

UNITED STATES

Business Conditions Snapshot

- The US is the largest economy in the world. It entered into recession in 2020, largely due to the early impact of COVID. The US unemployment rate had been as low as 3.5 per cent, but currently sits at around 6.9 per cent.
- The US is well known for its entrepreneurship and innovation as well as high levels of R&D expenditure. The US is a global leader in technology and high-value manufacturing sectors.
- President-elect Biden's win in November is expected to result in significant changes in US policy during 2021. His early efforts are expected to focus on controlling the coronavirus pandemic, domestic economic recovery (including investment in infrastructure) and tackling climate change. January's election for two remaining senate seats will determine which party will control the Senate.
- President-elect Biden is not expected to make major immediate changes to US trade policy. Tariffs on steel, aluminium and imports from China are likely to persist, at least until replacement policy measures are in place.
- However the US business community will look for relief from these tariffs. The Phase One trade deal between the US and China has been effective in propping up US exports to China—particularly energy and agricultural exports—throughout the pandemic. While US exports are unlikely to meet the targets of the deal, 2020 will still be a good year by historic standards.
- Innovation is a key driver of economic growth in the US. The Trump Administration's National Security Strategy (NSS) has provided a clear policy direction for innovation and technology. The NSS states the US will nurture a healthy innovation economy, collaborate with allies and partners, improve STEM education, draw on an advanced technical workforce, and invest in early stage R&D.
- US R&D priority areas include autonomous technologies (cars and weapons), data science, encryption, gene editing, nanotechnologies, new materials, advanced computing technologies and AI. President-Elect Biden has committed to ramping up investment in clean energy technologies.
- The Tax Cuts and Jobs Act—passed in late 2017—reduced the US corporate tax rate from 35 per cent to 21 per cent. This decrease was a key part of the new tax framework with the goal of attracting and retaining investment. President-elect

Key facts and figures

- Population: 328 million (2018)
- GDP growth: 2.3 per cent (2019)
- GDP per capita: US\$65,112
- Political system: Constitutional Federal Republic
- Two-way trade: A\$76.4 billion (2018–19)
- Key goods and services traded (2018–19): beef A\$1.9 billion, aircraft parts A\$1.2 billion, passenger motor vehicles A\$1.8 billion, pharmaceutical products A\$1.3 billion
- Two-way investment: A\$1.66 trillion (2018)



Biden has signalled the possibility of raising corporate tax rates; his ability to do so may be contingent on the passage of legislation through Congress.

Trade and Investment Opportunities

- There are more than 4,000 Australian parent companies with 1,500 individual entities in the US, and more than 3,000 individual points of presence.
 - Major Australian firms include Austal, BHP, Rio Tinto, Incitec Pivot, LendLease, Macquarie Group, and Servcorp.
 - An estimated 150,000+ people in the US are directly employed by Australian companies, while US trade with Australia supports over 300,000 US jobs.
 - The state with the most jobs created by Australian companies is Texas, followed by California, Georgia, Illinois and New York
- The US is Australia's largest foreign investor and Australia's largest economic partner. Since 2010, the US has consistently been the largest investor in Australia in terms of FDI stock.
 - More than a quarter of Australia's total inward foreign investment – A\$983.7 billion in 2019 – is from the United States.
 - The US invests more in Australia than in any other country in the Asia-Pacific, including Japan and China.
 - Leading sectors for US investment are mining, finance and insurance.
 - Investment flows are expected to decrease sharply in 2020 due to COVID and a muted economic recovery.
- Austrade in the US focuses on investment in sectors including agribusiness and food; resources and energy; major infrastructure and urban development; international education; intelligent health solutions; advanced manufacturing and defence; space; cybersecurity, digitech and fast moving tech; and fintech and blockchain.
- COVID travel restrictions combined with widespread acceptance of remote working is changing how advanced technology companies are undertaking international expansion.
 - Some digital companies have employed only small numbers of staff in Australia and have delayed establishing formal business entities.
 - This may result in companies having a light footprint in Australia with no Australian domicile, and sales booked through head offices or other regional locations.
 - Travel restrictions and quarantine arrangements in Australia are a barrier for digital technology and other investors seeking to establish new greenfield subsidiaries in Australia.



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- A number of major technology companies would like to own their own power supply or at least have an investment in projects to secure offtake.
 - This may be a barrier or an opportunity in Australia. There is a similar narrative around data centres.
- COVID has changed the way organisations have been working, doing business and interacting with one another. Meetings are being taken via video conferencing, virtual site visits have been conducted for US investors in Australia, and conferences have been run virtually.
- Austrade posts have adapted their working arrangements to support the US embrace of virtual work practices.
 - The Austrade Landing Pad has shifted how it delivers services, and has switched to a virtual boot camp program, which has been well received.
- Australian scale ups are slowing expansion and doing more fundraising before going international. It has become more difficult to raise early stage capital in the US market.
 - Venture capital investors are de-risking their pipeline by consolidating existing companies in their portfolio, and are cautious about new prospects.
- US multinationals have been concerned about managing risk around supply chains stemming from geopolitical tensions.
 - Australia’s low sovereign risk, quality infrastructure and strong relationship with the US means it can capture significant new FDI.
 - Australia can offer strong talent, visas, competitive regulatory frameworks and a network of robust trade experts.
- In established agribusiness markets like the US, agtech solutions are needed to maintain competitiveness and increase efficiency.
 - The growing number of agtech incubators and accelerators both in the US and Australia defines this trend, as does the rapid growth in venture capital being placed in agtech companies across the globe.
 - There is interest from food processing companies in scoping Australia for innovations—from novel and nutritious ingredients to new technologies—to eliminate waste in the value chain.
 - There is appetite from multinationals, wealthy families and pension funds for aggregating Australian farm and pastureland, and building value-adding supply chains to Asia.
- COVID has disrupted the supply chain and influenced ingredients and raw material suppliers.
 - While suppliers of ingredients and raw materials report little effect from COVID on their ability to supply ingredients to food and beverage companies, there may



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be opportunities where food manufacturers are seeking alternative input suppliers that meet US food safety requirements.

- Australian suppliers exporting goods covered by the Department of Agriculture, Water and the Environment’s Food Safety Recognition Arrangement with the US Food and Drug Administration may have an advantage, and could position themselves as an alternative source of supply.
- The US’s growing expertise in digital health technology creates an opportunity for new investment in Australia. Applications are in telemedicine and mHealth (aged care especially), connected devices/IoT big data, cyber security and electronic pharmacy applications.
 - There are also opportunities for US firms to bring their expertise to Australia in partnership with Australia’s newly launched Digital Health CRC, and through university research partnerships.
- Pharmaceutical manufacturing companies have supported Australia’s approach to develop trusted supply chains and distribution with allied countries, rather than replicating a national vaccine supply chain in each country.
 - Companies have been open to further investment in Australia to strengthen Asia–Pacific supply chains with critical missing capability in vaccine, biologics and cell therapy manufacturing.
- Australia has a unique advantage in clinical trials for US firms.
 - Early stage clinical trials are 60 per cent cheaper to conduct in Australia compared with the US.
 - This is due to the R&D tax incentive and speed of approval process.
 - COVID-19 has created a backlog of clinical trials in the US, and this presents an opportunity for Australia to bid for the trials.
- New international student enrolment in the United States and online outside the United States decreased by 43 per cent in Q3 2020 compared to Q3 2019.

Trade Policy Focus

- 2020 marked 15 years since the Australia–US Free Trade Agreement (AUSFTA) entered into force.
 - AUSFTA is well-used into the US, with 88 per cent of Australia’s exports to the US entering under preferential arrangements.
 - AUSFTA has a lower use rate on US goods coming into Australia (78 per cent).
- The seventh meeting of the AUSFTA Joint Committee took place in April 2019 and discussed a number of issues of interest to both parties.
 - Other committees established under the auspices of AUSFTA meet as needed and report to the AUSFTA Joint Committee.



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- In recent years the US has maintained an active trade negotiation agenda, not only for comprehensive FTAs like AUSFTA, but also for stand-alone agreements on thematic issues such as digital trade.
 - There may be opportunities for the US and Australia to work more closely on rule-making around future digital issues.
- Australia and the US are both members of the WTO, APEC, G20 and the OECD.
- Australian agencies invest significant effort to ensure the US remains open and provides expanded opportunities for Australian exporters.
 - This includes the Department of Agriculture, Water and the Environment's work to expand and maintain market access for agricultural exports, including red meat and horticultural products.

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Insights current as at December 2020.



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