

Summary

- **Disunity within Australia's ruling Liberal-National coalition will boost Labor's popularity ahead of the 2019 election**
- **Australia's policy-making is largely transparent, but the federal government must often compromise with minor parties in the Senate**
- **The government has abandoned its company tax cuts, and they are highly unlikely to be revived ahead of 2019 election**

Risk scores

Overall

1.1 →

MODERATE

▶ Political	1.5 Moderate	⇒
▶ Economic	0.7 Low	↗
▶ Legal	0.9 Moderate	⇒
▶ Tax	1.5 Moderate	⇒
▶ Operational	1.3 Moderate	⇒
▶ Security	0.9 Moderate	↗
▶ Individuals	0.5 Low	⇒
▶ Cargo and transport	0.5 Low	⇒



Structure and calculations

Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period. Overall risk scores are calculated as equally weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security. Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

Business environment - strengths and weaknesses

Strengths	Weaknesses
Transparent, stable democratic government, with laws passed in an orderly and deliberative manner.	Factional conflict within both major parties has created political instability, with five different prime ministers in eight years.
Safe and secure place to do business, with a transparent tax and legal system.	Transport and infrastructure occasionally vulnerable to natural disasters such as bushfires and floods, which cause moderate disruption several times per year.
Globally significant mineral resources, well-positioned to capture rising Asian markets.	Distant from traditional Western markets and dependent on shipping for access to markets.
Stable legal and regulatory environments for foreign investment match government's welcoming attitude, although Chinese investment receives heightened scrutiny.	Dependence on the mining sector is weakening other sectors, supporting a stronger currency, and increasing the economy's exposure to exogenous demand and price shocks.

Country risk - overall statement

The Liberal-National coalition returned to government following the July 2016 election, but the government's slim majority and factional in-fighting raises policy instability risks. Australia continues to encourage foreign investment, although foreign ownership of domestic assets remains politically sensitive, particularly in strategic sectors and housing. Unions and environmental groups will continue to stage occasional strikes and protests, affecting public services, mining, and construction. Although protests will occasionally cause limited disruption to business districts, property damage is likely to be minimal. Short-term growth remains constrained by weak business investment, but average real GDP growth is expected to remain between 2% and 3% in the next three years.

Detailed analysis

Disunity within Australia's ruling Liberal-National coalition will boost Labor's popularity ahead of 2019 election

The Liberal-National coalition, led by Prime Minister Scott Morrison, faces a difficult Senate, a slim majority in the House of Representatives, and increasing unpopularity following the internal disunity that resulted in the removal of former Prime Minister Malcolm Turnbull in late August 2018. The opposition Labor Party has widened its lead in the polls, and is ahead on two-party preferences by 56% to 44%. Turnbull consistently polled above Labor Party leader Bill Shorten as preferred prime minister, but Shorten is preferred over Morrison by 33% to 30%, and support for the Liberal-National coalition government is at its lowest level since 2007, according to Newspoll.

The government's position is further complicated by Turnbull's resignation from his seat of Wentworth, which will trigger a by-election, likely to be held in October. The Wentworth election will be tightly contested, and if the Liberals lose, the party would also lose its slim majority in the House of Representatives, leaving it potentially unable to pass legislation independently in even the lower house. A general election will almost certainly will be called in the first half of 2019, as the Morrison government will seek an electoral majority to solidify its position.

Australia's policy-making is largely transparent, but the federal government must often compromise with minor parties in Senate

Australian government policy is generally formulated in an open and consultative manner, resulting in a largely transparent and predictable policy-making process. However, some compromise in the legislature is usually necessary, particularly as minor parties hold the balance of power in the Senate. The federal government is also frequently required to negotiate policy implementation with relevant state governments. Major policy changes are highly unlikely within the next six months, as newly selected prime minister Scott Morrison is unlikely to shift policy direction without an electoral mandate.

Policy disagreements between state and federal governments particularly affect large infrastructure and energy projects: for instance, in December 2017, the Queensland state government utilised its veto power to prevent the planned Carmichael coal mine – valued at USD2 billion – from receiving a USD689.6-million government loan to fund a rail link to the mine.

Interested parties in society and the business community are free to lobby the government over legislation, although scrutiny over foreign influence in politics has heightened during the past year, and a suite of changes has been introduced into the parliament to restrict foreign political donations. Business groups have active and well-funded lobbying groups dedicated to influencing government policy, and there are many well-organised and influential civil society groups that focus on environmental and social activism.

The opposition Labor Party remains ahead in polls, as it continues to benefit from Liberal-National government disunity

The Australian Labor Party won 66 seats in the House of Representatives in the 2 July 2016 elections, increasing its total from 55 in 2013. Labor had been polling slightly ahead of the Liberal-National coalition throughout 2018, but the removal of Malcolm Turnbull and the subsequent ascension of Scott Morrison – following an internal struggle between moderates and conservatives within the Liberal Party – has given Labor a significant boost ahead of the 2019 election.

Support is also growing for one of Labor's key policies – the establishment of a federal anti-corruption watchdog – with a mid-2018 survey showing two-thirds of Australians would support the creation of such a body. Labor will probably focus its election campaign on energy prices – which the party has promised to regulate more extensively to force their reduction – anti-corruption, and increased social welfare spending.

The government has abandoned its company tax cuts, and they are highly unlikely to be revived ahead of 2019 election

On 22 August 2018, in an attempt to maintain his leadership, then Prime Minister Turnbull announced that the government would abandon its company tax-cut legislation, which would have reduced the tax rate gradually from 30% to 25% for companies with a turnover of more than AUD50 million. New Prime Minister Morrison is highly unlikely to revive this legislation within the next year, as such cuts have become publicly unpopular after the Financial Services Royal Commission found frequent examples of malpractice among the major banks – findings that the public associates with larger companies. Furthermore, there is a moderate risk of tax increase should the opposition Labor party win the 2019 election. The government continues to pursue foreign companies for tax avoidance through the 2016 Multinational Anti-Avoidance Law – which it claims has resulted in an additional AUD7 billion in revenue being declared annually in Australia – and is conducting exploratory research on new options to target multinational digital businesses in particular.