

PACIFIC ECONOMIC PAPER NO. 284

OCTOBER 1998

**Attracting FDI: Australian Government Investment  
Promotion in Japan 1983–96**

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The Australia–Japan Research Centre is part of the Asia Pacific School of Economics and Management, The Australian National University, Canberra.

ISSN 0 728 8409

ISBN 0 86413 232 8

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Edited by Sarah Leeming  
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# ATTRACTING FDI: AUSTRALIAN GOVERNMENT INVESTMENT PROMOTION IN JAPAN 1983–96

The trading relationship between Australia and Japan has been traditionally based on commodity exports, and a key Australian policy goal in the past has been to encourage Japanese investment in this sector in the hope of stabilising commodity trade. A serious deterioration in Australia's terms of trade from the beginning of the 1980s resulting from a number of events – the global recession, the restructuring of Japanese industry and changes in Japan's relations with the United States and the European Community – showed the need to diversify exports to Japan away from a heavy reliance on commodities and raw materials towards higher value-added primary products, manufactures and services.

The attraction of Japanese investment into these sectors was an important part of this strategy. Japanese manufacturing investment was distinctly lacking in the mid-1980s and the Hawke and Keating governments used various methods to inform Japanese business of investment opportunities, provided tax incentives and research and development support for transnational corporations, and created the Investment Promotion Section (IPS) within the Tokyo office of Austrade to help promote investment.

This paper shows how the IPS, which was established in 1991 to attract Japanese investment in manufacturing, high technology and processing industries, proved particularly successful in facilitating investment. This was especially true after its restructure in early 1994 when it moved away from broad educational efforts towards specific investment projects which matched potential investors with Australian firms. With a focus on areas in which Australia held comparative advantages, such as processed foods and further processing of raw materials, the effectiveness of investment promotion increased dramatically and Australian exports to Japan and the Asia Pacific region expanded considerably.

## **Introduction**

When the Hawke government came to power in March 1983, it made some strong criticisms of the relationship between Australia and Japan. Lionel Bowen, the Deputy Prime Minister, complained that 'The Japanese must be laughing all the way to the Tokyo Bank, because they've been able to come in and control the resource development of this country' (*Age*, 9 May 1983). This mood was short-lived, however, and although disputes continued over the next few years, the Hawke, and then Keating, governments pursued a stable and non-confrontational relationship with Japan.

Prime Minister Hawke, and other ministers, conducted a series of speeches during 1983 and 1984 to define the central pillars of the policy towards Japan. There was much continuity with the Fraser government's policy in the focus on bilateral trade issues, but the Hawke government, facing both new and established domestic and external challenges, was eager to develop alternative bilateral and multilateral initiatives. The restructuring of Japanese industry, which had gathered momentum during the late 1970s, had serious implications for Australian exports to Japan, and ongoing changes in the international economy, particularly in economic and trading relations between the United States and Japan, also had an impact on Australia's trade with Japan.

The overriding policy concern regarding Japan for the Hawke government in 1983 was to bring stability and predictability to the bilateral trading relationship, and this remained a centrally important issue for the Keating government.<sup>1</sup> In particular there was an attempt to diversify exports to Japan away from a reliance on commodities and raw materials, by increasing exports of processed/manufactured products and services.

Increasing global economic interdependence in the late 1970s and early 1980s posed many challenges to the Australia–Japan trading relationship.<sup>2</sup> The global recession, the restructuring of Japanese industry, and changes in Japan's relations with the United States and the European Community all presented Australian policy makers with a new environment in which to deal with Japan. Unlike in the 1950s and 1960s, the assumption that Australian economic growth was synonymous with Japanese economic growth became increasingly tenuous (Meaney, Matthews and Encel 1983: 29).

As a result of these events, there was a serious deterioration in Australia's terms of trade from the beginning of the 1980s. From 1976 to 1983 the share of exports to Japan as a percentage of total exports declined from 36 per cent to 26 per cent (Australian Bureau of Statistics 1984a). Australian exporters also faced new challenges from countries, particularly the United States, which were using political pressure to resolve trade negotiations with the Japanese (Horne 1992: 86). The Australian trade surplus with Japan halved during this period and appeared to be heading towards balance (Tweedie 1994: 174). The value of Japanese imports of Australian goods rose little in real terms over the early 1980s (Meaney, Matthews and Encel 1983: 26), and Australia's share of Japan's imports fell from 8 per cent in 1970 to less than 6 per cent in 1983.

Australia–Japan trade was still strong in 1983. Japan took 26 per cent of Australia's exports and two-way trade totalled more than A\$10.1 billion (*AFAR* October 1983), but while

Australia still supplied a large proportion of Japan's commodity needs, almost all commodities faced pressures in maintaining market share. Australia supplied 50 per cent of Japan's iron ore imports, 40 per cent of its coking coal, 80 per cent of its sugar, 60 per cent of its beef, and 80 per cent of its wool, but all these commodities were showing low or negative growth (Horne 1992: 87). Just four commodities, iron ore, coal, wool and beef,<sup>3</sup> accounted for more than 62 per cent of exports<sup>4</sup> to Japan – a situation that can be termed 'commodity dependence'.

In response to these problems, the government reformulated its trade strategy, seeking to diversify trade with Japan away from raw and barely processed foods, minerals and metals towards higher value-added primary products, manufactures and services. The emphasis was on exporting services and products to high growth sectors in the Japanese economy.

Changes to trade and investment policies were only part of the Labor government's wider plan to transform the Australian economy from one which was inward-looking, inflexible and specialised in the export of primary products, to an open, market-responsive economy with a more diverse pattern of exports. Domestic economic reform included the unilateral reduction of levels of protection on manufactured products, increasing participation in multilateral trade negotiations, and a revised approach to foreign investment policy (Garnaut 1994). The focus of this paper, however, is on the Australia–Japan trading relationship, rather than on domestic economic policy, particularly on how inward investment was seen by the Federal government as a way of increasing value-added exports to Japan,<sup>5</sup> and on the strategies used to achieve this aim.

## **Formulating an investment strategy**

At the Australia–Japan Relations Symposium in Canberra in 1984, Prime Minister Hawke announced that as a supplement to the Japan Market Strategy,<sup>6</sup> which had been launched a year earlier, his government would seek the establishment of new Japanese manufacturing facilities in Australia, and an expansion of established industries.

The Hawke government was not the first to seek Japanese investment. Although foreign investment had been a contentious issue under the Whitlam government, the Fraser Liberal-Country Party viewed investment from Japan as a means to promote domestic economic development, and to encourage predictability in the trading relationship (although it did maintain certain controls on the inflow of capital after 1975).

In a policy statement in 1976, the Fraser government declared that 'Australia looks to Japanese investment to bring greater stability to the trading relationship' (*AFAR* July 1976). In particular it was hoped that investment in the commodity sector would promote stability and predictability in commodity trade, particularly with regard to long-term contracts (Rix 1983).

The Hawke government's investment promotion efforts also sought to promote domestic economic development, but it had other, very different, goals. It looked to Japanese investment to help modernise and internationalize the Australian manufacturing sector, as part of its industry policy, and to help reduce Australia's reliance on raw materials exports. This was a marked change from the Fraser government's focus on attracting Japanese investment to the commodity and resource sectors in order to promote stability in commodity trade.<sup>7</sup>

Japanese direct investment had mainly been in the commodity sector, concentrating in unprocessed raw materials, particularly mining. Initially, the Hawke government was highly critical of Japanese investment in the commodity sector, suggesting that the intention of investors was not just to ensure stability of supply, but to hold down prices. As Japan's demand for commodities continued to fall despite its strong equity holdings, the ability of investment to secure long-term contracts was also questioned (Hawke 1983). The government continued to seek Japanese investment in the unprocessed commodity sector, but directed the vast majority of its efforts towards encouraging investment in the manufacturing, processed foods and processed raw materials sectors.

Japanese investment was seen by the Hawke government as a way of helping to modernise domestic industry and to reduce Australia's heavy reliance upon a small number of raw and barely processed commodity exports. It wanted to lock the Australian economy into the changing Japanese economy by targeting exports to high growth sectors. Japanese investment in manufacturing would increase affiliate exports of higher value-added exports to Japan and other destinations. This policy remained consistent throughout the Labor government's period in power, as asserted by Foreign Minister Gareth Evans in November 1993:

Australia is concerned to diversify our trade, and in particular to increase the share of manufactures and high-tech products in our exports to Japan. Increased Japanese investment in Australia can play a major part in the further broadening of our economy. (Evans 1993)

## **The initial approach: the pursuit of Japanese investment 1983–91**

The goal of expanding Japanese investment in manufacturing was first enunciated as government policy at the Australia–Japan Relations Symposium in 1984, but it was not until May 1986 that the Australian and Japanese Governments agreed to exchange investment missions (*AFAR* May 1986).

In November 1986 an investment mission to Japan was led by the Minister for Industry, Technology and Commerce, John Button. The mission comprised representatives from seven key manufacturing sectors. The sectors were automotive components, processed food, telecommunications, computer software, processed minerals, biotechnology, and wool processing and wool textiles (Button 1986a).

The major objectives of the mission were to demonstrate the capabilities of Australian industries in these sectors and to outline the structural changes that had taken place in the Australian economy since 1983, in particular financial deregulation, the relaxation of foreign investment guidelines, and taxation reforms, especially the 150 per cent tax deduction for research and development spending (Button 1986a).

To encourage the Japanese to re-examine some of their perceptions about Australia, the mission outlined the improved industrial relations climate that had developed under the Labor government, and detailed the tripartite approach to industrial development through the operation of the Australian Manufacturing Council (Button 1986b).

A visit from a Japanese mission followed in February 1987. Comprising of more than 50 business representatives, this was the largest mission of its kind ever to be dispatched by Japan (*AFAR* January 1987). To publicise the mission's findings, in June 1987 Japan's Ministry of International Trade and Industry (MITI) held seminars in several major Japanese cities on investing in Australia (Miller 1987).

While the Australian investment mission to Japan did not intend to gain immediate results it did make, according to Button, 'significant progress in shifting Japanese perceptions about the capabilities and competitiveness of Australian industry' (Miller 1987).

The degree to which any progress was made towards changing Japanese perceptions of Australia as a location for manufacturing investment became questionable when the Japanese investment mission released its own report.

Despite acknowledging the scope for short-term investment opportunities in the property, tourism and financial sectors, as well as in some manufacturing areas, such as automobile parts and mineral processing (Miller 1987), the Japanese report was certainly less

optimistic than the Australian Government had hoped for. According to Mr Amaya, the leader of the Japanese investment mission, Australia's manufacturing industries would have to become more export-orientated in order to attract significant flows of Japanese investment. Furthermore, while the mission agreed that Australian industrial relations and wage-setting procedures had changed, it was not convinced these measures had gone far enough (Australia–Japan Business Forum 1987: 23).

The mission highlighted the ongoing restraints arising from high interest rates, tariffs, external debts and limited markets, and considered that Australia's lack of 'rigour' and its belief it was the 'lucky country' would have to be redressed (Japan Overseas Enterprises Association 1987: 16–17).

In a report on Australia–Japan economic relations published following its own economic mission to Japan, the Australia–Japan Business Forum supported these views, finding that

With the exception of the resources area, real estate, farms and tourism, we are not a natural host for Japanese investment... In the extensive Mission discussions about direct manufacturing investment offshore, Australia was never mentioned. We are unimportant to them in this sector. (Australia–Japan Business Forum 1987: 23)

The AJBF highlighted a number of factors hindering Japanese investment in Australian manufacturing industries, stating 'we cannot compete with low labour cost producers such as the Asian NIC's. Nor can we offer a significant market (such as the United States), nor easy access to a major market (such as Canada)' (Australia–Japan Business Forum 1987: 23).

It seemed the Hawke government had made little impact on prevailing Japanese views of Australia as an unattractive destination for manufacturing investment. For Australia to effectively use investment to address prevailing patterns of commodity dependence, investment first needed to take place, and it had been distinctly lacking by the mid-1980s.

While continuing to inform Japanese Government and business representatives of industrial reforms through the operations of Austrade in Tokyo, the Labor government also undertook a series of initiatives after the release of the reports of the investment missions, including regular trade and investment seminars in Australia and Japan, visits from journalists (to inform the Japanese media about the industrial climate in Australia), a regular trade and investment newsletter, and frequent visits by business and government representatives to Australia and Japan (Gray interview, 14 March 1996).

The Investment Promotion and Facilitation Program (IPFP) was established in 1987 in response to the findings of the missions. Administered by the Department of Industry, Technology and Commerce (DITAC) and delivered by Austrade, the IPFP was a key element in the more active approach to investment development. It promoted Australia as a location for manufacturing and services investment, and developed partnerships between Australian and foreign companies (Australian Labor Party 1983: 35). In 1988 an investment commissioner was appointed to the Tokyo Embassy to promote Australia as an attractive investment destination, for example by assisting trade and investment missions and organising seminars (Gray interview, 14 March 1996).

A new Investment Promotion Section (IPS) was created within the Tokyo office of Austrade in 1991. In contrast to the IPFP, it aimed to attract Japanese investment in specific areas, such as manufacturing, high technology and processing industries, and to match potential investors with Australian firms (Muldoon interview, 20 May 1996).

In line with the government's trade diversification goals, the IPS was designed to: 'promote Japanese investment in the Australian manufacturing and service sectors... to take Australia into value-added processing and away from pure commodity trade' (Gray interview, 14 March 1996). According to Leonie Muldoon, Senior Investment Commissioner at Austrade in Tokyo, it was not until the restructuring of the IPS in early 1994, however, that the section began to pursue a more focused approach – most of its early work involved 'general marketing efforts to promote Australia as a good investment destination' (Muldoon interview, 20 May 1996).

During the late 1980s the Hawke government also invited Japanese companies to participate in its Partnership for Development Program, which offered generous tax incentives and research and development support for transnational corporations which established manufacturing facilities in Australia. The National Electronics Corporation (NEC) was the first Japanese company to achieve partnership status with the Federal government under this scheme in June 1989, announcing annual investment of approximately A\$40 million over seven years towards the development and production of advanced telecommunications products (*Australian Financial Review*, 8 June 1989; *Age*, 8 June 1989).

Perhaps the most ambitious investment project pursued by the Hawke government over this period in an attempt to broaden and diversify the Australia–Japan trading relationship was the Multifunction Polis (MFP).

From the time of its conception in 1987, the MFP was variously described by representatives of the Hawke government as ‘potentially the most significant development in Australia, Japan relations for four decades’ (*Australian Financial Review*, 23 July 1988), ‘an innovative and far-seeing concept’ (Dalrymple 1991), and as a ‘barometer of the diversification of [the Australia/Japan] economic relationship’ (Evans 1991a). The details of the development of the project have been outlined in great detail elsewhere (McCormack 1991; Inkster 1991; Hamilton 1991; Mover and Sugimoto 1990). This study focuses on the part the MFP played in the government’s plan to diversify the Australia–Japan trading relationship.

The MFP was to be a multinational futuristic city constructed in Australia, focusing on high technology industries, research and development, medical research, education, recreation, sports and tourism, where the needs of approximately 100,000 people would be met in a single location. In September 1987, MITI, in conjunction with 48 Japanese companies and research groups, presented the basic proposal to the Hawke government. MITI and Australia’s Department of Industry, Technology and Commerce (DITAC) developed the proposal, identifying elements which both countries considered as essential to their interests. At first Australia’s response and the feasibility estimates were drawn up in a fairly ad hoc, unwieldy committee structure, and it was not until mid-1988 that a more functional approach was adopted (McCormack 1991: 41–42).

Computer and information technology, biotechnology and health sciences, and new and rare materials technology were identified as strategic ‘high-tech’ industries, while the project would also foster services trade in the areas of sport, recreation and tourism (McCormack 1991: 39). According to John Button:

An MFP could provide an internationally recognised focus for Australian research and development, and the pursuit of scientific and technological excellence, and so attract overseas capital and collaboration in fields with longer-term commercial prospects. Development of core MFP industrial activities could also hasten structural changes in Australia towards a more export oriented economy which can play a strategic role in the Asia–Pacific region. (Button 1990a)

Given Japan’s leadership in the initial stages of the project, and the persistent efforts of the Hawke government to secure this type of investment, it was not surprising that the

government enthusiastically embraced the MFP, hoping it could hasten structural changes in Australia.

The MFP came to represent an intense Australian effort to secure Japan's commitment to Australia. It seemed to offer a strong opportunity to diversify trade and economic links with Japan, and the world, and to address the situation of commodity dependence which had emerged over the previous decade.

The Hawke government put considerable time and resources into investigating and promoting the project between 1988 and 1991. In January 1988, Australia and Japan agreed to conduct a joint feasibility study. In July, a joint steering committee was established and national committees were set up in both countries to coordinate corporate interest. About 80 corporations on each side were involved, each paying an annual fee of A\$10,000 which, added to matching funds from the two governments, funded the joint secretariat and joint steering committee (*Age*, 23 July 1988).

Despite the eagerness of the Hawke government to support the MFP, the project was beset with difficulties. The Liberal-National Party Coalition intensely opposed the idea, as did the Australian Democrats, making the MFP an issue in the 1990 Federal election.

In a press release issued by Andrew Peacock, the Leader of the Opposition, the Liberal-National Party Coalition declared the MFP 'would not go ahead under a Coalition government'. The Coalition saw the MFP as being 'socially divisive' and as encouraging a domestic 'backlash against foreign investment and immigration generally', and believed that the MFP 'would achieve nothing that could not be achieved through means already available such as direct investments, scientific exchanges and joint ventures' (Peacock 1990). The Australian Democrats declared that 'the proposal is unacceptable on political, economic, social and environmental grounds' and 'should be scrapped' (Haines 1990).

Other problems plagued the project: the concept was vague; its development was surrounded by secrecy and a lack of information,<sup>8</sup> combined with public relations manipulation of what information there was; the media for a long period showed no interest at all, then sensationalised the idea; the bureaucratic consultants and think tank members often strayed from the original Japanese proposal so that a range of conflicting ideas grew and circulated; state struggled against state to host the project; and, perhaps most importantly in terms of the Australian Government's goal to diversify the Australia-Japan economic relationship, the Japanese contribution to the project became increasingly nominal (McCormack 1991: 34-65; Inkster 1991: 41-66).

Although Japan made the original proposal, its further role was 'more marginal than real' (McCormack 1991: 54). This was especially true after August 1990 when a revised organisational structure was adopted to 'internationalize' the project. An international advisory board was created, with members drawn from the United States, Germany, France, the United Kingdom, and other European countries, as well as from Taiwan, Thailand, Singapore and Indonesia (Button 1990a).

The Japanese side was relegated to an increasingly powerless position, and throughout 1990 and 1991, when the key planning tasks were proceeding in Adelaide, the site chosen for the MFP, there was effectively no Japanese input. By late 1990, Japan was 'structurally eliminated from any part in decision making' (McCormack 1991: 54). In the government press release announcing the go-ahead of the MFP in July 1991, any mention of Japanese involvement in the final project was conspicuously absent (Button 1991).

Given the desire of the Hawke government to increase its involvement with Japan, it is difficult to understand why the Australian side had increasingly excluded Japanese involvement in the project. According to McCormack:

The explanation for Australia's relegation of a lessened role for Japan lies in the different agendas of Federal and State interests in Australia, and perhaps the different wings of Australia business, though also partly in the disastrous public reception the project had in Australia in the preceding years and the resulting need to play down the Japanese role. (McCormack 1991: 55)

Whatever the reason, Japanese involvement in the MFP project assumed ever decreasing significance, especially after the Japanese 'bubble economy' burst in the early 1990s and the outflow of Japanese capital declined considerably (Sekine 1991: 11). With the drop in Japanese input into the project, the Labor government's objective of diversifying Japanese involvement in the Australian economy suffered a considerable setback. These developments led Japanese economist Sekine Masami to comment:

In the 1980s... it was suggested that Australia may have also attracted Japanese investment in high-tech and knowledge intensive industries, but with the demise of the Multi-function Polis proposal, this possibility has become less likely. (Sekine 1991: 11)

While the Labor government still believed the MFP to be an important barometer of its ability to diversify and upgrade the sophistication of the Australia–Japan trading relationship, doubts were becoming clearly evident by mid-1991, when Gareth Evans declared:

...while it [the MFP] is an important barometer, it is not the only barometer, and it would be an unhappy outcome if Japanese higher-technology investment in Australia were to depend wholly on the success or failure of the project. (Evans 1991b)

The grand dreams of a ‘special’ economic relationship with Japan, which had been envisioned by the Hawke government on the birth of the MFP concept in 1987, had, for a variety of reasons, failed to materialise. After 1991, the MFP project barely rated a mention in day-to-day Australia–Japan relations, and the federal government turned to other areas of investment promotion, renewing earlier efforts to highlight Australian industrial reforms and to promote direct investment.

### **From 1992 to 1996: a revised approach to attracting Japanese investment**

After 1992 the Labor government revised its approach to Japanese investment. It continued to publicise its industrial relations reforms and Australia’s suitability for investment, and adopted a more pro-active investment marketing campaign.

In January 1992, Senator Peter Cook, the Minister for Industrial Relations, led a tripartite mission to Japan, which included government, business and labour representatives. Its goals were to highlight the changes in Australian industrial relations that had taken place over the previous decade and to investigate export opportunities, in the hope that Japanese investment could be diversified from ‘essentially unprocessed primary products’. Senator Cook asserted that it would be ‘detrimental to the interests of Australia’ if Japan’s pattern of investment continued unchanged, and did not respond to the policy adjustments of the previous decade (Cook 1992).

Senator Cook’s comments revealed the government’s fear that commodity dependence could worsen if trading and investment patterns were not altered. Japanese investors were invited to look at investing much more in manufacturing industries, rather than concentrat-

ing investment – which would certainly not be rejected nonetheless – in the traditional areas of mining, agriculture and tourism (Cook 1992).

Sectors that the government identified as Australian strengths included the downstream processing of minerals, food processing, and the education sector (utilising education services and medicine/health care, and high technology communications and transport) (Tripartite Mission press conference 1992: 6).

Senator Cook acknowledged it was difficult both to attract this investment, and to direct it towards increasing Australian manufacturing exports. Speaking to Australian journalists at the Tokyo American Club in January 1992, he admitted that Japanese investors considering investment in Australian manufacturing thought ‘in terms of an investment to supply the domestic market in Australia, not as an investment to supply Japan or other parts of the world’ (Tripartite Mission press conference 1992: 9).

A study by Peter Drysdale showed that exports of Japanese manufacturing affiliates represented only 19.4 per cent of their total sales in 1980, and this declined to 10.9 per cent of total sales in 1990. While 13.8 per cent of total sales went to Japan in 1980, this share had fallen to 9.5 per cent by 1990 (Drysdale 1993: 30–31). A study of the affiliates of 21 Japanese Multinational Enterprises (MNEs) revealed that the average value of their exports was A\$1.5 million, which was about half the value of average exports of non-Japanese MNEs in Australia (Hutchinson and Nicholas 1994: 6).

In an attempt to change Japanese perceptions towards investment in the Australian manufacturing sector, the Tripartite Mission recommended that an industrial relations attache be appointed to the Australian Embassy in Tokyo, and that industrial relations exchanges between the two countries be increased. Both recommendations were endorsed by the National Labour Consultative Council in September 1992 (*Weekend Australian*, 19–20 September 1992). In the same month, the government launched a Japanese language industrial relations publication designed, in the words of Senator Cook, ‘to show Japanese industry, government and media the dramatic improvements that had taken place in Australian industrial relations since 1983’ (Cook 1991).

Between 1993 and 1996, the Labor government continued to promote industrial reform as a reason for investing in Australia. Senator Cook, then Minister for Trade, spoke on industrial relations and investment prospects when he visited Japan as part of the ‘Celebrate Australia’ campaign in November 1993 (Cook 1993), and Prime Minister Keating highlighted Australia as a ‘high-quality, cost-effective place to do business’ during his visit to Japan in May 1995 (Keating 1995).

A more direct approach to attracting Japanese investment to the manufacturing sector was adopted over this period, particularly through the Investment Promotion Section.

In the first few years of its operation the section held seminars in Japan on Legal Aspects of Investing in Australia, Investing in Tasmania, Labour Relations, Processed Foodstuffs, and Rare Earths. Six general seminars were also held on investing in Australia. By early 1993, however, the government realised that 'the days of general marketing, and that being effective, had gone' and a new investment commissioner was appointed to Tokyo to restructure the IPS (Muldoon interview, 20 May 1996).

An internal management review of the Investment Promotion and Facilitation Program by a team from DITAC, the Bureau of Industry Economics (BIE) and Austrade during 1991–92 resulted in a reorientating of its direction, scope and operations, and a restructuring of the IPS (Department of Industry, Science and Technology 1992: 12–16; Bureau of Industry Economics 1996: 20–21). From early 1994 the emphasis of the IPS moved away from broad educational efforts to specific investment projects (Muldoon interview, 20 May 1996).

The IPS used proactive marketing and promoted specific investment projects in order to attract investment (Gray interview, 14 March 1996). It identified Australian companies seeking investment, worked with them to design the initial investment proposal, and then approached Japanese companies in matching sectors. Staff with a high level of Japanese language proficiency targeted Japanese companies, and key personnel within these companies, and directly delivered investment proposals. The IPS then coordinated negotiations between the Australian and Japanese companies, and assisted with arrangements such as product design, quality control issues and contractual agreements. The aim of the IPS was to 'address the fact that the markets did not work perfectly, that all knowledge was not readily available, and that Japanese companies did not logically think of Australia as a destination for investment' (Muldoon interview, 20 May 1996).

The investment promotion climate in Japan in the early 1990s was extremely competitive, with more than 200 investment promotion organisations from various countries in Tokyo alone, and according to Geoff Gray, Austrade's Senior Trade commissioner in Japan, this meant that general Australian efforts could easily be missed in the deluge of other promotional activities (Gray interview, 14 March 1996).

The restructuring of the IPS sought to address this situation. In the words of a senior Austrade representative, the Australian Government increasingly realised that unless Australia was 'out there knocking on doors saying that Australia had 'X' product to offer, and

facilitated the investment process either in R&D or licensing, investment simply tended not to happen' (Muldoon interview, 20 May 1996).

By early 1996, the Investment Promotion Section had been expanded to include three Investment Commissioners in Tokyo and supporting staff in regional offices, and had a budget of A\$2.15 million (Bureau of Industry Economics 1996: 22).

The IPS incorporated a range of investment briefs, with a strong emphasis upon the manufacturing, foodstuffs, processed primary products, and service sectors (Muldoon interview, 20 May 1996).<sup>9</sup> These briefs closely paralleled the sectors identified in the Investment Promotion and Facilitation Program (IPFP).<sup>10</sup>

In encouraging Japanese investment in the processed primary products area, particularly in minerals, foodstuffs and timber resources, the IPS aimed to 'build on Australia's competitive advantage and assist Australian manufactured products in gaining international market share' (Australian Embassy Tokyo 1996a: 2).

While the Investment Promotion Section did not reject Australian or Japanese enquiries regarding Japanese investment in the unprocessed raw materials and commodity sectors, the vast majority of its time and resources were directed towards the manufacturing sector, in line with the Federal government's trade and investment diversification goals.

Of the various investment projects that were handled by the IPS by early 1996, only a small number were in unprocessed minerals or unprocessed agricultural products. When the IPS was involved in these areas, the emphasis was upon 'new strategic industries where Australia had not traditionally had large capacity'. In these sectors 'diversifying into new areas' remained the priority of the IPS, again corresponding with the government's broader trade diversification goals (Muldoon interview, 20 May 1996).

A strong emphasis of the IPS was on attracting Japanese investment to Australian industries which sought to expand exports to Japan. Austrade in Japan viewed Japanese investment in terms of increasing Australian exports in a wider regional sense, and in terms of providing employment, investment capital and potential spillovers to other industries, but also had in mind the goal of diversifying Japanese investment away from the areas of raw materials, commodities and minerals (Muldoon 1996).

## **Outcomes**

The adjustment in investment policy resulted in some significant successes. Under the Partnership for Development Program, investment from NEC contributed substantially to

exports of office machines, computers and telecommunications, which rose from A\$27.6 million in 1989 to more than A\$92.5 million in 1995 (Department of Foreign Affairs and Trade 1995: 186).

The restructuring of the Investment Promotion Section of Austrade Japan from early 1993 was the most effective policy change. With the recruitment of specialist personnel, an expanded budget and an emerging focus on areas in which Australia held comparative advantages, such as processed foods and further processing of raw materials, the effectiveness of investment promotion increased dramatically.

Major projects facilitated by the IPS included investments of A\$200 million by Mitsui Company in forestry manufacturing, A\$67 million by Shin-Etsu Company in mineral processing, and A\$49 million by Meiji Milk Limited in powdered milk production. These projects were expected to contribute more than A\$183 million annually to exports. The attraction of Japanese fibreboard manufacturer Hokushin Limited to a A\$90 million joint-venture project in Tasmania resulted in the establishment of fibreboard exports to Japan worth an estimated A\$77 million a year (Muldoon interview, 20 May 1996). Other successes included facilitating Japanese investment in areas such as food processing, automotive parts and scientific instruments, all with potential export spin-offs (Australian Embassy Tokyo, 1996b). Table 1 indicates the focus of IPS successes since early 1994.

In an extremely competitive investment promotion environment, the IPS attracted major investors to Australia, having a direct and dramatic impact upon Australian exports. In addition to the direct benefits of investment by Japanese firms, it was also likely their competitors would also consider similar investment ventures.

## **Conclusions**

The goals and strategies of the Hawke and Keating Labor governments towards attracting Japanese investment differed considerably from those of the Fraser government. The Fraser government's aim was to attract Japanese investment primarily to the commodity and resource sectors in order to promote stability in established commodity trade.

The Hawke government also wished to encourage stability in established bilateral trade, but in addition sought to promote domestic economic development. By attracting Japanese manufacturing investment it was hoped there would be an increase in value-added exports to Japan, thus locking the Australian economy into the economic transformation

**Table 1 Investment promotion section Tokyo successes, February 1994 – May 1996**

Company	Business Sector	Investment Capital (A\$)	Annual Export Revenue (\$A)
Sakata Beika	Food Processing	6 million	8 million
Hino Motors	Automotive	8 million	N/A
Stehr Group	Fishery	1.6	7.8 million
Bao Shan	Mineral Trading	0.6 million	80 million
Hokushin Co Ltd	Forestry Manufact.	90 million	77 million
Enya Systems Ltd	Hightech (QLD)	1.3 million	N/A
Enya Systems Ltd	Hightech (ACT)	0.7 million	N/A
Konaka Corp.	Hightech	0.6 million	N/A
Meiji Milk Ltd	Milk Powder Manf.	49 million	60 million
Shin-Etsu Co. Ltd	Mineral Process.	67 million	43.4 million
Mitsui Co. Ltd	Forestry Manufact.	200 million	80 million

*Source:* Austrade Tokyo, IPS Successes Since February 1994, Unpublished Paper.

occurring in Japan. It was hoped that this investment would help to modernise and internationalize Australian industry, and result in increased exports to other regions.

However, a truly effective method of attracting such investment was lacking until at least the early 1990s.

Early efforts at investment promotion lacked focus, and were directed at promoting Australia as an attractive base for general investment, rather than for specific projects. It was not until Austrade's Investment Promotion Section was restructured that a more systematic method of investment promotion was adopted. While the development of such a system took a long time, the success of this approach was obvious. In less than three years the IPS facilitated the expansion of Australian exports to Japan and the Asia Pacific region to the value of more than A\$300 million, and continued to be involved in promoting a range of potentially lucrative investment projects.

## Notes

- 1 This did not occur to the exclusion of other issues. Both governments defined and enunciated their security policies towards Japan regularly over this period, as had the Fraser and Whitlam Governments before them. This policy, which was defined by the Minister for Foreign Affairs, Bill Hayden, in Tokyo in July 1983, remained almost unchanged for the next decade and was based on Australia's desire to maintain the status quo of the regional strategic environment. Australia sought to preserve Japan's role as an economic rather than a military power, and thus ensure the region's strategic status quo and avoid a costly and potentially destabilising regional arms race. The government also sought to broaden and strengthen the political relationship, increasingly seeking the cooperation and support of Japan on a range of regional and international issues. Japan was viewed as a valuable and influential partner for Australia, and Australian policy makers regularly sought Japanese support, particularly in multilateral forums such as the GATT. Australian policy makers also sought to broaden shared political interests in order to increase Australian influence in an otherwise asymmetric relationship. See Rix (1992), p 204.
- 2 Keohane and Nye (1997) define interdependence as mutual dependence, or situations in world politics characterised by reciprocal effects among countries or among actors in different. For Australia, the evolution of interdependence during the 1960s and 1970s had most clearly manifested itself in Australia's increasing sensitivity to external economic events beyond its control, and by the mid-1970s this sensitivity was most clearly apparent in Australia's relationship with its major trading partner, Japan.
- 3 For merchandise trade figures and details see Australian Bureau of Statistics (1984a). For services trade data see Ministry of Finance, Japan, Database Service.
- 4 Total Australian exports are defined as a combination of both merchandise exports and service credits.
- 5 Other efforts included the marketing of Australian products and services in Japan, particularly in the manufacturing and service sectors, and efforts to gain greater access to the Japanese market for Australian exporters. This was achieved by pursuing trade liberalisation at both the bilateral and multilateral level.
- 6 In late 1983 the government announced the launch of its Japan Market Strategy which was designed specifically to facilitate the entry of Australian exporters to Japan, and most importantly to diversify the base of Australian exports away from a heavy and sensitive reliance upon minerals, raw materials and commodities. See Australian Department of Trade (1985), p. 1.
- 7 While it is true that the Fraser government was not very pro-active in attracting FDI, this is not to suggest that it would not have been very receptive to new investments in manufacturing and other sectors.
- 8 For example, in a press statement in July 1988, the Minister for Industry, Technology and Commerce, John Button, declared 'he had deliberately not talked about what the realised MFP would look like, or where it would be located, or what benefits it will bring to Australia'. According to the Minister, 'Those questions [could] be left for detailed discussion during the feasibility stage' (Button 1988).

- 9 IPS investment briefs included Seafood; Confectionery; Hides, Skins and Leather; Textiles; Fashion and Apparel; Boats (Pleasure), Ferries and Cruise Boats; Marinas and Cruise Boats; Marinas and Leisure Related Projects; Omiyage (Giftware); Biotechnology; Pharmaceuticals; Medical and Hospital Equipment; Building and Construction; Furniture; Processed Forestry Products; and Processed Minerals.
- 10 The IPFP originally focused on processed food, mineral and chemical based industries, waste and environmental management, textiles and tanning, information technology and telecommunications, waste and environment management and creating Asia Pacific regional headquarters. Following a meeting of Commonwealth, state and territory program officials in late 1993, the sectoral approach was reviewed in the view that the initial sectors were too broad. It was agreed that while the sectoral targets would remain fluid, an emphasis would be placed upon food processing, information technology and communications, and mineral processing (Australian Labor Party 1993; Bureau of Industry Economics 1996: 23–24).

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