

# HSBC Global Connections

## Trade Forecast Update: Philippines 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
- Philippine trade to grow 154.79% to 2026
- Philippine companies to increase trade activity by 2.60% annually over the next 15 years
- Thailand emerges as a key growing trade partner, fuelled by exports and imports of car parts (exports forecast to grow by 6.48% and imports by 12.31% both annually to 2016)

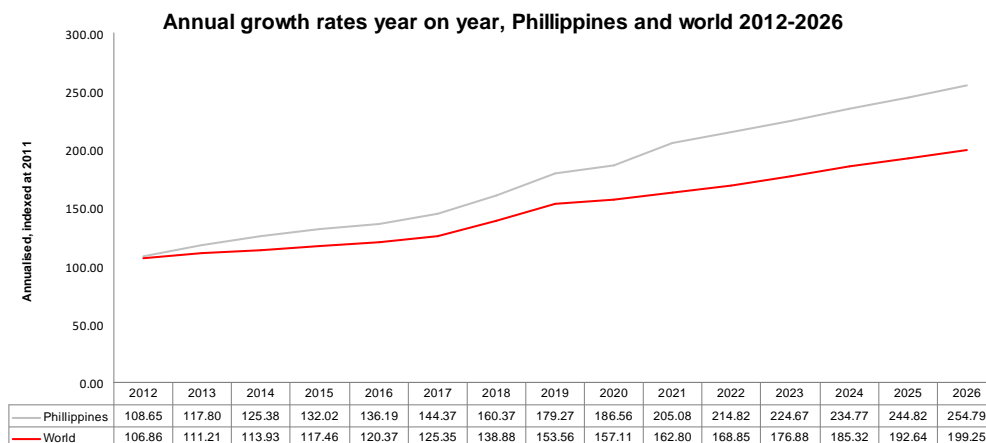
### Trade overview

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 trade in the Philippines will grow faster than the world average over the next five years. After 2016, the Philippines takes advantage of rapid growth in the rest of Asia Pacific and average growth increases to 3.92% annualised between 2017-2021. This equates to growth, of 154.79%. This is the result of an acceleration of trade expected in Asia Pacific, particularly after 2015. Annualised total trade growth in the Philippines over the next 15 years will be 2.60%, the rate at which companies will need to increase their international activities if they are to keep pace with this change.

### Philippines' trade outlook

The Trade Forecast predicts that trade in the Philippines will grow faster than the world average over the next 15 years with the gap accelerating as supply chains shift across the Asia Pacific region and the Philippines moves away from exports of diodes and semi-conductors towards exports of computers and integrated circuits. This trend is not surprising for two reasons, firstly because of the country's efforts to expand its trade corridors and build a greater international presence and secondly, because of the close trade links it has with Asia Pacific. The Trade Forecast predicts that by 2016, the Philippines total trade will be 15.82% above world average growth and by 2026 that figure will be 55.54%.



### 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

The Philippines largest export partners are Japan, the USA and China. Exports to all of these countries are forecast to grow over the next five years. Exports to Japan will grow at an annualised rate of 5.77%, accounted for by the rapid growth in exports of components to the electrical equipment sector. Trade with the USA is forecast to grow by 5.38% and with China by 7.54%. The Philippines largest fast growing partners include France and Germany to whom exports are expected to increase at annual rates to 2016 of 11.94% and 9.32% respectively; exports of electrical circuits to Germany suggest a growing supply route from the Philippines. Emerging export partners potentially provide an interesting insight into how the structure of trade may be shifting, with for example, Poland and Slovakia forecast to grow in importance as export partners to 2016. These two countries are also increasingly integrated into global electrical equipment and electrical consumer goods supply chains, particularly through South Korea, and the Philippines will play an increasing role in shipping key components to manufacturers of these products around the world.

The Philippines largest import partners are Singapore, China and the USA with imports from each of these countries forecast to grow. Fast growing large importers into the country include the UAE, Indonesia, Vietnam and Thailand. This points both to an increasing demand for crude and non-crude oil and to increased demand for infrastructural commodities as the Philippines grows through its trade. For example, imports of crude oil from the UAE to 2016 will increase annually by 13.67% as trade growth results in expanded demand for energy. Emerging import partners reflect both the increased demand for oil, with Russia's annualised import growth at 17.80% over the next five years and imports from Peru and Chile also set to increase. Slovenia's imports into the Philippines will increase by 15.64% over the next five years accounted for by the fact that it is operating in similar car component and electrical equipment supply chains.

Philippines' Emerging Growth Importers and Exporters (2012-2016)

Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Japan	5.77%	Georgia	20.56%	Singapore	4.70%	Oman	92.91%
USA	5.38%	Bermuda	20.31%	China	7.04%	Latvia	20.50%
China	7.54%	Slovakia	18.09%	USA	5.17%	Cayman Islands	19.43%
Hong Kong	3.46%	Zimbabwe	16.69%	Japan	2.97%	Laos	18.79%
Germany	9.42%	Poland	16.10%	Thailand	10.29%	Russia	17.80%
Singapore	4.77%	Kazakhstan	15.53%	South Korea	6.74%	Iceland	17.56%
South Korea	9.22%	Switzerland	15.51%	Saudi Arabia	2.25%	Cambodia	17.53%
Netherlands	2.86%	Cayman Islands	15.16%	Malaysia	5.75%	Myanmar	17.32%
Thailand	8.12%	Morocco	15.00%	Indonesia	11.93%	Bangladesh	17.21%
Malaysia	-0.14%	Greece	14.76%	Vietnam	11.67%	Lithuania	17.18%

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 the Philippines' fastest growing export and import sectors by partner:

Philippines'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)
Automatic data processing machines (computers)	China	13.43%	Petroleum oils, oils from bituminous minerals, crude	UAE	13.67%
Parts, accessories, except covers, for office machines	Netherlands	13.15%	Rice	Thailand	12.55%
Electric transformers, static converters and rectifiers	Japan	12.55%	Motor vehicles for transport of persons (except buses)	Thailand	12.31%
Refined copper and copper alloys, unwrought	Thailand	12.15%	Rice	Vietnam	11.70%
Automatic data processing machines (computers)	Hong Kong	11.68%	Coal, briquettes, ovoids etc, made from coal	Indonesia	11.69%
Sulphides, polysulphides of metals	Japan	11.62%	Petroleum oils, oils from bituminous minerals, crude	Malaysia	10.36%
Electronic integrated circuits and microassemblies	Germany	11.16%	Electric apparatus for line telephony, telegraphy	China	10.34%
Builders joinery and carpentry, wood	Japan	11.12%	Aircraft, spacecraft, satellites	France	10.03%
Electric transformers, static converters and rectifiers	USA	10.73%	Petroleum oils, oils from bituminous minerals, crude	Singapore	9.00%
Electrical capacitors, fixed, variable or adjustable	Rep. of Korea	10.58%	Parts, accessories, except covers, for office machines	USA	8.89%

N.B. The 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

**Electrical equipment:** The Philippines is predominantly a supplier of components to the global supply chain in consumer electronics. As Malaysia and Indonesia become more competitive in this sector, the supply chain is broadening in those countries but the Philippines is adapting by moving into the exports of electrical power-saving components such as electrical transformers (exports forecast to grow annually by 11.31% to 2016). The Philippines will remain an exporter of computers (exports increase of 8.80% forecast annually over the next five years), but net exports of diodes and semi-conductors will decline by 1.74%, reflecting the increasing production and therefore exports of these from elsewhere in the region. The Philippines has key trade corridors in the sector; for example, exports of computers to China are set to increase by 13.43% and to Hong Kong by 11.68% annually to 2016. There are international trade opportunities for business in this market but at present export and import trade is to fuel the lower end of the trade supply chain. To achieve growth, businesses need to increase their international activities in this sector faster than is average for the country as a whole (between 4.36% and 8.80%).

**Machinery:** The machinery sector in the Philippines is well-established and supplies components to supply chains in automotive production and office equipment in particular. Exports of car parts to Thailand are set to increase by 12.31% annually to 2016, while exports of office machinery parts to the Netherlands will increase by 13.15% annually over the same period. Imports of cars from Thailand are set to increase by 12.31% annually to 2016 suggesting that the Philippines is supplying components to the cars that are then coming back into the country. Similarly, imports of parts of office machinery are set to increase from the USA by 8.89%, from China by 5.55% and from Singapore by 3.05% annually over the next five years, but these are also major export destinations for the same products as well. Businesses in these sectors know their role is within a global supply chain focused on efficiency and quality. At this end of the market there is a need for businesses to continue to move up the value chain.

## 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

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.