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# THE PATTERNS OF JAPANESE FDI IN AUSTRALIA AFTER THE LEHMAN SHOCK: PERSPECTIVES OF THE ECLECTIC PARADIGM AND INSTITUTIONAL ECONOMICS

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## ABSTRACT

This paper discusses the post-‘Lehman Brothers shock’ period of the Japanese foreign direct investment in Australia, and provides an analysis of the types of investment. The analysis begins with the theoretical frameworks that define multinational enterprise (MNE) activity, and foreign direct investment. The way in which ‘institutional economics’ theory is utilised within the ‘eclectic paradigm’ is also analysed herein. The ‘Lehman Brothers shock’, the ensuing market decline, and the subsequent investor indecisiveness have had effects on foreign direct investment in Asia, the EU, and North America (Devos & Giovanoli, 2011). While this situation continued, one particular economic bilateralism, that of Japan and Australia, has remained largely unaffected. The bilateral trade volumes and structure between the two remain unaltered in the aftermath of the ‘shock’. This paper details the Japanese foreign direct investment patterns in Australia that were present before the ‘Lehman Brothers shock’, and continued afterwards (i.e. several-stage type of acquisitions). From the time of the ‘shock’ until April 2010, there were numerous Japanese acquisitions in Australia (Wallace, 2010). This process has been continuing, as of December 2011, with Japanese MNE Inpex’s A\$30 billion foreign direct investment in LNG extraction and export project (AAP, 2011; AFP, 2011). Nippon Paper Group’s 2009 foreign direct investment in Australia was the ninth biggest Japanese global acquisition in that year (JETRO, 2010: 38), and Mitsubishi Corporation’s September 2008 foreign direct investment was the tenth largest (JETRO, 2009: 85). The post-crisis business environment has been beset by uncertainties, and the global mergers and acquisitions had recovered to merely one third of the 2007 levels by the end of 2010 (UNCTAD, 2011: xii). This has been the global trend, the context of the discussion herein. As this paper discusses, the global trend, which UNCTAD describes, does not readily apply to the Japanese foreign direct investment in Australia.

**Keywords:** Australia, Lehman Brothers Shock, institutional economics, Japanese foreign direct investment

## MNE FRAMEWORK AND INSTITUTIONAL ECONOMICS

Several frameworks of analysis explain the trade and foreign direct investment activities of MNEs. As international trade and international production simultaneously form the MNE domain, they are explainable within the same framework of analysis, which is what John H. Dunning’s ‘eclectic paradigm’ of ‘OLI (‘ownership’, ‘locational’ and ‘internalisation’) advantages’ does (Ietto-Gillies, 1992; Tolentino, 2001). The ‘eclectic paradigm’ offers a comprehensive framework for MNE-specific, and host nation-specific trade and foreign direct investment activities (Maitland & Nicholas, 2003; Markusen, 2001). Japanese foreign direct investment in Australia has been discussed within the ‘eclectic’ paradigm framework (Bayari, 2010; 2004; 2001; Nicholas et al., 1996; Purcell et al., 1999). The theoretical construction of international business that describe the connection between the location of foreign direct investment and the activities of MNEs have been modified in this decade to account for the increase in the mobility of firm-specific assets (Dunning, 2009: 6). The main qualification that differentiates an MNE from companies which operate solely in home market (i.e. the market of its own nation) remains the fact an MNE operates in foreign markets but relies on its

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'home advantages' (Dunning & Lundan, 2008). The 'eclectic paradigm' has evolved over time, which enables it to account for changes in the international foreign direct investment environment and the investment rationale (Dunning et al., 2007a: 46). The contemporary structure of foreign direct investment has been displaying a 'regionalisation' pattern (Dunning, 2005: 160-161). This is affected by the respective gross domestic products and bilateral trade volumes of the two countries that act as the host and the investor, respectively (Dunning et al., 2007b: 177-179). This means an MNE from a particular region mainly focuses in that region for its trade and foreign direct investment activities. This applies to most MNEs. Yet, two factors affect an MNE's decision to be in a particular host market that is located in its own region, the size of economy of the host nation, and the size of the economy of the nation from which the MNE originates. Further, existing bilateralism between an MNE and a host market also positively affects future activities of the MNE in that particular market. An example of this broad framework is the bilateral economic (trade & foreign direct investment) relations between Japan and Australia.

**Douglas North and Institutional economics:** Dunning (2006: 185-187) extends his 'eclectic' paradigm to include RCMI determinants by incorporating them from 'institutional economics' inquiry established by Douglas North (see 1990a; 1990b; 1994; 2005). The study of institutions is frequently collected under 'institutionalism' (also referred as neo-institutionalism or new institutionalism), which holds that institutions, in various ways, dominate all social organisations, and their interaction, and that institutions are themselves social products (see DiMaggio & Powell, 1991; Williamson, 2000). Institutional economics, broadly, focuses on economic activity and economic growth under conditions defined by historical institutional developments (see Acemoglu et al., 2001; Rodrik et al., 2002; Dunning, 2006; Dunning & Zhang, 2008). The strand which is based on the framework offered by North proposed that differences between nations in terms of economic growth and stable wealth growth can, largely, be explained by how each nation sets up and implements its own rules to guarantee the success of a defined set of advantageous market behaviour (1990a; 1990b; 1994; 2005). Implicit in this argument is the transferable nature of institutions across culturally related nations, i.e. from the UK into the US, Canada, Australia, New Zealand or from Spain into the Americas. Some nations have developed faster than the rest, and far more homogeneously and steadily. Their institutions are the main cause of this, as per the general outlines of this paradigm. Australia's economic success is argued to be related to its transfer of the UK's institutions, as was the case with Canada, the US and New Zealand (Acemoglu et al., 2001; Rodrik et al., 2002). One issue inexplicitly inherent with this framework is related the neo-liberal adoption of neo-classical economics' assumptions. The global economic activity of the last three decades presents several facts versus certain theoretical falsities (see Quiggin 2012). Economic growth does not translate into an equitable distribution of benefits (contrary to 'the trickle down economics' framework), the market is not the fairest distributive mechanism (contrary to 'the efficient markets hypothesis'), the post-1985 global economic history is not one of macroeconomic stability (contrary to 'the great moderation' thesis), and finally, 'privatization' of government functions and services has not been a success (Quiggin, 2012: 1-4). These falsities, as outlined by Quiggin, are essential tenets of Anglo-Saxon capitalist model. This model has a leading role in the construction of 'institutional' economics, which does lead to a potential paradox over the question of economic growth and where the growth benefits go. In the case of Australian economy, the application of neo-liberal deregulation to the mining and energy sectors of the economy did ensure their spectacular growth, which highlights the verifiability of the North's institutional economics. These sectors have developed because of legislations, regulations, and governance elements in Australia's deregulatory period from the 1980s onwards. Mining and energy sectors in Australia have grown due to the existence of neo-liberal deregulatory 'institutions' that made these sectors highly attractive to massive amounts of foreign direct investment. Yet, the net benefit to Australia, in terms of revenue, from these sectors, has always been insufficient (Edwards, 2011), and the sectors' growth had little positive effect on the wellbeing of the majority of Australians (Richardson, 2009: 14).

North states that written rules, and monitoring and enforcement systems [formal institutions] interact with the operations of long-established informal rules and conformist conduct [informal institutions] (1990a: 384; 1990b: 36). The two types of institutions symmetrically co-exist. Contemporary organisations, such as MNEs, are ‘responses’ to the ‘institutional structures’ (1990a: 396). Dunning’s emphasis on North’s framework especially concerns North’s discussion on institutions that provide ‘incentive structures and enforcement mechanisms’ and ‘reduction and counteracting of uncertainty’ in international trade and foreign direct investment (2006: 184-187). In broad terms, ‘institutions’ refer to the historical and social construction of the existing foundations in modern market economies. These are written legal codes, unwritten conventions and rules that define, underwrite, sustain and protect people, property rights, contracts, organisations, and provide a range of liberties to MNEs, and the states (see Acemoglu et al. 2001; Dunning 2006; Dunning & Zhang 2008; North 2005; 1994; Rodrik et al., 2002).

RCMI determinants play a role in defining the competitiveness of national economies and the levels of internal and external foreign direct investment, and hence their economic growth (Dunning & Zhang, 2008: 3; Rodrik et al., 2002: 3). Economic activity, such as foreign direct investment, drives growth in sectors of a host economy, and is determined by resources, capabilities and markets (RCM), which form the ‘physical environment’ (firms and other organisations), and ‘institutions’ (I), which provide the incentive structures to make up the ‘human environment’, and set the rules and provide motivation for MNEs (Dunning & Zhang 2008: 2). Incentive structures refer to mechanisms that are historic and/or enhanced by legal systems, and which encourage/discourage certain types of behaviour and punish others. These are not ‘neo-classical’ type of ‘single dimensional’ structures that define utility and profit seeking behaviour but instead are ‘enforcement mechanisms’ for desirable behaviour (2008: 4, 8). These definitions, of course, follow the definitions by Douglas North (1990a; 1990b; 1994; 2005). Dunning and Zhang are specific about what RCM are (2008: 6). ‘Resources’ include natural resources, land, labour, and technology. ‘Capabilities’ include skills, expertise, social organisation and governance, while ‘markets’ include not only domestic and foreign markets but the ability to exploit and co-ordinate them.

Dunning includes the ‘institutions’ determinant in his ‘eclectic paradigm’ of ‘ownership-locational-internalisation’ advantages, as a form of ‘institutionally’ related competitive advantage, which motivates and influences the extent to which, and the ways in which, RCM are created, deployed or accessed (Dunning, 2006: 201-202). In short, RCMI provide the conditions for foreign direct investment and the host interaction, according to Dunning. It is possible to observe the foreign direct investment levels in Australia in a RCMI frame of analysis. ‘Market efficiency’ and ‘incentive structures’ [that are specifically for foreign ownership] are part of the ‘institutions’, which are conducive to inward foreign direct investment, according to Dunning. From the perspective of the ‘eclectic paradigm’, if the locational advantages of the host include the competitiveness of both ‘RCM’ and ‘I’ simultaneously, then the optimum conditions of inward foreign direct investment are present (Dunning & Zhang, 2008: 10). In this instance, the location is Australia. Since the early 1980s, the relationship between the MNEs and national governments around the globe has become increasingly co-operative (Dunning, 1998). MNE activity has become progressively more dependent on institutional underpinnings, reinforcing the relevance of Douglas North’s premise that the increasingly complex forms of uncertainty in conjunction with increasing MNE activity point to the significance of institutions and institutional responses (Cantwell et al., 2010; Dunning & Lundan, 2010). Australian economy experienced a spectacular resources sector (coal, gas, and minerals) growth via MNE foreign direct investment from the early 1980s onwards. Trade and tariff deregulation allowed MNEs to benefit from the deregulation to enable free movement of capital, and gave them easier access to the Australian market (Stilwell, 2008: 71). The domestic governance determines the social distribution of the benefits of economic growth just as it does determine the ‘institutional’ attitudes towards foreign direct investment. Neither element is outside the domain or the power of governments. Cross-cultural and ideological differences influence the decisions over

the transfer of ownership advantages overseas (Dunning, 2006: 201, 217). Nations with common economic, social, and political experiences may respond to the transfer of a particular advantage in similar ways, especially if they already share a common cultural heritage, as in the Anglo-Saxon world (Canada, New Zealand, Australia, the UK, the US). Australia, New Zealand, Canada, and the US are termed ‘neo-Europes’ because they all modeled their institutions on the UK, during the colonial period of their economic history (Acemoglu et al., 2001: 1376, 1395). Rodrik et al. (2002) too place Australia alongside Canada, New Zealand as ‘neo-European countries’ that developed from colonial origins that proceeded with the replication of the UK’s ‘institutions’, and present a model of economic growth that is based on the quality of institutions, rather than the affects of geography, climate, natural resources, or integration with international trade links. Thus, Australia is very close to the UK and the US in terms of cultural history, and economic governance model (Cahill, 2002; Dore, 2002; Harzing & Noorderhaven, 2006). This is reflected in the fact that the respective labour relations environments of the three interact with the Japanese foreign direct investment in the same manner (Bayari, 2011; 2010). In terms of ‘RCMI’ determinants, their institutions have more in common with each other than they have with the nations that are outside the Anglo-Saxon world.

### THE STATE OF FOREIGN DIRECT INVESTMENT IN THE AUSTRALIAN MARKET

Foreign direct investment in Australia consists of ‘portfolio investment’, ‘direct investment’ and ‘financial derivatives’, and ‘other investment liabilities’, as per the official statistics (ABS 5352.0, 2011). These statistics do not identify how much of foreign direct investment is actually reinvested earnings, or ‘greenfield’, or for the retooling of going concerns. The official statistics do not divide the figures into industrial sectors, such as the types of manufacturing (food, automotive, plastics etc.). One particular ABS trial publication, released in 2001, was entitled *Ownership Characteristics of Business Undertaking Capital Expenditure in Australia, 1998-1999* (ABS, 2001). This publication highlighted significant differences among the Australian states and territories in terms of the type of foreign direct investment (mining, manufacturing etc.). Foreign direct investment levels in Australia stood at approximately A\$2 trillion as of 31 December 2010. Australian investment overseas stood at A\$1.2 trillion at the same period. It is possible to comprehend the size of these foreign direct investment levels if one considers that Australia’s GDP, at 30 June 2010, was approximately A\$1.3 trillion (ABS 5204.0, 2011:29). The balance of ‘total assets’ and ‘total liabilities’ (what the economists call ‘the net worth of Australia’) was A\$7,683 billion at June 30 2010 (ABS 5204.0, 2011: 10).

Table 1: Total Foreign Investment Levels (A\$ million) at December 2010

Origin	Total Foreign Investment	Foreign Direct Investment Component
USA	549.88	120.08
UK	472.64	52.52
Japan	117.63	49.41
Hong Kong (SAR)	40.77	6.69
Germany	40.75	16.22
Switzerland	40.73	20.73
<b>TOTAL</b>	1,967.80	473.67

Source: Calculated from ABS 5352.0 (2011)

Table 1 shows that the top six investors in Australia are the US, the UK, Japan, Hong Kong (SAR), Germany, and Switzerland. Their levels of total foreign investment (all of their investment, direct or otherwise such as portfolio investment), and the foreign direct investment components (percentage which ‘direct’ type of investment has within total foreign investment) are as shown. Foreign direct investment represented 24 per cent of the total foreign investment in Australia while ‘portfolio investment’ made up 58 per cent, in the period under consideration (ABS 5352.0, 2011). Foreign direct investment component of the respective individual investors vary. Hong Kong (SAR), the US, and the UK have rather small components of foreign direct investment in their total foreign investment levels in Australia. Chart 1 shows the Japanese global foreign direct investment for 1970-

2009. There is a downturn in 2009. There are, by contrast, steady annual increases between 2001 and 2008. However, as Chart 2 shows, the Japanese foreign direct investment in Australia has actually increased in the same period. This appears to be reflection of a broader trend. Australia will be the eight major destination of global foreign direct investment in 2011-2013, and Japanese foreign direct investment in 2011-2012 will continue to increase (UNCTAD, 2011: 18, 19).

## **JAPANESE FOREIGN DIRECT INVESTMENT IN AUSTRALIA**

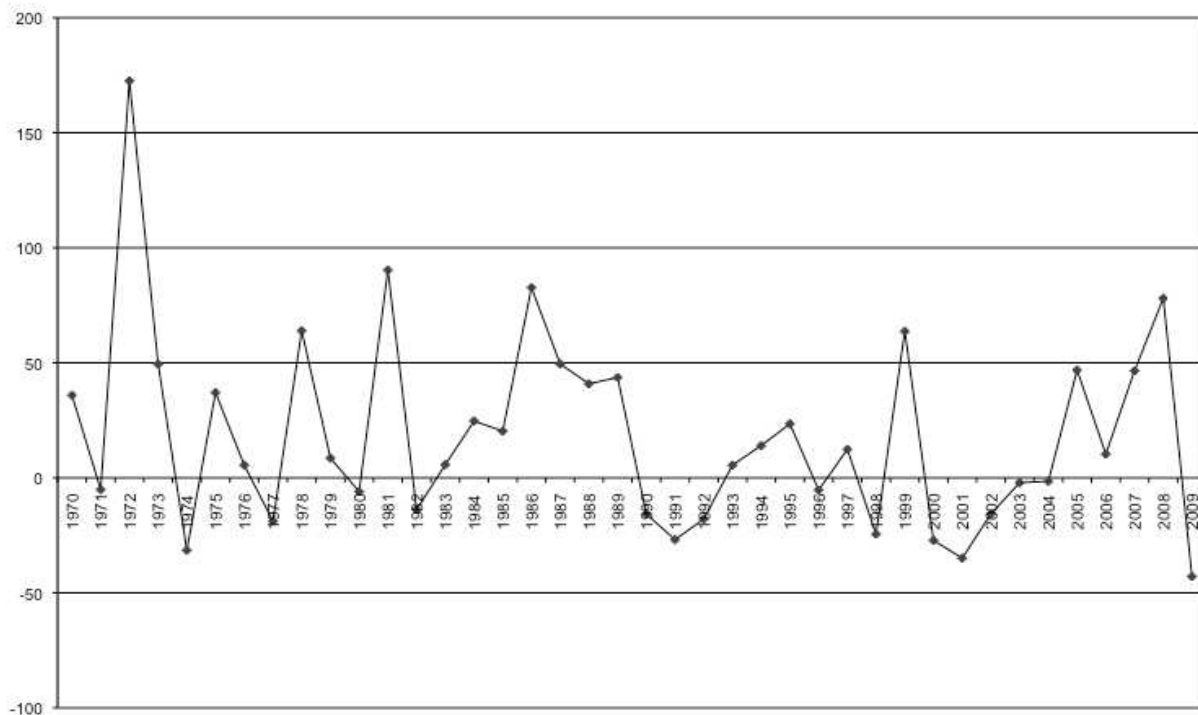
From the middle of the 1940s onwards, the IMF, World Bank and GATT emerged as the new mechanisms of global system of finance and trade (Bossche, 2005). The new global finance and trade system has underwritten the resumption of trade and foreign direct investment in Asia Pacific, and elsewhere. The present investment and trade relations between Australia and Japan date back to the period that began with the 1957 *Commerce Agreement*. The 1976 *Basic Treaty of Friendship and Cooperation*, a later bilateral agreement, is the only one of its kind that Australia has concluded with any country (Woodard et al., 2007: 16). Japanese foreign direct investment in Australia has been historically at far higher levels than Australian foreign direct investment in Japan (Bayari, 2008; 2004; 2001, Beeson, 1999; Drysdale, 2010; Edgington, 1990; Sheridan, 1992). Australian foreign direct investment in Japan has been low historically (Australia at Aichi World Expo, 2005: 2, Senate Foreign Affairs et al., 2000: 88-110; 188-192). The post-war bilateral agreements are the ‘institutional’ context of trade and foreign direct investment relations between Australia and Japan. These agreements are the imperceptible background to the ‘locational advantages’ of Australia. From RCMI perspective, Australia possesses resources, market, and institutions that interact with resources in the form of foreign direct investment and capabilities in form of transfer of technology and related elements. In the immediate post-war period, the structures that were set in place, via these bilateral agreements, between Japan and Australia, have provided a set of trade and foreign direct investment conditions.

Chart 1 describes the changes in the total Japanese foreign direct investment per annum. A negative figure (decrease) represents the percentage of decrease from the previous year (base figure). Chart 2 shows that the Japanese foreign direct investment in Australia, in dollar terms, has increased in 2004-2010 continuously. As shown on Chart 3, Japanese foreign direct investment in Australia has increased its share of the total in 2004-2010. While since 1991, the long-term trend has been one of decline; it is remarkable that in the post-‘Lehman Brothers shock’ period, the share of the Japanese investors has increased, which indicates that the ‘shock’ did not negatively affect the bilateral relations. Japanese overseas production is a wide field. The past research on Japanese overseas production has included the six continents in the last four decades (Abo, 2011; 2007; 2004). In Australia, Bayari (2011; 2010), Beeson (1999), and Edgington (1990) have focused on the nature and the extent of Japanese foreign direct investment. Japanese manufacturing multinationals, which currently manufacture in Australia, include Toyota Denso, Aisin, Daikin, Shinagawa, Nissan Casting, and YKK. In the 2008-2011 period, numerous high value Japanese acquisitions of Australian firms were completed in a broad range of industries, some of which involve production in Australia. This trend is a continuation of the earlier period. In the 2000s, foreign direct investment by Marubeni Corporation and Tohoku Power Company made an impact with the Milmerran ‘clean coal’ power station project, which was the first privately owned power station in Australia (Wilson, 2003). In 2001, Japanese foreign direct investment in Australia’s energy and resources market was worth half a billion dollars (AJEI, 2003: 2). In the same year, Australia had new foreign direct investment from Fujitsu and NEC in telecommunications and the IT sectors of the Australian market (AJEI, 2003: 2). Toyota Australia and [now defunct] Mitsubishi Motors Australia Limited carried out major new foreign direct investment in the early 2000s (Bayari, 2008).

JETRO’s annual *White Paper* provides some information on the major destinations of Japanese foreign direct investment. In 2002, the main acquisition type of Japanese foreign direct investment

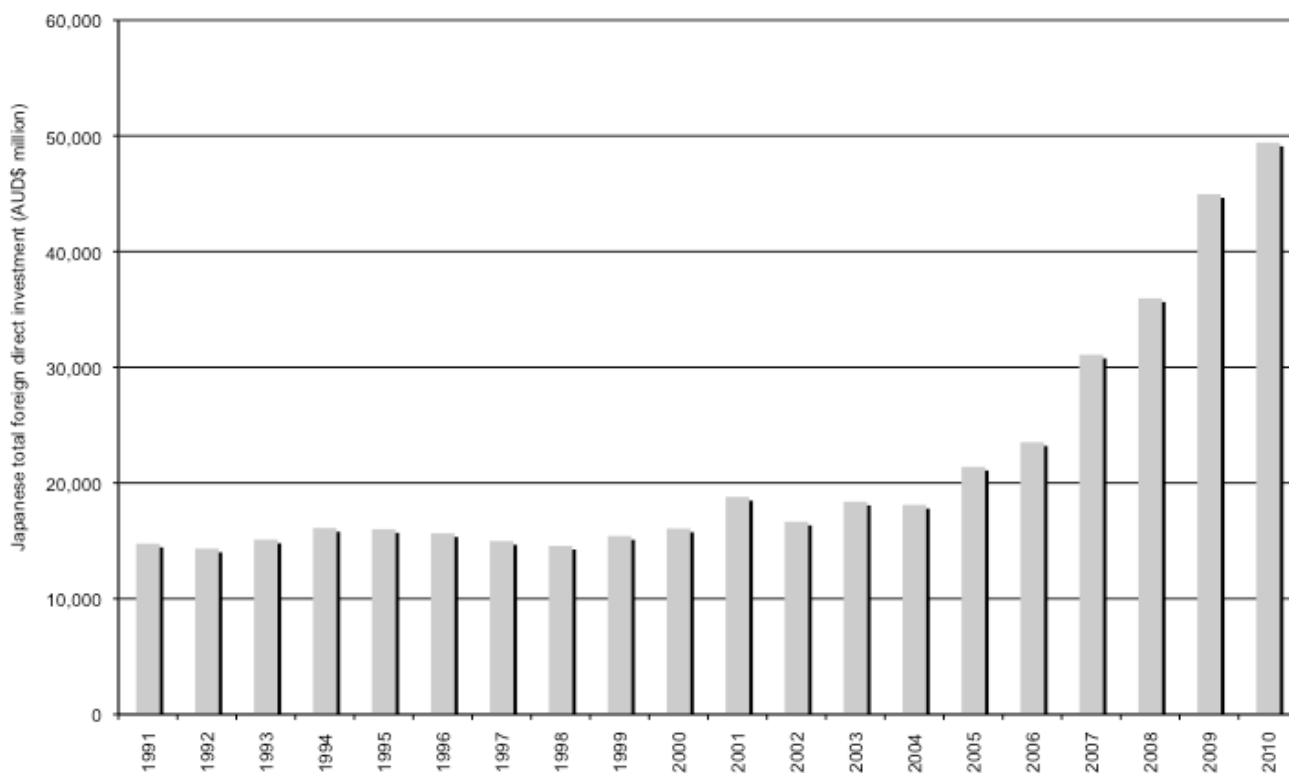
in Australia consisted of Paloma Industries' purchase of a manufacturing unit of Southcorp Ltd for US\$278 million and Mitsui & Co Ltd's purchase of Moura coal mine for US\$166 million (JETRO, 2003: 16). Mitsui is a major player in Australia's coal exports. It has interests in BMA Coal, the world's largest coal exporter (Bloomberg, 2003: 23), which displays the extent of its involvement in the global coal trade. In the last decade, the demand from China has set off a resources boom in Australia that brings to mind the time of the demand in the post-war growth period. A new A\$11 billion BHP Billiton iron ore deal had four Chinese steel mills as the majority foreign partners (40 per cent), with Japan's CI Minerals Australia and Mitsui Iron Ore keeping a 4.8 per cent and a 4.2 per cent share respectively (McDonald, 2004: 21). This highlights Japan's continual interest in strategic foreign direct investments. In 2004, a Japanese investment fund in an Australian-listed property funds for A\$120 million was created (Cummins, 2004: 35). In 2007, there was A\$206 million Japanese foreign direct investment in the Sydney property market, which had been of little interest to Japanese investors since the end of Japan's bubble economy in 1992 (Cummins, 2007: 1). In addition, again in 2007, Japanese trading house Sojitz acquired 30 per cent of Grange Resources Ltd (AAP, 2007b). In 2008, Dai-ichi Life Insurance, Japan's second-largest life-insurer, entered Australian finance sector by investing A\$376 in Sydney-based Tower Australia Group Limited, the life insurance, and superannuation company (John, 2008). In 2011, Dai-ichi acquired the rest of the company for A\$1.6 billion (White, 2010: 8). This made Dai-chi the fourth largest insurance player in the Australian market, after National Australia Bank, Commonwealth Bank and ANZ Banking Group, which are three of the four biggest Australian banks.

Chart 1. Japanese Global Foreign Direct Investment Change per annum (in %)



Source: Compiled from JETRO (2010, 1995)

Chart 2. Japanese Foreign Direct Investment in Australia (in AUD\$)



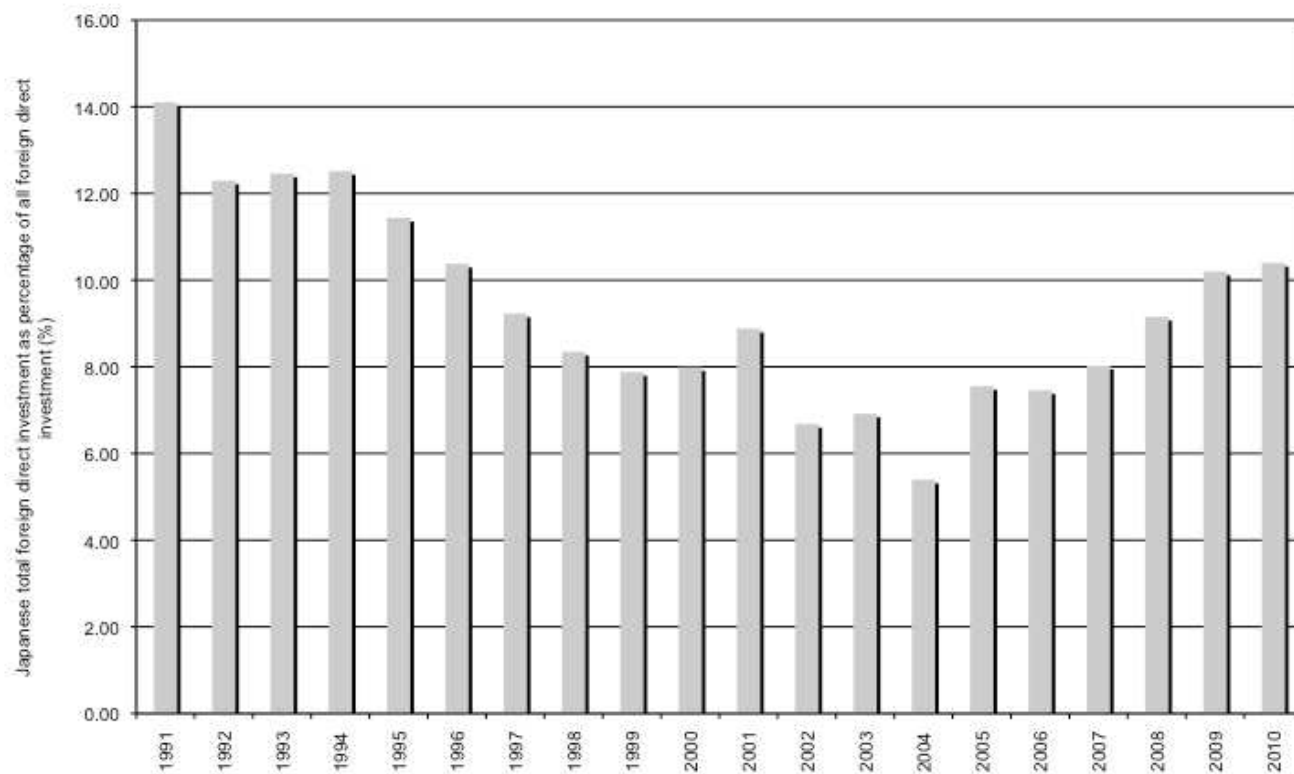
Source: Calculated from ABS (2011)



From the late 1980s onward, a wave of new Japanese foreign direct investment in Australia's food and beverage manufacturing industry started (AJEI, 1989; 1994; Beeson, 1997). In 2007, there were several major Japanese acquisitions in this industry. Japan's Kirin Holdings acquired Australia's dairy and fruit juice producer National Foods from San Miguel Corp for A\$2.8 billion (AAP, 2007a: 1; ABC Rural, 2007: 1). San Miguel Corp of the Philippines is the parent company of San Miguel Brewery Inc. of which Kirin Holdings began taking over in 2009 (Fujimura & Ozasa, 2010). In 2007, Kirin Holdings also acquired Tasmanian brewer James Boag and Son, for A\$325 million, through Lion Nathan (the second largest Australian brewer), which is a firm that is majority-owned by Kirin Holdings (Reuters, 2007: 1). In 2008, Kirin Holdings acquired Australian milk producer Dairy Farmers for A\$675 million (Bloomberg, 2009a). In 2009, Kirin Holdings paid A\$3.5 billion for the remaining 54 per cent of Lion Nathan Ltd (Bloomberg, 2009a), and Asahi Breweries Ltd acquired Schweppes Beverages from Cadbury for A\$1.2 billion (Cadbury, 2009).

In other sectors of the Australian market too the post-'Lehman Brothers Shock' acquisitions continued. In the communications sector, Fujitsu purchased Kaz Group Pty Ltd, a subsidiary of the national telecommunications carrier Telstra Corporation, for A\$200 million, making the Japanese company the owner of the third largest IT firm in Australia (Bloomberg, 2009b). On the manufacturing front, Nippon Paper Group Inc. acquired Paper Australia from PaperlinX for A\$700 million (Asia Pulse Comtex, 2009). On the housing construction front, Sekisui House invested A\$190 million in a joint venture housing construction in Homebush Bay (NSW) and Ripley Valley (QLD) in 2009 (Callick, 2009). Again, in 2009, Marubeni and Osaka Gas acquired 80.1 per cent of APA Group (Australian Pipeline Trust and APT Investment Trust) for A\$800 million (APA Group, 2010). Further, in Western Australia, the A\$3.5 billion Oakajee Deep Water Port and Rail Project has substantial investment from Mitsubishi Development Pty Ltd of Mitsubishi Corporation, which is Japan's biggest general trading company (Oakajee Port and Rail, 2011). Moreover, Mitsubishi Heavy Industries and Mitsubishi Corporation are planning to build and operate a coal gasification power plant in Queensland, to be operational by 2015. The firm, in partnership with Queensland government-affiliated entity ZeroGen Pty Ltd, is investing A\$340 million (with further investment from Japanese government to follow) in the world's first such large-scale plant with its carbon-capture and sequestration techniques (Kachi, 2009; ZeroGen Project, 2009). Thus far, the biggest single Japanese foreign direct investment (A\$30 billion) in Australia has been Japanese MNE Inpex's 'Ichthys project' of LNG extraction (and export) in the Timor Sea off the coast of Western Australia (AAP, 2011; AFP, 2011). As discussed above, the Japanese foreign direct investment in the 'post-Lehman Brother shock' period is quite extensive and spread out across several sectors of the Australian economy. Tables 3 and 4 provide a summary of the present structure of the industry and labour market in Australia.

Chart 3. Japanese Foreign Direct Investment as Percentage of All Foreign Direct Investment in Australia (in %)



Source: Calculated from ABS (2011)

Table 2: The Change in the Composition of Australian GDP (%)

Industry	1990	2010
Agriculture, forestry and fishing	5.1	2.3
Mining	4.8	8.4
Manufacturing	14.5	9.3
Electricity, gas and water supply	3.5	2.1
Construction	7.1	7.9
Wholesale trade	5.9	4.8
Retail trade	5.8	4.4
Accommodation, cafes and restaurants	1.9	2.3
Transport and storage	5.9	5.2
Communication services	2.6	3.3
Finance and insurance	5.5	10.6
Property and business services	9.9	12.5
Government administration and defence	4.3	5.2
Education and training	4.6	4.4
Health and community services	5.7	6.2
Cultural and recreational services	1.7	0.8
Personal and other services	2.0	1.8
Ownership of dwellings	9.3	8.4
TOTAL	100	100

Source: Calculated from ABS 5204.0 (2011)

Table 3: Labour Market Share of Australian Industries (%)

Industry	1990	2010
Agriculture, Forestry and Fishing	5.5	2.9
Mining	1.1	1.9
Manufacturing	14.4	8.5
Electricity, Gas and Water Supply	1.3	1.3
Construction	6.9	9.2
Wholesale Trade	6.4	3.5
Retail Trade	14.1	10.8
Accommodation, Cafes and Restaurants	4.6	6.9
Transport and Storage	4.9	5.1
Communication Services	1.8	1.9
Finance and Insurance	4.4	3.8
Property and Business Services	8.0	12.8
Government Administration and Defence	4.4	6.3
Education	6.8	7.8
Health and Community Services	9.2	11.3
Cultural and Recreational Services	2.2	1.9
Personal and Other Services	3.7	4.0
TOTAL	100	100

Source: Calculated from ABS 6202.0 (1986-2003) & 6291.0 (2011)

As shown on Tables 2 and 3, Australia's 'mining' sector (location of foreign direct investment from Inpex, Sojitz, Mitsubishi Development Pty Ltd, Mitsubishi Heavy Industries and Mitsubishi Corporation) has been increasing its share of GDP and the labour market in the last two decades. 'Finance and Insurance Sector', in which Dai-ichi invested, has doubled its share of the GDP, as shown on Table 2. The 'ownership', 'locational' and 'internalisation advantages' of Japanese MNEs include technology, regional and global distribution networks. Financial holdings (cash and credit) of a MNE are a resource, and an advantage based on 'ownership'. UNCTAD singles out Japanese MNEs in its latest report for the record levels of cash holdings that they currently possess (UNCTAD, 2011: 18). Currency holdings as a 'resource' are also a part of 'RCMI' paradigm. 'Locational advantages' in Australia, are implicit in the fact that the firms in food, and resources production are open to foreign acquisition, and that there is a supply of agricultural and dairy produce, minerals, gas and coal as resources in respective industries that are hosting foreign direct investment.

### OTHER MNE PERSPECTIVES

The 'firm specific advantages' and 'country specific advantages' framework of MNE behaviour authored by Alan Rugman is somewhat relevant to this aspect of Japanese foreign direct investment in Australia. MNEs expand abroad via an interaction of their 'firm specific advantages' and 'country specific advantages' of the host (Rugman and Li, 2007: 341). MNEs do business primarily in their own regions (Hirst and Thompson, 1999; Hirst et al., 2009). Rugman also shows that the world's trade and foreign direct investment take place predominately within the triad of the EU, North America, and Asia Pacific. The bulk of the business interests (73.2 per cent) of Asia Pacific MNEs (i.e. Japan, South Korea, China, Australia) are in the same region (Rugman and Li, 2007: 333; 338). In seeking to outline a theory of Asian MNEs, Collinson and Rugman emphasise that most Japanese MNEs, and other Asian MNEs see Asia as their primary domain, except a few large Japanese MNEs that de-coupled from 'home region' or adapted and customized to compete in other regions (2007: 441). Overall, Asia is the primary region of Japanese MNEs (Collinson and Rugman, 2008: 227). The two authors also count Australia as part of Asia, just as they count Australian MNEs as Asian. In Asia, merger and acquisition-type of foreign direct investments have been more popular in the last two decades (Athreya and Kapur, 2009: 211). A MNE seeks economies of scale and scope by integrating its interests across its home region countries by applying 'firm specific advantages', according to Rugman and Oh in their study of the international competitiveness of Asian MNEs (2008: 69). This is the case with Japanese MNEs, many of which have a strong intra-regional

dimension to their foreign direct investment activities (Collinson and Rugman, 2008). Japan and Australia have had a continuous bilateral trade and foreign direct investment relationship since the 1950s, which is governed by the GDP structures of the both, in terms of resource exports from Australia and the industrial exports from Japan (Bayari, 2008). Rugman and Verbeke provide a strong case that Asian MNEs, including the Japanese MNEs, follow a regional strategy in Asia (Rugman & Verbeke, 2004; 2005; 2007; 2008). Dunning et al. (2007) and Dunning (2009) emphasise that the size and the nature of GDP of countries involved in bilateralism and the nature of their trade as being more relevant than MNE strategy of regionalisation. A long-term study can shed more light on this two differing premises. This paper has provided a case that is relevant to the framework in Dunning et al. (2007a; 2007b), especially with the emphasis that Dunning (2006) places on North's institutional economics analysis. That is, Australia's institutions, especially since the 1980s deregulation, that govern MNE and foreign direct investment activity, have allowed the maintenance of the specific bilateralism with Japan. In other words, in studies of bilateral relationships, institutional responses are highly relevant, while the regional patterns of MNE activity (i.e. how MNEs behave in their own regions, as in how Japanese MNEs invest and trade in Asia-Pacific) is arguably pertinent.

## CONCLUSION

The paper has discussed the new Japanese foreign direct investment in Australia in the aftermath of the 'Lehman Brothers shock', when the global foreign direct investment activity suffered a decline. It has covered the role of institutional economics in analysis of international trade and foreign direct investment. The Australian market has remained relevant for new foreign direct investment, and Japanese MNEs have continued their international investment activities. In 2011-2012, Japan's global foreign direct investment has been projected to be unaffected by the slowdown in its domestic market. The paper has discussed the theoretical frameworks of the 'eclectic paradigm', and the 'RCMI' paradigm derived from North's 'institutional economics'. These are two related analytical methods, which focus on foreign direct investment, and international trade (Dunning, 2006; Dunning & Zhang, 2008; Cantwell et al., 2010, Dunning & Lundan, 2010). The 'institutional economics' paradigm's elements are vigorous. They are not discernible in every instance, as in, for example, long lasting bilateral relations grounded on settlement type of agreements, that influence subsequent foreign direct investment behaviour, and the host response. The paper has provided current statistics on Australia and Japan bilateralism, and the Japanese global foreign direct investment. As stated, these elements mostly do not conform the global foreign direct investment trends. The UNCTAD figures project that Australia is one of the few markets that will remain a major foreign direct investment destination in 2011-2013. Japanese foreign direct investment in Australia has continued after the 'Lehman Brothers shock' in September 2008, and this has occurred in an environment in which, by the end of 2010, global foreign direct investment was only one-third of its 2007 peak.

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