

## United Kingdom

### Business Conditions Snapshot

- The United Kingdom (UK) service-based economy has been hard hit by the COVID-19 crisis. GDP fell 19.8 per cent quarter-on-quarter in the second quarter of 2020. While GDP surged 15.5 per cent quarter-on-quarter in the third quarter, the economy was still 9.7 per cent smaller than at the end of 2019.
- From the beginning of the third quarter, coronavirus cases rose in many countries, including the UK. As a consequence, restrictions to suppress the spread of the virus were reintroduced and economic activity fell.
- Her Majesty's Treasury has established a significant package of support for businesses and individuals across the UK. The focus of the package is to protect jobs and support businesses' incomes through a range of measures. More than GBP65 billion has been provided in government-backed loans for businesses.
- Interest rates fell to a record low of 0.1 per cent and the Bank of England has supported the UK economy through quantitative easing. Following an additional program announced in November 2020, the stock of assets held in the Asset Purchase Facility will total GBP895 billion.
- Public sector net borrowing is over GBP2 trillion for the first time, while government net debt is over 100 per cent of GDP. The substantial increases in borrowing reflect the emerging effects of the government's coronavirus policies.
- The government is prioritising management and response to the COVID-19 epidemic, 'levelling-up' industrial areas of the UK and its green agenda.
  - On 18 November 2020 the government announced a 10 point plan for a Green Industrial Revolution.
  - On 25 November 2020 it announced its National Infrastructure Strategy.
- The government is also focused on the health impacts of COVID-19, including protecting the National Health Service, increasing testing capacity and implementing a COVID-19 vaccine.
- Outside of COVID-19, the UK is focused on its 2021 hosting of the G7 and COP26, and on managing the end of the Brexit transition period. The UK formally ceased to

#### Key facts and figures

- Population: 66.4 million (2019)
- GDP growth: 1.3 per cent (2019)
- GDP per capita: US\$41,030
- Political system: Westminster
- Two-way trade: A\$38.5 billion (2019)
- Key exports: gold, alcoholic beverages, lead, air and spacecraft parts, personal travel and business services
- Key imports: passenger motor vehicles, medicaments, alcoholic beverages and pharmaceuticals
- Two-way investment: A\$1,193 billion (2019)



be a member state of the European Union (EU) on 31 January 2020. The UK and EU entered a transition period until 31 December 2020, during which time the status quo prevails. From 1 January 2021, the UK will no longer be part of the EU single market or customs union. The terms of the future UK–EU relationship are currently being negotiated.

## Trade And Investment Opportunities

- In 2019 two-way trade was worth around \$38.5 billion, with Australian exports worth \$21.3 billion and imports from the UK worth \$17.2 billion.
  - The UK was Australia’s fifth largest trading partner in 2019.
- The UK is the second largest source of total foreign investment in Australia. At the end of 2019:
  - Total UK investment in Australia was valued at \$686.1 billion.
  - Total Australian investment in the UK was \$507.4 billion, making the UK Australia’s second largest foreign investment destination.
- Australian investment into the UK is focused on:
  - Business services.
  - Financial services including superannuation funds investing in infrastructure.
  - Construction and engineering.
  - Health.
  - Retail.
  - Information and communications technology.
- UK investment in Australia ranges from small and medium sized technology firms opening new operations, through to listed and multinational companies spanning:
  - Information and communications technology.
  - Food manufacturing and energy.
  - Large superannuation funds investing in major Australian infrastructure and energy assets.
- Major current and emerging commercial foreign direct investment opportunities include:
  - Renewable energy, including hydrogen
  - Circular economy
  - Major infrastructure
  - Advanced technologies including AI
  - Agri-food



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- Fintech
- Transport tech
- Digital health and biologics
- Defence
- The UK–Australia FinTech Bridge offers an opportunity for deeper collaboration between governments, regulators and industry bodies.
  - Australian firms can access the UK regulatory sandbox (if they meet eligibility requirements) to expand the testing of their offerings in a new market.
- Major initiatives in the UK market over the next year include the:
  - International Armed Vehicle Conference – January
  - Energy Storage Summit – February
  - HETT Healthcare Excellence Through Technology – February
  - World Agritech Summit – March
  - Hydrogen & Fuel Cells Summit – May
  - Food & Drink Expo – April
  - Health Plus Care – July
  - London Tech Week – September

## Trade Policy and Negotiations

Australia and the UK launched free trade agreement negotiations on 17 June 2020 following the UK's exit from the European Union earlier in the year. Three negotiating rounds have been held to date, with negotiators making substantive progress through text-based discussions in a positive atmosphere. Due to travel restrictions resulting from COVID-19, the negotiations have been conducted virtually.

When the transition period following EU exit ends on 31 December 2020, the UK will cease to be treated as part of the EU single market and customs union. From this point, the UK will implement an independent trade policy and take up its independent seat at the World Trade Organization.

Australia expects to continue working closely with the UK in the WTO and other international forums, including the G20. The UK will chair the G7 in 2021.

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*This Insight is current as at December 2020.*



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