

Barton Deakin Brief: Japan-Australia Relationship

9 July 2014

Yesterday Australian Prime Minister, the Hon Tony Abbott MP, and Japanese Prime Minister, Shinzo Abe, signed the Japan-Australia Economic Partnership Agreement (**JAEPA**) and its Implementing Agreement in Canberra.

This signing comes as part of a three day visit by Mr Abe to Canberra and Western Australia. Mr Abe and Mr Abbott [addressed](#) the House of Representatives yesterday and a State Dinner was held in the Great Hall of Parliament House last night.

This Barton Deakin Brief provides details of the Japan-Australia economic and political relationship, including JAEPA and Mr Abe's 7-10 July 2014 visit to Australia.

Overview

Japan is Australia's second largest trading partner.

Japan and Australia's two-way trade reached \$69.3 billion in 2012/13, which represents 11% of Australia's total trade. Australia's exports to Japan were worth \$48.6 billion in 2012/13, accounting for more than 16% of all Australian exports.

JAEPA is Australia's second bilateral trade agreement to be concluded with a major trading partner in North Asia after a [Free Trade Agreement with Korea \(KAFTA\)](#) was signed in April 2014.

A trade agreement with China is currently under negotiation. Together these three economies represent over half of Australia's exports.

JAEPA

The conclusion of JAEPA negotiations was announced in Tokyo on 7 April 2014 during Prime Minister Abbott's trade mission to North Asia.

Australia is the first major agricultural exporting economy to unlock Japan's high import barriers.

Changes to Japanese import barriers include:

- Agricultural tariffs will be eliminated or significantly reduced on many Australian agricultural exports, in particular beef and cheese;
- Tariffs on Australian energy and mineral resources and manufactured products will be eliminated within ten years; and
- Australian service suppliers will be guaranteed access to the Japanese market.



Changes to Australian import barriers include:

- Tariffs will be eliminated on imported cars from Japan, as well as household appliances and electronics; and
- The screening threshold at which private Japanese investment in non-sensitive sectors is considered by the Foreign Investment Review Board will be raised from \$248 to \$1078 million.

Barton Deakin's brief outlining the full details of JAEPA is [here](#).

The following steps must now be completed to bring JAEPA into force:

- The text of the Agreement along with a National Interest Analysis will be tabled in the Australian Parliament for 20 joint sitting days and will be considered by the Joint Standing Committee on Treaties;
- Amendments to relevant legislation will be introduced to Parliament; and
- Japan will undertake its own domestic treaty-making processes, including approval by Japan's Parliament.

Australia and Japan are aiming to complete their domestic treaty processes this year. Once this occurs, both countries will exchange Diplomatic Notes to certify they are ready for entry into force of the Agreement. JAEPA will enter into force 30 days after the exchange of notes.

Australia's treaty-making process is set out [here](#).

The Department of Foreign Affairs and Trade summary of JAEPA is [here](#).

Australia-Japan trade relationship

The top 5 Australian exports to Japan are:

1. Liquefied natural gas – \$14.38 billion
2. Coal – \$13.68 billion
3. Iron ores and concentrates – \$9.57 billion
4. Beef – \$1.43 billion
5. Copper ores and concentrates – \$1.37 billion

The top 5 Australian imports from Japan are:

1. Passenger motor vehicles – \$6.7 billion
2. Refined petroleum – \$3.4 billion
3. Goods vehicles – \$1.24 billion
4. Transport services – \$938 million
5. Rubber tyres – \$669 million

Japan is also an important investor in Australia, particularly in the resources sector:

- Australia's investment in Japan: \$50.23b
- Japan was the sixth largest destination for Australian investment abroad in 2013
- Japan's investment in Australia: \$130.98b



- Japan was the third largest source of investment in Australia in 2013

There have been three major phases in the development of the post-war Australia-Japan relationship:

- The establishment of a major trading relationship with Japan shortly after World War II, formalised by the [1957 Commerce Agreement](#);
- A process of broadening the relationship (particularly at the cultural level) reflected in the 1967 [NARA Treaty](#) (Nippon-Australia Relations Agreement); and
- The emergence of a partnership on important political and security objectives, highlighted by the [2007 Joint Declaration on Security Cooperation](#) and the conclusion of negotiations on JAEPA.

Japanese economy

Japan is the third largest economy in the world, with a Gross Domestic Product (**GDP**) of US\$4.902 trillion in 2013. Japan's economy was the second largest from 1968 until 2010, when it was overtaken by China.

Japan has a well-educated, industrious work force and its large, affluent population makes it one of the world's largest consumer markets.

- GDP per capita: US\$38,491 in 2013
- GDP growth: 1.5% in 2013
- Population: 127.3 million

Japan is a world leader in the manufacture of electrical appliances and electronics, automobiles, ships, machine tools, optical and precision equipment, machinery, chemicals, and iron and steel. However, in recent years Japan has ceded some economic advantage in manufacturing to China, the Republic of Korea and other manufacturing economies. Japan's services sector, including financial services, now plays a far more prominent role in the economy, accounting for about 75% of GDP.

International trade contributes significantly to the Japanese economy, with exports equivalent to approximately 16% of GDP. Key exports include vehicles, machinery and manufactured goods.

In 2013, Japan's major export destinations were:

- United States (18.8%)
- China (18.1 %)
- Republic of Korea (7.7%)

Japan's agricultural sector is one of the most protected in the world. Japan's main imports include mineral fuels, machinery and food. In 2013, leading suppliers of these goods were China (21.7%), the United States (8.6%) and Australia (6.1%).

In the medium term, the Japanese economy faces challenges over its energy policy. The Japanese government is encouraging firms to secure stable energy and commodity supplies through increased investment in overseas natural resources.



Following his December 2012 election victory, Prime Minister Shinzo Abe has pursued a reformist economic agenda, dubbed 'Abenomics', which contains fiscal and monetary expansion as well as elements of structural reform that could liberalise the Japanese economy. In November 2012, Japan was a founding party to the launch of negotiations on the [Regional Comprehensive Economic Partnership](#). In April 2013, Japan entered negotiations on the [Trans-Pacific Partnership](#).

The full Australian Department of Foreign Affairs and Trade Japan country brief is [here](#).

Japanese political system

Japan is a democratic, constitutional monarchy with a parliamentary government headed by a Prime Minister. Japan maintains an Imperial Family, headed by the Emperor, currently Emperor Akihito. Executive power is vested in the Cabinet, which is comprised of the Prime Minister and ministers of state.

Japan's parliament (known as the Diet) is comprised of a House of Representatives (Lower House) and a House of Councillors (Upper House):

- The Lower House has 480 members who are elected for four-year terms, although political conditions frequently see the House dissolved earlier.
- The Upper House has 242 members who are elected for six-year terms. 146 Upper House members are elected in prefecture-based constituencies and 96 by proportional representation at the national level. Half of the Upper House is dissolved for election at three-year intervals.

On 26 December 2012, the centre-right Liberal Democratic Party (LDP) under Shinzo Abe returned to power, winning a two-thirds majority of the Lower House with its coalition partner, the New Komeito Party. The Democratic Party of Japan (DPJ) defeated the LDP in August 2009, marking the first time the LDP lost power in more than fifty years. The DPJ, formed in 1998 through a number of mergers, now holds 57 Lower House seats.

Japan's governmental structure has three tiers: national, prefectural and local. There are 47 prefectures and 1788 local municipalities. Each tier is governed by elected assemblies. Japan does not have a federal system and the two lower tiers of government are to a large extent fiscally dependent on the national government.

Further information

Prime Minister Abbott's press release outlining Australia's deeper economic and defence ties with Japan is available [here](#).

Prime Minister Abe is the first Japanese leader to have addressed a Joint Sitting of the Australian Parliament. The full text of his speech on 8 July 2014 is available [here](#).

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