



AUSTRALIA'S
INTERNATIONAL
BUSINESS
SURVEY 2019

Highlights report



Australian Government
Austrade



CommonwealthBank

Disclaimer

The information contained in this report

The Austrade 'Highlights' Paper (**Paper**) is a report based on results from the 2019 Australian International Business Survey (**Survey**). The Survey was commissioned by the Commonwealth of Australia as represented by the Australian Trade and Investment Commission (**Austrade**), the Export Council of Australia (**ECA**) and Commonwealth Bank of Australia (**CBA**) and conducted by AMR Research Australia on their behalf. The full Survey results can be found at the following link: www.austrade.gov.au/aibs2019.

Each of Austrade, ECA and CBA (the **Organisers**) had input into the design of the Survey questions. The form of the questions was settled by ECA, in consultation with Austrade. CBA was not privy to the details of the businesses surveyed. All data used, or represented, in this Paper is anonymised and aggregated before analysis. The Survey data is not owned by CBA.

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Unless otherwise specified, all amounts in this Paper are in Australian dollars.

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SUMMARY

Australian exports totalled \$469.9 billion in 2018–19, growing 16.5 per cent in the last 12 months. Natural gas (61.7 per cent growth) and crude petroleum (29.4 per cent) exhibited the strongest growth among our leading goods exports. Services exports grew at a rate of 10 per cent, with international visitor spend growing at 5 per cent and international education at 15.5 per cent. This is encouraging news in the face of a challenging global trading environment.

In recognition of the contribution of internationally active businesses to the Australian economy, the Export Council of Australia's annual *Australia's International Business Survey* (AIBS) identifies international challenges and opportunities for those businesses.

The AIBS focuses on Australian businesses who operate in international markets and looks closely at their current activity. This year, we asked additional questions about access to India, along with questions to help us characterise innovative businesses. We also asked about the importance of Australia's nation brand to exporters, in respect of their international market development activities, and the importance of local multicultural communities in influencing overseas demand for Australian products and services.

The survey welcomed 593 respondents in 2019. Its value is in providing a detailed view of current and future challenges for internationally active businesses, rather than providing a statistically representative sample.



Internationally active businesses are those who:

- › Export goods or services overseas (incl. online sales to overseas customers; manufacturing and sales overseas; sales to overseas visitors for tourism/ education services)
- › Import goods or services from overseas
- › Make outward, or receive inward, investment
- › Employ temporary staff from overseas
- › Manufacture overseas through licensing or intellectual property
- › Conduct innovative activities (such as scientific research or development of a new or significantly improved product or process) either overseas, or in Australia in collaboration with an international partner.

AUSTRALIAN BUSINESSES WHO EXPORTED IN 2017–18

593

AIBS 2019 respondents

Most were smaller businesses:

- › < 19 employees (60%)
- › < A\$5m in total revenue (59%)
- › Most focus on business-to-business, rather than business-to-consumer export sales.



Note: Services exporters are Australian businesses engaged in measured cross-border services trade

Amid challenging global conditions, businesses remain optimistic on balance

The global trading environment has been dominated by US-China trade tensions. Both countries have seen an increasing escalation of restrictions on trade. The outlook for a US-China trade deal remains uncertain and the risk of higher tariffs appears elevated.

This, alongside other global trade tensions and an impending Brexit, have contributed to the outlook for global economic growth being downgraded. All else being equal, this makes trade more challenging for Australian exporters. Weaker global demand will have a flow-on effect to Australia given our reliance on trade and Australia's focus as a majority exporter of bulk commodities.

This notwithstanding, we are pleased to see confidence in trading conditions remains relatively high among our respondents. A falling exchange rate has improved the short-term prospects for exports, and in 2019 has seen higher prices for a number of key Australian commodities – including iron ore in the earlier part of this year. In fact, over the first half of 2019, Australia recorded a string of record month trade surpluses. At the same time, the current account moved into surplus in the June quarter 2019 for the first time since 1975.

In this year's survey, it was encouraging to see that 55 per cent of exporters viewed their financial outlook for the next two years as better than the previous two years. However, there is a clear reduction in the proportion of businesses viewing conditions as improved – down to 55 per cent from 66 per cent in 2018.

Businesses in general are finding access to finance more challenging, and the effect of this on smaller businesses was clearly evident in the survey results – only 13 per cent of micro businesses (four or less employees) were successful in obtaining finance, compared to 33 per cent of large businesses (200 or more employees).

With regard to other funding sources, exporters considered using retained earnings as most important, followed by funding from owners/families/friends, and funding from a domestic Australian bank.

Exporters value innovation, multiculturalism and the Australia nation brand

We asked businesses to self-report whether they undertake innovation activities. These activities include scientific research, or development of a new or significantly improved product or process. Fifty-two per cent of respondents classified themselves as innovative and these businesses tended to be larger in size, both in international/total revenue earned and number of employees. China is the biggest collaborative partner for innovation activities, suggesting the benefits from trade are not just transactional, but support stronger ties and greater business development.

AIBS 2019 explored whether Australian businesses thought local multicultural communities helped them export to specific markets. It also examined whether respondents acknowledged a relationship between domestic sales of their product – or experience of their service – to local multicultural communities, and demand for their product or service from overseas consumers. Respondents that recognise multicultural communities as important tended to make their highest export revenues in Asian markets, which suggests businesses recognise that Asian-Australian communities play a role in the promotion of Australian goods and services. Businesses making their highest revenues in ASEAN, Hong Kong, China, Japan and India were more likely to report that multicultural communities are essential or very important.

We were pleased to see over half of AIBS 2019 respondents (55 per cent) consider Australia's nation brand essential or important to their international marketing efforts. This is clearly dependent on the sector, as Agribusiness considered the nation brand far more important than the overall average. These questions are well-timed to coincide with work underway to refresh Australia's nation brand.

Heather Cotching, Chief Economist, Austrade

Stephen Halmarick, Head of Global Markets Research, Commonwealth Bank of Australia

THE GLOBAL TRADING ENVIRONMENT

China-US trade tensions and Brexit uncertainty are casting a shadow over the global trading environment, but confidence is holding up for now

China and the US have now been locked in trade tensions for over a year. Both countries were involved in new rounds of trade talks after a meeting between Chinese President Xi and his US counterpart, President Trump, on the side of the G20 meeting in Osaka in late June. Since then, the level of disagreement has increased. The outlook for a permanent China-US trade deal, therefore, remains uncertain.

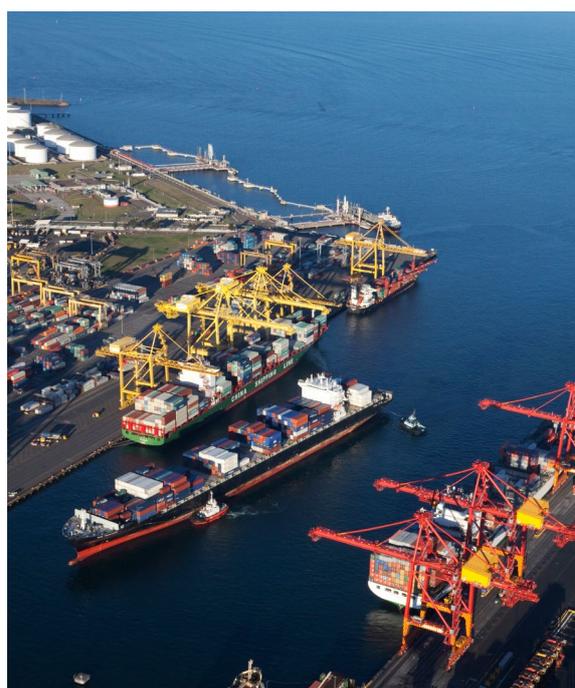
At the time of writing, the Brexit decision to leave the EU has yet to be enacted, but the consequences of a no-deal Brexit may further weaken global trade and heighten uncertainty.

The Commonwealth Bank of Australia (CBA) estimates the US and Chinese trade tariffs (implemented in early September) will cut global GDP by 0.25 per cent over two to three years. The overall cost to the Chinese economy is estimated at around 1.0 per cent of GDP over two to three years; larger than the estimated 0.25 per cent of GDP for the US.

All else being equal, a weaker trading environment makes trade more challenging for Australian exporters; Australia is not immune from lower global GDP growth, or from the effects that uncertainty is having on trade flows, business confidence and investment, especially given our reliance on trade and focus as a majority exporter of bulk commodities.

The results of this year's survey, undertaken in May 2019, show that business confidence is holding up relatively well. This is likely to be because Australian exporting businesses have yet to feel the effects of an international slowdown. In fact, a falling exchange rate (the Australian dollar is down 7 per cent since 1 July 2018 – as at mid-September 2019) has improved the short-term prospects for exports, and 2019 has seen higher prices for a number of key Australian commodities – including iron ore in the earlier part of this year.

There is evidence businesses are responding to the falling exchange rate by increasing supply to take advantage of new international opportunities. In fact, over the first half of 2019, Australia recorded a string of record month trade surpluses. At the same time, the current account moved into surplus in the June quarter 2019 for the first time since 1975.

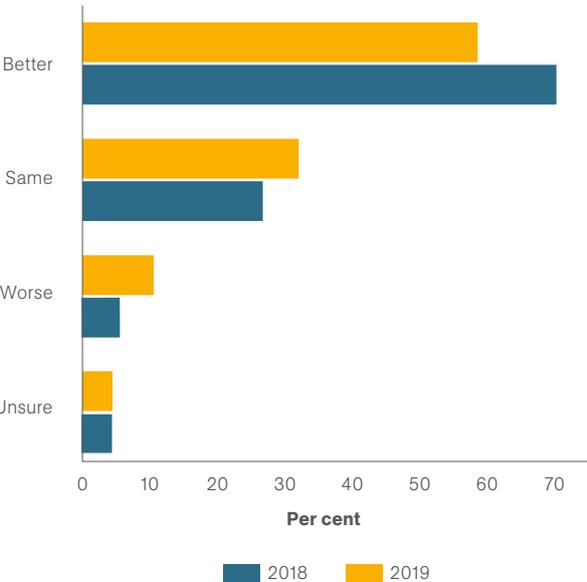


SENTIMENT

Most businesses remain optimistic about international revenue prospects

The majority of businesses surveyed have a positive view on the outlook of their international operations. The survey shows 55 per cent of businesses view their financial outlook for the next two years as being better than the previous two years. Around 30 per cent view the outlook as around the same as the last two years, and only 10 per cent view the outlook for their international operations as worse than the previous two years. These results suggest a slowdown in global trade has not significantly changed the outlook for international operations or expansion for the businesses surveyed – yet.

Figure 1 – Financial outlook for international revenue, AIBS respondents 2018 and 2019



Note: 2018 n = 629, 2019 n=593, 92 shared respondents across both surveys.

Across key categories of businesses – key industries, key states or by key markets of exposure – a smaller share of businesses are reporting a ‘better’ outlook in 2019 compared to their view of the outlook in 2018. The Education sector is a notable exception, maintaining its share of optimists.

Wholesale Trade businesses have seen the largest falls in positive sentiment regarding future financial outlook for their international operations – only 42 per cent expect a better financial outlook, compared to 74 per cent in 2018. Agriculture, Forestry and Fishing follow them with a 17 percentage point change, as 49 per cent expect a better financial outlook – compared to 66 per cent in 2018.

While the share of those businesses expecting a ‘worse’ financial outlook has increased, it has been balanced by an increase in the share of those who expect the ‘same’ outlook. Overall, 85 per cent of Australian businesses expect to maintain or grow their international revenue positions in this uncertain global environment.

Small businesses (five to 19 employees) tend to have the most favourable outlook for their international business operations over the next two years, with 64 per cent reporting a better financial outlook compared to the previous two years.

Exporters to the US have the most optimistic outlook

Businesses whose top international markets include the US have the most positive financial outlook, with 66 per cent expecting a better financial outlook over the next two years, and only 4 per cent expecting a worse outlook.

Somewhat surprisingly, businesses exporting to the UK also have a relatively positive outlook for their operations over the next two years, with 65 per cent expecting an improvement in their financial outlook. The uncertainty of the Brexit process does not seem to be affecting the sentiment of Australian exporters. This may be because businesses are expecting a new trade deal between Australia and the UK, or because the household sector in the UK remains solid with the unemployment rate near its lowest since the mid-1970s. There is a risk this result means businesses have yet to adjust their expectations, and are unduly confident.

Businesses whose top international markets include China are less optimistic than last year. Just half of those businesses expect a better financial outlook, compared to two-thirds last year. This is despite the fact that around 80 per cent of businesses surveyed have plans to do business in new countries, and the most popular country, for 20 per cent of respondents, is China.

The generally positive outlook for international operations is having flow-on effects to employment plans, with 73 per cent of survey participants noting that their outlook has influenced this area of their business. Around 64 per cent of these businesses are expecting to increase employment, while only 8 per cent are expecting to decrease employment. These results are consistent with other forward-looking labour market indicators, which generally point to enough jobs growth to keep slight downward pressure on the unemployment rate.



FINANCE

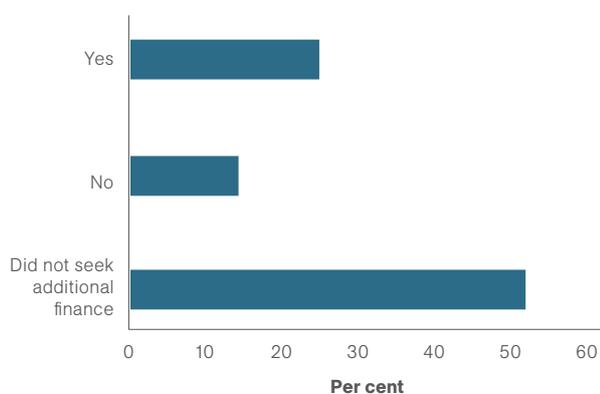
Access to finance is mixed among tighter credit conditions

There are some mixed messages relating to access to financing in the survey. Views differ according to the need for additional financing, the ability to access additional funds and the preference for where these funds come from.

Over half (54 per cent) of businesses surveyed have not sought additional finance for international business opportunities over the past three years. This suggests that the status quo was maintained for most businesses over this period.

However, business size had an effect on responses, with large businesses more likely to have sought additional financing (45 per cent compared to only 34 per cent of micro businesses), and more likely to be successful in obtaining finance (33 per cent compared to 13 per cent of micro businesses).

Figure 2 – Businesses successful in obtaining additional financing for international business opportunities

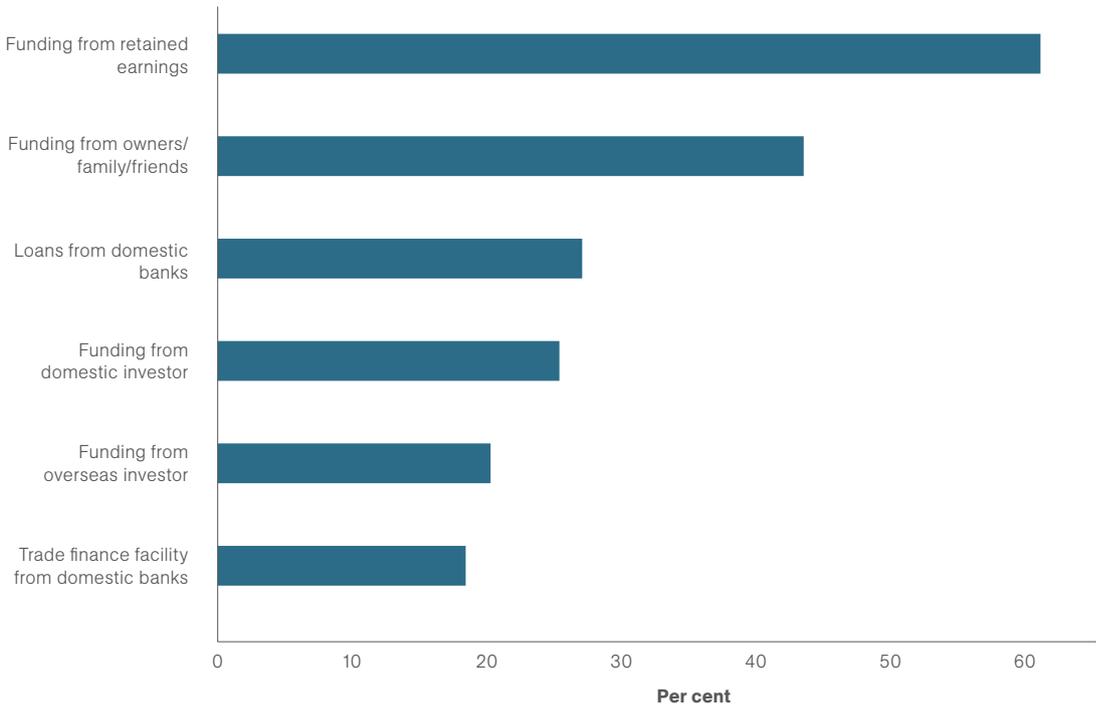


While 64 per cent of micro businesses did not seek additional financing, those that did were also more likely to be unsuccessful, with 21 per cent of micro businesses being rejected. These size-related trends were maintained when dividing responses by revenue earned and number of employees. The challenges facing smaller businesses is a trend evident through the survey and the broader Australian economy.

Of those businesses who did not seek additional financing, 68 per cent noted that they did not need additional debt to fund international business opportunities. The response rate was consistent across most business sizes, which suggests that other funding sources were used in place of debt (Figure 3).



Figure 3 – Funding sources for internationally active businesses



Respondents reported that the most important method of financing export operations is through retained earnings (61 per cent), followed by owners/family/friends (44 per cent) and loans from domestic banks (27 per cent). There does not appear to be any significant take up of new emerging funding methods, with loans from PSP lenders and from a Fintech ranking the least important. This in itself is interesting, given the low funding costs currently on offer due to very low, risk-free interest rates globally.

The survey indicates that businesses expanding offshore are also minimising the use of debt by using other funding sources. Funding from retained earnings, a domestic or overseas investor, and from owners/family/friends are the largest sources of funding for offshore expansion.

Once again, business size had an effect on responses, with larger businesses more likely to use traditional sources including domestic banks and retained earnings (which Reserve Bank of Australia (RBA) research supports).¹

Smaller businesses – with regard to employee size only, not revenue size – were more likely to report that inadequate cash flow or security hindered their access to finance. A net 48 per cent of businesses say it is more difficult, or significantly more difficult to access debt funding this year. This is fairly consistent across micro and small/medium businesses (medium businesses are those with 20 to 199 employees).

Sixty-one per cent of businesses noted that it is either essential or very important for them to fund from retained earnings, with this response consistent across business size. However, several factors would have to be evident for this to happen – business profitability would have to be growing, and they would have to be accessing business deposit growth as well.

INNOVATION

Innovative businesses expand further and have a more positive outlook

AIBS 2019 explored innovation themes by asking if businesses conduct any innovation activities overseas, or in Australia in collaboration with an international partner. Innovation activities include scientific research or development of a new or significantly improved product or process conducted overseas, or in Australia in collaboration with an international partner.

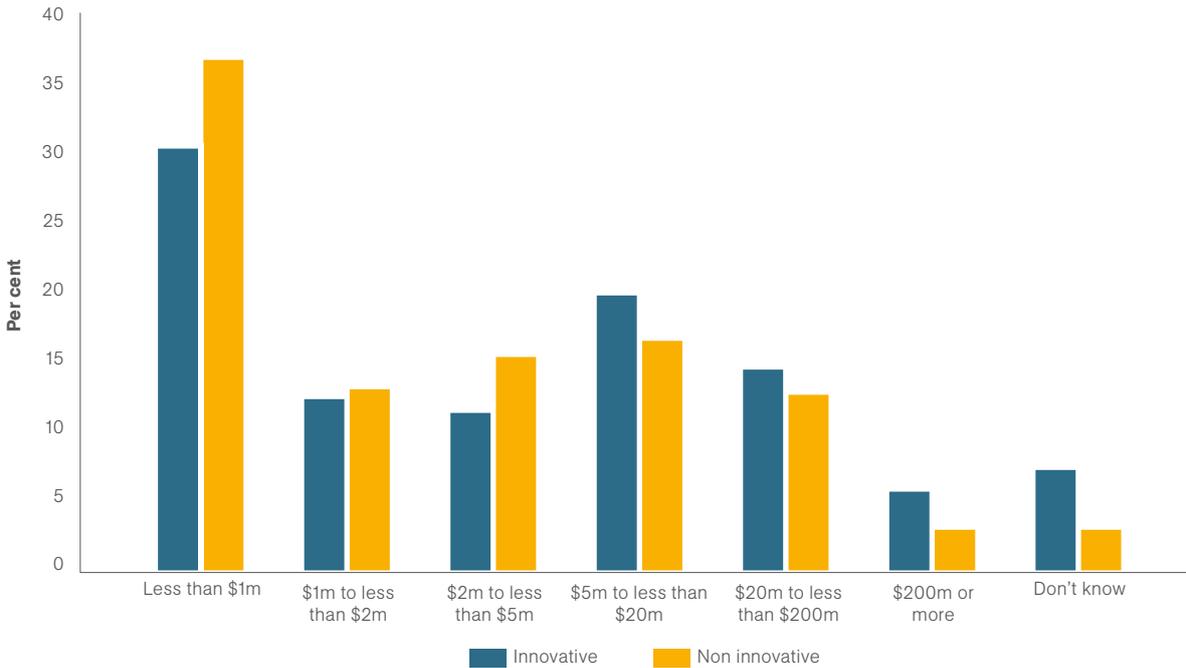
A little over half (52 per cent) of the businesses surveyed undertake innovation activities (either domestically or overseas), while 44 per cent do not undertake innovation activities, and 3 per cent were unsure if their activities were innovative. China is the biggest collaborative partner for innovation activities.

Innovative businesses generated almost double their share of international revenue from intellectual property.

One-quarter (25 per cent) of innovative businesses are in Manufacturing (excluding Food & Beverage) as their primary area of business. This is followed by Professional, Scientific and Technical Services (10 per cent), and Agriculture, Forestry and Fishing (10 per cent).

Businesses undertaking innovation activities tend to be larger, have higher international/total revenue earned in the last financial year, and hire more employees.

Figure 4 – Total revenue last financial year for innovative and non-innovative businesses



When looking at the importance of generating overseas revenue, exporting intermediate goods into further production processes is considered far more important by innovative businesses (42 per cent) than non-innovative businesses (24 per cent). Similarly, 58 per cent of innovative businesses consider exporting goods related to supply contracts as important, compared to 40 per cent of non-innovative businesses.

Access to funding and differences in outlook

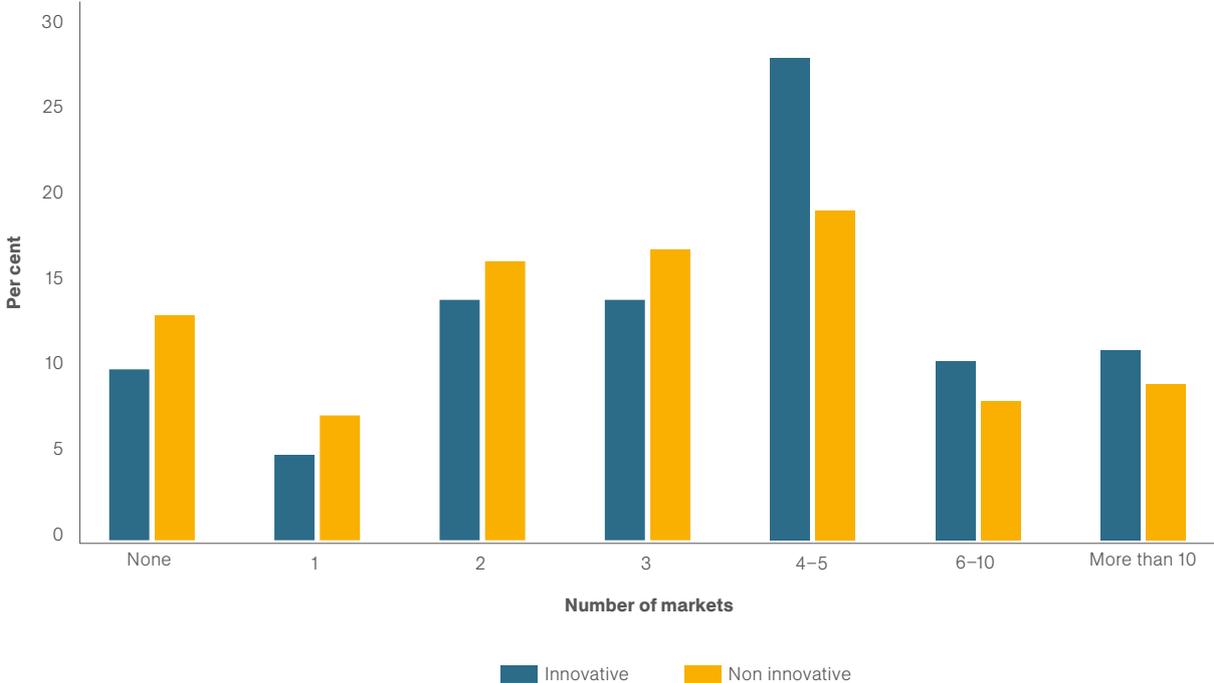
Interestingly, innovative businesses are more likely to access funding for expansion in the next 12 months, but the survey does not suggest this is the reason for undertaking innovative activities. Innovative businesses collaborate with overseas partners primarily to access skilled labour/expertise not domestically available, and to allow increased access to new markets. These businesses rated the ability to leverage additional funding opportunities as a low priority when engaging in collaborative activities.

Survey results suggest these innovative businesses have a more positive outlook for the future, and are more likely to expand operations. When asked whether the business planned to enter new markets in the next two years, almost half (48 per cent) of innovative businesses plan to expand into four or more countries, compared with one-third (33 per cent) of all non-innovative businesses (Figure 5).

When respondents were asked about their overall financial outlook with regards to their international operations for the next two years, 61 per cent of innovative businesses said their outlook was better than the last two years, compared with non-innovative businesses at 48 per cent.

Interestingly, innovative businesses had a slightly more pessimistic business outlook. Twelve per cent thought their financial outlook would be worse in the next two years, compared to only 10 per cent of non-innovative companies. This finding suggests that although there is positivity surrounding future growth for innovative businesses, they are remaining cautious.

Figure 5 – Number of new countries businesses plan to engage with over the next two years



MULTICULTURAL COMMUNITIES

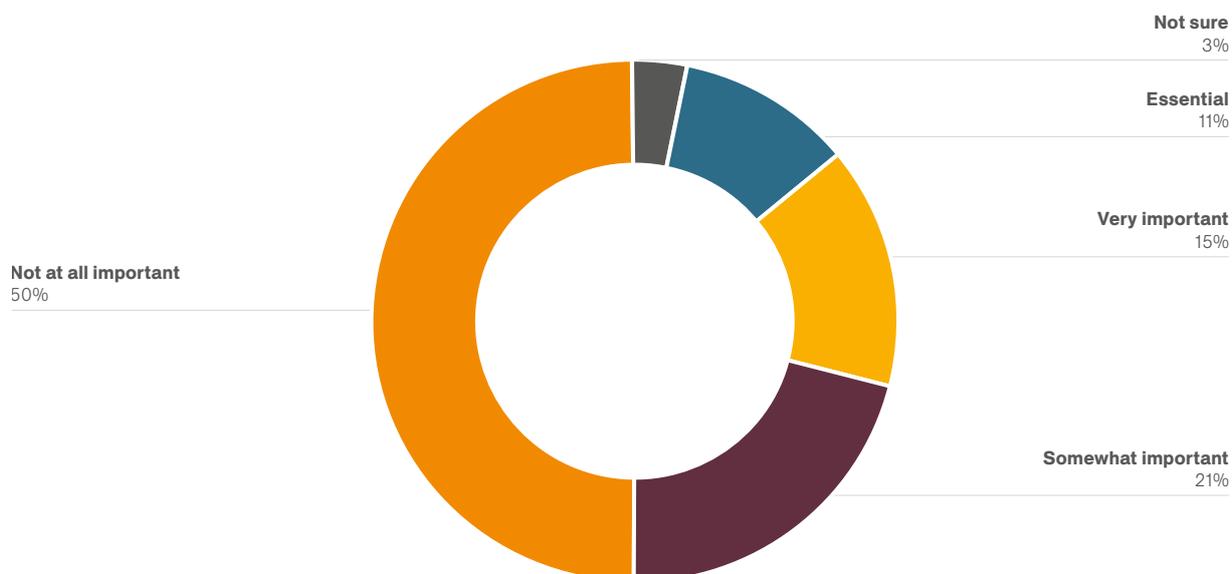
Multicultural communities are more important to businesses targeting Asian markets

Australia has a large migrant population, with 49 per cent of residents having one parent born overseas.² Understanding the role of these multicultural communities (including international students and tourists) within Australia in driving demand for local products and services overseas, is useful. For example, whether international students encourage their friends and family overseas to buy Australian products.

To this end, AIBS 2019 explored what role Australia's internationally active businesses consider multicultural communities play in supporting their international market development.

The survey results show that just over one-quarter (26 per cent) of all surveyed businesses regard multicultural communities as essential or very important for international market development (Figure 6). A further 21 per cent recognised they were somewhat important.

Figure 6 – Role of multicultural communities in international market development



Among this group of businesses, 57 per cent of goods exporters view indirect exports as essential or very important. The most common examples of indirect exports involve using an agent, consolidator or distributor, who then sells to the end customer.

This suggests that exporters recognise that selling to local intermediaries with specific language and/or cultural skills helps with international market development for their product or service.

The survey asked specific questions about the channel of influence that multicultural communities have on market development. Results show:

- ▶ goods exporters agree that goods sold to multicultural communities in the domestic market helps to fulfil export demand (25 per cent), with those who make their highest revenues in China agreeing that domestic sales made in Australia fulfil export demand (44 per cent).
- ▶ services exporters agree that the domestic consumption or experience of services by local multicultural communities helps to promote their service to overseas customers (38 per cent).

Top markets of influence for multicultural communities

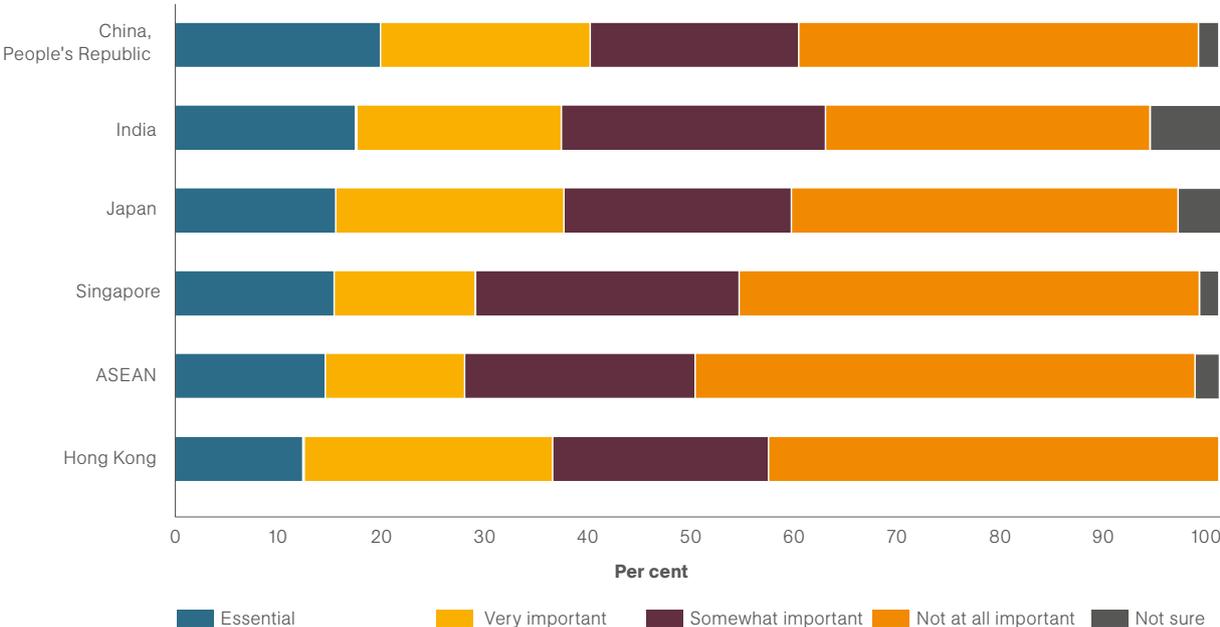
The importance of multiculturalism for a business appears to depend on the market. Businesses making their highest revenues in ASEAN, Hong Kong, China, Japan and India were much more likely to respond that multicultural communities are essential or very important (Figure 7).

Businesses generating their greatest revenues in English speaking markets (USA, Canada, New Zealand and UK) are less likely to consider multicultural communities as essential or very important for market development. Despite this, multicultural communities are recognised as ‘somewhat important’ in international market development, in the view of businesses making their highest revenues in New Zealand and the UK. This may reflect the scale of local communities from those markets.

The profile of businesses who leverage multicultural markets for international growth varies. However, they are more likely to be businesses in the Education and Training industry, specifically in tertiary education, and those with business buyers in the Education and Training industry. Other characteristics include businesses who:

- ▶ employ over 200 staff
- ▶ earn over A\$200 million
- ▶ sell to consumers (particularly Chinese consumers).

Figure 7 – The importance of multicultural communities by market of highest revenues



AUSTRALIA’S NATION BRAND

Agribusiness is the Australian nation brand’s biggest fan

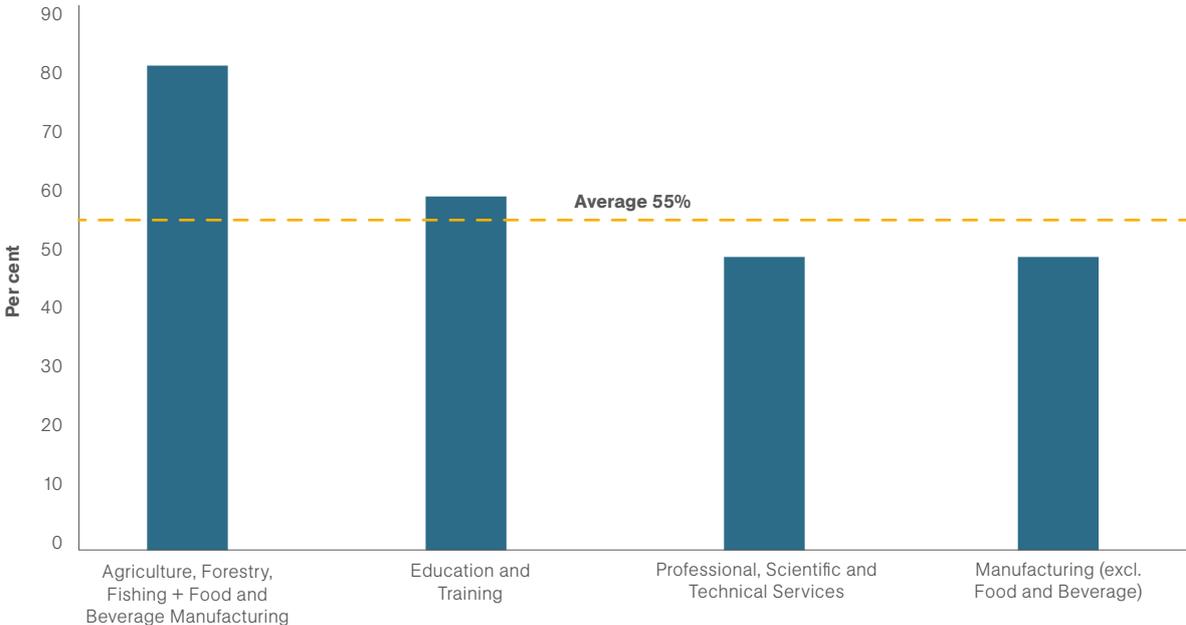
Businesses selling their products or services internationally rely on Australia’s nation brand to assist in forging business relationships and influencing buyer decisions. A clear and defined message on nation branding can change how a country is perceived internationally and across different sectors, and can cut across the intense competition in trade and investment.

Over half (55 per cent) of AIBS 2019 respondents consider ‘being Australian’ essential or important to their international marketing efforts. However, less than half (43 per cent) of respondents said they are highly likely to leverage Australia’s nation brand to help support their industry promotion internationally.

Businesses that sell to consumers place a higher importance on Australia’s nation brand than those that sell to businesses (68 per cent and 54 per cent, respectively). Similarly, 51 per cent of businesses that sell to consumers and 40 per cent that sell to businesses are likely to actually use the Australian nation brand in their promotional activities.

The level of importance and likelihood to use Australia’s nation brand for businesses varies depending on the industry or subsector (Figure 8). The food and agriculture sector clearly places a higher level of importance on brand than other sectors, which is consistent with Australia’s high quality reputation for food and beverages.

Figure 8 – Importance of Australia’s nation brand by industry



Eight per cent of respondents who operate within Agribusiness (which includes Agriculture, Forestry and Fishing and Food and Beverage Manufacturing) considered Australia's nation brand important, which was 27 per cent above the average response.

Similar results are also seen in the likelihood of businesses using Australia's nation brand for international promotion. Again, Agribusiness exceeds other main industry groups, with 66 per cent very likely to leverage it to help support their industry promotion (23 per cent above the average). Delving deeper into Agribusiness, these figures show 68 per cent for Agriculture, Forestry and Fishing, and 59 per cent for Food and Beverage Manufacturing.

Australia's nation brand is more important to those who trade in Asian markets

Businesses that deal with Asian partners or buyers consider Australia's nation brand to be more important. Six of the top ten markets by order of respondents are above the average level of importance, and are markets located in the Asia Pacific.



SPOTLIGHT ON INDIA

Trading with India and emerging opportunities

The 2019 AIBS survey asked a series of questions specifically on the opportunities India presents for Australian exporters. Respondents cited 'sales growth', 'economic growth' and 'access to a growing consumer market' as the three main opportunities. All three of these reasons support indications of the maturing Indian economy and rising household income.

Our trade relationship with India has increased substantially over the past two decades. The combination of strong growth in demand for Australia's key commodity and services exports and the increased openness of the Indian economy has driven the growth in two-way trade. The Indian Government's policy agenda to encourage investment and boost productivity has increased import demand more generally to Australia's direct benefit.

By value, India accounted for 5.1 per cent of total goods and services in 2018. Australia also runs a sizeable trade surplus with India – total exports to India were A\$22.3 billion while imports were A\$8.1 billion over the same period.

The solid growth in Australian exports to India has been both a goods story and a services story. The services side has been particularly encouraging, with the number of tourists and students from India having grown at a phenomenal rate over the past few years. For example, tourism spend from India grew 17.4 per cent in 2018–19.

By category, coal exports to India dominate the list, accounting for half of total exports to India in 2018. Services sit in second place, making up one-quarter of total exports. The bulk of services exports come from Education services (i.e. Indian residents studying in Australia). After China, India provides the second largest group of international students enrolled in higher education in Australia.

Nearly one-quarter (23 per cent) of the exporters surveyed are doing business with India. Of the three-quarters who are not, 29 per cent indicated that 'difficulty in identifying a partner' was the primary reason for not exporting to India. Corruption/contract security (22 per cent) and market access issues (21 per cent) were cited as the second and third most common reasons for not doing business with India, with cultural challenges cited as the leading barrier for those doing business in the market. Just under 50 per cent of respondents noted that both the sales growth and economic growth opportunity in India was a positive one, and while survey findings reflect the known challenges in trade, they also highlight the considerable opportunities for Australian exporters to increase their focus in India in the years ahead.



ABOUT AUSTRADE

The Australian Trade and Investment Commission (Austrade) is the Australian Government's international trade promotion and investment attraction agency.

We deliver quality trade and investment services to businesses to grow Australia's prosperity. We do this by generating and providing market information and insights, promoting Australian capability, and facilitating connections through our extensive global network.

To discover how we can help you and your business visit austrade.gov.au or contact us at info@austrade.gov.au or on 13 28 78 (within Australia).



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