



Japan External Trade Organization

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Special Guest View: New Phase of Monetary Easing

By Dr Ippei Fujiwara, ANU



Japan has been experiencing deflation, or, at least, *disinflation*, for a long time. The Bank of Japan, lead by the new Governor, announced a *new phase of monetary easing*. To achieve the inflation target at 2%, the BOJ declared to increase quantitative easing and make very large purchases of government bonds.

It is, however, not clear whether further quantitative easing or increased government bond purchases by the central bank would achieve mild inflation or result in very high inflation, especially under the zero lower-bound constraint on nominal interest rates. To answer to this question, let me introduce two famous macroeconomic views on this subject. The first regards inflation as determined by monetary policy; the second regards it as a product of fiscal settings.

Most readers are probably more familiar with the monetary view. If nominal interest rates are lowered by the central bank, households and firms can borrow more cheaply and therefore increase spending. Increased spending should result in higher production costs and inflation.

On the other hand, the fiscal view states that price levels, and therefore inflation, are determined by fiscal policy. The price level is determined so that the current real deficit is equal to the present discounted value of real net tax receipts. Otherwise, the government is unable to pay its debts. Not even the government is entitled to a free lunch. Given Japan's high debt-GDP ratio, a period of hyperinflation would be theoretically unsurprising.

The fiscal view of the price level determination is very simple and mathematically compelling, but doubts remain, especially in respect of day-to-day price or wage setting by firms. Aggregate inflation is price or wage setting by firms. Aggregate inflation is eventually determined by the price and wage setting by firms. And in setting day-to-day prices, firms would appear to consider monetary, not fiscal conditions. Still, history shows that

hyperinflation occurs in countries with huge government debt. This is basically the reason why independent central banks were created.

So which is the more compelling theory? It is difficult to tell, but if Japanese citizens start to believe that the government is unable to collect enough tax to repay its debt, hyperinflation will become a distinct possibility. This is because inflation becomes the only way for the government to honour its obligations. A large direct purchase of government debt by the Bank of Japan could be a turning point in this regard — Japanese citizens might suddenly doubt the country's fiscal sustainability.

(An extended version of this article first appeared in [the East Asian Forum](#).)

The Three Arrows of Abenomics

By Manuel Panagiotopoulos – Guest View



After a week in Tokyo last month, I found a widespread optimism after discussions with *sogoshosha*, manufacturing, services and the public sector.

The masses of eager and smiling customers in department stores, boutiques and cafes, out to spend now rather than later, showed a 180 degree turn in Japanese minds.

The Abe administration's comprehensive measures to overcome deflation, stimulate economic growth and rein in government debt will find success if they remain clear, consistent, specific and believable. The government has to raise expectations and meet them. To the relief of the Japanese, it has so far been successful.

Abe made himself Chair of the Industrial Competitiveness Council, which will produce its growth strategy next month, ahead of the G8 meeting. His announcement of Japan joining the TPP discussions, with 'everything on the table', came well ahead of the Upper House elections, contrary to the 'safe political route'.

Abe's first arrow, a quantitative easing program, driven by new BOJ Governor Kuroda with an explicit goal, exceeded market expectations, a

Hello and welcome to the June 2013 edition of JETRO Sydney's English Newsletter. Please join us in learning from Guest Views on the progress and prospects of 'Abenomics', infrastructure missions, a case study in Australian manufacturing, and the developing RCEP negotiations. Also, a debut message from the Australia-Japan Society of NSW President, and a welcome and farewell to some new and old members of the team. Please read on and enjoy!



rarity for Japanese policy. The succeeding rapid depreciation of the yen raised expectations for export-related industries, and therein boosted the share market by more than 50%. The policy has been successful as a kick-start.

The second arrow, fiscal policy, focused more on the elements for changing incentives than expenditure. Among others, there are tax credits for higher R&D, higher levels of investment, increased employment numbers, and higher wages bills – the last recognized as key in the ultimate success of these policies. Abe even met with unions to urge them to push for higher wages.

The third arrow, structural reform and strategies for growth, is most important. General strategies include increased labour-market mobility and ease the burden on start-ups. In agricultural sector, promoting reform, consolidation, accumulation of farmland, large scale operations and exports.

The health and medical sector (one of Japan's largest) gained special attention: reduce screening times for regenerative pharmaceuticals; shorten certification periods for medical equipment; encourage smaller companies into medical equipment sector. There are also moves to deregulate Over the Counter drug sales, and establish a Japanese version of the National Institute of Health, to promote development of cutting-edge medical technology.

Electric power reform is also on the cards: Transmission and Distribution would be legally separated, and Retail would be opened up to new entrants. Similarly, water utilities, expressways and airports could be opened up to private investment.

Finally, to further open up Japan: eased visa requirements for South East Asians; increasing inbound tourism numbers; and most importantly, the pursuit of FTAs - the Australian one is tantalizingly close to completion.

The cumulative effects of numerous reforms, incentives, deregulation, privatization and monetary policy should achieve significant positive outcomes in Japan. They cannot be implemented overnight but we and the Japanese will be monitoring closely.

Japan-Australia Business Co-operation Council Second Infrastructure Mission to Australia



The Japan-Australia Business Cooperation Committee (JABCC), which is chaired by Mr Akio Mimura from Nippon Steel & Sumitomo Metal Corporation, dispatched a second infrastructure mission to Australia from April 15th - 18th 2013 (the first was held in 2009). The mission was led by Mr Hidehiro Yokoo, President of JETRO and the Chairman of JABCC's infrastructure sub-committee. It comprised of 50 people from 26 Japanese companies.

The mission had a very comprehensive schedule visiting Sydney and Melbourne with assistance by the AJBCC, JABCC's Australian counterpart. They learned a lot about Public-Private Partnerships (PPP), PPP procedures and PPP projects through meeting key players from industry and government, and attending briefings by experts and state government officials. In addition, site visits included Sydney's Lane Cove Tunnel and Royal North Shore Hospital, and Melbourne's Convention Centre, Southern Cross Station and Royal Children's Hospital.

At the first Infrastructure Mission to Australia comprising high level business leaders, the PPP model was studied comprehensively. But this time the mission consisted mainly of those who are in charge of infrastructure business pursuing practical knowledge.

Briefings and site visits in Australia provided the mission information on PPP giving specific references to cases which have been both successes and failures to learn from, making it very worthwhile. In addition, the mission learned that the PPP's proportion of total infrastructure projects is 15% (Project figures) which is not large, with the remaining 85% consisting of conventional government procurement and privatization of public assets. They also learned that Australia welcomed Japanese firms' investment in PPPs as well as in conventional infrastructure projects.

The mission learned that Australia understands the significance of promoting PPP because it incorporates innovative proposals from the private sector that could not otherwise be realised by conventional government procurement. As a result of these innovative proposals, the facilities and services built often become very attractive, also this ensures PPPs maximise value for money. As an example, with regards to a case road construction, there was a proposal for the connection of existing road systems making a more efficient route. In the case of a general hospital, robots were utilized to reduce the cost of labour for carrying linen. And in a children's hospital, the passageway from the entrance to in-patients waiting room featured an aquarium which relaxed the children.

Private sector input as demonstrated throughout the mission all have great implications for Japan, whose PFI (Private Finance Initiative) model is starting to be implemented



Mr Yokoo and Victorian Premier Denis Napthine

Case Study:

By Thomas O'Keefe, JETRO Sydney



Robert Bratusa,
Group Manager
International Business at
Impact International

Impact International Pty Ltd is a Sydney-based manufacturer of tubes for pharmaceutical, cosmetics and food industry clientele. As of late 2012, *Impact International* has, with the aid of JETRO's key services, successfully incorporated its new Japan-based joint-venture subsidiary, *Kimpact Japan KK*.

If you have a tube of toothpaste, sunscreen, medicine or processed food in your house, there is a good chance that tube was manufactured by *Impact International*. Located in Smithfield, the *Impact International* headquarters and factory has operated since 1958, a proud story of three generations of family ownership.

Robert Bratusa, Group Manager of International Business for *Impact International*, headed up the Japan expansion, and was in close contact with the various elements of the JETRO team in Sydney and in Tokyo to achieve this ambitious move. "JETRO was the key organisation in making this move," Mr Bratusa testified after the hardest work was done.

The company's interest in Japan has stretched as far back as the last 20 years, when they began working with a Japanese company as their supplier. By 2011, *Impact* was engaged both directly and indirectly in business with



Japan. The time came then to consider the best and most logical approach, taking this involvement to the next stage. Mr Bratusa, himself a veteran of international business through experiences working in and around Europe and part of Asia, was able to identify the key problems to that point. Essentially, over the two decades of interaction with Japan, contact points and people had come and gone, and the general flow of planning and decision-making was affected. "Japanese business culture is based on relationships, and we saw that we would be more successful if we had our own official entity within Japan," says Mr Bratusa, "even greater if we can have high-level managers on-site in the country." Mr Bratusa is of course correct in his analysis, as general JETRO history has proven that a local entity in the Japanese market makes all aspects of an international business there run that much more efficiently and profitably.

Mr Bratusa and the team at *Impact International* did their homework well, and, in November of 2011, approached JETRO upon referral from both Australian and Japanese sources.

Arrangements were made via JETRO Sydney and JETRO Tokyo in Japan, to meet with all the necessary experts and officials for consultation on critical elements of the Japanese incorporation,

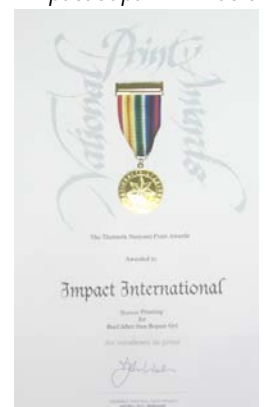
including: formalising corporate structure, market information, labour legislation, industry regulations, corporate governance and directorship, location of the new office and all that securing it entails.

Mr Bratusa attests: "I was able to prepare very well, and held 14 meetings over five days while there in December 2011". The rest, as they, say, is history. Over the succeeding months, Mr Bratusa and *Impact International's* JV partner sorted out their own arrangements, and by August 2012 *Kimpact Japan KK* was a reality.

Mr Bratusa also says that "JETRO was the key organisation and source of most of our information. And if they couldn't give it to us directly, they always pointed us in the right direction.

For now, *Kimpact Japan KK* acts primarily as a sales office, however it will hopefully not be the end of

Impact International's work in Japan. And when the time comes to up the ante even further, the prospect of JETRO's own Invest Japan Business Support Centre (IBSC) free office space and specialist consultation services will prove very useful indeed.



Impact International received the Gold 30th National Print Awards in May of this year.

MD's Message – Takashi Tsuchiya



The first round of negotiations of the **Regional Comprehensive Economic Partnership (RCEP)** was held in

Brunei from May 9 to 13. It appears that RCEP has not drawn much attention in Australia and remains relatively unknown compared to the TPP. However, as recommended within the recent White Paper on *Australia in the Asian Century*, Australia's future growth will be augmented by growth in Asia. Therefore, it is beneficial for Australians to heed this regional development.

RCEP is an ASEAN-centered proposal for a regional free trade area. Initially it shall include the 10 ASEAN member states, and those countries that now hold FTAs with ASEAN—Australia, China, India, Japan, Republic of Korea and New Zealand. The RCEP negotiations were launched by leaders from ASEAN and ASEAN's FTA partners in Phnom Penh, Cambodia on 20th November 2012, aiming for finalisation by the end of 2015.

As described in the Joint Declaration on the Launch of Negotiations for RCEP by the Heads of State/Governments involved, the chief objective is to:

“...achieve a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement establishing an open trade and investment environment in the region to facilitate the expansion of regional trade and investment and contribute to global economic growth and development...”

Among other issues, the RCEP agreement will cover:

- ❖ Trade in Goods,
- ❖ Trade in Services,
- ❖ Investment,
- ❖ Economic and Technical Cooperation,
- ❖ Intellectual Property,
- ❖ Competition,
- ❖ Dispute Settlement

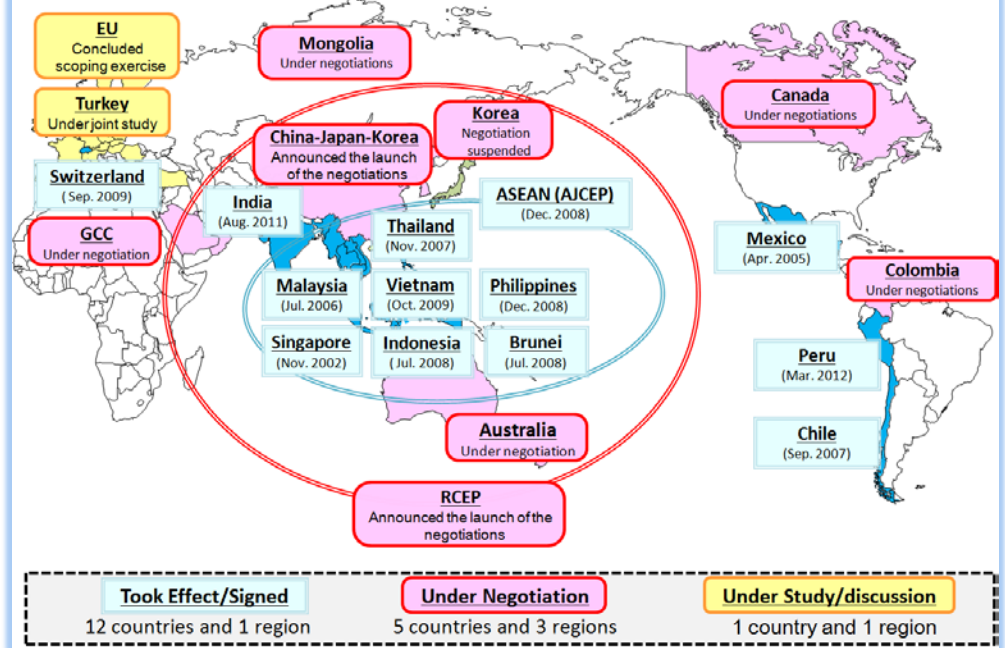
RCEP will have broader and deeper engagement, with significant improvements over the existing ASEAN+1 FTAs, while recognizing the individual and diverse circumstances of the participating countries.

Regarding *trade in goods*, negotiations should aim to achieve a high level of tariff liberalization through building upon the existing liberalization levels between participating countries.

Regarding *trade in services*, RCEP will be high-quality, comprehensive, consistent with rules and with all service sectors subject to negotiations.

Regarding *investment*, negotiations will cover the four pillars of promotion, protection, facilitation and liberalisation.

Development of Japan's EPA/FTA Networks



From the perspective of Japanese companies, this region is very attractive as a market, with a growing middle-income population (1.46 billion in 2010 to 2.31 billion in 2020). Also, supply chain networks in this region have been highly developed till now.

Companies need to integrate into the supply-chain networks to increase exports to the growing markets in the region as well as to outside of the region. Currently, companies are troubled with different rules of various EPAs, such as rule of origin, etc. Therefore, simple, unified and business friendly rules under RCEP are necessary to further facilitate cross-border supply chain networks.

From the Australian perspective, the vitality of this region is to be a major source of Australia's economic growth in the 'Asian Century'.

According to the Department of Foreign Affairs and Trade (DFAT), around 48,000 Australian companies/organizations export to RCEP countries each year, and it is estimated that around 5,400 Australian companies have some form of representation in RCEP countries.

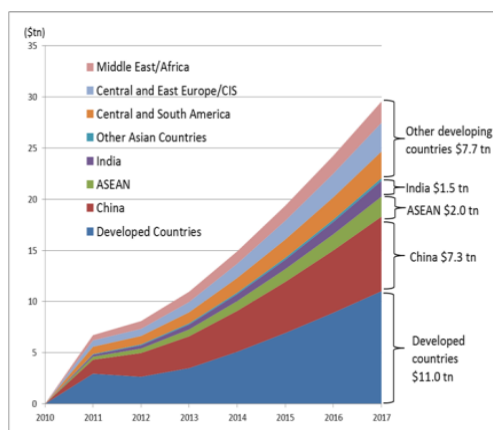
DFAT also mentions that over the past decade, Australia's trade with RCEP countries has increased significantly, recording annual growth of 10.7% compared with Australia's overall annual growth in two-way trade of 7.8%. These countries cover almost 60% of Australia's two-way trade, valued at \$356.4 billion in 2011.

In the first round of negotiations in May, the scope and method of negotiations were discussed, amongst other issues. It is significant to note that the second round will be held in Brisbane between September 24 and 27.

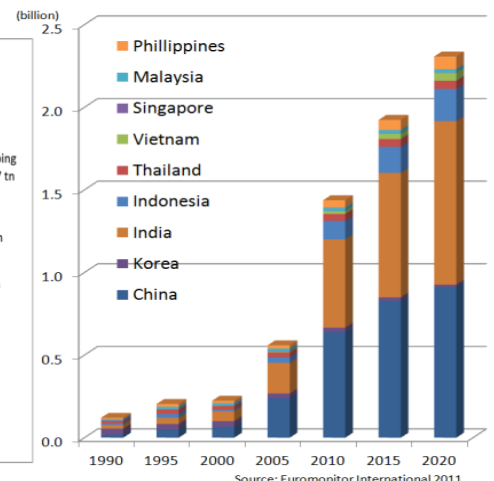
Expanding markets in Asia

- ASEAN, China and India: responsible for 1/3 of world economic growth.
- Middle income population in Asia: 1.46 billion (2010) -> 2.31 billion (2020)

Expected growth of GDP in the world (growth from 2010)



Expansion of high/middle income population



A Message from Philip Mitchell, President of the Australia-Japan Society of NSW



Mr Philip Mitchell is a Partner at Tress Cox Lawyers in Sydney, where he leads the International Business and Corporate Finance Group, which regularly works with foreign trade offices of multiple nations. He speaks fluent Japanese and has many years experience as an adviser to overseas enterprises doing business in Australia and the Asia-Pacific region.

As well as the Presidency of the AJS-NSW, Philip is a member of the Australia-Japan Business Co-operation Committee and of the Japan Chamber of Commerce and Industry.

Previously, he has also spent two years in Tokyo on secondment to the head office of a major Japanese corporation and has travelled extensively on business throughout Asia, Europe and North America. Philip has joined us this month with some thoughts on the state of the Australia-Japan business relationship:

"I believe now is a crucial time in Australia-Japan relations. While it has become fashionable to think of China as Australia's main Asian focus, it is timely to remember our strong existing relationship with Japan and the significant future opportunities this presents."

"As a proportion of its population, Australia has a noticeably large number of its productive workforce familiar with Japanese language and culture. While much of this talent is actually hidden, unused and unappreciated by Australian business in recent years, Australia has potential to use this bank of talent to capitalise on Australia's advantages. Mineral resources, an educated and innovative work force, first-class agricultural production and natural environment, and technological and business know-how – these are Australian advantages that can be used to supply Japan with its various needs now and in the coming decades. To the same extent Australia and Japan can co-operate to supply third countries, as the Asian region returns to its traditional position of producing the majority of the world's economic growth."

On July 2nd, the AJS-NSW will host Mr Mark Willacy, ABC North Asia correspondent, looking at the inside story on the Fukushima disaster of 2011. The AJS-NSW Business Series will continue in August with Ms Jane Madden, General Manager of Investment at the Australian Trade Commission, who will look at Japanese investment into Australia. See the AJS-NSW website for all relevant information, including how to register for upcoming events at www.ajsnsw.org.au.

JETRO Sydney's office contains a library of information on doing business in Japan. The **Attractive Sectors** information brochures

spotlight sectors of industry and economy with special focus from the Japanese government. These include **Biotechnology, ICT and Clean Technology, and more.**



Find us online at www.jetro.go.jp/australia

Event Report :

Brisbane,
March 27th, 2013



Life Sciences Briefing - Japan: Key Insights for Success

By Rie Aida, JETRO Sydney

Brisbane City Council and JETRO Sydney co-hosted the "Life Sciences Briefing – Japan: Key Insights for Success" at Clayton Utz Brisbane on 27 March 2013. We welcomed about 40 guests from Brisbane's life-science industry.

Mr Junzo Fujita, Consul-General of Japan, Brisbane, gave the opening remark which was followed by the welcome speech from Mr Andrew Hay, Clayton Utz partner. Mr Takashi Tsuchiya, Managing Director of JETRO Sydney, talked about the recent Japanese economic trends since the new Abe government was created. He also introduced the business opportunities in Japan.

The second speaker, Mr Katsumi Maruyama, Managing Director of V2V Pty Ltd, explained the overview of the Japanese Life Sciences industry. He specialises in facilitating Australian and Japanese life science business, and talked about the benefits for Australian companies in doing business with Japan.



Mr Tsuchiya covers recent economic trends in Japan.

The last speaker was Professor Maree Smith, who is Executive Director of the Centre for Preclinical Drug Development (TetraQ), at the University of Queensland. Based on her experience in her business with Japan she advised the Australian companies on how to approach Japanese companies and what to be aware of in doing business with Japan. The audience keenly listened to each speaker and questions led to the exciting discussion during Q&A. The seminar was followed by networking and the audience expressed high satisfaction with the informative seminar.



Mr Katsumi Maruyama,
Managing Director of V2V Pty Ltd



Professor Maree Smith,
Executive Director of TetraQ



Mr Junzo Fujita,
Consul-General of Japan,
Brisbane

Where We Were This Quarter



Mr Tsuchiya presenting at the Life Sciences Briefing in Brisbane, March 27th



With Queensland Treasurer The Hon. Tim Nicholls (centre)



With Premier of Queensland, Mr Campbell Newman MP (centre)

JETRO IBSC - Your Bridgehead into Japan

For any company, government or organisation looking to expand their business into and through Japan, JETRO should be your first stop.

Once you've contacted us (*the website is www.jetro.go.jp/australia*), you will have begun planning your leap across the Pacific Ocean.

Our 'bridgehead' consists of several government services, including **free office space** and access to all necessary experts for incorporation in Japan. The **JETRO Invest Japan Business Support Centre**, or IBSC, is where you want to be.

JETRO IBSC allows FREE use of office space and essential services for a maximum of 50 days (conditions do apply) – this will be more than enough time to sort all your affairs, and set up your Japan-base efficiently, quickly, officially, and legally.

JETRO IBSC is located in the heart of business and financial districts in these major Japanese cities:

- *Tokyo* *Yokohama*
- *Nagoya* *Osaka*
- *Kobe* *Fukuoka*

JETRO's TTPP is a business partnering database that anyone can use, "Free, Anywhere, Anytime." Companies and individuals in more than 170 countries search and browse through literally tens of thousands of business proposals. Through TTPP, reach out to potential business partners in Japan and internationally by registering your company information and posting your own proposals.

Find TTPP on the JETRO website at www.jetro.go.jp/ttppoas/index.html



JETRO Tokyo

JETRO Osaka

Welcome and Farewell to our Directors

This quarter we both welcome and farewell key members of the JETRO Sydney team. Our Deputy Managing Director, Tatsushi Tamoto, leaves us after 3 years 3 months, and will return to Japan at the end of June. We will also welcome the new DMD, Mr Kunihiro Nakai, at the end of June. Our fond farewell also went out to Mr Seiichiro Komiyama, our previous Research Director, who has since already returned to Japan.

The Business Development Department has a new Director, Ms Minako Kawasaki, while the Research Department also has a new Director, Mr Tadayoshi Hiraki.



Ms Kawasaki joined us as of mid-April. Prior to Sydney, she worked in Administrative Affairs at JETRO Tokyo, where, among many things, she built e-learning materials for use by potential Japanese importers/exporters, and helped organise Japanese showings at several overseas exhibitions in many industries, such as apparel, machines and television anime content. Some of the biggest shows include the "Japan Fashion Fair" in Shanghai, and *Maison et Objet* in France. She

comes to us with a wealth of overseas travel experience, having lived in the UK briefly when she was younger, as well as having visited many countries in Asia, Europe and North America over the years. Now is her first opportunity to live in Australia.

While at JETRO Sydney, Ms Kawasaki's main goal is to further articulate the essence of what Australia is for the wider Japanese business community, promoting trade, especially on the small-medium enterprise (SME) level. Among the challenges ahead is the aim of bringing Australia further into the limelight from the Japanese perspective, and reminding Australians of the long-standing importance and benefits of doing business with Japan. There are indeed several areas to consider, Ms Kawasaki says, and one cannot really understand without first visiting and feeling the nature of the country and its culture.

Mr Hiraki joined us in May. Prior to Sydney, he worked in the Structural Statistics Office of the Ministry of Economy Trade and Industry in Japan, surveying all manufacturing factories (approx. 500,000!) within Japan. He has been charged with reforming the Japanese statistics system, so that our users in Japanese government and private sectors can understand Japan's statistics in a more user-friendly way. Prior to that, Mr Hiraki worked at the Trade Policy Bureau, focusing on bilateral relationships between Japan and the EU member states, working to strengthen ties through trade and economic relationships. Mr Hiraki has lived briefly in the UK, with now being his first opportunity to moving abroad with his family.

While serving in JETRO Sydney, Mr Hiraki's main goal is to clarify the Australian economic structure, especially in comparison with other countries. In the current Australian economic context, this should be a very interesting and important job to do. Among the most important tasks, he says, will be identifying what will truly replace mining and resources as the next great economic driver of this country. All those who use JETRO's informational services (which is quite a large array of public and private entities in Japan) will undoubtedly find this and the rest of Mr Hiraki's work here to be very useful and comprehensive.

Both Mr Hiraki and Ms Kawasaki are happy to see that the relationship between the two countries is a strong one, and will work diligently to make it even more so. We warmly welcome them and hope they have an interesting and memorable life during their tenures in Sydney!



Bullet Train Dreams

Editor's Note – Thomas O'Keefe



This year has hosted a resurrection of a long dormant idea, and a dream of many: an Australian high-speed rail (HSR). It gathered steam

at several points in the last few decades, but ran off the rails each time for one reason or another. Monetary cost, that eternal worry, made the decision for us in each derailment.

Cost is always a good reason to can an idea, on paper. But too often it eclipses the bigger issue that is quintessentially a modern Australian one: lack of *actual domestic industrial capacity* to build and maintain such an undertaking.

Other excuses include concerns that the cost/benefit analyses just won't add up – why build a train line over and under hundreds of kilometres of rural countryside? Perhaps the *Field-Of-Dreams* approach is the antidote here. Post-war Japan was hardly a place of supreme affluence and industrial prowess, yet the first bullet trains were built and run by 1964. Despite corroborating evidence of the virtues of HSR from Europe, Australia remains idle.

Questions abound, of course. Do we need it? How long will it take? Can we afford it? More significant than all is: Can we afford *not* to have it?

The merits, from the passenger's perspective, are self-evident. From the nation-builder's perspective, just compare Japan pre-*Shinkansen* and post-*Shinkansen*.

The state of the global economy is no excuse – it is in fact a powerful motivator: the Sydney Harbour Bridge could never have been built if not for the Great Depression.

So why is it still a dream? Are we bent on looking at things the way they are *right now*, and blind to the concept of changes-with-time? Have we really all agreed that if nothing is done, nothing can go wrong? Australia will certainly suffer if nothing is done. The good news is that History is on our side.

Hesitancy is not.



Left: Farewell Mr Tamoto (left)

Right: Farewell Mr Komiyama (centre)



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