HSBC Global Connections

Trade Forecast Update: MENA

February 2012

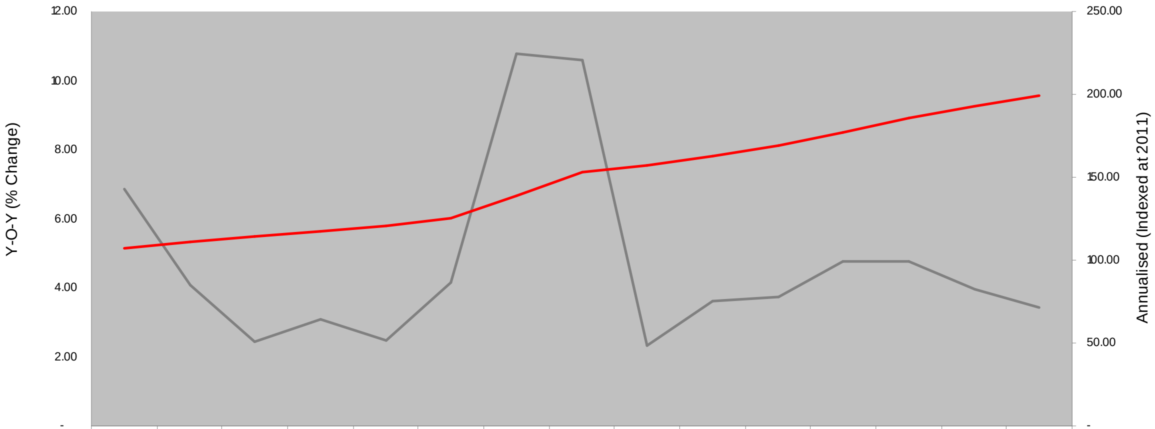
Forecast exploring the future of world trade and the opportunities for international businesses

• 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 growth in MENA predicted to be 131.00% to 2026
• The fastest emerging growth sector over the next five years will be iron ore at 14.37% reflecting the region's increasing role as a global trade route between Africa and Europe.

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 trade growth in the MENA region over the next five years will be 4.77%.

Annualised Growth year on year, World 2012-2026



	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Y-0-Y (% Change)	6.86	4.07	2.45	3.10	2.48	4.14	10.79	10.57	2.31	3.62	3.72	4.75	4.77	3.95	3.43
Annualised (Indexed at 2011)	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

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 annualised increases in trade of 7.40% are forecast over the next five years. The Trade Forecast predicts that the fastest emerging trade sector in MENA will be iron ores and concentrates, where annualised growth will be 14.37% over the next five years. Iron and steel also feature in the top 10 emerging sectors, demonstrating that trade of metals will be a major driving force for the MENA region.

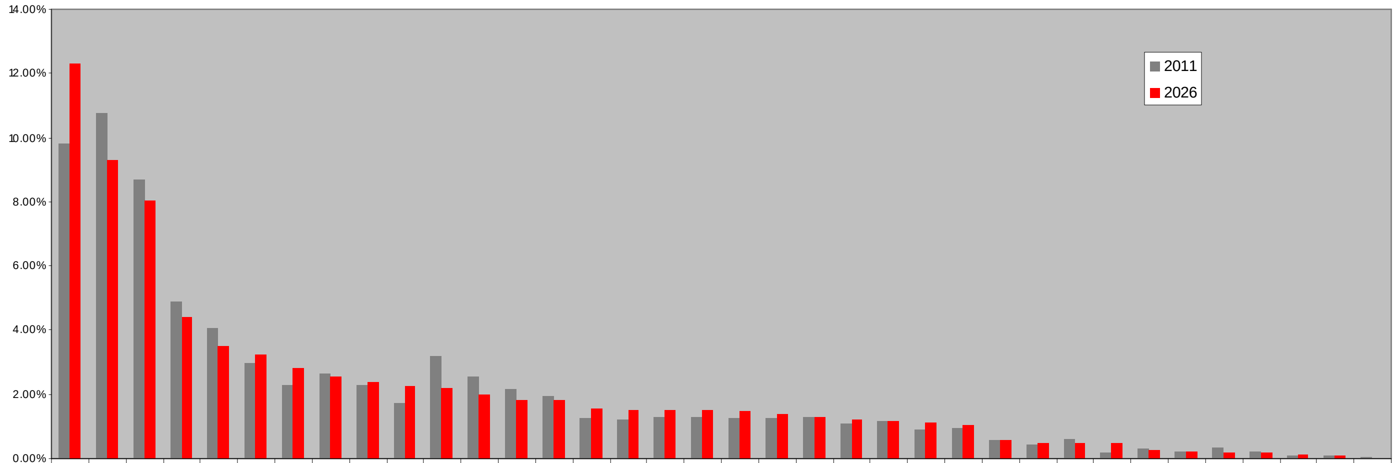
Companies across the world are expected to increase trade activity by 4.70%, fuelling the trade uplift being outlined. With demand flat in the domestic markets, in particular Europe and North America, many businesses are taking advantage of further internationalisation by searching out the best trade 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.

HSBC

Share of world trade

The Trade Forecast predicts that share of world trade will increase for the UAE to 1.54%, Saudi Arabia to 1.50% and Egypt to 0.46%, but will fall slightly for Qatar to 0.16% because of waning demand. Much of this trade is oil-related and shows that, despite the increase in oil production in other parts of the world and the likely global increase in non-fossil fuel trade that the Trade Forecast also predicts, there is no immediate end to the dominance of oil and gas as the world's primary energy source.

Share of World Trade 2011-2026 (%)



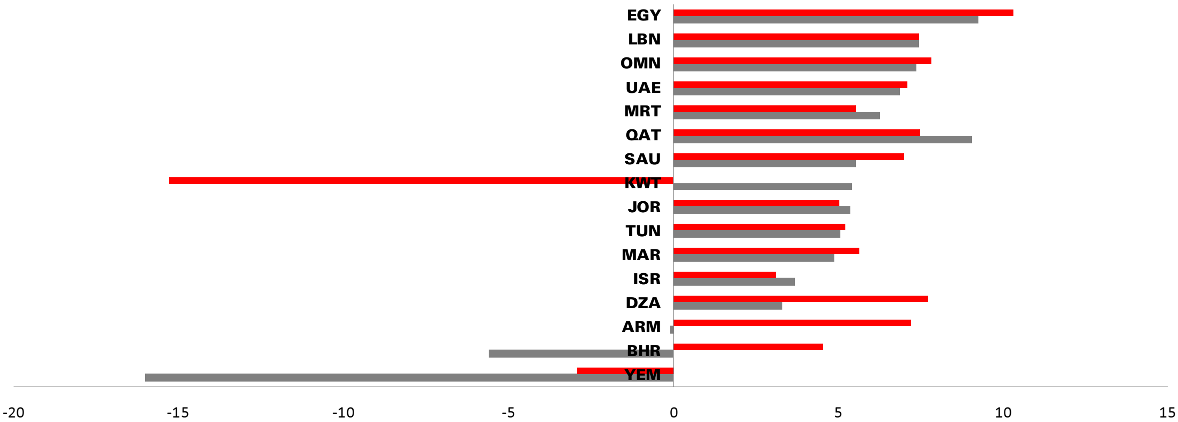
	CHN	USA	D	JPN	FRA	KOR	RUS	CHI, HKG, SAR	SGP	IND	UK	CAN	SPN	MEX	UAE	BRA	AUS	SAU
2011	9.82%	10.75%	8.68%	4.87%	4.06%	2.97%	2.31%	2.65%	2.27%	1.73%	3.20%	2.53%	2.15%	1.95%	1.27%	1.22%	1.29%	1.31%
2026	12.30%	9.28%	8.06%	4.41%	3.51%	3.24%	2.80%	2.54%	2.37%	2.25%	2.20%	1.97%	1.83%	1.81%	1.54%	1.51%	1.51%	1.50%

	POL	THA	CHE	TUR	MYS	INA	CAZE	ZAF	ARG	IRL	EGY	PHL	NZL	VTN	QAT	PAN	LKA	MLT
2011	1.26%	1.24%	1.30%	1.10%	1.17%	0.89%	0.95%	0.54%	0.42%	0.59%	0.18%	0.32%	0.21%	0.33%	0.20%	0.10%	0.07%	0.02%
2026	1.45%	1.37%	1.28%	1.20%	1.16%	1.14%	1.05%	0.56%	0.49%	0.47%	0.46%	0.24%	0.20%	0.16%	0.16%	0.15%	0.07%	0.02%

The region’s fastest growing exporters and importers

Egypt is predicted to be the region's fastest growing exporter and importer, assuming that there are no further political crises. Saudi Arabia will see its export trade increase by 5.52% over the next five years while imports will increase by 6.99%, fuelled by expansion of its own infrastructures. The UAE will continue to export slightly more than it imports over the next five years with growth in exports at 6.89% and imports at 7.09% annualised. Exports are mainly in oil and gas while imports are dominated by cars, infrastructure and pharmaceuticals. Geo-political instability, including the legacy of the Arab Spring, sustained civil unrest and embargoes in the region undermines confidence in its economic future and this is reflected in the data for some of the region’s countries. When considering these figures it is also important to note that the region has both volatile trade patterns and flows because of fluctuating oil prices and oil demand, reflected in export and import growth figures.

Fastest Growing Importers and Exporters: MENA

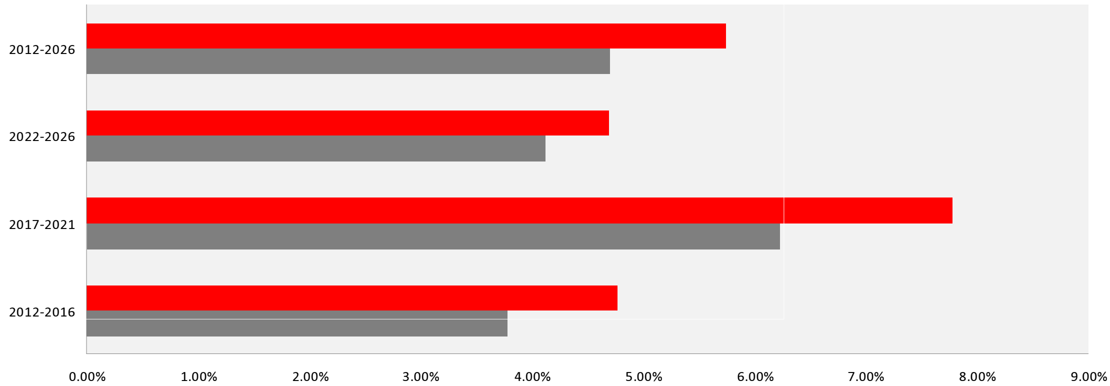


	YEM	BHR	ARM	DZA	ISR	MAR	TUN	JOR	KWT	SAU	QAT	MRT	UAE	OMN	LBN	EGY
Imports	-2.9	4.52	7.21	7.73	3.11	5.63	5.24	5.04	-15.29	6.99	7.49	5.55	7.09	7.83	7.44	10.31
Exports	-16.02	-5.57	-0.12	3.31	3.68	4.87	5.09	5.37	5.41	5.52	9.06	6.27	6.89	7.39	7.43	9.26

MENA's trade outlook - growth rates, 2011-2026

The Trade Forecast predicts that the MENA region will grow its trade at a rate that is substantially faster than that of the world as a whole to 2026. Trade will grow most quickly between 2017-2021 where the annualised rate of growth will be 7.78% compared to 6.23% for the world. This reflects the forecast pick up in the world economy which will drive growth in oil and gas consumption where the region will always have a competitive advantage. In the near term, trade growth is substantially higher than that of the world, driven by the global growth which demands the products MENA has to offer. Again, it is important to note that the region's trade values fluctuate substantially with oil prices which explains why the region's trade growth is volatile. Tthis also underpins the desire for regional governments to move away from the dependence on oil as seen in the later section on emerging sectors.

Trade outlook: annualised growth, MENA and World, 2011-26



	2012-2016	2017-2021	2022-2026	2012-2026
MENA	4.77%	7.78%	4.69%	5.74%
World	3.78%	6.23%	4.12%	4.70%

MENA's annual growth rates

MENA's trade growth will be very similar in 2012 to that forecast for the world based on the current global economic situation. However, demand for energy increases as economies pick up and this is reflected in the much quicker process of recovery forecast from 2013 onwards. The real difference emerges once the recovery in the rest of the world begins after 2016, when trade growth in the MENA region outstrips that of the rest of the world. However, MENA's trade, because it is in sectors such as oil and gas which are vulnerable to the geo-political and economic climate, could be affected by an oil embargo while demand for cars, especially in China, depends on the rise of purchasing power amongst the middle classes.

Index of Trade Growth, 2012-26, MENA and World

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
MENA	106.66	113.14	117.84	122.45	126.24	131.09	145.08	165.15	174.51	183.62	191.51	201.78	212.70	222.31	230.95
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

Trade corridors and trends

The Trade Forecast predicts that the three largest trading partners for MENA in 2012 will be the USA, China and India. This creates huge financial potential for the region in the long-term. Currently these corridors reflect trade in Crude and Non-crude oil, Petroleum gases and Hydrocarbons. However, within the region, Oman, Libya (assuming it takes the opportunities offered to it by reconstruction) and Qatar (which has a buoyant economy, largely in oil and gas) are key emerging growth partners, reflecting the increasingly significant role of intra-regional trade as a growth driver. Malta is growing its trade with the region so substantially as a hub between the EU27 and MENA; this role is set to continue over the next five years as MENA's overall international trade grows. Poland exports electronic circuitry as well as food to the region and again will grow its total trade with MENA by 9.26% over the next five years.

MENA's Current Largest And Emerging Trade Partners (Total Trade)			
Current Largest (2012)		Emerging Growth Partners (Annualised Volume Growth, 2012-2016)	
USA	1	Malta	11.83%
China	2	Oman	10.78%
India	3	Algeria	10.19%
France	4	Libya	9.67%
Italy	5	Poland	9.26%
UAE	6	Brazil	9.25%
Germany	7	New Zealand	8.98%
Saudi Arabia	8	Greece	8.61%
Spain	9	Hungary	8.10%
Turkey	10	Qatar	8.02%

Sector watch

MENA's largest trading sectors are non-crude oil and bitumen products, crude oil, gas, gold and diamonds which comprise most of its trade. However, MENA's emerging growth sectors clearly demonstrate that governments within the region are seeking to diversify away from the dominance of fossil fuels. The sectors which will grow most quickly over the next five years fall into three categories: **commodities** such as iron ore, lead, rice, and wheat which are increasingly using the MENA region as a trade route, **infrastructure** such as iron and steel products to build in the region and fertilisers to grow food in MENA's inhospitable climate) and **electronic products** such as integrated circuitry. The region is also developing its own dairy sector and building trade routes from Europe and Africa to enhance its food security and self-sufficiency. This is shown in the 9.39% forecast growth in that sector. Wheat and Meslin features in both the largest and top emerging sectors. This reinforces MENA's role in the trade corridor between Africa, Europe and Russia - one of the biggest producers of Wheat and Meslin in the world.

MENA's (EU27's Current Largest and Top Emerging Trade Sectors (Total Trade Volumes)			
Current Largest (2012) ordered by value		**Emerging Growth Sectors (Annualised Growth, 2012-2016)**	
Oils petroleum, bituminous, distillates, except crude	3.40%	Iron ores and concentrates, roasted iron pyrites	14.37%
Petroleum oils, oils from bituminous minerals, crude	-1.52%	Electronic integrated circuits and microassemblies	12.95%
Petroleum gases and other gaseous hydrocarbons	4.10%	Lead oxides, red lead and orange lead	12.33%
Gold, unwrought, semi-manufactured, powder form	8.34%	Articles of iron or steel	12.16%
Diamonds, not mounted or set	2.01%	Electric apparatus for line telephony, telegraphy	11.41%
Motor vehicles for transport of persons (except buses)	-0.72%	Rice	10.78%
Jewellery and parts, containing precious metal	8.87%	Fertilizer mixtures in packs of < 10kg	10.68%
Polymers of ethylene, in primary forms	2.94%	Wheat and meslin	9.90%
Wheat and meslin	9.90%	Milk and cream, concentrated or sweetened	9.39%
Insulated wire and cable, optical fibre cable	7.37%	Structures, parts of structures of iron or steel	9.38%

The sector opportunity

Given that two thirds of the world's discovered crude oil reserves are in the MENA region, it is unsurprising that this will remain its trade focus. But the dominance of petrol, oil and gas as MENA's largest trading sector remains an exciting opportunity for commodity trade for businesses which are involved in this sector. Saudi Arabia in particular plays an important stabilising role in the world oil and gas markets when there are wider geo-political issues such as the potential for oil embargoes at play, and therefore represents a critical market in this sector.

Demonstrating that MENA is expanding the number of sectors it is able to compete in globally, the emerging growth sectors provide an opportunity for businesses outside of the region's 'traditional sectors' to create opportunities here. Over the next five years the biggest emerging markets range from electronic integrated circuits (12.95% increase in trade) to fertilizer (10.68%). However, the Trade Forecast predicts that the sector to experience the biggest increase will be that of iron ores and concentrates at 14.37% (coupled with a 12.16% increase in articles of iron and steel not elsewhere specified), all figures annualised to 2016. Therefore the iron and steel sector has the potential to be a major driving force in the MENA region's economy in 2012.

The food commodities sector - and more specifically rice, wheat and milk and cream which will see total trade increases of 10.78%, 9.90% and 9.39% respectively - is one for business to watch, as the MENA region attempts to not only tap into a market which has become a top priority for many nations across the world (including within the MENA region itself following the 2007-8 food crisis), but also to reduce its dependence on countries such as France or Brazil for supplies.

Given this re-alignment of trade towards a range of diverse and 'non-traditional' sectors, there are huge opportunities for businesses to trade in MENA in the next 15 years. Infrastructures are growing quickly to support these new sectors. Businesses need to look beyond oil and gas to bring expertise and sector specialisms into the region and to link into the supply chains which are emerging across MENA. For example, large businesses, particularly from China and South Korea, currently dominate infrastructure development in the region. This offers mid-sized companies the chance to enter these markets via established supply chains.

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.

About HSBC Commercial Banking
Headquartered in London, HSBC is one of the largest banking and financial services organisations in the world. HSBC is one of the world's most international commercial banks with over three million customers in more than 60 markets.