

CHAPTER 5

AUSTRALIA AND JAPAN—A TRADING TRADITION

5.1 Despite difficulties, the Australia-Japan relationship has matured and deepened over many decades. In this chapter, the Committee traces the development of Australia's trading relationship with Japan. It looks at the first hesitant and cautious steps taken by Japan to establish trading links with the Australian colonies in the later half of the 19th century; the slow evolution of trade between the two countries in the first decades of the 1900s; the rift in relations during the 1930s; and the problems in resuming trade after the war. It examines the significant qualitative change that has taken place in Australia's trading relationship with Japan especially after the two countries signed a commerce agreement in 1957 and with the emergence of Japan as a major industrial nation during the 1960s and 1970s.

A cautious beginning

5.2 Australia and Japan have a long history of trade with roots going back to the second half of the 19th century. Coal was the first recorded traded commodity from Australia to Japan in 1865.¹ In the latter half of the 1870s, two Japanese commissioners, Mr Masato Hashimoto and Mr Haruo Sakata, visited intercolonial exhibitions in Melbourne and in Sydney intended to showcase overseas products. They took note of the relative proximity of Australia to Japan and reported that prospects for trade between the two countries appeared very promising. To encourage commercial activity between Australia and Japan, Mr Sakata suggested that the Japanese Government take steps to improve the shipping services between the two countries and appoint consuls to the colonies. During the 1890s, the Japanese Government showed its genuine interest in establishing trading links with the colonies by following up on Sakata's suggestion. It subsidised the Nihon Yusen Kaisha's Australian shipping line and sent career consuls to Townsville and Sydney.² BHP and Japan laid the foundations of a partnership when the first BHP director toured Japan in 1888.³

5.3 Between 1887 and 1906 Australian exports to Japan, although only a tiny fraction of total Australian exports, rose from 0.03% to 1.74%. On a similar small scale, Japan accounted for 0.11% of Australia's total imports in the 1887–91 period.

1 Alan Rix, *Coming to Terms: the politics of Australia's trade with Japan 1945–57*, Allen & Unwin, Sydney, 1986, p. 20; and Peter Robinson, *Towards a Total Partnership: a View of Australian-Japanese Trade Relations*, 1977, p. 13.

2 Neville Meaney, *Towards a new Vision: Australia & Japan, Through 100 Years*, Kangaroo Press, Sydney, 1999, p. 56.

3 Jim Lewis, President, BHP Non Ferrous and Industrial Materials, The Broken Hill Propriety Company Ltd, 'Australian minerals sector partnership with Japan a productive past—a challenging future', <http://www.ausimm.com.au/branches/canbl.html> (7 December 1999).

This share rose to 0.95% in 1906. At this time, Australia imported mainly apparel and textiles, sulphur, rice, oils and furniture from Japan while Australia supplied Japan with gold, wool, lead and flour.⁴

5.4 From these tentative beginnings, and by degrees, Japan and Australia gradually built up a trading relationship around a sound and clear comparative advantage—Australia the supplier of industrial raw materials and food and Japan the producer of manufactured goods.⁵

5.5 By 1920, trade between the two countries had increased incrementally with 4.8% of all Australian exports going to Japan and in return 4.3% of all Australian imports coming from Japan. The composition of trade between the two countries was also broadening. Australia was importing a greater variety of goods from Japan including apparel, piece goods and textiles, wood and wicker, chinaware, glass and glassware, and fancy goods. Similarly, Australian exports to Japan had expanded but wool, flour and wheat made up the bulk of exports which also included tallow, pig iron, and copper ingots.⁶ During the 1920s, Australian exports to Japan rose marginally reaching 8.78% of total Australian exports in 1927–28 before falling to 5.2% in 1929–30. Japanese imports into Australia remained steady at around 3% of Australia's total imports.⁷

5.6 Despite cultural differences and Australia's strong political and commercial ties to the United Kingdom, the trading relationship between Australia and Japan was amicable. It was not, however, without its misunderstandings and difficulties.

5.7 After the Australian colonies united as a Federation in 1901, protectionists took charge of the trade policy agenda. Tariffs were increased markedly in 1907, 1921, 1926 and in the 1930s. Trade with Japan suffered mainly because of Australia's discriminatory licensing and tariff system, which gave special preference to imports from Britain and her dominions. Moreover, this protectionist and discriminatory trade policy was set against an uneasy background of Australian anxieties about Japan's expansionist designs in the Pacific region. Despite both the practical and cultural obstacles, trade between the two countries gradually, though at times faltering, developed through the first three decades of the century.

1930s—trade disputes

5.8 During the 1930s, however, commercial relations between Japan and Australia soured as Australia took steps to further protect and consolidate its trading

4 *Official Year Book of the Commonwealth of Australia*, No.1—1908, Melbourne, 1908, pp. 501, 504, 506 and 508.

5 Alan Rix, *Coming to Terms: the politics of Australia's trade with Japan 1945–57*, Allen & Unwin, Sydney, 1986, p. 11.

6 *Official Year Book of the Commonwealth of Australia*, 1901–1907, No. 1—1908, pp. 503, 508, and 510 and No. 14—1921, pp. 500, 503, 508, 510.

7 *Official Year Book of the Commonwealth of Australia*, No. 24—1931, Melbourne, pp. 118, 120.

interests with the United Kingdom. At this time, the Australian business community relied heavily on British investment for funds and Australian agricultural producers looked to Britain as a friendly, reliable and most valued market. The Ottawa Agreement of 1932 upheld the principle of preferential trade and confirmed Britain as Australia's most important customer and central to its trading interests. Countries such as Japan, while important to Australia, had to take second place behind the trading concerns of the United Kingdom.

5.9 In May 1936, the Australian Government further entrenched the principle of preferential trade with the implementation of a new Australian trade policy—a 'trade diversion policy'. It was intended to increase exports of primary produce, expand secondary industry and increase rural and industrial employment. Certain imports would be restricted with the intention of encouraging their manufacture in Australia while other imports would be diverted from their current source to countries that were valued customers of Australia, in the hope that their economic ties would become even stronger.⁸ In effect, tariff rates were to be raised substantially and a special licensing system introduced which would discriminate against imports from countries such as Japan and the United States while favouring British imports.

5.10 Upset by this decision, the Japanese, who had run a trade deficit with Australia for many years, retaliated by pulling back from the Australian market and seeking alternative sources for products, such as wool and wheat.⁹ In June 1936, it promulgated an ordinance that directed that any goods produced or manufactured by a country, namely Australia, applying unreasonable restrictive measures to the importation of goods produced or manufactured in Japan should not be imported into Japan for one year without special permission. It also provided for the imposition of an import duty of 50% ad valorem to be applied to goods such as beef, butter and tallow from such countries. The dispute brewed for a while until it was finally resolved in an uneasy settlement at the close of 1936.¹⁰

5.11 This disagreement undermined a relationship already under great strain from the mounting fears of conflict in the Pacific and Australia's preoccupation with its own security. Many in Australia feared that Japan was actively pursuing a 'southward advance policy' and that Japanese capital for economic development was a feature of that design. They regarded Japan's economic penetration into countries in the region as a manifestation of its drive south plan and feared that Japan would attempt to secure a foothold in Australia. Moreover, they believed that the Japanese in seeking to obtain an economic presence in another country were not necessarily working in the best interests of the host country and that Japan was prepared to invest even in

8 *Official Year Book of the Commonwealth of Australia*, No. 30—1937, Melbourne, 1908, p. 493.

9 In 1934–35 Japan was importing Australian products valued at £Stg9,657 but exporting only £Stg4,625 worth of goods to Australia. In 1935–36 the deficit had increased—Japan was importing products from Australia valued at £Stg14,101 and in return exporting products valued at only £Stg4,970, *Official Year Book of the Commonwealth of Australia*, No. 30—1937, p. 507.

10 *ibid.*, p. 494.

unpromising ventures to consolidate its hold on foreign soil. Thus, the activities of a Japanese mining company keenly committed to exploiting iron ore deposits at Yampi Sound fuelled Australian misgivings about the threat from the north and reignited old anxieties about Japan's territorial intentions.¹¹

5.12 The Australian Government was disturbed by the proposed mining project on its north-west shores and the public attention it was attracting in Australia. When it finally decided to intervene by banning the export of iron ore, plans were well advanced and the Japanese company had already spent considerable money on developing this large project. Although the Australian Government was unhappy about the establishment of this Japanese enterprise in Australia, such a view was not part of the formal explanation for prohibiting the export of iron ore from Australia. In explaining its action, and based on a recent geological study, the Australian Government argued that the country's available resources were only sufficient to serve the next generation.¹²

5.13 Not satisfied with this explanation, the Japanese were indignant at Australia's actions, pointing out that their need for iron ore was not the only motive for investing in mining and that they were most anxious to foster cordial relations between the two nations. They expressed regret at the 'considerable lack of understanding of Japan by the Australian people'.¹³

5.14 The bitter trade dispute in 1936, together with the Australian iron ore embargo, left a disagreeable aftertaste in commercial relations and trade between the two countries did not fully recover for many years. In 1936–37, Australian exports to Japan more than halved and continued to fall. Japanese imports of Australian wool and wheat declined noticeably in the late 1930s and ceased altogether for a while

11 For example see: Mr Longfield Lloyd, Trade Commissioner in Japan to Mr J. F. Murphy, Secretary of Department of Commerce, 6 October 1937, *Documents on Australian Foreign Policy 1937–38*, R.G.Neale (ed.), AGPS, Canberra, 1975, pp.234–5.

12 For example see: Mr F. G. Shedden, Secretary of Department of Defence, to LT Col W. R. Hodgson, Secretary of Department of External Affairs, 6 December 1937, *Documents on Australian Foreign Policy 1937–38*, R. G. Neale (ed.), AGPS, Canberra, 1975, pp. 237–9 and Memorandum by Lt Col W. R. Hodgson, Secretary of Department of External Affairs, for Mr R. G. Casey, Minister in Charge of Development, *Documents on Australian Foreign Policy 1937–38*, R.G.Neale (ed.), AGPS, Canberra, 1975, pp.240–2.

13 Memorandum by Lt Col W.R. Hodgson, Secretary of Department of External Affairs for Mr R.G. Casey, Minister in Charge of Development, 13 December 1937; Mr Torao Wakamatsu, Japanese Consul-General in Sydney, to Mr J. A. Lyons, Prime Minister, 5 April 1938; Mr Torao Wakamatsu, Japanese Consul-General in Sydney, to Mr J. A. Lyons, Prime Minister, Sydney, 24 May 1938, *Documents on Australian Foreign Policy 1937–38*, R. G. Neale (ed.) AGPS, Canberra, 1975, pp. 240–242, 312–315, 356–357. Neville Meaney, *Towards a New Vision: Australia & Japan, Through 100 Years*, Kangaroo Press, Sydney, 1999, pp. 78–9.

5.15 during the course of the Pacific war.¹⁴ The ban on the export of iron ore was not lifted until the 1960s.¹⁵

Toward the Australia-Japan Agreement on Commerce

Immediate post-war—re-establishing trade links with Japan

5.16 Immediately after the war, Australia's commercial relations with Japan were restricted solely to trading between the Australian Government and the Supreme Commander for the Allied Powers in Japan (SCAP). Transactions were confined to the sale of wool and the purchase of raw silk, textiles and yarns. By mid-1947, although holding firm to its declared policy that the resumption of private trade was a matter to be determined at a Peace Conference, the Australian Government could see that other countries were making plans to re-establish trade links with Japan. The United States and the United Kingdom, in particular, were well advanced in preparing the groundwork for the resumption of trade.

5.17 Despite strong anti-Japanese feeling in Australia and resistance to the resumption of trade with Japan, some sections of Australian business and government were worried that Australia would lose out if it did not keep up with other countries in building commercial ties with Japan. In May 1947, the Ministers for External Affairs; Trade and Customs; and Commerce and Agriculture submitted to cabinet:

Notwithstanding the Australian policy that the resumption of private trade with Japan is a matter for decision by the Peace Conference it seems that, particularly in view of the action already taken by other countries, Australia should make detailed preparations for the resumption of trade at the earliest possible moment so as to ensure that Australian businessmen will be placed on an equal footing with those of other nations at whatever date it is actually resumed.¹⁶

5.18 Significantly, at this early stage, Australia was already asserting its claim as 'the only country in eastern Pacific area with a substantial interest in the supply of both raw materials and manufactured goods to the Orient'. Further, that 'Australia looks to substantial development of two-way postwar trade with Japan and may be expected, from her geographical position, to look to Japan as a natural market and

14 Exports from Australia to Japan fell from 14.19% in 1935–36 to 6.54% in 1936–37; 4.16% in 1937–38 and 3.97% in 1938–39. Imports fell from Japan though not as significantly. In 1935–36 Australia imported 6.09% of its total imports from Japan. This fell to 4.52% in 1936–37; 4.90% in 1937–38 and 4.22% in 1938–39. *Official Year Book of the Commonwealth of Australia*, no. 34—1941, pp. 663, 665.

15 Sandra Tweedie, *Trading Partners Australia and Asia 1970–1993*, UNSW Press, Sydney, 1994, pp. 143–6; Peter Robinson, *Towards a Total Partnership: a View of Australian-Japanese Trade Relations*, 1977, p. 21.

16 Cabinet Submission by Evatt, Courtice and Pollard, Agendum 1343, 26 May 1947, in *Australia and the Postwar World, Documents 1947*, Department of Foreign Affairs, 1995, pp. 674–675.

supply centre'.¹⁷ This notion of 'natural market' would develop into a dominant theme that would form the basis of Australia-Japan commercial relations for years to come.

5.19 On 15 August 1947, Japan was formally opened to private trade but commercial activity between Australia and Japan was slow to revive. The Sterling Payments Agreement in 1947 and 1948, which settled the mode of payment, overcame one of the main practical obstacles to trade, and set trade between the two countries on a firm footing. From these beginnings, a trading pattern based on mutual advantage evolved. Australia, predominantly a primary producer, exchanged agricultural commodities for manufactured goods produced by Japan. Wool exports, which increased sharply between 1948 and 1950, opened the way to trade with Japan and became Australia's principal export to that country.

1950s—trade agreement

5.20 Indeed, throughout the 1950s, Australia's economy rode happily on the sheep's back but it relied heavily on Britain as its primary export market. The United Kingdom, far and away, was Australia's main export market and most important trading partner. In 1950–51 Japan ranked as Australia's fourth largest export market with exports valued at nearly £61.5 million; in 1954–55 it was our third largest market with exports valued at £58.6 million and in 1955–56 it was second to the United Kingdom in importance taking Australian exports valued at £86.5 million.¹⁸

5.21 Clearly, Australia looked to the United Kingdom as its major export market but Japan could see that it held a position of growing significance to Australia as a trading partner and sought to establish a better understanding of their trading relationship. In 1954–55, nearly 8% of Australia's total exports went to Japan; by 1956–57 this had almost doubled. Over the same period, the United Kingdom's share of Australia's export market had dropped from 37.5% to 28.4%.¹⁹

5.22 Japan was also aware of its widening deficit in trade with Australia. In 1950–51 the trade deficit amounted to nearly £46 million. In 1954–55, it stood at just over £40 million. A year later this had jumped to almost £64 million and in 1956–57 the Japanese trade deficit with Australia had reached over £125 million.²⁰ Moreover, Australia's tardiness in responding to Japanese initiatives to discuss Australian import

17 Department of External Affairs to Embassy in Washington, Cablegram 628, Canberra, 2 June 1947, *Australia and the Postwar World, Documents 1947*, Department of Foreign Affairs, 1995, p. 677.

18 Minute from Crawford to McEwen, Canberra, 1 June 1953, *The Australia-Japan Agreement of Commerce 1957*, Department of Foreign Affairs, 1997, p. 47. See *Official Year Book of the Commonwealth of Australia*, No. 44—1958, p. 345.

19 *Official Year Book of the Commonwealth of Australia*, No. 44—1958, p. 346.

20 *Official Year Book of the Commonwealth of Australia*, No. 39—1953, p. 482; no. 44—1958, p. 354.

restrictions on Japanese products further annoyed the Japanese and strained the trading relationship.²¹

5.23 At this time, Australia imposed import licensing measures on Japanese imports as well as applying the General Tariff (the highest tariff rate) to Japanese goods.²² On a number of occasions during 1953, Japan approached the Australian Government and expressed its desire to see such restrictions relaxed. It made clear its growing impatience with the trading regime between the two countries by seeking business elsewhere. Whereas Japan had been purchasing up to 90% of its wool from Australia, it reduced this percentage in 1954 to 50%.²³

5.24 The following table provides Japanese trade figures from 1949 to 1953. These statistics show the extent of Japan's trade deficit with Australia.

| Table 5.1—Japanese trade figures with Australia 1949 to 1953. | | | |
|--|--|--|-------------------------------|
| Note figures are given in \$US | | | |
| | Japanese exports to Australia \$US million | Japanese imports from Australia \$US million | Trade deficit \$US million |
| 1949 | 509.7 | 904.8 | 395.1 |
| 1950 | 820.1 | 974.3 | 154.2 |
| 1951 | 1354.5 | 1995.0 | 640.5 |
| 1952 | 1272.9 | 2028.0 | 755.1 |
| 1953 (10 months) | 1029.1 | 1962.8 | 933.7 ²⁴ |

5.25 Japan persisted with its requests to the Australian Government for trade talks and, finally, in May 1956, Australia decided that it would enter into trade negotiations

21 Cablegram from Walker to Watt, 9 June 1953, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 51.

22 Submission 614 to Cabinet by McLeay, 30 January 1954, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 87.

23 Appendix A, Submission 30 to Cabinet by Casey, Canberra, 28 July 1954, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 118.

24 Appendix A, Submission no. 30 to Cabinet by Casey, 28 July 1954, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 115.

with Japan.²⁵ After lengthy consultations, an agreement was signed in July 1957.²⁶ It provided that Australian exports would receive equal tariff treatment along with other foreign suppliers to Japan and, in return, Japan would be granted the same tariff and import licensing treatment accorded to all foreign countries importing goods into Australia. This meant that Australian duties charged on certain Japanese goods would no longer be higher than the duties charged on the same goods from other foreign countries. Put simply, Japan was no longer to be singled out 'for specially restrictive measures directed against Japanese goods alone'.²⁷

5.26 This agreement was a major step forward in establishing a cooperative framework within which both countries would conduct trade. It marked a milestone in Australia's trading relationship with Japan that was growing year-by-year in importance, diversification and complexity. In a memorandum to the Department of External Affairs, T. W. Eckersley in Tokyo noted:

The granting of most-favoured-nation treatment to Japan has, of course, political and psychological significance not measurable, as in trade, in terms of money. The removal of discrimination is the removal of a thorn which has troubled the Japanese almost since the time when they first came into contact with the West.²⁸

5.27 Australia, nonetheless, sought to assure the United Kingdom, its traditional and most significant trading partner, that it would continue to maintain strong and close trading ties. In 1957, the Prime Minister wrote to the Secretary of State for Commonwealth Relations:

I might add that while the agreement [with Japan] will remove import licensing discriminations which are being maintained now against Japan alone, and will put her goods on the same tariff footing on entry into Australia as the goods of almost all foreign countries, there is of course no doubt that United Kingdom traders will continue to enjoy the guaranteed margins of preference.²⁹

25 Cabinet Decision 203, Canberra, 21 May 1956, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 241.

26 See Appendix 3.

27 Statement by McEwen, 6 July 1957, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, pp. 449–455.

28 Memorandum from Eckersley to Department of External Affairs, Tokyo, 10 July 1957, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 455.

29 Letter from Menzies to Home [Lord Home, Secretary of State for Commonwealth Relations], 4 July 1957, *The Australia-Japan Agreement on Commerce 1957*, Department of Foreign Affairs, 1997, p. 430.

5.28 But old loyalties were giving way to practical business, and Britain was increasingly being drawn into the European trading community. As Britain looked to Europe to establish closer trading links, Australia turned to East Asia. In 1954–55, the United Kingdom took 37.5% of all Australian exports. This fell to 25.7% in 1959–60.

5.29 As the United Kingdom's dominance as Australia's trading partner began to wane, Japan's importance to Australia grew. Japan accounted for 7.7% of all Australian exports in the middle of the 1950s which, within five years, had climbed to 14.5%.³⁰ In 1959–60, Japan replaced the United Kingdom as Australia's principal market for wool.

5.30 The following table provides information on the value of Australian exports to its major export markets in the 1950s. It traces the increasing importance of Japan to Australia as a trading partner in this decade.

Table 5.2—Value of Australian exports to its major export markets in the 1950s

| | 1954–55 | | 1955–56 | | 1956–57 | |
|-------------------|---------|------|---------|------|---------|-------------------|
| | £m | rank | £m | rank | £m | rank |
| 1. United Kingdom | 285.4 | (1) | 257.3 | (1) | 277.5 | (1) |
| 2. Japan | 58.6 | (3) | 86.5 | (2) | 139.0 | (2) |
| 3. France | 64.1 | (2) | 67.3 | (3) | 92.0 | (3) |
| 4. United States | 52.4 | (4) | 55.0 | (4) | 66.0 | (4) |
| 5. Italy | 35.9 | (6) | 34.6 | (7) | 53.0 | (5) |
| 6. New Zealand | 37.8 | (5) | 40.9 | (5) | 50.9 | (6) |
| 7. Germany | 31.8 | (7) | 36.4 | (6) | 46.9 | (7) ³¹ |

5.31 Although Australian exports to Japan increased substantially during the 1950s, imports from Japan remained relatively stable at around 2% to 3% of total imports and reached 3.7% in 1958–59. Australia maintained its favourable trade surplus with Japan.³²

30 *Official Year Book of the Commonwealth of Australia*, no. 44—1958, p. 346 and no. 49—1963, p. 551.

31 Taken from *Official Year Book of the Commonwealth of Australia*, no. 44—1958, p. 354.

32 *Official Year Book of the Commonwealth of Australia*, no. 46—1960, p. 483.

Japan becomes Australia's major trading partner

1960s—Australia's trade links with Japan expand and strengthen

5.32 The importance of the United Kingdom as a trading partner continued to decline throughout the 1960s. In 1961, Britain commenced negotiations to join the European Economic Community (EEC) and, although it did not become a member until 1972, it, in effect, broadcast its intention to shift its trading focus from Commonwealth countries, such as Australia, to markets closer at hand.

5.33 During the 1960s, wool, which had traditionally been the mainstay in exports to Japan, held its dominance, followed by wheat, meat and dairy products. To an extent, Japan filled the void created by the weakening demand for agricultural products from Australia's established export markets in the United Kingdom and Europe. During the 1960s, there was a marked increase in the share of Australia's agricultural exports going to Japan and the United States, and a decline in the relative importance of the more traditional markets of the United Kingdom and Europe. According to Professor Crawford, over the period 1960–61 and 1973–74, agricultural exports to Japan, as a percentage of all Australian agricultural exports, grew from 17.7% to an estimated 26.8%, while the United Kingdom's share of Australia's agricultural exports fell from 24.1% to an estimated 6.4%. The value of cereal grains and cereal preparations exported to Japan almost doubled between 1966–67 and 1968–69. In this decade, Australia established itself as one of Japan's main suppliers of food products.³³

5.34 Professor Crawford maintained that this growth came about largely because of a number of interacting factors: the rising high per capita income growth in Japan and changing taste patterns away from traditional style foods towards more Western consumption patterns. This brought about an increase in the consumption of meat, eggs, dairy products, fruit, vegetables, sugar and fish, and created a demand in foodstuffs that Japan was unable to meet. Its inability to expand its domestic production of most agricultural products was compensated in part by Australia's ability to maintain or increase its share of the Japanese import market.³⁴

5.35 As well as emerging as Australia's major export market for agricultural products, Japan at this time was fast assuming global stature as a major industrial power and was creating a massive demand for raw materials. This expansion by Japan into heavy industries such as steel, chemicals, automobiles and shipbuilding proved a boon for Australia's mineral sector and strengthened the already well-established complementarity of trade between the two countries.

33 J.G. Crawford, Kenzo Hemmi, et al, 'Australian Agriculture and Trade with Japan', Australian Japan Economic Relations Research Project, July 1975, p. 134.

34 J.G. Crawford, Kenzo Hemmi, et al, 'Australian Agriculture and Trade with Japan', Australian Japan Economic Relations Research Project, July 1975, p. 86.

5.36 This upsurge in industrial activity in Japan was accompanied by the discovery of rich mineral deposits in Australia. This fortunate coincidence, further complemented by the rapid development and innovation in technology and modes of transport which made the extraction and handling of materials much easier, created a dynamic environment in which both countries promoted their mutual trading interests and fostered a closer relationship. Mr Richard Pomfret cited the development of very large-scale equipment and 100,000 tonnes plus capacity bulk carriers as an example of advances in transport which facilitated the export of ores from the open-cut iron ore mines of Western Australia and the coal mines of Queensland.

5.37 He also noted similar developments based on technology advances and large-scale capital-intensive operations, which marked the growth of bauxite mining and alumina refining.³⁵ Such large-scale and ambitious projects were sponsored by Japanese investment, which added another dimension to the Australia-Japan relationship. Mr Peter Robinson made the point:

It was the forward contracts offered by Japanese industry which formed the basis for financing the vast mineral projects which made such an export record possible. Virtually no Australian Government commitment to these developments was necessary and Australian private investment—at least in the initial stages—was small by comparison with the loan capital which was raised abroad (mainly in the US) on the security of the Japanese contracts.³⁶

In other words, according to Mr Robinson, Japan—to advance its own interests—virtually underwrote the mineral development of Australia during this period.³⁷

5.38 Export revenues in iron ore and coal grew substantially as these new mining projects got underway to satisfy the hungry appetite of Japan's emerging iron and steel industry. Between 1966–67 and 1968–69, the value of metalliferous ores and metal scrap exported to Japan jumped in value from \$85.3 million to \$215.2 million and coal from \$68.7 million to \$114.8 million.³⁸

35 Richard Pomfret, 'Australian Experience with Exporting to Asia', Centre for International Economic Studies, University of Adelaide, January 1996, p. 27.

36 Peter Robinson, *Towards a Total Partnership: A View of Australian-Japanese Trade Relations, 1977*, p. 21.

37 Peter Robinson, *Towards a Total Partnership: A View of Australian-Japanese Trade Relations, 1977*, p. 21.

38 *Official Year Book of the Commonwealth of Australia*, no. 56—1970, p. 307.

5.39 Table 5.3 shows the trend in the value of Australia's main exports to Japan. It highlights the dramatic increase in Australian exports of metalliferous metals and coal during the latter half of the 1960s.

| Description | 1966-67 \$m | 1967-68 \$m | 1968-69 \$m | 1969-70 \$m |
|----------------------------|----------------|----------------|----------------|--------------------|
| Meat and meat preparations | 16.4 | 26.0 | 20.1 | 31.6 |
| Cereal grains | 38.8 | 40.6 | 77.1 | 65.2 |
| Sugar and honey | 21.5 | 23.9 | 27.0 | 36.6 |
| Textile fibres | 274.5 | 246.0 | 264.4 | 259.1 |
| Metalliferous ores | 85.3 | 143.9 | 215.2 | 328.2 |
| Coal | 68.7 | 84.26 | 114.9 | 155.9 |
| Non-ferrous metals | 16.1 | 20.7 | 21.8 | 41.9 ³⁹ |

5.40 In 1966-67, Japan, after years of gradually narrowing the gap, finally supplanted the United Kingdom as Australia's largest export market and has held that position since.⁴⁰

5.41 Table 5.4 shows the declining importance of the United Kingdom as an export destination for Australian exports and the growing importance of Japan.

39 Figures taken from *Official Year Book of the Commonwealth of Australia*, no. 56—1970, p. 307 and no. 57—1971, p. 302.

40 *Official Year Book of the Commonwealth of Australia*, no. 56—1970, p. 303.

Table 5.4—Values of Australian Recorded Exports: Proportions by country of origin or consignment, 1963—69.

Figures expressed as a percentage of Australia's total exports

| | 1963–64 | 1964–65 | 1965–66 | 1966–67 | 1967–68 | 1968–69 |
|----------------|---------|---------|---------|---------|---------|---------------------|
| | % | % | % | % | % | % |
| United Kingdom | 18.40 | 19.47 | 17.40 | 13.39 | 13.94 | 12.59 |
| Japan | 17.53 | 16.62 | 17.29 | 19.39 | 21.09 | 24.36 |
| United States | 10.09 | 9.96 | 12.44 | 11.88 | 13.22 | 14.23 ⁴¹ |

Imports from Japan

5.42 Overall, during the 1960s, Australian imports from Japan increased steadily from 6% of total Australian imports in 1960–61 to 9% in the middle of the decade to just under 12% at the close of the decade. The main Japanese products imported by Australia were textile yarn, fabrics and made up articles followed by transport equipment, machinery (except electric), iron and steel, electric machinery and miscellaneous manufactured articles. By the end of the 1960s, transport machinery had become Australia's most important import from Japan, followed by textile yarn, fabrics and made up articles.⁴²

1970s—Japan's increasing dominance as Australia's trading partner

5.43 During the 1970s, Japan consolidated its position as Australia's major trading partner. In 1971–72, it took 27.8% of Australia's total exports and by the middle of the decade this had climbed to over 30%. In 1977–78, as Australia's principal export market, it took 32.3% of total Australian exports.⁴³

5.44 The rising level of personal income in Japan continued to bring about change in the nature of the Japanese diet. There was an increased demand for foodstuffs high in protein such as beef. This shift in consumer tastes led to a growing dependence on imported food and Australia was happy to help meet this increase in demand.⁴⁴

41 Figures taken from *Official Year Book of the Commonwealth of Australia*, no. 53—1967, p. 393 and no. 56—1970, p. 303.

42 *Official Year Book of the Commonwealth of Australia*, no. 56—1970, p. 315.

43 *Official Year Book of the Commonwealth of Australia*, no. 59—1973, p. 302; no. 63—1979, p. 586.

44 Saburo Okita, 'Japan's High Dependence on Natural Resources Imports and its Policy Implications', Japan Economic Research Centre, Australia-Japan Economic Relations Research Project, April 1975, p. 3.

5.45 But Japan was becoming worried about its high dependence on imported food and the desire for improved self-sufficiency in agriculture came to dominate Japanese policy thinking in this area.⁴⁵ Nonetheless, Japan continued to look favourably on Australian exports in foodstuffs, which grew in value.

5.46 In 1976, the Prime Ministers of Australia and Japan signed a treaty of friendship and co-operation, which recognised their mutual interest in being ‘a stable and reliable supplier to and market for the other’. They agreed ‘to promote the further strengthening and development of trade’ between the two countries on ‘a fair and stable basis’. The treaty also acknowledged the growing importance of mineral resources, including energy resources, and the Prime Ministers agreed to cooperate in the trade and development of these resources.⁴⁶

5.47 Indeed, at this time, minerals gradually eclipsed agricultural products as Australia’s most important export commodity to Japan. In large measure, this growth in exports to Japan was due to the rising Japanese demand for Australian minerals and the rapid development of Australia’s capacity to ensure that Japan’s growing needs were reliably supplied.

5.48 As Japan’s iron and steel industry continued to expand—Japanese crude steel output in 1973 totalled 119 million metric tons—Australia became the main supplier of iron ore to Japan.⁴⁷ In 1970–71, wool was dislodged as Australia’s principal export commodity by iron ore and concentrates.

5.49 The oil crisis in 1973 gave Japanese policy makers a savage jolt. The sharp increase in petroleum price and the uncertainty over supply exposed the vulnerability of Japan’s energy supply. In the most alarming way, the crisis made Japan aware of its heavy reliance on foreign energy supplies and how this in turn flowed through to the economy and affected the level of economic activity.

5.50 At the time, Mr Saburo Okita observed:

The current oil crisis has once again demonstrated to Japan its high dependency upon supplies of natural resources from abroad. When these supplies of foreign resources are obtained smoothly, the Japanese economy

45 J.G. Crawford, Kenzo Hemmi, et al, ‘Australian Agriculture and Trade with Japan’, Australian Japan Economic Relations Research Project, July 1975, p. 110.

46 Basic Treaty of Friendship and Co-operation between Australia and Japan, signed in Tokyo 16 June 1976 and came into force on 21 August 1977.

47 Saburo Okita, ‘Japan’s High Dependence on Natural Resources Imports and its Policy Implications’, Japan Economic Research Centre, Australia-Japan Economic Relations Research Project, April 1975, p. 6.

progresses favourably, however, once imports are interrupted, the impact on the Japanese economy is immediate and severe.⁴⁸

5.51 The shock of the oil crisis forced Japan to examine its high dependency on overseas resources and to consider ways to deal with this situation. The Japanese Government encouraged industries to adopt an energy-saving and resource-saving approach. Mr Okita noted the range of options available to Japan:

Policies such as diversifying sources of supply, economizing on the use of raw materials and energy, stepping up efforts for increased production from indigenous resources, and building up emergency stocks of energy and food are feasible and should be pursued with seriousness.⁴⁹

5.52 Despite recognising the need to better manage their dependence on foreign sources of raw material, the Japanese accepted that the basic character of their heavy dependence for key items on overseas resources would remain. Measures such as the diversification of resource supply were accepted by Japan as both wise and necessary.⁵⁰

5.53 Japan's obvious need for a reliable source of raw materials to sustain manufacturing production worked to Australia's advantage and Japan, in seeking to diversify its source of energy and raw material, turned to products such as coal and natural gas.

5.54 Indeed, coal exporters benefited from the oil crisis and from Australia's low cost production with coal production doubling between 1970 and 1980. In 1978, an Ad Hoc Committee inquiring into Japan observed that 'the availability of relatively cheap sources of power and ready access to local supplies of raw materials suggest that Australia should be able to become an increasingly important world supplier of such products as alumina, aluminium, nickel metal and steel'.⁵¹ By the late 1970s, metalliferous ores and coal were Australia's most important exports to Japan.⁵²

48 Saburo Okita, 'Japan's High Dependence on Natural Resources Imports and its Policy Implications', Japan Economic Research Centre, Australia-Japan Economic Relations Research Project, April 1975, p. 1.

49 Saburo Okita, 'Japan's High Dependence on Natural Resources Imports and its Policy Implications', Japan Economic Research Centre, Australia-Japan Economic Relations Research Project, April 1975, p. 11.

50 Saburo Okita, 'Japan's High Dependence on Natural Resources Imports and its Policy Implications', Japan Economic Research Centre, Australia-Japan Economic Relations Research Project, April 1975, p. 11.

51 *Report of the Ad Hoc Working Committee on Australia-Japan Relations*, Canberra, May 1978, p. 78.

52 *Official Year Book of the Commonwealth of Australia*, no. 65—1981, p. 639 and no. 68, p. 616.

5.55 The following table shows the value of Australia's major exports to Japan from 1968–69 to 79–80. It demonstrates the significant jump in the value of metalliferous ores and coal during this period.

| Description | 1968– 1969 | 1969– 1970 | 1970– 1971 | 1971– 1972 | 1972– 1973 | 1974– 1975 | 1976– 1977 | 1977– 1978 | 1979– 1980 |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------------|
| | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m | \$m |
| Meat and meat preparations | 20.1 | 31.6 | 41.4 | 78.4 | 189.0 | 45.2 | 172.9 | 207.3 | 370.9 |
| Cereal grains | 77.2 | 65.2 | 92.0 | 158.5 | 111.5 | 314.9 | 316.0 | 262.1 | 331.7 |
| Sugar and honey | 27.0 | 36.6 | 47.0 | 62.2 | 74.3 | 109.0 | 275.4 | 218.1 | 279.5 |
| Textile fibres | 264.4 | 259.1 | 199.9 | 221.3 | 500.7 | 233.9 | 455.9 | 357.0 | 445.4 |
| Metalliferous ores | 215.2 | 328.2 | 446.5 | 424.9 | 505.0 | 758.1 | 992.4 | 992.8 | 1,378.0 |
| Coal | 114.8 | 155.9 | 173.0 | 198.6 | 260.9 | 508.6 | 1,048.6 | 1,091.5 | 1,207.8 |
| Non-ferrous metals | 21.8 | 41.9 | 41.6 | 32.1 | (a) | 70.8 | 74.2 | 78.0 | 71.9 ⁵³ |

5.56 During the first half of the 1970s, changes also occurred in the composition of Japanese goods imported by Australia, which centred on transport equipment; textile yarn; fabrics and made up articles; machinery; and iron and steel. By the end of the 1970s, however, road vehicles dominated Japanese exports to Australia. Telecommunications, recording and reproducing apparatus and equipment became the second most significant import item from Japan. Iron and steel, as well as machinery, remained important. Although textile yarn and fabrics had lost ground, it nonetheless was still the fifth most important export from Japan to Australia. Japan's share of Australia's import market was 15.7% in 1971–72 and, with slight fluctuations, settled around this figure throughout the decade. Australia continued to run a trade surplus with Japan.⁵⁴

53 Figures taken from *Official Year Book of the Commonwealth of Australia*, no. 56—1970, p. 307; no. 57—1971, p. 302; no. 58—1972, p.306; no. 59—1973, p. 305; no. 60—1974, p. 327; no.61—1975 and 1976, p. 343; no. 62—1978, p. 657; no. 63—1979, p. 595; no. 65—1981, pp. 639–40. The high figure given for meat and meat preparations for 1972—73 is that given in the year book for 1974.

54 *Official Year Book of the Commonwealth of Australia*, no. 59—1973, p. 302; no. 65—1981, p. 640.

1980s—Growing diversity and complexity in trading activities

5.57 Despite changing global trading patterns with the growth and development in manufacturing and technology, Australia throughout the 1970s and into the 1980s, became locked into a situation of ‘commodity dependence’ where iron ore, coal, wool, grains and beef made up the lion’s share of its exports.⁵⁵ The Australian Government recognised that the country relied heavily on this handful of commodities for its economic prosperity and that a concerted trade diversification and expansion strategy was needed to broaden the range of Australian exports. Improved access to Japanese markets was just one aspect of a multi-pronged strategy to cultivate new and diverse markets.⁵⁶

5.58 Until the early 1980s, the Australian Government followed a policy that focused on protecting its domestic industries and maintaining existing levels of market access in Japan. During the 1980s, however, Australia began to pursue a trade policy that strongly advocated an ‘open international trade and payments system’ and ‘an equitable framework of rules based on the principles of multilateralism, non-discrimination, predicability and transparency’. The new approach called for progressive trade liberalisation. Australia looked to promote fair and predictable access to major markets, to place restraints on subsidised competition in third markets and to encourage stability in commodity markets.⁵⁷

5.59 The share of Australian exports destined for Japan as a percentage of total Australian exports declined from its peak of over 35% in 1976 to 26% in 1983.⁵⁸ Over the same period, Australia’s penetration of the Japanese market also declined steadily from more than 8% in the mid-1970s to 5% in 1984. In part, Australia was losing its share of a growing Japanese market because of changes in Japan’s economic structure and changes in its demand for imports.⁵⁹ Although exports to Japan declined, Australia remained heavily dependent on Japan as its major market for mineral and agricultural commodities. Farm products comprised almost 40% of exports, and mining and basic metals manufacture made up over 40%. Wool, after a dramatic

55 Jamie Anderson, ‘Australia’s Market Access Agenda Towards Japan’, *Pacific Economic Papers*, no. 291, Australia-Japan Research Centre, May 1999, p. 2. He wrote that in 1993 iron ore, coal, wool and beef accounted for 62% of Australia’s exports.

56 Jamie Anderson, ‘Australia’s Market Access Agenda Towards Japan’, *Pacific Economic Papers*, no. 291, Australia-Japan Research Centre, May 1999, p. 2.

57 This policy statement appeared in Year Book Australia 1983 and in subsequent editions. See *Official Year Book of the Commonwealth of Australia*, no. 67—1983, p. 664.

58 Jamie Anderson, ‘Australia’s Market Access Agenda Towards Japan’, *Pacific Economic Papers*, no. 291, Australia-Japan Research Centre, May 1999, p. 2.

59 *Report of the High-Level Trade Mission to Japan*, July 1984, AGPS, Canberra 1984, p. 1.

decline in its export share to Japan in the late 1960s and 1970s, stabilised at slightly over 10% of exports in 1988 associated with higher wool prices.⁶⁰

5.60 After a minerals led investment boom in the early 1980s, export of energy minerals to Japan grew rapidly, especially coal but also including oil and gas which began to assume a prominent role in Australia's exports. Coal increased its share of trade from about 15% in the mid 1960s to over 30% in the mid 1980s, with the share in 1988 of about 22%. According to Professor Drysdale, exports of LNG from the North West Shelf were set to grow rapidly over the coming decade.⁶¹

5.61 One encouraging development in the 1980s was the rapid rise of the manufactures component in Australia's exports to Japan—from a mere 3.2% of total exports to Japan in 1980, it increased to 14.7% in 1990 peaking at 17.7% in 1988.⁶² In 1984, the Minister for Trade wrote:

A long-term view of building Australian manufacturing and services into Japan's plans for the 21st century needs to be adopted. This will require the Department of Trade to foster a stronger export orientation in the Australian manufacturing community at large and it will involve the setting of priorities for export products and markets.⁶³

5.62 Fish and fish products emerged in the 1980s as a growing Australian export product for Japan. In 1979–80, it was valued at \$132 million, an increase from its 1977–78 valuation of \$71 million. The market has continued to grow in importance and was an indication of the growing diversity of Australian exports to Japan and the potential that was opening for new markets.⁶⁴

5.63 Table 5.6 shows the overall value of Australia's main export commodities to Japan but, in particular, the increasing value of exports from the mineral sector, especially coal, to Japan during the early 1980s.

60 Peter Drysdale, Nancy Viviani, Akio Watanabe and Ippei Yamazawa, *The Australia-Japan Relationship: Towards the Year 2000*, Australia-Japan Research Centre and Japan Centre for Economic Research, Canberra & Tokyo, 1989, p. 18.

61 Peter Drysdale, Nancy Viviani, Akio Watanabe and Ippei Yamazawa, *The Australia-Japan Relationship: Towards the Year 2000*, Australia-Japan Research Centre and Japan Centre for Economic Research, Canberra & Tokyo, 1989, p. 18.

62 H.S. Kehal, 'Implications for Australian Trade of the Recession in Japan', *Current Affairs Bulletin*, vol. 69, no. 1, June 1992, p. 29.

63 Foreword to *Report of the High-Level Trade Mission to Japan*, July 1984.

64 *Official Year Book of the Commonwealth of Australia*, no.63, 1973, p. 595; no. 65, 1981, p. 639.

Table 5.6—Value of Australia's main export commodities to Japan, 1980–85

| Description | 1980–81 \$m | 1981–82 \$m | 1982–83 \$m | 1984–85 \$m |
|----------------------------|----------------|----------------|----------------|-------------------------|
| Meat and meat preparations | 350.3 (4) | 323.4 (5) | 397.4 (4) | 401.7 (5) |
| Cereal grains | 307.7 (6) | 342.8 (4) | 246.9 (5) | 587.3 (4) |
| Sugar honey | 308.9 (5) | 141.1 (7) | 85.4 (8) | 22.2 (7) |
| Textile fibres | 468.3 (3) | 506.5 (3) | 501.9 (3) | 598.7 (3) |
| Metalliferous ores | 1,019.1 (2) | 1,113.5 (2) | 1,321.3 (2) | 1,553.5 (2) |
| Coal | 1,404.3 (1) | 1,563.5 (1) | 2,004.6 (1) | 2,596.9 (1) |
| Fish | 113.8 | 158.0 (6) | 177.5 (7) | 183.5 (6) ⁶⁵ |

Services

5.64 Trade in services between the two countries increased markedly during the 1980s, especially in the areas of financial services and tourism. While only small in absolute terms, this sector was growing very rapidly in importance as the economic relationship changed in scope and extent.⁶⁶

5.65 During the 1980s, tourism emerged as a growing and very important industry. By the close of the decade after an unprecedented growth spurt, it was estimated that tourism contributed 5.4% to GDP and employed nearly 6% of the workforce. Overseas tourists made a significant contribution to the importance of the tourist industry. Foreign exchange earnings from international tourism reached \$6.2 billion in 1988–89 which exceeded export earnings for many of Australia's established export commodities.

5.66 At this time, government officials recognised the potential for overseas tourism to redress Australia's balance of payment deficit. The Australian Bureau of Statistics found that:

65 Figures taken from *Official Year Book of the Commonwealth of Australia*, no. 66—1982, p. 648; no. 67—1983, p. 687; no. 68—1984, p. 616; no. 70—1986, p. 610.

66 Peter Drysdale, Nancy Viviani, Akio Watanabe and Ipppei Yamazawa, *The Australia-Japan Relationship: Towards the Year 2000*, Australia-Japan Research Centre and Japan Center for Economic Research, Canberra & Tokyo, 1989, pp. 59–61.

Investment in the industry has flourished and tourism has been a major inducement to the inflow of foreign capital. Over the three years to March 1990, the value of major tourist projects under construction or firmly committed has more than doubled to around \$21 billion. This indicates investor confidence in the long term viability of the industry.⁶⁷

5.67 The dramatic increase in Japanese tourists over this period had a significant influence in boosting the figures. In 1981, 53,699 Japanese tourists visited Australia, this soared to 479,900 in 1990, when Japan became Australia's largest source country for overseas tourists.⁶⁸

5.68 The following table shows the overall sharp increase in overseas tourists to Australia and most importantly the growing importance of Japanese tourists to this industry.

| Country | 1978 | 1981 | 1984 | 1986 | 1988 | 1990 |
|----------------|------------|---------|---------|---------|---------|----------------------|
| New Zealand | 200,187(1) | 284,372 | 234,400 | 336,700 | 534,300 | 418,400 |
| Unites States | 80,972(3) | 113,964 | 160,000 | 245,300 | 322,300 | 250,500 |
| United Kingdom | 91,455(2) | 145,957 | 145,000 | 176,000 | 260,300 | 277,700 |
| Japan | 34,035(4) | 53,699 | 87,900 | 145,600 | 352,300 | 479,900 |
| Canada | 19,009(5) | 30,948 | 34,500 | 47,000 | 66,700 | 53,700 |
| Germany | 18,415(6) | 39,055 | 34,200 | 41,900 | 65,900 | 74,200 |
| Singapore | 9,306(7) | 19,621 | 33,000 | 45,000 | 63,500 | 75,900 ⁶⁹ |

67 *Year Book Australia, 1991*, no. 74, Australian Bureau of Statistics, Canberra, 1991, pp. 378–9.

68 *Official Year Book of the Commonwealth of Australia*, no. 67—1983, p. 748; no. 75—1992, p. 388.

69 Figures taken from *Official Year Book of the Commonwealth of Australia*, no. 64—1980, p. 745; no. 67—1983, p. 748; no. 70—1986, p. 684; no. 71—1988, p. 482; no. 73—1990, p. 381; no. 75—1992, p. 388.

Foreign Investment

5.69 The emerging emphasis on the exchange of services was matched in the foreign investment sector. The rate of investment in Australia increased by over 50% between 1984–85 and 1987–88. This very large increase was accompanied by an even larger change in the distribution of investment by broad sector.

5.70 Japan contributed to this growth in investment. During the 1980s, the level of Japanese foreign investment in Australia increased substantially. In 1980–81, the amount stood at just over \$4 billion; by 1985–86, it had more than quadrupled to over \$20 billion. Nonetheless, the United States and the United Kingdom were by far the most important foreign investors in Australia during the mid-1980s. In 1986–87, Japanese investment in Australia was just over half that of the United States and the United Kingdom. By 1989, however, Japan with over \$45 billion invested in Australia, had drawn almost equal to the United States and the United Kingdom. Although Japan did not dominate foreign investment in Australia, its high-profile presence in this area provoked wide public debate.⁷⁰

5.71 It was the nature and extent of Japanese investment rather than the investment itself that sparked controversy in Australia. Towards the end of the decade the substantial purchases of real estate by Japanese companies stirred anti-Japanese feelings in some sectors of the Australian community. Throughout the late 1980s and into the early years of the 1990s, Japanese investors turned to the tourist industry and real estate as their main targets for investment. According to Mr Purnendra Jain, Japanese investment in tourism reached \$1.4 billion and investment in real estate exceeded \$400 million. Much of the investment had been connected with popular tourist areas such as Cairns and the Gold Coast in Queensland.⁷¹ This very public foreign investment provoked some Australians to question the economic benefits that it would bring to the local community.⁷²

5.72 While Japan's direct investment in resources, automobile manufacturing and tourism was widely recognised in Australia, Australia's investment in Japan was minuscule.

70 Purnendra Jain and Donna Weeks, 'Australia and Japan: Banking on the "Constructive Partnership"', *Current Affairs Bulletin*, vol. 69, no. 9, February 1993, p. 14. *Official Year Book of the Commonwealth of Australia*, no. 71—1988, p. 909. See figures given for levels of investment in *Official Year Book of the Commonwealth of Australia*, no.72, 1992, p. 725. Note these figures differ slightly from Table 5.8—see footnote 71 for explanation.

71 Purnendra Jain and Donna Weeks, 'Australia and Japan', *Current Affairs Bulletin*, vol. 69, no. 9, February 1993, p. 14. *Official Year Book of the Commonwealth of Australia*, no. 71—1988, p. 909. See also *Year Book Australia 1991*, Australian Bureau of Statistics, Canberra, 1991, p. 379.

72 Purnendra Jain and Donna Weeks, 'Australia and Japan', *Current Affairs Bulletin*, vol. 69, no. 9, February 1993, pp. 13–14.

5.73 The following table shows the value of foreign investment in Australia by Australia's main overseas investors.

| Country | 1986–87 \$m | 1987–88 \$m | 1988–89 \$m | 1989–90 \$m | 1990–91 \$m |
|----------------|----------------|----------------|----------------|----------------|----------------------|
| United States | 41,698 | 40,108 | 47,183 | 46,648 | 54,237 |
| United Kingdom | 38,323 | 44,073 | 48,031 | 46,291 | 49,147 |
| Japan | 22,551 | 29,615 | 38,670 | 46,412 | 50,189 ⁷³ |

Japanese imports

5.74 During the 1980s, the pattern of Japanese imports into Australia remained fairly constant, with motor vehicles dominating imports together with a range of manufactured goods. In 1988–89, Japan held a 20.75% share of Australia's total import market.

Conclusion

5.75 Thus, at the beginning of the 1990s, Japan stood as the leading nation among Australia's export partners and one of the most important sources of Australia's imports. The economies of both countries had grown considerably since the war and their relationship had matured into a friendly and mutually beneficial partnership.

5.76 For over 40 years, Australia's trading fortunes have been closely tied to those of Japan and Australia has benefited from Japan's economic prosperity. For the last ten years, however, Japan has been beset by economic problems that have seen the economy falter and gradually sink into recession. As Japan's economic troubles deepened in the 1990s, many economists in Australia feared that Australia's trading

73 *Year Book Australia 1994*, no. 76, p. 791. These figures are subject to review by the Australian Bureau of Statistics. The Year Book for 1997 shows that although Japan was certainly narrowing the gap between its level of investment in Australia with that of the US and the UK, it did not eclipse the UK in 1989–90 or 1990–91. In 1990–91 Japan remained third in rank with \$51 billion behind the UK with 54.3 billion and the US with 55.3 billion, *Year Book Australia, 1997*, p. 734. The changes in part are due to a change in collection methodology.

prospects would suffer. As noted by Mr Jammie Penm and industry analysts in Australia:

...developments in Japan are of special concern to Australian commodity producers and exporters. Japan is the world's second largest economy, and the world's largest importer for many commodities—as such, the state of its demand significantly influences world import demand and prices.⁷⁴

74 Jammie Penm and industry analysts, 'Japan: Implications of Japan's low economic growth for Australian exports', *Australian Commodities*, vol. 6, no. 2 1999.

