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Australia and Japan

A New Economic Partnership in Asia

A Report Prepared for Austrade

by

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This report urges a paradigm shift in thinking about Australia's economic relationship with Japan. The Japanese market is a market no longer confined to Japan itself. It is a huge international market generated by the activities of Japanese business and investors, especially via production networks in Asia. More than ever, Australian firms need to integrate more closely with these supply chains and networks in Asia.

Structure of the Report

1. Summary

Japan is the second largest economy in the world, measured in terms of current dollar purchasing power. It is Australia's largest export market and, while it is a mature market with a slow rate of growth, the absolute size of the Japanese market is huge. These are common refrains in discussion of the Australia-Japan partnership over the last two decades or so. They make an important point. But they miss the main point about what has happened to Japan's place in the world and its role in our region and what those changes mean for effective Australian engagement with the Japanese economy.

There has been a big structural adjustment in the Japanese economy over the last two decades. Leading Japanese corporations have moved to establish a formidable presence internationally, especially in Asia, as they rationalised production and sought an efficient international manufacturing base through taking advantage of lower cost production locations around the region and the world. In 1990 only 11.4 per cent of Japanese electronics manufacturing output was produced offshore. By 2007 that share had risen to 45.5 per cent for electronics and 33.2 per cent of all manufacturing output was produced offshore.

This report urges a paradigm shift in thinking about Australia's relationship with the Japanese economy. The Japanese market is no longer confined to Japan itself. It is a huge international market generated by the activities of Japanese business and investors, especially via production networks in Asia. It is a market enhanced by the economic cooperation programs of the Japanese government throughout the developing world, particularly in the Asian and Pacific region. And it is a market in which Japanese business now plays an increasingly important role from an Australian base in manufacturing, agriculture and services.

Australia's commercial interests with Japan now extend well beyond export and import business with Japan proper. The relative share of trade with Japan itself has naturally declined alongside the growth on the other economies in Asia, including China and Southeast Asia, as Australia's trade with other East Asia has grown (see Appendix 1). But the reach of the Japanese economy into the Asian region and internationally means that the development of Australian national and corporate commercial strategies to realise the potential of the Japan relationship requires a conception of it that extends beyond the home base. Many of the products of Sony, for example, are now imported from China or other parts of East Asia. Japan used to be our main export market for wool. Now the largest market is China where imports are processed not only by Japan-invested but also Chinese enterprises for home consumption in China but also, significantly, for export to the still large Japanese market for woollen clothing.

The stock of Japanese investment in Asia amounted to A$ 180 billion out of Japan's global investment of A$ 772 billion at end-2008 (latest available, converted at $A = 80 yen). The flow of export and import trade which Japanese business generates in Asia each year was US$ 690 billion in 2008.

Procurements through Japanese corporate subsidiaries in Asia amount to A$ 1.2 trillion annually.

In addition, Japan spent A$ 11 billion (901 billion yen) in Asia on ODA programs and procurement through economic cooperation programs.

Japanese business has now also established a platform for export to the region from Australia that already delivers A$ 6 billion in Australian sales to Asian markets other than Japan.

These are all large new elements in the economic relationship with Japan beyond the A$ 51 billion export trade and A$ 20 billion import trade that Australia already does each year with Japan itself.

The potential to capitalise on these new elements in Australia's relationship with Japan in Asia is founded on the strength and familiarity in the established bilateral trade relationship with Japan. Long commercial partnerships have already been transformed through trade into third countries. There is the infrastructure of institutional and personal commercial ties that makes doing business together elsewhere in the region an easy step to take. There is the familiarity in dealings between our governments and official agencies that facilitates commercial initiatives that require an official input. There is the history of Japanese business dealings from an Australian base – the indigenisation of Japanese corporations in Australia that has made them an important and familiar part of the national commercial and social landscape. These are assets that Australia has in developing the potential of the relationship with Japan in Asia, beyond Japan itself.

These developments recommend a fundamental re-thinking of national and corporate strategies towards Japan and at least five major initiatives that encompass the new realities of the relationship with Japan in Asia:

- a *corporate Japan and Australia in Asia program* that supports the development of Australian-based business with Japanese corporations in Asia through mobilising capacities from both Australian and Japanese business and government agencies
- *Japan Australia Business Asia Awards* that give bi-national recognition and encouragement of Japanese business efforts building market from an Australian base
- promotion of *Australia's clean, green brand in Asia*, and Australia as a clean, green and environmentally innovative supplier to Asia with leading partners in Japan
- a *Japan and Australia in Asia development program* to cement a bilateral effort to build Asian development infrastructure, through a campaign supported by Australian and Japanese agencies to lift competitive Australian participation in Asian development projects funded and supported by the Japanese government
- *an Australia–Japan model of regional integration,* with a fresh approach to the negotiation of the Economic Partnership Agreement with Japan, focusing on the achievement of deep and efficient economic integration of the two economies in Asian and global markets and serving as a model of regional integration with open

These are important new economic interests in the partnership with Japan in Asia. These proposals extend well beyond Japan and Australia's economic relationship, into shared political and security interests in Asian prosperity.

The agenda is for a fresh, practical engagement with Japan in Asia. It is an agenda that naturally deepens the bilateral relationship and extends the range of mutually beneficial working relationships both countries will have in Asia.

It is an agenda that can form the core of a positive set of initiatives with the new Japanese administration at the highest levels of government.

2. Japan in Asia – Australia's Economic Interest

After the 1980s, leading Japanese corporations moved to establish a formidable presence internationally, especially in Asia, as they rationalised production and sought an efficient international manufacturing base through taking advantage of lower cost production locations around the region and around the world. Japanese business was the driver of the growth of the large scale production networks that are now the heart of economic integration in the East Asian economy (ADB, 2008). There is now a huge footprint of Japanese trade, investment and procurement across East Asia, beginning in ASEAN, encompassing China, and now extending into South Asia. India is a growing destination for Japan's direct investment abroad.

Figure 1: Japanese Overseas Subsidiaries by Country and Region, 1989-2008 (no. of affiliates)

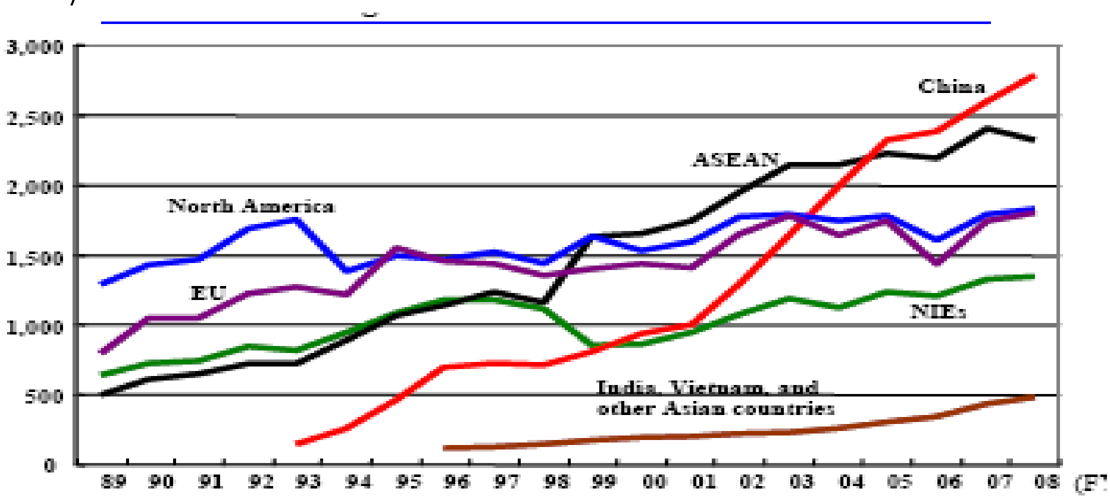
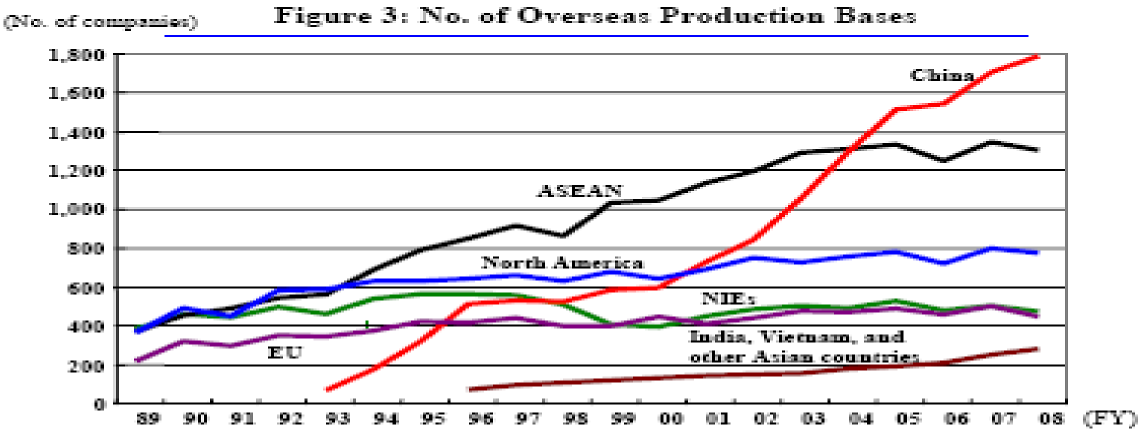
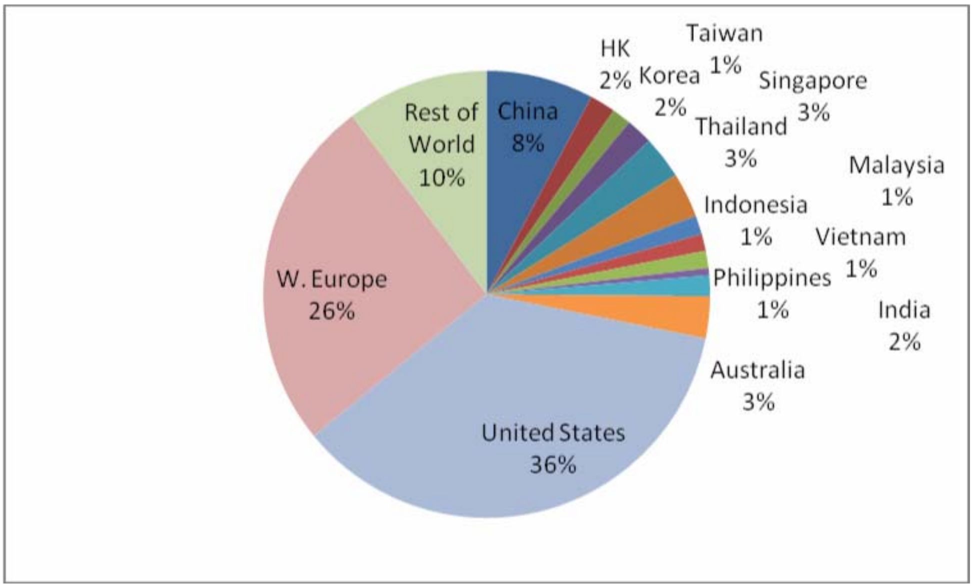


Figure 2: Japanese Overseas Production Bases, 1989-2008



Source: Japan Bank for International Cooperation (2009), 20th Annual Survey of the Overseas Subsidiaries of Japanese Companies, Tokyo. See: http://www.jbic.go.jp/en/about/press/2008/1125-02/2008_en_latest.pdf

Figure 3: Japanese Direct Investment in the Region and the World, end-2008



Source: Bank of Japan (2009).
See: http://www.boj.or.jp/en/theme/research/stat/bop/bop/index.htm#dip

Figures 1, 2 and 3 show the growth of Japanese investment in key Asian markets over the last twenty years and their share in the stock of Japan's total direct investment abroad at end of 2008. Almost 30 per cent of Japan's total direct investment abroad is now in Asia (for details see Appendix 2).

Japanese Industry and Markets in Asia

Japanese off-shoring started with textiles but the big take-off of Japanese production networks and supply chains in Asia came with electronics. These networks now encompass, to a greater or lesser degree, every aspect of Japanese manufacturing activity. Table 1 shows the scale of Japanese offshore production across the main sectors of manufacturing. In 1990, only 11.4 per cent of Japanese electronics manufacturing output was produced offshore. By 2007 that share had risen to 45.5 per cent and the same share was 33.2 per cent for all manufacturing.

Table 1: The Proportion of Japanese Manufacturing Output Produced Overseas, 1985-2007 (per cent)

Industry	1985	1990	1995	2000	2003	2007
Chemicals	2.0	5.1	8.3	13.4	16.9	24.1
General machinery	3.4	10.6	8.1	12.1	18.4	25.8
Electrical machinery	7.4	11.4	16.8	21.9	38.8	45.5
Transport equipment	5.6	12.6	20.6	31.1	28.7	35.5
Total manufacturing	3.0	6.4	9.0	13.4	26.1	33.2

Note: these shares equal overseas production divided by total production.
Source: JBIC (2008)

Japanese companies—especially companies in the electronics, transport equipment and trading sectors—now have a well-established production, sales and distribution network across Asia. The internationalisation of Japanese industry created a world-wide network of subsidiaries, and parts and components supply chains, heavily concentrated in Asia. Initially, investment focused on production behind tariff walls in ASEAN and South America, in order to secure market share to markets where barriers to imports were high. The frontrunner electronics and automotive industries were followed by firms in related industries which provide materials and services under sub-contract to tier-one corporations such as Matsushita and Toyota.

Overseas business networks include sales and marketing, production and research. The assembly and production of electronics whitegoods (such as refrigerators and microwave ovens) in ASEAN and China for the US and, increasingly, for the once-closed Japanese market often involves supply chains in which the headquarters and research functions of firms are based in Japan, while component production and assembly is undertaken in lower-cost locations.

The success of Japanese exporters and importers has been facilitated by 'trade-servicing' investment such as the creation of sales and service offices in overseas markets, sectors in which trading companies earlier played a prominent role. Investment in commerce to build wholesale and retail networks is complementary to the expansion of Japanese trade and business abroad. Early Japanese investment to the United States was an 'adjunct' to trade, and the subsidiaries of trading companies such as Mitsui, Itochu, Marubeni and Mitsubishi handled over 94 per cent of US exports to Japan and 86 per cent of US imports in the 1970s (Wilkins, 1990).

In East Asia, by contrast, production affiliation has been much more important in the Japanese economy's transformation away from light industry in the 1960s, to heavy and machinery in the 1970s and 1980s, and high value added manufactures and services by the 2000s. Import competition in the home market was restrained by requests from government and industry associations to restrict exports from lower cost overseas production bases to the home market to avoid damage to vulnerable firms there (Yoshimatsu, 1996). These restraints are largely a thing of the past. Sales back to Japan have trebled since the beginning of this decade.

The procurements of Japanese subsidiaries in production networks throughout Asia represent a huge new opportunity not only for exports from affiliated Japanese firms in Australia but also for Australian firms that have, or can develop, associations with Japanese business in Australia or Japan. The contribution of parts and components to the growth of trade in East Asia has been very large (see Appendix 3).

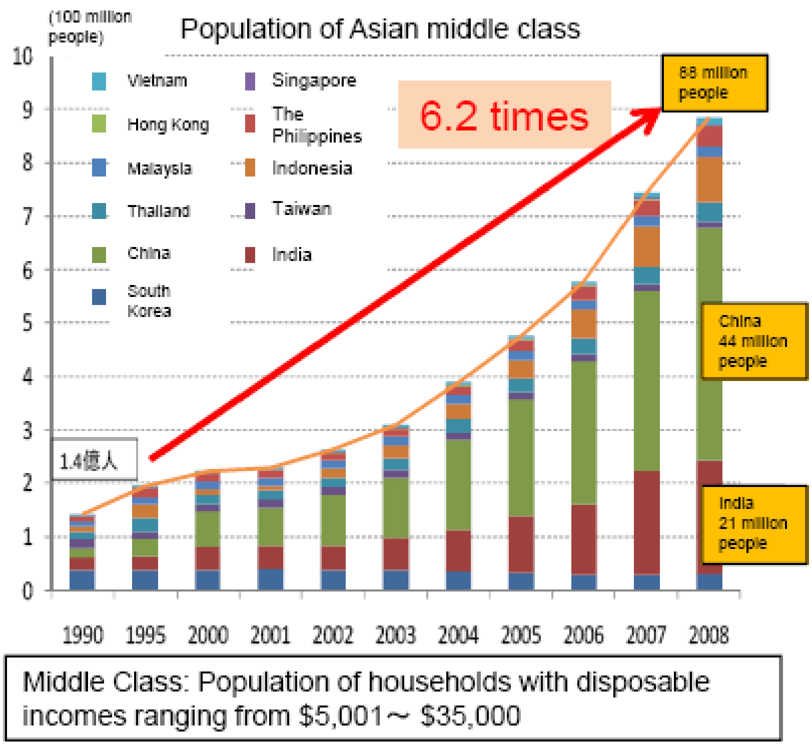
Japanese corporations do not now simply produce parts and components in Asia for export to the United States and Europe or back to Japan. They are also well-positioned suppliers to rapidly growing regional markets, fuelled by the rise of the Asian middle class (see Figure 2). Sales from Japanese subsidiaries in Asia to Asian markets other than Japan have more than trebled since 2000.

The shift in Asia towards expansion of domestic consumption following the global financial crisis, away from export-oriented production, will lift the base of Japanese corporate sales from production bases in Asia back into Asian markets themselves.

Apart from this dense network of business activity throughout Asia, Japan invests heavily in Asia's infrastructure through its development assistance programs. In 2007, Japan disbursed A$ 6.7 billion in grant and loan funds (on a gross basis) on bilateral projects in East and South Asia, of which A$ 3.4 billion went to projects in ASEAN countries (MOFA, *Development Assistance White Paper*, 2008).There is a particular interest in Japan in partnering with Australian expertise on Public-Private-Partnerships (PPPs) to leverage the impact of Japan's public aid funding of projects in the region.

Australian firms in financial servicing, construction, engineering, project management, technical training and capacity building need to be introduced to these opportunities. These are opportunities which thus far have been largely ignored because of lack of knowledge and the legacy of a past era when Japanese aid programs were exclusively to Japanese procurement.

Figure 4: The Growing Middle Class in Asia



Source: Japanese Ministry for Economy, Trade and Industry (2009), *White Paper on International Economy and Trade*, Tokyo. See: http://www.meti.go.jp/english/report/downloadfiles/2009WhitePaper/summary.pdf

3. Assets from the Australia-Japan Relationship

Australia and Japan share a close and complementary economic relationship. Japan was Australia's largest trading partner in 2008 and has been Australia's largest export market for over 40 years. Japan is also Australia's third largest foreign investor. Recently released ABS statistics show that Japan is one of Australia's fastest growing sources of foreign direct investment, with the stock of Japanese investment rising by 16 per cent from A$ 31 billion in 2007 to A$ 36 billion in 2008. The total stock of Japanese direct and indirect investment in Australia now stands at nearly A$ 90 billion (ABS, 2009). Japan is Australia's largest consumer of coal, LNG, beef and dairy products, while Australia is Japan's largest supplier of iron ore, uranium and aluminium.

Japanese investors are now well established in Australia as owners of iconic beer and wine brands, as well as owners or partners in a range of minerals and energy, processed food and other companies. Australia is becoming a regional centre for Japanese investment in food and beverages as Kirin, Asahi and others compete both to capture local and international market share and to build supply chains which enhance Japanese food security. The challenge for Australia is to broaden the primary focus of this supply chain, so that it no longer encompasses only the large Japanese domestic market but the vast network of Japanese business done in the Asian region – especially in China and ASEAN – as well.

A Lowy Institute survey published in 2007 found that Japan was more widely trusted 'to act responsibly in the world' than any other country, although the differences between countries were not great. While 73 per cent of respondents said they trusted Japan 'a great deal' or 'somewhat', 68 per cent said the same for India, 60 per cent for China and 60 per cent for the United States. Despite frictional issues such as Australian concern over Japanese whaling and memories of the Second World War, these results suggest Japanese companies are now familiar and trusted in Australia, unlike comparative newcomers from other major Asian economies. There are opportunities to strengthen bilateral cooperation in trade and investment in the region. At the other end, NHK polls show that, among all Japan's international partners, Australia is the only country in which Japanese trust and interest has been rising over the last decade (*NHK*, 2009).

The Roots of the Relationship

The Agreement on Commerce, signed on 6 July 1957, was the cornerstone of the strong bilateral partnership and allowed economic and other links to be developed despite the tensions that remained after the Second World War. It formalised and entrenched the shift towards Japan as a key export market and source for manufactured imports. By 1966, Japan had become Australia's largest export market, ahead of the United Kingdom. Commercial links are based on strong economic complementarity and have supported economic growth in both countries over the years.

The agreement laid the foundation of a five-decade long expansion of bilateral trade. Australia-Japan relations have developed into a comprehensive strategic relationship, including not only trade and investment, but also politics and security. In addition, Japan and Australia have worked actively to ensure the peace and prosperity of the Asia-Pacific region and the international community through initiatives such as the establishment of APEC and in the Cambodian peace process.

The Basic Treaty of Friendship and Cooperation of 1976 provided the foundations for a broader relationship through investment and people-to-people exchange. A range of other official and private bilateral mechanisms foster trade, investment and people exchanges.

Japan imports strategic resources and materials and exports vehicles and machinery to Australia. Japan depends on Australia for over 50 per cent of its imports of coal and iron ore which are indispensable to Japanese industrial strength. Australia is Japan's main supplier of natural gas (LNG) and uranium and it stands alongside the Middle East as a major energy supplier to Japan, with over one fifth of Japan's energy needs drawn from Australia alone.

The Treaty of Friendship and Cooperation (the Nara Treaty) was the foundation of Australia and Japan's non-economic ties. It provided a framework under which many areas of cooperation could be developed, including political and cultural links. It eased Japanese concerns about non-discrimination in immigration and investment and strengthened the security of resource supplies. The trade relationship had blossomed under the Agreement on Commerce; the investment relationship took off under the Treaty of Friendship and Cooperation. While the negotiations were protracted, the treaty ensured a stable framework for the growth of both trade and investment and also a much closer political relationship. Notable among developments that flowed from the Treaty was the Working Holiday Program—the first signed by either country—that allowed young people from Japan and Australia to enjoy long working holidays in each other's country.

On 16 July 2003, the Australian and Japanese Prime Ministers signed a trade and economic agreement, pledging each other to pursue closer economic relations. The framework encourages liberalisation of trade and investment through co-operation on customs, quarantine and the recognition of professional qualifications. It commits both countries to closer cooperation in 11 areas, including food, e-commerce and securities industry regulation. A Joint Declaration on Security Cooperation was signed between Australia and Japan in 2007. This security dialogue was the first entered into by Japan with another country other than the United States.

Private Sector Cooperation

The Japanese and Australian business communities have held high-level annual conferences since 1964. The latest meeting of the Australia-Japan Business Cooperation Committee (AJBCC) and its Japanese counterpart was in Perth, Western Australia, in October 2008 and the next is scheduled in Tokyo in October. More than three hundred and twenty delegates and accompanying persons gathered in Perth under the general theme of *Australia and Japan – Responding proactively to change*. The conference focused on the importance of energy security for Japan and the key role of Australian and Japanese firms in providing this security through trade and investment flows. Participants at the conference also recognised that Australia is not just a farm and a quarry, but also, noted that Australian services industries, such as finance and infrastructure, have a number of internationally competitive advantages.

Following that meeting AJBCC and its counterpart have put in place an active working-level program on how innovation and collaboration in a number of sectors in the new economy could open up future bilateral commercial opportunities.

There are huge assets in the relationship between Australia and Japan that both sides have invested in over the last 50 years. That is a remarkable diplomatic and national achievement. The governments have been important in that, but both communities more broadly have been active and generous participants. At the business strategic end are the Australia-Japan and Japan-Australia Business Cooperation Committees. They are assets that remain important to the relationship. There are the sister city and other community relationships. There are the university and school programs and exchanges. There is a deep public and private infrastructure, familiarity and goodwill that can now be deployed in elevating the relationship through developing the potential of the Australia and Japan partnership in Asia.

Challenges in Asia

The global financial crisis saw a sharp contraction of trade in East Asia, much of it in the past organised around supply chains to service industrial country markets outside the region. Now East Asia is leading recovery in the world economy and, if recovery is to be sustainable, regional production networks will have to turn increasingly towards supplying consumer markets in Asia itself, as North American and European consumption is adjusted to sustainable levels. This is likely to see an intensification of trade and investment growth in East Asia and further substantial expansion of markets around Japanese business activity in the region.

East Asia is again emerging as the fastest growing region of the world economy after the global financial crisis. Japan and Australia – as developed economies on the northern and southern axis of the region – can benefit together from the growing integration of the East Asian economies. They will do this better by seeking opportunities for working collaboratively to enhance Japan-Australia bilateral linkages in the region. Closer business cooperation can grow from enhanced government dialogues and programs. On 26 June 2009, Minister for Trade, Simon Crean announced a new bilateral ministerial dialogue with Japan's Minister for Economy, Trade and Industry. The inaugural meeting will occur later this year and the Ministers will aim to hold meetings on an annual basis.

Mr Crean said the new dialogue with Japan was another important step in deepening engagement between the two nations. 'The establishment of the Australia-Japan Trade and Economic Ministerial Dialogue reflects the maturity and sophistication of the bilateral trade relationship', he said. 'The inaugural meeting's priorities will be to discuss developments in the WTO, to explore new areas of trade and investment, and to advance the Australia-Japan Free Trade Agreement negotiations'.

This and other government dialogues, including the Australia-Japan Ministerial Committee Meeting process, can lay the foundations of an Australia and Japan Partnership in Asia. With the recent election of a new administration in Japan, it is timely to direct these dialogues towards initiatives that engage existing networks and associations in Japan and Australia, as well as official agencies (in particular, Austrade and JETRO).

The Initiative

The international environment has changed fundamentally in the aftermath of the global financial crisis. Australian firms need to strengthen their links with overseas markets, particularly the Asian growth markets. Developing access to Japanese supply chains in these markets and Japanese procurement is one way of doing this. There is a strategic opportunity to link to the trade and investment networks established by Japanese parent and subsidiary companies throughout the Asia Pacific region to include Australia.

There are thousands of Japanese subsidiaries across Asia, which are part of corporate supply chains involving procurement and sales worth hundreds of billions of dollars. Australian exporters, in cooperation with Japanese and other trading companies, should aim to further integrate with markets in Asia using these supply chains wherever the openings can be identified. This report discusses the opportunities for increased cooperation between Australian and Japanese companies in Asia – leveraged by government trade agencies such as Austrade and JETRO.

The *Australia and Japan initiative in Asia* would incorporate improved market information and access for small and medium enterprises to Japan-related business in Asia. One element of this initiative would be marketing and distributional initiatives to link SMEs to those Japanese firms which have already established supply chains into Japan and the region.

A second important element would be the encouragement of *Japanese business operating from an Australian base* to build market synergies in Asia.

Australian firms need to focus on key sectors in which they have (or could establish) a competitive advantage in Asian markets – but these markets will be even more competitive in the wake of the global financial crisis. Australian firms need to project Australia's cutting-edge strengths: clean, green products and environmental technologies; internationally competitive business services such as education, legal services and tourism; and the export of goods such as food and agribusiness services where firms have either price or quality advantages, like reliable high standards. However, Australian firms have to keep working to enhance innovation, improve human resource capacities, and foster promising new industries. Australian firms are also seriously under-invested in Asia from the perspective of taking advantage of these opportunities. Over 55 per cent of Australia's trade is with East Asia, yet only 4 per cent of Australian direct investment abroad goes into the region (see Appendix 4). While outside the remit of this study, an adjunct campaign to promote Australian investment in Asia is important to the success of the initiatives suggested here.

The rapid growth of the Asian middle class presents a special opportunity for Australia. Australian firms would be specially placed to satisfy the Asian middle class' demand for environmental solutions, like the reduction of greenhouse gas and water conservation, for example. Australian firms have an edge in managing food safety and water security. By appealing to consumer sensibilities and *getting the Australian brand right and recognised*, demand for Australian goods and services in Asia can be dramatically lifted. This is a key year for developing policies on global warming, leading up to the Copenhagen meeting. In order to meet the long-term target of cutting worldwide greenhouse gas emissions, Australia is advancing innovative technological developments that deal with carbon dioxide emissions, such as efficient solar cells and cleaner coal-fired power generation. In Asian countries in which Australian coal is still a major source of power generation, as it is in Japan, China and Korea, the green initiatives provide significant opportunity for Australian firms.

A fourth element is to link Australian firms to *Japanese development programs in Asia*.

Both Australia and Japan are pursuing comprehensive economic cooperation initiatives along with the 16 nations of ASEAN, Japan-China–South Korea, India, Australia, and New Zealand. FTAs and EPAs need to encompass the link between open trade and investment. Reducing border measures such as tariffs through the negotiation of trade agreements is important. Two priorities are working to reduce behind-the-border measures that restrict trade and investment, especially in services, and developing an open model of Australia-Japan integration in Asia. This does not have to wait for the elimination of the last of the stubborn border restrictions on trade.

4. Japan's Footprint in Asia

Japan is one of the largest markets in Asia and remains the leading export destination for Australian firms – though it is being increasingly challenged by China in its overall importance in Australian trade. All the projections suggest (Drysdale, 2008) that Japan will continue to be a leading partner in Australia's prosperity, supplying Australia with manufactured goods and equipment (directly and through subsidiaries elsewhere in Asia) and purchasing a large share of Australia's exports. Japanese companies will continue to transfer manufacturing and service activities to Asia – in an attempt to lower costs, gain market access and maintain international competitiveness. Their Asian transformation is critical to Japan's top corporations' international competitiveness. There is already a vast network of Japanese subsidiaries in Asia which can be targeted by Australian exporters and especially by Japanese firms already located in Australia.

The Investment Footprint

As Japan's position in the global economy continues to change, exports from Japanese companies, including in the transport, electrical equipment and machinery sectors, are increasingly procured from Japanese firms in third countries, such as China, Thailand and other ASEAN nations. Australian firms are also increasing exports to these markets – though not often in collaboration with Japanese firms in Australia, which typically export directly to Japan. This is changing and there is scope for greater change. Over the past eight years, exports to Asia from Japanese firms based in Australia rose from A$ 1 to A$ 6 billion (Tables 3 and 4).

By the mid-2000s, the increased competitiveness of East Asian economies saw Japan increasingly become a direct market for Japanese overseas affiliates, traditionally suppliers of the European and North American markets. By 2005, around 60 per cent of Japanese manufacturing FDI went to East Asia, to both ASEAN and China (METI, 2007). Investment was increasingly spread right across the region. Even small and medium scale enterprises (SMEs), such as Japan Precision Instruments, had investments in both ASEAN and China to ensure a market presence in both – but also to avoid over-dependence on either as a source of parts, components or assembled products (Farrell, 2008).

Japanese firms undertook efficiency-seeking investment in East Asia, to relocate their high-cost, labour-intensive and inefficient production activities saw an explosion of intra-firm trade with countries like Singapore, Malaysia, Indonesia and China. The share of parts and components in Japanese manufacturing exports rose from 23 per cent in 1992 to 31 per cent in 2000 and is estimated at over 35 per cent in 2008 (METI surveys).

This form of investment geographically 'fragments' the production process by stages of production (Markusen, 2002; Athukorala, 2009). Japanese manufacturing affiliates in East Asia account for most of the workforce of four million employed by business overseas, with ASEAN and China dominating this total. An important development underway now is the surge of Japanese investment into India and South Asia. There was a huge rise in the sales of Japanese businesses abroad, from A$ 1.6 trillion in 2000 to A$ 2.6 trillion in 2008 (Tables 3 and 4) while their procurements jumped from A$ 1.2 to A$ 2.1 trillion (Tables 5 and 6).

Table 3: Sales of Overseas Subsidiaries of Japanese Companies, 2008 ((A$ billion)

Region	Domestic sales	Sales to Japan	Sales to third countries					
			Total	North America	Asia	Europe	Oceania	Total
Asia	438	215	295	28	223	23	2	948
China	156	87	96	13	74	6	..	339
ASEAN4	118	59	89	8	64	9	1	266
NIEs3	143	65	96	7	77	5	1	304
Europe	289	29	261	7	8	231	1	579
N. America	745	68	115	79	16	7	1	927
Oceania	33	20	14	..	6	1	1	68
Total	1549	386	742	126	263	265	4	2686

Note: Sales to Oceania estimated from average of regional sales in the 2000 survey, the last in which it was published for Oceania. Converted at $A = 80 yen.
Source: METI (2009), *Overseas Business Operations of Japanese Companies*, 37th Annual Survey, Tokyo (in Japanese).

Table 4: Sales of Overseas Subsidiaries of Japanese Companies, 2000 (A$ billion)

Region	Domestic sales	Sales to Japan	Sales to third countries					
			Total	North America	Asia	Europe	Oceania	Total
Asia	183	81	101	12	76	9	1	462
China	45	29	36	3	29	2	..	144
ASEAN4	46	25	25	4	16	2	..	118
NIEs3	86	25	39	4	29	4	..	188
Europe	264	25	124	15	7	97	..	532
N. America	580	39	55	25	12	9	..	722
Oceania	46	7	3	1	1	..	1	59
Total	1121	161	299	56	98	118	3	1583

Source: METI (2009), *Overseas Business Operations of Japanese Companies*, 29th Annual Survey, Tokyo (in Japanese). Converted at $A = 80 yen.

Table 5: Procurement of Overseas Subsidiaries of Japanese Companies, 2008 (A$ billion)

Region	Domestic procurement	Procurement from Japan	Procurement from third countries					
			Total	North America	Asia	Europe	Oceania	Total
Asia	382	220	178	5	134	4	3	781
China	135	93	57	1	52	1	1	284
ASEAN4	133	45	31	1	27	1	1	209
NIEs3	100	77	81	3	52	1	1	258
Europe	119	172	179	3	30	113	2	470
N. America	382	254	110	20	69	6	2	747
Oceania	23	21	8	0	6	0	0	51
Total	951	699	515	33	257	202	5	2164

Note: Procurement for Oceania estimated from average of regional procurement in the 2000 survey, the last in which it was published for Oceania. Converted at $A = 80 yen.
Source: METI (2009), *Overseas Business Operations of Japanese Companies*, 37th Annual Survey, Tokyo (in Japanese).

Table 6: Procurement of Overseas Subsidiaries of Japanese Companies, 2000 (A$ billion)

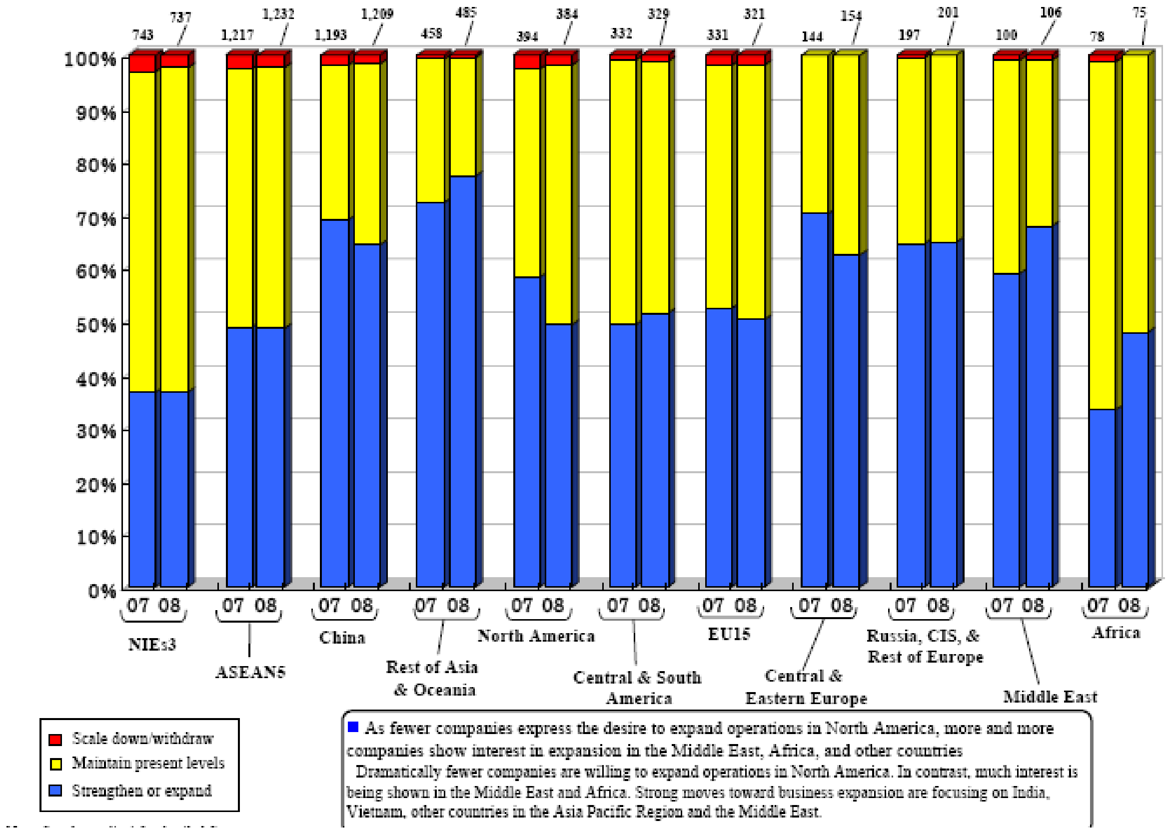
Region	Domestic procurement	Procurement from Japan	Procurement from third countries					
			Total	North America	Asia	Europe	Oceania	Total
Asia	118	104	67	4	54	4	1	289
China	38	33	22	1	17	1	0	92
ASEAN4	30	22	16	1	14	0	0	69
NIEs3	44	49	29	1	24	2	0	123
Europe	109	100	129	9	13	84	0	338
N. America	263	199	52	18	11	3	1	513
Oceania	13	22	8	1	7	0	0	43
Total	521	454	266	45	87	92	3	1243

Source: METI (2009), *Overseas Business Operations of Japanese Companies*, 37th Annual Survey, Tokyo (in Japanese). Converted at $A = 80 yen.

The strength of Japanese subsidiaries in Asia is not simply built on assembly for export to North American, European or now Japanese markets. It is increasingly built on the growth of the Asian market markets themselves. The sales of Japanese subsidiaries in Asia to Asian markets other than Japan grew steeply from A$ 71 billion to A$ 245 billion between 2000 and 2007. Sales back to the Japanese home market rose almost as rapidly, from A$ 81 billion to A$ 215 billion over the same period (see Tables 3 and 4). Procurements by these firms outside Asia, in 2008, totalled A$ 1.2 trillion of which A$ 515 billion came from sources other than in Japan. Japanese imports in 2008 totalled, by way of comparison, A$ 604 billion.

These trends are entrenched. Japanese corporations are embarked on a major expansion of capacity in Asian markets, as the global financial crisis has intensified strategic focus on the region. As Figure 5 reveals, more Japanese companies intend to expand operations in China and other Asia, including Australia, than in North America and other parts of the world.In the last few years there has been a huge push into South Asia.

Figure 5: Corporate Strategy of Japanese Companies by Region, 2009



Source: Japan Bank for International Cooperation (2009), 20th Annual Survey of the Overseas Subsidiaries of Japanese Companies, Tokyo. See: http://www.jbic.go.jp/en/about/press/2008/1125-02/2008_en_latest.pdf

The Japanese Trading Company Footprint

The Japanese business footprint in Australia is significant and growing. Japanese direct and portfolio investment in Australian was A$ 90 billion as of 2008. Direct investment amounted to A$ 36 billion of this total. This investment facilitates Australian exports of resources, energy and food to Japan. Japanese firms have increased their presence in a number of these sectors, especially the dairy, beef, beer, coal, uranium and LNG industries. There is considerable scope for the expansion of exports from Japanese businesses in Australia to Asia and of Australian firms to Japanese buyers in Asia. This represents a major opportunity for Australia's economic integration with the region.

The nine Japanese trading companies in Australia facilitate trade between the two countries. Mitsubishi and Mitsui rank as two of Australia's leading exporters. Trading companies initiated trade between Australia and Japan in many areas and are the vehicles for over 60 per cent of Australia's exports to Japan and 20 per cent of Japanese exports to Australia.

Japanese trading companies have created wholesale, retail and business services networks across the world to facilitate trade and investment flows. The role of trading companies as buyers of raw materials and intermediaries in wholesale trade has changed as many Japanese companies developed their own capacities to manage trade operations and overseas investment through their worldwide affiliates. In response, Japanese trading companies have restructured and diversified, becoming venture capital investors and partners in high technology industries.

Japanese companies have been major investors in Australia since the 1960s, when they also entered into long-term contracts for iron ore, coal and other minerals thereby allowing US and UK mining companies to make international financing arrangements for mine development. Mitsui took a 49 per cent stake in the Moura coal deposit in the Bowen Basin and a 33 per cent share of Robe River in 1965 and 10 per cent of Mt Newman in 1967. In subsequent decades, Japanese companies increased investment in joint ventures in Pilbara iron ore projects and east coast coal mines. More recently, investment has vastly diversified. In April 2008, Asahi Breweries completed a A$ 795 million purchase of Cadbury Plc's Australian soft drink business, while in early 2008, Kirin acquired National Foods for A$ 2.9 billion. Australia is now seen by Japanese buyers as a reliable and safe source of raw and processed foods. Australia enjoys an image of 'green, clean and safe' among Japanese consumers. It is a significant supplier of raw materials for food products in Japan. A large number of locally produced food products use ingredients from Australia, especially dairy products, wheat, crops and fruits. Japan is Australia's third largest foreign investor, with a stock of direct investment around A$ 36 billion.

Table 7: Japanese Trading Companies in Australia

Company	Entry year	Direct Employees	No of Investments	Rank as Australian exporter
Mitsubishi	1926	108	23	2
Mitsui	1909	140	21	1
Itochu	1957	113	17	9
Sumitomo	1961	85	8	11
Marubeni	1960	90	22	10
Nissho Iwai	1957	82	22	16
Tomen	1957	40	9	31
Nichimen	1957	22	2	69
Kanematsu	1890	50	6	29

Source: Australia-Japan Economic Institute (2007), *Directory of Japanese Companies in Australia,* Sydney

Table 8: International position of leading Japanese trading companies in 2007 ($US billion)

Company assets	Foreign assets	Total sales	Foreign sales	Total affiliates	Foreign
Marubeni	21	41	35	70	131
Mitsui & Co	12	64	30	109	209
Mitsubishi	12	80	21	134	158
Itochu	8	43	18	84	195
Nissho Iwai	6	30	11	52	43
Sumitomo	na	48	na	81	192

Note: From 1 April 2003, Nissho Iwai and Nichimen merged as Sojitz Corporation.
Source: UNCTAD, *World Investment Directory (2008)*, Geneva.

There have been significant investments by Japanese trading companies in the downstream processing of Australian mineral resources, particularly in non-ferrous metals refining and the smelting of metals such as aluminium. Australia's largest resource development project, the Northwest Shelf LNG, required the support of Mitsui's and Mitsubishi's strategic links and marketing networks. Investments have been made in many other areas, such as in processing food, forestry, real estate, retail and distribution and information technology.

Trading Company and Investor

Mitsui (Australia) ranks as one of Australia's top 20 companies in terms of sales. Mitsui's main business in Australia is exporting minerals, energy and other raw materials to Japan, including coal, LNG, iron ore, meat, aluminium, woodchips, copper and oil. In the 1960s, Mitsui began to invest in the coal industry; in the 1970s it invested in iron ore; and in the 1980s it concentrated on LNG investments. From the 1990s, Mitsui has also invested in biotechnology companies and tree plantations, seeking partly to obtain greenhouse carbon credits. The firm's future strategy is to expand investments in coal, iron ore and gas.

Through a 50 per cent share in Japan Australia LNG (MIMI) Mitsui is a participant in the North West Shelf project. Formed in 1984, MIMI is one of six shareholders in the NWS LNG project which has been supplying natural gas to Japan since 1989. Mitsui's Energy group has been active in the Australian oil and gas sector both through participation in projects and trading crude oil, gas and refined petroleum products. Mitsui Australia is an investor in a number of Western Australian iron ore mines and this investment has been growing with the expansion of the iron ore industry in the Pilbara area.

Mitsui's food division handles large volumes of grains such as wheat, barley, rice, canola and various feed crops; is significantly involved in meat, ethanol alcohol, wine, malt for beer production and beverages such as vegetable juices; plus dairy products such as cheese, milk powders, and butter. Mitsui Australia facilitates these commodity exports, in particular dairy products and vegetable and fruit juices. Plantation developments in Western Australia, Victoria and South Australia are being coordinated by Mitsui Plantation Development and MCA Afforestation together with Nippon Paper Industries of Japan. These projects provide raw material for paper production, while also securing stable and long term supplies. This is in response to increasing environmental difficulties such as restrictions on deforestation and woodchip exports in some countries for non-plantation suppliers.

Like the other eight Japanese trading companies, the primary business of Mitsui Australia is bilateral trade and investment. But it is part of a regional and worldwide network of affiliates that do engage, and can be engaged more, in trade with other markets in Asia out of Australia.

The Japanese Supermarket to Asia

From 1988 to 2007, the number of overseas subsidiaries from the wholesale and retail trade sector in Japan rose from 2,409 to 3,484 according to surveys by the Japanese Ministry of Economy, Trade and Industry (METI). While the retail industry in Japan is not closely integrated into overseas markets, a range of Japanese retailers operate overseas subsidiaries, including Family Mart, AEON, Lawson and Seven-Eleven, although most department stores have withdrawn from their overseas locations. Others have expanded quickly, such as Lawson which had almost 300 stores in Shanghai alone at the end of 2005 (Japan Spotlight, August 2006).

The Lawson chain in China started in 1996 when the company signed a joint venture with the Shanghai Hua Lian group, a local distribution company. The chain was able to compete in the comparatively low-cost Chinese market because of a number of proprietary advantages such as its focus on Japanese foods (like onigiri rice balls and oden) as well as exceptional hygiene management ensuring food safety standards and quality products (Takeshi, 2006).

Aeon is building 500 small supermarkets throughout Japan and Asia. Aeon is Japan's leading operator of merchandise stores, owns large shopping malls and is strengthening its network of 'My Basket' stores to meet a growing need for small supermarkets that sell fresh produce in urban areas. Aeon puts quality Australia produce into its Japanese outlets and can deliver quality fresh Australian fruit and vegetables, particularly counter-seasonal fruits and vegetables, as well as other produce throughout its Asia network.

Eco-branding in Asia

Japanese retail giant AEON owns or franchises over 5,100 stores worldwide. It is Japan's largest supermarket chain, with 1,000-plus stores under the MaxValu banner, and more than 3,000 MINISTOP convenience stores. AEON also runs a number of specialty chains in Japan, including The Body Shop and Laura Ashley stores. It participates in a joint venture with Sports Authority in Japan and owns the women's clothing chain The Talbots. The firm also operates AEON Welcia, a leading drugstore chain in Japan with 1,730 outlets. Other businesses include shopping center development and financial and credit card services.

Aeon has sophisticated eco-friendly procurement of food products, like beef in Australia, back to the farm gate. In 2003, Aeon co-financed the establishment of Adelaide Blue Gum Pty Ltd. (ABL), a forestation enterprise in Adelaide. By joining the ABL's integrated program of planting, cultivating and logging trees systematically, Aeon seeks to secure carbon credits through the Kyoto Mechanism. If you buy a can of the popular beer Sapporo in many regions of Japan, the chances are that it will carry a label presenting the product's carbon footprint credentials. Sapporo started test marketing one of its products with a carbon footprint mark on its label last December in the world's first attempt by a major brewer to market a product using its carbon footprint as a selling point. This example provides an illustration of a rapidly-growing trend towards eco-labeling in food products in Japan, which can potentially impact on beef and other farm exports out of Australia. Aeon is at the forefront of this trend.

Non-Japanese supermarkets or supply chain companies can also be accessed through Japanese partners. In China, the Hong Kong-based trading company Li & Fung provides supply chain management services to customers such as the US department store chain, Kohl's. Li & Fung has a network of over 6,000 suppliers across Asia providing services ranging from design, sourcing, supply management and quality inspection, to logistics for its global customers. Incentives, such as up-front payments for distributional access and product placement, can open up this kind of distribution system to Australian firms.

These market networks are not necessarily integrated across the region but there are recognition and screening advantages in dealing with related businesses.

The Aid Footprint

Japan is the fifth largest aid donor in the world (OECD, 2009). Japan's total aid disbursements in 2007 amounted to US$ 7.7 billion. Asia is consistently designated as a priority region for Japanese development assistance.

Japan has deep interests in the economic and political security of Asia. This is reflected in the breadth and depth of its Asian development assistance. Japan has supported infrastructure and human resource development in the region through ODA, and has facilitated private sector investment and trade through large scale project lending. More recently, these economic cooperation relationships are being institutionalised as economic partnership arrangements. By advancing economic cooperation and coordinating ODA with investment and trade, Japanese development assistance has contributed significantly to East Asia's remarkable economic development. There are also big programs underway in South Asia and India.

Japan has deep interests in the economic and political security of Asia and these interests are reflected in the depth and spread of its commitment to development assistance in the region. Japan has supported infrastructure and human resource development in the region through ODA, and facilitated private sector investment and trade through large scale project lending. More recently, these economic cooperation relationships are being institutionalised in economic partnership arrangements. Japanese development assistance has made a significant contribution to the remarkable economic development in the East Asia region by advancing economic cooperation that coordinates ODA with investment and trade (see Appendix 5). There are big programs underway in South Asia and India (see Appendix 6).

Figure 6 identifies three big growth zones in South and Southeast Asia in which Japan is committing substantial economic cooperation funding to support Asian development. Procurement under many of Japan's aid programs is open to international tender through aid recipient agencies.

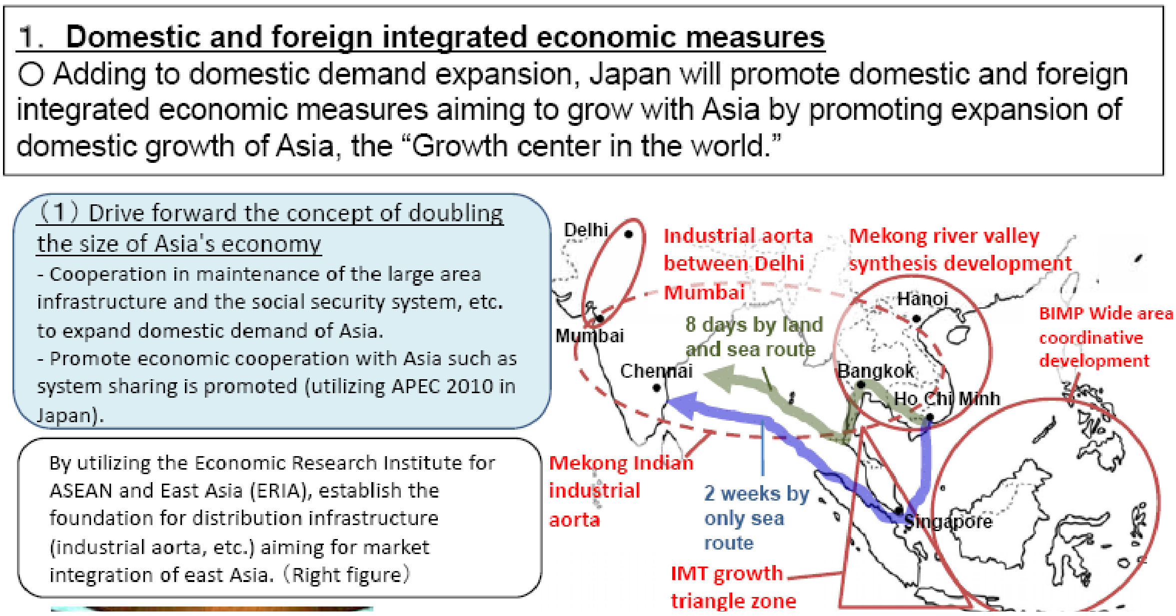
Japan is the key external player in the Delhi-Mumbai Industrial Corridor (DMIC), in India, which seeks to create a strong economic base with a globally competitive environment and state-of-the-art infrastructure to activate local commerce, attract foreign investments and attain sustainable development. It is a huge development on either side of the Western Dedicated Freight Corridor of the Indian Ministry of Railways within a band of 150-200 kms, that will expand the manufacturing and services base and establish DMIC as the 'Global Manufacturing and Trading Hub'. The Project aims at doubling the employment potential, tripling industrial output and quadrupling exports from the region, in its first five years.

The Japanese government has pledged soft funding. The Japanese side has a strategic interest in increasing investment in India. Indian Prime Minister Singh and former Japanese Prime Minister Abe agreed on the framework for the multi-billion dollar project in 2006. DMIC is a unique application of the Public Private Partnership (PPP) approach to infrastructural development in India, an approach in which Australian business has internationally-competitive experience.

Very few Australian consultant groups have participated in Japanese development projects. At the project development stage, interested Australian consultants need to identify and forge links with prospective Japanese partners. The Japan Bank for International Cooperation (JBIC) has over 500 Japanese firms registered as consultants. While the development phase of all grant-funded projects must be managed by a Japanese firm, at the procurement stage, the JIBC's quite liberal policy leaves procurement of goods and services and project tender to the developing country, subject to compliance with Japanese guidelines on the process.

Given the focus of Japan's aid program on Asia, and Japan's recognition of Australian experience in the Pacific as well as Asia, Australia's share of these contracts and its participation in development studies consultancies could be significantly increased.

Figure 6: Japanese Regional Economic Development Zones in Asia



Source: Japanese Ministry for Economy, Trade and Industry (2009), *White Paper on International Economy and Trade*, Tokyo. See: http://www.meti.go.jp/english/report/downloadfiles/2009WhitePaper/summary.pdf

5. Opportunities for Key Sectors

The services sector is a significant and growing part of the world economy. It dominates employment and GDP in industrialised countries, including Japan – where it represents around 70 per cent of production and employment. The services sector covers a wide range of transactions including transportation, communications, travel and tourism, education, construction, insurance, financing, business commercial and professional services. Increasingly, services have become internationally tradeable because of advances in ICT technologies and the globalisation of business activities. Typically services are knowledge-intensive. The rapidly growing trade in services is dependent on FDI and people flows.

It is impossible to cover all the opportunities for building business with Japan in the services sector. Here the focus is to confined opportunities in business and financial services, construction and logistics. Education, tourism, and other services, deserve attention also, but cannot be covered adequately in this Report.

Business and Financial Services

Foreign direct investment plays a key role in services trade. Establishing a commercial presence in a host country is an important mode of delivery for some services which cannot otherwise be traded. For many services, contact with consumers is vital and other modes of supply may not be feasible. In some sectors, such as banking or commerce, FDI is the major mode of service delivery as a network needs to be established to provide services or establish a commercial presence, typically through acquiring a controlling interest in a firm in a host country or establishing a new firm or subsidiary in the host country.

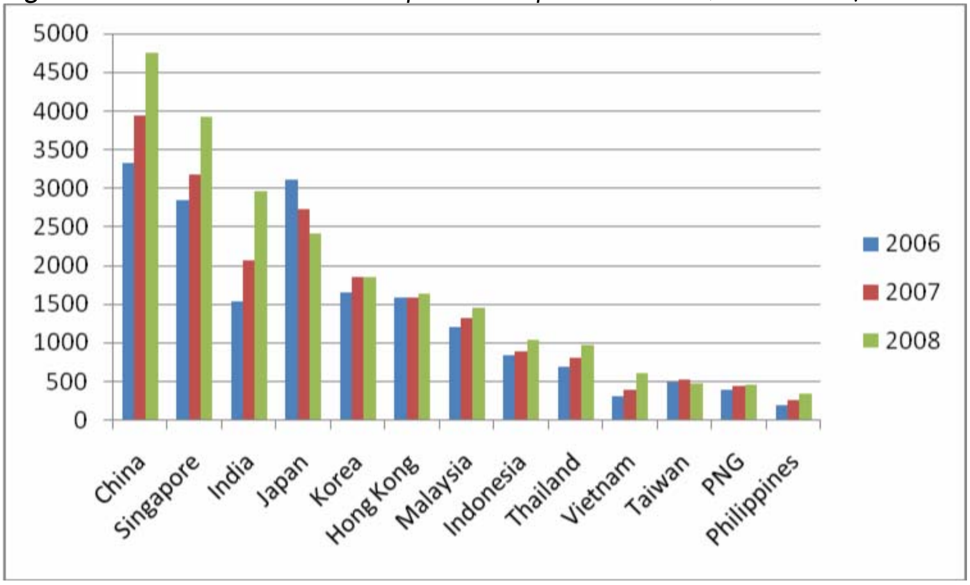
Australian services are exported to Asia when the consumers enter Australia (as in tourism), or when an Australian services firm moves to a market in Asia ('movement of natural persons', for professional services). Australian firms can also establish an offshore ('commercial presence') in these markets, if allowed to do so under the regulations of that country and depending upon bilateral agreements on trade, investment and the recognition of professional services qualifications, licensing and other arrangements. These restrictions may need to be opened up through trade negotiations and agreements before an offshore commercial presence can be established. For some services transactions, buyers and sellers can communicate through the Internet ('cross border supply').

Australian services exports to Asia have long been dominated by tourism, travel and education. Australia has a well-developed tourism industry that attracts over five million visitors to the country each year and contributes almost A$ 20 billion to the national economy. Travel services to the region are provided by commercial carriers and a network of agents and associated commercial services. Education services have been a particularly strong area of growth. Vocational and language students from China, India and a number of other countries in the region have been growing significantly. An important encouragement for Australian-based study is the possibility of that a person can switch from student status to resident status if they study a subject defined as a priority area under Australia's immigration regulations.

Australian services exports to Asia are comparatively low (see Figure 7) but have a very high growth potential, given the importance of services industries in the Australian economy. Australian services include internationally competitive providers of banking, finance and infrastructure services and enjoy key regional advantages. The growth of Australian services exports to China, Singapore, India and Malaysia has been strong (Figure 7).

Australia has a number of particular advantages supplying services to Asia: the time difference between Australia and most of Asia is only 2-3 hours; Australia boasts a financial market among the biggest, most sophisticated and best-regulated in the region; and the main language is English yet Australia is a migrant, multi-cultural society with a strong a Asian language base. The impact of the global financial crisis has highlighted the advantages of the high levels of prudential regulation in Australia.

Figure 7: Australian Services Exports to Japan and Asia, 2006-08 (A$ million)



Source: Australian Bureau of Statistics (Catalogue 5302.0 and 5368.0.

An overseas commercial presence can also be established through non-equity arrangements such as partnerships between Australian firms (or Japanese firms in Australia) and Japanese subsidiaries in Asia. These modes are often used by companies in hotel services, advertising services, education services, accounting and legal services.

Table 8: Subsidiaries of Japanese business services industries abroad, by country, 2006

SIC	Industry	US	China	Singapore	Korea	Total
47	Transport services	73	59	26	7	415
70	Hotel services	23	5	6	2	104
73	Business services	276	220	72	59	1205
87	Engineering services	249	123	56	19	889
	Total	624	414	163	87	2042

Source Toyo Keizai Shimposha (2007).

Many Japanese service firms are less competitive internationally because of the relatively closed nature of the Japanese home market for services and the dominance of English as an international language in many services industries. The low number of qualified lawyers in

Japan, due to regulation and tradition, also restricts the international profile of this service industry. Cultural and language are obvious barriers to the internationalisation of Japanese firms in these service industries. Acquisitions or joint ventures are more popular approaches to global expansion in these sectors. Because of this, Japanese partnership with Australian services firms in finance, legal services and engineering could be mutually productive.

On his visit to Japan in mid-2008, Prime Minister Rudd said that he wanted to make growth in financial services the ‘fourth pillar’ of Australia’s relationship with Japan, noting that it constituted only 8 per cent of two-way trade between the two countries and that there was great potential for growth. Australian exports of financial and insurance services totaled A$ 1.8 billionin 2007-08 but Japan accounted for only 8 per cent of this trade. In FTA talks with Japan the Rudd Government is trying to open the way for professional and financial services firms to set up in Japan, encouraging wider recognition for of qualifications and the removal of barriers to obtaining licences in Japan on the agenda.

Legal and Consulting Services

A number of Australian legal services firms have long experience in the Asian region. The law practice of Mallesons Japan, for example, employs a multidisciplinary team of lawyers who have experience of acting as international counsel on Japan matters, Japanese language skills and a high level of market expertise. Mallesons Japan has a strong client base of well-known Japanese financial institutions and corporations and works with them to expand their business in Australia and Asia. These services include advising on mergers and acquisitions, banking and finance, capital markets, climate change and energy, international arbitration and other commercial and corporate activities. Recently it advised on cooperation with a Japanese bank for the sale of carbon credits into the Japanese market.

If we are serious about joining global supply chains and capturing service industry opportunities in Asia then Australian firms need to be there on the ground to capture the business (see 3 above and Appendix 4).

Australian financial institutions have become internationally competitive with de-regulation of the market and foreign bank entry in the 1980s. The financial sector employs around 400,000 skilled workers. A very large investment funds management industry has developed, which has the fourth largest pool of assets globally. The Australian stock market ranked as number eight globally and was the largest in Asia, excluding Japan.

The financial services sector is therefore large, sophisticated and highly liquid. The Deputy Chairman of the Investment and Financial Services Association (and member of the Australian Services Roundtable) John O’Shaughnessy recently noted that Australia has the fastest-growing managed retirement funds sector in the Asian region. ‘We are well placed in terms of time zones and reach of places like China, Japan, Korea, India and Singapore.’

Australia is recognized as a leader and innovator in areas such as infrastructure financing and debt securitization. Despite the impact of the global financial crisis, the industry retains key capabilities in infrastructure funding and the international debt securities market and has the largest listed derivatives exchange in Asia. Australian PPP development expertise is potentially important to Japan's management of its development assistance program.

Infrastructure and Logistics

Australian exports of construction services to Japan, China and other countries in the region are comparatively small but are beginning to grow. Australian firms have been successful in competing for major projects throughout Asia and around the world, and have a strong base in ASEAN.

Australian infrastructure companies such as Leighton Holdings have completed transport and other infrastructure projects across Asia, including the Very Fast Train project in Taiwan in 2007. A number of companies such as John Holland are focusing on emerging infrastructure work in the oil and gas and resources sector. Australian architectural firms have been successful in planning key buildings in Asia, such as urban construction in Jakarta, Shanghai and Beijing, including prestige projects for the Olympics facilities.

Construction, Engineering and Logistics

John Holland is one of Australia's largest and most diverse specialist contracting businesses with some of the nation's most impressive projects to its name. John Holland has capabilities in the areas of civil and engineering construction, mining, services and infrastructure management, rail, structural mechanical process, roads, power, telecommunications, tunnelling, water and aviation services. John Holland employs over 5,500 people in Australia and has projects across Australia and South-East Asia.

Holland formed a joint venture with Arup in June 2009, which will bring together John Holland's experience in civil, marine and specialised construction and Arup's global strength in design and engineering. Both companies have significant capacities in the delivery of jetties, material offloading facilities and concrete gravity structures. Extensive civil contracting expertise will enable the concurrent delivery of other important project infrastructure. These companies developed the Malampaya Concrete Gravity Substructure together for Shell Philippines in 2000, the A$350million Dalrymple Bay Coal Terminal Marine Jetty and the Berth 4 Expansion and in-facilities development on the Pluto LNG project along with Woodside.

In mid-June 2009 the Egyptian Government announced that WorleyParsons, Australia's largest engineering firm, had won the A$200million contract to assist the country with building its first nuclear reactor and to help prepare five other potential sites for the construction of nuclear reactors. In the 10 year deal the Australian company will be responsible for selecting locations, choosing reactor technology, ensuring quality control, training personnel to run the plant and providing miscellaneous technical services. This contract illustrates the capability Australian firms already possess to participate in infrastructure, engineering and related projects in Asia. One obvious area for such operations is in participating in procurement tenders under the Japanese aid program in regional Asia.

Ausurv is a consulting surveying business established in the Northern Territory in 1991. It has become the foremost surveying consultancy based in Northern Australia and South East Asia with offices in Darwin (NT), Alice Springs (NT), Kununurra (WA) and Dili (East Timor). Ausurv has a reputation for successfully operating in logistically difficult, politically, culturally and environmentally sensitive regions. Ausurv has developed expertise in OH & S, Quality Assurance and Environmental best practise having worked at numerous large mine sites (such as Ranger, GEMCO) and major civil engineering projects.

In the mid-1980s, a Leighton Asia consortium constructed the light rail system from Tun Mun to Yuen Long in Hong Kong, supplying everything including the railcars, signalling and control systems as a turnkey project. In 2003, that system was further upgraded by Leighton Asia under a HK$1 billion contract from the Kowloon-Canton Railway Corporation. Leighton Asia also built a A$250 million highway project for Manila North Tollways; one of the Philippines' largest current infrastructure projects. As part of the Taiwan very fast train project, the Taiwan Track Partners Joint Venture involved a design supply and installation contract

Information Services

There is potential for Australian ICT providers to increase their low market share in Asia. In the past extensive behind-the-border barriers have restricted the operations of foreign information service providers in Japan, China and other Asian markets. Sensis is Telstra's advertising business and Australia's leading directories information resource. Sensis delivers innovative integrated local search and digital marketing solutions via print, online, voice and mobile channels. Sensis' powerful, multi-channel portfolio includes the White Pages® and Yellow Pages® directories; the MediaSmart digital advertising business; the Whereis® digital mapping business; the Citysearch® entertainment and lifestyle website; the sensis.com.au search engine; the 1234 operator-assisted, premium voice information service; Universal Publisher's mapping publications; and the accommodation website gostay.com.au. Sensis is a partner in SouFun, China's largest real-estate ,home furnishing and improvement website. SouFun provides information, advertising and listing services to China's growing online real estate, home furnishing and home improvement sectors. SouFun's primary revenue is generated by online display advertising on www.soufun.com. Sensis is also a partner in Chinese online advertising businesses Norstar Media and Autohome/PCPop. These businesses operate auto websites Autohome.com and Che168.com; and digital devices websites IT168.com and PCPop.com.cn. These sites provide detailed information to consumers and businesses about buying and using cars and electronics. The sites also provide advertising and listing services to manufacturers, retailers and dealers of these products. Combined, these partnerships give Sensis and Telstra a leading position in the Chinese online real estate, auto and digital device advertising markets.

Automotive Industry

Australia is the third-largest single market for new passenger cars manufactured in Japan and Toyota Australia, the most successful of the three local car producers. Toyota Australia is also the largest exporter of passenger vehicles from Australia

On 10 June 2008, Prime Minister Rudd, in Nagoya, pledged A$ 35 million from the new Green Car Innovation Fund as an incentive to assemble the cars at the Altona factory, matched by Victorian Premier Brumby. From 2010 Toyota will build 10,000 hybrid Camry vehicles a year at Altona. Further, Toyota will invest A$ 125 million in a new engine plant in Melbourne to build a new petrol-powered Camry in 2009. Over two years the Victorian government will buy 2000 of the new Camrys to help bolster demand for the hybrids.

The Australian automotive sector is one of the country's largest export industries, ahead of traditional commodities such as wheat, wool and beef. In 2008 exports exceeded 160,000 vehicles, approximately 48 per cent of total domestic production. Although the industry is increasingly reliant on exports to the Middle East, the United States and New Zealand, there are opportunities for growth in emerging markets such as China, Russia and India.

The Australian automotive components industry needs to diversify markets and develop access to different supply chains in Asia – where most of the growth in the global automotive industry is likely. Currently, the Australian Automotive Innovation Council is developing a roadmap to highlight the specialist industry skills which are of international standing.

The Australian automotive components industry has opportunities to link with the supply chains of regional first and second tier assemblers through joint ventures and investment with Japanese, Chinese and ASEAN automotive suppliers and producers. The Chinese car industry offers huge opportunity for the Australian automotive components industry, as it becomes the world's largest auto market following the global financial crisis. This is in contrast to other developed markets where vehicle sales have slumped dramatically.

A number of Australian automotive components producers have established operations in Indonesia. Engine Engineering Services specializes in the refurbishment and remanufacture of engines, turbos and driveshafts. The company has exported new and overhauled components to the Mining, Forestry, Oil & Gas Industries in the Balikpapan region of Indonesia, providing a crucial service to these industries that was not available previously. In conjunction with its sister company PT Powertrain Solutions, Indonesia, Engine Engineering Services has a Workshop Facility under construction in Balikpapan.

Chinese automotive companies have established links with suppliers in Australia, such as Geely Automotive, which invested A$ 58 million (US$ 42 million) in March 2009 to acquire a 50 per cent holding in Australian components supplier, Drivetrain Systems International (DSI Transmissions), which has a factory and research and development facilities in Lavington.

In mid-2009 while touring the Chinese automotive industry, the Trade and Industry Ministers highlighted the research and design expertise at Australia's local research institutes. Components makers and universities could be utilized in a regional automotive supply chain – thereby increasing services exports to China and regional economies, while manufacturing activities would tend to expand in China itself because of lower costs. In 2007-08, Australian exports of cars and parts to China accounted for about 2.8 per cent of total auto exports. An obstacle to this trade is the Chinese tariff on imported car components, which puts Australian components makers at a competitive disadvantage.

IBIS World forecasts that exports from the Australian auto industry will rise by 4.8 per cent annually over the five years, reaching A$ 5.4 billion, 'and China will play a key role in supporting this growth.' The Futuris Automotive Group has significant automotive design capacity and can now operate in the Chinese market because of the joint venture with Chery Automotive – one of the largest producers in China. Another Australia-China joint venture is between Geely Automotive and Drivetrain Systems International. Currently eleven Australian component producers are based in China, including Futuris, PBR and ADI.

Toyota's decision to build a Camry hybrid or green car in Melbourne instead of Thailand offers component suppliers in Australia opportunities to export to Toyota subsidiaries in other countries, provided that the components are competitive and based on efficient manufacturing techniques. Essential to this is the encouragement of Australia's commercial research and development. The Green Car Fund will support this as will the research budget administered by the Department of Innovation.

Denso Australia Group awarded the FCAI Supplier of the Year for 2008.

On November 26 2008, FCAI's President, Mr Mark Reuss, presented the award of FCAI Supplier of the Year to Denso Australia Group's Managing Directors, Neil Kitamiya and

Russell Pettis. This is the second year in a row that Denso Australia Group has taken out the coveted award and they faced strong competition from the four other finalists, who each received a certificate of recognition for their achievements. Denso Australia Group design and supply a wide range of components including air conditioning and engine cooling systems, diesel fuel injection systems, air intake systems and instrument clusters. Similarly, Australian Arrow Pty Ltd is part of the worldwide Yazaki Group and supplies the automotive industry with electronic equipment including security systems, instrument clusters, multi-function displays and telematics.

Trade Minister Crean has said that: ‘Our challenge is to join the dots. And that isn’t going to happen unless what we get is an understanding at the political level about the importance of this commercial relationship, a realisation that there are really good Australian operations servicing the market here – Futuris is a great example of it, but there’s PBR, there’s the DSI type operation, all in different forms and convincing that in terms of an industry here that is growing in such a huge way that if they want to maintain world-class production they’ve got to team up with those people that can supply world-class componentry. The gap that fits for us is the size of their market.’

Case of Automotive Components

Futuris Automotive Interiors is Australia’s leading automotive components manufacturer. Futuris designs, engineers and manufactures automotive interior systems in emerging markets along with niche, value-added products in developed markets. Futuris is a significant supplier to a number of vehicle producers, including General Motors, Ford, Toyota, Chery Automobile, JAC and Daimler. Futuris’ range of automotive interior products includes seating, interior trim, controls and aftermarket products. From a design and engineering base in Melbourne, Australia, Futuris has grown into the emerging markets of China, Thailand and South Africa with further growth planned in the Asia Pacific and American regions. Futuris believes in creating sustainable, committed and long term partnerships to deliver win-win opportunities for all involved and continues to develop such partnerships around the globe; recent examples include business partnerships with Chery Automobile and Pangeo in China, Thai Summit in Thailand, Feltex in South Africa and Plexicor in Australia, with several others in development. In China, Futuris supplies seating for a range of vehicles for Chery Automobile in Wuhu (Anhui) and has secured new supply contracts with JAC in Hefei (Anhui). Futuris also has a design office and regional headquarters in Shanghai.

Toyota’s procurement and supply chain is closely tied to trade to the parent company in Japan. Toyota’s supply chain could shift the 200 Australian component producers which supply Australia’s three assemblers to a more outward orientation. It could provide an export platform from which to increase the scale and competitiveness of firms in the Australian supply chain.

After the Asian financial crisis, Toyota’s subsidiaries in Thailand and elsewhere found themselves facing bankruptcy because of collapsing demand in Thailand. Toyota and other

Japanese auto producers made a major effort to open up their supply chains into Japan. These had previously been closed to manufactures of components and even finished vehicles. The result was that Thailand attracted increased investment from Japan and support from the Thai government becoming the hub of Japanese automotive manufacture in ASEAN. In fact, imports from Toyota Thailand are the fastest growing segment in the Australian automotive market – but there is virtually no reciprocal access for Australian automotive producers.

Japanese automotive subsidiaries such as Toyota Thailand could be encouraged to accept Australian parts as part of reciprocal access arrangements. These should be operative under the bilateral free trade agreement which currently blocks two-way trade because of excise taxes on Australian component and vehicle exports. The Australian Government's partnership with Toyota could be ramped up. Assistance to Toyota Australia under the A$ 6.2 billion car plan and the related measures to encourage a green car (hybrid Camry) should be connected to expanding the role of Australian components in exporting to Asian Toyota subsidiaries.

Table 9: Location of Japanese automotive affiliates, 2007 (number by country)

Location	Production base	Sales base	R&D and other bases	Total
NIEs	62	26	9	97
Korea	23	4	0	27
Taiwan	35	6	1	42
Singapore	2	7	6	15
Hong Kong	2	9	2	13
ASEAN4	210	27	12	249
Thailand	108	17	6	131
Indonesia	49	4	0	53
Malaysia	29	4	2	35
Philippines	24	2	4	30
China	111	11	5	127
N.E. China	5	0	0	5
N. China	28	2	3	33
E. China	37	6	2	45
S. China	25	2	0	27
Inland China	16	1	0	17
Other Asia	50	5	2	57
India	34	3	1	38
Vietnam	12	0	1	13
North America	167	72	67	306
Latin America	42	10	6	58
EU	66	111	54	231
Total	754	315	166	1235

Source: Japan Bank of International Cooperation (2008), *Journal of Overseas Investment*, November.

Food and Agribusiness

In Japanese Fiscal Year 2008, Japan imported 22 per cent of its wheat, 40 per cent of its sugar, 89 per cent of its beef and 37 per cent of its natural cheese from Australia. Japan is the single largest export market for Australian agrifood products worth A$ 22 billion, accounting for almost one fifth of total

Japanese manufacturers of processed food and beverages have sought to secure supplies of inputs through foreign investment in regional countries, including Australia, the Philippines, Thailand and China (see Table 10). Some have moved production stages offshore because of the high cost of food inputs in the Japanese market where the agricultural sector receives internationally high rates of assistance. Typically marketing, distribution and headquarter functions are retained in the parent company in Japan.

Table 10: Japanese food manufacturers with overseas facilities, 2007

Company	Market	Sales	Location
Asahi Breweries	Beer, wine	9.63	China
Suntory	Liquor, beer	6.66	US, UK, France
Ajinomoto	Amino acids	5.73	22 countries
Nippon Meat	Beef, pork	5.28	US, Thailand, Mexico, Australia
Yamazaki Baking	Breads	4.92	US, China, Taiwan
Meiji Dairies	Milk products	4.34	China, Indonesia, Thailand
Morinaga Milk	Milk products	3.97	10 countries
Nisshin Seifun	Pasta, flour	3.78	12 countries
Itoham Foods	Beef, pork	3.59	7 countries
Nichirei	Frozen food	3.44	4 countries

Source: USDA (2008).

Many Japanese food industry investors have created a food supply chain to the home market, including in barley malt production in Western Australia (Kirin), dairy ingredients processing in Victoria (Snow Brand), and cattle feedlots and processing in eastern Australia (Nippon Meat Packers). Kirin has a 46 per cent holding in the Lion Nathan brewing group; has acquired several small breweries (Two Dogs and James Boag) and recently bought two dairy producers (National Foods and Dairy Farmers). Coca-Cola recently rejected a A$ 8 billion bid by Kirin, through Lion Nathan, for its Australian soft drink operations. In contrast to Chinese investment in Australia, these investments created no dilemma for the government under foreign investment regulations, nor did they incite any public controversy.

The establishment of an integrated supply chain for food and food products between Australia and Japan is hampered by extensive market barriers and behind-the-border obstacles to trade and investment. In the bilateral FTA talks, Australia has detailed the restrictions that Australian exporters face (such as tariff quotas, TRQ administration arrangements, state trading requirements, tariff classification analytical measures, compositional standards and labelling requirements) and asked that they be removed. In response Japan has said that liberalisation was not possible on any of these measures. This is consistent with Japan's public position that beef, dairy, wheat, sugar and rice should all be excluded from the FTA, but this position remains a serious obstacle to growth of bilateral trade and investment.

Asian Supply Chain Strategies

In 2003, Elders Australia announced a major elevation of its supply chain strategy for Asia. It reached agreement with buyers of agricultural products on the formation of two Asian supply chain alliances: 1) an alliance with Salim Group, one of Indonesia's leading business groups and a leader in food processing in Indonesia, the Philippines and Malaysia; and 2) an alliance with Nissho Iwai Corporation, one of Japan's leading trade and investment companies, which commands a large market share in agriculture and food product imports to Japan and the rest of Asia.

The alliances combine the extensive food production and distribution capabilities of the Salim group in Southeast Asia and Nissho Iwai's Japanese and Asian market understanding and distribution operations with the production capabilities of the 100,000 farmers who use the Elders' network.

Sapporo brewing company is forging direct links with Australian growers to ensure the quality of barley it buys. Last year Sapporo set up the collaborative contracted farming system (CFS) with barley growers to ensure farm level quality assurance. Sapporo is expecting the Japanese Government to tighten food safety regulations

In supplying the Japanese domestic market and affiliated subsidiaries in Asia, Japanese food processors have a number of key advantages, such as familiarity with Japanese regulations on additives and food labelling, as well as knowledge of Japanese preferences in taste and packaging. Nippon Ham, for example, the largest meat processor in Japan, has developed joint ventures to export processed meat products to Japan in Thailand, the United States, Australia and Mexico.

These products could also be exported to other economies in the region via subsidiaries – or through the numerous subsidiaries of Japanese trading companies. The high level of quality assurance obtained from testing in Australia to meet both Australian and Japanese standards provides a competitive advantage in markets such as China, Thailand and Korea – if that market access is possible under trade agreements between either Australia or Japan and the target market.

Japanese companies already have a major footprint in the Australian food and beverage industry, but the market orientation of Australian beer, dairy products, animal feed, wine and other beverages is essentially towards the domestic Australian market or Japan. Few food and beverage exports appear to go to other Japanese subsidiaries in Asia. This might be redressed through directed marketing and promotion activities. Certainly, many Australian products should be competitive on quality and safety grounds – particularly after the series of health scares over food poisonings which have occurred across Asia, such as the recent scandal about milk products in China.

This industry can be offered greater recognition from the Australian Government for its marketing efforts on behalf of Australian exporters. The Australian government could consider using procurement policy to facilitate exports. Successful marketing and export efforts could be linked with approved status as a supplier of goods and services to government agencies – a form of recognition which would avoid breaching WTO principles of market openness.

6. Strategies for Cooperation

Australia's relationship with Japan is still heavily based on the export of energy and minerals and the import of manufactures. Australia's attractiveness to Japan as a supplier of energy and raw materials is based on proximity and cost advantages as well as political stability and openness to foreign investment. Government initiatives to lower trade barriers or behind-the-border impediments to trade and investment have facilitated these flows but not changed their direction or nature. There are large gains from the relationship because resources in the two economies complement each other so strongly. Trade and investment growth have also been promoted by lower barriers to trade and investment, the location of Japan as a major market and the strength of the Japanese economy.

Japan values Australia as a reliable and stable supplier of energy and strategic raw materials. Australia is Japan's largest supplier of energy, across a diversified range of energy fuels, except for oil.

Australian Prime Minister Kevin Rudd has described Japan 'as a long standing and close friend and partner', with whom Australia had very strong economic links and a close strategic engagement.

This report suggests that the time is right to broaden and deepen the relationship around Japan's new position and strengths in the regional and world economy.

The strategies for cooperation in building a new partnership between Japan and Australia in Asia by leveraging off the strengths of Australia's established relationship with Japan.

The Report has headlined the big structural adjustment in the Japanese economy over the last few decades. Leading Japanese corporations have moved abroad to take advantage of lower cost production locations around the region and around the world. Over one third of all Japanese manufacturing output is now produced offshore.

These developments require nothing less than a paradigm shift in thinking about Australia's relationship with the Japanese economy. The Japanese market is no longer a market confined to Japan itself. It is a huge international market generated by the activities of Japanese business and investors, via production networks located on our backdoor step, in Asia. It is a market enhanced by the Japanese government's economic cooperation programs in the developing world, particularly in the Asian and Pacific region. And it is a market in which Japanese business now plays an increasingly important role from an Australian base in manufacturing, agriculture and services.

This means that Australia's commercial interests with Japan now extend well beyond an export and import business with Japan proper. The relative share of trade with Japan itself has naturally declined as other economies in Asia, including China and Southeast Asia, grow. But the Japanese economy now extends internationally and into the Asian region. To realise the new potential of the Japan relationship Australia needs to develop its national and corporate commercial collaboration strategies through partnerships with Japan in Asia.

This report identified a number of ways in which the established bilateral economic relationship between Australia and Japan to encourage closer ties between Australian and Japanese business in Asia.

In the manufacturing sector, international trade and investment has fragmented production into discrete activities integrated within a multinational company or network of companies. These international production networks and supply chains are now integral to the role of the Japanese economy in Asia and globally. China has emerged as a major centre of this trade in parts and components for assembly and re-export to other markets. But Australia has yet to be deeply integrated into any manufacturing supply chains in which parts and components are made in multiple locations and assembled in others.

In resources, energy and agriculture there are untapped possibilities to add value and to expand processing or manufacturing of products for export. While Australia exports raw foods such as sugar and dairy products, it has not been a key player in processed foods which use these ingredients, like Switzerland and Japan. This new world of supply chains raises both challenges and opportunities for Australian policy makers and business management. Government policies, including tax, labour, environmental, infrastructure, and education policies at the national and state level affect the ability of Australian businesses to compete in the international marketplace.

Services are a major element in the development of Asia's production networks and supply chains.

The global economy is constantly reorganizing itself with new linkages, supply networks, manufacturing chains, and marketing channels in response to market forces and government policies. Business services can now be delivered through high-speed internet connections (for example, computer programming, data analysis, customer relations, or ticket sales). A crucial issue for Australian policymakers is how to create conditions that make the Australian economy more attractive as a location for both headquarters of supply chains and for each segment of both Australian and Japanese-parented supply chains. In general, the more value that is added domestically, the more domestic job opportunities that may be created and greater the well-being of Australians.

Border barriers to trade and investment influence whether a product is traded within a supply chain or is traded in open markets. An established supply chain is likely to be less sensitive to border barriers, since such networks are based on long-term relationships and established lines of communication. Getting border and behind-the-border barriers down will eventually deliver a more efficient location of production internationally. Japanese investment in the Australian dairy industry, for example, has been driven by the high costs of buying the inputs in Japan because of the high barriers in Japan. This now encourages a greater degree of processing in Australia for export to Japan and other countries in the region.

Japanese firms are now significant investors in a range of Australian industries, from food and beverages and motor vehicles and ICT to the resource sector. These firms are parts of supply chains across Asia comprising thousands of firms, including wholesale, retail and commercial services networks. The task is to further open these supply chains to Australian goods and services – not just in the Japanese market but also to Japanese subsidiaries in Asia. Brand advantages for Australian produce make it competitive (clean and green) but tariff, quota and behind-the-border barriers often make it difficult to compete. Japanese subsidiaries and government agencies, such as JETRO, are familiar with access arrangements because they are embedded in these markets.

Austrade and JETRO surveys have found Australian companies seeking to enter the Japanese and Asian markets often have insufficient capital, resources and information. Smaller companies are often unprepared for the difficulties of developing new and unfamiliar markets. They would benefit from programs designed to overcome 'intangible' barriers such as knowledge about the local business environment, understanding best practices to suit local and unfamiliar circumstances, lining up resources to sustain presence in the target market. Cooperation between the governments and business in both countries can assist in reducing these obstacles to profitable trade.

In Australia, existing policies such as the car plan, green policies and government procurement could provide incentives for the push into these regional markets. Certainly Austrade's resources could be pooled with those of JETRO and relevant Japanese business councils to encourage greater integration between Australian and Japanese firms currently exporting to Japan, and the networks of Japanese subsidiaries in Asia. Joint ventures in business services might also augment these linkages in Asia. In Japan programs like the JETRO's Invest Japan Business Support Centers (IBSC) which have supported US investors in Japan can serve as a model of the type of program that might be developed between Japan and Australia. In Asia, Japan's post-Asian financial crisis initiatives with Thai business could do the same.

The Australian government and agencies such as Austrade can build on long-established connections with Japan in other Asian markets. Japanese business in Australia can be coopted to push intra-firm procurement orders through an Australian Government initiative (*corporate Japan and Australia in Asia program*) that supports Japanese business participation and gives it new recognition for success in commercial endeavours in Asia (*the Japan Australia Business Asia Awards*) that benefits both countries.

A key element in these cooperation strategies is mobilising the already-existing capacity of the Japanese and Australian corporate sectors. This could involve the designation of senior Japanese businesspeople or ex-officials as special counsellors to facilitate trade with Japanese business and involvement in Japanese projects in Asia. It could also be structured to assist Australian firms take advantage of the opportunities arising from the free trade agreements in Asia.

An Australian Government initiative which serves as a modest precedent is the Global Opportunities Program launched in May 2007 (see Appendix). It aimed to assist Australian industry to link into global supply chains and bid for work on major international projects under the Australia-US free trade agreement.

What is envisaged here is a much bolder bi-national initiative. There is work to be done on its detailed and careful design.

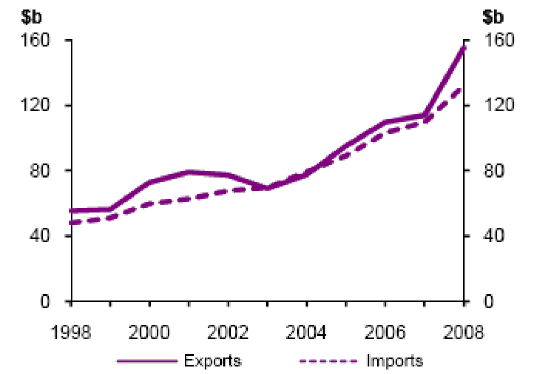
This initiative could be taken up in discussions between Trade Ministers and followed through in an Australia-Japan Ministerial Meeting convened at the earliest opportunity. It should be set in the context of re-affirming Australia and Japan's broad and deep partnership in Asia. These discussions should include a review of the ways in which Australia can relate to Japan's investments in Asian infrastructure development. These discussions need to include a swift but thorough assessment of progress made towards a bilateral Partnership Agreement. This agreement must recognize bilateral integration as a central element in Asian regional integration, and simply not be a narrow traditional FTA arrangement (Drysdale, 2007). Separately, the new CER-ASEAN FTA specially advantages trade and business from an Australian base in Southeast Asia.

The intention is not for an out-of-government initiative. That alone is not likely to succeed. The intention is to engage business capacities and energies in both Japan and Australia and to draw in established government and private institutional infrastructure, such as the Austrade, JETRO the ABJCC and other business associations, in a truly bi-national endeavour.

Acknowledgement
In preparing this Report, I have drawn on the research work of Dr Roger Farrell and I am very grateful to him for his assistance and advice.

Appendix 1: Australia's trade with East Asia

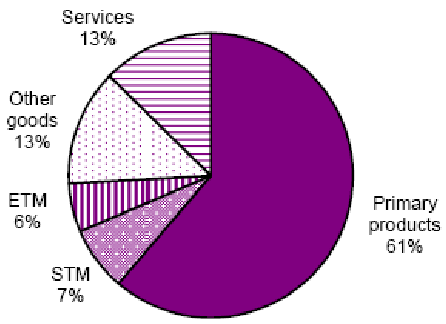
Australia's trade in goods and services with East Asia



Sources: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

- The value of total trade in goods and services increased 28.6 per cent to $287.6 billion in 2008
  - since 2003, total trade values have increased by an average of 15 per cent per annum.
- East Asia accounted for 51.8 per cent of Australia's total trade in goods and services.

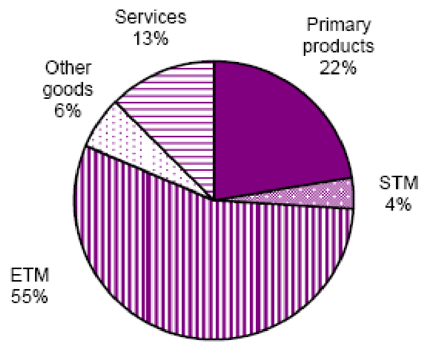
Australia's exports to East Asia



Sources: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

- The value of exports increased by 36.5 per cent to $155.5 billion in 2008
  - since 2003, export values have increased by an average of 16.6 per cent per annum.
- *Primary products* rose 58.2 per cent to $95.3 billion.
- *Manufactures* (including both STM and ETM) increased 2.2 per cent to $20.0 billion.
- *Other goods* rose 24.9 per cent to $20.6 billion.
- *Services* rose 11.3 per cent to $19.6 billion.

Australia's imports from East Asia



Sources: ABS trade data on DFAT STARS database and ABS catalogue 5368.0.

- In 2008, the value of imports increased 20.4 per cent to $132.1 billion
  - since 2003, import values have increased by an average of 13.2 per cent per annum.
- *Primary products* increased 45.0 per cent to $29.6 billion.
- *Manufactures* rose 12.4 per cent to $78 billion.
- *Other goods* increased 34.2 per cent to $8.1 billion.
- *Services* rose 18.1 per cent to $16.5 billion.

Source: Department of Foreign Affairs and Trade, *Composition of Trade 2008,* Canberra, 2009.

Appendix 2: Japanese direct foreign investment, stock by region and country

Japanese FDI stock by region, end-2008

Region	Value ¥100 million	Value A$ billion	Share (per cent)
Asia	144,060	112.4	23.3
North America	212,119	165.5	34.4
Central and South America	81,969	63.9	13.3
Oceania	19,522	15.3	3.2
Western Europe	145,937	113.8	23.6
Eastern Europe	3,418	2.7	0.6
Middle East	3,759	2.9	0.7
Africa	6,613	5.2	1.1
Total	617,400	48.1	23.3

Source: Bank of Japan (2009) *Japanese Direct Investment by Country*, Tokyo. See: http://www.boj.or.jp/en/type/stat/boj_stat/bop/dip/index.htm

Japanese FDI stock, by country in Asia and Oceania, end-2008

Region	Value ¥100 million	Value A$ million	Share (per cent)
China	44,239	34,506	27.4
Hong Kong	10,577	8,250	6.5
Taiwan	7,972	6,218	4.9
S. Korea	10,996	8,577	6.8
Singapore	17,615	13,740	10.9
Thailand	18,533	14,456	11.5
Indonesia	7,699	6,005	4.8
Malaysia	6,990	5,452	4.3
Philippines	7,042	5,493	4.4
Vietnam	2,980	2,324	1.8
India	8,523	6,648	5.3
Australia	17,249	13,454	10.7
New Zealand	1,300	1,014	0.8

Source: Bank of Japan (2009) *Japanese Direct Investment by Country*, Tokyo. See: http://www.boj.or.jp/en/type/stat/boj_stat/bop/dip/index.htm

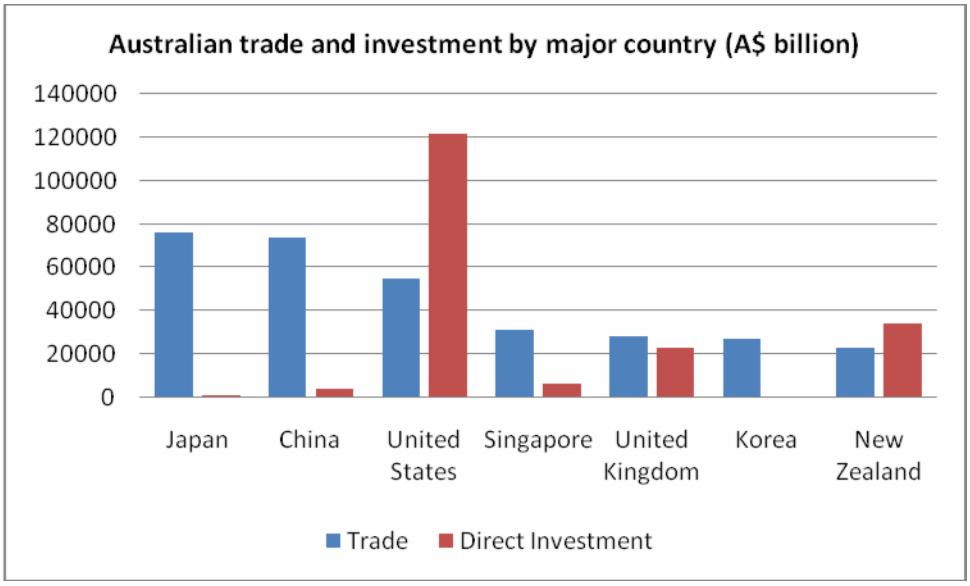
Appendix 3: East Asian trade in manufacturing components, 1993-2006

	Share of world imports (%)		Share of world imports of parts and components (%)		Parts and components trade by country (%)		Contribution of P&C to import growth (%)
	1993	2006	1993	2006	1993	2006	1993
East Asia	30.7	28.4	29.6	33.0	38.9	52.1	60.1
China	1.3	12.1	0.7	7.5	21.2	27.6	26.5
Japan	19.2	11.1	16.6	11.0	34.8	43.4	59.1
HK	1.2	0.7	1.6	0.9	54.7	57.9	62.2
Korea	2.0	4.4	2.2	4.5	43.8	46.2	45.6
Taiwan	3.1	3.6	3.2	5.6	42.1	68.5	77.8
ASEAN	5.2	8.6	6.0	11.6	46.3	60.2	62.8
Indonesia	0.1	0.5	0.1	0.6	30.9	49.7	51.1
Malaysia	1.7	2.8	2.0	3.8	47.8	63.2	62.6
Philippines	0.3	1.3	0.5	2.3	69.8	76.1	77.3
Singapore	2.4	2.1	2.6	2.5	43.3	61.3	74.3
Thailand	0.7	1.7	0.8	1.7	44.8	43.7	43.5
Vietnam	0	0.2	0	0.1	24.5	57.6	55.8
Oceania	0.2	0.2	0.3	0.2	50.0	48.2	48.1
World	100	100	100	100	100	100	100

Note: financial years.
Source: Premachandra-Athukorala (2009), 'China's impact on foreign trade and investment in other Asian countries', *ANU Working Papers in Trade and Development*, No. 2009/04, February, Canberra.

Appendix 4: Australia's trade and investment by country

Australian trade and Investment, leading partners, 2008



Source: Department of Foreign Affairs and Trade (2009), *Composition of Trade 2008*, Canberra; and Australian Bureau of Statistics (2009), *Australia's Investment Position, Supplementary Statistics 2008*, Canberra.

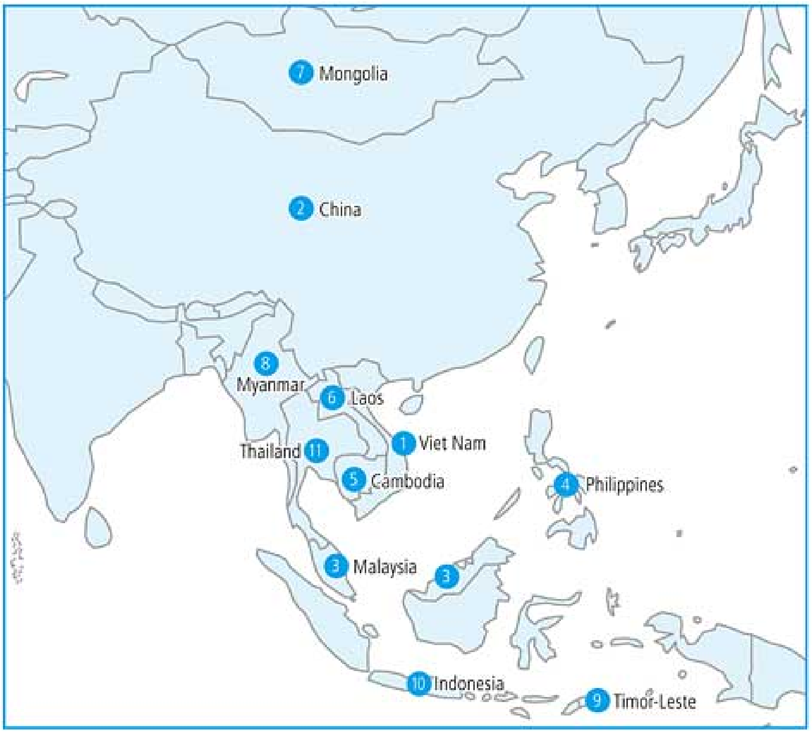
Australian trade and investment, leading partners, 2008, A$ million, per cent

	Total trade (goods and services) (A$ million)	Share (%)	Direct investment from Australia (A$ million)	Share (%)
Japan	76,012	13.6	1,112	0.4
China	73,803	13.2	3,877	1.4
United States	54,744	9.8	121,435	43.2
Singapore	31,013	5.5	6,726	2.4
United Kingdom	28,448	5.1	23,002	8.2
South Korea	27,221	4.9	722	0.3
New Zealand	22,937	4.1	34,407	12.2

Source: Department of Foreign Affairs and Trade (2009), *Composition of Trade 2008*, Canberra; and Australian Bureau of Statistics (2009), *Australia's Investment Position, Supplementary Statistics 2008*, Canberra.

Appendix 5: Japanese aid by country in East Asia, 2007

Chart III-13. Japan's Assistance in the East Asia Region



2007 (calendar year) (Net disbursement basis, unit: US$ Million)

Rank	Country or region	Grants				Loan aid			Total
		Grant aid		Technical cooperation	Total	Amount disbursement	Amount received	Total	
			Grants provided through multilateral institutions						
1	Viet Nam	18.48	0.08	73.85	92.33	672.66	124.94	547.71	640.04
2	China	15.48	—	263.62	279.10	912.09	755.53	156.56	435.66
3	Malaysia	0.28	—	25.70	25.99	287.75	90.77	196.98	222.97
4	Philippines	7.24	—	50.53	57.77	669.08	504.69	164.39	222.16
5	Cambodia	62.35	2.44	39.84	102.19	15.37	4.01	11.36	113.56
6	Laos	46.28	—	22.40	68.67	14.40	1.62	12.79	81.46
7	Mongolia	34.31	—	18.09	52.41	9.88	10.73	-0.85	51.55
8	Myanmar	11.68	3.80	18.84	30.52	—	—	—	30.52
9	Timor-Leste	7.83	1.96	5.24	13.07	—	—	—	13.07
10	Indonesia	39.21	9.04	81.68	120.89	937.22	1,280.57	-343.35	-222.46
11	Thailand	2.17	0.60	47.74	49.91	87.45	614.71	-527.26	-477.35
	Multiple countries in East Asia	—	—	2.81	2.81	—	—	—	2.81
	East Asia region total	245.31	17.92	698.75	944.05	3,605.90	3,436.42	169.48	1,113.54
	(ASEAN total)	187.69	15.96	361.80	549.49	2,683.93	2,621.31	62.62	612.11

Notes: (1) Region classifications are determined by MOFA.
(2) Including graduated countries in total.
(3) Due to rounding, the total figure may not match the sum of the individual parts.
(4) "Multiple countries" refers to assistance encompassing multiple countries such as dispatch of study teams and seminars.

Source: Ministry of Foreign Affairs http://www.mofa.go.jp/policy/oda/white/2008/part3-2-3.pdf

Appendix 6: Japan's aid by country in South Asia, 2007

2007 (calendar year) (Net disbursement basis, unit: US$ Million)

Rank	Country or region	Grants				Loan aid			Total
		Grant aid		Technical cooperation	Total	Amount disbursement	Amount received	Total	
			Grants provided through multilateral institutions						
1	India	9.32	1.80	22.49	31.82	610.65	542.58	68.07	99.89
2	Pakistan	49.59	13.89	19.25	68.84	16.23	31.83	-15.60	53.24
3	Nepal	49.96	6.69	14.30	64.26	5.24	20.86	-15.62	48.64
		(36.12)	(6.69)	(14.30)	(50.42)	(5.24)	(8.38)	(-3.14)	(47.28)
4	Sri Lanka	21.61	1.04	27.71	49.32	195.66	200.81	-5.15	44.16
5	Bhutan	9.76	1.06	8.31	18.07	—	—	—	18.07
6	Maldives	1.70	—	2.19	3.89	—	—	—	3.89
7	Bangladesh	147.15	6.34	19.18	166.33	25.78	198.69	-172.91	-6.59
		(23.66)	(6.34)	(19.18)	(42.83)	(25.78)	(84.62)	(-58.84)	(-16.01)
	Multiple countries in South Asia	—	—	0.36	0.36	—	—	—	0.36
South Asia region total		289.10 (151.77)	30.82 (30.82)	113.78 (113.78)	402.88 (265.54)	853.56 (853.56)	994.78 (868.22)	-141.22 (-14.66)	261.66 (250.88)

Notes: (1) Region classifications are determined by MOFA.
(2) Due to rounding, the total figure may not match the sum of the individual parts.
(3) Figures in parentheses do not include debt cancellation.
(4) "Multiple countries" refers to assistance encompassing multiple countries such as dispatch of study teams and seminars.

Source: Ministry of Foreign Affairs http://www.mofa.go.jp/policy/oda/white/2008/part3-2-3.pdf

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