



This report urges a paradigm shift in thinking about Australia's economic relationship with Japan. The Japanese market is a market 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. More than ever, Australian firms need to integrate more closely with these supply chains and networks in Asia.



COLLABORATING TO CAPTURE THE ASIAN OPPORTUNITY



ASIAN OPPORTUNITY

Collaborating to Capture the Asian Opportunity

Today, 'Energy', 'Resources', and 'Agribusiness and Food Processing' dominate Australia's exports to Japan. The AJBCC believes that the opportunity remains strong for their growth. Huge amounts of Japanese and Asian investment continues to be attracted to these sectors, for instance to develop Coal Seam Gas deposits; for mine expansion to supply developing Asia's industry; and to supply processed food for Asia's growing middle classes.

The AJBCC's 2006 Strategic Plan determined that AJBCC's continuing relevancy to its membership and other stakeholders lay with the diversification of the bilateral commerce into areas of significant unrealised opportunity.

Both the Australian and the Japanese economies are dominated by their 'services' sectors with respect to both GDP and employment – in excess of 75 per cent. Consequently, it was within 'services' that the Strategic Plan sought to appraise opportunities.

In addition to Education and Tourism, in which sectors, despite the bilateral potential that exists, neither Australia nor Japan has achieved potential, the areas of significant opportunity identified were:

- Infrastructure
- Healthcare
- Financial Services,
- Property

Since 2007, framed by its limitations of resources of manpower and funds, the AJBCC has primarily encouraged the joint venturing of the complementarities existing within the Infrastructure sectors of Australia and Japan. The AJBCC Executive Committee established

an AJBCC Infrastructure Planning Group in 2007 to progress the initiative. In December 2009, the AJBCC established a similar Infrastructure Planning Group. With its innovative composition of Australian and Australia based Japanese participants, the AJBCC Infrastructure Planning Group has mounted two Missions to Japan, hosted a reciprocal Mission from Japan, co-organised Joint Australia-Japan Infrastructure Missions to India (July 2010) and Indonesia (May 2011) and on five occasions despatched Public-Private-Partnership (PPP) Promotion teams to Japan to give briefings on the Australian approach to PPPs to national and prefectural government bodies and agencies, Industry associations and the Japanese financial sector.

Both the Australian and the Japanese Governments have joined their private sectors in Joint Australia-Japan Public-Private Infrastructure Policy Dialogues (March and October 2011 in Tokyo, and October 2012 in Canberra) that have as an objective to facilitate joint venturing for the undertaking of infrastructure in Australia, in Japan, and in third countries. There are huge infrastructure catalogues in all three areas.

The AJBCC's Infrastructure Planning Group maintains a History and Strategic Directions document.

Although it primarily related to Japan's supply chain and production networks in Asia, Professor Drysdale's Report to Austrade of September 2009 contained a challenge to Australian industry, namely:

"This report urges a paradigm shift in thinking about Australia's economic relationship with Japan. The Japanese market is a market 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. More than ever, Australian firms need to integrate more closely with these supply chains and networks in Asia."



Professor Drysdale placed a value on these supply chains by-passing the Japan home islands of US\$630 billion or approximately 13 per cent of Japan's GDP or half of Australia's GDP.

Influenced by Professor Drysdale's above sentiment and in the belief that the 'Challenge' was equally relevant to the AJBCC's 'services' focus, as evident in the reception for its infrastructure initiative, together with the enormous demand for Energy, Resources, and Agribusiness product by the region's developing economies, the AJBCC added "Facilitating Australian 'intermeshing'/integration with Asia" as a fourth "Envisaged Future" when adopting its 2010-2013 Strategic Plan.

Healthcare and Aged care together represent more than ten per cent of Australia's GDP and the sector is one that will grow above trend because of the ageing of the population and the rising costs of service delivery given the capital costs of equipment and systems and its labour intensiveness.

Following seminars in Melbourne and Sydney on Japan's Healthcare System, the AJBCC's Healthcare Planning Group assessed that it would be worth further exploring the opportunities for the Australian and Japanese sectors to collaborate. There is a low consciousness in both countries about the system of the other and the relative world class competencies in each country. In December 2012, an Australian Healthcare Industry Mission to Japan learnt at first hand from a spectrum of authoritative government and private sector speakers dimensions of the Japanese system and prospective areas of joint venture collaboration.

The 'Australia in the Asian Century' White Paper, commissioned by Prime Minister Gillard of Dr Ken Henry AC and handed to her in October, 2012, is very clear in identifying Japan, together with China, India, Indonesia and South Korea as the five key economies of the region. Australia does not have the same quality or breadth of relationship with the

other four that matches the present relationship with Japan. Given the AJBCC belief that there remains considerable scope for the further evolution of the bilateral Australia-Japan relationship, particularly the greater integration of their economies, Australian policy makers and business community have much to do to optimize multicultural Australia's engagement with the Asian region.

Straight line projections of economic data are thwart with danger, but given the size of their populations and growth in the sophistication and balance of their economies, in part generated by rapidly growing numbers of 'middle class' in Asia, it is reasonable to assume that first China, in a disputable timeframe of 20 -40 years, will surpass the United States to become the largest economy in the world, and some decades later that India will surpass China. Economic dynamism combined with changing global political and security balances, mean Asia will grow as the focus of world thought.

In an increasingly globalizing economy, Japan, as the most sophisticated and balanced economy of the region, has a leadership role in shaping the integration of the region. Because of the breadth and depth of Australia's relationships with Japan, it is the most logical partner for Australia for optimizing its engagement with Asia.

Professor Drysdale in his address to the 50th Anniversary Australia-Japan Joint Business Conference commented critically on the existing thinking regarding the negotiation of the FTA and called for more creative and strategic thinking:-

"To be frank, I think we have been underutilising the assets of our relationship in recent years.

Inter-ministerial meetings have fallen into disuse. The FTA needs to be dealt with promptly and clear the way for credible Japanese economic diplomatic initiative. Both countries have approached these

negotiations too narrowly, without strategic purpose. Setting our sights on a traditional bilateral FTA is selling the relationship short. Rather our strategic focus needs to be on the achievement of deep and efficient economic integration of the two economies in Asian and global markets and serving as a model of regional integration with open participation to regional partners able and willing to comply and sign on automatically."

The Joint Statement issued at the conclusion of the 50th Anniversary Australia-Japan Joint Business Conference – see page 73 – recognises a concluded EPA/FTA will increase the integration of the Australian and Japanese economies. The Joint AJBCC-JABCC Infrastructure initiative is actively encouraging joint collaboration in third countries. Although these are early days, the same is envisaged for the Healthcare, Financial Services and Property sectors.

Mr Georges Desvaux, Managing Partner Japan Office, McKinsey & Company delivered the Keynote Speech at the 50th Anniversary Conference when the programme turned from the retrospection to the relationship's future. The session was themed *'Collaborating to capture the Asian opportunity'*. Mr Desvaux referred to the need for business to be agile / *'fast'* and targeted in capturing the value that will be generated in rapidly developing Asia. He observed that *"Country strategies are dead, long live targeted urban strategies"* after indicating that 230 cities in Asia will contribute more than 60 per cent of the growth in the period to 2025.

Mr Desvaux stated that Australia and Japan had many assets that are fundamental to the needs that emerging Asia will require. He suggested four areas of concrete collaborative opportunities, namely:

Building Asia - an acknowledgement that the 230 cities will have huge infrastructure needs and how PPPs necessitate consortia of complementarities;

Feeding Asia – a recognition of the projected 27 per cent increase in demand for food by 2030 and current concerns about food quality and safety. He referred to the scope for collaborative university research and the benefits of encouraging joint certification boards and harmonisation of standards.

Innovating Asia - focussed collaborative research through Australia's and Japan's renowned research institutions and targeted joint innovation clusters to build Asia's competencies.

Educating Asia - enabling Asia's need to educate 240 million graduates over the next 20 years to achieve the region's growth potential.

Both Professor Drysdale's above commentary and Mr Desvaux's encouragement to fast and targeted responses will be considered by the AJBCC during formulation and implementation of its 2013-2016 Strategic Plan.



Australia in the Asian Century - White Paper, October 2012