

EDITORIAL

Welcome to the inaugural edition of *AJBA News* which has been launched following the outstanding success of the association's first breakfast conference in May at the Four Seasons Hotel in Circular Quay.

The meeting was attended by over seventy representatives from Japanese and Australian private and government interests involved in a wide range of areas, from publishing and biomedical manufacture to trade and investment.



In kicking off the seminar, the president of the AJBA, Mr. Mel J. Pach, spoke of the need for a forum for informal exchange between Australia and Japan specifically aimed at people with business interests in the two countries.

The guest speaker at the inaugural event, Mr. Phil Ingram, Austrade's Senior Trade Commissioner in Tokyo, gave an upbeat assessment of Japan's economic future in a speech entitled 'Japan Is Back—How to Make the Most of It'. In the lead-up to the fiftieth anniversary of Australia's normalization of trade relations with Japan in 1957, Mr. Ingram noted that Japan is currently experiencing its longest period of uninterrupted economic growth since the 1960s and that Japan has recently streamlined and deregulated many areas of commerce that have tended to impede the activities of foreign market entrants in the past.

Speaking after the breakfast, Mr. Pach said that he attributes the success of the event to the interest that Australian and Japanese business people have in each other's cultures and their genuine desire to do business with each other. Mr. Pach observed that the concept of an association offering regular and informal opportunities for networking and exchange has received considerable support from both the Japanese and Australian business communities.

The AJBA will also seek to encourage a dialog on Australia-Japan commercial relations, with the help of expert speakers and contributors.

I look forward to your continuing support, either as a member of AJBA or otherwise, as we continue to build an association that caters for the specific needs of Australian businesses operating in Japan and Japanese businesses operating in Australia.

Jim Gleeson, Editor



INTERVIEW:

MR. MICHAEL CLIFTON,
SENIOR TRADE COMMISSIONER AND CONSUL GENERAL (OSAKA)

Please tell us about your own background and how you came to take up your current post.

I joined Austrade in 1998 after a 20-year career in the Australian Army, a career which included Chinese and Japanese language studies with overseas postings in Hong Kong and Japan. In fact, I served as the Assistant Defence Attaché in Tokyo from 1992-94.

My Austrade postings include three or four years in Hong Kong plus post-conflict reconstruction work in both East Timor and Iraq.

The Hong-Kong assignment had a clear Japan/China focus. My role was to identify commercial opportunities arising from the activities of Japanese trading houses operating in China.

As Senior Trade Commissioner and Consul General (Osaka), what geographical area do you cover and what is your principal role?

Our consular coverage extends across 14 prefectures from Hiroshima through Shikoku and across to Wakayama Prefecture. Despite the broad consular coverage, our support for Australian companies remains primarily focused on the Kyoto-Osaka-Kobe triangle.

In essence, our consular role is to represent the Australian government in the Kansai area. For example, we extend a range of government support services to Australian nationals, plus Japanese nationals who might require the witnessing of Australian legal documents, visa applications, etc.

But our principal *raison d'être* is to help Australian companies do business in Kansai. The Osaka team features eight sales and marketing professionals whose singular purpose is to help Australian companies achieve commercial outcomes in the Kansai region.

Our bilingual team has the local knowledge and networks needed to serve as an essential bridge between Australian sellers and Kansai buyers.

Can you tell us about the Kansai region and how it compares with Kanto (Tokyo)?

Osaka has a population of almost 9 million. The wider Kansai market extends beyond 20 million consumers. Osaka ranks as the world's 8th largest economy with a GDP roughly equivalent to that of Canada.

The vast majority of Osaka's businesses are SMEs characterized by a rich trading history and an active commitment to building new business partnerships. The local business culture is meanwhile marked by forthrightness and aggressive business practices

Historically, Osaka was the Japanese commercial center and is home to leading Japanese companies such as Matsushita (Panasonic, Technics and other brands). What is it like to do business in Osaka today?

Post-bubble Japan was not kind to Osaka and the wider Kansai region. There was a marked hollowing out of the manufacturing sector, high unemployment and a general mood of gloom and despair. But the economic tide has turned and Osaka now exudes an almost tangible sense of restored confidence and optimism for the future.

Arriving in Osaka in April 2005, one was struck by the apparent reticence of Kansai locals to acknowledge that the local economy had turned the corner towards brighter economic times. Talk of a brighter economic times. Talk of an economic revival was seemingly confined to hushed whispers in dark corners. It seemed as if people were scared to utter the 'recovery' word out aloud for fear of inviting a return of the economic hard times. Much has changed in the past twelve months

and Kansai is no longer in denial. Quiet whispers and hushed tones have been replaced by robust confidence in a sustained economic recovery. Business is investing, employers are hiring, consumers are spending, construction cranes dot the Osaka skyline and there is a collective spring in the Kansai step.

What opportunities do you see for Australian companies in Kansai?

The Kansai region has been a conspicuous beneficiary of what the Nikkei has described as Japan's 'Golden Cycle'—increased spending on inventory, increased business spending, rising land prices and an end to deflation. Of course these changes apply across the board in Japan. Putting aside the worldwide stock market volatility of mid-June, Japan's economy boasts an impressive array of good news stories:

- GDP growth of 3.1%
- A 13.9% year-on-year increase in capital spending as at the March quarter (the 12th consecutive quarterly rise)
- Unemployment at an eight-year low of 4.1% (and an OECD forecast of 3% unemployment by 2007)
- A 15 % year-on-year increase in housing starts in April

Japan's resurgence should translate into a wide range of opportunities for Australian companies. These opportunities have not escaped the keen eye of Australian companies such as Macquarie Bank and Servcorp. Macquarie has recently invested in the Ibukiyama Driveway, a 17km toll road which links Gifu and Shiga Prefectures. And Servcorp's serviced offices fly the Australian corporate flag right in the heart of Osaka at the Hilton West Plaza.

The Kobe Airport opened on February 16, giving Kansai three airport hubs (with Osaka International Airport and Kansai International Airport). Overall how do you rate local infrastructure and services in the region?

Kansai is widely regarded as enjoying world-class transport infrastructure with excellent road, rail, air and port links. The logistics infrastructure is

outstanding—apart from the notable exception of cost. Although Japan's logistics infrastructure is efficient in terms of time and space, this efficiency does not always extend to cost competitiveness.

Whilst goods can be shipped from Australia to Japan at very competitive rates, the road transport costs incurred for final delivery from sea and airports can be prohibitively expensive.

In addition to Kobe's new airport (mainly domestic flights), development of a second runway at Kansai International Airport (KIX) is scheduled for completion in 2007. This will represent a further enhancement to Kansai's transport infrastructure.

You mentioned the high cost of logistics, and Japan is widely perceived as being an expensive place to operate. After a decade of deflation, what are costs like overall in Osaka, compared with say Sydney? And are there noticeable differences compared with Tokyo?

On a personal level, I no longer find Japan as expensive as it once seemed; I get more of a shock buying lunch in Sydney than I do here in Osaka.

As of the most recent survey, Japan has now enjoyed seven consecutive months of positive CPI movement. The press is reporting that the government is mulling a formal announcement to the effect that deflation is officially over. When you consider that oil prices have risen so dramatically, the very small increases in CPI tend to suggest that the upwards pressure on prices is perhaps not as great as in other economies.

Meanwhile, I spoke to an Australian expat recently who is setting up a back office facility in Osaka because the costs are strikingly cheaper than comparable costs in Tokyo—in terms of both labour and real estate.

Are you able to give us examples of Australian companies that have succeeded in the Kansai market?

Some recent notable successes for Austrade in Osaka include:

- Significant sales of Australian wines to non-traditional buyers specializing in internet sales

and sales to the food service sector.

- Great results for food and beverage products courtesy of our close relationship with a high-end supermarket chain in the Kansai region.
- Market development initiatives with Osaka's textile industry to promote sales of Australian wool and cotton.
- Fostering long term relationships between Australian oyster growers and local buyers.
- Placing an overdue spotlight on Australian service providers — particularly in the arts and entertainment sector.
- Successful market entry support for an Australian manufacturer of high tech surfaces for sporting fields.

What can Austrade Osaka do to assist Australian businesses interested in this region?

As mentioned earlier, I prefer to characterize our role as the bridge between Australian sellers and Japanese buyers. Whilst we are obviously not in the 'whatever it takes' category, Austrade's Osaka team delivers terrific support in an amazing variety of different ways.

I would welcome direct contact from any member of the AJBA with an interest in learning more about how Austrade can and can't help on the ground here in Osaka. Whether it's as simple as advice on accommodation or as complex as commissioned market research, we would be delighted to assist.

We can even help companies who don't actually need hands on support in the market. Our office has state of the art video conferencing and VOIP communication links which can be made available on request to Australian companies doing business in Kansai.

Based on your experience, what do you think are the key factors that determine success or failure for Australian exporters trying to do business in Japan generally?

The message I'd like to impress upon the AJBA members is that Austrade has a significant

network of offices in Japan. Even if the members feel confident in pursuing their business interests without support from Austrade, there is invariably some value in making contact with the Austrade network. One never knows when a set of eyes and ears on the ground will come in useful. The more we know about Australian companies and their capabilities, the better placed we are to identify potential opportunities in the market.

- Know your strengths — evaluate and understand your product potential
- Be prepared to spend time, resources and effort — the local market expects it
- Identify and maintain the right partner — develop mutual trust
- Relationships matter — go the extra mile
- Clear communications are critical — do not assume the deal can be done in your language — use interpreters where required
- Maintain highest standards of quality and safety — failure in these areas can be fatal!
- Maintain cultural identity — we're not Japanese. But grace and humility remain important
- Follow up — early and often
- Some of the best niche markets can be found in regional Japan — don't limit yourself to Tokyo

The AJBA thanks Mr. Clifton. To contact Austrade in Osaka visit http://www.business.australia.or.jp/osaka/export_e/.

AUSTRALIAN BUSINESS SNAPSHOTS

TOP 10 NEW SOUTH WALES MERCHANDISE EXPORT MARKETS, 2004-05

In 2004-05, New South Wales' merchandise exports were worth just over A\$23 billion. Japan, neighbouring New Zealand and the United States are the State's top three export destinations.

In January 2005, the Australia-United States Free Trade Agreement (AUSFTA) came into force, giving Australia preferential access to the largest market in the world. It is too early to reliably assess the impact of the AUSFTA on export sales by Australian businesses to the United States. The major gains to New South Wales exporters are expected to be in professional and financial services, beef and dairy products, wine, and iron and steel.

In addition, in April 2005, Australia and China agreed to commence negotiations for a Free Trade Agreement (FTA) following consideration of a joint FTA feasibility study. An FTA is expected to boost the already strong and rapidly expanding trade and economic relationship between Australia and China.



Country	NSW (A\$ million)	Australia (A\$ million)	% of total NSW exports	% of total Australian exports
Japan	5,405	24,946	23.5	19.7
New Zealand	2,145	9,162	9.3	7.2
United States	2,052	9,461	8.9	7.5
Korea	1,636	9,719	7.1	7.7
Taiwan	1359	4,886	5.9	3.9
China	1,349	13,002	5.9	10.3
Thailand	806	3,901	3.5	3.1
Hong Kong SAR	749	2,709	3.3	2.1
Malaysia	711	2,581	3.1	2.0
Indonesia	620	3,408	2.7	2.7
Sum of above	16,832	83,775	73.2	66.1
Total	23,003	126,811	100.0	100.0

Source: New South Wales Competitive Report, 2006 based on ABS data, November 2005

AUSTRALIAN BUSINESS SNAPSHOTS

GROWTH COMPETITIVENESS

The World Economic Forum ranked Australia's economy 10th out of 117 countries for medium to longer-term growth potential in 2005.

The World Economic Forum's Growth Competitiveness Index (GCI) consists of three sub-indices: the quality of the macro-economic environment, the state of the country's public institutions, and the level of technological readiness. The GCI's main goal is to "analyse the potential of the world's economies to achieve sustained economic growth over the medium and longer term". In 2005, Australia's GCI placed it ahead of Japan, New Zealand, Korea, Malaysia, Hong Kong SAR, Thailand and China in the Asia Pacific, as well as the United Kingdom and Germany.

According to the World Economic Forum, Australia "has world-class public institutions, sound public finances and very low levels of corruption in the economy. And Australia's companies are measured as being very innovative, while harnessing new information and communications technologies extremely well". The World Economic Forum also produces a Business Competitiveness Index (BCI) which captures a range of micro-economic issues vital to the productivity of companies. Factors covered by the BCI include access to highly skilled people, efficiency of government processes, quality of infrastructure and research institutions, and the competitive pressures faced by companies. In 2005, Australia achieved an overall BCI ranking of 15th in the world.

Country	CGI ranking	Technology index ranking	Public institutions index ranking	Macroeconomic environment index ranking
United States	2	1	18	23
Taiwan	5	3	26	17
Singapore	6	10	4	1
Australia	10	14	10	14
Japan	12	8	14	42
United Kingdom	13	17	12	18
Germany	15	16	8	28
New Zealand	16	19	1	20
Korea	17	7	42	25
Malaysia	24	25	29	19
Hong Kong SAR	28	26	23	8
France	30	24	20	21
Thailand	36	43	41	26
China	49	64	56	33
India	50	55	52	50
Indonesia	74	66	89	64
Philippines	77	54	104	71

Source: The Global Competitiveness Report, 2005-06, World Economic Forum

A (VERY) BRIEF ECONOMIC HISTORY OF JAPAN FOR AUSTRALIAN BUSINESS

As the Japanese economy awakens from its long hibernation through the 'lost decade', Mel J. Pach assesses the factors leading up to Japan's slumber and the opportunities that Japan's re-emergence presents for Australian business.

A REMARKABLE STORY

To the interested observer, Japan has long been a source of great drama. From the first appearance of Commodore William Perry's 'Black Ships' in Japanese waters in 1853, signalling the demise of a creaking shogunate, Japan has presented a remarkable and sometimes tragic story as it struggled to reconcile its unique character with a place in the international community.

Within 50 years of Perry's arrival, a cohesive yet technologically backward and reclusive feudal society had transformed itself into a world power of the first rank, heralded by the decisive defeat of Russia in the war of 1904-05. While nominally restoring supreme authority to the emperor under the Meiji Restoration, Japan built a modern bureaucracy, which provided the new power elite and guided the nation through rapid industrialisation.

Sadly, this success was derailed by militarism, the antecedents of which could be identified in the secret societies formed by disaffected samurai in the late 1800s, and which flourished during the Great Depression of the 1930s. By 1945, the result was the near total destruction of the nation.

The country's defeat in World War II marked the start of Japan's second great rise, no less remarkable than the first. Renouncing militarism, the nation set out to become an economic power and did so

in a feat justifiably known as the post-war economic miracle, a reflection of the country's extraordinary national will. The policies underscoring this miracle became a model for developing nations. These policies encouraged high rates of savings, providing funds that were channelled through banks into long-term investments in select industries. First textiles, then steel and shipbuilding, then automobiles and electronics—favoured industries were provided with the protection they needed in a stable, business-friendly environment until they developed economies of scale sufficient to make them internationally competitive. Innovative manufacturing techniques and a productive, well-educated workforce combined to transform Japanese companies into global powerhouses, with the country averaging 9.6 percent real GDP growth annually between 1960 and 1973.¹



Commodore Perry persuaded Japan to open its doors to trade with the West in 1853.

BUBBLE AND BUST

But the policies that made Japan a model for developing nations were ill-suited to the transition to a mature economy. Economist Richard Katz argues persuasively² that at some point all industrialized economies need to become consumer-oriented. The rigidities inherent in Japan's entrenched industrial policy prevented this shift. Japan's economic generals were fighting, in the words of Katz, the last war. Savings remained high and investment continued apace, but with ever diminishing productivity returns.

With little scope for new investment in industrial capacity, the nation's great wealth began to be directed to stocks and real estate, the rising valuations of which in turn created more paper wealth. Then, on September 22, 1985, Japan signed the Plaza Accord, which devalued the greenback against the yen and the Deutsche Mark in a bid to address the U.S. current account deficit. These developments created recessionary conditions in Japan that prompted the Bank of Japan to relax its monetary policy. With a banking system geared to lending on the booming values of property and stock collateral, ignoring projected cash flows and risk, credit became ridiculously cheap and easy to obtain.

The consequence was rampant speculation and storied excess, creating the famous Japanese asset bubble. The nation was at a hubristic high: at one point the site of the Imperial Palace in central Tokyo was theoretically worth more than all the land in California. Buoyed by the strong yen, Japanese investors began snapping up foreign assets, and in the United States in particular, economists and policymakers increasingly viewed Japan as a serious economic threat.

THE LOST DECADE

Ironically, just as respected economists around the world were concluding that Japan represented a new economic paradigm, the bubble burst. Alarmed at the overheating of the stock and real estate markets, the Bank of Japan instigated a series of sharp interest rate spikes. Stock and real



Kiichi Miyazawa, Prime Minister of Japan from 1991 to 1993

estate prices plummeted, wiping out some 100 trillion yen in paper wealth through the 1990s, wistfully known as the 'lost decade'. The Nikkei Index would ultimately fall around 80% from its peak on December 29, 1989, and some commercial properties in Tokyo fell to less than one hundredth of their original highs. These declines in turn produced gargantuan quantities of nonperforming loans that gave Japan its most serious economic problems since the 1930s.

For a while, authorities in Japan believed that the problem was cyclical: the economy would bottom out and return to growth, enabling borrowers to resume repayments and the bad loan problem to be resolved. But the asset price collapse actually obscured a more pervasive issue: severe industrial overcapacity. Increasingly frustrated foreign observers called for 'creative destruction', allowing the market mechanism to do its work, but Japanese policymakers were horrified at the thought of widespread layoffs that were anathema to conservative Japan and remained wedded to developmental economics.

One of the key factors blocking more immediate action—and a critical point in understanding why this 'lost decade' actually ran almost 15 years—was that while seen in total this period was economically disastrous for Japan, for much of the time it was more a case of economic stagnation than recession, a malaise as opposed to a downfall.

A (VERY) BRIEF ECONOMIC HISTORY OF JAPAN

In most years the economy was growing, albeit at an anaemic rate of 1.5% for the period 1991-2005. That allowed Japan to, in the words of then Prime Minister Kiichi Miyazawa in 1993, 'muddle through'.

Of course, the country did at times sail close to the economic abyss, as during the *jusen* (housing loan firms) bailout in 1995 but most particularly during the Asian economic crisis in the fall of 1997 when several major financial firms went under, notably the Hokkaido Takushoku Bank and Yamaichi Securities, and the Long Term Credit Bank was nationalised. These crises did goad the government to action, in the form of bank bailouts and massive fiscal stimulus packages. Meanwhile, consecutive years of deflation brought the Bank of Japan into the act, with a zero interest rate policy, quantitative easing and a stepped-up purchase of equities from beleaguered banks.

REFORMING JAPAN

But even during the late 1990s, reformers often faced tough hurdles. The power of special interests, which in Japan account for large swathes of the electorate, consistently prompted the government to shun real reform in favour of economic stimulus packages—directed mostly at politically powerful sectors of the economy, such as rural areas and the construction industry—that produced only temporary relief at a steep cost in the form of rising national debt.

Western observers have regularly voiced frustration at the slow pace of reform in Japan. While some completely misread Japanese aspirations, in other respects, it was hard to argue. For instance, the failure of the financial authorities to acknowledge the severity of the nonperforming loan problem in the early 1990s exacerbated the problem as banks continued to extend loans to deadbeat borrowers.

But Japan *is* deregulating. The pace may not please many, but after 15 years, the changes have been extensive.

Start with the financial sector. The Big Bang reforms of the late 1990s, named after similar

deregulation that took place in Britain in the 1980s, gave the BOJ its independence, lifted foreign exchange controls, introduced expansive deregulation to the securities and insurance markets and eased regulations on foreign players.

But an even more fundamental shift has taken place. The pressure on the banks to rid their balance sheets of nonperforming loans has done much to break down the cosy ties between bank lenders and corporate borrowers. Japanese companies, led by emerging stars in the IT sector, rely increasingly on direct finance from the capital markets, including new exchanges such as Mothers and Hercules, in which foreign investors play a growing role.³

Corporate Japan now seeks to cater to stockholders with vastly different expectations from those of the bankers of years gone. Recent times have seen a rise in the number of mergers, previously unheard of hostile takeover attempts, a robust market for distressed assets, innovations in the financial and property sectors, and major acquisitions by foreign companies as seen in the examples of Nissan, Mitsubishi Motors and Shinsei Bank.

In industry, the telecommunications and IT sectors have benefited from a combination of deregulation, as with the amended Telecommunications Business Law introduced on April 1 2004, and technological progress. Through initiatives such as lowering the interconnection rates that NTT regional operators charge competitors, Japan has created a more competitive telecommunications market with an excellent infrastructure. An ambitious policy to become a global leader in IT has driven reforms such as improved protection for intellectual property and privacy.

The energy market was deregulated with a June 2003 amendment to the Electric Utility Law, facilitating market entry and establishing a whole new electric power exchange. Significant strides have been taken in competition policy and transparency. And changes to commercial law make it easier to set up, merger and restructure businesses than ever before.

A (VERY) BRIEF ECONOMIC HISTORY OF JAPAN



Prime Minister Koizumi, due to step down in September

THE KOIZUMI EFFECT

Japanese Prime Minister Junichiro Koizumi came to power in April 2001 promising reform. As he prepares to leave office, most observers agree that what was delivered, at least in economic terms, fell short of the initial promise.

Undoubtedly, Koizumi has ushered in substantial change to Japan. Armed with nonconformist style and hair, his impact on Japanese politics has been especially marked, bringing at least a temporary end to the revolving-door administrations that had marked the 1990s.

He has broken the back of factional power in the ruling Liberal Democratic Party (LDP), and his 2005 election success was a resounding defeat for the so-called “old guard” of conservatives, helping to water down the impact of special interests on Japanese politics, perhaps the greatest single obstacle to reform.

In foreign policy, too, the Koizumi Administration has had a decisive effect, although the results in this case are decidedly mixed. Koizumi’s

insistence on annual visits to the Yasukuni Shrine, where Class A war criminals are interred, has sparked considerable outrage in China and Korea, and overall relations with these countries have deteriorated markedly. Koizumi has based his foreign policy on firm support for the United States, which itself is keen to bolster ties with countries like Japan and Australia to counter the growing regional influence of China. But the next Japanese administration faces a major task to repair ties with its closest neighbours.

Observers have perhaps been most disappointed in Koizumi’s economic reforms. Unquestionably, his administration failed to fulfil its initial promise, but progress was clearly made during his time in power. Most notable was his success in achieving his long-held goal of privatizing Japan Post, legislation that needed a dissolution and snap election to pass. Still, even his Cabinet champion for economic reform, Heizo Takenaka, recently acknowledged that, “Japan has changed enormously in the last five years, but did we change sufficiently? The answer is no.”⁴

Koizumi also slowed the LDP’s traditionally heavy subsidies for infrastructure and farming in rural Japan, earning him considerable popularity with urban voters who were long critical of the dubious spending.

With his populist style, Koizumi introduced the concept of ‘brand’ to Japanese political leadership, and although his immediate successors may naturally return to the type of backroom manipulation that marked previous administrations, charismatic politicians now know that they have the option of appealing directly to the Japanese public.

LOOKING AHEAD

Japan is currently enjoying its longest period of uninterrupted GDP growth since the 1960s. Better still, that growth is no longer reliant on government fiscal stimulus measures or the performance of the Japanese export sector; it is now being driven by corporate investment and—at last—consumer demand, aided by record profits

and eight-year unemployment lows. The most recent GDP estimates (for the March quarter) indicate annualised growth of 3.1%, so growth remains robust. Japan's CPI achieved its seventh consecutive month of growth in May, suggesting that the deflation beast may finally be slain. On the strength of the recovery, banks can legitimately claim success in dealing with nonperforming loans.

So what does the future hold for the Japanese economy? There are several clouds on the horizon, most notably heavy public debt levels and a rapidly aging society. Many economists think that, in combination, these two problems justify major concerns about the future of Japan, and certainly addressing them is going to demand a level of political will not often seen in Tokyo in recent years.

There is debate over the implications of the debt problem. The headline gross debt figure of around 170 percent of GDP is misleading; it includes debt that different parts of the Japanese government owe to each other. A U.S. study found that net debt is only around 64% of GDP, which compares well with other OECD countries,⁵ although other economists dispute this.⁶

The current recovery is working to reduce public debt, just as it has helped the banks deal with their non-performing loans. For instance, tax revenue reached 49.06 trillion yen in fiscal 2005, about five trillion yen higher than initially expected. Notwithstanding that, most pundits tip a tax hike in the next few years, most likely an increase in consumption tax.

Meanwhile, it is difficult to see Japan successfully dealing with the issues raised by its aging population in the context of its current age of retirement. Japan will inevitably need to pioneer initiatives, most likely those directed at making it easier for workers to continue employment after the official retirement age of 60.

Japan also faces an increasingly challenging regional environment. The rise of China, the ongoing instability on the Korean peninsula, and decades of ill-will further enflamed in

recent years by political acts such as visits to the Yasukuni shrine have left Prime Minister Junichiro Koizumi's successors with much to do.

But Japan has overcome greater challenges in the past, and it retains many of its strengths: a well-educated and diligent workforce, a stable democratic society, world-class companies and stellar prowess in many technologies. It is finally dealt with the economic quagmire of the 1990s and has emerged a very different country.

OPPORTUNITIES FOR AUSTRALIAN BUSINESS

Australia has a long and successful history of exports to Japan, our number one market. Traditionally, that trading relationship has been dominated by commodities, and the popular Japanese perception of Australia is as a provider of resources and excellent holidays. Resources will remain important to the trading relationship, especially as Japan competes with Chinese demand, but there are many emerging opportunities for other Australian exporters, particularly those that manage to shift that perception.

As we have seen, now is a good time to make the effort. Fuelled by corporate and consumer spending, Japan has emerged from its structural issues of the past 15 years. And it is a different Japan that has emerged: the regulatory environment is much simpler to navigate, establishing local operations is easier and cheaper, infrastructure is excellent, logistics is now more competitive and with the breakdown of the *keiretsu* corporate relationships, Japanese companies increasingly assess deals on the basis of merit, rather than on relationships. It is generally a more open and welcoming environment for foreign companies.

Japan recognizes the competitive threat in low-tech manufacturing posed by countries such as China, and is keen to shift to high-tech manufacturing, creating excellent possibilities for Australian companies with innovative technologies.

New trends have opened up more opportunities.

A (VERY) BRIEF ECONOMIC HISTORY OF JAPAN

The aging Japanese population creates needs for health and aged care products and services. Growing lifestyle diversity opens up potential for the leisure sector and creates opportunities for Australian food and beverages. Japan has an excellent IT infrastructure, but is very keen to find quality content. Deregulation in the financial sector presents opportunities for companies with innovative financial and investment solutions.

Formal restrictions on foreign direct investment (FDI) are few, and Japan has removed or liberalized most restrictions that apply to specific economic sectors. There are no export-balancing requirements or other trade-related FDI measures. Regional governments are taking active measures to encourage investment. The Japanese government made greater regulatory transparency a key plank of its Plan on the Promotion of Regulatory Reform, adopted in 2004.

Australian companies can capitalize on these changes, but doing so requires a strong commitment. Japan is not a market that can be operated by remote control. Even companies

planning to rely on local distributors or agents need to make a serious effort to learn about the market and so establish realistic expectations. Visits by senior executives should be regular and a presence established. Efforts should be made to present materials in Japanese. Regional Japan should not be ignored.

Given Japan's modern history, it would be unwise to bet against its ability to confront its challenges and remain an economic power in the 21st century. It deserves the attention of Australian companies.

Mel. J. Pach is the president of the Australia Japan Business Association and the founding CEO of Lexxicorp Pty Limited, a localization specialist. He has been doing business in Japan for 17 years.

¹ Hutchison, Michael M. and Westermann, Frank eds. *Japan's Great Stagnation: Financial and Monetary Policy Lessons for Advanced Economies*, Cambridge, Mass., The MIT Press, 2006

² Katz, Richard, *Japan: The System That Soured, The Rise and Fall of the Japanese Economic Miracle*, M.E. Sharp, 1998

³ In 2005, foreign investors owned 26.7% of publicly traded shares, compared with just 11.9% in 1996. Figures from the Tokyo Stock Exchange.

⁴ Takenaka was speaking at the World Economic Forum on East Asia, held in Tokyo on June 15 and 16, 2006. Takenaka is currently Minister of Internal Affairs and Communications and Minister of State for Privatization of the Postal Services. The leading proponent for reform in the Koizumi Cabinet, his position in any new administration could be a useful leading indicator of its reformist mindset.

⁵ Christian Broda and David Weinstein, 'Happy News from the Dismal Science: Reassessing Japanese Fiscal Policy and Sustainability', Federal Reserve Bank of New York

⁶ Takero Doi, 'Simulation Analysis of Debt Management Policies to Ensure the Sustainability of Japan's Public Debt', Research Institute of Economy, Trade and Industry, Japan



The Premier's NSW Export Awards is an annual program, which recognizes excellence in the export of goods and service by NSW businesses. The Awards also acknowledge the businesses important contribution to the economy through job creation and increased prosperity for the community and for the state. The Awards cover a wide range of categories from Arts & Entertainment and Design through to Manufacturing, Services and Sports, Events & Tourism. Some of the benefits of being part of the NSW Awards include

1. Recognition for your industry, region and your company.
2. Reward your team, excellence in export is never a result of one person's hard work, its all about working together
3. Review your strategies, plans and finances and at the same time prepare an entry to the export awards
4. Results of winning a prestigious export award, allows you to gain valuable business overseas and enhances your reputation.

This year the Awards entry can be completed on-line and the site provides additional information on the Awards, including Eligibility, Judging Criteria and Helpful Hints. With 19 Categories in 2006, every business and industry sector has a category. Winners of the New South Wales Awards go through to the National Awards conducted by Austrade. The Premier's NSW Export Awards are managed by the Australian Institute of Export, for more information and entry details visit www.aiex.com.au or phone **02 9350 8170**.

Applications close 25 August.

INFORMATION ON NSW GOVERNMENT TRADE MISSIONS TO JAPAN



Department of State and Regional Development

NSW Biotechnology Trade Mission - Japan (Osaka) 12-15 September, 2006

This Mission targets biotechnology companies seeking Japanese partners and coincides with two key partnering events - Global Venture Forum and BioJapan 2006.

Further details can be obtained from shane.coombe@business.nsw.gov.au.

"Frontier" - Japan (Tokyo) - February, 2007

An annual international fashion and accessories exhibition. NSW companies supplying casual fashion and accessories, including surf-wear, are invited to exhibit at this show.

Further details can be obtained from crista.bracamonte@business.nsw.gov.au.

Small Business September 2006

The NSW Department of State and Regional Development is inviting partners to take part in Small Business September 2006.

Further details can be obtained from lindsay.cohen@business.nsw.gov.au.



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AJBA Office
Level 26, NorthPoint Building
100 Miller St. North Sydney NSW 2060
Tel: +61 2 9929 9426
Fax: +61 2 9929 3988
Email: registration@ajba.com.au