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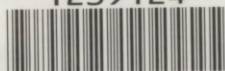
AUSTRALIA-JAPAN RELATIONS

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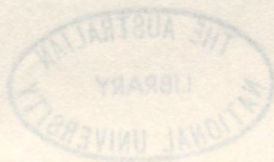
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AUSTRALIA-JAPAN RELATIONS

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AUSTRALIA-JAPAN RELATIONS

This is a very broad subject and yet my first thought was: 'Why bother to raise it?'. There is a calmness - even benign-ness - about current relations which suggests a mutually stable and satisfactory situation. I shall indicate that, in fact, there is a great deal of room for improvement. This, however, should be negotiable precisely because of the close relationship which has developed. It was not always thus.

I shall not go back further than the pre-war thirties. There was then a minor skirmish when Australia tried, in her tariffs, to discriminate against Japan in favour of the British textile and apparel industry. Japan quickly brought this attempt to an end by reminding us of her importance to our wool industries.

This slight skirmish was the period of comedy. There was no comedy in the period 1941-1945: it was sheer tragedy. Fortunately, wise counsels prevailed in the period after the signing of the Peace Treaty and the constructive rehabilitation of Japan made possible by official US aid investment. This led to the remarkable revival of Japanese enterprise and to the great expansion of the Japanese market for Australian rural exports - wool and food products - and for its resource materials - iron ore, coal, aluminium and so on. In this way Australia has played a key role in Japan's growth into a great economic power in the world. Australian discrimination against Japanese exports is now

a thing of the past. Moreover, Australia is a large and fruitful field for Japanese private investment. If Australia has not handled its own economic growth in recent years as well as the Japanese, it has not been for want of export income from the Japanese market.

Australian people have displayed a great interest in Japan and the Japanese people. I am glad to say that it is a friendly interest - itself a tribute to the statesmanship of the peace settlement and the patient diplomacy of the post-war years on both sides. Our interest is now reflected in the tourist traffic and in the growth in cultural exchanges. The Australia-Japan Foundation, established in the mid-seventies, and Australian universities, have greatly assisted in this, as have appropriate institutions in Japan. However, I turn today to the politico-economic field, in which relations are also close and fruitful but not altogether free of problems. These problems call for solution in the interests of both partners.

The basis for trade was provided by the Agreement on Commerce between Australia and Japan of July 1957 - subsequently renewed and modified in 1963. It not only effectively led to an expansion of trade beyond any reasonable prediction at that time, but also served as the signal for a dramatic increase in tourism and cultural exchange activities. The partnership in trade has clearly benefited both countries, being the result of complementary circumstances. Japan needs our wool, foodstuffs

and industrial raw materials, and we need her sophisticated manufactures and her investment. Both countries have gained greatly from this situation.

The Treaty of Friendship and Co-operation of 1976 stressed the comprehensive nature of the relationship that had developed between our two countries, but today I wish to stress the long-term importance of reliability of access in our vital agricultural and raw materials trade relationship. However, to say there have been no stresses or strains in our economic partnership would be foolish; and I shall review some of these shortly.

I have used the word 'partnership' advisedly. It is also important to stress that we are both political allies of the United States, whose leadership has fairly called on both Japan and Australia to increase their contributions to defence programs of common concern. Australians would not like Japan to rearm in the pre-war sense of that term, but in accord with the strengthening of its defence capacity: it is not only in the United States that the term 'free ride' is sometimes heard about Japan's relatively very small contribution to defence programs. But I shall assume - not unfairly - that this problem will be sorted out primarily by the two powers.

Nevertheless, it is important to say that Australians value the emphasis Japan has lately put upon making an effective contribution to comprehensive security, not primarily defence but

also in the field of foreign aid and in making a more active contribution to commodity arrangements and regional and international social assistance programs. Japan's response to this challenge will obviously be of great importance to the whole Western Pacific area. In these areas, Australia too must continue to play a definite, albeit modest, role. Indeed, Australian aid programs - all grant aid - especially in the ASEAN and South Pacific areas, are proportionately much greater and, I believe, far more effective than the - I regret to say - quite inadequate effort, as yet, by Japan.

However, of more concern to this forum are the trade problems, which call for attention and, in some cases, drastic action. Some of our difficulties are exacerbated by recession; but all those I have chosen also point to a role for our government in finding solutions. Perhaps the most important point to raise is the question of government intervention in our economic relations.

Let me indicate the areas in which there is room for improvement.

1. From the Australian and ASEAN point of view there are two areas for action by the Japanese:

- (i) The rather extreme agricultural protectionism practised by Japan must be relaxed: in short, Japan must carry out structural adjustment. A lesser problem - but real, nevertheless - is the well-based feeling

Australian exporters have that the United States gains some of her share of the existing market by political pressure rather than by genuine competitive advantage. This difficulty for Australia is heightened by Japan's acceptance of dumped surpluses from the EEC.

(ii) There is a need for clearer and more effective guidelines about the future requirements of Japanese industry for Australian and ASEAN resource materials.

2. In return, there are responsibilities to be recognised by Australia.

(i) Australia must ensure that its own infrastructures are fully equal to the requirements of a long-term expansion in its raw material exports.

(ii) It must continue the rationalisation or restructuring of its manufacturing sector in a way that will make increased Australian exports - especially to all countries of the Western Pacific and the other nations of Northeast Asia and ASEAN - a practical possibility. This includes easing further the rather wickedly high protection of textiles and apparel. This, of course, calls for the continuation of sensible investment policies, applicable to investment from both domestic and overseas sources. It also calls for a return to sensible income (wages) policies: these have

been too long absent in recent years, but are now being addressed with some purpose. There is an interest in the importance of national consensus, Japanese style, on these and other matters.

- ✓ (iii) Australia must avoid (as also must Japan) arbitrary changes in its policies and developmental programs.

Behind these requirements on both sides there is a need for mutually agreeable machinery for constructive dialogue on problems foreseen or as they arise.* It is true that there are ministerial exchanges at present, but I suggest there is need also for exchanges of views between the officials of the Economic Planning Agency in Japan and those likely to be given somewhat similar responsibilities in Australia: I refer to Mr Hawke's legislation to establish an Economic Planning Advisory Council. I am tempted to remind Australians in this audience of my abortive attempts to have this established in 1965 via the vehicle of the Vernon Committee Report.

All these suggestions for action imply that there are or will be relevant national policies and programs. Clearly, relevant national and, in Australia's case, also State legislation is

* We have the same need with ASEAN. At the moment, the Australian National University is the main bridge for economic dialogue.

implied. (The complication of our federal system is a handicap the Japanese escape, although I am sure that in Japan too there are 'competing constituencies'.) Not less important is the further implication that the export programs for Australia, and import programs in Japan's case, call for government policy oversight. This raises the whole question of the role of governments in our trade relations. I do not object to government assistance, even guidance, in the development of production and trade policies. Japan has practised the art quite consistently and effectively - principally through MITI - over much of the post-war period.

The subject of government intervention is more prone in Australia than in Japan to arouse fears and sometimes ire; but this fact does not remove the need for intelligent government advice to industry, both in its interest and in the wider national interest. There is a startling contrast, in my view, between the way the Japanese nation through its Government reaches 'consensus' on appropriate internal investment programs and on relevant import programs, and the almost completely unstructured situation which has for too long prevailed in Australia.

In Japan there is a broad national economic plan indicative of national goals. This plan is supported by appropriate national policies which, principally through MITI, are translated into industry by industry programs (investment and production). I understand there has been much debate about these goals in recent

times, with differences of view about what is achievable in the way of economic growth. I frankly would like to see more of this kind of public debate in Australia.

While in Australia the process has been more piecemeal, there has, nevertheless, developed a consensus on and progress in moderating tariff protection. This has applied pressure on the manufacturing sector to adjust its efficiency performance to the realities of Australia's wider trading relations, including those with ASEAN. This also reduces the burden of protection too long and heavily borne by the export industries, including manufacturing. This message has been accepted, as has another: I refer to investment in improved infrastructure for treating and shipping raw material to export markets. To achieve this nationally requires the collaboration of Commonwealth and State Governments: the machinery exists for this, and the practice of collaboration is improving.

But in respect of Australia-Japan relations as represented in the press, problems remain. Some reflect little more than suspicion or plain politics, as reflected in one politician's complaint that 'Japan is taking Australia for a ride'. Others arise from the real difficulty in coming to terms with what are nationally and socially very important long-term investment decisions and day-to-day export-pricing situations. These latter are more newsworthy in the eyes of the Australian press and call for some comment.

Theoretically, export prices should be a matter of straightforward bargaining between two parties. The suspicion is, however - and I think it well-founded - that the Japanese buyers are better organised than the Australian sellers of raw materials. It has been evident for some time that the Australian Government (no matter what its political persuasion) cannot remain a mere spectator. Thus, in the case of steaming coal - simply to take one example of the general situation - there is need for more rational dialogue from a longer-term perspective than has been evident recently.

Even allowing for the fact the negotiations are bound to be more difficult in recession, when price falls may be expected, it is fair to argue that the wrangle evident in recent discussions could be moderated by a few sensible rules. I would suggest that these include:

1. A clear statement each year of Japan's economic situation, both domestic and in terms of export activities;
2. A no less clear statement of Australia's situation, its development plans and problems.
3. At more specific levels, clear evidence should be tabled for both parties of world market activities in the raw materials, especially coal.

Underlying the application of these rules should be the acceptance of a partnership in which the long view, not the short view, should dominate.

In relation to investment programs for resource development within Australia, the Australian Government should exercise a watching brief. The federal (Commonwealth-States) machinery that exists must be made to work in this respect. The Japanese Government should be as realistic as possible in its projections about future needs. The Australian Government should, in association with Australian producers, collect and disseminate information on Australian export tonnages and prices, relative to market competitors. It should feel free to draw attention, on a government-to-government basis, to any apparent evidence of unfavourable treatment of Australian exporters. Except where there is unequivocal evidence of unfavourable treatment, there should be no fear that Australia (unlike other traders) would withhold supplies. But, make no mistake, if there is no confidence in the long-term market, investment decisions will be made in ways that reduce supplies in the long term.

In a context of exchange of data on a government-to-government basis, it seems likely that Australian producers would do substantially better on prices and tonnages, on average, than one could expect of a fragmented set of suppliers faced with a single, dominant purchaser. In summary, the Australian Government should be in continuous contact with the Japanese Government to make its concerns known and to exchange views about the future. This would go far towards eliminating foolish talk about withholding supplies. Our aim is a sustained and healthy

continuing trade in raw materials.

On a broader front, there is substantial scope for an international forum on security of supply and market access in the resources trade, notably in coal. Such a forum would aim to disseminate information and forecasts and reach an agreed consumer-producer view of the situation, and would consider such questions as ways to improve the security value of contract arrangements. We cannot be expected to aim for the maximum figure the Japanese might publish, and occasionally have published, and then be left to carry the whole burden of excess production. We have to be mutually realistic in these matters. Japan's security of supply may be assured if we over-supply; but our internal economic problems are not necessarily assured if we alone finance the stock holdings.

The Australian Government should formulate informed views on these matters and pursue them with the Japanese directly, as well as working towards a more Pacific-based forum for their discussion - for there are other countries greatly interested in our export capacity.

I would like to have addressed our respective roles in the Pacific Community. We both recognise the importance of equitable dealings with the other nations. Japan professes the acceptance of a global most-favoured nation trading system. Japan's practice, as noted in respect of agricultural trade, is in fact too often discriminatory. Other nations besides Australia in the

Pacific look to Japan for change in that sector. They do expect Japan to play a positive role in development of the Pacific Community. Trade is a vital element in this.

IN CONCLUSION

The Australia-Japan relationship is dominated by the mutually beneficial economic relationship. These benefits can be greatly enhanced by structural adjustment in both countries: agriculture in the case of Japan, and manufacturing and resource development in Australia. It is clear, even if some do not like it, that Australia will begin to practise some of the 'administrative guidance' so well established in Japan. Any dangers inherent in this course can be curbed by the development of shared information and rational discussion between governments and private interests in the two countries.

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