

Reimagining the Japan Relationship Project

Australia and Japan - Startup Partnership

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Introduction

The Australia - Japan relationship has thrived due to shared strategic interests and complementary economic strengths and demands. However there are further opportunities to improve the Australia - Japan relationship, particularly in the startup space. Both countries have watched the meteoric rise of the U.S. startup scene led by Silicon Valley; as companies such as Tesla, Airbnb, Uber, and many others have changed the world forever through innovation and disruptive technologies. Australia and Japan have successful startups, such as Canva and Mercari, but the volume of success pales in comparison to the United States and other successful startup ecosystems. Australia and Japan should increase engagement in regards to startups in both the private and public sector, as such initiatives will increase investment into each other's startup ecosystems and drive economic growth for both countries. In addition to the economic benefits, startups could potentially have a positive impact in addressing societal issues, particularly in Japan. Japan's aging and declining population creates an opportunity for Australian startups to implement their technology to solve some issues that Japan will face as their population continues to age and decline.

The significance of startups for both countries is simple; startups are engines of economic growth. An example of that is startups' ability to create new markets and disrupt the old market. The creation of new technology or implementation of new ideas often leads to competition and evolution of the economy. As an example, Netflix has completely changed the way content is consumed. Netflix created a new market for subscription model streaming services, in which other competitors have followed suit in entering this market. The creation of these new markets leads to job growth. According to a 2017 study by the Progressive Policy Institute, in areas with high startup activity, private sector job growth is significantly higher at 11.9%. In contrast, areas with low startup activity experience less than half the amount of private sector job growth, at 5.6%. In addition to increased employment, startups have the potential to transform the cities they operate from, as Microsoft and Google have done with Redmond, Washington and Mountain View, California respectively. As an example in 1980, Redmond had 12,000 jobs, but since Microsoft moved their headquarters to Redmond in 1986, the number of jobs has grown

exponentially, reaching 94,000 in 2018. The population of Redmond has tripled since then as well. These successful transformational startups will bring in a high number of talented individuals, as well as wealth. Although statistically speaking, 90% of startups will fail, successful startups have the capability to drive exponential economic growth.

Current Engagement

The current engagement between Australia and Japan in the startup space leaves much room for improvement. Joshua Flannery, Founder of Innovation Dojo noted that Australia and Australian startups are not front of mind for Japanese businesses, government, and startups. The Innovation Dojo is one of the few organizations in Australia working to change that, as they are creating a community of entrepreneurs and mentors to solve problems in areas of strategic importance for Australia and Japan. According to Mr. Flannery, Australia has fallen behind countries and regions such as Israel and the Nordics in promoting their startups to Japan. In addition, Sydney was one of the last cities JETRO set up their global acceleration hub, an initiative where JETRO partners with local accelerators to support expansion of Japanese startups into that particular ecosystem. Sydney is the only Australian city with a global acceleration hub, and Innovation Dojo is the only partner accelerator in Sydney listed on the website. In comparison, the United States has six cities set up as a global acceleration hub with nine partner accelerators. A critical first step in increasing startup engagement between Australia and Japan would be to expand geographical presence, which would drive awareness of the collaboration opportunities between the two countries.

Issues

There are multiple issues currently preventing both countries from realizing the full potential of their startup ecosystem, including a dominant traditional work culture in Japan and an underdeveloped capital market in Australia. In a Japanese cabinet policy paper (Future Investment Strategy 2018), the Japanese government supports the importance of startups and their role as a leader in innovation, setting the ambitious goal of creating 20 Unicorns (privately held startups valued at over \$1 billion) by 2023. Despite the government showing signs of supporting the development of the startup ecosystem, Japan still faces an uphill battle in developing their startup ecosystem. JETRO released an analysis on Tokyo's startup ecosystem based on the four quadrants making up the startup ecosystem of a city. The four quadrants are:

- The external environment - comprised of government initiatives, IT infrastructure, regulations, etc
- The entrepreneur - made up by students, serial entrepreneurs, foreign entrepreneurs, etc
- The opportunity - consisting of accelerators and incubators
- The capital - made up by venture capitals, angel investors, and government grants

The JETRO analysis noted that Japan has a strong external environment where startups are supported by the government and large corporations. Even though Japan is not up to par with Silicon Valley, Japan has made significant strides in capital and opportunity. Many large Japanese corporations such as Hankyu and KDDI have created corporate venture capital and accelerator programs to promote open innovation and to work with startups to keep up with the rapid technological advancement.

The area where Japan struggles most is the lack of entrepreneurs. According to the Global Entrepreneurs Monitor (GEM) 2019/2020 report, Japan ranked the lowest out of 50 countries in survey metrics such as entrepreneurial intentions, knowing someone who started a business, and personally having the skills and knowledge to start a business. Japan also ranked 47th out of 50 countries in total early stage entrepreneurial activity, which is the combined number of entrepreneurs preparing to start their business and entrepreneurs that have less than 3.5 years of entrepreneurial experience. This lack of entrepreneurial spirit may be due to the lack of stability provided by the lifestyle of being an entrepreneur. Evidenced by Japanese corporations' lifetime employment policies, work stability is an important factor for many individuals. In addition, as previously stated, Japan ranking last in percentage of adults who know someone that started a new business may be impacting this lack of entrepreneurial spirit; with the absence of precedence and role models acting as a significant blocker in establishing a strong startup community in Japan.

In contrast, Australia ranks better than Japan in terms of entrepreneurial spirit. According to the GEM 2019/2020 report, Australia ranked 18th in knowing someone who started a new business, 34th in entrepreneurial intentions, and 30th in personally having the skills and knowledge. These metrics suggest Australia may not be at the top tier in regards to entrepreneurial spirit, but Australia ranks first in entrepreneurial employee activity (EAA). EAA shows the percentage of workers who identify, develop and pursue new business activities as part of their current job.

This ranking shows that even though Australia may not rank high in entrepreneurial metrics now, Australians already possess a strong entrepreneurial spirit; developing new activities for their employer, such as developing/launching new goods or services, or setting up a new business unit. Australia also has multiple university programs that support student startups such as the UTS startup program and UNSW Innovations, which will continue to grow the number of Australian entrepreneurs in the future.

Australia's lack of capital for startup funding is a key obstacle to developing a strong startup ecosystem. According to Startup Genome, Australia's most developed startup ecosystem, Sydney, is ranked four out of ten (with ten being the highest), for funding growth index. This is an index of growth measuring early-stage funding (Seed and Series A) in tech startups in the ecosystem year over year. The lack of angel and VC money is detrimental to the growth of the startup ecosystem and the success of the early stage startups. Another reason could be due to the lack of Australian global corporations, leading to low amounts of CVC funds and Australia's economy falling behind top global economies.

How and why Australia and Japan should work together

There are many ways the two nations can augment each other and create a mutually beneficial relationship. One possibility is Australian startups partnering with Japanese corporations to create innovative technologies and solutions. As stated previously, Japan's strength lies in the amount of 'dry powder.' Many large Japanese corporations have created corporate venture capital and accelerator programs to promote open innovation and finance promising startups. The influx of Australian startups will mitigate the lack of entrepreneurs in Japan, and will allow Japan to leverage innovative technologies to solve issues that come with their aging population and drive economic growth. For Australia, this will allow their startups to receive much needed funding and some of these startups may become the driving force that grows the Australian economy.

In addition, one of the goals outlined in Japan's cabinet policy paper was their intent to increase cashless transactions. In 2017, cashless transactions made up about 21% of the total transactions. Japan has announced that they will aim to increase that amount to 40% by 2027. There is an opportunity for Australian startups to help Japan reach those goals. The fintech sector has been an area of strength for Australian startups as companies such as Afterpay and

Zip have seen rapid growth in recent years, and Japan could be a possible market for these startups.

But why should Japan work with Australian startups? What makes Australian startups more attractive than European or U.S. startups? The simple answer is, Australia and Japan are in similar time zones. Being in a similar time zone is the biggest practical advantage Australian startups have over other countries. The COVID-19 pandemic has led businesses to adopt effective virtual workplace tools and practices that will undoubtedly continue post-pandemic. The ability to seamlessly work from different geographical locations would especially benefit Australian startups and Japanese investors given the favourable time zones. When travel resumes, the Japanese government is also planning a visa that allows foreign entrepreneurs to reside in Japan for a year to start a business in Japan, which could also work in favor for Australian startups. Being one of the few 'western' countries in the region could work in the favor of Australia as well. A partnership between Australia and Japan may also open up the possibility of Australia being a testing ground for Japanese startups planning to enter the western market.

Recommendations

In terms of next steps, there are a few initiatives that could be implemented on both sides. On the Australian side, the Australian embassy in Japan could consider emulating Israel in creating a newsletter in Japanese to pitch Australian startups that are interested in the Japanese market to Japanese corporations and investors. Another great way to develop the relationship would be to create university programs that support student startups, similar to the programs at UTS and UNSW, in other universities around Australia. Making sure that the Japanese companies are involved with those university programs in a meaningful way will be very important, particularly in reaching young talented students and graduates interested in entrepreneurship. In order to build genuine connections with Japanese companies with a presence in Australia, the universities need to take advantage of the expertise and connections of organizations such as JETRO, AJBCC, and Innovation Dojo.

On the Japanese side, organizations such as JETRO should work to remove stigma towards the Japanese business community. Large Japanese corporations are known to lack transparency and for being very slow moving due to their hierarchical structure. The Japanese government should work with Japanese corporations interested in working with Australian startups to

improve this side of the business, and aggressively promote companies that have the qualities to work effectively with Australian startups. JETRO could also work with incubators and accelerators in Australia to promote Japan as a potential market and inform Australian startups of opportunities to work with Japanese corporations as they arise.

Both Australia and Japan are at important crossroads. Australia needs to reconsider its future economic reliance on natural resources, as the world moves towards more environmentally friendly alternatives. Japan needs to re-energize their stagnant economy, which many expect to recede as the population decreases. Developing their respective startup ecosystems will be important in energizing their economies. Now is the time for the two to start a new page in this historically successful relationship, and create startups together that change the world forever.

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