

HSBC Global Connections

Trade Forecast Update: Turkey

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
- Turkey's trade predicted to grow by 90.90% to 2026
- Turkey's companies to increase trade activity annually over the next 15 years by 5.30%
- Turkey's fastest emerging export sector is in lead waste or scrap, which will grow at 22.35% over the next five years. The fastest growing export sector will be motor vehicles at 4.66% annualised to 2016

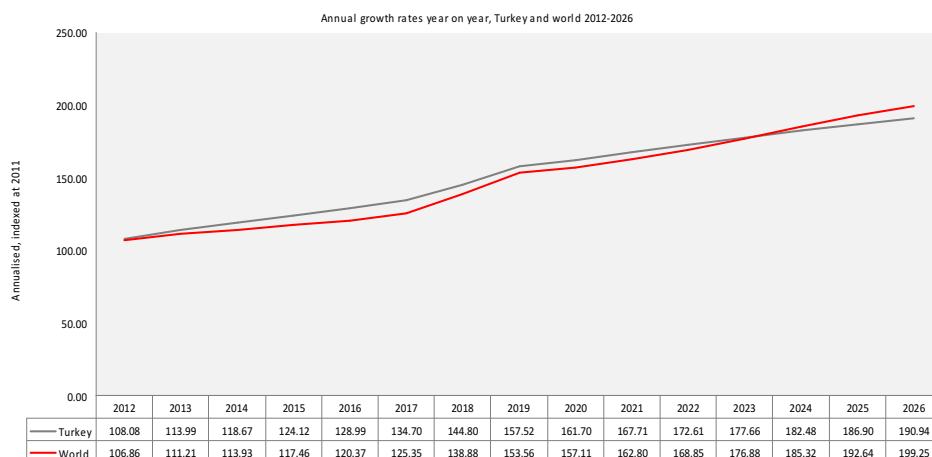
Global trade overview

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 in Turkey will grow at an annualised rate of 4.85% to 2016. This will increase substantially between 2017-2021, at 6.63%. This equates to growth of 90.90%, this can be attributed in part to slower than expected growth in the near term in the European economy, particularly Germany which is Turkey's largest export partner. Annualised total trade growth in Turkey over the next 15 years will be 5.30%, which is the rate at which companies will need to increase their international activities if they are to keep pace with this change.

Turkey's trade outlook

As the eurozone crisis continues, the Turkish economy is becoming increasingly vulnerable to pressures on global and regional demand. This is predominantly as European countries feature among the country's current top trading partners and it is these relationships which will shape the future of the Turkish economy during 2012. Turkey's trade will closely track the growth rates for the world up until 2024, but over the period the pace of trade growth will generally be higher than that for the world. After 2024, however, Turkey's trade index begins to fall below the world's rate as world growth picks up, driven largely by accelerated trade in Latin America and the Asia Pacific regions. However, the Trade Forecast predicts that the Turkey will increase its exports of buses and coaches by 6.58%, this represents an emerging trade route through Malta to the MENA region and is an exciting growth opportunity.



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

Turkey's largest export partners are Germany, the UK and Italy, while its largest import partners are China, Germany and Russia. Unsurprisingly, European countries dominate Turkey's trade not least because of the close supply chain links into Europe: seven out of 15 of its largest export partners are in Europe and nine of its largest 15 import partners are from within Europe. Of the largest partners, exports to Germany will grow the fastest at an annualised rate of 3.91% over the next five years, while exports to the UK will grow by 2.25% and to Italy by 3.24%. Emerging export sectors are largely from outside of Europe: annualised export growth with Paraguay is set to increase at an annualised rate of 19.19%, with Peru by 16.88% and with Bolivia by 15.28% to 2016. Of the top five emerging export destinations, four are in Latin America suggesting that there is a strong emerging trade corridor between these countries with Turkey supplying iron and steel bars for infrastructure development into the region.

A particularly important relationship is that between Turkey and the UAE, one of its largest export partners, where trade is set to increase by 7.38%. The relationship between these two countries brings with it many new business opportunities, particularly in export sectors such as iron, petroleum, gold and jewellery, which feature amongst Turkey's top emerging trade corridors. Although China will grow its imports at an annualised rate of 8.43% over the next five years, imports from Paraguay are forecast to increase by 18.26% and from Cambodia by 12.51%, reflecting emerging trade corridors in Latin America and Asia-Pacific in oil and textiles, respectively.

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

Turkey's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Turkey's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
Germany	3.91%	Paraguay	19.19%	China	8.43%	Paraguay	18.26%
United Kingdom	2.25%	Peru	16.88%	Germany	3.73%	Uruguay	17.12%
Italy	3.24%	Bolivia	15.28%	Russia	4.09%	Oman	15.57%
France	5.88%	Rwanda	15.11%	USA	8.89%	Latvia	14.72%
Russia	6.36%	Uruguay	14.61%	Italy	4.28%	Iceland	13.89%
UAE	7.38%	China	14.55%	France	4.23%	Ghana	13.67%
Spain	2.90%	Brazil	13.97%	Spain	5.22%	Bermuda	13.66%
Romania	4.78%	Libya	13.71%	South Korea	5.01%	Bangladesh	13.65%
USA	1.40%	Argentina	13.51%	United Kingdom	1.29%	Sri Lanka	13.11%
Switzerland	11.55%	Thailand	13.03%	Romania	5.73%	Bolivia	12.99%

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

Turkey'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)
Iron/steel bar, only forged hot-rolled drawn, extruded	Egypt	18.36%	Turbo-jets, turbo-propellers/other gas turbine engines	USA	24.70%
Semi-finished products of iron or non-alloy steel	UAE	15.94%	Petroleum oils, oils from bituminous minerals, crude	Kazakhstan	18.97%
Cooper ores and concentrates	China	14.85%	Refined copper and copper alloys, unwrought	Russia	17.45%
Gold, unwrought, semi-manufactured, powder form	South Africa	14.09%	Oils petroleum, bituminous, distillates, except crude	India	17.10%
Gold, unwrought, semi-manufactured, powder form	Switzerland	13.51%	Electric generating sets and rotary converters	China	16.78%
Marble, travertine, ecaussine etc	China	12.70%	Electric generating sets and rotary converters	Germany	16.37%
Chromium ores and concentrates	China	12.39%	Polymers of propylene, other olefins in primary forms	Saudi Arabia	14.68%
Knit or crochet fabric, nes	Russia	11.55%	Aircraft, spacecraft, satellites	USA	14.62%
Oils petroleum, bituminous, distillates, except crude	UAE	11.06%	Gold, unwrought, semi-manufactured, powder form	UAE	14.47%
Semi-finished products of iron or non-alloy steel	Saudi Arabia	10.72%	Petroleum gases and other gaseous hydrocarbons	Russia	14.46%

NB: Fastest growing import and export sectors by partner are developed from the country's 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 10 fastest growing partners by sector were selected for this table.

The sector opportunity

Infrastructure: The Trade Forecast is predicting that world trade in infrastructure will increase by 110% over the 15 year period. Turkey is central to this growth as new trade routes open up from Europe to the MENA region and Latin America. The Trade Forecast predicts that exports of iron bars to Egypt will increase by 18.36% and of semi-finished iron and steel to the UAE by 15.94%. These are both fundamental sectors in major construction projects and Turkey's businesses are well placed to take advantage of them. Exports of copper ore and concentrates to China are set to increase over the next five years by 14.85% annually. In fact, six out of 15 of the emerging sectors by country are in infrastructure or related commodity trade.

Oil: Turkey is a major exporter and importer of oil from its 103 oil production fields, and has developed a highly innovative sector. It represents a hub for oil and gas trade between central Asia, Europe and the MENA region. Exports of non-crude oil to Singapore are forecast to increase by 7.07% annually to 2016, reflecting the expansion into Asia. As India's oil and gas sector expands, the Trade Forecast predicts that oil imports into Turkey will increase by 7.10% annually to 2016, Kazakhstan is also forecast to increase imports of crude oil into Turkey by 18.97% and Gas by 11.03%.

Manufacturing: Turkey's manufacturing presence is defined by its role in the European car and road haulage vehicle sectors. The Trade Forecast predicts that exports of cars to France will increase by 9.15%, while exports of ships and boats to Malta will increase by 8.97%. This suggests specific supply chain expertise that feeds from the automotive, automotive components, road haulage vehicle and bus and coach sectors into ship building as well. Using these supply chains as a platform for internationalisation, companies with expertise in these sectors can develop their businesses internationally.

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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

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