

# Yen for trade



ISTOCK



**A**ustralia's economic relationship with Japan has a long history, extending well back into the nineteenth century. In 1865, three years before the Meiji Restoration, the first trade between the two countries was recorded, when a shipment of Australian coal arrived in Japan. By 1879, western-style uniforms had been introduced into Japan for soldiers, policemen, postal workers and railway workers. In order to supply the uniforms and meet the growing demand for western clothes, Japan began to import wool from Australia.

Those first shipments of coal and wool sowed the seeds of an economic relationship that grew and diversified in the period after the Second World War to become one of the most successful in Australia's history. Following the signing of the visionary Australia-Japan Agreement on Commerce in 1957, trade between the two countries increased rapidly. By 1967, Japan had become Australia's largest merchandise export market – a position it subsequently occupied for over forty years.

While China overtook Japan in 2009 as Australia's largest export destination, Japan is set to remain one of Australia's most important trading partners for a long time to come.

THE AUSTRALIAN AND JAPANESE ECONOMIES are highly complementary, and this is reflected in the trade relationship.

In 2010 Australia's two-way trade with Japan was worth \$66.1 billion, equivalent to more than five per cent of gross domestic product (GDP). Australia's total exports to Japan amounted to \$45.7 billion, and its imports from Japan to \$20.4 billion.

---

An economically vibrant Japan is unambiguously good for Australia.

---

Australia's major merchandise exports to Japan include coal (\$14.8 billion), natural gas (\$8.7 billion), iron ore (\$8.6 billion) and beef (\$1.7 billion). Major services exports include tourism (\$0.8 billion) and transport (\$0.6 billion).

Australia is the largest single supplier of primary energy to Japan, providing many of the resources – such as coal, iron ore and natural gas – that have enabled Japan to become a leading exporter of industrial goods to the world. Australia is also one of the major suppliers of food to Japan: most of Japan's *udon* noodles are made from Australian wheat; Japanese beer relies heavily on Australian malting barley; and 'Aussie beef' plays a key role in Japan's food service industry.

At the same time, Japan ranked as Australia's third-largest source of merchandise imports in 2010 (after China and the United States), worth \$18.2 billion. The automotive sector dominates this trade, with Australia constituting the



There's plenty more that can be achieved from one of our longest and strongest trading relationships, writes Australia's Ambassador to Japan, Bruce Miller.



ISTOCK



**SUPPLY CHAIN:** Aussie exports range from coal and gas to beef and barley



AAPONE

third-biggest market for new passenger motor vehicles manufactured in Japan.

The economic relationship between Australia and Japan is not only about trade. Japan has been Australia's third-largest foreign investor for many years (after the United States and the United Kingdom). The total stock of Japanese investment in Australia at the end of 2010 was \$117.6 billion, almost twice as large as that of China (including Hong Kong). When both trade and investment are included – and taking account of both the depth and breadth of that investment, which has been critical to the development of Australia's most important industries – Japan could still be considered to be Australia's most important economic partner overall.

Japanese demand for Australia's resources – and the accompanying investment – has contributed enormously to the development of Australia's mining industry. In the area of agriculture, over 40 per cent of 'Aussie beef' imported

into Japan comes from Japanese-owned farms in Australia. Kirin Holdings now owns Australia's largest dairy company, as well as some of Australia's largest beer producers. In the field of manufacturing, Toyota not only exports passenger vehicles to Australia, but – through its in-country production facilities – is also the largest producer of these vehicles in Australia. Furthermore, Japanese investment is increasingly targeted at using Australia as a springboard into the emerging economies of Asia. Japanese investment has been remarkable for its breadth, continuity and steady expansion over time, regardless of fluctuations in the global economic situation.

A MAJOR CHALLENGE CURRENTLY FACING the Japanese government is managing the recovery and reconstruction effort following the terrible earthquake and tsunami disaster of 11 March 2011, which has left over 22,000 people dead or missing, and has had such a damaging effect on the economy, especially the agriculture and energy sectors.

**Australia is well placed to help Japan meet its future energy needs.**





This challenge, however, also represents an opportunity, both for Japan and for Australia. For Japan, the task of rebuilding after the earthquake and tsunami is an opportunity to adopt new ways of doing things; to implement reforms that will rejuvenate and strengthen the Japanese economy – including the agriculture sector – over the longer term. The pursuit of these reforms is very much to Japan's long-term benefit – and Australia's – since an economically vibrant Japan is unambiguously good for Australia, and the broader Asia-Pacific region.

For Australia, the events of 11 March require that we support Japan in its process of reconstruction and reform. For example, a wide-ranging debate on energy policy is under way in Japan in the wake of the crisis at the Fukushima nuclear facility, and Australia – as an established and reliable exporter of energy – is well placed to help Japan meet its future energy needs. Australia's strong reputation as a supplier of safe and high-quality food products means it is in a position to assist in this area as well.

The Australian education sector, too, may be able to support both Japan's efforts at internationalising tertiary education and its training needs for a more global workforce. Collaboration between Japanese and Australian education institutions has always been strong, including in student exchange and research collaboration. In 2010, 11,818 Japanese students enrolled in Australian courses, and an estimated 20,000 more travel to Australia each year and study English language as part of their stay. In view of this strong trade in knowledge and ideas, education was a focus of Prime Minister Julia Gillard's April 2011 visit to Japan. The Prime Minister announced a package of assistance aimed at boosting Japan's efforts to internationalise its tertiary education sector by

**ECONOMIC SUMMIT:** *Japan is arguably our most important overall economic partner*

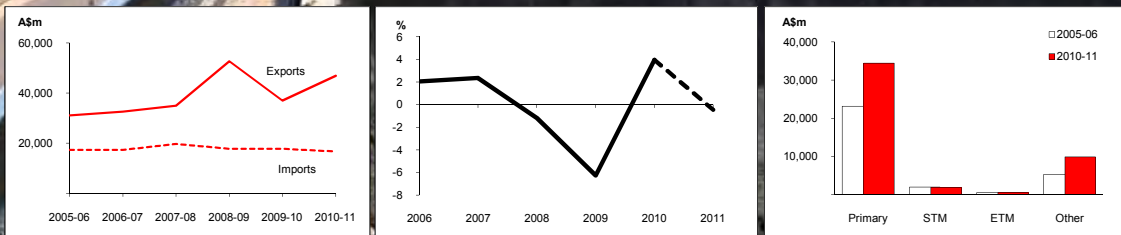
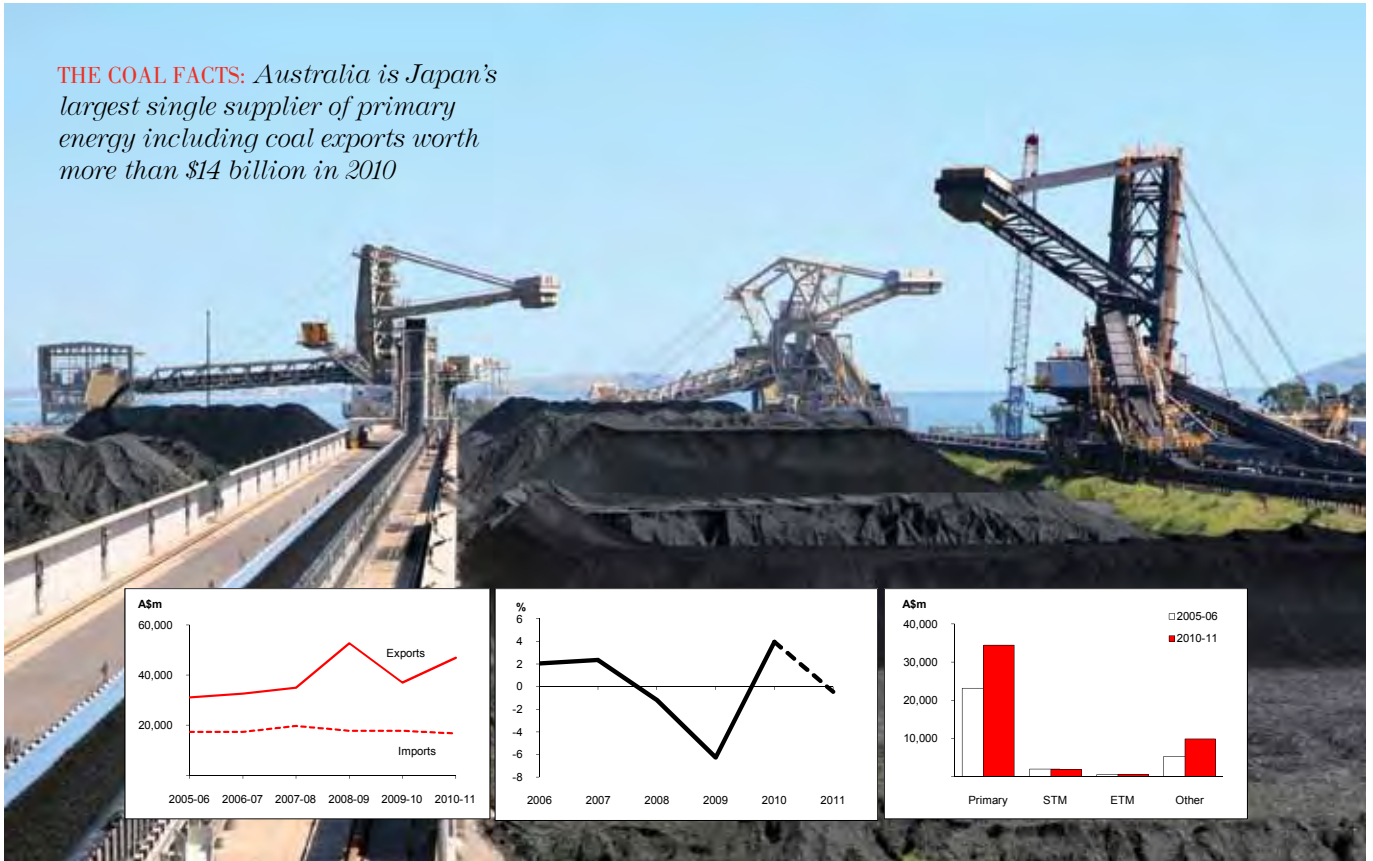
supporting two-way student exchange as well as research and professional collaboration between Australia's and Japan's tertiary sectors, with a particular focus on disaster-affected areas. Australia is a world leader in international education and is able to work with Japan as it reshapes its tertiary sector to provide Japanese industry with international graduates who have the skills needed for modern workplaces.

IN 2007 – 50 YEARS AFTER THE SIGNING OF THE historic Australia-Japan Agreement on Commerce – Australia and Japan started negotiations for a Free Trade Agreement (FTA). The idea behind an FTA is to take the trade relationship between the two countries to a new level, and achieve a high-quality, comprehensive agreement that will lay the foundations for an even stronger economic partnership over the next 50 years and beyond.

An Australia-Japan FTA represents an important opportunity for Japan to undertake liberalising reforms that – as econometric modelling conducted jointly by the Australian and Japanese governments in 2005 concluded – could increase Japan's GDP by around \$27 billion over 20 years, and Australia's by about \$39 billion over the same period.

Realising these benefits will require the removal of trade barriers. For Australia, significant improvements in market access for our exports of goods and services to Japan will be critical to the future long-term growth of the bilateral

**THE COAL FACTS:** Australia is Japan's largest single supplier of primary energy including coal exports worth more than \$14 billion in 2010



**GRAPHS (left to right):** Australia's merchandise trade with Japan; Real GDP growth; Australia's merchandise exports to Japan. Source: Department of Foreign Affairs and Trade

economic relationship. In particular, the elimination of tariffs on agricultural products is a key objective for Australia in the FTA negotiations.

Australia is also seeking an FTA that improves operating conditions for Australian service suppliers, facilitates investment and enhances protections for investors and intellectual property rights. The reduction of trade barriers and the creation of a more stable and transparent trading and investment environment will make it easier and cheaper for Australian businesses to export their products and services to Japan.

**THE TIES BETWEEN THE AUSTRALIAN AND JAPANESE BUSINESS COMMUNITIES** are already strong and long-established, but there is considerable potential to expand them even further, including in relation to third countries. Increasingly, Australian companies are exporting to Japanese firms in third countries, including China. There is real scope for Australia to benefit from existing trade links and shared business culture to build partnerships with Japanese companies to secure business in third markets.

Another important initiative is being jointly undertaken by the Australia-Japan Business Cooperation Committee (AJBCC) and its Japanese counterpart, the Japan-Australia Business Cooperation Committee (JABCC). These organisations – which will celebrate the 50th anniversary of their establishment next year – are working together to promote the public-private partnership model of infrastructure financing in Japan and in third countries. They have undertaken numerous missions from Australia to Japan and vice versa, as well as joint missions to India and Indonesia.

In February this year Australia and Japan agreed to launch a new dialogue to promote public-private infrastructure

## The elimination of tariffs on agricultural products is a key objective for Australia.

cooperation. The first round was held in March in Tokyo. Attendees from business and government discussed opportunities for cooperation in infrastructure investment and development, and identified ways that Australia and Japan could benefit from each other's comparative advantages. A second dialogue was held in Tokyo in October, and participants are keen to host a third round in March 2012.

The trade and investment relationship between Australia and Japan has deep historical roots, and has evolved over time to become arguably Australia's most important overall economic partnership. While much has already been accomplished, more can still be achieved. One important milestone in the further development of the relationship would be the conclusion of a high-quality and comprehensive FTA. But there are also numerous other ways in which Australia and Japan can build upon their existing ties to establish an even stronger partnership to the mutual benefit of both countries.●

Federal parliament's Foreign Affairs, Defence and Trade Committee is reviewing Australia's trade and investment relationship with Japan and the Republic of Korea. **To find out how to contribute** to the review and for more information visit [www.apf.gov.au/jfadt](http://www.apf.gov.au/jfadt) or email [jscfadt@apf.gov.au](mailto:jscfadt@apf.gov.au) or phone (02) 6277 2313.