

PERSPECTIVES ON JAPANESE INVESTMENT, EMPLOYMENT AND MANAGEMENT IN AUSTRALIA

In the postwar period Japanese foreign direct investment in Australia has played a key role in strengthening trading links between the two countries and influencing the industrial structure of Australia. This paper surveys the pattern and intensity of Japanese investment in the 1990s as well as the motivations of Japanese investors – both in Australia and the rest of the world. It assesses the organisational and industrial distribution of investment, employment creation, and the conduct of industrial relations by Japanese firms in Australia, in a range of industries. The role of Japanese management and differences in the conduct of industrial relations in Japanese workplaces in Australia are considered in comparative perspective. The paper surveys the characteristics and outward orientation of these firms, particularly in the automotive industry – one of the largest areas of Japanese investment and employment in Australia. Overall, Japanese subsidiaries in Australia are considered to have relatively similar employment and industrial relations practices as other firms.

Introduction

Australia has traditionally been a significant beneficiary of foreign direct investment (FDI), which has contributed to capital formation and brought with it new technology and management skills to increase the international competitiveness of domestic industry. Although Japanese investment in Australia has been relatively recent, it has risen sharply and has occurred in a wide range of areas. As with previous inflows of FDI, investment from Japan has created new economic opportunities for Australia, building on previous investment in mining, energy and manufacturing and opening up new industries, such as tourism and processed food.

The entry of Japanese multinational firms into Australia has brought many benefits and has contributed to the strength of the bilateral trading relationship – the largest for Australia since the late 1960s. Australia emerged as a leading international source of minerals and energy after signing long-term contracts with Japanese trading houses, steel firms and utilities which provided a secure market for the development of coal, iron ore and, later, natural gas resources. In the 1980s Japanese investment created a hotel and resort infrastructure for the rapid expansion of Australia as an international tourist destination. As

a result one in five visitors to Australia are from Japan and the Japanese account for over A\$3 billion in annual tourist receipts.

Japanese investment has contributed to the gradual development of an internationally competitive automotive industry in Australia, through capital investments by Toyota and Mitsubishi and the transfer of labour and management skills which have raised productivity in some plants to a world-class level. Recent investments and joint ventures have occurred in disparate areas, such as information technology, the dairy industry and an expansion of the Northwest Shelf natural gas project. Nevertheless, the impact of Japanese firms in Australia has attracted surprisingly few studies.

This paper examines the employment policies and industrial relations of Japanese multinationals in Australia between 1990 and 1997 in particular and provides background on the activities of these firms over a longer period. For many Japanese investors, the issues of workplace and industrial relations are key determinants of whether to invest in Australia. For example, at a May 1997 symposium on Australia–Japan relations, the executive director of Mitsui & Co, Mr Kawarabayashi, stated that Japanese businessmen were especially concerned by Australia’s labour productivity and ‘notorious’ strike record, echoing a much-expressed concern in the postwar period, despite dramatic improvements in recent years. The impact of industrial relations problems on Japanese investors is a neglected area of research, despite their potential to discourage investment. Have recent reforms in Australia, such as the move to enterprise bargaining, ameliorated such concerns?

The theme of whether Japanese multinationals operate differently from other international firms has been raised continually in the literature on FDI and organisational behaviour and is an interesting question as Japanese management, industrial relations and production techniques are typically associated with increased productivity and international competitiveness. Ascertaining whether industrial disputes are less prevalent at Japanese workplaces, for example, and whether management is significantly devolved to local managers are two of the themes that will be pursued.

The role of ownership is also important and a comparison will be made between the activities of the various forms of Japanese investment, such as local–foreign joint ventures and privatised firms. The types of investment undertaken, by industry and type (greenfield, acquisition, or majority equity) are examined. Details such as the size and age of the enterprises’ operations, the policies of their headquarters, the presence of a unionised workforce, and responses to government policies are considered. Recent studies, such as

Mason (1995), have emphasised the lack of data for comparisons of this type but this study uses new information, providing hitherto unpublished information on the characteristics of almost 500 Japanese subsidiaries across a range of industries, together with a number of case studies.

The paper first examines the growth and pattern of Japanese foreign direct investment generally and in Australia, together with structural changes in recent decades. Then changes in the investment mode, ownership structure of investment and the motivation to invest in Australia are assessed. The next section examines the impact on Australia of Japanese FDI in terms of employment and exports. Japanese managerial and employment practices and industrial relations are examined and the Australian government's industrial relations policy and its effects on Japanese and Australian firms are discussed.

The extent of the transfer of management methods, diffusion of technology among local firms, the use of local staff, and socio-cultural conflicts are studied. Particular emphasis is given to the automotive industry since this is one of the largest recipients of FDI, and also because it accounts for a significant proportion of the employment of Japanese firms. Information on employment, mode of ownership, management practices and industrial relations is relatively accessible for this industry, following recent government inquiries into tariff and other assistance arrangements accorded the industry (Industry Commission 1997).

The PATTERN OF JAPANESE INVESTMENT and employment

In recent years Japan has been one of the largest sources of foreign direct investment in the world. From 1985 to 1996 total global flows of FDI increased sharply from US\$63 billion to US\$360 billion. In the same period Japanese outflows rose from US\$10 billion to about US\$50 billion. Investment has occurred in waves, triggered by a variety of factors, including deregulation in Japan, the increasing international competitiveness of many Japanese corporations and the steady appreciation of the yen after the breakdown of the Bretton Woods system in 1971.

In the prewar period Japanese FDI occurred typically as an adjunct to international trade and trading companies were major investors (Wilkins 1990). In the 1950s and 1960s Japanese FDI was relatively small-scale, but began to increase in the following decade with faster economic growth, the emergence of a current account surplus and the deregulation of outward capital controls. Early FDI was directed to the acquisition of secure supplies of

mineral resources, such as coal and iron ore, to the establishment of a marketing network, and to the relocation of labour-intensive manufacturing industries (Komiya and Wakasugi 1990).

By 1970 direct investment was only significant in the mining, lumber and pulp, and textiles industries. A decade later, the chemicals, steel, and electrical equipment industries had become active investors. FDI accounted for over 1 per cent of industry GDP, but half of the investment came from the manufacturing industry. The revision of the *Foreign Exchange Law* in 1980 removed an administrative obstacle to investment, since investors no longer required the prior approval of the Ministry of Finance, but were merely required to notify the Ministry of intended investment.

The expansion of Japanese FDI in the 1970s was dwarfed by what was to follow, as both manufacturing and non-manufacturing industries increased their investment abroad, especially to the United States and East Asia. In the second half of the 1980s, following the sharp appreciation in the yen after the Plaza Accord, outflows grew very quickly. From under US\$5 billion in 1980, outward investment rose to US\$10 billion in 1984, to US\$22 billion in 1986, and peaked at US\$68 billion in 1989, before falling to about US\$50 billion in 1995, when the cumulative level of investment approached US\$800 billion.

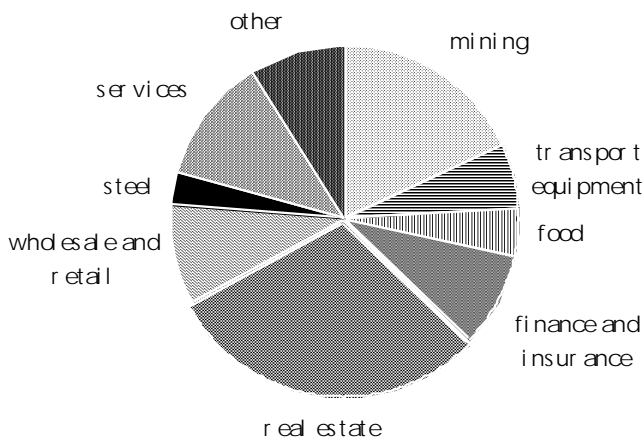
A wide range of manufacturing industries relocated offshore after 1985 in response to higher costs in Japan and the opportunities available in other markets. Industries significantly affected by the appreciation of the yen, such as the electrical and electronics, chemicals, transport equipment (motor vehicles and parts) and general machinery industries, have been more likely to establish operations offshore than have industries that have been shielded from international competition. Investment in natural resources development, such as oil exploration and mining, became less important compared with manufacturing investment – which in turn became less important than services investment. Within the manufacturing sector, the relative composition of the major industries has changed over time, with electrical and electronics investment, particularly to ASEAN and China, becoming dominant.

The industrial composition of Japanese FDI is shown in Figure 1. Since the mid-1980s the relative share of commercial (wholesale and retail) investment has declined while investment in the services, finance and insurance, and real estate sectors has risen rapidly, boosted by the bubble economy. A considerable part of the investment went to North America, Europe and Oceania (which is primarily Australia). The mode of investment also changed,

particularly in the United States where mergers and acquisitions accounted for 88 per cent of Japanese FDI in 1988 (Watanabe 1993).

The continued appreciation of the yen from 1993 encouraged a new wave of Japanese FDI and 443 new manufacturers established overseas affiliates in financial year 1995. Very few of these were in Australia – 80 per cent went to China and a high proportion went to other countries in East Asia. By financial year 1995 the overseas production ratio for firms with foreign affiliates had risen to 25 per cent, much higher than the 9 per cent for the manufacturing industry alone (MITI 1997). At the end of March 1996 overseas affiliates had been established by over 6,000 Japanese firms. Of these 3,959 firms responded to the Ministry of International Industry’s Sixth Basic Survey of 1997.

Figure 1 Stock of Japanese FDI in Australia, by Industry, 1995



Source: Ministry of Finance (*Okura-sho*), *Annual Report of the International Finance Bureau* (*Okurasho Kokusai Kinyu Kyoku Nenpo*), various years.

The pace of Japanese FDI has moderated recently due to the economic slowdown in Japan and the liquidity problems experienced in a number of industries due to the collapse of land and stock asset prices after 1990. Nevertheless, the recent Asian financial crisis does not appear to have discouraged Japanese manufacturing investment in the region and, despite the flight of short-term speculative capital from these countries, it appears likely that FDI inflows will increase, including from Japan (Krugman 1998).

Preliminary details for financial year 1997 (to March 1998) indicate that Japanese FDI rose by 22 per cent over the preceding year to ¥6.6 trillion, the fourth straight year of increase. Manufacturing FDI rose by 4 per cent to ¥2.4 trillion and non-manufacturing FDI rose by 39 per cent to ¥4.2 trillion. Investment in Indonesia rose by 13.4 per cent to ¥309 billion, North America attracted ¥2.6 trillion (down from 48 per cent of the total to 40 per cent), Europe was the destination for ¥1.6 trillion in investment, and investment in Australia continued to fall (MITI 1997).

Until the late 1970s, investment was almost equally divided among industrialised and developing countries, while manufacturing FDI went predominantly to developing economies in Asia (Watanabe 1993). This pattern changed markedly in the 1980s when an increasing share of manufacturing FDI went to developed countries to secure markets and avoid trade tensions flowing from the increasing trade surpluses with the United States and Europe. In recent years, Japanese manufacturing FDI has shifted from North America and Europe to Asia. In financial year 1995 the overseas production ratio of the Japanese manufacturing industry was 9 per cent, up 0.4 percentage points over the previous fiscal year. In financial year 1996 it is expected to reach 9.6 per cent (MITI 1997). Services FDI primarily went to the United States, but Europe and Oceania were also significant recipients of real estate, finance and insurance, and other services investment. Investment from Japan to other regions, such as Africa and Latin America, has declined in the past two decades.

Japanese investment became particularly important to Australia from the mid-1980s, and it now ranks third after investment from the United States and the United Kingdom. Japan has invested in a broad range of industries and the relative importance of these industries has varied according to the changing nature of the Japanese economy. In the 1960s and 1970s minerals and energy projects attracted a significant share of total inflows, and in the 1970s investment in automotive and electrical and electronics industries and in wholesale and retail trade also featured strongly. By the 1980s services, finance and insurance and real estate investment became much more important (Drysdale 1993).

Australia was the second most important destination for real estate FDI in the 1980s after the United States, much of it related to the development of the Japanese tourist market in eastern Australia, while a significant portion was directed towards the office and retail market (Farrell 1997). In the 1990s investment in mining has increased once again, but new areas have emerged. These include traditional manufacturing projects, such as the \$420 million Toyota vehicle plant at Altona in Victoria, which opened in 1995.

Employment in Japanese overseas subsidiaries tends to depend on the type of industry located in the country, and this decision is related to market size, labour cost and productivity. According to the MITI Sixth Basic Survey (1997), the number of employees of foreign affiliates of Japanese firms has increased considerably in recent years, particularly in Asia. In financial year 1995 the number of employees of foreign affiliates was 2.3 million, a majority of whom were employed in manufacturing establishments in Asia (Table 1).

While most overseas manufacturing employment was in Asia (61 per cent) due to the relocation of Japanese industries to lower cost locations, most non-manufacturing employment was in North America and Europe (54 per cent). The electrical and electronic machinery industry and the transport machinery industry, especially motor vehicles and parts, together

Table 1 Number of Firms and Employees of Foreign Affiliates of Japanese Firms in 1995 (Financial Year)

Region	Manufacturing		Non-manufacturing		Total	
	Firms	Employees	Firms	Employees	Firms	Employees
N. America	1,134	371,974	1,452	185,424	2,586	557,398
Asia	2,979	1,123,221	1,621	156,317	4,600	1,279,538
China	741	210,707	162	20,920	908	231,627
ASEAN-4	1,114	608,352	495	77,029	1,609	685,381
NIEs	1,042	263,786	923	53,707	1,965	317,493
Europe	752	216,476	1,206	70,300	1,958	286,776
Others	378	143,060	894	61,463	1,272	204,523
Total	5,243	1,854,731	5,173	473,504	10,416	2,328,235

Notes: 1 The number of employees includes executives.

2 The term 'foreign affiliate' refers to foreign incorporated enterprises where the Japanese equity ownership ratio was greater than 10 per cent, as well as to those foreign affiliates in which a Japanese-owned subsidiary (having at least a majority of Japanese ownership interest) itself had more than 50 per cent equity share in a foreign affiliate.

3 ASEAN-4 refers to Malaysia, Indonesia, the Philippines and Thailand.

Source: MITI, Highlights of the Sixth Basic Survey (1997).

accounted for 54 per cent of employment of Japanese manufacturing subsidiaries (and 43 per cent of total overseas employment).

Information on the employment levels of Japanese subsidiaries by size, region and country has recently become more accessible (Beamish 1997; Toyo Keizai 1994). The Toyo Keizai (1994) survey is more disaggregated but has a sample size about half that of the MITI survey, with about 1.1 million employees. It shows that by far the largest number of employees is in the manufacturing sector (Table 2).

The average number of employees is relatively high in this sector, exceeded only by the mining industry, which has a much smaller number of subsidiaries. The manufacturing sector has the largest number of subsidiaries of any industry, with 266 subsidiaries – each employing over 100 people, compared with 406 subsidiaries for all other industries. By contrast, manufacturing only accounts for 26 per cent of subsidiaries with employment of less than 100 people.

By region, the average number of employees of Japanese subsidiaries is highest in Latin America (283), followed by Asia (254) and the category of Africa and the Middle East (201) (Toyo Keizai 1994). The averages for Oceania (143), North America (137) and Europe (108) are lower because manufacturing operations in these regions are less labour-intensive. The number of employees in each subsidiary is also influenced by the number of representative and sales coordination offices in each region since these tend to employ fewer people than manufacturing establishments. The spread of Japanese services, finance and insurance investment to developed countries in the 1980s created a large number of relatively small subsidiaries in these regions.

The Toyo Keizai survey reported that 213 Japanese subsidiaries have invested in Australia (3.6 per cent of the global total), with employment of over 31,500 (3.3 per cent of the 1.1 million employed globally). On average, firms employed 148 people, which is similar to the average in other developed countries, such as the United States (135 employees), but twice as large as for New Zealand. The latter difference could be accounted for by the different scale and mix of investment by industry and New Zealand's much lower share of Japanese manufacturing investment.

There has been a gradual decrease in the number of subsidiaries with a larger number of employees, as with other developed countries. A total of 39 subsidiaries (21 per cent) employed over 100 people – lower than the average for all countries (32 per cent), but comparable with the United States and the United Kingdom. On the other hand, Japanese

Table 2 Japanese subsidiaries: total employment by industry category, 1993

Principal Industry	Employees				Known	Unknown	Average
	1-10	11-100	101-1,000	1,001-10,000			
Agriculture, forestry, fishing	8 0.6%	20 0.9%	19 1.3%	1 0.5%	48 0.9%	7	174
Mining	10 0.7%	1	8 0.5%	4 2.2%	23 0.4%	10	433
Construction	46 3.3%	66 2.9%	29 2%	1 0.5%	142 2.6%	11	110
Manufacturing	130 9.2%	867 37.9%	1,104 74.3%	162 87.1%	2,263 42.2%	69	359
Transportation	72 5.1%	121 5.3%	42 2.8%	1 0.5%	236 4.4%	65	72
Wholesale trade	647 45.9%	792 34.6%	130 8.7%	2 1.1%	1,571 29.3%	62	41
Retail trade	23 1.6%	80 3.5%	32 2.2%	4 2.2%	139 2.6%	14	164
Finance, insurance, real estate	301 21.3%	152 6.6%	26 1.7%	4 2.2%	483 9%	200	56
Services	173 12.3%	187 8.2%	96 6.5%	7 3.8%	463 8.6%	33	109
All subsidiaries	1,410	2,286	1,486	186	5,368	471	192

Note: The number refers to the number of subsidiaries.

Source: Toyo Keizai (1994) and Beamish (1997).

subsidiaries in Indonesia with employment of over 100 people, in labour-intensive manufacturing operations, accounted for 67 per cent of all subsidiaries (Toyo Keizai 1994).

The industry structure of Japanese investment in Australia is important because of the significant variations in the average employment by industry compared with other countries (Toyo Keizai 1994). In Australia there is a spread of investment over all industry categories, with no single industry dominating, but a relatively small number of firms account for a large slice of total employment, mainly in the mining and energy, automotive and food sectors. Investment in the mining sector has been quite large, but employment per subsidiary is comparatively low. Real estate investment, although large, has contributed less to employment than manufacturing investment has, despite the apparently smaller value of manufacturing investment.

The manufacturing sector, and the automotive industry in particular, is the major employer. Direct Japanese investment in manufacturing is typically reinvestment by established firms. A considerable part of real estate FDI was transitory in nature and incurred large losses in capital values due to the collapse of property values in the 1990s, both in Australia and Japan. The same pattern occurred for finance FDI, with the establishment of a large number of new offices in Australia by Japanese banks and other financial institutions. The end of the 'bubble economy' in Japan led to the withdrawal of a considerable number of these investors, such as the Nippon Credit subsidiary in Australia.

The Australia–Japan Economic Institute (AJEI 1996) found that 340 of the 522 Japanese companies in Australia had established headquarters in Sydney, with the remainder locating in Melbourne (74), Brisbane (30), the Gold Coast (15), Perth (22) or other cities (41). These companies had established 501 branches between them, which were similarly distributed throughout the country.

There are comparatively few studies of the timing, size, and activities of Japanese multinationals in Australia, as it receives a low proportion of Japanese investment. The well-known surveys of the Japan Export–Import Bank (EXIM), the Japanese Ministry of International Trade and Industry (MITI) and the Japanese Ministry of Finance (MOF) often exclude Australia. Hence, detailed employment statistics and management practices for Japanese overseas subsidiaries in Australia are not readily available from these official surveys – although the Toyo Keizai data provides some information.

The MOF series records only notifications and not actual investments or reinvestments in established enterprises, so there is an underestimation for long-established industries – such as the automotive industry. The decision of Toyota Australia to invest A\$460 million in its Altona vehicle plant in the 1990s was reflected in the MOF series for transport equipment, but was not recorded in the Australian Treasury's Foreign Investment Review Board (FIRB) series because it is considered reinvestment by an existing firm.

Changes in the investment mode and ownership structure

Foreign direct investment involves a significant level of ownership of assets, sufficient to constitute a 'lasting interest', and is generally considered to require an active involvement in the control and management of the acquisition (OECD 1983). It is difficult to define 'control' precisely, but FDI implicitly means 'the extension of corporate control across national boundaries' (Froot 1991: 3).

In practice, official statistics usually define investment as FDI if the level of foreign control exceeds 10 per cent of an entity's shares or assets, although this varies by country. At this level of control, the foreign investor is assumed to be an active participant in the management of the enterprise. Hymer (1976) emphasised that *passive* investment could be distinguished from *active* flows of foreign investment by the latter's element of investor control and the two-way direction of FDI between countries. Theoretical explanations of FDI reflect this conceptual distinction.

Japanese investment can occur through full ownership, either in a greenfield investment or by acquisition, or through a joint venture with an local, foreign or Japanese partner. In developed countries, the ownership ratio of Japanese subsidiaries is quite high, but the ratio falls in developing countries, where government controls often limit the extent of foreign ownership in manufacturing or other industries (Beamish 1997). Table 3 illustrates the pattern of ownership structure by region and the general predominance of full ownership and majority ownership.

Table 3 Number of subsidiaries: Japanese ownership in 1993 by region

Region	95–100 % one parent	95–100 % intrafirm	51–94%	50 %	5–49 %	Total known	Total unknown
North America	1,129 70.4%	93 5.8%	198 12.3%	78 4.9%	106 6.6%	1,604	12
Latin America	168 57.1%	11 3.7%	49 16.7%	12 4.1%	54 18.4%	294	4
Europe	728 71.3%	70 6.9%	116 11.4%	40 3.9%	67 6.6%	1,021	9
Africa/Middle East	23 36.5%	2 3.2%	5 7.9%	4 6.3%	29 46%	63	3
Asia	756 29.9%	68 2.7%	514 20.3%	175 6.9%	1,018 40.2%	2,531	7
Oceania	171 58.4%	20 6.8%	34 11.6%	16 5.5%	52 17.7%	293	2
All subsidiaries	2,975 51.2%	264 4.5%	916 15.8%	325 5.6%	1,326 22.8%	5,806	37

Note: The first number refers to number of firms and the second to the percentage share by row.

Source: Toyo Keizai (1994) and Beamish 1997.

For Oceania, the degree of full ownership is lower than in the other developed regions, but is above that of the developing regions. The proportion of minority joint ventures is relatively high for a developed country – reflecting the resources nature of Japanese trade and investment with Australia. In many resource developments, Japanese companies accepted minority equity shares because of the scale of the investment, such as with the Northwest Shelf natural gas project (Drysdale 1993). This pattern of ownership approximates that used in Canada, and in developing countries, such as Brazil, which have been key suppliers of resources and which are denoted as ‘Australia–Brazil–Canada’ (ABC) countries.

The majority of Japanese firms in Australia (66 per cent) set up wholly owned subsidiaries (JCCI 1997). The reluctance of Japanese investors in Australia to seek local partners may occur because the scale of operation is relatively small and the product is already developed and produced in Japan. Hennart (1991) found that Japanese investors in manufacturing operations in the United States preferred greenfield plants to acquisitions in such cases. Joint ventures by Japanese firms in the United States seem more common for new, fast-growing areas, but established firms prefer wholly owned subsidiaries (Hennart 1991).

This result implies that Japanese firms use joint ventures to reduce transaction costs when entering the market for the first time and when they are comparatively inexperienced (Nicholas and Maitland 1998). This finding was also reflected in the corporate structure of Japanese FDI in real estate in the United States, Australia and other countries, when local partners were engaged for their financial and management skills (Farrell 1997).

With regard to Japanese FDI in Australian manufacturing, financial services and tourism industries, it appears that firms preferred full ownership to the alternative possibilities of licensing, long-term contracting or partial ownership (Nicholas *et al.* 1996). There is some evidence that recent Japanese investment in real estate in Australia has been passive in character and has been motivated by the anticipation of capital gains, rather than the desire to exercise management control or transfer technology or management skills (Farrell 1997).

The number of expatriates in the workforce and management structure gives an indication of the extent to which the investor is managing the subsidiary. Wholly owned and majority-owned subsidiaries usually employ a high ratio of expatriates to local staff. Table 4 shows that Australian subsidiaries have a similar share of expatriate employees to total employees as subsidiaries in the United States and the United Kingdom have, but the share is much lower for countries such as Indonesia, due to the larger and cheaper local workforce.

Table 4 Expatriate employees per 100 employees, by selected country, 1993

Country	0	1-5	6-10	11-100	Known	Unknown	% of total employment
United States	143	314	201	704	1,362	135	24
Canada	11	31	14	43	99	20	19
United Kingdom	36	68	26	146	276	29	24
Hong Kong	42	73	37	210	362	36	21
Indonesia	8	122	16	19	165	10	4
Singapore	32	105	46	175	358	23	18
South Korea	70	98	14	7	189	10	2
El Salvador	1	1	0	0	2	0	0
Venezuela	2	2	0	3	7	0	21
Niger	1	0	0	0	1	0	0
New Zealand	18	9	1	6	34	3	11
Australia	40	45	15	73	173	40	22
All subsidiaries	801	1,879	599	1,949	5,228	578	16

Note: Number refers to number of subsidiaries, by size (number of expatriates per 100 employees).

Source: Toyo Keizai (1994) and Beamish (1997).

The dominant theoretical approach to explaining FDI is to analyse the motivations of investors at the level of the firm, particularly through an assessment of the attributes and advantages of each firm that enable and justify an international expansion of the firm's activities (Hymer 1976; Kindleberger 1969; Dunning 1981; Caves 1982). These studies also highlighted the role of industry concentration and the firm's position in the home industry as key reasons for the emergence of FDI. The theory was initially developed to explain FDI by large US firms, which had significant proprietary assets and were often in concentrated industries, such as motor vehicles or chemicals. This pattern, however, may not be typical of other cases of FDI involving investors from other countries. Large numbers of Japanese small and medium-sized firms, for example, engage in FDI despite their apparent lack of size and their complex proprietary assets (EXIM 1991).

Japan's success in exporting manufactures has led to trade friction in other developed countries, and occasionally to the imposition of trade barriers or the threat of market closure to protect local industries or to ameliorate a worsening bilateral trade deficit with Japan. The

issue of market access has therefore been an important one for Japanese firms, leading to prophylactic investment in manufacturing facilities overseas. The widening share of Japanese imports in the Australian car market in the 1970s, for example, led the Australian government to invite Japanese producers to begin local assembly operations – a suggestion which Toyota, Nissan and Mitsubishi accepted during the decade (Industry Commission 1997).

A significant share of Japanese investment has been directed at the establishment of sales and distribution networks in other countries, which often specialise in the importation, sales and servicing of well-known brands, such as Toyota. This form of commercial investment, denoted as wholesale and retail FDI by the Ministry of Finance, has been a major part of total investment for the postwar period and includes the opening of sales offices for other industries, including the manufacturing sector. Investment in resource exploration and development has gradually declined in importance.

Japanese FDI has been motivated either by the need to secure market access, resources or labour, while official incentives are sometimes relevant. The need to access markets has been a particular motivation for investing in North America and Europe, but motivations for investment in Oceania are more varied, although 64 per cent of firms replying to MITI's Fourth Basic Survey in 1989 stated that market access was the major factor (MITI 1990).

Other reasons for investment included access to other markets (25 per cent), securing a stable supply of raw materials (23 per cent) and official incentives (23 per cent); the latter including tariff assistance for the motor vehicle industry. Access to labour has been a major motivation for investment in Asia (64 per cent) and Latin America (48 per cent), because of its competitive cost, but not for investing in North America, Oceania or Europe.

In September 1988 the Japan External Trade Organisation published the results of a survey of Japanese manufacturers in Australia, based on interviews with 26 of the 35 established firms (JETRO 1988). The principal motive for their investment in Australia was to service the domestic market and 20 firms reported that 90 per cent of their output was sold in Australia. Of these 20, no firm was exporting to countries other than Japan (Keizai Doyukai 1989: 65).

Much of Japan's investment in manufacturing appeared to have been motivated by the high tariff protection enjoyed in the past by industries such as motor vehicles and electrical appliances. The Keizai Doyukai (1989) study received responses from 111 companies, of which about half had actually invested in Australia. Most of the respondents had invested

prior to 1985 when the yen began to appreciate sharply. Two-thirds of manufacturing investments were joint ventures and three-quarters of non-manufacturing investment, especially in banking and commerce, went to establish subsidiaries.

More than half of the companies investing in Australia regarded it as their chief market – the ratio was 69 per cent for manufacturers and 90 per cent for non-manufacturers. The major reason for investment for manufacturers was to secure and maintain a market share and promote sales (63 per cent), to avoid high tariffs (31 per cent), and to procure raw materials and parts (31 per cent), while non-manufacturers had similar motivations (CEDA 1990: 99). These findings are comparable to the MITI (1997) survey of motivations for Japanese FDI in other regions of the world, which excluded Oceania.

According to a more recent survey, manufacturing FDI was predominantly directed towards supplying the domestic market, with exporting to other countries and promoting imports from the parent company in Japan also important. Investors in the Australian tourism industry wanted to service Japanese travellers to Australia and to do business with their parent company's clients in Japan. Investors in the financial services industry sought to establish a global network, but also to service Japanese subsidiaries established in Australia (Nicholas *et al.* 1996: 8–14).

While many Japanese firms came to Australia to service the domestic market and other Japanese firms, a significant number changed their orientation towards exporting to Japan or third countries. Toyota Australia, for example, stated in March 1998 that the company would earn A\$700 million from car exports by 2000 and possibly A\$1 billion by 2005 if it was given improved access to Southeast Asian markets under the APEC liberalisation agendas. Mitsubishi Motors Australia plans to increase exports of its Magna V6, which carries the Diamante badge, in the United States and Japan (*Australian* 9 March 1998).

Typically, FDI to developed countries has been directed towards higher skilled and less labour-intensive industries, especially in manufacturing. A high proportion of Japanese FDI into the United States and Australia has been directed into the automotive industry, wholesale and retail distribution, and service industries, such as finance and insurance and real estate. Japanese automotive industry FDI has predominantly been in Melbourne and Adelaide. There has been no evidence that investment has been attracted to states with higher unemployment, or lower average wages, as appears to be the case for Japanese FDI in the United States (Lipsey 1994). This locational decision could also be motivated by lower

unionism (Gaston 1998). For FDI by US firms, evidence has shown investment to be negatively related to high levels of unionism and the regulation of wages (Cooke 1997).

While manufacturing investment to North America and Australia has been influenced more by government policy and market size, FDI to East Asia has been driven by the appreciation of the yen, trade friction and low wages in East Asian countries. In 1986 average wages in NIE and ASEAN countries were 20 and 10 per cent respectively of wages in Japan (Ishida 1994). The cost of labour in Australia has not been an important factor in motivating Japanese investment in Australia – indeed even for investors in China this motivation has receded in importance, from 59 per cent in 1995 to 33 per cent in 1997 (EXIM 1997). Evidence from the limited number of surveys in Australia have supported this proposition (Nicholas *et al.* 1996: 15).

Nicholas and Hutchinson (1994: 9) found that the presence of tariffs, import duties and non-tariff barriers had been important factors in motivating the decision to invest and 71 per cent of Japanese multinationals stating that Australian wage rates and industrial relations did not discourage FDI. However, respondents pointed to the frequent strikes affecting Japanese investors in Australia, such as strikes in transportation and government agencies. One company had contracts with several transporters to ensure a reliable delivery time, in anticipation of possible strikes. There were also problems with the division of labour between Japanese and Australian joint venture partners.

The Keizai Doyukai (1990) study found that Japanese firms were concerned about the large number of labour unions and the time required negotiating with all of them. The craft system and restrictive award conditions were also found to inhibit the training of multi-skilled employees, while the seniority system for engineers led to a high turnover rate for young engineers. Similarly, Japanese firms experienced a shortage of qualified middle-level managers due to the high turnover rate, which inhibited the transfer of technology.

The problems reported by manufacturing investors included the high turnover of employees, poor quality control, labour disputes and difficulty in retaining high-quality employees. In non-manufacturing investment areas, there were problems such as inconsistency in policy and regulation, difficulty maintaining qualified employees and high labour costs. In terms of investment conditions in Australia, firms said that labour–management relations, the high turnover of employees, quality control, labour unions and securing qualified personnel were ‘worse than expected’.

The Keizai Doyukai sample also includes companies that have not invested in Australia. These companies indicated that they would consider investment if there was a reform of labour unions, an improvement in labour-management relations, a relaxation of foreign investment regulations and the promotion of tax incentives (CEDA 1990: 85). Of the seven case studies in the report, four pointed out issues in relation to their local partners. Joint ventures were considered of great importance to assist in labour management and the allocation of roles between Japanese and local partners. One company reported that:

'It is to the advantage of Japanese managers to be in joint ventures with local partners, so as to create and maintain stable business management based upon harmonious relationships with local society around and local conditions. Japanese managers, however, must give careful consideration to the allocation of roles for local partners who depend heavily on the management practices of their Japanese counterparts.' Consequently the respondent considered that it was necessary for both Japanese and local partners to clarify in advance the terms of joint venture including role allocation and management roles, and proposed style of management, in order to avoid problems.' (Keizai Doyukai 1990: 106)

According to research by the Industry Commission (1996), government regulation of the labour market is a major concern for many foreign firms since it contributes to excessive labour costs and additional on-costs, such as workers' insurance, compensation and so forth. An institutional framework that involves excessive regulation also tends to reduce productivity, as work practices are adopted which may not be suitable for the competitive operation of the workplace. The Industry Commission (1996: 157) found that 68 per cent of Australian firms locating offshore considered that wages and on-costs were significant factors behind their decision to invest in Australia and abroad.

Employer organisations, such as the Metal Trades Institute of Australia (MTIA) and Australian Chamber of Manufacturers (ACM), have long complained of the increased cost of labour in Australia due to regulations, such as the award system, and have called for increased levels of enterprise bargaining, particularly at the enterprise level (Industry Commission 1996: 3). The East Asia Analytical Unit (1992) concluded that Australian direct investment abroad was strongly motivated by high relative labour costs in Australia and labour market regulation, with 70 per cent of survey respondents stating that these factors had been a motivation for overseas investment, although not the principal reason.

Foreign direct investment into Australia has typically avoided labour-intensive industries, which generally have a lower level of international competitiveness. Indeed relative wages and labour on-costs, government regulation and concern over inefficient work practices have encouraged Australian firms in these industries to invest in lower cost operations in Asia. The MTIA (1995) identified labour costs as a reason for offshore investment for 28 per cent of companies and found that labour on-costs were a significant factor for 68 per cent of companies. The 'workplace culture' in many Australian industries has discouraged inward FDI and motivated outward FDI (Industry Commission 1996: 157).

There are indications that Australia is not viewed seriously as a location for Japanese manufacturing, since few new investments have occurred in this sector. Mr Toshiki Inazumi, Senior Vice President of NEC, has stated that Australia is failing to take advantage of a world-class skills base and needs to revitalise its manufacturing industry by offering economic incentives to attract foreign investment, through tax, R&D and tariff policies (*Australian Financial Review* 10 November 1997).

The impact of Japanese FDI on Australia

Foreign direct investment generally has a number of positive direct and indirect impacts on the host country's employment, industrial capacity and competitiveness. Since FDI typically embodies a range of productive assets apart from capital, including management, technological and marketing skills, which comprise the ownership advantage of the international investor, the new entrant is able to compete with established local firms. FDI increases employment and indirectly benefits other parts of the economy, such as suppliers and, through tax revenue, the government. Foreign investors with a significant international presence can create new opportunities for exports because of their overseas networks and marketing expertise. The transfer of management skills can raise labour and capital productivity by introducing ways of producing goods or services. In the postwar period Japanese investment has had a long-term positive impact on the Australian economy. In the 1960s, Japanese investment and long-term contracts were instrumental in creating the preconditions for the development and export of Australian mineral and energy resources over the following decades (Smith 1980).

Employment

Evidence of the employment and industrial relations activities of Japanese firms can be drawn from a variety of sources, which vary in the extent of their coverage and detail. The 1995 survey of the Australia–Japan Economic Institute separately listed 522 firms, but gave only summary details for employment by firm. The Australian Workplace Industrial Relations Survey of 1995 gave more extensive details on the industrial relations practices of a small number of Japanese firms (total employment about 300). Case studies of particular firms or industries (Matsushige 1989) provide still greater detail, but are few in number.

A good benchmark is the 1990 study by the Confederation of Australian Industry (CAI) and the *Keizai Doyukai* on direct investment flows between Australia and Japan, which surveyed member firms on issues such as employment and industrial relations. A study into the *Contribution to Employment and Exports by Japanese Companies in Australia* was carried out in 1997 by the Federation of Japan Chamber of Commerce and Industry in Australia (JCCI) and JETRO in Sydney to assess the contribution to employment and exports by Japanese companies in Australia.

In the Australia–Japan Economic Institute survey, employment data was provided by 485 companies, which employed 100,298 people. The survey showed that the major employers are in the automotive, electronics, tourism, meat processing and retailing industries, with total local employment of over 26,000 and expatriate employment of 191 – a ratio of seven expatriates per 1,000 local employees or 11 per firm. Incomplete sales details were provided, but the automotive industry accounted for the largest turnover.

Of the 397 companies that had Japanese equity greater than 50 per cent (i.e. with a controlling interest), 87 per cent, or 345 companies, had a Japanese chief executive, while the remaining 52 companies had non-Japanese chief executives, although some of these enterprises had Japanese presidents. This suggested that subsidiaries in Australia were strongly influenced by the decisions of their corporate headquarters in Japan. Nevertheless, a significant share of firms had Australian chief executives and questions arise as to whether management is being increasingly localised and whether long-established subsidiaries have fewer expatriates, as suggested by Beamish (1997).

The JCCI survey (1997) found that 45,119 people were directly employed by the 482 Japanese companies that responded to the survey, which was 0.5 per cent of the Australian workforce of 8.4 million people. Firms employed an average of 94 people and the ratio of non-

local Japanese staff to local staff was less than 3 per cent in most companies and branches (Table 5).

With the 180 Australian subcontractors and major suppliers to these companies employing a further 262,721 people, total employment was 307,840, or 3.7 per cent of the workforce. The manufacturing sector accounted for 34 per cent of direct employees, followed by commercial sector, which provided 31 per cent of direct employment. This sector had by far the largest number of Japanese subsidiaries, typically being established to assist the marketing of manufactured goods, whether imported or produced in Australia.

According to the JCCI survey, changes in employment between 1992 to 1996 were generally positive, with a net gain in total employment for all industries except finance and insurance and real estate and construction, where firms withdrew from Australia after the bursting of the economic bubble in Japan in the 1990s (Farrell 1997). Non-local Japanese staff in these industries declined, primarily due to the closure of a number of representative offices and small wholly owned subsidiaries. In the future, Japanese business in Australia expects that the mining sector, transport and tourism and commerce will be the areas of greatest growth, whereas no significant growth in other areas is anticipated.

Table 5 Number of Employees in Japanese Firms by Industry, 1996 (482 firms)

Industry	Employees		Companies		Ave. Employees
	No. of	%	No. of	%	
Agriculture & Fisheries	1,304	2.9	16	3.2	81.5
Mining	3,227	7.2	48	10.0	67.2
Construction, Real Estate	1,275	2.8	31	6.4	41.1
Manufacturing	15,301	34	37	7.7	413.5
Transport and Tourism	3,589	8	50	10.4	71.8
Commerce	14,162	31	159	33	89.1
Finance, Insurance	1,327	3	57	12	23.3
Services	4,753	11	53	11	90
Others	181	0.1	31	6.3	5.8
Total	45,119	100	482	100	93.6

Source: Japan Chamber of Commerce and Industry (1997).

The pattern of employment of full-time and part-time local staff by industry is given in Table 6. A major part of employment is full-time in nature (88 per cent) and the manufacturing sector is the main source of these positions (37 per cent). The two major Japanese companies in the automotive industry, Toyota Australia and Mitsubishi Australia employ over 5,000 people and support the indirect employment provided by hundreds of suppliers, such as Shimidzu and many local companies.

The commerce sector, covering wholesale and retail sales and distribution, is the second largest source of full-time jobs (31 per cent), while services and mining account for 9 and 8 per cent, respectively. The commerce sector encompasses the sales and distribution investments of other industries, including electric and electronic equipment firms, such as Fujitsu and Matsushita, and service, tourism, finance and manufacturing firms. Most part-time work is provided by the commerce, transport and tourism and services sectors, with 72 per cent of the total.

Table 6 Full-time and Part-time Staff by Industry, 1996 (482 firms)

Industry	Full-time		Part-time	
	No.	%	No.	%
Agriculture & Fisheries	1,154	3	122	2.4
Mining	3,094	8	36	0.7
Construction, Real Estate	835	2.2	384	7.6
Manufacturing	14,335	37.1	831	16.5
Transport and Tourism	2,449	6.3	1,026	20.4
Commerce	12,140	31.4	1,337	26.6
Finance, Insurance	1,150	3	15	0.3
Services	3,351	8.7	1,264	25.1
Others	98	0.3	13	0.3
Total	38,606	88	5,028	12

Source: Japan Chamber of Commerce and Industry (1997).

A large share of both full-time and part-time staff worked in wholly owned subsidiaries, while firms in a joint venture with a Japanese company employed a slightly higher proportion of part-time staff. Other entities, including Japanese–Australian joint ventures, do not provide significant employment (Table 7).

Table 7 Full and Part-time Staff by Legal Entity, 1996 (482 firms)

Legal Structure	Full-time (a)		Part-time (b)	
	No.	%	No.	%
100 per cent owned subsidiary	28,985	75.1	3,526	70.1
Branch or liaison office	1,395	3.6	31	0.6
Joint ventures between Japanese companies	7,824	20.3	1,435	28.5
Other legal entities	402	1	36	0.7
Total	38,606	100	5,028	100

Notes: a Percentage share of full-time employees by legal structure of the Japanese subsidiary.

b Percentage share of part-time employees by legal structure of the Japanese subsidiary.

Source: Japan Chamber of Commerce and Industry (1997).

Table 8 provides information on the number of local and Japanese staff by industry for the 482 firms that responded to the JCCI survey. The largest number of Japanese expatriates is in the commerce sector (39 per cent). This area includes the wholesale and retail distribution network established by Japanese businesses and trading companies that manage trade between Australia and Japan. Other important areas are tourism and travel and manufacturing. Japanese travel and resort firms have enjoyed language and marketing advantages in promoting Australia as a destination for Japanese travellers. In the manufacturing sector firms such as Toyota and Mitsubishi have transferred proprietary technological and organisational knowledge and skills to Australia through their expatriate employees.

The average number of Japanese employees per firm fluctuates considerably by industry and is an indicator of the extent of management involvement and potential transfer of technology and production skills. The average is quite low for resources, mining and energy industries, in which local management has considerable experience and Australian companies are internationally competitive. The average is also low for construction and real estate, and for services because of the proprietary advantages enjoyed by most local companies operating in the domestic market.

Another indicator of management involvement is the ratio of Japanese to local staff, which can be quite high in small firms that are representative offices, such as in the finance industry or small holding companies in the real estate industry. However, it is likely that a

high number of expatriates per firm is a more reliable guide to the extent of management involvement, since such workers often have management-related duties.

Table 8 Number of Japanese and Local Staff by Industry, 1996 (482 firms)

Industry	Japanese (a)		Local (b)		Ave. No. (c)	
	No.	%	No.	%	J	L
Agriculture & Fisheries	29	2.2	1,275	2.9	1.8	80
Mining	95	7.3	3,132	7.1	2	65.3
Construction, Real Estate	60	4.6	1,215	2.8	2	39.2
Manufacturing	142	10.9	15,166	34.6	3.8	410
Transport and Tourism	185	14.2	3,504	8	3.7	70.1
Commerce	500	39.2	13,607	31	3.2	85.6
Finance, Insurance	134	10.3	1,193	2.7	2.4	21
Services	76	5.8	4,677	10.7	1.4	88.2
Others	70	5.4	111	0.3	2.3	3.6
Total	1,300	100	43,880	100	2.7	91.2

- Notes:* a Percentage share of Japanese employees by industry to total Japanese employees.
b Percentage share of local employees refers to share of total local employees by industry.
c The average number of Japanese (and local) employees in each Japanese subsidiary, by industry, is given in the last two columns.

Source: Japan Chamber of Commerce and Industry (1997).

The employment of Japanese and local staff by legal entity varies significantly according to the extent of equity involvement (Table 9). Wholly owned subsidiaries employ most of the Japanese expatriates (80 per cent) and local staff (74 per cent). The ratio of Japanese to local staff is highest for branch or liaison offices, where 9.3 per cent of staff are expatriates.

The JCCI survey reported that the turnover of non-local Japanese staff was one half that of local staff, despite the fixed-term nature of expatriate staffing. This suggested that the Japanese incentives of lifetime employment and seniority salary scales were more relevant for expatriate Japanese staff than for local staff. Japan's system of lifetime employment cannot easily be extended to local staff. Managers of Japanese companies, especially in the services sector, tend to initiate redundancies during economic downturns, but attempt to reassign workers to other areas before initiating a worker lay-off, reflecting policies used in Japan during an economic downturn (Nicholas *et al.* 1998).

Table 9 Number of Japanese and Local Staff by Legal Entity, 1996 (482 firms)

Industry	Japanese (a)		Local (b)		Ave. No. (c)	
	Number	%	Number	%	Japanese	Local
100 per cent owned subsidiary	1,045	80.4	32,555	74.2	3.3	102
Branch or liaison office	135	10.4	1,450	3.3	1.6	16.7
Joint ventures between Japanese companies	81	6.2	9,437	21.5	1.4	160
Other legal entities	39	3.0	438	1.0	2.3	25.8
Total	1,300	100	43,880	100	2.7	91.2

Notes: a Percentage share of Japanese employees by legal structure of the Japanese subsidiary.

b Percentage share of local employees by legal structure of the Japanese subsidiary.

c The average number of Japanese (and local) employees in each Japanese subsidiary by legal structure

Source: Japan Chamber of Commerce and Industry (1997).

Exports

The rapid growth in Japanese FDI in recent decades has also affected Japan's trading patterns, especially with East Asia, through a rise in 'induced exports' of capital equipment and parts to subsidiary operations in host countries (Ishida 1994: 164). The general surveys of Japanese investment, such as the MITI surveys of overseas affiliates, do not provide significant country detail on value added or exports for any country apart from the United States. The question of whether Japanese firms in other countries are export-oriented is a controversial one. A US Bureau of Economic Analysis Benchmark survey in 1987 found that the average import-export ratio of Japanese affiliates was higher for affiliates of Japanese companies in the United States than for affiliates of other countries (Watanabe 1993: 137). Similarly, Graham and Krugman (1989) found that Japanese affiliates in the United States had a higher import propensity.

In Australia much FDI was traditionally concerned with import-replacement in manufacturing (Brash 1966) but reductions in border protection in the 1980s and the increasing export-orientation of the Australian economy made FDI more outward-looking. A major part of Japanese investment in Australia has been in trade-competing areas, such as mining and energy, and tourism, and even investment in the relatively protected automotive

industry has been increasingly exposed to international competition. Drysdale (1993: 26) noted that:

An outstanding feature of Japanese corporate activity in Australia is its very strong export orientation. The ratio of exports to total sales has always been very high... Australia stands out among Japanese foreign investment as having among the highest average export sales ratios, including ratios of export sales to Japan, and the lowest ratios of purchases of imports from Japan to total purchases.

This conclusion has also been supported by recent surveys, such as that of Bora (1997) who found that foreign subsidiaries, particularly Japanese subsidiaries, in Australia were generally more export-oriented than Australian companies. The ratio of companies solely oriented towards the domestic market in Australia was lowest for Japan, at 42 per cent (compared with 65 per cent for Australian-owned companies). A further one-third of Japanese respondents were primarily serving the domestic market, but also producing some exports, and 16.7 per cent were primarily exporting, the highest ratio for either domestic or foreign investors. However, caution is required in the interpretation of the data – taken from the 1995 Australian Industrial Relations Survey – since the sample for Japanese workplaces covered only about 300 employees.

The JCCI survey found that Japanese companies involved in exports could clearly be separated into two groups – those whose export revenue was less than 25 per cent of their sales and those whose export ratio was more than 75 per cent of sales. Of the 482 firms that responded to the survey, 315 firms produced solely for the domestic market and 167 were actively engaged in export operations, although many of these may have been primarily oriented towards the Australian market.

The total exports of these companies is confidential, but must have exceeded A\$17 billion, and the extent of value added for these exports is unknown. A surprisingly large number (84) of the 167 were small exporters, with annual exports of less than A\$25 million, although eight firms, probably trading companies and mineral and energy exporters, each had exports worth over A\$1 billion. Japan was the main export market for 30 per cent of respondents, followed by Southeast Asia (20 per cent) and Other Northeast Asia (11 per cent). The increasing maturity of Japanese establishments in Australia suggests that Japan is no

longer the overwhelming destination of exports, with other markets becoming more important.

Japanese exporters are relatively specialised, with 82 of the 167 respondents sourcing over 75 per cent of their exports from one industry group. Natural resources and manufactures each made up 22 per cent of export products, respectively, with agricultural products (16 per cent), processed raw materials (10 per cent) and processed food (16 per cent) accounting for the remainder (Table 10). The value of exports by industry of Japanese involvement is not available.

Table 10 Ratio of Export Specialisation of Japanese Firms in Australia, 1995

Industry	0-25 %	25-50 %	50-75 %	75-100 %	Total
Resources	3	0	1	32	36
Agriculture	4	1	1	12	18
Raw materials	2	0	0	9	11
Processed Foods	5	1	0	3	9
Manufactures	35	0	0	1	36
Others	11	2	1	7	21
Multiple	8	0	10	18	36
Total	69	4	13	82	167

Source: Japan Chamber of Commerce and Industry (1997).

From an initial involvement in mineral development through small equity investments and long-term contracts (Smith 1980), there has been a diversification into other industries, such as manufactures and processed food. Japanese firms in the Australian automotive industry have also become more export-oriented due to falling tariff assistance and the industry plan, which provides access to duty-free imported components in return for certain export targets and therefore contains an incentive to export. Mitsubishi Australia has contended that:

‘Maintaining competitiveness in export markets, intense competition between domestic vehicle producers and the demands of shareholders for an adequate return on funds are now the primary motivating factors in an industry which is well aware that it is fighting for

survival, even if tariffs are maintained at 15 per cent for a period after 2000.' (Mitsubishi 1996: 5)

The nine Japanese trading companies, or *sogo shosha*, with subsidiaries in Australia have been actively exporting. Australia's largest resource development project, the Northwest Shelf gas project, would probably not have occurred without the support of Mitsui and Mitsubishi and their strategic links and marketing networks (CEDA 1997). The construction investment from this project resulted in over 6,000 new jobs (Clements and Grieg 1994).

Mitsubishi and Mitsui are Australia's top two exporters, and four other trading companies are also in the top 20 (CEDA 1997). Mitsubishi and Mitsui initiated trade between Australia and Japan in many areas and initially accounted for a significant share of two-way trade. There have been significant investments by Japanese trading companies in the downstream processing of Australian mineral resources, particularly in the refining of non-ferrous metals and the smelting of metals such as aluminium and alumina. A wide range of investments have occurred in other areas, such as processed food, forestry, real estate, retail and distribution and information technology (CEDA 1997).

Local procurement

There is little published information on the local procurement ratio (proportion of local procurement of materials and components to sales) for Japanese companies in Australia or the Oceania region. This ratio indicates whether a foreign subsidiary operates as an import-competing or exporting enterprise and shows the local content of its business operations. Information on the local supplier networks established by Japanese companies in Australia is not easily obtained, except for the automotive industry.

Since the 'local content' requirement was eliminated from the government's industry plan in 1989, local suppliers have been under pressure to become more internationally competitive. In order to offset the higher costs of Australian manufacturers of parts and components, the four major vehicle producers have required these firms to reduce their prices (in real terms) by 2 to 3 per cent per annum since 1993 (AIA 1993). The performance of Australian component suppliers has improved but is still not competitive with the US and Japan, due primarily to Australia's smaller scale of production, even though labour productivity has increased considerably (Industry Commission 1997: 56). According to one of the

major Japanese car producers, it is still difficult to use local suppliers in some areas of vehicle production:

'The Toyota Supplier Assessment program shows the performance of the supplier base has improved since 1990, but the industry still has some way to go to reach levels approaching world class standards... While Toyota Australia has been seeking to increase localization of purchasing, it must import certain materials and components, in some cases, because the technology is not available in Australia and in other cases because local suppliers do not meet the quality or cost requirements.' (Toyota 1997: 20)

Component manufacturers from Japan and other countries have established operations in Australia because of the presence of the domestic motor vehicle industry and the access to raw materials, such as aluminium. Nissan Australia has commented that the establishment of its casting facility in Australia was based on the 'availability of land at reasonable cost in areas with access to ports and shipping' (Nissan 1997).

Nevertheless, the increasing pressures of international competition has forced rationalisation of the industry in recent years, such as the closure in 1992 of Nissan's vehicle manufacturing facility in Clayton, Victoria, and the relocation of Toyota's production facilities from Port Melbourne and Dandenong to Altona (Industry Commission, 1997: 361).

Japanese management practices

It is widely recognised that employment practices in Japan differ considerably from other countries and are based on the 'three pillars' of lifetime employment (*shushin koyo*), a seniority system for promotion (*nenko joretsu*) and enterprise-based unionism (*kigyobetsu kumiai*). In the postwar period these pillars have helped contribute to low labour turnover, harmony between employers and employees and an enterprise-based system of unionism. How applicable are they to Japanese enterprises in Australia?

These features do not apply on a universal basis in Japan and are indeed coming under threat in the 1990s with the continued recession. Lifetime employment only covers about one-third of the workforce and is more common for larger employers (EPAC 1993: 108). The seniority system appears to be gradually yielding in relative importance to merit-based

wages, with bonus payments also reflecting the relative contribution of employees to the enterprise (Ito 1992: 233).

Whether the Japanese 'way of working' can be transferred to other countries has been often discussed in the literature. Koike (1996) noted that foreign investment requires not only the establishment of overseas factories, but also the training of local workers and the effectiveness of this process is a key determinant of its actual productivity and success. Japanese practices, such as lifetime employment and seniority wages '...cannot be transferred abroad because they do not exist in Japan', in the sense that these textbook concepts exist only partially. Indeed, long-term employment, multi-skilling and pay increases on merit occur in many countries:

'In short, the best features of Japanese workshops today – a skill formation system that enables workers to accumulate experience in a company over time and to develop a style of working based on it – are thought to be fairly universal. These features, however, cannot be easily transplanted. A system is necessary to promote them – to make it advantageous for workers to raise their skill levels by acquiring experience in a company over the long term.'

(Koike 1996: 165)

It is worth noting that the skill formation system in Japan is based on enterprise-specific training, whereas the school system supplies generalised education. Within each enterprise, on-the-job training, job rotation, progress through the ladder on the basis of age, and seniority wage systems are basic features of a skill formation system strongly based on learning-by-doing (Curtain 1993; Koike 1988). According to a CEDA (1989: 26) report on Japanese FDI in Australia, direct investment involves the transfer of Japanese management practices to other countries:

'When a Japanese manager operates a company abroad, he tries to 'Japanize' the organisation – to make employees become inward-oriented. His basic strategy in trying to achieve this end is to offer employment security. He prefers to employ inexperienced workers fresh from school and invests generously in their training. Their wages and positions are advanced at a gradual pace in accordance with their length of service. The Japanese manager also provides fringe benefits over and above those required by law. These measures are intended

to orient the employees more strongly toward their organisation and to make the company a sort of community.’

Problems in cross-cultural management may occur when Japanese and local staff are working in the same organisation. Job boundaries may be vaguely defined under a Japanese system of management, with non-Japanese workers expected to exhibit some degree of initiative and flexibility, and misunderstandings may arise.

A survey by Nicholas *et al.* (1998) found that many Australian subsidiaries of Japanese companies ‘attempted to replicate the management systems used by their parent companies in Japan’ but often modified this environment to take account of local conditions. Over 60 per cent of the survey respondents considered the work environment in their companies was essentially Japanese in nature, while only 15 per cent adopted a Western environment with no Japanese influences. Similar findings occurred in studies of Japanese subsidiaries in Europe and North America (Mason 1995; Abo 1988).

The prevalence of a Japanese management environment was most marked in finance companies, which tended to have comparatively small representative offices in Australia. Finance and trading firms have a high proportion of Japanese employees and conduct most business with other Japanese firms. No Japanese manufacturing firm has attempted to operate without Western modifications and about 20 to 25 per cent of tourism and trading companies operated in a Japanese environment without modification.

Japanese companies in the United States and the United Kingdom have been reducing the ratio of Japanese nationals to local staff and according them increased management responsibility (Watanabe 1993). Evidence from MITI Basic Surveys shows a falling trend of expatriates in the total managerial staff. One reason for this is that there is a considerable shortage of trained Japanese personnel to manage the overseas subsidiaries of companies around the world, including in Australia.

As noted by Dunning (1986), local managers are more prominent in areas where local understanding of business, law, language and culture are required. It is also likely that larger Japanese subsidiaries are more likely to require local staff in managerial roles, as small representative offices and branches often do not have an active economic role. This arrangement appears relatively common in the real estate industry, construction, financial services and a range of other businesses.

Table 11 shows that 6 per cent of local employees, or 3,855 people, were in some type of management position, suggesting that expatriates dominate the management of Japanese subsidiaries in Australia. This supports the finding that Japanese multinationals tend to be rely more heavily on expatriate management than do multinationals owned by other countries (Negandhi *et al.* 1985).

Table 11 Management and non-management positions held by local staff in Japanese subsidiaries, 1996 (482 firms)

Industry	Management		Non-Management		Total	
	No.	%	No.	%	No.	%
Agriculture & Fisheries	96	2.5	1,170	108	1,266	2
Mining	256	6.6	2,874	4.5	3,130	4.9
Construction, Real Estate	148	3.8	1,065	1.7	1,213	1.9
Manufacturing	882	22.9	14,070	22	14,952	23.4
Transport and Tourism	339	8.8	30,136	47.1	3,475	5.4
Commerce	1,463	38	9,435	14.8	10,898	17
Finance, Insurance	282	7.3	883	1.4	1,165	1.8
Services	371	9.6	4,197	6.6	5,733	9
Others	18	0.5	91	0.1	109	0.2
Total	3,855	100	6,3921	100	63,921	100

Source: Japan Chamber of Commerce and Industry (1997).

The highest proportion of local staff in management occurs in the finance and insurance industry (24 per cent), in which Japanese firms are comparative newcomers internationally – and therefore in need of greater local knowledge and expertise. The ratio is also high in commerce and in real estate and construction. In long-established areas of investment, such as the automotive industry, the ratio is comparatively low, reflecting an ‘active’ transfer of management experience from expatriate Japanese managers. This finding was also supported by the AWIRS survey (1995).

Where the size of enterprises is small, Japanese managers tend to take fewer management positions. This is particularly true of representative offices and small subsidiaries, especially outside the manufacturing and commerce sectors. The higher proportion of

expatriate Japanese managers in the tourism and transport industries and the smaller size of firms results in the high share of non-manufacturing employment in this area.

There is little difference in the ratios of management and non-management positions by type of legal structure, suggesting that this factor is not an important determinant of delegation of management functions in Japanese subsidiaries (Table 12).

There are a number of explanations for the apparently low rate of management delegation to local staff. In a JETRO (1988) survey, firms reported difficulties which discouraged skill formation, including the problems in attracting suitable supervisory staff, high turnover rates at all levels and rigid wage structures. Labour disputes and work practices in a number of sectors were criticised by Japanese firms, particularly in the transport sector after the experience of the 1989 air traffic controllers' strike. Japanese companies recognise that the cultural environment was important in relations between management and employees.

Table 12 Management and non-management positions among local staff by legal entity, 1996 (482 firms)

Industry	Management		Non-Management	
	No.	%	No.	%
100 per cent owned subsidiary	3,025	78.5	27,479	74.4
Branch or liaison office	85	2.2	537	1.5
Joint ventures between Japanese companies	706	18.3	8,509	23
Other legal entities	39	1	396	1.1
Total	3,855	100	36,921	100

Source: Japan Chamber of Commerce and Industry (1997).

The literature on FDI shows that average wages tend to be higher in foreign-owned than in domestically owned enterprises and the entry of foreign-owned firms can increase wages in domestic firms (Lipsey 1994; Aitken and Lipsey 1996). This result is most evident for large firms, but it is unclear that wages are higher in large foreign firms than in large domestic firms (Lipsey 1994).

Evidence in Australia supports the overseas finding that foreign employers tend to pay higher wages (Bora 1997). In highly unionised sectors, such as mining and manufacturing, this may not be the case. Although the total average pay in Japanese companies (A\$785 per week) is higher than in Australian companies (A\$667 per week), the average in the mining sector is lower and wages in manufacturing are similar. In general, American-owned workplaces pay higher wages than either Australian-owned or other foreign-owned workplaces.

Nicholas *et al.* (1998) found a number of factors to be significant determinants of wage levels in Japanese firms in Australia, including skill, experience, Australian company wage rates and Australia's award system. Age and Japanese company wage rates were not significant determinants in the manufacturing industry, which has large local workforces, but were important for the relatively smaller business units operating in the finance, tourism and trading sectors.

Another tool of Japanese management in Australia is the rewarding of good performance through an annual or semi-annual bonus. According to evidence collected by Nicholas *et al.* (1998), two-thirds of the 65 firms surveyed did not use this incentive system for all staff. In the finance sector (24 firms), half of the firms did not give bonuses. In the manufacturing sector (20 firms), 60 per cent did not give bonuses, but over 70 per cent of the 21 tourism and trading firms used the system to some extent. Trading companies, which have a higher proportion of Japanese expatriate staff, used a bonus system more actively.

Industrial relations policies

Since gaining office in March 1996, the Howard government has sought to reform the labour market to allow greater flexibility and efficiency. It made significant changes to the prevailing environment of industrial relations that affected Japanese companies in Australia. The introduction of the *Workplace Relations Act 1996* reflected the government's aim to transfer responsibility for the determination of terms and conditions of employment from the Australian Industrial Relations Commission (AIRC) to parties at the workplace level. The *Trade Practices Act* was amended in January 1997 to prohibit secondary boycotts and primary boycotts that prevent or hinder Australia's international trade and commerce. The changes reflected the government's aim to avoid 'unlawful industrial action' such as sympathy strikes in other industries.

The changes reflect the government's view that trade unions should not dominate negotiations between employers and employees over terms and conditions. The Act enabled these parties to choose the most appropriate form of agreement for the enterprise concerned, and also provided a set of 20 minimum standards, as laid out in each award. The intention of the government has been to encourage enterprise agreements at the firm level, which would better reflect the particular circumstances of each workplace. It appears that many Japanese companies in Australia support the intention of creating greater flexibility in the Australian labour market.

Recently information has become available on the unionisation of employees of Japanese companies in Australia through the Department of Workplace Relations surveys of Australian workplaces (Bora 1997) and through a separate survey of Japanese companies in three industrial sectors (Nicholas *et al.* 1998). There appears to be a sharp difference in the level of workplace unionisation by industry. Over 80 per cent of Japanese manufacturing subsidiaries were unionised, whereas in the service sector (finance and tourism), over 90 per cent of firms were not unionised (Nicholas *et al.* 1998). The need to interact with unions appears to have encouraged some firms to create intra-firm representative bodies to discuss management issues with workers, but this trend was not evident in other sectors, where there was little union activity.

The high level of unionisation in manufacturing can be explained by the dominance of automobile industry investment in this sector. About 90 per cent of the workforce in the motor vehicle manufacturing sector is unionised and the Australian Manufacturers Workers Union (AMWU) (Vehicle Division), formed in 1995 after the amalgamation of several unions, has the largest representation. Larger companies tend to have higher union memberships, while the rate in smaller companies varies considerably (Industry Commission 1997).

The result of Nicholas *et al.* (1998) supports that of Bora (1997), although both surveys used a relatively small sample of about 40 companies. Both found that the mining and manufacturing sectors are highly unionised for Japanese and most other investors. In services, the union density in Japanese workplaces is considerably below the average for other workplaces – possibly because of a preference of management, but perhaps because of a sample bias towards smaller enterprises with a significant number of non-unionised expatriate staff.

Evidence from studies of Japanese companies in the United Kingdom suggests that a single union is preferred (Dunning 1986: 11). The existence of multiple awards within

companies in the automotive industry means that unions are often concerned with industry-wide or occupational issues, instead of the best means of achieving higher productivity outcomes and consequent wage increases within a firm. Further union-management negotiations can become complex and slow when a number of unions are involved and each has a different political or negotiating aim. Mitsubishi has commented that '[a]n industry focus within the automotive industry is critical to our longer term success rather than the loose, and largely ineffective alliances of a number of unions that have occurred to date' (Mitsubishi 1997: 16).

To simplify the negotiation process, Japanese employers tend to prefer that employees belong to only one union, which is limited to their company. Nissan has argued that:

'...the [aluminium casting] plant was set up in 1982 as a single union site so that production people, maintenance, electricians, fitters, toolmakers, you name it, were all covered and still are covered by the vehicle division of the metal workers. Issues such as demarcation are not experienced in our company, to the point where staff and managers, including myself, do and can run machines without any impediment from union issues. That is not the case in the vast majority of Australian companies and so the frustrations that the majority of Australian manufacturing companies experience with labour impediments, we don't experience.'

(Public Hearing Transcript: 332)

While the aim of the *Workplace Relations Act* is to gradually change to a more simplified and decentralised system with direct bargaining between employees and employers, this concept is difficult to achieve in sectors where industry-wide unions prevail. A move to single firm-specific unions would have various advantages, for example demarcation disputes would be reduced. Further more flexible workplace practices would be easier to achieve with an enterprise-based union, although disputes can occur between trade and non-trade qualified personnel, particular with regard to production line work (Industry Commission 1997: 155).

Official statistics of the incidence of industrial disputes by industry do not distinguish between the extent of local or foreign ownership of the industry. While the likelihood of an industrial dispute is partly determined by the type of industry, the number of working days lost has fallen during the 1990s (Australian Bureau of Statistics 1998). The highest proportion of working days lost per worker is in the construction industry, followed by the coal mining industry, but industrial disputes in manufacturing are also above the overall industry

average, as is the case in the metal production category, which includes the automotive industry.

According to the Australian Workplace Industrial Relations Survey (AWIRS) 1995 survey, Japanese-owned workplaces were subject to strikes at a rate almost three times that of Australian-owned workplaces, although three-quarters of the Japanese employers surveyed reported no strikes during 1994. The high incidence of industrial disputes could be attributable to the one-off problems involved with the initial negotiation of enterprise agreements in the vehicle and vehicle parts industry.

This finding for the incidence of strikes in Japanese subsidiaries in Australia appears less true for other types of industrial action, apart from picketing, since the incidence of stop-work meetings, overtime bans and work-to-rule disputes was lower than for strikes. Compared with Australian workplaces, the incidence of industrial action for Japanese workplaces was higher for all types of industrial disputes, apart from stop-work meetings. The AWIRS survey did not break down disputes by ownership and industry. It is therefore unclear if the incidence of industrial disputes for Japanese companies by industry, for example in the automotive industry, is higher than for Australian companies. The high proportion of Japanese investment in the latter sector could be an alternative explanation.

From 1989 to 1994 rises in labour productivity in the automotive industry were accompanied by a fall in the level of industrial disputes from 20 to two, although in subsequent years the level of disputes has risen. The main Japanese companies in the automotive industry, Toyota and Mitsubishi, have made efforts to reduce the number of industrial disputes. Toyota's *Code of Conduct* for employees, for example, states that '[i]t is agreed by the parties that the most appropriate manner of resolving work related problems is through joint cooperation and the establishment and observance of a clear and practical code of conduct'.

The lifetime employment system is described as one of the 'three pillars' of the Japanese employment system. However even in Japan it applies to only about one-third of employees, particularly male workers of larger companies. The system has also begun to break down in the 1990s with the continuing recession, the rise in corporate failures and greater competition between firms. Further, the life employment system is difficult to transfer abroad, apart from to the small proportion of expatriate staff (Tatsuhito 1994).

Essentially the life employment system applies for Japanese expatriates but not local employees of Japanese subsidiaries. Expatriates are typically hired as lifetime employees

although a high degree of job security is provided for local employees (Nicholas *et al.* 1998). Similar systems apply for Japanese subsidiaries in other countries, such as the United Kingdom and the United States (Gleave and Oliver 1990). Job security for local staff in overseas subsidiaries often follows the precedent established in the host country, since loyalty to the company becomes less important without employment security (Watanabe 1993: 152). The transfer of employment practices, such as a seniority wage structure, is also difficult if the host country has conflicting regulations on wage determination (Koike 1996: 161).

Managers of Japanese overseas subsidiaries actively seek to reduce job turnover and to increase loyalty to the company through other measures apart from the lifetime employment system – such as bonuses based on company performance and gradual increments in wages according to experience to encourage internal training. Typically, Japanese companies in Australia are involved in competency-based training programs and self-managing work teams, with an emphasis on improving skills and job flexibility – both of which are likely to lead to an improvement in operations.

In June 1998 the Australian Council of Trade Unions (ACTU) surveyed union perceptions of the employment and labour practices of Japanese vehicle manufacturing and retail firms in Australia (ACTU 1998). Japanese firms generally achieved above average scores in a range of employment and labour practices, such as providing training and a career path for employees, providing job security, having high standards of occupational health and safety and being committed to equal opportunity principles. Japanese firms were high achievers in the highly unionised vehicle manufacturing industry. In the less unionised retail sector, the performance of firms was lower, but still ‘satisfactory’.

The automotive industry is one of the major locations of Japanese investment and employment in Australia. According to the 1995 survey of the Australia–Japan Economic Institute, there were about 15,000 employees of Japanese companies in the automotive industry, of which 143 were Japanese nationals and 14,985 were local employees (AJEI 1996). Employment practices in the industry have been clearly affected by Japanese production techniques, such as ‘just in time’ and labour management, which have contributed to the significant increase in productivity in recent years (Industry Commission 1997: 56). Similarly, ‘lean production’ originated in the Japanese automotive industry and is a system that encourages a constant improvement in firm performance (Kriegler and Wooden 1985).

Internationally, the vehicle industry has been found to rely heavily on internal promotion (Koike 1977; Newell 1984). In Australia a number of studies have found that

internal promotional ladders and on-the-job training are important for skill development (Chapman 1983). Matsushige (1991) examined internal promotion, job structures and the role of skill in Australian vehicle building companies and found that these constituted an internal labour market within each firm. Most workers in senior positions had been promoted internally to encourage the build-up of firm-specific human capital. Within each internal market, factors such as unions, the legal framework, custom and the level of labour skills determine differences. Nevertheless, while there were strong linkages between lower and higher jobs and skills, skills acquired through apprenticeships and general work could easily be transferred to other companies and were not firm-specific (Matsushige 1991; Longbottom 1985).

Management practices of Japanese companies in Australia have been influenced by the industrial relations environment in Australia (Orpen and Viljoen 1985). A representative of Toyota Australia commented that 'I don't think that there's any...specific systematic change or award change that's going to necessarily solve that problem overnight. It's a cultural change which management have got to engender, not just changing a few words on a piece of paper' (Public Transcript: 264). Similarly, Mitsubishi Australia has commented that: 'Restrictive influences on labour productivity include demarcation between employment categories (production-trade-technical-engineering) which continues to create some inflexibilities and inefficiencies; Mitsubishi is seeking solutions to this issues jointly with the Unions' (Mitsubishi 1996: 12).

According to Toyota Australia, training and communication between management and staff 'have been vital factors in achieving both skills enhancement and attitudinal change', and over A\$8 million a year has been invested in training programs. 'Training is an integral element of Toyota's philosophy of developing a skilled, flexible and motivated workforce able to engage in problem solving and continuous improvement' (Toyota 1997: 5-12).

Mitsubishi Australia also invests considerable resources in in-house training, with a focus on specific shop floor requirements and problems, to the point where '[e]ntry by employees to various pay points in the award is conditional on being able to demonstrate in a work situation that the requisite skills and knowledge levels have been achieved' (Mitsubishi Australia 1996: 11).

A considerable part of the increased labour productivity in the automotive industry and in Japanese vehicle and component producers has come from changing workplace practices (Industry Commission 1997: 90). From 1990 to 1995 labour turnover in Toyota Australia fell

to 13 per cent, costs of workcover claims fell from A\$12 million to A\$4 million and safety in the workplace improved (Toyota 1997: 16).

Over the same period, Denso (formerly Nippondenso), an automotive component company making engine cooling and climate control units for cars, improved sales per worker from A\$75,000 to A\$225,000 and achieved ISO 9001 and QS 9000 certification by March 1997. The total number of lost time workplace injuries for Denso fell from 61 in 1989 (2,700 days lost) to two in 1995 (three days lost) (Industry Commission, May 1997).

The increasing prevalence of enterprise bargaining agreements (EBAs) in Australia has given Japanese (and local) companies more flexibility in awarding incentives for worker efficiency and loyalty. Both Toyota and Mitsubishi have negotiated their own enterprise agreements that are underpinned by individual awards that provide minimum wages and conditions for occupational groups. These agreements have allowed an increase in the flexibility of workplace arrangements and given management access to more flexible terms and conditions (Industry Commission 1997: 17).

The automotive industry has awarded similar wage increases over the past few years due to the similarity of the enterprise agreements negotiated by all four major manufacturers (Ford, Holden, Toyota and Mitsubishi). In 1994, for example, there was a 10 per cent wage increase over three years, with changes to long service leave criteria and accident insurance. Subsequently, firm-specific enterprise agreements have included different productivity agreements and changes to workplace operations. Nevertheless, the similarity in agreements could also reflect the bargaining power of the AMWU and the small number of companies in the industry. Hence Bamber and Lansbury (1996: 11) stated:

'Each of the companies' experiences were reasonably parallel in Australia, not only because they were induced to follow an explicit "pattern" by the AMWU, but also because the senior [human resource and industrial relations] managers met regularly and otherwise kept in close touch with each other. Such coordination between firms was understandable, for they were all operating in the same (fairly small) product market and were subject to the same national industrial relations regulation by government policies and national wage case decisions.'

'Pattern' bargaining is also prevalent in segments of the US automotive manufacturing industry, where wage increases achieved in one workplace are then passed on to other parts

of the industry – resulting in very similar wages (Industry Commission 1997: 147). The automotive sector in both countries is still a bastion of strength for industry-wide unions, and this creates difficulties in establishing firm-specific enterprise agreements basing wage settlements on labour flexibility and productivity. Of course labour productivity in trade-exposed industries is also affected by many other factors, such as government policy and waterfront inefficiencies.

The need for the automotive industry to maintain its international competitiveness has led to calls for increased microeconomic reform and deregulation. Toyota has stated that ‘to be able to improve their competitiveness the car manufacturers need to gain relief from costs imposed on them by other sectors of the economy and governments themselves through their regulatory and tax policies. With regard to access to port services on the waterfront, Toyota stated that ‘improving the reliability of the waterfront is important for Toyota Australia’s future international competitiveness. A particular area of concern is limited access to vessels when they are in port. Access to Melbourne Port is limited to 15 hours a day. By comparison overseas ports load/unload containers 24 hours a day’ (Industry Commission 1997: 36).

Although the introduction of enterprise bargaining in Australia has allowed greater scope for labour flexibility and higher productivity in the automotive industry, there are still problems such as the complexity of the award system, the maintenance of award conditions, pattern bargaining within the automotive industry and restrictive work practices. The Industry Commission (1997: 148) found that:

‘The awards that cover workers in the automotive industry and underpin enterprise agreements are extensive in their coverage, rigid and complex. The current Vehicle Industry Award covering much of the industry consists of over 160 pages with over 50 clauses. The award is very prescriptive, covering issues such as hours of work, pay conditions, overtime shift rates, leave conditions, safety checks to tools and work areas, special conditions for watchmen and gatekeepers, tea breaks and training requirements. As many enterprise flexibility agreements have shown, there is scope for awards to be significantly less prescriptive and to be written in terms that are easier for those affected by them to understand.’

Japanese companies have sought the cooperation of unions in improving efficiency and are not opposed to unionism in their workforces. Japanese motor vehicle producers are critical

of the inflexibility of the industrial relations system in a number of areas. It is generally perceived that the centralised wage fixing system and current structure of the union movement inhibit the ability of workers and managers to work together for the overall benefit of the enterprise and that these arrangements are in need of overall change. Toyota has stated that:

‘With regard to the [then] proposed *Workplace Relations Act*, Toyota Australia supports the broad thrust of a more deregulated approach and greater enterprise initiative and involvement in determining outcomes. Our experience of the past six years, however, indicates that development of best practice labour relations is a step-by-step process. The legislated change should establish a better framework to manage the development, but much remains to be done.’ (Industry Commission 1997, sub 15: 30)

While improvements have been made in recent years, the organisation of work in the automotive industry is still not as flexible as it could be. Mitsubishi Motors Australia has commented that the current system has a number of constraints:

‘Progress in team based production – a key Mitsubishi objective for the remainder of the decade – has been limited to some extent by the current enterprise bargaining process as a result of both the interaction between different unions and the restrictive effect of pattern bargaining on the development of team based production groups... In addition pattern bargaining and reliance on strict relativity relationships between companies is a restraint on the localised development of innovative and progressive work practices, especially when compared to overseas company based union structures which tend to encourage the pursuit of common objectives.’ (Industry Commission 1997: 144).

In the early 1990s Toyota Australia experienced difficulties with the industrial relations environment it faced – due mainly to excessive regulation under the centralised wage-fixing system, which defined craft or trade occupations in a narrow way and prevented an increase in labour flexibility. The existence of a number of industry-wide unions made it difficult for the company to negotiate on enterprise-specific issues (Industry Commission 1997).

In 1991 Toyota began negotiations with the Australian Council of Trade Unions (ACTU) and the Vehicle Builders Union (VBEF) – now the Vehicle Division of the AMWU – to reach

agreement on union coverage for the company's new manufacturing plant at Altona in Victoria. Toyota Australia's wanted to achieve the following (a) a fixed term agreement with binding dispute resolution procedures; (b) increased employee skilling and flexibility; (c) single employee representation in an enterprise-specific union; and (d) a wage outcome linked to Toyota Australia's performance. The 1991 agreement featured a common agreement by management and unions on the need for change in workplace relations, but has not led to complete success from the management's perspective.

Toyota aimed to consolidate vehicle manufacturing at a new A\$420 million plant at Altona – to which production facilities at Port Melbourne and Dandenong would be transferred. According to the company '[w]e worked very closely with our supplier network. We worked very closely with our local community, and we also had federal government assistance with manpower to try and seek opportunities for those people who could not take the opportunity to move to Altona'. Only 20 per cent of the employees at Dandenong chose to move to Altona, despite financial incentives from the company (Toyota 1997: 230).

In 1995 Toyota opened the Altona plant but it experienced an increase in labour disputes at the plant as it successfully sought to establish a one-union enterprise agreement. Since then, considerable progress has been made on improving labour–management relations and productivity increases have continued to be made, in part because of the increased flexibility allowed by the enterprise union and other changes (Toyota 1997).

Conclusions

Australia has attracted the full gamut of investment opportunities for Japanese investors – from agricultural, forestry and fisheries investment, to minerals and energy resource development, to vehicle manufacturing, financial services, real estate and tourism. The motivation for Japanese investment in Australia has varied significantly by industry, size of firm and export orientation as successive waves of investment occurred in the postwar period (Drysdale 1993).

While the need to secure supplies of raw materials and energy was a key motivation for Japanese FDI in resource development in Australia, the relatively small domestic market discouraged manufacturing FDI unless import barriers provided an incentive to establish local operations. A considerable part of FDI has been associated with establishing wholesale and retail networks to facilitate bilateral trade and provide a distribution network for locally

established Japanese firms. Much of the boom in property investment in the 1980s was ephemeral in nature and plummeted after the collapse of the bubble economy.

Japanese investors clearly prefer full ownership to the alternatives, such as licensing or partial ownership and this is also the case in Australia (Nicholas *et al.* 1996: JCCI 1997). The proportion of full ownership of Japanese subsidiaries internationally is 56 per cent (Toyo Keizai 1994) and 66 per cent for Australia (JCCI 1997) which is comparatively high for direct investment. This ratio rises for majority ownership to 86.5 per cent for all international operations (Toyo Keizai 1994) and 77 per cent for Australia (JCCI 1997).

Clearly, Japanese investors prefer not to be passive managers, especially in sectors such as manufacturing. The high number of joint ventures reflects the involvement of many firms in large resource projects in which ownership must be shared because of their scale and cost. A similar pattern of ownership is also evident with Japanese resource development investment in Brazil and Canada where the size of projects discouraged majority ownership (Beamish 1997) and long-term contracts could have a similar influence on the production and trade.

Foreign investment requires not only the establishment of overseas factories and offices but also the training of local workers, and the effectiveness of this process is a key determinant of the productivity of overseas subsidiaries (Koike 1996). However, little research has been conducted on the flexibility and productivity of Japanese workplaces in Australia compared with other workplaces, so that it is not possible to directly compare the performance of Japanese management in Australia.

The role of Japanese management in Australian subsidiaries appears similar to practice elsewhere in the world – Japanese managers accounted for 82 per cent of chief executive officers (CEOs) in the United States and 63 per cent in Asia (Watanabe 1993). In Australia, a survey of 397 firms found that 87 per cent had Japanese CEOs, while the remainder had local managers (JCCI 1997).

The higher number of small subsidiaries in Australia may explain the higher ratio of expatriate to local managers. The ratio of expatriate employees involved in management is low for firms involved in resources, mining and energy – areas in which Australian industry and management are internationally competitive. In tourism and travel, where expatriates have niche knowledge of the market and many customers are Japanese nationals, the ratio of local management is much lower.

The manufacturing and commerce sectors are the major generators of employment in the Australian economy. Only 6 per cent of local staff in Australia were involved in management positions (Table 11). This ratio was 5.9 per cent for manufacturing, 13.4 for commerce and over 24 per cent for finance and insurance – due to the increasing need for local expertise in these industries. Similarly, Japanese subsidiaries appeared to employ fewer local managers and administrators than other foreign-owned workplaces (Bora 1997). These findings support the conclusion that Japanese multinationals are more heavily reliant on expatriate management (Negandhi *et al.* 1985).

As noted earlier, Japanese investors are concerned about the poor reputation of Australian unions, particularly the number of unions and the time needed to negotiate, the restrictive award system and the traditional craft-based coverage of many unions (Keizai Doyukai 1990). Other surveys have also found that labour market problems have discouraged inward FDI and motivated outward FDI (Industry Commission 1996).

Recent developments to increase the extent of enterprise bargaining and introduce intra-firm workplace agreements appear to have been welcomed by Japanese management in Australia and may overcome some of these actual or perceived problems. Nevertheless, in some areas, such as the automotive industry, high union density has made labour productivity improvements more difficult to implement and it is not clear that industrial disputes are lower because of the different management paradigm of Japanese firms.

Labour turnover appears lower in Japanese subsidiaries in Australia than in Australian workplaces generally (Bora 1997) and, while a small sample was used, this finding is consistent with international studies. Greater job security encourages longer term training and skilling, which is traditionally enterprise-intensive training in the Japanese management system (Curtain 1993). Since the seniority system in the Japanese employment model restricts short-term rewards for ability, it seems that turnover may be higher for skilled employees, such as engineers (CEDA 1989).

Since the beginning of the century, Japanese trading companies have aided the expansion of bilateral trade. A significant part of Japanese investment has been in trade-exposed areas, such as mining and energy and tourism, and the ratio of exports to total sales is relatively high (Drysdale 1993). The development of Australia's resources was accelerated by the demands of fast-growing Japanese industry in the 1960s and 1970s, thus allowing a more rapid expansion of the Australian economy.

According to the JCCI (1997) survey, two-thirds of Japanese subsidiaries were primarily oriented towards the domestic market. A separate survey found that the operations of 90 per cent of non-manufacturing firms were based on the local market, while for manufacturers, this ratio dropped to 69 per cent (CEDA 1990). Japanese subsidiaries were found to be more export-oriented than Australian firms by Bora (1997). Japan is the major market for Japanese subsidiaries but exports to other countries are becoming more important.

Japanese investment in Australia is notable for its range, duration and seminal role in stimulating the growth of the Australian economy and the pattern of bilateral trade. Indeed, given the scale of the trading relationship which developed after the formalisation of economic and diplomatic ties in 1957 through the Australia–Japan Agreement on Commerce (DFAT 1997), it is possible that investment flows could have been even larger. Some Japanese firms have been reluctant to invest in the Australian manufacturing sector because of concern over industrial relations practices and the relatively small domestic market (Keizai Doyukai 1990). The recent maritime dispute in Australia was a reminder of the high level of industrial disputes in Australia in past decades, together with uncertainties over the reliability of delivery, which appear to have deterred potential investment.

Apart from the positive benefits of Japanese capital flows into Australia, there are also benefits through the transfer of management skills and technology. While it is difficult to be precise over the impact of such transfers, which also reflect the innate advantages of the investor (Dunning 1993). The greatest benefit would occur in sectors with a higher ratio of expatriate management, such as tourism and transport. Japanese managers had a key role during the 1980s in creating a tourism infrastructure of hotels and resorts. In the minerals and energy sector, it would seem that Japanese entrepreneurial ability and the ability to facilitate market access into Japan was a vital part of investment in this area.

The manufacturing sector is traditionally seen as one in which Japanese management and technology can provide a key advantage. While it is difficult to assess the relative productivity and efficiency levels of Japanese and other foreign-owned or Australian workplaces, overall performance is not dissimilar in the automobile industry (Industry Commission 1996), possibly because of the barrier which high unionisation places on improvements in enterprise-specific operations. It should also be noted that Japanese investment in this sector was motivated by import barriers and government incentives, rather than the opportunity to export to world markets in a low-cost environment (Ishida 1994). However, Japanese subsidiaries in Australian manufacturing are becoming more

outwardly oriented as protection falls, while new opportunities are being developed in many other areas.

Overall, Japanese subsidiaries in Australia appear to have relatively similar employment and industrial relations practices as other firms. There is a general acceptance of the prevailing local award and workplace agreement system by Japanese firms, although minor modifications, such as bonuses, above-average remuneration, greater security and training have been implemented. The diffusion of management to local employees appears to be slower in Australia than in other industrialised countries – possibly because of the different mix of industries that have attracted investment, and the somewhat smaller scale of subsidiaries. While the general pattern of Japanese investment is clearer from comprehensive surveys such as that of the JCCI (1997) it is evident that more reviews of particular cases and firm-specific studies are desirable to assess the contribution of Japanese firms in more detail.

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