



JAPAN

Business Conditions Snapshot

- Japan is recovering from a recession that started before the COVID-19 pandemic and was deepened by it. Overall conditions are slowly improving, albeit with considerable unevenness across the economy. Downside risks remain in both the global economy and domestically through potential new waves of infection, and associated public caution. For many sectors it may take several years to return to pre-COVID levels of activity.
- Consumption, employment and investment patterns are changing as the pandemic drags on. Labour shortages have eased across most sectors but unemployment remains low. The pandemic has encouraged more flexible workstyles but in the short term has negatively impacted female employment. Over the medium term the government intends for labour shortages to be ameliorated by older worker participation, labour saving investment and more foreign workers.
- Japan has weathered the COVID storm better than many other countries. The central and prefectural governments have adopted policies to support economic recovery while avoiding the spread of infection. Digitalisation, de-regulation and work-style reforms are at the heart of the Suga Administration's policy platform. Corporate cash levels were substantial in many large firms, providing a buffer. Real progress on digitalisation—to date elusive in Japan across the public and private sectors—may offer productivity gains.
- Before the pandemic, Japan had benefited strongly from growth in inbound tourism, owing to eased visa restrictions and improved tourism infrastructure. Japan has been stimulating domestic tourism since the pandemic and is reopening its borders progressively to business travellers and long-term visa holders in the first instance. The delayed Tokyo Olympic and Paralympic Games hope to offer some relief in 2021, depending on whether conditions permit a broader opening up to international tourists.
- Demographic pressures continue to pose the greatest challenge over the longer term, including on Japan's fiscal position. The working population aged 15 to 64 has been declining for close to 30 years, and is forecast to decrease by 40 per cent

Key facts and figures

- Population: 127 million (2018)
- GDP growth: 1 per cent (2019)
- GDP per capita: US\$40,847
- Political system: constitutional monarchy
- Two-way trade: A\$88.5 billion (2018–2019)
- Key goods and services: LNG (A\$20.2b), coal (19.2b), iron ore (5b), beef (2.3b) (2018–2019)
- Two-way investment: A\$107.2 billion (2018)



over the next 50 years. Reining in social security spending, including medical and care services, is a policy priority.

- With a shrinking domestic market in population terms, Japan continues to pursue growth opportunities overseas. It is positioning itself as a flag-bearer for free trade, an open international economic order, and quality infrastructure standards. Nevertheless, there remain significant barriers to free trade domestically, particularly in agriculture and banking.
- Prime Minister Suga's pledge in October 2020 to reduce overall greenhouse gas emissions to zero by 2050 will require a change of mindset and a transformation of Japan's industrial structure and economy over the medium term.

Trade and Investment Opportunities

- In 2019 Japan was Australia's second largest two-way trading partner. Despite COVID-19 and significant competition from other countries, Japan remains a strong market for Australian businesses, particularly in established commodities and other goods.
 - This includes LNG, coal, iron ore, beef, copper, sugar, dairy products, grains, and medical instruments, among others.
- COVID-19 has hit the Japanese food service sector particularly hard, presenting challenges for Australian premium food and wine exports, which are often consumed at high-end restaurants and bars.
 - With more Japanese now choosing to eat at home, retail food sales have been increasing and demand for certain products, particularly seasonal fruit and vegetables, has increased significantly.
 - Competitively priced, functional food items perceived by consumers to strengthen immunity are also proving popular, including Australian Manuka honey.
- Japan's information technology and cyber security sectors have also seen a boost during the pandemic as corporate Japan adopts teleworking and seeks to digitalise processes.
- Regardless of the global pandemic's impact, there are current and emerging trends that may affect Australian companies doing business in Japan.
 - Competition is likely to increase for goods exports arising from the Japan-EU EPA.
 - CPTPP impacts are still unknown.
 - Impacts arising from the US–Japan trade agreement.
 - Impacts arising from the Japan–UK EPA.



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- Since the Japan-EU agreement entered into force in February 2019, Australia's market share for imported wine in Japan has declined, further exacerbating the impact of the Chile–Japan FTA in 2015.
 - Australian exporters should consider any future implications for their sector and prepare accordingly.
- Australia's 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 export sectors—such as resources, education and food—and drives new initiatives around innovation and technology across a range of sectors.
 - Agribusiness and food exports to Japan are important markets, particularly agtech, foodtech and premium food.
 - International education is internationalising Japan's higher education sector.
 - Services and technology (particularly fintech and cyber security) are making good in-roads in the market.
 - Defence and advanced manufacturing from Australia is highly regarded.
 - Global health inputs (including regenerative medicine and stem cell therapies) are also well regarded for their quality.
- Austrade is also exploring opportunities to provide digital health services in Japan.
- In international education, Austrade's focus includes promoting Australia's excellence as a study abroad destination for Higher Education, ELICOS, and skills acquisition and development, as well as lifelong learning.
 - Australia is focused on promoting institutional and EdTech partnership opportunities for active English language skills development.
 - A core priority for both the Japanese government and corporate sectors is how to innovate to increase global literacy and the Japanese workforce's skills. However this sector is unlikely to return to sustained growth until borders re-open, despite some opportunity for the digital delivery of services.
- Tourism is one sector which may present opportunities after the pandemic. Before COVID-19 Austrade Japan worked to introduce various regions in Japan to Australian tourism services and technology companies that can help promote and develop their tourism assets.
 - Once international borders re-open and Japan's international tourism promotion efforts resume, it is possible that Australian expertise in promoting major events



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and regional destinations to international audiences will once again be in demand.

- Australian exporters looking to further diversify their global export strategy to include multiple markets should be aware that while opportunities exist, Japan remains a mature, sophisticated and competitive market requiring long-term commitment to succeed.
- Interested exporters must be able to articulate their unique selling proposition, and provide consistent quality products and services, at globally competitive pricing.

Investment Opportunities

- Austrade's current focus in Japan is on productive foreign direct investment and projects that will create jobs and new economic activity, including R&D intensive investments.
 - Austrade has more than 100 investment projects in its pipeline.
 - Priority targets include heavy industry involved in hydrogen supply chain projects, the top-tier trading houses, and mega-banks.
- Since the early to mid-2000s, Japanese investment into Australia has undergone significant diversification and the scale of M&A has increased.
 - Resources and energy remain the backbone of the relationship.
 - The INPEX Corporation's US\$34 billion Ichthys LNG project was, at that time, the largest single global investment by any Japanese company. However the economic downturn has seen many postpone expansion plans in energy projects.
 - Japanese companies have continued to invest in major iron ore project expansions with their joint venture partners.
- Japanese trading houses have continued to divest their coal assets globally, including in Australia, and notably in thermal coal – consistent with corporate Japan increasingly embracing ESG goals.
 - Japan's recent pledge for net zero emissions by 2050 will support this trend.
 - There are good opportunities to invest in low emissions technologies with Japan, especially in carbon capture, battery storage and hydrogen.
 - Transitioning with Japan towards lower emissions will build on a long-term and trusted energy partnership.
- The Hydrogen Energy Supply Chain project in Victoria brings together Kawasaki Heavy Industries and a number of Japanese and Australian partners including Marubeni, J-Power, Iwatani Corporation and AGL.
 - It is a showpiece project for the bilateral relationship and a key priority for the Japanese Government.



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MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

- Austrade works with trading houses and other key Japanese companies to highlight the benefits of Australian technology solutions, and Australia as Japan's preferred supplier of hydrogen.
- Infrastructure remains a priority sector with Japanese firms focused particularly on opportunities around the Western Sydney Aerotropolis.
 - The NSW Government has signed foundation partnerships with SMBC Bank, Mitsubishi Heavy Industries, Urban Renaissance, Hitachi and NEC.
 - Major Japanese trading houses, banks and individual companies are highly engaged with this opportunity.
- There are opportunities to collaborate with Japanese companies on infrastructure in third markets. These are infrastructure projects that support growth and post-COVID-19 recovery, including connectivity and energy infrastructure.
 - Japan has a traditional focus in South East Asia and some Japanese firms are interested in opportunities in the Pacific with long-term commercial prospects.
- Austrade Japan continues to work closely on the Australian Government's Critical Minerals Strategy. JOGMEC and Sojitz Corporation are both key investors in WA-based Lynas Corporation. Recently, trading houses have indicated renewed interest to look at investment opportunities, partly for commercial reasons but primarily because of encouragement from the Japanese Government.
- Foreign investors should note that, like other countries, Japan is balancing openness to foreign investment and national security concerns. Revisions to the Foreign Exchange and Foreign Trade Act which lower the screening threshold for investments in sensitive sectors came into force in May 2020.

Trade Policy Focus

- Australia and Japan are working together to support open economic growth through the multilateral trading system, international economic fora such as the G20 and APEC, and the following regional and bilateral agreements.
- **Japan–Australia Economic Partnership Agreement (JAEPA):** around 95 per cent of eligible exports enter Japan under JAEPA (2018). 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.
- A General Review in 2021 will help ensure the agreement continues to enhance opportunities for businesses in both countries.
- **Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP):** Since entering into force on 30 December 2018 for Australia and Japan, the CPTPP is delivering improved market access to Japan among other benefits, which will increase as the remaining four signatories ratify the agreement and other



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MARKET INSIGHTS

CONNECTING AUSTRALIAN BUSINESS TO THE WORLD

economies seek membership through accession. The third CPTPP Joint Commission meeting was hosted virtually by Mexico in August 2020.

- **Regional and Comprehensive Economic Partnership (RCEP) Agreement:** Australia and Japan are among the 15 Indo-Pacific countries that signed RCEP on 15 November 2020. The date for entry into force of the agreement is not yet known.

Please visit the FTA Portal (ftaportal.dfat.gov.au) to discover the opportunities available under Australia's free trade agreements.

Australia has stepped up our efforts to address **non-tariff barriers** of concern to Australian industry and exporters, including in agriculture. We're pleased Japan is seeking to implement a plan to address NTBs, drawing on Australia's experience of establishing the NTB Action Plan, our whole of government project to address unjustified trade barriers. Please report trade barriers you may encounter with Japan to tradebarriers.gov.au.

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