

Japan

After declining in the three years up until 2009, Australian engagement with Japan grew by 13.4% in 2010, due largely to a pick-up in trade, investment, education and tourism engagement.

Japan and Australia have enjoyed a decades-long cooperative relationship based on mutual respect and friendship, shared democratic values, common security interests, and a commitment to freedom, the rule of law and human rights. The relationship has also been one of fundamental importance to both countries' strategic and economic interests. Both governments have worked actively to foster these common interests through a range of formal and informal agreements, meetings and conferences over time.

To this end, the twelfth round of the Australia–Japan Free Trade Agreement negotiations took place in Tokyo in early February 2011. This was the first FTA round since Japan announced its new policy on FTAs in November 2010. Its stated goal was an opening of Japan to world trade and investment liberalisation, including concluding an FTA with Australia.³¹ At the February meeting progress was made across most areas, although some outstanding issues remain to be resolved.

A follow-up round of negotiations scheduled for April was subsequently cancelled until further notice in the wake of the tsunami disaster on 11 March 2011. Both the Australian Prime Minister and the Foreign Minister have visited Japan since the disaster, offering condolences on the terrible loss of life, as well the commitment of the Australian government to a range of assistance measures and support in the wake of the widespread damage and loss.

Japan is Australia's second largest export destination and trading partner in the world after China, with major exports being coal, iron and beef. Japan is also Australia's third largest source of imports (after China and the United States), in particular of consumer and industrial products. Meanwhile, Japan is Australia's third biggest foreign investor, with much of this being direct investment which has been essential to the development of many important export industries, in particular iron-ore, coal and LNG development.

In the light of the longstanding and multi-faceted relationship between Australia and Japan, the Australia–Japan Engagement Index starts from a high baseline in 1990. Meanwhile, the period since 1990 has been one of relative underperformance for Japan (with the 1990s often referred to as the 'lost decade'), characterised by low economic growth which was met by high levels of government investment and an associated build-up in government debt. And unlike many of its less developed Asian neighbours, Japan experienced a major downturn during the global financial crisis, with economic growth falling by 6.3% in 2009. Despite all this, Australia–Japan engagement has continued to trend strongly higher from 1990, albeit with a degree of volatility.

³¹ The 'Basic Policy on Comprehensive Economic Partnerships'.

Figure 19: Japan Index

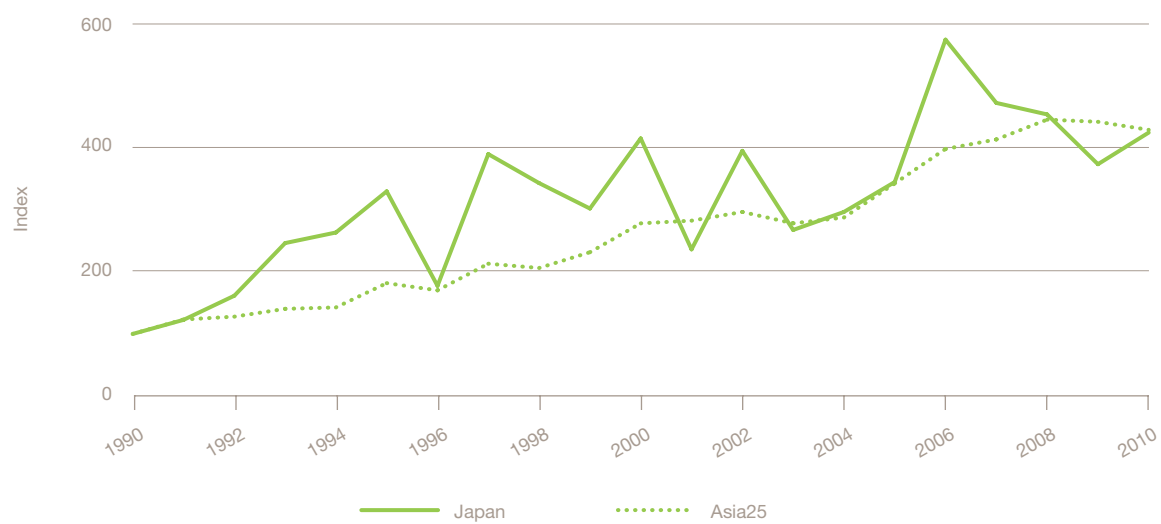


Table 15: Index trends for Japan

	1990	1995	2000	2005	2009	2010	% change 2009–10
Japan	100.0	336.7	424.5	354.0	382.2	433.6	13.4
Asia25	100.0	188.7	289.1	355.7	453.5	442.1	-2.5

Components of the Japan Index

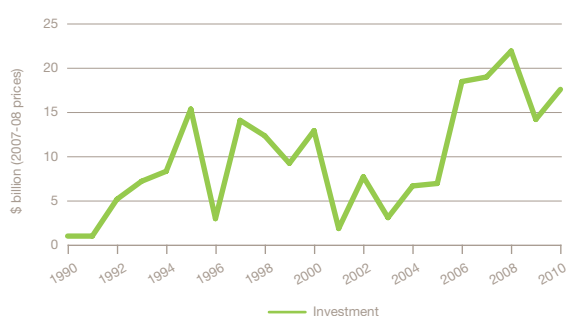
Trade

The Trade component of engagement with Japan recorded a modest recovery of 5% in 2010, reflecting primarily a 15% increase in imports from Japan; exports rose by less than 1%. This follows a sharp downturn in 2009 as the Japanese economy went into recession. While growth in this component has been relatively modest since 1990, it comes off a high base: Japan has been one of Australia's top two trading partners for decades, and remains in second place now, after China.



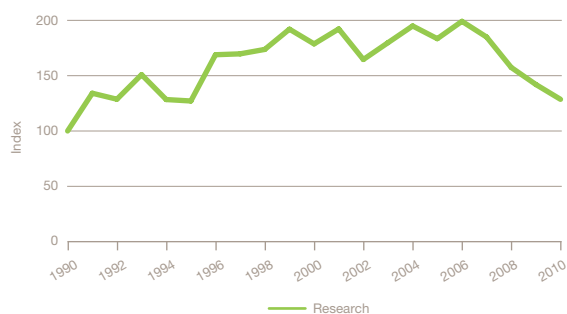
Investment

The Investment component also increased in 2010 as Japanese economic growth recovered. There was growth of 16% in Japanese net investment in Australia and a massive increase of 58% in net outbound investment in Japan. Japan remains a critical investment partner to Australia, despite the rise in engagement with China in recent years. Japan is Australia's third biggest foreign investor, with an investment stock of \$118 billion at end 2010.³²



Research and business development

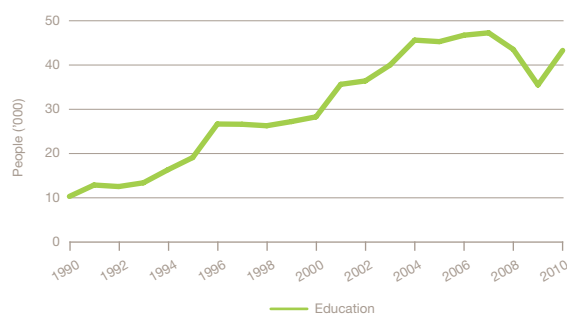
The R&BD component continued to decline in 2010. While business visits between the two countries and Japanese patent applications in Australia increased, these increases were more than offset by a large fall in the number of research article publications on Australia-Japan relations in 2010.



³² DFAT Japan Country Brief.

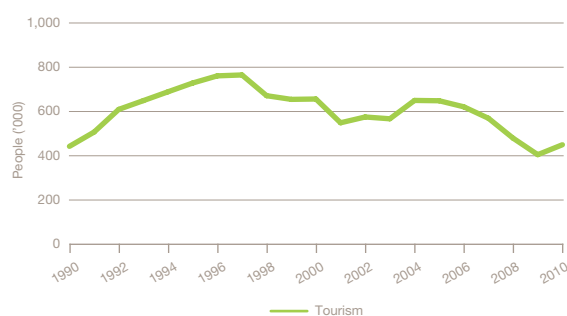
Education

Student travel between Australia and Japan rose in both directions in 2010, resulting in an overall increase in the Education component of 22%. The 14% increase in the flow of Australian students going to Japan was exceeded by the 25% rise in Japanese students coming to study in Australia. Japan is the eleventh largest source country for international students in Australia.³³



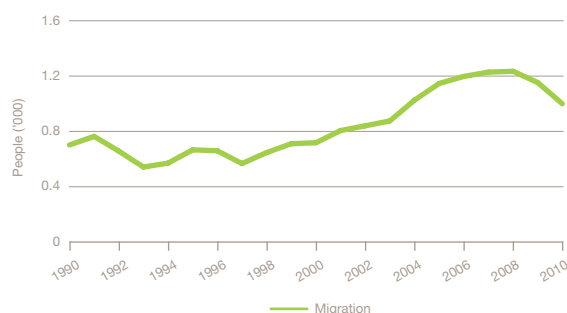
Tourism

The number of tourist movements between Australia and Japan rose by 11% to a total of 460,000 in 2010. This was the first such increase since 2004. Inbound travel from Japan was around three times that of outbound travel in 2010. While the number of Australians visiting Japan has gradually increased over time and was the highest ever in 2010, the number of Japanese tourists coming to Australia has more than halved since a peak in 1996. The yen is one of the few currencies against which the Australian dollar has lost ground recently – a factor no doubt in the increase in inbound tourism in 2010.



Migration

The Japan Migration component fell by 9% in 2010, reflecting a fall of 29% in Japanese immigrants coming to Australia and a rise of 25% in Japanese-born residents returning to Japan. The numbers of people leaving and arriving were almost identical in 2010. The annual flow of migrants between Australia and Japan is relatively small, at 1,000 people in total in 2010. There were just 52,111 Japanese-born residents of Australia in June 2010 – less than 1% of total overseas-born residents.³⁴



³³ DFAT Japan Country Brief.

³⁴ ABS Cat. 3412.0 Migration Table 4.7.