



LATEST NEWS

Japan and Australia agree to enter Free Trade Agreement negotiations.

Japan Market Report

A regular update from Austrade on the Japan Market

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After a decade long period of slow, steady reform and restructuring, Japan is re emerging as a more flexible economy and society, offering a new business paradigm. It has been a slow process, but this innovative paradigm is based on new industries. The driving forces of economic growth and change in the 21st century will come from knowledge based industries such as information technology, biotechnology, robotics, nanotechnology, environmental technology, new materials, and space technology. As the two leading advanced economies in the region, both Japan and Australia have much to gain from working together to become leaders in these industries of the 21st century.

Japan, the world's second largest economy, is enjoying its longest continuous period of expansion in the post-war period and has just seen 58 consecutive months of economic growth. The impact of de-regulation and restructuring has seen Japan now ranked as the world's 7th most competitive economy according to the World Economic Forum's Global Competitiveness Report 2006-07; Japan's highest ranking since 1995 despite its reputation as a manufacturing centre, Japan is actually a services and technology – driven economy and these are the areas achieving the most significant growth. Japan's youngest ever post-war Prime Minister – the newly elected Shinzo Abe – is planning to introduce a long term strategy to link higher economic growth with technological innovation and further reforms to liberalise Japan's economy.

With R&D spending at 3.35 per cent of GDP, Japanese industry is well ahead of other large industrialised economies in terms of the commitment to technology and innovation. Coupled with a traditional emphasis on the importance of education, Japan's commitment to R&D expenditure should

ensure that Japan continues to be a world leader in the fastest growing industries of the 21st century.

Robotics is one example. Interestingly, more than half of the world's robots are operating in Japan. Japanese manufacturers have been quick to recognise that robots offer a potential solution to the challenges associated with a rapidly ageing population. As the number of skilled workers in Japan declines, many companies are turning to robots. Fanuc is a leading Japanese robotics company which now features a factory assembly line which is entirely devoid of workers and totally dependent on robots. Japan's Ministry of Economy, Trade and Industry aims to boost the robot market from A\$5.4 billion in 2003 to A\$20 billion by 2010. But robots are not confined solely to manufacturing industries. Japanese companies are increasingly producing robots designed exclusively for consumers in the family home – furry seals as pets for the elderly and musical robots that follow their owners around the home are just two recent examples.

Japan's M-Commerce explosion

M-commerce is a term which is yet to be widely recognised or understood in Australia. But in Japan, so-called mobile commerce has emerged at a phenomenal pace which has retailers and mobile service providers scrambling to stay abreast of the wave.

Although the e-commerce market in Japan continues to lag behind the US, the explosive growth of m-commerce has positioned Japan as the world's number one market for financial services delivered via mobile phones.

The popularity of m-commerce owes much to the fact that in Japan, more people access the internet via mobile phone than those who rely on PCs in the home. In 2005 alone, revenue from mobile services in Japan increased by a remarkable 40 per cent.

Women are proving to be the early adopters of the m-commerce revolution. Over 20 per cent of female respondents to a market research survey in February 2006, confirmed the use of mobile phones to buy items such as clothing, shoes, CDs, DVDs and books. In 2005, the popular girlswalker.com site increased revenues by 60 per cent and anticipates a further 45 per cent rise in 2006.

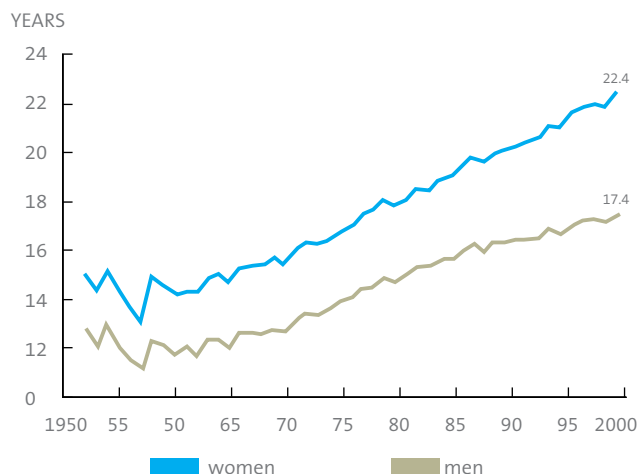
The high penetration of 3G services is central to the success of m-commerce. More than half of the world's users of 3G technology are in Japan and the rollout of 4G infrastructure is proceeding at pace. Over 60 million Japanese are able to use mobile handsets to access mobile services such as QR barcodes, e-wallets, mobile TV and radio, and CD-quality music downloads.

3G infrastructure is underpinning rapid growth in music downloads, social networking and mobile financial services. Already, over 12 million handsets enable users to make purchases by simply passing their phones over in-store scanners. Some analysts forecast that by 2007, over 60 per cent of mobile phone users in Japan will have access to so-called osaifu keitai, or mobile wallet technology. In effect, these phones act as credit cards which further fuel the demand for e-commerce transactions.

Japan's m-commerce explosion offers a possible glimpse into the future direction of mobile phone technology in Australia. These developments offer opportunities for foreign companies to access this market. These opportunities include IP/broadband-based communications, networking, wireless communications, internet applications, satellite communications and software product development. This also presents alternative retail pathways for suppliers of consumer products.

Implications of Japan's aging population

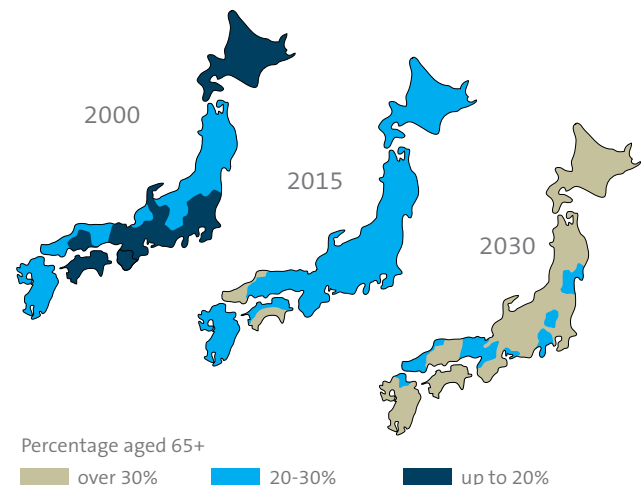
AVERAGE LIFE EXPECTANCY AFTER 65 YEARS



Source: Ministry of Health and Welfare

The Japanese population is getting older – much older. The share of elderly people as a percentage of the working population in Japan is already one of the highest in the world, whereas the fertility rate is among the lowest. By 2025, forecasts predict there will be roughly one elderly person for every two persons of working age. There are currently more than 23,000 Japanese over the age of 100. This ageing of

GREYING OF SOCIETY IS NATIONWIDE PHENOMENON



Source: Jinko Mondai Kenkyuo, March 2002

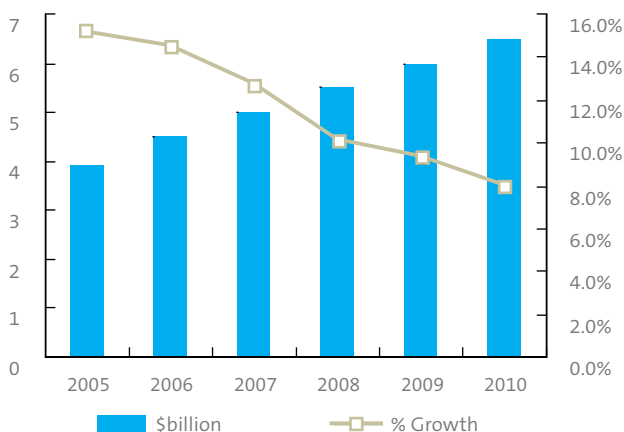
the population imposes a considerable burden on the Japanese economy.

Among the challenges facing Japan as a result of changing demographic trends are increased health care costs, a critical shortage of skilled workers, and a dramatic fall in household savings.

Trends in Japanese food industry

Growing consumer concern over food safety continues to fuel the growth in Japan's organic food market – a market now worth \$3.9 billion annually.

Highly publicised outbreaks of Bovine Spongiform Encephalopathy (BSE), Avian Influenza (Bird Flu) and Foot and Mouth Disease (FMD) have contributed to increasing consumer demand for product traceability and a shift towards organic food. This shift has seen sustained compounded growth of 15.7 per cent over the 2001-2005 period¹.



Since 2001, changes to labelling laws now make it mandatory for all products claiming to be organic to acquire formal Japanese Agricultural Standard (JAS) approval.

This change is a significant boost for the organics industry which, in the past, was forced to compete against lower priced, non-certified products. Fruit, vegetables, breads and grains currently make up more than two-thirds of the market for organic foods.

In the wake of mounting consumer fears over the use of pesticide and fertilizer residues in conventional foods, organic food is increasingly being embraced as a healthier and less risky alternative.

Japan's organic food market has also been boosted by the introduction of the Positive List System for agricultural chemical residues in food. The Positive List System prohibits the distribution of foods that contain agricultural chemicals, which include pesticide and food additives above a certain level, if maximum residue levels (MRLs) have not been established².

According to Datamonitor, Japan's market for organic products is expected to continue its growth and is likely to reach A\$6.5 billion by the end of 2010. Much of this growth will be characterised by a greater number of private labels and increased consumer choice and variety.

Key points about the Japan's market for organic products:

- > Largest market for organic food in Asia-Pacific
- > Retail channels dominated by supermarket chains
- > Consumer demand has soared on the back of recent food scares

¹ Datamonitor – Dec 2005

² Euromonitor – Organic Food & Japan 2005

However, this trend is also stimulating other sectors of the economy. 2007 will mark the beginning of the period when Japan's baby boomers start retiring, releasing some of the world's largest levels of household savings into the market place. Japan's ageing population is forging new demand for a wide range of products and services.

There is a growing demand for products and services which cater to the health, leisure and recreation needs of retirees. The trend is clearly evident in the Japan media's increasing focus on so-called LOHAS issues – Lifestyles of Health and Sustainability.

Examples of the LOHAS trend include products and services related to hobby and recreational pursuits catering for the elderly – learn to knit classes, woodwork, yoga, amateur photography and many more. Retail products are increasingly tailored to the needs of elderly consumers. There is growing demand for products that are small, light, and easy to open and close – plus niche products such as organic food in small, easy-to-open packages.

Japan's ageing population is giving rise to growing demand for aged care services – including diversional therapy – health supplements, functional foods, organic cosmetics, and niche educational and tourism services. Japan's cashed-up retirees are showing interest, with destinations such as Australia remaining high on their list.

Economic reforms in Japan also herald expanded export opportunities in sectors including banking, financial services, transport, building and construction, retailing, wholesaling, accommodation, hospitality, education services, and training.

The Koizumi-era reforms are also giving rise to increased demand for outsourcing, call centres, IT back office work, mailing, catering, and a range of other services. Opportunities exist for franchise initiatives in sectors such as cafes, juice bars, business services, home cleaning, etc.

Direct marketing including on-line shopping and internet sales is also booming. Direct marketing sales increased by 10.3 per cent in the year ended 31st March 2006, to approximately A\$45 billion, mainly because of the large increase in on-line sales which now account for 17 per cent of direct marketing sales. For example, Amazon Japan Corp is enjoying brisk business with sales over A\$1.3 billion.

Sectors growing faster than the rest of the economy include life sciences, IT, and services – especially lifestyle services such as day care centres and recreational/sports centres.

It's official: Japan is back

It's official, Japan is back and new economic conditions bode well for Australian exporters.

Factors influencing the improved outlook vary and include a decision by the Bank of Japan to end its 'fight deflation first policy' – to the Japanese economy's longest period of uninterrupted expansion since the 1960s.

There are five other reasons why Japan is also back on the radar of Australian exporters.

Firstly, Australia and Japan have just announced the formal commencement of negotiations will begin in 2007 for a comprehensive free trade agreement.

Secondly, Japan's new focus on lifting local investment and consumption will mean more opportunities for Australia in Japan's vast and sophisticated consumer market.

Thirdly, Prime Minister Abe looks set to continue economic reform set in the Koizumi era. With a return to growth, strong export performance, cleaned-up balance sheets and the slaying of deflation, the environment in Japan is much more conducive to microeconomic and institutional reform.

The services sector holds particular promise for Australian exporters with their comparative advantage in providing services for the health, education and lifestyle sectors. According to Professor James Kondo of Tokyo University: "The healthcare, education and leisure sectors have traditionally been closed in Japan, but this will soon change to Australia's benefit. We still haven't realised the impact of the growth of Japan's mature age cohort – and the spending power of mature age Japanese women."

Fourthly, Japan's unique demographics should create export opportunities at both ends of the scale – both the young and the grey power. The young purchase consumer products and surf exports are booming. Japan is the number one destination for Australian exports of water skis, surfboards and water sports equipment (accounting for over a third of a 21 million dollar market).

Finally, there is a need for more Australian companies to set up office in Japan. Despite over 3,500 Australian companies currently exporting to Japan, fewer than 100 have offices or investments. Australian businesses that establish an office in Japan are often treated as 'locals' allowing them to quickly identify new opportunities and changes in the market place. They're also better equipped to effectively market goods and services, plus offer more responsive customer services to clients.

According to research by Austrade/Sensis around 14 per cent of exporting small and medium sized enterprises sell to Japan. Given its more benign economic environment, there'll be plenty more room to move in the Japanese market especially if the services industry reforms kick-in.

Tim Harcourt
Chief Economist, Austrade

Regional Growth Creating Opportunities

Japan's economy is seen as highly centralised, however there are opportunities in the regional centres such as Chubu, Okinawa and Hokkaido where there is an increase in economic activity. The Bank of Japan recently announced that all regional areas of Japan are showing signs of economic recovery. This trend is resulting in new opportunities for Australian businesses.

In the Hokkaido ski fields, Australian investors have been prominent players in the development of new ski lodges and related tourist infrastructure. Global investment firm, Babcock & Brown, recently joined forces with a Brisbane-based development group to construct the largest condominium and retail complex, a development expected to stimulate the local economy by approximately A\$70 million.

There is significant Australian involvement in the restaurants, adventure companies and accommodation facilities which cater for Hokkaido's annual pilgrimage of international skiers. In the last five years, the number of Australian visitors to Hokkaido has increased from 5,000 to over 20,000. Australians have gained a "can do" reputation which has further enhanced Australia's profile in the region.

Japan's largest ferry company, Libera, has ordered two Tasmanian-manufactured fast ferries which will halve the current travel time from Aomori to Hakodate, the key route between Honshu and Hokkaido. Libera's plans to overhaul the old Hakodate ferry terminal centre with an Australian theme includes wharf-side dining menus featuring Australian food and wine, plus a selection of natural cosmetics will be used in the day spa.

In the Chubu region, based around the industrial city of Nagoya, the momentum from last year's Aichi World Expo has continued resulting in a building boom with construction cranes dominating the skyline. As part of this expansion, major corporations such as Toyota are building a new head office plus a major retail outlet is being developed. There is a tangible sense of economic prosperity on the streets of Nagoya.

Okinawa, a group of islands in the south of Japan, is experiencing a strong resurgence in tourism and economic confidence. This is driving demand for a wide range of imported foods and beverages, education services and lifestyle goods. Recently, an Okinawan company embarked on a joint venture with a Queensland company to commercialise bagasse, a waste product from sugar case, into a value-added food fibre powder.

Japan's regions are opportune for investment and long-term profit generation for Australian businesses.

Contact Austrade

Japan's sectoral and regional markets offer a broad range of export and investment opportunities for Australian businesses. For further information or to speak with an international business advisor contact Austrade:

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