

# CEDA: 2019 Economic and Political Overview

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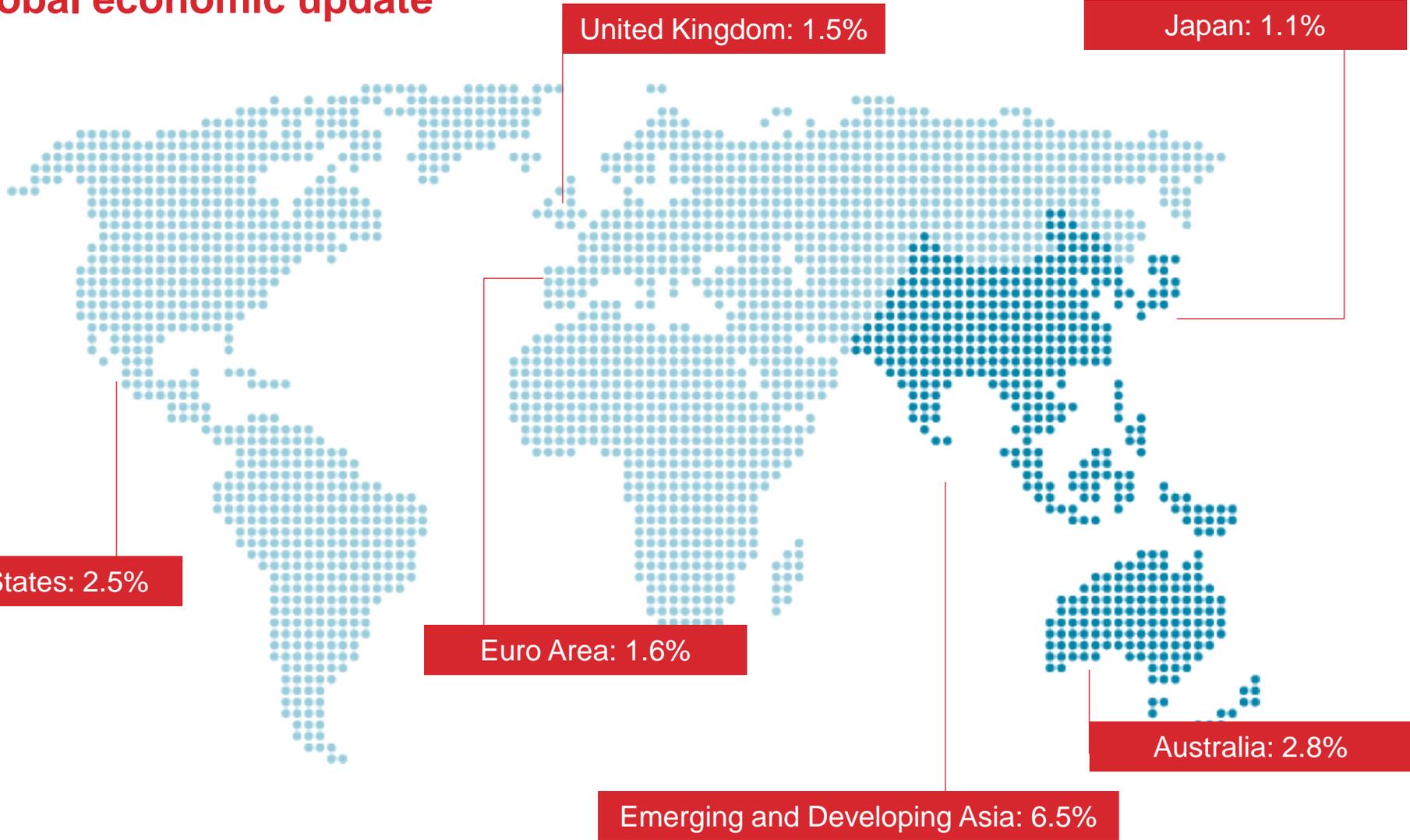
The information in this document is accurate as of 22 February 2019.



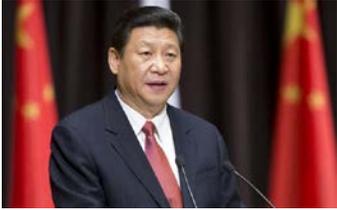
# Global Growth Story

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# Global economic update



# 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.



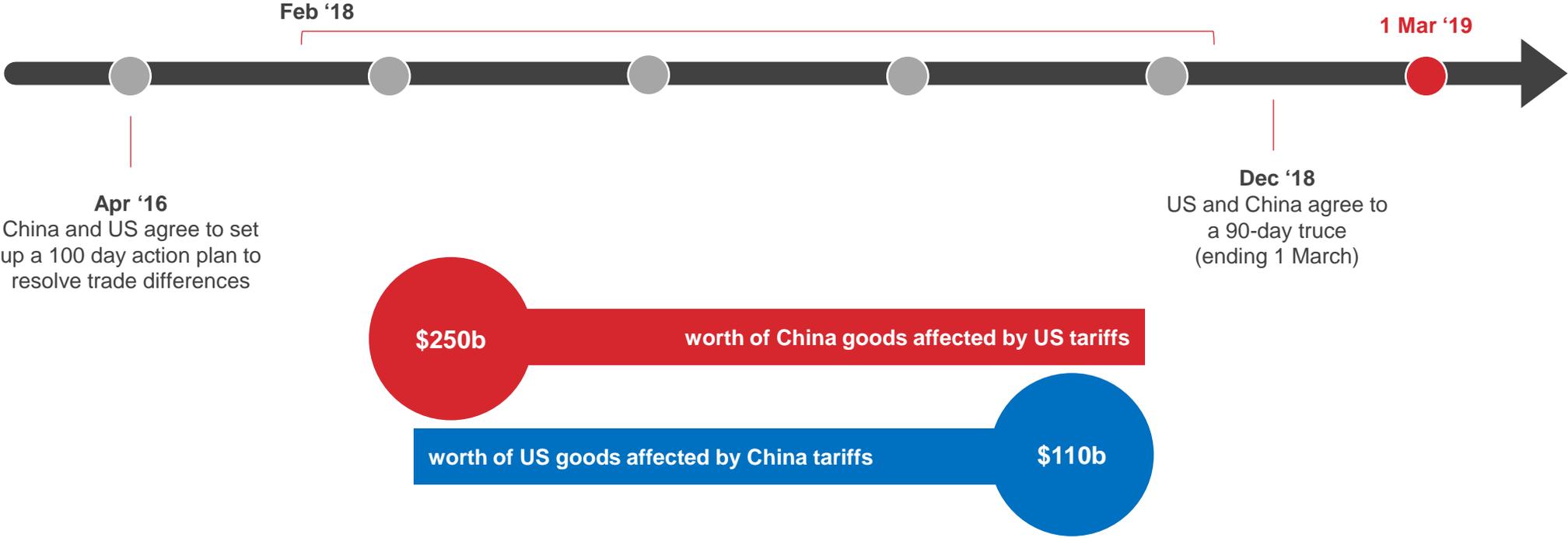
# 2018 trade summary and 2019 outlook

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## 2018 trade summary – How did the Asia-Pacific region perform?

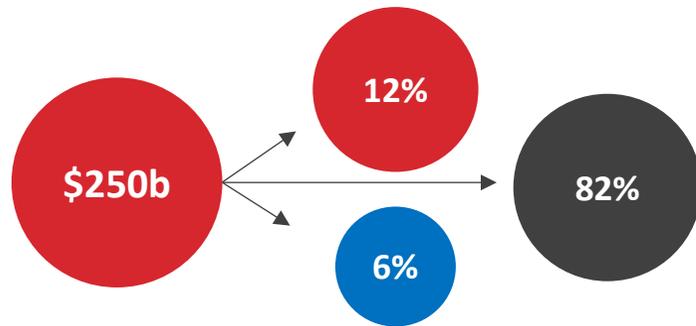


# Context to the trade war

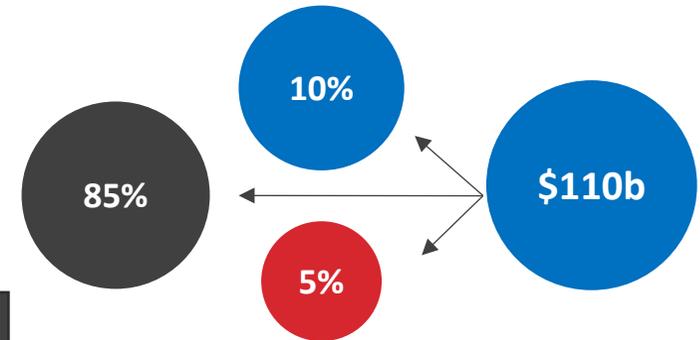


# Trade war: Spill over

China's exports subject to US tariffs



US exports subject to China tariffs



## Main beneficiaries

Mexico + 5.9%  
Vietnam + 5.0%  
Australia + 4.6%

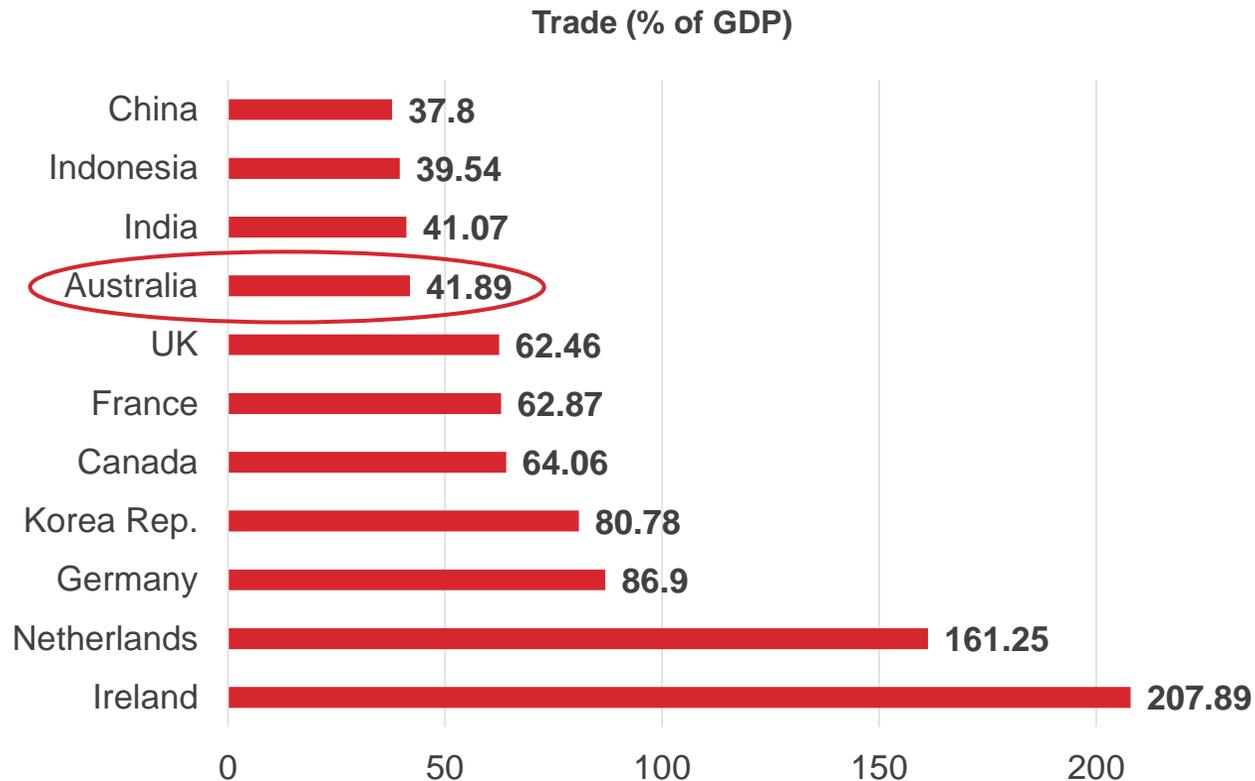
*Exports gained as a percentage of total exports by country*



# Australia's trade summary and context

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## 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%



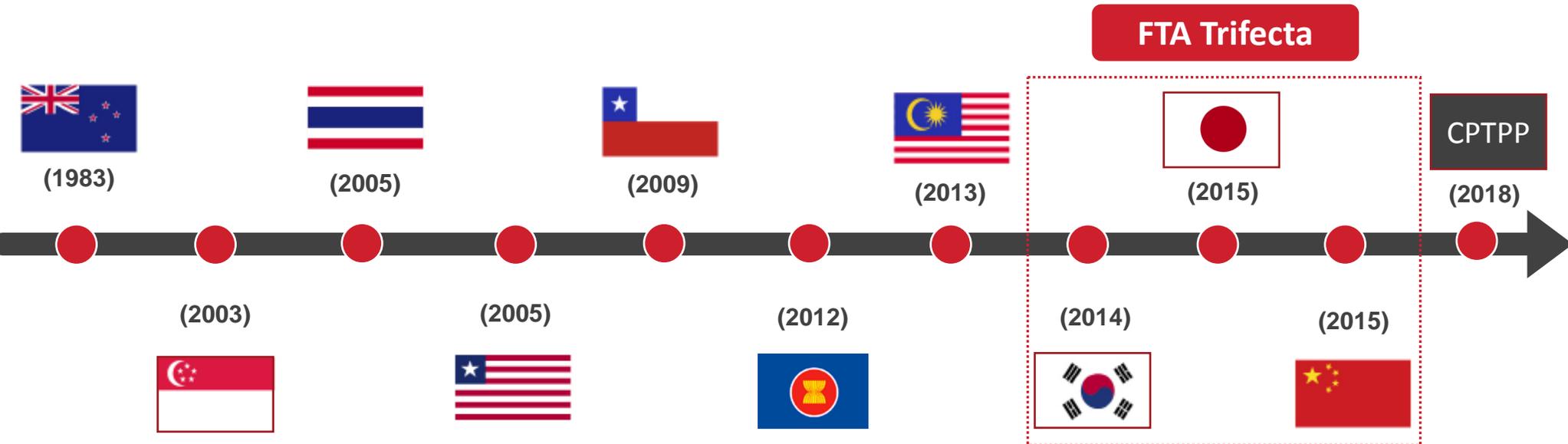
Natural gas  
7.7%



Personal travel  
5.4%

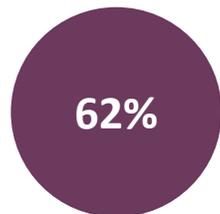


# Free Trade Agreements (FTAs) have been a major focus of Australia's trade agenda



# But are businesses using these FTAs? Adoption rates have historically been low, but recent research tells a more positive story

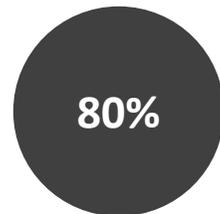
A recent study highlights FTAs are being used by internationally engaged Australian companies, predominantly those trading in goods



Australian exporters use at least one FTA to get their product into export markets

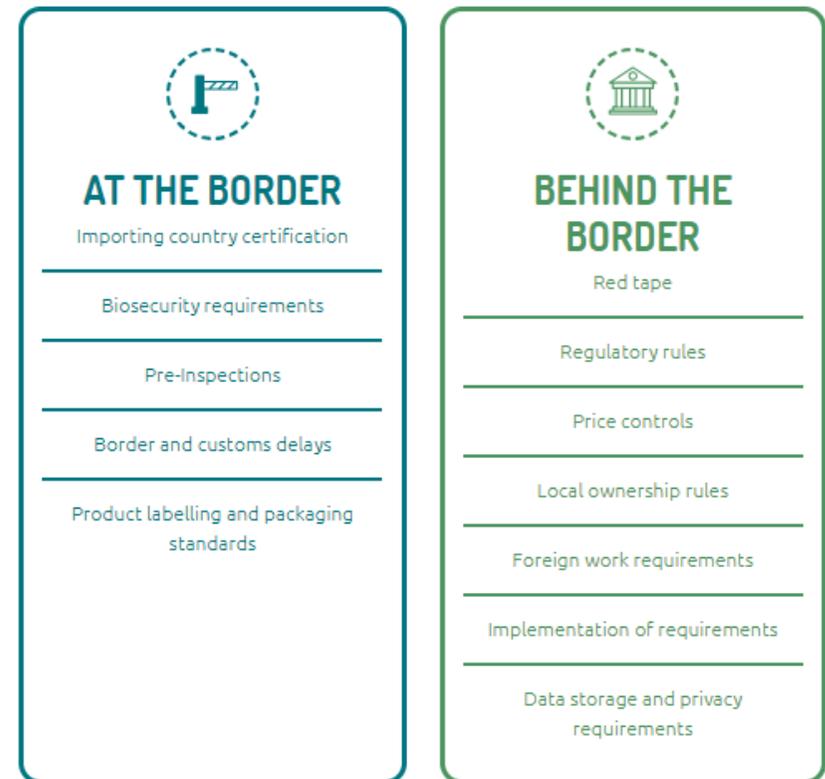


Australian services firms state that FTAs are influencing their export strategies



Utilisation of Australia's North Asian FTAs for Australia's exports

But there has been a rise in 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



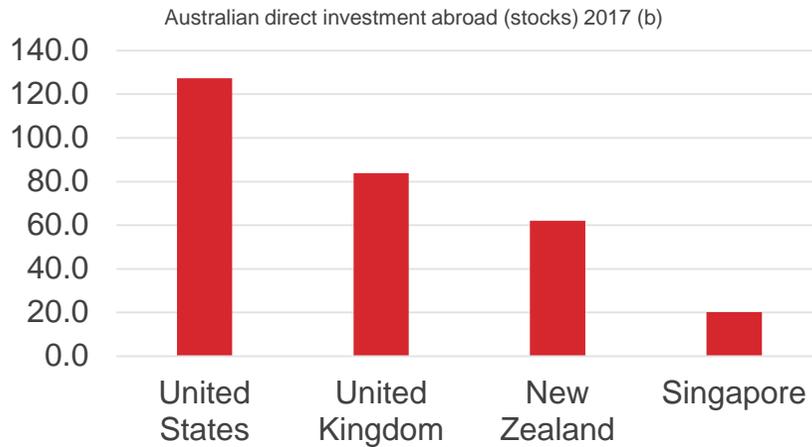
The services sector is set to become Australia's number one exporter to Asia by 2030



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

# 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%



Source: DFAT, International Investment Australia, 2017

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

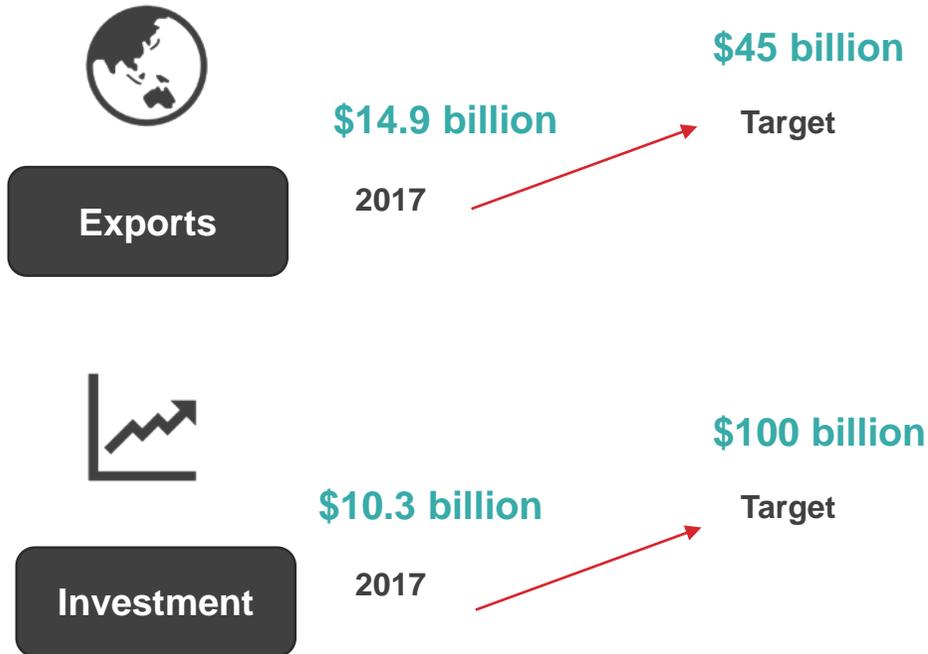


Source: Asialink Business, PwC, Institute of Managers and Leaders: Match Fit: Shaping Asia capable leaders. 2017

# 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



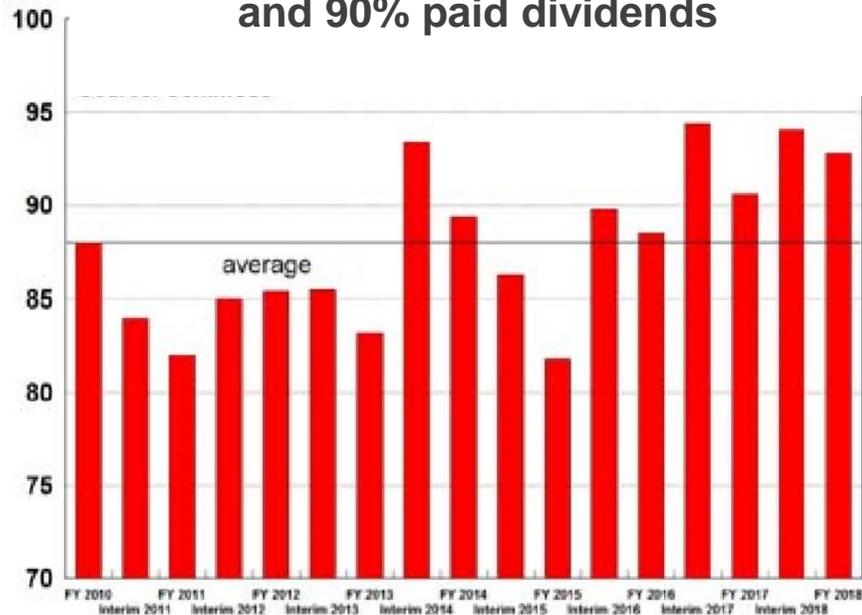
Revisit stereotypes in strategy – low cost does not mean low quality



India will not be the next China, but it will be the next India

# 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



Source: CommSec

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



Source: Bloomberg, Macquarie Research, March 2018

# Pathways to strengthen Asia capabilities

Strategies to secure Australia's business future



# How 'Match Fit' is the rest of the workforce for Asia engagement?



SMEs



Government



Industry Bodies



Not-for-profits



Universities



# Key contacts



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