

HSBC Global Connections

Trade Forecast Update: Saudi Arabia 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
- Saudi Arabia's trade forecast to grow by 107.12% to 2026
- Saudi Arabia's companies to increase trade activity annually over the next 15 years by 4.97%

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 Saudi Arabia will grow at an annualised rate of 5.97% to 2016, slowing slightly between 2017-2021 at 5.00% annualised. This equates to growth, indexed to a base in 2011, of 107.12%. Growth in the near-term represents the rapid expansion of exports, particularly in the oil sector, with the subsequent slow-down due to the continued reliance on oil for trade growth, the entrance of other countries into the sector (such as Brazil) in the medium term and the leveling of growth following rapid development between now and 2016. Imports are set to grow quicker than exports suggesting that Saudi Arabia will be pulling imports to support infrastructure development around key buildings and events as well as around the supply and distribution of oil. Annualised total trade growth in Saudi Arabia over the next 15 years is forecast to be 4.97% which represents the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Please note: We have provided accurate forecasts based on available country level and international data from recognised international sources. This means that data was drawn from Bloomberg and Havers as well as UN Comtrade. Sectors and countries are reported differently in these datasets and the data is comparable with UN Comtrade sources but updated via Bloomberg and Havers as MENA countries do not regularly update trade data on international statistical platforms. The modelling process used is the same as for all country summaries.

Saudi Arabia's trade outlook

Saudi Arabia's trade is set to increase faster than is average for the world throughout the next 15 years. Its trade is currently growing at 2.06% above world trade growth average. The fastest growth compared to world trade average is between 2015-2017 because of the rapid acceleration out of the current crisis that the Trade Forecast predicts. By 2026, Saudi Arabia's trade growth will be 7.87% faster than world trade growth.

Much of this is due to the strong economic position that Saudi Arabia has found itself in compared to many other countries over the past four years. Like many of the MENA countries, Saudi Arabia fared comparatively well throughout 2011 despite the global economic downturn and the Eurozone debt crisis. In 2012 the general outlook remains positive despite some indications that the economy is beginning to feel the strain of the external environment, particularly if there is any oil price volatility in the wake of the Arab Spring, continuing unrest in Syria and a wide-spread embargo of oil from Iran.



Trade corridors and trends

Japan, the USA and China are Saudi Arabia's largest export partners; exports are predicted to increase annually over the next five years by 4.44%, 3.06% and 9.62% respectively, driven by increased demand for oil, especially in China. South Korea, Saudi Arabia's fourth largest export partner, will grow as an export destination by 6.36% annually to 2016, also reflecting increased trade in oil and petrochemicals. China is also forecast to become more important as an export destination for Saudi Arabia, with an annualised increase in exports of 9.62%.

Asia Pacific and Middle Eastern countries are prominent amongst Saudi Arabia's export partners and are growing fastest. For example, exports to India are forecast to grow by 10.12% annually to 2016, while exports to China and Thailand will grow at 9.62% and 6.18% respectively over the same period. Emerging export destinations also reflect this with Oman and Egypt set to increase imports from Saudi Arabia annually by 10.38% and 8.37% respectively.

Saudi Arabia's imports are more diverse and include cars and infrastructural goods as well as agricultural produce. As a result, the USA, China and Germany are the largest import partners with annualised growth forecast over the next five years of 6.32%, 9.15% and 5.87% respectively. Growth in imports from China is accounted for mainly by imports of computers and electrical appliances for line telephony, while imports from Germany cover infrastructural imports such as iron and steel structures. Brazil is the second fastest growing importer into Saudi Arabia with growth in imports forecast to be 9.82% annually over the next five years. This is accounted for by imports of sugar cane and beet sugar, iron ore and meat and edible offal. Other large fast growing import partners include Turkey, France and Thailand whose annual growth in imports are forecast to be 9.51%, 10.13% and 8.89% to 2016. This is explained by growing trade in oil and iron ore, aircraft, space craft and satellites and crude oil.

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

Saudi Arabia's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Exporters	%	Saudi Arabia's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Importers	%
Japan	4.44%	Ukraine	15.04%	USA	6.32%	Egypt	11.60%
USA	3.06%	Russia	14.78%	China	9.15%	Vietnam	11.21%
China	9.62%	Vietnam	13.72%	Germany	5.87%	Bangladesh	10.55%
South Korea	6.36%	Algeria	12.28%	Japan	4.98%	France	10.13%
India	10.12%	Argentina	11.59%	South Korea	7.76%	Hong Kong	9.98%
Singapore	5.52%	Oman	10.38%	India	8.82%	Brazil	9.82%
Thailand	6.18%	India	10.12%	France	10.13%	Algeria	9.57%
Spain	5.45%	China	9.62%	Italy	5.83%	Pakistan	9.54%
Pakistan	6.05%	Sweden	9.14%	UK	3.14%	Turkey	9.51%
Italy	-0.11%	Egypt	8.37%	Netherlands	7.06%	Czech Republic	9.24%

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.

Tim Reid, Regional Head of Commercial Banking, HSBC Bank Middle East said:

"There is no denying the challenges the region has faced and continue to face this year. Nevertheless today's data very much supports our belief in the long term economic potential of the region. As the region's leading international trade bank, we know that trade lies at the core of ensuring international economic recovery particularly as businesses explore new trade corridors and take advantage of the new global opportunities. The Middle East as a whole remains an ideal hub for North to South, East to West and intra-regional trade flows. Businesses should continue to feel confident about the future."

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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.