



A MESSAGE FROM THE MANAGING DIRECTOR



Shuichi Hirano
MANAGING
DIRECTOR

Dear readers,

Thank you for reading the 2015 winter edition of JETRO Sydney's newsletter.

Recently, JETRO Sydney attended a seminar focused on Japan's declining population and the so called "lost decades," a common theme in talks about Japan. But topics like these often distract us from signs of improvement, like the fact that over the past couple years the number of international companies investing in Japan has been increasing.

One of the most prominent recent examples of this is Apple's decision to build a Research and Development facility in Yokohama, the first of its kind to be built outside the U.S. But it's not just Apple, Japan has seen an influx of foreign companies in manufacturing, IT, food services and other sectors expanding their operations too.

There are numerous of reasons for this. To begin with, the focus on demographics ignores the strength of Japan's raw numbers; Japan remains a country of over one hundred and twenty million and has the world's third highest GDP. Indeed, the Kanto region alone has a GDP comparable to the UK. Additionally, there are structural and social reasons that help explain this sudden rush.

Japan is home to some of the most developed communications and public transport infrastructure in the world; has a highly educated population with the highest rate of people engaged in research & development per capita and ranks second for number of patents registered per annum after the U.S.; and is home to a famously discerning consumer base.

Moreover, according to a recent article in **Nikkei Business**, Japan is also an increasingly cheap place to do business, with the cost of its skilled labour in areas like IT now cheaper than Silicon Valley.

Elsewhere, a good example of the impact of less tangible things like Japan's discerning consumer base, is the case of Taiwanese shaved ice chain 'Ice Monster.' Ice Monster saw Japan as a strategically critical market both for its potential profitability through its market size, but also because of the high

standard of competition it possessed. The company saw it as a kind of litmus test of the standards of the service it offered. Indeed, Ice Monster CEO Frank Lo later explained that the company felt that if they could make it in Japan they'd make it anywhere.

Closer to home, cases like Perth based coffee chain MuzzBuzz, which opened its first Japanese store in March, and 'Guzman y Gomez', a Sydney based Mexican Fast-Food chain that opened in Japan in April, show how Australian franchises are recognising the benefits of being in Japan. But there are other even more niche success stories too.

In 2008 'Bills' restaurants and cafes, a staple of the Sydney restaurant scene, decided to make Japan the site of its first foreign enterprise. Founder Bill Granger later explained that his time in Japan helped infuse the restaurants' cuisine with a "simplicity and purity" that has since helped it in its expansion projects in London, Hawaii and Korea.

Successes like these are challenging old stereotypes, proving Japan is less difficult and expensive to access, and that the benefits of being there more than justify the effort. Indeed, they show an investment in Japan is also the best way to begin a broader global strategy. ●

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FEATURE ARTICLE

Japan: A Gateway to Asia

Photo: pixabay (Unsplash)



Elizabeth Masamune
Managing Director
@Asia Associates

When Australian companies consider the range of foreign investment opportunities available to them, Japan is frequently overlooked in spite of its size and potential profitability.

This is partly due to the Australian media's consistent focus on Japan's relatively low and stagnating growth rates, which has served to reinforce the notion that there is no money to be made in Japan for foreign investors.

Perceptions of a relatively high costs of doing business, a challenging language barrier, and a multitude of regulations to traverse have all fostered an environment in which many companies simply don't know where to begin with Japan, and so they look elsewhere first.

The effect of such perceptions is reflected in statistics from the Department of Foreign Affairs and Trade, which show that in FY 2013-14, Australia's investment in Japan totalled A\$50.225 billion, of which only A\$477 million was foreign direct investment (FDI). In comparison, Japan's investment in Australia totalled A\$130.982 bil-

lion, of which almost 50%, or A\$63.257 billion, was in the form of FDI.

MISMATCHING PRIORITIES

Why such an imbalance? Partly it's because offshore investments by Australian firms have traditionally been driven by strategic considerations related to developing lower-cost manufacturing bases or securing critical supply chains.

In general, many international service providers have demonstrated a desire to establish an early foothold in fast growing developing markets with upwardly mobile populations. But even when Australian companies are looking for the sorts of business opportunities that only sophisticated developed markets can provide, they have preferred to stay in their comfort zones, with New Zealand, the UK and the US among the most popular investment destinations.

In spite of its position as one of the world's largest and leading economies, Australian companies have not sufficiently considered the strategic benefits of investing in Japan, for instance by linking their presence in Japan to a greater pan-Asian business strategy.

As Professor Peter Drysdale of the ANU so aptly pointed out in a recent edition of the East Asia Forum, it is not a question of thinking about "Japan and Asia", as if they were two separate

entities, but "Japan in Asia", as the economic fortunes of the region become even more closely interlinked. He notes that despite regional tensions over territorial disputes and historical issues, Japan's trading relationship with China is now the third largest in the world and continuing to grow.

A RAPIDLY CHANGING LANDSCAPE

Japan has earned a reputation as being a notoriously difficult environment for foreigners to operate and invest in. So what has changed and why now?

Competition has played its part; most significantly, the rise of China has hastened the inevitable considerations in Japan of how to maintain growth domestically in the face of a declining and aging population, and how to enhance to Japan's ability to compete in a truly global environment as Asia comes into its own. The "Lost Decades" are over and it is crunch time. Prime Minister Abe referred to this in his recent speech to the US Congress as "TINA: There is No Alternative".

There's nothing like a crisis to focus the mind and the Abe Administration is now singularly pursuing the changes needed to "kick-start" the

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Japan will be the next country to host the Rugby World Cup following England, who will host this year's tournament.
Photo: France 2007 - Japan playing Australia the last time they met in a Rugby World Cup. Source: Wikipedia

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economy. Enacting pro-investment deregulation, developing more creative and innovative thinking, value-added services, and a more proactive approach to participation by women and minorities are just a few of the fundamental reforms that Japan is now grappling with. It is also looking to redefine its role in international politics, economics and security, to ensure a pathway for Japan going forward in a world that is undergoing a period of great power transformation.

These changes have seen the Japanese economy regain momentum and confidence. Moreover, large scale deregulation of hitherto closed institutions such as Japan Post and the Japanese Government Pension Investment Fund will free up significant liquidity for investments.

It's for these reasons that now is the time to reconsider investing in Japan as part of a pan-Asian strategy. But even if that is not the top priority of your business, the attraction of securing a slice of the still lucrative domestic market alone is reason enough on its own. The strong need to generate new avenues of growth in Japan itself means that new ideas and new business models that deliver upside are rapidly disrupting old accepted ways of doing business.

Whether it be in 'Fintech', where the emer-

gence of non-bank players such as Rakuten and NTT Docomo is gathering steam and Japanese banks are on the look-out for new investment opportunities in Silicon Valley, or in gourmet health foods, which have experienced in a resurgence in wealthy urban centers as people look for sustainable ways to extend their lives, the Japanese domestic market offers a wealth of opportunity for new investors.

range of offerings and options to deal with an increasingly varied range of nationalities and consumer needs.

Innovative service platforms that maximize digital and bespoke offerings will attract the attention of Japanese firms looking to expand their skill set and reach.

This is particularly so in tourism and in relation to community-based business models that



[I]t is not a question of thinking about "Japan and Asia", as if they were two separate entities, but "Japan in Asia", as the economic fortunes of the region become even more closely interlinked."

SERVICES

As Japan approaches the Rugby World Cup in 2019 and Tokyo Olympics in 2020, the world will be passing judgement on its ability to deliver world-class sporting events and the myriad of services that are attached to them.

Service in Japan is among the best in the world but is all too often delivered in a uniformly consistent manner (which at one level is what makes it great!). The search is now on, however, for new service models that will diversify the

may support regional development in depopulated areas of Japan. The number of foreign tourists in Japan is predicted to reach 18 million this year, against a target of 20 million by 2020. Over 400,000 Chinese tourists visited Japan to see the cherry blossom in the month of April alone, followed by roughly 335,000 from Taiwan and 300,000 from Korea.

The new buzzwords in Japanese companies

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Photo: TAGSTOCK1/Shutterstock.com

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these days are "globalisation," "creative thinking" and "diversity," indicating a readiness to incorporate new ways of thinking and to change the structure of organisations from within. This is already being seen in part with the appointment of more women and foreigners to boards than ever before.

As part of its attempt to redefine its international standing and image, Japan has also embarked on a serious strategy to highlight its creativity and innovation. It calls this strategy "Cool Japan" and has set up a public-private investment fund to support the efforts of individual companies promoting Japan offshore.

If your offering will help Japan to deal with the challenges of true "globalization" (as opposed to doing international business the Japanese way), or your core value add will address the issues of an aging society and a shrinking demographic, you should consider the strategic significance of an investment in Japan.

What does this have to do with your pan-Asian business strategy? Remember that your Japanese business partners will have capital, sources of funding, networks, relationships and aspirations capable of developing new businesses right across Asia. Investing in Japan demonstrates your commitment to the relationship,

and cements the foundations for an expanded partnership elsewhere.

Japan remains one of the toughest markets to crack in terms of regulation and consumer acceptance, so if you can succeed in Japan, you can use that experience to inform and drive your business across Asia and elsewhere.

APPROACHING THE MARKET

In the face of adversity, Japan has realised that it needs to invest in its greatest asset: its people. Australian companies who share these values will find a solid basis for building new business both inside and outside Japan.

To ensure that your investment in Japan has the greatest chance of success, here are a few time honoured tips to assist you with your enterprise in Japan:

Be Social

- Like many places around the globe, the Japanese have a strong sense of their own uniqueness
- Your value added offering must be delivered in a way that is digestible, understandable and actionable by your Japanese business partners
- Japan is a high context culture: work hard on being a trusted insider, but don't compromise on your core values.
- Ensure that your Japanese employees identify with and feel part of your broader group.

Think Global:

- Resist the temptation to quarantine your business in Japan from the rest of your offshore operations because it's "too hard or different."
- Focus on the values that you do share with your Japanese partners: the commitment to quality, similar corporate governance structures, and sophisticated approach to business.
- Use your partnerships in Japan to let go, experiment and "think outside the box."
- Japanese companies think long-term: make sure you have a strategic driver for your business in Japan, rather than a purely transactional profit driven approach.
- Consider the mutual benefits your investment in Japan can deliver in other markets in terms of raising capital, and developing new partnerships, skills and products.

Japan now stands at a crossroads, with wholesale change on the agenda across the board. By investing in Japan, Australian firms have an opportunity to influence the driving forces that will shape the future in Japan, all the while gaining a trusted partner on the global stage. ●

Elizabeth Masamune PSM is Managing Director of Tokyo based @Asia Associates. She is a former Senior Trade Commissioner for Austrade in North and South East Asia.



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No substitute for investment in Japan & Australia



Manuel Panagiotopolous
Australian & Japanese
Economic Intelligence

There is a great deal of justified attention being paid to the need for direct presence in the markets of ASEAN for Australian and Japanese companies. This focus, however, should be complemented by further investment in the markets of Australia and Japan, which are characterised by high per capita incomes, liberal investment regimes and more rigorous legal frameworks in critical areas like intellectual property.

If we take a look at Australia's Top Ten Export markets, we find Japan at 2, South Korea at 4, Singapore at 5, New Zealand at 6, UK at 7, Thailand at 8 and Malaysia at 9.

It is instructive to compare some of these markets with regions in Japan on a GDP basis. Doing so reveals some astonishing comparisons: Kanto is bigger than the UK; Chubu is larger than Indonesia; Kyushu and Kinki are larger than Thailand, Malaysia and Singapore.

What this shows is that while the growth of the ASEAN region is key for the long-term growth prospects of both Australia and Japan, there is a danger that important opportunities are missed in the bilateral relationship.

JAEPA only came into force earlier this year, but as shown by Deloitte's recent report, already

a number of new trading opportunities have been realised by some of Australia's companies and more will follow.

But the decision to invest in advanced economies such as Japan & Australia is necessarily one that requires care and detail. Japanese investment into Australia has already grown dramatically and it's time for Australian companies to take a committed approach to the Japanese market.



[C]hanges to corporate governance [provide] incentives to corporations to invest their [retained earnings] into productive investments and higher wages."

Not only is Japan back to sustainable growth and exhibiting widespread optimism, but there numerous significant changes taking place in the world's third largest economy and Australia's closest partner in this region. Some of these form part of the extensive Third Arrow collection, others are due to changes in supply and demand in a wider sense and others due to the JAEPA.

For example, there is going to be a big shakeup in Japan's agricultural sector, with much greater consolidation and entry of cor-

porate investment. Changes to the Agricultural Cooperatives Law could be complemented by a successful conclusion to the TPP negotiations.

Incredibly to many like myself, it was Prime Minister Abe who pushed for the TPP during his recent visit to the US, while the US Congress has been the stumbling block preventing its conclusion. This is a sure sign that Japan recognizes the importance of the TPP for ensuring greater reforms at home, and there are signs consensus on the agreement is closer than ever.

There are also changes enacted to the risk portfolio of the Government Pension Investment Fund that will favour more equities and foreign securities. Such changes are representative of more widespread shifts in Japanese asset management away from bank deposits to more sophisticated wealth management. Promisingly, the Financial Services Council recently led a delegation of Australian fund managers to Japan to explore opportunities in this changing market, facilitated by JAEPA.

There are also regulatory changes in infrastructure, with great adoption of PPP investment, liberalization of electricity distribution and retail, medical, healthcare and education. All of these major sectors require direct presence for success and major changes provide opportunities for investment. ●

Contact Us

THINKING OF DOING BUSINESS IN JAPAN?

Contact the Business Development Team at **JETRO** Sydney about what you **NEED** to **KNOW** and where You can **FIND** it.

Contact: ☎ 02 9002 6200 🏢 L19, 39 Martin Place, Sydney 2000 ✉ syd-bd@jetro.go.jp

How Japanese technology could assist in the Development of Northern Australia



Tadayoshi Hiraki
Research Director

The White paper on developing Northern Australia was issued on the 18th of June this year. It contains a commitment of \$5 billion in concessional loans for Infrastructure Facilities, \$200 million for water related infrastructure, including a feasibility analysis of the Nullinga Dam, and \$100 million to improve cattle supply chains, plus some other smaller measures.

Promisingly, the federal government has also identified Japan as a potential partner for areas such as Infrastructure, crop production efficiency, animal husbandry, offshore aquaculture and the use of geospatial (satellite) technology to evaluate land use and water. With that in mind, it is worth examining some of the ways in which Japan could contribute to such Northern Development.

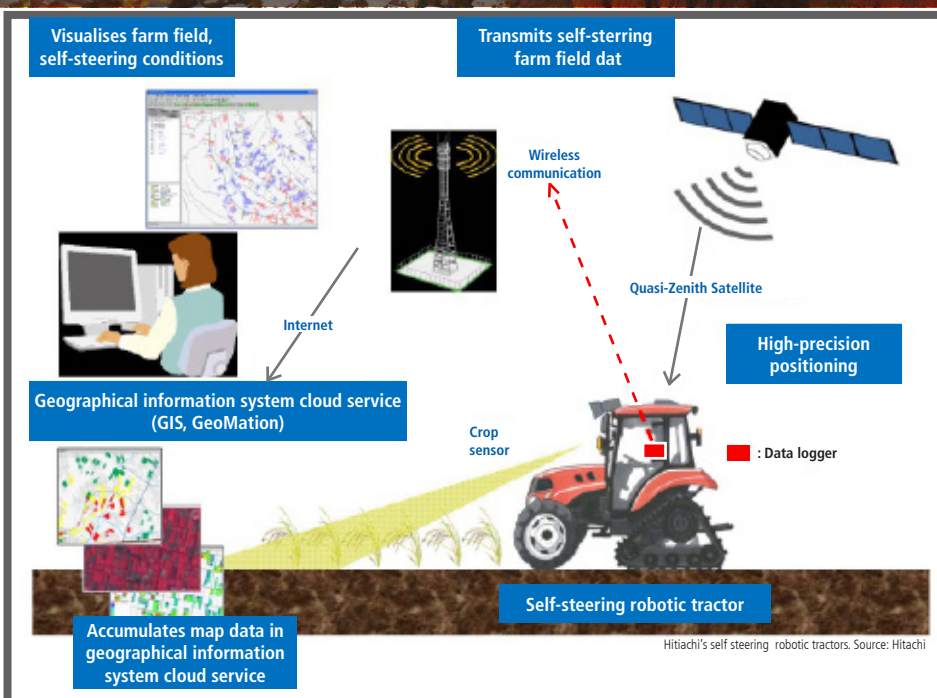
1. INFRASTRUCTURE FUNDING

The Japan Overseas Infrastructure Investment Corporation for Transport & Urban Development (JOIN) was established by the Japanese government in 2014, with the aim of investing and participating in foreign PPP project such as transport and urban development.

Before establishing JOIN, Japanese companies could participate in PPP project as contractors, but the establishment of JOIN provides them with the ability to also be capital investors. This scheme can therefore contribute to reducing capital cost while utilizing advanced Japanese technology.

2. DAM DEVELOPMENT

Dams are very useful in hydroelectric power generation, water resource development, flood control, and other areas. Experienced Japanese construction companies can provide comprehensive dam development services from planning, environmen-



tal assessment, construction and maintenance to an extremely high standard.

The strength of Japanese dam developers includes access to companies with experience in building some of the most durable and stable dams in the world, strong ICT management systems, water usage management and sustainability methodologies. By collaborating with Japanese companies in this area, costs can be reduced whilst facilitating sustainable regional development.

3. CROP PRODUCTION

Hitachi Zosen Corporation, Hitachi, Ltd., and Yanmar Co., Ltd., have recently conducted studies on Self-Steering Robotic Tractors. This technology utilizes advanced positioning signals from Japan's Quasi-Zenith Satellite System for rice farming in NSW. Such self-steering systems, shown in the diagram above, could be used to make crop production more efficient and productive in Northern Australia.

4. AQUACULTURE

Nagasaki Prefecture has developed technology that can ship live sea creatures, which they recently used to successfully send a load of live fish to China. Now, Marine Bio technology Inc. is developing a container for live fish distribution to foreign countries. The company has yet to develop an English website or engagement program, but with fisheries being depleted around the world and the popularity in Australia of many raw seafood dishes prevalent in Washoku (Japanese food) there will be opportunities for Australian businesses cooperate with such Japanese businesses, so they can keep their products fresh.

There are other ways Japan might be able to assist Northern Development, but these are all good starting points through which Japan and Australia can work on a plan that will be of benefit not only domestically, but also to the growing Asian economy and its expanding middle class. ●



One of the Ferrari Dealerships e-GM now services in Japan

SUCCESS CASE: e-GoodManners

Adrian Rawson has racked up more than his fair share of frequent flyer miles since 2011. The Managing Director of web-based and auto-industry focussed Lead Management System company e-Goodmanners (e-GM), Adrian had landed a couple big clients in the form of the local arms of Ferrari and Maserati Japan that year.

The service technology offered by e-GM provides businesses like car dealerships with a way to collate, manage and interpret data on their customers in a meaningful way. This data can then be used to help drive more coherent and targeted business and sales strategies.

The company prides itself on the capacity of this platform-driven approach to generate innovative and tailored solutions for businesses across the automotive industry. But making sure each client is able to make optimal use of their tools requires a lot of hands on customisation and support, something that is challenging when you're entering a new market in another country.

So while e-GM was doing great business in Japan, the hands-on nature of the work meant Adrian was travelling to Japan sometimes more than once a month in order to make sure his new customers were getting the most out of their products.

With already over a thousand dealerships

across the globe to service and more new clients in Japan on the horizon, Adrian decided the company would be better served by having a permanent presence and representatives in Japan that could manage and grow the business on a full time basis.

This brought him into contact with JETRO Sydney, who spoke with Adrian at their offices in Melbourne in August of 2014.



Having the office in Japan has also provided us with a springboard into the rest of Asia"

- Adrian Rawson

Adrian explained what his company was doing and where he wanted to take it. JETRO took the case, and e-GM then appointed locally based John Bos to run the company full time in Japan.

JETRO then set-up a series of meetings between Mr Bos and our specialists in tax, immigration, business registration and human resources at our Invest-Japan Business Support Centre (IBSC) in Tokyo.

With JETRO's help, Mr Bos was able to register

a joint-stock corporation (kabushiki kaisha – KK) and get an e-GM office up and running in January of this year.

The permanent move has already paid dividends according to Adrian. The company was already in talks with several other potential clients, and he believes having its own local company and full time staff significantly strengthened their appeal to these businesses, some of which have since taken up e-GM's services. But the advantages of the office are already extending beyond simply strengthening their position in Japan.

"Having the office in Japan has also provided us with a springboard into the rest of Asia, and John is now managing clients in Malaysia, Thailand and South Korea all from the Japan office," Adrian explained.

The company continues to expand, and the strength of its position in Japan is enabling it to become far more Asia-engaged than it could have previously.

The e-GoodManners experience serves as a living example that investing in Japan isn't just a one country proposition; it's a regional one with that gives companies the potential to access the fastest growing middle class in the world from one of the world's most advanced established economies. ●

Editor's Corner: Australia missing opportunities in emerging fields

Photo: pixabay (Blickpixel)



Daniel O'Toole
Editor

In this issue of our Newsletter, JETRO Sydney MD Shuichi Hirano highlights how Japan is becoming more attractive as an investment destination. One particularly telling example he raises is Apple's decision to build a new research and development centre in Yokohama.

Apple is taking advantage of the Japanese governments' pro-investment measures, the comparative advantages the country offers as a hub for innovation and its abundant supplies of skilled labour. It's a good sign that the economic policies of the Abe government are beginning to work after decades in which companies seemed to overlook the massive size and maturity of Japan's market for being too complex or different.

Conversely, Australia has always had much stronger inbound investment than outbound, and Japanese investment in Australia in particular has long been strong. Yet whilst this investment has been big in raw dollar terms,

it has primarily been focussed on sectors like agriculture, fossil fuels and minerals. Which begs the question why isn't it more diverse, and are we missing opportunities in other markets where our comparative advantages are strong?

Take solar power. Australia is perfectly positioned to make itself a solar power "power"; our famously sun drenched land provides the space and environment that makes it ideal for the industry. It's a fact not lost on our educational institutions; the University of Queensland has recently begun work on the country's largest photovoltaic research centre, whilst the University of New South Wales' Australian Centre for Advanced Photovoltaics is a leader in research in the field, last year achieving a record 40.4 per cent "conversion efficiency" in its experiments.

With such apparent advantages, you could be forgiven for assuming the recent news that Japan's SoftBank had just invested \$US20 Billion into making a foreign country a world leader in solar energy might have been in reference to Australia, rather than India, where the money is actually going. The investment will be made via a joint venture and with the support of the In-

dian government, which is targeting an increase in solar generation from its current level of 3 gigawatts to 100 gigawatts by 2020.

It's great news for India; a quarter of the population currently have no access to power and the subcontinent clearly also offers an environment favourable to solar. But while Japan does invest in solar projects in Australia, for the most part these are smaller scale.

This is because Australia's commercial solar industry, whilst growing remains small in the context of our overall energy industry, and lacks a coherent place in our energy policy. But decisions like the one just made by SoftBank in India provide a vivid example of how many opportunities remain through Japan's technologically advanced industries and investment capacity.

At JETRO Sydney we have witnessed a considerable strengthening of our relationship over the course of the past eighteen months, but more needs to be done. Cases like SoftBank in India demonstrate just what can be achieved when there is collaboration across governments and a willingness to engage targeted industries with clear goals and targets. ●

JETRO Sydney welcomes its new DMD

Last month JETRO Sydney welcomed the newest member of its team in the form of Deputy Managing Director (DMD) Hajime Sato, who replaces outgoing DMD Kunihiro Nakai.

JETRO wishes Mr Nakai 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 we regret the loss of all staff once they have moved on from our organisation's Sydney office, we are simultaneously grateful to have been sent such a highly qualified and



JETRO Sydney Deputy MD Hajime Sato

accomplished replacement as Mr Sato.

Originally from Nagano prefecture in Japan, Mr Sato comes to JETRO Sydney with a strong record of achievement working in and with

numerous foreign jurisdictions.

He previously spent several years working in the Hong Kong and then Shanghai JETRO offices, assisting the development of local businesses and facilitating partnerships. Following from this, Mr Sato returned to Japan, where until his transfer to Sydney he worked as the Director of Overseas Investment Division, overseeing the direct investment from Japan in emerging economies like Myanmar, Laos, Bangladesh and others.

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