



## 2012 Australia Market Overview

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### Market Overview

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Note: As of December 2011 A\$1.00 = US\$1.00

- Total U.S.-Australia bilateral trade in 2011: US\$49.8 billion
- U.S. merchandise exports to Australia: US\$24.854 billion (not include Dec)
- U.S. services exports to Australia: US\$11 billion
- Australia's rank as a U.S. export market in 2012: 13th largest
- Principal U.S. exports to Australia in 2012: see Chapter 4
- Australia-U.S. Free Trade Agreement (AUSFTA) elimination of tariffs provided new market opportunities for U.S. companies.

Australia is the world's 13<sup>th</sup> largest economy, with a GDP of almost US\$1.4 trillion. It is the fourth largest economy in the Asia-Pacific region and is forecast to grow at 3.25% in both 2011-12 and 2012-13. Australia's per-capita GDP of US\$60,000 is among the highest in the world. The economy has recorded 20 years of uninterrupted annual growth to 2011 and now enjoys the highest terms of trade in 140 years. Growth in commodity exports to Asia buoyed Australia through the GFC although it has impacted adversely on manufacturing because of the strong Australian dollar.

The economic outlook for Australia is favorable, led by private investment in mining and commodity exports to emerging Asia, including China. Australia's economic stability has been supported by prudent fiscal policy and ongoing structural reforms, with unemployment currently at 5.1% and government net debt only 8% of GDP. Recent controversial reforms include a carbon tax (from 1 July 2012) and a proposal for a mineral resources rent tax, which is expected to pass Parliament this year.

In 2010, Australia exported more than US\$210 billion worth of merchandise goods and imported around US\$202 billion worth of merchandise products, respectively the 15th and 13th largest globally. The United States is an important economic partner for Australia, standing as its third largest trading partner as well as largest source of foreign investment and primary destination for Australian investment. In 2010-11, Australia recorded a total trade surplus of A\$22 billion in 2010-11, a marked turnaround on the A\$3 billion deficit of the previous year.

The Australia-U.S. Free Trade Agreement (AUSFTA) came into effect in 2005 and bilateral goods and services trade increased by 52% to US\$50 billion in 2010. Over this period, U.S. goods exports to Australia grew 56% to \$22 billion and the trade surplus expanded by 87% from US\$11.1 billion to US\$20.7 billion. The stock of Australian direct

investment in the United States rose by 20% in 2010 to US\$49.5 billion. Australia was the tenth largest investor in the United States in 2010.

The Australian financial system remained resilient throughout the GFC and Australian banks have rebounded. The four largest are now among the world's 11 remaining AA rated banks. The Australian stock market is currently the largest liquid stock market in the Asia-Pacific region (ex-Japan) and ranks sixth in the world, with a total market capitalization of US\$1,136 billion. The market capitalization of floating stocks in Australia is more than double that of Hong Kong (US\$480 billion) and more than four times larger than that of Singapore.

Australia has a large services sector (80% of GDP), but is also a significant resources, energy and food exporter. Australia's abundant and diverse resources attract high levels of foreign investment and include extensive reserves of coal, iron ore, copper, gold, natural gas, uranium and renewable energy sources. A series of major investments, such as the US\$40 billion Gorgon LNG project led by Chevron, will significantly expand the resources sector. Currently there is a vast investment pipeline of around \$430 billion – equivalent to 30% of nominal GDP. However, with the high dollar, trade exposed industries outside the resources and energy sector have come under great pressure.

- We advise American firms examining the Australian market to pay attention to macro measures of opportunity, which give it more purchasing power relative to that in less-developed economies. Along with the Free Trade Agreement, the case for entering or expanding in the Australian market is stronger than the population of 23 million might suggest, particularly with the strong Australian dollar stimulating greater demand for U.S. products and services.
- Australia's relative market appeal remains convincing, with few barriers to entry, a familiar legal and corporate framework, sophisticated consumer and industrial sectors, and a straightforward, English-speaking business culture. The Australia-U.S. Free Trade Agreement enhanced the long and successful trading relationship by eliminating tariffs on almost all U.S. manufactured and agricultural goods.
- We believe 2012 will continue to show demand for American companies with innovative products and technologies in the Australian market. We invite you to contact us to help you analyze and execute your objectives for the Australian market.

## **Market Challenges**

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- **Competitive Market:** Australia's distance from the rest of the world, large land area, and relatively small population led to market dominance by a few large firms in certain sectors.
- Australia is integrated into the world economy and remains a commercial and financial center for the region. American companies will find that Australian and third-country competitors in Australia have some long-established brands with strong reputations and existing supplier relationships.
- Australia has ready access to Asian and other, low-cost producers. American firms must therefore demonstrate sufficient added value to overcome the costs of getting the product to market, and to compete.

## Market Opportunities

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The top performing export sectors from the US to Australia during 2011 were:

Machinery, Vehicles, Optical and Medical Instruments, Electrical Machinery, Pharmaceutical Products, Precious Stones, Plastics, and Chemical Products.

## Market Entry Strategy

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- Successful market entry strategies for Australia have three common elements: understanding the market, selecting the optimal partner, and providing ongoing support to that partner in the market.
- A common language and familiar business framework may lead Americans to overlook Australia's cultural and market differences. It is vital to first gain an understanding of the Australian context for a product or service, its competitors, standards, regulations, sales channels, and applications.
- Success in the Australian market often requires establishing a local sales presence. For many American exporters this means appointing an agent or distributor. The bounds of that appointment are negotiated, and may include only certain states of Australia, the entire country, or New Zealand as well. An increasing number of businesses and investors see Australia as a secure platform from which to serve third markets in Asia.
- The distance from many of their trading partners and the sheer size of the Australian continent - comparable to the continental U.S. - causes Australian firms to stress the importance of local support and service. American companies should visit Australia both to meet prospective partners and demonstrate ongoing support, as this is the common practice of their competitors.
- Most of the criteria American firms use to select agents or distributors are applicable to Australia, with expectations adjusted to the scale of the market given the population of 22.7 million. Performing due diligence is just as important as in the United States, and we offer numerous resources to assist in that work.

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