
Chapter Six

Findings

The Australia-Japan Joint Study has examined (1) bilateral trade and investment links, (2) the impact of recent international trade policy developments, (3) measures, including barriers, affecting trade and investment between Australia and Japan and (4) the impact of liberalisation. The following are the major findings from the study.

In chapter 2 of this Joint Study, we described the nature of Australia-Japan trade and investment links, finding them to be strong and based on complementary interests and cooperation in a wide range of areas. Australia has been a stable, secure source of raw materials for Japan. In turn, Japan provides Australia with large volumes of manufactured products, including motor vehicles. Investment flows are also important. Services trade is strong in some areas such as tourism, but remains a small portion of the total bilateral trade.

In chapter 3, we described the changing international and regional trade policy environment. Both Australia and Japan are members of the World Trade Organization (WTO) and its predecessor, the General Agreement on Tariffs and Trade (GATT). We found the two countries had many shared interests in the WTO, particularly in a substantive, ambitious and balanced outcome from the Doha Round of trade negotiations, but held different positions on some aspects of the negotiation of agricultural goods. Both sides continued to benefit from liberalisation measures undertaken through the WTO.

The two countries also played an instrumental role in establishing and developing the Asia Pacific Economic Cooperation (APEC) forum. While both countries recognize that their individual interests are advanced by a strong and effective multilateral trading system, they consider that FTA/EPAs, consistent with WTO rules, can also be useful as a complement to the WTO. From this point of view, both countries have concluded or are negotiating FTA/EPAs with major trading partners, in particular, with those in the East Asian region. These are establishing preferential trade and economic relationships with a number of other trading partners.

Chapter 4 provided a broad description of the range of measures Australia and Japan have in place that affect bilateral trade and investment. Australia and Japan have internationally low average tariff rates, and have promoted liberalisation measures of various kinds. However, there are various measures which affect trade and investment relations between the two countries in a number of sectors. In Australia, these include the automotive, textile, clothing and footwear and certain service sectors, while in Japan they are mainly in agriculture and certain service sectors.

Chapter 5 summarised the results of two economic modelling studies undertaken by experts in Australia and Japan. Both studies examined a scenario of full and immediate trade and investment liberalisation between Australia and Japan and assessed the impacts on both economies. It should be noted that general equilibrium models are not perfect. By definition, economic *models* are a simplification of reality and rely on numerous assumptions about economic parameters, behaviour, relationships and the format of liberalisation. As such, modelling results should be used only to infer the probable effect of bilateral trade and investment liberalisation between Australia and Japan (positive or negative) and the magnitude of such impacts (small or large). The results do not necessarily reflect the views of governments on what might happen in an actual bilateral liberalisation scenario. Therefore, further consideration of the analysis is necessary. Below are some major findings which imply a general trend.

- Overall, GDP and trade would increase in both countries as a result of liberalisation. The estimated magnitude of the macroeconomic gains varied between the studies, ranging from 0.66 per cent to

1.79 per cent for Australia's GDP in 2020, and between 0.03 per cent and 0.13 per cent for Japan's GDP in 2020^{79,80}.

- In sectoral terms, it was found that the liberalisation would result in an increase of exports, production and labour in majority of sectors on both sides. Output from Japan's manufacturing (both durable and non-durable), services, energy and mining sectors would all increase as a result of liberalisation, as would output from Australia's agriculture, manufacturing (both durable and non-durable), services and energy sectors. On the other hand, a significant decrease in some of Japan's agricultural sectors would be observed⁸¹. The most noticeable change (decline) in employment occurs in Japan's Agriculture and food sector, but it grows in other sectors of the economy. In Australia, liberalisation was estimated to cause employment to grow in the non-durable manufacturing sector.
- Bilateral trade was estimated to increase considerably as a result of liberalisation. As may be the case with FTAs, the studies found that some of this increase in bilateral trade would be due to trade diversionary effects, which would have adverse impacts on third countries, such as US, EU, China and ASEAN.
- Australia and Japan conducted case studies regarding liberalisation policies for 5 sectors. It was found that liberalisation measures were likely to have caused an increase in trade and investment in many cases, along with other factors such as structural reform. In some areas, there had been a need for trade and investment liberalisation to be handled sensitively.

The Joint Study Working Group expects that the results of the study will make a contribution to enhancing mutual understanding about the bilateral trade and investment relations and be useful in further considering measures to strengthen the bilateral trade and economic relations.

⁷⁹ All changes are compared to the levels in 2020 under the baseline scenario of no change in bilateral trade policy.

⁸⁰ The lower bound of these estimates would produce a cumulative gain over 20 years of \$A39 billion for Australia and \$A27 billion for Japan in present value terms.

⁸¹ Specifically, the grains and dairy sectors, as detailed in chapter 5.