Welcome to the latest edition of business envoy.

This edition focuses on the Brexit referendum outcome in the United Kingdom and its likely implications for Australia’s trade, investment and tourism interests.

The UK decision has generated considerable uncertainty in the financial markets and in the real economy. However, while there will be challenges, the opportunities for Australia are significant.

Australia makes an attractive trading partner; we’re an open, innovative and pro-trade country with a stable, reliable and prosperous economy. We share a unique bond with the UK forged not only through a shared history but also through the values we hold in common.

Prime Minister Malcolm Turnbull has made clear that Australia is interested in concluding a free trade agreement with the UK when the time is right.

A key question to be resolved is what will be the UK’s longer term relationship with the EU. There are a number of options and all of them have implications for the UK’s trade and wider economic relations with partner nations.

During my recent visit to London, I discussed these matters with senior ministers in the UK Government, including my counterpart the Secretary of State for International Trade, Dr Liam Fox.

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We agreed to establish a bilateral Trade Working Group that will focus on scoping out the parameters of a future FTA. I am optimistic that the UK Government is as committed as we are to putting in place the most trade liberalising, market-oriented policies that will create a positive environment for the growth of our trade, investment and tourism relationship. I am particularly keen to attract further productive UK investment to Australia. UK businesses have $76 billion in direct investments in Australia, and when portfolio and other investment is included, this figure is close to $500 billion. I believe there is considerable scope to expand our investment linkages that will generate growth and employment opportunities.

My visit to the UK was also a valuable opportunity to discuss ways in which our strong people-to-people links might be strengthened, including exploring opportunities for Australians seeking to live and work in the UK for limited periods.

In tourism terms, there were almost 700,000 British visitors to Australia last year. Collectively, they spent almost $4 billion here. The UK Office for National Statistics reports that over 600,000 Australians visited the UK in 2015-16. Between them, these Australians spent more than one billion pounds – or more than A$2 billion.

The EU, as a bloc and as currently constituted, is the world’s second largest economy, Australia’s second-largest goods and services trading partner, and our largest source of foreign investment. In my discussions in Brussels with the European Commissioner for Trade, Cecilia Malmström, and in my address to the European Parliament, I underscored Australia’s commitment to moving expeditiously to free trade negotiations. It has been more than 20 years since Australia’s trade access to the EU market was updated. An FTA promises to go a long way towards levelling the playing field for Australian business in the lucrative, but often challenging, EU market.

We will be looking to build on our very close and effective partnerships with both the EU and UK to make them even stronger building on our immense people-to-people, cultural and historical links. We benefit substantially from our trade, investment, tourism, education, and work and travel arrangements. We will work to make sure these mutual benefits grow, building on these opportunities for an even closer economic relationship.
The UK will remain a global power: a Permanent Five member of the United Nations Security Council, a NATO member, a nuclear-weapons state, the world’s fifth-largest economy, an outward-looking nation with immense soft power and a strong diplomatic network. It will be looking for opportunities to demonstrate this global role, particularly with its closest partners, including Australia.

In their first conversation, Prime Minister Malcolm Turnbull indicated to UK Prime Minister Theresa May Australia’s interest in an Australia-UK Free Trade Agreement. Prime Minister May welcomed this message, saying: “It is very encouraging that one of our closest international partners is already seeking to establish [a free trade deal]. This shows that we can make Brexit work for Britain.” Since then, Prime Ministers have reiterated this ambition and bilateral Trade Ministers have agreed to establish a Trade Working Group to scope out the parameters of a future FTA.

The UK is our seventh largest two-way trading partner, our second largest two-way trading partner in services, the second largest source of foreign investment in Australia, and the second largest destination for Australian foreign investment. An Australia-UK FTA would aim to put in place arrangements to grow two-way trade and investment, including better pathways to enable Australians wanting to live and work in the UK for short-term periods.

Prime Minister May is putting in place the machinery needed to negotiate the UK’s exit from the EU, as well as its new relationship with the EU. The appointment of a Secretary of State for Exiting the European Union, David Davis, will complement the role of the Foreign Secretary, Boris Johnson, whose focus will be on the UK’s engagement with the rest of the world. The appointment of a Secretary of State for International Trade, Dr Liam Fox, who will lead on negotiating trade deals beyond the EU, will ensure the entire system is not caught up in the Brexit negotiations.

The Australian High Commission in London will continue to closely monitor developments in the UK and to advocate Australia’s interests. The Australian Trade and Investment Commission (Austrade) in London will also continue its work with Australian firms seeking to export to or establish in the UK, as well as assisting UK firms with their investments into Australia.

The UK’s decision to leave the EU presents opportunities to strengthen our bilateral relationship with the UK. The Australian Government will ensure it takes those opportunities to further cement the close economic, strategic and cultural relationship between our countries.

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From the High Commissioner

The UK’s vote to leave the European Union has led to a tumultuous time for the British political system and the country as a whole. Much remains uncertain, but as the dust settles opportunities will emerge for Australia.

The Hon Alexander Downer AC, Australian High Commissioner

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Australia and the EU trading relationship

- **Australia’s major exports to the EU**
  - Recreational travel, coal and other business services

- **Australia’s major imports from the EU**
  - Recreational travel, transport services and passenger motor vehicles

- **EU direct investment in Australia was worth**
  - A$158 billion

- **Total two-way goods and services trade was worth**
  - A $89 billion

- **The EU is a priority science and research collaboration partner for Australia.**
  - The EU comprises 46 per cent of Australia’s international collaboration in scientific publications for the period 2010-14
  - 59,084 Scientific publications
From Jakarta: Opportunity still exists for Australian sugar as demand grows

Indonesia has renewed a push to achieve self-sufficiency in sugar production by 2020. In the meantime, the Indonesian Government will continue to import raw sugar, with the aim of lowering the price to IDR 12,500 (AUD1.25) per kilogram by the end of 2016 – well below current global sugar prices. According to Indonesian statistics, Indonesia consumed 5.7 million tonnes of sugar in 2015, of which 3.5 million tonnes was imported. The Australian Government continues to advocate for a reduction in Indonesia’s tariff on Australian sugar imports, to allow Australian sugar to compete on a level playing field with Thai sugar producers. Such a reduction would help to lower the price of sugar for Indonesia’s food and beverage manufacturing sector and increase the sector’s competitiveness against imported processed foods and beverages, as well as benefit Indonesian consumers. In the short-term, an opportunity exists for Australian exporters, given Thailand’s current inability to fully meet Indonesian demand for raw sugar.

From China: Streamlining investment regulation in China’s free trade zones

China has released a draft Market Access Negative List covering domestic and international investment inside its four pilot free trade zones: Shanghai, Tianjin, Fujian and Guangdong. Under a negative list approach, any sectors which are not listed are considered to be open to foreign and domestic investment. The Market Access Negative List covers 328 items (business, sectors and industries), prohibiting market access in 96 items and restricting access in a further 232 items. It will be implemented on a pilot basis until 31 December 2017, before being extended nationwide from 2018. The list will run in parallel to an existing negative list covering foreign investment in the free trade zones, the Special Management Measures for Foreign Investment Access. Both lists are elements of a national policy to further open the Chinese market to foreign investment. While the new Market Access Negative List does not in itself offer improvements in market access for foreign investors in China, it streamlines regulation compliance by consolidating existing regulations into a single document, which hopefully over time will be revised and reduced. The Australian Government continues to pursue outcomes for Australian investors in China, including through the Regional Comprehensive Economic Partnership.

From Bangkok: On the move in the Mekong

Countries in the Greater Mekong subregion will work together to decongest key transport border points in mainland South-East Asia and China, in a move that should benefit regional and international transport operators. Under the Cross Border Transport Facilitation Agreement, Thailand, Cambodia, China, Lao People’s Democratic Republic, Myanmar and Vietnam will each issue an initial 500 vehicle permits to allow commercial transport and passenger vehicles to operate along major economic road corridors in the region. The Agreement will eliminate the need to offload at border points and switch to locally-registered vehicles, a major contributing factor to the current long clearance times and congestion. With the support of the Australian Government’s Greater Mekong Subregion Transport and Trade Facilitation Program, implementation of the Agreement is expected to commence in January 2017. Implementation in Myanmar will be deferred until January 2019 to allow its comparatively smaller transport sector to develop. Work is also underway to ensure the Agreement is compatible with new ASEAN transport systems and international best practice.

From Santiago de Chile: Local lithium sector powers up

Home to over 30 per cent of the world’s known lithium reserves, Chile joins Australia, Argentina and China in supplying almost all of the current global market. And it’s a market that is growing rapidly: the mass production of electric vehicles and electricity storage batteries is expected to drive a sharp increase in demand for lithium over the next 5–10 years. So far, global production has not kept pace with demand, leading to a doubling in the price of lithium over the past decade. Despite low production costs and high-quality deposits, Chile’s lithium industry has been slow to take off. The Chilean Government has designated lithium a ‘strategic resource’, resulting in regulatory complexity that, until now, has hindered new project development. Nevertheless, in light of Australia’s experience as a major lithium producer, Chile offers opportunities for Australian companies to tap into booming global demand. Looking to capitalise on this potential, Australian lithium explorer and developer Lithium Power International recently announced a joint venture with Chilean company Minera Salar Blanco to develop a USD360 million lithium extraction project in the Maricunga Salar, a salt flat in the north of Chile. The joint venture is expected to be finalised by late 2016, subject to approvals.
From Honiara: Unpacking local investment opportunities

Over 100 Australian and Solomon Islands businesses and officials gathered in July for the 8th Australia-Solomon Islands Business Forum, where they explored trade and investment opportunities and networked with potential partners. The Forum received high level attendance by Solomon Islands’ Prime Minister Manasseh Sogavare and Australia’s Minister for International Development and the Pacific Concetta Fierravanti-Wells. Industry and expert panellists provided insights into the Solomon Islands’ economy and business environment, including in investment, taxation and regulation. Opportunities in key sectors such as tourism, infrastructure, agriculture and resources were discussed, with the country’s growing construction sector also singled out for potential Australian investment. The Solomon Islands has been commended as one of the top economic reformers in the region, with the Asian Development Bank estimating that reforms to business registration, finance and state-owned enterprise performance have added three per cent to GDP since 2004. ANZ Solomon Islands CEO Geoff Buchanan told attendees that ANZ’s confidence in the future development of Solomon Islands had never been stronger. The Australian High Commission in Honiara used the Forum to launch its new initiative on women’s economic empowerment, which will provide tools and resources for Solomon Islands companies to implement gender inclusive policies in the workplace. The program, a partnership between the Australian Government and the International Finance Corporation, aims to address some of the key issues constraining productivity and participation in the local workforce.

From Brussels: Further support package announced for EU dairy sector

In response to a continued market downturn, the European Commission has announced a package of support measures for the EU dairy sector, valued at 500 million euros. The package comes in addition to an earlier September 2015 package, which was also valued at 500 million euros. The current measures aim to stabilise EU dairy production and, indirectly, dairy commodity prices, as well as provide liquidity to farmers to ease short-term cash flow problems. While the package includes an EU-wide scheme to incentivise a reduction in milk production, some Members of the European Parliament have been critical of the fact that it avoids imposing any compulsory reduction measures. The European Commission has promised to ‘put pressure’ on EU producing nations it considers to be contributing to the current over-production of milk, including Ireland, the Netherlands, Germany and Denmark.
From India: Bright spot, long tail

India is the fastest growing major economy. The World Bank calls it the ‘bright spot’ of the global economy. India’s GDP, already the seventh largest in the world and third largest in purchasing power parity terms, is growing at 7.6 per cent – more than double the global average. And it is private consumption that is driving growth. Government expenditure, investment and a declining current account deficit are helping, but it is domestic demand leading the way. Historic changes are unfolding in India – the median age of its 1.2 billion people is 27. India will soon have the largest and youngest workforce ever.

Indian consumption is not just about the sheer numbers joining the labour force. The country is in the midst of a massive wave of urbanisation. Each year, about 10 million people move from rural areas to towns and cities. The Modi Government recognises the challenges this presents. Skills, jobs and infrastructure need to be created on a vast scale to meet the needs of a burgeoning middle class and to bring disadvantaged groups into the mainstream. Only innovation, and working with reliable partners, can deliver what is required at this important juncture. How India develops its cities, environment and people will shape the country for years to come. For Australia, this increases the potential of our commercial relationship with India even further.

In 2015, two-way trade was a solid $20 billion and two-way investment was $22 billion. But this is only about a seventh of what we do with China. We can do better.

India’s rapidly growing needs match some of Australia’s core strengths, including in innovative technologies and expertise and in primary resources. For example, India has ambitious infrastructure development initiatives, especially in transport. India’s Smart Cities Mission seeks to redevelop 100 cities by 2020. This means opportunities for Australian urban planning, green building technologies and expertise in integrated transport systems. It also means Indian steel and cement industries will continue to present strong markets.

India also needs to educate and train its quickly growing workforce. Prime Minister Modi’s Skill India agenda aims to train 400 million people by 2022. Australia’s skills system and industry standards can help India meet this target. We already have a significant education relationship – India is our second largest source of overseas students and there is increasing collaboration between our universities. The potential for Australian providers to invest in training Indian students in India is enormous.

Another area of opportunity is India’s voracious appetite for energy, to support its dramatic growth. Around 300 million people in India have no access to electricity. The Government is seeking modern, reliable and innovative solutions, including an eye-catching target of 100,000MW of solar capacity. This means opportunities for discerning Australian investment and for exporters of Australian energy resources and technology. Similar opportunities exist across a wide range of sectors, including water, aged care, healthcare, agriculture, pharmaceuticals and IT.

India, huge and diverse in every respect, is the scene of impressive economic growth. Its youthful demographics point to enduring prospects. Australian businesses willing to go to India can play an important part in such a story.
Brexit: what it means for Australia

The United Kingdom’s decision to leave the European Union has significant implications for Australia’s trade and investment relationships with the EU and the UK.

By Remo Moretta, Assistant Secretary, Europe Trade and Brexit Unit

Australia has important trade and investment relationships with both the UK and the EU. The EU as a bloc is our second largest two-way trading partner in goods and services. The UK on its own was our seventh largest two-way trading partner in 2015. Based on 2019 data, the EU would be our third-largest two-way trading partner, if the UK were excluded.

In raw figures, total exports of goods and services from Australia to the EU were valued at $23 billion in 2015. Of this, more than a third ($8.8 billion) was to the UK. It is important to note that the UK serves as a hub for export distribution for many other EU countries, and vice-versa.

In 2015, total EU investment in Australia was worth more than $980 billion. Of this, over half ($500 billion) was from the UK. In response to Brexit, the International Monetary Fund trimmed growth forecasts for 2017; the global forecast was cut by 0.1 percentage point, to 3.4 per cent, reflecting the impact of uncertainty flowing from Brexit on investment and trade. Fiscal and monetary authorities are responding to support confidence and spending by households and businesses. The Bank of England moved decisively cutting rates and injecting liquidity, including extending its asset purchase program to £435 billion. Early retail and credit data suggest UK consumers and banks have responded positively to these efforts.

The IMF is forecasting a lower economic growth trajectory for the UK and Germany over the next two years, however both economies are still forecast to maintain positive growth. Should uncertainty linger, historic growth in regional trade be reversed or political fallout spread, then negative impacts could be more pronounced.

Negotiations between the UK and EU on the terms of the British departure from the EU, and the shape of Britain’s new relationship with the EU, will influence the future scope of these risks. The UK Government has said it wants to be more open to the world, not less, following its departure from the EU. London’s ongoing status as a global financial centre, the continued stability of the global banking system, and future EU political cohesion will be among key determinants of long-term economic risks and opportunities.

The EU has indicated it will continue bilateral and plurilateral agreements with trade partners. Deepening Australia’s trade and investment relationship with the EU remains a priority for the Australian Government. As stated by Prime Minister Malcolm Turnbull when he met his EU counterparts in November last year, Australia and the EU are making progress towards the launch of negotiations for an Australia-EU FTA.

The way forward

The process for the UK’s exit from the EU will start when the UK Government formally notifies the EU of its intention to leave under Article 50 of the Treaty of Lisbon. Prime Minister May has said the UK will formally notify the EU of its intention to leave the Union no later than the end of March 2017. The UK has two years to negotiate the terms of its exit, taking into account the shape of its new relationship with the EU, once it activates Article 50. Any negotiations beyond the two years would require unanimous support from remaining EU member states.

The UK has indicated an interest in negotiating comprehensive free trade agreements with a number of ‘high priority’ countries, including Australia, once its exit from the EU is complete.

The terms the UK negotiates with the EU, and the parameters of its trade policies, including tariffs and services commitments, as an independent WTO member, will provide the negotiating context for any future bilateral deals. Prime Minister Turnbull has said Australia is interested in taking forward an FTA with the UK as soon as the UK is in a position to do so.

As we approach the new state of affairs in Europe, the Australian Government is working with the EU and UK to preserve, and expand access for Australian exporters and investors in both markets.
Brexit could impact UK visitor arrivals to Australia

Brexit will likely lead to a fall in visitor arrivals to Australia from the UK and Europe but is expected to have little impact on visitor arrivals from the USA, China and NZ.

By Janice Wykes, Assistant General Manager, Tourism Research Australia, AUSTRADE

Brexit is expected to have implications for Australia’s tourism industry and inbound tourism in particular, given its potential impact on UK GDP, wages growth and the AUD/GBP exchange rate.

Other issues include the possible flow-on effects to EU GDP and exchange rates, as well as the effect on global growth. These impacts may be exacerbated in the long-term if the terms of the exit are not negotiated and implemented soon.

Tourism is one of Australia’s largest and fastest growing industries.

In 2014-15, tourism directly contributed $47.5 billion to Australia’s GDP (3 per cent of total GDP), employed 580,800 people (5 per cent of total employment) and earned $30.7 billion in export earnings (9.6 per cent of total export receipts). In the year ending June 2016, total visitor expenditure was $116.7 billion, supporting over 270,000 tourism businesses.

The UK is one of Australia’s largest source markets for short-term visitor arrivals. In 2015–16, the UK was our:
• third largest source market (706,200 visitors or around 9 per cent of total visitors)
• second largest market for visitor nights (25 million nights or 10 per cent of total visitor nights)
• second largest market for total trip spend ($3.8 billion or 10 per cent of total visitor spend).

The EU is also an important source market, with many EU countries featuring in our top 20 source markets.

China is our second largest source market for visitors and our largest in terms of expenditure, while New Zealand and the United States of America round out our top four markets in terms of visitor numbers and visitor spend.

Quick facts:
• The UK joined the European Economic Community, the predecessor of the EU, in 1973.
• A 1975 referendum committed the UK to staying in the EEC with 67 per cent of voters agreeing to continue membership.
• In the recent June 2016 referendum on EU membership, 52 per cent voted to leave, resulting in the complex process of withdrawal to be negotiated.
Based on Tourism Research Australia’s inbound demand model, an assessment of the impacts of Brexit on inbound tourism from Australia’s major source markets found that the impacts will likely differ across each market (assuming all other things are equal):

**UK**

A fall in UK GDP is likely to lead to a relatively significant fall in visitor arrivals to Australia from the UK. Given lag effects, this negative impact is likely to be higher in the long run (up to ten years) as UK residents adjust their travel plans to lower income levels. An appreciation of the AUD against the GBP will also impact negatively, with lower visitation expected in the short run, evening out over the longer-term as people adjust to a lower pound. The lower pound, however, will have a significant impact on UK visitors’ expenditure while in Australia.

**Europe**

If the flow-on effects of Brexit are negative for EU GDP and the Euro, we can expect to see European visitors to Australia impacted in the same way as UK visitors. The impact on expenditure is likely to be significant (a 10 per cent depreciation of the Euro against the AUD is likely to lead to falls of between 10 per cent and 20 per cent in expenditure).

**USA**

The impact on the USA market is likely to be mixed. While Brexit may detract from US economic growth, thus dampening disposable income, a strengthening US dollar will motivate more residents to travel overseas, including Australia.

**China**

While Brexit may detract from China’s domestic economic growth due to further weakening external demand, the lower exchange rates between the Chinese RMB and the Euro and GBP will influence China’s international tourists in favour of European destinations.

**NZ**

Long-haul destinations may become more attractive under the assumption that Brexit will not derail the economic growth of NZ.

**Domestic tourism**

The impact of the devaluation of the GBP (and possibly the Euro) against the AUD will make it relatively cheaper for Australians to visit the UK and Europe. While this may affect domestic tourism, it may be counterbalanced by a relative appreciation of other currencies (eg the USD) against the AUD.
Brexit will bring change but with it opportunities

A closer economic analysis of Brexit foreshadows opportunities for Australian business

Economic Analysis Branch and Europe Trade and Brexit Unit

Amid an already subdued global economic outlook, the Brexit decision created political and economic uncertainty and wrong footed markets, triggering a ‘flight to safety’ by global investors. Money rotated out of riskier assets, including equities and most currencies, and into safer assets including bonds, US Dollars, and Japanese Yen. Markets subsequently stabilised on the expectation of accommodative government and central bank policy responses. Most markets returned to pre-Brexit levels, although the British Pound and European bank stocks remain well below their pre-referendum levels.

Australian financial markets, like others around the world, responded to the initial Brexit-induced volatility but soon stabilised. Australia has a well-deserved reputation for resilience during periods of financial volatility. Greater orientation to Asia’s dynamic growth markets, limited direct exposure of Australian banks to the UK and Europe, and an ability to adapt to changing global economic circumstances also contributed to limited exposure and fallout. Australia continues to be well positioned to build on our track record of economic growth.

Near-term economic outlook

The IMF recognised the negative impact of Brexit uncertainty on investment and trade, trimming otherwise stable global growth forecasts in its July update to the World Economic Outlook. The IMF’s October forecasts left these forecasts largely unchanged. The IMF assumes Brexit-related economic fallout will be substantially confined to Europe, with the underpinning assumption that impending UK-EU negotiations will preserve historical gains from trade.

The IMF forecasts the UK economy will slow between 2016 and 2017 as the effects of uncertainty come to weigh on business and consumer spending decisions. Early indicators out of the UK confirm initial hits to business and consumer confidence.

- The July Purchasing Managers’ Index surveys showed steep falls in UK business expectations, activity, and new orders.
- GBP depreciation has since provided some encouragement to UK export manufacturers. Consequently, the composite index, which also includes services, stabilised in September, after having reached its lowest level since 2009 in July.
- UK services businesses are uncertain about what Brexit means for them. While the October 2016 British Chambers of Commerce Quarterly Economic Survey suggests sales are stronger for manufacturers than services businesses, investment intentions are slowing for both.

- Construction sector expectations, after pointing to the largest slowdown since the Global Financial Crisis, rebounded to pre-Brexit levels in September 2016. This rebound was led by residential construction, with commercial building work still declining, as new business investment is deferred in the face of uncertainty.

In the aftermath of the referendum outcome, the long-running GfK survey of consumer confidence dipped sharply (its largest monthly fall since 1990). British consumers now appear to have largely shrugged off Brexit fears about the economy thanks to an easing in credit conditions, near-term support for economic activity from the lower pound, and as lower interest rates encourage people to spend rather than save.

Responding to challenging near-term economic conditions, the Bank of England swiftly loosened UK financial conditions, cutting interest rates, increasing asset market purchases and easing bank cyclical capital buffers to encourage more lending to businesses and consumers. Subsequent retail and household credit data suggests this improved the outlook for consumers.

Other signs of the impact of uncertainty in the aftermath of Brexit are evident in the international education market. An August 2016 Hobson’s survey suggested a third of prospective international students are now less likely to study in the UK. Notably, the same survey showed a 20 per cent net increase in prospective students listing Australia as a more likely study destination.

Longer-term economic implications

The October 2016 IMF World Economic Outlook stresses that Brexit is still an unfolding event. The impact on mutual trade and financial flows will not be clear for several years. Looking ahead, the IMF expects Europe to bear the brunt of negative economic impacts.
over the next two years. Due to weak investor confidence and uncertainty in the wake of the Brexit vote, growth for the Euro area as a whole is projected to decline slightly to 1.7 percent in 2016 and 1.5 percent in 2017. Reductions in growth forecasts are largest for the UK (down 0.1 per cent in 2016 and 1.1 per cent in 2017).

Should uncertainty linger, historic gains from trade be reversed, or Brexit provoke political instability in Europe, then downside effects could worsen. Negotiations between the UK and EU will largely drive changes in these risks.

London’s ongoing status as a global financial centre, the continued efficiency and stability of the global banking system, and future EU political cohesion will be among key determinants of long-term economic outcomes.

Australia has consistently proven resilient to financial instability and economic shocks and remains well-placed to deal with the economic and financial market response to Brexit.

While the UK remains important, the overwhelming majority of Australia’s merchandise trade is with Asia and we expect continued economic growth in the region to provide support for Australia’s key exports, including commodities.

Emerging export growth areas, including medical technologies, niche manufacturing, agricultural goods and advanced materials may even benefit over the longer-term as the UK and EU negotiate new arrangements that support their complex array of existing intra-EU business relationships.

**Investment**

The UK and other EU countries remain key investment partners. The Australian Government intends to pursue new trade and investment opportunities with both the EU and UK, including advancing progress towards a free trade agreement with the EU and striking a bilateral FTA with the UK as soon as circumstances allow.

Investors from the UK and EU have around $1 trillion invested in Australian assets.

- More than half of this is from UK investors, reflecting long standing legal and cultural bonds. The UK is our second largest investor country behind the United States.
- Other EU countries now have almost half a trillion dollars invested in Australia, reflecting Australia’s diversification of capital sources and European financial structuring arrangements.
- Most of this investment in Australia comprises of portfolio investment in debt and equity securities; around 15 per cent is held as direct business investments.

Investment held by Australian investors in the UK and EU is also worth nearly $600 billion and is more skewed to equity relative to assets held by UK and EU investors here. UK and EU investors have a collective net investment position of over $400 billion in Australia. The EU and the UK will remain key sources of investment into Australia.

Australian business can capitalise on the relatively greater certainty global investors face investing in Australia. Our resilient economy, strong and stable institutions, higher yields and favourable currency-adjusted pricing continue to attract global investor interest. Diversified sources of capital helps Australia maintain its reputation for resilience and adaptability to global economic change.

The 10 to 15 per cent post-Brexit depreciation of the GBP against all major currencies (as at 10 October) makes some opportunistic investment in the UK more attractively priced. As the Reserve Bank of Australia noted when it lowered the cash rate on 2 August, AUD depreciation since 2013 has helped our traded sector, though an appreciating exchange rate could complicate the necessary economic adjustments underway. Australia remains an attractive destination for investors and Australian exports are expected to continue contributing to domestic economic growth.

The Australian financial services industry is poised to benefit from any global banking and financial services restructuring, along with related technology investment trends. Niche areas such as Fintech, Islamic finance and Cyber Security continue to attract investor interest. Uncertainty abroad could enable Australia to increase its share of global technology investment portfolios.
Global reactions to Brexit

As reported from our posts around the world

From The Hague:
Of all the EU members, the Netherlands is among the most connected to the UK economy. Its exports to the UK in 2015 totalled EUR20.5 billion, or three per cent of GDP. A pre-referendum forecast by the Netherlands Bureau for Economic Analysis estimated the net cost of Brexit to the Netherlands could reach 1.3 per cent of GDP or EUR10 billion, by 2030. A possible silver lining is the Netherlands’ attractiveness as a destination for corporate migration, should multinationals look to relocate their UK-based offices to the continent. With its English-language fluency, pro-business policies and excellent logistical links to major European markets, the Netherlands has certain advantages as a springboard, including for Australian companies seeking to do business or establish a regional base in the EU.

From Berlin:
The UK is Germany’s third largest trading partner. While the German Government remains positive about Germany’s economic fundamentals and resilience, industry is bracing for the Brexit fallout. A recent survey of 5,000 companies suggests German exports to the UK could fall by up to ten per cent in 2017. The survey also foreshadows a possible reduction in investment into the UK by German companies with British subsidiaries. Conversely, some British companies with German subsidiaries indicate they may increase their German investments and staffing levels, possibly foreshadowing the future relocation of business operations from the UK.

From Paris:
Slower UK growth and a weaker pound as a result of Brexit will hit French exports, shaving a cumulative 0.4 to 0.6 per cent of France’s GDP growth in the period to 2019, according to an analysis by Credit Agricole. France’s INSEE reported that domestic consumption stagnated in the second quarter of 2016, and the International Monetary Fund has revised down its 2017 growth forecast for France, from 1.5 per cent to 1.25 per cent. The UK is France’s fifth largest trading partner and the destination for seven per cent of its goods exports and 11 per cent of services exports. Longer-term, Brexit could potentially bring some benefits to Paris, in the event financial players look to relocate from London to other EU finance centres – a possibility which the French government is fuelling with new policies to attract them across the channel.

From New Delhi:
India’s government has publicly reassured markets of India’s ability to weather uncertainty in the wake of the Brexit vote. Finance Minister Jaitley said India was well-prepared to deal with any short- and medium-term consequences of the leave vote, and that the government’s aim would be to smooth market volatility and minimise its impact on the economy in the short-term. An estimated 800 Indian companies have investments in the UK, many using them as a gateway into the European market. Indian investors in the UK will be monitoring events closely to determine whether a strategic shift in location is required in the longer term.

From Beijing:
Chinese officials have been measured in their comments about Brexit’s impact on the Chinese economy, emphasising it is one factor among many bearing on a weak global economy. Feedback from local industry has been mixed. Some Chinese companies view Brexit as a significant negative, while others believe it could create opportunities, noting the UK has traditionally been viewed as one of the more forward-looking EU members on trade.

From Manila:
Government officials and private analysts alike expect Brexit will have minimal impact on the Philippine economy. The Philippines is seen as relatively insulated from Brexit shocks, due to its strong macroeconomic fundamentals and limited economic ties with Britain. Bilateral trade between the Philippines and the UK reached about USD1.9 billion in 2015, focused on manufacturing and agricultural sectors. The UK is also home to around 200,000 Filipinos and Filipino-British citizens, who in 2015 remitted some USD1.539 billion in earnings to the Philippines.
From Jakarta:
The direct impact of Brexit on the Indonesian economy is expected to be limited. The UK is Indonesia’s 23rd largest trading partner and the EU (ex-UK) the destination for 11.4 per cent of Indonesian exports. However, increased risk aversion in the global economy could pose some risks to capital inflow, currency stability and the cost of funding Indonesia’s budget deficit.

From Tokyo:
The UK accounts for some 45 per cent of total Japanese investment into the EU. Japan’s corporate leaders have expressed concern about economic and political stability in relation to UK and EU investments, as well as the general impact on business as the economy responds to unfolding events. SMEs, which employ the largest number of workers in Japan, are particularly vulnerable to the yen appreciation which followed the Brexit vote, as well as flow-on effects from the impact on larger corporations. For companies deeply invested in the UK, the potential for increased trade barriers into the EU will be of concern. Japan’s major investors are expected to adopt a wait-and-see approach and hold off their UK investments until the outcome of the Brexit negotiations is clearer.

From Kuala Lumpur:
Prime Minister Najib has reassured Malaysians that Brexit will not have a major impact on the local economy, pointing to the country’s sound and diversified economic fundamentals, ample financial market liquidity and limited trade exposure to the UK. Commentators seem less certain about the longer-term effects of Brexit on Malaysia, particularly in the event it triggers further instability among other EU member states. The EU represents over 10 per cent of Malaysia’s exports, which could suffer from a post-Brexit slowdown in economic activity. Analysts also note the potential for any further EU disintegration to lead to lower demand for oil, dampening the oil price and putting pressure on the Malaysian economy.

From Wellington:
The UK is New Zealand’s fifth largest trading partner and accounts for almost half of its services exports to the EU, mostly tourism. There is considerable concern that currency volatility and lower consumer confidence in the UK could impact the approximately 152,000 annual tourist arrivals from the UK. New Zealand’s exporters – particularly in sheep meat, wine and horticulture products – will be focused on currency movements following the Brexit vote and their effect on export prices. Primary exporters will also watch with interest the effect on agricultural subsidies of any UK withdrawal of funding for the Common Agricultural Policy, to which the UK is a net contributor.

From Moscow:
While Brexit will result in market volatility and uncertainty, its direct impact on the Russian economy will be limited, according to Finance Minister Siluanov. Some local analysts are speculating that Brexit could result in Russian companies delisting their stocks from the London Stock Exchange. The desire to lift EU and US economic sanctions remains the headline economic issue in Russia, rather than the effect of Brexit. Bilateral trade between Russia and the UK fell by about 40 per cent in 2015.

From Washington:
While the direct impact of Brexit on US growth is expected to be negligible, US companies are heavily invested in the UK, the US Chamber of Commerce estimates there is USD588 billion worth of US investment in Britain, in large part in order to access other EU markets. The US Federal Reserve has cited Brexit as a key risk factor being considered in the context of its interest rate decisions, with markets now anticipating US interest rates will remain lower for longer. The US Government has signalled it remains focussed on concluding the US-EU Transatlantic Trade and Investment Partnership, currently under negotiation, and that it was premature to enter formal bilateral trade negotiations with the UK.
What have been the repercussions of the Brexit decision in Brussels?

The UK’s vote to leave the EU was a shock to Brussels. There’s detail now about how the process of separation will work but the sense of shock on the morning after the vote was quite palpable. The economies of the 28 EU member states are deeply integrated. There are 170,000 pages of ‘acquis communautaire’, that is, law which the 28 states have developed together and cover just about every aspect of government. The UK is going to have to develop its own policies and settings for all those matters where it currently applies the collective EU policy, for example, on tariffs, competition, food standards and agricultural support. Extracting the UK from such extensive integration is going to be complicated. Until the withdrawal is completed there will be uncertainty. The economy, business, investment – none of them likes uncertainty. The longer the uncertainty persists, the worse the consequences.

Do you expect Brexit to affect Australia’s trade relationship with the EU?

Australia and the EU had already committed to work towards beginning negotiations for an Australia-EU FTA. In November last year, Prime Minister Malcolm Turnbull met President of the European Commission Jean-Claude Juncker and President of the European Council Donald Tusk in the margins of the G20 Leaders meeting in Antalya, Turkey. Since the exit referendum the EU has repeatedly assured us that it is ‘business as usual’ in terms of the EU trade agenda. Now it’s difficult to see there being no change, no impact, because of all the work that’ll have to be done on Brexit but, if any of our partners are well placed to manage, competently, multiple, complex negotiations it is arguably the EU. And it is important that the EU is signalling its intention to hold to its commitment on the FTA.

What will be Australia’s priorities in Europe following the decision?

We will have to work out how we’re going to engage with the EU. We have, often times, looked at the EU through a UK lens. It has been easy and comfortable for us to do so. But this is not going to be available to us in future. We’ll have to find other ways by which to view and interpret the EU and its business, including necessarily through strengthened relationships with other member states.

The IMF is gloomy about global outlook, trimming global growth forecasts for 2017 by 0.1 per cent in the wake of Brexit. Is it all doom and gloom?

It is difficult to paint a rosy picture. So much will depend on the detail of the agreement the EU and UK negotiate for their future relationship. There will necessarily be changes to the EU. The Brexit vote and the hot debate in Europe surrounding the Transatlantic Trade and Investment Partnership negotiations reflect the deep frustrations of the “losers” from free trade. There will be elections in Germany and France next year and there’s concern in Europe that those may trigger similar expressions of popular protest. This concern has pushed inclusive growth and employment way up the EU’s agenda. I think that is an issue we are going to hear a lot more about. Leaders will have to respond to voters’ discontent with credible, meaningful reform. So there is opportunity at least for something other than doom and gloom.

What opportunities are there for Australian business in Europe?

The EU is a very significant trading partner for us. You will have heard it said often, because it’s important, the EU, as a bloc, is our second largest two-way trading partner in goods and services. A big chunk of that is with the UK but a far bigger chunk, by a factor of almost 3:1, is with the remaining 27 member states. The EU, even without the UK, is a large, sophisticated market of some 440 million people which holds great opportunities, especially across the broad range of services industries.

What are the barriers to trade in the region?

Simply put, the absence of an FTA. Almost every other country or region has, or is negotiating, an FTA or other preferential access arrangement with the EU. Without one we’re at a disadvantage.

In your time in Brussels what were the biggest trade gains or what were the noticeable shifts in trade?

It’s difficult to have a clear picture on services because of the relative lack of data but anecdotally, there’s a strong story there. On a couple of specific commodities, Australian almond exports have increased from $49 million in 2012 to $302 million in 2015. This growth has been achieved by the work of the industry, supported by the Department of Agriculture and Water Resources, to meet strict EU standards. And Australian beef producers have been doing really well in valuable access for their high quality product. The sector invested a lot in quality assurance systems in order to get that access.
## Trade and investment statistics

### TOP EXPORT & IMPORT COUNTRIES/REGIONS

<table>
<thead>
<tr>
<th>Region</th>
<th>Exports ($ billion)</th>
<th>% Growth (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>85.6</td>
<td>6.2</td>
</tr>
<tr>
<td>Japan</td>
<td>42.2</td>
<td>16.0</td>
</tr>
<tr>
<td>United States</td>
<td>22.1</td>
<td>19.3</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>20.0</td>
<td>9.2</td>
</tr>
<tr>
<td>India</td>
<td>13.4</td>
<td>19.3</td>
</tr>
<tr>
<td>ASEAN(a)</td>
<td>38.6</td>
<td>4.0</td>
</tr>
<tr>
<td>EU28(a)</td>
<td>23.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td>64.2</td>
<td>18.3</td>
</tr>
<tr>
<td>United States</td>
<td>48.1</td>
<td>14.3</td>
</tr>
<tr>
<td>Japan</td>
<td>22.7</td>
<td>14.3</td>
</tr>
<tr>
<td>Republic of Korea</td>
<td>16.1</td>
<td>21.7</td>
</tr>
<tr>
<td>Thailand</td>
<td>15.4</td>
<td>20.0</td>
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<tr>
<td>ASEAN(a)</td>
<td>57.4</td>
<td>5.6</td>
</tr>
<tr>
<td>EU28(a)</td>
<td>65.9</td>
<td>4.2</td>
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</tbody>
</table>

### AUSTRALIA’S TRADE BY BROAD SECTOR

<table>
<thead>
<tr>
<th>Sector</th>
<th>Exports ($ billion)</th>
<th>% Growth (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>43.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Resources</td>
<td>126.5</td>
<td>11.5</td>
</tr>
<tr>
<td>Manufactures</td>
<td>44.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Other goods</td>
<td>17.9</td>
<td>4.4</td>
</tr>
<tr>
<td>Gold</td>
<td>19.7</td>
<td>26.0</td>
</tr>
<tr>
<td>Services</td>
<td>68.3</td>
<td>9.0</td>
</tr>
<tr>
<td>Imports</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Personal travel (ex education)</td>
<td>16.5</td>
<td>2.1</td>
</tr>
<tr>
<td>Freight Services</td>
<td>9.9</td>
<td>0.4</td>
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</tbody>
</table>

### TOP EXPORTS & IMPORTS

<table>
<thead>
<tr>
<th>Exports (total)</th>
<th>$312.2</th>
<th>% Growth (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>43.1</td>
<td>1.1</td>
</tr>
<tr>
<td>Resources</td>
<td>126.5</td>
<td>11.5</td>
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<tr>
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<td>68.3</td>
<td>9.0</td>
</tr>
</tbody>
</table>

### Balance of Trade

- $661.1
- $36.7

### AUSTRALIA’S INTERNATIONAL INVESTMENT POSITION

<table>
<thead>
<tr>
<th>Country</th>
<th>Foreign Direct investment in Australia: 2015</th>
<th>% Growth (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>173.5</td>
<td>6.2</td>
</tr>
<tr>
<td>Japan</td>
<td>85.9</td>
<td>20.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>76.0</td>
<td>3.0</td>
</tr>
<tr>
<td>Netherlands</td>
<td>44.4</td>
<td>13.7</td>
</tr>
<tr>
<td>China</td>
<td>35.2</td>
<td>10.4</td>
</tr>
<tr>
<td>ASEAN</td>
<td>41.5</td>
<td>1.4</td>
</tr>
<tr>
<td>EU28</td>
<td>157.6</td>
<td>2.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Australian Direct investment abroad: 2015</th>
<th>% Growth (YoY)</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>105.2</td>
<td>20.7</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>81.3</td>
<td>5.2</td>
</tr>
<tr>
<td>New Zealand</td>
<td>60.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Singapore</td>
<td>21.2</td>
<td>61.7</td>
</tr>
<tr>
<td>China(a)</td>
<td>14.1</td>
<td>-7.9</td>
</tr>
<tr>
<td>Germany(a)</td>
<td>12.2</td>
<td>np</td>
</tr>
<tr>
<td>Papua New Guinea(a)</td>
<td>np</td>
<td></td>
</tr>
<tr>
<td>ASEAN</td>
<td>37.6</td>
<td>28.2</td>
</tr>
<tr>
<td>EU28</td>
<td>111.8</td>
<td>3.2</td>
</tr>
</tbody>
</table>

(a) Excludes some confidential items of trade.
(b) Data for PNG and Germany were not published by the ABS for 2015.

Based on ABS trade data on DFAT STARS database (Mar-15), ABS Cat. No. 5368.0.55.003/4 & 5352.0.

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**Australia’s trade and investment with the EU**

**Australia’s exports to the EU and UK**

- Rest of the EU: 62.4%
- United Kingdom: 37.6%
- Total: $23.0bn

**Australia’s imports from the EU and UK**

- Rest of the EU: 78.7%
- United Kingdom: 21.3%
- Total: $66.0bn

**EU28 investment in Australia: Stock**

- Rest of the EU: 48.5%
- United Kingdom: 51.5%
- Total: $991.0bn

**Australian investment in the EU28: Stock**

- Rest of the EU: 46.1%
- United Kingdom: 53.9%
- Total: $599.0bn

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**Department of Foreign Affairs and Trade**

**Business envoy**
Acknowledgements

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