



# Snapshot of Australia's investment opportunity in Southeast Asia

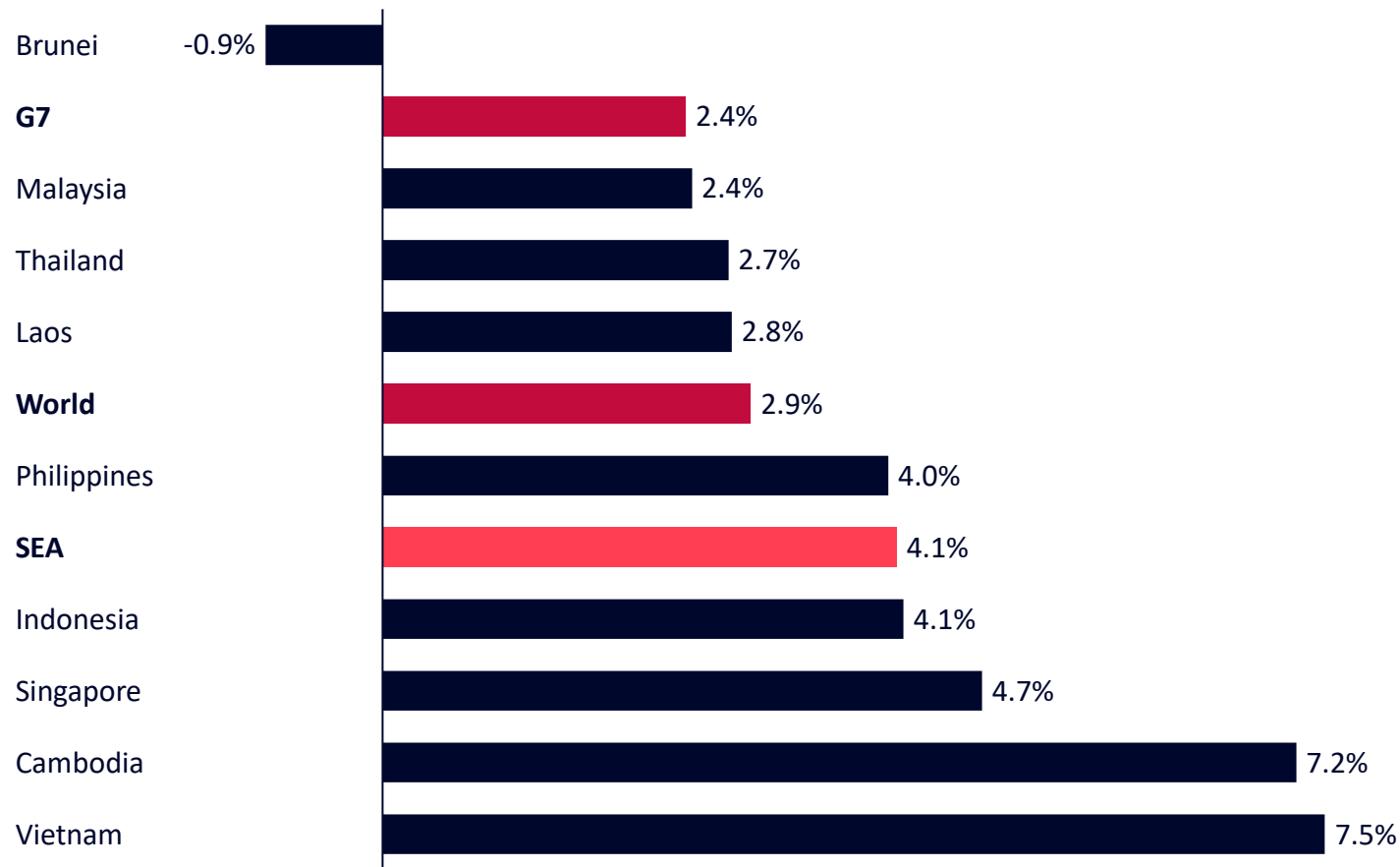
July 2023

# Southeast Asian (SEA) economies are growing faster than the rest of the world and faster than the G7

- Southeast Asian countries have experienced faster economic growth than the world, and the G7, over the last ten years.
- Vietnam’s and Cambodia’s growth has exceeded over 7% per year during this period
  - Vietnam’s growth has been driven by manufacturing, especially in electronics, machinery, and clothing for Vietnam
  - Manufacturing has also been critical to Cambodia’s fast expansion as well as tourism
- Singapore’s growth has also outpaced the SEA and G7 average at 4.7%

Southeast Asia’s economies have grown by 4.1% each year on average since 2013, with Vietnam and Cambodia leading the pack in growth

% CAGR in GDP growth in current prices in USD, 2013-2022



Sources: International Monetary Fund (2023) World Economic Outlook Database: April 2023; OECD (2023) Economic Outlook for Southeast Asia, China and India 2023; Mandala analysis

# The population in Southeast Asia is expected to grow by 13% over the next two decades

Southeast Asia is set to grow by 100 million people by 2040

% projected growth in population from 2021 to 2040



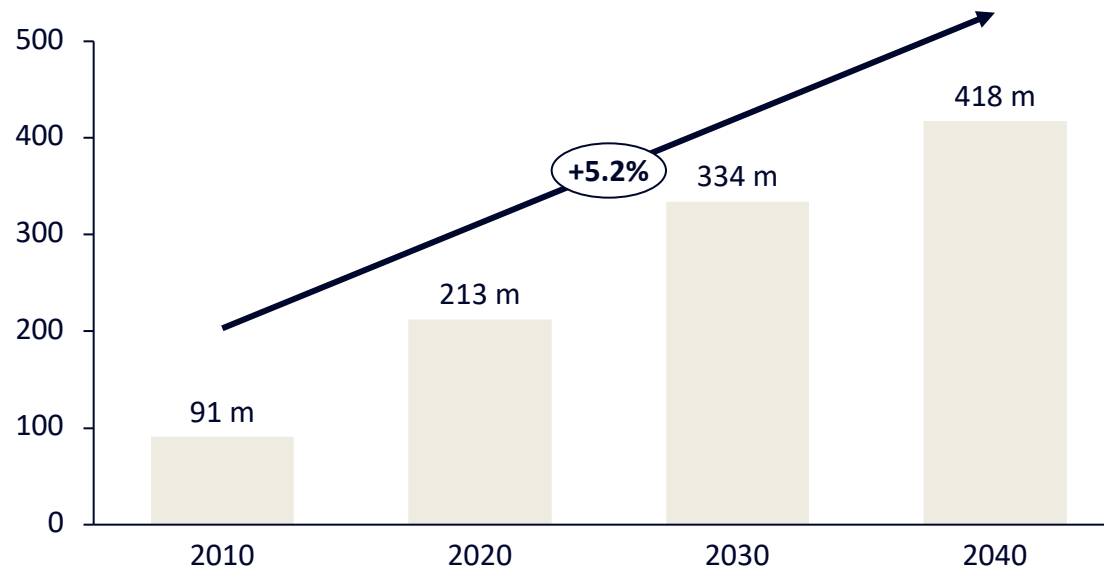
Between 2021 and 2040, Southeast Asia is projected to grow 13% from about 675 to 765 million people. During that period, the rest of the world is projected to grow 16.4% from 7.25 to 8.4 billion people.

Source: United Nations, Department of Economic and Social Affairs, Population Division (2022) *World Population Prospects 2022*, DFAT analysis.

# A growing middle class is projected in Southeast Asia – growing to 334 million in 2030 and 418 million by 2040

The estimated middle class population in Southeast Asia is set to grow

Millions of people, 2010 to 2040<sup>1</sup>



The middle class – defined as those earning between USD 10 to 100 a day – is estimated by over 200 million people currently and if trends persist, will double by 2040.

Notes: Middle class growth are linear extrapolations and assumes current trends persist. Demographic changes and changes in economic, policy, and industry conditions will mean that growth could accelerate or plateau unevenly over the next two decades

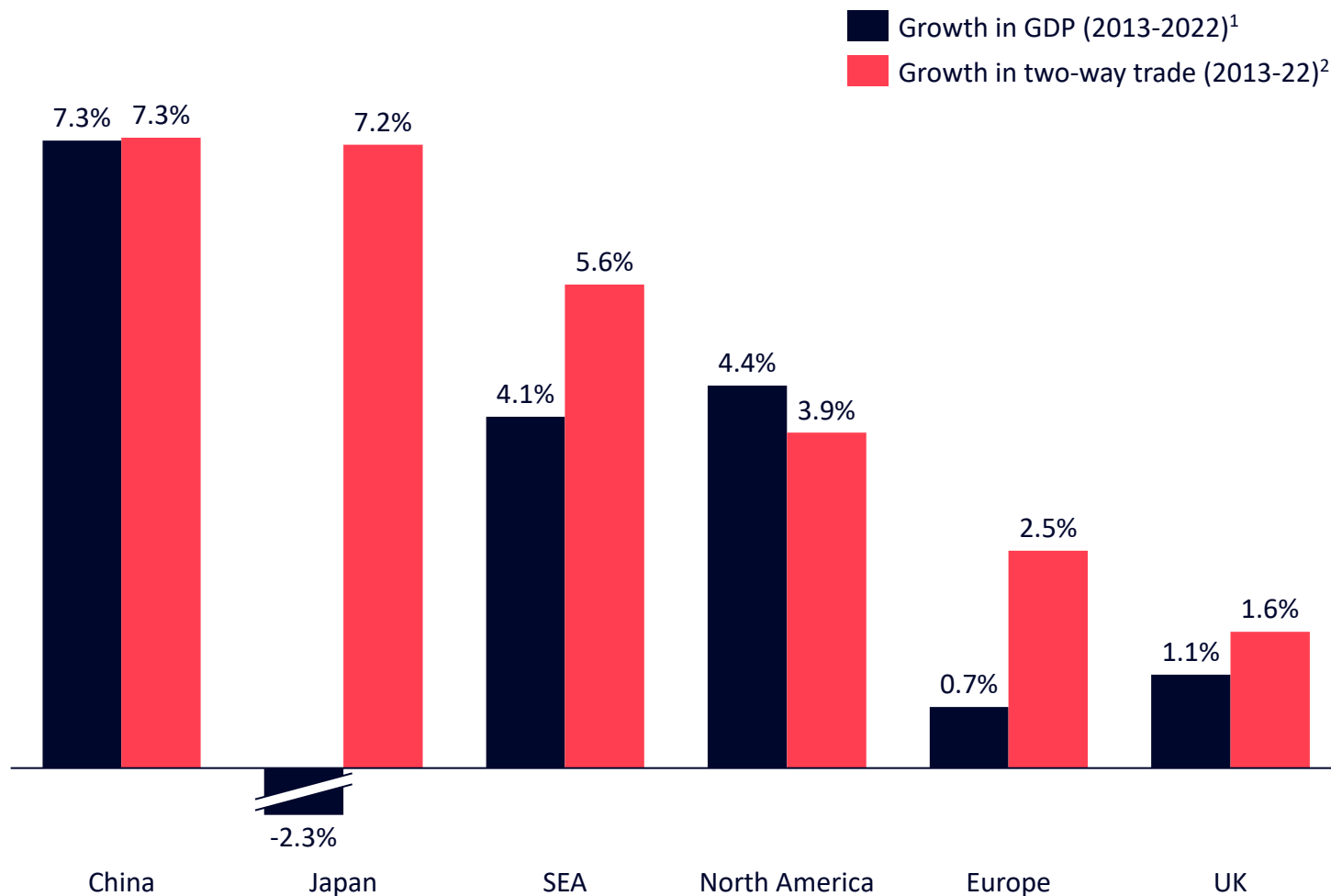
Sources: Homi Kharas and Dan Hammer, OECD Development Centre (2010) *The emerging middle class in developing countries*; Mandala analysis

# Australia’s traders are actively expanding its activities in Asia, but its trade with SEA is growing slower than in China and Japan

- Australian trade is generally geared towards the fast-growing economies of the world
- Growth in two-way trade over the past ten years between Australia and SEA was 5.6%, 1.5 percentage points higher than its GDP growth
- However, Australian two-way trade growth is much stronger with China and Japan
- Trade growth between Australia and China have almost tracked Chinese GDP growth at 7.3%; that figure is 7.2% for Japan, despite its contracting economy
- Australia continues to grow its trade with North America, Europe, and the UK but at slower rates compared

Comparison between GDP growth and Australia’s two-way trade growth

% growth between Australia and region or country



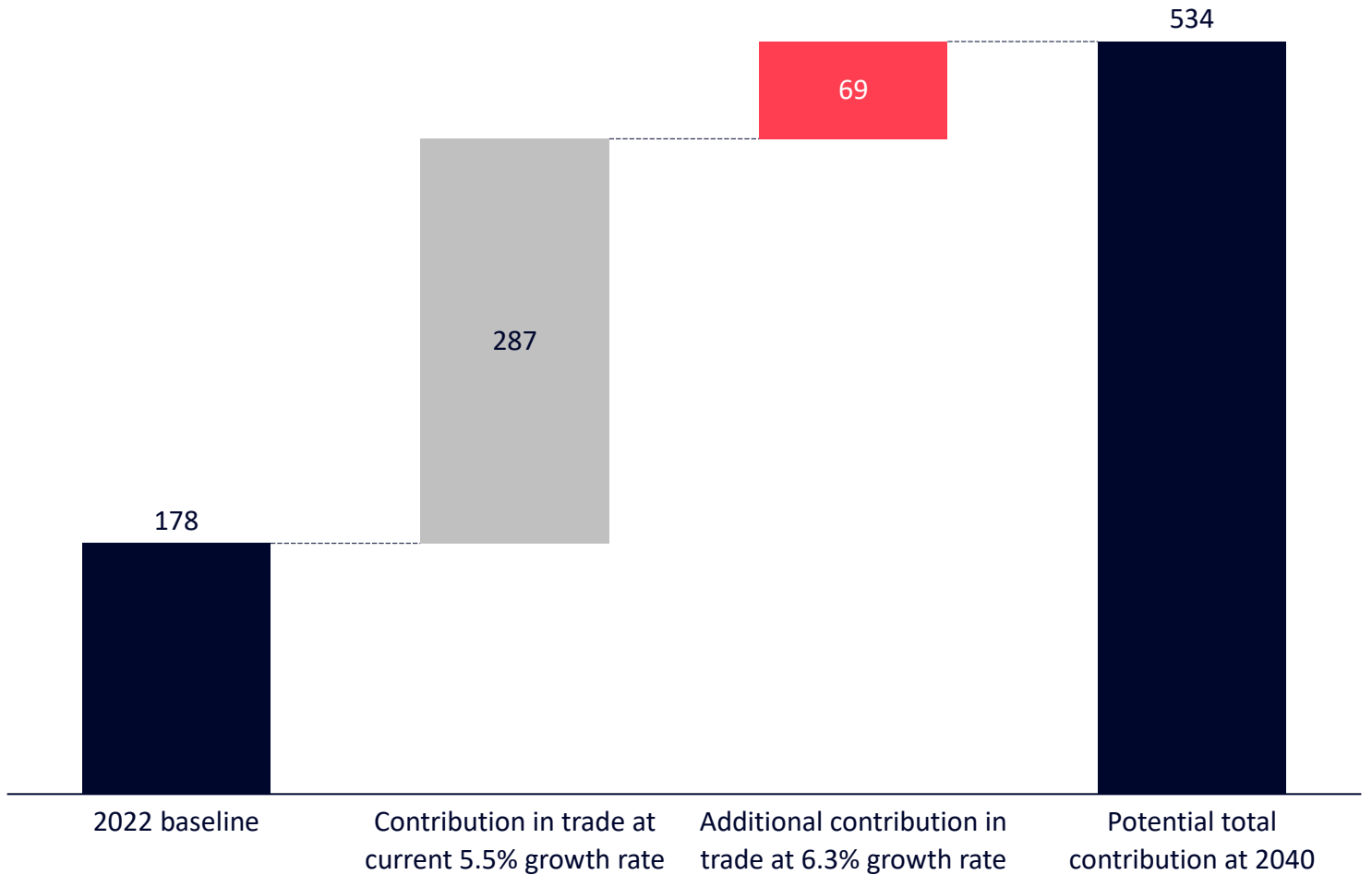
Sources: 1: IMF (2022) World Economic Outlook Databases, GDP current prices \$USD. 2: ABS (2023) International trade: Supplementary Information, Calendar Year, 2022, and DFAT (2023) Australia’s merchandise exports and imports; Mandala analysis

# Two-way trade between Australia and SEA can grow to half a trillion dollars by 2040

- Australia and SEA are continuing to grow the value of its trade with each other
- Growing at 5.5% per year, total trade between Australia and the region can increase its value by A\$287 billion by compared to current levels...
- ...but an addition A\$69 billion worth of value can be added if growth could lift to 6.3% per year...
- ...meaning that by 2040, two-way trade between Australia and Southeast Asia could be worth over half a trillion dollars. This would be worth about triple the value of 2022

Potential value of two-way trade between Australia and Southeast Asia by 2040

A\$ billions, 2023



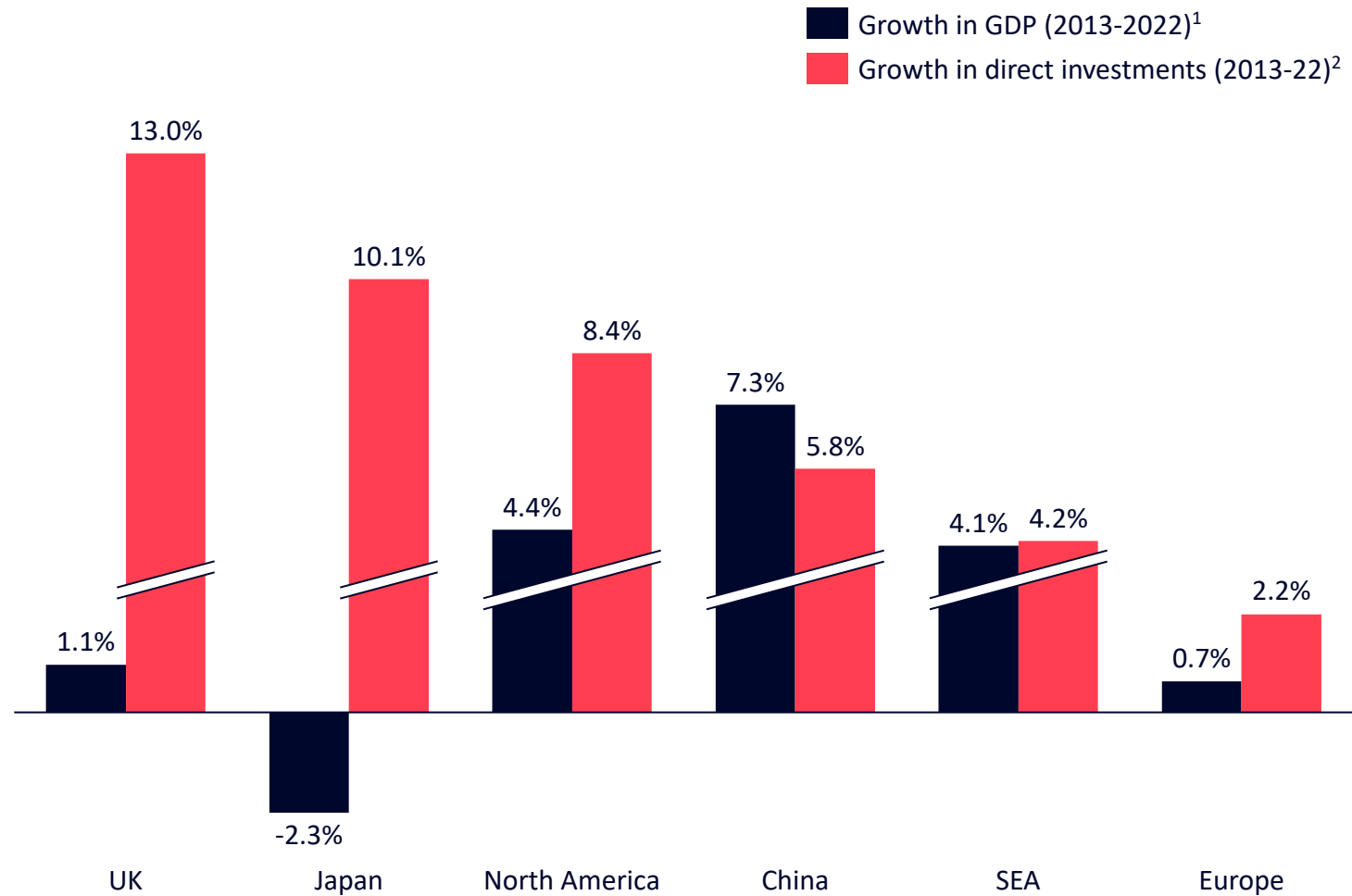
Sources: DFAT (2023) *Composition of Trade, Australia, July 2023*, DFAT analysis

# Australia’s direct investment growth has centred on the UK and Japan over the past decade and not towards SEA

- Australian outbound direct investment is growing fastest for the UK, Japan, and North America
- Australian direct investment towards the UK grew at 13% per year on average over the past decade...
- ...and 10% per year towards Japan...
- ...and 8.4% per year in North America
- While growth in SEA is comparatively weak at 4.2% on average per year

Comparison between GDP growth and Australia’s growth in outbound direct investment

% growth between Australia and region or country

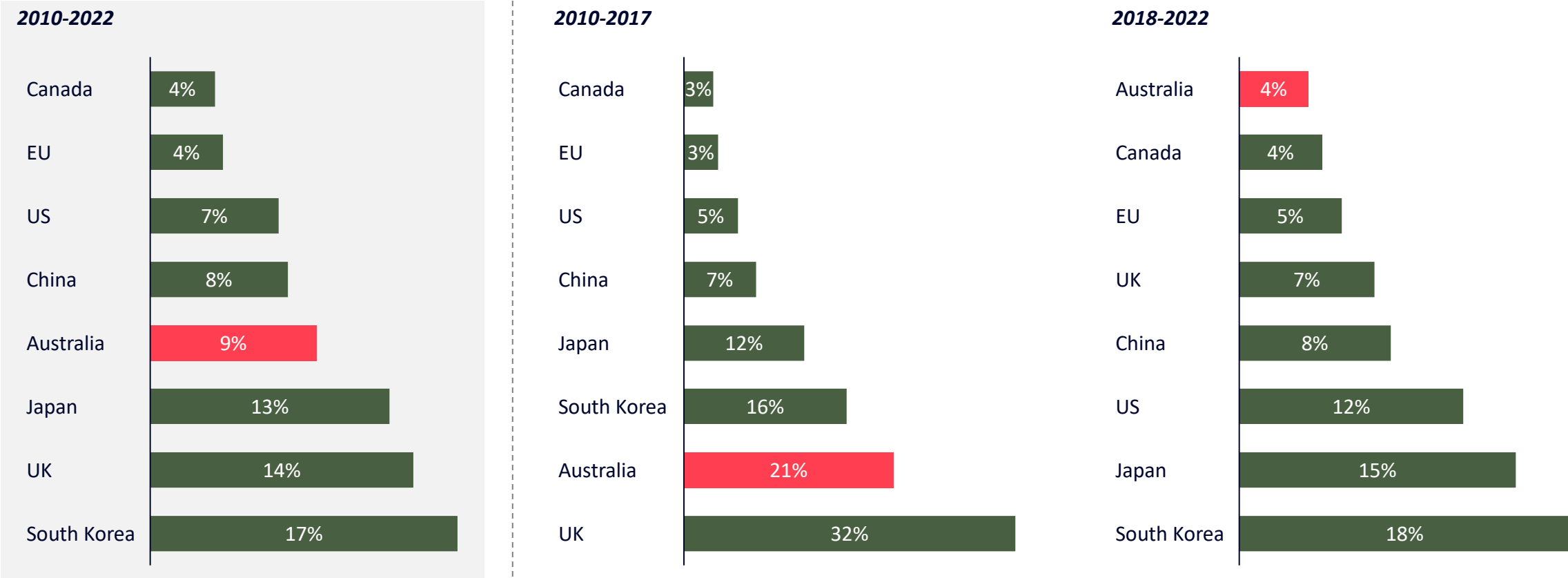


Sources: 1: IMF (2022) *World Economic Outlook Databases*, GDP current prices \$USD. 2: ABS (2023) *Australian investment abroad: level of investment by country and country groups by type of investment and year (\$ million)*; Mandala analysis

# Australia’s direct investment in SEA since 2010 is 9% of total outbound FDI but this has faded over time and now lags other peer countries

Proportion of FDI directed into ASEAN by source country from 2010 to 2022

% of total outbound FDI flow

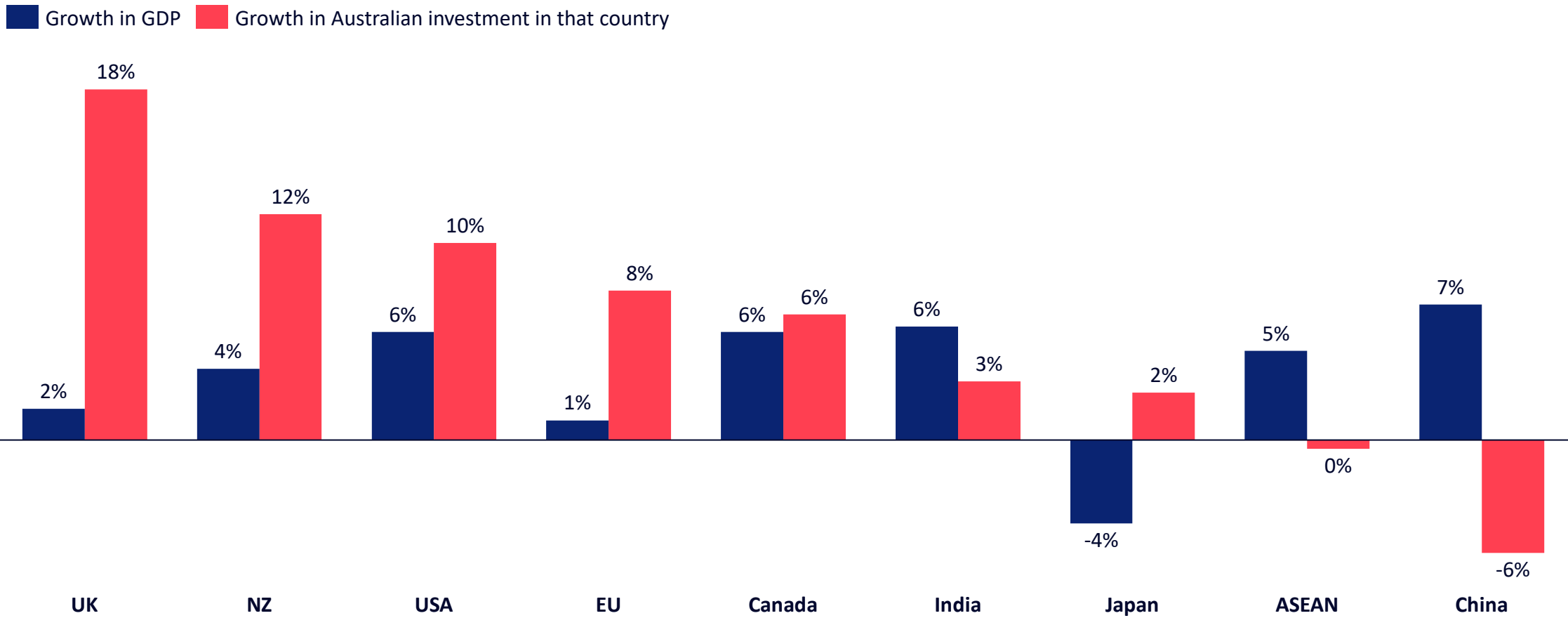


Sources: ASEAN Stats Data Portal (2023) *Flows of Inward Foreign Direct Investment (FDI) into ASEAN by Source Country (in million US\$)*, OECD (2023) *FDI outward flows*; Mandala analysis

# Growth in Australian investment abroad over the last five years is concentrated in the UK, NZ, US and EU, not in fast-growing neighbouring countries in Asia

GDP growth and Australia’s investment in that country, 2018-2022

% Growth in GDP and growth in Australia’s level of investment abroad,<sup>1</sup> CAGR 2018-2022



Notes: 1 Level of investment includes direct investment, portfolio investment, financial derivatives, other investments and reserve assets. Sources: IMF (2022) World Economic Outlook Databases, GDP current prices \$USD, ABS (2023) International Investment Position, Australia: Supplementary Statistics; Mandala analysis

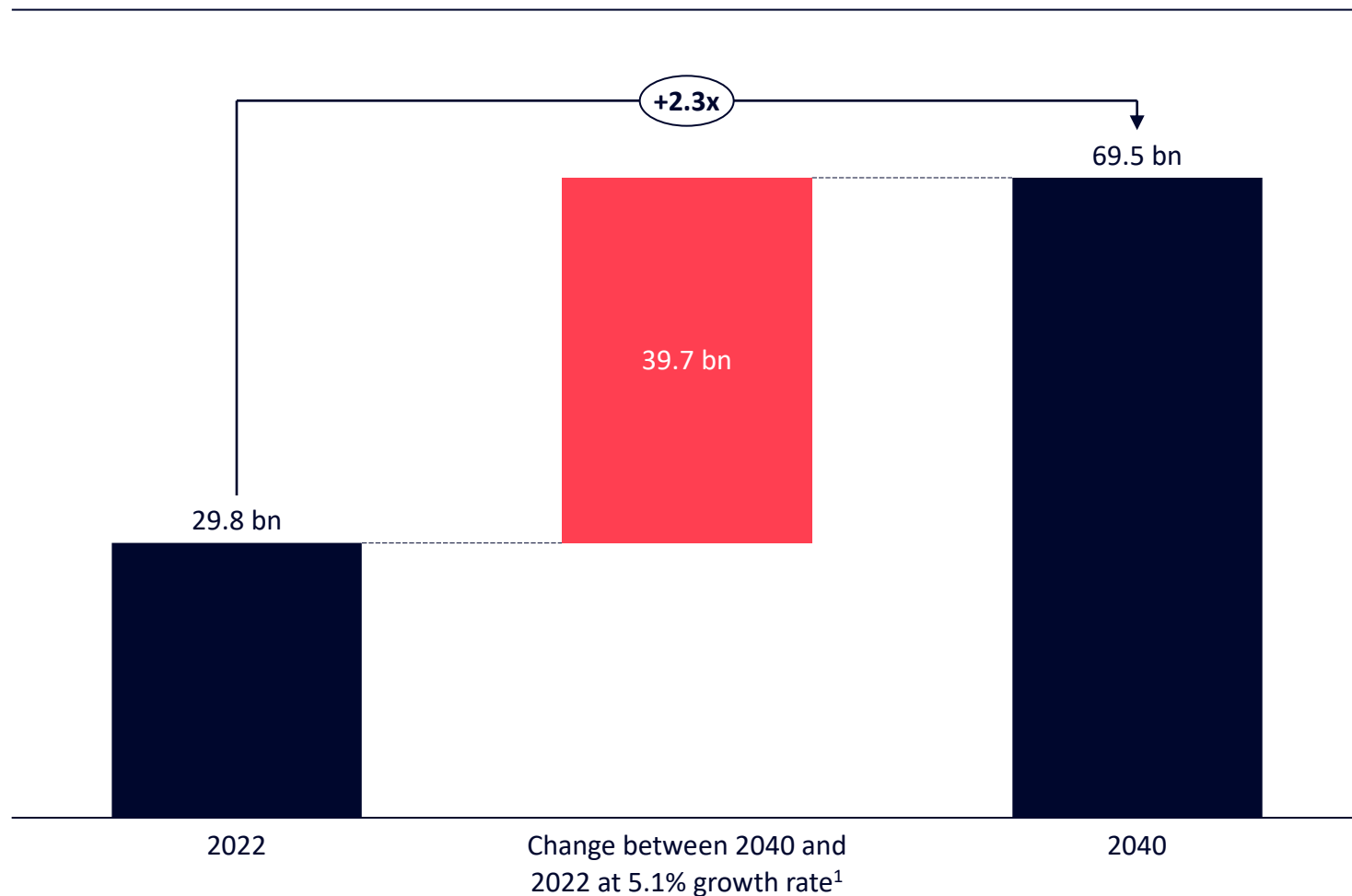


# Matching the world’s growth in investing in Southeast Asia would double our stock in the region by 2040

- If Australian Foreign Direct Investment (FDI) growth into the region matched the global average annual FDI growth rate since 2010 – 5.1 per cent – then the stock of Australian FDI in Southeast Asia would double to close to A\$70 billion by 2040.

Potential value of Australian direct investment into Southeast Asia if growth to 2040 matched global average FDI growth rate

A\$ billions



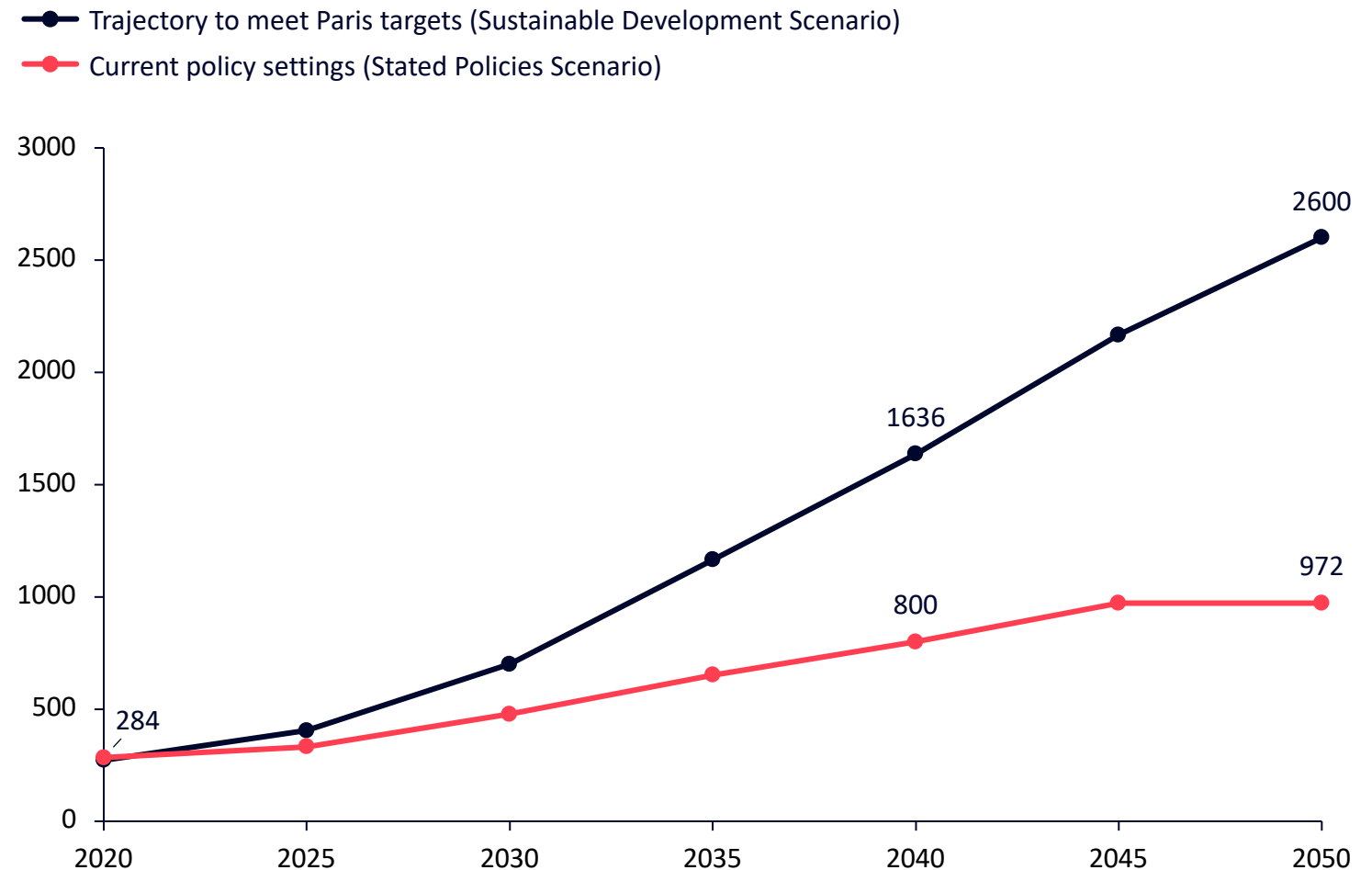
Notes: 1: Based on the global average FDI growth rate since 2010. Sources: International Monetary Fund (IMF) (2022), *Inward Direct Investment Positions as Reported by All Reporting Economies by End-Year*; DFAT analysis, Mandala analysis

## Clean energy generation and consumption in SEA is expected to grow substantially over the next 30 years

- Ten out of the 11 SEA countries have announced a net zero target
- SEA is expected to use between 3 to 8.5-times more renewable energy by 2050 compared to 2020 levels
  - Today, SEA uses approximately 300 TWh of renewable energy
  - Based on present trends and current policy settings for each country in the region, SEA will consume at least 800 TWh of renewable energy by 2040 and nearly 1000 TWh by 2050
  - Under a more ambitious scenario that will be needed to meet Paris targets, SEA demand for renewables is estimated at 1600 TWh in 2040 and 2600 by 2050
- In order to meet this growing demand, SEA will need substantial mineral resources...
- ...as well as significant need for design, engineering, operational, and governance services which are critical for the necessary scale of new renewable production.
- On both these fronts, Australia is well-placed to support and contribute to SEA's clean energy development

### Estimated demand for renewable energy in Southeast Asia according to current policy settings and trajectory needed to achieve Paris climate targets, 2020-2050

Terawatt-hours (TWh)



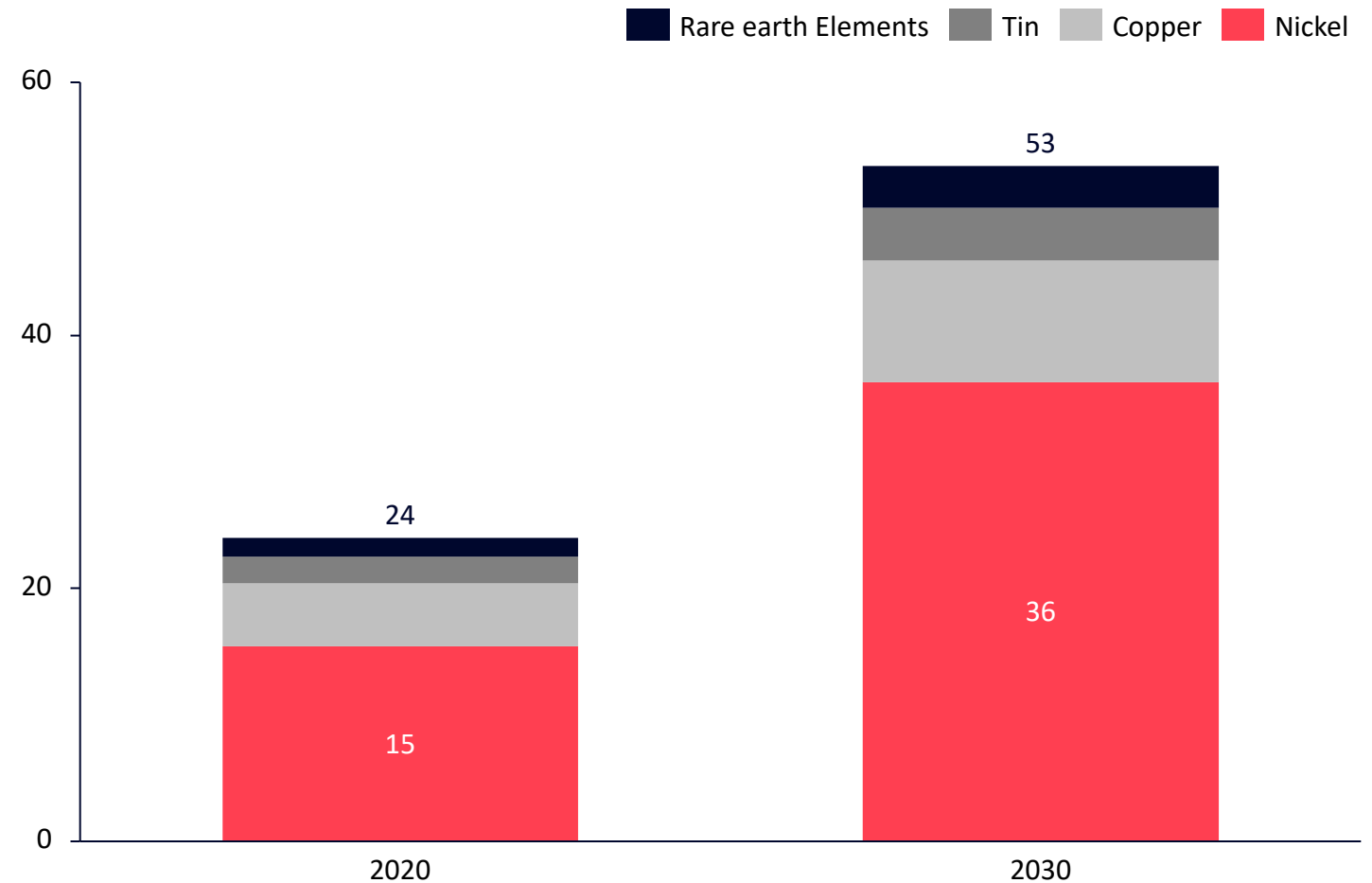
Sources: IEA (2022) *Southeast Asia Energy Outlook 2022, Key findings*, Mandala analysis

## Critical minerals will become more valuable to SEA over the next decade

- Southeast Asia's reserves of minerals that are critical to clean energy development means that it will play an important role in global manufacturing and energy supply chains
  - Indonesia and the Philippines are among the largest nickel producers in the world
  - Nickel, copper, tin, and rare earth elements will be in increasingly high demand for new power generation, transmission infrastructure, electric vehicles, and batteries, to name a few notable examples
- Revenue from these minerals was US\$24 billion in 2020 is expected to double to approximately US\$53 billion by 2030, with nickel the most valuable, assuming that market share and price remains consistent
- To realise this opportunity, Southeast Asian countries will need to continue developing sophisticated capabilities in mining, processing, and associated services
- Producers in the region will need to meet high quality and safety standards that satisfy ESG requirements in order to participate in the most valuable global supply chains
- Australia can support SEA producers improve its capabilities across these areas to capture more value from its critical minerals

### Potential revenue from selected minerals in Southeast Asia in the Sustainable Development Scenario, 2020 to 2030

US\$ billions, 2020



Notes: Estimate based on prices at 2021.

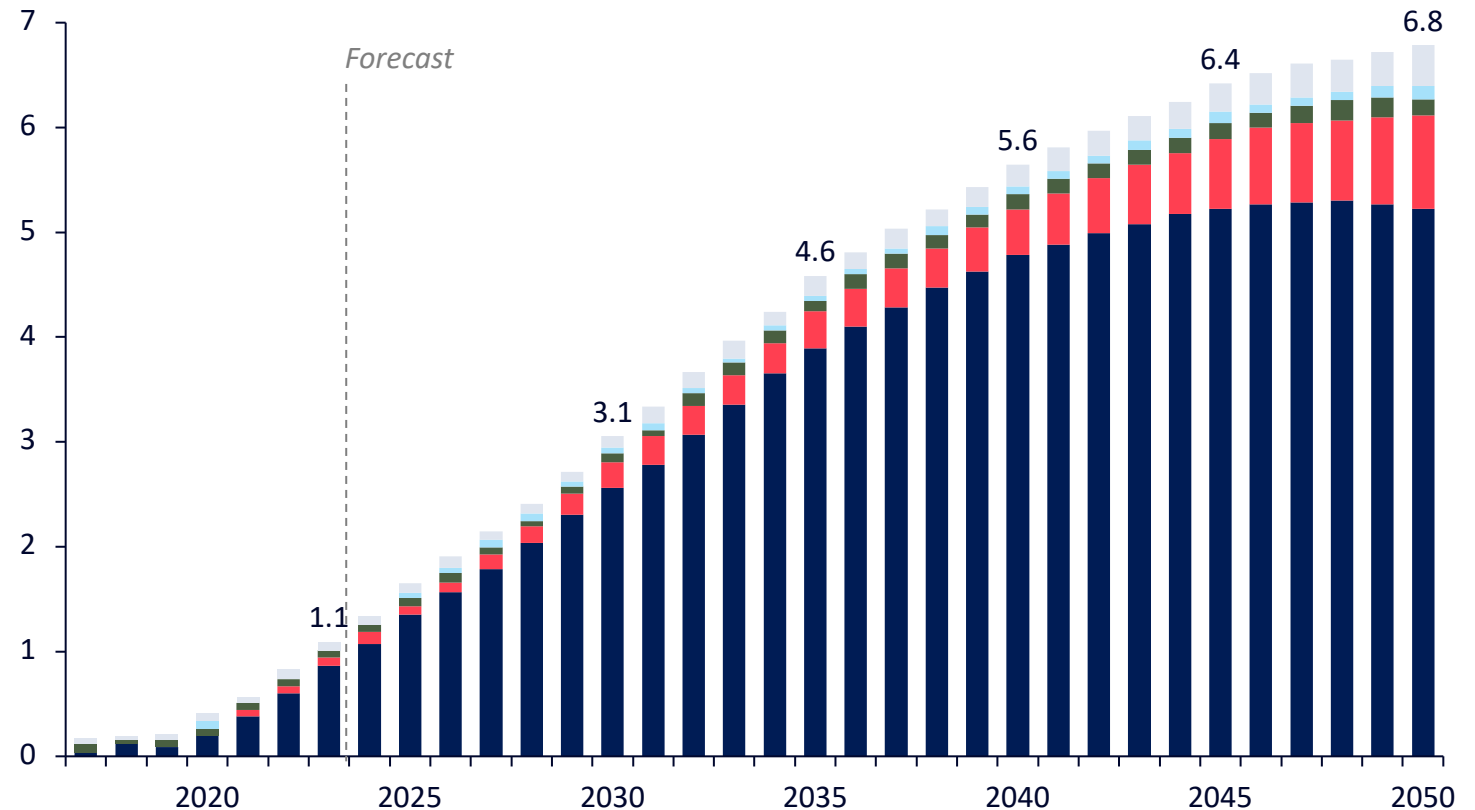
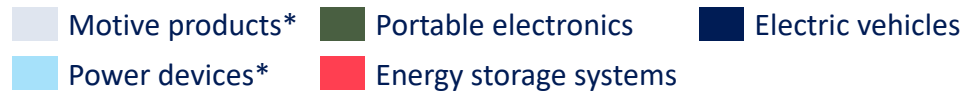
Sources: IEA (2022) *Southeast Asia Energy Outlook 2022*; Mandala analysis

# Future demand of batteries in terawatt hours

- Demand for lithium-ion batteries is set to grow substantially to 2050 as the global economy decarbonises
- Decarbonisation will involve electrification of consumer and industrial devices and machinery, driving demand. Electrification will intensify as decarbonisation accelerates
- Global battery demand is currently estimated at 1.1 TWh today and is forecast to reach 3.1 TWh by 2030, 5.6 TWh by 2040 and 6.8 TWh by 2050
- Demand will largely be driven by the uptake of electric vehicles, especially in the short term
- Demand for batteries used in energy storage systems will grow, but much more slowly than demand for EVs batteries

## Projected global lithium-ion battery demand by end use

Terrawatt hours (TWh)

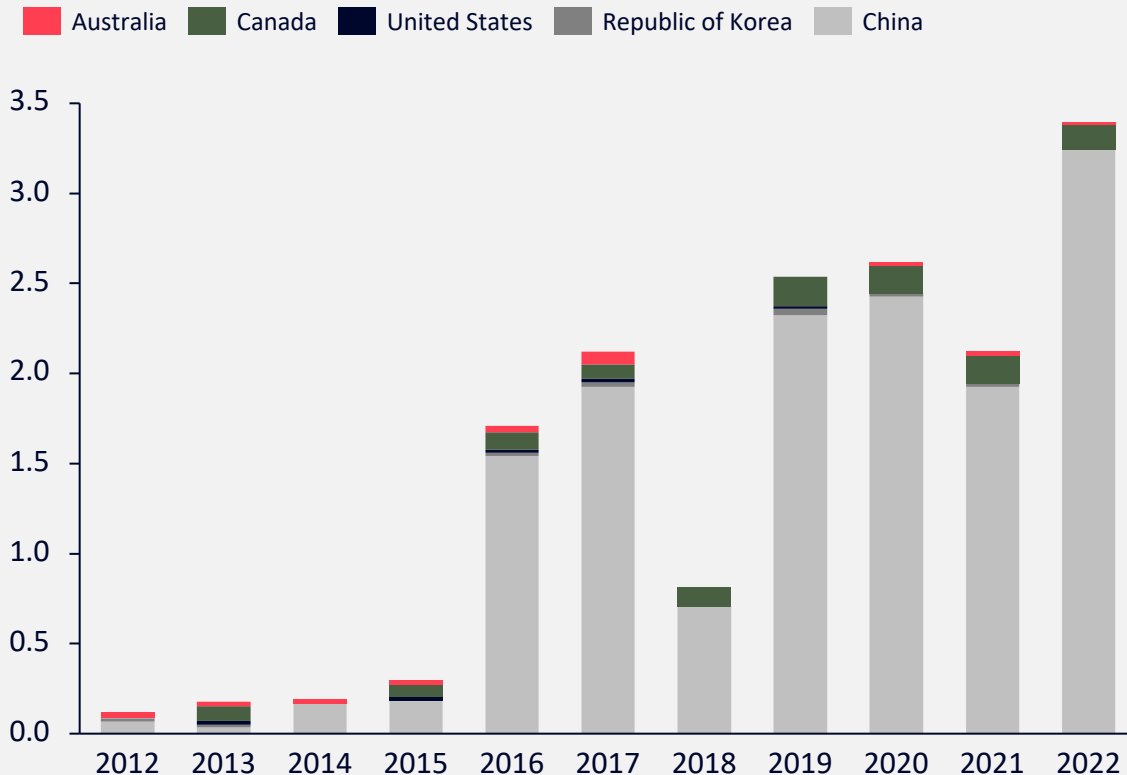


Notes: \*Motive products include micromobility vehicles such as scooters and personal mobility devices such as wheelchairs. Power devices are those used to precisely control electric currents. Source: IEA, Department of Industry, Science, and Resources (2023) *Resources and Energy Quarterly* (June)

## Investment in Indonesia’s nickel industry illustrates the investment opportunities possible in the ASEAN region

### Australia lags China and Canada in size of investment into Indonesia’s nickel industry

Foreign investment (USD billion) in Indonesia’s nickel production facilities, 2022



Sources: Ho and Listiyorini (2022) Chinese companies are flocking to Indonesia for its nickel; Mandala analysis

## Australia and Indonesia could together lead production of nickel to support the energy transition

### Top nickel reserve and producer countries

	Reserve	Producer
1	Australia	Indonesia
2	Indonesia	Philippines
3	Brazil	Russia
4	Russia	New Caledonia
5	New Caledonia	Australia

Collectively, Australia and Indonesia hold over 40% of the world’s nickel reserves and production

Sources: Statista (2023) Reserves of nickel worldwide as of 2022, by country, and, Statista (2023) Distribution of mine production of nickel worldwide in 2021, by country; Mandala analysis

