



Turbulent times in the international economy

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Issuer of report: HSBC Bank plc

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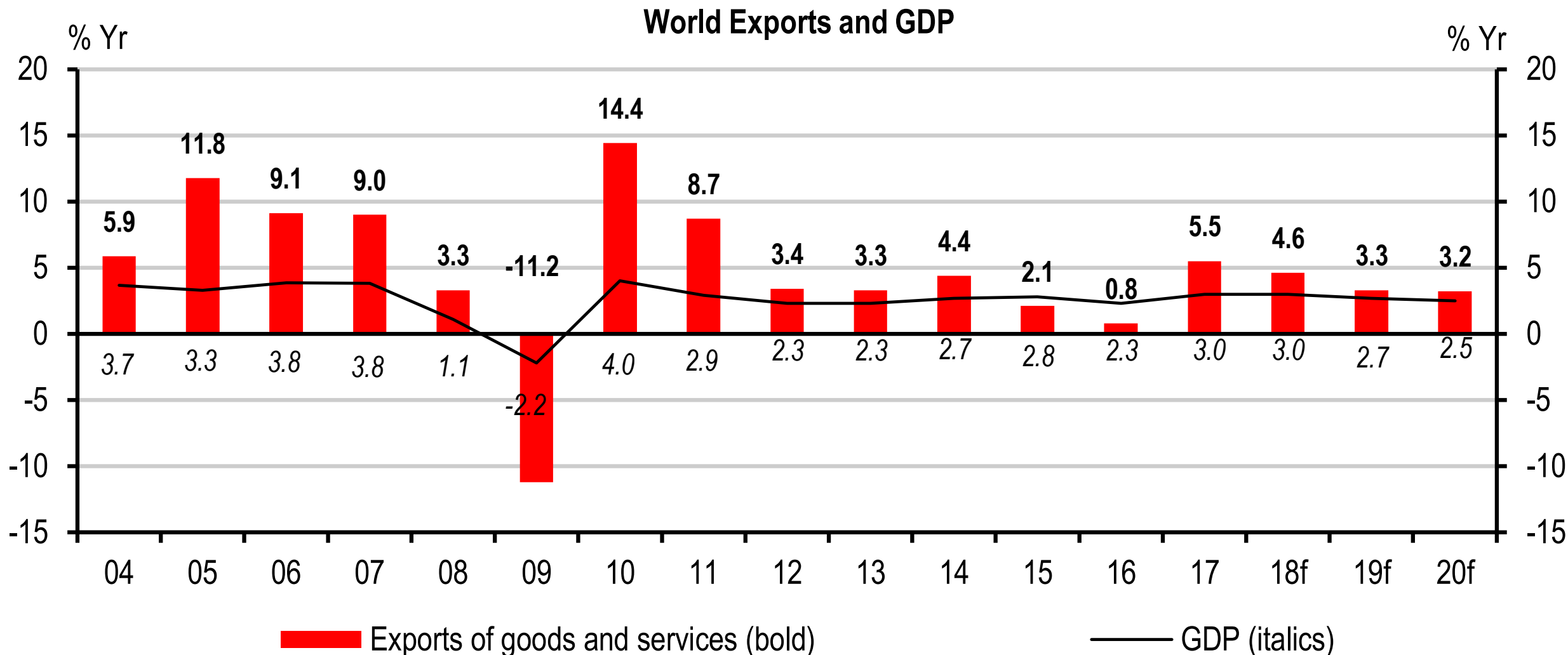
Turbulent times in the international economy

- Updated forecasts for global GDP, investment and trade
- Regional views: US, Eurozone, UK, Australia, China, India
- Rise of the EMs in global economy
- Uncertainty and shifting policy in trade: US, UK, WTO
- Positives: Asian trade deals; Belt and Road Initiative; EU trade deals
- Next steps: risks and opportunities for trade and investment



Trade trends

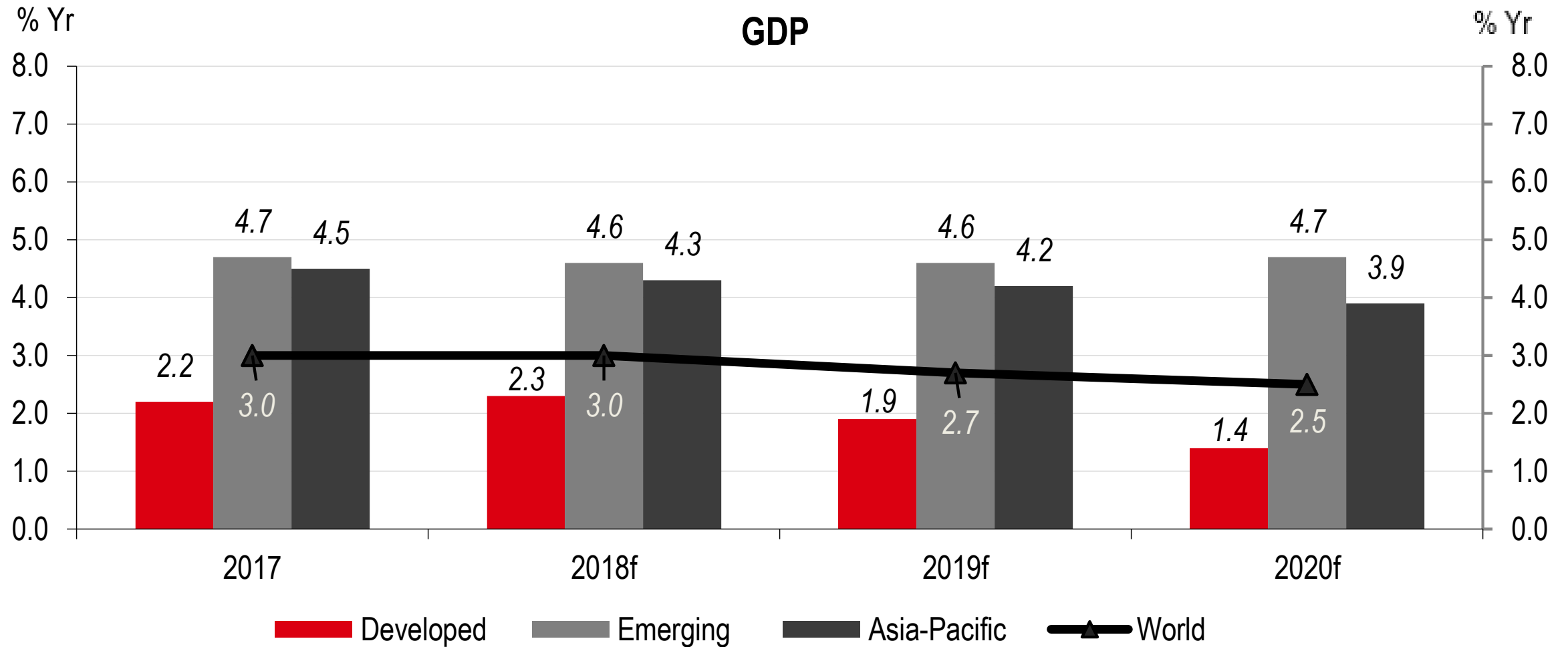
GDP and trade growth: stronger, but for how long?



Note: Chart shows year-on-year percent change. Weighted by nominal GDP, chain linked; f = forecast

Source: HSBC estimates as published in HSBC, *Global Economics Quarterly: Diverging Fortunes*, 01 Oct 2018.

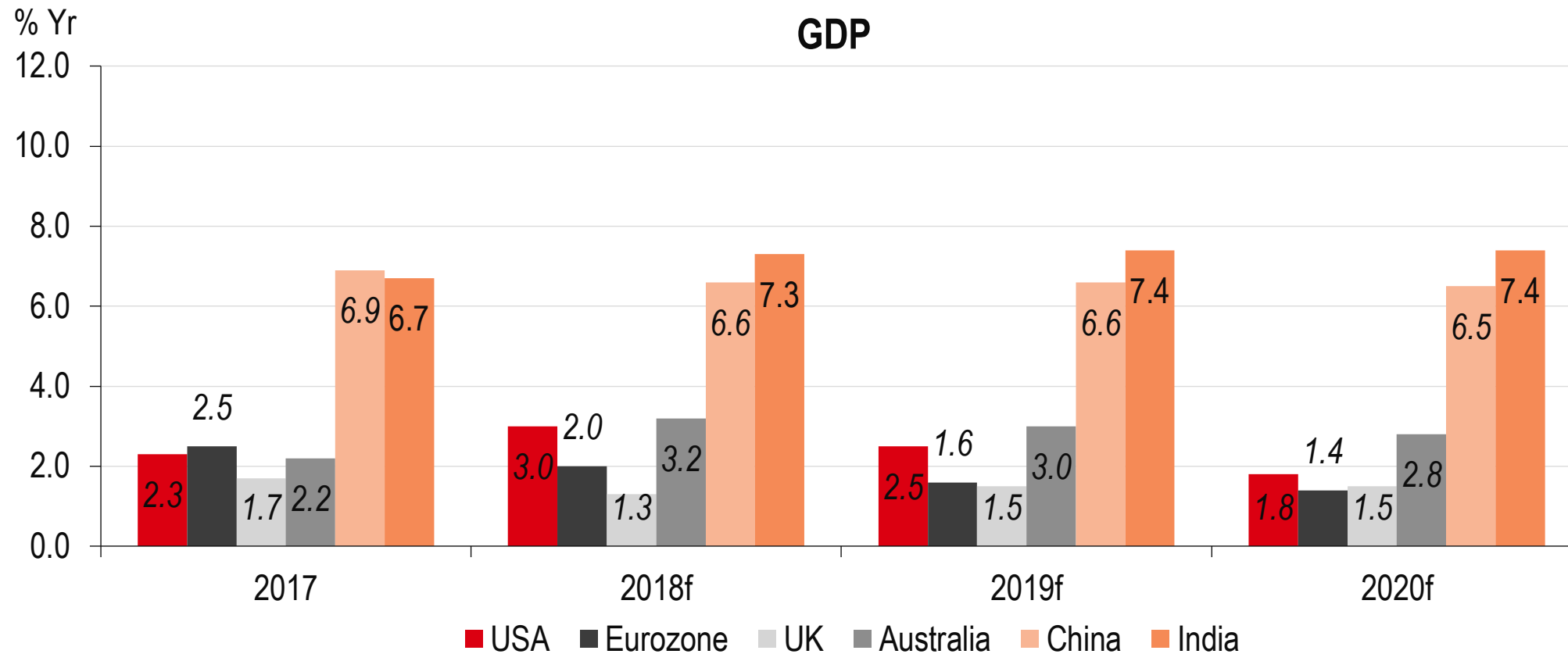
GDP trends, by country grouping



Note: Chart shows year-on-year percent change. Weighted by nominal GDP, chain linked; f = forecast.

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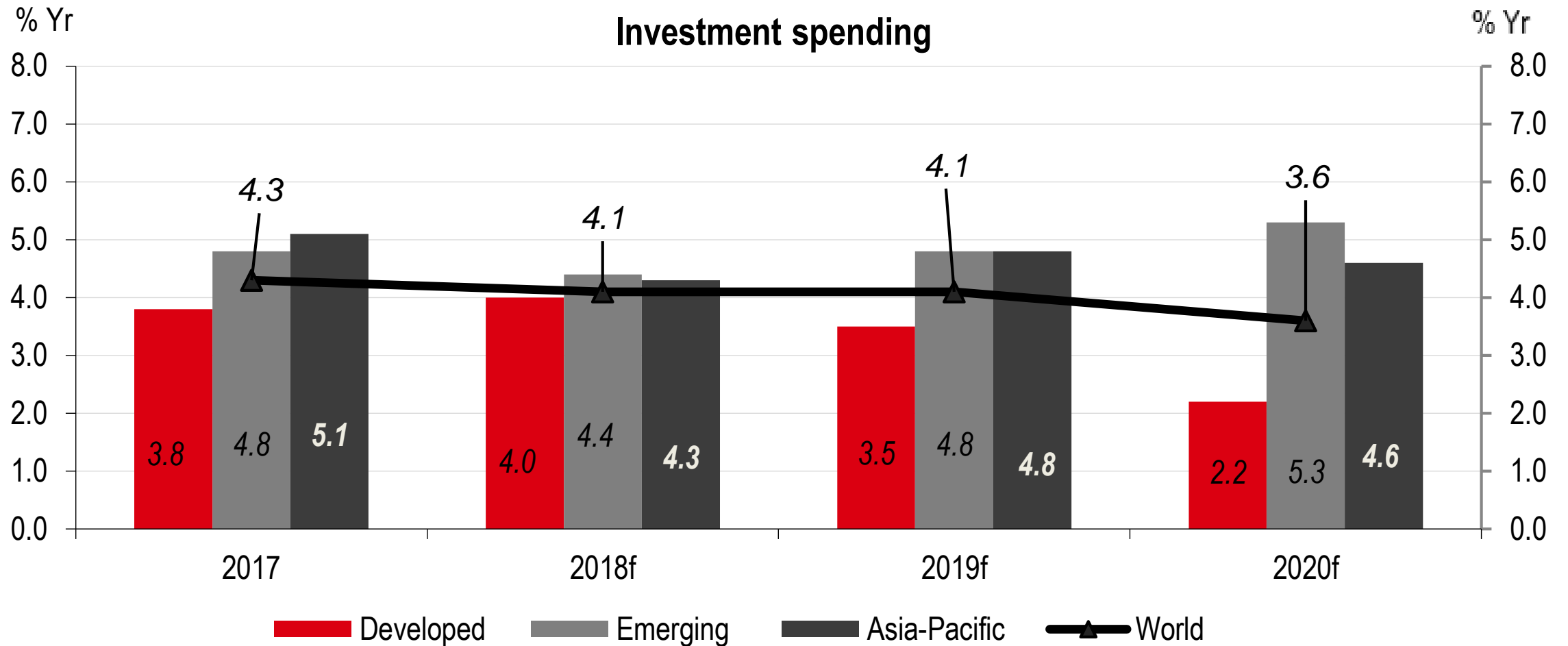
GDP, selected economies, year-on-year % change



Note: Weighted by nominal GDP, chain linked; f = forecast.

Source: HSBC estimates as published in HSBC, *Global Economics Quarterly: Diverging Fortunes*, 01 Oct 2018.

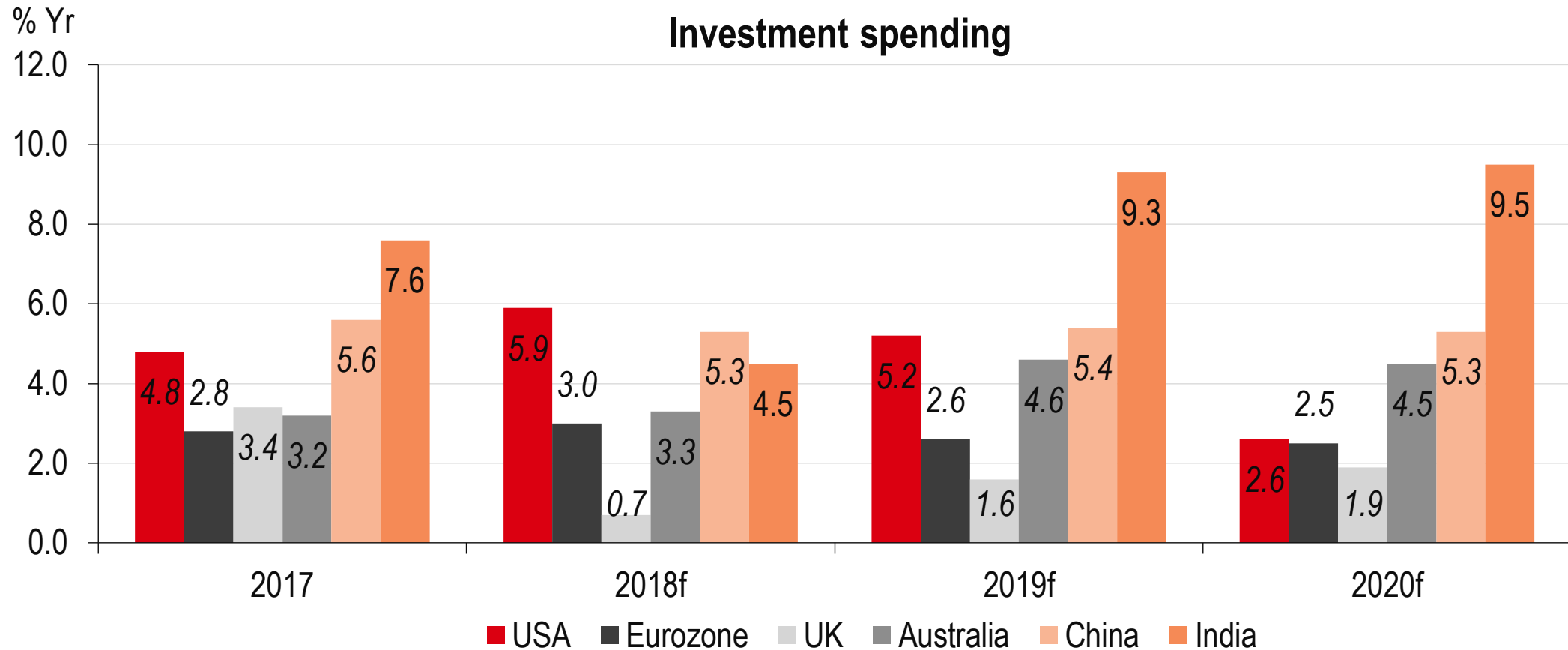
Investment, by country grouping



Note: Chart shows year-on-year percent change. Weighted by nominal GDP, chain linked; f = forecast

Source: HSBC estimates as published in HSBC, *Global Economics Quarterly: Diverging Fortunes*, 01 Oct 2018.

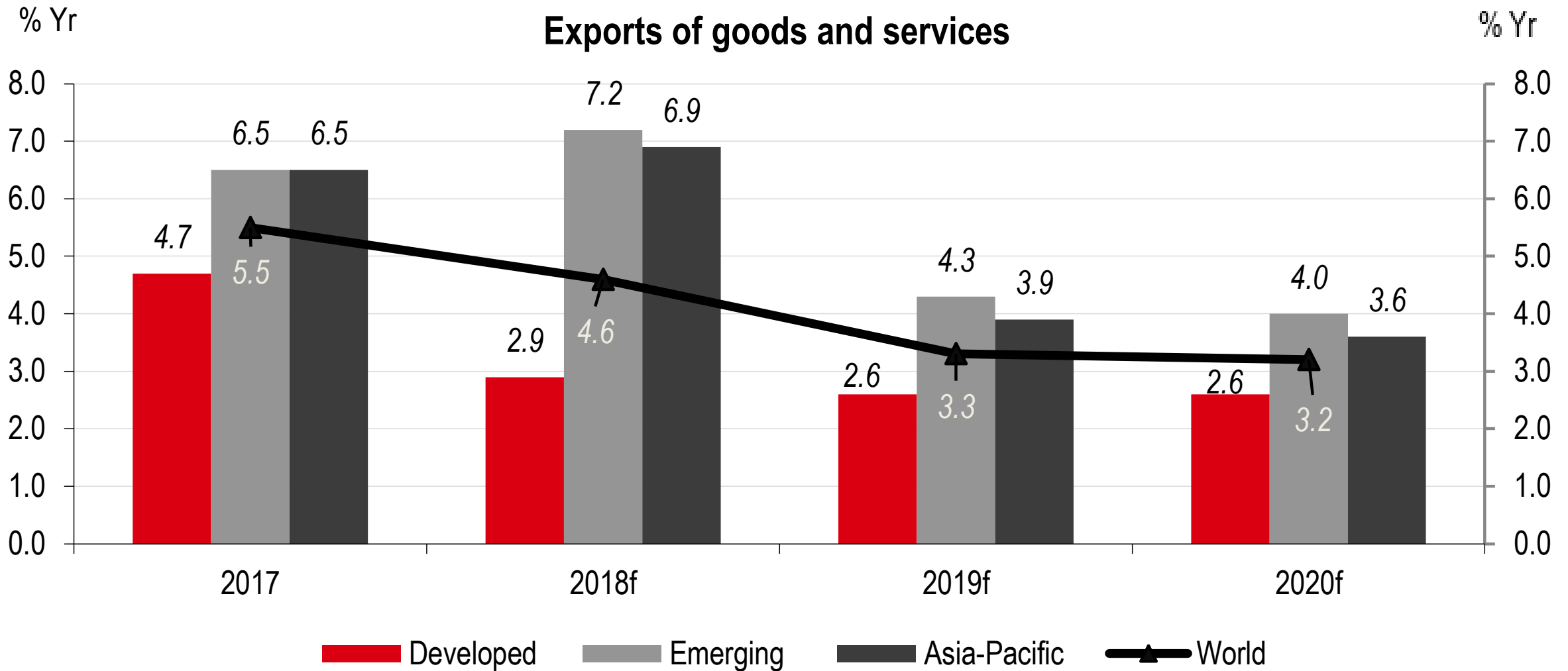
Investment, selected economies, year-on-year % change



Note: Weighted by nominal GDP, chain linked; f = forecast

Source: HSBC estimates as published in HSBC, *Global Economics Quarterly: Diverging Fortunes*, 01 Oct 2018.

Exports, by country grouping



Note: Chart shows year-on-year percent change. Weighted by nominal GDP, chain linked; f = forecast

Source: HSBC estimates as published in HSBC, *Global Economics Quarterly: Diverging Fortunes*, 01 Oct 2018.

Exports, selected economies, year-on-year % change

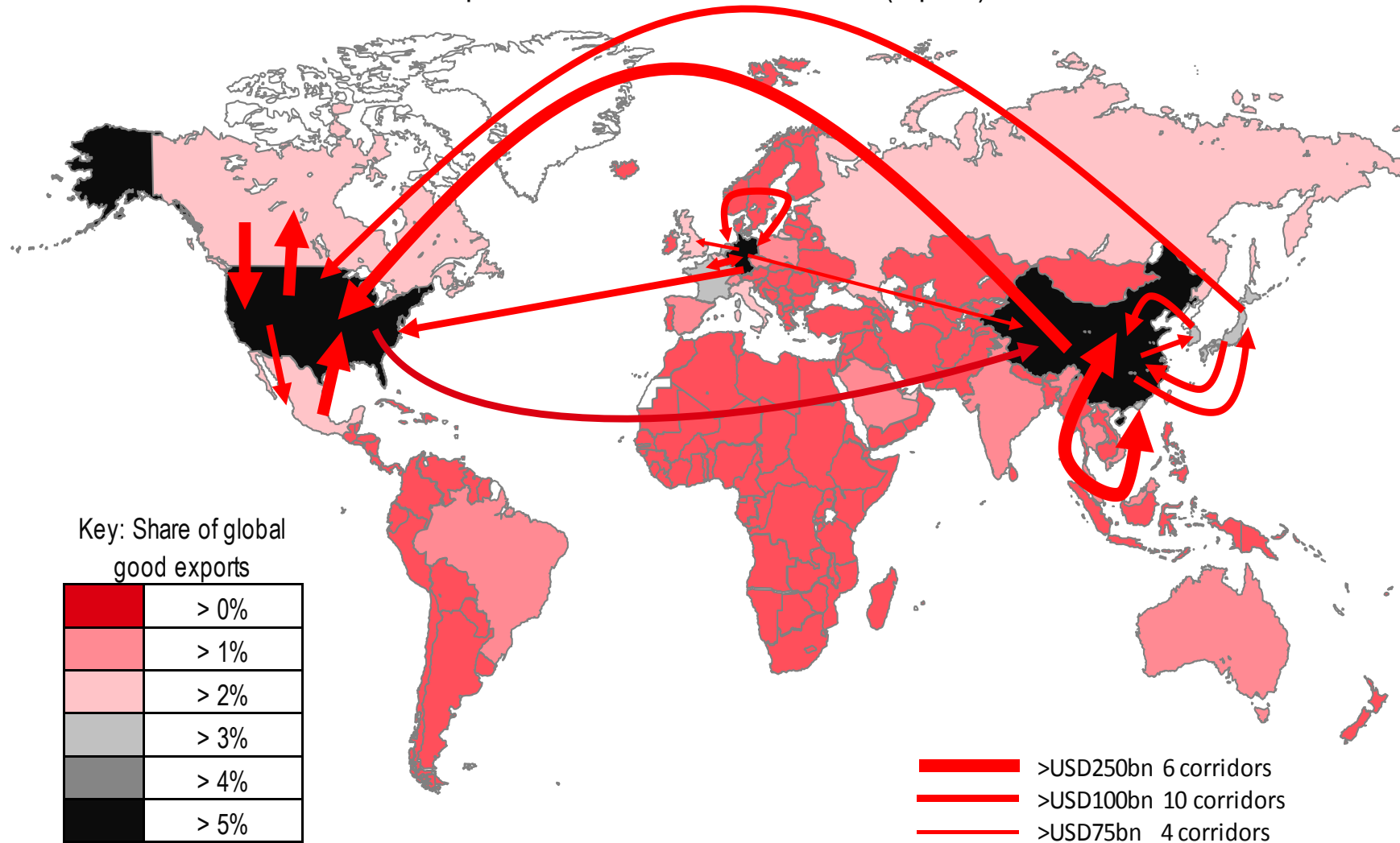


Note: Weighted by nominal GDP, chain linked; f = forecast

Source: HSBC estimates as published in HSBC, *Global Economics Quarterly: Diverging Fortunes*, 01 Oct 2018.

The US anchors 8 of the top 20 merchandise trade corridors

Global export shares and main corridors (top 20), 2017



Note: Germany anchors 7 of the top 20 merchandise trade corridors.

Source: UNCTADSTAT 2017, downloaded 2 August 2018; HSBC. Note: EU-28 treated as a single economy. The data refer to goods trade.

The world in 2030: GDP

EM could claim half of the GDP pie, a growing slice



EM countries to account for roughly 50% of global GDP by 2030 ...

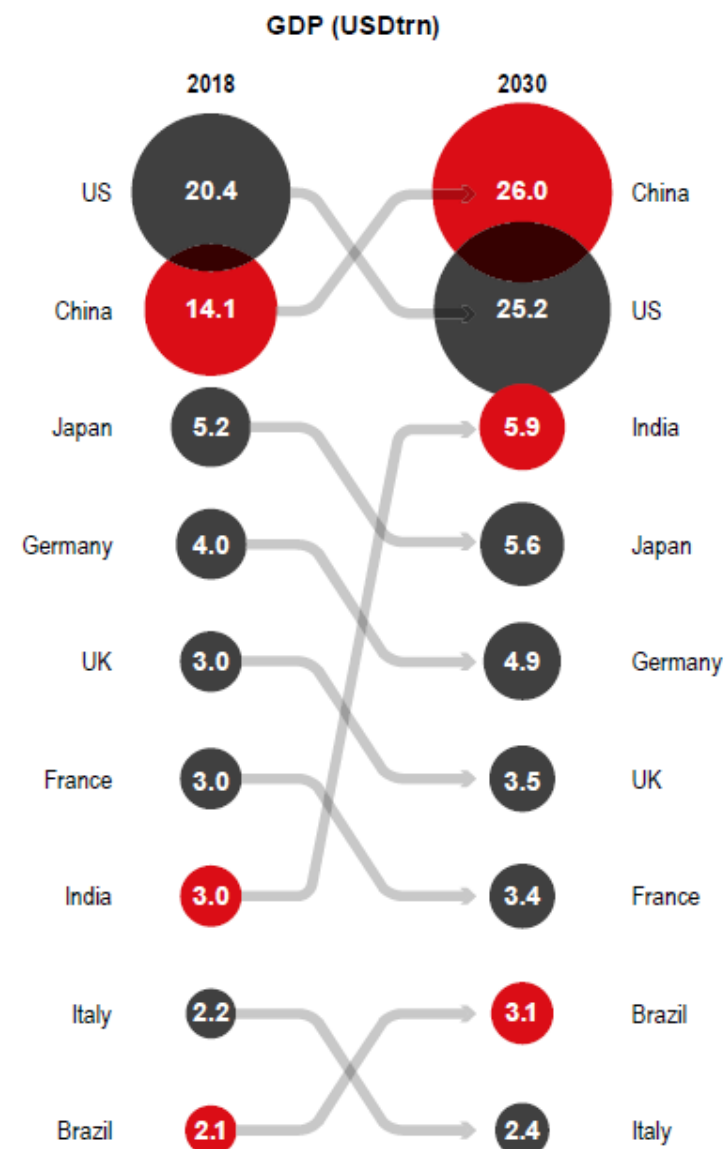


... but EM plays a much bigger role, accounting for 70% of global growth

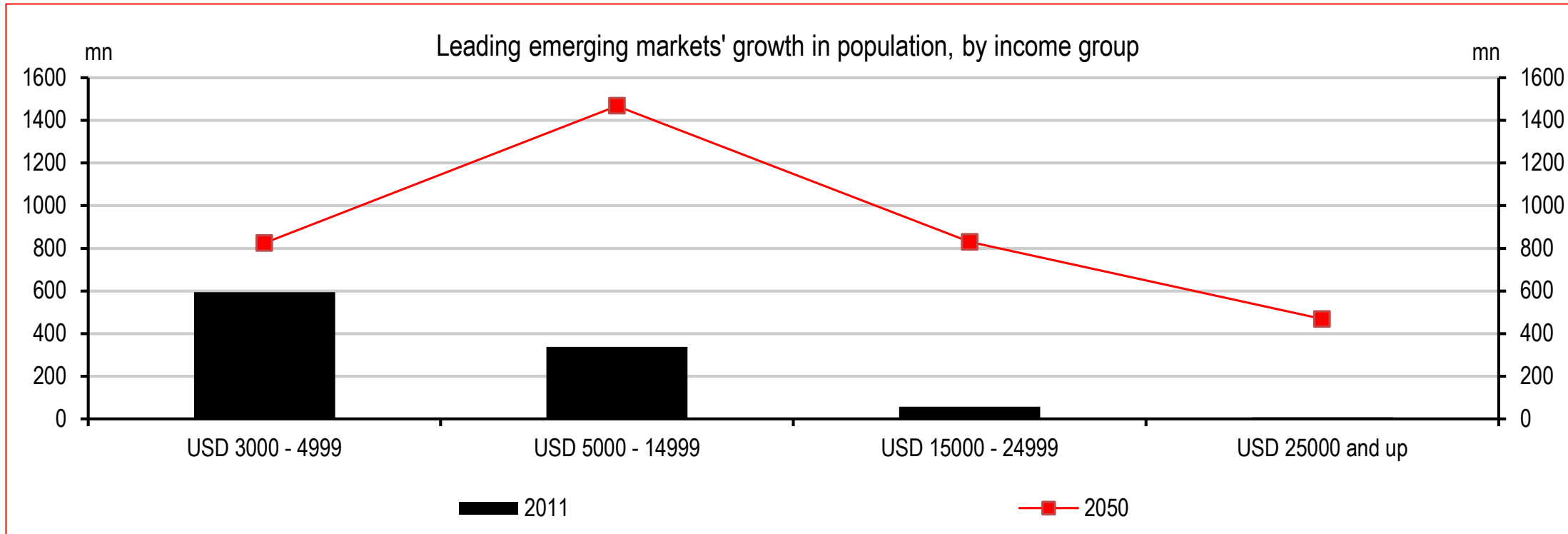


... however average EM GDP per capita still only 14% of the DM average

2030: Long-term global GDP rankings



The expanding emerging market middle class = economic opportunity



- China and India are at the heart of this shift in economic weight towards the EMs
- By 2050, across 17 emerging markets*, we anticipate an increase of more than 2.6 billion members of the middle class

*Argentina, Brazil, China, Colombia, Egypt, India, Indonesia, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Russia, Saudi Arabia, Thailand, Turkey



Policy turbulence

1. **Overarching purpose:** “to expand trade in a way that is freer and fairer for all Americans”

2. **Economic nationalism**

3. **How to accomplish?**

- Focus on **bilateral** negotiations rather than multilateral negotiations; exit from TPP
- **Renegotiate**, revise trade agreements when goals are not being met: KORUS (done), NAFTA (pending)
- **Combat “unfair trade practices” using domestic law, but at risk of trade partner retaliation**
- **WTO:** Review partner violations, launch WTO litigation; block appointment of WTO Appellate Body members

Key objectives: Reduce US trade deficits, resist efforts in WTO to increase US obligations; challenge rivals

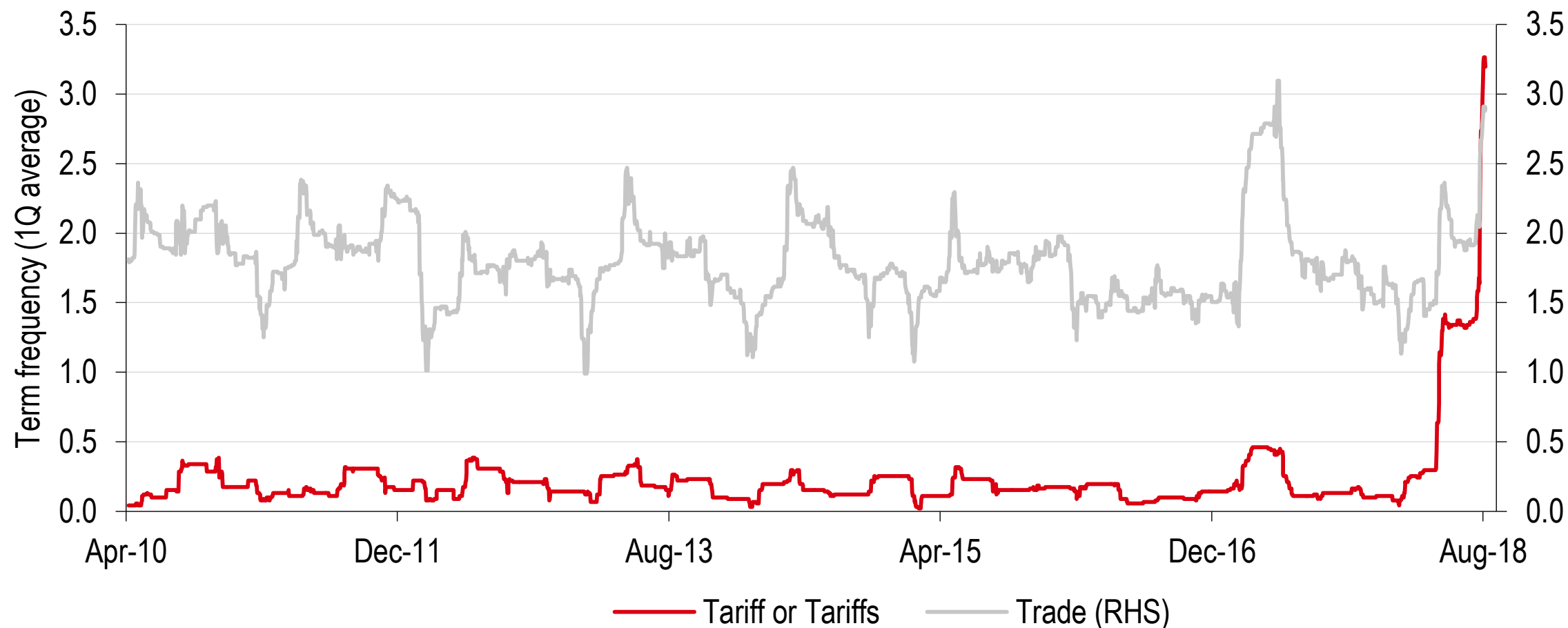
Key US trade actions in 2018 and responses

US action during 2018 (statute #)	Trade affected	Additional duty	Retaliation			
			Canada	China	EU	Mexico
(201) Jan - Safeguard tariffs on solar panels	USD8.5bn	Up to 30%		✓		
(201) Jan – Safeguard tariff on washing machines	USD1.8bn	Up to 50%		✓		
(232) Mar-May – National security tariffs on steel & aluminium	USD48bn (later reduced using quotas, exemptions)	25% steel; 10% alu.	✓	✓	✓	✓
(301) July – Unfair trade practice tariffs on China	cUSD34bn	25%		✓		
(301) Aug – Unfair trade practice tariffs on China	cUSD16bn	25%		✓		
(301) Aug – Unfair trade practice tariffs on China	cUSD200bn (up to USD267bn more?)	10% (2019: 25%?)		✓		
(232) 2H 2018? National security autos & parts tariff	USD325bn (pending)	20%-25%?	?	?	?	?

Source: USTR; PIIE (Bown), Crowell Moring (International Trade Law), WTO, HSBC. Note: Argentina, Brazil and Korea negotiated US import quotas for steel; Argentina did so for aluminium. Australia negotiated exemptions from US measures on steel and aluminium. In addition to measures shown, US also increased use of anti-dumping measures. At WTO, 21 cases have been brought against US this year.

20,000 quarterly earnings calls, 600 companies (MSCI USA): tariffs now have management attention

Average management mentions of the terms “tariff(s)” or “trade”



Theresa May's vision: The UK as a “great, global, trading nation”

Prime Minister's Lancaster House Speech, 17 January 2017

- **Exit the EU Single Market**, reassert **control over immigration**
- **Exit the EU Customs Union**
- **Seek a free trade agreement with the EU**
- **Negotiate new trade accords with other partner countries**
- **End the jurisdiction of the European Court of Justice in Britain.**

Prime Minister's speech in Florence, 22 September 2017

- **Ca. 2 year “implementation period”**

Prime Minister's speech at Mansion House, 2 March 2018

- Detailed outline for a framework; open, liberal trade: goods, services, agriculture, fisheries

Chequers/White Paper, July 2018: common rulebook, facilitated customs arrangement, duty-free trade

Backstop (No deal): UK remains in EU Customs Union?; UK (or NI) to have regulatory alignment with EU?

Source: HM Government (speech texts), 2017-2018; HM Government, *The future relationship between the UK and the EU*, July 2018; HSBC, *A workable Brexit?*, 10 July 2017; HSBC, *PM May's Brexit roadmap: ambitious & tough*, 18 January 2017; HSBC, *Brexit strategies: What if it is 'no deal'?*, 10 Sept 2018

Brexit will raise the UK's cost to trade with Europe

Offsetting this will require disproportionate liberalisation with distant partners

Offsetting a 5% decrease in EU trade will require a boost via new free trade deals to attain:

- **a 68% rise in UK exports to China, or**
- **170% in exports to India, or**
- **11% increase in exports to the US**



This central trade institution is facing challenges

- **Provides**
 - Basic rules-based framework for trade
 - Dispute settlement; forum for negotiation; statistics; policy monitoring
- **Recent achievements**
 - *Aid for trade*
 - *Trade facilitation agreement (2017)*
 - *Information technology agreement (2016)*
- **Reform needed**
 - Negotiations stalled; Doha Round failed; dispute settlement mechanism at risk
 - Challenges on negotiation process, consensus decision making, agenda
 - Reform proposals from the US, EU, Canada; Bertelsmann Stiftung; others



**Constructive policy:
BRI, RCEP, CPTPP, EU trade deals**

- **Regional Comprehensive Economic Partnership (RCEP)**
 - ASEAN plus 6 partners, moderate liberalisation of trade
- **Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP)**
 - Eleven Pacific Basin partners, deep liberalisation of trade and investment; high standards
- **EU-bilateral trade deals**
 - Japan, Singapore, Vietnam, plus others pending (Indonesia, Mercosur, Mexico; possibly with the US?). These are ambitious deals in scope and depth of liberalisation

BRI diagnostic of areas for action is on the right track...

- **Non-tariff barriers and costs are significant, often the case in EM and frontier economies**
- **Trade-related infrastructure shortfalls are substantial in Asia**
- **A strategic approach:**
 - BRI could mobilise USD1.4trn or more in new projects; boost global trade by 5% (change in base)*
- **Per an Asian Development Bank assessment**
 - Developing Asia needs to invest annual USD1.7trn in infrastructure to maintain sustainable growth
 - Existing pace of infrastructure investment in Asia as of 2016: cUSD900bn annual pace
 - Gap in the 2016-2020 period = 2.4% of the regional GDP

Sources: ADB, *Asia's Infrastructure needs*, 2017; HSBC, *Trading Up: Asia should seize its chance to lead on trade*, 2 December 2016

*F. Zhai, January 2018, *Journal of Asian Economics*.

In addition, regional and multilateral institutions are supportive

- **Regional investment banks:**
 - Contribute to infrastructure financing
 - Level playing field in procurement rules (international standards)
- **Asian Infrastructure Investment Bank**
 - Broad range of infrastructure projects
- **Asian Development Bank**
 - Scaling up operations by 50% from 2014 to 2020; catalysing private sector infrastructure development; substantive expertise as well as finance



Conclusions

Dangerous trade territory, but still possible to avert crisis

- Trade recovery is underway, remains fragile
- Potential for stronger long-term growth, but uncertainty weighs on trade and investment
- Trade policy turbulence
 - Broad range of Brexit outcomes
 - US next steps in trade: unilateral, bilateral, multilateral?
 - WTO reforms and agenda not resolved
- Positive policy initiatives are delivering new opportunities
 - Trade liberalisation among Asian and EU partners provides a welcome contrast
 - RCEP, EU deals, CPTPP can deliver economically meaningful results
 - BRI is helping to close an infrastructure gap and address some trade bottlenecks
- Institutions matter: facilitate the functioning of markets

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