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CANADIAN SERVICE INDUSTRIES BEST POSITIONED TO BENEFIT FROM GLOBAL TRADE

*** HSBC research: services expected to form 25% of global trade by 2030 ***
*** Value of Canadian service exports forecast to grow 7% annually on average over the next 15 years***

As economic and political headwinds slow global trade in commodities and manufactured goods, businesses seeking to boost sales through exports should explore opportunities linked to services, new research from HSBC shows.

While the USD value of global merchandise exports has contracted by an estimated 3% this year, cross-border sales of services such as tourism, banking, construction and software development have risen by 1% in nominal terms, according to the *Global Trade Forecast*, HSBC's annual research report on trade. This year's report also includes a comprehensive country-by-country analysis of trade in services.

The research found that if governments refrain from introducing new impediments to trade, the value of global goods exports is expected to recover gradually to expand by 3% in 2017 and then 6% a year to 2030. Meanwhile, trade in services will average 7% annual growth to contribute USD12.4trn to global trade flows in 2030, up from an estimated USD4.9trn this year.

However, if new tariff and non-tariff barriers are implemented, whether due to US trade policy changes proffered by President-elect Donald Trump or a so-called 'hard Brexit' in the UK, the combined value of goods and services trade in 2030 could drop by close to 3% to USD48.8trn from a current projection of USD50trn.

The forecast in Canada

Though goods trade comprises the bulk of Canada's transactions with the rest of the world, services trade is growing at a faster rate, accounting for 16% of Canada's total exports in 2015, up from 12% in 2000.

Andrew Skinner, Head of Global Trade and Receivables Finance at HSBC

Bank Canada, said: "Given the close ties between the two countries, it wasn't at all surprising that most services exports are for the US market. We spend a lot of time as a country talking about resources and large manufacturing and their impact on our economy, but some of the most dynamic global trade stories in recent years are in the service sectors."

In fact, 60% of Canada's total services exports in 2015 went to the US, while the country's imports of services from the US accounted for about 75% of all Canadian service imports.

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The EU meanwhile is the second largest market for Canadian service exports and the second most important source of Canadian services imports last year, with B2B and other services accounting for the largest portion of Canada's global services exports at 43% of the total in 2015, up from 38% in 2000. Canadian service exports to China are expected to grow about 10% a year in the decade to 2030.

The 2016 *HSBC Global Trade Forecast* showed that financial services is Canada's fastest-growing services export, averaging an impressive 9% annual growth from 2000 to 2015. Also important for Canada is the tourism and travel industry, which accounted for 21% of exports of services in 2015, while transportation services accounted for just 15% of service exports in 2015, down from 19% in 2000.

Outlook for services trade: 2016-30

The value of Canadian service exports is forecast to grow at an average annual rate of close to 7% over the next 15 years. Most of the trends seen in the past 15 years since 2000 are expected to remain in place in the coming years, with business-to-business and other service exports remaining the most important export sector and contributing close to half of the growth to services exports in the decade to 2030.

The US, UK, China, Germany and France were the world's top exporters of services in 2015, and will remain so in 2030. But emerging economies will expand their overall share as they develop their workforce skills and digital infrastructure. India, for example, is already a highly successful exporter of business process outsourcing and support services for finance, medicine and engineering, and is set to increase these exports in the coming years.

Nonetheless, while trade in services continues to thrive, it is dwarfed by global trade in goods. The latter will be worth about USD37trn by 2030, according to the forecast, equating to 75% of total trade.

"For Canadian companies to be productive, innovative and competitive, we need to look beyond our borders," **added Mr. Skinner**. "If more Canadian companies explored global opportunities, the chances of ensuring Canada's long-term economic health would be much greater."

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