

ASIA

Exporting to and expanding your company's presence in Asia

FEBRUARY 2016



leadership beyond finance

1.
PUBLIC



Presenters

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Export Development Canada

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Finance,
HSBC Bank Canada

Agenda – EDC and HSBC Canada

➤ Asia

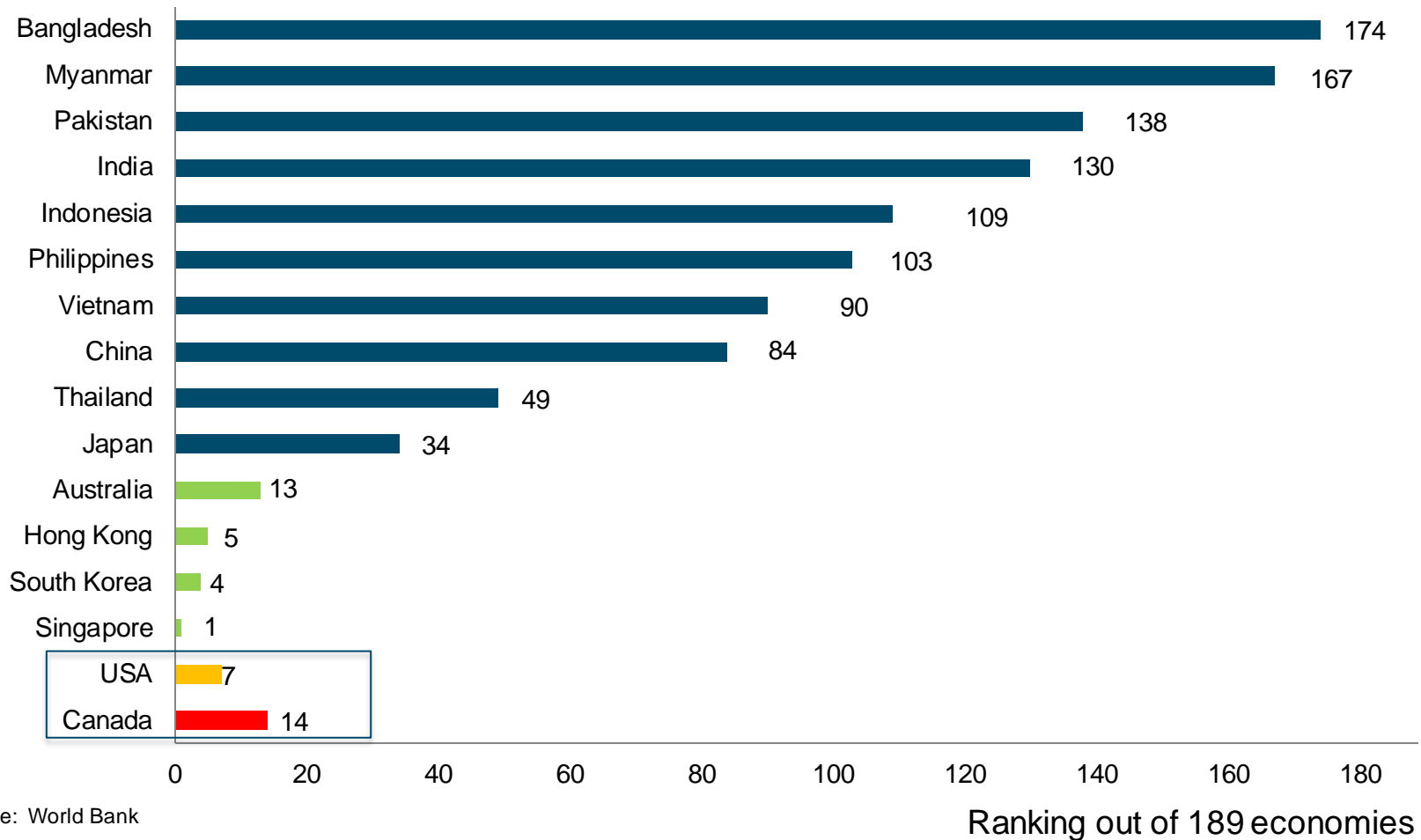
- ✓ Asia - a diversified business environment
- ✓ Challenges and developments to be aware of - a closer look at a handful of markets
- ✓ Financial solutions to help

➤ Q&As

Asia Overview – sample of markets

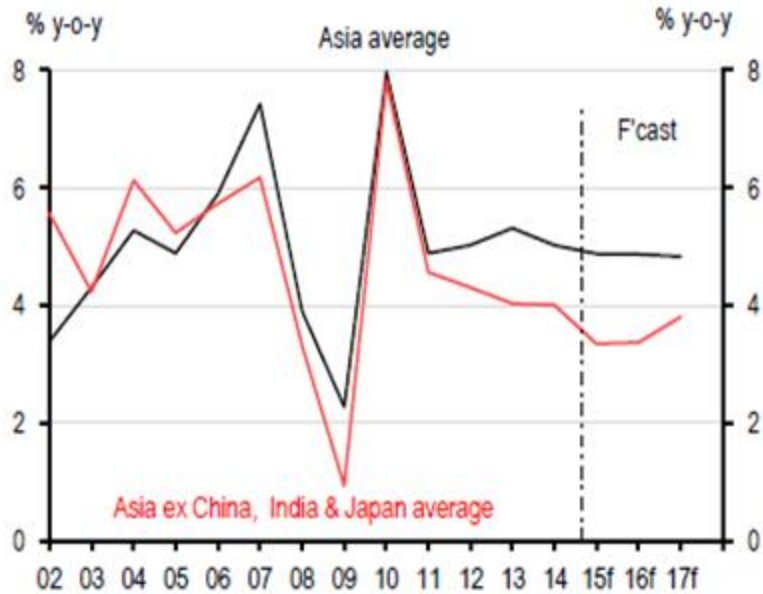
	Population (millions)	GDP (2014) USD Bln	GDP (2014) per capita (ppp) Intl. \$	S&P Ratings (Foreign Currency)	WEF Global Competitiveness Index Ranking	FTA with Canada
Canada	36	1,785	44,967	AAA	13	TPP
Singapore	6	308	83,066	AAA	2	TPP
Australia	24	1,525	46,550	AAA	21	TPP
Japan	127	4,601	37,519	A+	6	TPP
Korea	51	1,410	35,379	AA-	26	Bilateral
Thailand	68	405	15,579	BBB+	32	
China	1,371	10,355	13,224	AA-	28	
Indonesia	203	889	10,651	BB+	37	
Philippines	103	285	6,974	BBB	47	
India	1,299	2,049	5,808	BBB-	55	
Vietnam	92	186	5,656	BB-	80	TPP
Bangladesh	159	173	3,391	BB-	107	

2016 Ease of doing business in a diverse Asia



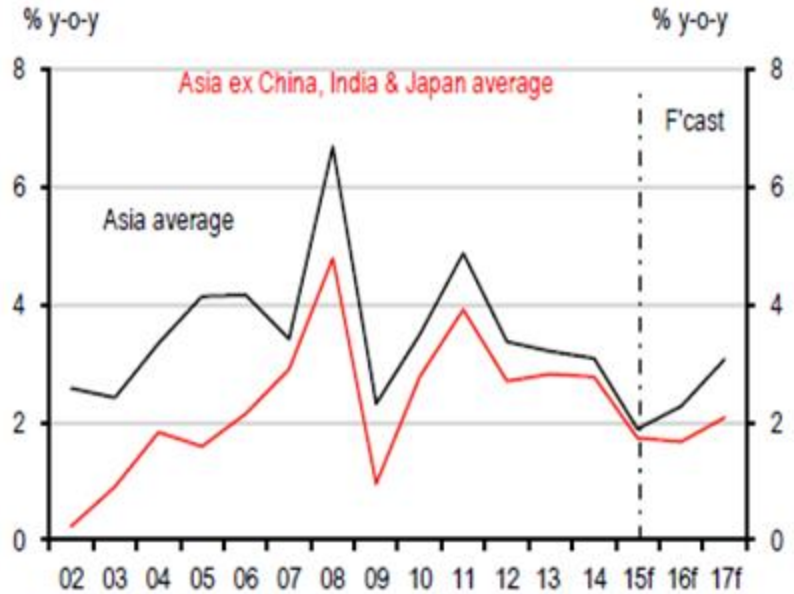
In 2016, growth in Asia will probably ease further

GDP (% y-o-y)



Source: CEIC, HSBC forecasts (nominal USD GDP weights)

CPI (% y-o-y)



Source: CEIC, HSBC forecasts (nominal USD GDP weights)

Headline forecasts for Asia

- Growth will likely remain lacklustre across Asia in 2016;
 - exports providing little impulse
 - domestic demand too dependent on credit
- Gradual Fed rate hikes are less of a risk to the region's credit cycle than continued disinflation, which raises the effective debt-servicing burden
- Additional monetary and fiscal easing would help things tick along, but, in the end, only far-reaching structural reforms can lift Asia's fortunes

Key Forecasts

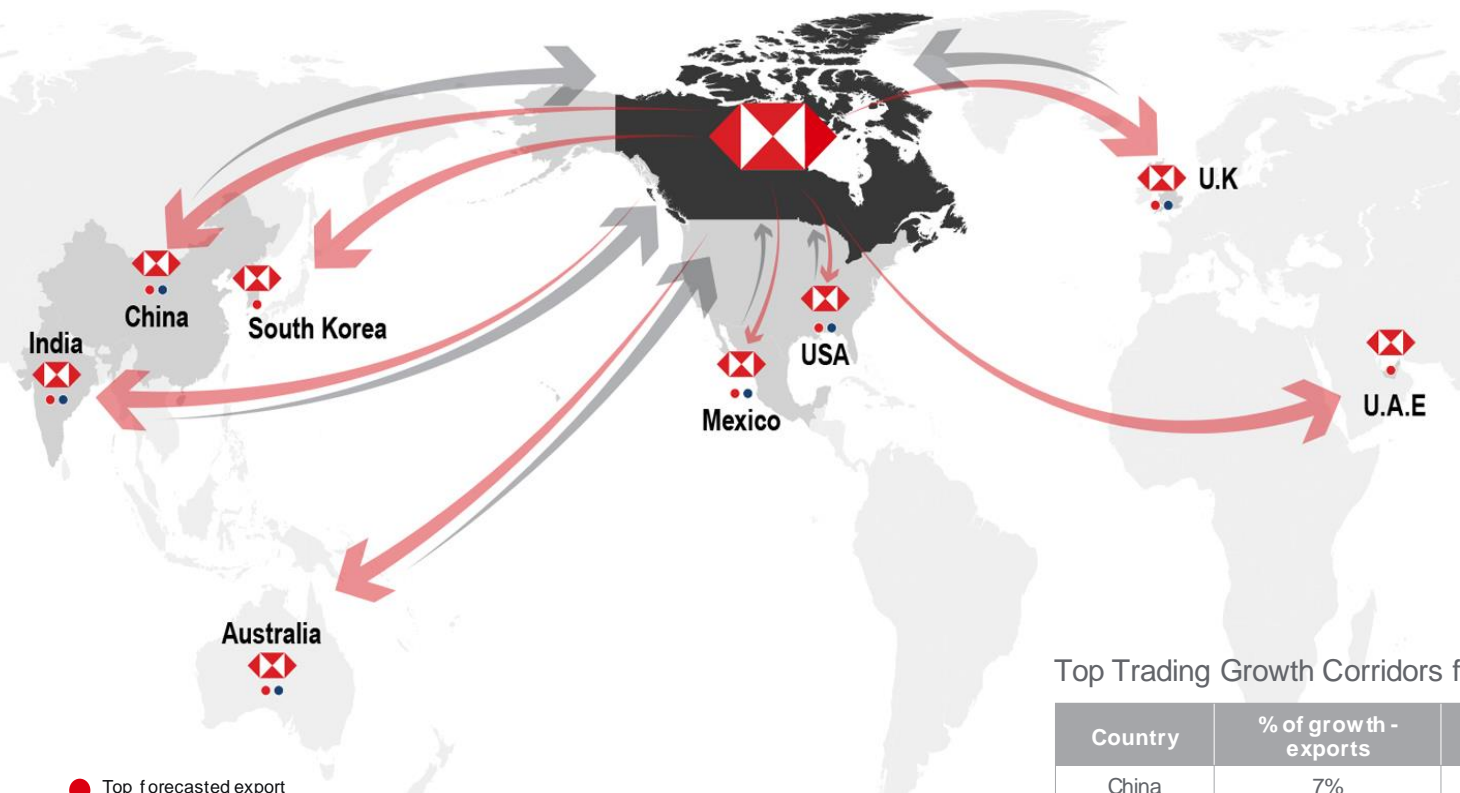
North America Vs Asia-Pacific

	GDP			Inflation		
	2015f	2016f	2017f	2015f	2016f	2017f
World	2.4	2.5	2.6	2.3	2.5	2.6
Developed	1.9	1.9	1.8	0.3	1.2	1.8
Emerging	3.8	3.9	4.6	4.0	3.5	3.2
North America	2.4	2.2	2.2	0.2	1.5	2.1
US	2.5	2.3	2.2	0.1	1.5	2.1
Canada	1.3	1.6	1.9	1.1	1.6	2.0
Asia-Pacific	3.8	4.0	4.0	2.1	2.1	2.3
Asia Big Three	4.3	4.5	4.3	2.2	2.1	2.1
China	7.0	6.7	6.7	1.4	1.0	0.9
Japan	0.6	1.3	0.4	0.9	0.9	2.4
India*	7.4	7.4	7.8	5.0	5.5	5.0
Asia ex Big Three	2.6	2.8	3.3	1.8	2.0	2.6
Australia	2.3	2.6	3.0	1.5	2.1	2.7
South Korea	2.4	2.2	2.4	0.6	1.2	2.6
Indonesia	4.7	4.7	5.3	6.3	3.7	4.8
Taiwan	0.8	2.0	2.9	-0.1	1.4	1.4
Thailand	2.6	3.1	3.4	-0.9	1.3	2.3
Malaysia	4.7	3.6	4.8	2.1	2.9	2.5
Singapore	1.8	1.8	2.5	-0.5	0.2	1.0
Hong Kong	2.3	2.0	2.6	2.7	3.7	3.3
Philippines	5.5	5.7	5.9	1.4	2.4	3.2
New Zealand	2.3	2.4	2.4	0.4	1.7	1.5

Source: HSBC Estimates. Note: *India data in fiscal year (2012 = April 2012 to March 2013). **Mainland. GDP aggregates use chain nominal GDP (USD) weights and Inflation aggregates calculated using GDP PPP (USD) weights.

Key Trade Corridors for Canada

Fastest growing and largest



- Top forecasted export partners (2014-2020)
- Top forecasted import partners (2014-2020)

Source: <https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecast-to-of#canada>

First to handle transactions in RMB in all continents

Only foreign bank to work with the Chinese government to promote RMB internationalization

Industry leader in supporting RMB trading centre in Canada

Top Trading Growth Corridors for Canada

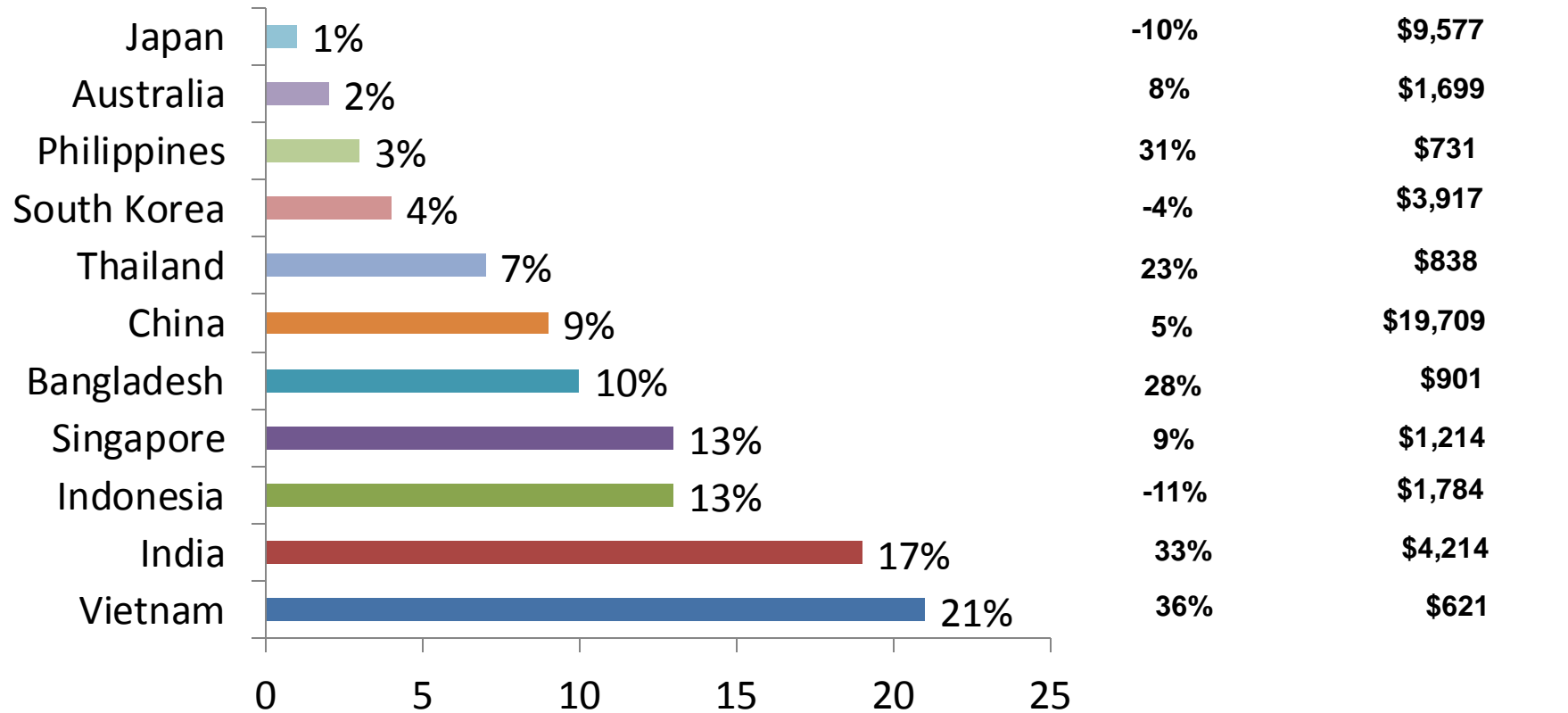
Country	% of growth - exports	% of growth - imports	# of offices
China	7%	7%	258
India	7%	8%	71
UK	8%	5%	1087
Mexico	8%	4%	988
Korea	4%	7%	3
US	4%	5%	247
UAE	9%	-	16
Bangladesh	-	13%	14
Australia	-	3%	38

EDC'S Foreign Representations



Canada's exports to Asia have been growing well

Canada's Average Annual Export Growth to Asia 2010-2015



Source: Industry Canada

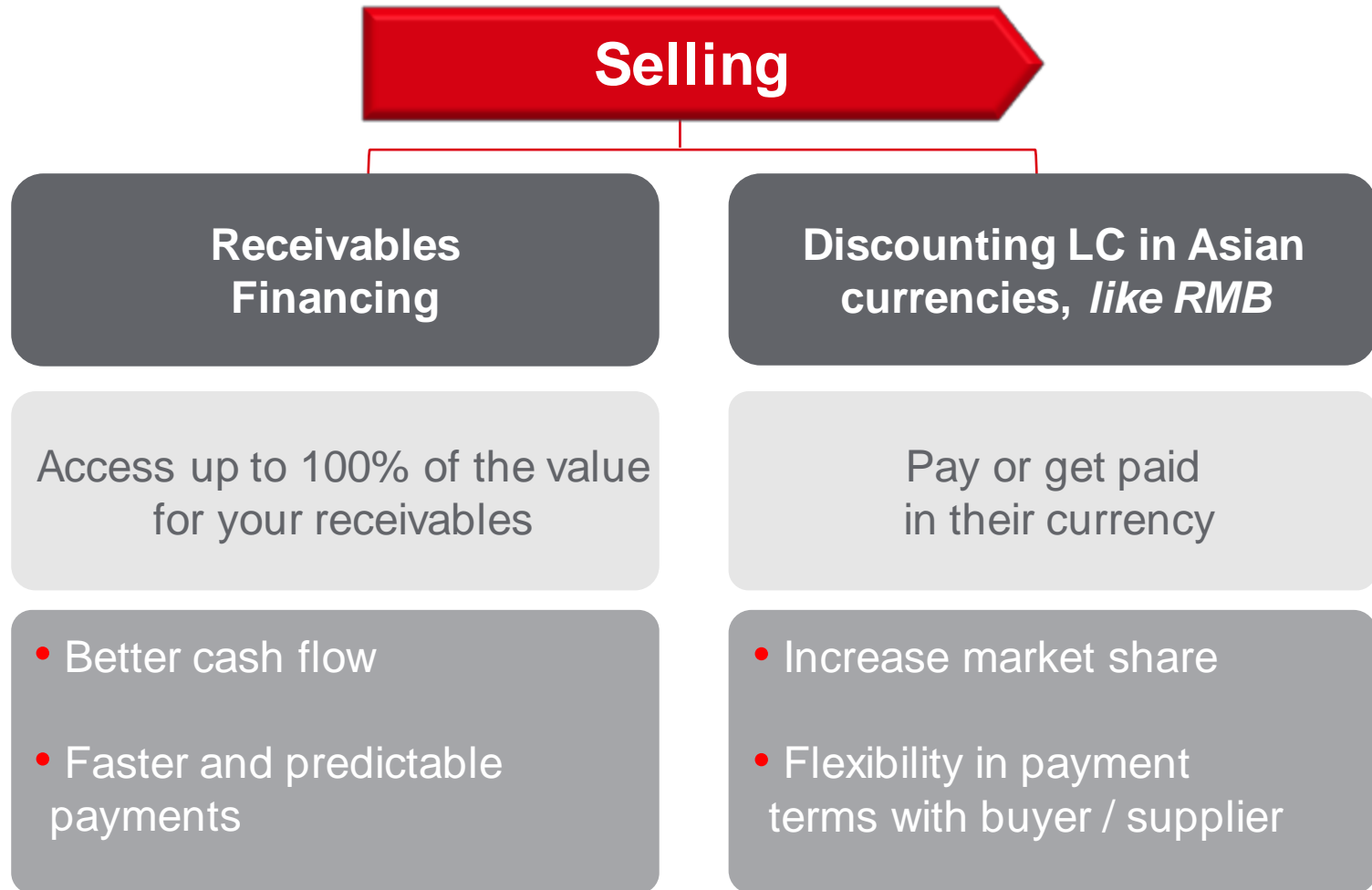


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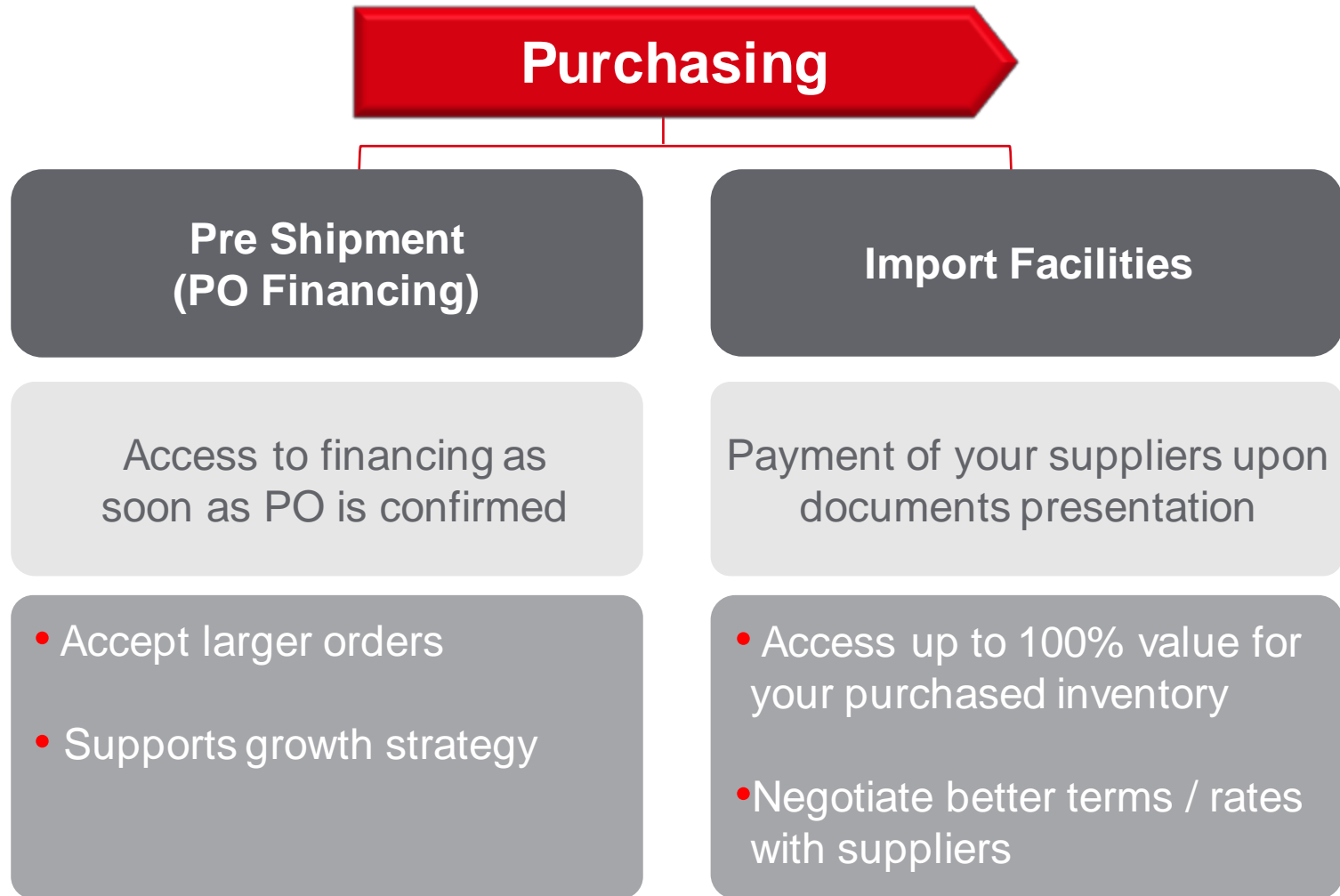
Solutions to drive your growth with Asia

Exporting with HSBC Trade and Supply Chain Solutions



Solutions to drive your growth with Asia

Importing with HSBC Trade and Supply Chain Solutions



POLLING QUESTIONS #1

What is the largest barrier you see (or have experienced) to conducting business with Asia?

- a. Can't identify opportunities
- b. Market intelligence including understanding the regulatory environment
- c. Concerns about IP
- d. The costs of managing distance and time differences
- e. Too much risk
- f. Language or cultural barriers
- g. Too busy on home front to look at new markets

China – where is the opportunity?

China is the fastest growing market for Canadian exports



China is expected to be Canada's leading export growth partner by 2021

Canada - China Trade Forecast, fastest growing imports (% year)		
	Exports (Rank/%growth)	Imports (Rank/%growth)
2015 - 2020	3rd (7%)	4th (7%)
2021 - 2030	1st (12%)	1st (11%)

**

“Canadian businesses need to think about the Chinese consumer and the Chinese economy”

David Watt
Chief Economist,
HSBC Bank Canada

- China will continue to record high productivity growth as the industrial sector is being upgraded.
- **Machinery and transport equipment** will play the biggest role in driving China's export value growth in 2015-20, half from gains in ICT equipment exports.
- **We expect Canada's exports to China will accelerate as the economy shifts to be driven by domestic demand and see export growth accelerating to average 12% in the decade to 2030.**

Source:
**<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecast/s/ca>
***<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecasts/cn>

China – Where is the opportunity?

Canadian companies can increase exports to and imports from China

Canadian Solar Power Technology

Canadian Solar Solutions
\$70-million deal will employ
100 people to build solar panels
in Canada to install
in China

Top Quality Canadian Agribusiness Exporter

\$5.3 Million contract for
ag commodities into China.
Pre-shipment finance for 2 year
contract to pre-pay for planting
growing, harvesting , etc

Textile Importer

Paid Chinese supplier in
RMB resulting in 12% discount
from previous USD denominated
transactions

Top Canadian Exports

Oil and Gas	Manufacturing and Mining
Agriculture	Lumber
Raw Materials	Technology
Pharmaceuticals	Biotech

Top Canadian Imports

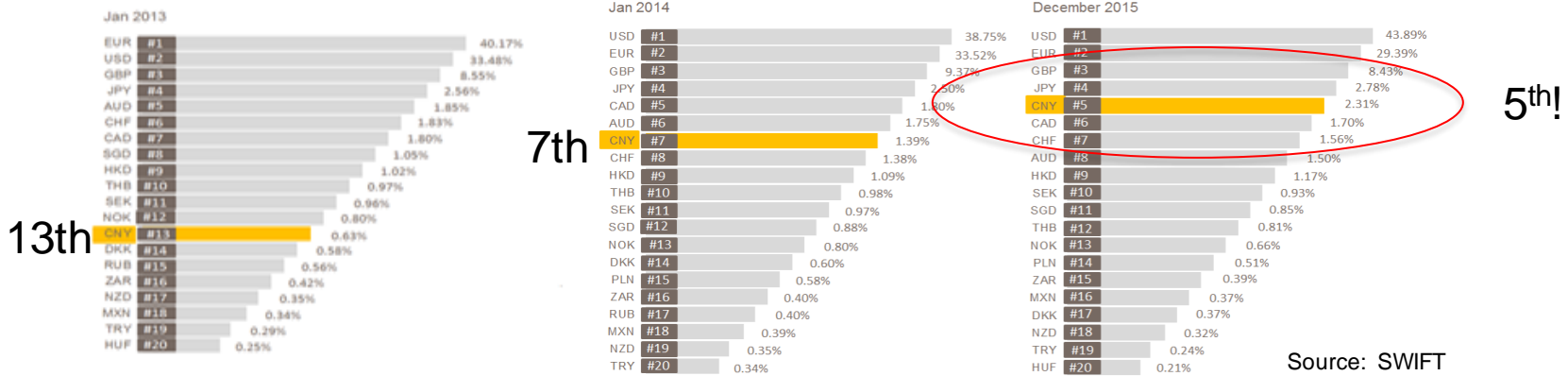
Electronic Products	Machinery and Equip.
Furniture	Toys and Games
Iron Steel Products	Clothing
Plastic Products	Apparel

Source:
<https://globalconnections.hsbc.com/canada/en/articles/agricultural-bonanza>
<https://globalconnections.hsbc.com/canada/en/articles/why-canadian-firms-need-pay-attention-china>
<https://globalconnections.hsbc.com/canada/en/articles/ontario-manufacturing-medical-sector-views-investments-china>

RMB as your trade currency

RMB as world payments currency in value

Customer initiated and institutional payments. Inbound + Outbound traffic. Based on value.



Source: SWIFT Watch

Source: SWIFT

Canadian RMB Clearing Hub for Americas launched in 2015

Facilitates easier access and settlement of trade payments in RMB

China International Payment System (CIPS)

Ongoing relaxation of the capital account

RMB as payment - considerations

- ▶ Direct conversion advantage: the Canadian clearing bank makes the trade faster and more transparent. Once direct CAD-CNY trades are permitted, there will be an additional savings.
- ▶ FX transaction fees: when the Chinese buyer pays in RMB they no longer have to take on the FX transaction costs,
- ▶ Convenience: many Chinese buyers do not have USD liquidity and need to work through FX agents within China. Added cost.
- ▶ FX risk: when the Chinese buyer pays in RMB they no longer have to take on the FX risk, which can vary between depending on the term and market volatility.
- ▶ Natural hedging

HSBC, supporting your growth in China

A wide and well established network across Greater China

HSBC in China

- Largest service network of any foreign bank in China with 173 outlets in 56 cities, 5,800+ employees including international staff from 15 countries
- Comprehensive range of services both personal and business
- Direct clearer memberships to major clearing systems in China

Benefit to your business

- Reduced intermediary banking fees
- More timely payment processing and more efficient payment tracking
- Long standing relationship with key regulators in China

Local network is important in China

- Local knowledge and recognition
- Interface with local regulators
- Ability to provide full services to clients
- Ease of banking for clients



Network numbers as of 07JAN15 and excludes HSBC Rural Bank and Hang Seng China outlets.

India – Trade Forecast

Where is the opportunity?



India is expected to remain Canada's 2nd leading export growth partner till 2030

Canada - India Trade Forecast, fastest growing imports (% year)

	Exports (Rank/%growth)	Imports (Rank/%growth)
2015 - 2020	2nd (7%)	3rd (8%)
2021 - 2030	2nd (11%)	4th (10%)

**

“India’s Trade Confidence Score has fallen as businesses grew more worried about financial risks from suppliers and buyers.”

HSBC Trade Forecast, India

- India is well positioned to benefit from bottoming commodity prices and fast growing Asian markets
- **Transport equipment** and **metals** are expected to be the key drivers of India’s export recovery.
- India is Canada’s **largest trading partner in South Asia**, and one of our key priorities it to become a long-term, reliable partner for India’s energy and food security.

Source:
 **<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecasts/ca>
<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecasts/in>

Sectors of export opportunity for Canada in India

Oil & Gas



Presently India is the fourth largest consumer of oil in the world.

EDC relationships: Reliance Industries, Indian Oil Corp, ONGC

Infrastructure



Estimated to be a trillion dollar opportunity and is the second largest PPP player globally.

EDC relationships: Larsen & Toubro, Shapoorji Pallonji, IL&FS

Information, Communication and Telecommunication (ICT)



India will emerge as a leading player in the digital world by having 700 million internet users of the 4.7 billion global users by 2025.

EDC relationships: Tata Comm, Reliance JIO, Idea Cellular

Sectors of export opportunity for Canada in India continued.....

Agriculture



The agriculture sector in India is expected to generate better momentum in the next few years due to increased investments in agricultural infrastructure such as irrigation facilities, warehousing and cold storage.

EDC relationships: Mahindra & Mahindra

Cleantech



India provides huge opportunities for Canadian companies in the clean technology.

EDC relationships: Tata Power, Welspun, Shapoorji Pallonji, GE Renewable

Need: some buyers want financing



Solution:

EDC Loan or Customer Financing Guarantee

- › Benefit: Buyer receives financing to purchases capital goods and services from Canadian supplier (from Canada or from Canadian affiliate)

Reserve Bank of India (RBI) regulations

- ▶ Be aware of the External Commercial Borrowing (ECB) guidelines - these change over time!
- ▶ Sets maximum interest rates and tenors – effects lender appetite
- ▶ Defines allowable borrowing limits, end uses and end users and lenders
- ▶ Late 2015 introduced significant changes – now three new channels governing how India based companies can borrow from overseas
 - restricted access by sector (Manufacturing/Software/Infrastructure)
 - new Tier 3 channel for INR borrowing
- ▶ Not allowed for working capital, general corporate purposes unless coming from a equity related company – important to note for affiliates with financing needs and this will affect your funding strategy!
 - End use can't be for the purchase of land/real estate.

Sample of EDC “Pull” financing relationships in Asia



Bangladesh – Trade Forecast

Where is the opportunity?



Bangladesh is expected to be Canada's leading import growth partner through 2020

Canada-Bangladesh Trade Forecast, fastest growing imports (% year)

	Exports (Rank/%growth)	Imports (Rank/%growth)
2015 - 2020	(not in top 10)	1st (13%)
2021 - 2030	(not in top 10)	2nd (11%)

**

“Bangladesh records the highest Trade Confidence Score, due to positive outlook for trade volumes, lower costs for logistics / materials and higher profit margins.”

HSBC Trade Forecast, Bangladesh

- Bangladesh will implement some much needed reforms, which should improve its attractiveness to FDI investors
- We expect Bangladesh's export **growth of 10.6%** from 2017-20, with clothing and apparel accounting for around three quarters of Bangladesh's exports
- **Over the last ten years, the value of our bilateral merchandise trade has more than tripled, with garments & textile products accounting for the majority of Bangladesh's exports into Canada**

Source:
[**https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecast/s/ca](https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecast/s/ca)
<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecasts/bd>
www.canadainternational.gc.ca

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Vietnam – Trade Forecast

Where is the opportunity?



Vietnam is expected to remain amongst Canada's top 3 import growth partners till 2030

Canada - Vietnam Trade Forecast, fastest growing imports (% year)

	Exports (Rank/%growth)	Imports (Rank/%growth)
2015 – 2020	(not in top 10)	2 nd (9%)
2021 - 2030	(not in top 10)	3 rd (11%)

**

“Vietnam’s Trade Confidence Score rose notably compared to a year ago despite the more challenging global backdrop”

HSBC Trade Forecast, Vietnam

- Vietnam’s exports expected to **grow by > 10% per annum** from 2016-30, contributed by increased openness to trade & FDI, and more stable macroeconomic fundamentals
- Sectors that will contribute half of Vietnam’s export growth from 2021-30: the Information & Communication Technologies (ICT) equipment, clothing & apparel and textiles & wood manufactures
- **Canada’s import growth from Vietnam is expected to accelerate and average 11% in the decade to 2030, driven in part by their lower cost advantage**

Source:
 **<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecast/s/ca>
<https://globalconnections.hsbc.com/canada/en/tools-data/trade-forecasts/vn>

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Australia – where is the opportunity?

2015 saw Australia sign a FTA with China reducing 95% of tariffs within 10 years. Canada will begin to see increasing significant price competition from Australia products to China including in sectors of traditional Canadian strength.

Receives almost 50% of all Canadian direct investment to Asia.

Infrastructure, O&G, ICT and niches of forestry and potentially ag equipment are opportunity segments. Further out on the horizon is mining.

Top Canadian Exports

Aerospace	Oil and Gas Equipment & Services
Pharma	Industrial Machinery
Forestry Products	ICT
Chemicals	Power Equipment

Top Canadian Imports

Meat (Lamb)	Wine
Recycled Metal	Copper/Zinc/Lead
Pharma	Engine Parts
Industrial Machinery	Control Instruments

Canadian direct investment abroad (CDIA)

Why?

- ✓ Getting closer to customers and suppliers
- ✓ Enhancing supply chain
- ✓ Entering new markets
- ✓ Lowering Costs
- ✓ Strategic reasons
- ✓ Labour Shortages

Challenges?



POLLING QUESTIONS #2

Which Asian markets are you thinking of establishing a presence in within the next 2 years?

- a) China
- b) India
- c) Hong Kong
- d) Singapore
- e) Vietnam
- f) Australia
- g) Indonesia
- h) Philippines
- i) Other Asian Market
- j) No plans to expand into Asia

The Canadian direct investment abroad (CDIA) gap

- › Canadian exporters are increasingly growing their global footprints.
- › They need access to increased working capital and financing for capital expenditures in foreign markets.
- › Financing a growing book of foreign assets can be challenging:
 - › Canadian banks may be hesitant to take foreign security
 - › Canadian banks may not give value for A/R owing to foreign affiliates
 - › Canadian banks may not give value to inventory located outside of Canada
 - › Foreign banks are hesitant to provide financing to Canadian companies new to the market



HOW EDC CAN HELP – Increase financial capacity

Working Capital

- › Increase access to working capital by insuring your foreign affiliate sales
- › EDC provides 100%, unsecured, irrevocable guarantee to your bank when issuing performance bonds/guarantees for your foreign affiliate

Political Risk Mitigation

- › Political Risk Insurance can protect both Assets and Equity investments
- › Covers risk of:
 - › Political violence, expropriation, transfer/conversion
 - › Up to 90% of book or replacement value

Financing Foreign Assets, Expansion and Inventory

- › A variety of structures and solutions available to help finance assets in developed and developing markets.
- › Direct lending support for foreign: capex, acquisitions and expansion.
- › Guarantee support to Canadian banks for loans supporting inventory in foreign markets, as well as term loans and working capital loans for new/existing foreign subsidiaries.

Case Study Example, from a local Canadian company

The Company needed a financial supplier to finance Purchase Orders without undue burden on their working capital.

Profile: "The Company"

Sector: Renewables

Sales: Large growth

Requirement: the Company needed a financial supplier to finance Purchase Orders without burden on their working capital. HSBC was able to provide a market competitive and scalable working capital solution

As order volumes increased, the Company needed an innovative financing solution.

Company Growth: Order volume in parts exceeded expectations, resulting in increased pressure on working capital. The traditional operating line of credit governed by a borrowing base including Accounts Receivable and Inventory.

Innovative combination of Receivables Financing, Forward exchange line and Guarantee translated to improved results.

HSBC offered a USD75MM Receivables Financing facility, giving the ability to provide **75 to 90 day credit terms to customers**, while not affecting its working capital. **Value** to their customers who have a long production cycle.

HSBC also provided the Company with a FX Loan to pay its Chinese supplier in CNH (rather than USD), **benefiting** from both the CNY/CNH spread as well as the USD/CNH positive forward curve.

Finally, HSBC offered a USD50MM Guarantee line for an added 30-day payment terms with its Chinese supplier, instead of prepaying. **Benefits:** improve working capital and increase the benefit offered from the USD/CNH forward curve (since payment was now due later).

Other information

HSBC's ability to structure a deal allowed the Company to increase its profitability by 150% for the last completed fiscal year and by a further projected 85% for this fiscal year.

What sets us apart

Our global reach enables you to grow your business both at home and internationally, helping you make the connections you need to prosper.



A world map where Canada is highlighted in red. A red callout box points from the red area of Canada to the 'Global Relationship Manager' text box.

Global Relationship Manager.

If you have subsidiaries or branch offices in other territories, we will appoint a Global Relationship Manager in the Canada and local relationship directors in the relevant overseas markets. This approach allows us to leverage our network and coordinate your global requirements.

Building a strong, long-term relationship where we are committed to supporting your plans is at the heart of our approach

We offer tailored solutions to meet your specific business needs and help you achieve your ambitions.

Our secure online banking platform – gives you convenient, real-time internet access to all your HSBC accounts, anytime, anywhere in one piece.

Why HSBC:

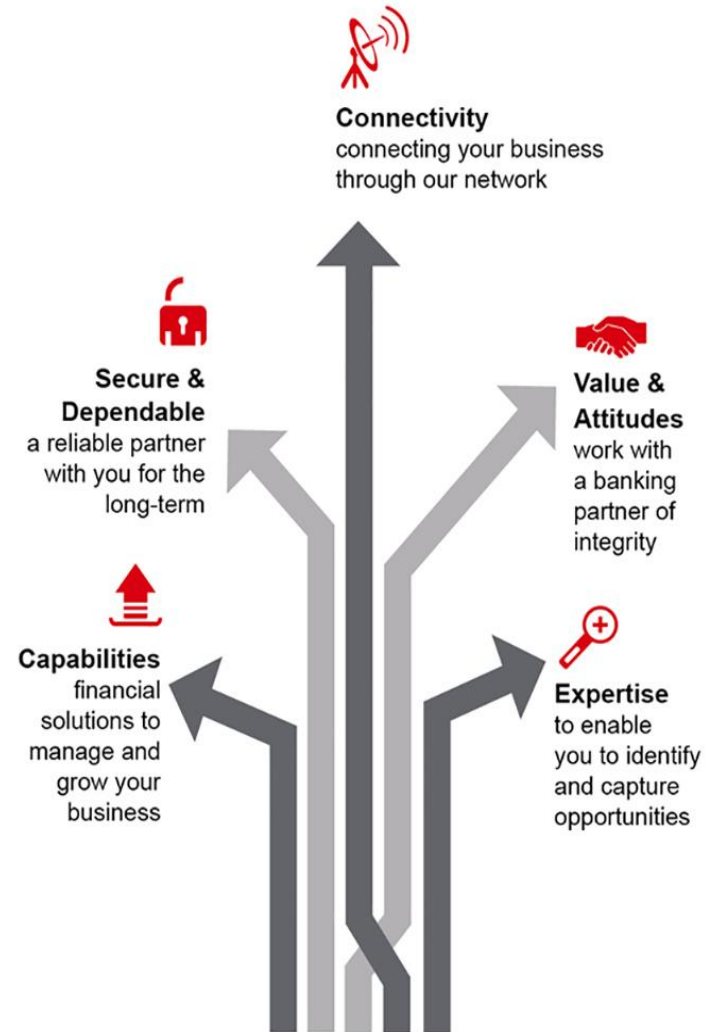
Driving your growth

We understand the passion and commitment that goes into building a successful business and, whatever your stage of growth, we will support you along the journey

Our relationship with you will grow as your business grows and we will work with you as a strategic partner to help you fulfill your ambitions.

As your horizons expand and your business needs become more complex, we can provide the flexible funding and support to help take your business to the next level.

With our unique global presence and expertise we can help you make the right connections, at home and abroad, to drive your business forward.





Questions?



Thanks very much!

Contacts



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About EDC:
Canada's Export Credit Agency

Financially self-sustaining and operating on commercial principles

Our mandate: To support and develop, directly or indirectly, Canada's export trade and Canadian capacity to engage in that trade as well as respond to international business opportunities.

In 2015 facilitated exports and investment of more than 7,000 clients valued at more than \$100 billion.

\$15 billion of this was in support of Canadian business activity in Asia.

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances internationally through three global business lines: Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management.

Canada is a priority market for the HSBC Group – one of the world's largest banking and financial services groups with assets of US\$2,549bn at 30 September 2015. Linked by advanced technology, HSBC serves customers worldwide through an international network of around 6,100 offices in 72 countries and territories in Europe, Asia, North and Latin America, and the Middle East and North Africa.

Disclosure Appendix

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