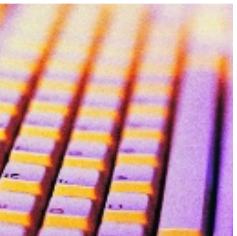


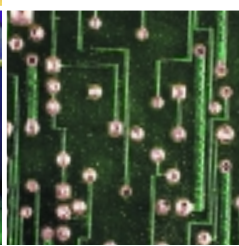
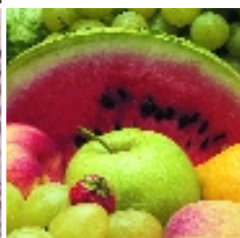


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Strengthening Australia-Japan Economic Relations



	Local Currency - % / Period			
	Index	Chg	YTD	4q
US\$	269.26	0.33	-0.62	29
€	212.46	0.26	2.21	23
¥	239.37	0.27	1.57	25
	230.91	0.17	2.78	243
	179.06	0.27	0.48	189
	289.78	0.25	3.51	213
	168.74	0.17	0.75	190.1
GBP	188.00	0.34	0.37	200.2
	270.47	0.46	3.62	222.9
	255.96	0.16	1.84	





Strengthening Australia-Japan Economic Relations

A report prepared by Professor Gordon de Brouwer
(Australian National University) and
Dr Tony Warren (Network Economics Consulting Group)
for the Department of Foreign Affairs and Trade

April 2001





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This report was commissioned by the Department of Foreign Affairs and Trade and undertaken by Professor Gordon de Brouwer (Australia-Japan Research Centre, Australian National University) and Dr Tony Warren (Network Economics Consulting Group).

It is the outcome of many people's time and effort. We are deeply grateful to the many business people and public servants in Australia and Japan who gave their valuable time and shared their experience and thoughts with us. We are indebted to our colleagues for helpful advice and comment, especially Professor Christopher Findlay, Professor Peter Drysdale, Henry Ergas, Andrew Bain, and Dr Roger Farrell. We are especially grateful to the Department of Foreign Affairs and Trade, Macquarie Bank, and the Australia-Japan Business Cooperation Committee. Finally, we are most grateful to our families for their patience and support.

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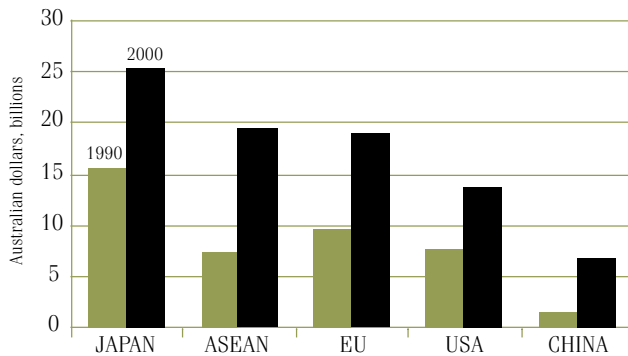
Executive Summary

Importance of the economic relationship

The past decade has seen an unrelenting stream of bad news stories about Japan. Years of economic stagnation, with periodic recessions, have tarnished Japan's reputation as a leading industrial economy. The casual observer could be forgiven for thinking that Japan no longer mattered to Australia. But such an assessment could not be further from the truth.

Japan has long been by far Australia's most important export market, dwarfing all others. A fifth of Australia's exports go to Japan, a quarter bigger than either ASEAN or the EU, and two-thirds bigger than the United States. Even during a decade of macro-economic stagnation in Japan, Australia's exports of goods and services have increased by almost 65 per cent.

Australia's Exports of Goods and Services



In the post-war period, the Australia-Japan relationship has been founded on a powerful complementary trading relationship. Japan required the primary products that Australia produced efficiently, while Australia required the top-class manufactured goods produced in Japan.

The commercial relationship has been buttressed by a broader strategic economic relationship. In the first instance, both countries have given high priority to the bilateral economic relationship through a number of formal agreements. The 1957 *Commerce Agreement* and the 1976 *Basic Treaty of Friendship and Cooperation*, for example, have played a crucial role in the post-war period, not only in providing a stable and relatively open trading environment, but in stating the shared economic and political interests of both countries and their intent to maintain a close relationship.

The strategic economic relationship also has a deep regional dimension, founded in Australia's and Japan's common interests in a prosperous, stable and economically developed region. This has been shown most clearly by Australia's and Japan's cooperation in the 1980s in initiating APEC but it is evident in many other areas as well.



Change and new opportunities

But both Australia and Japan have changed a lot in recent years, and the perceptions that business and government in each country have of the other are not always accurate, especially at a time when the pace of change has accelerated. At the same time, interest in both countries in each other has waned.

There has been substantial change in Japan and Australia as both countries have exposed more and more of their industries to the disciplines of competition through regulatory reform, and as the changes wrought by the development of the ‘new economy’ — the production and use of information and communications technology (ICT) — have become more widespread. Economic performance has also created fundamental changes, especially in Japan.

As a consequence of these developments, the old complementarities that are the mainstay of the relationship have been reinforced. The minerals, energy and tourism industries in Australia have been primary beneficiaries of the economic reforms of the past few decades. They have also been significant adopters of information and communications technology resulting in improved productivity and new trading opportunities.

A set of new complementarities between Australia and Japan is also now apparent. In addition to exporting goods and services that are largely a function of its natural riches, Australia is increasingly leveraging the skills and talent of its people to produce internationally competitive exports of goods and services as diverse as software and communications through to biotechnology, education, and health care services — goods and services that Japan is increasingly sourcing from around the world.

These changes in Australia and Japan and the opportunities they present offer the prospect of faster, more balanced economic growth for both economies, and consequently the prospect of larger markets and greater opportunities for traders and investors in both countries.

Issues for the relationship

A major concern of this report is the extent to which these opportunities are being realised.

Extensive consultations with several hundred representatives of business, government and other interested groups both in Australia and Japan have revealed many positive cases where the opportunities have been grasped.

But other firms still do not see these benefits. And too many firms, even in established industries, face difficulties in the broader operating and regulatory environment and are challenged by the new uncertainties created by change. This report identifies ten issues or concerns that are constraining

business from realising the full potential of the commercial relationship. They are:

- *Perceptions and focus*: many Australian and Japanese firms have outdated perceptions of each other. On the Japan side, Australia is not seen as an obvious source for many of the newer goods and services it requires. On the Australian side, Japan is seen as too hard a place to do business and not worth the effort. Both sets of perceptions are increasingly dated, but require continued effort to change.
- *Regional focus*: for some firms, commercial success in Japan depends on success in the rest of Asia (and vice versa). Being involved in the region increases the commercial leverage of Australian business, and advances Australia's engagement with, and strategic position in, Asia.
- *Streamlining government*: many Australian firms have encountered various difficulties in dealing with government agencies in Japan, substantially increasing the costs of doing business. Unlike in Australia, these agencies generally do not use the Internet to improve the transparency and efficiency of governmental process.
- *Competition, consumer and privacy policy*: while there have been significant gains over the past few years in these policy areas, concerns remain about the extent to which sufficient protection against anti-competitive conduct is available to firms in Japan.
- *Common standards*: reducing or eliminating differences in production, testing, labelling, distribution and other standards in the food, pharmaceutical and other industries would boost trading opportunities.
- *Sectoral issues*: change has created new uncertainties in many industry sectors — from agriculture, resources and tourism, to biotechnology, education, finance, health and ICT. These need cooperative solutions involving business and government in both countries.
- *Venture capital*: with the exception of seed capital, Australian firms generally have little trouble accessing venture capital. But little of this comes from Japan, closing off for Australia the important role that Japanese intermediaries provide in facilitating access to Japanese markets.
- *Movement of people*: while it is generally easy to move staff between Australia and Japan, Australian businesses have highlighted the difficulties associated with the system of visas for spouses that affect their ability to move staff into Japan, the recognition of skills and qualifications, and membership of some professional associations.
- *Intellectual property*: while Japan has a strong and effective patents system, Australian companies do not adequately protect their intellectual property, and there are situations where the process of regulation by the Japanese government can lead to disclosure of companies' intellectual property.

- *Japanese language*: strong Japanese language ability is one of Australia's comparative advantages in dealing with Japan. Yet these skills are still to be fully harnessed in helping Australians localise their product for the Japanese market.

A vision for the future

Dealing with these issues provides an opportunity for greater economic integration and cooperation between Australia and Japan, deepening both the commercial and the strategic economic dimensions of the relationship.

In terms of the commercial relationship, Australia and Japan should seek to provide fully open, harmonised and integrated economic systems for business, aiming at full mobility of goods and services and of labour and capital between both countries. This is an ambitious aim but it is one that will yield substantial economic benefits to both countries.

The path to achieving this will strengthen the strategic economic bond between both countries. Given that both countries are committed to an open multilateral trading system, the path to deeper economic integration should be non-discriminatory and open to others and directed at supporting the development of emerging economies in Asia. This will strengthen both countries' strategic engagement and links with the region, and it will be a practical way to advance both countries' commitment to the APEC Bogor goals of free trade and investment by 2010.

Action agenda

The report details a number of recommendations for both business and government to realise the full potential of the relationship.

There are many cases of Australian firms succeeding in Japan, in both the traditional sectors and the new economy sectors, as attested to by the growth in bilateral trade and investment. While it is up to firms to decide whether, and how, to do business in Japan, the Study Group believes that there are still many unrealised opportunities for Australian business there. In some cases, business people have not kept up to date with how Japan has changed, and are missing out on business opportunities as a result.

The Study Group recommends **business** help itself in the following five ways:

- It is now timely for Australian firms, especially those in high technology and services, to explore commercial possibilities in Japan.
- Firms should protect investments in long-term relationships from short-term demands for cost-cutting or quick returns to shareholders. Relationships still matter in Japan, even if less so than in the past.

- Firms should develop or invigorate relationships with Japanese counterparts through initiatives such as well-structured staff exchange programs. While such programs must be designed to protect the firm's intellectual property, many firms say that they facilitate the exchange of information and enhance understanding, and can lay the ground for better contacts and commitment in the future.
- Firms should further customise their product to the Japanese market, especially in Japanese language.
- Firms should strengthen business cooperation and organisations, especially among small and medium sized firms, which are the firms that predominate in the new economy. This gives business a voice and leverage. And it gives firms a network with which to talk and interact. The Study Group also urges business to consider setting up a Japan ICT Exchange for Australian firms, similar to that which exists in the United States.

Government also has a critical role to play in helping to ensure that the full potential of the Australia-Japan commercial relationship is realised. The Study Group recommends that Government implement three broad sets of initiatives to facilitate the ongoing development of the Australia-Japan commercial relationship.

First, there is substantial scope to deepen formal policy engagement with Japan, in order to bring bilateral arrangements up to date with the substantial and wide-ranging changes that have occurred in both countries and to consolidate the strategic economic relationship between Australia and Japan.

To this end, the Study Group recommends a new agreement to advance bilateral trade and investment in the form of a Closer Economic Partnership. This would be a fitting further step to realising the vision of deep economic integration between the two countries. Such an agreement should be based on the principles of non-discriminatory treatment and should be open to other countries to join. A working group of officials, as well as business people and other interested parties, should be set up to examine ways to implement the trade and investment facilitation agreement (TIFA).

This agreement should cover a wide range of areas, including services (biotechnology, education, energy and resources, finance, health, information technology, science and technology, telecommunications, and tourism), competition, consumer and privacy policies, investment, standards and conformance, customs, mobility of business people, e-government, intellectual property, and government procurement. The agreement should include, among other things, initiatives with respect to staff and information exchanges, the establishment of bilateral biotechnology and ICT councils, a bilateral science society, and a bilateral arbitration body.

The Study Group recommends that enhanced policy dialogue in these areas should occur whether or not policymakers agree to seek a TIFA, although they strongly believe that a TIFA is the most effective, consistent and timely way to achieve such policy cooperation. The Study Group recommends that the TIFA should also expressly support joint cooperation by Australia and Japan in regional development. The Government should continue to work towards the liberalisation of markets in Japan and elsewhere, including through the WTO.

Second, the Government needs to reaffirm at the highest levels a renewed commitment to the Australia-Japan relationship. In practical terms, the Study Group recommends:

- A whole-of-government commitment to the relationship with Japan, including re-prioritisation of Japan in government funding and departmental priorities, especially in the health and aged care, industry, science and resources, and communications and IT portfolios. To this end, the Study Group recommends that an audit be undertaken of current international outreach programs to decide which programs can usefully be extended to include Japan. The Study Group also urges the Prime Minister, other Ministers and senior officials to continue to regularly visit Japan, even in transit;
- Full involvement of business in official dialogue with Japan by formally including business in bilateral Ministerial Meetings, setting a policy that business be included in official meetings wherever possible, and establishing informal high-level, confidential briefings by government ministers and officials to business people, especially in health and aged care, industry, science and resources, and communications and IT, and trade.

Finally, Government has a supportive role in helping business overcome the information problems in the commercial relationship. The Study Group urges Ministers and officials to continue their efforts to encourage Australian businesses to maintain and expand their commercial relationships with Japan.

More specifically, the Study Group recommends that:

- Austrade work with JETRO to develop and publicise a fully bilingual website with a comprehensive listing of Australian and Japanese firms in ICT (including health and education IT) and biotechnology, with chat-room infrastructure to encourage interaction.
- Austrade increase its efforts to promote the value of direct investment in Japan and help Australian firms establish a presence there.
- Austrade give higher priority to providing information on new and emerging gateways into Japan's markets.

- A strategic whole-of-government approach be adopted in planning network programs, in consultation with Austrade and the Japanese Government.
- The Government consider extending current programs designed to promote educational and academic exchanges to encompass commercial exchanges.
- Initial government assistance be provided selectively to support the formation of business groups, especially in the ICT sector.
- All levels of Government consider ways they can help small to medium sized firms expand their use of Japanese language material, and that essential relevant government information be available in Japanese, including tourism information, on the Internet.

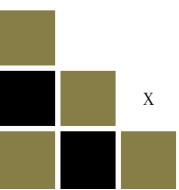


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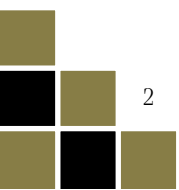
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Tony Warren is a principal of the Network Economics Consulting Group, where he has provided economic and regulatory advice on a range of economic issues to regulators and major telecommunications and transport companies in Australia, New Zealand and South East Asia. Dr Warren is an Associate of the Australia-Japan Research Centre at the Australian National University, where his research interests focus on issues associated with services trade and investment. He has most recently co-edited a book on *Measuring Impediments to Trade in Services* (Routledge 2000). Dr Warren has a PhD from the Australian National University and a B.A (hons) and B.Comm from the University of Queensland. His PhD dissertation examined the political economy of services trade policies in Japan and Australia.



Chapter 1 Change and opportunities



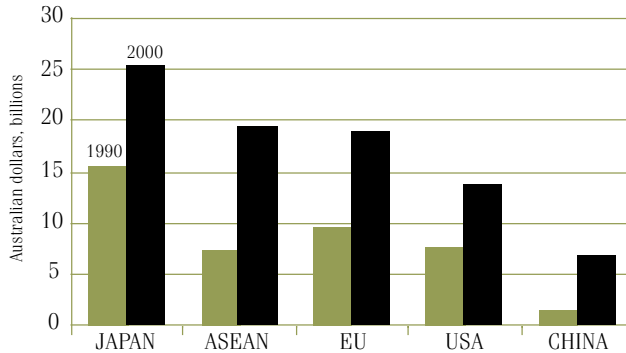
This chapter provides an overview of the long-standing critical importance for Australia of the bilateral relationship with Japan and suggests why the relationship has the potential to continue to be among the most mutually beneficial for both countries. Significant change has occurred in both economies as a result of regulatory reform, widespread adoption of information and communications technology, and other factors. These changes are invigorating the traditional complementarities that have underpinned the relationship ensuring that Japan will remain Australia's top export destination for the foreseeable future. They are also opening up many new complementarities in industries as diverse as software, biotechnology, and education. These changes and the new opportunities they create are setting the foundation for faster, more balanced growth in both countries.

1.1 A firm footing

The past decade has seen an unrelenting stream of bad news stories about Japan. Ten years of economic stagnation, with periodic recessions, has tarnished Japan's reputation as a leading world industrial power. The casual observer could be forgiven for thinking that Japan no longer mattered to Australia. But such an assessment could not be further from the truth.

Japan has long been by far Australia's most important export market and exports continue to grow in absolute terms. Despite a decade of virtually no economic growth, Japan's purchase of Australia's exports has increased by almost 65 per cent. Japan is the world's second largest economy and its annual consumption dwarfs that of ASEAN or China, providing export markets of unparalleled opportunity. A fifth of Australia's exports go to Japan. As shown in Figure 1, Australia sold \$25.5 billion worth of goods and services to Japan in 2000. That is a quarter more than was sold to the whole of Europe, a quarter more than was sold to all of ASEAN, two-thirds more than was sold to the United States, and almost four times what was sold to China.

Figure 1: Australian exports of goods and services by destination, 1990 and 2000



Source: Australian Bureau of Statistics, www.abs.gov.au

The post-war commercial relationship between Australia and Japan is a powerful example of two countries using their comparative advantages to their mutual benefit. Japan required the primary products that Australia produced relatively efficiently, while Australia required the world-class manufactured goods that were produced in Japan. Few relationships have proven to be as profitable and as sound for Australia.

Over and above bilateral trade and investment, a strategic economic relationship has evolved between the two countries. In the first instance, both countries have given high priority to the bilateral economic relationship through a number of formal agreements. The 1957 *Commerce Agreement* and the 1976 *Basic Treaty of Friendship and Cooperation* (Nara treaty), for example, have played a crucial role in the post-war period, not only in providing a stable and relatively open trading environment, but in stating the shared economic and political interests of both countries and their intent to maintain a close relationship.

The strategic economic relationship also has a deep regional dimension, with Australia and Japan recognising that their individual interests are best served by a strong and open multilateral trading system as well as a prosperous, stable and economically developed region. To this end, they have worked together to promote the GATT and now the WTO. Australia and Japan have also played an instrumental role in promoting the economic development of east Asia and its integration with the world, most notably in the joint initiative to set up APEC but also in many other areas as well.

With a few notable exceptions — agriculture products in the case of Japan and car manufacturing and clothing textiles and footwear products in the case of Australia — most products traded between Australia and Japan attract no or minimal tariff (Table 1).

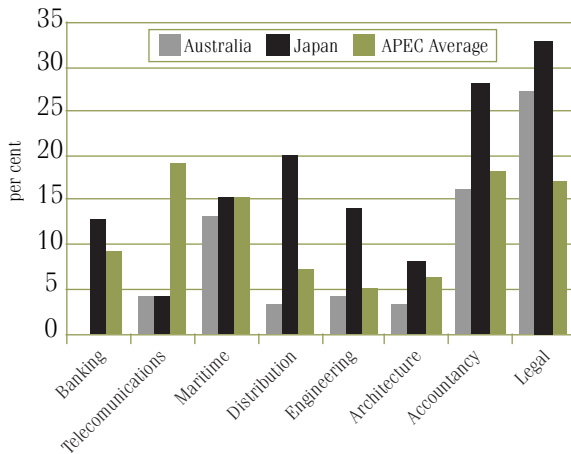
Table 1: Japan and Australia — Simple Average Applied Tariff Rates, 2000

	Japan	Australia
All Goods	8.1	4.4
Agriculture (excl. fish)	25.7	1.2
Fish & fish products	6.0	0.1
Petroleum Oils	5.9	0.0
Wood, Pulp, Paper & Furniture	1.8	3.8
Textiles & Clothing	8.0	13.0
Leather, Rubber, Footwear & Travel Goods	13.5	6.9
Metals	1.5	3.9
Chemical & photographic supplies	2.6	2.0
Transport Equipment	0.1	5.5
Non-Electric Machinery	0.0	3.5
Electric Machinery	0.2	3.8
Mineral Products, Precious stones & metals	0.8	1.8
Manufactured Articles n.e.s.	1.4	2.5

Source: APEC Secretariat, 2000 Individual Action Plans for Japan and Australia.

In services, both Australia and Japan have been major participants in multilateral and regional initiatives to apply trade and investment disciplines to the services sector. Both countries are signatories to the General Agreement on Trade in Services and have lodged extensive schedules of specific commitments. Japan retains a number of formal barriers to services trade (Figure 2), particularly in professional services, although it was an early leader in the deregulation of such vital service industries as telecommunications. Recent reforms in Japan (see below) are resulting in substantial liberalisation and deregulation of its previously relatively closed services sector. Australia has a comparatively open services sector.

Figure 2: Services Restrictiveness Index, Australia, Japan and APEC



Note: The greater the percentage the higher the level of restriction. 100 per cent = completely closed to all forms of competition; 0 per cent = completely open. The indices refer to various years from 1997 through to 2000.

Source: various.ⁱ

1.2 Changes

But both Australia and Japan have changed substantially in recent years as a direct result of a number of important forces that have impacted upon the economic and social structures of both economies.

Regulatory reform

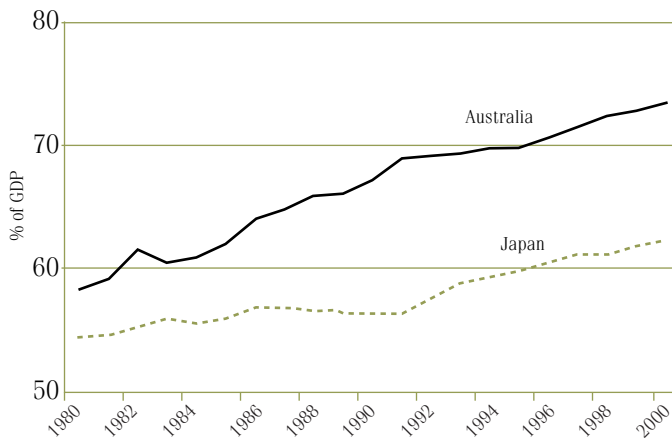
To begin with, substantial regulatory reform has occurred in both countries, with governments exposing more and more of their industries to the disciplines of competition through an extensive set of policy reforms. Appendix A.1 provides a concise history of the policy reform process in both countries, ranging from industry-wide tariff and financial reforms, industry-specific deregulation and liberalisation, and more recent policies designed to advance the new economy. The extent and impact of these reforms in the Australian context are hard to overstate. For Japan, the reform process has been more stilted, but significant changes have been implemented that have reduced the previously pervasive role of government in the Japanese economy.

The reform process in Australia has had a significant impact on the structure and productivity of the Australian economy.ⁱⁱ Australia's service industries have grown to be the dominant source of domestic economic activity. Services now constitute over 72 per cent of total output, well up from 58

per cent of output two decades ago (Figure 3). The composition of exports has become more diversified, with services and manufacturing now each accounting for about a quarter of all exports.ⁱⁱⁱ

Similarly, Japan's more laboured and incomplete reform process has helped diversify its industrial structure, although an important influence in this regard has been the process of economic development itself. Over the past decade, the share of the agricultural and manufacturing sectors in total production has substantially declined in favour of services, although the share of services in total production at about 62 per cent of GDP remains below that of other developed economies such as Australia. Japan has also increased its share of services imports. Regulatory reform will consolidate this trend.

Figure 3: Services share of GDP, Australia and Japan, 1980-2000

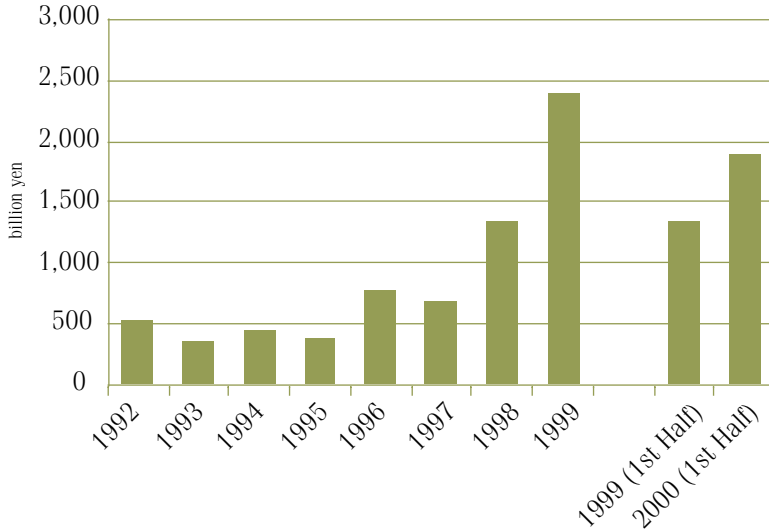


Source: Australian Bureau of Statistics, www.abs.gov.au

Japan's reforms have also facilitated greater foreign participation in the economy. Company law has been reformed to allow greater flexibility in corporate structures, remove impediments to mergers and acquisitions (M&A), and encourage corporate restructuring. Company and personal tax rates have been cut — with the top company rate cut from 46.4 to 40.9 per cent and the top personal tax rate cut from 65 to 50 per cent — and parts of the tax system reformed. Accounting rules have been improved, including moves to consolidated company reporting, mark-to-market accounting, and reporting pension liabilities on company balance sheets. Corporate governance has also been improved by increasing the independence of auditors. Official processes have also improved. Import procedures, for example, are now considerably faster: it took an average 86.7 hours for products imported by ship to clear customs in 1998, well down from 168.2 hours in 1991.^{iv}

Because of all these factors, foreign companies have boosted their activity in Japan. M&A activity has increased, reaching \$US36.2 billion in 1999, two and a half times more than the previous year. And foreign direct investment into Japan has surged, rising five-fold in the past few years (Figure 4).

Figure 4: Foreign Direct Investment in Japan 1992-2000



Source: Ministry of Finance, Japan, www.mof.go.jp

This has been led by US investment in the finance sector, European and US investment in manufacturing (mostly car production) and European investment in telecommunications. However, Australian direct investment in Japan increased more than a hundred-fold in 1999, to ¥6.6 billion (\$110 million), most of it in metals. In the past year and a half, over 35 Australian companies have established a local commercial presence in Japan. About half of these new entrants are in the finance, IT and telecommunications sectors, with the remainder in agriculture and manufacturing.

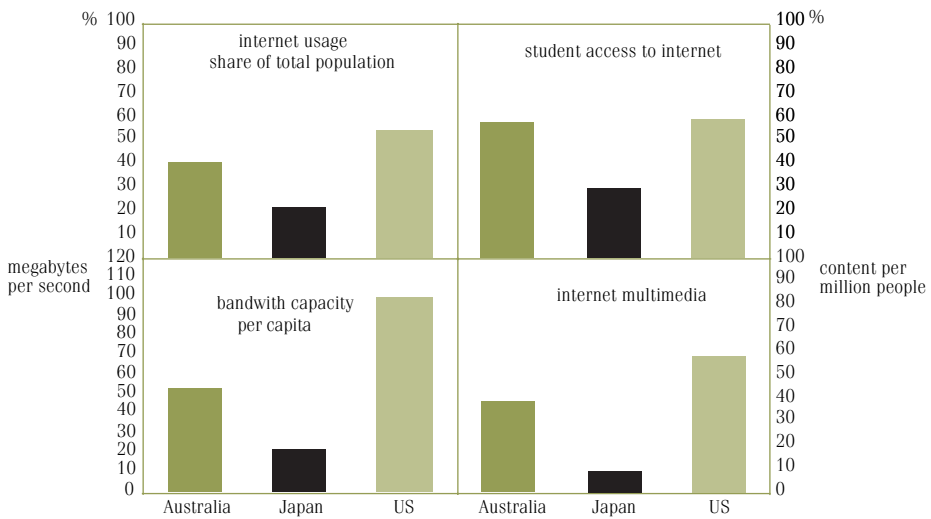
The new economy

The advent of the 'new economy' is also having a dramatic impact on both economies. It is also a high policy priority for Australia and Japan with both countries having introduced a range of measures to encourage or support its development; see Appendix A.2 for a summary of major policy initiatives. In its narrowest sense, the new economy refers to the development and production of information and communication technology (ICT), including hardware, software and services.^v In its broader sense, the new economy refers also to the application of ICT to existing firms and sectors in the economy, with the substantial opportunities and scope this provides for redesigning the structure of firms, markets, institutions, and the economy itself.

Both Australia and Japan are major buyers and users of ICT. The IMF, for example, ranks Australia as the second highest spender on ICT (8.5 per cent of GDP), above the United States and Japan (both about 7.5 per cent of GDP).^{vi} In absolute terms, Japan is the second biggest spender on ICT in the world, and Australia is the tenth biggest, and the third largest ICT market in east Asia, after Japan and China.^{vii}

High expenditure on ICT means high use of ICT. Figure 5 provides a sketch of relative usage patterns — shown by Internet usage, student access, bandwidth capacity (per capita), and Internet multimedia content — benchmarked against the United States, the leading ICT economy.

Figure 5: Use of ICT in Australia and Japan



Source: OECD, 2000, *The Knowledge-based Economy: A Set of Facts and Figures*, OECD, Paris.

Australia looks especially good in its use of new technology. Not only is it ranked in the top ten countries for its e-commerce environment, but it also has one of the highest household computer penetration and Internet usage ratios in the world.^{viii} Australia is ranked third best in Internet access costs and in secure web servers for e-commerce.^{ix}

ICT use in Japan has progressed less than many other parts of the developed world, which has become a major policy issue. In particular, there is widespread concern about the relatively high costs of Internet connections in Japan. Despite this, Japan has recorded a significant increase over the past two years in terms of Internet penetration, helped in large part by the popularity of mobile Internet services. According to the Japanese Ministry of Posts and Telecommunications, residential penetration rose from 11 per cent to 19.1 per cent in 2000. Penetration in enterprises of more than 300 people jumped from 80 percent to 88.6 percent.^x Access through mobile

Internet services, such as NTT DoCoMo's I-mode service, numbered approximately 4 million at the end of the year.

In both countries, ICT use is substantially greater in big firms than small and medium sized firms.^{xi} Importantly, both Australia and to a lesser extent Japan have experienced substantial growth in business electronic commerce. The Business to business (B2B) e-market in Australia is relatively well established. Total sales by business through the Internet in the year to June 2000 were \$5.1 billion, most of which was through B2B transactions.^{xii} This is about 0.4 per cent of total sales. B2B commerce in Australia and New Zealand — including Electronic Data Interchange (EDI) systems — was \$17 billion in 2000, and was concentrated in larger firms and in the manufacturing transport, financial services, and construction sectors.^{xiii}

By November 2000, there were 283 e-marketplaces in Australia. A number of these are very large: the resources sector, for example, has set up an e-marketplace for its procurement, Quadrem, which is expected to conduct transactions worth \$200 billion a year.

B2B e-commerce in Australia is expected to expand rapidly, through the Internet, and not EDI. This supports the involvement of small and medium sized firms, which are typically excluded from EDI systems, and so increases competitive pressures. Boston Consulting Group expects B2B e-commerce to increase to \$235 billion, or 22 per cent of all business-to-business sales, by 2005.^{xiv} At the same time, the number of e-marketplaces is expected to decline.

The B2B e-market in Japan was worth ¥22 trillion (\$A360 billion) in 2000, two and a half times what it was in 1998, which is only a few per cent of all intra-business transactions.^{xv} B2B e-commerce is expected to reach ¥110 trillion (\$A1,800 billion) in 2005. It is concentrated mainly in the car and electronic/IT industries, with food a distant third.

There has been growth in e-marketplaces in Japan. For example, the Japan Automotive Network Exchange (JNX) is expected to have 200 Japanese car firms join by March 2001, and enable smaller parts producers to join. Growth is being driven in part by competitive pressures from overseas: JNX, for example, was established in response to American developments.

In addition to B2B, both Australia and Japan are beginning to develop electronic commerce platforms between businesses and consumers (B2C), and between consumers (C2C). Electronic B2C and C2C sales are relatively small, but are more developed in Australia than Japan. In mid 2000, 0.3 per cent of retail sales in Australia were made through the Internet. About 6 per cent of Australian adults use the Internet to buy goods and services, and they tend to be concentrated in mid-age, higher-income brackets. The scope for growth is large since Internet access is substantial, with a third of Australian households having Internet access in mid 2000, and the number growing strongly.^{xvi}

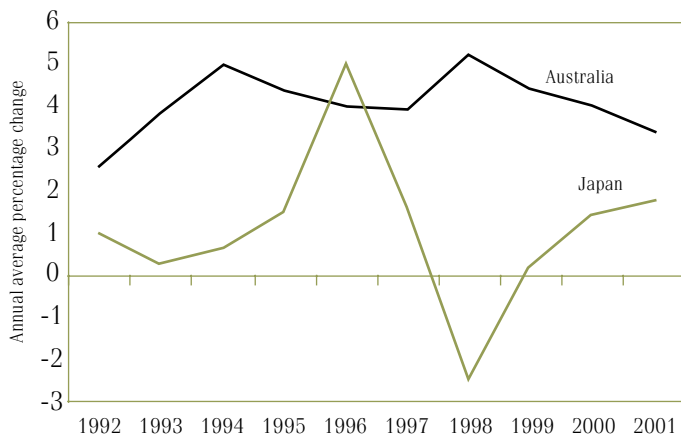
There is also substantial scope for expanding B2C and C2C activity in Japan. Japan is particularly important because it is advanced in the development and use of wireless technology, especially mobile telephones and car-based information systems. Indeed, B2C e-activity is expected to increase five-fold to ¥13 trillion (\$A210 billion) by 2005, driven by the mobile network and expected proliferation of broadband networks and digital interactive TV. A limiting factor for B2C e-commerce in Japan has been resistance from existing distributors. Toyota, for example, set up its own B2C website for direct car sales but was forced by its distributors to change it to an information-only site.

Finally, electronic interaction with government is relatively advanced in Australia, with a range of e-government services available. These include electronic tendering for federal government contracts, filing tax returns, paying utility bills, and, depending on the State, applying for birth certificates, car registrations and drivers' licences. It is less developed in Japan but has become a priority policy issue.

Economic conditions

Macroeconomic conditions in Australia and Japan over the past decade have also had a substantial impact on the nature of both economies, but in very different ways. Australia experienced almost unprecedented economic growth during the 1990s, while Japan remained mired in almost unprecedented economic stagnation (Figure 6). Australia's average real GDP growth for the decade 1992-2001 was 4.1 per cent compared to an average the previous decade of only 2.9 per cent. In contrast, Japan's average real GDP growth for the decade 1992-2001 was 1.1 per cent down from a 1982-1991 average of 4.1 per cent.

Figure 6: Average real GDP growth, 1992-2001, Australia and Japan

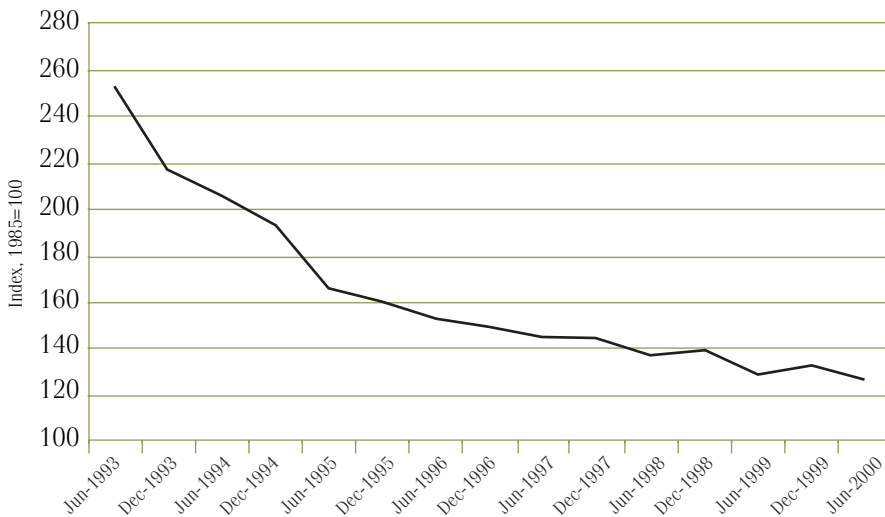


Source: International Monetary Fund, 2001, *World Economic Outlook*, www.imf.org, Statistical Appendix, Table 2.

For Australia, the boom times of the 1990s have resulted in a new economic dynamism. Australia’s ability to weather the Asian economic crisis largely unscathed highlighted how the country had changed so dramatically. Australian exporters — old and new — have gone out and won new markets in countries around the world. Many foreign firms have made Australian cities their regional headquarters.

Economic stagnation in Japan, on the other hand, is breaking down many cherished Japanese corporate institutions and changing corporate practices. For example, many Japanese firms are now willing to use foreign advisers and there has been a significant weakening of the keiretsu system of corporate linkages, as well as lifetime employment and seniority. A decade of macro-economic stagnation has also substantially reduced business-operating costs, shown starkly by the halving in commercial rents in Tokyo (Figure 7). It has also made Japanese firms much cheaper to buy, with stock prices now only 30 per cent what they were at the peak of the bubble in 1989.

Figure 7: Office Building Rents in Tokyo for Existing Buildings



Source: Nikkei data base

The effects of all these changes — policy reform, the new economy, and macro-economic impacts — on the bilateral relationship are dramatic and in most cases very positive. At least three broad impacts can be discerned:

- A strengthening of the traditional complementarities that underpin the bilateral commercial relationship;
- The development of a range of new complementarities that will provide new commercial opportunities into the future; and
- The prospect of faster, more balanced economic growth and consequently the prospect of larger markets and greater opportunities for traders and investors in both countries.

1.3 Strengthening the old complementarities

Change in Australia and Japan has strengthened the traditional complementarities between Australia and Japan.

Regulatory reform

Specific policy reforms in Japan are opening up a range of new opportunities for Australian firms that have a long history in the Japanese market. For example, the recent deregulation of the Japanese energy industry offers substantial potential benefits for Australian energy exporters with demand for their product expected to grow significantly. With an electric power market worth in excess of \$250 billion per year, Japan is already the third-largest energy market in the world, behind the United States and China. In March 2000, Japan opened nearly one-third of its electricity market to competition, allowing large industrial customers to choose their electricity supplier.

This reform is intended to help reduce Japan's energy prices, which are the highest in the OECD, stimulating greater demand for power and hence demand for Australian energy exports. Projected annual growth in electricity demand is expected to average around 1.8 per cent in the next ten years. This growth will continue to provide increased demand for coal, natural gas and uranium. Japanese gas and power companies have already given long-term commitments to underpin an annual 4 million tonne expansion of the North-West Shelf LNG export project. In addition, Japan's coal-fired power industry is expected to double its capacity and thermal coal requirement by Japanese fiscal year 2009.

Similarly in financial services, the combination of the program of 'big bang' reforms, severe budget pressures on central and local government, an increasing demand for more sophisticated financial services, and the rapid aging of the Japanese population^{xvii} have opened up a range of new potentially profitable activities for Australian financial institutions. They include:

- *Funds management.* Three of the 'big bang' reforms are that foreigners gain access to funds management in Japan, pension liabilities are shifted on to firms' balance sheets (making them look for better schemes), and pension payouts are shifted to a defined-contributions basis rather than defined benefits basis. This is an opportunity for funds managers, especially those with experience in defined-contributions schemes.
- *Private financing and privatisation.* Japan's local and central governments face substantial difficulty in financing spending, and in coming years will be under enormous pressure to reduce their debt. This creates new opportunities for financial and corporate advisory firms experienced in private financing arrangements (as an alternative to

government financing) and privatisation. These skills are relatively weak in Japan, and there is now a greater willingness to accept advice from foreign consultants.

- *Investment products.* Japanese investors are demanding a wider, and more sophisticated, set of financial instruments. Australia has substantial experience which Australian financial firms can take to Japan. These include, for example, property and other types of trusts, as well as direct investment in shares.

These are all areas in which one or more Australian financial institutions are now active in Japan, and it points to the sorts of opportunities that exist now but did not exist five years ago. Other foreign firms are also becoming active in these markets, so competitive pressures are rising, but even a small share in these markets can have a large payoff because the markets are so large.

The new economy

The old complementarities between Australia and Japan are also likely to be strengthened by the development of the new economy. The firms that have underpinned Australia-Japan trade have been among the most extensive adopters of ICT in both countries. This has enhanced their relative efficiency and helps to maintain their competitiveness in international markets.

Specifically, the widespread adoption of ICT is changing the way these firms do business and think strategically about their future. ICT allows firms to restructure themselves and to segment and re-organise their operations — locally, regionally and globally. This means that they have much greater freedom to restructure parts of their operations to reduce costs and maximise returns. Mining (Box 1) and banking and finance (Box 2) are just two examples, but it holds more generally.

Box 1: Mining

ICT has had a dramatic effect on the resource sector in Australia. Where conditions permit, mining operations are becoming fully automated, with only maintenance crews needing to go underground. Control rooms have become high-technology centres and increasingly no longer need to be located near mines, allowing substantial savings in labour costs. Resource firms are increasingly using e-marketplaces for procurement, which they see as providing them with a wider range of suppliers and greater standardisation and quality in inputs. This directly helps their bottom line.

Box 2: Banking and Finance

While the ICT investment costs in the banking and finance sector are high, ICT radically cuts operating costs. The cost to a bank of a customer doing a transaction by cash machine or Internet are, respectively, one-fifth and well below one-hundredth of using a teller. Electronic transactions are also faster. Australian banks widely use ICT but Japanese banks are less well advanced. Australian banks are world-leaders in Internet banking.

ICT also provides firms with the opportunity to better control inventory processes, reduce operating costs, and (through the Internet) reduce search costs.^{xviii} ICT has dramatically changed logistic and transport delivery systems in Australia and Japan. It has provided new time- and cost-saving ways to make payments, even for non-traditional firms, like convenience stores in Japan. This provides savings to households and firms alike, and is a profitable business activity in itself. The expansion of online and catalogue shopping has also created new opportunities for warehousing and delivery systems. Firms that need standardised inputs also make wide use of e-marketplaces, like CorProcure in Australia, to simplify their supply chains. Good examples of "old economy" companies using ICT to change their business strategies include Australia Post (Box 3) and Seven Eleven in Japan (Box 4).

Box 3: Australia Post

Australia Post has taken the view that it must adopt ICT to ensure its long-term viability. The company is using ICT to reposition itself from 'being a carrier of mass mailings to one facilitating interactive and targeted messaging in consumer and business markets'.

To this end, Australia Post has focused its new-economy strategy on three key areas: (i) developing e-procurement trading hubs to lower internal and external transaction costs, joining with 13 major corporations as founding partners in the internet-based trading hub CorProcure; (ii) extending distribution of their products and services through new electronic channels, introducing Post eParcel, trialing an electronic billpay and presentment service, and trialing an Internet fulfilment service — Post Logistics — from August 2000; and (iii) funding research and development into electronic equivalents to its current products and services. It is one of Australia's most profitable companies.

Box 4: Seven Eleven in Japan

Seven Eleven has over 7000 convenience stores in Japan. It uses its storefront and storage infrastructure for much more than selling orange juice, onigiri rice rolls and magazines. People can pay their bills electronically at any store, usually faster than is possible at a bank and in a much wider set of working hours. Seven-Eleven also uses its stores and warehouses for parcel delivery, including for goods which are ordered over the Internet.

ICT is also starting to change the structure of markets. For example, financial institutions wanting to enter Japan are not willing to take over Japanese banks or insurance companies because of the lack of information about bad debts and the personnel problems that would arise in restructuring. But they are willing to provide financial services in a fully localised operation by using the Internet.

The Internet is also becoming a key cheap source of market information, which further reduces barriers to entry in a market. This is starting to have a big impact on intermediaries, like Japanese trading companies for example (Box 5). As a result, firms are reducing their reliance on intermediaries and simplifying their distribution systems. This is occurring across most industries, from meat to minerals.

Box 5: Japanese Trading Companies

Japanese trading companies have traditionally made their money as intermediaries providing information, but they have lost much of this business because of the Internet. Under pressure to reduce costs, companies are doing it for themselves.

The trading companies are remaking themselves as investment, logistics, and financial intermediaries. Trading companies have set up venture capital and IT subsidiaries which take strategic investments in other companies around the world. A substantial part of their earnings now comes from dividend income. They are shifting their logistics functions to B2B e-commerce exchanges and fulfilment (delivery) centres. And they are also focusing on financial services, like invoicing and funding working capital.

1.4 New complementarities

In addition to the impacts on the traditional industries involved in the Australia-Japan bilateral relationship, the significant changes that have occurred in the Australian economy have created a whole new set of firms able to leverage their skills in the Japanese market and which are suitable business partners for Japanese firms. Changes in Japan are increasing the demand for the products of these new Australian exporters. In effect, a set of new complementarities is being created in addition to the traditional complementarities, both of which provide new commercial opportunities.

Australia's tag as an old economy country is increasingly at odds with reality. In consultations with a wide range of businesses, the Study Group has been impressed by the many examples where Australians are using their skills and talent to produce internationally competitive exports of goods and services in industries as diverse as software and biotechnology.

It is important to note, however, that these firms are likely to face even greater hurdles in building a presence in Japan than their predecessors in agriculture and resource commodities. Australia does not have the absolute advantage in biotechnology or software that it has in coal, iron ore, gas or agriculture. Rather firms in the new economy industries will face significantly greater levels of competition from both incumbent Japanese firms and firms from other countries intent on building or maintaining market share. Nevertheless, the opportunities are large and should be embraced.

Software

Australia does produce computing hardware, worth about \$3.3 billion in 1999, but it is not a significant producer by international standards — in fact, it has the lowest ICT manufacturing intensity of all OECD countries. It does have, however, significant strengths in applications software and services. As shown in Table 2, there are about 18,000 ICT firms in Australia, mostly small and medium sized businesses, which earned a combined \$62.6 billion in 1999.

Table 2: Australia's ICT sector

	No. of businesses		No. employed		Income (\$m)	
	1996	1999	1996	1999	1996	1999
Manufacturing	473	294	19,295	10,542	4,765	3,306
Wholesale trade	2,979	2,177	36,629	39,936	17,326	22,752
Telecommunications	410	869	91,701	74,467	18,733	26,083
Computer services	9,673	14,731	55,028	74,395	8,087	10,474
Total	13,535	18,072	203,653	199,341	48,913	62,616

Source: Australian Bureau of Statistics, 8126.0

These firms have particular strengths in software and services related to mass media (including advanced audio, and animation and cartooning technology), photonics, quantum computing, Internet software, health and education software, and telecommunications applications. Boxes 6 and 7 provide case studies of two successful medium-sized Australian ICT firms, both of which have large operations in Japan.

Box 6: Lake Technology

Lake Technology is a prime example of a medium sized high technology Australian company that has successfully sold its product into the Japanese market. Indeed, Japan now represents the largest single market for this digital audio engineering firm.

Lake Technology's products are developed from their research efforts in advanced audio technology. They license these technologies to major electronics companies. For example, they developed a method of providing cinema quality sound over ordinary headphones, which they licensed to Dolby Laboratories. Acoustic research tools have also been sold to NHK, Sony, NTT DoCoMo, and other leading Japanese companies and research institutions.

The firm's strategy for Japan is consistent with the other successful firms interviewed by the Study Group. Begin with a world-class product. Signal to the Japanese market the firm's quality by first 'making it' in the United States. Develop a relationship with a local Japanese firm that provides an agent for the firm on the ground. Protect the firm's intellectual property — in the case of Lake with a series of fundamental and blocking patents. Work closely with customers to continue to ensure the product meets their specific needs.

As a result of this strategy, Lake Technology now has significant contracts with major Japanese corporations such as DoCoMo, Sony, Sanyo and Sharp.

Box 7: Spike Cyberworks

Spike Cyberworks is another example of an Australian company providing leading edge product in the Japanese market. Spike provides consultancy services to a large number of Japanese corporations helping them to develop their e-commerce capabilities. Its offers a spectrum of digital services including: digital strategy, marketing and operations consulting; Internet and e-commerce development and deployment; interactive training; digital video and presentations. Spike has offices in Sydney, Melbourne, Tokyo and Hong Kong, employing more than 150 people.

Unlike many other Australian companies, however, Spike has adopted a strategy of developing an in-country operation of over 35 people. The company acknowledges that Japan is an expensive and sometimes difficult place to do business. But the view taken is that the opportunities are enormous for those with a product to sell and who are prepared to make the long-term investments necessary to build credibility in the market.

This relative strength in software and services has been recognised by many major American and European ICT firms that have established research and commercial centres in Australia. These firms include Alcatel, AOL, Bluegum, BMC, Cisco, Compaq, Dascom, Ericsson, Hewlett Packard, IBM, Lexmark, Lucent Technologies (including Bell Laboratories), Microsoft, Motorola,

Nortel, Novell, Oracle, Philips, SAP, Siemens and Sun Microsystems. Philips, for example, writes some of its source code in Australia, even though it transfers them back to head office and patents them in the Netherlands.

While Japan is a major technology producer, its presence in Australia is considerably smaller, concentrated in Canon, Fujitsu, and NEC. This relative neglect of Australia's strengths in ICT software and services may reflect the disposition of Japanese firms to view ICT as largely a manufacturing phenomenon and to view the United States as the source of all 'new economy' action. Whatever the case, it suggests that Japan is missing out on business opportunities.

Biotechnology

Biotechnology is an area in which Australia has emerged as a key niche player. Biotechnology covers human health (biomedics), agriculture, environment and resources, food processing, genomics and infomatics, and biochemicals. Australia is a leading edge producer of biotechnology, with recent advances including examples such as IVF treatment, the world's first proven treatment for influenza (the vaccine Relenza), a drug for accelerating repair of soft tissue in horses, new flower colours, and advances in insect control. It also has strengths in environmental management, including remediation of mines, air and water pollution, wastewater management, and water recirculation.

The sector is especially strong in research and development. About half of Australia's 65 or so Collaborative Research Centres (CRCs) are engaged in agricultural or medical biotechnology research. It is a rapidly growing sector and one that is eager for partnerships. On a narrow definition of biotechnology, the sector currently comprises between 150 to 200 firms, and has been growing strongly at the rate of about 20 to 30 firms a year.

This is — or should be — of fundamental interest to Japanese companies, including pharmaceutical companies. Australia's biotechnology sector is R&D intensive; it has less skill in commercialising its research. With its manufacturing and export expertise, Japan, on the other hand, has a comparative advantage in commercialising research, making Japanese firms potential collaborators with Australian firms and CRCs. Australia's biotechnology sector is relatively large in comparison to Japan's. Japan's population and economy are about six times bigger than Australia's, but its biotechnology firms are only about double the number in Australia.

Research and development

In more general terms, Australia is developing a set of exciting new industries by leveraging off the fact that the costs of doing research and development in Australia are relatively low and the quality of output and labour skills are high, certainly on a par with those of the United States.

Take the costs of biotechnology R&D for instance. Table 3 shows some comparative costings by Ernst and Young. In terms of staff, capital, running costs, and administration, Australia is substantially cheaper than Japan in all areas and is cheaper than the United States in most areas. This low-cost/high-quality feature applies generally to Australian information and communications technology firms. It has also been well documented that it applies to financial and advisory firms in Australia, making Sydney an important global financial centre in the Asia Pacific.^{xix}

Table 3: The Relative Costs of Doing Business — Biotechnology R&D

	Australia	Japan	United States	Hong Kong
Staff costs				
R&D director	\$201,437	\$238,955	\$294,310	\$348,500
Scientist	\$68,329	\$168,507	\$112,803	\$123,524
IT specialist	\$54,620	\$116,172	\$84,519	\$93,857
Laboratory costs				
DNA analyser	\$148,000	\$260,334	\$158,996	\$192,166
J251 centrifuge	\$41,000	\$48,911	\$40,669	\$48,717
Nucleic acid sequencing unit	\$2,652	\$4,845	\$2,124	\$3,607
Telecom costs	\$1.56	\$8.33	\$10.33	\$5.93
Electricity prices	8.1 cents	19.3 cents	10.2 cents	15.3 cents
Patenting costs				
Application	\$280	\$552	\$1,155	\$352
Request for examination	\$290	\$1,330	\$518	--
International airfare	\$6,693	\$8,527	\$6,116	\$6,234
R&D centre costs	\$3.8 million	\$9.2 million	\$6.0 million	\$6.7 million

Notes: All prices are in Australian currency; telecom prices are the cost of a 3 minute international call, average of all comparison countries; electricity prices are industrial use charges, cents per kWh; international airfares are average business class airfare to all other countries; R&D centre costs are the average of agri-food, bio-medical, pharmaceutical, diagnostic, and clinical trials segments.

Source: Ernst and Young, Hay Group, and Strategic Industry Research Foundation, 2001, *Benchmarking Study of Costs in Selected Segments of Australian Biotechnology*, A Report for Invest Australia, Department of Industry, Sciences and Resources, January.

Besides the relatively low cost of high skilled staff, several firms have identified a number of other factors that make Australia an efficient country to undertake research and development, particularly for Japanese firms. One advantage is that Australia has the deepest Japanese language skills of any country outside Japan apart from Korea. Some ICT firms in Japan, for example, recruit Australians with good Japanese language skills and train them in IT to serve Japanese clients. One firm prefers former tour guides for this purpose because they have a good cultural understanding of Japanese etiquette and politeness.

Another advantage that some firm's stress, especially those that also have business operations in the United States, is that industrial espionage is less intense in Australia, and so the risks of losing business and intellectual capital in this way may be lower.

The third advantage is that Australia can be a useful market to test products and services, as occurred, for example, with mobile phones. This can be for a number of reasons: Australian consumers are adventurous and like trying new products; while Australia is relatively small it is a fairly wealthy society; and because Australia is relatively far from Europe and North America, a business is not tainted if its products do not work in the market. Biotechnology firms also say that its migrant mix can make Australia a good place to test some pharmaceutical and medical products.

1.5 Opportunities for growth

Finally, these changes in Australia and Japan and the opportunities they present offer the prospect of faster, more balanced economic growth for both economies and consequently the prospect of larger markets and greater opportunities for traders and investors in both countries.

Regulatory reform

Regulatory reform, for example, boosts the flexibility of an economy and its growth potential. It reduces the risks of production bottlenecks and resource mismatches. Furthermore, by raising the economy's growth potential, higher growth can be accommodated without running into inflationary pressures.^{xx}

In Australia the link between regulatory reform, productivity and economic growth has been a major driver of the reform process. As the Australian Productivity Commission noted in 1996:

Australia's productivity performance has been handicapped by government policies and practices over many years that have weakened or distorted incentives to be cost-conscious, innovative and productive.... Many of the policies and practices in need of reform have shielded individuals and organisations from competition... remov[ing] an important source of pressure for higher productivity growth. Getting more competition across the economy is now seen as a key to better [economic] performance.^{xxi}

And indeed, there seems little doubt that policy reform has played a major role in facilitating Australia's higher rates of growth over the past decade through stimulating very high levels of productivity growth. Australia's productivity growth over the reform period has been exceptional. In the non-farm sector of the economy, multi-factor productivity grew on average 1.2 per cent over the first half of the 1990s with an apparent rising trend of around 2 per cent. This represents a substantial improvement on earlier decades.^{xxii}

For Japan, the need to continue its regulatory reform program is paramount. Many commentators believe that ongoing structural change is the only sustainable solution to the macro-economic woes of the Japanese economy. The OECD estimates that Japan's potential growth rate will fall to 1 per cent without structural reform.^{xxiii} This means that by 2020, per capita income in Japan will be 21 per cent *below* Europe's, instead of being 21 per cent above it, as it is now. The OECD suggests that genuine regulatory reform in Japan could boost national income by about 6 per cent. Japan's Economic Planning Agency estimates the number is even higher, at 10 per cent of GDP.

The new economy

Similarly, the new economy has the potential – over the longer term – to further boost national productivity and hence economic growth by increasing the efficiency of processes both internal and external to the firm.^{xxiv}

The Internet may offer the greatest productivity benefits in the hard-to-measure sphere of business-to-business commerce, where many companies claim that putting their supply chains online has led, or will lead, to major cost savings.^{xxv} Goldman Sachs argues that over the coming decade electronic B2B commerce, for example, will add about 0.25 per cent a year to growth in Australia and Japan.^{xxvi} This is very substantial when accumulated over several years. It is worth, for example, an extra 2.5 per cent of GDP by 2010 — or \$15 billion in Australia and ¥12.8 trillion in Japan. Government estimates in both Australia and Japan are similar in magnitude.^{xxvii} The growth profile is even higher when electronic activity by consumers and government is included.

In addition to B2B, the new economy has the potential to significantly improve business practice in terms of inventory control, although with a few prominent exceptions, inventory costs are not a major share of total costs for most businesses. The potential savings in this domain are unlikely to be as large as the gains to be achieved from greater user of B2B. Similarly, while the savings in distribution costs from business to consumer Internet commerce are likely to be significant over the longer term, at the present time these savings are likely to be small compared to the set-up costs of B2C.

Chapter 2 Issues in the commercial relationship



This chapter details ten key issues that need to be addressed if Australia and Japan are to realise the gains that regulatory reform, information and communications technology, and other changes offer. The issues include: problems with the perceptions each country has of the other; the need for a regional focus to underpin the bilateral relationship; the need to streamline government processes in Japan; the need to further strengthen competition, consumer and privacy policy in Japan; the need to move towards common standards especially in the food and pharmaceutical industries; a series of sectoral concerns arising from changes in both economies; a lack of Japanese venture capital in the Australian market; problems with moving staff to Japan as a result of the Japanese system of spouse visas and lack of recognition of skills and membership of professional associations; concerns with the protection of intellectual property during government approval processes; and the need to more fully harness widespread Japanese language skills in Australia.

Chapter 1 documents the opportunities for Australia and Japan from regulatory reform, the development of ICT, and other changes in both economies. After broad consultation with several hundred Australian business leaders, government officials, and other interested parties, the Study Group has identified 10 key issues that, from Australia's perspective at least, need to be addressed if the gains from these changes are to be realised.

2.1 Perceptions and focus

The first and indeed overwhelming issue identified by the Study Group is the need to keep both sides up-to-date on the commercial opportunities in each economy. These have been expanding rapidly in recent years, more so than many people on both sides of the relationship think.

Regulatory reform, developments in information and communications technologies and other changes have opened up or are opening up new

opportunities. Many firms are making the most of these opportunities. But there is still a widespread sense that too many firms in both countries are unaware of the opportunities.

At the heart of this, long-time observers of the bilateral commercial relationship say that the strategic engagement and commercial interest of Australian companies in Japan, and Japanese companies in Australia, has weakened in the past decade. This is not a simple phenomenon.

On the Japanese side, there are several structural factors behind this. The predominant perception in Japan is that Australia only supplies agricultural and resource commodities and tourism services. As Chapter 1 of this report emphasises, these are still important to the Japanese economy, but they are less so than they used to be. The economy has diversified and manufacturing has shifted into high-tech sectors and services, both of which have reduced the commodity-intensity of Japan's economy. These structural shifts have been accompanied by a redirection in commercial relations towards the United States, China and southeast Asia. Consequently, Australia is seen as less important than it used to be.

There is a continual need to keep Japanese business people and officials informed about changes in Australia. The traditional complementarities between Australia and Japan continue to be as important as they ever were. In fact, deregulation of the energy sector in Japan and advances in technology reinforce the traditional complementarities because they make firms and markets more efficient; they do what they do better. But there are also new complementarities emerging, including in ICT and biotechnology, and corporate Japan has not kept up to date with these. Japan is right to see Australia as a farm, quarry, and golf course. It is. But, to its cost, Japan is missing out on substantial commercial opportunities if this is all it sees.

On the Australian side, a different set of factors has been in play. Some Australian firms have the stereotypical view that Japan is too costly, 'too hard', and, after a decade of economic stagnation, not worth the effort. Like any caricature, this view has elements of truth. But, as a caricature, it is extreme and distorted, and in many instances has not kept up with the changes that have occurred in Japan. Japan is worth the effort (see Box 8).

Box 8: Reasons why Japan is important to Australian business

There are at least four major reasons why Australian companies should continue to focus on the Japanese market, despite the current macro-economic stagnation:

First, Japan remains the world's second largest economy accounting for 7.6 per cent of global gross domestic product and 6.7 per cent of global trade, despite having only 2 per cent of the world's population.^{xxviii} Osaka prefecture alone has a gross domestic product about two thirds that of the whole of

Australia.^{xxx} In nominal terms each Japanese consumer has about \$US32,000 to spend on goods and services compared with \$US30,000 for consumers in the United States, \$US20,000 for those in Australia and only \$US3,300 for those in China.^{xxx} Even a small market share can have a very big pay-off for Australian firms.

Second, Japanese people are discriminating consumers with strong preference for quality goods and service. If a firm makes it in Japan, it can make it anywhere.

Third, commercial activity of some Australian firms in Japan depends on them being active elsewhere in the region, or, alternatively, their commercial activity in east Asia depends on them being active in Japan. Japan is an essential part of a successful Asian business strategy for many Australian companies.

Fourth, there has been substantial change in the business environment in Japan, making it a less costly, easier place to do business in a much wider range of sectors. These changes have created many new commercial opportunities that warrant serious consideration. Japan is the world leader in some of these new areas such as consumer and business technology and mobile telephony (see Chapter 1).

The decline in corporate interest in Japan also reflects a shift in corporate incentives and strategy in Australia over the past decade. CEOs and company boards are under continual pressure to lift dividends and their company's share price, creating an incentive for them to focus on short-term gains. Building a business in Japan takes time and strategy, and this has become less of an option for CEOs on contracts of only a few years. But it is essential that CEOs and company boards keep strategic focus on sources that add medium and longer-term value to their company, such as business in Japan.

Firms need to evaluate for themselves what the balance of risks is in doing business in Japan. In some instances this may mean that Japan is not a good market. But the truth is that there are many opportunities for Australian firms to enter the Japanese market.

2.2 Regional focus

The relationship between Australia and Japan is important in its own right. But it also has a regional dimension since both countries are large economies in east Asia. The regional context is relevant in two ways.

First, the commercial activity of some Australian firms in Japan depends on them being active elsewhere in the region, or, alternatively, their commercial activity in east Asia depends on them being active in Japan. For Australian organisations that are trying to build a regional strategy, Japan is an important market that lends credibility and market reach to successfully

execute such a strategy. The upshot is that Australia's commercial leverage in Japan can be enhanced by its involvement in the region (and vice versa).

Take one of Australia's biggest company as an example. Telstra, Australia's largest telecommunications company, is rapidly expanding in Asia and regards a sizeable presence in Japan as necessary to being an Asian player. Telstra has not previously been seen as an attractive partner for Japanese companies — in spite of its technical expertise and strong financial base — because of the small size and remoteness of the Australian market. Recently, Telstra formed a regional alliance with PCCW in Hong Kong. This has provided the necessary size, brand and leverage to be of greater interest in the Japanese market than was the case before.

Nor can Australian firms, especially larger ones, afford any longer to rest on their laurels or have an exclusively national focus. As markets and institutions become increasingly global, a lack of regional (including Japan) or international focus can make an Australian company an attractive takeover target to other international firms.

Second, if business' focus is increasingly regional, then this must also be the focus of government. As two of the largest advanced economies in the region, Australia and Japan can strengthen cooperation to promote faster balanced economic growth in the east Asia region. This is important in its own right. But it also has two key benefits. It brings Australia and Japan closer together, at both the business and government levels, which is an important strategic goal in its own right. And it enhances both countries' commercial and strategic position in the region, similar to that which followed from Australia and Japan's joint initiation of APEC in the 1980s.

Joint cooperation in east Asia and beyond can have many dimensions, and indeed many of the issues discussed below can — and should — be developed into projects for regional cooperation and development. This should include, for example, cooperation in developing regional financial markets, setting up effective and consistent competition and consumer policies in the region, and working together to put in place world-class ICT infrastructure, regulatory systems and e-government processes in Asia.

Such a regional focus in the bilateral relationship may be important in increasing Australia's strategic and policy leverage in Japan. Take cooperation in regional financial markets for instance. As discussed below, there is significant scope for integrating some stock markets in the region by allowing investors to use their local stock exchange to trade stocks listed on other exchanges. The regulatory processes are relatively straightforward between Australia, Hong Kong and Singapore, but are more complex with Japan because its securities law is different to the rest of the region. Ironing out these differences is likely to be easier if Australia negotiates along side the region's other financial centres than if it tries to do so by itself. Regional

financial cooperation has many other dimensions, and Australia's participation in these is an important strategic goal that will facilitate the bilateral relationship with Japan.

2.3 Streamlining government

In any country, firms have to interact with government in many areas, be it in terms of obtaining approvals and licences, paying taxes, or selling or buying goods and services. As in any country, businesses want these interactions to be as simple, fast and inexpensive as possible. Australian firms in Japan are no exception.

There are three ways that their interaction with government could be enhanced. Most generally, firms would welcome as much interaction with government as possible be put on the Internet. The requirement to lodge documents in person, for example, is expensive and time-consuming. Increasing e-government could also make the approval process more transparent, and could substantially simplify administrative processes if it were accompanied by the introduction of a 'one stop shop' for government approval, as occurs in other countries. Australian firms in Japan are not alone in saying these changes would substantially make doing business easier: these issues were also raised by Japanese firms in the recent report of the IT Strategy Council (Appendix A.2).

International transactions with Japan could also be made easier. Complete end-to-end electronic quarantine and customs clearance would help firms exporting to Japan. Electronic commerce between Australia and Japan would be enhanced by mutual recognition of each country's certification of electronic signatures and privacy marks, and by ensuring that their privacy protocols are consistent with the requirements of the European Union.^{xxxi} It is also appropriate to consider establishing an Australia-Japan arbitration body to settle contracting disputes, whether they arise from electronic transactions or otherwise. Legal processes involving Japan would also be simpler if Japan signed onto the Hague Convention.

While Japan's Commercial Law has been amended in a number of respects to facilitate domestic electronic commerce, firms say that further amendments are needed. These include clarification of the dates when a contract is concluded; clarification of the responsibilities of Internet service providers; revising the commercial law to allow use of the Internet to announce shareholder meetings and disseminate information; and centralising electronic certification to authenticate businesses.^{xxxii} These need to be as internationally consistent as possible.

Finally, Australian firms generally say that they are treated no differently from Japanese firms in the same sector, with two possible exceptions. One is that government procurement tends to favour large Japanese firms and is

often thought to be pre-decided. Government procurement processes are unclear and firms would welcome smaller procurement ‘bundles’. The other is that some firms say that particular ministries or agencies in Japan that deal extensively with foreign firms do not provide sufficient information and direction in English. One example is the Financial Supervisory Authority. Another is full English publication of the Japanese building code for architects, which is of particular importance to construction software firms.

2.4 Competition, consumer, and privacy policy

As traditional barriers to trade and investment are reduced, what increasingly matters to firms is the general market framework in which they do business. An essential part of this is the broad set of competition, consumer, and privacy policies. There has been substantial improvement in this policy structure in recent years (Appendix A.1). But there is a widespread view among foreign and Japanese firms alike that more needs to be done.

In telecommunications, for example, Japanese competition policy has not been as successful as it could have been. Despite the support of the Japan Fair Trade Commission (JFTC) for NTT competitors, landline telecommunications charges in Japan remain several times higher than those in Australia and the United States.

Nor has consumer policy in telecommunications been successful. It has been implemented by restricting the granting of licences to financially strong and reputable operators who have a business plan for network and rollout. This plan is then binding. This is not only inflexible and imposes a substantial burden on business, but it does not guarantee consumer protection because no sanctions can be put in place after market entry. It also weakens competitive market pressures in the market. An alternative, which many advocate, is the adoption of an enforceable and clear consumer charter and strong regulator — either an ombudsman or regulator, or both — as in many other countries.

Another important sector where competition policy is not effective is legal services. Japan has a tightly controlled number of lawyers admitted to the bar, and there are very few foreign lawyers allowed to practice Japanese law, even if they are fluent in Japanese. The difficulty and cost of obtaining legal advice is a disincentive for some firms in doing business in Japan. It is not just a matter of cost. It is also about the reliability of advice. At times, foreign firms have to rely on the legal advice provided by the same Japanese lawyers used by their counterparties, leaving them unsure about whether their interests are being met fully.

Japan’s Fair Trade Commission could also examine many of the issues that arise from the use of the Internet. Existing distribution networks usually resist competition from the Internet. When incumbent firms have tight

control over distribution, it can be counterproductive for firms which have to rely on existing relationships to push too hard on alternative distribution mechanisms like the Internet. Exporters to Japan of tourism, food and wine, for example, rely heavily on existing distribution networks, and are concerned at this stage that using alternative networks, like the Internet, will damage their existing networks. This amounts to a restrictive trade practice.

2.5 Common standards

Firms that sell products in Australia and Japan, regardless of their nationality, want the standards that they have to meet to be as similar as possible. This is particularly true for the food and pharmaceutical industries, but is equally important for firms operating in industries as diverse as software, telecommunications and health care.

Sales of foodstuffs and alcohol to Japan have been increasing strongly. There is substantial scope to enhance this trade by harmonising production, labelling and distribution standards for food and pharmaceuticals, and harmonising testing procedures.

With respect to food, for example, firms value harmonising standards with respect to: use-by-dates; the definition of organic food; the definition and labelling of functional or therapeutic foods; the definition and labelling of genetically modified food; minimum residue levels; and the fumigation, inspection and quarantine of fruit and vegetable exports.

Firms would welcome mutual recognition of verification procedures: currently processed goods and pharmaceuticals are subject to re-verification in Japan. There is also scope for clarifying the tariff regime for processed goods: meat exporters say that the tariff regime for meat is well defined but that for processed meat goods is ambiguous.

It is also timely to examine standards issues related to electronic commerce. Most B2B e-commerce in Japan is through EDI and Computer Aided Logistic (CAL) systems, in closed hub-and-spoke networks between the central firm and its smaller suppliers and subsidiary companies. And much of the growth in B2B e-commerce in Japan is likely to occur through these systems, or some modification of them, rather than the Internet. Closed systems limit cost savings because they are expensive, and they limit the potential for competitive gains because there is less scope for other companies to enter.

2.6 Sectoral issues

Many of the issues discussed above tend to apply to business in general. But the changes that have been — and are still — occurring also impact on particular sectors. Change means that new issues are coming up in a range of sectors. This encompasses traditional sectors, like agriculture, resources

and tourism, as well as the emerging new economy sectors, like biotechnology, education, financial markets, health care, and information and communications.

Agriculture

Apart from the important harmonisation issues raised above, there is scope for cooperation on a range of agricultural issues. There is potential for the Australian and Japanese food sectors to work together to examine joint investments in food processing in Australia and in the region. There is scope for more common research on genetically modified crops and foods and to strengthen cooperation on technical access issues for horticulture. Business would also benefit from greater cooperation in policymaking on food safety issues such as genetically modified foods and BSE (mad cow disease). This could include coordinated policy responses to protecting consumers in each country and a joint announcement about safety and security of Australian and Japanese beef.

Biotechnology

Driven by an internationally renowned R&D effort, Australia's biotechnology sector has been expanding rapidly. But it is hampered by a relative lack of ability to commercialise its product. Japan has some excellent R&D, but its comparative strength is in manufacturing and commercialising product. This suggests that there is a complementarity in skills between Australia and Japan, with substantial opportunities for Australian biotech firms and researchers to collaborate with Japanese firms to develop and sell their product (with the proviso that intellectual capital is protected). There is also scope for greater cooperation in environment protection.

Education

Education is the key to moving towards a knowledge-based and technologically sophisticated economy and society, and realising the opportunities for faster balanced growth.

Information and communications technology and regulatory reform are also having a big impact on education services. Not only must education courses be modified and extended to include ICT and related subjects, but ICT can radically alter the whole way that course material and lectures are delivered. Australia has a particular advantage in delivering on-line education services into Japan and Asia because it has world-class teaching and research facilities that operate in essentially the same time zone. There has been substantial education reform in both countries, especially in recent years in Japan where the Obuchi reforms were designed to reform and internationalise higher education.^{xxxiii}

This provides a rich menu for cooperation with Japan, at the official, academic, and private-sector level. It includes English language training — which has substantial potential to be linked with tourism and sports training — as well as professional training courses and qualifications, in sectors like business, finance and IT. As mutual recognition of qualifications progresses, there is also a real need to cooperate on curriculum content and development.

The Japanese government is prioritising lifelong education, which is something in which Australia has substantial experience and comparative advantage, as shown by the extensive university and TAFE systems and mature-age learning programs. Australia not only has the skills, but it is a low-cost provider of education services.

Financial markets

Australia and Japan are regional leaders in terms of the size and sophistication of their financial markets, and are important financial centres in their own right. Both countries' systems are deregulated and liberalised, although in Japan's case this is more recent and incomplete. The challenge for both countries, and the region more widely, is to ensure that they are attractive sources of financial and human capital.

This is a serious challenge in two respects. First, while Australia's financial institutions are strong, profitable and innovative — for example, Australia is a leader in telephone and Internet banking — Japan's banks, insurance companies and pension funds have weak balance sheets, poor profitability and are weak innovators. Japan has to deal with the problems in its financial institutions so that confidence and its economy can recover, and it can be a regional leader in finance. Australia's debt and equity markets are also strong and transparent, but Japan's are not: its debt market is not transparent, and settlement and exchange in its stock market is still paper-based and its main exchange is yet to demutualise. Japan's financial weakness is a serious impediment to it being the leader in regional finance.

The other challenge is that financial markets and institutions elsewhere in the world are becoming larger, more integrated, and harmonised. The introduction of the euro is forcing the standardisation and harmonisation of European financial markets and institutions. The US dollar and US standards are dominating the Americas. But Asia's financial markets and standards are highly fractured, and this means that the cost of investing in the region is higher, and capital flows are lower. There is an increasing need for standards and market processes in regional markets to be harmonised, and for markets to be linked. Increased cooperation between Australia and Japan in these aspects, including in financial education and training, would be productive and could benefit the region as a whole.

Bilateral and regional financial integration may also be advanced by developing closer links between regional stock markets. The Australian and Singaporean stock exchanges are likely to institute a mechanism by which residents in each country can enter their local stock market to buy or sell stocks on the other exchange by mid 2001. A similar link could proceed with Japan, once the TSE shifts to paperless trading and settlement and demutualises.

Health care

Information and communications technology and regulatory change are having a radical impact on the provision and administration of health and medical services in both Australia and Japan. These pressures are especially intense in Japan because of its rapidly aging population. Not only are hospital stays shorter and medical procedures far less invasive and costly because of new technology, but control of medical records and payment for services are also streamlined. Australia is advanced in its health and aged care systems, including the supporting IT health services, and has much to offer other countries (even though Australia still has much to learn from others).

Australia and Japan fit well together in terms of health and aged care. Both countries' systems are based on public care, and are aimed at providing the best care possible, given the limited funds and resources available. This contrasts to the privately based system in the United States, where the ability to pay is the essential determinant of health services. Given that our basic infrastructure needs are similar there is a very solid basis for extensive cooperation between Australia and Japan, at both the official and commercial levels. These areas of cooperation include aged care (including nursing home services), mental care, the gamut of IT health services, training, and specialist medical services.

Information and communications

ICT is the bedrock of the new economy and the new complementarities in the Australia-Japan commercial relationship. It is essential that interaction in ICT be advanced, through increasing research collaboration in science and technology, common development of ICT qualifications, teaching programs and curricula, and firm-to-firm meetings.

Resources

Australia is a major exporter of energy commodities, like coal and LNG, while Japan is a major importer of them. This traditional complementarity is reflected in the two countries' trading relationship. But structural change — including (incomplete) deregulation of utilities in Japan, the shift from nuclear to other forms of power generation, restructuring by Japanese steel

companies, the Kyoto protocol to reduce greenhouse emissions, and internal restructuring at Australia's major resource commodity suppliers — has created new uncertainties but also opportunities for solutions that advantage both countries.

Consider one example of how these changes can intermesh. Deregulation of utilities in Japan has created substantial uncertainty about future demand for Australian resources. For Australian suppliers, this has raised the prospect of developing strategic relations with particular utilities firms. At the same time, Japanese steel producers are considering shifting parts of their operations offshore, and Australian commodity suppliers are restructuring their own operations because of the opportunities that new technology provides for reducing operating and procurement costs (see Box 3). This creates uncertainty for all players, and makes it essential that everyone be kept up-to-date and involved in the decision making as much as possible.

As these changes occur, it becomes possible to shift parts of the energy and early-stage steel production processes between countries. Australia is a candidate for this, and has better and cleaner production technology than other countries, especially China. But the feasibility of doing this depends on policy since such these actions affect each country's greenhouse gas emissions and power generation (since off-gases from coking can be used for power). Decision-making in this case requires coordinated strategic planning between business and government from both countries.

Tourism

Structural change in Japan is also having an impact on Japanese tourism in Australia. This has a number of features.

The tourism market itself is changing, with a sharp rise in independent travellers (as opposed to those on package tours). These travellers need detailed tourism information. The Australian Tourism Council (ATC) provides general tourist information in Japanese but many of the detailed pages on key tourist sites on its website are only in English. Translation and updating these websites is expensive but they are largely useless in informing Japanese travellers unless they are in Japanese language.

The tourism market is also becoming more complex. More firms, for example, are combining English-language and other education training, sports training, and medical procedures with tourism. The honeymoon market is also changing, with more newly-weds taking their parents on their honeymoon. These travellers place a premium on safety and on diverse cross-generational activities. Australian tourism providers need to increase their focus on service and cater their product to meet these changing preferences.

Another constraint on tourism from Japan is lack of seat availability, especially at Narita Airport in Tokyo because of the limited number of landing/takeoff slots. This will be partially resolved in 2002 when the second runway opens, but this runway only has take-off capacity for smaller planes.

The lack of competition in the sale and distribution of tourism services and airline seats in Japan is also an issue. Sale and distribution are controlled by a handful of firms that penalise tourism agencies and carriers which use alternative distribution platforms (including the Internet).

2.7 Venture capital

Access to affordable finance is the lifeblood of a firm, and access to venture capital is important for emerging firms, especially in the ICT and biotechnology sectors. There is little general complaint about access to finance by Australian firms. This is also the case for access to venture capital by ICT and biotech firms, although there is a widespread view that high-tech start-ups do have some difficulty in attracting seed funding — albeit from families, industry ‘angels’, government programs, or other firms — to convert their R&D and ideas into sellable products.

What is disappointing, however, is how few Japanese venture capital companies are active in Australia. To the best of our knowledge, only one Japanese financial institution provides venture capital to Australian firms — JAFCO, a company in the Nomura group. It provides an attractive mix of venture capital, advisory, and listing services to the firms on its books. Some of the trading companies are also active in providing venture capital. While they are welcome providers of capital, they tend to play more of a sleeping partner role. Japanese venture capitalists directly fund research at universities outside Japan but not in Australia.

Broader active venture capital from Japan is important in developing the ICT and biotechnology sectors in Australia and expanding commercial relations with Japan. The involvement of financial intermediaries and trading houses is important because, by the very nature of their business, they know a whole other large set of manufacturers, ICT companies, pharmaceutical companies and the like in Japan. The issue is getting Japanese venture capitalists interested in Australia.

2.8 Movement of people

Australian business people say that it is generally easy to move staff to and from Japan. Short-term (three-month) business and tourist visas are available at customs on arrival in Japan, and extended business visas can take a while to process but do not pose a difficulty to people movement.

But there are two specific migration issues that do affect the willingness of Australian business people to go to Japan. The first is that visas for the partners of business people working in Japan for an extended period are limited to married partners. *De facto* relationships are not at all unusual in Australia, but *de facto* partners (including in same-sex relationships) are not recognised for purposes of spouse visas in Japan. This affects the willingness of some business people to work in Japan.

The second is that the spouse visa does not include permission for the business person's partner to work; apart from diplomats, a spouse has to apply separately. Australia is one of the few countries to automatically include working rights in a spouse visa. Japan granting reciprocal rights would remove this impediment to business people working in Japan.

Business people would also welcome faster passport control in Japan. The APEC Business Travel Card provides pre-qualified business people from APEC economies with quick access electronic gates through customs in participating economies. Japan does not participate in this scheme. Japan's participation in the scheme, or in a bilateral alternative scheme (an Australia-Japan Business Pass), would speed up faster passage for business people and reduce the hassle in travelling.

Two final important factors in people movement are recognition of qualifications and access to industry associations, especially those that are necessary for working. The growth in cross-border trade in services and the development of ICT mean that there is considerable scope to broaden mutual recognition of qualifications. These include mutual recognition of nursing, other medical, IT and teaching qualifications. Some firms also say it is difficult for foreigners to obtain membership of business associations in Japan. These include the Japan Security Dealers Association, the Japanese Accountants Association, and the Japanese Bar Association, although the same occurs in the latter case in Australia.

2.9 Intellectual property

Japan is seen as having a strong and effective patents system, but many firms say that they have to be vigilant in protecting their intellectual property. Australian firms are too lax in their use of patents and copyright, and are too willing to show and talk about their R&D and products before proper intellectual protection is put in place.

There are also situations where the process of regulation by the Japanese government can lead to disclosure of companies' intellectual property. For example, in the finance industry commercial products of foreign firms submitted for approval are, as part of this process, shown to their Japanese competitors.



2.10 Japanese language

Strong Japanese language ability is one of Australia's advantages in dealing with Japan. Maintaining and indeed growing the language skill is crucial to retaining this comparative advantage, but there is a growing unease that interest in Japanese language is waning. This is a concern not just for Australia but also Japan.

Australian companies wanting to do business in Japan have to fully localise their business product — just as Japanese firms cannot do business in Australia unless they localise their product and work in English. This means that Australian companies need to be able to draw on the extensive high-quality Japanese language skills. There is also a clear need for combining language and technical skills, including in ICT, biotechnology, science research and medicine.

Chapter 3 Advancing the relationship



This chapter details an action agenda for business and government to address the issues in the relationship identified in Chapter 2.

The Study Group's consultations indicate that Australian business could do more to facilitate the bilateral commercial relationship. Specifically, it is recommended that business: continue to explore the new opportunities arising in Japan; protect existing investments in long-term relationships; use staff exchange programs to develop or invigorate such relationships; embrace opportunities IT offers for deepening relationships with Japanese firms; refocus on providing product and service in Japanese language; and develop and strengthen business cooperation forums as well as consider setting up a Japan ICT exchange in Tokyo for Australian companies.

Government also has a central role. Specifically, it is recommended that Government: conclude an Australia-Japan trade and investment facilitation agreement (TIFA) in the form of a Closer Economic Partnership; reinforce at the highest levels a renewed commitment to the Australia-Japan relationship; expand the scope for business involvement in official bilateral dialogue; and continue in practical ways to help business overcome the information asymmetries that affect the commercial relationship.

Change in both the Australian and Japanese economies has the potential to significantly advance and further diversify the commercial relationship between the two countries. Chapter 2 highlighted a range of issues that need to be addressed if this potential is to be realised. This chapter canvasses a series of initiatives that the Study Group thinks are critical for the bilateral commercial relationship to continue to prosper through change.

These policy actions for business and government are important to securing faster balanced economic growth in both countries. To this end, they encourage continued microeconomic reform, a firmer framework for entrepreneurship and wealth creation, the maintenance of open and competitive markets, and enhanced human capital development, especially in education, research and development.

3.1 A way forward for Australian business

A key message of this report is that while doing business in Japan may be difficult at times, the opportunities are extensive and the rewards are significant for those companies prepared to make the investment. Beneath its macro-economic malaise, the changes that are occurring in Japan are opening up new markets for Australian firms that are almost unparalleled in size and importance. Change is invigorating the old complementarities and opening up new ones.

As these opportunities become increasingly apparent to Australian firms, it is likely that more and more will seek to develop commercial ties with Australia's largest trading partner through trade or investment. The Study Group's consultations indicate that Australian business could do more to facilitate this process.

Business should explore the opportunities for itself

It is up to firms to make the decision to enter the Japanese market but *the Study Group believes that it is now timely for Australian firms, especially those in high technology and services, to explore commercial possibilities in Japan.*

The Study Group's consultations suggest that many Australian firms have the quality products and services that Japanese consumers require. An increasing number of Australian firms in ICT, biotechnology and the services sector, for example, are notching up export sales and attracting interest from foreign investors in the North American and European markets. But there are too many firms that have failed to take the next couple of steps to build a Japanese presence, especially at a time when foreign investment in Japan is surging.

The Study Group's consultations with Australian firms that thrive in the Japanese market have identified a relatively simple formula for success:

- First, have a quality product that Japanese consumers require;
- Second, signal the quality of your product either through direct marketing or through success in other, especially US, markets;
- Third, accept that you need to operate in Japanese to service the Japanese market; and
- Finally, develop Japanese partnerships to act as agents, to provide a local presence, and to steer your product through the complexities and idiosyncrasies of the Japanese market place.

There are also now in place many mechanisms designed to facilitate market entry. These include government-sponsored mechanisms, like Austrade and State trade offices, a wide range of specialised consultants and agents, and periodic industry-led network programs and studies.

Maintain relationships and develop new ones

Senior business figures across a range of Australian industries have stressed the critical importance of protecting investments in long-term relationships from short-term demands for cost-cutting or quick returns to shareholders. Those firms that have preserved their relationships through periods of painful restructuring in both economies are finding they have a platform on which to build a renewed and expanding business. Many of Australia's most successful participants in the Japanese market today are drawing on the hard work and dedication to the Japanese relationship of company executives made in previous years.

Local partnerships are important in all international commercial relationships. In Japan, the evidence suggests that a local partner (or a local office) often remains a prerequisite for success. Many Australian firms perceive the development of such relationships as difficult and expensive activities. There is undoubtedly some truth in this perception, but again the investment seems worth it. As one business person commented 'it takes a day to do a deal in China, but it can fall apart in a week. In Japan, it takes a year to do the deal, but it will last a lifetime'.

The Study Group recommends that firms protect investments in long-term relationships from short-term demands for cost-cutting or quick returns to shareholders. Relationships still matter in Japan, even if less so than in the past.

One particularly useful way to cement relationships with Japanese counterparts, if done correctly, is through staff exchanges. Some large and small Australian firms have for decades run highly successful staff exchange programs which have facilitated information exchange and built up levels of trust between them and their Japanese counterparts, laying the ground for better contacts and commitment in the future.

The Study Group recommends that Australian firms develop or invigorate their relationships with Japanese counterparts through initiatives such as well-structured staff exchange programs. As the experience of some firms suggests, these programs need to be carefully managed with appropriate protection of the host firm's intellectual property. These exchanges tend to work well when directed at specific projects or issues. They can also be implemented through third parties, for example, like company and government placements at universities.

The new economy is also affording Australian firms in traditional sectors the opportunities to build new relationships in Japan — often with final consumers that were once unknown to Australian producers. For example, Japanese restaurants and department stores concerned about food safety issues are increasingly seeking to develop direct B2B relationships with Australian food producers. Similarly, independent travellers are increasingly using the web to research travel options directly rather than going through

traditional Japanese tourism operators. While firms will need to manage this process carefully to ensure that the benefits of these potential new relationships outweigh any possible harm caused to existing relationships, they need to explore these and make the necessary investment in Japanese language platforms.

ICT is opening up opportunities for firms to develop new ways to interact with their Japanese partners and allowing new relationships to be developed. *The Study Group urges Australian companies to embrace the opportunities information technology offers them for deepening their relationships with Japanese firms, for example, by bypassing traditional intermediaries and using the Internet.*

Localise product and presence — use Japanese

When Japanese firms come to Australia they are expected to operate in English. Australian firms should not be surprised to find that in most cases they need to operate in Japanese to have any chance of building a Japanese customer base. Yet many Australian firms continue to operate exclusively in English. The number of Australian commercial websites that have the potential to attract Japanese customers but that have no Japanese language content is worrying. While translation is not a costless exercise, these costs are likely to be swamped by the gains of even a small share of the Japanese market, and there are competent Australian agents that can provide the relevant services.

The Study Group urges business to customise their product for the Japanese market, especially by using Japanese language.

Join forces

Many in Japan continue to view Australia as a mine, a beach or a farm. It is. But it is also more than that. Australian high technology and service firms need to shout louder than their American, European, Korean or Indian counterparts to be recognised as a potential supplier or investment. But they need only shout at a targeted audience — there is no need to change the minds of 120 million Japanese, only the much narrower set of customers the Australian firm is targeting.

Australian high technology and service firms need to better advertise their presence to Japan. The experience of those Australian industries already operating in Japan may suggest a way forward. The agricultural, mining and tourism sectors have successfully joined together to market their wares in Japan. *The Study Group recommends that the high technology and service sectors take more initiative in setting up strong representative industry groups.* The Study Group acknowledges that this is especially difficult in sectors dominated by SMEs.

Australian ICT and biotechnology firms should consider strengthening their industry associations, and using them to represent their interests to government and overseas, gather detailed intelligence about systems and market opportunities in Japan and elsewhere, provide information about how to do business in Japan, and provide forums for firms to get together. The experience of the Collaborative Health Informatics Centre provides an excellent example of how such a forum can operate (Box 9).

Box 9: The Collaborative Health Informatics Centre (CHIC)

CHIC is a national, independent, not-for-profit organisation whose focus is to facilitate improvements in business processes and patient care in the health sector through the application of appropriate information technology. In the growing and dynamic field of health IT, CHIC operates as an important vehicle for disseminating information about national and international markets to Australia's 700-odd health IT firms, and facilitates trade missions for groups of Australian health IT producers and consumers.

An organisation of only 12 people, CHIC was set up by Government but now operates independently with strong Government and industry partnerships. Most Australian health IT firms are members and they receive regular market intelligence on developments in Australia and overseas, among other services. CHIC has recently provided its membership with the first comprehensive survey of developments in the Japanese health IT market and is actively considering the prospects for a trade mission.

Health IT is an area in which Australia is globally competitive. Australian firms are likely to have distinct advantages over their American counterparts in the Japanese market because of the greater institutional similarities between the Australian and Japanese health systems. CHIC is a good example of how such an industry can help itself to break into global markets such as Japan.

Australian ICT firms should also consider setting up a Japan ICT Exchange in Tokyo for Australian companies, based on the Silicon Valley IT Exchange, a not-for-profit venture set up by established ICT firms, Macquarie Bank and Austrade to help Australian firms enter the US market. Such a venture would have an office and provide an opportunity for new entrants to learn, build a network, and have peer support.

The Study Group applauds the efforts of the existing Australia-Japan business forums, like the Australia-Japan Business Cooperation Committee, in seeking to include a broader and deeper range of sectors in its membership, and urges them to extend this process. This type of group has extensive experience in Japan and can be especially helpful in passing on information about markets, practices and customs in Japan.

3.2 An agenda for Government

Government also has a critical role to play in helping to ensure that the full potential of the Australia-Japan commercial relationship is realised. The Study Group recommends that Government implement three broad sets of initiatives for this purpose:

- First, Government needs to deepen **policy engagement** with Japan. The Study Group recommends an Australia-Japan trade and investment facilitation agreement (TIFA) in the form of a Closer Economic Partnership.
- Second, the Government needs to demonstrate at the highest levels a **renewed commitment** to the Australia-Japan relationship. In practical terms this implies a whole-of-government commitment to initiatives that facilitate the commercial relationship in terms of funding and departmental priorities.
- Finally, Government has a role in helping business **overcome information asymmetries** in the commercial relationship. This involves a renewed commitment to successful facilitation mechanisms such as Austrade and network programs, as well as considering new initiatives like people exchange, development of business groups, and language programs.

3.2.1 A Closer Economic Partnership

Australia-Japan economic relations have been supported and guided in the post-war period by a legal and policy framework with both multilateral and bilateral dimensions. At the multilateral level, Australia and Japan remain committed to the WTO and global responses and action.

At the bilateral level, both countries have at times formally agreed to deepen commercial relations, most notably the *Australia-Japan Commerce Agreement* of 1957 and the *Basic Treaty of Friendship and Cooperation* (Nara treaty) of 1976. These agreements have played a crucial role in the post-war period, not only in providing a guiding framework for bilateral trade and investment relations, but in stating the shared economic and political interests of both countries and their intent to maintain a close relationship.^{xxxiv}

But both economies have changed substantially since these agreements were made and will continue to do so — services are becoming more important and much more easily traded across borders, technology has advanced enormously in the past few decades, and issues related to the general business operating environment rather than simply market access are tending to become more important to firms. It is now time to reflect this in a new agreement.

The Study Group recommends a new agreement to advance bilateral trade and investment in the form of a Closer Economic Partnership. Such an

agreement should be based on the principles of non-discriminatory treatment and should be open to other countries to join. A comprehensive trade and investment facilitation agreement (TIFA) between Australia and Japan is a fitting further step to realising the vision of deep economic integration between the two countries.

There is a rich menu for enhancing policy dialogue and formal cooperation with Japan.

Elements for dialogue and cooperation

1. Services

Many of the changes in both economies are in the area of services, and there are many areas in which further policy dialogue and cooperation can be advanced to the mutual benefit of business in both countries. These include:

- *Biotechnology.* A bilateral body, such as an Australia-Japan Biotechnology Council, could be established to facilitate closer cooperation on biotechnology issues including skills development; industry body links and firm-to-firm links in both countries; and two-way investment and venture capital opportunities. The Council could consider an Memorandum of Understanding (MOU) to facilitate greater two-way investment as well as a joint investment fund. A bilateral agreement on intellectual property protection for genetically-modified products might also provide a useful model for the region.
- *Education.* Dialogue and cooperation could cover a range of areas.^{xxxv} These include: cooperation on science and technology education, including more effective cooperation among researchers, universities and companies; exchanges on curriculum policy, including issues of learning and evaluation standards; higher education exchange, including marketing of Australian higher education in Japan; cooperation and links between higher education centres and high schools and colleges; expanding the scope of the University Mobility in the Asia Pacific credit transfer scheme; links between English language courses with university study and vocational training; distance education to Japan; links between education and tourism, including opportunities for life-time learning; Japanese investment in Australian universities; and the effect of ICT on education content and delivery. It would also be timely to consider some aspects of Japanese language training in Australia, including links between primary and secondary school Japanese language training, training Japanese speaking IT support staff, and identifying business expectations and needs.
- *Energy and resources.* Resource companies in Australia are uncertain about future directions in power deregulation, the steel industry, and alternative power uses in Japan, and would benefit from discussion of these issues. A bilateral business-government forum should be held to discuss these

matters — perhaps in the form of a joint case study of utilities deregulation — and to explore ways for future cooperation. This could be sponsored by the resources industry. In addition to this, both countries could profitably discuss joint policy and business approaches to dealing with greenhouse fuel emissions, climate control, and environment management.

- *Finance.* There is scope for government and business from both countries to discuss ways to advance financial integration between Australia and Japan, and indeed the region as a whole to make it more stable and attractive to capital. This could involve three elements:
 1. Bilateral discussions on ways to harmonise practices, settlement processes and standards in bond, stock and money markets, and the development of financial instruments and techniques. This could be part of a program for greater regulatory cooperation in finance between Australia and Japan, including strengthened cooperation between regulatory institutions such as the Australian Securities and Investment Commission and its Japanese counterpart.
 2. Discussion could also proceed between Australia and Japan on creating links for investors to be able to use their local stock market to access the foreign market, as is occurring between Australia and Singapore. This step requires renewed effort to make Japanese investors aware of Australian financial products, by participating in and organising finance and investment road-shows and fairs in Japan. There is also scope for cooperation on the demutualisation of stock exchanges.
 3. Bilateral discussions should also be opened up more broadly to the region. This could take place within the Four Markets Group (which also includes Hong Kong and Singapore). It should also include the private sector as much as possible.
- *Health and aged care.* Australia and Japan could substantially benefit from bilateral business/government discussion, including with a view to closer policy cooperation, on aged care, the use and transfer of electronic medical records, payments systems, health insurance systems, medical training and education (including nurses), funding mechanisms, health IT development and exchange, tele-medicine and medical research and training as well as public health research and training.

The Department of Health and Aged Care in Australia and the Ministry of Health and Welfare in Japan have a partnership agreement to support cooperation in service delivery. The focus to date has been on aged care and mental health. This partnership should be strengthened through the writing of a formal agreement. It could provide for more regular exchanges between health ministers, extend the current dialogue to issues other than service delivery, promote cooperation on regional health issues, promote cooperation between health institutions, facilitate entry and exit of health professionals between the two countries, provide access to health institutions, data and material, and allow for personnel exchanges between the health authorities and related agencies.

- *Information technology.* There is a need to improve interaction between Australia and Japan's ICT firms. It is timely to consider setting up a bilateral body, such as an Australia-Japan ICT Council, to report on, and facilitate, ICT policy issues, including skills development, industry body links and firm-to-firm links in both countries, and venture capital opportunities. This body would need to report back to business.
- *Science and technology (S&T).* There is a need to improve scientific interaction between Australia and Japan. Existing policy forums, which tend to focus on project approval and monitoring, can be augmented by establishing an independent Australia-Japan Science Society to promote science cooperation, and extending the responsibilities of the Joint Consultative Committee on S&T to joint policy development. Consideration should also be given to establishing an Australia-Japan S&T fund, as exists for China and Korea. Greater focus should also be given to attracting Japanese investment (public and private) in Australian research institutions (such as universities and the Commonwealth Scientific and Industrial Research Organisation [CSIRO]). For example, CSIRO has a cooperative arrangement with a large Japanese trading company. An MOU between CSIRO and its new Japanese counterpart the Agency of Industrial Science and Technology (AIST) would provide a good basis for cooperation.
- *Telecommunications.* Australia and Japan have both had to deal with the transition of their telecommunications market from a monopolised state-run industry to an industry characterised by substantial competition. This provides fertile ground for discussing a range of telecommunications policy issues. For example, both countries are trying to determine the best way to regulate access to incumbent infrastructure. Similarly, both countries are struggling to ensure that social policy objectives can continue to be achieved in a competitive market environment. Consideration could be given to a joint study on effective delivery of telecommunications services to customers. This could include social policy objectives, last mile delivery to residential customers, improving bandwidth for regional customers and the development of third generation wireless technologies.
- *Tourism.* Australia and Japan could usefully focus on ways to promote two-way tourism. A key issue would be how to improve access to, and use of, the runways at Narita, including after 2002 when the second runway comes into operation. Other areas of focus might include changes in the Japanese and Australian tourism industries, including recent developments in distribution networks, the use of the internet, and competition policy issues.

Australian government and business also needs to review the changing tastes and preferences of Japanese tourists and what Australian tourism providers can do to meet this. This should include discussion of whether the ATC needs more resources to focus on changing the attitudes of Australian tourism providers, and whether the overseas operations of the ATC should be commercialised.

2. Competition, consumer and privacy policies

As a step toward deeper policy cooperation, there is substantial scope for officials and ministers from the agencies responsible for competition, consumer, and privacy policies in Australia and Japan to discuss matters of mutual interest. This could proceed with a general discussion of the underlying principles in each country, and discussion of some important case studies, such as deregulation of telecommunications. Business involvement in this forum is necessary, both to evaluate the general policy framework and to comment on the case studies. It would also be useful to involve consumer groups in discussion of consumer and privacy policies.

Government should pursue a bilateral agreement between the Australian Competition and Consumer Commission and the Japan Fair Trade Commission to support the exchange of staff and information. Japan and Australia could also consider making the APEC competition policy principles binding.

3. Investment

Australia and Japan should consider ways to promote bilateral investment particularly in areas such as information and communications technology, biotechnology and food processing.

4. Standards and Conformance

Australia and Japan should work towards having standards as similar as possible. Initially discussions should focus on e-commerce standards and standards for food and pharmaceutical products.

- *E-commerce*. It is timely for Australia and Japan to discuss and act on ways to facilitate e-commerce, both nationally and bilaterally, including the removal of impediments to e-commerce. Such dialogue would take up the many issues discussed in Chapter 2.

It is appropriate to consider establishing an Australia-Japan arbitration body to settle contracting disputes, whether they arise from electronic transactions or otherwise.

Policy dialogue and cooperation should also extend to the choice of the medium for B2B e-commerce. Japan's B2B e-commerce is concentrated in closed and expensive EDI/CAL systems, rather than open web-based internet systems. This limits the gains to e-commerce.

- *Food and pharmaceuticals*. Bilateral discussions should focus on ways to harmonise production, labelling and distribution standards for food including with respect to: use-by dates; minimum residue levels; organic food; functional or therapeutic foods, and genetically modified foods. Harmonising pharmaceutical standards, mutual recognition of verification procedures for processed food and pharmaceuticals, and progressing technical access issues for horticulture are other priorities. There is potential to further clarify the tariff regime, for example with processed meat. There

is also scope to address common approaches to food safety, including genetically modified foods and BSE (mad cow disease). Regular exchanges at senior officials levels and staff exchanges between agricultural agencies in both countries would help deal with these and other issues.

5. Customs Procedures

Both countries could increase policy and business cooperation in realising complete end-to-end electronic quarantine and customs clearance.

6. Mobility of Business People

The movement of business people between Australia and Japan can be further enhanced by two sets of initiatives.

- *Migration.* There are three possible actions. First, Japan could automatically grant work visas to the spouses of people who qualify for long-term business visas, as Australia does. Second, the definition of spouse should be extended to cover genuine *de facto* relationships, including same-sex relationships. Third, Japan should sign up to the APEC Business Travel Card, or a bilateral equivalent (an Australia-Japan business pass) to allow faster immigration clearance for pre-approved business people.
- *Professional qualifications.* Business interaction would be enhanced by recognising each other's qualifications. Initial priorities include nursing, other medical, IT and teaching qualifications. It would also be advanced by increasing foreigners' membership in key business associations, like the Bar Association and Accounting Association.

7. e-Government

There is substantial scope for greater policy cooperation to facilitate the uptake of e-government in Australia and Japan. Business would welcome as much interaction with government as possible being put on the Internet.

8. Intellectual Property Rights

Australia and Japan could usefully explore ways to strengthen their respective intellectual property regimes.

9. Government Procurement

There is scope for Australia and Japan to examine ways to increase the transparency of government procurement processes.

A Trade and Investment Facilitation Agreement

A substantial menu for further policy dialogue and formal cooperation between Australia and Japan is set out above. Many of these constitute an agenda for a new formal agreement between Australia and Japan. Four issues remain to be discussed about the way in which such an agreement should be advanced.

The first is the importance of dialogue. As the process of change unfolds, uncertainties and new policy issues are arising for both countries. This means that many new issues need to be discussed by both countries together, at both the government and business levels. Dialogue to resolve these uncertainties and work out ways to deal with them is important in its own right. *The Study Group believes that enhanced policy dialogue is a priority within or without the framework of a new TIFA and recommends such dialogue.* The Study Group strongly believes that dialogue is likely to be more effective and consistent if it is geared to overriding and specific policy objectives, such as would be defined through a comprehensive trade and investment facilitation agreement.

The second issue is that the agreement should include business as much as possible in the dialogue and negotiation process, given that many of the issues directly concern or affect business. To this end, *the Study Group recommends that a working group of officials, as well as business people and other interested parties, examine ways to implement the TIFA.*

The third issue is that the agreement should have a clear regional and global focus. Australia-Japan economic relations have a regional context, since they are two of the largest developed economies in the region, as well as a global context, since both countries trade with the whole world and are members of the WTO.

The regional focus of the bilateral relationship means that it is essential for the TIFA to emphasise its potential as a device for Australia-Japan cooperation to advance development in east Asia. Not only can the agreement set or advance the principles and protocols in other bilateral, or multilateral, agreements, but it can be the basis for broader cooperation in the region, furthering Australia and Japan's joint economic strategic interests. *The Study Group recommends that a TIFA should expressly support cooperation by Australia and Japan in regional development.*

The regional and global focus of Australia-Japan economic relations means that both countries' interests are best served by a globally open commercial system. To this end, *the Study Group believes that it is essential that the TIFA be based on the principles of non-discriminatory treatment and be open to other countries to join.*

Finally, the Study Group is advocating a trade and investment facilitation agreement, and not a Free Trade Agreement (FTA), with Japan. Typically, an FTA is concerned with reducing tariffs and formal barriers to entry. Clearly, tariffs and barriers to entry in some sectors do exist in Japan, but they cannot be addressed within the framework of a traditional FTA because Japan is not yet prepared to include liberalisation of trade in agriculture, notably rice, in any agreement. It may be possible to negotiate further most-favoured-nation liberalisation of trade barriers affecting each country's trade, although the main scope of this between Australia and Japan will be in a multilateral round.

It should be clear from the discussion in Chapter 2 that many of the issues that arise in commercial relations with Japan are much broader than tariffs and freedom of entry into a market, as important as these are. While the opportunity for liberalising border barriers to trade within the framework of a TIFA may be limited, for most firms doing business in Japan, the real issues are facilitating trade and investment and harmonising commercial systems, rather than liberalising the trading regime. At the same time, *the Study Group recommends that the Government continue to work towards the liberalisation of markets in Japan and elsewhere, including through the WTO.*

3.2.2 A renewed commitment ...

Australia has a long history of policy commitment to the relationship with Japan, and this has underpinned the growth in commercial relations. Consistent with this, *the Study Group recommends the Australian Government commit across all agencies to affording the Japanese relationship the highest international priority in government funding, work programs and international visits.*

Discussions with a range of departmental officials indicate that most government departments and agencies have a number of international programs whereby officials engage in various ways with their overseas counterparts. It is apparent from these discussions that in many cases departmental programs and international contacts are developed on an ad hoc basis. Countries are often selected because of the ability of the department or agency to obtain funding from some external source. Often such funding comes from domestic or international aid agencies and so relationships are mainly focused on developing countries.

While Australia's participation in development cooperation is important, the Study Group urges the Government to assess the extent to which international outreach programs can be also used to further Australia's key strategic interests in deepening the bilateral relationship with Japan. This requires a formal commitment to the relationship at the highest levels to ensure that bilateral dialogues can take place and that resources are made available where necessary. This is especially important in departments like Health and Aged Care, and Industry, Science and Resources, Communications and IT, under which many of the crucial new complementarities with Japan arise. *The Study Group recommends that an audit be undertaken of current international outreach programs with a view to obtaining information on which remaining programs could be usefully extended to Japan.*

This process should be accompanied by a continued effort by the Prime Minister, other Ministers and senior government officials to travel to Japan and communicate regularly with their counterparts. These need not be Japan-only visits, but could be regular stopovers in Tokyo on visits to other countries. This would have a powerful demonstration effect on business.

... with an active role for business

The Australian and Japanese Governments regularly meet at senior official and ministerial level. Much of the material that is raised in these meetings affects business in both countries but business is not involved directly in many of these discussions. It should be. *The Study Group recommends that wherever it adds value business be included in the Australia-Japan Ministerial Meetings and in other bilateral meetings.*

Greater interaction by firms in both countries with government in both countries will help to expand mutual understanding and create new commercial opportunities. It is especially important that government officials pass on their contacts and knowledge to the private sector. Greater business involvement in official meetings will help this. *The Study Group also thinks that government departments should have regular confidential high-level informal meetings with business to brief them on developments in their areas of responsibility.* As much as possible, this should be a service for which business pays.

3.2.3 Information dissemination

Government has a role to play to help business overcome the information asymmetry problems that beset the commercial relationship. As noted elsewhere in this report, too much of the Australian business community regards Japan as a market that is simply too hard to penetrate and not worth the effort. In many cases, this impression seems to be based on weak or outdated empirical foundations. This is largely up to business to deal with, but Government has some influence and role in this process.

Over the past two decades, successive Australian Governments have played a significant role in 'selling Asia' to Australian businesses that previously were either inward looking or focused much more heavily on Europe and North America. A similar effort is needed to ram home to Australian businesses that Japan is worth the effort. *The Study Group urges ministers and officials to continue their efforts to encourage Australian businesses to maintain and expand their commercial relationships with Japan.*

At a more micro level, Government plays a critical supportive role in reducing the information barriers that impede the commercial relationship. This is done in a number of ways.

Austrade

Austrade is particularly important in this respect. There is widespread support for the role played by Austrade in providing market information to Australian firms seeking to enter the Japanese market. The Study Group urges the Government to continue this invaluable service. There are a number of ways that Austrade's role could be even further enhanced.

The Study Group recommends that Austrade work with JETRO to develop and publicise a fully bilingual website with a comprehensive listing of Australian and Japanese firms in ICT (including health and education IT) and biotechnology, with chat-room infrastructure to encourage interaction.

The Study Group recommends that Austrade increase its efforts in promoting the value of direct investment in Japan and helping Australian firms establish a presence there.

The Study Group also recommends that Austrade give higher priority to providing information on new and emerging gateways into Japan's markets. This would include providing information on local and regional centres beyond Tokyo; magazine and mail order gateways; trade journal gateways; website connections and electronic gateways; and electronic marketing.

Network Programs

The Study Group has heard a number of positive comments about network programs, which provide market information and establish networks between interested parties in Australia and Japan. These programs range from informal meetings and introductions to Minister-led trade missions. These events can be an effective catalyst for stimulating interest in the potential of the commercial relationship, both in Australia and Japan. A recent aged care mission, for example, appears to have resulted in significant follow-up and interest.

The Study Group is concerned that government-led network programs, like international outreach programs, remain largely *ad hoc* exercises dependent on the priorities and interests of individual departments. *The Study Group recommends that a strategic whole-of-government approach be adopted — whereby in consultation with Austrade and the Japanese Government a forward agenda of programs is planned.* Ideally these programs would coincide with policy dialogues and each delegation would have the opportunity to learn from the mistakes and successes of previous delegations. Future programs should also focus on possible suppliers of venture capital in Japan; for ICT and biotechnology, it is especially important to look for business 'angels' to help fund the development of small companies.

The Study Group acknowledges that for many small and medium sized enterprises (SMEs), participation in network programs can be prohibitively expensive. Some financial support is currently available through a number of mechanisms. The Study Group welcomes this support and urges consideration of its expansion, especially in biotechnology and ICT. Whether network programs take Australians to Japan or Japanese to Australia needs to be evaluated on a case-by-case basis. For example, in the case of showing R&D or complex IT systems (like in hospitals), it is probably necessary to bring the Japanese parties to Australia. But in the case

of showing a product, it is probably necessary to take the Australian parties to Japan to clearly signal their interest in that market.

Staff exchanges

It was noted elsewhere in this report that one particularly useful way to cement relationships with Japanese counterparts, if done correctly, is through staff exchanges. Some Australian firms have for decades run highly successful staff exchange programs which have facilitated information exchange and built up levels of trust between them and their Japanese counterparts.

For small to medium sized firms such exchanges may be prohibitively expensive. *The Study Groups recommends that the Government consider extending current programs designed to promote educational and academic exchanges to encompass commercial exchanges.* A bilateral scheme could possibly be funded by the Australia Japan Foundation.

Development of Business Groups

In most instances, operating and financing business groups should be the responsibility of business. If strong enough, such groups can be a useful device to support the development of firms and sectors. As discussed above, this can be especially so for SMEs. *The Study Group thinks that there is some merit in initial government assistance to particular groups, especially in the ICT sector.* The catalysing effect is likely to be especially important in sub-sectors which are dominated by not-for-profit companies, like aged care.

Language

One of the ways Government can efficiently help to minimise the information asymmetry problems that beset the commercial relationship is through the promotion of Japanese language ability. Over the past two decades successive Australian governments at both a state and federal level have greatly expanded Japanese language education. This has been a significant policy success and is one of Australia's key comparative advantages.

Nevertheless, many Australian companies and government agencies continue to provide product information, support services, web-based platforms etc exclusively or mostly in English. While this is the responsibility of business, *the Study Group recommends that all levels of Government consider ways they can help small to medium sized firms expand their use of Japanese language material.* This is already occurring as part of the process of preparing for trade missions — Logan City Council in southeast Queensland is a good example of such a local government initiative.

The Study Group also recommends that essential relevant government information be available in Japanese. The Japanese-language content of the Australian Tourism Council's website, for example, should be deepened. This may require more funding but it will help attract independent tourists.

Appendix A: Policy developments in Australia and Japan

There has been substantial structural change in Japan and Australia as both countries have exposed more and more of their industries to the disciplines of competition. This appendix briefly reviews the reform process in both countries that has underpinned the process of structural change. The new economy has intensified the pace of change in both countries. This appendix also examines the policies that both the Japanese and Australian Governments have put in place to promote the new economy.

A.1 Regulatory reform

Australia

Australia's reform process is now several decades old. Throughout the 1970s the protective walls that surrounded Australian manufacturing and agriculture came under increased pressure. In 1973 the Whitlam government instigated a uniform cut of 25 per cent to manufacturing tariffs. Effective rates of assistance for the agricultural sector fell from 24 per cent to 2 per cent during the 1970s. While the global recession of the late 1970s stalled the reform process for a while, the 1980s saw renewed pressure for reform, culminating in the 1988 announcement of phased tariff cuts of 15 per cent for most industries.

A further general program of phased tariff reductions ran from March 1991 to July 1996 with most tariffs reduced to 5 per cent or less. By 2000, 40 per cent of Australia's tariff lines were at zero and 40 per cent had tariffs between 1 and 5 per cent. The main sectors that are still protected by tariffs are textiles and clothing (average tariffs of 12.7 per cent), leather and rubber (average tariffs of 6.9 per cent) and transport equipment (average tariffs of 5.4 per cent). Tariffs in the motor vehicle and textiles, clothing and footwear sectors are being reduced in line with industry restructuring plans. Tariffs on motor vehicles are to be held at 15 per cent from 2000 to 2004 and reduced to 10 per cent in 2005. Tariffs in the textiles, clothing and footwear sector are to be held at current levels (that is, between 5 per cent and 25 per cent) from 1 July 2000 to 1 January 2005 and then reduced to a maximum rate of 17.5 per cent for clothing.

These reforms were accompanied at an economy wide level with the removal of capital controls and the floating of the exchange rate in December 1983 and the liberalisation of the labour market in the 1990s.

Australia has also been at the forefront of competition policy reform. Following the 1993 *Hilmer Report* Australia has progressively brought almost all industries within the purview of a general competition law framework that includes far-reaching provisions on access to essential facilities that are designed to facilitate the development of competition across a range of industry sectors.

At a micro level, reform of the all important financial services sector began in earnest with the 1981 *Campbell Committee of Inquiry* and continued with the 1984 decision to allow foreign banks to operate in the Australian market. The Commonwealth Bank was privatised soon after.

Similarly reform of the telecommunications industry began as far back as 1975 when the postal and telecommunications arms of the Post Master General were corporatised. Significant reform, however, of this backbone of the new economy did not occur until 1991 when a second carrier was allowed in to the Australian market. It was not until 1997 that liberalisation of the telecommunications sector was completed. The partial privatisation of Telstra accompanied these reforms.

Another major target for reform during the 1980s and 1990s was transport. Deregulation of the domestic aviation industry began in 1990 with the abolition of the legislated duopoly. QANTAS was privatised in 1994. Similarly in rail transport, state governments have increasingly exposed former monopolies to competition. In maritime services the practice of cabotage is slowly being undermined.

Professional and medical services in Australia have also undergone reform, although much more slowly than other sectors. The new federalism initiatives in the 1980s and the expansion of competition policy in the 1990s have begun to break down many of the monopolistic practices that have long characterised the professions.

Finally most Australian state governments have begun the process of introducing full competition into the electricity, gas and to a lesser extent water industries within their jurisdiction. Significant privatisation, particularly in Victoria, has accompanied these reforms.

Japan

In contrast to Australia's experience, Japan has been relatively slow in liberalising key sectors of its economy, most notably its utilities, telecommunications and the broader services sector, including the housing/construction services sector and the financial services sector.

Exports have long been the driving force for the Japanese economy. The efficiency of the export-oriented sectors of the Japanese economy stands in sharp contrast to the inefficiencies of its domestic sectors.

Japan's excessive regulation remains a salient cause of inefficiency, although the need for deregulation was officially recognised as far back as 1986 with the *Maekawa Report* to the Nakasone government, which recommended long-term structural reform in order to increase Japan's domestic demand.

While regulatory reform was pushed under the Hosokawa government in 1994 — and has been an important part of the reform agenda since then — it has proceeded in only piecemeal fashion. It has focused largely on

particular sectors, including large retail stores, air transport, road transport, electric power, petrol imports, telecommunications, and financial services. But in most cases, these reforms have been only partial, and there are widespread calls, both within and outside of Japan, for reform to be accelerated and completed.^{xxxvi}

There has also been reform of government and administrative processes, with a shift from state-led intervention to market-led growth. This is reflected in a transition from requiring *ex ante* discretionary approval of activities by bureaucrats, to *ex post* monitoring of compliance with general rules.

While the standard view is that competition policy in Japan has been overshadowed by the intervention of government and industry, the Fair Trade Commission has taken a greater political and legal profile since 1995. It has increased both its focus on collusive practices and its direct reliance on the market mechanism to enhance deregulation, which has been reflected in a greater focus by firms, industry groups and the media on compliance with competition regulations. But again, this shift overall has only been partial.^{xxxvii}

In the past few years, there has been a broad suite of regulatory reforms designed to improve the transparency and functionality of Japan's general business environment. Corporate law has been amended to:

- Make it easier to set up holding companies. The Anti-Monopoly Act was amended in 1997 to allow for holding companies, and the Commercial Code was amended in 1999 to remove cumbersome procedures in the creation of holding companies. The Tax Code will be amended in 2001 to tax the consolidated operations of companies, allowing profits and losses to be offset between companies in the same group.
- Remove impediments to mergers and acquisitions. The Anti-Monopoly Act was amended in 1999 to allow M&As without pre- or post-notification and the JFTC eased its limits on M&As. The Commercial Code was amended in 1999 to allow share swaps.
- Encourage corporate restructuring. The Industrial Revitalisation Law of 1999 simplifies corporate reorganisation, provides tax and finance incentives for restructuring approved by METI, and provides support for R&D and technology development. The Civil Revitalisation law of 2000 encourages firms to restructure rather than declare bankruptcy.
- Encourage better corporate governance. The Commercial Code is to be amended to require at least half of a company's auditors to be external, and the Tokyo Stock Exchange is requiring disclosure of corporate governance systems of its listed companies.

Corporate accounting rules have also been tightened. Companies are required to report on a consolidated basis from April 2000, forcing them to bring bad debts onto their books that they had previously hidden in subsidiaries. From April 2001, companies are also required to record assets on their books at market rather than historical value (mark-to-market). The pension fund

system has also been reformed somewhat. From April 2001, companies must report pension liabilities on their balance sheet, and pensions will be based on defined contributions, rather than defined benefits.

A.2 The new economy

More recently, an important component — and indeed driving force — of structural change in both Australia and Japan has been the new economy. In this report, we use the term ‘new economy’ to refer to both:

- The broader set of ‘high technology’ industries that have arisen over the past decade to global prominence, including the production of ICT products and services, as well as industries such as biotechnology, medical services and education; and
- The impact of ICT on the productivity and operations of traditional industries, with the substantial opportunities and scope this provides for redesigning the structure of firms, markets, institutions, and the economy itself.

As detailed in the Chapter 1, the emergence and growth of the new economy has been largely led by the private sector in both Australia and Japan. But neither government has remained passive, and both have introduced various policies to encourage or support its development, with consequent implications for the bilateral commercial relationship.

Australia

Government has had three broad effects on the development of the new economy in Australia.

The first is providing a general policy environment which provides economic and regulatory certainty, competition, transparency, low taxation, and the rule of law. A solid and attractive legal and macroeconomic environment is one of the main contributions government can make to business. The reduction in the company tax rate to 30 per cent was motivated by a desire to increase the attractiveness of Australia as an investment location.

The second set of policies aims directly at encouraging new economy firms. These policies are viewed as complementing the market mechanism by providing incentives for risk-taking and by addressing specific market failures.

The government has created incentives for greater risk-taking in new economy firms. It has, for example, exempted foreign pension funds and pooled development funds (PDFs) of Australian superannuation funds which invest in certain venture capital investments from capital gains tax. It has also removed tax charges on scrip-for-scrip transfer in takeover transactions, which removes an impediment to mergers and acquisitions between firms, something that is crucial to the growth of local ICT firms. More recently, in its innovation statement, *Backing Australia's Ability*, of January 2001, the federal government announced measures reforming the

R&D tax concession, providing a premium deduction rate of 175 per cent on additional R&D, and providing a tax rebate for small companies.^{xxxviii}

The Australian government has also sought to address specific market failures. Noting the problems researchers were having in commercialising their work, for example, the government set up CRCs in 1991 as joint ventures between universities and businesses. There are now about 65 CRCs nationwide. Funding to CRCs was expanded in the recent innovation statement. The statement also increased funding on research, infrastructure and ICT-related teaching, and extended funding programs for commercialising research and innovation. The government also owns an export and investment facilitation agency, Austrade, which focuses particularly on small and medium sized firms.

There is also an important flow-on and demonstration effect to business from the drive to electronic government. Australia is widely acknowledged as a world leader in e-government.^{xxxix} Australia's 'Government Online' policy, overseen by the National Office of the Information Economy, requires all Federal government departments and agencies to provide as many services as possible by Internet by the end of 2001.^{xl}

The project aims at providing all government services electronically, including full information systems (coordinated at federal, state, and local government levels), government procurement and bill paying, access to all government services, and full electrification of medical, tax and other records. E-government is already provided in many of these areas, including submitting tenders, lodging tax returns, applying for Australian passports and electronic visas to Australia, and quarantine clearance. This provides businesses with a large incentive to use the Internet because it can substantially reduce their operating costs.

Japan

Policymakers and business people in Japan have been deeply concerned for a number of years about Japan's status as a new economy, especially the perception that it is at least several years behind the United States in the use and development of information technology.

Under Prime Minister Obuchi, the government set out some basic guidelines for promoting an advanced IT society in November 1998 and developed an action plan in April 1999. This focused on propagating electronic commerce, computerisation of the public sector, developing IT awareness and skills, expanding infrastructure, and improving security.

By mid 2000, this had led to changes to the commercial law to legally recognise electronic signatures, consideration of ways to protect privacy, a commitment to electronic government by March 2004, consideration of ways to develop intelligent transport systems, a commitment to computer and high-speed internet access at all schools by March 2006, and a commitment to Japan-wide access to high-speed internet connections by March 2006.

On 7 July 2000, the Cabinet, led by Prime Minister Mori, set up an IT Strategy Council, chaired by Nobuyuki Idei, CEO of Sony, and including senior business people and academics, and an IT Strategy Headquarters, comprising ministers and officials.

The IT Strategy Council issued a relatively hard-hitting report, 'Basic IT Strategy', in November 2000. It views the IT revolution as akin to the industrial revolution, and the challenge it poses to Japan like that of the Meiji Restoration and the end of World War 2. It says that 'Japan falls far behind other nations in embracing the IT revolution', identifying high telecommunications fees, restrictions on market entry, and legal requirements to conduct transactions by paper as key problems. It calls for streamlined administrative functions, cooperation with local government, and establishing 'an infrastructure that functions according to market forces'.

The Council sets out an action plan to 'make Japan the most advanced IT nation within five years.' This has four components:

- Building an ultra high-speed Internet network, including the wireless environment. It calls for increased competition in the telecommunication and distribution sectors, a shift in administrative orientation to ex post assessments based on transparent rules, and strengthening the Fair Trade Commission to limit anti-competitive behaviour in all sectors;
- Establishing rules on electronic commerce. It argues that regulations which hinder e-commerce should be reformed. These include: the requirement to apply in person or to have an office; clarification of the dates when a contract is concluded; clarification of the responsibilities of internet service providers; action to ensure privacy; and revising the commercial law to allow use of the internet to announce shareholder meetings and disseminate information;
- Realising electronic government. It calls for the digitisation of public administration, digitisation of public services to the private sector, publication of administrative information through the internet, reform of regulations, and the review of procurement methods (shifting application to the internet and making selection transparent); and
- Nurturing high-quality human resources for the new era. It calls expanding the IT skills of students and teachers, improving and deepening IT training, curricula, and certification, increasing research in IT-related fields, and allowing an extra 30,000 foreign IT experts to enter Japan.

Under the Basic Law on the Formation of an Advanced Information and Telecommunications Network Society, which came into operation on 6 January 2001, the government formally established IT Strategic Headquarters to advance Japan's ICT capacity, headed by the prime minister. This law also sets out in general terms the government's priority policy program, which is akin to the themes set out above. On 22 January 2001, the IT Strategic Headquarters issued a more detailed policy statement, 'e-Japan Strategy'. This fully adopted the November 2000 report of the IT Strategy Council.

Endnotes

- ⁱ See G. McGuire and M. Schuele, 2000, 'Restrictiveness of international trade in banking services' in C. Findlay and T. Warren (eds), *Impediments to Trade in Services: Measurements and Policy Implications*, Routledge, London; T. Warren, 2000, 'The identification of impediments to trade and investment in telecommunications services' in C. Findlay and T. Warren (eds), *Impediments to Trade in Services: Measurements and Policy Implications*, Routledge, London; G. McGuire, M. Schuele and T. Smith, 2000, 'Restrictiveness of international trade in the maritime industry', in C. Findlay and T. Warren (eds), *Impediments to Trade in Services: Measurements and Policy Implications*, Routledge, London; Productivity Commission, 2000, 'Restrictions on trade in distribution services', www.pc.gov.au; and Productivity Commission, 2000, 'Restrictions on trade in professional services', www.pc.gov.au.
- ⁱⁱ It is important to note that while microeconomic reform has undoubtedly had a significant effect on economic structure and productivity there are other important influences on these outcomes. All countries, for example, experience a shift in the importance of the services sector as development progresses – see Fisher, A., 1935, *The Clash of Progress and Security*, London, MacMillan and Clark, C., 1940, *The Conditions of Economic Progress*, London, MacMillan for early explanations of this phenomenon. On the relationship between microeconomic reform and productivity growth see Productivity Commission, 1998, *Microeconomic Reform and Productivity Growth*, www.pc.gov.au.
- ⁱⁱⁱ Over the past two decades, for example, the share of agricultural commodities in total exports has declined from 40 per cent to 20 per cent, while that of manufacturing has risen from 9.4 per cent to 19.2 per cent and that of services has risen from 15.2 per cent to 24.6 per cent.
- ^{iv} See Ministry of Finance Statistics Monthly, Vol 582, October 2000.
- ^v The OECD classifies a firm as ICT if it produces: office, accounting and computing machinery; insulated wire and cable; electronic valves and tubes; television and radio transmitters and apparatus for line telephony; television and radio receivers, recording equipment; instruments and appliances for measuring, checking, testing or navigating; industrial process control equipment; wholesaling of machinery, equipment and supplies; renting of office machinery and equipment; telecommunications; and computer and related activities. See OECD, 2000, *Measuring the ICT Sector*, OECD, Paris at page 7.
- ^{vi} See International Monetary Fund, 2000, *World Economic Outlook*, September, International Monetary Fund, Washington, D.C.
- ^{vii} According to World Information Technology Services Alliance, *Digital Planet 2000*, Japan spent \$US362 billion on ICT and Australia spent \$US37 billion in 1999.
- ^{viii} See National Office for the Information Economy (NOIE), 2000, *The Current State of Play* November; OECD, 2000, *The Knowledge-based Economy: A Set of Facts and Figures*, OECD, Paris; and Australian Bureau of Statistics (ABS), 2000, *Business Use of Information Technology*, ABS Release 8129.0, 15 December. For example, use of computers by Australian firms has risen from 49 per cent of firms at June 1994 to 76 per cent of firms at June 2000, and Internet access has risen from 29 per cent of firms at June 1998 to 56 per cent of firms at June 2000 (ABS 2000). At June 2000, 46 per cent of Australian businesses were "internet business active", meaning that

they use the internet for business purposes other than email and information searches. All large business use computers while only 69 per cent very small businesses (which are concentrated in businesses like cafes and transport firms) use a computer.

- ^{ix} See OECD, 2000, *The Knowledge-based Economy: A Set of Facts and Figures*, OECD, Paris.
- ^x M. Williams, 'Japan Internet use and e-commerce surge', IDG News Service\Tokyo Bureau, June 20, 2000, www.idg.net/english/crd_internet_191003.html
- ^{xi} See JETRO, 2000, 'Business-to-Business Electronic Commerce', *Japanese Market Report, Regulations and Practices*, No. 49, November; National Office for the Information Economy (NOIE) 2000, *E-Commerce Across Australia*, report prepared by Allen Consulting for the National Office for the Information Economy, Department of Communications, Information Technology and the Arts; and Boston Consulting Group (BCG), 2000, *After the Land Grab: B2B E-Commerce in Australia and New Zealand*, Melbourne, December.
- ^{xii} See Australian Bureau of Statistics (ABS), 2000, *Business Use of Information Technology*, ABS Release 8129.0, 15 December.
- ^{xiii} See Boston Consulting Group (BCG), 2000, *After the Land Grab: B2B E-Commerce in Australia and New Zealand*, Melbourne, December.
- ^{xiv} B2B e-commerce in was 12.5 per cent of all B2B trade in the United States in 2000 and is expected to be over 40 per cent by 2005.
- ^{xv} See Accenture and METI BtoB Market Survey press release at www.accenture.com. The Australian dollar equivalent is calculated at an exchange rate of 60 yen to the dollar.
- ^{xvi} Internet access is highest among young adults: about 80 per cent of 18-24 year olds have internet access, compared to less than 20 per cent of people 55 years and older (NOIE 2000).
- ^{xvii} By 1998, Japan's average birth rate was 1.38 children per couple, below the replacement rate. Coupled with very low rates of immigration and very high life expectancies means that the elderly population is expected to rise from approximately the current 16 per cent of the population by almost 26 per cent over the next 25 years. As a consequence, Japan was forced to reduce pensions and increase the retirement age from 60 to 65 to keep pension funds afloat. See National Institute of Population and Social Security Research, www.ipss.go.jp.
- ^{xviii} The saving in distribution costs from using the Internet can be substantial. The OECD, for example, estimates that internet-based purchases save 87 per cent on the distribution costs of airline tickets, 50 per cent on life insurance policies, and 97 per cent on software purchases. See OECD, 1999, *The Economic and Social Impact of Electronic Commerce*, OECD, Paris.
- ^{xix} See www.axiss.com.au.
- ^{xx} On the statistical relationship between economic reform and national economic growth, see the discussion in Gonenc, R., M. Maher and G. Nicoletti, 2000, 'The Implementation And The Effects Of Regulatory Reform: Past Experience And Current Issues', Economics Department Working Papers No. 251, OECD Paris.
- ^{xxi} See Productivity Commission, 1996, *Stocktake of Progress in Microeconomic Reform*, www.pc.gov.au, at p. 24.

- xxii See Productivity Commission, 1998, *Microeconomic Reform and Productivity Growth*, www.pc.gov.au
- xxiii See OECD 1999, 'Regulatory Reform in Japan', *OECD Reviews of Regulatory Reform*, OECD, Paris.
- xxiv The empirical evidence for a relationship between productivity growth and the advent of the new economy to date remains inconclusive. As computers improved and became ubiquitous in the 1970s and 1980s, economists kept waiting to see the wonders of computing show through in national productivity. But it did not happen. This surprising phenomenon came to be called "the computer paradox" after Robert Solow's famous 1987 quip: "We see the computer age everywhere except in the productivity statistics." When the productivity boom did come to the United States it was coincidental with the growth of the Internet. It is hypothesised by many that the Internet provided the interconnectivity that all these high-speed computers required before they could really boost productivity on a national scale. See A. Binder. 'The Internet and the New Economy', Internet Policy Institute, www.internetpolicy.org. Gordon, on the other hand, has argued that the entire acceleration of productivity growth, which he estimates to be about 0.5per cent a year once measurement changes and cyclical influences are accounted for, can be traced to the computer manufacturing industry. See R. Gordon, 1999, 'Has the 'New Economy' Rendered the Productivity Slowdown Obsolete?' Northwestern University.
- xxv See A. Binder. 'The Internet and the New Economy', Internet Policy Institute, www.internetpolicy.org.
- xxvi See Goldman Sachs, 2000, *Global Economic Paper* No. 50.
- xxvii See National Office for the Information Economy (NOIE), 2000, *E-Commerce Across Australia*, report prepared by Allen Consulting for the National Office for the Information Economy, Department of Communications, Information Technology and the Arts; and JETRO, 2000, 'Business-to-Business Electronic Commerce', *Japanese Market Report, Regulations and Practices*, No. 49, November.
- xxviii See International Monetary Fund, 2001, *World Economic Outlook*, www.imf.org, Statistical Appendix, Table A. Note that the GDP shares are based on the purchasing-power-parity (PPP) valuation of country GDPs.
- xxix See http://www.pref.osaka.jp/osaka-pref/ritchi/guide/englishu/opf_data.pdf
- xxx See <http://www.worldbank.org/data/databytopic/GNPPC.pdf>
- xxxi EU privacy requirements, to which Australia is a party, require any country that electronically transmits personal information to have suitable protocols in place to protect personal privacy. It is unclear whether Japan meets these protocols.
- xxxii In Japan, authentication certificates are provided at the regional, not national, level.
- xxxiii See 'Higher Education Reforms in Japan and Opportunities for Australia', a report prepared for Australia Education International by the Australia-Japan Research Centre at the Australian National University, 2000.
- xxxiv See Alan Rix (1999), *The Australia-Japan Political Alignment*, Routledge, London and New York.
- xxxv See 'Higher Education Reforms in Japan and Opportunities for Australia', cited above, for details.

- xxxvi See OECD 1999, 'Regulatory Reform in Japan', *OECD Reviews of Regulatory Reform*, OECD, Paris; and IT Strategy Council of Japan, 2000, *Basic IT Strategy*, November, www.kantei.go.jp/foreign/it/council/basic_it.html
- xxxvii See OECD 1999, 'Regulatory Reform in Japan', *OECD Reviews of Regulatory Reform*, OECD, Paris; IT Strategy Council of Japan, 2000, *Basic IT Strategy*, November, www.kantei.go.jp/foreign/it/council/basic_it.html; and Taylor, V., 2000, 'Re-Regulating Japanese Transactions: The Competition Law Dimension', *Pacific Economic Papers*, No. 302, Australia-Japan Research Centre, ANU, April.
- xxxviii One teething problem with the recent reform is that while it tightened what was allowable for R&D expenditure deductions, it inadvertently tightened eligibility criteria (from "innovation or high technical risk" to "innovation and high technical risk"). Furthermore, by changing the criteria for which the 175 per cent deductions can be applied, the incentive structure shifted away from small growing firms in favour of large established firms.
- xxxix See *The Economist's* ebusinessforum.com.
- xl See www.govonline.gov.au.

