

HSBC Global Connections

Trade Forecast Update: Latin America

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
- Trade in Latin America will expand by 140.27% to 2026
- The fastest emerging growth sector over the next five years will be printing machinery at 14.48%, as weakening currencies and increasing labour costs prompt markets to shift manufacturing bases to Latin America

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. The Trade Forecast predicts that annualised trade growth over the next 15 years in Latin America will be 6.69%.

Annualised Growth year on year, World 2012-2026



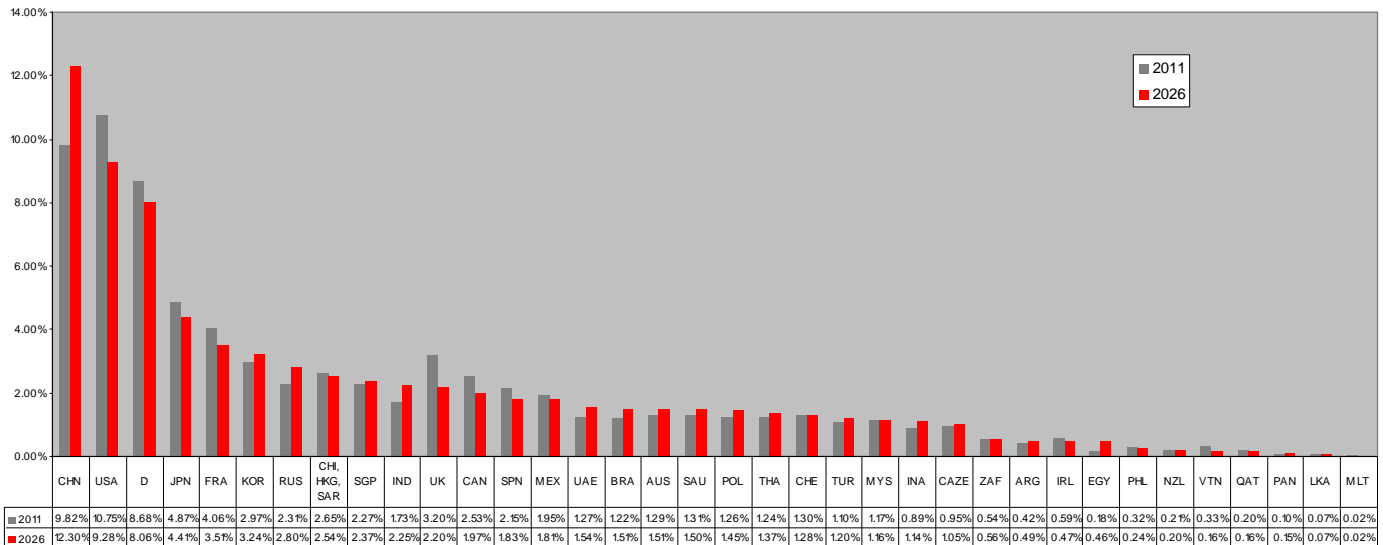
This quarter the Trade Forecast looks in detail at sectors, focusing on where growth is coming from around the world. According to the Trade Forecast we can expect to see trade expansion in sectors which support the process of trading and that drive economic growth. World infrastructure trade will increase 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 annualized 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%, fueling the trade uplift being outlined. With demand flat in the domestic markets, in particular Europe and North America, many businesses are taking advantage of further internationalisation by searching 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.

Share of world trade

The Trade Forecast predicts that share of world trade will rise for Brazil and remain unchanged for Argentina. Brazil is forecast to increase its share of world trade to 1.51% by 2026, but will remain unchanged for Argentina, currently at 0.42% of world trade.

Share of World Trade 2011-2026 (%)

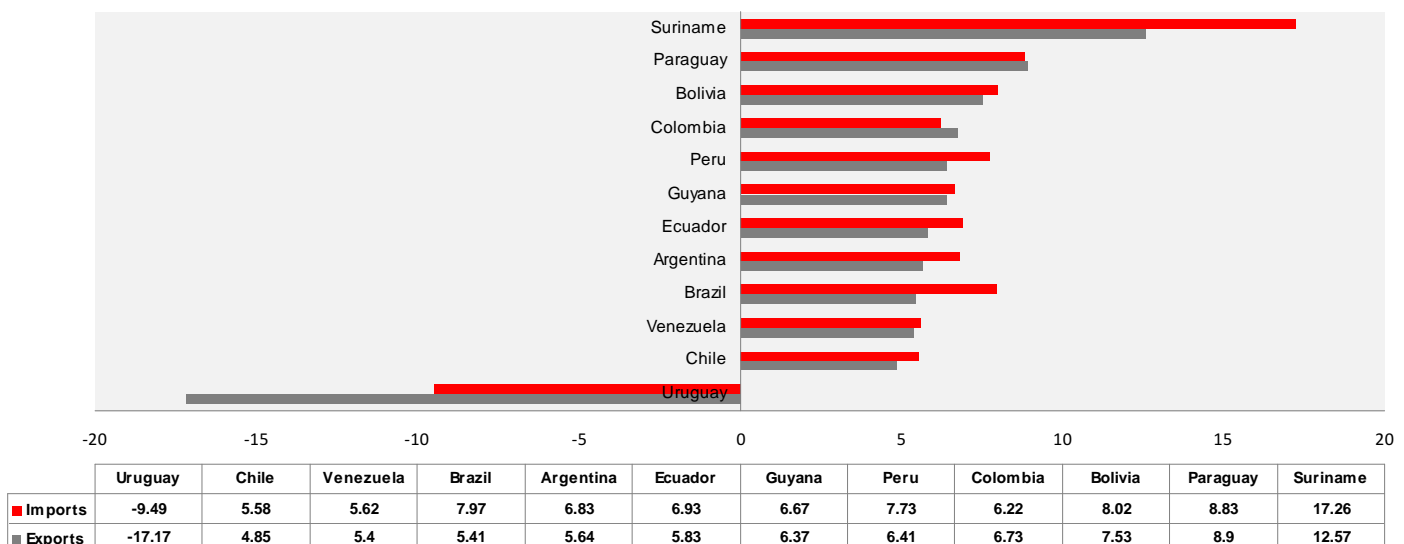


The region's fastest growing exporters and importers

Overall, the Latin American region remains stable with good growth prospects ahead for some of the world's most demanded exports. Brazil, Chile, Argentina and Venezuela are the region's largest exporters and importers. These countries have a trade surplus, demonstrating the region's ability to maintain its exports during the current eurozone crisis. Colombia is the region's fifth largest exporter and importer, despite exports just surpassing imports if compared with Brazil, Chile, Argentina and Venezuela. Peru is also growing rapidly as the world's largest producer of copper and with an improving ability to produce silver.

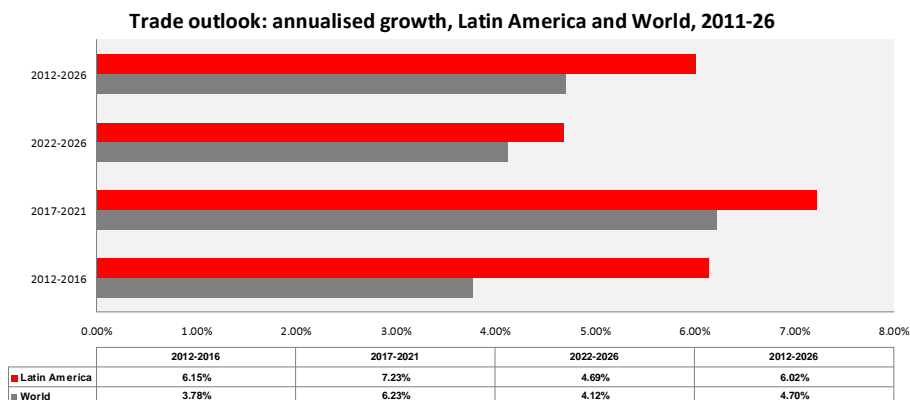
The long term forecast (2017-2026) will see Latin America reduce its reliance on internal trade with the region's largest economies (Brazil and Argentina) and increasing trade with Uruguay, Paraguay and Bolivia where wages are lower. However, despite an increase in intra-regional trade, Uruguay is relatively small and vulnerable to the knock-on effects of the eurozone crisis, putting a huge strain on its exports and imports. The region's smallest independent country, Suriname, is predicted to see big changes: it is forecast to increase its imports by 17.26% over the next five years, with exports reaching 12.57% annualised.

Fastest Growing Exporters and Importers - Latin America



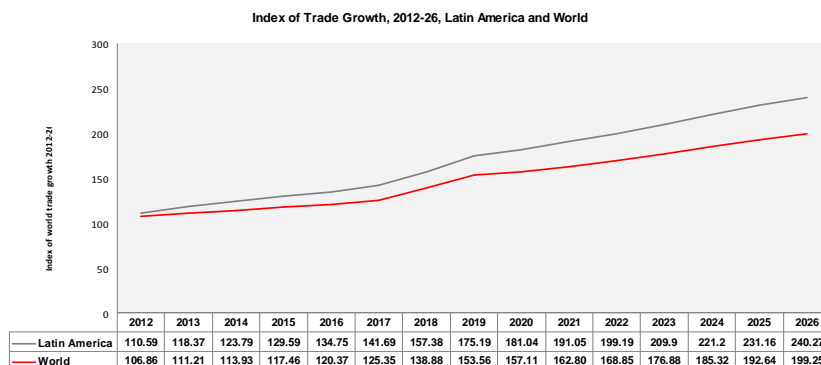
Latin America's trade outlook - growth rates, 2011-2026

The Trade Forecast predicts that the Latin America region will grow its trade at a rate that is faster than that of the world as a whole to 2026. Emerging economy trade growth, especially in Latin America, will be stronger than developed world trade growth. For example, trade growth in Latin America will be 6.16% annualised over the next five years, compared to the 3.78% forecast for the world as a whole. Its growth in the short term can be attributed to the building of infrastructures to support oil and commodity trade and through its integration into manufacturing supply chains. Another significant factor in Latin America's growth is 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. This is not happening so much in China or Brazil where 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.



Latin America's annual growth rates

Latin America's trade growth is higher compared with world trade growth throughout the duration of the Trade Forecast and is due to reach 140.27% by 2026. However, due to Latin America's involvement in petroleum oils trade and its production of vehicles, the region could potentially become vulnerable to the geo-political and economic climate.



Trade corridors and trends

The USA is Latin America's largest trading partner and, in 2012, will represent trade value of more than three times the amount of the next largest trading partner, China. However, trade with China will increase at an annualized rate of 9.04% between 2012 and 2016, which is significantly faster than is forecast for the USA and suggests that China could catch up quickly. The largest trading partners fall outside of the region, while only Uruguay and Paraguay are fast emerging trading partners within the region (with annualised forecast growth at 9.52% and 9.19% respectively). Trade with Vietnam is forecast to grow at an annualised rate of 11.85%, while trade with India is forecast to grow at 10.21% reflecting increases in trade in textiles, food products and oil, largely at the commodity level. The emerging corridors suggest that over the next five years Latin America's trade will become less reliant on the USA and increasingly focused on Asia and smaller countries in the Latin American region itself.

Latin America's Current Largest and Top Emerging Trade Partners (Total Trade)			
Current Largest (2012)		Emerging Growth Partners (Annualised Volume Growth, (2012-2016))	
USA	1	Vietnam	11.85%
China	2	India	10.21%
Brazil	3	UAE	9.71%
Argentina	4	Indonesia	9.59%
Germany	5	Singapore	9.52%
Japan	6	Uruguay	9.52%
South Korea	7	Paraguay	9.19%
Netherlands	8	China	9.04%
Canada	9	Bolivia (Plurinational State of)	8.95%

Sector watch

Globally, the largest trading sectors are petroleum oils, bituminous products and distillates and these now form a major part of the Latin American trade structure. Another significant sector is vehicle production which will remain vital, especially in Brazil, over the next five years and, although not an emerging sector, will grow and become more established. Additionally, printing and ancillary machinery, apparatus for line telephony and telegraphy and solid cane, beet sugar and pure sucrose growth will emerge with annualized growth rates of 14.48%, 12.19% and 11.12%, respectively, over the next five years. Refined copper and copper alloys is currently an important sector and this trend is set to continue as demand for infrastructure products within the region increases top sectors. The Trade Forecast predicts that aircraft, spacecraft and satellites will grow at an annualized rate of 10.67% over the next five years. This will largely be driven by imports of aircraft and satellites.

Latin America's Current Largest and Top Emerging Trade Sectors (Total Trade Volume)			
Current Largest (2012) ordered by value		Emerging Growth Sectors (Annualised Growth, 2012-2016)	
Petroleum oils, oils from bituminous minerals, crude	4.79%	Printing and ancillary machinery	14.48%
Oils petroleum, bituminous, distillates, except crude	6.82%	Electric apparatus for line telephony, telegraphy	12.19%
Motor vehicles for transport of persons (except buses)	5.32%	Solid cane or beet sugar and chemically pure sucrose	11.12%
Refined copper and copper alloys, unwrought	4.60%	Aircraft, spacecraft, satellites	10.67%
Copper ores and concentrates	5.53%	Containers, bobbins and packages, of plastics	9.77%
Iron ores and concentrates, roasted iron pyrites	9.11%	Coal, briquettes, ovoids etc, made from coal	9.35%
Soya-bean oil-cake and other solid residues	8.63%	Liquid, gas centrifuges, filtering, purifying machines	9.30%
Electric apparatus for line telephony, telegraphy	12.19%	Insecticides, fungicides, herbicides etc (retail)	9.27%
Electronic integrated circuits and microassemblies	8.31%	Iron ores and concentrates, roasted iron pyrites	9.11%
Coal, briquettes, ovoids etc, made from coal	9.35%	Pumps for liquids	9.10%

The sector opportunity

The increase in ambitious oil programmes over the next 12 months, in particular within Argentina, shows the trade opportunities emerging in the region. As productive capacity in the sector grows and the region becomes a net exporter, imports of infrastructural products will also increase. Inward investment in automotive manufacturing to Brazil is increasing, demonstrating the continued importance of this sector within the Latin American region. This can be attributed to the strong innovation and skills base that has evolved historically in Brazil. In addition, Peru is the world's second-largest producer of copper, and its dominance in this sector will continue.

The opportunities for business in the region are clear. On average, businesses trading internationally within or from outside of the region will need to increase their trade activity over the next five years, at an annualised rate of nearly 6.20%, in order to take advantage of the pace of change in the region. Currently, trade is focused on agricultural commodities, food and fossil fuels which are expanding rapidly, particularly in terms of trade with Asia. Given that emerging sectors are in manufactured products suggests that companies with expertise and international ambition in these sectors will be able to take advantage of growing import and export opportunities.

Businesses operating in the biggest emerging sectors have an obvious opportunity to capitalise. The largest emerging trade sector, with an annualised growth rate of 14.48%, is printing and ancillary machinery suggesting a slight re-balancing of international trade towards the Latin America region as weakening currencies and increasing labour costs in parts of Europe and Asia persuade companies to shift their manufacturing bases to Latin America.

The Trade Forecast predicts that trade growth in solid cane, beet sugar and pure sucrose will be at an annualised rate of 11.12%, with Brazil (provider of 54.00% of the world's exports in this sector) the driving force behind this growth. Despite a current slump in the production of cane sugar, this is short term due to unusually high production in December which has decreased demand in January.

Electric apparatus for line telephony and telegraphy will also experience trade growth at an annualised rate of 12.19% to 2016. Again, this suggests that global supply chains are being extended to the Latin American region reflecting both faster economic growth within the region and improving infrastructures and skills relative to costs. In addition, Brazil is diversifying into the aircraft, space craft and satellites sectors and will account for much of the forecast increase of 10.67% annually to 2016 in this sector as demand for such products increases and manufacturing supply chains shift.

HSBC Global 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.

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