HSBC Global Connections

Forecast Data Modelled by Oxford Economics, based on HSBC Global Research Macro Data.

HSBC Global Connections Report
Europe
February 2013

An overview of world trade and the opportunities for international businesses

Significant progress was made towards stabilising the situation in the Eurozone during 2012, with the policies adopted by the European Central Bank greatly diminishing the imminent risk of a breakup. Although the region's core economies should gradually strengthen over the next few years, growth prospects over the medium term for these mature economies appear subdued at best. With a similarly downbeat outlook for demand in the UK, it is clear that Europe's exporters need to look further afield to new, high-growth markets.

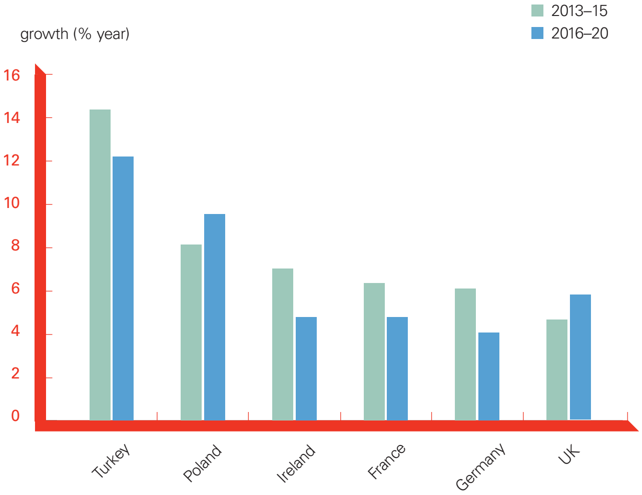
Indeed, the major growth market for German exporters in the coming years will be the economies of Asia. Trade to the region is expected to grow at an average rate of 11% pa during 2013-15 before settling down to an average pace of 7% pa during the subsequent 15 years to 2020. The main drivers of this growth in exports will be Asian demand for German machinery and technology linked to the rapid growth of their domestic manufacturing sectors, together with expanding demand for consumer products from the emerging Asian middle class.

France is currently the world's fifth largest exporter of merchandise goods, with Germany, the UK and the US together accounting for around a quarter of this trade. But these mature economies are expected to decline in importance as a destination for French exports over the medium term, as trade links with the rapidly expanding emerging markets are strengthened. In common with other mature economies, French exporters will have to focus on technological innovation to underpin growth in trade. The established aerospace and defence industries are exports sectors where prospects appear among the brightest.

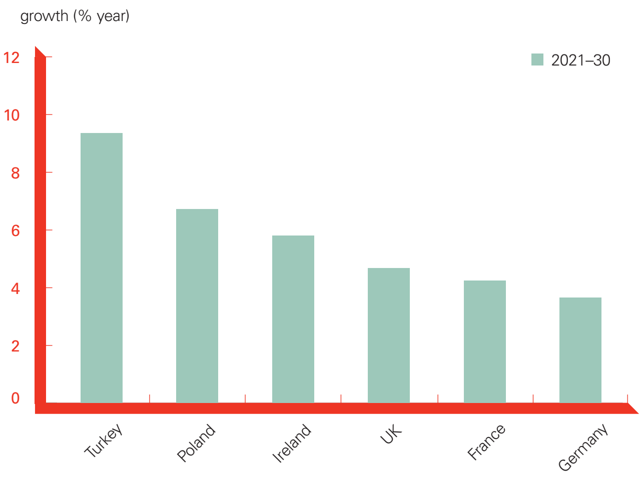
We expect UK merchandise exports to Asia to grow at an average pace of 9% pa over the period 2013-15, which is more than twice the average annual growth of under 4% expected for exports to Continental Europe (excluding Russia). Growth in just two sectors – industrial machinery and transport equipment – 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 traditional markets of the UK

Growth In Merchandise Exports
Source: Oxford Economics



Growth In Merchandise Imports
Source: Oxford Economics



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Top 10 Export Routes (% year)

Rank	Origin	Destination	2013-15	Rank	Origin	Destination	2016-20
1	Turkey	Korea	22	1	Turkey	India	17
2	Turkey	India	21	2	Turkey	China	17
3	Turkey	Argentina	21	3	Turkey	Vietnam	16
4	Poland	India	21	4	Poland	India	16
5	Turkey	Egypt	20	5	Poland	Vietnam	15
6	Turkey	Saudi	19	6	Poland	China	15
7	Turkey	Mexico	19	7	Turkey	Poland	14
8	Turkey	China	19	8	Turkey	Korea	14
9	Poland	Vietnam	18	9	Turkey	Brazil	14
10	Poland	Korea	17	10	Turkey	Malaysia	14

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

Rank	Sector 2011	% Share	Sector 2030	% Share
1	Industrial machinery	22.2%	Industrial machinery	30.6%
2	Transport equipment	18.8%	Transport equipment	20.5%
3	Chemicals	8.2%	Chemicals	7.1%
4	Pharmaceuticals	5.8%	Pharmaceuticals	5.6%
5	Unclassified goods	4.0%	Scientific apparatus	3.8%
6	Textile and wood manufactures	3.8%	Mineral manufactures	3.7%
7	Scientific apparatus	3.8%	Unclassified goods	3.7%
8	Misc. manufactures	3.7%	Misc. manufactures	3.5%
9	Mineral manufactures	3.6%	Textile and wood manufactures	3.3%
10	ICT equipment	3.5%	Iron and steel	2.7%

chemical industry, it is managing to remain internationally competitive by innovating new products, improving quality and driving up efficiency.

In Ireland, export prospects continue to depend on the inward investment in pharmaceutical and chemical manufacturing and hi-tech sectors that have driven rapid growth in the past. Although Ireland's main export markets will remain much the same in the coming years, dominated by the US and the UK plus some other major industrialised economies, the main growth areas for its exports will lie in emerging Asia. Our forecasts show India, Vietnam and China will be its fastest-growing export markets throughout the period to 2030, with Malaysia and Indonesia also becoming increasingly important.

But it is the dynamic economies of Eastern Europe where export prospects appear brightest. In Poland, for example, total merchandise exports are forecast to expand at an average pace of 7% pa in the decade to 2030. Poland's exports are concentrated in industrial goods, and they will continue to be key, as demand for these high-value exports continues to come from developed European countries, which will continue to represent large business and consumer markets out to 2030. However, these items will also increasingly be sold to emerging Asia, which will demand capital goods to build up its own production capacity, and transport infrastructure improvements.

Another country in Eastern Europe with upbeat prospects for trade is Turkey, which is well placed geographically in between Europe, the Middle East and Asia. Europe will remain the largest market for Turkish goods over the next two decades, headed by Germany and with the UK close behind in second place. Exports to Europe as a whole (excluding Russia) are forecast to grow by more than 9% a year on average in the decade to 2030, as Turkish producers increase their penetration of these markets. But the rapidly growing emerging markets of China and Saudi Arabia will replace France and the USA as Turkey's third and fourth largest export markets by 2030. 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 as the second largest export sector, reflecting high demand from other emerging markets to support substantial infrastructure projects.

"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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