary must understand the unique mechanisms for trade between the two countries to take advantage of the opportunities it provides.

Oil and infrastructure: Japan's industrial base rests on vast and increasing consumption of oil. Imports of petroleum gas are forecast to increase by 4.15%, imports of non-crude oil by 4.31% and of crude oil by 3.35% annually over the next five years. Japan is a trading route for oil as well and its exports of non-crude oil to Singapore and China are set to increase rapidly by 12.61% and 17.39% annually over the next five years. New commodity corridors that drive infrastructure development as well as production are opening up with imports of copper ore from Chile to increase by 3.51%, iron ore from Brazil by 5.99% and coal from Canada by 9.61%, all annually to 2016. This demonstrates the inter-connected nature of the energy and infrastructure sectors plus China's dominance as its demand for energy and infrastructure increases. Companies need to grow their activities above 4.00% in order to take advantage of the pace of change.

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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.