HSBC Global
Connections

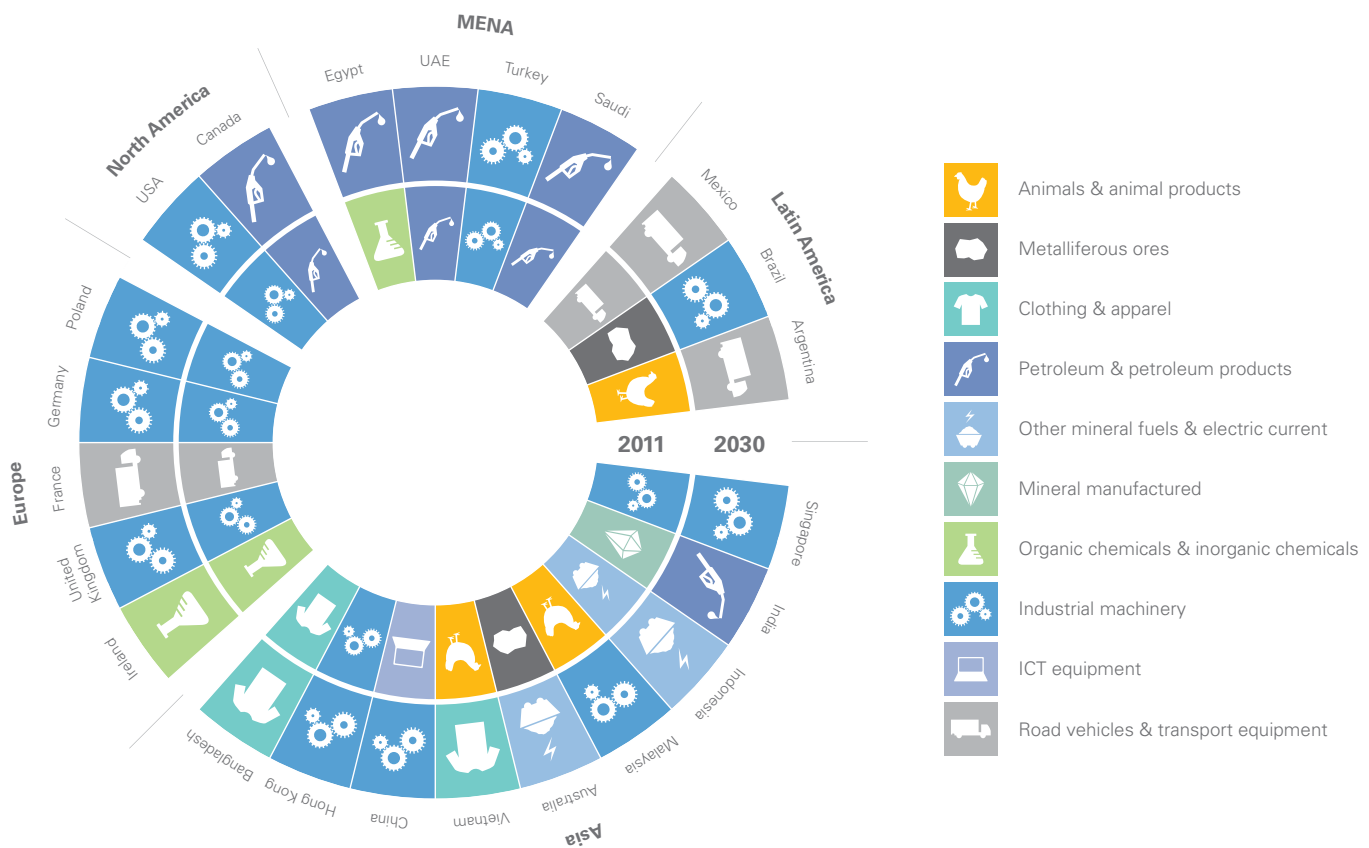## HSBC Global Connections Report
Global
February 2013

An overview of world trade
and the opportunities for
international businesses

**The large emerging market economies are set to
provide the lion's share of GDP growth in the near
term, partly as a result of policy easing feeding
through. They will drive a rebound in world trade,
with the economies of Asia (excluding Japan) proving
particularly dynamic. Export growth will be strongest
from India, Vietnam and China, which are all expected
to post double-digit annual growth throughout the
period 2013-20. Trade between emerging markets
(so-called 'south-south' trade) will increase in
importance as these economies grow wealthier,
entailing a shift towards higher domestic demand.**

The dynamism of China's exports will be driven by
the industrial machinery and ICT equipment sectors.
In fact, these two sectors alone are expected to account
for around half of the forecast growth in China's total
exports. This growth illustrates the shift towards higher
value-added sectors in China as wages rise. At the same
time, the contribution of textiles and wood manufactures
to overall export growth will gradually fall as the Chinese
economy loses competitiveness in these sectors and
gains expertise in more sophisticated sectors.

Sector Shifts – Changing Face of Global Exports
Source: Oxford Economics

Legend:
- Animals & animal products
- Metalliferous ores
- Clothing & apparel
- Petroleum & petroleum products
- Other mineral fuels & electric current
- Mineral manufactured
- Organic chemicals & inorganic chemicals
- Industrial machinery
- ICT equipment
- Road vehicles & transport equipment

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Growth in Merchandise Exports (Top 10)
Source: Oxford Economics

growth (% year)

■ 2013–15
■ 2016–20

Growth in Merchandise Exports (Top 10)
Source: Oxford Economics

growth (% year)

■ 2021–30
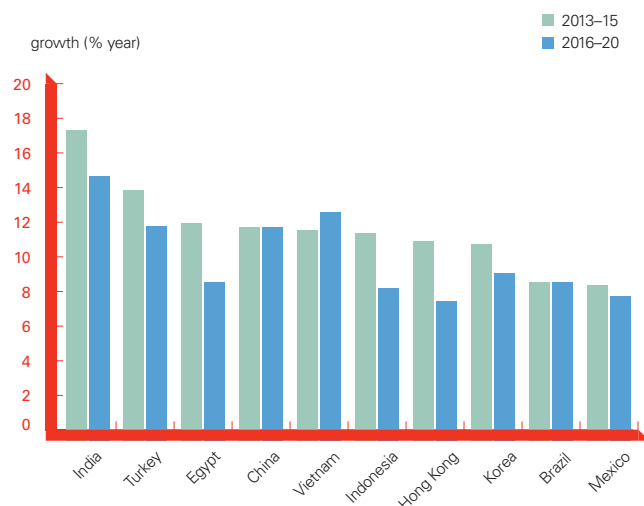
As the Chinese economies shifts its focus towards higher value-added sectors, this will create opportunities for economies with ample supplies of low-cost labour, such as Vietnam and Bangladesh. Export growth from these economies is forecast to average 10-12% a year in the decade to 2030, with a concentration in lower value-added sectors such as clothing and wood.

India is not as trade-oriented as many other emerging Asian economies, partly due to its large domestic market, but nevertheless exports have risen substantially as a share of Indian GDP over the past decade. India's participation in intra-Asian trade is forecast to be a major driver of trade growth, both in the near-term as the Asian economy recovers faster than that of Europe and the United States, and in the longer-term as the Asian economies continue to emerge. In particular, China is forecast to increase in importance as an export market, growing by more than 15% per annum all the way out to 2030.

The economies of Latin America will also start to benefit from increasing trade with South East Asian emerging markets, and in particular with China, over the next two decades. Brazil is likely to see the fastest growth in exports over the coming years, of over 8% a year. China is already its largest partner, as exports to the country have risen particularly rapidly since the 2008-09 financial and economic crisis. We expect this trend to continue, with China accounting for around 30% of Brazilian exports by 2030, from around 18% now. Sales of raw materials and metals are set to increase strongly, with growth of around 12% a year.

Mexico's recent growth in merchandise exports has been built on its cost advantage over the US (and more recently over China, too), supplying manufactured consumer goods such as cars and flat-screen televisions. With rising labour costs in China, and the high oil price contributing to escalating transport costs, US companies are increasingly looking closer to home to outsource production, encouraged by free trade zones close to the US/Mexican border – Maquiladora – which account for around 35% of all Mexican exports.
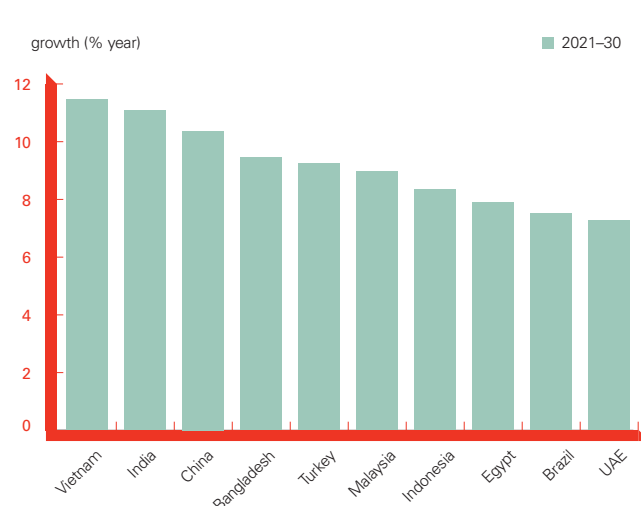
Top 10 Export Routes (% year)

Rank	Origin	Destination	Origin	Destination
1	India	Vietnam	India	Vietnam
2	India	China	Bangladesh	Vietnam
3	India	Turkey	Vietnam	China
4	Vietnam	India	China	Vietnam
5	Vietnam	China	Vietnam	India
6	India	Malaysia	India	China
7	Turkey	India	Bangladesh	China
8	India	Poland	Bangladesh	India
9	Turkey	China	China	India
10	China	India	Turkey	Vietnam

In the Middle East and North Africa (MENA) region, exports from major oil producers, such as Saudi Arabia and the UAE, will continue to be driven mainly by the petroleum sector, with this growth increasingly focused toward the industrialising economies of Asia where demand for raw materials is forecast to expand rapidly. Still, the Saudi Arabian economy is expected to gradually diversify its export base into other sectors where it also commands a competitive advantage, such as plastics and chemicals.

Egypt's most important bilateral trade partnerships are India, Saudi Arabia and the US, with broadly equal shares of India's exports. These are forecast to remain the main export markets out to 2030, although India is likely to pull further ahead due to its faster growth. Other traditionally important markets such as Turkey and France will see relatively slow growth, with emerging Asian economies instead constituting the fastest source of new export growth – China in particular rising to become a key market by 2030.

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Growth In GDP And Trade
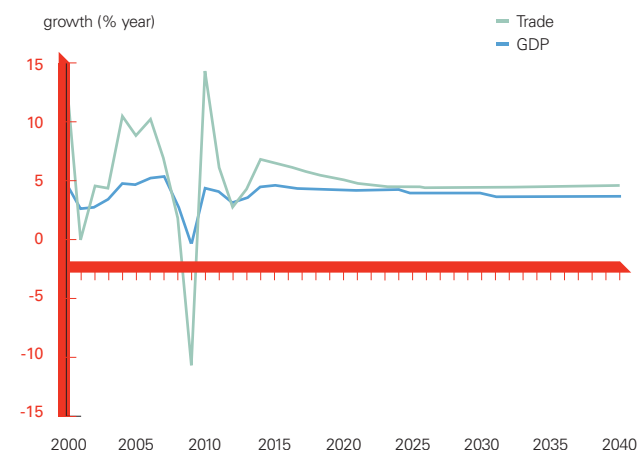
In contrast to the expected dynamism amongst the emerging markets, exports from the advanced economies are expected to accelerate more gradually, as demand proves slow to recover in the industrialised world. Advanced economies currently conduct the majority of their trade with other developed economies, but they will see a growing share of their exports directed to the emerging markets. Faced with competition from lower-cost producers in the emerging markets, exports from the advanced economies will be increasingly focused in high-technology sectors, where they can still command a competitive advantage.

Technological innovation underpins the high productivity rates of North America's largest economy, the United States, with the most important sectors including machinery, motor vehicles, aircraft and aerospace equipment, telecommunications equipment, and computers. We foresee continued strong export performance in these high value-added goods, with growth increasingly oriented toward fast-growing emerging markets. US goods exports destined for the economies of Asia (excluding Japan) are forecast to rise at an average annual rate of 9% throughout the period 2021-2030.

Similarly, exporters in Europe will need to look further afield to new, high-growth markets. Germany will be able to feed into growing demand from industrialising economies for its machinery and technology, while France's established aerospace and defence industries are exports sectors where prospects appear among the brightest.

We expect UK merchandise exports to Asia to grow at an average pace of 9% a year over the period 2013-15, which is more than twice the average annual growth expected for exports to Continental Europe, of under 4%. Growth in just two sectors – industrial machinery and transport equipment – will account for around half of the forecast expansion in total goods exports over the years to 2030. Other important contributors to future growth include chemicals and pharmaceuticals, which will account for around 6% and 4% of overall growth respectively from 2016 to 2030. Despite several emerging market economies having already moved into the chemical industry, one of the UK's traditional markets, it is managing to remain internationally competitive by innovating new products, improving quality and driving up efficiency.

But it is the dynamic economies in the east where export prospects appear brightest in Europe. In Poland, for example, total merchandise exports are forecast to expand at an average pace of 7% a year in the decade to 2030. Turkey is also benefitting from its advantageous position between Europe, the Middle East and Asia. Industrial machinery will continue to be Turkey's largest export sector out to 2030 but over the next ten years iron and steel will overtake textiles and wood manufactures as the second largest export sector. The rapid growth of iron and steel exports reflects high demand from other emerging markets for these metals to support substantial infrastructure projects. The share of clothing and apparel will decline in total exports as Turkey increasingly turns its focus to higher value-added industries.

Top 10 Merchandise Export Sectors (Share of Total Regional Exports)

Rank	Sector 2011		Sector 2030	
1	Industrial machinery	19.4%	Industrial machinery	25.7%
2	Transport equipment	10.3%	Transport equipment	10.2%
3	Petroleum products	10.0%	ICT equipment	9.8%
4	ICT equipment	10.0%	Petroleum products	5.0%
5	Chemicals	5.2%	Mineral manufactures	5.0%
6	Unclassified goods	4.3%	Chemicals	4.8%
7	Textile and wood manufactures	3.9%	Textile and wood manufactures	4.3%
8	Misc. manufactures	3.8%	Scientific apparatus	4.0%
9	Mineral manufactures	3.6%	Misc. manufactures	4.0%
10	Clothing and apparel	3.5%	Unclassified goods	3.7%

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"Rapid industrialisation and increasing wages, coupled with maturing consumer demand in many of the countries along the South-South corridor are driving different types of global trade growth. This report highlights how these trends are changing the types of goods imported, manufactured and subsequently exported.

As countries shift towards higher value sectors there are significant opportunities for companies to evolve and grow. Some of the faster growing, emerging markets show a shift from basic commodities trading in sectors such as Cereals or Sugar, to become a refiner or producer of branded goods based on those raw materials. In many of the developed markets there is a shift towards increasingly specialised sectors such as Chemicals and Pharmaceutical products as companies seek opportunities for higher returns.

Emerging markets are developing at a phenomenal pace and are set to reshape world trade patterns over the next 20 years. By expanding their operations in to new, higher value sectors, they are driving more developed nations to specialise and diversify to compete. Understanding which sectors are growing in which markets, delivers huge opportunities for businesses as they plan for the future and aim to capitalise on these trends."

James Emmett
HSBC Global Head of Trade & Receivables Finance

About the Data:
About the HSBC Global Connections report—
Modelled by Oxford Economics
Oxford Economics has tailored a unique service for HSBC which forecasts bilateral trade for total exports/imports of goods, based on HSBC's own analysis and forecasts of the world economy to generate a full bilateral set of trade flows for total imports and exports of goods, and balances between 180 pairs of countries. Oxford Economics produces a global report for HSBC, plus regional reports and country specific reports on the following 23 countries: Hong Kong, China, Australia, Indonesia, Malaysia, India, Singapore, Vietnam, Bangladesh, Canada, USA, Brazil, Mexico, Argentina, UK, France, Turkey, Germany, Poland, Ireland, UAE, Saudi Arabia, & Egypt.

Oxford Economics employs a global modelling framework that ensures full consistency between all economies, in part driven by trade linkages. The forecasts take into account factors such as the rate of demand growth in the destination market and the exporter's competitiveness. Exports, imports and trade balances are identified, with both historical estimates and forecasts for the periods 2013–15, 2016–20 and 2021–30.

Oxford Economics – formerly Oxford Economic Forecasting – was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world's leading providers of economic analysis, advice and models, with over 500 clients. Oxford Economics commands a high degree of professional and technical expertise, both in its own staff of over 70 professionals based in Oxford, London, Belfast, Paris, the UAE, Singapore, Philadelphia and New York, and through its close links with Oxford University and a range of partner institutions in Europe and the US.

About the HSBC Sectors:
The model looks at two-digit classifications from the COMTRADE database, grouped in to a set of thirty headings. The sector data has been tracked by country, to give an insight in to the primary drivers of trade between the 25 countries and territories in the sample. The sector data has been calculated to show growth as a percentage of the overall contribution to growth, to ensure that the model highlights the sectors which are representing the biggest drivers of growth. More information about the sector modelling can be found on http://www.globalconnections.hsbc.com/

Sector classification headings:
1 - Animals & Animal products, Cereals, Sugars, sugar preparations & honey, Coffee and other spices
2 - Beverages, Tobacco
3 - Crude animal and plant materials, Oil-seeds, Crude fertilizers, Metalliferous ores
4 - Petroleum and petroleum products, Gas, natural & manufactured, Other mineral fuels & electric current
5 - Animal & vegetable oils
6 - Organic chemicals & inorganic chemicals, Pharmaceutical products, Fertilizers, Plastics
7 - Textiles & wood manufactures, Mineral manufacturers, Iron & steel, Non-ferrous metals
8 - Industrial machinery, ICT equipment, Road vehicles & transport equipment
9 - Prefab buildings, fixtures & furniture, Clothing & apparel, Scientific & photographic apparatus, Miscellaneous manufactured articles
10 - Commodities and transactions not classified elsewhere in the SITC, primarily gold in non-coin form.

About HSBC Bank plc
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.

For more information please see:
www.hsbc.com/globalconnections

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