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The information in this document is accurate as of 22 February 2019.
Global economic update

United States: 2.5%
United Kingdom: 1.5%
Euro Area: 1.6%
Japan: 1.1%
Emerging and Developing Asia: 6.5%
Australia: 2.8%

Source: International Monetary Fund (IMF), World Economic Outlook Update 2019
Political economy update

- China’s growth rate in 2018 of an estimated 6.6% should be considered in light of the size of its economy.
- Excess industrial capacity and the profitability of industrial firms are a concern, as is the purchasing manager's index for the manufacturing sector. Performance of the real estate sector and leverage ratios are also concerns.
- The trade war and 1 March deadline are being closely followed – more on impacts in slides 8 and 9.

- Historic re-election in 2018; potential to be longest serving PM.
- Consumption tax hike is a priority.
- Article 9 in the Constitution is stated to be dear to the PM.
- Foreign workers over the next five years will be crucial to meet construction delays (e.g. with the Tokyo Olympics).
- Support for China’s Belt and Road Initiative.

- Election in April – May 2019; likely to be more closely contested than 2014.
- There has been extensive economic policy-making in the first term – GST, de-monetisation, insolvency and bankruptcy code reform etc.
- Has there been jobs growth? Extensive reports that unemployment at a 45 year high.

- Growth at approx. 2.7% compared to 3% in 2017.
- Reform of labour laws by lifting minimum wage and maximum hours in a week – has not been entirely supported by small businesses in particular due to higher costs.
- Continuing reform of chaebols.
- Reconciliation with the North could lead to business opportunities and cheaper labour.

- Presidential election on 17 April 2019 - expected to be a lot closer than expected 12 months ago; Parliamentary election at the same time as Presidential election.
- Depreciating rupiah in 2018 and balance of payments is placing pressure on the government; opposition is promoting greater economic nationalism.
- Like India, Australia’s economic relationship is performing below expectations with Indonesia; IA – CEPA has potential to lift the economic relationship.

Source: NUS East Asian Institute, Background Briefs; Various
2018 trade summary and 2019 outlook
2018 trade summary – How did the Asia-Pacific region perform?

- Share of global merchandise trade: 38.5%
- Increase in commercial services and services exports
- Most important destination and source of Foreign Direct Investment
- Increased protectionism

Source: United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Asia-Pacific Trade and Investment Report, 2018
Context to the trade war

Dec ‘18
US and China agree to a 90-day truce (ending 1 March)

1 Mar ‘19
$250b worth of China goods affected by US tariffs

Apr ‘16
China and US agree to set up a 100 day action plan to resolve trade differences

Feb ‘18
$110b worth of US goods affected by China tariffs

Source: Various
Trade war: Spill over

China’s exports subject to US tariffs

- $250b
  - 12%
  - 6%
  - 82%

US exports subject to China tariffs

- $110b
  - 85%
  - 5%
  - 10%

Main beneficiaries
- Mexico + 5.9%
- Vietnam + 5.0%
- Australia + 4.6%

Exports gained as a percentage of total exports by country

Australia is often thought of as a trading nation, however our trade to GDP ratio is low by international standards.

The trade-to-GDP ratio is an indicator of the relative importance of international trade in the economy of a country.

Australia’s openness to trade now constitutes around 42% of GDP – which is low relative to other markets.
The composition of Australia’s exports is narrow, with the mining and energy sector continuing to drive our export performance.

Iron ore & concentrates, coal, and natural gas account for 38% of Australia’s total goods and services exports – their relative importance has only increased over the past ten years.

- Iron ore 15.2%
- Coal 15.0%
- Education-related travel 8%
- Natural gas 7.7%
- Personal travel 5.4%

Source: Department of Foreign Affairs and Trade (DFAT), Australia’s Top 10 Goods & Services Exports and Imports 2017-2018
Free Trade Agreements (FTAs) have been a major focus of Australia’s trade agenda.

Source: DFAT, Australia’s free trade agreements (FTAs)
CPTPP = Comprehensive and Progressive Agreement for Trans-Pacific Partnership
But are businesses using these FTAs? Adoption rates have historically been low, but recent research tells a more positive story.

A recent study highlights FTAs are being used by **internationally engaged** Australian companies, predominantly those trading in goods.

- **62%**
  - Australian exporters use at least one FTA to get their product into export markets.

- **35%**
  - Australian services firms state that FTAs are influencing their export strategies.

- **80%**
  - Utilisation of Australia’s North Asian FTAs for Australia’s exports.

But there has been a rise in non-tariff trade barriers.

**Source:** PwC – Free Trade Agreement Utilisation Study, 2018

**Source:** DFAT, Addressing non-tariff trade barriers
Australia’s services sector is the foundation and future of our economy

Demand in Asian economies for services will expand with the burgeoning middle class

We need to re-assess the way that we measure the value of exports – and utilise a new “value added” approach

The services sector is set to become Australia’s number one exporter to Asia by 2030

To facilitate greater engagement in services, Australia will also need to increase the offshore presence of Australian businesses and invest in the region

Source: Asialink Business, ANZ, PwC: Australia’s Jobs Future: The rise of Asia and the services opportunity, 2016
Research highlights that Australian investment in the region is low, with a lack of capabilities required to achieve success in Asia.

Only a small proportion of Australian companies are investing in Asia, with investment in the USA, UK and NZ accounting for 46%.

The level of Asia capability among the leadership of ASX 200 companies today is alarmingly low.

Source: DFAT, International Investment Australia, 2017

Source: Asialink Business, PwC, Institute of Managers and Leaders: Match Fit: Shaping Asia capable leaders. 2017
Case Study: Our relationship with India highlights the need for a fundamental shift in thinking for Australian business

An India Economic Strategy to 2035, sets out ambitious growth targets

In order to truly realise our economic potential with India, a shift in mindset is required

- India has arrived – it is the world’s fastest-growing large economy
- A state-based approach is the key - India as a singular idea is overwhelming
- Revisit stereotypes in strategy – low cost does not mean low quality
- India will not be the next China, but it will be the next India

Source: DFAT, An India Economic Strategy to 2035
The right mindset is critical to success in Asia, central to which is changing the mindset on investing in the region.

A near record number, 93% of ASX200 companies reported a profit and 90% paid dividends.

Australian companies with significant offshore earnings have outperformed the market by 37% since Q2 2016.

Source: CommSec

Source: Bloomberg, Macquarie Research, March 2018
Pathways to strengthen Asia capabilities

Strategies to secure Australia’s business future

- Shifting mindsets on growth opportunities
- Mythbusting risk in Asia
- Long term
- Recruiting Asia capable talent
- Reporting market-specific returns
- Removing the bias against foreign income
- Building awareness

Source: Asialink Business, PwC, Institute of Managers and Leaders: Match Fit: Shaping Asia capable leaders. 2017
How ‘Match Fit’ is the rest of the workforce for Asia engagement?

- SMEs
- Industry Bodies
- Universities
- Government
- Not-for-profits
Key contacts

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