

HSBC Global Connections

Trade Forecast Update: Russia

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
- Russia's trade to grow by 165.54% to 2026
- Russian companies to increase trade activity by 6.08% annually over the next 15 years
- This may be attributed to a strengthening of trade relations with countries within the Asia-Pacific region and a relatively healthy economy despite the global economic downturn

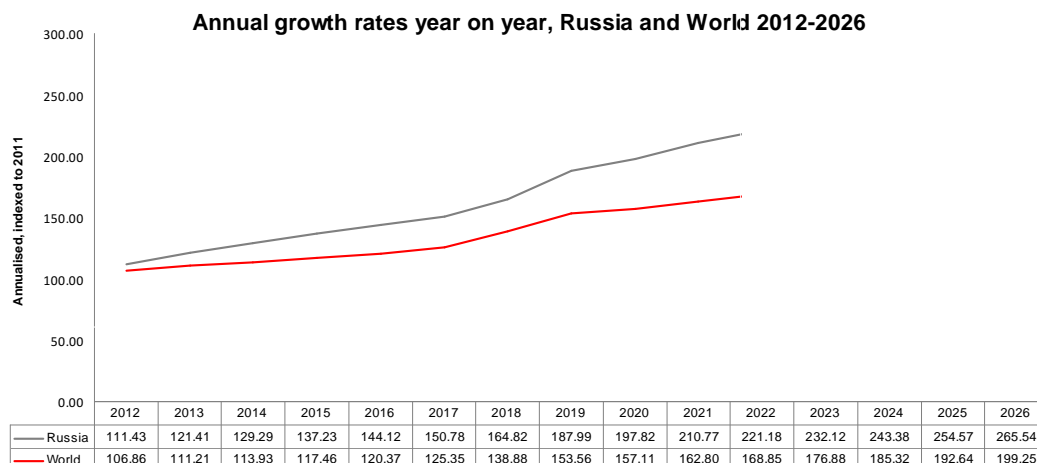
Trade overview

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 Russian trade will grow at an annualised rate of 5.99% over the next five years to 2016. After this, it is forecast to increase with an annualised growth of 7.56% between 2017-2021. This equates to growth, indexed to a base in 2011, of 165.54%, the result of a strengthening of trade relations with countries within the Asia Pacific region, particularly after 2015. Annualised total trade growth in Russia over the next 15 years will be 6.08% which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Russia's trade outlook

The Trade Forecast expects that Russian trade will perform increasingly better than the world average over the next 15 years. This not only demonstrates the strength of Russian trade, which is driven by exports of commodities such as oil and coal and demand for motor vehicles and technology, but also the benefits of the trade relationships that are emerging between Russia and countries within the Asia Pacific region, such as the Philippines, Hong Kong and China, which are forecast to account for accelerated world trade growth after 2015.



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

Russia's largest export partner is China, forecast to grow annually over the next five years by 6.96%. Its other two largest export partners are Turkey and the Netherlands. Exports to both of these will grow significantly over the next five years. India is Russia's fastest growing large export partner with a forecast growth of 11.48%. This will be driven partly by growth in the export volumes of commodities and infrastructural materials such as iron and steel. Exports to Japan are set to increase by 9.70% annually over the next five years driven by exports of non-crude and refined oil, forecast to increase by 14.14% and 10.31% respectively. Growth in the export of oil is also set to drive trade with many of emerging export partners. Trade with Latvia is forecast to increase at an annualised rate of 10.66%, with exports of non-crude oil growing by 13.72% to 2016. Russia's largest import partner is China, growing by 11.00% annually over the next five years. This will mostly be driven by imports of consumer electronics and commodities. For example, electric apparatus for line telephony and telegraphy is forecast to grow by 15.20%. Russia's third largest import partner is the USA, with growth in imports predicted to grow by 8.70% over the next five years. Growth will be mainly fuelled again by consumer electronics, but imports of printing and ancillary machinery will also grow. Emerging import partners in Asia Pacific and Latin America will become increasingly important; imports from Vietnam are forecast to grow (12.37%) and from Paraguay (11.82%).

Russia's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Russia's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
China	6.96%	Algeria	17.85%	China	11.00%	Vietnam	12.37%
Turkey	5.36%	Philippines	16.02%	Germany	7.23%	Romania	12.04%
Netherlands	5.25%	Hong Kong	14.85%	USA	8.70%	Slovakia	11.83%
USA	8.38%	Malta	13.00%	Italy	8.51%	Paraguay	11.82%
Kazakhstan	1.54%	Thailand	12.68%	Rep. of Korea	6.11%	South Africa	11.29%
Japan	9.70%	Indonesia	12.56%	France	7.46%	Uruguay	11.17%
Italy	5.81%	UAE	12.38%	Japan	7.63%	China	11.00%
Finland	4.58%	Singapore	12.24%	Poland	8.08%	Ireland	10.74%
UK	6.24%	Vietnam	12.02%	UK	5.83%	Indonesia	10.51%
Germany	5.07%	India	11.48%	Finland	5.57%	India	10.40%

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

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partner	CAGR (2012-16)
Oils petroleum, bituminous, distillates, except crude	Sweden	16.86%	Bodies (including cabs), for motor vehicles	Slovakia	16.97%
Oils petroleum, bituminous, distillates, except crude	Japan	14.14%	Parts and accessories for motor vehicles	Slovakia	16.22%
Oils petroleum, bituminous, distillates, except crude	Latvia	13.72%	Electric apparatus for line telephony, telegraphy	China	15.20%
Oils petroleum, bituminous, distillates, except crude	Singapore	12.49%	Printing and ancillary machinery	Japan	14.76%
Petroleum oils, oils from bituminous minerals, crude	South Korea	11.44%	Parts for radio, tv transmission, receive equipment	China	14.07%
Unwrought aluminium	USA	10.71%	Women's, girls overcoats, capes, windjackets etc, woven	China	13.70%
Petroleum oils, oils from bituminous minerals, crude	Japan	10.31%	Electric generating sets and rotary converters	USA	13.46%
Petroleum oils, oils from bituminous minerals, crude	USA	9.93%	Fish, fresh or chilled, whole	Norway	13.17%
Diamonds, not mounted or set	Belgium	9.64%	Trunks, suit-cases, camera cases, handbags, etc	China	13.16%
Oils petroleum, bituminous, distillates, except crude	USA	9.35%	Parts and accessories for motor vehicles	China	13.15%

N.B. Russia'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

Oil: Russia is a key player in the oil sectors; its two largest export sectors are crude and non-crude oil and it has markets across the world. However, there are also emerging markets in Europe and the Asia-Pacific; Sweden, for example, is expected to increase its imports of Russian non-crude oil by 16.86% annually over the next five years, Latvia by 13.72% and Belgium by 9.64%. In the Asia Pacific region Japan is predicted to import 14.14% of non-crude oil annually over the next five years, Singapore 12.49% and South Korea 11.44%. This demonstrates the importance of Asia Pacific to Russian growth. Russia's oil sector is highly innovative and dominates global oil supply, therefore growing global demand for oil will likely fuel its economic growth. Companies will need to expand international activities by between 5.21% and 7.43% in order to take advantage of the opportunities in these sectors.

Consumer electronics: Russia's imports of consumer electronics are driving the development of the economy's services sector. For example, Russia's printing and ancillary machinery sector is rapidly growing with imports forecast to grow 11.98% over the next five years, suggesting that the Russian economy is developing its service sector and improving its infrastructure to do so. As one of the largest sectors in the World in 2012 and worth an estimated \$58,571,035,394, the increase in Russia's imports suggests that the economy will greatly benefit from development in this area. The main trade corridors appearing will be with China and Japan. Another interesting large import sector is parts for radio, television transmitters and receiving equipment, forecast to grow by 6.46% over the next five years. This suggests, again, that services development will be a key national focus. In order to maximise opportunities here, businesses will need to grow above 6.46% annualised over the next five years.

Metals: Metals account for five of Russia's top 10 largest export sectors and are expected to be areas of substantial growth over the next five years. Including unwrought steel, unwrought nickel, semi-finished products of Iron and non-alloy steel, these products are integral to Russian export trade. Demand for these sectors is predominantly driven by infrastructural development. New trade corridors and opportunities for international trade are becoming apparent. Exports of unwrought aluminium to the USA are forecast to grow over the five year period by 10.71%, driven by demand for new infrastructural developments. Exports of semi-finished products of iron or non-alloy steel are to increase to Italy by an annualised rate of 9.13%. This provides new and exciting opportunities within a strong and highly innovative Russian sector. Companies seeking to benefit should increase their international activity by at least 4.83% over the next five years.

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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