



Japan and Australia

Economic security through stronger ties

Prepared by Deloitte Access Economics and
Deloitte Australia's Japanese Services Group

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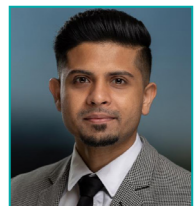
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Executive Summary

Japan and Australia have formed a strong economic and strategic partnership over many decades. In 2026, both countries will celebrate the 50th anniversary of the Basic Treaty of Friendship and Co-operation, an agreement that has served as the foundation of the strong bilateral relationship. While the milestone calls for celebration, it also presents Japan and Australia with an opportunity to forge a deeper friendship, especially as globalisation faces significant challenges.

Globally, 2025 has seen the threat or imposition of significant tariff barriers, which at the time of finalising this report (November 2025) looks like marking both a deterioration and a re-ordering of global trade. While these developments have captured significant attention, they are also part of what has already been a stalling of global connection over recent years.

The two largest global economic powers, the United States (US) and China, are looking to assert themselves. Strategies to secure and de-risk their future have been characterised by efforts to lock in resources, technology, and manufacturing capability. This multi-dimensional power struggle has upended the stability that the global economy has benefited from over previous decades.

Given this challenging environment, strategic economic collaboration between like-minded countries such as Japan and Australia is becoming more important, both for economic security and to manage risks effectively. Trust and reliability have become paramount, emphasising the need to widen and strengthen existing ties.

Complementarity between Japan and Australia

Since the 1950s, the foundation of the relationship between Japan and Australia has been deep economic complementarity and shared strategic interests. Deloitte's analysis (utilising United Nations Comtrade data and General Assembly voting records) demonstrates the strength of this relationship.

Japan and Australia's relationship is an outlier among neighbouring and similarly advanced economies. For example, **while China may be Australia's largest trading partner, Japan ranked above all other countries in terms of economic complementarity with Australia.** Similarly, the US may be Australia's most important strategic ally, but according to UN voting records, Japan has been more politically aligned with Australia.

The same is also true in the opposite direction. **From Japan's perspective, the alignment with Australia also stands out.** Through the past two decades Australia ranks highly in terms of economic complementarity with Japan and is also more politically aligned to Japan than, for instance, the US.

Historically, Japan and Australia have enjoyed a rich history of trade and investment. Japan has been a top two destination for Australia's exports since the 1960s.

Japan has also been a major source of investment for Australia. In 2024, Japan's total stock of investment in the Australian economy stood at \$282.9 billion, up almost \$100 billion since 2014. At \$159.5 billion, direct investment, often viewed as a long-term commitment, accounts for more than half of Japan's total investment in Australia.

On the other hand, Australia's total investment in Japan remains relatively low and is dominated by portfolio flows. However, this has grown significantly since the Japan-Australia Economic Partnership Agreement (JAEPA) came into effect in 2015. Australian companies are also playing a key role in some sectors of the Japanese economy such as real estate and infrastructure development.

Despite international challenges, **the macroeconomic outlook for both Japan and Australia is optimistic.** Robust trade and investment ties provide a solid foundation for future collaboration. However, navigating global economic conditions, including rising protectionism and trade disputes, will require strategic manoeuvring.

Australia's steady economic growth, supported by well-developed trade linkages and investment in the energy transition, and Japan's commitment to corporate governance reforms, position both countries well for future opportunities.

Opportunities for closer collaboration

The strength of Japan and Australia's relationship should be celebrated, but it cannot rest on past achievements.

Instead, the relationship must continue to evolve to provide an effective hedge against growing geopolitical risks while leveraging emerging economic opportunities. Japan and Australia can benefit from increased collaboration across the five key areas discussed below.

Decarbonisation:

As both nations share substantive climate change commitments, including ambitious emission reduction targets by 2030 and achieving net zero emissions by 2050, the existing energy partnership must transition to renewable energy sources. Japan and Australia are exploring innovative technologies such as carbon capture and storage (CCS) to lessen the environmental impact of natural gas use. Collaborative efforts in clean hydrogen and ammonia production and in renewable energy infrastructure present opportunities, as do emerging initiatives in low-carbon liquid fuels (LCLF), which offer strong potential for Australia-Japan business collaboration. The collaboration between both countries in critical minerals has also become increasingly important in recent years.

Infrastructure:

Japan's expertise in infrastructure investment can help address Australia's infrastructure needs and housing shortages. Japanese firms are heavily invested in enabling infrastructure for hydrogen and other renewable energy projects. Additionally, Japanese property companies are participating in Australia's urban development projects, enhancing housing supply.

Defence and security alignment:

Both Japan and Australia value stability, peace, and prosperity. Enhanced defence and security collaboration will be crucial to maintaining these shared values. The special strategic partnership and the Reciprocal Access Agreement (RAA) between Japan and Australia lay the foundation for a closer security relationship. Both countries are committed to upholding the rules-based global order and preserving regional stability. Initiatives such as joint defence exercises, cyber defence collaboration, and participation in multilateral forums like The Quadrilateral Security Dialogue (the Quad) and the trilateral security partnership between Australia, the United Kingdom, and the United States (AUKUS) exemplify their strategic alignment. Australia's recent selection of Japan's Mogami-class frigates for its general purpose frigate program further deepens the defence and security partnership between both countries.

Supply chain resilience:

Supply chain disruptions highlight the importance of economic and national security. The COVID-19 pandemic and rising trade tensions have exposed the vulnerabilities of global supply chains. Collaborative efforts to diversify and secure supply chains offer clear long-term opportunities for both nations. Japan and Australia must rethink traditional supply chain strategies and 'friendshore' operations with close partners where possible. Investing in advanced technological solutions to enhance supply chain transparency and efficiency is critical for creating more predictive and agile supply chains.

People-to-people links:

People-to-people links between the countries are relatively strong, but they do not reflect the depth of Japan and Australia's economic relationship. Programs like the New Colombo Plan and the Japan Exchange and Teaching Programme can be strengthened while both countries think of new, specifically bilateral, initiatives. Encouraging student exchanges, cultural exchanges, and stronger migration can foster mutual understanding and strengthen grassroots connections.

Addressing challenges and venturing beyond bilateral
There are challenges in the ongoing and evolving bilateral relationship between Japan and Australia. These include

issues across the energy trade, the ease of trading with and investing in Australia, and the accessibility of Japan's corporate sector to foreign investors. However, the fostering of deep business connections and cultural familiarity across the countries, along with patience and persistence, can help develop and build lasting resolutions to such challenges.

The strong economic partnership between Japan and Australia can also serve as a key stabiliser in the Indo-Pacific. Broad areas where Japan and Australia can enhance their bilateral partnership and contribute to the region include:

- Energy security
- Sustainable infrastructure
- Defence and strategic safety
- Supply chain resilience

The Indo-Pacific will be critical to the global economy. The region will soon produce more than half of the world's economic output, consume more than half of the world's food, and 40% of its energy. Additionally, some of the most prominent countries in the region are also well-established democracies that uphold values common to Australia and Japan.

Act now to build economic resilience

Practical recommendations for deepening the bilateral partnership include actions by both governments, and by businesses in both countries.

For the Australian government: It is recommended that the Australian government proactively maintain the strength of JAEPA and explore new avenues for bilateral cooperation, especially in emerging sectors like clean energy and technology. Expanding educational exchange programs and offering skilled migration pathways can strengthen people-to-people links. Collaborating with Japan to 'friendshore' critical supply chains and investing in technological solutions to enhance transparency and efficiency are also recommended. Additionally, implementing a single-window trade policy through the Simplified Trade System initiative and the Investor Front Door for major transformational investment can simplify trade and investment processes and encourage quicker collaboration.

For the Japanese government: It is recommended that Japan continue to promote green energy collaboration by encouraging investment in Australia's renewable energy projects. Joint research and development programs in areas like CCS technologies, hydrogen production and transportation, LCLF production, and critical minerals processing can secure economic success while meeting environmental goals. Promoting cultural exchange programs and upgrading Australia's status in Japan's scholarship regime can strengthen mutual understanding. Persisting with corporate governance reforms and opening opportunities for Australian businesses can enhance shareholder value and attract foreign investments.

For business groups: Businesses in both countries should pursue joint ventures in strategic sectors like technology, infrastructure, and renewable energy. A patient and long-term strategy, particularly through business collaborations can support stronger alignment and appreciation of differing business norms between the two countries. Sharing market intelligence and insights through industry-specific conferences and networking events can inspire further collaboration.

In conclusion, the evolving Japan-Australia partnership remains vitally important to support economic security for both nations and to hedge against geopolitical risks. Increased collaboration across key areas can ensure a resilient and prosperous bilateral relationship, benefiting both nations and the broader Indo-Pacific region.

The current global landscape

- **In 2025 globalisation has come under significant strain.** Major economic powers (the US and China) are looking to assert themselves, and secure and de-risk their future by locking in resources, technology and manufacturing capability. Along with tariff barriers, recent regional conflicts and the COVID-19 pandemic have also weighed on globalisation by amplifying the vulnerabilities and risks inherent in global interdependence.
- **Given the challenging global environment, strategic economic collaboration between like-minded countries has become critical in managing risks.** Trust and reliability have assumed greater importance.
- **Japan and Australia have formed a strong relationship over decades of close economic and strategic partnership.** However, the need to widen and strengthen ties further is growing.



1.1 Challenges to globalisation

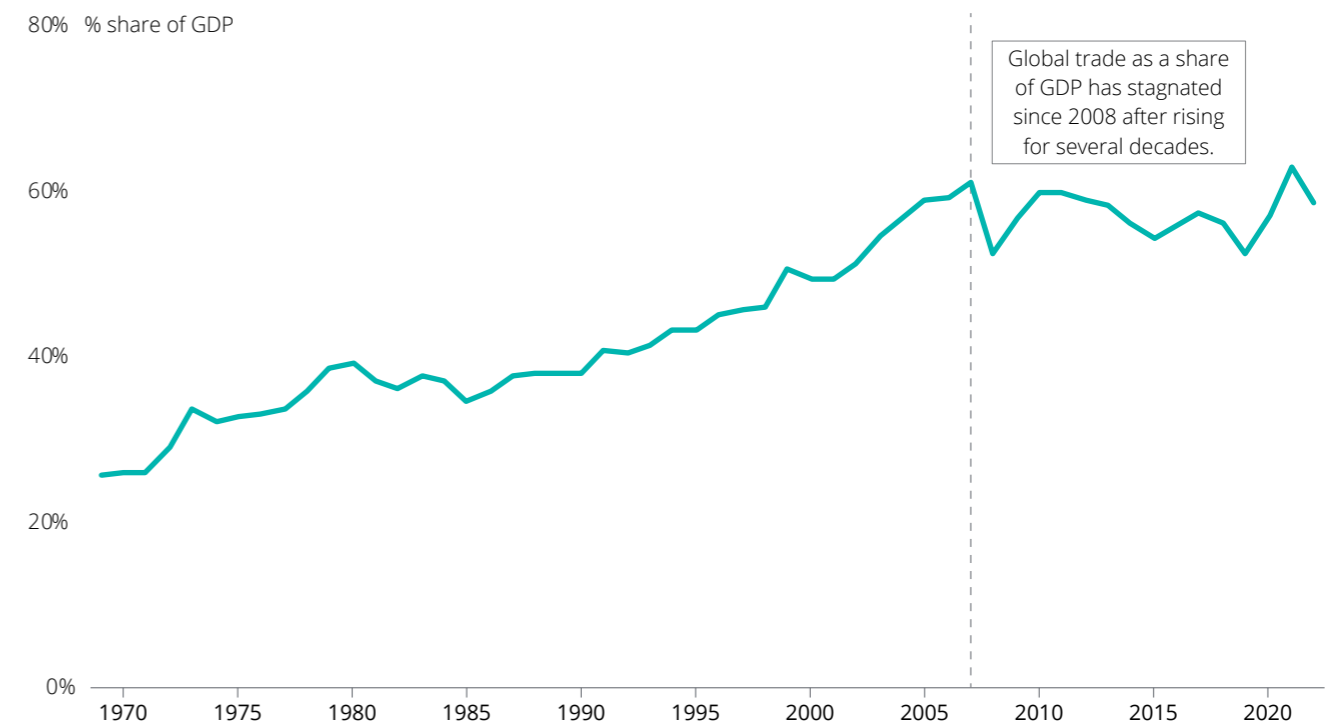
2025 has seen the threat or imposition of significant tariff barriers, which at the time of finalising this report (November 2025) looks like marking both a deterioration and a re-ordering of global trade. These developments have been a jolt to the global trading system, but they are not the first challenge to globalisation. Indeed, the long trend towards greater economic openness between global economies looks to have already stalled some years ago.

The global financial crisis in 2008 marked something of a turning point for free trade and continued globalisation and set the stage for a multipolar world. The upward trend in global trade as a share of GDP has flattened since that point (see Chart 1.1). Insecurities between countries in relation to trade were further exacerbated by regional conflicts and the COVID-19 pandemic.

These challenges have amplified the risks to national and economic security from the interdependencies that come with lengthy supply chains. Those interdependencies are now under significantly higher pressure from the tariff barriers and other trade restrictions introduced in 2025. If such measures stay in place, they could render many businesses and trade routes unviable.

The current global economic environment is increasingly influenced by a focus on sovereign capabilities and national resilience. It is characterised by uncertainty, distrust, and geopolitical tension, especially as the major economic powers of the US and China are locked in a struggle to control resources, technology, and manufacturing capability.

Chart 1.1: World Bank data shows world trade as a share of GDP has flattened since 2008



Source: World Bank

1.2 Strategic economic collaboration needs to take centre stage

In a world fraught with risk, it is more important than ever to seek out a trusted friend.

Strategic economic collaboration with like-minded countries has become a cornerstone of foreign policy and economic policy. Research conducted by the International Monetary Fund indicates that while global interconnectedness is being blunted there is further nuance below the surface. Up to 2025 trade had been deepening between countries that are aligned geopolitically, while slowing between countries that diverge on politics and strategic interests.¹

It is against this context that Japan and Australia, friends for decades, look to further strengthen the ties that have bound them together. The complementarity of Japan and Australia's economies has supported several decades of mutually beneficial trade. During this period Japan championed investment in Australia's abundance of natural resources. This flow of capital enabled Australia to build world-leading export capabilities in energy and resources. On the other hand, Australia's reliable exports have helped to build the Japanese economy into one of the most industrialised and advanced in the world.

Continued alignment and cooperation is important to both countries, but arguably critical to Japan due to its resource-poor and industry-heavy economy. The new global dynamic has changed the balance of power in global trade and investment by increasing the influence of resource-rich countries² Japan imports almost 90% of its total energy supply and is also the world's largest net buyer of food. Maintaining strong and reliable trade partnerships is therefore crucial to Japan's economic success in a fractured global economy. By contrast, Australia's abundance of natural resources and relatively open immigration policy allows the country a little more room to manoeuvre. However, this does not negate the need for strong partnerships. Reliable sources of capital and end-use demand will remain important to Australia.

The evolving global landscape in recent decades has led to a broadening of the traditional carbon-intensive trade between the two countries. Japan-Australia relations now span key areas such as clean energy, infrastructure, defence and security cooperation, and overarching efforts to build resilient supply chains. Ties have progressed from the status of trade partners to strategic partners. Yet, the need for further integration continues as economic stability and national resilience rise to the top of the priority list.

The discussion that follows takes place against this backdrop — one informed by changing global trends and a renewed focus on risk, resilience, and reliability. The subsequent sections of the paper cover the Australia-Japan relationship from different angles.



Section 2 presents the historical strength and durability of Australia-Japan ties. The nature of Australia-Japan connections has evolved over time, with some areas very strong and others offering further opportunities. The ties that bind will serve as a foundation for building deeper integration going forward.



Section 3 explores opportunities for a deeper strategic relationship. These opportunities exist across all levels of bilateral ties—government, business, and society. Progress at each level will continue to be rooted in a long and well-established history of complementarity and will be guided forward by common strategic goals.



Section 4 touches upon the challenges in bilateral ties while noting that these challenges can also be overcome with a combination of patience, persistence, and prescience — key qualities that already characterise the relationship. The section also explores the opportunities to venture beyond bilateral, utilising the strong relationship to promote greater stability and prosperity in the Indo-Pacific region, which is likely to remain the most populous and fastest growing region in the global economy.



Section 5 highlights the importance of acting now to build economic resilience. It provides recommendations for the Australian and Japanese governments and business groups. In Japanese 'Onkochishin' means that we must learn from the past to move forward. This concept sets the tone for recommendations to strengthen bilateral ties.



The ties that bind Japan and Australia

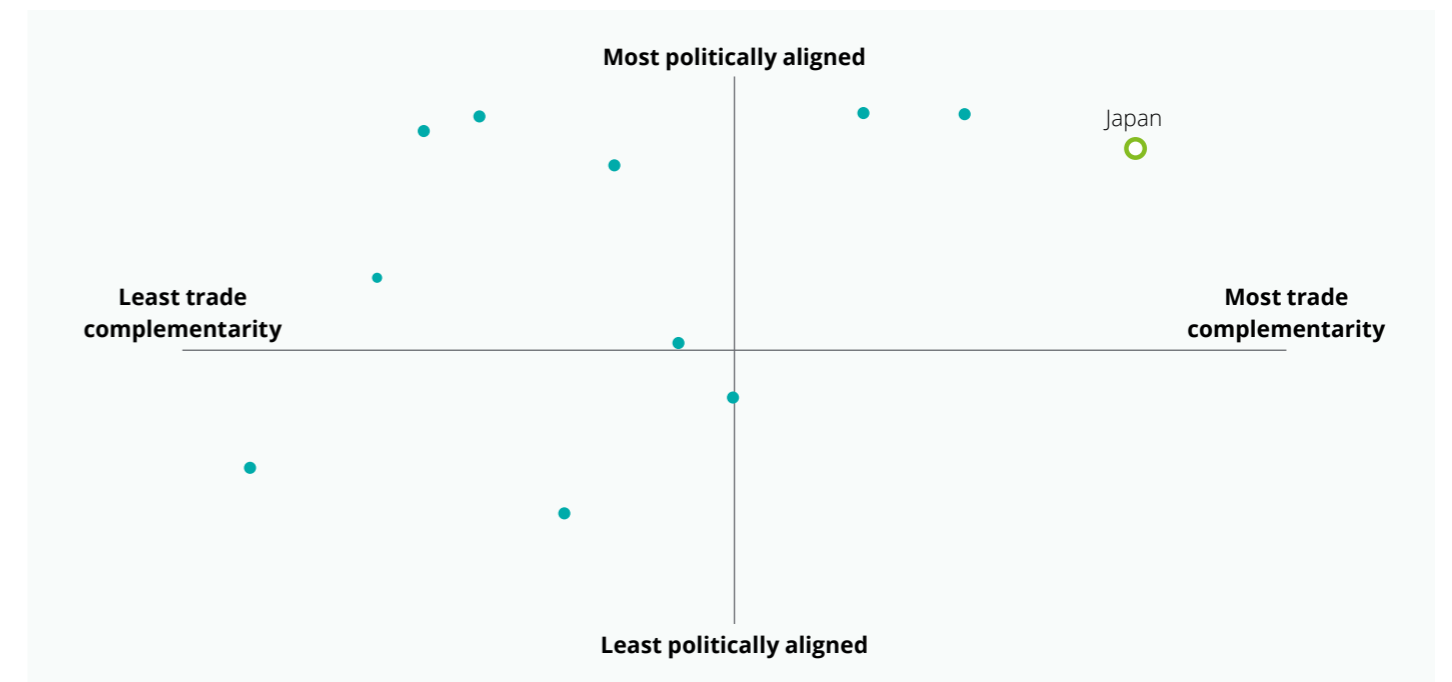
- **Japan and Australia have built a strong long-standing relationship rooted in economic complementarity and shared strategic interests.** Deloitte Access Economics' analysis highlights that Japan and Australia's relationship is an outlier among neighbouring and similarly advanced economies.
- **Both countries have enjoyed a rich history of trade and investment.** Japan has been a top two destination for Australia's exports since the 1960s. In 2024, Japan ranked as Australia's second largest source of foreign direct investment.
- **Both countries face domestic and international challenges.** Yet, the macroeconomic outlook for both economies offers reason for optimism.

2.1 Assessing complementarity

Since the 1950s, the foundation of the relationship between Japan and Australia has **been deep economic complementarity and shared strategic interests on global issues**. This foundation has fostered a conducive trade environment for deepening the relationship. Lucrative investment flows have underpinned trade ties, enabling both economies to flourish. Deloitte Access Economics' analysis of UN Comtrade data and UN General Assembly voting records illustrates the strength of the relationship. This analysis compares a measure of trade complementarity – defined as the degree of overlap between exports from one country and imports in the other (and vice versa) – with a measure of alignment indicated by UN General Assembly voting records across a range of topics.ⁱ

The following charts (Chart 2.1 and Chart 2.2) highlight that, based on economic and political alignment, **Japan and Australia's relationship is an outlier among neighbouring and similarly advanced economies**. For example, while China may be Australia's largest trading partner, Japan ranked above all other countries in terms of economic complementarity with Australia. Historical data points to the durability of this complementarity as Japan has remained at the top for several years. Similarly, the US may be Australia's most important strategic ally, but according to UN voting records, Japan has been more politically aligned with Australia. Here too, historical data indicates that this alignment has held steady through the years.

Chart 2.1: Trade complementarity and political alignment – Australia and select countries



Source: UN Comtrade, UN General Assembly Voting Records, Deloitte Access Economics

ⁱ The trade complementarity measure uses data from the United Nations Commodity Trade Statistics Database (UN Comtrade) to measure the degree to which a country's two-way trade complements that of each of its trading partners. The analysis shows that Japan and Australia's bilateral trade is more complementary than several other trading pairs. That is, the goods and services that Australia exports fits Japan's import needs better than it does other trading partners. The analysis holds true for both directions of trade.

The measure of political alignment uses a dataset of roll-call votes in the UN General Assembly sessions maintained by Erik Voeten (Harvard University) to measure the degree of similarity or difference in UN General Assembly voting. Here too, Japan and Australia have displayed a high degree of alignment indicating shared strategic values on the global stage.

Data for both these measures, trade complementarity and political alignment, are considered for 2000, 2010, and 2022. An average is plotted in the charts.

The same is also true in the opposite direction. From Japan’s perspective, the alignment with Australia also stands out. Through the past two decades Australia ranks highly in terms of economic complementarity with Japan and is also more politically aligned to Japan than, for instance, the US.

Chart 2.2: Trade complementarity and political alignment – Japan and select countries



Source: UN Comtrade, UN General Assembly Voting Records, Deloitte Access Economics

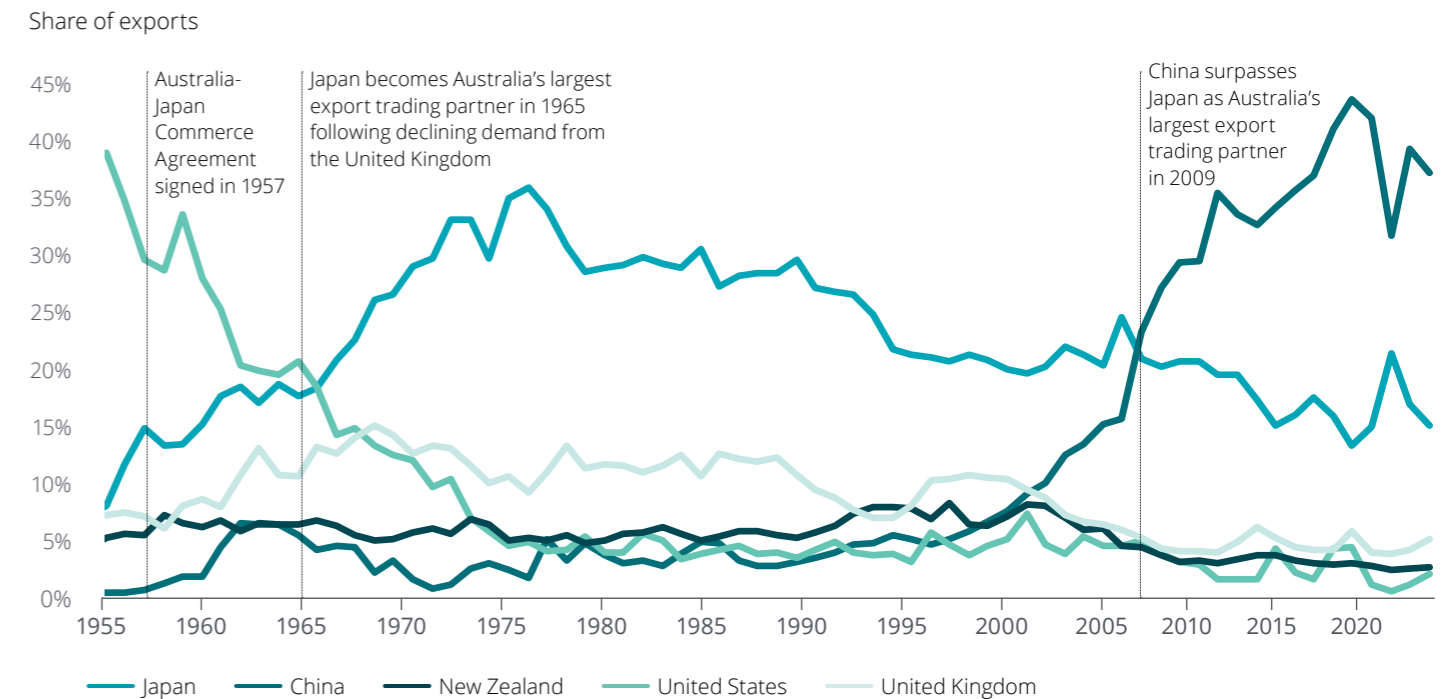


2.2 Historical trade ties

The strong complementarity between the two countries is reflected in a rich history of trade. This took off in 1957 when both countries signed the Australia-Japan Commerce Agreement. The historic agreement became the bedrock of a long and successful bilateral partnership as it marked Australia’s decisive pivot to Japan as a primary trade partner.

Within a decade of signing the Commerce Agreement, Japan displaced the United Kingdom (UK) as Australia’s top export destination. **Japan remained at the top of the list for four decades and has been among the top two destinations for Australia’s exports since the 1960s — a stellar example of longevity in bilateral trade relations.**

Chart 2.3: Share of Australia’s total exports, destination countries (Top 5), 1955-2024



Source: DFAT Trade Statistics, Deloitte Access Economics

The nature and composition of trade between the two nations has continually evolved with changing market demands at different stages of development. Initially, Japan’s imports from Australia were dominated by agricultural products. Wool topped the list of imported commodities, followed closely by wheat, meat, and dairy. Between 1960-61 and 1973-74, the share of Australian agricultural exports going to Japan surged from 17.7% to 26.8%, while the share going to the UK plummeted from 24.1% to 6.4%.³ This growth was largely attributed to Japan’s rising per capita income and changing consumption patterns, as Japanese consumers shifted away from traditional foods and embraced Western diets.

A powerful trend that overlapped Australia’s growing agricultural exports was the rapid reindustrialisation of Japan through the 1950s and 60s. The drive to rebuild an industrial base boosted demand for steel in Japan. Subsequently, demand for raw materials and energy resources also increased sharply. This development marked a critical transition in Australia’s exports to Japan. **The composition of exports shifted from primarily agricultural commodities to being dominated by iron ore and coal.**

Australia’s goods exports to Japan evolved as Japan reindustrialised its economy



During this period, Japan’s historic early investment in the Pilbara region in Western Australia and in the Bowen Basin coal mines of Queensland, as well the commitment to long-term purchase contracts, helped to develop key export sectors in Australia’s economy which continue to thrive today. Early Japanese investment in the North-West Shelf Joint Venture Project in Western Australia also helped to lay the foundation of Australia’s liquified natural gas (LNG) industry.⁴

The scale of Japan's industrialisation and early investment in Australia's raw materials resulted in Japan accounting for more than 50% of Australia's iron ore and coal exports, and more than 70% of Australia's LNG exports by 1990.ⁱⁱ

From 1991, Japan's bustling economy slowed sharply. The economy also matured in terms of industrial development. As a result, by 2010 Japan's share of Australia's iron ore exports had decreased

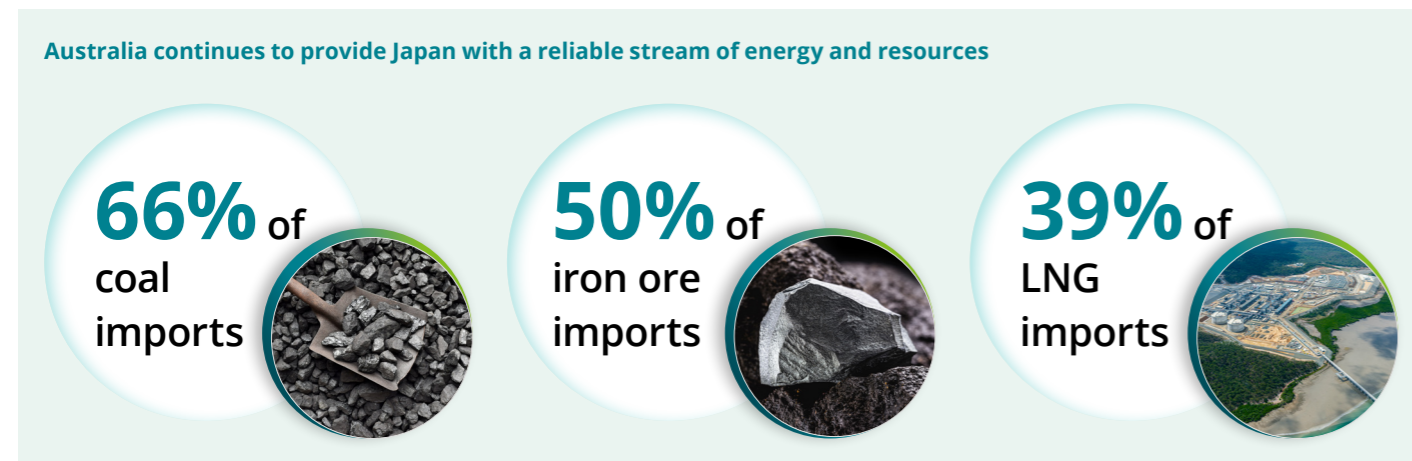
to less than 20% as other markets, particularly China, began absorbing a greater share. By 2024, Japan accounted for just over 5% of Australia's iron ore exports, while China accounted for 85%.⁵

Nevertheless, despite the slowdown in the demand for steel in Japan, Australia's energy supply continued to remain a critical export. Today, coal and other fuels still form the bulk of Australia's exports to Japan (see Table 2.1).

Table 2.1: Australia's exports to Japan – Top 5 commodities as a share of all exports to Japan

Commodity	1990	2000	2010	2020	2024
Coal	23.3%	19.5%	34.0%	26.1%	37.3%
Petroleum gases	3.9%	14.9%	20.0%	32.3%	32.9%
Iron ore	9.0%	9.0%	19.7%	14.7%	10.1%
Meat	7.6%	8.1%	4.6%	5.9%	3.6%
Non-ferrous metals	9.3%	7.8%	3.8%	1.8%	2.0%

Source: DFAT Trade Statistics, Deloitte Access Economics

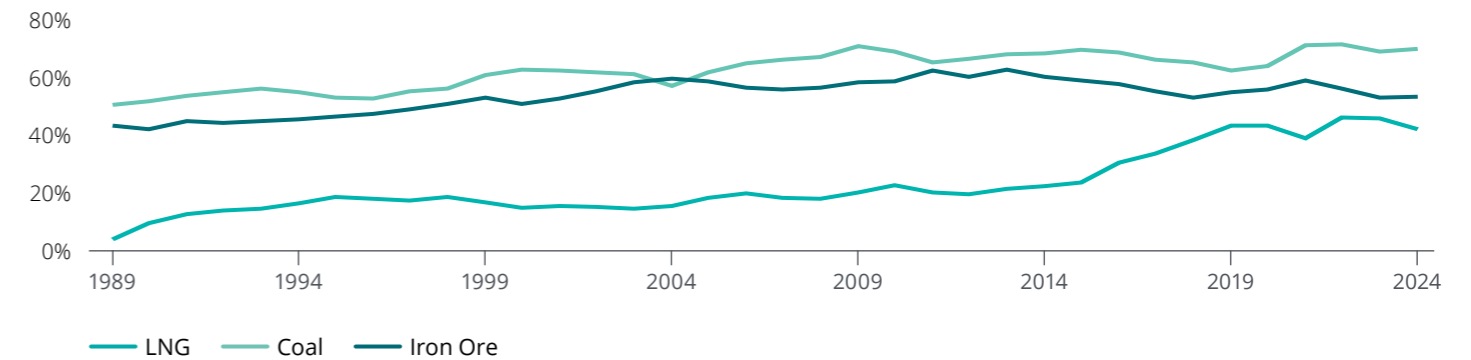


Source: Ministry of Finance, Trade Statistics of Japan, 2024

Indeed, **Japan has become increasingly reliant on Australia as a vital source of energy.** In 1989, at the height of its industrial power, 47% of Japan's coal imports, 40% of its iron ore imports, and just 2% of its LNG imports came from Australia.

More than three decades later, in 2024, 66% of Japan's coal imports, 50% of its iron ore imports, and 39% of its LNG imports came from Australia (see Chart 2.4).⁶

Chart 2.4: Australia's share of Japan's imports of select commodities, 1989-2024



Source: Ministry of Finance, Trade Statistics of Japan, Deloitte Access Economics

Japan's goods exports to Australia continue to widen indicating stronger ties

On the other side of the trading relationship, Japan's exports to Australia have also evolved over time. Initially, Japan's exports consisted primarily of textiles and light manufactured goods. However, as Japan's own industrial capabilities advanced, the nature of its exports shifted. From the late 1960s onwards, Japan began exporting more complex manufactured goods to Australia, including automobiles, electronic equipment, and machinery.⁷

By the 1980s, Japanese cars had become a mainstay, and several Japanese brands became household names. In 2024, almost a third of all Australian motor vehicle imports came from Japan. **In recent years, Japan's exports to Australia have also broadened to include high-tech products and electronics, reflecting advancements in technology and innovation and deeper strategic ties.**

Table 2.2: Australia's imports from Japan – Top 5 commodities as a share of all imports from Japan

Commodity	1990	2000	2010	2020	2024
Motor vehicles	33.6%	48.3%	50.0%	57.4%	63.0%
Machinery	10.3%	8.6%	12.7%	10.8%	8.8%
Petroleum products	0.2%	0.7%	6.2%	6.3%	7.7%
Semi-manufactures	2.7%	2.5%	3.7%	4.2%	4.1%
Other engineering products	7.8%	5.9%	5.7%	3.8%	3.3%

Source: DFAT Trade Statistics, Deloitte Access Economics



ii Liquefied natural gas (LNG) defined as Trade Import and Export Categories (TRIEC) 133 Petroleum gases and gaseous hydrocarbons processed.

Trade in services between Japan and Australia reveals a few bright spots

Trade in services between the two countries is often overlooked due to the strength and volume of trade in goods. However, this is an important element in the bilateral relationship, and one with potential for growth. In recent years, trade in services between Japan and Australia has grown at a relatively slow rate, however, this aggregate measure masks some bright spots. For instance, two-way trade in insurance and pension services and financial services has grown at a rapid rate, particularly in recent years. There has been a growing interest among Japanese investors in Australia's financial services sector and a steady appetite among Australia's financial services players to tap the Japanese market.

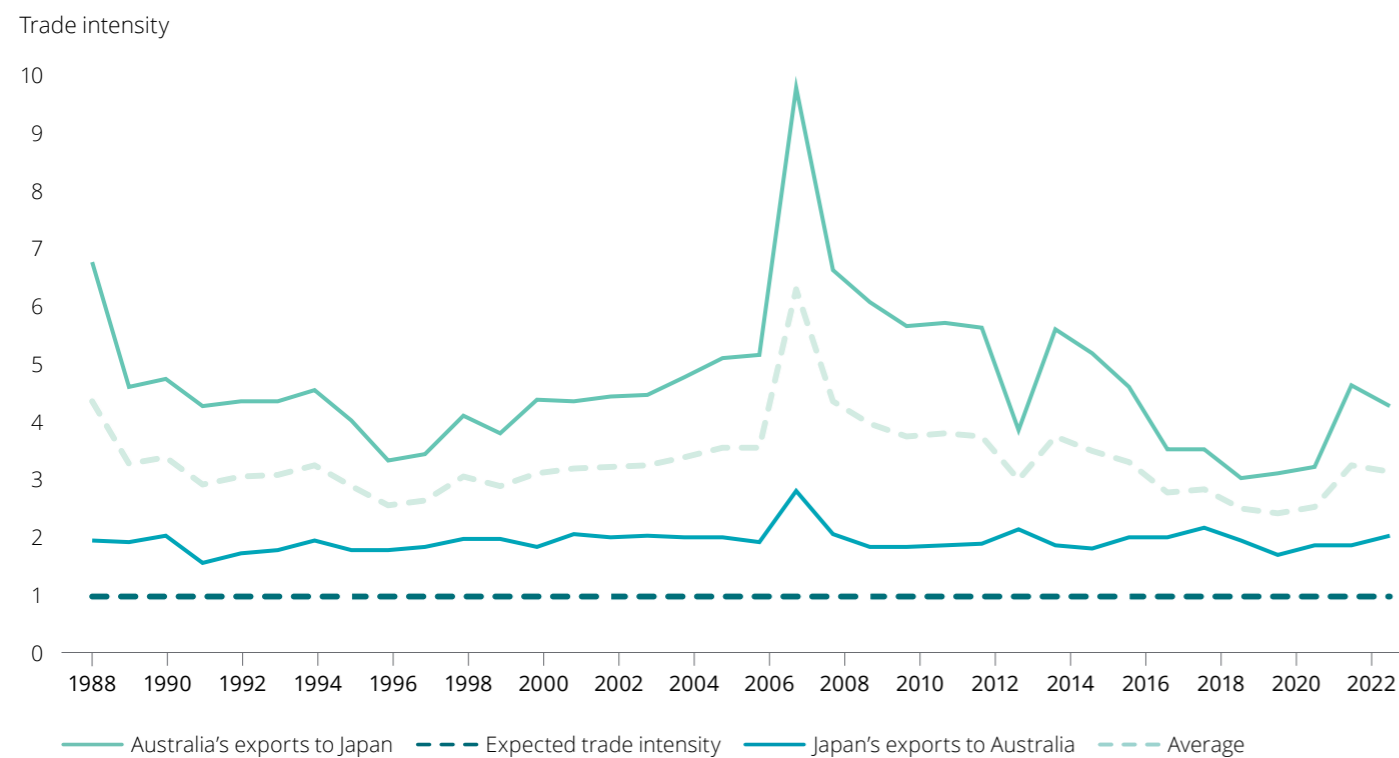
A sustained interest in Japanese culture among Australian tourists is reflected in the numbers for trade in personal, cultural, and recreation services. In 2024, for instance, nearly 1 million Australians travelled to Japan, a record high. Additionally, Japanese is one of the most widely taught foreign languages in Australia.

These trends can be nurtured further and other avenues of trade in services between Japan and Australia, including in areas such as higher education and telecommunication resilience, can be encouraged.

Overall trade intensity tells a story of consistency and deliberate commitment

Even though the volume of total bilateral trade between Japan and Australia might have been overshadowed by increased trade with a rapidly growing China, the intensity of trade between the two countries tells a story of consistency. Data on global trade maintained by the World Bank indicates that bilateral trade between Japan and Australia has always exceeded the level that would be consistent with each country's share of global trade. This disproportionate propensity to trade with one another points to a deliberate commitment to engage, despite other larger economies dominating global trade flows. The fact that this trade intensity has persisted through the years underscores deep complementarity and mutual benefit (see Chart 2.5).ⁱⁱⁱ

Chart 2.5: The intensity of trade between Japan and Australia indicates a deliberate commitment to trade with each other



Source: World Bank, Trade Indicators, World Integrated Trade Solutions (WITS), Deloitte Access Economics

2.3 Historical investment flows

Strong trade ties have been underpinned by a steady flow of investment. In particular, Japan's investment in Australia's resources sector has been significant.

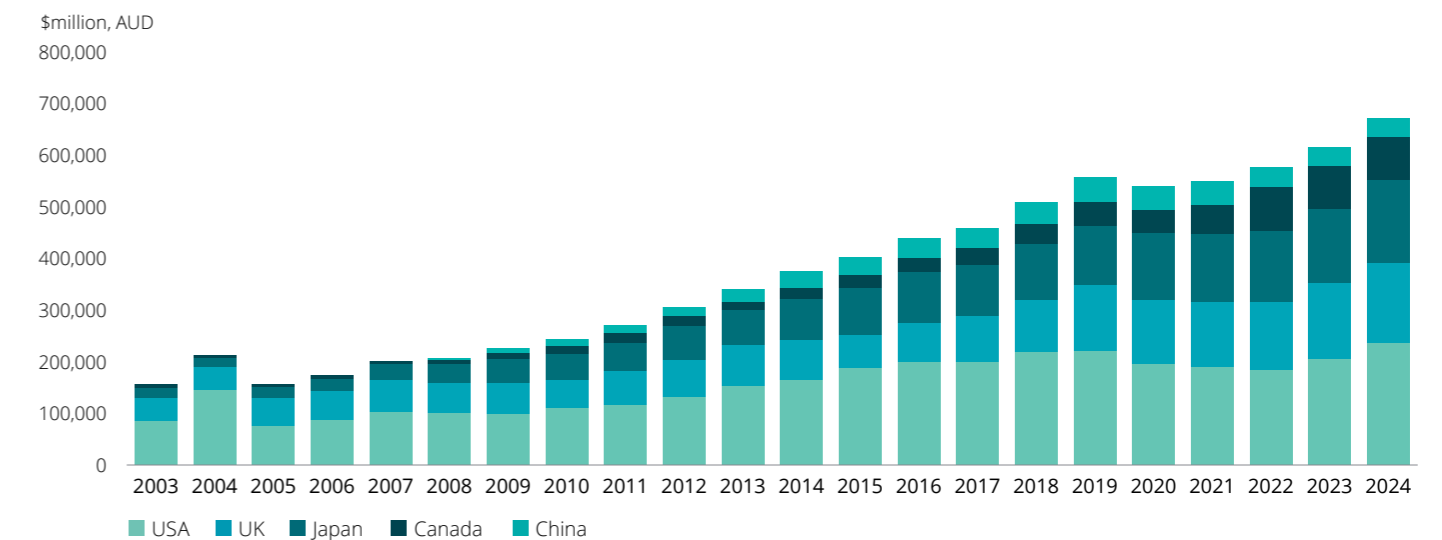
Japan is a key foreign investor in Australia's economic development

In addition to the existing trade relationship, **foreign direct investment (FDI) has played a critical role in strengthening the Australia-Japan economic relationship.** In the 1950s and 1960s, Japanese companies began investing in Australia's mining industry.

These investment flows increased through the 1980s and 1990s to secure a stable supply of raw materials essential for Japan's industrial sector. These investments and the long-term purchase contracts that followed positioned Australia for robust export growth.

More recently, Japan's investment has expanded into areas such as infrastructure, real estate, and financial services. Most notably, investment has also flowed into renewable energy projects in Australia, aligning with both countries' commitments to sustainability and green energy transitions. Japan is the only foreign investor to have increased its stock of investment in Australia every year for the last decade. Over that period, Japan's FDI in Australia grew 105%.⁸ **In 2024, the total stock of Japan's direct investment in the Australian economy stood at \$159.5 billion.**

Chart 2.6: Sources of Foreign Direct Investment in Australia

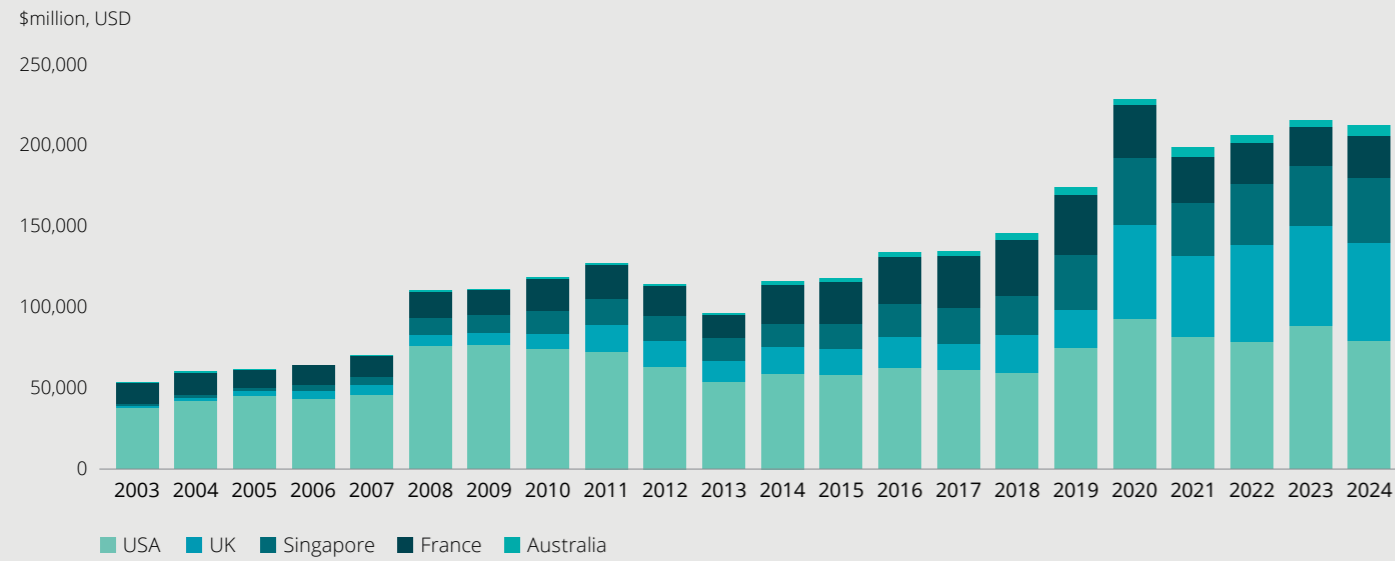


Source: Australian Bureau of Statistics, Deloitte Access Economics

On the other hand, **Australia's FDI in Japan remains relatively low.** However, it has grown since JAEPA came into effect in 2015. Since then, Australia's total investment in Japan, including portfolio investment, has increased by almost 75%. As of 2024, Australia invested a total of \$165.3 billion in Japan, making it the fourth largest destination for Australia's international investment.⁹

Australian companies like Lendlease and Goodman have played a prominent role in Japan's real estate and infrastructure sectors. In recent years, this has extended to building data centres.

Chart 2.7: Sources of Foreign Direct Investment in Japan



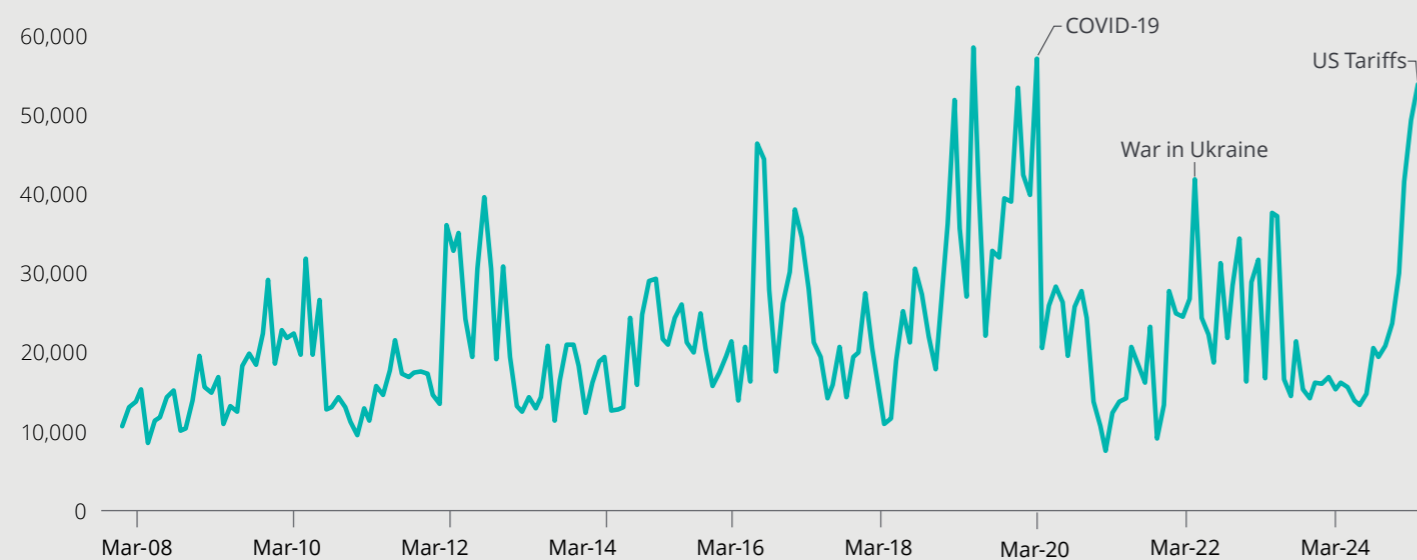
Source: JETRO, Deloitte Access Economics

2.4 Broader economic context

Robust trade and investment ties and shared values provide Japan and Australia with a solid foundation upon which the future of the partnership can be built. However, this will require manoeuvring around challenging global economic conditions.

Major risks to the global economic outlook persist in the form of rising protectionism, persistent trade disputes between major powers, ongoing global conflicts, and the increased likelihood of a fragmented global economy. These factors could stifle growth by increasing inefficiency and costs. As a result, the global economic outlook is likely to be marked by elevated volatility and uncertainty (see Chart 2.8).

Chart 2.8: World uncertainty indexⁱⁱⁱ



Source: Ahir, H, N Bloom, and D Furceri (2022), "World Uncertainty Index", NBER Working Paper, IMF, Deloitte Access Economics

ⁱⁱⁱ The WUI is computed by counting the percent of word "uncertain" (or its variant) in the Economist Intelligence Unit country reports. The WUI is then rescaled by multiplying by 1,000,000. A higher number means higher uncertainty and vice versa.



Though Japan and Australia could face challenges due to these factors over the short term, opportunities are also likely to present themselves especially as both countries remain committed to free trade and a rules-based global order. For instance, research indicates that the trade frictions over recent years between the US and China have created opportunities for bystander nations, especially for those with strong trade agreements and more foreign direct investment.¹⁰

Solid fundamentals and a significant comparative advantage in the transition to net-zero make Australia an attractive investment destination.

Australia's relatively steady economic growth over the last three decades makes it a standout example of stability. Australia recorded 30 years of economic growth between 1990 and the start of the COVID-19 pandemic. During this period, **Australia's economy remained relatively resilient in the face of major disruptions such as the "dot com" bubble in 2001 and the global financial crisis in 2008. Strong trade and investment ties have been critical to this stability.** A combination of well-developed trade linkages, and far-sighted investment in the mining and resources sector, where Australia possesses comparative advantages, allowed the country to benefit from strong economic growth in Asia during the 2000s and 2010s.

Several fundamental factors have underpinned Australia's long trend of economic stability. **These include a robust migration program and relatively attractive demographic trends.**

For instance, Australia outpaces other high-income nations in terms of population growth. It is also the foremost country in the Asia-Pacific region in terms of talent attraction particularly because of its highly ranked universities, attractive employment opportunities, high standard of living, and relatively equitable income distribution.

Additionally, **Australia is also one among only a handful of countries with a 'AAA' credit rating from all three major ratings agencies.** This reflects the country's good governance, strong institutions, macroprudential policy, and capacity for growth. All these factors have allowed Australia to consistently grow faster than other advanced economies and make it a top destination for future flows of foreign capital.

Perhaps the most exciting economic prospect is presented by Australia's comparative advantages in the global transition to net zero. **The country is endowed with an abundance of renewable energy sources and rich deposits of critical minerals.** These commodities, such as lithium and nickel, are among a list of products that could potentially result in supply chain bottlenecks because they have a limited number of suppliers, and few substitutes, but constitute a growing share of global trade. Australia's growing stature in the trade of potentially bottleneck products along with its proven track record of reliable supply positions it favourably in the global energy transition.

The Future Made in Australia (FMIA) policy taps into this comparative advantage by catalysing investment into priority industries, such as renewable hydrogen and critical minerals (see Box 2.1). Australia is seen as having potential to, over time, develop into a renewable energy superpower that contributes to energy security and economic stability in the Indo-Pacific region and the global economy. This potential presents ample opportunities for investment, especially from close partners such as Japan, where securing a reliable supply of clean energy is of utmost importance.

Box 2.1: Future Made in Australia

The Future Made in Australia plan was outlined in detail in the 2024-25 Federal Budget and was signed into law by the Australian Parliament in late November 2024. It provides an initial \$22.7 billion in funding over the next decade to catalyse investment by the private sector in key industries identified in the National Interest Framework.

These industries include:

1. Renewable hydrogen
2. Critical minerals processing
3. Green metals
4. Low carbon liquid fuels
5. Clean energy manufacturing, including battery and solar panel supply chains.

The FMIA plan is Australia's explicit recognition that clean energy industries will shape the global economy of the future. Additionally, it is a timely acknowledgement of Australia's clear comparative advantages in these industries. Taken together, the FMIA plan provides Australia the impetus to accelerate decarbonisation of the domestic economy while also increasing its chances of playing a pivotal role in the global transition to net zero.

Australia also recognises the pivotal role that global capital will play in shaping the economy of the future. To attract global capital, the Australian government has established a new Investor Front Door for investors with major transformational proposals. The Front Door, currently in its pilot phase, will serve as a single entry-point for investors



Japan: an industrial and technical powerhouse with an expanding global footprint

Japan's post-pandemic economic revival has resulted in a fresh sense of optimism as well as some challenges.

Nominal wages in Japan have risen at the fastest pace in decades. This has allowed the Bank of Japan to lift the policy interest rate out of negative territory. A virtuous cycle of rising wages and prices could reignite investment and innovation in Japan. The country's 10 year and 30 year bond yields, which reflect long-term expectations for future growth and inflation, have continued to rise (after falling for several years). Foreign investors have poured money into the economy in recent years. Though the economy is likely to be affected by ongoing trade frictions, Japan's strong fundamentals make it an attractive investment destination amidst global volatility. Japan has also been enacting policies that boost economic dynamism. One of the longstanding and far-reaching reforms has been in corporate governance.

These reforms have been put in place over a decade, but investors are now beginning to recognise the potential benefits (see Box 2.2). However, some structural challenges, such as a shrinking population, are expected to persist and will underscore the need for accelerated growth in productivity. **Along with an improvement in sentiment among foreign investors, Japan's demographic challenge is putting its traditional strengths, such as advanced manufacturing and robotics, back into focus.** In 2023, 38% of the world's industrial robots were either produced or designed in Japan.¹¹ In recent years, large multinationals have invested heavily in Japan's ambition to become a technology research and innovation hub.¹² As the use of advanced technology grows, and especially as technology supply chains come under pressure, further investment in these sectors could benefit the global economy and close allies such as Australia.

Box 2.2: Japan's pivotal corporate governance reforms

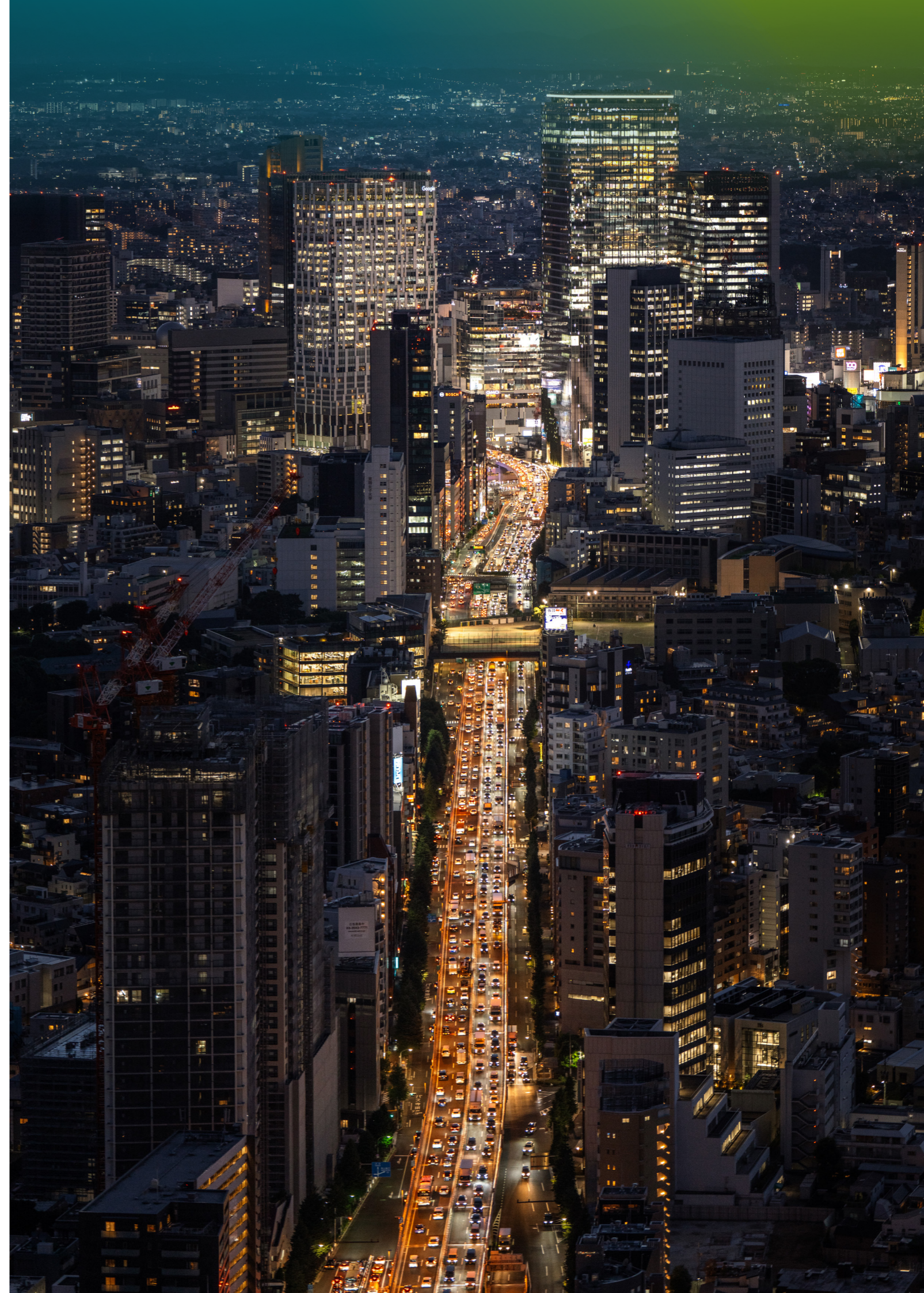
The revision of Japan's Corporate Governance Code in June 2021 has injected some momentum into the country's business sector. This revision aims to drive an improvement in governance models, a sharper focus on greater profitability, better investor relations, and more openness to investor activism.

Additionally, the Tokyo Stock Exchange (TSE) has incorporated the guiding principles of the revised Corporate Governance Code into its listing rules, therefore covering a large swathe of current and future businesses in Japan. The complementary TSE reforms tighten listing criteria, encourages companies to disclose plans to increase capital efficiency, and includes stricter rules around diversity, disclosure, and sustainability. These stricter listing criteria took effect in March 2025.

The revised Corporate Governance Code and the tighter TSE guidelines are further strengthened by the Financial Services Agency (FSA) Action Program which focuses on improving board accountability and effectiveness, encourages management to focus on growth and profitability, and promotes greater interaction with global investors.

These reforms collectively mark a clear shift in focus to growth, profitability, and sustainability. Investors have responded positively. The rising stock market and long-term bets by large global fund managers are a telltale sign of the optimism around Japan's economic inflection point.

Australian directors and companies, with their experience in more mature corporate governance practices, can also share insights with Japanese counterparts through collaborations and partnerships. This is evident in the growing trend of Australian directors joining the boards of Japanese companies at both global and regional levels, particularly when Japanese firms acquire Australian businesses. These engagements are fostering mutual learning and alignment, helping Japanese firms navigate evolving governance expectations while drawing on Australia's mature corporate governance frameworks.



Opportunities for closer collaboration

The strength of Japan and Australia's relationship should be celebrated, but it cannot rest on past achievements. Instead, the relationship must continue to evolve to provide an effective hedge against growing geopolitical risks while leveraging emerging economic opportunities. Where possible, advanced technology should be utilised within new opportunities, including the application of Artificial Intelligence (AI) and Quantum Computing across different sectors. Japan and Australia can benefit from increased collaboration across five key areas:



Decarbonisation

Collaboration in decarbonisation is essential as Japan and Australia navigate the transition to net zero by 2050. A combination of Australia's endowment of resources and Japan's technical expertise presents significant opportunities.



Infrastructure

Australia can leverage Japan's expertise in infrastructure investment especially as rapid population growth puts pressure on the existing stock of infrastructure.



Defence and security alignment

Both Japan and Australia value stability, peace, and prosperity. Enhanced defence and security collaboration will be crucial to maintaining these shared values.



Supply chain resilience

Supply-chain disruptions highlight the importance of economic and national security. In the context of accelerating geopolitical competition, Japan and Australia must rethink traditional supply chain strategies. Collaborative efforts to diversify and secure regional supply chains offer clear long-term opportunities for both nations.



People-to-people links

People-to-people links between the countries can be strengthened further. Encouraging stronger migration in both directions could provide mutual benefits. By enhancing existing connections, Japan and Australia could further solidify their robust economic ties, ensuring a more comprehensive and resilient partnership.

The established complementarity and the deep roots of the Australia-Japan partnership provides the basis for further collaboration. The geopolitical context and the climate crisis provide sufficient impetus. Taken together, these factors have broadened the scope of the relationship and multiplied the opportunities that it presents. A broadening and deepening of the bilateral partnership is already underway across various areas and themes as discussed below.

A key point to note is that new-age technology will play a role in securing many of the emerging economic opportunities. Collaboration in AI and capabilities such as quantum computing presents a valuable opportunity by itself. Australia's strengths in research and innovation combined with Japan's advanced manufacturing and engineering capabilities create a complementary foundation for joint technology initiatives.

3.1 Decarbonisation

Australia-Japan Energy Partnership: The foundation of the strategic alliance

The close ties between Japan and Australia can be viewed as having been built around a decades-long energy trade. Australia's generous natural endowment of energy resources benefited greatly from visionary Japanese investment and has been critical to Japan's industrial development. This symbiotic trade has contributed to economic security in both countries and continues to be central to the growing relationship.

Trade in hydrocarbons - coal and LNG - continues to be central to the energy partnership. However, as both nations share substantive climate change commitments, including ambitious emission reduction targets in 2030, and achieving net zero emissions by 2050, the existing energy partnership must be transitioned over time to renewable energy sources. While doing this, it will be important to ensure that energy security is maintained, especially as the geopolitical backdrop remains fraught with risk. Managing geopolitics and the essential transition to clean energy will present Japan and Australia with challenges and considerable opportunities.

LNG trade and decarbonisation efforts

LNG plays a critical role in the energy transition, offering a cleaner-burning alternative to coal and oil. While still a fossil fuel, LNG emits significantly lower carbon dioxide and other harmful pollutants when used for power generation or industrial processes.



This makes it an important interim energy source as countries like Japan and Australia work toward net zero targets.

Japan's dependency on Australia's stable LNG supplies has deepened in recent years. However, the partnership is evolving to address the pressing need for decarbonisation.

To this end, both Japan and Australia are exploring innovative technologies such as CCS to lessen the environmental impact of natural gas use.

Implementing CCS technologies presents both challenges and opportunities. It involves capturing CO₂ emissions from gas processing and liquefaction facilities, compressing the captured CO₂, and injecting it into deep geological formations for long-term storage. Technical challenges currently make CCS implementation costly. For instance, extra energy is required to power the equipment used in CCS.^{iv} A robust carbon credits trading system would also have to be established before such CCS technologies can become commercially viable. However, the opportunities are significant, especially in LNG production.

Joint research is ongoing to develop more energy efficient capture technologies, such as advanced solvents and membrane separation techniques. Japan and Australia are also exploring the potential of using captured carbon in various industrial processes, potentially creating new economic opportunities. The CCS process can be used to separate CO₂ from natural gas before it is liquified. This can result in a concentrated stream of CO₂ that is easy to transport and store. Captured CO₂ can be used in enhanced oil recovery, concrete curing, or as a feedstock for low emission chemical production.

Large Japanese gas companies and electricity generators are currently studying the feasibility of a CCS value chain between Japan and Australia. This involves the potential of capturing CO₂ in Japan and transporting it from the Port of Nagoya for storage in the Bonaparte Basin off the northwestern coast of the Northern Territory.¹³ If successful, this value chain could be operational by 2030. This would be a significant step towards decarbonising the LNG trade between both countries while maintaining stability and security as a broader transition to new technologies is complete.

^{iv} One of the key technical challenges in CCS implementation is the energy penalty associated with the capture process. The energy penalty is the extra energy required to power the equipment used in CCS. Current carbon capture technologies can consume up to 20-30% of a power plant's energy output, impacting overall efficiency and production costs.

Hydrogen economy: a new frontier

- 01 Top three hydrogen exporter to Asia by 2030.
- 02 Contribute \$50 billion to GDP per year by 2050.
- 03 Generate up to 26,000 jobs across Australia by 2050

The development of a hydrogen economy represents a significant area of cooperation between Japan and Australia, offering potential solutions that contribute to long-term energy security and decarbonisation. Australia, with its abundant renewable energy resources, is positioning itself as a potential major exporter of clean hydrogen,^v while Japan, with its advanced technological capabilities, is focusing on developing hydrogen production and utilisation technologies.

Australia's National Hydrogen Strategy outlines ambitious goals for clean hydrogen production and export. For instance, Australia aims to ramp up the export of clean hydrogen by leveraging a network of free trade agreements and bilateral agreements with international partners in Asia and Europe by 2030. Though ambitious, this is in line with the International Energy Agency's prediction that Australia will be the second largest net exporter of clean hydrogen by 2030 and the largest by 2050.¹⁴ In support of this ambition, the Australian government has announced a slew of measures in addition to the FMIA framework, including the Hydrogen Production Tax Incentive and the Hydrogen Headstart program, to underwrite major clean hydrogen production projects. These initiatives could catalyse Australia's hydrogen industry, potentially generating \$50 billion in additional GDP, creating over 13,000 regional jobs, and a further 13,000 jobs from construction of new renewable energy infrastructure by 2050.¹⁵

Japan, on the other hand, is at the forefront of hydrogen utilisation technologies. In June 2023, the country revised its Basic Hydrogen Strategy and, in conjunction with the Seventh Strategic Energy Plan approved by the Cabinet in February 2025, set ambitious targets for hydrogen utilisation in transportation, power generation, and industrial processes.

The Japanese government considers hydrogen to be "an industrial sector that can make a triple achievement of decarbonisation, stable energy supply and economic growth in one shot."¹⁶

Collaboration between both countries on hydrogen trade has made some headway. For instance, the Hydrogen Energy Supply Chain (HESC) pilot project demonstrated the feasibility of transporting liquefied hydrogen from Australia to Japan. The "Suiso Frontier" became the world's first liquefied hydrogen transport ship to transport a relatively large amount of hydrogen from Hastings Port to Kobe Port.

Despite the momentum and optimism, the challenge of producing and transporting hydrogen at scale remains significant due to technical and economic reasons. This has forced several hydrogen projects to stall or withdraw.

However, these challenges also open the possibility for Australia to move up the value chain. For instance, the focus can shift from transporting hydrogen to using hydrogen locally to produce green steel in Australia.

The production of ammonia is an offshoot that has gained traction, partly because of the technical challenges associated with hydrogen. Ammonia offers a higher energy density than hydrogen and is also easier to store and transport. These factors have encouraged Japan and Australia to partner on developing an ammonia supply chain. In Australia, ammonia is currently produced from hydrogen using the traditional energy-intensive Haber-Bosch process. However, research has uncovered new methods of producing ammonia using renewable energy, and collaboration is bringing this to fruition. For instance, Japanese engineering firm IHI is collaborating with a consortium of Australian and Japanese companies to produce and export green ammonia from Queensland to Japan and South Korea.¹⁷

The close cooperation between Japan and Australia in the hydrogen and ammonia value chain is expected to mature over the next few years and have a significant impact on energy security and the transition to net-zero emissions.

Another area of collaboration that is gaining momentum is low-carbon liquid fuels. LCLF can be produced sustainably from agricultural waste and biomass or by combining renewable hydrogen with captured carbon dioxide. Australia's comparative advantage in these areas has attracted the interest of Japanese investors in recent years.

Critical minerals: securing supply chains

Critical minerals encompass all these characteristics - they are essential to modern technologies, economies and national security, and their supply chains are vulnerable to disruption.¹⁸ The current global production and availability of several critical minerals is insufficient for all end uses, including a full transition to clean energy. Furthermore, several critical minerals are concentrated in a few countries, some of which might not be fully aligned with the shared values that Japan and Australia uphold. This makes the secure and reliable supply of critical minerals a matter of geostrategic importance.

Fortunately, Australia is home to abundant reserves of critical minerals. It is the world's largest producer of mined lithium in the form of spodumene and is the fifth largest producer of cobalt and nickel. However, while Australia possesses relatively large reserves of key critical minerals, it does not play a pivotal role in the value chain beyond extracting these minerals in their naturally occurring form. The processing of critical minerals and the manufacture of key intermediate products such as batteries and semiconductors are extremely important segments of the value chain. These are also areas in which Japan possesses expertise and considerable potential. Since 2010, when Japan's supply of rare earth metals was embargoed, the country has gradually diversified its critical minerals supply chain. This effort has involved closer collaboration with Australia.

The collaboration between Japan and Australia in critical minerals has become increasingly important in recent years. It was formalised in 2022 when both countries signed a new critical minerals partnership. Under this partnership, both countries are exploring opportunities in the recovery and processing of critical minerals, and in the manufacturing of important intermediate technologies that depend on these minerals. This collaboration can help Australia climb the critical minerals value chain while also enhancing Japan's manufacturing capabilities. For instance, there are joint initiatives to establish battery precursor manufacturing facilities in Australia which would add value to raw critical minerals before export. The battery precursors produced in Australia could add efficiency to Japan's battery manufacturing complex while allowing both countries to move up the value chain. Collaboration on critical minerals along the battery value chain have also included the exploration of new approaches such as novel nickel laterite processing technologies in the production of lithium-ion batteries. Joint investment in critical minerals research and development includes:

Joint investment in critical minerals research and development includes:

- 01 **In-situ recovery methods:** These techniques involve extracting minerals directly from the ore body without traditional mining, potentially reducing environmental impacts and costs.
- 02 **Advanced processing technologies:** Development of more efficient and environmentally friendly methods for mineral processing and refining.
- 03 **Recycling technologies:** Research into effective methods for recovering critical minerals from end-of-life products, reducing reliance on primary extraction.

Australia's critical minerals strategy and its battery strategy align with its critical technology priorities. Moreover, Australia's close collaboration with Japan aligns with the shared goal of building the supply chains of the future. The opportunity presented by this collaboration is vast. Not only does it address immediate supply chain concerns and concentration risks, but it also positions both countries at the forefront of the clean energy transition. There have been recent examples of collaboration on critical minerals. For instance, Australia's Alpha HPA, which produces high-purity alumina for use in advanced manufacturing processes, secured a significant supply deal with a major Japanese electronics firm to support the manufacture of advanced semiconductor chips. Additionally, Sojitz Corporation, in collaboration with the Japan Organization for Metals and Energy Security and Alcoa of Australia Limited, the Australian subsidiary of US-based Alcoa Corporation, are collaborating to explore the feasibility of producing gallium at one of Alcoa's Western Australian alumina refineries.

Both Australia and Japan should also explore how technologies such as AI can be used to accelerate decarbonisation efforts.

3.2 Infrastructure

Infrastructure is a key enabler of economic progress. Partnering in the construction of critical infrastructure is therefore a very potent channel for strengthening bilateral ties. Japan, with its long track record of expertise in building high quality urban infrastructure has championed this approach by promoting, designing, and delivering high quality infrastructure across several economies in Asia and the Pacific.

In recent years, Japanese companies have collaborated with Australia's state and territory governments and with private companies on several critical infrastructure projects. For example, Marubeni Corporation is part of the international consortium that is collaborating with the New South Wales government on the expansion of Sydney Metro.

^v 'Clean hydrogen' generally means there are very low to zero carbon emissions in the production of the hydrogen. This term covers hydrogen both with and without carbon capture and storage.

The colour terms denote the relative cleanness of hydrogen. Globally these terms are not consistent. In Australia:

Green hydrogen is carbon free: it is produced from renewable energy and non-fossil fuel sources.

Blue hydrogen is clean but not green: it is produced from natural gas, but the carbon is not released into the atmosphere; it is captured and stored.

Brown hydrogen is not generally clean: it is produced from fossil fuel sources (such as gas and brown coal) and the carbon is released into the atmosphere.

This follows participation in all three stages of the Gold Coast Light Rail project. Elsewhere, Hitachi Rail collaborated with Rio Tinto to develop the world's first fully automated rail system for long-distance heavy freight transport. Japan's megabanks are also playing a critical role in enabling this collaboration. In 2022 and 2023, Mitsubishi UFJ Financial Group (MUFG), Mizuho Financial Group (Mizuho), and Sumitomo Mitsui Banking Corporation (SMBC) ranked at the top of the list of project finance arrangers in Australia, ahead of the largest domestic banks.¹⁹

The room for further collaboration between Japan and Australia on the infrastructure front is growing. There are three clear areas in the Australian economy that will benefit from Japan's expertise in infrastructure investment:

1. The transition to net zero and the AI wave - as Australia's clean energy ambitions expand so does its need for enabling infrastructure. Furthermore, Australia's emergence as a key Asia-Pacific hub for green data centres presents Japanese investors with an opportunity to deploy capital.
2. The chronic shortage of housing across Australia – as Australia's population expands rapidly, its urban infrastructure, including residential infrastructure, has come under strain.
3. Disaster-resilient infrastructure – Japan's advanced capabilities in disaster prediction and prevention, particularly around flood management, early warning systems, and resilient design, offer valuable lessons. As Australia faces more frequent extreme weather events, there is an opportunity to draw on Japanese experience to build infrastructure that is more adaptive and robust in the face of natural hazards.

Clean energy infrastructure

The infrastructure required to facilitate the transition to net zero in both Japan and Australia presents a major opportunity for the two nations to strengthen their economic relationship. The need for enabling infrastructure is arguably more extensive in Australia given the country's ambition of becoming a clean energy superpower.

Japan continues to invest in hydrogen infrastructure in Australia. For instance, Mitsubishi Gas Chemical Company, Toyota Motor Corporation Hydrogen Factory, and ENEOS Xplora announced an investment in Gold Hydrogen Limited, an Australian natural hydrogen discovery and development company, earlier in 2025.²⁰ The investment will fund further drilling and exploration. Rio Tinto and Sumitomo Corporation have been building a first-of-a-kind hydrogen plant in Gladstone as part of the Yarwun Hydrogen Calcination Pilot Demonstration Program, aimed at reducing carbon emissions from the alumina refining process. If successful, the program sets the stage for global adoption of this technology at scale.

With both nations viewing hydrogen as critical to achieving net-zero targets, there is likely to be ample room for collaboration in this space. Infrastructure will be an important component of such collaboration.

Japanese firms are investing heavily in Australia's wind and solar infrastructure. Sojitz Corporation and ENEOS Corporation, both Japanese firms, developed the Edenvale solar park in Queensland which opened in late 2023.²¹ More recently, Potentia Energy, a joint venture between Japan's INPEX and Italy's Enel Green Power, has been expanding its investment in wind and solar farms in Australia.²²

Japanese firms are also investing in Australia's emerging biofuels industry. For instance, a consortium of Japanese investors is set to partner with the Queensland state government to study the feasibility of mass producing sustainable aviation fuel (SAF) from Pongamia trees, a species in the legume family. The experimental project will involve infrastructure investment worth tens of billions of yen.

Sufficient clean energy infrastructure will be required to ensure that the energy requirements of the AI revolution are met without detracting from the essential goal of reducing carbon emissions. With its strong renewable energy base and competitive power costs Australia is becoming a hub for green data centres. This presents Japanese investors with a lucrative opportunity for productive investment.

Australian companies also have an opportunity to tap into the global AI boom by helping to build critical infrastructure in Japan. Lendlease, AirTrunk, and NEXTDC are already investing in large-scale data centres in Tokyo, Osaka, and Saitama. AirTrunk's TOK2 data centre is projected to be one of the largest in Japan.

Housing infrastructure

Australia has been facing ongoing challenges in building sufficient housing. Over several decades, the stock of houses has failed to keep pace with population growth. This has been exacerbated further by post-pandemic supply chain bottlenecks, labour shortages, and a record increase in net overseas migration. Tight monetary policy in recent years has added to the challenge faced by the residential construction sector, resulting in a record number of insolvencies, and potentially slowing housing supply further. All of this has resulted in a sharp deterioration in housing affordability. Median house prices have increased by over 200% in Australia's major capital cities since 2002.²³ The rate of home ownership has dropped steadily as more people are forced to rent. This has, in turn, resulted in record low rental vacancy rates and upward pressure on rents.

In sharp contrast, Japan's housing market is oversupplied due to a steady decline in population. This has forced Japanese property companies to look for investment opportunities overseas.

This context makes the case for Japan to invest further in Australia's real estate sector. Unsurprisingly, Japan's outbound real estate investment has surged in recent years. The flow of Japanese capital into Australia's real estate market touched a record high in 2023 as a wave of Japanese property companies either bought stakes in Australian homebuilders or expanded their presence in the Australian housing market. Recently Sumitomo Forestry (with global expertise in real estate) acquired a majority stake in Australia's largest home builder, Metricon, highlighting the role of Japanese capital in driving the required lift in Australian housing construction. As a result, Japanese-owned firms now account for an increased share of all housing commencements in Australia.

In addition to the lower new housing requirements in Japan, **the Japanese government has adopted a lighter touch approach to planning, as well as the use of innovative solutions, such as build-to-rent (BTR) projects.** This development style potentially provides a model for Australia to follow. Japanese developers have already taken steps to bring their expertise to the Australian market. Sekisui House's award winning Central Park collaboration with Fraser's Property in Sydney and Daiwa House's \$650 million project at Melbourne Quarter with Lendlease are high profile examples of this.

With a proven track record and experience deploying innovative solutions, Japanese property developers could be poised to play a pivotal role in reshaping Australia's housing landscape, supporting the path to Australia's ambitious target of 1.2 million new homes by 2028-29. For instance, Japanese real estate firms have been early adopters of AI to analyse satellite images and enhance land-use planning.

3.3 Defence and security alignment

A path towards deeper cooperation

Japan and Australia have a strong security relationship with each other and with the US, which is a common ally across the economic and defence spheres. The foundation of Japan and Australia's security relationship with each other, and the US, is a shared interest in preserving stability, peace, and prosperity in the Indo-Pacific region by upholding the rules-based global order. However, all three security partners now face the reality of other rising regional powers in the Indo-Pacific with interests that might often run contrary to their own. This change in the balance of power necessitates closer defence and security ties with each other, and with other like-minded countries in the Indo-Pacific region.

The recently reaffirmed special strategic partnership between Japan and Australia ensures that defence and security issues will remain high on the agenda.

The commitments made in the Joint Declaration on Security Cooperation (JDSC) in 2022 and the signing of the Reciprocal Access Agreement (RAA) have laid the foundation for Japan and Australia to build a closer security relationship, second only to their alliances with the US. The JDSC and the RAA commit to bilateral collaboration on a range of issues, including strengthening cyber defences. The combination of AI and quantum computing can help both countries build cyber resilience against the increasing use of 'harvest now, decrypt later' cyberattacks which allow cyber criminals to steal and store critical information that can be decrypted later using advanced technologies.

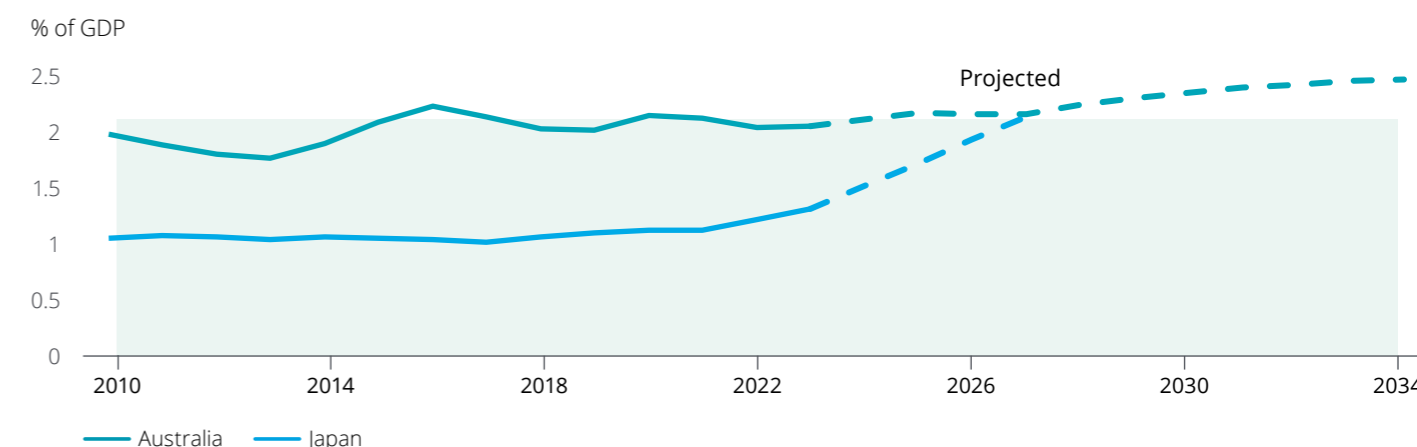
Japan and Australia also contribute to broader multilateral initiatives and forums like Indo-Pacific Economic Framework (IPEF), the East Asia Summit, and the Quad which allow both countries to project strategic power beyond bilateral ties.

Defence and Space

Aside from the abstract world of multilateralism, **Japan and Australia are both increasing defence spending in response to the defence and strategic challenges they face in the region.** In response to what he described as the most severe and complex security environment since the end of World War II, former Prime Minister Kishida approved ¥7.9 trillion (\$80bn) in defence spending for fiscal year 2024, marking a 16.5% increase from the previous year. This allocation is part of Japan's Defence Buildup Program, which outlines significant increases in defence spending over the five-year period ending in fiscal year 2027, bringing it in line with the 2% of GDP target common among many Western nations.²⁴

Similarly, the 2024-25 Federal Budget outlined the Australian government's plans to nearly double defence spending within a decade, reaching \$100bn (over 2.3% of GDP) in annual spending by 2033-34.²⁵ These plans aim to ramp up defence equipment production and procurement, construct new defence bases, and boost innovation within the defence sector.

Chart 3.1: Japan and Australia's defence budget, % of GDP^{vi}



Source: Our World in Data, Australian federal budget 2024-25, Japan Ministry of Defense, Deloitte Access Economics

^{vi} Australian defence budget figures for 2021-22 to 2027-28 are taken from the actual forward estimates in Budget 2024-25. Figures from 2027-28 to 2032-33 are imputed to ensure 2033-34 estimates equal 2.3% of GDP, as announced by the Australian Department for Defence in May 2024. The same approach is taken for Japan's projected spending.

The emphasis both governments are placing on defence creates a valuable opportunity for Japan and Australia to collaborate.

For instance, Australia selected Japan's Mogami-class frigates for its general purpose frigate program.²⁶ The deal deepens the defence and security partnership between both countries. It also opens opportunities to collaborate in areas beyond defence such as advanced manufacturing and technology sharing. The significance of the deal is highlighted by the fact that Japan has never sold a modern major weapon system to another country. And the long-term nature of the deal underlines the joint commitment to the overarching strategic partnership.

Japan has also extended its defence ties with Australia by sending its largest contingent of personnel to the Talisman Sabre biennial exercise which is the largest bilateral training activity between the Australian and US defence forces. Deeper cooperation was fostered in September 2025 when Australia's defence and foreign ministers travelled to Japan to attend the 12th Australia-Japan Foreign and Defence Ministers' meeting. Further opportunities to strengthen ties in the defence space are likely to arise if Japan joins Australia, the UK, and the US in the AUKUS alliance in the future.

The opportunities for Japan and Australia to strengthen ties also extend beyond Earth's boundaries. **In July 2020, the Japanese Space Agency (JAXA) and the Australian Space Agency (ASA) signed a Memorandum of Cooperation on Space Utilisation.**

This agreement emphasised collaboration in various areas, including space technology, space science, and space exploration. Furthermore, at the Japan-Australia Leaders' Meeting in 2022, leaders confirmed, in-principle, support for Australia to be the landing site for the Japanese Martian Moons eXploration (MMX) capsule, expected to launch in 2026. These agreements build on already strong cooperation in space between Japan and Australia over more than 20 years, including the trials of the Japanese Automatic Landing Flight Experiment at Woomera in 1996, the launch of Australia's FedSat in 2002 from Japan's Tanegashima Space Center, and the return of Hayabusa1 in 2010 and Hayabusa2 in 2020.

The integration of Japanese space-related technology into Australian life runs deep. Australian businesses and individuals use satellites or technology developed in Japan for financial transactions, weather forecasting, GPS navigation, television broadcasting, and communication with loved ones. This collaboration is likely to continue as the Bureau of Meteorology in Australia and the Japan Meteorological Agency have signed a Strategic Relationship Arrangement to deepen their longstanding partnership on satellite meteorology. Recent advancements in space technology have opened an entirely new dimension to the now "extra-global" economy. This emerging arena presents exciting opportunities for further collaboration between Japan and Australia.

3.4 Supply chain resilience

Globalisation has been key to the prosperity of the Asia-Pacific region. It has enabled countries to utilise their comparative advantage and specialise their industrial efforts in particular sectors of the economy. This has led to more efficient, interconnected, and productive global supply chains.

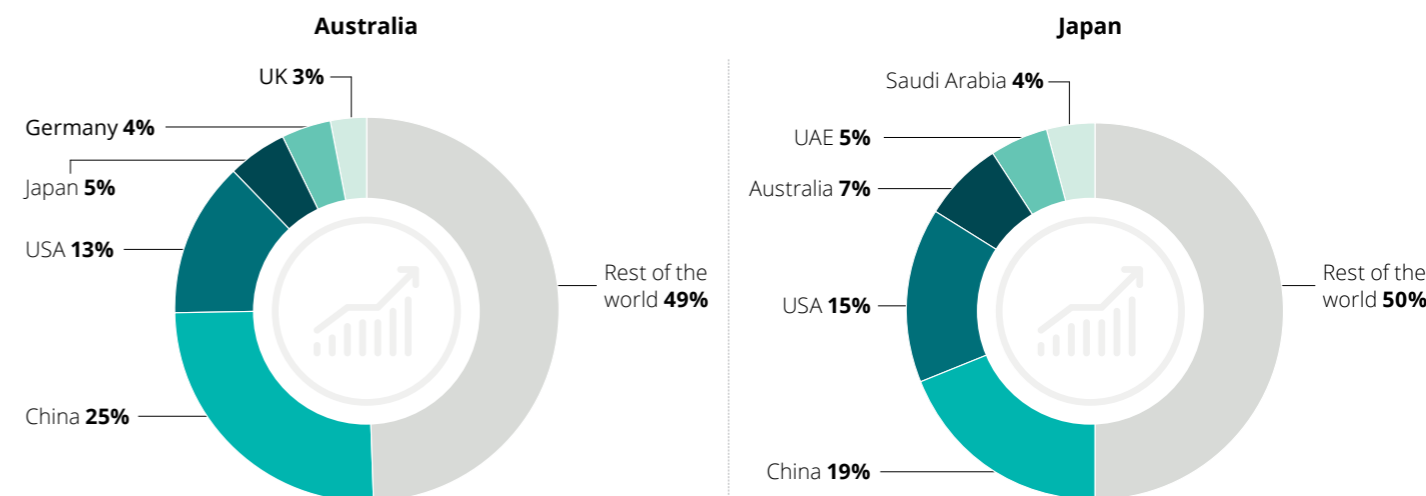
For several decades efficiency has taken precedence over resilience along global supply chains. This has led to the formation of specialised global hubs to produce certain products. However, this model has come under strain in recent times as **the COVID-19 pandemic, recent global conflicts, and rising trade tensions have exposed the vulnerability of global supply chains and the risks that come with the concentration of production.**

The changing dynamics of globalisation has significant implications for Asia-Pacific region and the global economy. Additionally, supply-chain disruptions are increasingly becoming issues of economic and national security. **Supply chain risk is compelling nations to invest in economic security. Most countries have recognised the need to act, but collaboration between like-minded nations is necessary to achieve true resilience.**

The discussion about supply chain resilience cannot ignore the source and destination of imports and exports. Both Japan's and Australia's economies are highly reliant on the two major global economic powers. In both countries, more than a third of total foreign value addition to domestic final demand comes from the US or China (see Chart 3.2). For both Japan and Australia, about a fifth to a quarter of the foreign value addition comes from China alone.

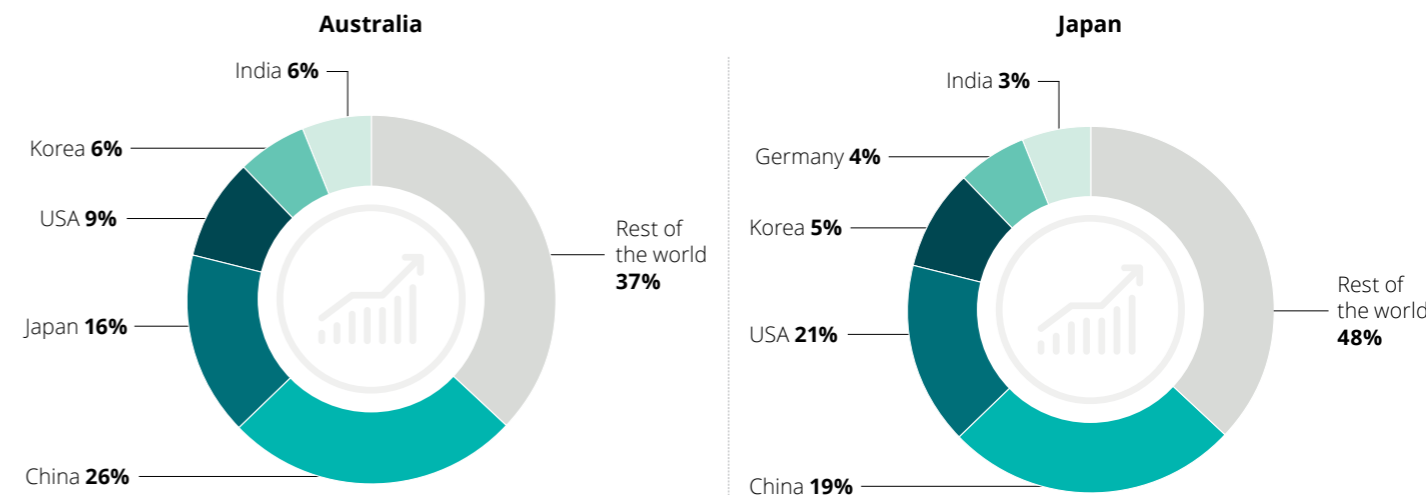
Additionally, domestic value chains in both nations are heavily reliant on final demand from the US and China (see Chart 3.3). In 2022, 35% of foreign final demand for Australian value addition came from China and the US, with 26% coming from China alone. Similarly for Japan, 40% of foreign final demand for Japanese value addition came from China and the US, with 19% coming from China alone. These significant dependencies pose threats to Japan and Australia especially as major global powers remain embroiled in trade frictions, the effects of which can spill over to other countries. Concentration in supply and demand also elevates the risk posed by disruptive events such as pandemics or conflicts. **These risks make a solid case for Japan and Australia to collaborate on economic resilience, with supply chains at the forefront of this effort.** Australia's proven track record as a supplier of energy and resources positions it as a dependable partner to Japan and is reflected in the fact that Japan accounts for 16% of the foreign final demand for Australian value addition.

Chart 3.2: Share of foreign value added in domestic final demand, 2022



Source: OECD Trade in Value Added (TiVA) database

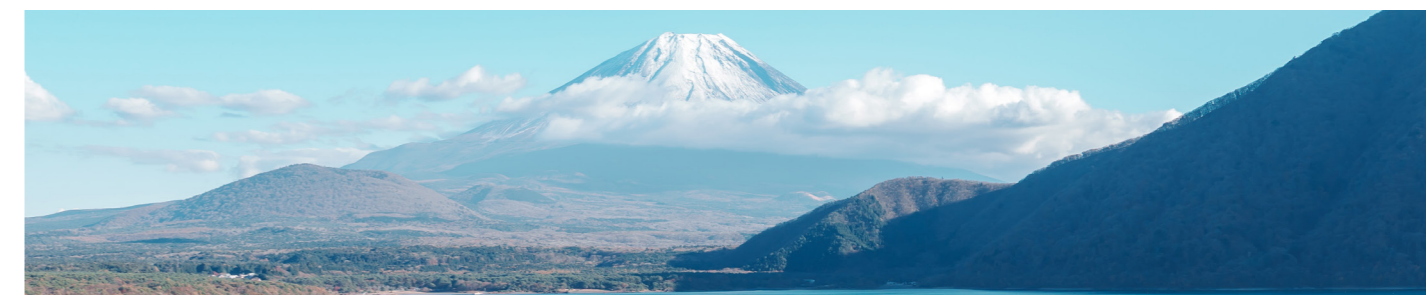
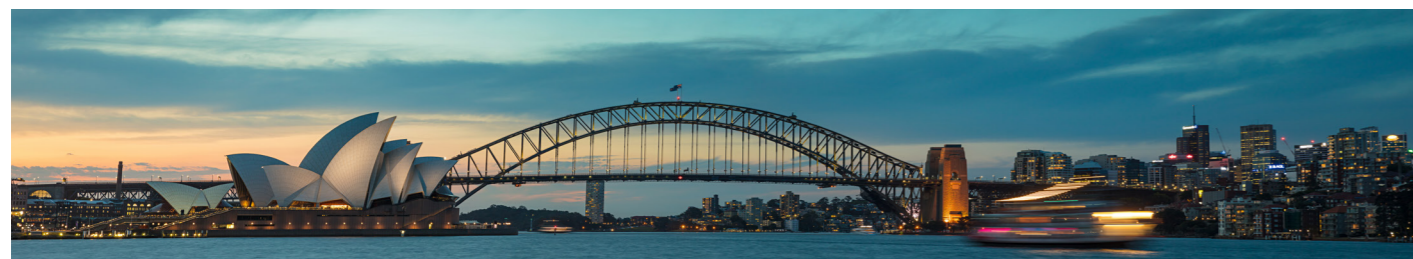
Chart 3.3: Share of domestic value added in foreign final demand, 2022



Source: OECD Trade in Value Added (TiVA) database
Note: The latest OECD TiVA data extends to 2022

Deloitte's industry-leading market research on the emerging fragility of global supply chains identifies several mechanisms for governments and companies to improve supply chain resilience. These include diversifying supply chain relationships, 'friendshoring' operations with close partners, and integrating advanced technology into supply chain systems.²⁷ For Japan and Australia, these efforts are likely to involve building deeper

engagement with the Association of Southeast Asian Nations (ASEAN) group of countries, boosting trade linkages with each other and with other like-minded countries, and implementing intelligent supply chain technologies. The opportunity for collaboration is significant in this space. It also allows for Japan and Australia to extend the influence of their successful partnership beyond bilateral ties.



Supply chain reconfiguration is challenging

Diversifying and fortifying existing supply chains is far from easy. While enhancing resilience can be beneficial, the process is fraught with challenges that must be considered. Firstly, analysis by Deloitte illustrates that global supply chains are complex ecosystems and understanding each relationship can be a laborious task. This can make it difficult to identify where vulnerabilities exist. Additionally, reshoring one part of the supply chain may have unintended consequences on other interconnected parts.

Building resilience in supply chains is also likely to come at the cost of some efficiency. Global production hubs exist because they can produce a particular good efficiently. Therefore, diversifying supply chains and redirecting operations away from these hubs may reduce efficiency and increase costs for companies. In 2023, the International Monetary Fund highlighted that international trade restrictions could reduce global economic output by as much as 7.0% over the long term. Since then, trade restrictions have increased significantly, therefore the impact could be larger. From a strategic perspective, changing supply chain partners may also damage relationships and increase tensions if perceived as a geopolitical manoeuvre, potentially straining diplomatic and trade relations. Therefore, while the pursuit of supply chain resilience is crucial, it requires a balanced approach that carefully weighs the expanding risks across supply chains against the range of unintended consequences that can unfold due to reconfiguration.

3.5 People-to-people links



Strong people-to-people links at all levels, from political connections to student networks, is essential if the two nations are to take hold of the opportunities outlined in this chapter. People-to-people links build genuine camaraderie into bilateral ties. This is a valuable benefit in an increasingly fragmented world. **While Australia has relatively strong people-to-people relationships with Japan, including through very strong tourism growth from Australia to Japan, and high numbers of Australians per capita studying Japanese, more needs to be done if the relationship is to reach its full potential.**

Programs such as the New Colombo Plan and the Japan Exchange and Teaching Programme, as well as long-term education programs such as those run by the Mitsui Foundation, have been very beneficial over the years. However, government and business might wish to consider focusing on additional programs that are specifically bilateral programs.

Students

Australia ranked as the third most popular destination for Japanese students studying abroad in 2022, trailing behind Canada and the US. Almost half of Japanese students studying abroad chose Canada (23%) or the US (22%), while 17% chose to study in Australia.²⁸ However, **while the share of Japanese students choosing to study in Australia is high, the actual number of Japanese students studying in Australia is relatively low at approximately 10,500 as of August 2025.**²⁹ Japan currently ranks 18th in the number of international students studying in Australia, a relatively low ranking given the strong history of Australia-Japan relations. This ranking has slipped over time; Japan was once the fifth or sixth-largest supplier of international students to Australia.³⁰ Additionally, most of the Japanese students that study in Australia stay short term. Almost 90% stay less than one year, with many of them being undergraduate exchange students.³¹ This is despite the governments of Japan and Australia reaching an unprecedented level of partnership over the last decade, including in the education sector. Programs such as the Quad Fellowship for Science, Technology, Engineering, and Mathematics (STEM), and the Quad Infrastructure Fellowships indicate that education and knowledge exchanges are a key element of strategic engagement among like-minded states.

International students present a significant opportunity for Japan and Australia to strengthen their people-to-people links. The number of Japanese students studying abroad is increasing from the lows recorded in 2021 but is still much less than half the pre-pandemic level of about 220,000. Japan aims to increase the number of students studying abroad to 500,000 by 2033, more than double the number in 2019. This presents Australia with an opportunity to attract a higher share of Japan's overseas students and retain them for longer. Australia could leverage the fact that it already accepts a large share of Japanese students studying abroad and develop platforms that showcase Australia as a future destination for study. Japan and the US already have such programs, including the Japan-America Student Conference and the Kakehashi Project that presents the US as a destination for study. Australia should develop similar programs or leverage existing programs like the New Colombo Plan and leverage the high global ranking of its universities to showcase Australia as an attractive study destination.

A further opportunity comes from Japanese youth coming to Australia on working holiday visas. The Australian government issued more than 17,000 working holiday visas (a record high) to Japanese citizens in the 12 months to June 2024. It exceeds the number of the Japanese students studying in Australia. A relatively strong Australian dollar and attractive wages have been major attractions. However, there is room for improvement particularly if this channel is to be used to strengthen people-to-people connections.

For instance, while record high working holiday visas have been issued, many Japanese youth report that finding jobs in Australia has proved to be challenging, not least because of language barriers. Additionally, though Japan runs a similar program for Australians, the Japanese government issued only one-tenth of the same visas to Australian citizens in 2023.

There is also scope for the Japanese government to improve Australia's attractiveness as a study destination.

Australia currently stands as a tier-two nation in Japan's scholarship regime. As a result, the stipend offered to students choosing to study in Australia is lower.³¹ Australian cities do not feature in the designated 14 'special cities' that attract higher scholarship funding. Looking in the opposite direction, **only a small share of Australian students studying abroad choose to study in Japan.** Even Asia accounts for 48% of Australian students' international learning experiences, Japan accounts for only 4%.³² This presents a significant opportunity for expansion, particularly given the Japanese government's desire to increase international student enrolments. The government has proposed plans to recover Japan's foreign enrolment by 2027 through more active recruitment and improved language and career transition supports.³³ The rebound in foreign enrolments after international borders opened has been encouraging. In 2023, international student enrolments in Japan grew by 20.8% to 279,000.³⁴ To capitalise on this opportunity, Japan and Australia must work to present Japan as an attractive study destination for Australian students. This messaging can leverage the 550 sister school partnerships and more than 650 university partnerships that the countries share.³⁵

Tourism

Tourism plays a crucial role in fostering people-to-people connections and is key to the continued growth of the Australia-Japan relationship. However, tourism is becoming more one-sided. That is, the number of Australians travelling to Japan has been rising while the number of Japanese travellers visiting Australia is on a downward trajectory. In 2024, a record number of Australians, more than 500,000, holidayed in Japan.³⁶ This number has been increasing steadily over the last couple of decades. On the other hand, the number of Japanese tourists visiting Australia in 2024 was around 450,000, down from a peak of 800,000 in the late 1990s.³⁷ Foreign exchange rates and affordability explains part of this trend, but there is more that can be done to bring Japanese tourists back to Australia.

Concerted efforts might help to revive the mild recovery in tourist arrivals from Japan that took shape between 2011 and 2019. One way to achieve this is through providing increased support to Japanese tourists. Language is both an opportunity and a challenge in tourism. Many Japanese travellers see visiting English-speaking countries as an opportunity to practice their English, yet they still wish to have access to marketing and product information in Japanese.³² Japanese-speaking tour guides and staff in hotels may also be preferred. However, Japanese-speaking support staff are in short supply in Australia, especially given that many who were in Australia on working holiday visas before the pandemic have returned to Japan.

To support growth in tourism, the Australian government should invest in the development and provision of suitable language services. This will ultimately enhance the people-to-people elements of tourism. They can also continue to develop initiatives such as Tourism Australia's 'Japan Host' program which is designed to support tourism businesses looking to engage Japanese travellers by providing training about the cultural needs of Japanese visitors.³⁸ Growth can also be created by promoting Australia's working holiday visas which are increasingly attractive for Japanese tourists because of the large difference in the median wage.



Skilled migration

Foreign residents comprise only about 2% of Japan’s population. However, Japan’s demographic and labour market challenges are forcing companies and communities to open to foreign workers at an unprecedented rate. The number of foreign workers in Japan reached a record high of 2.3 million in 2024, a year-on-year increase of 12.4%.³⁹ The Japan International Cooperation Agency believes Japan will require 6.74 million foreign workers by 2040 to combat its shrinking population.⁴⁰ This will be supported by revised labour laws that encourage workers from abroad to stay longer. The new laws will allow workers to change their workplace within the same industry under certain conditions and replaces the Technical Intern Training Program which largely prohibited trainees from changing workplaces.⁴¹

Japan’s changing attitude towards foreign workers provides Australia with a significant opportunity to strengthen people-to-people links. Greater mobility of workers between the two countries will deepen bilateral economic ties and foster cultural exchange. Migration flows from Australia to Japan are currently low. Australia does not rank in Japan’s top 10 sources for migrant inflows.⁴² To increase Australian migration to Japan, Japan could promote its job opportunities and map its growing demand for skills to Australia’s strengths. This could occur through coordinated efforts with Australian universities and companies, including initiatives such as bilingual career fairs and internships with Japanese firms for Australian students. Furthermore, Australia could provide language and cultural support to its citizens, including offering more opportunities for students to learn Japanese.

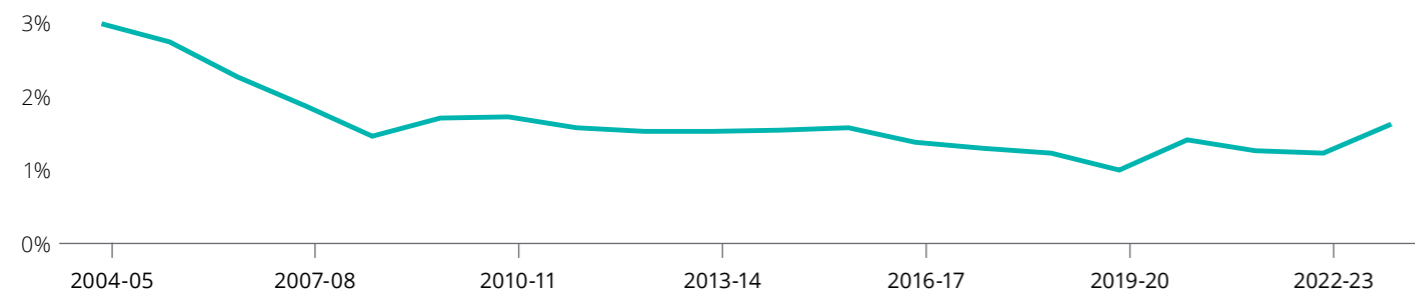
Japanese migration to Australia also has room to grow.

Australia attracts a significant number of Japanese expatriates, but data indicates that the population of Australian residents born in Japan has increased at a relatively slow rate compared to the population of Australians born in other parts of Asia.⁴³ Skilled migration from Japan could be utilised to fill skill shortages in several critical industries in Australia. Analysis by Jobs and Skills Australia illustrated that of 916 occupations assessed in 2023, 36% were in national shortage, a 5% increase from 2022.⁴⁴ These shortages include occupations in the information communication technology and science sectors where Japan has significant expertise.

It’s clear that the network of migrants could be strengthened to reflect the depth of Japan and Australia’s economic relationship. A very small share of temporary and permanent visa holders in Australia held Japanese citizenship. In the opposite direction, the 13,200 Australians in Japan account for a miniscule share of the total number of foreign residents living in the country. The spillover effects from migrant networks can be significant, providing mutual benefits to both nations. By enhancing these connections, Japan and Australia could further solidify their robust economic and cultural ties, ensuring a more comprehensive and resilient partnership.

To strengthen ties, Japanese companies in Australia could offer internships and work experience for Japanese students studying in the country. Additionally, promoting Business English courses and exchange programs for Japanese young professionals could enhance skills and cultural exchange.

Chart 3.4: Share of overseas migrants in Australia born in Japan



Source: Australian Bureau of Statistics



Addressing challenges and venturing beyond bilateral

The strong bilateral relationship between Japan and Australia cannot be taken for granted. The relationship needs to be continually nurtured, with several challenges to overcome.

The strong economic partnership between Japan and Australia can also serve as a key stabiliser in the Indo-Pacific. This section identifies four broad categories where Japan and Australia contribute to the region. Continued influence through these four channels will be beneficial to the region and to the future of the bilateral partnership

- Energy security
- Sustainable infrastructure
- Defence and strategic alignment
- Supply chain resilience

4.1 Current challenges in bilateral ties

Today Japan and Australia still face challenges in bilateral ties. The following paragraphs touch upon some of the main challenges. These span across the energy trade, the ease of trading with and investing in Australia, and the accessibility of Japan's corporate sector to foreign investors.

Additionally, despite the strong economic partnership between Australia and Japan, there remains a noticeable gap in talent exchange, particularly among professionals who can navigate the business and economic systems of both countries. While student and researcher mobility is relatively active, the pipeline of bilingual or bicultural professionals in sectors like energy, logistics, AI, and quantum computing is still limited. This limits the ability of businesses and governments to build truly integrated solutions and partnerships. A lack of shared academic pathways, limited internship opportunities, and language barriers all contribute to the issue. Greater efforts to nurture bicultural talent could significantly strengthen bilateral economic resilience.

Energy trade

Perhaps the most notable challenge across the bilateral energy trade in recent years has been Japan's concerns about Australia's Domestic Gas Security Mechanism.

The mechanism also known as the "gas trigger" was put in place in 2017 to prevent domestic gas shortages by limiting gas exports beyond contracted obligations. Japan is the largest and most dependable investor in Australia's LNG sector. More importantly, Japan's domestic economy relies heavily on Australia's exports of LNG. It is therefore a matter of concern for Japan if the supply of LNG from Australia can be disrupted. These concerns multiplied in late 2022 and early 2023 when reform of the security mechanism allowed the Australian government the option of reviewing activation of the gas trigger every quarter rather than every year. The mechanism has never been used since being introduced in 2017, but the war in Ukraine and the broader inflationary wave after the pandemic put tremendous upward pressure on global energy prices, particularly natural gas prices. In Australia, domestic natural gas prices doubled and then quadrupled resulting in increased urgency to activate the gas trigger. This tension between domestic needs and longer-term international commitments has placed a strain on the bilateral relationship.

Ease of trading with and investing in Australia

Other wrinkles in the bilateral relationship include challenges posed by Australia's trade system. Cross-border trade in Australia is currently overseen by 32 government agencies. It includes 145 information and communication technology systems and is governed by over 200 series of regulations. Though Australia ranks relatively high in terms of the overall ease of doing business, it ranks very low in terms of trading across borders. Under this category, the World Bank ranks countries based on the time and costs associated with exporting and importing goods. Additionally, potential investors in Australia often must deal with a complex web of regulations across the Commonwealth as well as state and local governments. The fragmented regulatory process and multiple entry points can often confuse investors and make the investment process onerous. Simplifying cross-border trade and investment in Australia is therefore a requirement for strengthening bilateral ties.

Corporate governance in Japan

Japan also has work to do to strengthen bilateral ties. For instance, Japan can continue to make progress in terms of corporate governance reforms. In particular, Japan can drive reforms to encourage foreign ownership especially when the investment comes from like-minded countries. Foreign companies looking for opportunities to expand through mergers and acquisitions, including those in Australia, have faced hurdles in Japan for several decades. A more open Japan – with further foreign trade facilitation and higher financial performance – will allow Australian businesses from varied industries such as real estate, financial services, and technology the opportunity to potentially target Japanese companies that are relatively undervalued, with a view to driving improved corporate performance. Further, Japan's heightened emphasis on shareholder value is strengthening its alignment with global financial market expectations and enhancing its attractiveness to international investors. Developing a market that allows for corporate control is likely to benefit Japan and strengthen ties with trusted partners such as Australia.

4.2 Steps taken to address bilateral challenges

The patience, persistence, and prescience that has come to characterise the Australia-Japan relationship is of utmost importance in navigating existing challenges. Some recent steps have been taken to address the challenges listed above. These steps, discussed below, reveal a mutual commitment to strengthen the existing bilateral relationship.

Long-term planning, open dialogue, and a commitment to net zero

Tensions around the potential for the Australian government to intervene in the LNG market have been ameliorated to some degree when Australia launched the Future Gas Strategy earlier in 2024. The strategy identifies natural gas as the transition fuel of choice through to 2050 and beyond and reiterates that Australia will remain a reliable supplier of natural gas to Japan while continuing to focus on decarbonisation.

There may well be further frictions on the path to net zero. For instance, Australia's east coast is projected to face shortfalls in the supply of natural gas from 2028. This may reopen the debate about restricting gas exports to buffer domestic supplies in the future. The challenge of maintaining energy security, both domestically and for international partners such as Japan, while also reducing emissions, is likely to require that both countries maintain an open dialogue.

Long-term planning, like in the case of the Future Gas Strategy, is also likely to benefit both countries. Concurrently, investment in renewable energy infrastructure and production will need to accelerate. This is the longer-term approach which Japan and Australia can use to address challenges in the current energy trade. Japan has already made significant investments in Australia's renewable energy and critical minerals sectors. Australia's playbooks such as the National Hydrogen Strategy and the Critical Minerals Strategy offer forward guidance for investors. Additionally, Australia's recent review of the foreign investment framework creates ample opportunity for investors from like-minded countries such as Japan.

Ramping up investment in green energy is critical. In the broad context of decarbonisation, energy security will remain important, but a failure to reduce emissions rapidly is very likely to be of greater consequence.

Simplified trade and investment frameworks in Australia

Australia has also made efforts to ease the burden of a complicated cross-border trading system. These efforts have resulted in the Simplified Trade System Unit at Austrade which will provide integrated advice on cross-border trade reform. Additionally, efforts have been made to simplify foreign investment in Australia by establishing the new Investor Front Door for investors with transformational investment proposals.

The Investor Front Door is part of the FMIA package and is currently in its pilot phase. It will serve as a single point of contact for investors with major projects, making it easier for investors to interact with the Australian Government and navigate approval processes.

Increased emphasis on shareholder value in Japan

Japan has also taken significant steps to support more efficient business performance. Ongoing corporate governance reforms have included new guidelines for corporate takeovers in 2023, including the treatment of unsolicited “bona fide offers.” A broad recognition that there are too many small and medium-sized players has encouraged a focus on consolidation and shareholder interests.



4.3 Projecting bilateral success into the Indo-Pacific region

The successful partnership between Japan and Australia has ample opportunity to look beyond bilateral, especially as both countries are located within the Indo-Pacific, a geopolitical region that they, along with the US, helped to conceptualise.

Australia used the term as early as 1976 to point to a geopolitical space that it was economically and politically linked to. However, the term gained popularity after Shinzo Abe, the late former prime minister of Japan, used it in his landmark speech “Confluence of the Two Seas” delivered to the Indian parliament in 2007.⁴⁵

The Indo-Pacific is home to more than half of the world's population, some of the world's fastest growing economies, 60% of global trade, and 15 of the world's busiest seaports. The region also hosts seven of the world's largest militaries.⁴⁶

As early as 2030, the Indo-Pacific will produce more than half of the world's economic output, consume more than half of the world's food, and 40% of its energy. Some of the most prominent countries in the region like India, Indonesia, and the Republic of Korea are also well-established democracies that uphold common values. These countries could benefit from closer ties with Japan and Australia as they navigate a changing world.

Strategic multilateral collaborations involving Australia, Japan and another country are increasingly shaping critical sectors such as telecommunications and rare earths. The Digicel Pacific acquisition by Telstra, backed by financing from Australia, Japan, and the US, reflects a shared commitment to supporting resilient infrastructure in the Pacific. Similarly, Japan has played a long-standing role in supporting Lynas Rare Earths, which mines in Western Australia and processes in Malaysia, helping diversify global supply chains in rare earth materials critical to advanced manufacturing and clean energy technologies.

Additionally, as the region continues to grow, there are likely to be challenges across several fronts. Japan and Australia are already contributing towards ameliorating some of these challenges. These ongoing efforts and contributions, across the key themes of energy security, sustainable infrastructure, defence and strategic alignment, and supply chain resilience, are discussed below. It is crucial that these efforts are intensified since both countries stand to benefit from a greener, wealthier, and safer Indo-Pacific.

Energy security

Key insight: Greening while growing will remain a daunting challenge for Indo-Pacific economies. Japan and Australia can contribute to energy security in the region while also contributing technological innovation and expertise in renewable energy generation and storage.

The energy partnership between Japan and Australia is symbolic of the regional energy security that the Indo-Pacific region can enjoy. It can continue to set an example for responsible energy partnerships in the region by promoting transparent market-based approaches to energy trade and investment through multilateral forums and initiatives in the Indo-Pacific. Both countries are active participants in regional energy cooperation mechanisms, such as the East Asia Summit (EAS) and the ASEAN+3 framework.

There is already significant interaction between Australia, Japan and the Indo-Pacific in terms of energy supply. A significant proportion of Australian LNG purchased by Japanese energy companies is on-sold throughout the region, including to the Philippines, Vietnam and India. This trading has driven increased Japanese demand for Australian LNG even when domestic demand has moderated and supports Japan's influence through the Indo-Pacific.

The Australia-Japan energy partnership is also well positioned to play a pivotal role in shaping the decarbonisation trajectory of the Indo-Pacific region. **The Asia Zero Emission Community (AZEC)** provides a channel for both countries to lead the energy transition in the region. The AZEC is founded on two key missions:

- Supporting economic growth and resilience, particularly through innovation.
- Recognising diversity among nations in the region so that appropriate approaches can be identified to achieve carbon neutrality.

Japan and Australia should use the AZEC and other forums to build energy security across the Indo-Pacific as the region pivots to cleaner sources of energy while maintaining its position as the fastest growing region in the world. For instance, the recent launch of a joint study to explore the feasibility of a CCS value chain between Japan and Australia can be extended to the region especially as parts of the Indo-Pacific show strong interest in Australia's CCS opportunities.⁴⁷

Sustainable infrastructure

Key insight: Population growth and rapid urbanisation could create an infrastructure deficit in many developing countries in the Indo-Pacific. The Asian Development Bank estimated that approximately \$US1.7 trillion will have to be invested annually in infrastructure through 2030 for the developing countries in the region to maintain economic growth, battle poverty, and mitigate climate risk.⁴⁸ However, only half the planned investment in infrastructure is covered by public financing in many countries.⁴⁹ In particular, investments will be required in transport, clean energy and digital infrastructure. Opportunities for Japan and Australia to contribute are wide ranging.

Japan and Australia are already involved in addressing the Indo-Pacific's infrastructure challenge. For instance, both countries, and the US, formed the Trilateral Infrastructure Partnership (TIP) in 2018 to drive infrastructure investment in the region.⁵⁰ Progress has been slow, but there is growing momentum behind the partnership. In 2022, the TIP released a renewed Memorandum of Understanding recognising the potential of the partnership and reaffirming a commitment to deliver infrastructure projects across the Indo-Pacific region.

Additionally, in 2019, Japan, Australia, and the US founded the Blue Dot Network, which aims to provide an internationally accepted certification system to promote developing countries in pursuing infrastructure investment. Such recognition can catalyse private sector investment and promote robust international standards for quality and sustainability.

Japan and Australia also collaborate as key members of the Quad to support infrastructure investment in the Indo-Pacific. For instance, in 2023, the Quad Partnership for Cable Connectivity and Resilience was announced. This also included an announcement of Australia's commitment to establishing an Indo-Pacific Cable Connectivity and Resilience Program through which the country would provide technical and policy research, share best-practice policy frameworks, and provide technical assistance to the Indo-Pacific.⁵¹

Both countries have also invested in the Indo-Pacific individually. For instance, Australia's Macquarie Group is the largest foreign investor in India's national highways. Japan, on the other hand, is a world leader in terms of infrastructure investment. In 2016, this leadership was channelled into the Quality Infrastructure Investment (QII) Partnership, a collaboration between the Government of Japan and the World Bank to elevate the quality of infrastructure in developing economies.⁵²

Defence and strategic alignment

Key insight: Recorded defence spending in the Indo-Pacific region has increased by almost 50% in the past ten years.⁵³ As geopolitical tensions grow, the need for defence and strategic alignment among countries with shared values will ramp up. Japan and Australia can play a key role in enabling this alignment through channels like the Quad and the AUKUS framework.

There is a clear opportunity and incentive for Japan and Australia to drive defence and strategic alignment in the Indo-Pacific to preserve stability and prosperity.

The goals of the partnership extend to maritime security and freedom of navigation in the Indo-Pacific. Secure sea lanes are crucial for energy trade, particularly for LNG and critical mineral shipments. Both countries have a vested interest in maintaining open and secure maritime routes, which aligns with broader regional security objectives.

The Quad and AUKUS are two avenues through which some of these objectives can be achieved. For instance, the Quad can be used to deepen collaboration with countries such as South Korea, the Philippines, Indonesia, and the ASEAN group of nations. Australia and Japan also collaborate in the Quad Senior Cyber Group to detect and deter cyberattacks in the Indo-Pacific region. Similarly, the AUKUS security partnership between Australia, the UK, and the US can be leveraged to drive regional integration. The AUKUS Pillar 2, for example, will enhance Australia's capabilities by focusing on jointly developing advanced defence technologies across a range of fields including quantum technology, hypersonic missiles, and AI. The willingness to expand AUKUS to include Japan, South Korea, and New Zealand in the future, is indicative of the potential that the partnership holds and its relevance to the Indo-Pacific.

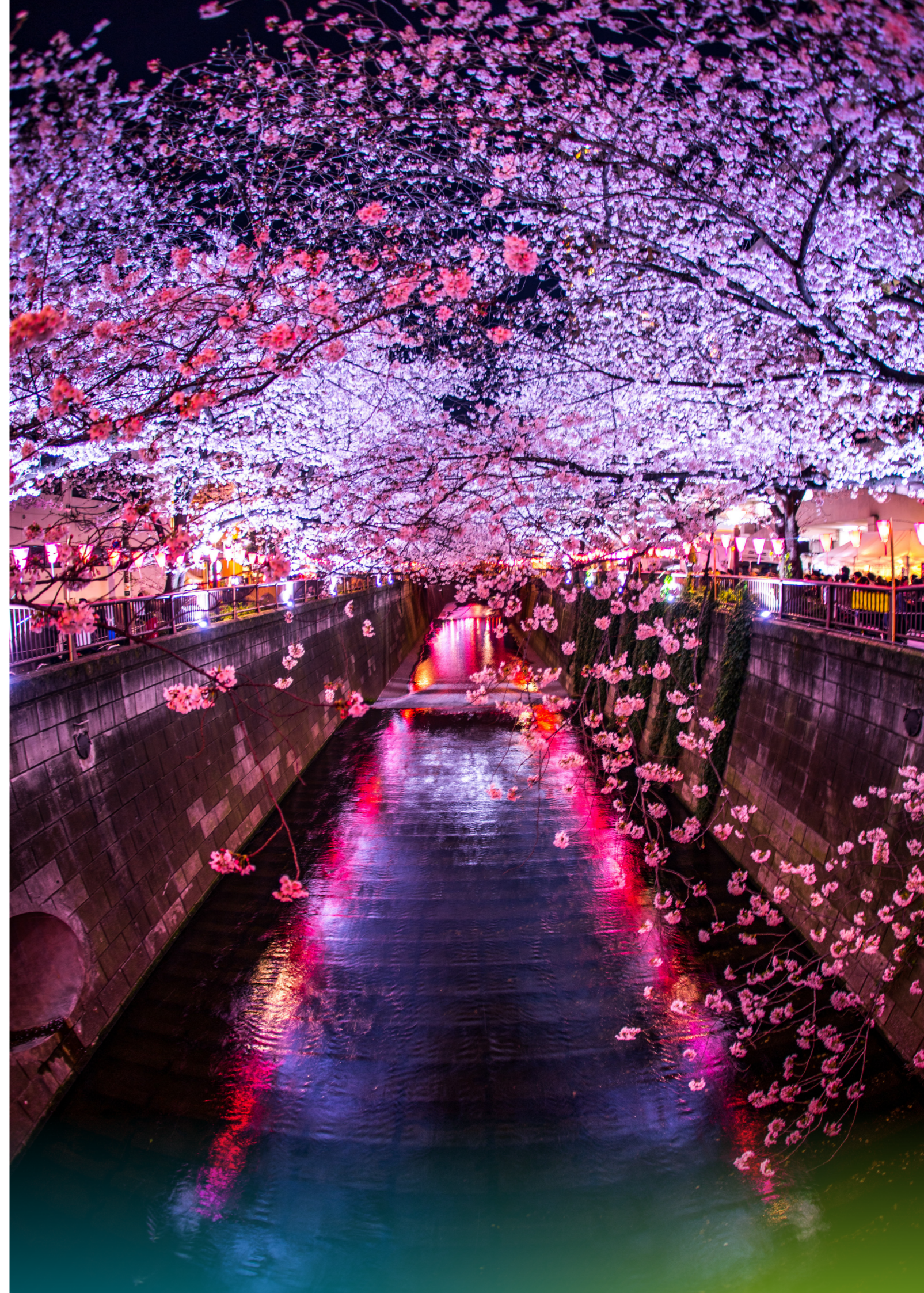
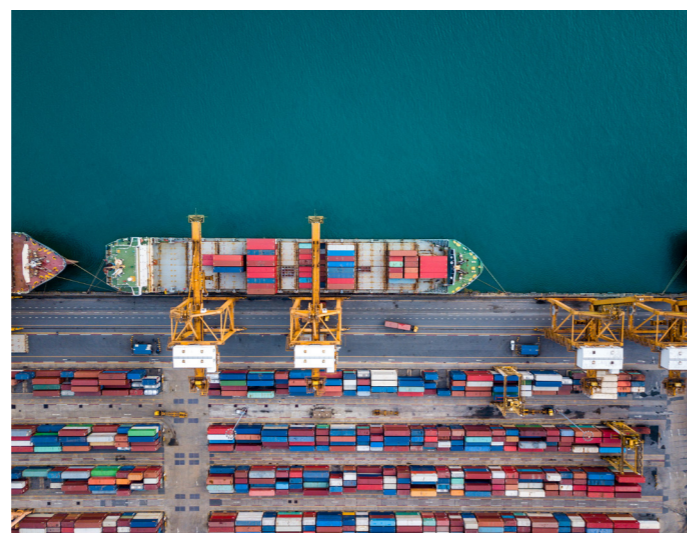
Supply chain resilience

Key insight: Supply chain resilience in the Indo-Pacific will become increasingly important as a growing share of world trade flows through the area. These trade flows will include rising volumes of critical products such as semiconductors and minerals that are concentrated in a few countries.

Resilient supply chains in the Indo-Pacific will allow the region to effectively adapt to disruptions stemming from one-off shocks and the frictions associated with the ongoing fragmentation of global trade. However, building resilient supply chains is a complex undertaking. It is likely to require a multipronged approach and significant collaboration between several countries across the region. Japan and Australia can lead this complex effort.

Within the wider Indo-Pacific, the ASEAN region is uniquely placed to provide an alternative to existing supply chains because of its plentiful labour supply and manufacturing capabilities. Japan and Australia already have deep engagement in the ASEAN region. Japan is the third largest source of FDI for the region, behind the US and intra-ASEAN investment, and Australia's engagement with the region is set to grow through long-term plans such as the Southeast Asia Economic Strategy to 2040.

Japan and Australia can work through several existing multilateral partnerships like the US-led Indo-Pacific Economic Framework for Prosperity, the Asia Pacific Economic Cooperation, and the Supply Chain Resilience Initiative to promote secure supply chains and jointly project stability and strength into the Indo-Pacific.



Act now to build economic resilience

In 2026, Australia and Japan will mark 50 years since signing the Basic Treaty of Friendship and Co-operation. This historic agreement, signed in 1976, was the first of its kind for Australia and laid the foundation for deep and lasting ties. This milestone also heralds an opportune time to act towards building economic resilience.

As always, a combination of patience, persistence, and prescience is likely to lead to lasting resolutions and stronger ties. Practical recommendations for deepening the bilateral partnership include actions by both governments, and by businesses in both countries.

In addition to the steps already taken by both countries to address some of the main challenges in the bilateral relationship, there are also some overarching guiding recommendations that governments and business alliances can draw on to facilitate a stronger partnership. Many of these recommendations overlap existing efforts. Nevertheless, the reiteration is required to maintain the momentum behind strengthening ties. These recommendations are listed below.

5.1 Recommendations for the Australian government Enhance trade and investment facilitation

It is recommended that the Australian government proactively continue to maintain the strength of JAEPA and aggressively explore new avenues for bilateral co-operation, especially in emerging sectors like clean energy and technology. While efforts in this direction have been beneficial, the urgency of the matter is likely to beget quicker and more aggressive collaboration.

Furthermore, it is recommended that a single-window trade policy be developed and implemented rapidly through the Simplified Trade System initiative. Similarly, it is important that the new Investor Front Door for major transformational investment be designed and implemented such that it simplifies investment rather than creating a bottleneck for investors. These recommendations are critical for Australia especially as the trade and investment relationship with Japan is evolving.

Accelerate investment in infrastructure

Australia's rapid population growth requires significant investment in infrastructure. However, the infrastructure gap cannot be closed without expertise and investment from trusted partners such as Japan. It is recommended that the Australian Government continue to attract Japanese investment in infrastructure, particularly in the clean energy sector and in the residential construction sector.

It is important that Japanese companies that are already heavily invested in enabling critical infrastructure for hydrogen and renewable energy projects are sufficiently incentivised by policies such as FMIA.

Additionally, Japanese developers should be encouraged to participate in large-scale urban development projects. It is important that this happens at all levels of government across Australia to catalyse a resurgence in housing supply.

Continue to strengthen people-to-people links

It is recommended that Australia expands educational exchange programs like the New Colombo Plan and offer scholarships to encourage more Japanese students to study in Australia. Offering skilled migration pathways to attract Japanese professionals in key sectors such as technology, engineering, and healthcare will also deepen the bilateral relationship.

Additionally, tourism and cultural exchange programs need to be promoted to foster mutual understanding and strengthen ties at the grassroots level. One recommendation is to address language barriers by investing in Japanese language services and training programs within Australia's tourism and hospitality sectors.

Persist with building supply chain resilience

It is recommended that Australia approaches the reconfiguration of supply chains in a measured way. However, the potential to collaborate with Japan to 'friendshore' critical supply chains through the Asian region must be thoroughly explored, particularly in areas like clean energy and advanced manufacturing.

Investment in technological solutions to enhance supply chain transparency and efficiency, integrating AI and machine learning to create more predictive and agile supply chains, should be thoroughly investigated.

5.2 Recommendations for the Japanese government

Continue to actively promote green energy collaboration

Japan has set an outstanding example in terms of far-sighted investment. Japan's early investment and patient partnership helped to build Australia's resource export sectors that continue to power the Japanese economy. It is recommended that the Japanese government continue this tradition of prescient investment by encouraging Japanese businesses to persist and even accelerate with investment in Australia's renewable energy projects, particularly in areas where Japanese businesses can provide a technological advantage in the production process. It would be beneficial for Japan to adopt a forward-looking approach in sharing its energy plans with Australia, demonstrating compatibility with both countries' climate and investment goals. Additionally, joint research and development programs in areas such as CCS technologies, hydrogen production and transportation, LCLF production, and critical minerals processing will help to secure economic success while meeting environmental goals. Bilateral green energy collaboration also supports economic security.

Bolster support for infrastructure development

The government should continue to support Japanese property companies looking to participate in Australia's housing and urban development projects. Promoting partnerships with Australian homebuilders in emerging segments such as the build-to-rent market are likely to be mutually beneficial.

Japan is also well placed to lead joint infrastructure projects in the Indo-Pacific region to strengthen regional economic security. It is recommended that the Japanese government continues to promote investment in high quality infrastructure while also partnering with Australian businesses.

Drive educational and cultural exchanges

To further strengthen Japan-Australia relations, the Japanese government could promote more cultural exchange programs and tourism while actively supporting educational pathways for Japanese students in Australia. Enhancing Australia's position in Japan's scholarship regime would be a practical step in this direction. Parallel to this, Japan should engage with Australia to review JAEPA, ensuring it remains adaptive to changing economic and educational needs and continues to deliver mutual benefits.

Persist with corporate governance reforms

Japan's progress in enforcing corporate governance reforms is commendable. However, Japan's relatively low stock of FDI relative to GDP underscores the need for the government to persist with these reforms. This could open opportunities for Australian businesses to partner in Japan's drive to enhance shareholder value and attract foreign investment. Australia outranks Japan in terms of net FDI inflows partially because of its status as a world leader in environmental, social, and governance performance. A robust regulatory framework and a focus on shareholder accountability underpins Australia's corporate governance leadership status. While not necessarily a blueprint for Japan, Australia's success can be drawn on to accelerate foreign investment.

5.3 Recommendations for business groups

While all levels of government in Japan and Australia should work towards providing the incentives and frameworks for deeper collaboration, ultimately businesses in both countries will play a key role in driving closer ties and shaping the future of the relationship. The following recommendations for business groups have been framed with this in mind.

Continue to pursue joint ventures and partnerships in key sectors

Australian and Japanese companies should pursue more opportunities to form joint ventures in strategic sectors like technology, infrastructure, and renewable energy. The focus should be on long-term partnerships rather than short-term contracts. The Australian economy presents numerous examples of such partnerships. For instance, BHP and Mitsubishi formed the BHP Mitsubishi Alliance in 2001 to become the world's largest supplier of seaborne metallurgical coal. More recently, Mirvac and Mitsui Fudosan are partnering to build a \$2 billion skyscraper in Sydney's business district. Such partnerships are more likely to build trust and allow sufficient time and resources to address complex challenges. Joint ventures and a patient approach are also well suited to developing a deeper understanding of the business culture differences between Japan and Australia.

While Japanese businesses have ramped up direct investment in Australia, Australian investors seeking opportunities to partner with Japanese businesses will need to continue to build knowledge of and familiarity with Japan's business regulations and unique requirements to be successful.

Actively encourage innovation and technology transfer

Joint research and development is one avenue that can be used to encourage innovation and build closer business ties. A first step in this direction is to do more in leveraging existing university and sister school partnerships to foster closer collaboration in research and development.

It is further recommended that businesses in both countries collaborate in the implementation of technological innovation born out of joint research efforts. Technologies such as Quantum Computing and AI should be implemented to improve supply chain resilience and operational efficiency. A joint approach at all levels of the innovation value chain is likely to produce more effective solutions. This should include two-way technology transfer programs that allow for quicker solutions and a more holistic partnership.

Continue to elevate and disseminate market intelligence

It is highly recommended that Australia-Japan joint ventures do not operate in silos. Wherever possible, market intelligence and insights should be shared to move the industry forward for both parties.

Bringing Australian and Japanese businesses together through sector-focused events and sharing real-world examples of effective collaboration can help drive stronger ties. In this regard, the Australia-Japan Business Co-operation Committee (AJBCC) serves as a key enabler of ongoing engagement and mutual understanding. In parallel, Austrade, Japan External Trade Organization (JETRO), and Japan Bank for International Cooperation (JBIC) continue to be valuable partners in advancing economic ties through practical support, insights, and business facilitation.

In Japan, the counterpart of the AJBCC, the Japan Australia Business Co-operation Committee (JABCC) and the Australia New Zealand Chamber of Commerce in Japan (ANZCC) are prominent forums, providing strong platforms for bilateral business dialogue.



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Notes

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