A Japan-Australia Free Trade Agreement (JAFTA): The Next Stage or Stumbling Block for a 'Mature' Relationship?

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Abstract

Following in the footsteps of a United States-Australia Free Trade Agreement, Australia and Japan are now seeking to strengthen a mature relationship. Based on Australia's export of primary goods and position as a tourist destination and Japan's exports of manufactured goods, the relationship has remained relatively stable over 30 years. However, the stability of bilateral trade supply and demand and the political ties built up is no longer seen to be enough as other bilateral relationships become more important. The slow progress of regional liberalisation efforts (through organisations such as APEC), mutual (although quite different) fears of being left behind by the region and continued impetus injected by business have pushed renewed efforts. However, the effort to strengthen the agreement through the creation of a free trade agreement has stalled even when the media has trumpeted the possibility. One the main barriers to a bilateral agreement to the two allies, Japan's protected agricultural sector, has stifled these efforts and makes it unlikely that a free trade agreement will occur. It seems increasingly likely that other avenues of cooperation will ensue to maintain a 'creative partnership' between Australia and Japan.

Introduction

It has been noted that over the past six years, Australian foreign policy has moved its focus from 'engagement with Asia' to a policy of benign neglect, shifting the focus to the three pronged (security, political and economic) relationship with the US. Other important diplomatic allies in the region, such as Japan and South Korea, have been left out of the publicly defined limits of the national interest. If there has been engagement with Asia over this time, it has been a case of fire fighting; whether through the Asian Financial Crisis, the festering problems of regional trade, the East Timor intervention and more recently with refugees and terrorism. The Howard governments' largely domestically based political agenda has largely avoided or misrepresented the growing unease in our immediate region with the status quo. Of interest to this paper are the first two issues, namely the Asian Crisis and intra-regional trade, and the central relationships that drive Australia's position in the region: The United States and Japan. Fundamental to all of these components is a seeming inability to either fathom the complexity of the relationships between components or amend policy to note this changed environment. The movement towards a Japan-Australia Free Trade Agreement (JAFTA), despite the major obstacles for such a path, is symptomatic of this policy vacuum in Australian foreign policy at present. At the turn of the millennium, Australia seeks to interact with a region that may not have greatly changed, yet Australia's capacity to comprehend what occurs has.

Adios Multilateralism, Hello Bilateralism

As mentioned in Pacific Economic Relations in the 1990's, "Trade continues to function as the core item on the agenda of Pacific politics, and the issue around which policy debates are, for better or worse, fixed in the first instance." And despite the rising importance of investment and other financial flows, this still seems to be the case, if only in media releases. Yet over the past decade, a long process of regional cooperation designed to facilitate trade has started to loose a lustre that many Australian's and Japanese thought would never tarnish. After pushing for the
creation of an instrument to facilitate regional integration and trade liberalisation over 30 years, both countries efforts were realised with the creation of the Asia Pacific Economic Cooperation (APEC) forum. With regional integration and trade covered by the Bogor Agreement of 1994, it was believed that this process could improve economic growth and political relations between regional neighbours in a region which had been bereft of such linkages in the decades previous. Yet the honeymoon of APEC was short; its subsequent decline into a grown-up fancy dress party was blamed on many regional inadequacies. The failure of Japan to entertain reductions to agricultural barriers outside of the WTO and the 'constitutional' failure of the Clinton Administration to pursue Early Voluntary Sectoral Liberalisation (EVSL) unilaterally made it clear that the movement towards APEC goal of liberalisation, following the Bogor Agreement of 1994, had stopped.

The institutional weaknesses of APEC have become more obvious over time. They include the reliance on ‘concerted unilateralism’ (states unilaterally removing barriers to persuade others to do likewise) and peer-group pressure to deliver far-reaching liberalisation without negotiations, the lack of an active secretariat and the rotation of the chair around 21 diverse members, and a less-coherent Asia Pacific community with membership expanded to the likes of Russia and Peru.\(^2\)

DFAT itself noted that APEC went into "visible decline" during the latter half of the 1990s. However, this does not account for the policy choices made by the creators of APEC. With Japan busy licking its own largely self-inflicted economic wounds (of which I can't really speak here), Australia and the new Howard government proceeded to remove its own essential input of dynamism from the fledgling economic institution.

As noted last year by Anne Capling, "The Howard government has not been very successful in articulating a clear vision for Australian trade policy. It has repudiated Labor's strong commitment to multilateralism and to unilateral trade liberalisation, replacing these with an emphasis on bilateralism and reciprocity". Yet, since the announcement of this changed vision, the results have not matched the rhetoric or the public expectations built up by the public pronouncements of this new policies' benefits.\(^1\) This change from an emphasis on multilateral to bilateral approaches was in many ways contrary to the practice of Australian economic diplomacy in the region for 30 years. Ross Garnaut noted, in his report on regional integration to former Prime Minister Bob Hawke, that “as a middle power, we [Australia] must rely on persuading other countries, and influential groups within these countries, that it is in their own interest to move in directions that are consistent with our own interests”.\(^4\) After the Coalition gained office, there was a push to try and mirror the policies of the US, perhaps in the hope that this would enamour the Americans to a strengthening of bilateral economic relations. This was especially significant in relation to APEC whereby a policy of Australian leadership in agenda setting and unilateral trade tariff cuts within the organisation was replaced by a typical US refrain of ‘reciprocity’. A small and relatively insignificant country in the South Pacific was acting the doppelganger for a policy standard designed for a superpower.

One aspect of the Keating Government's foreign policy that was attacked by the Liberal Opposition as early as 1992 was the lack of emphasis on bilateral approaches. The lack of the incumbent's emphasis or interest along this avenue, whilst pursuing (to the collective mind of the Liberals) 'unmanageable' GATT-based multilateral policies and increasingly unsuccessful open regionalism, provided them with the opportunity to differentiate themselves and attack a noticeable lack of enthusiasm for the approach within the then government. However, upon entering government in 1996, Trade Minister Tim Fischer found the going much more difficult. After escalating the rhetoric to 'aggressive bilateralism', much in the manner of US trade policy, they belatedly realised that threats to restrict imports were in fact targeted towards the EU and the US, which were among the few countries to run trade surpluses with Australia.\(^7\) As its
foreign policy was based on strengthening these existing relationships in particular, the policy was already facing a major hurdle that could not be surmounted. This was not be helped by other regional events.

Much of the sting in Australia’s trade agenda backfired after the recent Asian Financial Crisis of 1997-1999 laid bare the dangers of rapid economic liberalisation. With the ‘politics of resentment’ aimed at Western-influenced efforts to liberalise financial and trade controls in East Asia, Australia’s efforts to keep up these reform efforts have stalled, and for not just this reason alone. More importantly, as Jayasuriya argued, the previous domestic coalition within East Asian countries, between the internationally competitive tradeable and rent-seeking non-tradeable sectors, has ceased to exist in a coherent form since the Crisis.

There were two immediate consequences that had a strong bearing on the direction of Australia’s trade interests. The idea that ASEAN could become the centre of regional economic agreements possibly started with an proposal for a partnership between the ASEAN Free Trade Agreement and Australia New Zealand Closer Economic Relations (AFTA-CER), a proposal first suggested by Thailand in 1993 and subsequently backed by Paul Keating of Australia and Goh Chok Tong of Singapore. Based around the principle of open regionalism from 1997, the list of dialogues included trade, investment, customs, standards, human resource development, investment promotion, services, sanitary and phytosanitary, and others. By October 1999, a joint proposal was made to expand the relationship to that of a FTA. A year after a favourite report, both sides were unable to come to an agreement over the FTA. As Soesastro notes:

…this may have been due to political factors (the state of relations between some ASEAN countries and Australia) or because some ASEAN officials were uncertain about the feasibility and desirability of the wide scope of the proposed FTA. The ASEAN side had also put some preconditions (in the area of development assistance) for the discussion/negotiation which may have been unacceptable to the CER.

He does note that both sides did not abandon their efforts at economic consolidation, instead pursuing a Closer Economic Partnership (CEP), although Soesastro is unaware of what this actually means in terms of actual areas for negotiations. He does note, however, that it could possibly be modelled on the recently signed Japan-Singapore ‘Economic Partnership Agreement’ or (JSEPA). This ‘new age’ FTA seems to avoid the old problem of agriculture liberalisation by concentrating on "developing a flexible and attractive business environment by promoting the transborder flow of human resources, assets, capital and information". Moving past the spin, the fact that Singapore does not have an indigenous agriculture sector of any size is also of major importance. Unsurprisingly, Mark Vaile suggested that this defeat snatched from the jaws of victory "demonstrates a remarkable milestone in Australia’s engagement with South-East Asia".

This failed attempt at increased regional trade integration coincided with moves to increase economic and political ties between Southeast and Northeast Asia in the imaginatively titled ASEAN+3 process. For Australian observers, the title was but a ruse; this meeting shared the same members as the East Asian Economic Caucus (EAEC) proposed by Malaysia's Dr Mahathir in 1990. With one of its measures likely to be trade discrimination against Australia and other western countries like the US, the thought of it made seasoned trade professionals shudder. With more than 50% of our exports being sold in Asia, the enormity of the threat become apparent. It remains the headless horseman of Australia’s trade policy. And with ASEAN+3, it was feared that the Asian Crisis had brought a previously discredited plan back to life. Yet, fears could also be dispelled if one thinks of Australia’s importance to Japan, Korea and to a lesser extent China, in terms of raw materials for their continued strength in manufacturing. Without Australian coal, iron ore and aluminium, their economies would undoubtedly suffer. Fear of exclusion, real as it was, was all that it was. Nevertheless, to guard
against the possibility, Australia progressed along the path of bilateralism in trade.

Australia remained out of the bilateral game until 1998, when a number of incidents such as ASEAN+3 coincided to give bilateralism a shot in the arm. Firstly, Japan agreed to consider a bilateral trade agreement with South Korea as part of a wider strategy to increase relations between the two Northeast Asian neighbours. Australia then felt able to negotiate with the knowledge that it was not discriminating against its largest trading partner. In 2000, Howard readily agreed to a AUSFTA proposal by the Bush administration. Rather than seeing confusion, Robert Gottliebsen was impressed by the Howard government's ability to hastily prepare four bilateral free trade agreements (with the US, Singapore, Japan and Thailand) at the same time. It is notable that each agreement has its own sticking point; Agriculture and business regulations with US and Japan, Motor Vehicles with Thailand and Telecommunications (as well as its regulation) with Singapore. In particular, the new 'free trade plus' deal being done with Thailand mirrors that of the CER agreement with New Zealand, although it is progressing on a sector by sector basis (as opposed to an overall agreement). The flexible nature of the agreement means that "negotiations have no deadline and at this stage, no firm agenda". Whilst this pragmatism is no doubt welcome for a government trying to look occupied on the trade front after a slow start to bilateral negotiations, flexibility can work both ways. Ad hoc responses can avoid embarrassing delays in negotiations as well as remove much of the impetus for rapid agreement, in itself a powerful motivating tool.

The most emphasis has been placed on the relationship with the US, hoping to leverage our political and security ties to our economic advantage. Over the past two years, the Howard government has actively tried to gain US agreement to begin negotiations on a FTA. Constrained by the Bush Administrations' inability to retrieve Trade Promotion Authority (TPA or the ability to negotiate international trade deals without domestic 'horse-trading') from Congress, it has been left with a favourable departmental report and a US pledge to start negotiations. Funnily enough, one of the latest reassurances appeared on the eve of the visit to Australia by Prime Minister Koizumi. Within the scope of negotiations is the long-standing problem of agriculture. It has long been at the forefront of trade priorities for Australian governments in negotiations with the US. Yet, if the past 50 years are any guide, Australia is unlikely to gain any kind of significant satisfaction in this area. With the new $180 billion Farm Bill enacted in a nation-building measure after September 11, it is hard to see a breakthrough in a comprehensive agreement coming shortly. With that contingency appearing less likely in the face of increased protectionism following 'The War against Terrorism', the Howard government is left with nothing to show for 48 months of intense diplomatic effort. Instead, it is likely that a US bilateral trade deal would mean that Australia would have to discriminate in favour of US suppliers of textiles, manufactures and services and against other major trading partners in East Asia, such as China, South Korea and Japan. Japan's attempt to strengthen the trade relationship in recent months may be an effort to try and cloud the minds of the mandarins in Canberra and cool the AUSFTA ardour felt by Howard and his Cabinet.

**Problems With a Bilateral Path**

Academic opinion is divided over whether bilateral FTAs or Regional Trade Agreements (RTAs) are 'stepping stones' or 'stumbling blocks'. Anecdotal evidence would suggest that there is a 'domino effect' apparent in the increasing number of RTAs being established around the globe, although much of the evidence in favour rotates around the principle of 'monkey see, monkey do'. The WTO notes that there are 170 RTAs globally and this is expected to increase to 250 in 2005. Arguments for these agreements varies from an unwillingness to wait for the next global World Trade Organisation [WTO]round, "an attempt to capture strategic advantages by establishing closer links between particular countries, and an interest in trialing liberalisation in a smaller, more comfortable environment than the multilateral one". DFAT argues that RTAs 'build momentum' for larger scale liberalisation attempts. The argument here is that of 'if
everybody else is doing it, why shouldn't we? FTAs cover all sectors so would be compliant on one front with the idea of open regionalism; however, unlike regional approaches, there is inherent discrimination in a bilateral context against other countries. This may be seen negatively of positively depending on interpretation (either as encouraging signs of momentum or as a sign that tariffs and other barriers should be maintained). One of the problems of bilateralism can be seen, for instance, in Singapore's extensive process of bilateralism is the problem of defining the rules of origin that will prevent exploitation by non-members of agreements. Leaver argues that it is unlikely that such rules will be consistent across the various agreements, creating a confusing cobweb of differences that promises to be a bureaucratic nightmare. It also promises to hinder the process of regional trade promotion through APEC, if it were able to find new common ground.

Japan's movement into the rarified air of bilateral agreements, has like the Howard Government, been painfully slow. In a much-anticipated speech in Singapore during January of this year, a Koizumi speech was billed as an important statement of a new Japanese push for greater regional integration. Instead it was a vague re-annunciation of the status quo. Increased security-based dialogues and financial assistance were promised, but, again there was little in the way of finite terms to reassure the region that the promises would be kept. For instance, Chile has been pressuring Japan to conclude a FTA with it for the past two years, yet the Japanese response to this and bilateral deals in general remains "very cautious". So far, Mexico is the only country in the Western Hemisphere to conduct preliminary talks with Japan that may lead to negotiations starting later this year, possibly during the Mexican-based APEC Summit in October. At present, all negotiations for increased trade liberalisation are facing the problem of Japan's domestic agricultural and fisheries sectors. While a Japan-Mexico agreement may be signed by 2004, other countries like Chile will undoubtedly wait whilst plans for FTA's with South Korea and ASEAN seemingly have priority. In a sign of the careful nature of this liberalisation, negotiations with South Korea are expected to be close to two years away (with a final deal to be reached by 2005) and Japan only recently commissioned a feasibility study for the prospects of a Japan-ASEAN FTA. There is a feeling that both (but especially the latter) initiatives are driven by the increasing economic pull and political influence of China. There is a list of potential partners (such as Australia, Brazil, Canada, Chile, New Zealand and Taiwan) but there is no hierarchy for discussions with these countries. It is also doubtful that these agreements could be carried out concurrently because of, as one senior trade official put it, "limited human capacity". In Australia, we wait to see whether we are part of the bargain.

Japan as Number One…to Us

Japan occupies a "fundamental" position within Australia's external trade and investment environment. Australia’s reliance on Japan as a destination for exports cannot be underestimated, a fact that is aptly demonstrated on the Department of Foreign Affairs and Trade website in its briefing on the issue.

Australia’s merchandise exports to Japan account for around 20 per cent of our total merchandise exports. Trade is heavily concentrated on five products – coal, liquified natural gas, iron ore, beef and aluminium – which account for more than 50 per cent of merchandise exports. Japan is our largest market for all five exports, and buys 46 per cent of our total coal merchandise exports, 43 per cent of our total iron ore exports, 39 per cent of our beef exports and 37 per cent of our aluminium exports.

It is, and has been for some considerable time, Australia's largest trading partner, with combined exports and imports totalling $42.7 billion in 2000, compared to the $34 billion for the United States, Australia's second largest trading partner. Despite its economic problems over the past decade, Japan is Australia's largest export market and has been in this position since 1969, with 3.7% growth in these exports over the 5 years (between 1995-2000). More importantly, unlike our trade with the United States or China (our next largest trading partners), our trade with
Japan delivers Australia a trade surplus, largely through our exports of primary goods such as mineral extracts (iron ore, coal and aluminium) and beef. These products more than make up for our imports from Japan, consisting of automotive products, IT and communications equipment. When added to Japan's importance as a source of tourists (more than 680,000 Japanese tourists per annum have been arriving in Australia for the past seven years) and of Foreign Direct Investment (FDI), it is of no great surprise that major importance has been placed on the continuing health of the (primarily) economic and societal relationship between the two Pacific 'partners'.

This complementarity between the two countries' economies has led to the formation of mutual interests in economic cooperation. Within these interests, there are three basic aspects of the bilateral relationship that have led to the creation of regional economic cooperation (and institutions such as PECC and APEC) and to the strengthening of the Japan-Australia partnership over time: shared interests; "power complementarity between the two countries compensating for their respective diplomatic shortcomings, and enhancing their leadership capabilities"; and a group of like-minded individuals who established extensive bilateral links.23 Even from the 1960s, both countries felt that the region (as well as themselves) would benefit in economic political and security terms from increased regional integration. If regional economic growth could be achieved, both countries could use the region for their exports. This was at a time when both countries needed this trade; for Japan, it was to rebuild after the Second World War and the loss of its East Asian colonies; for Australia, it was to make up for the loss of Britain to the European Economic Community (EEC). Yet, it was not just a 'marriage of convenience' although the feeling that both countries were on the margins of the region (both relating to historical and cultural features) also brought them together. When talking of 'power complementarity', Terada notes that Japan's power in international affairs is derived from its economic performance and impact that it has on international economics as the world's second largest economy. Australia's influence relies on its position as a major supplier of raw materials and well-planned diplomacy. Japan lacks diplomatic skills because of the 'legacy of history', based on fears in East Asia that Japan has yet to learn from its failed attempt at a Greater East Asian Co-prosperity Sphere in the Second World War. It is this ability that Australia provided to a certain extent.24

Kazuo Ogura, a former senior bureaucrat with the Ministry of Foreign Affairs (MOFA), advocated a partnership between the two countries on the basis of shared values such as freedom, democracy, the market and common interests in regional economic, political and security issues.30 Again, ironically, these values are currently seen as the reason for the strength of the bilateral relationship with the US. These issues and values were reinforced by a healthy network of business linkages, in part shown by the development of influential business groups. Japanese and Australian businesses established annual meetings as far back as 1963 through the Australia-Japan Business Co-operation Committee (AJBCC) in Australia and the Japan-Australia Business Committee (JABC) in Japan. In a prelude of initiatives to come, these meetings became the basis of the Pacific Basin Economic Council (PBEC) that was established in 1967.31 From this forum, business and eventually governments were able to build momentum behind regional economic cooperation.

Within this relationship, it should also be noted that Australia's bilateral relationship with Japan is lop-sided on a number of counts: Japan is more important to Australia than Australia is to Japan, in terms of trade, tourists and investment. However, there have been points at which senior Australians have thought vice versa over the past 45 years. At the most primary political level, this can be seen in the number of visits that the respective Prime Ministers make to each others' country - whilst Australian leaders have made the Land of the Rising Sun a near annual photographic opportunity, Japanese leaders have been much more reticent, waiting about five years for their chance to cuddle a koala beneath a eucalypt.32
Of more interest and concern for this paper has been the falling importance of Japan to Australia as a market and the changing composition of Australia's exports. In some respects, Australia's relationship with Japan is changing from a complimentary to competitive partnership. As Tables 1 and 2 show, not only is Australia decreasing its reliance on Japan (and vice versa) for traditional exports such as coal and iron, but Australia itself is reducing its previously high level of rural exports such as wool, beef and wheat. Over the past twenty years the percentage of Australia's exports being sent to Japan has shrunk from 27.0% to 19.8% between 1980 and 2000 while the percentage of rural products in total merchandise exports has dropped from 34.8% to 18.5%. Manufactures and services, both areas in which Australia nominally competes with Japan, are becoming much more important to our overall export situation. This changing relationship however is being replaced by the increase in exports to South Korea and China over the same twenty-year period, with combined exports to the two Northeast Asian neighbours more than doubling over the past 20 years (from 6% in 1980 to 13.6 in 2000). With the 45-year-old official postwar partnership losing relevance and increasingly being swamped by moves to increase relations with the US, China and South Korea, interested parties in both countries attempted to breathe vigour into this 'special' relationship. The primary vehicles for this were two governmental reports and the Australia-Japan Conference for the 21st Century, a meeting between interested academics, business leaders and government. It was an attempt to prod a couple of recalcitrants into line, to finally join the rest of the region in strengthening economic cooperation, ironic as it is for the two countries that were so instrumental in pushing the process in previous decades.

Table 1: Australian merchandise exports by region/country (% share)

<table>
<thead>
<tr>
<th>Exports to:</th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
</tr>
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<tbody>
<tr>
<td>Northeast Asia</td>
<td>36.4</td>
<td>40.9</td>
<td>41.6</td>
</tr>
<tr>
<td>Japan</td>
<td>27.0</td>
<td>26.4</td>
<td>19.8</td>
</tr>
<tr>
<td>China</td>
<td>3.7</td>
<td>2.5</td>
<td>5.4</td>
</tr>
<tr>
<td>Hong Kong SAR</td>
<td>1.5</td>
<td>2.6</td>
<td>3.2</td>
</tr>
<tr>
<td>Taiwan</td>
<td>1.9</td>
<td>3.5</td>
<td>5.0</td>
</tr>
<tr>
<td>South Korea</td>
<td>2.3</td>
<td>5.9</td>
<td>8.2</td>
</tr>
<tr>
<td>ASEAN-10</td>
<td>8.2</td>
<td>11.5</td>
<td>13.7</td>
</tr>
<tr>
<td>New Zealand</td>
<td>4.7</td>
<td>5.0</td>
<td>6.0</td>
</tr>
<tr>
<td>United States</td>
<td>11.5</td>
<td>11.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Latin America</td>
<td>1.0</td>
<td>0.9</td>
<td>1.2</td>
</tr>
<tr>
<td>EU-15</td>
<td>14.6</td>
<td>13.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Middle East</td>
<td>7.9</td>
<td>4.7</td>
<td>5.1</td>
</tr>
<tr>
<td>South Asia</td>
<td>1.5</td>
<td>1.8</td>
<td>2.6</td>
</tr>
<tr>
<td>Other</td>
<td>14.2</td>
<td>10.1</td>
<td>8.4</td>
</tr>
</tbody>
</table>

Table 2: Australian exports by sector (%)

<table>
<thead>
<tr>
<th></th>
<th>1980</th>
<th>1990</th>
<th>2000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rural</td>
<td>34.8</td>
<td>21.1</td>
<td>18.5</td>
</tr>
<tr>
<td>Mineral &amp; fuels</td>
<td>24.9</td>
<td>27.4</td>
<td>25.3</td>
</tr>
<tr>
<td>Manufactures</td>
<td>23.5</td>
<td>24.1</td>
<td>29.0</td>
</tr>
<tr>
<td>Services</td>
<td>15.0</td>
<td>20.5</td>
<td>22.2</td>
</tr>
<tr>
<td>Other</td>
<td>1.8</td>
<td>6.9</td>
<td>5.0</td>
</tr>
</tbody>
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Two Reports, Two Visions

The driving force behind the push for a revised partnership sprang from two government-commissioned reports, an Australian report finalised in April 2001 and a Japanese report completed in March of the same year. One of the interesting aspects to come out of the Australian report commissioned by DFAT was that Australian business engagement into Japan was driven by perceptions of a difficult business environment and a lack of Japanese language skills. For instance, the Japanese report is surprised that with Australia's competitive advantage in terms of quality and price, it does not take advantage of this within the Japanese market (even in agricultural goods). Whilst promoting a changed business environment in Japan, the Australian report notes that one of the growth areas for increased cooperation is believed to be in attracting Japanese FDI to conduct research and development in Australia, as costs are considerably lower in Australia than elsewhere, specifically in East Asia. Yet, the Japanese report notes that both Fujitsu and Canon have already setup such operations in Sydney. Despite the apparent success of these firms, the major conclusion of the Australian report is that both governments should pursue a Trade and Investment Facilitation agreement (TIFA) over the coming years to encourage increased investment and that secondly, businesses should exercise previously lacking initiative. A brief browse through the Japanese report underlines this on numerous occasions: whether government can remedy this through incentives is the big question, a question that still remains.

The Japanese report was based on a survey of Japanese and Australian businesses and their opinion of the status and future direction of future relations. On the negative side, it notes that after the real estate boom of the late 1980s and 1990s in both Australia and Japan, Japanese investment and business has been withdrawing from Australia with no sense that they will return to their previous peak. To halt this decline and avoid the maintenance of a status quo, the METI-commissioned report comments that "constructive arrangements" are required to stabilise and maintain the economic partnership in the advent of increasing presence of East Asia in the economic interests of both countries. Such 'arrangements' include policy initiatives such as increased communication between Japanese and Australian IT sectors to take advantage of each other's expertise. Without expressly supporting the measure, the report notes that an FTA could be such an 'arrangement' despite the disparities in size and political ability to conclude such a deal. Interestingly, the Australian report curiously dismisses the idea given previous experience between the two governments and the enduring difficulties in agriculture, despite the potentially large gains for Australia in pursuing such a course of action. With the report suggesting a chance that a break with the past may be forthcoming in the continuing economic reforms pursued by Japan, the Australian reports' ignorance of this and the other initiatives is strange. The Japanese report seems to suggest that the Japanese government is more interested in re-invigorating the relationship and seeking new measures for achieving this than the Australian
government. Logic would have suggested that such vigour should be mutual, if not more so on the Australian side.

The Sydney Declaration: An Exercise in Delusion?

The main governmental move to try to update the bilateral relationship started last year in a jointly convened conference, imaginatively entitled 'Australia-Japan Conference for the 21" Century'. Held in Sydney during May 2001, this conference sought to try and 'revitalise' a political and economic relationship thought to be stagnating, retaining many of the same characteristics that had been an established part of bilateral relations since their postwar re-establishment. It should be noted that the conference, like other areas in their bilateral relations, was driven primarily by business concerns, with other aspects of the relationship lagging somewhat behind.\(^{39}\) It was understood that relations benefited from mutual attention and that "Japan-Australia relations cannot be taken for granted. It is time to find new ways to maintain the vigour of the relationship". The declaration was designed to bring new ideas to the attention of those at an official government level, a situation that was not without precedent. It should be noted that previous governmental actions, such as the joint collaboration in the creation of PBEC and APEC followed business-led discussions and lobbying.\(^{39}\)

As part of the Sydney Declaration, plenty of attention was given to the common interests that were seen to be shared between the two countries, such as the importance of continued US engagement in the region and increased and enhanced regional cooperation in trade, economic and security spheres. Peacekeeping and protection of trade routes in the region were emphasised. Linked to this was the belief that regional crisis management and capacity building (in areas like peacekeeping and regional economic stability) should be strengthened with mutual action on these issues. The plea for the two countries to "reactivate regional and global multilateral processes" also fitted within the course of events at this conference. Conference participants strongly believed that cooperation in those areas in which the two countries have complimentary economies, such as in the 'new' research and development-intensive (IT, Biotechnology, etc) and service sectors, should be promoted. To assist in this drive for increased partnerships, the possibility for a TIFA was entertained and actively promoted. This was to be picked up by the Australian government in future discussions with their Japanese counterparts.\(^{40}\)

Despite the mission of this conference (itself described as an "epoch-making event")\(^{44}\) to find a new path for the bilateral relationship, there was little in the way of distinct initiatives to demonstrate a basis for this optimistic appraisal. If anything, it was indicative of the continuing weakness in Japanese and Australian foreign policy since 1997. Little of any substance, bar an uninspiring Australian-Japan Joint Statement on Electronic Commerce (July 1999), has occurred since then. In fact, most of the new initiatives mentioned here were announced to be part of the Australia-Japan Partnership Agenda, 1 August 1997 - which itself was based on a November 1995 Joint Declaration between Prime Ministers Keating and Murayama.\(^{42}\) There was a distinct lack of new ideas for integrating or reinvigorating a process that had ceased to generate its own momentum.

Why a JAFTA?

Much of the talk about a FTA came from Japan itself and Prime Minister Junichiro Koizumi in particular. In a press briefing before his trip to Vietnam Australia and New Zealand, Koizumi stated that both governments should 'aim' for a free trade agreement over a nondescript timeframe, in spite of well-known domestic opposition that he faces in pursuing such an agreement. In subsequent analysis, it was argued that this meeting was used by Koizumi as another chance to promote his credentials to the international community as an economic reformer. In the Japanese Prime Ministers' opinion, this was one of the options that needed to be
considered when strengthening an already strong relationship. Koizumi also argued that Australia and New Zealand should be included in any East Asian free trade agreement that Japan may conclude in the future. This followed an earlier statement by Minoru Murofushi, chairman of the Itochu trading company and head of the Australia-Japan Business Co-operation Council (AJBCC), where he argued that Japan was prepared to enhance bilateral economic relations with Australia as part of a wider push for an East Asian economic community that had the potential to rival the European Union (EU) or North American Free Trade Agreement (NAFTA). This change in the accepted style of Japanese diplomacy, which is generally regarded as being subtle in the extreme, gave rise to great interest, among the Press Gallery, Australian businesses and governments alike. Yet, it must be noted that this interest was for several different reasons.

Sensing a door of opportunity, speculation began in earnest. Amongst supporters of this surprising announcement, Stephen Lunn noted in The Australian that the candour in which the recent public talk in Japan (from Koizumi, the Japanese Cabinet Council on Economic and Fiscal Policy and Heizo Takenaka, Minister for Economy, Trade and Industry) about free trade and the inclusion of agriculture within the terms of a comprehensive agreement was a welcome sign, given that such public discussions would have constituted a major scandal in previous years. Lunn, amongst many others, noted that such an agreement would take years to surmount the difficulties in agriculture. However, he noted that a 'dual level' agreement could be reached whereby the "less-troublesome sectors" can be liberalised first. Certainly, in comparison with the small books devoted to potential trade transgressions by the US, China and ASEAN nations, Australia is well placed to sign a FTA with Japan. Australia is only allocated three pages in a recent Japanese report looking at WTO compliance and potential items on the list for negotiated settlement or trading at the WTO. Japan looks for Australia to lower tariffs on, amongst other things, 'certain' clothing (with a maximum potential tariff of 55%), cars, glass and electric machinery (both at 23%). The main problems (if they are indeed problems) are in the regulation of services (financial, media, airlines) and revolve around our requirements for minimum Australian ownership or content. They also see the central role of government enterprises and/or regulation in the exportation of agricultural goods.

Alan Oxley, former Australian ambassador to the General Agreement on Tariffs and Trade [GATT] and now head of the Australian Asia Pacific Economic Cooperation [APEC] Study Centre, believed that:

- Australia needs a free trade agreement with Japan as much as it needs a free trade agreement with the US, but for different reasons. A US agreement will lock Australia onto the world's most competitive economic reference points. An agreement with Japan is needed to modernise the economic relationship. It is atrophying.

Bill McConnell argued that the latest rash of free trade agreements has as much to do with investment and services as it does with removing trade barriers to business. Robert Rennie, the senior currency strategist at Westpac, argued that such an agreement would "be a positive thing for the Australian dollar", as "...the real impact in Australian financial markets will be felt through increased capital flows and increased foreign direct investment flows."

The interest in the bilateral meeting between the heads of both government in late April/early May 2002 soon became skewed towards the orientalism 'every journey begins with one step' rather than signing off on concrete plans. Nevertheless, such plans had been laid in their prospect. The mechanics of such a strengthening of the economic relationship were not limited by an Australian desire to set an absolute agenda for discussions. Yet, as became clear, Koizumi's rhetoric of open-ended reform did not extend to Japan's powerful Ministry of Economy, Trade and Industry (METI). There was the potential for no set improvement to be carried out at all if conditions were not right. Senior Australian government officials noted that to expect Japan's liberalisation of agriculture would be 'unrealistic'. A trade and economic
agreement would be more likely to occur on specific issues such as services and harmonisation of business standards to facilitate bilateral investment:

The proposed comprehensive economic agenda is broader, though less specific, than Australian proposals for a bilateral trade and investment facilitation agreement. That plan, which focused on enhanced cooperation, ran into strong opposition from elements of Japan's Ministry for Economy, Technology and Industry, which claimed it was vague and lacked support form the Japanese business community.

The resistance of METI officials to a Trade and Investment Facilitation Agreement (TIFA) had a reasonable basis; a similar agreement between the US and Australia achieved little over the past seven years. According to Brendan Pearson in The Australian Financial Review:

A third alternative, meanwhile, [was] being quietly marketed by Noboru Hatakeyama, chairman of Japan External Trade Organisation (JETRO): a free trade deal in only services. Under global trade rules introduced in 1995, such deals are legal, and would address the fastest growing sectors in both economies.

Like a purely trade deal, Australia would have more to gain from an investment agreement than Japan, as barriers to telecommunications, legal, accounting and other professional and consulting services are higher than those here. John Edwards, chief economist at HSBC, argues that the 'new generation' free trade agreements are based upon NAFTA and have in-built investment agreements as part of the overall agreement. In such agreements, "it typically extends to foreign companies the same rights and privileges that are afforded to domestic companies. This could have some serious implications for the Australian market." It would mean that maintaining regulated strictures on the domestic economy or limits on foreign ownership would become near impossible. The 'National Interest Test', applied by Peter Costello in the relatively recent case of the Shell attempt to acquire Woodside Petroleum will be put under pressure to be quantified. Under consideration will go the 'Four Pillars' banking policy, the Australian Wheat Board, full foreign ownership of Qantas, Telstra's monopoly control of Australia's telecommunications infrastructure and perhaps even the sale of Australia Post and the liberalisation of that sector to local and foreign competitors. Having reduced tariffs on goods to nil in most areas over the past 20 years, services and investment restrictions are on the table as some of the only bargaining chips left for the government to avail itself of. Such important implications required exhaustive analysis of the current state of the economic linkages between Japan and Australia. Yet, this does not seem to be the case. Oxley noted that the recent Australian report on the Japan-Australia bilateral partnership did not look at measuring investment or the reasons why manufacturing exports and bilateral investment with Japan had not expanded over the past decade whereas such trade and investment with the US had.

One of the more optimistic responses to a bilateral agreement was that Australia should help in encouraging and assisting Japan reform its crisis-riddled economy. Previous attempts to do just this, following the US policy of pushing for structural adjustment in Japan's domestic economy (known as gaiatsu or foreign pressure) had not gone well. John Howard in a visit to Japan during 1999 proceeded to badger an increasingly unimpressed Tokyo as to the merits of 'economic reform'. As mentioned earlier, copying the US on foreign policy when Australia has neither the power nor the influence can do no good for our standing with countries, let alone allies, in the Asia Pacific.

**Negative Responses to JAFTA**

Such an optimistic assessment of prospects was not forthcoming from academics specialising in Japan's agriculture sector as well as those promoting multilateral solutions in trade policy. A substantial bilateral free trade agreement covering all sectors between Japan and Australia must negotiate the perennial issue of agriculture. Given this hurdle, Aurelia George Mulgan argued
that the chance of an agreement including agriculture is 'zero'; for instance, the recently concluded Japan-Singapore Agreement was one of the first bilateral agreements to exclude agriculture. Japanese farmers were unlikely to ever agree to a phased liberalisation regime such as that proposed by Australian Trade Minister Mark Vaile and others. In the face of multilateral pressure in the WTO and APEC from more powerful countries (such as the US and China), Australia's influence would be unlikely to achieve anything on a bilateral scale. Peter Drysdale, one of the fathers of APEC, argued that a JAFTA would "be bad in principle and impossible in practice", in that such an agreement would mean trade discrimination between Australia and other important countries like the US, China and South Korea. Stoeckel also argued that, in a similar way to the unilateral trade reduction practices undertaken during the early 1990s as part of APEC, such initiatives should be revisited and reinstated. Freer trade would only occur once Japan realises that it is in its own interests to do so. Mulgan also noted that the adviser's from the Japanese private sector promoting the inclusion of agriculture in such an agreement are from industrial exporters and have no direct influence upon the government or agriculture. Mulgan asserted that the reason that Japan has offered to begin talks on such an agreement is not because of any great benefit that Japan can gain from such an agreement; if anything, a free-trade agreement would benefit Australia much more than Japan considering that Japanese exporters face few regulations whereas Australian exporters do.

This was not helped by Junichiro Koizumi's tenuous grip on the reigns of government. He has a weakening support base domestically and is unlikely to reform a sector of the economy that has one of the most powerful factions in the Liberal Democratic Party (LDP), his own political party, behind a protectionist stance. In his reform efforts to date, as seen in Mayumi Negishi's summary of the reformist Prime Minister's achievements over the past year, agriculture has remained off his list. This is at odds with the much-quoted dictum of Koizumi that current reform efforts are 'without boundaries'. Pearson even went to far as to note that Koizumi is on the way out as Prime Minister (a view supported by Adam Posen from the Institute of International Economics, who speculated that he was 'toast') and that his attempt to reform Japanese government, bureaucracy, business and society has stalled before it has even become airborne. Pearson suggested, as many other critics had before him, that "the reform agenda (from bad loans to privatisation and deregulation)...is a mile wide and an inch deep". With his reformist stance predicated upon support from the Machiavellian-like LDP-led coalition as well as tenuous public opinion polls, Koizumi would not want to deprive himself of power for an important, but insubstantial, friend.

The overall response to the prospect of a trade deal is in itself very predictable and based upon well established knowledge of the economic relationship with Japan and Northeast Asia in general. The former Shadow Minister for Trade Peter Cook in 2001 noted that an FTA with either Japan or South Korea would not be practical "because agriculture would be the stumbling bloc." There are similarities in the way that the potential US and Japan FTAs have been released to the public; in a flash of media scrutiny with little in the way of analysis. This pointed to an increasingly tabloid coverage of economic issues or populism in trade policy - much noise followed by barely convincing analytical action. The visit by Koizumi to Australia was to be become an ideal example of this.

Beyond a 'Creative Partnership'?

The prelude to the meeting between the two leaders in Canberra was given substantial coverage in the local press. With much hubris, Dennis Shanahan in *The Australian* argued that Koizumi's visit had important ramifications in the scope of the bilateral relationship, perhaps the most important since the official visit Menzies made to Japan in 1957 (the moment where the official trade and political relationship began; a Commerce agreement was subsequently signed and began what became a increasing lucrative partnership in raw materials). Firstly, for a Prime Minister who has been criticised for his policy of benign neglect of Asian diplomacy, John
Howard had an opportunity to enhance Australia's economic position in the region following the dual shocks of the Asian Crisis and September 11. Secondly, Koizumi's recent comments constituted one of the first times in the recent past where Australia has not been made unwelcome in its dealings with the region.\textsuperscript{65} Thirdly, with an eye to the future, the bilateral relationship posed one of the largest questions in Australian foreign policy:

For a start, senior Government members, analysts and bureaucrats see the Japanese economic stagnation as the biggest threat to Australia's continued growth and underlying prosperity. This is not just an immediate threat but has serious ramifications for decades to come.\textsuperscript{65}

An expectation had been created that this would be a watershed in bilateral relations. Yet, with the title of the joint press statement of Koizumi's visit in May 2002 trumpeting an 'Australia-Japan Creative Partnership', most of the points contained within the initial statements were restating old diplomatic issues such as Japan's desire to become a permanent member of the United Nations Security Council (UNSC), the importance of the continued US presence in the region and differences in opinion over the Kyoto Protocol. On the specific areas to be strengthened in this new 'creativity', the press conference included vague commitments on enhancing dialogues, both on official and non-official levels in sectors varying from the environment to expanded scientific cooperation and dialogue.\textsuperscript{66} Of interest was Japan's desire to expand the teaching of Japanese in schools, following Japan's JET programme which encourages young people form English speaking nations to teach in Japan. What impact the cancellation of the Commonwealth contribution to the Asian languages program (which is also funded by the states) is unclear but the removal of $30 million from the overall budget for the program could not be seen as helpful to increasing inter-community dialogue.\textsuperscript{67}

Howard noted that Australia needed to be ambitious in its future relations with Japan. However, very little seemed to be ambitious at all. Most of the newer elements were related to security, namely the 'war against terror', Japan's role in East Timor, the rebuilding of Afghanistan and security in the broader region. He was particularly ambitious in terms of an enhanced security relationship, with him reiterating a proposal to have senior level bureaucrats (although not ministerial level) meeting in a trilateral security dialogue between Japan, Australia and US in an extension of the Australia-United States Ministerial [AUSMIN] talks. Even Howard's initiative to increase trilateral security ties was an old approach considering that in March 1988, as Opposition Leader, he advocated such an approach. The then Defence Minister Kim Beazley rejected the proposal, fearing a negative response from Southeast Asia.\textsuperscript{68} This time, despite anticipation of a negative reaction from China, chances are that such plans may be enacted, although it is hard to see this being a major priority at present with the armed forces saddled with East Timor, the Afghanistan-based 'War against Terror', inoperative equipment and border protection.

The only economic aspect in the first broad section was the official response to Koizumi's proposal for an East Asian economic community made in Singapore in January. Howard explained that this was the case because DFAT Secretary Ashton Calvert would soon visit Japan to begin negotiations over which forms this closer economic relationship would take. A free-trade deal including agriculture was again seen as the 'ultimate goal'.\textsuperscript{69} Koizumi suggested that Japan was already as dependent on foreign food supplies as his country felt necessary. Further dilution of Japan's domestic food content posed security concerns that could be used against it in future.\textsuperscript{69} Already the most vulnerable nation to imported food, further concessions were unlikely until there was a change in domestic opinion. Even with this change, it would require a change
in political leadership; The farming lobby exerts a powerful hold over the major faction within Koizumi's own Liberal Democratic Party.

For all the talk, surprisingly little was achieved in what was built up by journalistic hype to be a crucial moment in intergovernmental relations. The moniker ‘A Creative Partnership’ and efforts for the recent meeting between Howard and Koizumi were almost the same as the 1997 meeting between Hashimoto and Howard where a 'Partnership Agenda' was signalled. Few achievements have followed from that announcement; the distinct possibility remains that little will occur out of this most recent 're- invigoration' of the partnership. To be even bleaker, it could be argued that the terms and ideas of strengthening the partnership have not changed since May 1995, with the aforementioned Joint Declaration on the Australia-Japan Partnership. The editorial of the *Australian Financial Review* found it hard, given the continuing strength of the trade, business and political relationship, that more coherent and bolder steps were not taken to improve the relationship.

The present policy crossroads with Japan seems to be replicated soon by similar moves to strengthen Australia’s relationships with South Korea and China. An attempt is being made to modernise bilateral relations with South Korea, very much along the same lines as the conference with Japan with the addition and recommendation of a Trade and Investment Facilitation Agreement [TIFA] by a joint government task force in 2001. On China, again, there is similar overlap with the other two Northeast Asian economies when DFAT calls for enhanced cooperation.

A new framework agreement with China to enhance trade, investment and economic cooperation will be a major priority for the Australian Government in 2002. This will establish strategic relations with China in a number of key sectors, for example, financial, legal, education and social welfare services, agriculture, environment and the Beijing Olympics. It will also complement Australia’s negotiations for improved access in the new multilateral trade round.

If the partnership review with the rest of Northeast Asia continues along the same lines as Japan, we can expect a similar response. All the problems that prevent a FTA with Japan are replicated with China and South Korea.

**Domestic Problems in Australia's Foreign Policy**

Whilst advocating that Australia should be pursuing a three track (bilateral, regional and global) approach to trade liberalisation, John Edwards, Chief Economist for the Hong Kong Shanghai Bank of China (HSBC) argues that an AUSFTA could be a 'domino' in increasing attempts to institute bilateral ties with the apparent failure of regional trade liberalisation measures. Edwards argues that the question should not be whether the agreement with the US is possible but whether it is 'desirable'. What is not discussed in this argument is the capability of DFAT to undertake these three different paths, especially after the 1996 budgetary cuts chopped $40 million out of departmental resources. This amounted to the loss of 650 staff or 25% of the total workforce. Although Miller notes that these cuts have been necessary because of the improvement brought by IT and other services, it is doubtful that the loss of funding has not had a proportional effect on capabilities. If anything, Miller notes, DFAT and Foreign Ministries the world over should receive extra funding in light of the September 11 terror attacks. Also adding to the constraints of money are the increasing constraints of time; foreign policy is becoming a much more important part of domestic politics, increasing both public and political scrutiny of decisions. This can be seen in the increasingly populist direction of trade policy. There are three major elements driving Australia's trade policy as described on the DFAT website: "Advancing the interests of Australia and Australians internationally; to contribute to the growth in Australia's economy, employment and standard of living; and; to foster public understanding of Australia's trade policy and to project a positive image of Australia.
internationally". A poll-driven formula for trade is a dangerous path to travel - results are often conditional and take longer than a political cycle to achieve. Australia faces problems in trying to reconcile its position in the region and the various political, economic and security-based challenges that may arise in the future. Wesley notes that:

...many of these issues are not new; however there appears to be no compelling set of ideas about how to respond to any of them. They suggest that the most vital resource needed by foreign policy-makers and into the future is access to creative and practical policy thinking on how to deal with real problems. Unfortunately, DFAT has not devoted much in the way of time or staffing resources to the process of creative thinking and strategising about emerging challenges in Australia's international environment.96

Kunkel, in his assessment of the current situation, is perhaps even more pessimistic:

A concern these days is not that trade is sidelined in DFAT, but rather that trade initiatives can be forced to carry too much political baggage...there is now the prospect of a domestic bidding war over bilateral initiatives. Australia’s capacity to engage simultaneously and effectively on so many fronts would be questionable. Punching above its weight in WTO negotiations through coalition building and maintenance, fully defending its interests in the multilateral disputes system, and negotiating more than one bilateral agreement at a time may be biting off more than Australia can chew.90

Conclusion

Australian foreign policy remains confused and mired in the complexities of incoherence, notably about future direction. The Department of Foreign Affairs’ publication Trade Outcomes and Objectives remains a fine example of what Foreign Minister Alexander Downer himself noted about aspects of a Keating government trade policy document; massive amounts of detail about the current state of affairs and impediments to future expansion but no blueprint or vision for further improvement.89 In terms of Japan-Australia relations, there is a hint that the creation of APEC is of great importance in the period of relative governmental inaction in the last five years. The Sydney Declaration notes that both governments should be "proud" of their leading role in the genesis of this regional organisation. While the sentiment is well placed, considering the 30 years it took for the initiative to become widely acceptable, it also points to other problems. It gives the impression that, firstly, the most fruitful days of the relationship are in the past, and secondly, there is a lack of alternatives to the APEC process of regional integration. After the time taken to institute this avenue to economic cooperation, there seems to be disbelief that it could need new asphalt so quickly after the Grand Opening in 1990. It appears that, bereft of ideas, Australia and Japan have taken the route of contemporary style over substance and settled for the same twentieth century partnership albeit with a new colour scheme. Although mature, the partnership is in danger of becoming ossified beneath the combined weight of misguided policy and distant dreams.

Notes


5 M. Kelton and R. Leaver, 'Issues in Australian Foreign Policy: January to June 1999', pp. 542-543.


12 R. Leaver, 'Is Australia being economically excluded from Asia', pp. 142-143.


14 R. Leaver, 'Is Australia being economically excluded from Asia', pp. 142-143.


18 Sean Parnell and Michael McKenna, "US Pact set for Aussie exports,"


22 DFAT, *Australia's Trade: Outcomes and Objectives Statement 2002*, p. 34.

23 R. Leaver, 'Is Australia being economically excluded from Asia', p. 145.


51 Mayumi Negishi, "Reform Cornerstone; Cleanup of bad loans remains elusive," [http://www.japantimes.co.jp/cgi-bin/getarticle.pl5?np20020426b2.htm], April 2002.
57 Dennis Shanahan, ‘Koizumi visit a chance to get back with Asia’, p. 9.
72 Editorial, 'Bolder steps were needed', The Australian Financial Review, May 2nd 2002, p. 70.
80 J. Kunkel, 'Australia's trade policy in an age of globalisation', p. 246.