

CHAPTER 2

NATURAL PARTNERS

2.1 Japan stands prominently on the world economic stage in the Asia Pacific region. It is the world's second largest economy after the US, the world's largest individual national commodity importer, the world's leading creditor nation and it has one of the highest per capita incomes and the highest savings rate in the world. Aside from its global significance, Japan is of primary importance to Australia.¹

Japan and Australia

2.2 Australia's commercial links with Japan span many generations. Over the years, and even as Japan emerged as a new and dominant global economic force, this relationship has matured and deepened into a mutually beneficial partnership.

2.3 In 1947, Australia referred to Japan as a natural market.² This theme has evolved over the years into a notion of partnership that is now central to the understanding of the Australia-Japan relationship. Past and present leaders of both countries have found no difficulty in applying the term partnership to the Australia-Japan relationship. They have spoken openly of a close friendship, of enjoying a rich and diverse relationship and of the spirit of trust that underpins this relationship.³ Readily they have acknowledged their common concerns, shared policy objectives, mutual interests and the complementarity in trade.⁴ Both countries have made a firm commitment to freedom and democracy, and expressed their desire to work together to achieve joint objectives especially promoting the economic prosperity of their region. The partnership has been described as 'close', 'constructive' even 'indispensable'.⁵

2.4 In May 1995, the Prime Ministers of Australia and Japan reflected on this 'relationship of unprecedented quality' and in a joint declaration reaffirmed the importance they place on the close relationship of goodwill and cooperation that Australia and Japan have forged over the post-war years. They pledged to build on that foundation 'an enduring and steadfast partnership'.

1 For example see: ABARE, submission no. 21, p. 6; DFAT, submission no. 32, pp. 5-7.

2 See chapter 5, para 5.17.

3 Gareth Evans, 'Australia and Japan: Old Friends, New Challenges, Speech to the 19th Australia-Japan Relations Symposium, 24 February 1995.

4 For example see: Speech of Prime Minister Hashimoto at the dinner hosted by Prime Minister Howard and Mrs Howard, 'Australia and Japan in the Asia Pacific Region', 28 April 1997; Speech of Japanese Ambassador, Yukio Satoh at the Foreign Correspondents' Association in Sydney, 'Japan-Australia Relations': Emerging Partnership, 1 November 1996.

5 'Partnership Agenda between Australia and Japan', Ministry of Foreign Affairs, Japan, <http://www.mofa.go.jp/region/asia-paci/australia/agenda.html> (5 November 1999).

2.5 In August 1997, Australia and Japan formalised a new Partnership Agenda which ‘recognised the breadth of the links and exchanges at all walks of life between Australia and Japan’. The Agenda sought to promote deeper mutual understanding and cooperation across a diverse range of shared interests. It acknowledged the strong commercial ties between the two countries and gave a commitment to build on the complementarity and growing diversification of their trade.⁶

2.6 Despite such warm and encouraging words and the strong complementarity in trade that binds Australia and Japan, it is essential for the two countries to guard against complacency. Many witnesses believe that if the relationship is to continue to benefit both countries and indeed the region, it will need to be nurtured and tended.

2.7 Mr Leon Wolff, a law lecturer and research fellow at the Australia-Japan Research Centre, ANU, regarded this inquiry as timely not because Australians have neglected Japan but rather Australians have enjoyed such a comfortable relationship with Japan. The Committee notes that there are tensions, however, in the relationship that should not be ignored, disagreements that need to be managed and adjustments to be made as changes occur within both countries and globally. Many witnesses recognised that the challenge for both countries is to maintain and cultivate this relationship in an environment of economic change, uncertainties and insecurities. The partnership will have to embrace a much wider range of economic exchanges and it must grow in sophistication and depth. According to Mr Wolff, it is time to consider what is happening within Australia and, more particularly, in Japan.

2.8 The Committee believes that this inquiry provides a good opportunity to take stock of the relationship between Australia and Japan and to consider its future—‘how we can go to the next step and tighten the bonds that exist between us’.⁷

2.9 A number of witnesses, particularly those who have worked in Japan and closely with the Japanese people, speak of the depth of this relationship which has been fostered over many years of close association and cooperation.⁸ Despite the majority view that the relationship between Australia and Japan rests on a solid footing of goodwill and mutual benefit, some witnesses were apprehensive that this strong and robust relationship nurtured by successive governments ‘looks set to fracture due to current economic conditions in Japan’.⁹

2.10 Warm rhetoric can mask or even deny underlying tensions or disjunctions in a relationship; it can certainly gloss over problems. In 1997, Japan’s Ambassador to Australia, Mr Yukio Satoh, suggested that for all the talk of partnership at the level of public opinion, the peoples from each of these two countries seem to regard the other

6 Partnership Agenda between Australia and Japan, The Ministry of Foreign Affairs of Japan, <http://www.mofa.go.jp/region/asia-paci/australia/agenda.html> (5 November 1999).

7 Leon Wolff, *Committee Hansard*, 28 May 1999, p. 650.

8 Manuel Panagiotopoulos, *Committee Hansard*, 14 April 1999, p. 219.

9 Mr Bradley Treadwell, Managing Director, Osborne Associates, submission no. 8, p. 3.

as citizens of a 'distant country'. He argued that 'the future task of the governments of Japan and Australia is to realise a state of relations where the peoples of both countries speak of Japan-Australia partnership with a sense of reality'.¹⁰

2.11 One witness went further to state that the Australia-Japan relationship is 'currently as dead as a dodo...a relationship that is floundering'. Mr Bradley Treadwell, Managing Director, Osborne Associates, told the Committee that the deterioration in the Australia-Japan relationship was not only at government level but also at business, private sector and cultural levels. He submitted:

I cannot see one layer in the Australia-Japan relationship which is presently growing, developing or opening up new vistas for interchange, cultural diversity and growth in business development.¹¹

2.12 In his opinion, the reverse was happening with waves of Japanese investment and other interactions receding. This disintegration was not a one-sided affair and he called urgently for a re-invigoration of the relationship.¹² He cited poor media reporting and the apparent cutting back of forums that have hitherto existed in the Australia-Japan relationship such as the 'very vibrant Australia-Japan economic institute in Sydney' as evidence of a tired relationship. He suggested that a continuing focus on the Australia-Japan relationship would be a vital facilitation role for government.¹³

2.13 Undoubtedly for Australia and Japan, there is a growing need to manage an increasingly diverse relationship under conditions of rapid technological advancement, a changing global economic system and international uncertainty. Both countries have to adjust to, and foster their relationship in, an environment of shifting power structures, tensions between major trading partners and economic insecurities—fault lines are appearing in the trading links between the US and Japan, China is emerging as an economic force, and there is the aftermath of the Asian economic crisis. There are the uncertainties generated by globalisation, the push for trade liberalisation, and uneasy rumblings from within the WTO process. Moreover, Japan itself is undergoing fundamental change with a comprehensive program of reform, severe demographic shifts such as its rapidly ageing population, and a restructuring and reorientation of its economic system.

10 Yukio Satoh, Ambassador of Japan to Australia, *SDSC Working Papers*, Working Paper No. 312, 'From Distant Countries to Partners: the Japan-Australian Relationship, Strategic and Defence Studies Centre, ANU, Canberra, November 1997, p. 1. This paper represents the personal views of the author.

11 Bradley Treadwell, Managing Director Osborne Associates, *Committee Hansard*, 19 February 1999, p. 62.

12 Bradley Treadwell, Managing Director Osborne Associates, *Committee Hansard*, 19 February 1999, p. 62.

13 Bradley Treadwell, Managing Director Osborne Associates, *Committee Hansard*, 19 February 1999, pp. 71–72.

2.14 The Committee's inquiry was conducted while all these developments were taking place. In this report, the Committee at first deals with developments in contemporary Japan especially in light of the economic downturn in Japan. It then turns to the Australia-Japan relationship. It briefly sketches the evolution of Australia's trading links with Japan to provide some understanding of the foundations upon which the Australia-Japan relationship stands. The Committee then focuses on recent developments in the Australia-Japan relationship. It looks at the effects of Japan's economic troubles on Australia's trading links with Japan, the opportunities opening up in Japan for Australian business despite the economic recession and the steps Australia can take to improve its commercial ties with Japan. Finally, the Committee broadens the scope of the inquiry and places the Australia-Japan trading links within the broader Asia commercial trading network. It also looks at Japan's trading relationship with the United States.