JAPAN

What’s happening in this economy

The Japanese economy is performing well. Corporate profits are up, investment is being encouraged, and there is spending on research and development. An extended cycle of expansion has been supported through the Bank of Japan’s accommodative monetary policy. Japan remains an affluent and stable market.

Demographic pressures are set to intensify over the longer term, including on Japan’s fiscal position. The working population aged 15 to 64 has been declining since 1994 and is forecast to decrease by 40 per cent in the next 50 years. As well as efforts to reduce social security spending—including the cost of medical and care services—the government plans to raise the consumption tax from eight to 10 per cent in October 2019.

A core focus of Japan’s growth strategy is boosting productivity. The government is addressing labour shortages by promoting more flexible workstyles, encouraging greater labour force participation by women, creating more opportunities for foreign workers and seniors, and encouraging investment in labour-saving technology. More broadly, Japan is pursuing a high-tech digital and societal transformation, harnessing the fourth industrial revolution such as the introduction of artificial intelligence and robotics to achieve ‘Society 5.0’.

Greater use of big data, open government through digital first policies, and support for innovative start-ups (such as in the fintech sector), are among Japan’s policy priorities. The government’s drive to develop technologies for hydrogen energy and zero-emission fuel cell vehicles shows its commitment to the global shift toward a carbon-free society, with more modest but realistic targets set out as part of its Paris Accord commitments.

Japan continues to reform regulations, such as in health care, agriculture and energy. Corporate governance reform is focusing on unwinding cross shareholdings, more transparent compensation and nomination processes, and greater diversity on boards. These are important steps towards strengthening corporate oversight, bringing Japan in line with global practices. Such moves are also contributing to better return on equity and an improved business environment, and should help to attract foreign investors.

With a shrinking domestic market, Japan is pursuing growth opportunities overseas. It has positioned itself to be a flag-bearer for:

- free trade
- an open international economic order, and
- quality infrastructure standards.

Key facts and figures

- GDP growth: 1.0% (2018)
- Political system: constitutional monarchy
- Key Australian exports to Japan: coal, iron ore, beef, copper ore
- Japanese investment in Australia: AUD 92.5 billion (2017)
Progress on agricultural reform has been key to help conclude the Comprehensive and Progressive Agreement for the Trans–Pacific Partnership (TPP–11) and the Japan–European Union Economic Partnership Agreement (Japan–EU EPA), as well as Australia’s bilateral free trade agreement with Japan. With a weaker yen, eased visa restrictions and improved tourism infrastructure, 2017 marked a fifth straight record year for inbound tourism as Japan targets 40 million foreign visitors by 2020.

Japan will take a prominent place on the world stage in coming years. In addition to hosting the Rugby World Cup in 2019 and the Summer Olympic and Paralympic Games in 2020, Japan will welcome world leaders to the G20 Summit in Osaka in 2019 as part of its year-long presidency.

Trade, investment, and commercial opportunities and activities

- Despite significant competition from other Asian markets, Japan remains a strong market of interest for Australian businesses:
  - this includes for established commodities and goods including coal, LNG, beef, copper, sugar, dairy products, wheat and medical instruments, and
  - there is growing interest in sectors including premium food and beverage (including wine), education and training, and services and technology.

- Japan remains a mature, sophisticated and competitive market for Australia’s small and medium businesses:
  - there are niche opportunities for businesses that can demonstrate their unique selling proposition to both domestic and international markets.

- Australian commercial interests are well represented in Japan and include:
  - BHP, Rio Tinto, North West Shelf, Woodside and Whitehaven Coal
  - ANZ, the National Australia Bank, Commonwealth Bank of Australia, Macquarie and Challenger
  - Goodman
  - Oil Search
  - ServCorp
  - WiseTech Global
  - Meat and Livestock Australia
  - Treasury Wine Estates
  - Ashurst
  - Toll Japan, Lendlease, Telstra, Qantas and others.

- Austrade supports both traditional sectors—such as resources, education and food—and drives initiatives around innovation and technology in emerging sectors.
There are opportunities in:
- agribusiness and food, particularly agtech, foodtech and premium food
- international education
- services and technology (particularly fintech and cyber security)
- advanced manufacturing and defence
- international health (particularly digital health), and
- international education, particularly skills development and lifelong learning, both of which are priority areas for Japan’s education reforms.

Tourism is another key sector which presents opportunities for Australian businesses:
- Austrade is introducing various regions in Japan to Australian tourism services and technology companies.

The Rugby World Cup and the Summer Olympics and Paralympics are expected to put Japan on the tourist itinerary for many Australians:
- Austrade will work with partners to leverage related events and promote opportunities for Australian businesses, and
- it is ready to help Australian exporters find opportunities in the lead up to and during both of these events.

Current and emerging trends likely to impact Australian companies include the Japan–EU EPA:
- once the agreement has entered into force, Australian agricultural exports to Japan will face strong competition, and
- increased promotional efforts will be needed to support Australian brands.

Japan is Australia’s second largest foreign direct investor, primarily in resources, energy and agriculture, but with an increasingly diverse portfolio including construction and manufacturing, financial and IT services, insurance and logistics:
- between 2010 and 2016, Japanese direct investment grew by 78 per cent, partly due to new commitments in agriculture and resources
- this also reflects new investments in renewables, services and technology, and
- major investors include Mitsui, Mitsubishi, Itochu, INPEX, Marubeni, Sojitz, Sumitomo Corporation, Kirin, Oji Paper, Fujitsu, Hitachi, NEC, Dai-ichi Life, and Japan Post.

Large Japanese financial institutions and banks have a major presence in Australia:
- Mitsubishi UFJ Financial Group’s recent acquisition of Colonial First indicates growing interest in investment in Australia’s financial sector, and
- financial services represent a key opportunity for future collaboration with Australia, including joint ventures in the growing markets of ASEAN.
Reinvestment by Japanese companies – retaining profits from Australian operations for reinvestment in Australia – is amongst the highest of any of Australia’s major trading partners:

- this investment is expanding into new areas, including advanced manufacturing and technology
- there are new commitments from NEC, Fujitsu, Hitachi, Rinnai and Oji Fibre solutions, and
- future opportunities include further collaboration in renewables, hydrogen fuel, artificial intelligence, cyber security and vehicle automation, including in the mining sector.

Australia’s world-class health and medical technology sector is also well placed to partner with Japan as it manages the demands of an ageing population:

- Australian research institutes and universities are working with Japanese firms across a number of fields, including pharmaceuticals and regenerative medicine, which have been identified as a priority by the Japanese Government.

Recent feedback from Japanese investors about the Australian operating environment includes concerns about changes to Australia’s visa system, particularly around wait times:

- some concerns (such as English language requirements) have been lessened by modifications to the new scheme
- Austrade in Japan focuses its activities on investment in:
  - agribusiness and food (including Northern Australia)
  - resources and energy (particularly hydrogen and battery minerals)
  - infrastructure and urban development
  - advanced manufacturing and defence
  - services and technology, and
  - tourism.

Trade policy and negotiations

Around 96 per cent of eligible exports enter Japan under the Japan–Australia Economic Partnership Agreement. A Joint Committee oversees the agreement’s agenda, including mandated reviews. The second Joint Committee meeting was held in April 2017.

Australia and Japan were among the first six countries to ratify the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (TPP–11), triggering its entry into force on 30 December 2018. Among other benefits for Australian business, the TPP–11 will deliver better market access to Japan. Australia is working with Japan and other parties on possible expansion of the TPP–11 membership.

Australia, Japan and other parties are working to conclude a comprehensive and high quality Regional Comprehensive Economic Partnership Agreement in 2019.

Australia is also working closely with Japan on a wide range of trade and investment policy issues, including in the World Trade Organization, APEC, G20, and OECD, as well as through the bilateral Ministerial Economic Dialogue, which was inaugurated in July 2018. Japan’s presidency of the G20 from December 2018 will allow even closer collaboration to support the rules-based economic order.
Disclaimer

The Department of Foreign Affairs and Trade (DFAT) has taken great care to ensure the information contained in this publication is correct and accurate.

DFAT does not guarantee, and accepts no legal liability arising from or connected to the accuracy, reliability, currency or completeness of any material contained in this publication.

Readers should exercise their own skill and care in using the material contained in this publication and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.