

# HSBC Global Connections

## Trade Forecast Update: Malta

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
- Malta's trade forecast to grow 83.80% to 2026
- Malta's companies to increase trade activity by 3.31% annually over the next 15 years
- The largest, fastest growing large export sector is predicted to be electronic integrated circuits and micro-assemblies at an annualised rate of 27.13% 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 Malta's trade will grow at an annualised rate of 0.69% to 2016, increasing substantially between 2017 - 2021, at 5.65%. This equates to growth (indexed to a base in 2011) of 83.80%. Malta is exposed to the present fluctuations in world trade that result from the general economic climate firstly because of its role as a hub between major trading routes, and secondly as all its businesses are exposed to international markets in some way; it has no natural resources of its own. Annualised total trade growth in Malta over the next 15 years will be 3.31%, which is the rate at which companies will need to increase their international activities if they are to keep pace with this change

#### Malta's trade outlook

Malta's trade tracks closely to the world's trade index and increases steadily over the next 15 years. However, Malta will grow at a slightly slower rate than the world as a whole as trade shifts to the Asia Pacific and Latin America regions in the medium and long term. The Trade Forecast identifies several new trade corridors which will be both important and advantageous to Malta in the future. For example, new trade opportunities are emerging within the diode, transistor and semi-conductor sector as the Trade Forecast expects that exports of these goods will increase, especially to Asian markets including Thailand, Hong Kong, South Korea and China and Japan.



#### 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

Malta's largest trade partners demonstrate just how important the country is as a hub between Europe, North America and the Middle East, and increasingly with Asia-Pacific and Latin America. For example, Malta's largest export partners are Singapore, Germany and Hong Kong and the Trade Forecast predicts that exports to those countries will increase annually over the next five years. Trade with Hong Kong reflects the emergence of a key trade corridor with Asian economies, also evidenced by fast growing large export partnerships with Thailand, where the Forecast predicts growth of 11.86%, South Korea (10.55%) and China (10.38%) all annualised over the next five years. Export trade to Turkey and to Saudi Arabia is also forecast to grow, reflecting the emerging trade between these two countries. Similarly, emerging export partners are all in Asia Pacific or Latin America, with export trade forecast to grow with key economies like Vietnam, Indonesia, Argentina and India. This reflects Malta's integration into the global consumer electronics sector as well as an emerging role in chemicals and pharmaceuticals from China and India to Europe and the USA.

Malta's current largest import partners are Italy, the UK and Germany. As a result of weakened demand, imports from Italy are forecast to fall by -0.24%, while import trade with the UK is forecast to grow modestly at 0.88% (mainly medicines and electrical equipment) annualised over the next five years. Malta's largest and fastest growing import partners are Canada (18.42%), India (13.38%), Switzerland (10.77%), Korea (10.55%) and China (7.54%) all annualised to 2016. Imports from Korea and China reflect both the consumer electronics sector and the growing imports of ships and vessels where these two countries have emerging competitive advantage. Emerging import partners include Paraguay, Australia, Canada, Saudi Arabia and Estonia and reflect Malta's dependence on outside sources for oil and gas.

Malta's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Malta's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Singapore	2.67%	Bangladesh	20.93%	Italy	-0.24%	Georgia	23.10%
Germany	2.15%	Ecuador	20.79%	United Kingdom	0.88%	Paraguay	21.28%
Hong Kong	9.65%	Vietnam	20.67%	Germany	3.14%	Ethiopia	21.22%
Japan	4.01%	Indonesia	17.33%	Netherlands	5.28%	Australia	19.92%
USA	-1.66%	Kenya	17.02%	France	-2.66%	Bolivia	19.65%
France	-8.54%	Myanmar	15.96%	Singapore	-1.89%	Canada	18.42%
United Kingdom	1.23%	Argentina	15.76%	China	7.54%	Libya	17.40%
Italy	6.20%	Lithuania	15.35%	Switzerland	10.77%	Estonia	16.94%
China	10.38%	India	15.10%	Spain	2.58%	South Africa	16.78%
Libya	7.94%	Romania	14.20%	Canada	18.42%	Algeria	16.50%

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

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Parts of aircraft, spacecraft, etc	Germany	14.17%	Parts of aircraft, spacecraft, etc	USA	22.28%
Electrical power, etc, control and distribution boards	Libya	13.62%	Passenger and goods transport ships, boats	Australia	22.09%
Medicaments, therapeutic, prophylactic use, in dosage	USA	13.10%	Electric motors and generators, except generating sets	Denmark	22.09%
Diodes, transistors, semi-conductors, etc	Thailand	11.85%	Aircraft, spacecraft, satellites	Canada	19.67%
Fish, fresh or chilled, whole	Japan	11.17%	Aircraft, spacecraft, satellites	Switzerland	16.69%
Diodes, transistors, semi-conductors, etc	China, Hong Kong	9.74%	Heterocyclics, nitrogen hetero-atom only, nucleic acid	India	14.80%
Diodes, transistors, semi-conductors, etc	Rep. of Korea	9.10%	Gold, unwrought, semi-manufactured, powder form	Singapore	13.89%
Electrical switches, connectors, etc, for < 1KV	USA	9.07%	Yachts, pleasure, sports vessels, rowing boats, canoes	Netherlands	13.38%
Documents of title (bonds etc), unused stamps etc	UK	8.14%	Parts of aircraft, spacecraft, etc	Germany	12.55%
Diodes, transistors, semi-conductors, etc	China	8.06%	Oils petroleum, bituminous, distillates, except crude	Netherlands	11.23%

N.B. Malta'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, particularly the high-value end, embodies the role that Malta plays in global supply chains as a trading hub. The Trade Forecast predicts that exports of diodes and semi-conductors to Thailand will increase by 18.85% annually to 2016, while in the same sector and over the same time period will increase to China by 8.06%, to Hong Kong by 9.74% and to Singapore by 2.50%. Further, exports of electrical switches to the USA will increase by 9.07% and electrical control systems and boards to Libya, where Malta has always had strong trade relations, by 13.62%. While some aspects of this sector, such as diodes and semiconductors are not growing that fast, others, such as integrated circuitry *are*, representing real opportunities. The onus is on businesses in Malta to quicken the pace of internationalisation, potentially by as much as 27.13% in order to keep up with the pace of change in the sector.

**Pharmaceuticals and medicine:** Malta's role in the global medical and pharmaceutical sector is growing. It is forecast to increase its exports at an annual rate of 7.89% over the next five years with exports of medicines to the USA forecast to grow at 13.10% annually to 2016 alone. Exports to France are forecast to increase over the same period by 7.29% and although forecast growth to the UK and Germany are slower (4.19% and 1.32% annually to 2016), these are very big markets so the values involved are big. Maltese businesses in this sector will be aware of the global and highly innovative nature of this industry and will need to increase their activities in this area by at least 7.89% in order to keep pace.

## 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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