

# HSBC Trade Connections:

## Trade Forecast Quarterly Update

October 2011

New quarterly forecast exploring the future of world trade and the opportunities for international businesses

- World trade will grow by 73% in next 15 years
- World trade will grow at 2% until 2015
- Companies to increase trade activity annually by 4.1% to achieve projected growth

### Global trade overview

The Trade Forecast is predicting that world trade will grow by 73% in the next 15 years, with merchandise trade volumes in 2025 hitting \$48.5trillion, compared to today's \$27.2trillion. To achieve this growth, the forecast is predicting companies across the world will increase their trade activity by a combined 4.1% between 2011 and 2025. The Trade Forecast anticipates Egypt, India, Vietnam, Indonesia, China and Brazil will be the international powerhouses that drive world trade growth in this period.

The international business landscape will be reshaped through new emerging trade trends. The Trade Forecast predicts a rapid expansion in exports and imports between newly emerging economies; a redistribution of global supply chains as developed economies integrate emerging markets into their supply chains to maintain their position as leading trading nations while competing in the new global landscape; and a sharp rise in commodities and infrastructure trading fuelled by the development of emerging economies around the world.

This is reflected in HSBC's Trade Confidence Index - the largest survey of international traders globally – that finds that businesses around the world believe China will continue to be a source of key trading opportunities over the next six months, with Latin America, South East Asia, and the Middle East also featuring strongly. Despite an overall dip in global trade confidence, businesses in Indonesia, Saudi Arabia, Egypt and the UAE are particularly optimistic about the future, showing a positive uplift in confidence on the first half of 2011. Globally, the majority of respondents (84%) anticipate either an increase in international trade, or consistent levels of international business activity over the next six months. For businesses trading internationally or starting to trade internationally, the combined global outlook provides a positive view of future business opportunities with new trade corridors opening.

### Global trade outlook - growth rates, 2011-2025

The Trade Forecast is predicting world trade will grow significantly over the next 15 years, but that it will grow at a relatively measured 2% until 2015. This is largely due to the slow recovery of the world economy and recent market uncertainties. Emerging market trade is growing at a faster pace than developed world markets but in the near term will be affected by depressed demand from uncertain conditions worldwide. In the medium term - the next five to 10 years - growth will pick up, fuelled by rapid economic development in emerging economies and the formation of new trade corridors, which are not yet fully established (such as Brazil-Sri Lanka).

From 2016 it is predicted that annualised growth will accelerate, peaking at 7.1% between 2016 and 2020. It will be driven by factors including improved economic trade conditions, the positive role of Preferential Trade Agreements, growth in inter-regional trade and the emergence of new trade routes. Also of importance will be the redistribution of global supply chains; specifically more production and design of engineering-based products outside of Europe and North America, greater concentration of "high end" R&D in Europe and North America and production/applied research in Asia.

Forecast yearly percentage changes in world trade growth 2012-2025



## International trade powerhouses

Emerging Asia, South America and the Middle East will dominate the high growth rankings of trading nations over the next 15 years. This is partly because they are starting from a lower base: Egypt's trade, for example, is just 0.3% of world trade and forecast to grow to 0.4% but this nevertheless represents growth in value terms of 185% and demonstrates a clear direction of travel. India's growth in exports, which is already gathering pace, is helping to fuel its second place in the rankings. It represents some 1.2% of world trade in 2010, rising to 2% by 2025, which creates considerable momentum behind the process of export-led growth. The 7% annualised growth figure for China means its place as the world's largest trading nation is likely to be maintained. Although growth in the developed world is slower, these nations are still growing in volume terms. The values of trade that they represent are significantly higher than those in emerging economies, with the notable exception of China.

## Forecast of World trade growth 2011 – 2025 (annualised) Annualised growth rate (%)



**Egypt** – Egypt is predicted to experience the fastest growth in international trade volumes – albeit from a low base – of 185% by 2025. This is being driven partly by the country's redevelopment following the Arab Spring of 2011 but also because other countries around the world are seeing it as a platform into the Middle East

**India** – India's trade is predicted to grow by 156% driven by activity in high-value engineering and chemicals-based trade, linking the Middle Eastern and Asian markets. It is forecast that, in particular, trade with the UAE and China will increase at significant volumes

**Vietnam** – Vietnam's trade volumes are predicted to grow by 144% by 2025. Vietnam is a major commodities exporter, especially in oil, but has a strongly developing manufacturing and digital sector opening up with countries like India and the Philippines

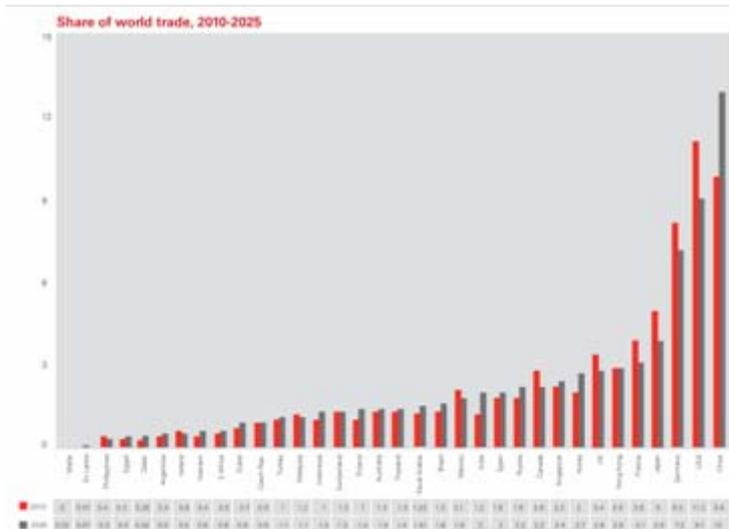
**Indonesia** – It is predicted that Indonesia's trade volumes will increase by 144% by 2025. Much of the growth will be in the export of commodities where it has an advantage both because of its natural resources and its geographical proximity to Asian markets

**China** – China's bounce back from the 2009 collapse in world trade was phenomenal and as a nation, China rose from accounting for 8.4% of world trade in 2009 to 10.9% of world trade in 2010. It is predicted that China's share of world trade will reach 13% by 2025. This will be driven both by commodities trading and by an increase in manufacturing in China

**Brazil** – Trade volumes for Brazil are predicted to increase by 144% to 2025. Brazil's trade with China grew by more than 1000% between 2001 and 2010. Yet over the next 15 years, while this trade corridor will remain important, export growth to India and Sri Lanka will be quicker than that to China. The most rapid growth over the next five years will be with Vietnam, China and Indonesia, while in five to 10 years' time, Brazil will make big gains in trade with the USA and Sri Lanka.

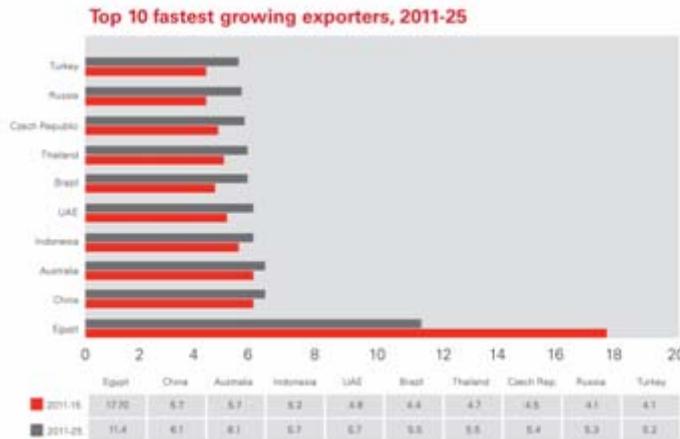
### Share of world trade

China is the country which will see its share of world trade increase the most - by 3.1% - representing a volume increase over the forecast period taking it to \$6,315.9billion by 2025. India starts from a smaller base but it is also forecast to grow to \$976.7billion, increasing its share of world trade by 2%. It is the largest, most developed economies – the UK, France, Germany, Japan and the USA – which will be losing the largest shares of world trade over the period. This is due to their high starting point combined with significant growth in emerging markets when compared with developed markets. Increasingly trade routes amongst the emerging economies propel trade growth in the future however as the graph below shows, developed economies will remain major trading powers.



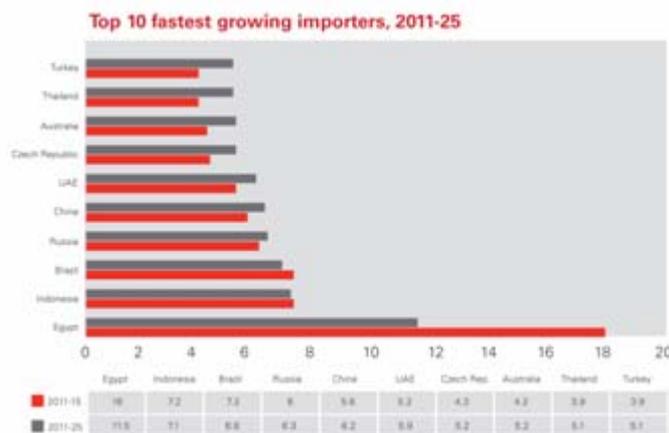
### The world's fastest growing exporters

Trade growth will be led by the new world, as their economic development gathers pace and trade routes open up, not just with the developed world but also between emerging markets. The fastest growing countries between 2011 and 2025 will be Egypt, driven by oil and post-crisis regeneration; China, as it becomes increasingly dominant as the largest trader in the world; Australia, whose new trade routes with China in iron, steel and coal are well-established and growing quickly; and Indonesia, where trade corridors with China are also growing rapidly.



### The world's fastest growing import nations

Egypt, Indonesia, Brazil, Russia and China emerge as the fastest growing importers over the next 15 years. This is unsurprising given their export growth is also so fast: as the business base expands and looks to grow production, imports are increasingly in demand in the country, both to provide the raw materials and components for goods, as well as to create the infrastructures required to facilitate the next phase of trade and development.

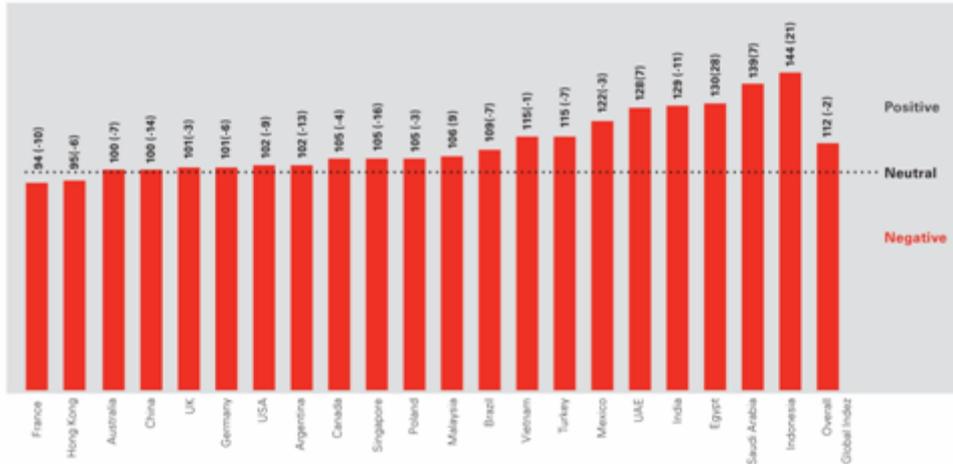


## Global business confidence

Globally, the Trade Confidence Index is registering confidence at 112 points, a drop from 2010 although up overall from 2009. This is underpinned by 38% of respondents saying they expect the global economy to decline significantly or decline slightly, a marked increase from previous polls. Confidence in emerging markets is noticeably higher (116 points) than in developed markets (100 points) reflecting the current economic climate and future trade growth trends. Notably businesses in Indonesia, Saudi Arabia, Egypt and the UAE are particularly optimistic about the immediate future, showing a positive uplift in confidence on the first half of 2011.

### HSBC Trade Confidence Index - Global Overview

2H11 (Change from 1H11)



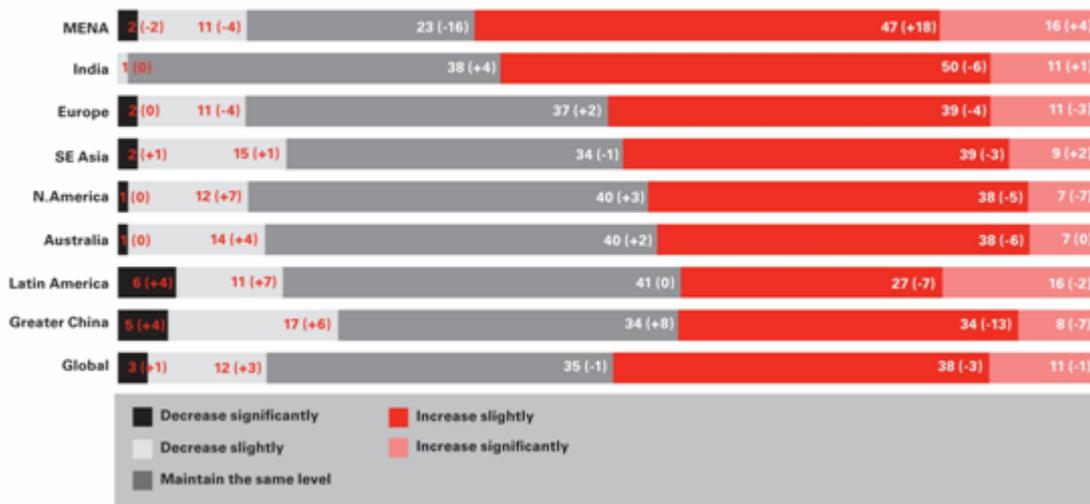
Note: (1) The Overall Global Index is the unweighted average of the 21 markets listed above

## A continuation of international business

While the Trade Confidence Index sees a dip in international traders' confidence, the majority (84%) say international trade will grow significantly, slightly or remain consistent in the coming months; just 15% anticipate that the volumes of trade they are doing will decrease.

### Outlook on trade volume - Global

2H11 (Change from 1H11)



## Challenges in for international traders

While the majority of those polled (64%) said that they expected the potential buyer default risk outlook to remain the same as it is currently, 24% expect it to increase. Key strategies for overcoming this risk include a greater use of trade finance and increasing export credit insurance. This is perhaps reflected in the fact that 38% predict their need for trade finance will increase significantly or slightly which is a sign that, unlike during the crisis of 2009, they expect their banks to be able to support their needs.

## Most promising regions for trade growth

Overall, Greater China is the key country identified as providing opportunities for trade growth across all regions, with MENA, Central and Eastern Europe and the USA also appealing to individual regions around the world. However, although international markets are cited as of key importance for all major global regions, there is a continued prevalence of intra regional partners being listed as the most important opportunity for trade growth in the short-term.

## Macroeconomic trends

Uncertain global economic conditions are dampening the rapid increase in trade which was beginning to be seen towards the end of 2010. The volatility in the Eurozone and USA in recent months in particular are impacting growth predictions. The Trade Forecast factors in underlying uncertainties in markets and as a result of this volatility, the forecast for growth in the near term remains modest. Demand in the developed world economies is weak and it is this weakness, combined with the effects of recent market volatility globally, which causes the Forecast to be less optimistic about the near term than further out once the world has started to recover.

However, it is anticipated that growth in trade routes between emerging economies will continue. The emergence of new Free Trade Agreements - such as the one between Kazakhstan, Belarus and Russia - will drive competitiveness and create market opportunities within those regions. This will have a positive effect on trade in the medium term as it regains lost momentum.

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## Trade trends and corridors

China will grow to become the world's largest trading nation by 2020 replacing the USA as the largest exporter worldwide. This growth is fuelled by exports to other emerging economies - Brazil, Argentina, Vietnam and India – all of which will increase at or around 8% in real terms over the time period.

Brazil itself is also growing in importance as a trading nation and although it will not be in the top 15 countries by trade value, it is the sixth fastest growing country by growth between 2011 and 2025. Again, its trade is not just with the developed world. Instead, fast growing trade corridors are emerging with India, Sri Lanka, China, Vietnam and Indonesia which will be increasingly important not just in the commodity sectors but also for Brazil's manufacturing exporters as time goes by.

North America as a region will retain its strength over the 15 year period. It is forecast that its share of world trade in 2025 will be 14.3% which is not significantly lower than its share of world trade now at 14.5%. The USA remains the dominant trade partner within North America and with the rest of the world as new corridors centred around the growth sectors of biopharmaceuticals and medicines develop with emerging economies like India and Brazil. US trade volume growth will be 63% over the period with trade values rising to \$4,112.6billion in 2025.

Intra-European trade will increasingly take the form of integrated supply chains; the Czech Republic, Turkey and Poland and their trade into Europe with Germany and out of Europe with the MENA countries will become more important.

Intra-Asian trade is currently in commodities and components for consumer electronics. The outputs of this process (computers, telephones etc) are increasingly sold within Asia and Latin America, meaning that the value chain is shifting to the South-South corridor.

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## Business trends

The pace of world trade will accelerate over the next 10 years and will be driven by two things: firstly, demand from the emerging economies for commodities and infrastructure to facilitate economic development; and secondly the increased integration of global supply chains driven by the world's largest commercial businesses. This presents opportunities for exporters to grow through trade across the world - by linking into the global supply chain they can reduce the risks which can be associated with the process of entering new markets. When entering into this process, it is important that businesses do not forget that intra-regional trade, for example between nations in Europe or North America or South America, is assisted by Free Trade Agreements. This enhances overseas market opportunities to business and it is expected that intra-regional trade will be an important feature of the global trade landscape, contributing some \$3.7trillion to total world trade by 2025.



**Alan Keir, Group Managing Director and Global Head, HSBC Commercial Banking**

“Recent events have left business people feeling uncertain but one thing is clear, for businesses that are looking to grow, international trade is the real opportunity.

“We commissioned *HSBC Trade Connections* to help our customers to shape future strategy based on valuable, meaningful insight. What the findings tell us – that international trade is set to grow despite current economic uncertainty – is reflected in what our customers are seeing and doing every day. During 2011, the international business we are supporting has grown as we use our presence around the world to support forward-thinking companies’ growth.

“Companies wishing to take advantage of the opportunities international markets offer must have the right strategic partners in place to be successful. We are working with businesses around the world ensuring they are in the best shape for international trade, supporting them at every stage of the supply chain to provide end-to-end financial support that benefits both the business and their suppliers. We are committing to facilitate \$750billion of world trade by 2013, working with international businesses to open up new markets and trade opportunities, by innovating how they are financing trade.”

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**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 36 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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**Trade Confidence Index**

The HSBC Trade Confidence Index covers a total of 21 markets and is the largest trade confidence survey globally. The current survey comprises six-month views of 6,390 exporters, importers and traders from small and mid-market enterprises on: trade volume; buyer and supplier risks; the need for trade finance; access to trade finance; and the impact of foreign exchange on their businesses. The survey was conducted by research company TNS between July and September 2011.

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**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. With 7,500 dedicated relationship managers, Commercial Banking contributed over US\$4 billion in profit before tax to the Group in the half-year to 30 June 2011.