Chapter 4 Finance and Investment

By contrast with the major trading relationship which has developed between Australia and Japan, the finance and investment links connecting the two countries have been much more modest. Although this situation has begun to change, it is apparent that for the foreseeable future trade will continue to be the dominant feature of Australia-Japan economic relations. Moreover, it should be noted that the movement towards closer financial contacts has, at least in part, been a response to the already established trading relationship.

Increasing financial co-operation between the Governments of the two countries was exemplified by the 1969 comprehensive agreement on double taxation, designed to eliminate double taxation and to apportion the relevant taxation revenue between the two countries. Japanese investment in Australia has been facilitated by this agreement. Direct personal contact at a financial level was improved three years ago by the Commonwealth Treasury's appointment of a senior officer to represent it in Tokyo. This appointment has proved of value as economic relations between the two countries have developed. Although no Japanese owned or controlled bank has been granted authority to conduct banking business in Australia, eleven Japanese banks have been given approval in recent years to establish representative offices in this country. These offices are required to confine their business to liaison activities between the bank concerned and its business connections in Australia. Similarly, four Australian banks have representative offices in Tokyo. In recent years, also, many foreign (including Japanese) banks have acquired equity interest in, or formed associations with, Australian institutions in the 'merchant banking' field. The merchant banking companies are operating predominantly in areas of corporate finance and advice, and the activities of those with Japanese associations include the financing of trade and joint Australian-Japanese business ventures.

Capital Market

The spectacular improvement in the Japanese balance of payments from 1968 onwards has also stimulated closer financial and investment links between the two countries. Japan has substantially liberalised controls on its capital market and on investment overseas by domestic residents. The last two or three years have seen the opening of Japanese securities to overseas borrowers by the flotation of yen-denominated bond issues, mainly to international agencies such as the World Bank and the Asian Development Bank.

During 1972, the Australian Government made an issue of ¥10,000 million ($A27 million) in Tokyo, thereby becoming the first foreign government to be granted permission by the Japanese authorities to borrow on that country's developing capital market. The background to the loan was the Commonwealth's recognition of Tokyo's emerging status as an important financial centre, at a time when the United Kingdom and United States capital markets were declining in importance for Australia. The borrowing in Japan was designed to establish a position for Australia in the Tokyo market and has contributed to closer relations between Australian authorities and the Japanese Ministry of Finance and the Bank of Japan. Over the last six months or so, a number of other foreign governments and companies have been raising funds on the Japanese capital market.

Investment

On the investment side, Japan has been demonstrating an increasing interest in Australian projects over recent years. To date there has been little portfolio investment from Japan due to restrictions imposed by the Japanese Government, but this is now changing. However, direct investment rose from $A20 million in 1969-70 to $A57 million in 1970-71. Estimates given to the Committee suggest that total Japanese investment might rise to several hundred million dollars within a few years. While these figures represent a rapidly increasing Japanese interest, they are still minute by comparison with the capital inflow from British and United States sources.

Japanese investment in Australia has had two significant features. First, it has been concentrated in resource projects, such as iron ore, coal, alumina and woodchips. In its submission to the Committee, the Department of National Development provided a table showing the major Japanese interests in Australian mineral projects, and this table has been reproduced as Appendix VII. Although Japanese investment has been concentrated in the mining sector, it should be noted that even here it is but a small fraction of total overseas investment. Other investment by the Japanese has been in the manufacturing and financial sectors. Second, the Japanese have shown a preference for joint ventures with majority or substantial local equity participation.

The question of joint ventures, and of Japanese participation in Australian raw material projects generally, prompted a number of somewhat conflicting views to be placed before the Committee. The principal advantages of Japanese investment as seen by a number of witnesses were that it:

- spreads the foreign ownership component in raw material projects rather more widely;
- conforms to the Government's stated preference for foreign investment to be on a partnership basis;
- introduces a welcome technical expertise from the point of view of the raw material consumer; and
- helps to ensure a market for the product of the project being developed.

On the other hand, several witnesses suggested to the Committee that

Japanese participation in such projects could in certain circumstances be disadvantageous to Australian interests in that:

- the Japanese partner may seek to limit the project's sales to non-Japanese markets;
- in times of over-supply, Japanese importers might give preference to those overseas suppliers in which there is Japanese equity participation; and
- the Japanese participant in a joint venture may be more interested in achieving a measure of control over a particular resource and obtaining supplies of that resource at the lowest possible cost, rather than in the profitability of the project itself.

In amplification of this last point, the Committee was informed that Japanese investment overseas is normally handled by trading houses, whose major source of income is the commission they receive from raw material consumers in Japan for financing, shipping and insuring the imports. It has been suggested that the first loyalty of these trading houses would probably be towards their customers in Japan rather than their partners overseas.

The Committee is deeply conscious of the potential dangers which have been identified. However, it would appear that so long as Japanese participation in resource projects continues to be on a minority basis, the disadvantages can be minimised. It is obvious, therefore, that this is an area requiring careful scrutiny by the Australian Government so that if any of the potential dangers becomes real, appropriate action can be taken to protect Australian interests. In the meantime, it is equally obvious that Japanese investment in Australia has a number of significant advantages and in consequence it should be encouraged.

In discussing the question of foreign capital and export sales to Japan, the subject of the United States anti-trust laws was raised with the Committee on several occasions. United States owned or controlled companies have sometimes declined to co-operate with other companies in Australia in such matters as joint marketing arrangements on the grounds that, since Australian law does not compel them to co-operate, their participation would constitute a breach of the anti-trust laws. It is worth recording in this context that the Committee's attention has been drawn to an official statement made to a United States Senate sub-committee which said that a host country would only have to encourage (not impose) the co-operative marketing arrangements in order for an American company to avoid any danger from the anti-trust laws.

The future is likely to see a rapid increase in Japanese investment in Australia. The Japanese recognise this country as an attractive area for natural resource-oriented investment, and have been conducting a number of in-depth studies over recent years of the opportunities available. As a consequence, they have indicated that large scale investment will be forthcoming for such future projects as the supply of natural gas. This trend will most probably be accompanied by other closer financial links which will give further expression to an already substantial economic relationship. However, it has become apparent to the Committee over the course of the inquiry that the future stability and success of Australia-Japan relations must be based on other than purely economic factors. A greater understanding of the culture and society of the other appears to the Committee to be exceedingly important, and forms the subject of Chapter VI.