LOOKING AHEAD

In a fast-changing economic environment, HSBC's 2016 *Accelerating Ambition* webinar series took a view to the future

HSBC

AN EYE TO THE FUTURE

Today, businesses of all sizes and sectors are operating in an uncertain environment. Trying to get a fix on the factors that will have the biggest impact on their growth plans is vital for any business.

Taking the long view is not always easy as businesses tackle immediate challenges and priorities but it must be done. In our *Accelerating Ambition* webinars run during the first half of 2016, HSBC was joined by a range of experts as they cast an eye to the future.

Our webinars tackled some of the most pertinent issues in a fast-changing business environment. These included the changing risk-reward equation in emerging markets, the potential impact of trade agreement negotiations and the fascinating evolution of China's growth story.

Taking the long view is not always easy as businesses tackle immediate challenges & priorities

THROUGHOUT THE WEBINAR SERIES IN THE FIRST HALF OF 2016, OUR EXPERT PANELS HAD A FIRM EYE ON THE FUTURE OUTLOOK FOR US CORPORATES.

The theme of forward-looking/planning will continue at the next webinar on November 17th:

Forging ahead: Global Trends for 2017 and Beyond

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THE FUTURE OF TRADE

PANEL DISCUSSION

MODERATOR: ***Inwha Huh,*** *Head of Global Trade and Receivables Finance, North America, HSBC*

Douglas Lippoldt, *Senior Trade Economist, HSBC*

Fareed Zakaria, *host of CNN's flagship foreign affairs show* Fareed Zakaria GPS

The pace of change in global trade is one of the greatest challenges businesses face. It could also present some of the greatest opportunities for those companies that can adapt and flex to shifting demands.

With commodity prices coming down, China shifting to more consumer-led growth, and developments in global trade agreements, trade is at a potentially pivotal point in history.

In the first webinar, a panel discussion with Douglas Lippoldt and Fareed Zakaria considered the factors that will influence global trade flows and growth patterns in 2016 and beyond.

While growth in global trade has slowed in recent years, there are factors that could help drive a healthier growth rate in the medium and long-term.

HSBC's 'World in 2050' forecast predicts that a combination of the evolution of demographics and economic catch-up in the emerging markets could add some 2.6 billion people to the global middle class. It's a shift that is likely to have a significant impact on trade flows.

What will be the impact of trade agreement developments?

Douglas Lippoldt states that there are a number of trade catalysts in the form of policy and reform that could see a positive shift in global trade patterns.

He highlights two agreements – the Trans-Pacific Partnership (TPP) and the

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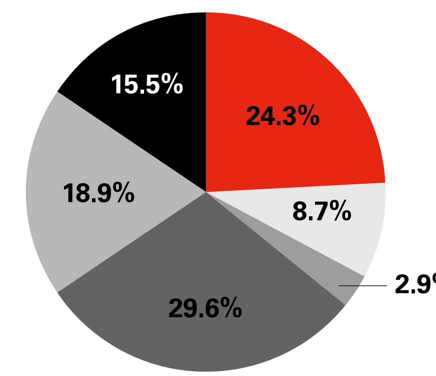
> *"One of the most exciting things about the TPP is… 12 countries working to liberalize not just the manufactured goods side but also services."*

SURVEY RESULTS

During the 'Future of Trade' webinars, we took the pulse of US corporates, gaining insight into their future priorities and their view on what will have the biggest impact on the future of trade.

What is the #1 priority for US businesses competing in the global marketplace? (206 votes)



- An educated and innovative workforce
- Adoption of advanced technology
- Increased R&D investment
- Lowering barriers to cross-border trade and global business
- Managing regulatory red-tape for increased flexibility
- Strong understanding of country market

Survey dated 2016

THE FUTURE OF TRADE (CONT)

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Trade Facilitation Agreement from the WTO – that are out for ratification and could be "multiple percentage point movers for trade in a positive direction".

A significant area of development, says Lippoldt, could be in services where there is tremendous potential for further liberalization.

"One of the most exciting things about the TPP is the engagement of 12 countries, representing 40% of global GDP, working to liberalize not just the manufactured goods side but also services."

Improving IPR protection could help drive future business growth

With technological developments having an increasingly significant impact, one key aspect of trade agreement negotiations will focus on the protection of intellectual property rights (IPR).

Intellectual property is the oil that helps both sides of the economy function and our stock of intangible assets is growing in importance.

"In an empirical study I undertook at the OECD, we found that as the stringency of IPR protection rises, we see increased investment by businesses in R&D," says Lippoldt.

"Businesses are more willing to engage in technology transfer if they can protect their IP in the destination market."

The increasing IP protection proposed under the TPP could drive trade flows as businesses are able to enter markets with real confidence around their IP.

Prepare for big changes in technology

As a result of technology, more businesses than ever are being born global. Take the proverbial hat-seller in Lima who hosts an offering on the internet and whose first customer may come from London.

But the biggest shifts and impact of technology may still be to come. One key area is the potential transformative impact of big data on business models. For example Thyssen-Krupp, an elevator manufacturer, which is increasingly driving revenues from the data those elevators collect globally.

The drive for reverse innovation

Traditionally companies in developed markets have designed and produced products for their own consumers and then adapted them for the different demands of emerging markets.

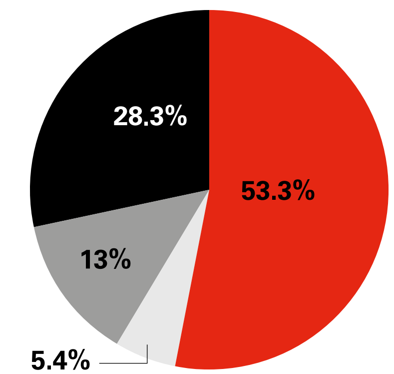
However, as the number of middle class consumers in emerging markets continues to grow, businesses are developing products from the outset that target those consumers.

"This is going to be an important driver of trade," says Doug Lippoldt. "Instead of designing the next portable music device for a consumer in California and then generalizing from there, that device may be designed for someone in downtown Beijing or New Delhi."

"We're seeing this already happening in a big way," adds Inwha Huh. "It's an interesting phenomenon that probably hasn't hit every industry just yet."

SURVEY RESULTS

Which of the following factors will have the biggest impact on the future of trade? (184 total votes)



- Emerging technologies and digital evolution
- Declining shipping costs
- Reverse innovation where companies develop products and services for emerging markets first
- Increased trade liberalization

Survey dated 2016

WHERE ARE THE RISKS IN 2016?

PANEL DISCUSSION

MODERATOR: ***Marci Rossell,*** *Ph.D, Former Chief Economist, CNBC & Leading Financial Expert*

Cate Luzio, *Global Co-Head of International Subsidiary Banking, HSBC*

Jose Rasco, *Managing Director, Head of Investment Strategy, HSBC*

Ivan Asensio, *Ph.D, Head of FX Risk Advisory, Americas, HSBC*

2016 has been a volatile year for global companies. In the second webinar an expert panel explored the key risks that lie ahead. These included geopolitical tensions, diverging monetary policies, fluctuating currencies, emerging market debt and the commodities slump.

What now for the emerging markets?

After peaking at around 8.2% in 2010, emerging market growth has been going through somewhat of a slowdown, falling to below 4%. But what is the outlook for the emerging markets in the coming years?

It is not a consistent picture across the board, according to Jose Rasco. "There are parts of the emerging market story, particular sectors and industries where growth is slowing," he says. "But there are parts where growth is going to be explosive over the next five to 10 years.

"If you look at the world of logistics, business and financial services, for example, penetration rates are very low in the emerging markets."

A new view on risk – now and in the future

Ten years ago, any investment in an emerging market would most likely do very well – with a strong return and the added benefit of an appreciating currency. Today, though, and in the future, there is a different picture. The risk premium in emerging markets has changed.

"We're in an environment where the currency isn't necessarily going to appreciate, so businesses need to think about risk management differently," says Ivan Asensio.

"They need think about the margins they need in different markets based on the cost of hedging and increased risk premiums.

"So the risk-reward proposition has changed but there are definitely opportunities. If you are committed to emerging markets, it's not a one to three-year venture, it's a 10, 20-year venture."

Tap into India's future potential

Despite the slowdown in many parts of the world there are still countries offering significant potential for growth

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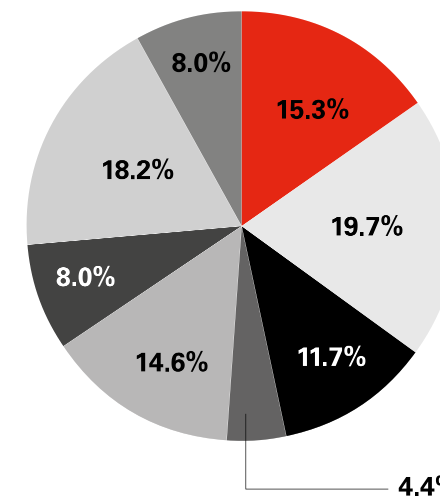
SURVEY RESULTS

Our polls during the 'Where are the risks in 2016' webinar gave a clear sense of the risks that are front of mind for US corporates and the actions they are looking to take to mitigate those risks?

What is the top barrier to your business expanding in the next 12 months? (137 total votes)



- Fluctuating exchange rates
- Insufficient margins or profitability
- Government trade regulation (whether tariffs or other non-tariff barriers)
- Interest rate risks
- The strong USD
- Availability of credit
- Geopolitical tensions
- No anticipated barriers to growth

Survey dated 2016

WHERE ARE THE RISKS IN 2016? (CONT)

"You have to look at every different risk from exchange rate to inflation and even black swan type risk."

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and investment. Reforms underway in India, for example, suggest it could offer real growth opportunities in the coming years.

"We look at stability of growth and inflation but more importantly reform movements, countries where we see reforms towards market-based economies and increasing efficiencies of scale," says Jose Rasco. "India certainly seems to moving in that direction albeit slowly."

Another positive angle for India is its strong demographics with some 40% of the population under 24 years old. It's a fact that is certainly attracting some major global companies, says Cate Luzio.

"Companies like Uber are turning their attention to the emerging markets, looking at countries with a large youth population that is used to technology."

The Middle East: still a region of great opportunity

The slump in oil prices has, of course, had a significant impact on revenues in some of the Middle East's major oil-producing countries. It has, though, also served to sharpen their focus on economic diversification.

Throughout the region, countries are looking to move away from their reliance on oil and investing in other sectors with a particular focus on infrastructure.

"Saudi Arabia has a large youth population and despite budget cuts, you're still seeing companies wanting to access that population," says Cate Luzio.

"You also have a lot of infrastructure projects underway in the region. There are four metros being built in Saudi Arabia alone. So there is still a lot of opportunity in the Middle East."

A clear view on risk in the future

While not as startling as in previous years, the opportunities in emerging markets should not be ignored. Neither, though, should the risks both economic and, increasingly, geopolitical.

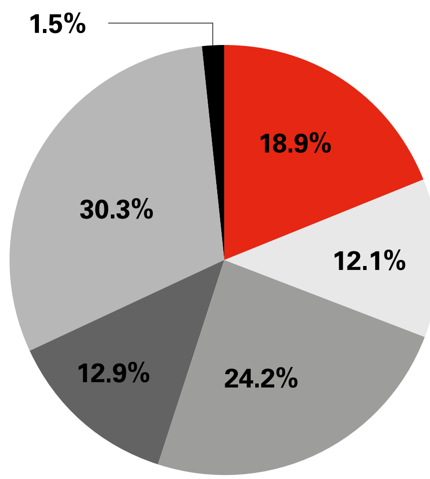
"Whether you're talking to a treasurer or CFO, the geopolitical issues are front of mind," says Cate Luzio.

"If you have people on the ground you're going to worry. It's not just about the bottom line, it's about the presence you have in some of these countries."

"It's a new landscape now," adds Ivan Asensio. "You have to look at every different risk from exchange rate to inflation and even black swan type risk." ■

SURVEY RESULTS

How do you plan to mitigate these risks and take advantage of opportunities in 2016?



- Establish funding and other liabilities in the local currency
- Re-denominate sourcing contracts away from USD and into the local currency
- Benefit from the strong USD by deploying more capital overseas (USD cost averaging)
- Delay repatriation of profits and earn higher overseas yields in the meantime
- Hedge currency exposure directly with FX derivatives
- Unwind operations and exit the country

Survey dated 2016

CHINA FOR GROWTH

PANEL DISCUSSION

MODERATOR: ***Debra Lodge,*** *MD Global Markets, Head of RMB Business Development, North America, HSBC*

Daragh Maher, *Economist and Head of Foreign Exchange Strategy, HSBC US*

Ron Bracalente, *President and CEO of Bracalente Manufacturing Group*

Tim Power, *Assistant Treasurer, Capital Markets Bristol Myers Squibb*

Robin Price, *SVP Corporate Foreign Exchange, HSBC*

> *"RMB has jumped leaps and bounds to the point where it's almost like dealing in the Euro."*

China's previous impressive growth rates may have slowed in recent years, but the central government is still targeting annual growth of 6.5%. It is not a market that can be ignored.

A large part of the Chinese slowdown can be attributed to a shift from investment and export-led growth to an economy that will increasingly be driven by consumer spending. The transition has inevitably seen slower growth rates.

Even as China goes through these changes, it will continue to wield a significant influence on global trade. Businesses worldwide should keep a close eye on the China story.

From the Chinese government's ability to continue with policy stimulus to the growing role of RMB, our expert panel explored some of the key issues at the heart of China's economy and its future growth.

Get yourself RMB ready

One of the biggest developments from China in recent years has been the internationalisation of its currency – a trend that is set to continue.

The latest figures from SWIFT show that US payments in the Americas in RMB have increased by 31%[1] over the last 18 months, compared to 18% across the rest of the world. From being a currency that companies may have avoided due to lack of knowledge, it is now becoming increasingly commonplace in trade transactions, as Robin Price explains.

"The interesting thing for me, having been in foreign exchange for so long, is that the RMB has jumped leaps and bounds to the point where it's almost like dealing in the Euro," she says.

Continues >

CHINA FOR GROWTH (CONT)

[1]SWIFT Survey 2016

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"The message is get your banking partner involved upfront, and don't be afraid to ask all the questions because China is as anxious to do business as you are."

Be prepared for China's growing influence

Developments around the RMB and its move towards reserve currency status is a sign of the country's ever-increasing global influence.

"China's currency will become a reserve currency," says Daragh Maher. "There's already a number of nations that have it in their reserve portfolio.

"The reality is that for most countries, China's economy is a bigger determinant of their economic fortunes than the US economic swing."

A view from the ground – still more to come from China

Ron Bracalente established a manufacturing base in China in 2009 when it became clear that many of his customers were looking to offshore their manufacturing in the search for lower costs. In building his business there, Bracalente has had a clear view on China's growth story to date and the outlook for the future.

"You talk about China and people are saying that run is over. It's not. There are still a significant amount of companies investing there every day," he says.

"Companies have flocked to the market. First, it was because of the labour cost. Now, it's because of the market itself. The Chinese government is really trying to build the middle class, raising their minimum wages and the impact is those people are spending money on products.

"They're also starting to differentiate between a cheap product and an upper end product. The large, high-end retailers have done incredibly well in China because of that so it's really become the place to be."

"The issue is, have we reached the limit? The answer is no, largely because you have such a high savings rate in China."

Questions remain

One of the significant concerns for China's outlook is the country's high debt-to-GDP ratio which currently sits at around 250%. It is an issue and the bubble is big, acknowledges Daragh Maher but China does still have the policy tools in place to manage it.

"The issue is, have we reached the limit? The answer is no, largely because you have such a high savings rate in China. It's 40% of GDP, which is far higher than we have elsewhere in Asia or elsewhere within emerging markets. That in a way is the mirror to the build-up in debt."

Across the webinar series, the outlook for China was much discussed, with all our experts sharing interesting views on everything from the country's slowdown to its ongoing influence on global growth.

The rise of RMB

"If you look at the trade flows in Asia-Pacific, the most used currency now in Asia-Pacific for trade is Renminbi and it accounts for 40% of all payments."

DEBRA LODGE

Access China's consumers

"Companies are still going there (Guangdong Province). And they're not just looking at manufacturing. They're looking at access to the population, to the consumer services, to retail."

CATE LUZIO

Investment still to come

Even with the shift towards consumer spending in China, there is still significant investment in the pipeline.

"Consumer spending in China is powering forward. Even after the slowdown, China and India both have consumer spending growth above 7%.

"So there's this latent energy. And we've got initiatives like One Belt One Road in China which will involve a massive amount of investment."

DOUG LIPPOLDT

Looking West in China

"If you look at what China has done in the last 25 years, it took the UK and US over 100 years to accomplish the same set of tasks.

"The bad news is that most of it's over. The good news is there's still a lot to do. If you look at the central and western part of China, a lot of development still needs to take place."

JOSE RASCO