

Address by His Excellency Mr Takaaki Kojima,
Ambassador of Japan to Australia

Japan-Australia Relations
On the occasion of the launch of the report
“Australia and Japan beyond the Mainstream”

2 October, 2009

Mr O'Byrne,
Distinguished Guests
Ladies and Gentlemen

1. Introduction

It is a great pleasure for me to be given an opportunity to speak at this launch of the report "Australia and Japan beyond the Mainstream."

Today, I will speak about the bilateral economic relationship between Japan and Australia, especially focusing on new opportunities, referring to the report by Mr Manuel Panagiotopoulos and Mr Andrew Cornell.

Since late last year, the global economic crisis has seriously affected all the economies including Japan. In the first quarter of this year, we have experienced the most serious negative growth in the post-war period. It has been said that the economic downturn in Japan, which has been the largest export market for Australia, would have a negative impact on the Australian economy. However, whilst the Japanese Economy plummeted in the first quarter of this year, it recovered with 0.6 percent positive growth in the second quarter. Even during periods of recession we have witnessed a new active wave of Japanese investment into Australia in various sectors. I will speak in a bit more detail later on the recent investment.

2. Japan-Australia Economic Relations

Now, I would like to start with a brief explanation of current characteristics of our economic relations although most of you would be aware of them.

-Firstly, Japan has been Australia's largest export market for nearly 40 years. In 2007-8 Japan accounted for nearly 20% of Australia's exports.

-Secondly, Australia's trade surplus with Japan is larger than any other country. It was 15.3 billion A\$ in 2007-08.

-Thirdly, from the Japanese stand point, Australia is a large and stable supplier of various strategic goods such as energy, mineral resources and food stuff. Indeed, Australia is the largest energy supplier to Japan, accounting for 21.5% of Japan's total energy import in terms of coal, LNG and uranium combined

-Fourthly, our bilateral economic relationship is not limited to trade. The volume of investment by Japanese companies in Australia is the third (9.2%) in 2008 after the US and the UK.

It is important to remind you why Japan and Australia could enjoy such an excellent economic partnership. There are three points.

Firstly, our economic relationship has been developed over the last five decades since the signing in 1957 of the Japan-Australia Commerce Agreement. It has become a solid and reliable union built upon mutually complementary and collaborative relations. Through business partnerships, our two countries have, over the years, built strong ties and bonds of mutual trust and respect. As pointed out correctly in the Manuel and Andrew's report, we have now established rich human capital networks which are a great advantage for our future business.

Secondly, on top of this excellent economic relationship, our overall bilateral relations have steadily been developed to a “comprehensive strategic partnership”.

Japan and Australia share basic values such as freedom, democracy, respect for human rights and the rule of law. We also share strategic interests as two of the major allies of the United States; to maintain peace, stability and prosperity in the Asia Pacific region and beyond. I totally agree with the point in the report that both countries have stable political systems and intergovernmental relations are clear and transparent.

Thirdly, Japan and Australia share common business rules and practice. In October last year during the global financial crisis, I attended the Japan-Australia Joint Business Conference in Perth. Participants on both sides at that conference reaffirmed the importance of reliable and stable business relations between our two countries. They noted that Japanese companies honoured the long-term contracts which had been agreed, despite the sudden and large fall in the price of mineral resources such as iron ore and coal. I assume that the Australian companies would also respect the long-term contracts and practice.

One more characteristic of the business both countries share is that the Government does not interfere in individual business matters unless it is requested to support the business. Nor do companies wish to have such interference from the Government. Companies both in Japan and in Australia do their business according to their business strategy.

Thus, Japan has been, and will remain, a stable and reliable economic partner for Australia.

3. New Opportunities

However, as I have said on many occasions, we should not take our excellent relations for granted. We should explore new opportunities in our field of cooperation.

It is encouraging to hear, as in the article in the Weekend Australian a couple of months ago which says “a great wave of Japanese investment is reaching every sector of Australia’s economy.” It refers to the recent wave of investment from Dai Ichi Life insurance, Asahi Beer, Kirin, Fujitsu, Mitsubishi in Okajee, Marubeni-Osaka Gas, and Suntory in various fields. The Australian Financial Review last week also reported that Japanese companies provided the largest share of the investment by value among Asian companies in 2008, in particular across the food and beverages sectors. I would agree with Manuel and Andrew when they say “Australia will become an even more attractive destination for Japanese direct investment, not just in raw materials and energy but also in food, beverages, financial services, pharmaceuticals, renewable energy and life sciences.”

In this context, the environment would be one of the promising areas to promote further bilateral economic relations since advanced environmental technology is a strong point of the Japanese economy.

From early next year, Toyota Australia based in Melbourne plans to produce hybrid cars at its plant in Altona. In Queensland, the Callide Oxyfuel Project was officially launched last November as a Japan-Australia collaboration project for a carbon capture and storage experiment. In June, Mitsubishi Heavy Industries, Ltd. and Mitsubishi Corporation have agreed with ZeroGen Pty. Ltd. of Australia to participate in the project to build a low-emission integrated gasification combined cycle (IGCC) power generation plant integrated with a carbon capture and storage facility.

It is also interesting to note that, as mentioned in the report, there are plenty of niche opportunities and success stories such as Aussie beef, chestnuts, mandarins, Fuji apples and so on despite the common perception that the Japanese market is closed to agriculture. Ski resort business in Niseko, Hokkaido is also one of the excellent success stories of Australia's business in Japan. These success stories should be shared more widely among the business circle in Australia.

Furthermore, Australian companies should focus more on Japanese companies working internationally. As Sir Rod Eddington says in the report issued by Economic Analytical Unit of DFAT, "For companies, and especially for governments, the relationship needs to be thought of as more than just bilateral." Professor Peter Drysdale wrote in a report published recently, "The Japanese market is no longer confined to Japan itself. It is a huge international market generated by the activities of Japanese business and investors, especially via production networks in Asia."

For instance, many of the products of Sony are now imported from China or other parts of East Asia. Japan used to be Australia's main export market for wool. Now the largest market is China where imports are processed not only by the Japanese-owned factories but also Chinese enterprises for domestic consumption and, significantly, for export to the still large Japanese market for wool clothing. As Manual and Andrew point out in their report, "Made in Japan' has increasingly become 'made by Japan elsewhere.'" It seems important for Australian business to be engaged in the supply chain in East Asia where Japanese companies have strong presence.

It is also worthwhile to explore, as suggested by Ms Elizabeth Masamune, Minister of Australian Embassy in Tokyo, a possibility of third country cooperation as in major resource projects in Indonesia in the early 1990s where Australian companies partnered with Japanese capital and expertise.

At present, both governments are engaged in negotiations on a bilateral Economic Partnership Agreement, otherwise known as the Free Trade Agreement in Australia, in order to formulate a framework for further enhanced economic relations as the Commerce Agreement in the past.

Once completed, this agreement will strengthen our economic ties, including the stable supply of resources and energy, and thus will become an important pillar of our strategic partnership.

4. Conclusion

As you are all aware, the recent general election in Japan has shown a historic result; the Democratic Party of Japan has gained a landslide victory and the

new government led by Prime Minister Yukio Hatoyama came into office on 16th September. As this government is still brand new, I should not prejudge the foreign policies of the new government. However, Mr Hatoyama, has assured to continue basic foreign policies such as our security alliance with the US and its robust commitment towards East Asia. I am also confident that we will see no fundamental change in our excellent bilateral relations with Australia. We have seen that both Prime Minister Kevin Rudd and our PM Yukio Hatoyama met and made fruitful discussion in New York when they visited United Nations General Assembly and also attended G20 summit meeting held in Pittsburgh. We also had Foreign Minister's meeting in NY and were able to make tone setting of our bilateral relations successfully.

Recent polls undertaken in both Japan and Australia have confirmed Australian and Japanese people alike share positive feelings and perceptions about each other and that in public opinion, our bilateral relationship continues to be significant. Therefore, I am confident that economic relations between Japan and Australia will continue to enjoy stable and steady development, even if they may be temporarily affected by the current global economic downturn.

However, it goes without saying that we should not take for granted the current good and matured relationship. In terms of our economic relations, we need to strengthen them further in promising new areas such as the environment, financial and service sectors, and in exploring new opportunities including business cooperation in Asian countries. In this context, the report by Mr Manuel Panagiotopoulos and Mr Andrew Cornell is a very timely and

instrumental document for both government and business to reconsider our future economic relationship.

Thank you.

(END)