This paper develops an agency-transaction cost model of foreign direct investment (FDI) by Japanese MNEs in Australian manufacturing, financial services and tourism in the 1990s. A survey questionnaire, constructed using the theory, was completed by 69 Japanese MNEs operating in Australia. Based on the questionnaire information, this study uncovers the staged involvement in the Australian economy by Japanese MNEs. The firm-specific ownership advantages and location-specific determinants leading to Japanese FDI are analysed, with comparisons across industry sectors and time. Strategic factors in the FDI decision are found to be unimportant. The paper also investigates the choice of licensing as an alternative type of involvement in Australia by Japanese MNEs.