



JAPAN MARKET INSIGHT

What's happening in this economy

Japan remains an affluent and stable market. The economy is performing well, raising corporate profits and encouraging investment and research and development. An extended cycle of expansion has been supported through the Bank of Japan's accommodative monetary policy.

Looking ahead, a number of downside risks are converging. These include US–China trade tensions, weaknesses in Japan's key export markets, especially China, and softening consumer sentiment owing to impacts from the October 2019 consumption tax increase to 10 per cent. Lower economic growth is forecast into 2020.

Demographic pressures continue to pose the greatest structural challenge over the longer term, including on Japan's fiscal position. The working population aged 15 to 64 has been declining since 1994, and is forecast to decrease by 40 per cent over the next 50 years. Reining in social security spending, including medical and care services, is a policy priority. Notwithstanding the consumption tax increase, the government is not expected to achieve a primary surplus before at least 2025, and more likely, much later.

A core focus of Japan's growth strategy is boosting productivity. The government is addressing labour shortages by promoting more flexible workstyles, encouraging greater labour force participation by women, creating more opportunities for foreign workers and seniors, and encouraging investment in labour-saving technology. More broadly, the government is looking to support a high-tech digital and societal transformation, which includes introducing advanced technologies such as artificial intelligence and robotics to achieve its vision 'Society 5.0'.

Greater use of big data, open government through 'digital first' policies, and support for innovative start-ups—such as in the fintech sector—are among Japan's priorities. The government's drive to develop technologies for hydrogen energy and zero-emission fuel cell vehicles shows its commitment to the global shift toward a carbon-free society, with more modest but realistic targets set out as part of its Paris Accord commitments.

Japan continues to **reform regulations**, such as in healthcare, agriculture and energy. Corporate governance reform focusing on unwinding cross shareholdings, more transparent compensation and nomination processes, and greater diversity on boards are important steps towards strengthening corporate oversight, bringing Japan in line with global practices. Such moves are contributing to better return on equity and an improved business environment, and should help attract foreign investors.

With a shrinking domestic market in population terms, Japan is pursuing growth opportunities overseas. It has positioned itself as a flag-bearer for free trade and an open international economic order, and a key proponent of quality infrastructure standards. Progress on agricultural market access has been key to help conclude the:

Key facts and figures

- Population: 127 million (2018)
- GDP growth: 0.8 per cent
- GDP per capita: USD 39,306
- Political system: constitutional monarchy
- Two-way trade/key goods and services traded: AUD 85.8b (2018)
- Key goods and services: coal, iron ore, LNG, beef, copper ore
- Japanese investment in Australia: AUD 105.9 (2018, billion)



connecting Australian business to the world

- Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP)
- Japan-European Union Economic Partnership Agreement (Japan-EU EPA)
- the Japan-US goods agreement, and
- Australia's bilateral economic free trade agreement with Japan.

With a weaker yen, eased visa restrictions and improved tourism infrastructure, 2018 marked a sixth straight record year for **inbound tourism**, as Japan targets 40 million foreign visitors by 2020. Japan has permitted three integrated resorts with casinos to be developed, a move that will further attract visitors. Hokkaido, Tokyo/Yokohama and Osaka, the host of World Expo 2025, are among the leading candidates. From March 2020, Tokyo Haneda airport will expand direct international services, including to Australian destinations.

Following the successful Rugby World Cup and G20 in 2019, Japan will continue to take a prominent place on the world stage in 2020 as it hosts the Tokyo Summer Olympic and Paralympic Games.

Trade, investment, and commercial opportunities and activities

- Japan is Australia's second largest two-way trading partner and second largest export goods market:
 - despite significant competition from other Asian markets, it remains a strong market for Australian businesses, particularly in established commodities and goods including coal, LNG, beef, copper, sugar, dairy products, wheat, and medical instruments among others, and
 - there is keen interest in the premium food and beverage (including wine), education and training, and services and technology sectors.
- The country remains a mature, sophisticated and competitive market for Australia's small and medium businesses:
 - niche opportunities are available for exporters that can articulate their unique selling proposition.
- Australian major commercial interests are well represented in Japan, including BHP, Goodman, Rio Tinto, North West Shelf, Woodside, Whitehaven Coal, Oil Search, ServCorp, WiseTech Global, Meat and Livestock Australia, Treasury Wine Estate, Dairy Australia, Ashurst, ANZ, National Australia Bank, Commonwealth Bank of Australia, Macquarie Bank, Challenger, Toll Japan, Lend Lease, Telstra, Qantas and others.
- Austrade supports traditional sectors—such as resources, education and food—and drives new initiatives around innovation and technology in emerging sectors.
- Opportunities exist in key sectors including:
 - agribusiness and food (particularly agtech/foodtech and premium food)
 - international education
 - services and technology (particularly fintech & cyber security)
 - advanced manufacturing and defence, and
 - international health (particularly regenerative medicine and stem cell therapies).
- Austrade is also exploring opportunities to provide digital health services in Japan.

In international education, our focus includes skills development and lifelong learning, both priority areas for the Japanese Government's education reforms.



connecting Australian business to the world

Tourism is another key sector which presents opportunities for Australian businesses. Austrade Japan is working to introduce various regions in Japan to Australian tourism services and technology companies that can help promote and develop their tourism assets.

Like the Rugby World Cup, the Summer Olympic and Paralympic Games are expected to put Japan on the tourist itinerary for many Australians. Austrade can help exporters with genuine capability to find opportunities in the lead up to and during major events.

Current and emerging trends likely to impact Australian companies wishing to do business in Japan include increased competition for goods exporters arising from the Japan-EU EPA, CPTPP, and the US-Japan goods agreement. Since the Japan-EU agreement entered into force in February 2019, Australian wine exporters to Japan have been facing stronger competition, requiring increased promotional efforts to support Australian brands in the market.

A June 2019 mutual recognition arrangement between customs authorities is in place to make trade smoother for accredited traders in both countries under Authorised Economic Operator program.

Investment insights and opportunities

Japan is Australia's second largest foreign direct investor—primarily in resources, energy and agriculture—but with an increasingly diverse portfolio including construction and manufacturing, financial and IT services, insurance and logistics. Between 2012 and 2018, Japanese direct investment grew by 65 per cent. This was partly due to new commitments in agriculture and resources, but it also reflected new investments in renewables, and services and technology. Major investors include Mitsui, Mitsubishi, Itochu, INPEX, Marubeni, Sojitz, Sumitomo Corporation, Kirin, Asahi, Oji Paper, Fujitsu, Hitachi, NEC, Dai-ichi Life, and Japan Post.

Large Japanese financial institutions and banks including Sumitomo Mitsui Banking Corporation, MUFG Bank, Mizuho Bank and Norinchukin Bank have a major presence in Australia. MUFG's recent acquisition of Colonial First is an indication of growing interest in further investment in Australia's financial sector. Financial services represent a key opportunity for future collaboration with Australia, including joint ventures in the growing markets of ASEAN.

Reinvestment by Japanese companies – retaining profits from Australian operations for reinvestment in Australia – is amongst the highest of any of Australia's major trading partners. This investment is expanding into new areas, including advanced manufacturing and technology, with new commitments from NEC, Fujitsu, Hitachi and Oji Fibre solutions. Future opportunities include further collaboration in renewables, hydrogen energy, artificial intelligence, cyber security and vehicle automation, including in the mining sector.

Australia's world-class health and medical technology sector is also well placed to partner with Japan as it wrestles with the demands of an ageing population. Australian research institutes and universities are working with Japanese firms across a number of fields, particularly pharmaceuticals and regenerative medicine, which have been identified as a priority by the Japanese Government.

Recent feedback from Japanese investors about the Australian operating environment include concerns about changes to Australia's visa system, particularly around visa wait times. Some concerns (such as English language requirements) have been lessened by modifications to the new scheme. Austrade in Japan focuses its activities on trade and investment in the following sectors:

- agribusiness and food (including Northern Australia)
- resources and energy (particularly hydrogen and critical minerals)



connecting Australian business to the world

- infrastructure and urban development
- advanced manufacturing and defence, and
- services and technology; and tourism services.

Trade policy and negotiations

Trade agreements between Australia and Japan are delivering benefits to business:

- **Japan–Australia Economic Partnership Agreement (JAEPA):** around 96 per cent of eligible exports enter Japan under JAEPA (2017). A joint committee oversees the agreement’s built-in agenda, including mandated reviews of the agreement. The Third Joint Committee meeting was held in February 2019. JAEPA mandates a review in 2020 of a range of priority agricultural products—including beef, wheat, barley, sugar and dairy products—with a view to improving market access commitments.
- **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP):** Australia and Japan were among the first six countries to ratify the CPTPP, triggering the entry into force of the agreement on 30 December 2018. The CPTPP is delivering improved market access to Japan, among other benefits for Australian business. Australia is working with Japan and other parties on possible expansion of the CPTPP membership. The second CPTPP Joint Commission meeting was held in October 2019.
- **Regional and Comprehensive Economic Partnership (RCEP) Agreement:** Australia and Japan are among the 15 Indo-Pacific countries involved in RCEP, an ASEAN-centred regional free trade agreement. These account for almost a third of world population and GDP and more than half of Australia’s two-way trade. At the third RCEP Leaders Summit in Bangkok on 4 November 2019, Prime Minister Morrison and leaders from 14 other RCEP countries announced the conclusion of RCEP text negotiations, and the essential conclusion of market access negotiations.
- Australia works closely with Japan on a wide range of trade and investment policy issues to support the rules-based economic order, including in the World Trade Organization, APEC, G20, and OECD, as well as through the bilateral Ministerial Economic Dialogue, inaugurated in July 2018.

Disclaimer

The Department of Foreign Affairs and Trade (DFAT) has taken great care to ensure the information contained in this publication is correct and accurate.

DFAT does not guarantee, and accepts no legal liability arising from or connected to the accuracy, reliability, currency or completeness of any material contained in this publication.

Readers should exercise their own skill and care in using the material contained in this publication and carefully evaluate the accuracy, currency, completeness and relevance of the material for their purposes.