

Aspects of Japan–Australia Economic Relations in the 1990 s : Especially Trade in Services^{*}

Clem Tisdell^{**}

1. Introduction

In analysing economic relations between Japan and Australia and the issues likely to be important in these relationships in the 1990 s, the changing international economic and political scene must be considered. With the end of the Cold War and the rapprochement between the Soviet Union and Western countries, and better relations between the Soviet Union and China, coming on top of China's improved relations with the rest of the world, new international economic frameworks are emerging, although the exact form that they will take is not yet certain. But a whole new set of possibilities has been opened up. One view is that absence of confrontation between the USA, the Soviet Union and China will result in reduced American and Soviet presence and influence in the Asia–Western Pacific region creating somewhat of a power vacuum. In the short and medium term, Japan is likely to fill that vacuum but in the longer term, it is conceivable that China's influence could grow if it is able to realise its development programs, if Hong Kong can be integrated successfully and if satisfactory arrangements for the 'reunification' of mainland China with Taiwan can be made. In any case, there is little doubt that in the longer term there is likely to be some rivalry (hopefully friendly) by several nations for leadership in the Asia–Western Pacific Region.

The importance of these issues were recognised in the Report by Drysdale, Viviani, Watanabe and Yamazawa (1989). They state :

^{*} Contribution towards joint research project of Centre for Australian Studies, Otemon Gakuin University, Ibaraki City, Osaka (Director Professor Yoshihiro Toyama), and Department of Economics, University of Queensland, supported in part by Monbusho. I wish to thank Professor Toyama for his useful comments on earlier drafts of this paper but I am responsible for any shortcomings.

^{**} Department of Economics, University of Queensland, Brisbane 4072.

“Japan is emerging as a new power with global reach: its role is pivotal in the restructuring of the regional and international economic system of Asia and the Pacific. Yet the character of Japan’s future role is just emerging and close Australian cooperation in forging regional and global trade, economic and political interests is likely to be highly valued by countries of the Pacific region” (Drysdale *et al.*, 1989, p. 5).

Whether or not they have in mind an economic and political alliance between Japan and Australia in the Asia–Western Pacific area is uncertain but certainly closer international links between the two countries are envisaged with Japan increasingly assuming the role in the region previously filled by the United States. This is believed to be an outcome of the decline in relative economic power of the United States and an “erosion of its ‘rule making’ authority and capacity in the international economy”.

But apart from the changing international scene which is bound to alter relationships between Australia and Japan, Japan has now reached a ‘mature’ stage in its own economic development. This has already altered its trading and investment pattern with Australia, and will continue to do so. The Japanese economy is developing more towards a service industry and knowledge-intensive economy with reduced emphasis on heavy industry, bulky manufacture and non-sophisticated (or lower tech) manufacturing. Such industries have in recent years tended to gravitate offshore sometimes supported by Japanese investment. In any case the international interdependence of Japan has been vastly extended by its large foreign investments. Japan is now the world’s largest foreign investor.

2. Some Further Points About the Changing World Economic Scene

A very significant development in modern times has been the rise of the European Economic Community and the extension of that Community to include an increasing number of European countries, and more recently the likelihood of East European countries joining the economic bloc. In the longer term, the Soviet Union or more likely, following the political upheaval of August 1991 because of the failed coup in the Soviet Union, some of its former states such as the Baltic states may also forge links with this Community. As a result, a stronger economic (and political) bloc has been formed which provides increased competition for non-bloc members,

e. g. US and Japan. The possibility exists of non-EC countries being to some extent locked out of European markets or of finding it difficult to compete with EC countries because of economies of scale within the Common Market.

The United States formed a free trade association with Canada and this may be extended to include Mexico. Once again there are fears of non-bloc members being to some extent locked out of North American markets, particularly as economic rivalry between Europe and North America intensifies. Australian interests in relation to agricultural exports have already been damaged by the economic rivalry between the EC and the USA and Japan has been put under severe political and diplomatic pressure by both 'blocs' in relation to its exports.

Japan, Australia, New Zealand and other countries in the Western Pacific located in a broad band between Japan and Australasia do not belong as a group to any significant free trade blocs or common markets. But all have the common aspect that (1) Japan is an important export market for them and (2) Japanese direct investment is significant in each. Japan has an interest in their economic welfare because it is closely linked to its own through trade, possibilities of trade extension and levels of return on Japan's foreign investments in the region.

Japan appears to have reacted in two main ways to changing world developments. These are (1) by increasing its direct investment in the EC (and likely future EC countries) and in North America and (2) by also continuing to promote economic development through its direct investment in the East Asian-Western Pacific Region.

The first mentioned policy is partially an insurance. It means that Japanese firms will be able to get behind trade barriers if they become significant in the EC and North America, and it can also continue to profit from any international advantages which it has in knowledge-intensive industries. New Japanese techniques and products can be transferred to these markets relatively quickly. This is important for Japan if it is to reap the full economic benefits from any advantages that it builds up in the knowledge-intensive area. Multinational companies provide suitable vehicles for such transfer. Advantage is still taken of the monopoly-profit element not through direct international trade but through direct investment (Tisdell, 1981, pp.42, 84, 85, 198). Since Japan's own market is relatively small, it is essential for the economics of its present operations (in order to maintain its past rate of economic advance) to obtain penetration into the

3. More on East Asian Development, Japan and Relationships with Australia and New Zealand

From an economic point of view Australia and New Zealand can be considered as one. While their combined economies are not of insignificant size, their combined GDP is only 10–20 per cent of that of Japan (depending upon the basis of the estimate). Nevertheless Australia's GDP exceeds that of any other economy in the Asian–Western Pacific region except the GDP of Japan and China.

The relative sizes of economies in the East–Asian Pacific region based on 1987 GDP estimates as quoted by Garnaut (1989) are indicated in Table 1. For comparative purposes I have treated Japan's GDP as unity, the GDP of the USA plus Canada in 1987 was 2.63, and the GDP of the EC was 2.57. This meant that Japan's GDP was approximately 38% of that of each of these groups. However, if World Bank (1990) estimates for 1988 are used the comparative size of Japan's GDP is greater. For example, it is almost 54 per cent of the combined GDP of the USA and Canada.

GDP within the East Asian–Western Pacific region as a whole appears to be around 80 per cent of that in the EC and in North America. But between countries in the East Asian–Western Pacific region there is much greater economic disparity in terms of stages of development and much less cultural homogeneity than in the EC or North America. These disparities create greater challenges for economic integration in this region. However, the levels of GDP of less developed countries in East Asia are growing rapidly and economic disparities are being reduced relatively quickly. In the next century most countries in this region can be expected to be

Table 1 Relative Sizes of GDP for Selected Countries or Groupings in East Asia–Western Pacific 1987 in Comparison to Japan

Country or Group	Relative Size of GDP
Japan	1
China	0.4
ASEAN	0.17
Australia+New Zealand	0.15
Australia	0.13
S. Korea	0.08
Taiwan	0.05
Hong Kong	0.03

Source: Partially estimated from Garnaut (1989) Table 1.1

European and North American market. Otherwise much of the overhead on its R&D will not be recouped.

On the other hand, it needs to be borne in mind that it is not always easy to penetrate overseas markets successfully by direct foreign investment. For one thing, it is necessary to carry on business operations at a distance, sometimes a considerable distance, from the home country. This results in communication problems within the firm and increases the difficulties of its management. If the special advantage of the firm is relative to its management, this extension of its business activities can become a serious problem because spans of control may become too large for management to be effective. Furthermore, it may prove to be difficult to transfer top or competent managers for any length of time, or at all, to host countries. In addition, the company's management practices in the host country may need to be altered to cater for different socio-economic conditions to those in the home country. Sometimes substantial change is needed and in a different socio-economic setting the company may not have an approach to management which is decidedly superior to that of its rivals or other companies in the host country. As is well known, being successful in business requires much more than being *able* to produce technically superior products. As Japanese direct investment abroad becomes larger, Japanese top management may become spread more thinly and this will involve new challenges for successful business operations.

The second string to Japan's bow is closer ties and economic interdependence within the East-Asian Pacific Region. Whereas the first line of action yields economic benefits indirectly, the second is more direct in its economic import. The benefits in the latter case are principally to be obtained by encouraging greater international exchange in the region, although direct investment is a part of this focus also. Thus the size of the market for all in the region including Japan can be increased. In the longer term this may be the more secure strategy. This is not to say that the first strategy is entirely a substitute for Japan's trade. Indeed the presence of Japanese multinational enterprises within the blocs mentioned above can provide scope for international trade within the enterprises. Some of these supplies could be sourced from Japan and, as appears not uncommon in the case of multinational enterprises, some can be used for transfer pricing. But within the blocs industrial competition could be intense and it is not yet clear whether Japanese firms will outperform local firms e. g. German firms.

3. More on East Asian Development, Japan and Relationships with Australia and New Zealand

From an economic point of view Australia and New Zealand can be considered as one. While their combined economies are not of insignificant size, their combined GDP is only 10–20 per cent of that of Japan (depending upon the basis of the estimate). Nevertheless Australia's GDP exceeds that of any other economy in the Asian–Western Pacific region except the GDP of Japan and China.

The relative sizes of economies in the East–Asian Pacific region based on 1987 GDP estimates as quoted by Garnaut (1989) are indicated in Table 1. For comparative purposes I have treated Japan's GDP as unity, the GDP of the USA plus Canada in 1987 was 2.63, and the GDP of the EC was 2.57. This meant that Japan's GDP was approximately 38% of that of each of these groups. However, if World Bank (1990) estimates for 1988 are used the comparative size of Japan's GDP is greater. For example, it is almost 54 per cent of the combined GDP of the USA and Canada.

GDP within the East Asian–Western Pacific region as a whole appears to be around 80 per cent of that in the EC and in North America. But between countries in the East Asian–Western Pacific region there is much greater economic disparity in terms of stages of development and much less cultural homogeneity than in the EC or North America. These disparities create greater challenges for economic integration in this region. However, the levels of GDP of less developed countries in East Asia are growing rapidly and economic disparities are being reduced relatively quickly. In the next century most countries in this region can be expected to be

Table 1 Relative Sizes of GDP for Selected Countries or Groupings in East Asia–Western Pacific 1987 in Comparison to Japan

Country or Group	Relative Size of GDP
Japan	1
China	0.4
ASEAN	0.17
Australia + New Zealand	0.15
Australia	0.13
S. Korea	0.08
Taiwan	0.05
Hong Kong	0.03

Source: Partially estimated from Garnaut (1989) Table 1.1

middle-income countries at least and the level of production in this region is likely to have overtaken that of North America and the EC.

While countries in the East Asian–Western Pacific region have strong trading links with Japan, Japan remains to a considerable extent dependent on North America and Europe for export markets.

4. Trade Between Australia and Japan

In 1988, approximately 27 per cent of Australia's exports were to Japan. Exports to East Asia were 51.3 per cent of Australia's exports (43.2 per cent to Northeast Asia, 8.1 per cent to ASEAN). Adding 5 per cent of Australia's exports to New Zealand, the East Asian/Western Pacific accounted for over 55 per cent of Australia's exports in 1988. North America and Western Europe accounted for 28.2 per cent of Australia's exports, a proportion which has risen slightly since 1980.

Japan accounted for about 20.1 per cent of Australia's imports in 1988 and the East Asian–Western Pacific Region for around 41 per cent of Australia's imports. However North America and Western Europe accounted for more than half of Australia's imports (51.9 per cent) — a proportion which has been relatively constant since 1980 but which is significantly lower than in the 1970 s. Japan's share in Australia's imports has shown an increase since 1980 but relatively imports from other Northeast Asian countries have increased at a much faster rate than Australia's imports from Japan.

The composition of Australia's exports to Japan have altered significantly in the last 15 years or so. The most significant change has been the increase in the proportion of Australia's exports to Japan accounted for by manufactures. These rose from 5.6 per cent of Australia's exports to Japan in 1975 to 25.5 per cent in 1988 (see Table 2). While a large proportion of these 'manufactures' is processed minerals and metals, the proportion accounted for by elaborately transformed manufactures is also increasing¹⁾. In 1988 for example, elaborately transformed manufactures accounted for 28 per cent of Australian exports of manufactures to Northeast Asia.

1) Elaborately Transformed Manufactures (ETMs) correspond to non-metal manufactures and Simply Transformed Manufactures (STMs) refer to metal manufactures, such as basic unworked iron/steel and non-ferrous products. ETMs cover all SITC groups 5, 7, 8 and all of 6 except 67–68 which refer to STMs (The Treasury, 1991, p. 22).

A strong rate of growth in exports of Australian manufactures has continued generally and to Japan. A recent Australian Treasury publication states: "The strong growth in manufactured exports has been a notable feature of Australia's trade performance in recent years. The strength and duration of the growth in manufactured exports suggests that it is not a product of temporary or cyclical factors but represents a structural change in Australia's pattern of trade" (The Treasury, 1991, p.21). This expansion of trade has occurred both for simply transformed manufactures and elaborately transformed manufactures.

Between 1983 / 84 and 1989 / 90 Australia's exports of simply transformed manufactures to Japan increased by 320% and exports of elaborately transformed manufactures by 334% (The Treasury, 1991, p. 29). In 1989 / 90 Japan was Australia's largest single overseas market for simply transformed manufactures (e.g. processed metals such as aluminium) but as a market for Australian elaborately transformed manufactures it was exceeded by New Zealand (the main market), USA (second largest market), EEC, ASEAN and North Asia (excluding Japan) and its ratio of simply transformed manufactured imports to elaborately transformed imports of manufactures from Australia were much higher than for other countries or groupings of countries (Cf. The Treasury, 1991, p.29, Table 1 figures). Some of the reasons for this are suggested below.

Australian exports of elaborately transformed manufactured goods are diverse and include machinery, transport equipment, scientific equipment, etc. Australia's main simply transformed manufactures are aluminium, and iron and steel (see Treasury, 1991, p.30).

As can be seen from Table 2, manufactures show a very significant rise in

Table 2 Changing Composition of Australia's Exports to Japan. Percentage Composition

Items	1975 %	1988 %	Difference
Manufactures	5.6	25.5	+
Coal	22.0	22.4	∞0
Foodstuffs	21.5	16.5	—
Iron ore	24.1	10.9	—
Wool	9.8	10.2	∞0
All others	17.0	14.5	—
	100.0	100.00	

Source: Based on Drysdale *et al.* (1989, p.17)

proportionate terms. The most significant relative decline is in iron ore exports to Japan. This is partly because more iron ore is being exported in processed form (pellets, steel and iron bars) and because of the relative decline in the Japanese steel industry. Coal as a proportion of Australian exports to Japan has remained approximately constant, even though Japan is still Australia's major overseas market for coal. This lack of growth in coal as a percentage of Australian exports to Japan is a result of Japan's increased focus on industries consuming less energy per unit of output and diversification of Japan's imports of coal geographically. There is unlikely to be a large expansion in Japanese demand for Australian coal during the 1990 s. Exports of Australian foodstuffs to Japan have declined as a proportion of Australia's total exports to Japan. This partially reflects the fact that demand for foodstuffs is relatively income inelastic. As Japanese incomes continue to rise demand for foodstuffs can be expected to rise but less than proportionately with the largest increase in demand occurring for better quality product. While Japanese trade liberalisation in recent times, for example in relation to beef exports, has enabled Australia to obtain better access to the Japanese market for its foodstuffs, Australia has had to face intense competition in the Japanese market from other exporters principally the United States and the threat of similar exports from the EC. The industrial countries involved in this competition have heavily subsidised their agriculture, in contrast to Australia. It is of considerable concern to Australia that this type of commercial policy has been adopted by major industrial powers despite their ideological support for free trade.

The composition of Japan's exports to Australia has also altered but not as significantly. The most noticeable features are the decline in the relative importance of textile exports, a large proportionate rise in exports of scientific and optical

Table 3 Changing Composition of Japan's Exports to Australia. Percentage Composition

Items	1975 %	1988 %	Change
Textiles	9.6	2.6	–
Motor vehicles	22.9	24.1	+
Scientific and optical instruments	2.1	4.0	+
Other machinery and equipment	38.1	45.4	+
All others	27.3	23.9	–
	100.0	100.0	

Source: Based on Drysdale *et al.* (1989, p. 19)

instruments with smaller proportionate increases occurring in motor vehicle exports and other machinery and equipment. The changes are clear from Table 3.

Expansion in future commodity trade between Australia and Japan is likely to be dependent upon greater two-way trade in elaborately transformed or knowledge-intensive manufactures. This may enable Japanese direct investors in Australia to obtain the best possible return on their capital, especially if it results in international specialisation of production within multinational companies. While natural resource-based exports to Japan will continue, one would expect these to become comparatively less important as a component of trade.

Exports of natural resource-based goods from Australia to Japan are unlikely to expand as much as in the past because Japan is concentrating on less energy-intensive industries (including more knowledge-intensive industries), many of its traditional or heavy industries have moved offshore such as textile production and steel production and its main expansion now is coming in its service sector rather than in its manufacturing sector. On the other hand as other less developed countries in Northeast Asia continue to grow, their demand for Australian natural resource-based commodities is expanding and this expansion is compensating for decrease in the rate of expansion of these exports to Japan. Also in some cases Japan has encouraged the addition of greater value to such commodities in Australia prior to export. This is especially evident in relation to alumina and aluminium production which involves the use of large amounts of energy and which can be the source either directly or indirectly of considerable pollution.

Many developed industrial countries have a high degree of trade between them in manufactured goods even in the same type of product. This might be expected as a result of product differentiation and economies of scale. But two-way trade in manufactures between Australia and Japan has been relatively slow to develop. Partly this is because Australia is not perceived abroad as a manufacturing country but rather as a producer of primary products. But manufacturing production in Australia accounts for a much larger proportion of the workforce and contributes more to Australian GDP than does primary industry. Manufacturing, for example, contributed 21 per cent to Japan's GDP in 1988 and 18 per cent to Australia's GDP with agriculture contributing 4 per cent Australia's GDP and 3 per cent of Japan's (World Bank, 1990, p. 183).

One of the reasons why there may have been less expansion in trade in

manufactures between Australia and Japan than might have been hoped for by Australians, is the relatively low comparative level of Japanese direct investment in manufacturing in Australia. Other reasons are suggested below, such as the nature of the Japanese market for finished goods.

At present the East Asia–Australia region is heavily dependent upon final markets in North America and the European Communities via a triangular relationship which in the past has broadly involved supply of raw materials to Japan by countries in this region, for manufacture of goods exported by Japan to North America and Europe. Countries in this region in turn purchase capital equipment from North America and Europe for the production of raw materials for Japan. However increasingly Japan has also become a source of their capital equipment. In part, the latter has added to the balance of payments problems of the United States. This may be a major factor in a long-term sense in destabilising multilateral balances in trade. In the long term the economic *trade* dependence of the East Asia–Australasia region on North America and Europe may only be reduced by greater trade between countries in this region in manufactures. Positive regional economic policies need to be considered by countries in this region with this end in mind.

5. Trade in Services Between Australia and Japan

The Australian economy is relatively oriented towards the supply of services. In 1988, 61 per cent of its GDP was attributed to services compared to 51 per cent for Japan. In the past, however, this was not to any great extent reflected in Australia's international trading. Improved communications have now made possible greater international trading in services and Australia is making greater efforts to take advantage of this as recommended by the Garnaut Report (Garnaut, 1989). This Report particularly emphasises tourism and education as possible foreign exchange earners. However, research services, finance, consulting services, medical services, management and other professional services are also possible areas for expansion in relation to international exchange.

One of the most significant changes that has been occurring in the economic relationship between Australia and Japan recently has been the increase in trade in services. Travel (tourism) is an important growth area, but finance, educational

Table 4 Japan's Direct Foreign Investment in Australia by Sector. Percentage Composition

Item	1984-85 %	1987-88 %	Change
Mining	41.9	17.1	-
Finance, property and business services	17.6	66.1	+
Manufacturing	3.4	2.2	-
Public sector	-1.2	5.0	+
Others	38.3	9.6	-

Source: Based on Drysdale *et al.* (1989, p. 23)

and other services have been a source of increased growth. The full impact of these changes have yet to be realised. However, the changed composition of Japanese direct investment in Australia may be an indicator of expected changes. This is indicated in Table 4.

As far as the balance of trade in services between Australia and Japan is concerned, this has altered from being in slight deficit to balance but is likely to become positive as Japanese tourists to Australia continue to increase.

The Garnaut Report (1989) correctly stressed the importance of service industries for international trade within the East Asia-Australia region. It suggests that

"Securing Australian leadership in some advanced manufacturing and service products within a national framework of general economic policy would enhance Australian living standards, reduce fluctuations in international economic conditions and raise the status of Australia in ways that were relevant to foreign policy" (Garnaut, 1989, p. 219).

It recommends a macro-approach rather than a selective industry approach, with increased investment in human capital in Australia as the essential ingredient.

Essentially the recommendations of this Report are neoclassical in nature (relatively free trade oriented) and in line with the World Bank's recommendations, as they evolved in the 1980 s, for structural adjustment by member countries, a view which is commonly believed to be shared by the Australian Treasury and the Prime Minister's Department. A somewhat different approach to industrial policy is the selective industry approach which involves support to foster selected industries. Senator Button, Minister responsible for Commerce and Industry, is believed to be sympathetic to this approach. Nevertheless, Australian industrial policy is now dominated by the first mentioned approach.

Tourism and education are seen by Garnaut (1989) as two industries likely to expand significantly. Their foreign exchange earnings are expected to grow considerably in Australia in the 1990s. Much of the increased foreign tourism to Australia will come from Japan but substantial expansion in tourism from nearby industrialised countries such as Taiwan and South Korea is also expected. Although the Garnaut Report (1989) makes an excellent contribution by raising and considering the main issues likely to be important in the 1990s in economic relations between Australia and Northeast Asia including Japan, a more detailed study of these issues is required. It would also be useful to have a range of alternative points of view about these and about how the common problems of the region can be best addressed by policy initiatives.

6. More Detailed Observations on Trade in Services between Japan and Australia, especially Tourism

6. 1 Tourism trends

It is well known that there has been a major increase in the number of Japanese travelling abroad in recent years. In 1990, almost 11 million Japanese travelled abroad, that is about one in eleven Japanese. The number of Japanese travelling abroad is now far in excess of the number of foreign visitors to Japan. In 1990, for example, there were 10.997 m. Japanese visits abroad and 3.236 m. visits by foreigners to Japan making an excess of 7.761 m. overseas visits by Japanese. In other words, there were approximately three times as many visits abroad by Japanese as there were visits by foreigners to Japan.

The Ministry of Transport has encouraged Japanese to travel abroad for holiday and tourism purposes, as a means of reducing Japan's balance of payments surplus. Since 1986 at least, Japan's balance of payments in relation to foreign travel has been negative and this deficit has increased in relation to Japan's balance of trade surplus. Japan's deficit on account of overseas travel rose as a percentage of its balance of trade surplus from 6.2 per cent in 1986 to 33.6 per cent in 1990 (Prime Minister's Office, 1991, p. 85). In 1990, 82.6 per cent of Japanese visits overseas were for the purpose of tourism, 13.7 per cent for business and 3.7 per cent for other purposes, proportions similar to those in 1986.

Beginning in 1985, there was a marked increase in the number of Japanese visits

abroad. By 1990, the number of such visits had more than doubled, increasing from 4.232 m. in 1985 to 10.997 m. in 1990. The percentage rate of growth in the number of Japanese visits abroad was especially high in 1987 being 32.6 per cent but by 1989 this growth rate had decreased to 15 per cent and remained at approximately this level in 1990.

If an annual growth rate of 15 per cent were to be maintained, the number of Japanese visits abroad would approximately double between 1990 and the end of 1995 so that about 22 m. Japanese might be expected to travel abroad in 1995, that is between one in six and one in seven of the population of Japan supposing roughly that each person only takes a single overseas journey each year. This is not an unrealistic possibility. The number of overseas visits by Australians is currently around one in eight for each Australian whereas, as mentioned above, that for Japan is one in eleven.

However, a 15 per cent annual growth rate in the number of overseas visits by Japanese is unlikely to be sustained throughout the whole of the 1990 s. If it were to be the case, it would result in the year 2000 in approximately one overseas visit for every Japanese. In comparison to other island countries, this seems to be an unrealistic possibility, even though overseas travel is elastic in relation to both the level of income and level of education. Furthermore, international travel is quite susceptible to changes in economic conditions and is difficult to predict over a long period. For instance, it can be significantly influenced by exchange rate variations and while the Yen may remain strong throughout this decade, this depends on how competitive Japan remains in international trade.

The above statistics on Japanese overseas travel mainly relate to the number of overseas visits. Other variables such as average length of stay overseas and amount of expenditure overseas are also important from a balance of payments point of view and for tourism planning.

The number of Japanese visiting Australia has increased markedly in recent years, even though it is still a small proportion of the total number of Japanese travelling overseas. According to Japanese statistics, Australia ranked seventh in 1990 as a destination for Japanese going abroad. In terms of numbers of Japanese travellers, the following was the order of importance of countries in 1990: 1. USA (3.67 m.), 2. S. Korea (1.365 m.), 3. Hong Kong (1 m.), 4. Taiwan (.879 m.), 5. Singapore (.607 m.), 6. Thailand (.421 m.), 7. Australia (.414 m.), 8. China (.366

m.), 9. France (.307 m.) and 10. UK (.282 m.) (Prime Minister's Office, 1991, p. 40). But these statistics only relate to the main country visited on each outward journey, not all countries visited. In relation to total visits by Japanese to all countries, Australia ranks lower as a destination for Japanese travellers. On this basis the number of Japanese visitors to Australia in 1990 (about 500,000) is well below that for Hawaii (1,360,000), below that for Guam (620,000) and comparable to that for China (463,300) and Canada (470,000) (Prime Minister's Office, 1991, p. 44).

As for the Australian tourist industry, the economic importance of the foreign tourist component has grown significantly in recent years. In 1989, approximately 2 million foreign tourists visited Australia. They accounted for approximately 20 per cent of employment in the Australian tourism industry. In 1988 / 89, the Australian tourist industry was estimated to employ about 6 per cent of the Australian workforce and to contribute about 5.4 per cent of its GDP (Chohan, 1990, Hince, 1991).

Note that as in most countries domestic travellers are still the mainstay of the Australian tourist industry. Also in 1989 there was serious disruption to tourism in and to Australia because of an industrial dispute involving pilots working for domestic airlines.

The economic importance of overseas visitors as a component of tourism in Australia is expected to increase significantly in the 1990 s. Official estimates vary between 4.85 million and 6.5 million overseas visitors to Australia in the year 2000 (Hince, 1991). If one takes a conservative rounded figure of 5 million, this means an increase in the number of foreign travellers to Australia by 3 million or 150 per cent compared to the 1989 figure. The less conservative figure involves more than a trebling of the 1989 number of foreign visitors to Australia. Approximately half of the increase in the number of visitors to Australia is expected to be from Asia and of this number about half are expected to come from Japan. In 1989, 17 per cent of foreign visitors to Australia were from Japan and 15 per cent from the rest of Asia. Asia was therefore, the source of almost one-third of visitors to Australia.

The number of visitors to Australia from Asia including Japan is expected to grow at a faster rate during the 1990 s than that for non-Asian countries. By the year 2000 the number of visitors to Australia from Asia is anticipated to almost equal that from the rest of the world. This expected growth indicates a continuation of trends apparent in the 1980 s, in which the relative importance of Europe as a

source of visitors to Australia fell and the USA as a source after first expanding rapidly, declined towards the end of the 1980 s.

In 1990, Japan became Australia's main source by country of overseas visitors displacing New Zealand as the main source (Anon, 1991). It is also worth noting that during the 1980 s, the percentage rate of growth of the number of Japanese visitors to Australia far exceeded that growth rate for the rest of Asia. If this disparity were to continue, which is possible, then the prediction mentioned above would be incorrect that about half of the increase in visitors to Australia from Asia in this decade would be from Japan. The proportion from Japan would be higher. But if this estimate is accepted then the number of Japanese visitors to Australia would increase from approximately 500,000 in 1990 to 1,250,000 in 2000 bringing the number of Japanese visitors to Australia to approximately the 1990 level for Hawaii. But in practice, the increase in the number of visits from Japan may be greater.

The outcome will depend upon the rate at which foreign tourism from Japan grows and the extent to which Australia increases its share of this market. The latter will depend in part on the relative competitiveness of the Australian tourist industry. Currently, the relative importance of Australia as a tourist destination for Japan appears to be increasing and as mentioned below this is partly reflected in considerable investment by Japan in Australian tourist developments.

The seasonal nature of Japanese visits abroad is of interest. This peaks in August and is relatively high in July and September (Prime Minister's Office, 1991, p.43). Japanese arrivals in Australia show a similar pattern. In the Southern Hemisphere these months correspond to the Winter and early Spring period, which tends to be a slack period for domestic tourism. Japanese arrivals may help to even out demand for tourist facilities in Australia throughout the year. Furthermore, at this time of the year Northern Australia is particularly attractive for tourists and so Japanese visitors may concentrate more on visiting these areas rather than southern areas of Australia.

6. 2 Some issues arising from foreign tourism

Host countries are usually interested in the extent of their net economic benefits from foreign tourism, and the assessment of this is usually complex (see Forsyth and Dwyer, 1991). Local benefits from increased foreign tourism and foreign investment in the tourist industry can include greater employment, higher wages

and salaries and greater profits or rents for domestic firms, as well as possibly the provision of better tourist facilities as a result of foreign investment which can be shared by local residents. For example, the proposed casino and associated convention centre at Cairns can also be shared by Australians. These benefits have however to be compared with possible costs or concerns. Let us consider some of these concerns.

(i) Foreign exchange leakages can occur, for example, to provide imported goods and services to overseas tourists, for equipment and in construction of tourist facilities and to enable profits from direct investment to be repatriated. Scope for foreign exchange leakages is likely to be greater when foreign companies operating in the tourism industry are vertically integrated. While Japanese companies operating in tourism are popularly believed in the Western world to be highly integrated, there appears to have been no definitive study of this subject. It is at present not possible to answer the question of whether foreign exchange leakages are particularly high in the case of Japanese tourists and Japanese investment in the tourism industry. Here both the short-term and long-term position would need to be examined. For example, while increases in foreign tourism may reduce Japan's balance of payments surplus in the short-term, the reduction may not be as large in the long term due to leakages from host countries. But this could be a minor factor.

(ii) There are many environmental concerns about some types of tourist developments because of their adverse effects on the natural environment, some of which can prove to be irreversible. Indeed, environmental effects of tourism can be such that tourism proves to be non-sustainable or provides fewer economic benefits to visitors and the host country than if the natural environment had been more adequately conserved. Basically such problems can be attributed to market failure or more generally to a failure of self interest (e.g. of businesses to promote the social good). In particular care should be taken not to sacrifice the natural environment for short-term economic gains. However, there is a very great risk of this occurring when there is bargaining between regions (either within a country or internationally) for a tourist development, because apart from market failure, political failure can occur. If greater tourism in the Asian-Pacific area should lead to serious environmental degeneration, it is doubtful if anyone will gain in the long term.

Most investment in the tourist industry involves investment in man-made

capital and facilities. But such investment can be at the expense of the stock of natural capital. It is important to achieve the correct balance. Large injections of capital (both domestic and foreign) can tip the balance too far in favour of man-made transformation of the natural environment. This all implies that careful consideration must be given to the planning and management of tourist developments from a social point of view. Existing mechanisms in the Asian-Pacific area may be inadequate from this point of view.

(iii) Monopoly control of unique or relatively unique natural-resource attraction can also be a concern. Concern tends to be of two types: (a) The monopolist may earn a monopoly-rent and this is basically regarded as an income from privilege. (b) The monopolist *may* unduly restrict access to the natural-resource attraction by charging a high access price to visitors. This, for example, was a concern in relation to leases obtained by the Daikyo group of Japan of land on Green Island and on Fitzroy Island off the coast of Cairns (*The Australian*, May 10, 1991).

(iv) Tourism relies to a considerable extent on publicly provided facilities such as main-access roads and airports, utilities and on services such as those provided by the police force which may be subsidised or supplied at the taxpayers' expense. To the extent that foreign tourists benefit from these, they may be expected to contribute to state revenue, via taxes. So it is necessary to compare tax contributions against publicly funded benefits (see Tisdell, 1982).

(v) Increased demand by foreign tourists to use natural resources *may* result in the cost of access to these resources rising and this will be to the disadvantage of Australian tourists because they will lose some of their consumers' surplus. However, one can also imagine situations in which cost of access to natural tourist areas may decline as a result of foreign tourism because of economies of scale. Nevertheless, unless well planned, increases in tourism can result in higher cost of access to a tourist asset as well as a deterioration in its quality.

(vi) Tourism expansion in an area whether due to increases in domestic or foreign tourism can give rise to the type of tourism cycle described by Butler (1980). Apart from other things, it may disrupt the cohesion of the local community, that is threaten the sustainability of community. This could be a concern in some rural areas.

(vii) Although greater tourism may result in a increase in employment in a

local area, much tourism is seasonal and thus much employment may be subject to considerable seasonal fluctuation and be of a casual nature. Steady assured employment may be lacking. This can create social problems.

Despite the above difficulties it may still be economically worthwhile to encourage greater tourism. Furthermore, many of the above mentioned problems arise whether or not increased tourism is generated by domestic or foreign tourists.

6. 3 Trade in other services — education, research, medical services, financial services, etc.

As mentioned earlier, the Garnaut Report (Garnaut, 1989) suggested that sales of educational services by Australia could become a significant foreign exchange earner. Australian universities for example, have now introduced fees based on full cost recovery for overseas students. Apart from this, there has been significant growth in the number of Australian institutions offering intensive courses in English training for overseas students. There has been some investment by Japanese companies in such institutions the most notable of which appears to be investment by EEI of Japan in Bond University. The Garnaut Report was not very specific about the extent to which growth could be expected in this sector as an export-earner (Tisdell, 1990) but promotion by Australian educational institutions of such services overseas now qualifies for subsidy under AUSTRADE. The prospects for education as an Australian export industry in the 1990s are difficult to analyse and require more research. But the general view is that this sector will expand as an export sector, as could the R&D and consulting sector.

There may well be scope for development of research and consultative bodies, some of which are attached to universities or which could be developed, to increase their earnings of foreign exchange. In fact, it was hoped by the promoters of it that a Multifunction Polis, involving cooperation with Japan would assist in this regard.

There are possibly other services too that can increase their earnings of foreign exchange. These include medical services, engineering services, accounting and legal services, management services and in general consulting services. But these are becoming increasingly competitive area internationally and Australia's ability to compete will depend on the enterprise and qualifications of Australia. Research into the prospects for these areas and aspects of international competition in the provision of these services would be worthwhile, although the main market for sale

of these Australian services may not be to Japan or to the Japanese.

7. Japanese Direct Investment in Australia in Perspective and Some other Features of Direct Foreign Investment in Australia

As far as foreign direct investment in Australia is concerned, Japan has increased its relative importance to Australia. In the last part of the 1980s, its inflow of direct investment approached that of the United States and the European Communities. In 1988, for example, Japan accounted for 22.6 per cent of the flow of direct foreign investment to Australia, the United States for 29.3 per cent and the European Communities for 28.3 per cent (Garnaut, 1989, p.95). Nevertheless, Japan's share of the stock of total direct investment in Australia is relatively small being much less than that of the US or the UK, or the whole of the European Communities. For example, Garnaut (1989, p.94) reports that Japan's stock of direct investment is less than one-third of the American level, and it is even smaller in comparison to the European Communities stock of direct investment in Australia. But as indicated in Table 4, Japan's direct investment in Australia tends to be concentrated in (1) finance, property and business services and in (2) mining. The manufacturing industries are dominated by direct investment from the European Communities, especially the UK, and the United States.

As far as Australian direct investment abroad is concerned, this has been concentrated in the UK, the USA and New Zealand, with Hong Kong, Canada and ASEAN being of some importance. Australian foreign direct investment in Japan is negligible (Garnaut, 1989, p.99). This pattern may be to some extent dictated by cultural and language connections as well as old British Commonwealth connections. The Garnaut Report (Garnaut, 1989) urges that more be done to strengthen Australia's cultural connections with East Asia both through training and immigration. Nevertheless, it should be observed that there has been a substantial increase in Australia's Asian-born population. In 1989, 4.3 per cent, more than one in twenty-five Australians were born in Asia (*Year Book Australia, 1991*). Australia's Asian born population should assist its trade with Asia. It seems however that there are few permanent migrants from Japan.

Given the fact that foreign direct investment in Australian manufacturing is dominated by the European Communities and the United States, and the extent of

cultural differences between Australia and East Asia, it is probably not surprising that Australian manufactures have been said to be relatively slow in obtaining markets in East Asia (Garnaut, 1989). European and American parent companies do not always know Asia well, and have some special difficulties doing business in those countries where English is not widely understood or with those countries with which they have not had previous colonial connections. Indirectly, this may affect the direction of exports of their subsidiaries in Australia.

But even without this factor, there can be considerable difficulties for Australian firms in exporting finished or near-finished manufactured products to Asia. This is because tastes or demands in Asian markets often differ from those in Australia. Australian manufacturers may not be aware of the modifications required to their products for the Asian market or it may be uneconomic to make these, given scale factors. If little or no modification is required to the Australian domestic product for a foreign market, this is likely to assist Australian exports.

One of the main problems raised by centre-countries in relation to Australia has been the difficulties of achieving economies of scale in the Australian market in manufacturing. But this problem can be exaggerated and not all manufactured products exhibit large scale economies. For those that do not, labour costs may sometimes be a problem from the point of view of international competitiveness of Australia. Australia is trying to compensate for this by attempting to increase the quality of its labour force. There are already areas in which Australian manufactures can successfully compete, e.g. niche products in medicine, veterinary products, and other possibilities exist.

Note also that multinational companies through international trading and specialisation within the company can often transcend the scale barriers of a local economy and widen the effective market. Through such trade, a multinational company may find it profitable to produce *some* of the components of its final products in a small market, especially if this leads to trade concessions for it. The 'world-car' concept is based upon this principle and enables the degree of specialisation obtained by factories throughout the world to be increased.

8. Some Observations

In the minds of some Australians the nature of Japanese investment in Australia

is unbalanced. Criticism has been especially made of real-estate investment and there has been a view that such investment tends to be 'unproductive' and forces up the land prices and house prices to be paid by Australians. There is also a concern that much of Japanese investment is of a vertically integrated type. For example, Japanese investment in the Australian tourist industry may result in the lion's share of economic returns or benefits from Japanese tourism going to Japan. A similar concern seems to exist in relation to joint technological projects. Whether or not these concerns are justified or well founded should not be prejudged. But the issue deserves serious attention. In the end, whatever is to our individual disadvantage will in my view also be to our joint disadvantage. A symbiotic relationship involves mutual support, rather than a narrow self-interested approach to our relationship.

In the modern era, it cannot be assumed also that we will continue to want more trade. For example, increased foreign tourism to Australia may not be regarded as an unmixed blessing by all Australians, when environmental costs and public sector costs are taken into account. Undoubtedly, environmental issues will intrude into the debate, and the question of sustainable development will become important.

References

- Anon (1991) "Japanese Tourism into Australia" *Newsletter*, pp. 1, 8, Australia-Japan Economic Institute, Sydney.
- Australian Bureau of Statistics (1991) *Year Book Australia 1991*, Australian Bureau of Statistics, Canberra.
- Butler, R.W. (1980) "The Concept of a Tourist Area Cycle of Evolution, Implications for Management of Resources", *Canadian Geographer*, Vol. 24, pp. 5-12.
- Chohan, K. (1990) *Australian Tourism Trends*, Bureau of Tourism Research, Canberra.
- Drysdale, P., Viviani, N., Watanabe, A. and Yamazawa, I. (1989) *The Australia-Japan Relationship: Towards the Year 2000*, Australia-Japan Research Centre and Japan Centre for Economic Research, Canberra and Tokyo.
- Forsyth, P. and Dwyer, L. (1991) *Impacts of Foreign Investment on Australian Tourism*, Occasional Paper No. 10, Bureau of Tourism Research, Canberra.
- Garnaut, R. (1989) *Australia and the Northeast Asian Ascendancy*, Australian Government Publishing Service, Canberra.
- Hince, M. (1991) "Tourism Growth Track Looks Set to Continue" *Quarterly Summary*, National Australia Bank, Melbourne.
- Office of the Prime Minister (1991) *White Paper on Tourism*, Tokyo.
- The Treasury (1991) *Economic Round-Up: Winter 1991*, Australian Government Publishing Service, Canberra.
- Tisdell, C. A. (1991) "Key Australian Export Prospects to Northeast Asia: Primary Commodities, Tourism and Education as Perceived by the Garnaut Report", *Asian*

Studies Review, Vol. 13, No. 3, pp. 62–68.

Tisdell, C. A. (1982) *Tourism, the Environment, International Trade and Public Economics*, ASEAN–Australia Joint Research Project, Kuala Lumpur and Canberra.

Tisdell, C. A. (1981) *Science Technology and Policy*, Chapman and Hall, London.

World Bank (1990) *World Development Report 1990*, Oxford University Press.