JETRO Sydney
Japan External Trade Organisation

Newsletter

Winter 2016 Issue 2 www.jetro.go.jp/australia

A MESSAGE FROM THE MANAGING DIRECTOR

Shuichi Hirano
MANAGING DIRECTOR

Dear readers,

Thank you for reading the 2016 winter edition of JETRO Sydney's newsletter.

In 2015 Japan's stock level of direct investment into Australia overtook the United Kingdom to make Japan Australia's second largest contributor of direct investment after the United States.

Whilst to a large extent this development comes as a result of major acquisitions like that of Toll by Japan Post, in recent years there has been a marked increase overall in the number of Japanese companies pursuing these types of service sector focused investments and acquisitions in Australia.

Indeed, Japanese companies entering the Australian market have been targeting more and more diverse sectors in recent years, leading to a shift in how the Australia as a whole is viewed. No longer simply seen as a natural resources market, businesses in Japan increasingly see Australia as an ideal target for growth and expansion across a variety of industries.

To understand this shift, the influence of JAEPA and the recent TPP agreement cannot be understated. Indeed, in our own direct experience both before and after JAEPA came into effect, JETRO has seen a significant increase in the number of attendees from Japan in seminars we have run on Japan-Australia topics related. Moreover, in the six months until March 31st this year JETRO had also held roughly 90 seminars across Japan on the TPP as well. At these events we have also noticed an increase in the number of Japanese firms that are aware of Australia's participation in the agreement. This interest has extended to JETRO Sydney as well, with the number of enquiries we have received regarding Australia increasing year on year.

The implementation of JAEPA has had similarly beneficial effects for Australian businesses, with increases in exports in food related industries. Additionally, whilst Australian investment to Japan remains small in absolute terms, we are starting to see an increasing number of Australian businesses in not just traditional sectors like ICT, but also food services.

Behind this trend has been both a marked increase in the number of articles relating to Japan in the Australian media since the signing of JAEPA, and continuing strong growth in the number of visitors to Japan from Australia.

These changes are substantial, and as interactions and information between both countries continues, the old stereotypes that have held back trade in some areas will give way to a more informed and mature understanding of the opportunities both countries can provide each other. Moving forward, we see significant potential for an ever greater widening of Australia-Japan business relations as our two countries become ever closer.

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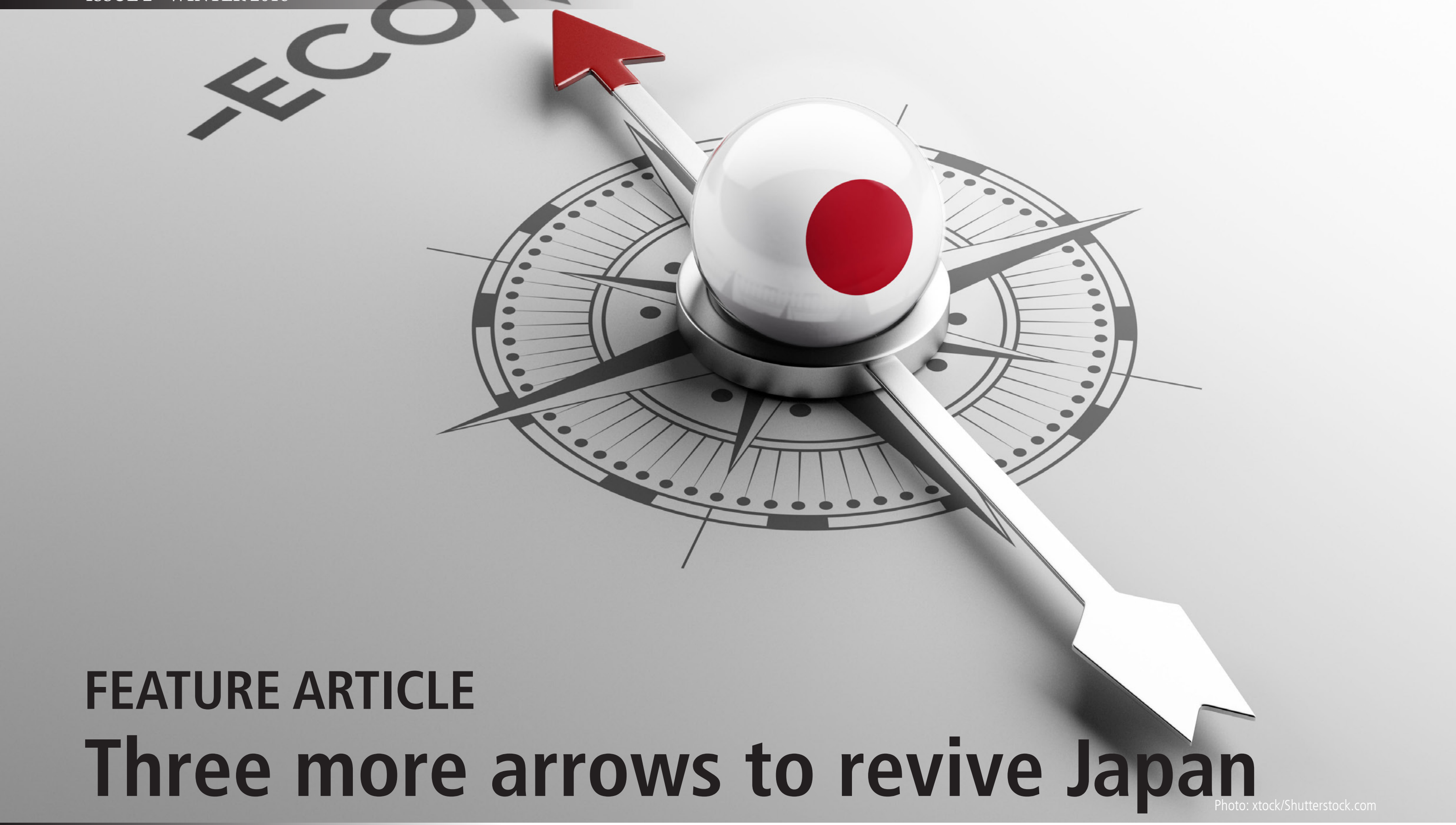

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FEATURE ARTICLE

Three more arrows to revive Japan

Shiro Armstrong
Australian National University

Prime Minister Abe is attempting to revitalise the Japanese economy after two decades of stagnant growth since the bubble burst. In December 2012 he launched the reform program that became known as Abenomics, consisting of monetary policy aimed at reflating the economy, flexible fiscal policy with medium-term fiscal consolidation, and structural reform.

Those three arrows of Abenomics were designed to be fired together. Monetary and fiscal stimulus can boost aggregate demand while the reforms that bring immediate pain for longer term gain are implemented. So far, the easy work of creating, if not spending, more money has been done, but the difficult reforms that take on vested interests are still to be tackled.

Japan's population is shrinking, with 1 million fewer people now than in 2008. Even more importantly, it is ageing. The share of the elderly is becoming larger and the working age population is dwindling. Incomes will only grow through increased productivity. What the economy needs are reforms that break through the vested interests holding back productivity growth and allow resources to be deployed where they are most productive.

Following three years of challenging progress on structural reform — Abenomics' most important arrow — Abe launched a second round of arrows in September 2015. The three new arrows aim to create a strong economy, provide better childcare support and improve social security.

THE THREE NEW ARROWS OF ABENOMICS

The three new arrows are meant to bring about meaningful structural reforms. Whilst not entirely new or innovative, hopefully they will serve to re-energise policy. These new arrows come with targets. Abe pledged to increase nominal GDP to 600 trillion yen, or US$4.9 trillion, which is a 20 per cent increase. No timeframe was provided and the target will be difficult to meet with a shrinking population. The focus should be on incomes, rather than the aggregate size of the economy. The new second and third arrows are all about the demographics. They aim to stabilise the population at 100 million in 50 years from the current 127 million.

Limited childcare is the most immediate bottleneck in increasing the fertility rate. With a shortage of childcare places, it is difficult to increase the fertility rate from the current 1.4 to the target of 1.8 — still below the replacement rate of 2.1 — while also trying to increase the participation of women in the workforce.

Japanese women are some of the most educated and capable in the world but many find it difficult to stay in the workforce and maintain a career. Work and family culture need significant change. Abe's 'womenomics' reforms have helped increase female participation, but from a low base. Furthermore, it is not yet clear whether this increased participation is in mostly in career-track professions or the growing non-regular workforce.

Policies around improving the social security system are focused on the other end of the age spectrum. A target has been set to reduce the half a million elderly on waiting lists for nursing homes by 150,000 within 10 years. That will help the 100,000 or so workers each year that have to drop out of the workforce to care for elderly relatives. Increasing spending on the very young and the elderly is necessary, but to do so in a sustainable way requires scaling back other benefits.

Japan needs comprehensive social security reform; patching up the existing system will not be enough. Massive, poorly targeted subsidies and wasteful spending should be cut back.

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Photo: 360b / Shutterstock.com

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The original second arrow, flexible fiscal policy with medium term consolidation, doesn't look like it has hit its mark and is turning into a blank cheque for the government with no credible plan to return to primary surpluses. Gross government debt is at an unprecedented 245 per cent of GDP and the social security burden will only grow as the population ages.

BETTER TARGETTING REQUIRED

The three new arrows of Abenomics need to better target the vested interests and are not central enough to productivity enhancing reforms. The agricultural and services sectors are heavily protected from international and domestic competition.

Japan's performance on global competitiveness indexes is mixed; areas like trust, infrastructure and sophistication see the country excel, but concerns remain over issues such as Japan's regulatory environment and with a stock of foreign direct investment as a proportion to GDP of around only 3 per cent, more clearly needs to be done. Foreign managers, capital and technology will not easily come to Japan without institutional and cultural reforms that welcome and accept them.

The 'second stage of Abenomics' was announced in April with familiar sounding policies such as cutting corporate tax rates, doubling expenditure by inbound tourists by 2020 and for companies to commit to wage hikes.

A promising sign is that agricultural reform and measures to welcome foreign direct investment were also included in this second stage. Whether real changes are made in those areas will be the litmus test.

Japanese companies are, as usual, leading the way in bringing some dynamism to the economy. Many are expanding operations abroad in search of new markets, employing more non-regular workers to create flexibility in the labour force and implementing their own measures to help women stay in the workforce. But it is mostly larger companies that have benefitted from Abenomics thus far, rather than small business, workers or the broader business environment, and the Japanese economy will need more help from the government still.

> **"Japan's performance on global competitiveness indexes is mixed... with a stock of foreign direct investment as a proportion to GDP of around only 3 per cent, more clearly needs to be done."**

JOB ONLY JUST BEGINNING

When Abe was first prime minister in 2006–7, his popularity suffered as the economy stagnated. When he took office again in 2012 he knew he had to revive the economy to stay in office. Ultimately his government and the country's future rests on its capacity to direct its arrows at meaningful targets and for them to hit their mark.

To maintain prosperity, the government must be prepared to address the country's underlying structural problems, not just the immediate symptoms. If another lost decade is to be avoided, Abe's work is only just beginning.

Shiro Armstrong is co-director of the Australia–Japan Research Centre and co-Editor of East Asia Forum at the Crawford School of Public Policy at The Australian National University.

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AJBCC Annual Joint Business Conference a major networking opportunity for business

David Jacobs
CEO - AJBCC

THE CONVENTION

The AJBCC and its counterpart the JABCC come together every October for their annual Joint Business Conference held alternately in Australia and Japan. With the strong support of the Victorian Government, Melbourne will be the host city from Sunday 9th to Tuesday-11th Oct 2016. Around 400 delegates, many travelling from Japan, are expected to attend this year's event, which has overall theme of "New Challenges – New Ideas".

LONG HISTORY

This Joint Business Conference marks its 54th annual one between the two member organisations. As such, the AJBCC has one of the longest continuous engagements of most bilateral business organisations. This adds considerably to the effectiveness of business relationships developed through this platform.

THIS YEAR'S THEME

Whilst the enactment of the Japan Australia Economic Partnership Agreement (JAEPA) in 2015 has signaled new business opportunities in the Australia-Japan relationship, there is widespread business understanding that the overall global economic environment and technology advances are subjecting core sectors to challenges which have not been witnessed before. Plunging resources and energy prices, concerns about China's economic transition, the impact of disruptive technologies on mature products and business process services, environmental issues and continuing excessive global liquidity make for a difficult path to be navigated.

How are these challenges being met in the Australia-Japan context and what new ideas can we see emerging to mitigate such issues? 'New Challenges - New Ideas' provides a forum for discussion amongst senior Australian and Japanese executives.

The conference will explore key issues relevant to companies currently in the Australia-Japan business space, as well as those wishing to expand their business into this segment. The program spans two and a half days and includes a number of key features:

- Welcome Reception at Government House
- A private briefing by Australia's Ambassador to Japan and Austrade (Tokyo)
- A day and half plenary session covering issues such as two-way investment; resources and energy areas; the finance sector; and emerging opportunities in new business areas.
- A Future Leaders program aimed at developing your organisation's skills in Australia-Japan business
- A formal dinner at the National Gallery of Victoria
- Choice of one of four site visits as well as a partners' tour.

Conference participation is included in the AJBCC's annual membership fee.

For more information about the AJBCC scan the QT Code or email to membership@ajbcc.asn.au

web: www.ajbcc.asn.au

Australia Japan Business Co-operation Committee
AJBCC

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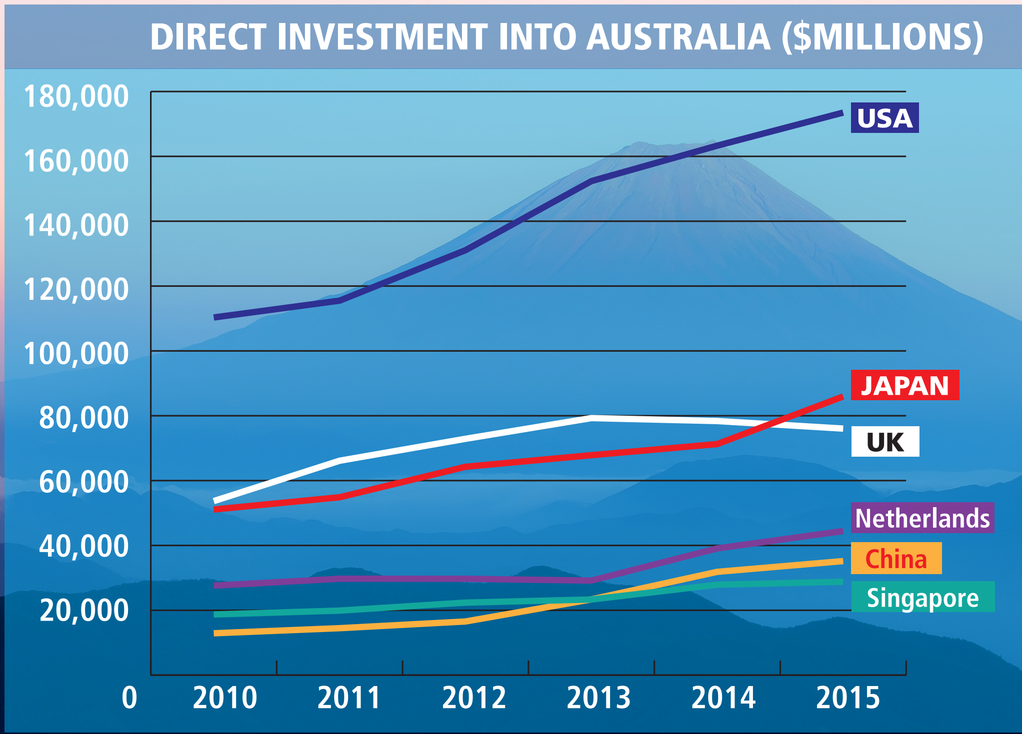

Japanese investment in Australia overtakes United Kingdom

Manuel Panagiotopolous
Australian & Japanese Economic Intelligence

According to ABS data (53520) released at the end of 2015, Japan has overtaken the UK as the second highest source of Foreign Direct Investment (FDI) into Australia at the end of 2015 in stock terms. When I looked at the trend early last year, I had predicted that Japan would overtake the UK some time in the next few years, but didn't expect it to happen quite this soon. The top five sources of direct investment are: USA with $174 billion; Japan $86 billion; UK $76 billion; Netherlands $44 billion; China $35 billion and Singapore $29 billion.

But when you focus just on FDI inflows for 2015, Japan is actually the leader, with $14.7 billion, ahead of the US with $10.2bn, The Netherlands with $5.4bn and China with $3.3bn.

Yet, what distinguishes Japanese FDI into Australia most is its diversity; it does not flow into just real estate, coal and agriculture. In the past few of years Japanese companies have made investments into IT services, manufacturing, recruitment, advertising, financial services, insurance, logistics, construction, distribution, the establishment of retail chains such as Uniqlo and Muji and the expansion of housing construction firms Sekisui House and Daiwa House.

> **In 2015 Japan was the biggest source of FDI inflows, with $14.7 billion, ahead of the US with $10.2bn, The Netherlands with $5.4bn and China with $3.3bn."**

The injection of capital, the transfer of technology and know how and the connection with regional and global value chains makes these investments invaluable to the Australian economy.

The economic fundamentals which supported investment from Japan will continue: Australia's economy continues to grow at a good pace; Australia's population continues to grow; the regulatory system is transparent and stable; Australia is linked to the long term growth opportunities of Asia.

Two of the most important new developments that have allowed for this growth are the synergies that capital investment has created in Asian markets, specifically mergers and acquisitions by Lion and Kirin in the beverage sector and Toll Group and Japan Post in the logistics sector.

WANT TO DO BUSINESS IN JAPAN? CONTACT JETRO SYDNEY:

02 9002 6200 L19, 39 Martin Place Sydney 2000 syd-bd@jetro.go.jp

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Photo courtesy of High-Q

SUCCESS CASE: HIGH-Q

Athena Matsuda
JETRO Queensland
Investment Consultant

As a successful Australian company with an eye on global opportunities, High Q is going places. The Brisbane-based, International Rope Access Trade Association (IRATA) registered company currently delivers training courses for working at height in Australia and around the world.

With both a tailored training venue in Brisbane and the ability to roll-out courses in off-site venues, High Q has experience delivering training courses for the internationally recognized IRATA certification in Australia, Japan, Vietnam, Hong Kong, Macau, the UK and the Middle East. Graduates of the course go on to perform work across a variety of industries including inspections on sites in the energy industry or large structure maintenance access work.

Seeing potential opportunities in the Japan market, Managing Director Peter Wood began visiting the country in 2008 to form relationships with industry bodies and potential partners. After working in joint ventures in a consulting role in the country for a number of years, High Q decided to start working towards establishing a permanent base in Japan. The goal: to ultimately change the culture of working at height in Japan, where a national system of laws and safety regulations to govern the industry has long been lacking.

In 2015 High Q approached JETRO Sydney as they needed accurate information and advice on the Japanese market. With previous experience in the Japanese market, the company was well aware of the challenges they were facing in areas like language, cultural differences and Japan's regulatory environement

High Q decided they needed someone local to help them from the outset, with Managing Director Peter Wood explaining that "it became obvious very early in the process that negotiating the intricacies of business registration and all that goes with it was not going to be something that could be achieved without local help."

JETRO was able to provide the company with advice and assistance on a range of matters including legal, procedural, financial requirements, visas, and taxation. After an initial consultation in Australia at their Sydney office, both JETRO's Tokyo and Nagoya offices were involved with supporting High Q as it worked to set up its corporation in Japan. This included looking for an appropriate facility for its business, providing information and facilitating meetings and introductions to the right people and services. "JETRO was marvellous throughout," says Mr Wood.

High Q signed a lease on its Japanese facility in February 2016, and has recently celebrated the milestone of delivering their first training course there. Establishing a presence in the country has already seen positive flow-on effects for High Q's other international operations. These include demonstrating the company's ability and capacity to deliver world's best practice in the work at height sector and the credibility that a success story in the Japanese market brings.

High Q looks forward to further building their brand, as Japan and other countries become more aware of the safe system of work the company offers. Indeed, during its time dealing with Japan, High Q has already seen movement towards increased regulation for the industry, something that will increase the need for qualified companies and technicians. These subtle changes will ultimately see a safer working culture develop in work at heights, something that has always been coveted by High Q.●

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JETRO Sydney welcomes its new Research Director

This month JETRO Sydney welcomes its new Director of Research, Ms Tomomi Koyanagi, who will be taking over from Mr. Tadayoshi Hiraki.

JETRO wishes Mr. Hiraki the best for his future back in Japan and thanks him for his contribution to the team at JETRO Sydney during his time with us. But whilst Mr Hiraki will be missed, JETRO Sydney is lucky to welcome an accomplished replacement in Ms Koyanagi.

In Japan, Ms. Koyanagi was responsible for the promotion of the Japanese fashion industry, where she provided advice on areas like branding strategy, essential business planning and how to establish overseas facilities in order to help Japanese businesses cultivate a presence in markets abroad.

Ms. Koyanagi says she looks forward to experiencing the Sydney lifestyle of lush beaches, proximity to nature and of course great cafes.

This is Ms Koyanagi's first post to Australia, and JETRO Sydney hopes you enjoy working with her as much as we do in this exciting new phase of the relationship between Japan & Australia.

New JETRO Sydney Research Director **Tomomi Koyanagi**

Mamenoka Kanasagou Yukishizuka *Mamenoka paste (plane/sweet)* *Mamenoka waffle*

Introducing Mamenoka - a new type of 'Natto'

In 2013 UNESCO added "Washoku" - traditional Japanese cuisine - to its 'Intangible Cultural Heritage' list. As a Japanese government body, JETRO has been tasked with promoting Washoku around the world. In this issue, we would like to introduce you to a new form of Natto, a popular Japanese food often likened to vegemite in Australia. A Japanese company named Kanasagofood transformed Natto into bread paste and waffles to soften its flavour and unique texture to better suit markets abroad.

Mamenoka Kanasagou Yukishizuka is a new type of Natto which is fermented by a natural mutation named LST-1, and shows weaker stickiness and odor. According to these characteristics which may be acceptable for the one can't accept the normal natto, a possibility of expanding the traditional food Natto to the world especially Oceania, Europe, and North America can be expected. Although this natural mutation shows some differences to the original bacteria, the nutrition facts (calories, protein, fat and carbohydrate) don't show any significant differences.

Mamenoka paste (plane/sweet) is a processed product which was developed as a substitute for butter and margarine. It contains more protein and dietary fiber but less calorie, sugar and fat (especially saturated fatty acid) than butter and margarine.

Mamenoka waffle is another processed product which was developed as a more healthy dessert than normal waffle. The most representative Japanese green tea is one of the raw materials so that eaters can experience a deep sense of Japanese style dessert. Meanwhile it can be available in other six flavors including such as cocoa, carrot and so on.

In view of the various nutrients (lecithin, lipids linoleic acid, nattokinase, vitamin K, mucin and so on) contained in Mamenoka, long-term consumption of the productions can improve physical health to a certain extent. Because the productions contain more protein and dietary fiber but less calorie and fat, long-term consumption can alleviate or ameliorate the social problem of high rates of obesity to a certain extent especially.

Kanasago Foods Co.,Ltd. Ibaraki Prefecture, Japan
Web: http://sitogi.jp/
E-Mail: majian@kanasa-go.co.jp

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Japan will host the 2019 Rugby World Cup
Photo: Japan playing Australia the last time they met in a Rugby World Cup. Source: Wikipedia

Editor's Corner:
Opportunities abound as Japan readies for games

Daniel O'Toole
Editor

Since the enactment of JAEPA last year, the level of interest from Australian business in Japan has experienced strong growth. This is something we've had first-hand experience of at JETRO; the number of companies approaching us for assistance was steadily increasing throughout 2015 following the agreement's enactment, and the pace has continued to surge this year.

Indeed, the past quarter in particular has seen the most applications made for JETRO's assistance packages in several years, and the trend so far looks like it will maintain momentum. The interest has come from companies across a variety of sectors as well; among the businesses we're assisting the financial services industry, training and tourism, restaurateurs, ICT, biotechnology and food services.

The motivations of these companies for approaching the Japanese market vary, but one thing that is true of all of them is that none of them have been dissuaded by the notion that the Japanese market is too "mature" to be a viable target for expansion.

The folly of thinking of Japan in this way was highlighted by Mitsui's Wendy Holdenson at a recent AJBCC Future Leaders Seminar, where she observed that there are in fact no mature markets, but only "mature mindsets".

> **[A] market as large and developed as Japan is full of niches within which to fit, and it is merely a matter of taking the time to under-**

Which is to say a market as large and developed as Japan is full of niches within which to fit. It is merely a matter of taking the time to understand them that serves as a barrier to reaping their rewards.

For instance, as many of you are aware, Japan will be hosting both the Rugby World Cup across Japan in 2019 and also the Olympics in Tokyo in 2020. Having held a highly successful Olympic Games in 2000, the Rugby World Cup in 2003, the Commonwealth Games in 2006, and more recently both the Cricket ODI World Cup and AFC Asian Cup (soccer) last year, it's fair to say Australian businesses aren't short on relevant experience when it comes to big events.

JETRO has seen some forays into this sphere already, most notably last year when the Australian subsidiary of RIEDEL Communications worked with JETRO to set up a Japanese operation in order to begin laying the groundwork for involvement in the Olympic Games.

However, with areas like as sports hospitality (in particular at the corporate level) in Japan being less developed, and the comparatively limited experience many Japanese companies and cities have in managing global sporting events, there are a myriad opportunities for willing Australian companies to capitalise. They just need to take the time to understand them.