

Remarks by Ambassador Kusaka at the Asia Society Policy Briefings

-Japan, Australia, and the potential of the bilateral relationship- 24 November 2016

“Abenomics” and its benefits

No explanation of current Japanese policy can begin without addressing the core impetus behind the Abe government’s system of reform. That is, of course, the three pronged strategy for economic growth known as “Abenomics”. Since its inception in 2012, “Abenomics” has been focusing on fiscal expansion, monetary easing and structural reform, and seeks to boost domestic demand and GDP growth while getting rid of deflation. Over the longer term, structural policies aim to enhance Japan’s growth by increasing competition, reforming labour markets and cementing trade partnerships.

“Abenomics” is divided into two stages. Stage One is already complete, and has brought about some remarkable achievements. From the inception of the strategy until the third quarter of this year, the Japanese nominal GDP has risen by 7.0 percent, while real GDP has risen by 3.3 percent. Furthermore, nominal GNI, Gross National Income, has risen by 7.6 percent, and in real terms has risen 5.6 percent. What this indicates is that Japan is in the process of escaping the cycle of deflation and debt that afflicted its economy until the advent of Abenomics. It also reveals that Japanese companies are accumulating their wealth not only from within Japan but also from overseas operations, given the larger amount of GNI to GDP, thereby showing the global business activities of Japan’s industries.

The improved state of the Japanese economy is reflected in other quantifiable measures. 1.1 million more employees have been hired since Abenomics began; an unemployment rate that was nearly at 5 percent before 2012 has dropped to a mere 3 percent; average wages rose by 2.2 percent in 2015, the highest increase in 17 years; and the primary deficit to GDP ratio has been reduced to its target level of 3 percent, which is half the level it was in 2010. Abenomics has thus provided the kick start necessary to revitalise the Japanese economy, a development neatly summarised by PM Abe when he declared that “Japan is back”. But not one to rest on its laurels, the Abe government has now embarked on Stage Two of its economic strategy, a series of structural reforms aimed at increasing Japan’s GDP to 600 trillion yen (or over 7 trillion Australian dollars). As a part of this strategy, supplementary budget was approved by the Diet in October for funding economic measures to realise investments for the future exceeding 28 trillion yen (or about 340 billion Australian dollars) in project scope.

The Abe government is the most stable government we have had for some years and has both the determination and ability to deliver major and challenging reforms across many

areas. Its focus is on Japan's industrial strengths and emerging markets. It will prepare for the 'fourth industrial revolution' by driving growth in the fields of Internet of Things, Big Data, artificial intelligence (AI) and robotics. It will revolutionise its health care sector using IT and selective privatisation, and it will deregulate its energy market to stimulate investment. Agriculture will be another area for reform in order to double the integrated market value in agriculture from 5 trillion to 10 trillion yen by 2020. To achieve this, Japan has engaged in the first major structural reform and deregulation of its agricultural sector in 60 years. It has already reformed its Agricultural Cooperative system in order to encourage more agricultural start-ups and look for new entrants into the agricultural sector. It has also enacted legal reforms in order to consolidate farmland and optimize its use, and created Japan-wide export promotion organisations in order to sell major products. Japan also intends to create a more open and robust wholesale distribution system and encourage collaboration across industries in order to promote smart farming. These initiatives will be supported by the implementation of national strategic special zones, each of which will be dedicated to a particular field of economic endeavour, be they start-up venture enterprises, foreign capital, or domestic services.

One core area of the strategy which will be of particular interest to Australians is the strategy to boost both tourism and increase the level of skilled migration. Tourism has been one of the quiet success stories of Japan. From its humble beginnings in 2003 and the launch of the "Visit Japan" campaign, the Japanese tourism industry has been steadily reaping the benefits of global interest in Japan, with Japan playing host to around 20 million visitors by the end of last month since the start of 2016. The tourism sector has contributed in excess of 3 trillion yen or some 35 billion Australian dollars to the Japanese economy, and is projected to benefit even further in the coming years from both the Rugby World Cup in 2019 and the Olympic Games in Tokyo in 2020. I will leave it to you to judge which of these might be of greater importance to Australians, but it is evident that these events and Australia's close proximity to Japan will make Australians major contributors to Japan's projected goal of 40 million visitors by 2020.

Immigration and employment

Of course, for all of these particular initiatives to succeed, Japan will need workers. Yet as many of you are no doubt aware, Japan has a relatively low birth rate, coupled with one of the most long-lived populations on earth. This means that Japan will face difficulties in providing for its growing numbers of elderly citizens from an ever-shrinking tax base. Japan's demographics made it one of the first developed nations to directly face this challenge, and in recognition of this the Abe government has set in motion a series of measures aimed at alleviating, if not reversing, this particular social trend.

The first measure consists of encouraging expatriate entrepreneurship and increasing expatriate support workers in the major metropolitan zones of Tokyo, Kanagawa, and Osaka as part of its network of National Strategic Special Zones.

Of greater interest to an Australian audience, I suspect, is the measure to radically expedite the permanent residency process by introducing a system for those designated as highly skilled foreign professionals, as well as relaxing requirements for accreditation of expatriates as such professionals. Furthermore, in recognition of the crucial role that technology will play in the future economy, a target has been created for doubling the number of expatriate IT professionals from 30,000 to 60,000 by 2020 in order to better meet the innovation needs of Japanese industry. Even more significant than this, however, is the recognition that Japan's workforce culture and participation rate is in urgent need of reform, and this has become a key focus of the Abe government. Measures to deal with this area now include wage reform to create equality in income, or as PM Abe says, 'equal pay for equal work' to close the gap between regular and non-regular employment, in addition to the introduction of flexible working schedules and reduced working hours.

Women have also taken centre stage in the Abe government's workplace reform agenda which has resulted in initiatives to increase the number of women in work, particularly the number of women serving in management positions, again through more flexible working arrangements and the greater provision of childcare services. Plans to increase elderly participation in the workforce also promise a larger dividend in productivity and revenue by having more workers employed for longer periods of time.

Japan-Australia Economic Relationship (JAEPA and Beyond)

This concern about domestic labour markets and productivity has in turn sparked a strong desire by the Abe government to pursue greater economic engagement with countries in the region and around the world as part of its economic growth strategy. Japan has always had a very pro-active approach to economic engagement, and has long appreciated the opportunities that the Asia-Pacific presents for the liberalisation and formation of markets.

This has been a principle reason for the active participation by Japan in forums such as APEC, coupled with Japan's contributions to the ADB (Asia Development Bank). It also explains why Japan, as well as Australia and many other regional countries have been applying themselves so diligently to a framework for the RCEP (Regional Comprehensive Economic Partnership), for greater integration of regional economies promises greater invigoration of domestic economies. An important point to keep in mind in relation to the Abenomics is the role of free trade agreements, which also assist in advancing the domestic reform agenda. In this respect, Japan-Australia Economic Partnership Agreement (JAEPA), which came into

effect in January of last year, has already played a significant role for us. In fact, I was one of the first negotiators with Australia back in 2007 to 2008.

JAEPA can be seen as the culmination of decades of bilateral economic relations between our two countries. We can already see tangible results, with many Australian exports to Japan benefiting from the reduction in tariffs afforded by the agreement. Today Japan is Australia's third largest trading partner and is also ranked second as a source of foreign direct investment in Australia following the United States. Over 700 Japanese companies operate in the Australian market. While traditional areas of trade, namely resources and energy, remain at the centre of the Japan-Australia economic relationship, interest has been rising among Japanese firms regarding merger and acquisition opportunities in Australia across broader sectors. For example, since the conclusion of JAEPA, we have already seen Japanese businesses including Recruit, Japan Post, Kajima and Nippon Life Insurance significantly expand their presence in the Australian market.

In the future I can foresee Japanese and Australian businesses using their close relations to collaborate in third countries, particularly emerging markets in the Asian region.

TPP

Yet the agreement that has garnered the greatest interest from both Japan and Australia, and one that carries the most profound implications for both of our economies, is of course the Trans-Pacific Partnership or TPP Agreement. The Abe government has expended a great deal of time and effort to push for Japan's inclusion in negotiations and to have the agreement ratified by the Diet, often in the face of fierce opposition from vested interests and opposition parties.

The support shown by the Australian government for the agreement has been welcomed in Tokyo, and for good reason. I wish to emphasise that the TPP promises to be the "game changer" for regional, indeed global trade. It will incorporate a staggering 40 percent of global GDP and include 800 million people under its jurisdiction. This giant trade group will make the TPP 1.5 times larger than both the population and GDP of the European Union, and give the Asia Pacific a leading, if not the lead role in promoting global trade.

Security relations

Yet the TPP also must be seen as having a far broader, more significant role to play in our region. Ladies and gentlemen, you will be aware that in recent years, the system of international laws and regulations that have provided stability and security for our region and are the foundation of the prosperity that countries in our region enjoy has come under

strain. Nowhere is this more evident than in the Western Pacific, specifically the South and East China Seas, where the rule of law has been disregarded in favour of unilateral self-interest. We have also witnessed the brazen, unconscionable behaviour of North Korea, whose wilful disregard of UN resolutions and irresponsible pursuit of ballistic missiles and nuclear capabilities constitutes a grave threat to the security of all nations in this part of the world.

To ensure that the region is not suddenly plunged into disorder and strife based on the premise of 'might equals right', like-minded countries have begun to pro-actively use international forums such as the EAS (East Asian Summit) and ASEAN+ to insist that the rule of law continue to be respected and that peaceful means be found for resolving disputes.

The nation that has done the most to promote these ideals and to ensure that they are adhered to in the Asia-Pacific is of course the United States. We, Japan and Australia, are both committed allies of the United States, and we both recognise that together with the United States we can provide the stability necessary for prosperity. This is why we both encourage the US to ratify the TPP even now under the President-elect Donald Trump.

The need for mutual assistance

Yet if the recent US presidential election has taught us anything, it is that nothing is guaranteed and nothing should be taken for granted. Given the US is faced with structural change under the new administration, it is necessary for countries to forge even closer ties based on shared values and common interests in this part of the world.

Fortunately on this front Japan and Australia are already ahead of the curve. Ever since the 2007 Japan-Australia Joint Declaration on Security Cooperation, Japan and Australia have been steadily building the framework for a closer, more integrated security posture to the extent that we now share a "special strategic partnership". The most recent manifestation of our new security framework was the Trilateral Information Sharing Arrangement (or TISA) signed in Honolulu just last month between the forces of Japan, Australia, and the US. Japan has also stepped up its joint exercises with Australia, notably through events such as Talisman Sabre and Southern Jackaroo, and both countries have worked in close cooperation responding to natural disasters in the Philippines and Vanuatu. We are also in the process of amending our Acquisition and Cross-Servicing Agreement and forging a new Reciprocal Access Agreement to further benefit from such cooperation.

All this activity stems from recognition by both sides that in the midst of a changing regional security dynamic, greater assurances are required from like-minded countries to preserve stability. Japan has actively embraced this reality, and last year brought into effect Peace and Security legislation that allows Japan to make a greater contribution to the international community – in other words, make a "proactive contribution to peace". Although we are

culturally and linguistically distinct, our interests are the same, our ideals are the same, and we both seek an outcome whereby all nations in the region profit without recourse to arms. We have so much to offer one another and to the region that it is only natural that we work together to achieve our shared goals of peace and prosperity for all.

I have often described Australia and Japan as being like bookends that sandwich either end of the Western Pacific, with Japan in the north and Australia in the south and both of our nations needing to ensure the maritime zone and sea lanes that cut across the Western Pacific are peaceful and stable. I think this analogy still stands. We can also look forward to the day when our stories fill the volumes between these bookends, and believe me they will be a very good read.