

HSBC Global Connections

Trade Forecast Update: Malaysia

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
- Malaysia's trade growth from 2012 to 2016 will be 139.37%
- Malaysian companies to increase trade activity annually over the next 15 years by 4.66%
- Malaysia's fastest growing large export sector will be palm oil, which will grow at 9.14% annualised over the next five years

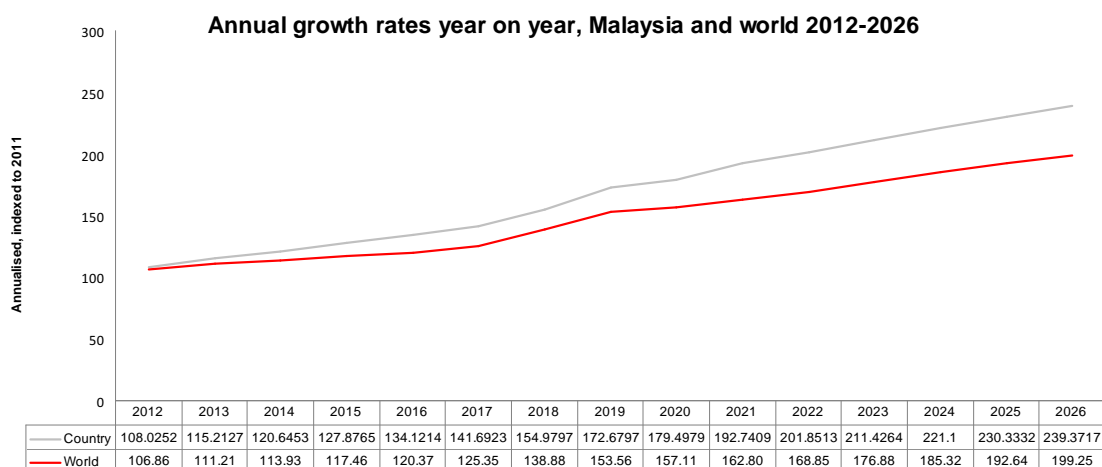
Trade overview

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 Malaysia will grow at an annualised rate of 3.30% over the next five years to 2016 which is marginally slower than for the world as a whole but that it will continue to increase its trade substantially subsequently with annualised growth between 2017-2021 at 6.85%. This equates to growth indexed to a base in 2011 of 139.37%. Annualised total trade growth in Malaysia over the next 15 years will be 4.66% which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Malaysia's trade outlook

The Trade Forecast predicts trade growth indexed to a base in 2011 of 139.37%, suggesting that Malaysia has not suffered the knock-on effects of the European debt crisis. The annual growth is slightly higher than is average for the world over the first five years but, as the global economy picks up, and emerging Asia in particular expands its trade routes within the region, Malaysia's trade is forecast to expand much faster than is average for the world annually with the gap widening year-on-year to 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

Malaysia's largest export destinations are Singapore, China and the USA and over the next five years all are forecast to grow at annual rates, respectively, of 4.91%, 8.33% and 2.84%. Indonesia is also a large partner that is growing fast with exports forecast to grow at 6.53% annually over the next five years. Much of this will be accounted for by exports of non-crude oil which is forecast to increase by 10.06% annually over the same period. Exports to Germany are forecast to increase at an annual rate of 8.10% over the next five years which is a function of its integration into the German supply chain in computer electronics; diodes and semiconductors. Emerging sectors for export, such as bismuth (a chemical used in the preparation of treatments for gastro-intestinal diseases as well as a contributor to alloy and solder products) are growing rapidly and illustrate increasing diversification of the Malaysian export base.

Malaysia's largest import partners are China, Japan and Singapore with import growth forecast to be 5.92%, 4.69% and 4.51% annually to 2016. The dominance of Asia Pacific countries as growing import partners demonstrates the importance of Malaysia in the region's trade profile, particularly in energy, agricultural commodities, rubber and consumer electronics. Fast growing emerging partners for imports include Nigeria at 15.08% and Sri Lanka at 13.95% annually over the next five years. While these are smaller partners, they nevertheless reinforce a picture of deepening trade links between Asia Pacific countries alongside Malaysia as demand for energy and agricultural commodities increases with greater trade and economic development.

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

Malaysia's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Malaysia's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Singapore	4.91%	Cayman Islands	21.80%	China	5.92%	Cayman Islands	21.88%
China	8.33%	Rwanda	16.71%	Japan	4.69%	Ecuador	21.43%
USA	2.84%	Ecuador	14.62%	Singapore	4.51%	Libya	20.34%
Japan	5.01%	Zimbabwe	14.47%	USA	4.86%	Iceland	20.33%
Thailand	5.81%	Uruguay	14.24%	Thailand	6.86%	Venezuela	19.35%
South Korea	5.69%	Kazakhstan	14.15%	Indonesia	8.86%	Georgia	18.46%
Australia	6.37%	Luxembourg	13.39%	Korea	5.86%	Bermuda	15.99%
India	5.73%	Georgia	13.11%	Germany	3.89%	Latvia	15.41%
Netherlands	5.87%	Egypt	12.53%	Hong Kong	3.92%	Nigeria	15.08%
Indonesia	6.53%	Slovenia	12.41%	Australia	6.37%	Qatar	14.46%

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

Malaysia's Fastest Growing Export and Import Sectors by Partner (2012-2016)

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Television receivers, video monitors, projectors	Australia	14.48%	Parts for radio, tv transmission, receive equipment	South Korea	15.38%
Compounded unvulcanised rubber, in primary forms	China	12.97%	Gold, unwrought, semi-manufactured, powder form	UAE	15.04%
Palm oil and its fractions, not chemically modified	Pakistan	12.59%	Palm oil and its fractions, not chemically modified	Indonesia	12.33%
Automatic data processing machines (computers)	China	12.32%	Coal, briquettes, ovoids etc, made from coal	Indonesia	11.77%
Diodes, transistors, semi-conductors, etc	Germany	12.00%	Natural rubber and gums, in primary form, plates, etc	Thailand	10.72%
Parts, accessories, except covers, for office machines	China	10.47%	Motor vehicles for transport of persons (except buses)	Japan	10.29%
Rubber clothing and accessories, except hard rubber	USA	7.49%	Parts for radio, tv transmission, receive equipment	China	8.34%
Palm oil and its fractions, not chemically modified	China	7.47%	Aircraft, spacecraft, satellites	France	7.81%
Jewellery and parts, containing precious metal	UAE	7.06%	Cocoa beans, whole or broken, raw or roasted	Indonesia	7.72%
Parts, accessories, except covers, for office machines	Singapore	6.66%	Petroleum oils, oils from bituminous minerals, crude	Vietnam	7.38%

N.B. Malaysia's 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

Consumer electronics: The consumer electronics sector in Malaysia is growing rapidly as major global players take advantage of lower costs and high skills in Malaysia and move their production into the country and in particular away from China. Growth from Malaysia is rapid and there is evidence of supply chain clusters developing in the country. For example, television and radio receiver exports to Australia will increase by 14.48% annually to 2016. Exports of diodes to Germany will increase at an annualised rate of 12.00% while exports of computers to China will increase by 12.32% and to the Netherlands by 5.55% annually over the next five years. The emergence of this sector presents opportunities for businesses to grow internationally through skilled and innovative networks into the global supply chain. They need to grow these activities by between 6.01% and 15.33% on average across the sector in order to keep pace with the change.

Rubber: Rubber is a traditional sector for Malaysia and is part of a variety of supply chains globally as well as a commodity to be traded in its own right. Exports of compound unvulcanised rubber to China are forecast to grow by 12.97% annually over the next five years as China's manufacturing sector expands, while rubber clothing exports to the USA will increase by 7.49% also over the next five years. Natural rubber exports to China will increase by 5.95% while imports of natural rubber from Thailand will increase at an annualised rate of 10.72% to 2016. This sector is a substantial part of the Malaysian trade structure. Businesses within it can take advantage of trade corridors within the Asia Pacific region in particular to take advantage of high growth opportunities.

Oil: Crude oil is Malaysia's second largest export sector and is forecast to grow by 2.75% annually to 2016 while imports of crude oil are also the second largest import sector with imports forecast to grow by 5.75% annually over the same period. Exports of crude oil to Australia will be a key feature of this growth: the Trade Forecast predicts that exports will grow at an annualised rate of 5.88% to 2016. The oil sector in Malaysia is highly internationalised and businesses can link with the global suppliers to maximise opportunities through distribution networks and supply chains in this sector.

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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