
Chapter Two

Australia-Japan Trade and Investment Links



2.1 Overview of bilateral trade and investment relationship

Australia and Japan enjoy one of the most significant economic partnerships in the East Asian region. The Australia-Japan economic relationship has developed on the basis of strong complementary interests and cooperation in a wide range of areas.

Trade flows have been at the core of the economic relationship. Japan has long been Australia's most important export market. Australia's total exports to Japan accounted for 3 per cent of Australia's GDP in 2004. Australia is one of Japan's largest sources of imports overall and a principal source of a number of indispensable commodities. Over the decades, Australia has been a stable, secure source of such raw materials for Japan, benefiting both economies. In turn, Japan provides Australia with large volumes of manufactured products contributing significantly to the welfare of its consumers and the efficiency of its industries. Investment flows are also important. Japan is the third-largest source of foreign investment in Australia and there is a demonstrated capacity to expand Australia's investment in Japan. Services trade is strong in some areas such as tourism, but remains a small proportion of total bilateral trade.

The Australia Japan Business Co-operation Committee (AJBCC) and its counterpart JABCC, both established in 1962, have contributed towards building these strong links between Australian and Japanese business, as well as helping to develop mutually beneficial relations with our respective governments.

The bilateral trade relationship between Japan and Australia differs from those between many other developed nations. This reflects the complementarity of both countries' natural advantages: Australia is a competitive, efficient, resource rich country, while Japan is renowned for its ability to produce competitive high-tech goods and services. While Australia's exports to Japan are concentrated in primary goods, Japan's exports to Australia are predominantly elaborately transformed manufactures (see section 2.2).

Japan has been Australia's largest export market since 1969. Japan was Australia's leading source of imports until the mid-1980s and since then has been its second largest source of imports after the United States.

Australia is the twelfth largest export destination for Japanese merchandise exports and the fourth largest source of imports into Japan. In terms of overall trade, Australia is Japan's eighth largest trading partner, accounting for 3.1 per cent of Japan's trade.

In 2004, 17 per cent of Australia's exports were directed to Japan, almost as much as exports to the United States and China put together. These exports were valued at \$US18.8 billion and were composed of \$US16.3 billion of merchandise trade and \$US2.5 billion of services exports (see table 2.1).

Table 2.1: Australia's Trade with Japan, \$US billion

	1990	1995	2000	2001	2002	2003	2004
Exports							
Merchandise	10.5	12.3	12.6	12.3	12.1	12.8	16.3
Services	1.6	2.5	2.1	1.8	2.0	2.1	2.5
Total	12.1	14.8	14.7	14.1	14.1	14.9	18.8
Imports							
Merchandise	7.3	8.9	8.9	7.9	8.6	10.6	12.3
Services	1.0	1.2	1.4	1.3	1.2	1.3	1.5
Total	8.3	10.1	10.3	9.2	9.8	11.9	13.8

According to Japanese data, in 2004, Japan exported \$US11.8 billion of merchandise goods to Australia, accounting for 2.1 per cent of Japanese exports in that year. In the same year, Japan imported \$US19.4 billion worth of merchandise goods from Australia, or 4.3 per cent of total imports.¹

In US dollar terms, the average growth rate for Australian merchandise exports to Japan between 1990 and 2004 was 3.2 per cent; the average services exports growth rate was 3.0 per cent. This growth has occurred over a period where average GDP growth in Japan was just 1.3 per cent. The average growth rate of Australian merchandise imports over the same period was 3.8 per cent, while services imports grew on average by 2.9 per cent.

While services trade between Australia and Japan is less significant than merchandise trade, it remains an important source of revenue for both sides. Japan is Australia's third largest market for services exports, with travel receipts, including Japanese tourism in Australia, accounting for the largest proportion of services trade. Education is also an important contributor. Japan is Australia's fourth largest source of services imports, which include a wide range of travel, transport, financial and other services.

As well as being its largest export market, Japan is an important source of investment for Australia. Japanese investment in Australia was \$US32 billion, as at 30 June 2003, making Japan the third largest investor in Australia. Foreign direct investment (FDI) comprised almost 40 per cent of total Japanese investment in Australia and was valued at \$US12 billion. Japanese investments within Australia are concentrated in real estate, mining, commerce and the services sector.

Total Australian investment in Japan was \$US13 billion as at 30 June 2003. Japan is the fourth most important destination for Australian outward investment. The bulk of this investment represents capitalisation of banks and financial institutions, and the establishment of regional offices by Australian exporters. At \$US355 million, the proportion of FDI in Australia's total investment is remarkably small.

¹ There are discrepancies between trade statistics between many countries, which reflect factors such as timing of shipments and exchange rates. As a result, values for Japanese exports and imports from Australia will not match exactly the corresponding Japanese data on imports and exports from Australia.

2.2 Recent trends in bilateral trade

2.2.1 Goods

Composition of Australian exports to Japan

Australia is a key supplier of primary products to Japan, including agricultural commodities, minerals and energy resources. In 1990, these exports accounted for 85 per cent of total Australian merchandise exports; by 2004, they accounted for 89 per cent of Australian exports to Japan, in part due to expanding exports of LNG.

Within primary products, the composition of Australian exports to Japan has changed marginally since 1990, with rural exports declining (primarily due to declining wool exports to Japan), while food and 'other' exports expanded their shares (a large component of 'other' are particular agricultural and resource commodities which are recorded as confidential items) (see figures 2.1 and 2.2).

Figure 2.1: Australian exports to Japan by sector, 1990

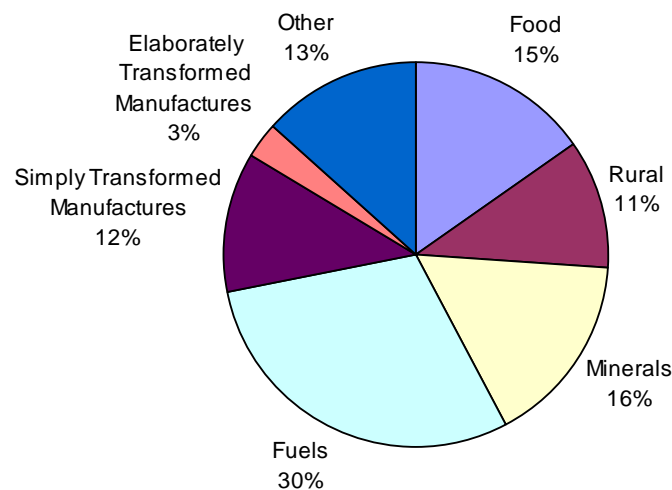
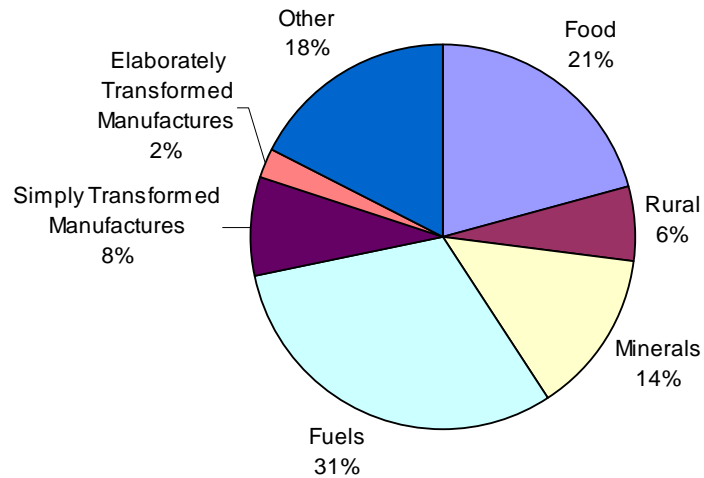


Figure 2.2: Australian exports to Japan by sector, 2004



At the product level, Australia's exports are heavily concentrated on four products - coal, iron ore, aluminium and beef - which together account for 52 per cent of Australia's total merchandise exports to Japan. Japan is its largest market for coal, aluminium and beef and second largest for iron ore. Japan buys 43 per cent of Australia's total coal exports, 37 per cent of its total iron ore exports, 49 per cent of its beef exports and 36 per cent of its aluminium exports.

Beef exports to Japan in 2004 were considerably higher due to the discovery of bovine spongiform encephalopathy (BSE) in the United States late in 2003 and Japan's subsequent banning of beef imports from that country. Another notable trend has been the gradual decline of wool exports to Japan since the 1980s. In 1989, Australia exported \$US804 million worth of wool to Japan; in that year wool was Australia's fifth largest export. By 2004, Australian exports had fallen to \$US35 million and wool was Australia's 33rd largest export. This change reflects two factors: the increasing significance of China as a centre for wool processing; and the decline in the Australian flock since the late 1980s.

There has been strong growth in key resource commodities such as coal, iron ore, aluminium, copper ore, petroleum gas and crude petroleum. Some agricultural exports have also shown steady growth, particularly cheese, rapeseed (otherwise known as canola) and animal feed. Forestry exports such as wood chips have also grown progressively (table 2.2).

Japan is not endowed with many energy resources, and in 2003, was the second largest energy importer in the world, behind the United States. Following the negative effects of the two oil crises in the 1970s on Japan's economy, Japan's energy policy places priority on securing stable energy supply, through diversification. This policy has led to increased demand for oil alternatives, with which Australia is well endowed. Australia is Japan's largest supplier of coal and iron ore and the third largest supplier of LNG.

Table 2.2: Top 20 Australian exports to Japan, \$US million

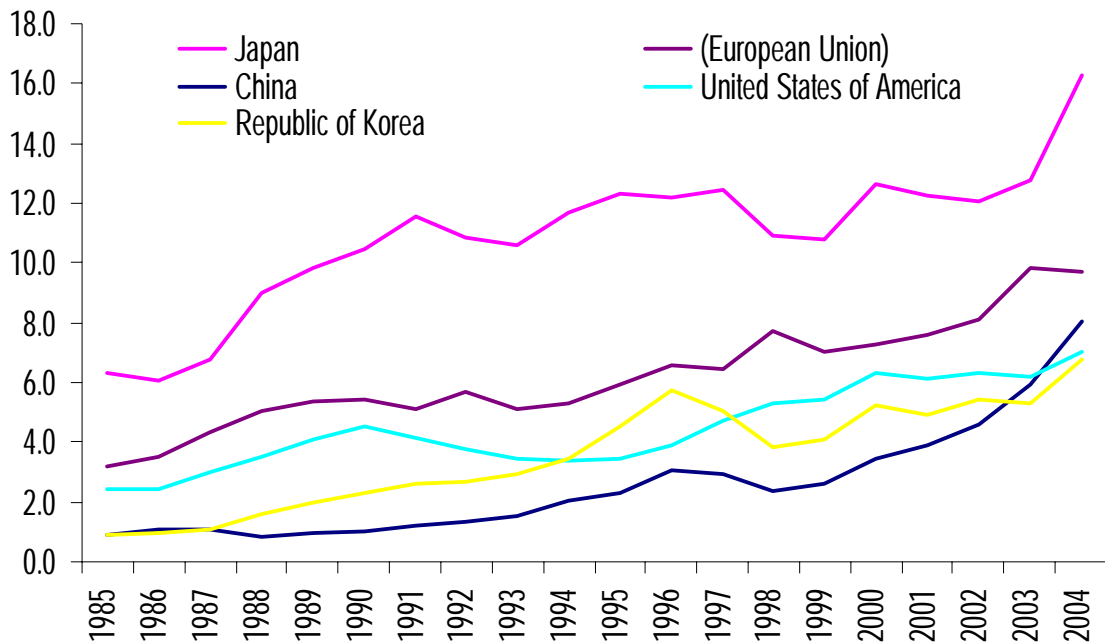
	1990	% of total	2004	% of total	Trend growth
Coal	2 442	23.3	4 229	26.0	2.1%
Combined confidential items	631	6.0	2 709	16.6	12.1%
Iron ores and concentrates	951	9.1	1 645	10.1	2.6%
Chilled beef	453	4.3	1 132	6.9	1.4%
Unwrought aluminium	809	7.7	946	5.8	3.1%
Wood chips	293	2.8	556	3.4	1.8%
Frozen beef	234	2.2	518	3.2	3.2%
Copper ores and concentrates	149	1.4	420	2.6	8.4%
Petroleum gases	392	3.7	392	2.4	-5.6%
Petroleum oils, crude	237	2.3	287	1.8	1.1%
Cheese and curd	44	0.4	267	1.6	10.7%
Rape seed	-	-	219	1.3	..
Fodder	27	0.3	179	1.1	14.2%
Animal feed	39	0.4	168	1.0	8.0%
Edible offal	31	0.3	161	1.0	12.5%
Cobalt mattes	-	-	123	0.8	..
Gold unwrought or semi-manufactured	751	7.2	123	0.8	-14.7%
Crustaceans	166	1.6	115	0.7	-3.8%
Zinc ores and concentrates	279	2.7	104	0.6	-6.9%
Petroleum oils and oils other than crude	15	0.1	90	0.6	30.9%

Japan's share of Australian exports

Australia's exports to Japan are currently almost double those to Australia's next largest markets, the United States and China. In earlier years, Australia's merchandise exports were even more heavily concentrated in Japan. For example, between 1993 and 1996, Australia's exports to Japan were more than three times the size of its exports to the United States (see figure 2.3).

The concentration of Australia's exports in Japan has declined in recent years. In 1985, Australia's exports to Japan accounted for 28 per cent of total merchandise exports, or \$US6.3 billion. In 1990, exports to Japan still accounted for 26 per cent, but have gradually declined since then to 19 per cent in 2004, valued at \$US16.3 billion. This decline in concentration largely reflects the growth of Australian exports into new markets, particularly developing countries in Asia. In 1983, there were just three Asian countries in Australia's top 10 export destinations; in 2004, the top 10 was dominated by Asian countries. The weakness of the Japanese economy over the past decade may also have had an effect.

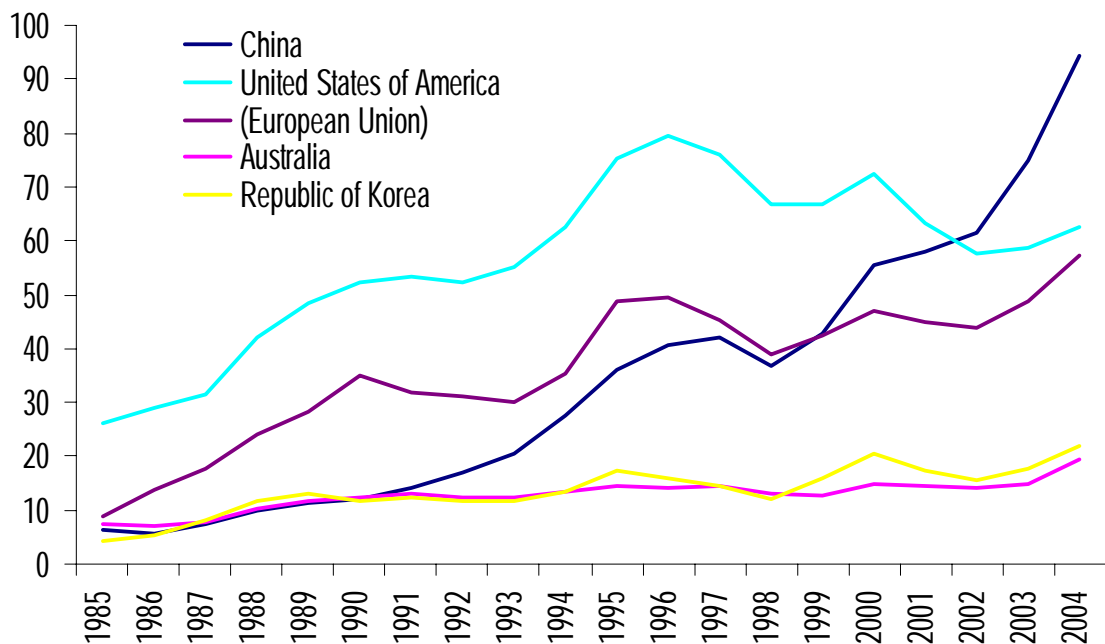
Figure 2.3: Exports to Australia's Major Trading Partners, 1985 to 2004, \$US billion



Australia's share of the Japanese goods market

In recent years Australia's share of the Japanese market has declined. In 1990, Australia accounted for 5.3 per cent of Japan's total imports, or \$US12.3 billion. By 2004, this share had risen in absolute terms to \$US19.4 billion, but as a share had fallen to 4.3 per cent (see figure 2.4). In 1990, Australia was Japan's third largest source of imports, while by 2004, it had dropped to fourth.

Figure 2.4: Imports from Japan's Major Trading Partners, 1985 to 2004, \$US billion



Similarly, the United States' and European Union's shares of the Japanese market declined from 22.6 per cent and 15.5 per cent to 15.4 per cent and 12.6 per cent, respectively. Australia, the European Union

and the United States have all lost market share to China. These changes in market share have changed dramatically the country composition of Japan's imports. In 1990, the United States supplied Japan with almost one quarter of total imports, while China supplied just 5.1 per cent. By 2004, China was the largest supplier of exports to Japan accounting for 20.7 per cent. During this period China's exports to Japan grew almost eight-fold.

Japan's exports to Australia

Japan's exports to Australia are predominantly composed of manufactured items, accounting for around 98 per cent of Australia's total imports from Japan in 2004. This proportion has not changed markedly since 1990 (figures 2.5 and 2.6). These goods are predominantly made up of elaborately transformed manufactures, including transport equipment, construction equipment, office equipment, electronics and other machinery. The remaining imports are composed of 'other' items (predominantly chemical compounds) at around 1.2 per cent and primary products, which account for around 0.8 per cent.

Figure 2.5: Sector shares of Australian imports from Japan, 1990

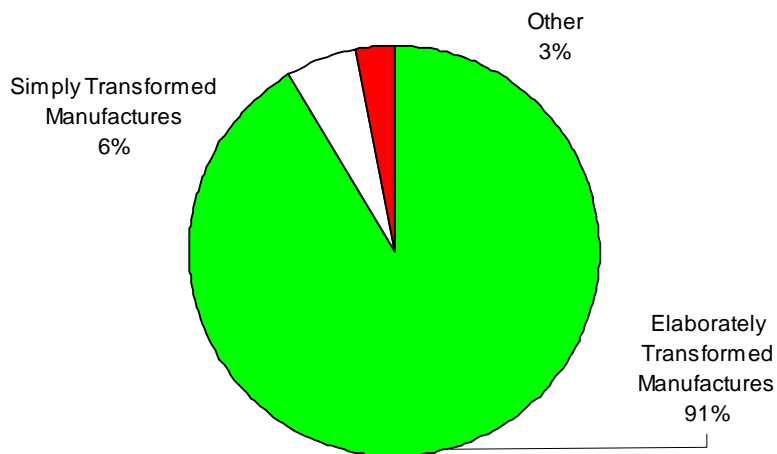
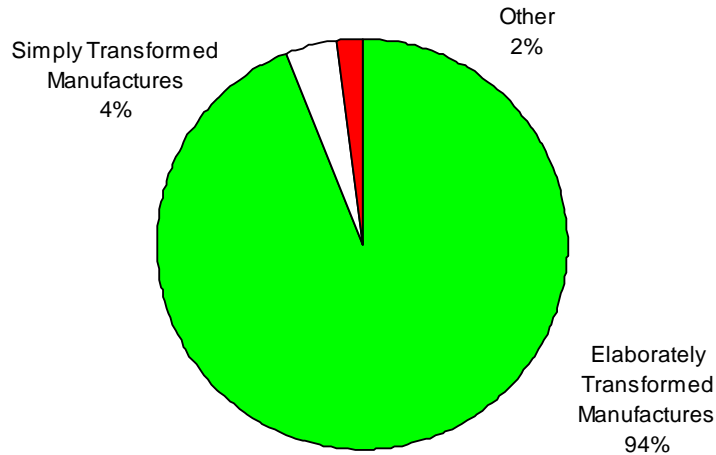


Figure 2.6: Sector shares of Australian imports from Japan, 2004



Motor vehicles and auto parts dominate Japanese exports to Australia, together accounting for more than half of total Australian imports. Passenger motor vehicle imports from Japan have grown very rapidly since 1989, with a trend growth rate of 8 per cent. In 1989, these vehicles accounted for 17 per cent of Australian imports from Japan; by 2004, these cars accounted for 39 per cent of Australian imports (table 2.3). Other key imports include goods vehicles, radio transmission apparatus, motor vehicle parts, civil construction machinery and rubber tyres, many of which grew faster than the overall trend of imports from Japan.

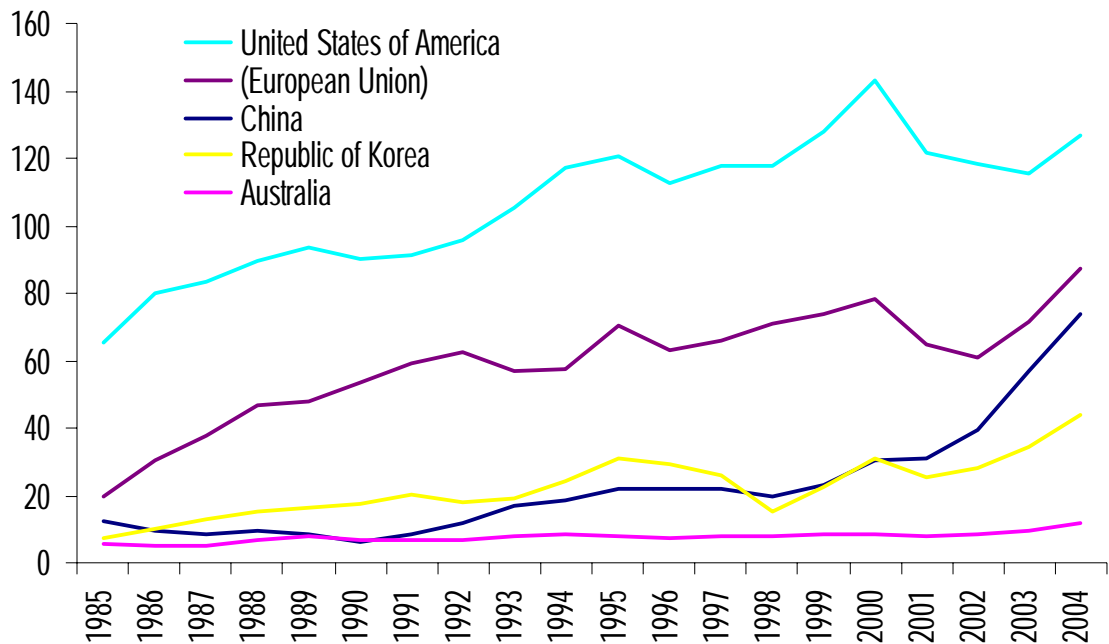
Table 2.3: Top 20 Australian imports from Japan, \$US million

	1990	% of total	2004	% of total	Trend growth
Passenger motor vehicles	1326	18.2	4803	39.2	8.1%
Goods vehicles	750	10.3	1121	9.1	0.9%
Radio transmission apparatus	144	2.0	403	3.3	6.7%
Parts and accessories for motor vehicles	322	4.4	377	3.1	1.3%
Civil construction machinery	138	1.9	357	2.9	7.6%
New pneumatic tyres, of rubber	149	2.0	290	2.4	4.0%
Televisions	3	0.0	261	2.1	33.1%
Motorcycles	62	0.8	197	1.6	9.2%
Computers	335	4.6	170	1.4	-3.1%
Parts and accessories for office machines	219	3.0	167	1.4	-3.0%
Tubes and pipes	3	0.0	164	1.3	22.8%
Internal combustion piston engines	102	1.4	156	1.3	2.6%
Combined miscellaneous items	138	1.9	148	1.2	2.7%
Photo-copying apparatus	126	1.7	135	1.1	-0.4%
Fork-lift trucks; other works trucks fitted with lifting equipment	49	0.7	128	1.0	7.3%
Flat-rolled products of iron or non-alloy steel	56	0.8	111	0.9	4.2%
Air or vacuum pumps	75	1.0	101	0.8	-1.1%
Air conditioning machines	48	0.7	86	0.7	1.1%
Motor vehicles for the transport of ten or more persons	30	0.4	84	0.7	4.4%
Starter motors, alternators, etc.	18	0.2	56	0.5	8.5%

Australia's share in Japan's exports

Japan's exports to Australia grew from \$US6.9 billion in 1990 to \$US11.8 billion in 2004, but Australia's share as an export destination fell from 2.4 per cent to 2.1 per cent over the same period (see figure 2.7). Australia fell from Japan's sixth largest export destination in 1985 to 12th in 2004. As with Japan's imports, the increasing share of Japan's exports to China is the most notable trend of the past decade or so. Exports to China increased more than twelve-fold between 1990 and 2004, from \$US6.1 billion to \$US74 billion. The share of Japan's exports going to China increased from 2.1 per cent to 13.1 per cent. Also in common with its imports, the shares of Japan's exports going to the United States and the European Union have fallen since 1990.

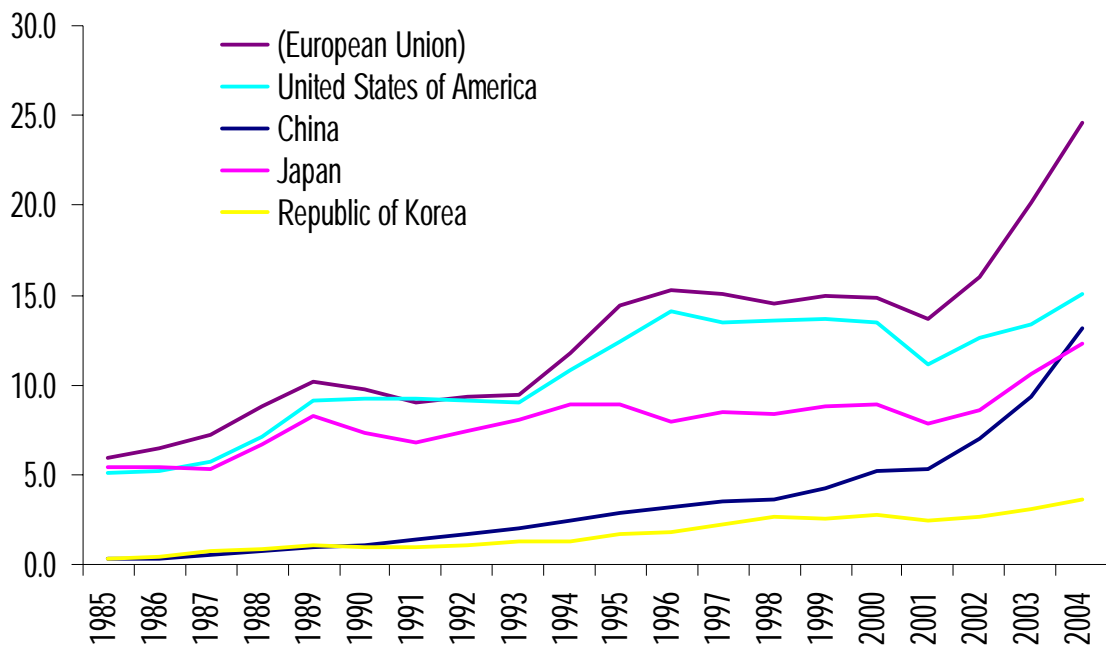
Figure 2.7: Exports to Japan's Major Trading Partners, 1985 to 2004, \$US billion



Japan's share of Australian goods market

The proportion of imports that Australia sources from Japan has fallen over the past two decades, as Australia sourced goods from other markets, reflecting the increasing globalisation and competitiveness of the world market. In 1985, Australia sourced 23 per cent of its merchandise imports from Japan, valued at \$US5.4 billion, with Japan being Australia's single largest source of imports. In 1987, the United States replaced Japan as the largest source of merchandise imports for Australia. In 2004, Australia imported \$US12.3 billion worth of merchandise goods from Japan, or 12 per cent of total merchandise imports. Figure 2.8 shows the increasing importance of the European Union and China as sources of imports in recent years.

Figure 2.8: Imports from Australia's Major Trading Partners, 1985 to 2004, \$US billion



2.2.2 Services

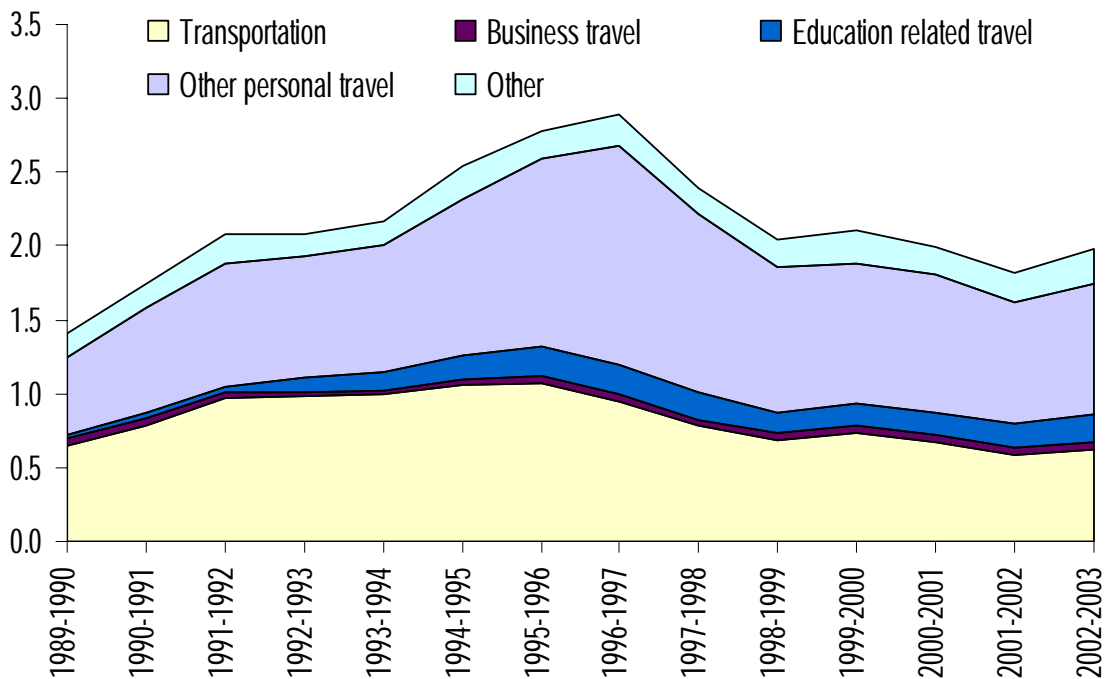
While services trade between Australia and Japan is on a smaller scale than merchandise trade, it is nevertheless an important component of bilateral trade. Japan is Australia's third largest market for services exports, while it is its fourth largest source of services imports. Australia is Japan's twelfth largest market for services exports and its eighth largest source of imports of services. Travel receipts, including Japanese tourism in Australia, account for the largest proportion of services trade.

Australia's services exports to Japan

According to Australian data, Australia's exports of services to Japan increased from \$US610 million in 1986-87 to almost \$US3 billion in the mid-1990s (figure 2.9)². Since then, services exports have declined by 31 per cent (in Australian dollar terms this was only a fall of 8 per cent) but Japan remains Australia's third largest services market. The major drivers of these trends were travel receipts and transportation (the costs of moving passengers and merchandise exports). Transportation rose from \$US653 million to \$US1.1 billion before falling back to \$US625 million. Over the same period, travel receipts grew from \$US597 million in 1989-90 to \$US1.7 billion in 1996-97 before falling back to \$US1.1 billion in 2002-03. Much of this was personal travel, comprising education related and other personal travel.

² Financial year data presented here uses the Australian financial year, from July to June. Calendar year data is not available.

Figure 2.9: Australian services exports to Japan, \$US billion (Australian data)

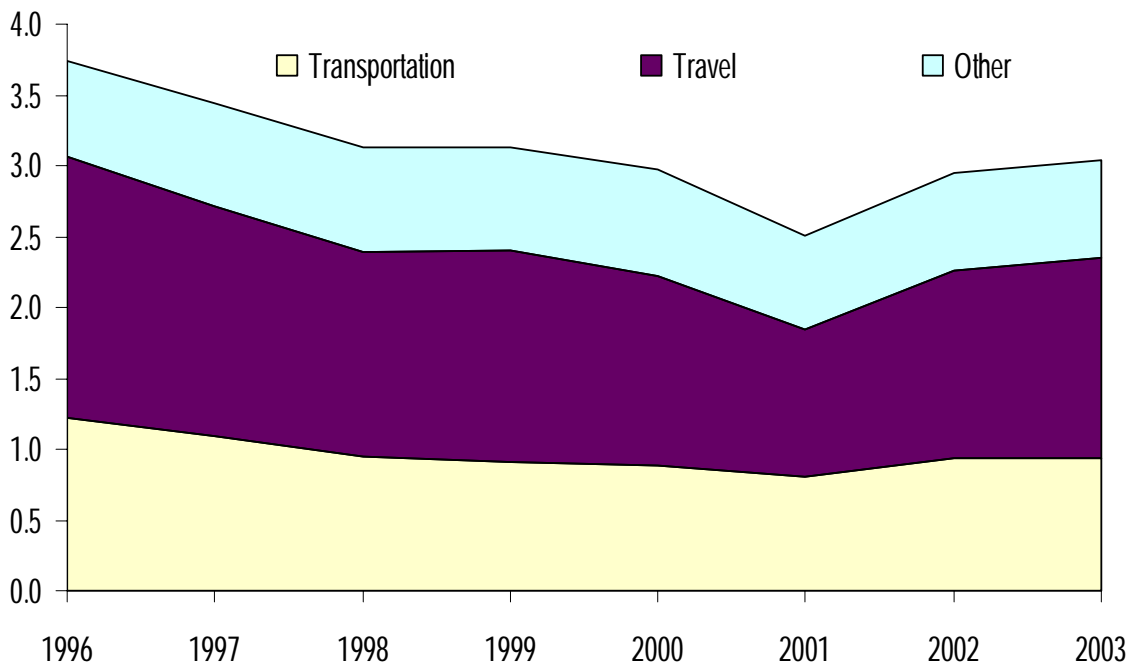


Education related travel makes a substantial contribution to Australian services receipts from Japan, growing from \$US26 million in 1989-90 to \$US200 million in 1995-96, and stabilising at that level to be \$US193 million in 2002-03. Japan is the sixth largest source of international students in Australia, with total Japanese student enrolments in Australia just under 19 000 in 2003. Of these, almost 3 000 were university enrolments. Australia is the third most popular English-language destination for Japanese university students after the United States and the United Kingdom.

Services included in the 'Other' category include other business services, such as legal, accounting, consulting and other professional services and processing services in the minerals and agriculture industries, computer and IT services, financial services and communication services. A small number of Australian firms have representative offices in Japan to supply such services.

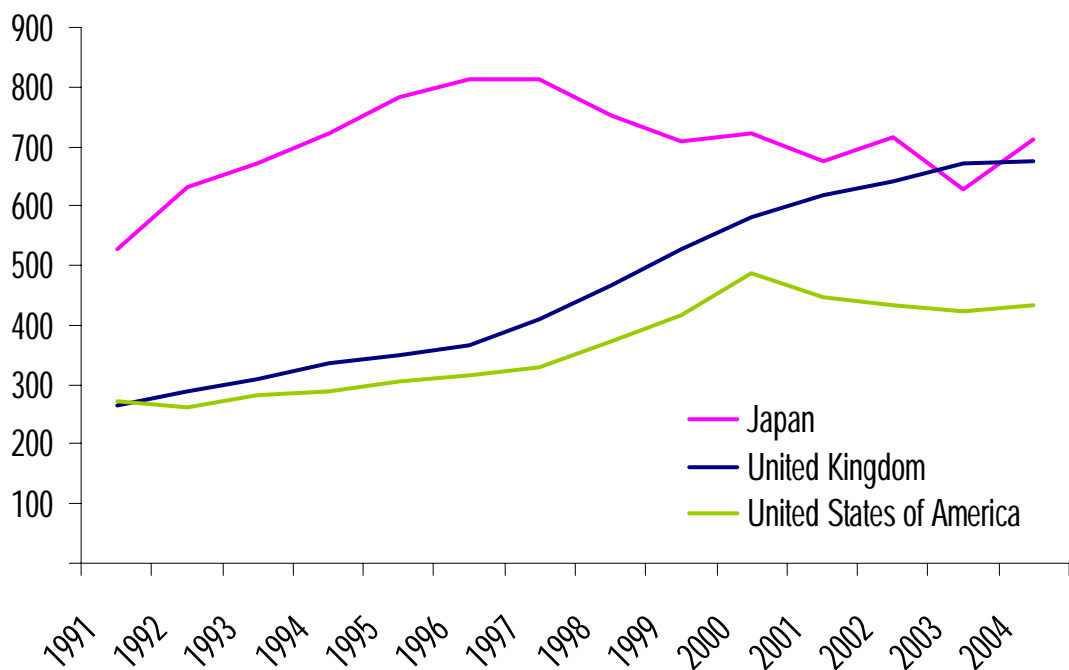
Japanese data on its services imports from Australia indicates a similar downward trend, in US dollar terms, since 1996, when the series commenced (figure 2.10). In Australian dollar terms, services imports from Australia are following a level trend. According to Japanese data, services imports from Australia were considerably higher than that measured by Australian statistics. In 2003, services imports totalled \$US3.0 billion, of which \$US1.4 billion, or almost half, was travel services and another \$US0.9 billion was in transportation. Other miscellaneous services imports from Australia were much larger according to Japanese data, at \$US0.7 billion.

Figure 2.10: Japanese services imports from Australia, \$US billion (Japanese data)



The fluctuating trend of travel receipts from Japan is demonstrated quite clearly in figure 2.11. Short term arrivals from Japan to Australia grew by 54 per cent between 1991 and 1997; between then and 2003 Japanese arrivals fell by almost one quarter. While arrivals grew strongly again in 2004, the downward trend is at odds with Australia's overall tourism trends. Since 1991, total inbound tourism has more than doubled, with 5.2 million people visiting Australia in 2004.

Figure 2.11: Arrivals in Australia from Japan, the United Kingdom and the United States, 1991 to 2004, thousand people



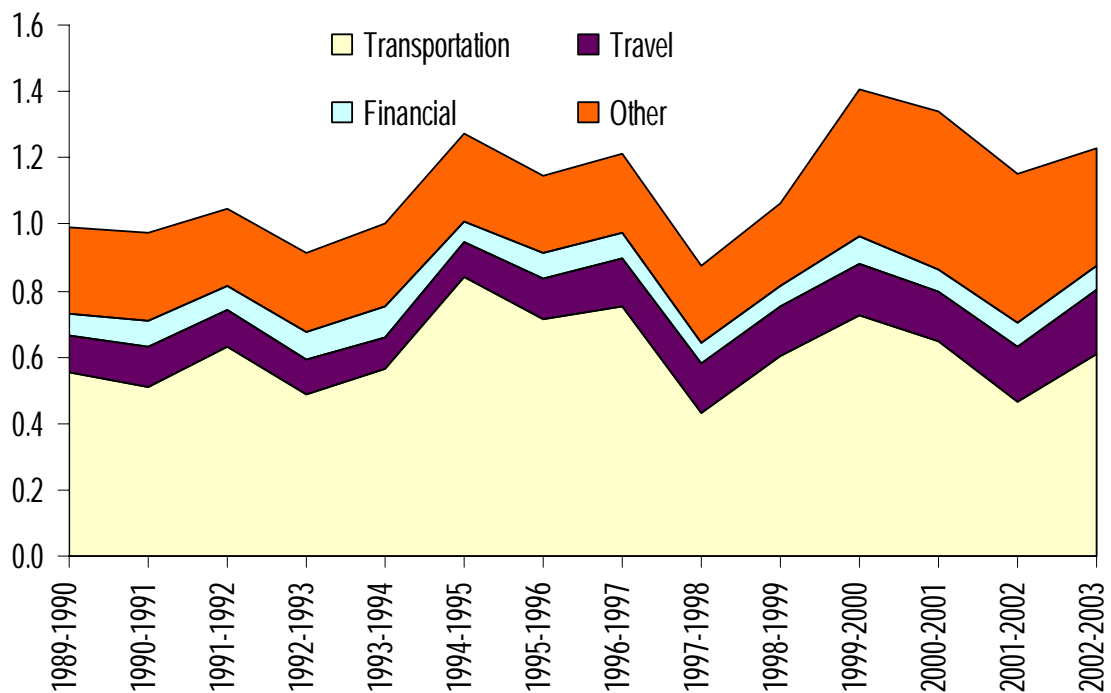
Source: Australian Bureau of Statistics, cat. 3401.0 accessed from dX database.

Japan's services exports to Australia

Japan's services exports to Australia have grown strongly in recent years, driven by increases in a range of smaller service types, grouped together under 'other' (figure 2.12). Japan is Australia's fourth largest source of services imports, behind the United States, the United Kingdom and Singapore. The value of transportation services imports rose from \$US553 million to \$US611 million in 2002-03, while travel rose strongly from \$US111 million in 1989-90 to \$US191 million. Travel to Japan in 2002-03 comprised around one-third business travel, one-fifth education-related personal travel and the remainder (just under a half) other personal travel.

Major known contributors to 'other' services category in 2002-03 were other business services, such as legal, accounting, consulting and other professional services and processing services in the minerals and agriculture industries, \$US93 million, and royalties and license fees, \$US84 million. A further \$US137 million was unclassified services imports from Japan.

Figure 2.12: Australian services imports from Japan, \$US billion (Australian data)



According to Japanese statistics, its exports to Australia fell from 1996 to 2001 but have rebounded strongly since then (figure 2.13). In Australian dollar terms, this represents a solid growth trend over the seven years to 2003. Japanese data also show exports to Australia are greater than shown by Australian statistics. In 2003, Japan's total services exports to Australia were valued at \$US1.7 billion, the largest single component of which was transportation, at \$US0.7 billion. Travel services, mostly representing Australian tourists' spending in Japan, is rising, and was nearly \$US0.3 billion in 2003. As shown in the Australian data, a large proportion of the total is accounted for by other miscellaneous services, which fluctuated over the period but bounced back to \$US0.7 billion in 2003.

Figure 2.13: Japanese services exports to Australia, \$US billion (Japanese data)

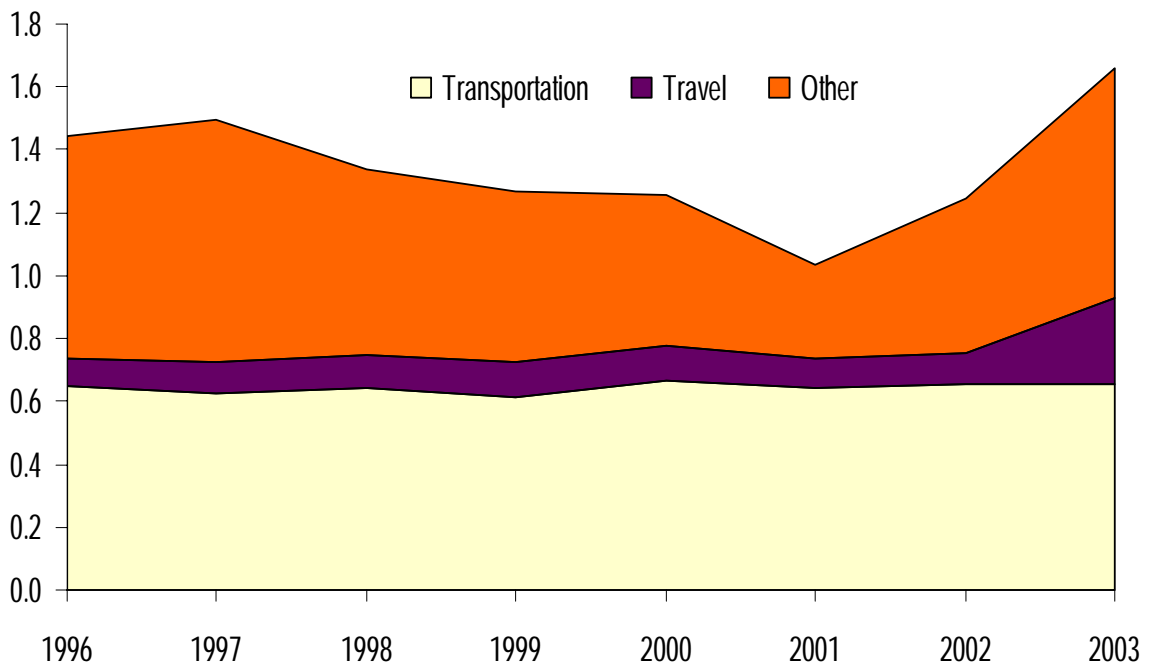
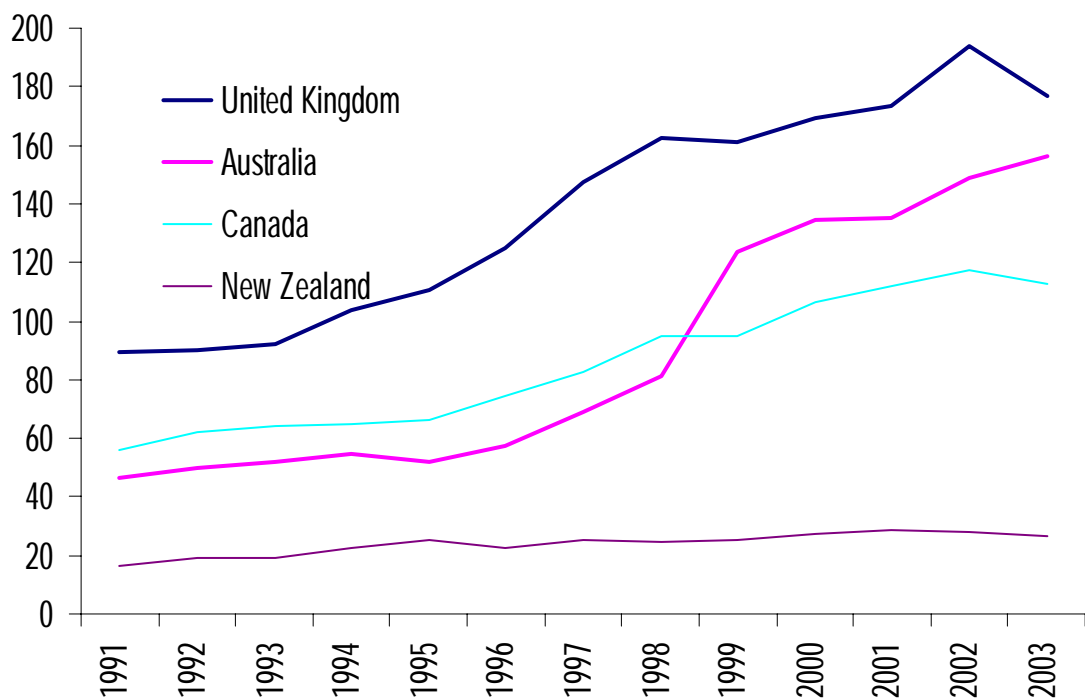


Figure 2.14 shows that the number of Australian visitors to Japan has grown strongly, more than tripling since 1991. Australian total outbound travel to all destinations has increased by 61 per cent since 1991 with 3.4 million Australians travelling overseas in 2003.

Figure 2.14: Visitors to Japan from Australia, the United Kingdom, Canada and New Zealand, 1991 to 2003, thousand people



2.3 Recent trends in bilateral investment

Japan is a major provider of investment into Australia, while Australian investment in Japan is mostly portfolio investment.

Japanese investment in Australia

The stock of Japan's foreign investment in Australia on 30 June 2003 was valued at \$US32 billion (table 2.4). Levels of FDI have fluctuated between \$US11 billion in 1992 down to \$US8.2 billion in 2001, before rising back to \$US12 billion in 2003. This fluctuation is primarily due to exchange rate variation, and in Australian dollar terms the stock of Japanese FDI in Australia has remained relatively stable. Over the same period, portfolio investment has more than halved in US dollar terms, a decline of considerable magnitude even taking into account exchange rate movements.

Table 2.4: Stock of Japanese investment in Australia, \$US billion

	FDI	Portfolio	Other	Total
June 1992	11.1	26.3	0.0	37.3
June 1993	9.6	23.7	0.0	33.3
June 1994	11.0	23.0	0.0	34.1
June 1995	11.4	24.0	0.0	35.4
June 1996	12.6	31.7	0.0	44.3
June 1997	11.7	19.9	10.5	42.1
June 1998	9.2	14.1	8.8	32.1
June 1999	9.6	12.8	7.7	30.0
June 2000	9.2	11.7	9.5	30.4
June 2001	8.2	9.0	7.2	24.4
June 2002	10.6	10.6	5.9	27.1
June 2003	11.7	n.y.a.	n.y.a.	32.0

n.y.a. not yet available

In 1993, Japan was Australia's third largest foreign investor, accounting for 13.8 per cent of foreign capital (table 2.5). By 2003, the stock of Japanese investment in Australia was almost unchanged, although its share of foreign capital had fallen to 5.3 per cent as investment from other countries increased significantly. Nevertheless Japan was still the third largest investor in Australia. Japanese investments in Australia are concentrated in real estate, mining, commerce and the services sector. Japan is also Australia's third largest foreign *direct* investor.

Table 2.5: Major Sources of Investment in Australia, 1993 and 2003, \$US billion

Stock as at 30 June, 1993		Stock as at 30 June, 2003	
United States of America	53.9	United States of America	172.7
United Kingdom	45.4	United Kingdom	164.5
Japan	33.3	Japan	32.0
Hong Kong (SAR of China)	8.3	Hong Kong (SAR of China)	23.6
Netherlands	6.1	Singapore	22.4
New Zealand	5.2	New Zealand	12.0
Switzerland	4.8	Germany	11.3
Singapore	4.7	Netherlands	10.9
Germany	4.6	Switzerland	10.7
Belgium and Luxembourg	3.1	France	9.0
Total all countries	242.0	Total all countries	603.6

Japanese data on its investment in Australia indicate the stock of its total investment in Australia has fallen from \$US63.5 billion to \$US41.7 billion between 1996 and 2003 (table 2.6). It has fallen from the fourth largest destination for Japanese total investment, accounting for 5.0 per cent of total outward investment stocks, to the ninth, representing just 2.2 per cent of the total. Japanese statistics also indicate its stock of direct investment in Australia placed it fifth amongst direct investment destinations, with a total of \$US10.6 billion invested as at 2003.

Table 2.6: Major Destinations for Japanese Investment, 1996 and 2003, \$US billion

Stock as at 1996		Stock as at 2003	
United States of America	435.7	United States of America	701.4
United Kingdom	96.8	Cayman Islands	199.5
Germany	82.6	Germany	149.3
Australia	63.5	United Kingdom	114.5
Netherlands	56.0	France	90.2
Canada	40.8	Netherlands	87.8
France	36.4	Italy	54.7
Belgium and Luxembourg	32.0	Belgium and Luxembourg	50.6
Sweden	27.0	Australia	41.7
Hong Kong (SAR of China)	24.6	Canada	32.4
Total all countries	1270.8	Total all countries	1900.2

In 2000, Japanese affiliated companies in Australia employed approximately 50,000 people. Through their supply chain and subcontractors, employment numbers exceeded 200,000, providing a substantial contribution to Australian employment.

Box 2.1 Recent Japanese Investments in Australia

Recent significant Japanese investments in Australia include the participation of Tokyo Electric Power Company (TEPCO) and Tokyo Gas Co., Ltd. through Tokyo Timor Sea Resources Inc., in a 10 per cent interest in the \$US3 billion Bayu-Undan Field/Darwin LNG project, made in June 2003. The project has already started offshore production of condensate and LPG at Bayu-Undan Field, and construction of the gas pipeline and onshore LNG plant is underway. TEPCO, through TEPCO International B.V., has also taken a 32.5 per cent interest in the Loy Yang A power generation plant and brown coal mine. In July 2003, the Toyota Motor Corporation announced the establishment of a \$US32 million Asia Pacific Technical Centre in Victoria, to focus on the research and design of passenger car bodies and chassis for Toyota's international markets. The centre will initially employ more than 50 engineers and technicians with numbers expected to increase as the facility expands.

Existing investments in Australia include a 50 per cent share held by Mitsubishi Development Pty Ltd in the BHP Billiton Mitsubishi Alliance (BMA), which owns a large number of coal mines and associated infrastructure in Queensland. In July 2003, BMA announced plans to develop a new underground coal mine in Central Queensland with the capacity to produce up to 3.6 million tonnes of high quality coking coal a year. The mine is expected to employ 90 people when operational. In January 2004, BMA announced plans to build a new coal handling and processing facility at its Blackwater coal mine in Central Queensland. The \$US180 million plant will have the capacity to process over 14 million tonnes of high quality coking and thermal coal a year and employ a workforce of 400 throughout the two-year construction period.

There are also significant interests held by Japanese companies in other mining operations, including key investments in natural gas, salt, iron ore, alumina, plantation timber and mineral sands. For example, a joint venture between Rio Tinto, Mitsui, Sumitomo Metal Industries and Nippon Steel Corporation in Robe River in Western Australia employs 950 people and exports 40 million tonnes of iron ore a year.

Australian investment in Japan

Australian investment in Japan since the early 1990s has almost tripled, though from a low base. On 30 June 2003, total Australian investment was valued at \$US13 billion, as compared with \$US4.5 billion at the same time in 1992 (table 2.7). Portfolio investment over this period increased by 49 per cent. However Australian FDI in Japan remains at remarkably low levels; after fluctuating widely between 1992 and 2000, it reached \$US0.4 billion in 2003. Japan is the 15th largest destination for Australian outward direct investment.

Table 2.7: Stock of Australian investment in Japan, \$US billion

	FDI	Portfolio	Other	Total
June 1992	0.2	4.3	0.0	4.5
June 1993	0.2	5.0	0.0	5.3
June 1994	0.1	8.3	0.0	8.3
June 1995	0.2	6.3	0.0	6.6
June 1996	0.2	9.3	0.0	9.5
June 1997	0.2	6.2	6.5	12.8
June 1998	0.1	3.5	2.6	6.2
June 1999	0.1	5.9	4.6	10.6
June 2000	0.2	7.5	5.8	13.5
June 2001	np	6.5	7.8	14.3
June 2002	np	6.5	4.8	11.3
June 2003	0.4	n.y.a.	n.y.a.	13.0

As at 30 June 1993, Japan was the fourth largest destination for Australian foreign investment holdings, accounting for 5.7 per cent of total Australia foreign investment (table 2.8). In 2003, Japan remained the fourth largest destination for Australia's foreign investment, with 4.2 per cent of Australian foreign investment directed to Japan. The United States, the United Kingdom and New Zealand are Australia's top three destinations, accounting for just over half of total Australian foreign investment holdings in 1993 and nearly two-thirds in 2003.

Table 2.8: Major Destinations for Australian Investment, 1993 and 2003, \$US billion

Stock as at 30 June, 1993		Stock as at 30 June, 2003	
United States of America	23.6	United States of America	125.6
United Kingdom	16.3	United Kingdom	53.4
New Zealand	6.9	New Zealand	18.9
Japan	5.3	Japan	13.0
Hong Kong (SAR of China)	4.6	Netherlands	8.2
Singapore	1.8	Hong Kong (SAR of China)	7.6
Germany	1.6	Singapore	6.8
France	1.4	Germany	6.0
Papua New Guinea	1.4	France	5.9
Netherlands	1.2	Switzerland	3.9
Total all countries	93.3	Total all countries	307.9

According to Japanese statistics, as at 1996, Australia was the tenth largest source for Japanese inward foreign investment holdings, accounting for 1.5 per cent of total foreign investment in Japan (table 2.9). By 2003, Australia had dropped to the 15th largest source of foreign investment, with 0.9 per cent of foreign investment holdings in Japan being Australian-owned. Japanese data indicate Australian direct investment in Japan stood at \$US565 million in 2003.

Table 2.9: Major Sources of Investment in Japan, 1996 and 2003, \$US billion

Stock as at 1996		Stock as at 2003	
United Kingdom	215.1	United States of America	284.3
United States of America	160.5	United Kingdom	250.9
Switzerland	55.5	Belgium and Luxembourg	40.1
Belgium and Luxembourg	22.7	France	33.9
Germany	21.1	Germany	29.7
Singapore	20.6	Switzerland	28.6
Hong Kong (SAR of China)	16.8	Netherlands	27.2
France	13.2	Singapore	18.2
Netherlands	11.1	Cayman Islands	14.1
Australia	9.3	Hong Kong (SAR of China)	13.5
		Australia (15th)	8.4
Total all countries	625.0	Total all countries	884.0

Box 2.2 Listings of Australian companies on Japanese stock exchanges

There are 6 Australian listed companies which are also listed on the Tokyo Stock Exchange. These are Ansell Ltd, BHP Billiton Ltd, Fosters Group Ltd, National Australia Bank Ltd, News Corporation and Westpac Banking Corporation. There are no Japan-based companies listed on the Australian Stock Exchange.

2.4 Recent Developments in Bilateral Trade and Investment Policy

2.4.1 Trade and Economic Framework

The Australia-Japan Trade and Economic Framework (TEF), signed by Prime Ministers Koizumi and Howard in July 2003, was a major step forward in the bilateral economic relationship. It includes a commitment for both countries to “work towards the liberalisation of trade and investment between Australia and Japan on a balanced and comprehensive basis through various avenues”. This joint study provides an assessment of the costs and benefits of such liberalisation.

The TEF provides for regular consultations on developments in each country’s trade arrangements with third countries and government processes affecting trade and investment. These consultations are handled through the Joint Consultative Committee, set up under the TEF to oversee implementation of all its aspects, and provide a formal means for exchanging information on developments which could impact on trade and economic links between our two countries. Given the rapidly changing regional trading environment (see section 3.3), these mechanisms are particularly useful.

In addition, the TEF includes a package of eleven initiatives aimed at improving commercial and policy linkages. These cover well-established sectors, such as food and energy trade, emerging growth areas such as ICT, and important and evolving policy issues including customs and paperless trading, mutual recognition of qualifications, securities markets regulation, investment promotion, intellectual property,

competition policy, government procurement and construction business licences. This package widens and deepens trade and investment linkages and should deliver improvements to the overall business environment. As such, the measures are of value to business in both countries.

In six of those areas, new instruments have been signed to cement further bilateral cooperation. Implementation of each of these instruments will further strengthen the bilateral economic relationship.

In June 2003, an Enhanced Framework for Cooperation in the Energy and Minerals sectors was signed. The Framework enabled broader discussion on energy and minerals issues and facilitated private sector involvement in the annual Japan-Australia High Level Group on Energy and Minerals Consultations. The first discussions under the new Framework, held in May 2004, provided a valuable opportunity for Government, research organisation and industry representatives to exchange information on developments in the energy and minerals sectors, explore areas for future collaboration including research into mining and energy technologies, and to identify opportunities for expanding bilateral trade and investment.

Also in June 2003, a cooperative framework between the customs agencies of both countries was signed, to expedite customs clearance procedures, provide for exchanges of views, and cooperation and mutual assistance in customs matters.

In October 2003, a mutual recognition framework was signed to facilitate the recognition of each other's registered or licensed engineer qualifications, assisting the development of bilateral trade in engineering services.

Also in October 2003, Australia and Japan signed a memorandum of understanding on investment promotion to reaffirm the already strong cooperative relationship between both countries' investment promotion agencies.

In December 2003, an enhanced framework for cooperation on the information economy and the information and communications technology industry was signed, providing for wide-ranging discussions on each country's approach to this rapidly changing area.

In September 2004, a statement of intent was signed by the Australian Securities and Investments Commission and the Japanese Financial Services Agency to cement bilateral cooperation in securities market regulation.

Starting in 2005, the Japan Patent Office and IP Australia anticipate undertaking examiner exchanges to assist each office to gain a better understanding of each other's patent system.

Good progress has been made by the two countries towards the negotiation of a government-to-government agreement on competition issues.

In addition, there have been numerous discussions on other facilitation items, particularly on food safety, food technical issues, government procurement and construction business licences. Information exchange in these areas could, in due course, pave the way for measures to align regulatory approaches or assist businesses on both sides to access new trade and investment opportunities.

2.4.2 Other developments

Based on the October 2000 agreement between the Minister for International Trade and Industry of Japan and the Minister for Trade of Australia, the private sectors of both countries prepared the *Australia Japan Strengthening Economic Relations* reports.

The report of the Australian side identified how regulatory reform, 'new economy' developments and other structural changes were creating new opportunities in information and communications technology, financial services, medical and health services and biotechnology. It also noted that these developments reinforced the traditional complementarities that have been a mainstay of the relationship. While there were many cases where these opportunities had been grasped, the report concluded that some firms still did not see the benefits or were challenged by the new uncertainties created by change and identified a number of issues or concerns that were constraining business from realising the full potential of the commercial relationship.

The Japanese report endorsed the facilitation and vitalization of trade in goods and services, pointing out the importance of promotion of highly value-added Australian products, the greater role that JETRO is expected to play and so on. It also noted that people-to-people exchanges at various levels were crucial for the strengthening of economic relations and confidence building between the two countries. It further suggested the necessity of tightening and activating the business relationship in the 'new economy' field, including information technology, biotechnology, and the environment. Although the reports are not of official character, some issues described in the reports were addressed by the initiatives under the TEF's facilitation agenda, encouraging more businesses to take advantage of bilateral business opportunities.

Through the *Australia-Japan Creative Partnership* statement released on 1 May 2002, Prime Ministers Howard and Koizumi committed themselves to a dynamic and forward-looking relationship. The statement covered cooperation on a range of global, regional and bilateral issues. On the bilateral economic relationship, the Prime Ministers agreed that the two Governments would launch high-level consultations to explore all options for deeper economic linkages between Australia and Japan. More broadly, the Prime Ministers expressed their determination to promote further liberalisation of global trade and investment, recognised the importance of the successful conclusion of a new round of trade negotiations in the WTO, and undertook to cooperate in advancing the APEC agenda.

Australia and Japan also undertake a range of regular dialogues on trade and economic issues and other matters of mutual interest. These include:

- annual consultations on dairy policy and supply/demand issues;
- an annual review of progress under the Australia/Japan Beef Agreement
- annual consultations to discuss wheat, barley and rice policies, consumption and production;
- plant quarantine technical talks to enhance cooperation on specific bilateral quarantine issues on a scientific basis and in accordance with the IPPC, WTO/SPS Agreements;
- customs talks to enhance cooperation on customs matters;
- high level group on transportation issues;
- joint committee on science and technology cooperation;
- official tourism talks;
- air services talks to review and negotiate air service rights and entitlements; and
- meetings of the mixed cultural commission.

Australia and Japan have also held a number of formal exchanges on our respective pension and retirements systems, with a view to negotiating a social security agreement.

The Australian Building Codes Board (ABCB) undertakes regular discussions with Japan aimed at increasing opportunities for both industries in the Japanese and Australian markets. The discussions also enable the Australian industry to gain a better understanding of Japan's regulatory reform initiatives. The ABCB Office attended the 2nd Code Development Committee with the Japanese Ministry of Land Infrastructure and Transport in March 2004 to progress collaboration on research and code development.

Australia and Japan have regular exchanges on multilateral trade and economic issues. We have frequent bilateral discussions on WTO matters through our embassies in Tokyo and Canberra, and whenever appropriate opportunities arise. Our trade and other relevant ministers meet regularly at WTO fora as well as on the sidelines of other meetings. Australian and Japanese officials work closely at APEC fora and use these opportunities to discuss issues bilaterally as needs dictate. Our ministers meet regularly at APEC ministerial meetings and our prime ministers meet annually at the APEC Leaders' Meeting.