



Embassy of Sweden



REFRAMING AUSTRALIA

FIVE STRATEGIC IMPERATIVES FOR CONTINUED SUCCESS

REFRAMING AUSTRALIA

Five strategic imperatives for continued success

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INTRODUCTION

This report provides a perspective on the Australian market with special emphasis on what Swedish companies should consider when doing business “Down Under”, as well as strategic considerations and recommendations for successfully navigating changing market conditions. We have identified three major trends with implications that are relevant to both large and small Swedish companies with Australian ambitions.

This report is based on interviews with Swedish and international companies, surveys, desktop research and insights generated through Business Sweden’s continuous dialogues and engagements with Swedish and Australian companies from our office in Sydney and through the Embassy of Sweden in Canberra.

February, 2020

THE WORLD CHAMPION OF ECONOMIC GROWTH

The Economist recently referred to Australia as “the world’s most successful economy”. With an economic size comparable to Russia and recession free growth for 28 years this is not hard to understand. As a large and growing economy 100% open to global trade, it presents many interesting market opportunities.

Australia has officially entered its 28th year of uninterrupted growth, the longest period of economic expansion ever recorded for a developed country. During this period it has had three times the cumulative growth of European powerhouse Germany.

Australia is also one of the largest economies in Asia-Pacific (APAC). Despite Australia’s mere 25 million population it has a Gross Domestic Product (GDP) beaten only by China, India, and Japan. It has an economy the size of Russia’s, which is something that is often overlooked. Even when broken down per state, Gross State Product (GSP) levels measure up to those of other developed countries. Australia’s best performing state, New South Wales, has a GSP comparable to Denmark’s, and Australia’s second best performing state, Victoria, has a GSP equivalent to that of Singapore.

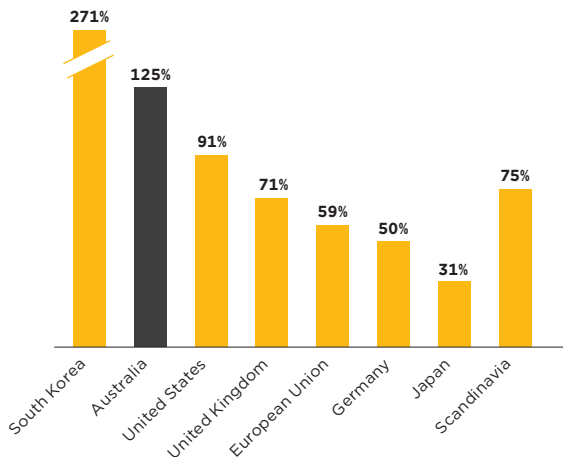
Australia’s historical growth, coupled with its impressive size, makes it unique by being a developed economy with growth on par with emerging markets.

As a developed economy with strong British heritage and Commonwealth links, the business culture is familiar to European companies which has historically facilitated strong performance for multinational companies (MNC) present in Australia.

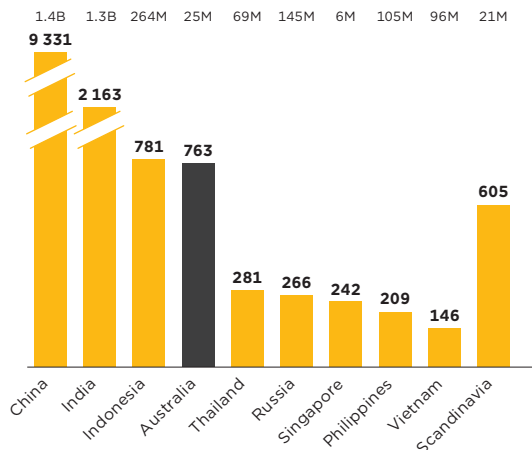
While Australia’s exports recently surpassed import figures, Australia is characterised as a resource and service economy, and over 90% of exported goods are of commodity type.

Meanwhile, around 50% of imported goods are manufactured products, making it an attractive export market for industrialised nations. This is further reinforced by a low number of domestic MNC’s. Not a single Australian domestic product manufacturing company can be found on Forbes Global 2000 list. The lack of domestic manufacturing incumbents has resulted in a market that is 100% open and addressable for ambitious entrants from overseas.

DEVELOPED MARKETS:
CUMULATIVE GDP GROWTH
1990–2017, per cent



EMERGING MARKETS:
CUMULATIVE GDP GROWTH AND POPULATION
1990–2017, BUSD (constant 2010 USD)



A KEY MARKET FOR SWEDEN IN APAC

Sweden and Australia have a long-lasting relationship and Australia is currently Sweden's fourth largest export market outside of Europe. The revenue Swedish companies generate in Australia makes it among the most important in APAC. And Swedish companies that are present have a positive outlook on the future.

The trade relationship between Sweden and Australia began in the nineteenth century, and Australia is currently Sweden's fourth largest export market outside of Europe. Confidence in the Australian market is underpinned by a notable record of accomplishment; between 1988 and 2008, Swedish exports to Australia more than tripled. More than 500 Swedish businesses are active in Australia and around 200 of these have an established local presence, together employing over 20 000 people.

Australia is an important market for these companies, with many generating over 50% of their APAC revenue in the country. Due to their strong presence and local capabilities, some of them are even considered domestic by Australian customers and authorities.

Our analysis shows that for Sweden's 50 largest companies, Australia's share of APAC sales is twice the size of Australia's contribution to APAC's GDP. This makes Australia the most important market in APAC for overall business performance compared to the size of its economy.

In fact, Sweden's exports to Australia are equal to over 70% of exports to the ASEAN countries combined.

In a recent study conducted by Team Sweden, Swedish companies present in Australia were surveyed and more than 90% had a positive outlook with stable or growing turnover and profitability for their Australian businesses.

In addition to a strong sales presence, Sweden and Australia have over 200 academic and R&D partnerships established.

SWEDISH BUSINESS FOOTPRINT IN AUSTRALIA

200



\$12



20⁰⁰⁰



60⁰⁰⁰



\$2.5



500



THREE TRENDS SHAPING THE FUTURE

The Australian success story is expected to continue but the business landscape is changing. Asian companies and consumers have a growing influence on the market, and being in Australia plays an increasingly important role. Meanwhile, climate change is forcing companies to adopt more sustainable operations.

THE AUSTRALIAN MARKET IS EXPERIENCING A COMMERCIAL SHIFT TOWARDS ASIA

Europe is a large exporter to Australia. Strong historical business performance has, however, led to multiple European companies losing focus on the Australian market. But relying on a continued preference for western products and services in Australia is no longer sufficient.

56% of Australia's migrant intake is from Asian countries, and 28% of Australia's population is born overseas, a third of these in Asia.

Looking at the market today, Australia benefits more from its geographical location than from its historical heritage with a clear shift towards Asia. As shown in the illustration below, Asian exports to Australia greatly surpass those of both

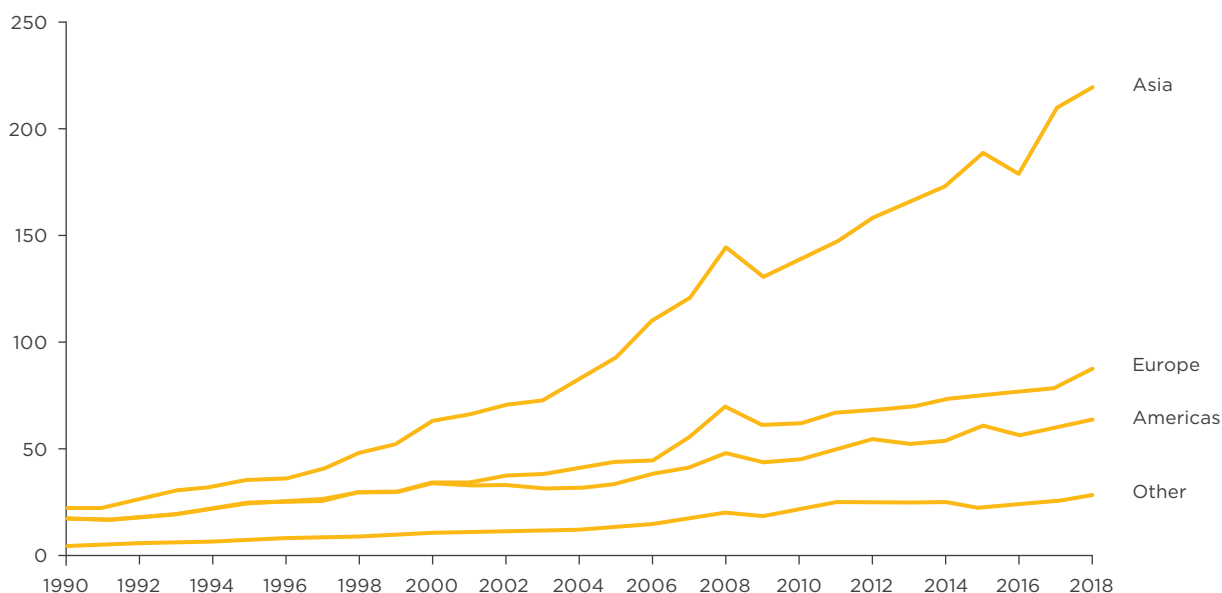
American and European economies, and export value to Australia is growing by 9.5% per year on average, significantly faster than Europe's 5.9% and Sweden's 4.3% growth rate.

The strong relationship with Asia is further reinforced by Australian exports, where a majority of Australia's export value is derived from exporting commodities such as iron ore and liquefied natural gas (LNG) to trade partners in Asia.

While the rhetoric in most countries is "Asia is coming", in Australia, Asia is already here. Asian investments and commitments are growing rapidly with nine Asia focused FTAs in place and more to be put into force. Meanwhile, the European Union is presently negotiating its first FTA with Australia.

VALUE OF EXPORTS TO AUSTRALIA

BAUD, 1990-2018



LOCALISATION EFFORTS ARE BECOMING A LARGER CHALLENGE FOR SWEDISH COMPANIES

Swedish companies in Australia are increasingly struggling with local regulatory requirements. In fact, red tape and regulation was listed by Swedish companies as the primary barrier to conducting successful business in Australia.

In an ambition to increase Australia's competitiveness, growth centres have been established in key industries to drive innovation and development of domestic solutions to increase Australia's competitiveness in a global context.

Australia has historically relied on a strong demand for its resources. In order to reduce exposure to commodity swings and export markets, local presence and production is seen as an important aspect in the current political environment. Public organisations put an increasing emphasis on local content where 'Made in Australia' is increasingly favoured.

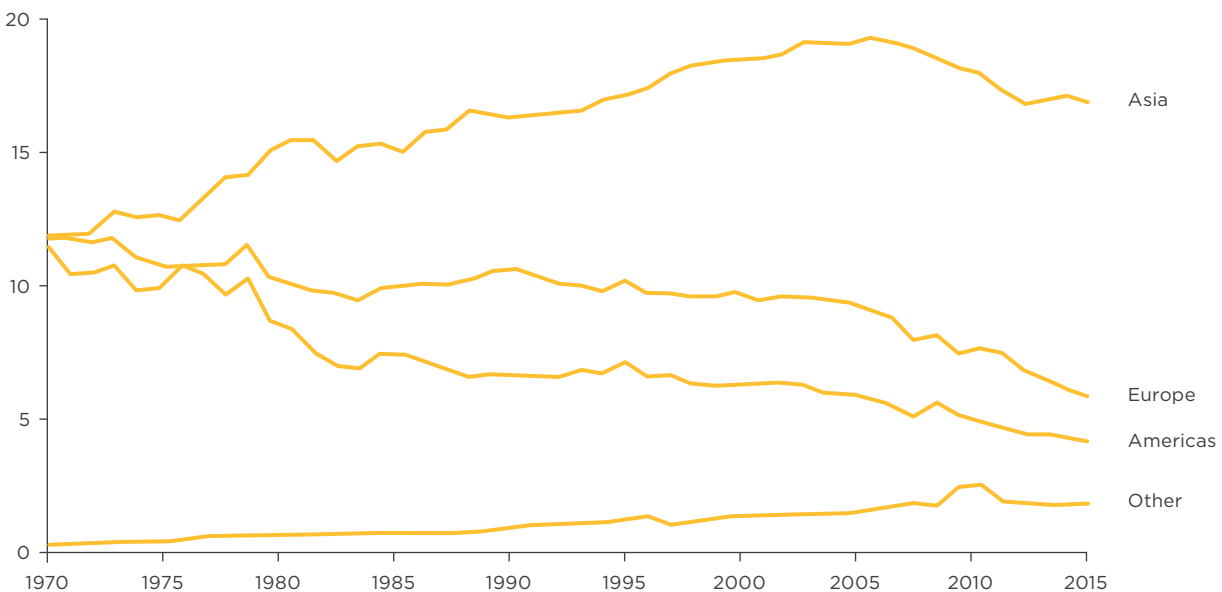
AUSTRALIA IS FACING A SIGNIFICANT SUSTAINABILITY CHALLENGE

Australia currently has among the highest CO₂ emissions per capita in the world, where the majority of CO₂ emissions come from electricity generation since coal is the largest source of energy. The market is thereby performing worse than most advanced economies when it comes to sustainability with the UN ranking Australia as number 37 on the Sustainable Development Goal index, down from 26th last year.

Record temperatures, drought, coral bleaching of the Great Barrier Reef, and bushfires across the nation have now for the first time made climate change the number one concern among the Australian population. The governor of the Reserve Bank of Australia recently urged Australian businesses and consumers to invest in dealing with climate change now in order to avoid serious implications for financial stability over time.

CO₂ EMISSIONS

Mt CO₂ per million of population



FIVE STRATEGIC IMPERATIVES FOR CONTINUED SUCCESS

The increasing influence of Asia, local requirements, and climate change are rapidly changing market conditions for Swedish companies in Australia. In order to address these trends, Business Sweden has identified five strategic imperatives for Swedish companies to boost their commitment to the Australian market and continue their historical success. These imperatives are critical elements of business development to tackle the risk of diminishing Swedish growth in Australia.



BECOME DOMESTIC

Local presence is not always enough

Increasing domestic production goals are high on the political agenda in Australia. This will have a significant impact on the supply chain of most products and services.

A local presence with domestic understanding of regulatory requirements will not only provide a strong competitive edge in negotiations, sometimes “Made in Australia” is a necessity.

Localisation is further reinforced by a growing demand for reduced lead times and enhanced responsiveness by Australian customers. Being domestic allows Swedish companies to overcome the challenge of the geographical distance.

A leading success factor is therefore long-term investments and commitment, coupled with local R&D and adaptations to product offerings by adhering to Australian standards and local customer demand. By being domestic Swedish companies can support Australia’s goal to become an exporting nation.



SUPPORT YOUR CLIENT

Stay close to customers as needs change

Since Australia has ready access to Asian and other low-cost producers closer to home, Swedish firms must therefore demonstrate sufficient added value to overcome the costs of getting the product to market, and to compete.

The distance to Australia’s trading partners and the sheer size of the Australian continent causes Australian firms to stress the importance of local support and service.

Industries turn from product centric to service centric business and place a larger emphasis on know-how or other intangible assets in their portfolio of offerings. Innovative services should therefore be integrated into the offering, rather than being presented as a stand-alone service around the product.



ACQUIRE LOCAL KNOW-HOW

Leverage local know-how in a global context

Australia's effort to increase its global competitiveness has been fruitful. In key industries such as agriculture, mining and resources, cybersecurity, and advanced manufacturing, Australia has a flourishing innovation scene, with world leading capabilities being developed.

This gives Swedish companies an opportunity to fill capability gaps with targeted M&A investments. By setting up and strengthening local partnerships and acquiring the right talent, Swedish companies will be able to further enhance their innovation edge with Australian R&D to stay competitive in the Australian and global economy.



STAY PREMIUM

Deliver value through quality and innovation, not on price

Due to the increasing competitiveness of Asian companies, which are not only supplying low-cost alternatives but also developing product offerings with improved quality, Swedish companies need to enhance their premium position.

The Swedish brand is strong and known for its premium position in Australia, and over 50% of respondents to Team Sweden's survey claim that this brand image and awareness is a key contributor to remaining competitive in Australia.

Swedish companies must continue separating themselves from the rest by being leaders in their field. The premium segment in Australia is driven by performance, reliability and services, where companies with a strong brand recognition, technology and leading-edge solutions perform well.

Swedish companies must expand on this image and act as trusted partners to Australian companies by providing solutions which support them in increasing their global competitiveness.



LEAD THE WAY FOR A SUSTAINABLE AUSTRALIA

Address future needs today

Up until now, the private sector has been driving development towards more sustainable business practices with increasing demands imposed by end-customers in Australia to address future climate needs. 70% of respondents to Team Sweden's survey say that their customers considered environmental aspects in their purchasing decision.

The current environmental trends will influence Australia in the future with further impact on the business climate, offering an opportunity for Swedish organisations to position themselves early on with a sustainable product and service offering.

Sweden is a world leader in this field, ranking at the top of UN's Sustainability Development Goal Index and Swedish companies have an open dialogue with investors in published annual sustainability reports. By taking Swedish sustainable thinking to subsidiaries in Australia, Swedish companies can help the country catch up and accelerate the journey.

AUSTRALIA

in numbers

28

YEARS OF CONSECUTIVE ANNUAL ECONOMIC GROWTH - A WORLD RECORD FOR A DEVELOPED ECONOMY

~3X

LARGER CUMULATIVE GROWTH THAN GERMANY'S OVER THE SAME TIME PERIOD

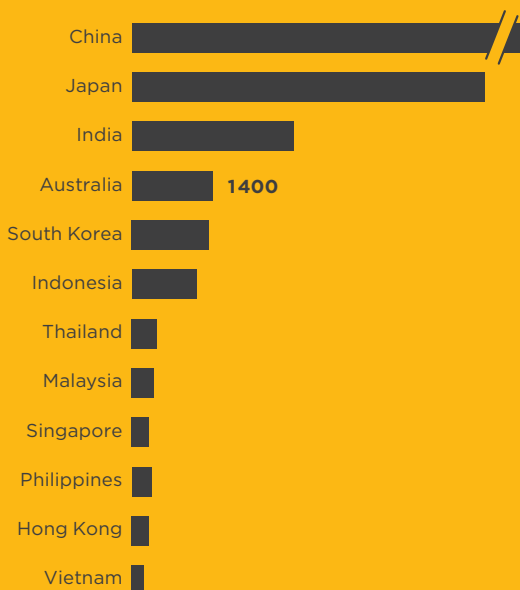
100%

OPEN MARKET FOR INTERNATIONAL COMPANIES

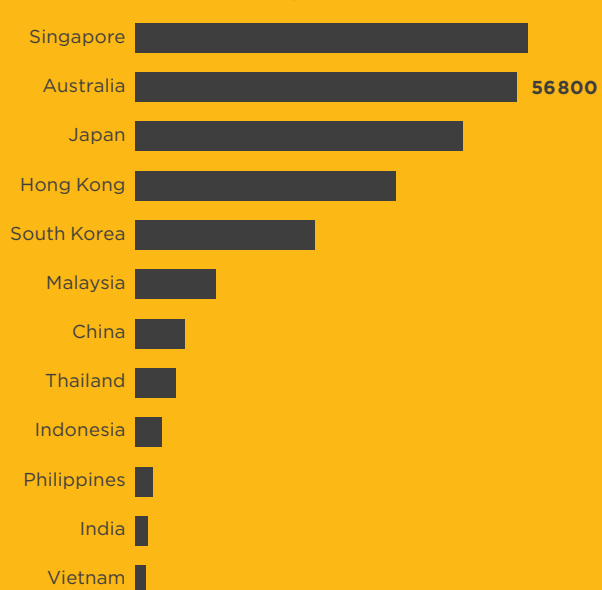
4X

FASTER MEDIAN INCOME GROWTH THAN THE UNITED STATES

ONE OF THE LARGEST ECONOMIES IN ASIA-PACIFIC...
(BUSD, 2018)

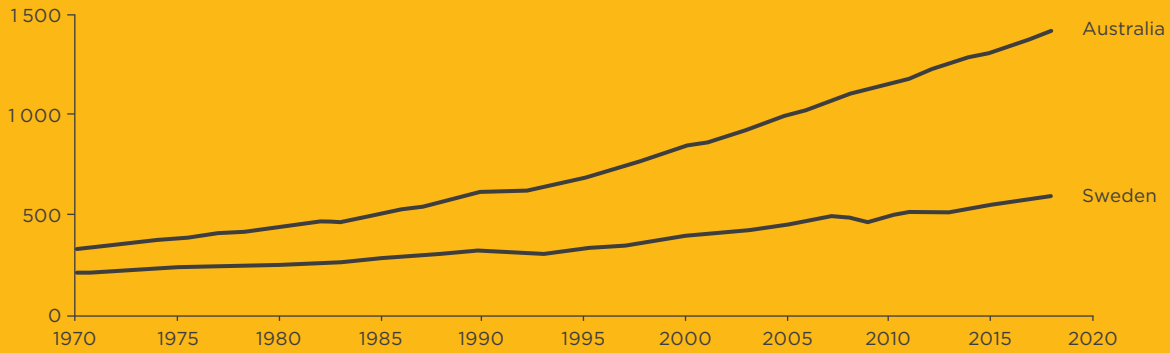


...WITH SOME OF THE STRONGEST CONSUMERS
(USD/capita, 2018)

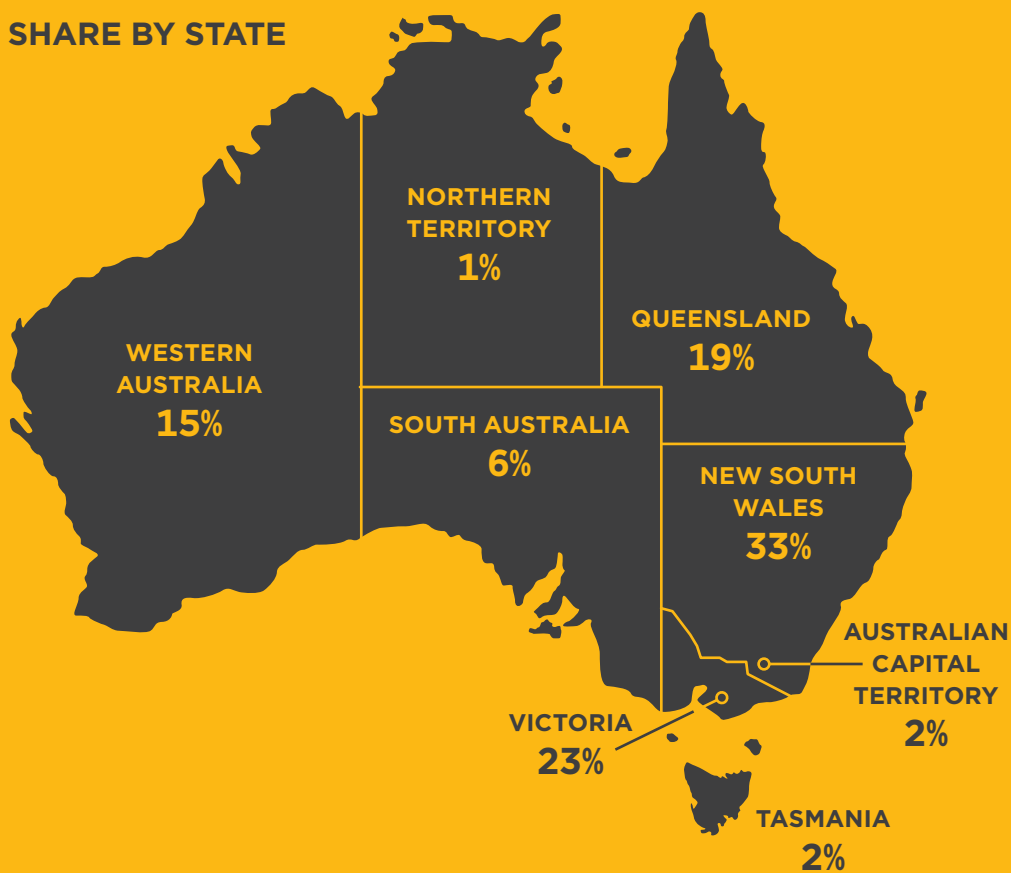


GDP

1970-2018, BUSD (constant 2010)



GDP SHARE BY STATE



POPULATION COUNT AND GROWTH



POPULATION
2018
25 MILLION

POPULATION
2040
35 MILLION

ABOUT BUSINESS SWEDEN AUSTRALIA

Australia is an attractive market with significant potential for Swedish companies. However, the changing business climate requires Swedish companies to refocus and adapt their approach to maintain and grow their Australian sales revenue.

As a result, an independent strategy for Australia will be needed to tackle the future. These five imperatives are not 'one-size-fits-all' or stand-alone solutions, but should be considered together when developing a long-term cohesive strategy unique for Australia.

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