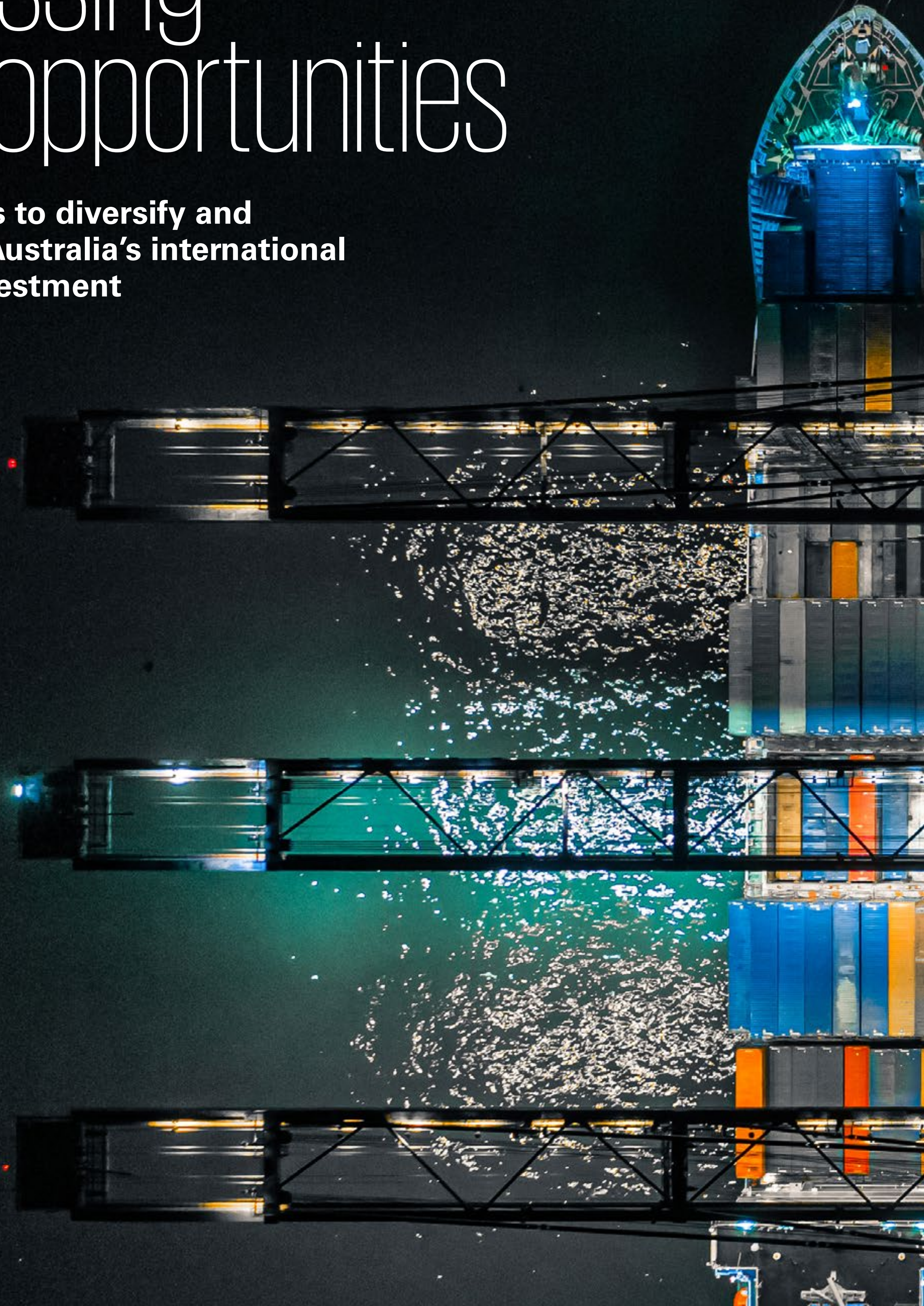
Accessing new opportunities

Opportunities to diversify and supplement Australia's international trade and investment



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Summary

Global geopolitical uncertainty has become the truism of our times. Australia's intrinsic connection to global trade and investment flows means that the future economic prosperity of the country depends on sustained international engagement.

Australian business must continue to build resilience not only to the `known unknowns', but also increase its agility and speed to address the `unknown unknowns' as well. In this unpredictable global context, over-exposure to any single market represents significant risk. Diversification through accessing opportunities in a broader range of markets is one key way that businesses can mitigate geopolitical risk and, at the same time, strengthen their business.

Australia is an exporting nation with a continuing need for foreign investment. Australia's experiences in the global trade and investment sphere since the turn of the century largely point to consistent growth, with isolated disruptions along the way. Since 2000, Australian exports have trebled in value from $145 billion to $438 billion in 2018[1], and inward investment from foreign sources has grown by 4.3% over the past 5 years to reach $3.8 trillion at the end of 2019[2].

The reality is that Australian exporters are facing a very difficult near term future. The IMF expects our economy to contract 6.7% in 2020 – this worse than the US and EU at 5.9%. Foreign investment into Australia is also falling. According to United Nations Conference on Trade and Development (UNCTAD) figures, Australia's global intake of foreign direct investment in 2019 dropped by 42% to USD 39 billion[3].

Currently, 55.5% of Australian trade is concentrated in 4 key markets – China, Japan, the USA and South Korea, with the former two alone representing 42.2%[4] and China itself [33%]. However, there are new opportunities in growing regions that complement Australian goods, services and expertise, which offer significant potential to diversify.

The rise around the world of political rather than economic logic in policymaking means that market diversity is essential for Australian businesses to minimise the risk of losing strategic ground.

> "There has been a lot of talk recently about diversification away from China. This is not a new concept. Our most senior political and business leaders have been concerned about an over-dependence on China for a number of years. That's why Australia has been successfully completing multilateral trade deals like the Trans Pacific Partnership as well as bilateral FTAs with Indonesia, Latin America and Hong Kong and a new strategic comprehensive partnership agreement with India. Business leaders need to continue to skilfully manage our 'big 4' trade partners while placing disproportionate and focused effort on developing key emerging trade markets for the next 10-20 years."
>
> **Doug Ferguson, KPMG Partner, Head of Asia & International Markets**

Of course, diversification isn't as simple as simply deciding to up and leave.

The process of new market entry and development can be a complex, long-term endeavour, in which risks and opportunities must be comprehensively assessed. It's easy to say we should diversify but a challenge to carry it out in practice. This is even more so during the current COVID-19 crisis, as many Asian and regional markets have restricted trade access and increased their focus on protecting domestic markets.

1 DFAT – Direction of trade statistics https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data
2 https://www.dfat.gov.au/trade/resources/investment-statistics/Pages/statistics-on-who-invests-in-australia
3 https://unctad.org/en/Publicationslibrary/diaeiainf2020d1_en.pdf#page=1&zoom=180,-4,846]
4 https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/BriefingBook45p/AustraliaTrade

There are key steps that Australian businesses in global markets should take to help successfully navigate the risks and opportunities of diversification:

Supplement existing markets with identified new opportunities

Diversification is about managing geopolitical risk by not 'placing all your eggs in one basket' to ensure a trade and investment portfolio which is not over-exposed to any particular markets or actors.

Access the upside whilst managing the downside

A multi-faceted market strategy enables business to balance geopolitical risk arising from engaging with certain markets while simultaneously, accessing the advantages provided in others.

Look to Asia and beyond

Indonesia, India and Vietnam are major markets where Australian businesses have the potential to form new partnerships and access significant consumer demand and capital. The 'Asian century' is real, but is not all there is. Growing markets in the Asian region represent significant future opportunities for Australia. Looking further afield, the Gulf Cooperation Council (GCC) countries also represent an important opportunity that remains relatively untapped.

Follow a strategic process

In this unpredictable environment, Australian businesses need to be more targeted and informed than ever when identifying and accessing new global opportunities. Diversifying into new markets is a challenging process and requires appropriate planning and expertise around the nuanced geopolitical circumstances at both macro level and on-the-ground.

This paper examines in some detail four geographies which Australian businesses are well-placed to explore: India, Indonesia, Vietnam, and the Gulf Cooperation Council (GCC) region.

The need to find new markets

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The geopolitical environment is something outside business' ability to control. Some in business are surprised to find that it isn't always within the government's ability to control either. We can't expect that policy-makers should or will be able to smooth away the geopolitical wrinkles that can make doing business in certain markets challenging. Business has to build its own capabilities, and resilience is key."

Merriden Varrall, Director, KPMG Australia Geopolitics Hub

Increasing global geopolitical unpredictability and the associated risks and opportunities drives the need to explore new markets. A diversified international markets strategy enables business to both access new demand and capital in high potential locations, and manage the risks of when individual markets are affected by geopolitically-driven events such as trade barriers and supply chain disruption. These two components form the core value proposition for Australian trade and investment diversification.

There are two main reasons driving the need to find new markets for Australian trade and investment:

1. Accessing the Upside – Australia can supplement its strong existing global engagement with new high potential opportunities abroad. Untapped demand, growing capital, and unexplored relationships offer significant growth potential.

2. Managing the Downside – Reducing the risk of reliance on particular markets and geopolitical scenarios, Australian organisations can limit the impact of disruptions to individual trade and investment flows by diversifying.

To date, Australian trade and investment has focused on a select number of key markets. Over the last decade, export growth has been driven by Free Trade Agreements (FTAs). In 2019, China, Japan and South Korea represented three of Australia's five largest markets. However, in some cases, the size of the prize in these large, high-profile markets has distracted Australian businesses from exploring opportunities elsewhere, and as the geopolitical climate fluctuates, has now exposed them to risk by placing 'all their eggs in one basket'.

Diversification will be a core strategy for Australian businesses in a world that shows no signs of becoming more geopolitically certain. A balanced trade and investment approach based upon limiting exposure to certain geopolitical movements and hotspots will need to be at the centre of future business and operating models. However, as important as diversification has become, there are caveats that should be considered.

- **Balance is important** – Spreading focus and effort across too many markets can limit a business and stretch resources. The size and number of markets targeted should be based upon an organisation's strategy and capabilities, and the geopolitical context.
- **Build on the present** – Australian businesses should not neglect the strong trade and investment relationships held with existing markets, which will continue to provide opportunities. A market portfolio should reduce reliance on individual markets, but not divert all attention away.

Australia's options

The opportunities in our existing major markets are well publicised. China's 1.6 billion consumers and vast investment capability, Japan and Korea's appetite for premium goods, and strong historical relationships with the USA and Europe, all present opportunities that Australian organisations should continue to nurture. But where are the new opportunities for trade and investment to diversify?

So, where to look? The variety of options for Australian businesses can be overwhelming. Opportunities include our near neighbours New Zealand, the large markets in North Asia, and growing destinations in South East Asia, Europe, and the Middle East.

The new opportunity markets for Australia will likely be driven by the same principles as previous trade and investment growth – through FTAs. Since 1983, 13 agreements have come into force[4], making Australian goods more competitive as tariff and non-tariff barriers are reduced, and encouraging greater capital investment flow.

Four markets represent particularly exciting opportunities for Australian businesses to develop, as FTAs are pursued and geopolitical relationships strengthen with Australia:

India

Indonesia

Vietnam

The Gulf Cooperation Council region (using U.A.E as a hub)

Australia has a number of existing FTAs that have driven growth in trade and investment with the relevant nations. In order of ratification, these include:

- New Zealand / ANZCERTA (1983)
- Singapore / SAFTA (2003)
- United States / AUSFTA (2005)
- Thailand / TAFTA (2005)
- Chile / ACI-FTA (2009)
- ASEAN / AANZFTA (2010)
- Malaysia / MAFTA (2013)
- Korea / KAFTA (2014)
- Japan / JAEPA (2015)
- China / ChAFTA (2015)
- Trans-Pacific Partnership / CPTPP (2018)
- Hong Kong / A-HKFTA (2020)
- Peru / PAFTA (2020)

4 https://www.dfat.gov.au/trade/agreements/Pages/trade-agreements

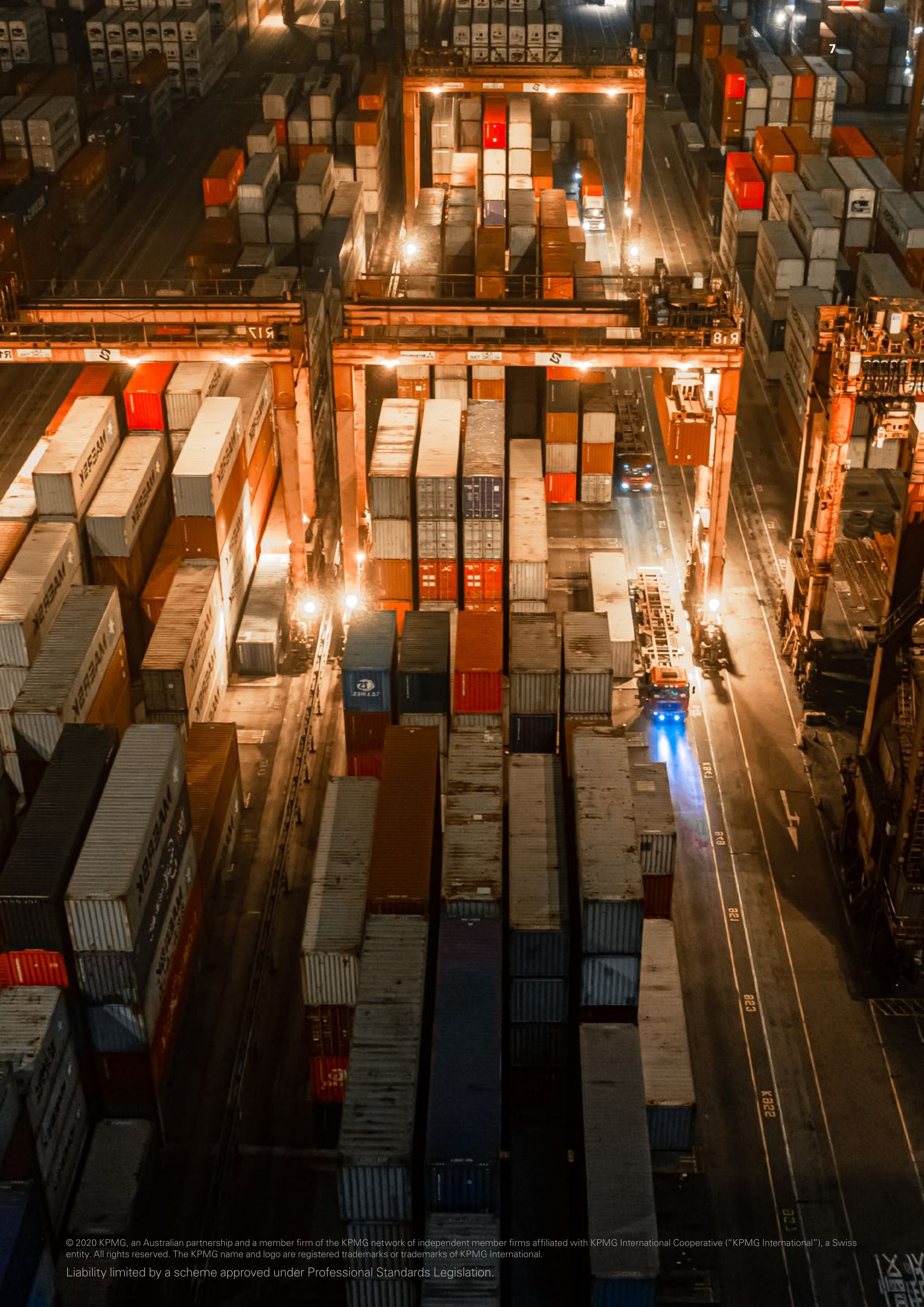
> Assuming that businesses correctly define the type and format of products and services to sell to identified target export customers within accessible markets, then they need to respond to the challenges presented by local and (other) global competitors, in addition to the regulatory and operational landscape. The euphoria created when businesses define the right 'where to play' strategy for key export markets often misdirects corporate thinking as those same businesses typically fail to consider all of the 'how to play' strategic considerations. Getting your product to export destination port is one thing, navigating the complexities arising from poor supply chain capability, lack of road, rail and air freight infrastructure and changing laws and regulations that often limit or restrict how products are handled, labelled and distributed, is another."

Peter Liddell, KPMG Partner, Supply Chain & Operations

There are further markets which should not be discounted that may represent more niche opportunities or exhibit longer-term potential:

- FTAs with **Peru and Chile** offer access to the **South American** continent, with direct flights and a significant population size. The region is relatively untapped by Australian businesses with total exports of just $193 million and $612 million respectively in 2018[5] and thus offers upside for trade and investment growth.
- **Malaysia and Thailand** are both large, growing markets in the dynamic Southeast Asian region, with whom Australia has existing FTAs. Either country has a young, highly skilled workforce that is also growing in purchasing power. Export trade has consistently grown to either market, by 4.5% and 3.2% respectively in the five years to 2018[6], and this trajectory is expected to continue as supply chains and capital flows deepen.
- **Singapore and Hong Kong** have existing FTAs signed with Australia and have represented significant historical markets, ranking 7th and 14th respectively in total trade with Australia in 2018[7]. They represent hubs through which Australian organisations can 'springboard' into the rest of the region, or test a market entry. These markets are centres of capital and thus also have potential as large sources of investment, channelled through the wider Asian region.
- **New Zealand** is Australia's closest neighbour both geographically and from a regulatory perspective, with many Australian corporate organisations having a presence in the New Zealand market and vice versa. Total trade reached $17 billion in 2018, exhibiting stable growth of 2.9% in the five years to 2018[8]. In a post-COVID-19 world likely to be segmented into regions with international travel/supply chains restricted, the potential for an Australia-New Zealand 'bubble' would facilitate smoother access to a market that is familiar and offers consistent, reliable trade and investment.

5 DFAT – Direction of trade statistics https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data
6 DFAT – Direction of trade statistics https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data
7 DFAT – Direction of trade statistics https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data
8 DFAT – Direction of trade statistics https://www.dfat.gov.au/trade/resources/trade-statistics/Pages/trade-time-series-data



India

General market stats:

GDP
US$2,719 billion

GDP growth
5.7%

GDP per capita
US$2,010

Economy sector breakdown

Agriculture **15.4%** | Industry **23%** | Services **61.5%**

Population: 1.38 billion

Unemployment rate: **5.3%**
Average age: **28.7**
Urbanisation: **34.9%**
Literacy rate: **74%** *(age 15+)*
Ease of Doing Business ranking: **63**
(up from 77 in 2019)
English language proficiency 2019: ranked 34th globally – 'moderate proficiency'[9]

Australian goods

Exports to market:
$16.2 billion

Top 3 exports
1. Coal
2. Education
3. Natural Gas

Imports from market:
$4.9 billion

Top 3 imports
1. Petroleum
2. Personal Travel
3. Professional Services

7th Australian trade rank

-3.4% Australian trade growth YoY

Investment into market:
$15.6 billion
(2018)

Investment from market:
$15.1 billion
(2018)

Opportunity summary:

- Clear growth sectors where Australian strengths align – including mining, education, health, agri-food and infrastructure.
- Large population that is growing in wealth, with central urban hubs to target.
- Growing relations and government buy-in – the India Economic Strategy aims to form closer ties by 2035.

Demand and Investment

- **Consumer categories** – Despite a relatively low GDP per capita, a growing middle class increasingly have the purchasing power to demand premium Australian goods. 129 million people have incomes over 50% higher than the per capita rate in the country[10]. This purchasing power has been consistently rising, up 7.33% since 2016[11].
- **Growing and aligned sectors** – Australian expertise and exports closely align to particular sectors where India is growing and open to foreign partnership. These include[12]:
  - **Education:** as Australia's second largest source of international students[13], there are strong existing ties between institutions and in a culture where education is highly regarded, the strong reputation of Australian institutions can be utilised.
  - **Infrastructure and housing:** ports, railways and road projects are being given priority to improve connectivity across the country. Housing construction will also become an area of focus, given the expected growth in urbanisation to 52.8% by 2050[14].
  - **Environmental services:** the Indian government has placed emphasis on sustainability and environmental protection. Products and services in this space are estimated to grow in value from to $7 billion, with pollution control activities growing by 12% a year[15].
  - **Food and agribusiness:** domestic production focuses on staples and the value-added sector remains small, representing just 2% of fruits and vegetables[16]. Indian households spend approximately 50% of income on food, and there is a growing demand for high value premium foods, and processed goods that are differentiated to Indian product.
  - **Health and biotechnology**: India's large number of Universities and research institutes has formed a base of skilled labour in the health space. Healthcare spending sits at US$30 billion per year[17] – heavy investment is required in new equipment and facilities.
  - **Mining:** a number of Indian states contain significant mining operations. With mining equipment in India worth over US$2 billion[18], Australian mining businesses are well placed to partner and invest in Indian operations.
- **Open to investment** – Finance Minister Nirmala Sitharaman announced intentions to open parts of the economy to foreign investment, particularly commercial mining and defence manufacturing – areas in which Australia is strong[19].
- **Local loyalty** – Indian consumers are loyal to domestic brands, and international imported products must stand out to compete. Particularly in food products, 47% of consumers claim to prefer Indian brands, with the trend consistent in beauty and healthcare products at 33%[20].

Channels and Supply Chains

- **Digital dominance** – By 2030, 40% of all purchases in India are expected to be driven by online engagement, compared to 22% today[21]. Indian consumers are savvy and take interest in the products they buy – 85% claiming to check at least two data sources prior to making a purchase.
- **Accessing urban hubs** –Though 67% of Indians are still located in rural areas, there are over 50 cities in India with populations of greater than one million[22]. Regional hubs such as Mumbai (12.5 million) and Delhi (11 million) represent both logistics centres and significant consumer markets.
- **New engagement** – For many years, Australian business has tended to put India in the 'too hard' basket. Key challenges have been evident across regulation and politics. The Australian government has argued that this must change for three main reasons: scale, complementary economies, and spreading risk[23]. Underpinning Australia's 'India 2035 Economic Strategy' is the understanding that India's economic direction is clear, and Australia needs to make a strategic investment in the country backed by a high-level and multidimensional strategy[24].

"

The present geopolitical context provides Australia and India the opportunity to enshrine the economic relationship in fundamental shared values and strategic interests – moving away from the clichéd 3Cs of Cricket, Curry and the Commonwealth, and an otherwise transactional attitude to business. A bilateral economic relationship built on these pillars will enable incremental and sustained growth into the longer term."

Jai Patel, Director,

KPMG India Business Practice

Geopolitical context

- Eurasia Group's political trajectory rankings rate India's short term prospects as negative, however, the longer term trajectory is neutral. Social tensions alongside fiscal risks driven by COVID-19 are likely to result in further protectionist policies and lower likelihood of touted economic liberalisation reforms.
- When thinking about India, we need to bear in mind that even before COVID-19, India faced significant geopolitical challenges for business to navigate in order to be successful[25].
  - Economic reforms are slowly taking shape, however while unemployment rates are growing, growth is slowing[26].
  - Tensions between central and state governments are fragmenting policy implementation.
  - COVID-19 has raised fiscal risks for India, and increases the likelihood of more protectionist measures to promote its 'Make in India' program[27].
  - Social tensions around inequality, nationalist political developments such as the Citizen Amendment Act and National Register of Citizens[28], and the revocation of the special status of Jammu and Kashmir,[29] are likely to remain.
  - Prime Minister Modi's self-reliant approach and concerns about potential impacts on domestic enterprises have resulted in a reluctance to join the Regional Comprehensive Economic Partnership (RCEP) and these are not likely to lift in the immediate future[30].
  - India is highly concerned about the regional balance of power and pivoting towards partnership with the United States for security.

9 https://www.ef.com/wwen/epi/#, accessed 7 July 2020
10 https://santandertrade.com/en/portal/analyse-markets/india/reaching-the-consumers
11 World bank, 2017
12 AIGroup
13 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/India/Market-profile
14 UN population database, all 2020
15 AIGroup
16 AIGroup
17 AIGroup
18 AIGroup
19 Eurasia Group, Briefing, 18 May
20 BCG
21 WEF
22 https://santandertrade.com/en/portal/analyse-markets/india/reaching-the-consumers
23 https://www.dfat.gov.au/geo/india/ies/overview.html
24 https://www.dfat.gov.au/geo/india/ies/overview.html
25 With thanks to insights from KPMG's alliance partner, Eurasia Group
26 https://www.eastasiaforum.org/2020/03/04/modinomics-in-a-spot-of-bother-as-growth-slows-in-india/
27 https://www.eastasiaforum.org/2020/06/08/unmasking-india-and-indonesias-covid-19-challenges/
28 https://www.eastasiaforum.org/2020/04/09/the-protests-over-indias-citizenship-amendment-act/
29 https://www.eastasiaforum.org/2019/09/27/indias-declining-democracy/
30 http://lowyinstitute.org/the-interpreter/indias-rcep-reticence

Indonesia

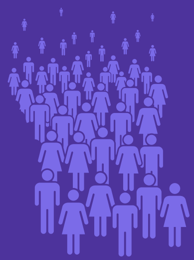
General market stats:

GDP	GDP growth	GDP per capita
US$1,042 billion	4%	US$3,894

Economy sector breakdown

Agriculture	Industry	Services
13.7%	41%	45.5%

Population: 272 million



Unemployment rate: **4.5%**
Average age: **31.1**
Urbanisation: **56.5%**
Literacy rate: **96%** *(age 15+)*
Ease of Doing Business ranking: **73**
(Same as in 2019)
English language proficiency 2019: ranked 61st globally – 'low proficiency'[31]

Australian goods

Exports to market: **$6.6 billion**

Top 3 exports
1. Education
2. Coal
3. Live animals

Imports from market: **$5.1 billion**

Top 3 imports
1. Personal Travel
2. Petroleum
3. Tobacco

14th Australian trade rank

3.3% Australian trade growth YoY

Investment into market: **$5.6 billion** (2018)

Investment from market: **$1.1 billion** (2018)

Opportunity summary:

- Close proximity to Australia offers supply chain efficiencies and access to a growing, large market.
- Digital connectivity of consumers offers low-cost channels to market, strengthened by IA-CEPA agreement that is deepening ties.
- Opportunities in agriculture, energy and healthcare, alongside personal consumer goods.

Demand and Investment:

- **Trend towards 'experience'** – As incomes rise, consumers increasingly demand experiences as well as physical goods. Spending on leisure has grown 40% since 2018, and personal travel is expected to treble in the coming years[32].
- **Complementary sectors**
  - **Agriculture:** Indonesia's major agricultural products include palm oil, coffee, cocoa and maize. Australian wheat, live export, sugar, horticulture and cotton are not widely produced, making Indonesia a significant market for these Australian sectors[33].
  - **Education:** growing engagement in the sector is a key pillar of IA-CEPA, with a focus on importing Australian vocational and higher education. The Indonesian government has placed emphasis on improving human capital, with Australian institutions starting to play a supporting role in the sector.
  - **Energy and infrastructure:** President Widodo's policies to improve maritime infrastructure and connectivity between regions[34] offers opportunity for Australian experience in major projects to be utilised. This includes in energy, with a generation target of 35,000 Giga-Watts[35].
  - **Health and aged care:** the existing system is fragmented, and Indonesians currently spend over $1.4 billion per year on overseas treatments due to lack of domestic capacity. 85% of equipment is imported[36], with Australian services and suppliers highly regarded.
  - **Fashion and beauty:** imported cosmetics were worth US$441 million in 2015, and the beauty industry is a focus area for economic growth[37]. Indonesians are highly engaged in international fashion trends.
  - **Technology:** the government's e-commerce roadmap aims to create 1,000 new tech startups by 2020, using the 280 million smartphones across the country to drive new growth[38].
- **Investment list constrains opportunities** – Foreign businesses can only invest in certain sectors, that are not mentioned in the 'negative investment list'[39]. Changes to this list create uncertainty in ongoing investment potential.

Channels and Supply Chains

- **Proximity to Australia** – Within a two hour flight from North Australia, ocean and air freight options both enable fast trade with Indonesia, particularly aiding fresh, perishable products' access to over 270 million consumers.
- **Digital growth** – On average, individuals spend over 5 hours on social media per day[40] – making popular sites such as Facebook, Tokopedia, Goiek, Bukalapak, Traveloka and Line key marketing channels. More than 100 million Indonesians have access to internet[41].
- **Stringent import licenses** – Though undergoing continuous reform, there are specific 'API' licenses that are required for import into Indonesia[42]. Australian businesses must partner with importers in the market, which is complex.
- **FTA signing** – The IA-CEPA agreement coming into force in 2020 will present new opportunities for engagement with Indonesia, including market access enhancements.

> "Indonesia is expected to be the fourth largest economy in the world by 2030. As one of our closest neighbours and with two free trade agreements to facilitate the trade in goods and services between our countries, Australian businesses are better positioned than most to expand their products and services into an exciting future with Indonesia."
>
> Leonie Ferretter, KPMG ASPAC Lead Partner Trade and Customs

Geopolitical context

- Eurasia Group's short and long term trajectories for political stability in Indonesia are neutral – driven by continued reform efforts across the economy and political system, and the likelihood of stability in the ruling coalition.
- Indonesian President Jokowi tends to have a domestic rather than international focus, also aiming to act as a non-partisan player in the global sphere. However, that does not mean that the kinds of geopolitical trends being seen around the world aren't also relevant in Indonesia.
  - Long running issues in Indonesia include transparency and availability of information, a challenge that came to the fore in the management of COVID-19[43].
  - Decentralised governance has seen provincial-level authorities take their own action to respond to COVID-19, further exacerbating political tensions, including within President Jokowi's own party[44].
  - Challenges to the investment climate are the target of the new Omnibus Law on Job Creation. However, the bill is unlikely to address the underlying issues, eg, restrictions on FDI, the highly complex regulatory landscape, weak infrastructure, and higher labour costs. The bill also faces heavy opposition due to its perceived lack of transparency, and particularly in the light of increasing unemployment from the coronavirus[45].
  - While the country's economic fundamentals are strong, Indonesia has suffered significant considerable health and economic damage from COVID-19, including food shortages, which could lead to political upheaval, as occurred following the 1998 Asian Financial Crisis which resulted in the overthrow of then-President Suharto[46].
  - Mass demonstrations have been used as tools by the people to draw the government's attention to policy failings, and are likely to increase after COVID-19 restrictions ease[47].

31 https://www.ef.com/wwen/epi/#, accessed 7 July 2020
32 Neurosensum, Consumer research insights https://neurosensum.com/
33 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Indonesia/Market-profile
34 https://www.cia.gov/library/publications/resources/the-world-factbook/geos/id.html
35 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Indonesia/Market-profile
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40 Neurosensum, Consumer research insights https://neurosensum.com/
41 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Indonesia/Market-profile
42 https://www.trade.gov/knowledge-product/exporting-indonesia-market-overview?navcard=4281
43 https://www.lowyinstitute.org/the-interpreter/indonesia-s-democracy-flawed-do-people-care
44 https://www.lowyinstitute.org/the-interpreter/indonesia-health-and-economic-crisis-also-threatens-national-unity
45 https://www.eastasiaforum.org/2020/05/25/covid-19-unmasks-indonesias-investment-conditions/
46 https://www.eastasiaforum.org/2020/05/09/the-covid-19-pandemic-pulls-at-the-seams-of-southeast-asia/
47 https://www.lowyinstitute.org/the-interpreter/indonesia-s-democracy-flawed-do-people-care

Vietnam

General market stats:

GDP
US$245 billion

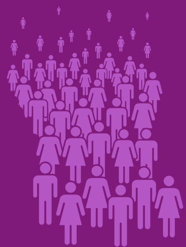
GDP growth
6%

GDP per capita
US$2,567

Economy sector breakdown

Agriculture	Industry	Services
15.3%	33.3%	51.3%

Population: 98 million



Unemployment rate: **2%**
Average age: **31.9**
Urbanisation: **37.3%**
Literacy rate: **95%** *(age 15+)*
Ease of Doing Business ranking: **70**
(down from 69 in 2019)
English language proficiency 2019: ranked 61st globally – 'low proficiency'[48]

Australian goods

Exports to market:
$5.9 billion

Top 3 exports
1. Coal
2. Education
3. Iron Ore

Imports from market:
$6.1 billion

Top 3 imports
1. Telecoms Equipment
2. Personal Travel
3. Petroleum

13th Australian trade rank

21.7% Australian trade growth YoY

Investment into market:
$2.4 billion
(2018)

Investment from market:
$0.8 billion
(2018)

Opportunity summary:

- Highly skilled and educated young workforce that increasingly demands high quality imported goods.
- A series of sectors being driven by government investment in which Australia has opportunities, including agribusiness, mining, pharmaceuticals and infrastructure.
- Reforming economy, making doing business in Vietnam more efficient.

Demand and Investment

- **Young and wealthy population** – 46% of the population are under the age of 30[49], whilst GDP per capita has grown by 2.7x between 2002 and 2018[50]. Vietnamese consumers increasingly demand high-quality imported goods and are in-touch with global trends.
- **Key sector opportunities**
  - **Agribusiness:** imports have dramatically grown in a number of sectors, including horticulture (48.7% growth between 2015 and 2016), wheat, seafood, and meat where Vietnamese consumption is in the top six growth markets globally. Australian produce is considered premium, and has faster access to market compared to competitors[51].
  - **Mining:** Vietnam has major deposits of coal, bauxite and titanium, and has discovered over 5000 deposits[52]. However, there are limited domestic mines and there are opportunities to co-invest and produce expertise and services.
  - **Pharmaceuticals:** Vietnam imports over 80% of its medicines and health products. Growing at double digits, the sector is also focusing on growing services, availability and increasing domestic production[53].
  - **Infrastructure:** 44 projects are planned, with foreign investment restrictions being lifted in the sector. Investment is growing as Vietnam's urban population reaches nearly 50%[54].
- **Modernising, urban consumers** – Brand presence of multi-national businesses is growing in urban malls, though malls still compete with local shopping districts. Consumers are receptive to global trends and demand renowned foreign products.

Channels and Supply Chains

- **E-commerce driven** – 80% of the population over 15 have a smartphone[55], with sites such as Lazada and Tiki increasingly used.
- **Bureaucracy** – Operating in Vietnam can be complex and involve significant licensing. Regulations often change[56], making local partnerships importance for market entry.
- **Educated workforce** – Vietnam has a high level of literacy, and a dynamic skilled workforce as a result of its youthful population. Businesses have access to quality labour and suitable technical expertise.
- **Sustainability** – Vietnamese businesses are increasingly focused on improving environmental impact, as the large textiles industry uses water and creates waste. More than 100 sustainability projects have been initiated since 2003[57], which must be considered in future supply chains to Vietnam.

Geopolitical context

- Positive short and long term political trajectories predicted by Eurasia Group. Strong responses to COVID-19 have improved government support and legitimacy, alongside reform of State Owned Enterprises (SOEs).

- The Vietnamese government's strong response to the coronavirus outbreak has resulted in an extremely low case rate and zero deaths (at time of writing), such that restrictions are being lifted and the country is in a good position for economic recovery. However, while the outlook for Vietnam is more positive than much of the world, challenges still exist within the broader geopolitical context.

  – The government's handling of COVID-19 has strengthened its legitimacy and increased public goodwill. Political stability seems likely to continue.

  – Vietnam is benefiting from trade diversion and supply-chain shifts which will create long-term boosts to the economy. These will be complemented by, for example, reforms to SOEs and the financial sector, and implementation of the EU-Vietnam FTA and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP)[58].

  – Vietnam's growth rate was the lowest in 11 years, below the target of 6.8%, which will have heavy social and economic impacts[59]. The slowdown could exacerbate existing frustrations around inequality, education, health-care and land-tenure policies could lead to social unrest[60].

  – Party politics remains important in Vietnam in the lead up to the 13th National Congress scheduled for early 2021. The agenda includes the ongoing commitment to rejecting capitalism, likely to manifest in continued state capitalism and a role for SOEs. How fast and how deeply these are reformed may depend on the detail in the CPTPP and other trade agreements[61].

  – Contestation over maritime claims in the South China Sea which have been ongoing during COVID-19 may see growing geopolitical rivalry between Vietnam and China[62].

  – Vietnam is considered to be one of the most vulnerable countries to the effects of climate change, in particular, rising sea levels. Low agricultural yields because of salt sea water seepage is already causing challenges including rural to urban migration to escape poverty[63]. The impacts of climate change have implications for economic growth, health, political stability and non-traditional security, including social unrest, in the medium term.

> "In recent times, Vietnam opened its doors to facilitate more global/regional trade opportunities within the country and also in support of receiving more inbound foreign investment to help fund major infrastructure projects. This change has contributed to the growing health and wealth of the Vietnamese economy and aided the slow but steady rise of Vietnamese middle income earners. There is an increasing opportunity for Australian businesses to export into a growing Vietnamese consumer market as well as establish operations and enterprises in Vietnam that provide access to a growing SEA trade corridor. At the same time any Australian business seeking to operate in Vietnam needs to deal with the legacy social and ethical issues (such as bribery and corruption, slave labour, challenging road infrastructure etc) that still remain prevalent today."
>
> Peter Liddell, KPMG Partner, Supply Chain and Operations

48 https://www.ef.com/wwen/epi/#, accessed 7 July 2020
49 Societe Generale
50 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries
51 https://www.austrade.gov.au/australian/export/export-markets/countries/vietnam/industries/agribusiness
52 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Vietnam/Industries/Mining
53 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Vietnam/Industries/healthcare
54 https://www.austrade.gov.au/australian/export/export-markets/countries-and-economies/vietnam/industries/transport-infrastructure
55 019 report by Google and the Mobile Marketing Association
56 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries
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58 https://www.economist.com/asia/2013/10/19/blowing-in-the-trade-winds
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62 https://thediplomat.com/2020/05/behind-vietnams-covid-19-response-deep-distrust-of-china/
63 https://theconversation.com/climate-change-is-triggering-a-migrant-crisis-in-vietnam-88791

The Gulf Cooperation Council (GCC) region

General market stats:

GDP US$1,650 billion

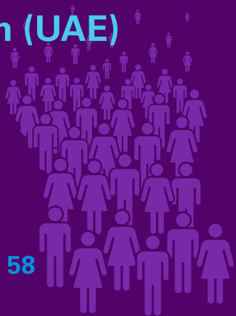
GDP growth **1.7%** *% (average across member states)*

GDP per capita **US$34,933** *(average – low at US$16,415, high at US$68,794)*

Economy sector breakdown

Agriculture	Industry	Services
0.9%	49.8%	49.2%

Population: 9.8 million (UAE)



Unemployment rate: **2.3%**
(average – low at 0.1%, high at 6.0%)

Average age: **38.4 (UAE)**

Urbanisation: **87%**

Literacy rate: **93%**
(age 15+, % UAE - 2015)

Ease of Doing Business ranking: **58**
(average – high of 16, low of 83)

English language proficiency 2019: ranked 70th globally – 'very low proficiency'[64]

Australian goods

Exports to market:
$4.2 billion

Top 3 exports
1. Transport
2. Petroleum
3. Meat (ex. Beef)

Imports from market:
$3.4 billion

Top 3 imports
1. Transport
2. Petroleum
3. Copper & Alumina

17th Australian trade rank

22.5% Australian trade growth YoY

Investment into market:
$3.4 billion
(2018)

Investment from market:
$11.2 billion
(2018)

Opportunity summary:

- Significant investment in infrastructure will both improve intra-regional supply chains, and present opportunities for Australia to use expertise in major projects.
- Diversification of economies away from oil and gas offers opportunities for co-investment in new industries.
- Direct flights to UAE and Qatar offer potential to use these locations as hubs, through which to access the wider GCC region that is increasingly well connected.

Demand and Investment

- **Economic diversification** – Dependent upon oil and gas revenues, representing up to 95% in some Gulf states[65], most nations in the region are seeking to diversify their economies into sectors in which Australia can support with expertise and co-investment.
- **Infrastructure investment** – States across the region are improving internal and regional connectivity with major infrastructure projects. Presenting potential for Australia to utilise expertise in construction, this will also improve supply chain efficiency. Kuwait ($325 billion), Qatar ($300 billion), Saudi Arabia and the UAE are major investors[66].
- **Food import importance** – 70% of all food in the GCC is imported, as a result of the harsh regional climates. The market is competitive to proximity with Europe, however Australia has brand recognition as a premium supplier of beef, lamb and cheese[67].
- **Brand loyalty and luxury preference** – 34% of consumers in the UAE purchase their favourite brands, no matter the cost. The very high GDP per capita means that luxury brands are more prominent and preferred, and loyalty rewards are expected – with 69% of customers drawn in by these programs[68].
- **Beauty and healthcare** – Average purchases per person of cosmetics is US$344 in the UAE – retail space for beauty products has grown 30% per year since 2017[69]. Consumers in the region are concerned about health and demand premium beauty products.

64 https://www.ef.com/wwen/epi/#, accessed 7 July 2020
65 https://www.cia.gov/library/publications/resources/the-world-factbook/fields/214.html
66 https://www.cia.gov/library/publications/resources/the-world-factbook/fields/214.html
67 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/United-Arab-Emirates/Industries/food-and-beverage
68 UAE Consumer profile by Santander Trade
69 AIGroup

Channels and Supply Chains

- **Direct flights** – There are daily direct flights from Australia to the UAE and Qatar. These markets can be used as an entry point to the rest of the region for air freight products, then leveraging internal regional supply chains to access additional markets.
- **Unified customs regulation** – Across the Gulf Cooperation Council (GCC), some trade and border regulations are synchronised, including for most import labels[70], which offers efficiency in accessing the broader region from entry point hubs.
- **Digitised trade documentation** – Trading with GCC nations is simpler as a result of a series of technology-driven capabilities implemented in 2019. In Saudi Arabia, this includes an electronic trade single window, online certification for imports, and risk-based inspections[71].
- **Tax rates** – Notably low corporate tax rates incentivise businesses to operate in the region, with 0% levied in the UAE and Bahrain[72].
- **Offline prominence** – 84% of consumers in the UAE prefer shopping in person, and e-commerce represents just 2% of total retail[73]. 56% of Emiratis have never purchased from abroad[74]. Internet in some markets remains partially restricted, meaning Australian businesses should seek physical presence in market.

Geopolitical context

- Eurasia Group's political trajectory for the region varies by country due to unique internal circumstances, however the UAE exhibits neutral short-term and positive long-term potential. Financial resources and growing international engagement are driving this improvement.
- The geopolitics of energy, combined with historic and deep rifts in the Middle East, in particular the unresolved Gulf Crisis of 2017[75], make the GCC a region that is full of potential, but highly complex to navigate successfully.
- The GCC states have for decades greatly benefited from the global rise in use of fossil fuels. However the acceleration of alternative, renewable energy sources is changing energy geopolitics in ways that could challenge their economic growth, political strength, and strategic importance[76].
- One of the primary goals of the GCC when it was established in 1981 was to strengthen security and economic relations among the member countries and to promote cooperation among the countries' citizens. The member countries seek to diversify their growing economies away from a reliance on oil, as recommended by the World Economic Forum in 2008[77]. GCC states have made some of the most extensive legislative reforms globally in recent years. In 2019, GCC nations made 35 major reforms, including regulatory streamlining and public service improvements[78].
- Leadership transitions in Saudi Arabia and the UAE have seen the emergence of less cautious approaches to foreign policy and the achievement of foreign policy goals. This includes building and projecting power and strategic influence within and beyond the Gulf, and a willingness to break up existing regional structures.
- The Qatar blockade has hampered inter-regional trade, foreign investment, and the region's ability to build on recent successes in transforming the region into a global travel, communications, finance and logistics hub. A way out is not clear.
- The inability of the GCC to facilitate negotiations in this crisis challenges its future viability as a regional organisation, and undermines regional stability[79].
- The unresolved intra-Gulf tensions of June 2017 means negotiations for a GCC-Australia FTA have stalled[80].

> "Whilst not traditionally thought of as an area of big market expansion for Australian businesses, there remains real opportunities in the GCC as the scoping study into a free trade agreement determined. The UAE in particular, as it moves away from traditional commodities to a diversified economy, offers opportunity for Australian business in education, food, and infrastructure. Opening Australian businesses eyes to opportunities outside of our traditional partners and Asia should be key to our export diversification strategies."
>
> Leonie Ferretter,
> KPMG ASPAC Lead Partner Trade and Customs

70 https://www.austrade.gov.au/Australian/Export/Export-markets/Countries/United-Arab-Emirates/Industries/food-and-beverage
71 https://www.worldbank.org/en/news/press-release/2019/10/24/doing-business-2020-gulf-cooperation-council-states-implement-record-number-of-business-climate-reforms
72 https://tradingeconomics.com/country-list/corporate-tax-rate
73 UAE Consumer profile by Santander Trade
74 UAE Consumer profile by Santander Trade
75 In 2017, Egypt and GCC members Saudi Arabia, the UAE and Bahrain instigated a trade and diplomatic blockade against fellow CGG member Qatar (the 'Gulf crisis'). The GCC has so far been unable to resolve this crisis. However, for four decades prior to the blockade, the GCC had been an effective mechanism for members to build united responses to regional crises. The Qatar blockade aside, the GCC has largely been a reliable and resilient regional organisation, partly responsible for the broad perception that the Gulf is more stable than much of the surrounding area.
76 https://thegeopolitics.com/the-new-energy-geopolitics-and-the-gulf-arab-states/
77 https://www.weforum.org/reports/gcc-countries-and-world-scenarios-2025
78 https://www.worldbank.org/en/news/press-release/2019/10/24/doing-business-2020-gulf-cooperation-council-states-implement-record-number-of-business-climate-reforms
79 Rory Miller (2019), 'Managing Regional Conflict: The Gulf Cooperation Council and the Embargo of Qatar', Global Policy, Volume 10, Issue S2, available at https://onlinelibrary.wiley.com/doi/full/10.1111/1758-5899.12674
80 https://www.dfat.gov.au/trade/agreements/negotiations/agccfta/Pages/australia-gulf-cooperation-council-gcc-fta

Pursuing potential

The opportunities in these new markets are significant, however accessing global markets and driving trade and investment growth is a complex process, no matter the size of your business. There are fundamental considerations for developing an international markets strategy that will help you to reduce geopolitical risk and enter/expand into a market in a measured, targeted way.

1. Ambition

Take a step back. What do international markets mean to your business? How would your business model, operations, risk and growth profiles be affected by increased global trade, including exposure to geopolitical trends? Determine your ambitions for trade and foreign investment over the short, medium and longer terms – providing you with a lens to ensure you view all new opportunities by whether they align to your objectives.

2. Identification

Invest the time and resources to thoroughly analyse opportunities and geopolitical influences. Forming a deep understanding of the markets you seek to engage with, and due diligence on potential partners, investors, geopolitical actors or customers, will reduce risk and ensure that you only pursue the opportunities that truly have value for your business.

3. Connection

Engaging the right partners on the ground in the market is critical to success. Develop solid business relationships and review local regulation and legislation prior to forming legal agreements – they may differ to those you are used to in Australia. Know your rights in the market, and be prepared to say 'no'.

4. Qualification

Conduct trials and tests to prove market demand, prior to jumping into long-term commitments. Verify that your in-market partners can effectively execute local distribution of your product. Qualifying the practical components of your market engagement and the likely ongoing impacts of geopolitics will allow you to forecast the effect on your current operations, and enable you to refine your supply chains.

5. Implementation

Form a logical, phased approach to implementing your engagement with international markets. This may include determining your presence and business structure in the market, but also an exit strategy. Map out the activities that you need to fulfil over time, including strategies to mitigate against geopolitical risk, and determine the level of investment that they will require. Aligning to your ambition for international trade, create a series of next steps to guide your market development in the short and longer terms, considering how geopolitical scenarios may impact this plan.

6. Cultivation

Success in international markets requires consistent effort and focus. Commit to business development and working closely with in-market stakeholders to grow your organisation in line with your strategic ambitions. Learn the business culture and be responsive to changing geopolitical conditions and scenarios that could affect trade. Your strategy should be adaptive and frequently revisited as you work towards realising your international market objectives.

What can KPMG do for you?

KPMG is a global consulting, tax and audit business, with offices in over 150 countries worldwide, and coverage across every state in Australia.

Our Australian firm has a number of capabilities which can support you in navigating geopolitics and what this means for your business.

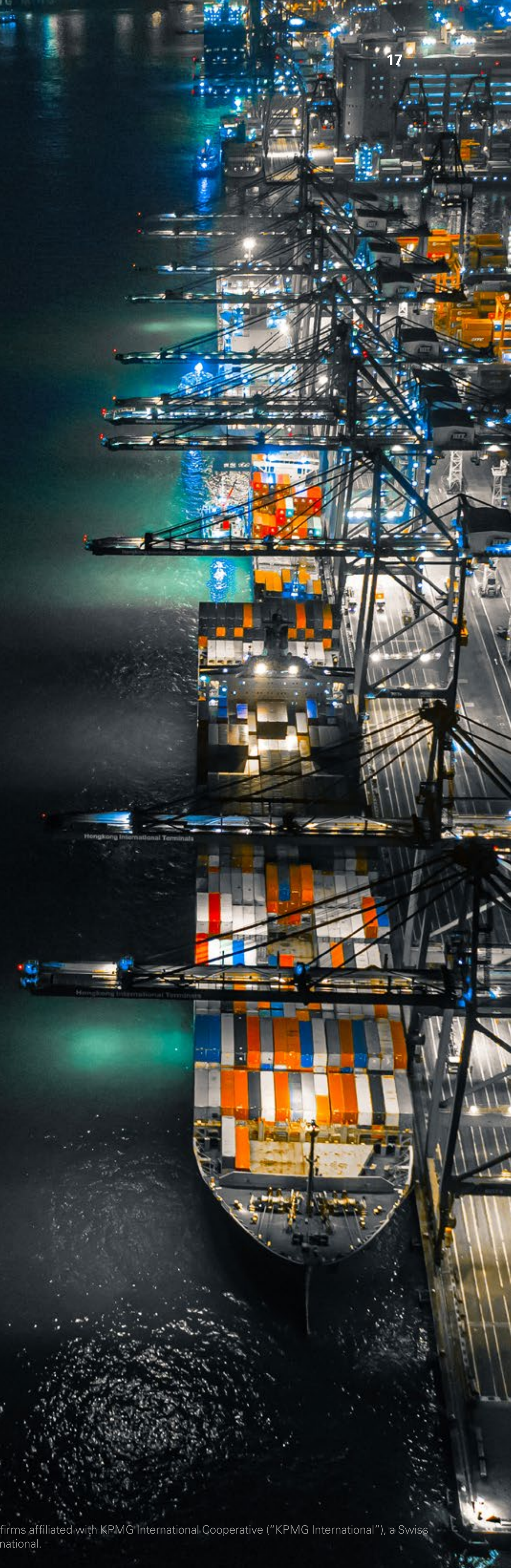
Australia Geopolitics Hub

The Australia Geopolitics Hub (AGH) provides solutions and thought leadership to track and effectively navigate geopolitical complexity and risk. The AGH draws on specialised capabilities across KPMG in Australia and globally to provide tailored and practical roadmaps for success in these uncertain geopolitical times.

Access Asia

Access Asia is KPMG's response to the increasing trade opportunities in the high growth Asian region. We utilise our teams of dedicated specialists to assess opportunities in international markets and build relevant strategies for accessing them.

Understanding and entering international markets is complex, and as such we will tailor our analysis and work to your needs. Our Australian team members have extensive experience of living and working in key Asian markets, enabling us to bring their first-hand knowledge to bear for you.



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