

HSBC Global Connections

Trade Forecast Update: South Korea 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
- South Korea's trade forecast to grow 142.76% to 2026
- South Korean companies to increase trade activity by 5.31% annually over the next 15 years
- This will be fuelled by increased trade within the Asia Pacific region; exports to China of electrical apparatus for phones are expected to grow at 12.56% annualised to 2016

Trade overview

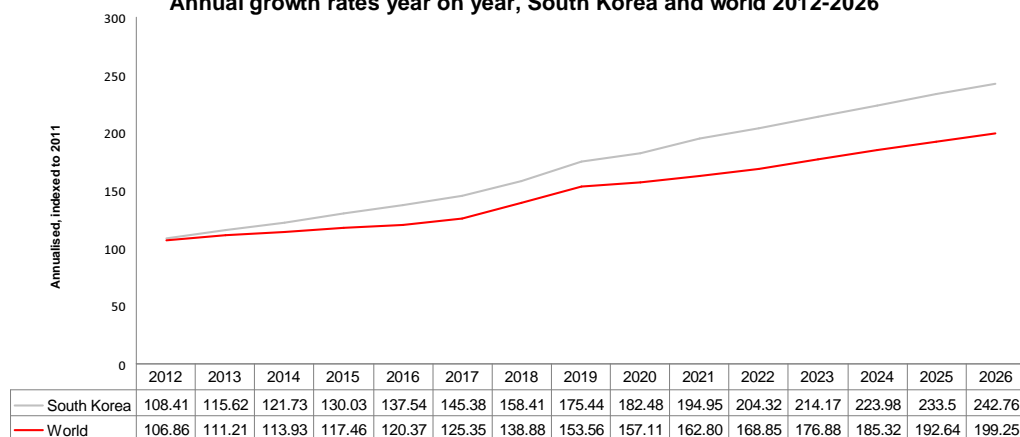
As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. 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 South Korea will grow at an annualised rate of 5.06% over the next five years to 2016. It will increase between 2017-2021 at 6.50% annualised. This equates to growth, indexed to a base in 2011, of 142.76%. This is because the Trade Forecast expects countries within the Asia Pacific region will recover more rapidly from the current global economic situation than other regions as their pace of economic growth through trade quickens. Annualised total trade growth in South Korea over the next 15 years will be 5.31%, faster than average for the rest of the world, and the rate companies will need to increase their international activities if they are to keep pace with this change.

South Korea's trade outlook

The Trade Forecast expects that South Korea's trade will perform better than the world's average over the next 15 years. The reason for this is not only the anticipated rapid recovery of the Asia-Pacific from the current crisis, but also concerted efforts by the country to increase its participation in international trade. In particular, the continuance of trade between developing countries in South Korea, for example with China, India and Singapore, means that the country does not depend so heavily on demand from developed economies and is, as a result, less affected by the declining levels of demand in these countries. South Korea's acceleration in trade is taking place even as trade in the rest of the world is dampened by the current global slowdown. By 2016 South Korea's trade will be growing at 17.54%, higher than average for the world, and by 2017, 20.00% higher. South Korea's largest fastest growing sectors, especially those which are also growing globally, provide new business opportunities. Trade with countries in Asia-Pacific and Latin America will continue to open new corridors and opportunities.

Annual growth rates year on year, South Korea and world 2012-2026



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

South Korea's largest export partners are China, the USA and Japan. Each is forecast to grow at substantial annualised rates of 6.78%, 4.73% and 4.73% respectively to 2016. The fastest growing large export partners broaden South Korea's base in Asia Pacific and Latin America. For example exports to Vietnam, India and Indonesia are forecast to grow at annualised rates of 10.43%, 10.09% and 8.46% respectively to 2016, while exports to Brazil are forecast to grow at 12.85% and to Mexico 8.48% annually over the same time period. Emerging export destinations include Rwanda, Norway and Malta in infrastructures, electronic goods and cars. South Korea's largest import partners are China Japan and the USA, with all set to grow to 2016. Again, the fastest growing large import partners are widely spread, with imports from Russia increasing annually by 8.41% to 2016 and imports from India, Indonesia and Malaysia also increasing annually at nearly 7.00% or above. This reflects the importance of the electrical goods supply chain in the region and South Korea's growing demand for oil and gas. Emerging import partners like Slovenia, Romania, Turkey and Vietnam reflect the importance of supply chains and demand for iron ore as a product of rapid economic growth.

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	%
China	6.78%	Iceland	20.41%	China	6.77%	Libya	22.55%
USA	4.73%	Cayman Islands	20.20%	Japan	4.37%	Cyprus	19.66%
Japan	4.73%	Rwanda	17.55%	USA	5.48%	Georgia	19.08%
Hong Kong	5.56%	Libya	14.82%	Australia	5.99%	Cambodia	16.69%
Singapore	6.98%	Myanmar	14.48%	Germany	5.34%	Slovenia	14.41%
India	10.09%	Norway	14.42%	Indonesia	7.08%	Rwanda	14.15%
Mexico	8.48%	Laos	13.87%	Malaysia	6.72%	Romania	13.97%
Vietnam	10.43%	Malta	13.32%	Russia	8.41%	Ethiopia	13.91%
Germany	1.23%	Brazil	12.85%	Qatar	3.94%	Norway	13.89%
Russia	7.36%	Uruguay	12.81%	India	8.04%	Turkey	13.60%

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 South Korea's fastest growing export and import sectors by partner:

Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Liquid crystal devices, lasers, optical appliances	Slovakia	14.82%	Electrical apparatus for line telephony, telegraphy	China	11.86%
Electrical apparatus for line telephony, telegraphy	China	13.45%	Petroleum oils, Oils form bituminous minerals, crude oil	Russia	10.98%
Electrical apparatus for line telephony, telegraphy	Hong Kong	13.02%	Maize (corn)	USA	10.53%
Electrical accumulators	China	12.56%	Coal, briquettes, avoids etc made from coal	Indonesia	10.27%
Optical fibres, lenses, mirrors	China	12.50%	Plastics plate, sheet, film not cellular	Japan	9.08%
Oils, petroleum, bituminous, distillates, except crude	Netherlands	11.67%	Oils, petroleum, bituminous, distillates, except crude	India	8.19%
Passenger and goods transport ships, boats	Singapore	11.05%	Iron ores and concentrates, roasted iron pyrites	Australia	8.06%
Liquid crystal devices, lasers, optical appliances	Mexico	11.03%	Electrical sound or visual signal equipment nes	China	7.77%
Oils, petroleum, bituminous, distillates, except crude	Indonesia	9.03%	Refined copper and copper alloys, unwrought	Chile	7.16%
Oils, petroleum, bituminous, distillates, except crude	Singapore	8.95%	Oils, petroleum, bituminous, distillates, except crude	Saudi Arabia	5.98%

N.B. South Korea'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

Electrical goods: The network of trade flows across the Asia Pacific region is centred around global corporations essential to South Korean supply chains. For example, exports of electrical appliances for phones, which is a globally growing sector, are forecast to grow by 12.97% annually over the next five years. Exports to China will increase annually over the same period by 13.45% and to Hong Kong, similarly by 13.02%. There is a whole system of component parts that contribute to this: imports of integrated circuits from China will increase by 5.54% while exports of electrical accumulators to China will increase by 12.56% and of optical fibres by 12.50%, both annually over the next five years. South Korea drives this supply chain. Trade corridors are developed with China and Hong Kong, but new routes to emerging Europe and Mexico highlight opportunities are increasingly across the Asia Pacific region and beyond.

Oil and infrastructure: South Korea is a key trade hub for oil in Asia Pacific. It will grow exports of non-crude oil to the USA, Singapore, and Indonesia over the next five years. Its imports of crude oil from Russia are set to increase by 10.98% annually to 2016. Malaysia is set to become a major supplier of gas to South Korea with imports forecast to increase at an annualised rate of 4.48% to 2016. The increased flow of oil in the region reflects the speed that it is growing; as the industrial and trade base grows, so too does the demand for commodities and infrastructures that drive trade. Related to this is a rapid expansion in infrastructure trade. South Korea has invested in infrastructures in the region and into MENA. While the latter are too small to emerge as top export destinations, exports of steel (used in buildings and bridges, for example) and railway locomotives are set to increase, reinforcing South Korea's role in transport and trade infrastructure abroad.

Automotive and ships: Cars are South Korea's largest export sector, forecast to grow by 4.78%. Exports of cars to Russia are predicted to increase by 5.16% and car components to the USA by 4.84%, suggesting South Korea is important in the global automotive supply chain. The second largest export sector is passenger and goods ships, forecast to grow over the next five years (annual growth of 9.35%) as the world's demand for transport to ship goods and people increases. Exports to Singapore and Germany in this sector will grow the most substantially at 11.05% and 8.53% annually to 2016. These are complex, highly innovative and global sectors with substantial supply chains at the centre of which sit South Korean businesses. Companies will need to grow their international activities at nearly 5% in the car industry and above 9% in the shipping sector to keep up with the pace of change.

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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.

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