



Photo: JETRO's JAPAN Booth at AusRAIL PLUS 2015

A MESSAGE FROM THE MANAGING DIRECTOR



Shuichi Hirano
MANAGING
DIRECTOR

Dear readers,

Thank you for reading the 2015/16 Summer edition of JETRO Sydney's newsletter.

We've ended another year, and with Prime Minister Malcolm Turnbull visiting Japan in December to promote innovation and technology among other things, I thought it be a good time to cover JETRO's activities in the rail industry.

As some of you are aware, JETRO Sydney hosted a 'Japan Booth' at the AusRAIL PLUS Exhibition that was held in Melbourne between the 24th and 26th of November 2015. The Japan booth was organised with the support of the Japanese Embassy in Australia and hosted such famous Japanese companies as the Central Japan Railway Corporation, Hitachi, IHI, Mitsubishi Electric, NEC, and Toshiba. The

booth received over 230 visitors during the course of the exhibition, whilst the exhibition itself saw some 7,800 visitors. Both these number represented a sizeable increase in those experienced when JETRO Sydney last took part AusRAIL PLUS in 2013.

The Booth provided a platform for these Japanese companies to engage with the Australian rail sector. It also featured a large infographic backdrop of Japan's flagship rail technology, the Shinkansen (Bullet Train), which was created in conjunction with research from the Embassy of Japan.

The exhibiting companies themselves reported that the combination of Japanese rail technologies on display and Japan's unique offerings more generally were of great appeal to many Australian company representatives they spoke with.

Such conversations are timely in Australia right now, as state governments across the country have begun investing more in rail projects and the federal government highlighting transport infrastructure development as a priority. This is reflected in the Federal Government's Annual Infrastructure statement released on the first of December, which sets aside 9.7 billion dollars for infrastructure projects for the 2016/17 financial year.

Moreover, in Australia involvement by private companies in infrastructure projects is common. In addition to creating a common benefit both to the public and the business community, this arrangement has created interest among Japanese infrastructure companies in Australian projects. However, issues like bidding costs and barriers to entry in certain consortiums are challenges that such companies must better grapple with in order to maximise their chances of success.

Such challenges are why JETRO participates in events like the AusRAIL PLUS exhibition, other trade related seminars and why JETRO itself holds various trade events often in conjunction with state and federal government bodies.

To supplement these efforts, JETRO also produces analysis material on infrastructure operations in Australia, which is then provided to Japanese companies in an effort to promote their involvement in such projects in Australia.

In the year to come, JETRO looks forward to continuing its engagement with both Japanese and Australian business and government in an effort to strengthen the relationship between our two countries further still. ●

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Corporate Governance

FEATURE ARTICLE New Corporate Governance Rules in Japan



Bob Seidler
Chairman & CEO
Hunter Phillip Japan

"Although corporate governance is a hot topic in boardrooms today ... [a]chieving best practices has been hindered by a patchwork system of regulation, a mix of public and private policy makers, and the lack of an accepted metric for determining what constitutes successful corporate governance. The nature of the debate does not help either: shrill voices, a seemingly unbridgeable divide between shareholder activists and managers, rampant conflicts of interest, and previously staked-out positions that crowd out thoughtful discussion. The result is a system that no one would have designed from scratch, with unintended consequences that occasionally subvert both common sense and public policy" *Guhan Subramanian Harvard Business Review, March 2015.*

This opening paragraph in a recent edition of the **Harvard Business Review** shows that even in America today, Corporate Governance is a controversial topic.

So what is Corporate Governance? Many scholars and commentators have a view, but there is no widely accepted definition.

Justice Owen Hill in an HIH Royal Commission Report described it as "the framework of rules, relationships, systems and processes within and

by which authority is exercised and controlled in corporations".

Investopedia says it is "the system of rules, practices and processes by which a company is directed and controlled. Corporate governance essentially involves balancing the interests of the many stakeholders in a company - these include its shareholders, management, customers, suppliers, financiers, government and the community."

Meanwhile, J. Robert Brown Jr. and Lisa L. Casey provide a more robust definition in *Corporate Governance: Cases and Materials (2012)*, arguing it is "the host of legal and non-legal principles and practices affecting control of publicly held business corporations ... [that] affects not only who controls publicly traded corporations and for what purpose but also the allocation of risks and returns from the firm's activities among the various participants in the firm, including stockholders and managers as well as creditors, employees, customers, and even communities."

NEW CORPORATE GOVERNANCE RULES

Elected on a reformist platform, Prime Minister Shinzo Abe's has targeted corporate governance as part of his famous "three arrow" strategy for broader economic reform. As part of this strategy, Japan has implemented both a Stewardship Code and a Corporate Governance Code.

The Stewardship Code was introduced in 2014 and was modeled on the UK Stewardship Code established in 2010 and revised in 2012. However, the objective of the Japanese corporate gov-

ernance reforms differs from the Anglo-American views of Corporate Governance in that it focuses on growth in corporate value, not control or accountability.

In the Japanese Code, "stewardship responsibilities" refers to the responsibilities of institutional investors to enhance the medium-to long-term investment return for their clients and beneficiaries "by improving and fostering the investee companies' corporate value and sustainable growth" (emphasis added) through constructive engagement, or purposeful dialogue, based on in-depth knowledge of the companies and their business environment."

This is a voluntary code directed at shareholders in Japanese listed companies that defines principles considered to be helpful for institutional investors. It applies only to those shareholders who sign up to the Code with the proviso that all companies must indicate whether they have signed up or not.

In June 2015, the second part of the corporate governance reform was implemented with the establishment of Japan's Corporate Governance Code.

The Corporate Governance Code establishes fundamental principles for effective corporate governance at listed companies in Japan and states: "It is expected that the Code's appropriate implementation will contribute to the development and success of companies, investors and the Japanese economy as a whole through indi-

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Photo: 360b/Shutterstock.com

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vidual companies' self-motivated actions so as to achieve sustainable growth and increase corporate value over the mid- to long-term" (emphasis added).

Like the Stewardship Code, this is a voluntary code to be implemented on an "if not, why not?" basis. Therefore, while listed companies are not obliged to follow the code, if they do not follow it in any respect they must publicly explain why.

A RECIPE FOR GROWTH

It is not difficult to understand why the Japanese government is focussed on sustainable growth.

According to Anna Kitanaka and Toshiro Hasegawa in an article published in Bloomberg Business, "Companies on the broader Topix index posted an average return on equity of 6 percent over the 10 years through 2013, compared with 12.6 percent for the MSCI World Index."

The OECD Japan Policy Brief April 2015 states "Japanese companies have accumulated retained earnings since 1998. The total amount of retained earnings doubled from 1998 to 2007, and increased to 305 trillion yen in 2012 (64% of the GDP). This is second only to US companies.

The Emerging Markets Focus published by Nikko Asset Management in October 2014 indicates that the dividend payout ration of companies included in the TOPIX index is 25% compared to 37% in the United States and 50% in Europe.

In summary, Japanese companies are less profitable than their international counterparts,

hold more cash (other than US companies) and payout less of their lesser profits to shareholders.

JAPANES & AUSTRALIAN STANDARDS

The various guidelines which make up the Japanese corporate governance and stewardship framework are too numerous to cover in detail in this article. However, an examination of one area will serve to highlight a fundamental aspect of corporate governance in Japan as well as its challenges and differences with the Australian approach.



[The new codes] are voluntary [and] to be implemented on an "if not, why not?" basis. Therefore, while listed companies are not obliged to follow the code, if they do not follow it in any respect they must publicly explain why."

Unlike Japan, the ASX Corporate Governance Code is based around 8 Principles which deal with how a corporation should be governed including the relationship between the board and management.

Quoting Justice Owen again in the HIH Royal Commission, the principles "encompasses the mechanisms by which companies, and those in control, are held to account."

The ASX Corporate Governance Council states: "Fundamental to any corporate governance structure is establishing the roles of the board and senior executives."

Two key recommendations made by the Council are that:

- The majority of the board should be independent directors
- The Chair should be an independent director

In Japan, the Corporate Governance Code states:

"Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increas-

ing corporate value over the mid to long-term (emphasis added). Companies should therefore appoint at least two independent directors that sufficiently have such qualities."

The normal practice in Japan, prior to introduction of the Code, is for the board to be comprised of only senior executives. The President, being a representative director, has full legal power to bind the Company. Thus the President usually selects the directors and his successor. It is not unusual for the President to become

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Chairman when he retires. The board is really an executive committee which may make collective decisions on key issues or it may be a rubber stamp for decisions of the President depending on the management style of the President.

It is not difficult to see that the management style of the president will have a significant effect on the corporate governance of an organisation, the quality of its decision-making and its ethics.

In contrast, the Australian system proposes a majority of independent directors, with possibly a small number of executives, whereas Japan proposes to add at least two outside directors to what is effectively a management board with the objective/expectation that this will lead to an increase in corporate value.

By July 2015, 87% of Companies listed on the first section of the Tokyo Stock Exchange had appointed independent directors with 48.4% having appointed 2 or more independent directors.

CHALLENGES & ALTERNATIVES

Both approaches have their anomalies.

Australia's guidelines propose a system where the board comprises a majority of non-executives and one or two executives (usually the CEO and CFO) to oversee management.

The fact that our legal system holds the board accountable, in some circumstances with criminal liability, encourages non-executive directors to pay too much attention to what management is doing. However, in medium to large corporations, it's very difficult for non-executives to really understand what is going on in the business, meaning they rely on management anyway.

Meanwhile, Japan encourages a few people who are not familiar with the corporation's business to work with an experienced management team to get them to improve corporate value.

It seems that neither approach has the right balance, although more time is needed to properly evaluate whether the new Japanese approach will work.

As an alternative, one could look at the German system where there is a clear separation between management and its "supervisors" with two boards operating, a Management Board and a separate Supervisory Board.

Japanese corporations can adopt a two board system with a separate Board of Auditors but its composition and function is too limited to provide the benefits and clarity of the German system. ●



同山の銘酒



QUALITY
OKAYAMA
JAPAN

Okayama sake-bizen pottery event to be hosted in Melbourne in January

From January 20th until the 24th, Okayama will be holding a 'Bizen' (earthen) pottery and Sake event in Melbourne as part of its 'Cool Okayama' business engagement program.

The event will mark the second such display of Okayama's unique sake and pottery since the program began, and will feature a raft of unique tasting sakes and classic Bizen pottery from the region.

Okayama describes the 'Brand Concept' that will be displayed as a marriage of pure sake with ancient and earthly crockery.

It will feature sake made from famous 'Phantom Brewer's rice,' a special type of Omachi rice grown from underground water sourced from three key mountain ranges of Western Honshu

(Yoshiikawa, Ashigawa and Takahashigawa) of which Okayama forms a part. Famous local brewers match this uniquely pure sake with crockery made at one of the six ancient sites where the pottery begun in Japan, to give the experience a distinctively natural and traditional air.

This matching of the pure and the ancient is a critical component of the Okayama lifestyle, and one of the region's strength's that it hopes to introduce to the interested Australians at this event.

JETRO Sydney will be supporting the event and welcomes anyone with an interest to participate. You will be able to meet, speak with and sample the products of the various sake houses, sake rice growers, and potters from the Okayama region taking part in the event. ●

QUALITY OKAYAMA, JAPAN

invites you to a regional Sake Tasting and Bizen Pottery Exhibition

SPONSORED BY:

Okayama Cooperative for the Promotion of Traditional Industries
TRYBER PTY LTD

DATE TIME

Bizen Pottery Exhibition (5 days)

Date: Wed 20th to Sun 24th January 2016
Time: 11:00am - 5:00pm
Cost: Free

PLACE

No Vacancy Gallery

34-40 Jane Bell Lane, Melbourne, 3000
(In front of DAISO at QV)

INQUIRY

info@tryber.com.au

DRESS

Casual

Sake Nights (4 nights)

Date: Wed 20th to Sat 23th January
Time: 6:00pm - 8:00pm
Cost: \$20 per person for each night
(including 5 drinks)



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2015: A year of great progress in Japan-Australia relations



Manuel Panagiotopolous
Australian & Japanese
Economic Intelligence

Optimism based on facts is a reliable positive force in economic growth. Happily, 2015 is bookended by positive facts for the Australia-Japan economic relationship.

It started off brilliantly with the formal start of the JAEPA, which has been eagerly embraced by many Australian producers: beef, wine, grapes, asparagus, peanut butter and many others have seen double digit rates of growth.

While the announcement of the TPP agreement is a welcome boost for trade and investment in general, the delays in ratification give Australian producers an extended window in which to establish market share and build relationships. Nevertheless, I would recommend more haste so that the full benefits may be realised.

The diversification of Japanese investment into Australia continued with Japan Post's acquisition of Toll Holdings and Nippon Life's 80% acquisition of MLC from Nippon Life Insurance.

From the Australian side, Mesoblast's entry into the Japanese market took a big step following the full regulatory approval for its stem cell therapy.

Japan's secure environment for intellectual property should encourage more Australian firms to grow into Japan and from there to other regions in Asia.



Japan's secure environment for intellectual property should encourage more Australian firms to grow into Japan and from there to other regions in Asia."

Good news on the economic front also supports fact-based optimism. The revised 3rd Quarter results for the Japanese economy showed growth rather than a recession, mainly due to upward revisions to business investment, a key factor for future growth.

Unemployment is now 3.1%, the lowest level for 20 years. In Australia, too, the unemployment

rate has fallen dramatically as many new jobs are created in the non-mining sectors, which form the overwhelming share of the economy.

Prime Minister Malcolm Turnbull visited Japan to meet with Prime Minister Abe, despite extensive travels to many multilateral forums. Although a short visit, it is a very welcome sign of the ongoing commitment to the relationship. Mr Turnbull was also able to announce the MOU between Austrade and Japan's Forum for Innovative Regenerative Medicine.

Finally, almost beyond belief, the WTO announced an agreement by its 162 members to abolish subsidies on farming exports. This kind of liberalisation spurs productivity growth, innovation and consolidation in food production. Coupled with liberalisation of investment, such as FTAs, this promotes cross-border investment. Japan's agribusiness market is a case in point as it restructures and integrates into the global food value chains.

Encouraging economic prospects, trade and investment liberalisation, development of innovation and protection of property rights all promote new business flows between Australia and Japan, a trend which will accelerate in 2016. ●



THINKING OF DOING BUSINESS IN JAPAN?

Contact the Business Development Team at JETRO Sydney to find out more about how we can help you take your business to Japan

Contact: ☎ 02 9002 6200



L19, 39 Martin Place, Sydney 2000

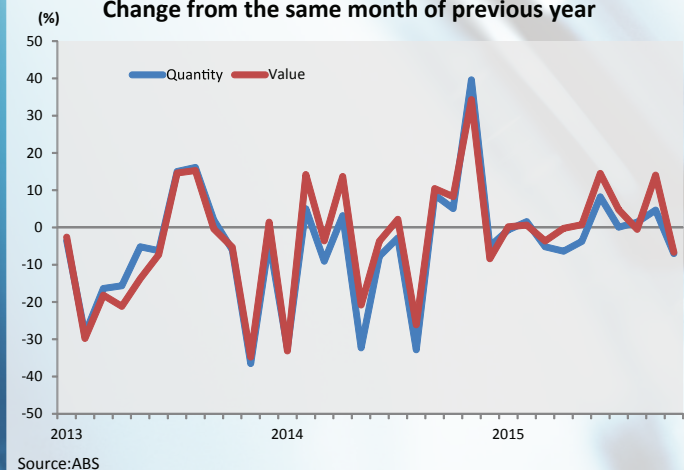


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**Australian motor vehicle imports from Japan:
Change from the same month of previous year**



**Engine displacements of 1,500 cc to 3,000 cc:
Change from the same month of previous year**

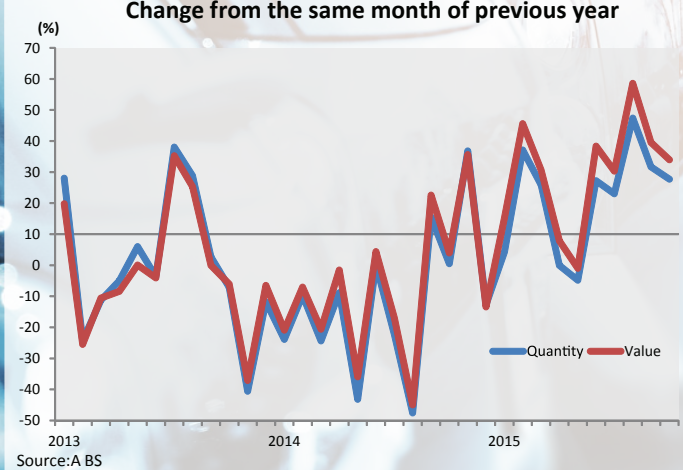


Photo: welcomia/Shutterstock.com

JAEPA's effect on Japan-Australia trade and investment



Tadayoshi Hiraki
Research Director

Nine months have passed since the Japan-Australia Economic Partnership Agreement (JAEPA) came into force on the 15th January, 2015. An examination of Australia's recent trade with Japan shows that although exports have fallen on the back of weak resource prices, there have been signs of a recovery since the June 2015 period. In contrast to the performance of exports, there has been a positive trend for imports since the beginning of 2015.

For instance, with JAEPA coming into force Tariffs on beef were reduced and looking at the Australia trade statistics for beef shows that, in terms of both quantity and monetary value, beef exports experienced a large surge of growth since August 2014. These results suggest that the market started to move in preparation for the tariff reductions that accompanied JAEPA coming into force.

COMPETITIVE ADVANTAGE

One additional benefit of FTA and EPA agreements

is that, through the reduction and removal of tariffs, they improve a country's competitive advantage profile whilst also reducing supply costs. The table shows the preliminary calculations for the average monthly exports of beef to Japan in terms of quantity and monetary value for the first ten months of

be said that the tariff reductions that accompanied JAEPA coming into force provided for the possibility of high-quality exports, in addition to increasing the competitive advantage of Australian beef's quality and price.



[M]motor vehicle imports in both quantity and monetary value, that motor vehicle imports also gained a significant benefit from the implementation of JAEPA"

the past several years.

An examination of data from the ABS reveals that there has been no large increase in the average export quantities of frozen and fresh beef during 2015, with the numbers actually declining. In contrast to this, the monetary value of beef exports has experienced a significant increase compared to previous years.

Therefore, while the quantity and monetary value of beef exports has been experiencing a declining trend over the past several months, it could still

AUTOMOTIVE INDUSTRY

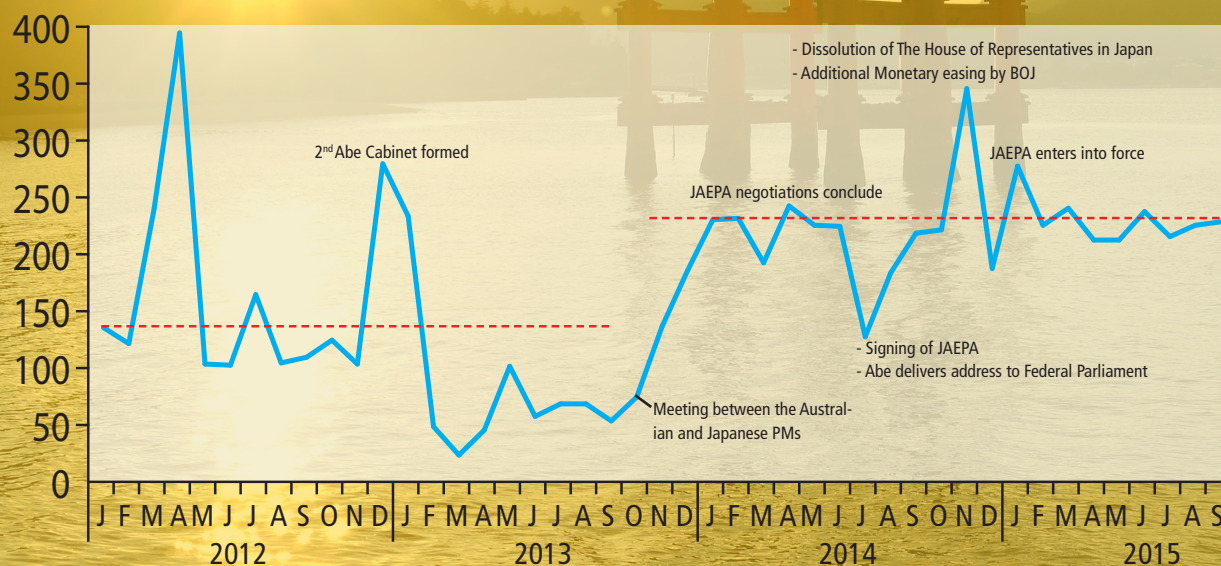
As shown by the above graphs, the implementation of tariff reductions has also had an impact on motor vehicle imports.

A cursory examination of this data indicates little significant change in motor vehicle trade in the areas where tariffs were eliminated. However, this doesn't tell the whole story, as in areas such as Japanese motor vehicles with engine displacements

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AWARENESS OF JAPAN

Trend in the number of monthly hits for the keyword "Japan" on the Australian Financial Review website



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Photo: pixabay (Unsplash)

of 1,500 cc to 3,000 cc, which account for 45% of imports in quantity terms and 39% in value terms, there has been a significant increase, with import quantities increasing by 4.3%, 37.1%, and 25.9% over the first three months of 2015.

Moreover, whilst imports fell during April and May, they went on to recover and record double digit growth from June onwards. In value terms a similar pattern was observed, with increases of 15.2%, 45.6%, and 30.6% respectively during the first three months of 2015, before experiencing a decline during May. Things then went on to recover again, with growth of 38.4%, 30.2% and 58.6% being observed respectively for June, July & August.

As a result of these large increases in motor vehicle imports in both quantity and monetary value, motor vehicle imports therefore also gained a significant benefit from the implementation of JAPEA.

AWARENESS OF JAPAN

Another welcome impact of JAPEA has been the increased awareness about Japan as an investment and business destination that it has created within Australia. As shown by the graph, following JAPEA there was an increase in the average number of monthly hits for the keyword "Japan" on the website of 'The Australian Financial Review'. An examination of this graph shows that the average number of articles for the period from 2012 to September 2013 was 125.

In comparison to this, following the meeting between the Prime Ministers of Australia and Japan that occurred in October of 2013, there was a significant increase to a monthly average of 210 articles for the period from October 2013 to September 2015.

It is said that there is exists a perception gap

between Australia and Japan. This has come about as a result of the preconceptions born from the long history that has existed between the two countries, with both countries being trapped by their past impressions and not recognising how the passage of time has effected change within the other country.

The increasing exposure of Japan in the Australian media which has resulted from the strengthening of Australia and Japan's political relationship during 2013, as well as JAPEA, has played a large role in reducing the perception gap that exists between the two countries.

JAPEA should not only be seen as an opportunity to promote trade and investment between Australia and Japan, but also as the opportunity for both countries to further deepen their mutual understanding of one another. ●



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Photo: John Morrell at Alpine Backcountry ski hire

SUCCESS CASE:



ALPINE BACKCOUNTRY

When John Morrell of ski tour company 'Morrell Travel Adventure' first contacted JETRO Sydney in 2014, Japan was not a new proposition to him. He'd been running ski tours to the region of Furano since 1991 and himself had been skiing in Japan for far longer.

Over that period, John developed a great understanding of the local environment, the needs of clients and the potential for growth.

A MORE PERMANENT PRESENCE

Noticing a lack of equipment hire business for foreign travellers, John developed the idea to establish his own equipment hire business called Alpine Backcountry. He established this with the help of a local Japanese business partner.

However, as this business continued to grow over the years, John needed to spend more and more time in Japan. These increasingly extended stays alerted John to the opportunities open in the non-winter months for cycling enthusiasts, leading to the company adding a cycling tour component to his expanding business.

But the transformation from what was originally a seasonal business model into one that was increasingly more permanent necessitated an in-

creased commitment to Japan itself.

In consultation with his business partner, John contacted JETRO Sydney to speak about how he could extend his business into Japan on a full time basis. John explained how his multi-faceted



[The effect of setting up a Japanese business has] been fantastic – in fact can barely keep up with the numbers I've been getting."

- John Morrell

business intended to expand into both the Alpine Backcountry shop and also expand its cycling tours to supplement its winter ski season offerings.

WORKING WITH JETRO

Morrell Travel Adventure was granted approval for JETRO Services in December 2014 and held meetings with JETRO Hokkaido shortly thereafter. John explained that the meetings he held

with JETRO Hokkaido helped him both clarify his business plan and work through all the issues necessary for a new company.

After exploring various structures, John decided to establish a new 'Kabushiki Kaisha' (or stock company) company under the Alpine Backcountry brand they had established in Furano. Through Alpine Backcountry, John has been able to extend and build on the business he spent so many years developing in Australia by engaging with more people on the ground in Furano.

Asked how this has affected his sales, John was unequivocal: "It's been fantastic – in fact can barely keep up with the numbers I've been getting."

Whilst the ski season is still ramping up, the company has already witnessed an almost two-fold growth in the number of clients he was originally receiving through his local Australian arm in prior seasons for the same period.

But it is still early days for the new enterprise and John sees a lot of potential for further growth yet. He plans to further cement his company's presence in Furano by adding ever greater number of cycle and ski tours for his growing client base. ●

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Photo: KPG_Payless/Shutterstock.com

Editor's Corner: JETRO doing more to get Australian business in Japan



Daniel O'Toole
Editor

Throughout the course of the past few Newsletters, our Managing Director, Mr Shuichi Hirano, has made reference to the need for greater engagement between Japan and Australia and for us to battle our preconceptions about each other.

2015 was undoubtedly a great year for the relationship between Australia and Japan, with the enactment of the Japan Australia Economic Partnership Agreement (JAEP) being an obvious milestone.

Nevertheless, the "perception gap" is quite real and it is a genuine impediment to business. This is a fact I have become increasingly well acquainted with whilst working on JETRO's Project for the Promotion of Foreign Direct Investment into Japan (The Project).

The project involves JETRO Sydney and its partners at PricewaterhouseCoopers (PwC) surveying the investment potential of, and then engaging with, some of Australia's larger companies. Put simply, the goal is to increase Australia's engagement in Japan at the higher end of town.

JETRO offers these companies free tailored market research, the prospect of introductions with Japanese companies in their field and access to JETRO's suit of assistance on areas like taxation, immigration, business registration and a raft of other areas companies often need help with when setting up business in Japan.

Throughout the course of this work, we've encountered a number of companies with strong knowledge of and business experience with Japan, but we've similarly encountered many that have potentially been missing out on opportunities due to outdated perceptions of what they would face in Japan.

In some instances the perceptions weren't so much outdated, but confused, with even executives of some larger companies being unsure of the state of Japan's infrastructure or IP protections, seemingly entangling their perceptions of other regions of Asia with Japan.

Whilst this may seem trivial, if your company is ripe for overseas expansion and hasn't looked at the world's third largest economy - one that is among the most innovative and advanced - due to a perception that your IP may be unsafe or that there won't be the infrastructure to support you, then needless to say it is time for a more thor-

ough investigation.

Similar problems with perceptions exist in Japan, driven mostly by Australia's history as being largely a provider of raw materials and agricultural goods that has resulted in many Japanese business people not realising the opportunities that exist in Australia beyond the primary industries.

With that in mind, Prime Minister Malcolm Turnbull's efforts in his recent visit to Japan, in which he spruiked the changes that his government's new Innovation Statement entailed, are to be commended.

Like Prime Minister Abe, Prime Minister Turnbull has a strong focus on economic reform and building a more competitive and nimble economy. Similarly, much like how Mr Abe's famous three arrows have made news in the Australian business community, the promotion of Australia as a place for innovation, research and development in Japan would have done a great deal to illustrate the increasing diversity an opportunity in the Australian economy for Japanese investors.

JETRO's efforts are necessarily more targeted, but we hope that by proactively engaging with Australian business and providing a clear pathway to investment into Japan, that more businesses will follow of their own accord. ●