

Australia and Japan: An Enduring Economic Friendship

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The strength and expanding frontier of the Australia-Japan economic relationship, 60 years after the signing of the landmark 1957 Commerce Treaty, is testament to the power of fundamental and ongoing complementarities.

The first complementarity, still in place, is Japan's reliance on imported energy and resources to fuel its economic growth and Australia's abundance of and reliable supply of high-quality resources. It is not an accident that for long periods of time, Japan was the single biggest buyer of Australia's key exports: wool, coal, iron ore, liquefied natural gas (LNG) and tourism. Long-term contracts and capital investment from Japan created the foundations of entire industries in Australia (iron ore, coal, LNG) that now supply many other countries.

Australian and Japanese capabilities and assets in different sectors, such as food and beverages, renewable energy, life sciences and financial services, also complement each other. There is growing collaboration in innovation between Australia and Japan in numerous fields: regenerative medicine, medical devices, aquaculture, agtech and foodtech, digitech, fintech, satellite technology, carbon fibre, artificial intelligence, Internet of Things and 3D printing.

The third complementarity is demographic. The Japanese population decline is complemented by Australia's continuing population growth, making Australia a preferred destination for Japanese capital looking for growth. Australia's stability, transparent regulations, sophisticated consumers and focus on the Asian middle class are very attractive attributes for Japanese investors.

For Australia, always looking for additional capital, Japanese investment has all the best characteristics: patient, long-term horizon, technology and know-how, global networks and infused with relationships of trust.

Japanese investment drives Australian growth

Australia and Japan's initial trade-heavy relationship has evolved into an investment plus trade relationship, helping Australia export to the rest of the world and maximising the opportunities created by the growth of China and other Asian countries. Japan has maintained its position as the second highest source of foreign direct investment (FDI) into Australia, with A\$91 billion at the end of 2016 in stock terms. This is A\$23 billion more than the UK and A\$51 billion more than China. FDI means long-term commitment, continuing reinvestment of earnings for decades, long-term jobs and the adoption of new technologies, innovation and higher productivity.

The superb alignment of shared values and institutions, such as the rule of law, protection of human and property rights, contractual fidelity, transparency and support of a rules-based order, also adds value to the relationship. Australia and Japan share a genuine mutual affection, which promotes the search for new opportunities and solutions under conditions of goodwill.

Established networks, accumulated over 60 years, are real assets that provide the base for new commercial linkages and are very hard to duplicate. They also provide adjacency, the strength of connections between existing successful ventures that builds success for new ventures. Some of the factors and drivers mentioned above will continue to attract more investment from Japanese companies. Iron ore, coal, LNG, and oil and gas will remain a core part of their future investment in Australia.

New opportunities

Many of the new business opportunities will arise in the services sectors. The huge number of Japanese companies with operations in Asia will provide new opportunities to provide materials and services from Australia and from partnerships located in Asia. Japanese companies are increasingly turning to Australia when looking abroad for partners in many services sectors. Australian firms and markets have a solid reputation for quality, reliability and innovation.

Ventures in other Asian countries are also a key part of future Australia-Japan commercial relations. Existing examples are Lion/Kirin, Kajima/Cockram, BlueScope/NSSMC, and Toll/Japan Post.

Australia's pursuit of renewable energy and energy storage will drive more investment in wind and solar power and opportunities for new battery technology.

Australia is considered an attractive destination for IT and engineering companies because it welcomes new technology. In the IT and cyber sectors, there are emerging trends over the next five to 10 years, including:

- further development of digital technology
- geospatial positioning, especially tailored services provision
- body-worn cameras for the police, with live streaming
- expansion of cyber security facilities
- IT applications in agriculture, mining and healthcare
- automated transportation systems, from tractors to trains
- generalised applications of Internet of Things
- artificial intelligence, which provides rich digital data to make operations more efficient and the automation of repetitive tasks.

Australia's proximity to Asia and agricultural resources provide a great future opportunity to meet growing demand for safe, clean and green products. Dairy products, meat, fresh and chilled fruit and vegetables, boutique beers, grains and others are considered good opportunities for new investment.

There is continued strong interest in infrastructure projects and public-private partnerships (rail, ports, hospitals). Japanese companies have made some investments in these areas and are accumulating experience and relationships that will support future involvement.

The financial services sector is one of Australia's largest, in terms of economic contribution, employment and growth potential. The sector has many components: wealth management; asset management; insurance; and corporate and project finance. Japanese banks (SMBC, MUFG, Mizuho) have become the largest overseas lenders to Australia's corporate sector. They are helping supply the necessary finance for growth

and expansion, both in domestic and export markets, as well as project finance for important infrastructure investment. Japanese life insurance companies (Dai-ichi and Nippon) have made enormous investments in Australia, providing important services to safeguard customers' future financial security. Newer financial providers that focus on platform-based services are also investing in Australia, providing more choice and new technologies.

The story of the Australia-Japan economic relationship has been an accumulation of trade and investment, a constant addition of new investments in diverse sectors and continuing investment in existing industries. In the 60 years since the signing of the 1957 Commerce Treaty, Japanese investment has made long-term commitments across the full gamut of the Australian economy.

While this history of investment has been resting on the solid foundations of economic complementarity, the greatest value has been the genuine and lasting friendship between the Japanese and Australian people. This history is seen clearly in the case studies which are the core of a new report by Austrade, *Japanese Investment in Australia: A Trusted Partnership*. In this case the title does say it all and the report is replete with valuable testaments to this enduring partnership.