

HSBC Global Connections

Trade Forecast Update: Vietnam

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
- Vietnam's trade forecast to grow 78.66% to 2026
- Vietnamese companies to see trade activity contract annually over the next 15 years by -0.16%
- Vietnam's fastest growing large export sector will be printing and ancillary machinery at 12.88% annualised over the next five years

Trade overview

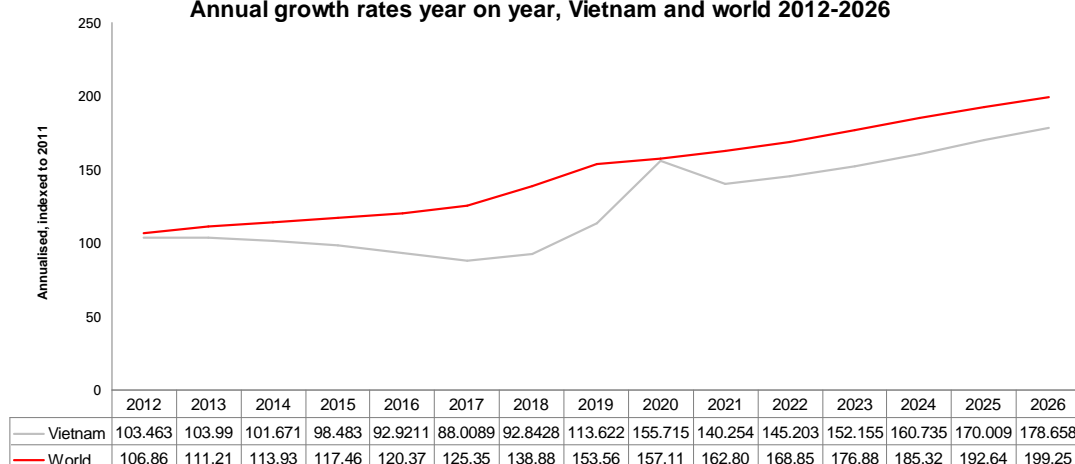
As the world continues to face well-documented economic challenges, the Trade Forecast suggests grounds for optimism for international businesses. Despite the current climate the overall trend for international trade is positive with growth acceleration sooner than expected from 2014, rather than 2015. 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 Vietnam will fall at an annualised rate of -12.30% to 2016 but that it will increase substantially between 2017-2021 with annualised growth at 7.94%, and of 5.14% between 2021-2026 (annualised). This equates to growth, indexed to a base in 2011, of 78.66%. This is the result of the slowing of the global economy, to which Vietnam is particularly vulnerable.

Vietnam's trade outlook

Vietnam's trade will grow slower than is average for the world throughout the duration of the trade forecast, with a key causal factor being a decrease in global demand for Vietnam's petroleum oils exports and a drop in demand for the country's clothing exports to the USA. However, the Trade Forecast predicts that the substantial growth of 78.66% over the whole period will be generated through its closer integration into Asia Pacific's supply chain. Vietnam's challenge is to get through the period of world-wide deceleration of trade by pushing its skills and innovation potential to the higher end of the value chain. There is evidence that this will happen after 2015, with increased exports in one of the world's fastest growth sectors of printing and machinery.

Annual growth rates year on year, Vietnam 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

Vietnam's largest export partners are the USA, Japan and China. Trade growth with all of these countries is forecast to decelerate over the next five years with annual contractions of -3.31%, -4.39% and -0.51% respectively to 2016. The decrease in export trade growth with the USA can be accounted for by reductions in exports of clothing and furniture over the next five years. The decrease with Japan is the result of a forecast annual contraction in exports of car parts to Japan of -1.41% to 2016 and a forecast contraction in exports of crude oil of -3.96% over the same period. Emerging export corridors will fuel Vietnam's growth in the future, and Switzerland emerges as the fastest growing export destination with anticipated growth of 13.65% annually to 2016. This is due to an increase in exports of precious stone and metal jewellers parts, and in gold exports, forecast to increase annually by 16.18% and of 15.61% respectively to 2016. Emerging export destinations also suggest the routes by which Vietnam will become integrated into global supply chains. Exports to Slovakia, a major part of the consumer electronics supply chain, are forecast to grow while exports to India will grow fuelled by an increase in exports of soya bean cake and solids over the next five years. Exports to Brazil, Saudi Arabia and South Africa - all large countries which are growing their trade quickly - are also forecast to increase. Vietnam's largest import partners are China, Japan and South Korea. Imports from China are forecast to increase and much of this will be driven by greater imports of petroleum gas and knitwear. China is also rapidly expanding its imports of electrical equipment for line telephony and the Trade Forecast expects imports in this sector to increase by 12.64% annually to 2016, reflecting greater demand in Vietnam for information and communications technologies.

Vietnam's Emerging Growth Importers and Exporters (2012-2016)							
Vietnam's Largest (2012) Export Partners Ordered by Value	CAGR (2012)	Emerging Growth Export Partners	%	Vietnam's Largest (2012) Import Partners Ordered by Value	CAGR (2012)	Emerging Growth Import Partners	%
USA	-3.31%	Switzerland	13.65	China	1.70%	Mexico	10.39
Japan	-4.39%	Slovakia	7.39	Japan	-1.91%	Turkey	9.03
China	-0.51%	South Africa	7.18	South Korea	-0.90%	Qatar	8.56
Australia	-15.59%	Romania	6.43	Thailand	-1.69%	Ireland	7.77
Malaysia	-2.59%	Egypt	6.26	Singapore	-12.28%	Hungary	7.49
Singapore	-6.95%	India	6.15	USA	4.13%	Norway	6.09
Germany	-4.29%	Brazil	5.86	Malaysia	-1.85%	Saudi Arabia	5.33
South Korea	2.85%	Saudi Arabia	4.92	India	1.18%	Sweden	5.16
Philippines	1.98%	Portugal	4.77	Indonesia	-1.15%	Finland	4.64
Cambodia	-1.32%	UAE	4.26	Hong Kong	-7.40%	Austria	4.57

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

Vietnam's Fastest Growing Export and Import Sectors by Partner (2012-2016)					
Export Sector	Export Partner	CAGR (2012-16)	Import Sector	Import Partners	CAGR (2012-16)
Jewellery and parts contained precious metals	Switzerland	16.18%	Electric apparatus for line telephony	China	12.64%
Gold, unwrought, semi manufactured, powder form	Switzerland	15.61%	Printing and ancillary machinery	Japan	11.73%
Printing and ancillary machinery	USA	13.35%	Automatic data processing machines (computers)	China	11.60%
Petroleum oils, oils from bituminous materials, crude oil	South Korea	10.79%	Petroleum gases and other gaseous hydro carbons	China	8.46%
Footwear with uppers of leather	USA	4.41%	Electric generating sets and rotary converters	China	7.97%
Rice	Philippines	2.22%	Knit or crochet fabric, nes	China	5.87%
Jerseys, pullovers, cardigans, knit or crochet	USA	0.79%	Radio and TV transmitters, television cameras	China	5.69%
T-shirts, singlets and other vests, knit or crochet	USA	-0.20%	Parts and accessories for motor vehicles	Japan	5.31%
Coal, briquettes, avoids etc, made from coal	China	-0.75%	Gold, unwrought, Semi manufactured, powder form	Hong Kong	4.20%
Parts and accessories for motor vehicles	Japan	-1.41%	Commodities not elsewhere specified	China	3.73%

N.B. Vietnam'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

Electronic equipment and consumer electronics: One of the world's fastest growing sectors is printing and ancillary machinery. The infrastructures, skills and expertise to integrate into this supply chain take time to build, but there is evidence of a substantial cluster in Vietnam and that it is growing fast. Exports of printing and ancillary machinery are forecast to grow by 12.88% annually over the next five years and exports to the USA in particular are forecast to grow by 13.35% annually to 2016. Much of this appears to be coming from a Japanese-based supply chain as imports in the same sector from Japan are forecast to increase annually to 2016 by 11.73%. Imports of computers and of radio and TV transmitters will increase respectively at annual rates of 11.60% and 5.69% to 2016 reflecting growing demand as well as an embryonic supply chain in these products. The challenge for Vietnam's businesses is to grow these trade routes quickly so that the effects on infrastructure development and overall trade with some of the emerging export partners is not just commodity based.

Clothing and footwear: This is a highly competitive and global sector with exacting ethical as well as delivery and price standards set by some of the world's largest global businesses. Trade in many clothing products is forecast to decline, especially with the USA, over the next five years and this presents a challenge to what has been a central sector for the economy. There are signs that the opportunities are re-emerging in the USA with exports of footwear forecast to grow by 4.41% annually to 2016. Imports of knitwear from China suggest a supply chain developing in this sector as well. The challenge for Vietnamese businesses is to reduce the dependency on the USA as an export destination and to provide high quality products to markets in Turkey and across the Asia Pacific region, which still relies heavily on its textile sector.

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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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