

Sydney Newsletter

Autumn 2016 Issue 1

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A MESSAGE FROM THE MANAGING DIRECTOR



Shuichi Hirano MANAGING <u>DIRECTO</u>R

Dear readers, thank you for reading the 2016 autumn edition of JETRO Sydney's newsletter.

Over many years Australia and Japan have established a strong, and prosperous, economic and industrial relationship traditionally based on primary resources & manufactured goods.

This complementary relationship, in which Australia exports raw commodities to Japan, and in return Japan exports manufactured products into Australia, remains a defining characteristic. Yet in recent times a change has been observed when it comes to investment.

Retail giants such as Uniqlo and Muji and restaurant chains such as Ippudo and Yayoi have been leading a new wave of service industry investment into Australia, diversifying the relationship beyond the traditional sectors. For example, the 2015 takeover of Australia's largest provider of transport and logistics, Toll Group, by Japan Post, and the sale of NAB's life insurance arm MLC to Japan's Nippon Life Insurance Co attracted significant attention. Through collaboration with Australian companies these two companies have adopted a strategy of further overseas expansion.

Such partnerships and acquisitions are occurring in other fields as well; Japanese architectural and urban design firm Nikken Sekkei have entered into a business alliance with Australia's third largest architectural firm, the Buchan Group, while Japan's Kuraray Co. Ltd acquired the Australian bio-based barrier film provider Plantic Technologies. Elsewhere, the Satake Corporation acquired renowned silo and bulk handling supplier 'Dennys Silo and Engineering', and even at the government level the Victorian government successfully completed a solar power plant factory in a joint project with Mitsubishi Plastics.

All these examples all serve to demonstrate how a "new mutual complementary relation-

the relationship beyond the traditional sectors. ship" between Australia and Japan is evolving For example, the 2015 takeover of Aus- across a wide range of industries.

> Australia is the only developed nation to have achieved 24 years of consecutive annual growth, and is also experiencing strong population growth through the active acceptance of immigrants. Moreover, the proportion of Australians that are classified as being of higher economic status currently accounts for 60% of the population.

> The more varied appeal that the Australian market now presents is now positioning the country in a new way in the minds of many Japanese businesses. More companies are now viewing Australia's technical know-how and connections as being useful assets to prepare for further expansion into a third country.

> 2015 could be described as the year where Japan and Australian businesses brought new activities into previously unattended sections of the market. 2016 also has the potential for both Australian and Japanese businesses to gain a new perspective, and as a result of this, to discover and bring about new business opportunities.

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FEATURE ARTICLE Mitsui helps Australian Students' Mobility



Wendy Holdenson Mitsui & Co

Mitsui is one of Australia's largest investors, having invested nearly \$15 billion over the last decade in a diverse array of sectors that include mineral resources, energy, woodchips, chemicals and agribusiness.

But throughout its long history, Mitsui regards its biggest investment as its people. Hence the motto: "Mitsui Is People". A corporate commitment to develop people and to improve communities are linked goals that influence everything Mitsui does.

A COMMITMENT TO PEOPLE

A tangible example of this philosophy in action is Mitsui's education programs to deepen cross-cultural understanding between Australia and Japan.

This story starts back in 1971 with the establishment of the Mitsui Educational Foundation, or MEF. The then Managing Director Ken Ejiri wanted to reciprocate the friendship which the Australia government and business community had been extending to Mitsui over the decades. So he set up a platform for young people: Every year for the last 44 years, the Foundation has sent eight under-graduates selected from a pool of 22 Australian universities on a three-week immersion program in Japan to expose them to its culture, history, business – and relationship with Australia.

This activity, and the clear commitment we've made to its ongoing continuity, sets Mitsui apart.

Some 344 students have been on the study program. Today, many alumni hold senior roles in the public and private sectors, and in their own individual way promote ties between Australia and Japan.

Some prominent alumni are: Mr Justin Gleeson SC, Solicitor General; Dr Michael Fullilove, Executive Director of The Lowy Institute; Cynthia Whelan, Telstra Group Executive, International & New Business; and NSW MPs Jonathan O'Dea and Mark Speakman.

Then in 2013, during his first year as CEO of Mitsui Australia, Yasushi Takehashi aspired to do something new – over and above MEF – to further contribute to Australia.

That opportunity came with the announcement by the Federal Government that it planned to establish the New Colombo Plan, or NCP, to send Australian university students to Indo-Pacific for study and internships. So well before the program's launch in December 2013, Mitsui expressed its desire to back the program. Mitsui was possibly the first company to offer such support to NCP, and was immediately able to leverage its MEF know-how honed over many years to support the new program.

an as part of the Mitsui Education Foundation Program Credit. Mi

On subsequent occasions – at the official NCP launch in Tokyo in April 2014, and on Prime Minister Abe's visit to Australia in July 2014 – Global CEO Masami Iijima pledged Mitsui's unconditional support.

During the first three years of this program, 1,000 students will have gone to Japan on internships and mentorships. Mitsui has hosted 39 of them at its Tokyo headquarters: both individual scholars and student groups.

It also offers internships at other locations in Mitsui's Indo-Pacific office network.

A LIFE CHANGING EXPERIENCE

At pre-departure farewell parties, Mr Takahashi 'warns' young people of the 'chemical reaction' they will experience: How life will change forever after their time overseas.

This advice resonates with students, who often refer to their transformational experience at Mitsui reunions after returning home.

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Students' feedback attests to the power of mobility. A 2015 NCP scholar from University of Western Sydney, Patrick Gan, expressed his appreciation for the six weeks he spent at Mitsui learning about the business: "I will always remember this experience as a truly unique opportunity that only comes once in a lifetime."

Another university partnering with Mitsui on NCP is University of Technology Sydney. Students in business, construction project management, engineering & IT and law faculties have undertaken internships at Mitsui headquarters. Group work, using new knowledge gained from in-house lectures and site visits, is a focus of their shorterterm programs.

Soon after UTS's first NCP group returned to Sydney in early 2015, Foreign Affairs Minister Julie Bishop happened to be asked in Parliament: "Will the minister update the House on progress of the government's New Colombo Plan? How has this initiative been received by Australian students, businesses and partner governments in the region?"

The New Colombo Plan is her brainchild. And what she did was immediately launch into the Mitsui story - of its earliest commitment to the program, then cameos of Patrick Gan and the 12 UTS students who

had just returned from Japan.

Her comments echoed Mitsui's vision of 1971, saying, "The New Colombo Plan is an investment in our young people, an investment in our future, an investment in deeper engagement in our region."

WHY THIS IS IMPORTANT

Free Trade Agreements with South Korea, Japan and China, and the Trans-Pacific

Mentorship Network to promote workplace opportunities for NCP students.

As an inaugural NCP 'Business Champion', I am available to talk about Mitsui's experience with any interested readers whose companies may want to get involved. You can also directly contact DFAT's New Colombo Plan Secretariat in Canberra via the NCP Twitter handle (@NewColombo-Plan) on JETRO's website or visit the New



The New Colombo Plan is an investment in our young people, an investment in our future, an investment in deeper engagement in our region."

Julie Bishop

Partnership, are fuelling business with Asia. Colombo Plan website. Australian industry is seizing new opportunities, and seeking professionals with the right skill sets: cross-cultural interpersonal skills, the ability to adapt to different working environments, and Asian language proficiency.

Starting with the Mitsui Educational Foundation, and now the New Colombo Plan, Mitsui is helping to bridge the gap. It is joined by around 180 organisations from Australia and across the region registered on the New Colombo Plan Internship and

I, too, am a product of mobility – having gone to Japan to study after high school. This experience triggered a deep affection for the country and shaped my career.

Wendy is Director and Executive Vice President of Mitsui & Co. Australia, a wholly owned Australian subsidiary of Mitsui & Co. She has also held executive positions at Caltex, GHD, Ernst & Young and has represented Australia in Japan as Consul-General and Trade & Investment Commissioner.



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Austrade Kansai Business Update



Raymond Roche Austrade

Considered 'The Merchant Capital' of early modern Japan, Osaka sits at the commercial heart of the Kansai region, roughly 500 kilometres west of Tokyo. The Kansai region is known for its innovative and entrepreneurial spirit, being home to Japan's largest concentration of small to mediumsized enterprises (SMEs), with over 40,000 can be found in Osaka alone. This strong entrepreneurial foundation has spawned large multinationals with globally recognised consumer brands such as Asics, Kyocera, Mizuno, Nintendo, Panasonic and Sharp.

SMALL REGION; BIG OPPORTUNITIES

With a population exceeding 20 million, the Kansai region's gross regional product exceeds US\$1 trillion, roughly the equivalent of South Korea and larger than that of Indonesia. Largely Asia-focused and heavily integrated into global value chains, 67 per cent of all exports by value from Kansai go to greater Asia.

This engagement with Asia has a strong manufacturing and industrial focus, dominated mainly by electrical components, machinery, chemicals,

products, steel and foodstuffs.

From a trade perspective, Kansai has been Japan's historical hub for fruits, herbs and medicines. In particular, an area of Osaka known as Doshomachi or 'Medicine Town' started flourishing in the Edo period more than 350 years ago. Today, there are over 300 pharmaceutical companies based in Osaka alone, among which are many famous international brands.

Austrade Japan has been working closely with Australian businesses, allies and stakeholders to take advantage of the commercial opportunities that exist in the region, particularly around regenerative medicines.

West Japan has also been the traditional supplier of domestic fruit, being home to leading national distributors like Royal and Union, both of which import Australian fruit. Similarly, bulk shipments of nuts have traditionally landed in the port of Kobe and been repacked and distributed throughout Japan. Some of Japan's leading nut importers are still based in Kobe.

Tariffs on these products are being reduced under the Japan-Australia Economic Partnership Agreement (JAEPA), which is expected to increase demand for Australian products in Japan. Australia's business engagement is set to strengthen from April 2016, when the third round of tariff reductions can be accessed.

Recognised as the most liberalising pharmaceutical : trade agreement Japan has ever concluded, : Email: raymond.roche@austrade.gov.au

JAEPA is delivering substantial benefits to both economies by eliminating or reducing barriers to trade in goods between Japan and Australia.

HOW WE CAN HELP

There are a number of support services that can help you develop a Japan business strategy. Austrade has approximately 50 staff members working across four offices in Sapporo, Tokyo, Fukuoka and Osaka. Austrade assists businesses in a number of ways, including through tailored market research for individual companies; introductions to potential business partners; trade shows; industry seminars; and in-market specialist referrals.

Complementing Austrade's presence, the Japan External Trade Organization (JET-RO) has six Invest Japan Business Support Centres across Japan that support companies establishing a physical presence in Japan.

Employing a 'no wrong door' approach, Austrade and JETRO work closely together to ensure Australian business can find the right services to help reduce the time, costs and risks associated with doing business in Japan.

Raymond Roche is the Consul / Assistant Trade Commissioner (Designate) Osaka with Austrade. He is due to take up this posting in April 2016.



Recap of the Australia-Japan Economic Outlook conference



Manuel Panagiotopolous Australian & Japanese **Economic Intelligence**

This year's annual Australia-Japan Economic Outlook conference in Sydney, supported by JETRO Sydney and other organisations, featured senior experts from Japan and Australia to share their insights on the outlook for Australia, Japan and international economies.

Masatsugu Asakawa, the Japanese Vice Minister for International Affairs at the Ministry of Finance came to Sydney specifically to speak at our seminar. Asakawa stressed that the first three arrows of Abenomics have been largely successful, especially in overcoming the scourge of long term deflation and putting in place various microeconomic reforms such as corporate governance and tax reform.

The Japanese economy more broadly is showing many positive signs: an increase in women's participation rate, the movement from part-time to regular employment, the fall in the unemployment rate to 3.2% and solid increases in wages. An under-reported aspect has been the positive impact of the falling energy prices and hence the rise in Japan's terms of trade: Japan's gross national income has been

tivity, childcare, medical and aged care provision to support labour participation.

Nigel Ray, Deputy Secretary and Head of the Macroeconomic Group at the Australian Treasury noted that Japan and Australia each have an interest in strong and stable growth in the global economy. Treasury and the Japanese Ministry of Finance work cooperatively on achieving this through a range of international forums and institutions. The global economy is in the midst of a major transformation. Increased global connectivity, while good for growth, has changed the nature of global risk.

Greater financial interconnectedness also means rapid and potentially more volatile capital flows, which requires an effective and credible global financial safety net, with the IMF at its heart. But the shift in global economic gravity towards Asia raises questions about the adequacy of financial resources and coherence of the global financial safety net.

Despite the positive economic performance in the US, many other advanced and emerging economies are struggling to regain long term growth rates. India is a current exception, with the highest growth rate at 7.5% and the transition in China re-: mains a work in progress.

growing faster than GDP, something Aus- Economics at ANZ Bank called her paper that focus on numerous structural reforms, tralia experienced during the mining boom. "A Tough Transition", emphasizing the dif- may be a good model for wider application Asakawa also emphasized the new three ificulties Australia is experiencing after the i across the world.

arrows, focusing on rising wages, production energy and resources investment boom. In contrast to Japan, Australia's terms of trade have weakened, lowering the nation's income and affecting tax revenues.

> Infrastructure expenditure, especially in NSW, is one bright spot which will aid economic growth and also lift long term productivity. There has been positive jobs growth that has kept the unemployment rate steady, especially in many services sectors, but many of these jobs do not enjoy the same income rates as those in the mining sectors that have been lost. Luckily, Australia's flexible exchange rate regime is providing a valuable buffer from underperforming global growth and allowing important sectors such as tourism and education to expand.

> Brian Redican, Chief Economist of the NSW Treasury Corporation, addressed the problem of declining productivity. Redican pointed out that lower productivity has been accompanied by growth rate in global trade that has been laggin behind global GDP in the past few years, which has had an impact on commodity prices. Some of this is residual factors from the GFC, but governments have also been less effective in countering economic slowdowns through fiscal and monetary expansion.

As a result, Redican advised that Abe-Felicity Emmett, Head of Australian nomics, with its wide panoply of policies

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Results and analysis from the 2015 Japan affiliated firms Survey



Tadayoshi Hiraki Research Director

The Japan External Trade Organisation's (JETRO) 2015 October-November edition of its annual 'Survey on Japanese-Affiliated Companies in Asia and Oceania' has recently been translated to English, and contains some interesting results.

Examination of the Australian economy reveals that while falling commodity prices continue to weigh down on the resources sector, a shift toward non-resource sensitive sectors like services has ensured the economy remains stable overall.

On the demand front, low interest rates continue to sustain consumption growth, but weak wage growth and the softening housing market are dampening underlying consumer confidence. It is under these current economic conditions that we present the results of this Survey showing the current state of Japanese-affiliated companies in Australia.

I would also like to use this oppor-

tunity to express my sincere gratitude to those businesses that cooperated with this year's survey.

PROFIT & SENTIMENT IMPROVE

A total of 72.1% of Japanese-affiliated businesses stated that they were expecting a profit in 2015, a 0.6 percentage point (pp) increase from 2014, while the proportion expecting a loss fell 1.2% points to 15.9%. that listed labour costs as a factor in predicting both upward and downward shifts in operating profit. Yet despite 35.2% of businesses forecasting that their 2016 profit will be an improvement over their 2015

In the 2014 survey 34.7% of businesses stated that expected their profits to improve in 2015, while that number rose to 36.0% when asked again in this survey. Whilst only a 1.3 pp change, this increase is still significant given that over the past few years the trend has been for companies to revise this figure downwards.

Following from this, strong performance by the retail sector in particular has led to a drop in those answering profit projection questions with 'No Change' or 'Decrease' when compared with the 2014 survey. As a result, the 2015 survey's number of companies listed an 'Increase' was larger, which in turn has driven an overall improvement in business sentiment.

Indeed, 69.0% of businesses at-

tributed the increase in their expected profit as a result of "Sales increase in local markets." But reflecting the continuing cost challenges, there was a decline in the number of companies that listed labour costs as a factor in predicting both upward and downward shifts in operating profit.

Yet despite 35.2% of businesses forecasting that their 2016 profit will be an improvement over their 2015 figures, the number of businesses who hold an optimistic forecast about the years to follow is falling. This has been explain by participants as largely stemming from their increasing uncertainty about future conditions.

INCREASING LOCALISATION

The level of uncertainty felt by companies was reflected in how they answered questions regarding their future business plans. 42.7% (85 companies) in the non-manufacturing sector reported that they had plans to expand, while 47.7% (95 companies) said they would maintain current staffing levels. Meanwhile, 8% (16 companies) answered that they

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STAFFING LOCALISAION LEVELS

	NUMBER OF LOCAL EMPLOYEES						
	CHANG	E FROM PREVIOU		FUTURE PLANS			
	INCREASE	NO CHANGE	DECREASE	INCREASE	NO CHANGE	DECREASE	
TOTAL	24.6	56.8	18.6	26.3	66.0	7.7	
MANUFACTURING	19.7	54.1	26.2	27.9	57.4	14.8	
NON-MANUFACTURING	26.8	58.0	15.2	25.6	66.9	4.5	
LARGE COMPANIES	25.6	55.4	19.1	27.6	63.8	8.6	
SME	19.4	64.5	16.1	X	77.4	X	

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would transfer to a third country/ region or withdrawal from the current local market, the majority of which being in the motor vehicle/motorcycle industry. Among those that are not transferring to a third country in this sector, downsizing is till occurring, with respondents signalling reductions to the numbers of both local staff and Japanese expatriate staff.

For those that are increasing, the non-manufacturing sectors like the wholesale/retail industry states it intends to increase the number of local staff, while reducing the number of Japanese expatriate.

When asked how/why they planned to increase the localization of their business, 52.5% of manufacturing and 55.8% of non-manufacturing companies answered 'To strengthen systems to train/cultivate local human resources by focusing on localization of corporate management,' thus making it clear that many businesses are placing a focus on the training and development of local staff. Furthermore, the fact that 40.7% of manufacturing and 45.7 of non-manufacturing companies selected 'To assign local staff to a general manager/manager position' suggests that there is also a shifting trend to increasing localization at the managerial level.

However while 24.9% of businesses answered that they had no particular issues during the localization as a reason why they were consider-

in the resource sector, with 42.9% of these involved in coal mining, 25.7% in natural gas and related industries, and 28.6% in iron ore. A further 40% had interests in housing investment. Yet the slowing house sector was also cited by over half of all businesses

[A] strong performance by the retail sector in particular has led to a drop in those answering profit projection questions with 'No Change' or 'Decrease' when compared with the 2014 survey. "

process, 38.0% of manufacturing and 31.8% of non-manufacturing businesses view "Insufficient performance/ awareness among local staff' as an issue that needs to be addressed. This highlights that while many companies are attempting to further the localization process, many are also faced with the issue of finding suitable candidates.

RESOURCES RESILIENT

18.8% of all Japanese affiliated firms in Australia listed as having interests ing either downsizing operations or to maintain things at the status quo over the next 1-2 years.

The fall in commodity prices has weakened business interest in the resource sector, but less than expect. Indeed, our survey showed that most businesses are choosing to maintain the status quo with their resource investments, suggesting a middle-tolong term strategy in favour of seeking short term gains.

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FREE TRADE AGREEMENT UTILISATION LEVELS

						and the second			
	EXPORTING	PORTING IMPORTING EXPORTS (%)				IMPORTS (%)			
			COMPANIES	EXPORTING	PLANNING TO	NO PLANS	IMPORTING	PLANNING TO	NO PLANS
JAPAN	jet 43	76	27.8	11.1	61.1	42.0	21.7	36.2	
MANUFACTURING	15	25		38.5	61.5	47.8	17.4	34.8	
NON-MANUFACTURING	28	51	38.5	13.0	60.9	39.1	23.9	37.0	
ASEAN	22	33	44.4	16.7	38.9	51.7	20.7	27.6	
MANUFACTURING	8	12	83.3	16.7		54.6	36.4	9.1	
NON-MANUFACTURING	14	21	25.0	16.7	58.3	50.0	11.1	38.9	
SOUTH KOREA	17	14	1	2.5	87.5	5	0.0	50.0	
MANUFACTURING	3	4	-	-	100.0	Х	11.1	38.9	
NON-MANUFACTURING	14	10	1	5.4	84.6	5	0.0	50.0	
NEW ZEALAND	38	18	40.5	8.1	51.4	6	6.7	33,3	
MANUFACTURING	14	10	7	1.4	28.6	55.6	x	X	
NON-MANUFACTURING	24	8	3	4.8	65.2	50.0		50.0	
U.S.A	9	31		10	0.0	40.7	14.8	44.4	
MANUFACTURING	3	15	-	-	-	6	4.3	35.7	
NON-MANUFACTURING	6	16	-	10	0.0	4	6.2	53.9	

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JAEPA BENEFITTING TRADE

The Japan-Australia Economic Partnership Agreement (JAEPA) has resulted in the expectation of a surge in trade and investment between Australia and Japan.

Examining the use JAEPA by Japanese-affiliated companies shows that a total of 42.0% of companies, (47.8% manufacturing, and 39.1% non-manufacturing companies) are making use of trade deals related to the importation of Japanese products. A further 17.4% of manufacturing companies and 23.9% non-manufacturing companies are also considering making deals in areas affected by JAEPA, meaning that over half of all companies are either currently benefiting from, or stand to benefit from JAEPA in the future. The Australia Federal Government is actively seeking the establishment of bi-lateral and multi-lateral trade agreements, with the China FTA recently coming into force in December of 2015, and the negotiations of an FTA with India currently underway. The establishment of an FTA with India would provide access to a marketplace with over one billion people and could also conceivably provide many benefits for Japanese-Affiliated companies based in Australia.

Looking at the markets in China which are drawing interest from Japanese-affiliated companies reveals a beef and meat focus in NSW, while companies located in Victoria are predominately displaying interest in dairy products. With the India FTA the focus is different again, with the grain sector attracting the most attention across regions.

A HIGH QUALITY MARKET

While Australia has a relatively small market of only 24 million people, the relatively high level of disposable income per capita attracts significant attention for high-end market products. Furthermore, it also provides new business opportunities for the expanding Asian market with its 'Clean and Green' agriculture sector as well in services industry sectors such as finance and education.

The TPP, for which an agreement was successfully reached in October, and the Regional Comprehensive Economic Partnership (RCEP), which is currently being negotiated, will not only provide Australia and Japan with new business opportunities but is also expected to further solidify the business cooperation that exists between the two countries.



The Japanese Government would like to invite you to subscribe to its new Online Newsletter: **'We Are Tomodachi'** at: http://japan.kantei.go.jp/letters/index.html

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SS CA MADE IN JAPAN

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The Longmore family have had a long-: able to keep up with the orders, which : requirements to set up their business, a standing association with Japan stretching back decades. Recognising the beauty and distinctiveness of Japanese homeware and earthenware, they decided to try and bring this unique style to Australian consumers by opening their 'Made in Japan' (MIJ) retail outlet in Melbourne the 1987.

The business quickly found an enthusiastic client base in the Melbourne market, helping it to expand to three stores across the city over the two and half decades since the first was established. But this Japanese suppliers, through steady growth has given way to an avalanche since the company made the decision to develop a comprehensive online presence in 2015.

GOING ONLINE

Traditionally more focussed on their bricks and mortar establishments, MIJ had previously only held a limited online presence, but following growing enquiries about online orders made the leap into full e-commerce last year to help them better reach their target market.

company were quickly finding they weren't i JETRO helped MIJ work through all the growing online brand.

Australia, but all over the world.

To help manage this growth, the company's founder, Peter Longmore, investi- they provided." gated the possibility of opening their own warehouse in Japan with which to directly **EXPANDING MARKETS** service their growing international client base.



this once niche Australian company, are now reaching people farther than they'd ever imagined."

Peter got in touch with JETRO and, with the help of his wife and business partner Danielle, developed a plan to open a Japanese subsidiary that would be managed by the hospitality industry. Peter's son Joshua and be responsible for directly sourcing new supply and exporting Japanese home and earthenware to its and connect more Japanese artisans to ea-The move was a huge success, and the growing customer base across the world.

were now coming from not just all over process Danielle said "couldn't have been simpler thanks to the direct guidance of the JETRO specialists and the introductions

Through Joshua's work, MIJ located a site in Gifu Prefecture for their new warehouse and began filling it up with new products from both their existing and new providers.

The result of this exercise has been of incredible benefit both to MIJ and their Japanese suppliers, who through this once niche Australian company are now reaching people farther than they'd ever imagined.

Indeed, the warehouse is already preparing to fill orders with some of its larger new clients like Chef's Parade, a major European company based out of Prague that supplies to customers all across Europe in

As their new Japanese business develops, the company hopes to extend its range gre international consumers through its

WANT TO DO BUSINESS IN JAPAN? CONTACT JETRO SYDNEY: L19, 39 Martin Place Sydney 2000 02 9002 6200 🔀 syd-bd@jetro.go.jp

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