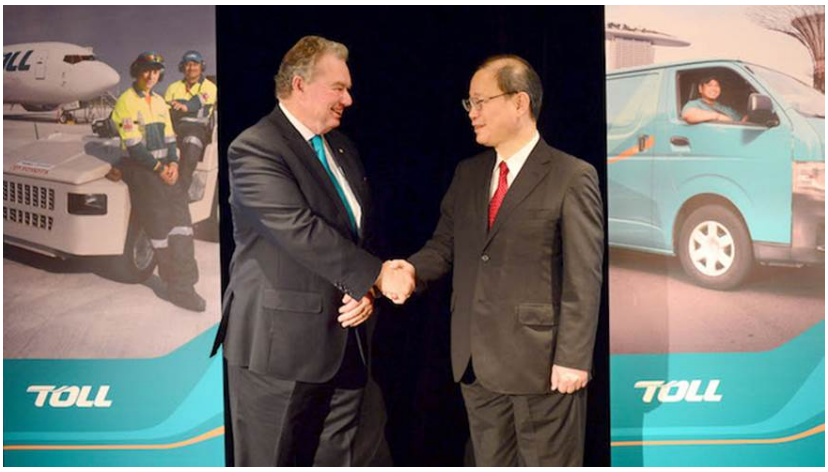
The Golden Corridor

Japan-Australia Trade & Investment Accelerating

By Baker McKenzie's Ben McLaughlin and Richard Lustig

While Australia's relationship with the phenomenon that is the Chinese economy continues to grab the headlines, the country's original Asian investment partner is not fading away. Japan had a stock of $93 billion invested in Australia at the end of 2017, more than three times China's investment.

And Japan's consistently growing investment in Australia shows no signs of receding, as it diversifies rapidly. Baker McKenzie's recently released Report - Age of Hypercomplexity: Asia Pacific Business and Legal Macrotrends, shows that 92% of Japanese companies will increase their spend on international investments over the next two years.



Toll Holdings Chairman Ray Horsburgh and President of Japan Post Toru Takahashi at the formal signing of the $8 billion merger on 8 February, 2015.

Photo: Jeremy Piper

We are seeing Japanese investment diversify both in terms of sectors of the Australian economy, and by type of investor.

Investment from the Land of the Rising Sun is diversifying from the traditional sectors such as resources and energy, agriculture and tourism, into renewable energy, information and communications technology, and services – in particular, financial services.

It is also percolating down the hierarchy of Japanese companies, from the trading houses that kicked off Japan's long involvement with Australia, more than a century ago, through Japan's banking and corporate giants, to the next tier , but which are seeking to expand out of Japan for the first time.

Whereas in the past, it was only the very large Japanese companies, with a global outlook and strong English-language capability, that were investing and making acquisitions outside Japan, into places like Australia, smaller Japanese companies have been both pressured and encouraged to do acquisitions offshore.

The pressure comes from the practical necessity of looking for new sources of return in a negative-interest-rate and negative-growth environment and a declining domestic market with an ageing population; the encouragement comes from Japanese governmental tax considerations designed to induce the nation's businesses to invest offshore.

With a smaller and shrinking consumer base, Japanese corporations are being pressured to search abroad not just for growth, but for long-term survival.

Part of Prime Minister Shinzo Abe's ongoing "Abenomics" reform program was the aim to push more Japanese companies abroad in search of growth and new ideas.

Japan's Prime Minister Shinzo Abe delivers a policy speech at the start of the extraordinary Diet session in Tokyo on January 28, 2019.

Photo by Martin BUREAU / AFP)

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Japanese investment in Australia has a long history.

It began with Federation, in 1901, when the trading house Mitsui & Co. established its first Australian office in Sydney: it was exporting commodities such as wool, cotton, wheat, and non-ferrous metals right up to the outbreak of World War II.

Mitsui returned to Australia in 1955, just two years before the signing of the landmark Australia–Japan Agreement on Commerce in 1957, when both countries realised that the future of the region was best assured through mutual prosperity.

From the early 1960s, Japanese investment pioneered Australia's mining and resources sector to a global market.

Some of Australia's largest export industries – including iron ore, coal and liquefied natural gas (LNG) – were underpinned by Japanese investment and, in return, exports of these resources helped to power Japan's post-war industrial miracle.

INPEX President and CEO Takayuki Ueda inspecting the onshore facilities of the $54 billion Ichthys LNG Project.

Photo: INPEX/pool

In 2015, just months before it was privatised and listed, state-owned Japan Post Holdings bought Australian logistics firm Toll Holdings for $6.5 billion.

In the same year, Japanese recruitment giant Recruit rolled up Australian staffing company Chandler MacLeod Group and IT recruitment firm Peoplebank, for a combined $US307.1 million.

In 2017, Daiwa House, Japan's largest homebuilding company, acquired the Rawson Group. In 2018, Japanese website marketplace company Lifull bought Australian digital real estate classified advertising group Mitula, for US$140 million, and Mitsubishi UFJ Trust & Banking Group (MUTB) agreed to buy the global asset management business of Commonwealth Bank of Australia (CBA), Colonial First State Global Asset Management (CFSGAM), for $4.1 billion.

In January this year, Japanese paper giant Kokusai Pulp & Paper (KPP) bought Spicers Paper, the former PaperlinX, in a $146.7 million deal set to go through in July, subject to shareholder approval.

As our recent Report points out, there are a host of factors driving this.

Japanese corporations are using cross-border M&A to gain market share; to add to existing technological advances to maintain a competitive edge – particularly against Chinese competitors – as well as to acquire international brands and intellectual property.

And Japan Inc. is also fully prepared to invest in infrastructure across target markets to ensure that these countries remain sustainable buyers of Japanese goods and services.

Japanese companies are prepared to make meaningful investments in Australia, across a much broader range of industries than ever before. They no longer see Australia in terms of commodities and property: they are interested in products and technologies that have relevance in the Japanese market; they are interested in fast-moving consumer goods (FMCG); they are interested in services businesses where they can use their skills to help the Australian business grow.

The MUTB/CFSGAM acquisition is a good example of the latter. It also demonstrates the Japanese desire to internationalize their businesses, and the attractiveness of Australian companies with global operations.

We expect to see further acquisitions by Japanese acquirers into the Australian financial services in the next 12 months.

Japanese corporates know that it is a buyer's market in the wake of the Hayne Royal Commission, and they are well aware that in financial services and insurance they can leverage their skills while expanding outside Japan.

We expect to see Japanese corporations becoming more ambitious in the markets and regions where they seek growth – and Australia is definitely one of these.

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