

The State of the Japan Relationship

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The State of the Relationship with Japan

The Questions

There has been some static in the relationship between Australia and Japan since the election of the Rudd Government last year. Does this mean that there has been a fundamental re-positioning in the relationship, here in Australia, or at the other end in Japan? This is the central question, I understand, about which I have been asked to say a few words today.

Let me be clear on that question at the beginning: the answer to it is unreservedly 'no'. Far from it: the Japan relationship is now positioned to undergo an overdue invigoration, even if it is in a sort of holding pattern because of the hiatus at the Japan end in negotiating the Free Trade Agreement (FTA) that would provide a new framework for it on the bilateral economic front. The Japan relationship is critical to achievement of all the new Australian government's economic, political and security objectives in Asia and the Pacific. I shall need to explain that in a little more detail later.

How then do we explain the static over the last half year? I should say a little about that too.

If there has been no fundamental re-positioning in the relationship, does this mean that there are no problems in the relationship that have to be dealt with, and that we have done all that we need to in developing the relationship? Obviously not: there are some blind spots and fundamental issues in getting the relationship with Japan right that both countries need to address. They are not only issues for both governments. Indeed, I shall suggest that the most serious problems lie beyond government though not beyond the influence of government. They are not a product of anything that the new Australian government has yet done to affect the relationship. Their origins lie more in what went before, both sins of commission and sins of omission, importantly because of a seriously under-nuanced reading of what was going on in the Japanese economy and Japanese politics in areas where Australia's long term strategic interests are shaped and affected.

The Australia-Japan relationship is an immensely important bilateral relationship for both countries. It is the leading edge of Australia's economic and political relationships in East Asia. Getting the relationship with Japan right is also a key element in getting Australia's relationships in East Asia right. It is a core element in Japan's resource and energy security. Many in both countries under-appreciate the importance of this. Australia supplies 22 per cent of Japan's energy needs – more than Saudi Arabia – and around 50 per cent of Japan's strategic raw materials needs. The relationship is also an important ballast and lever for Japan in dealings with its neighbours in East Asia and across the Pacific with Washington. The same is true for Australia.

China and the Changing Strategic Context

China is an increasingly prominent neighbour, both for Japan and for Australia.

Reform, deregulation and growth of the Chinese economy and the complementarity of the Chinese economy with Japan's industrial, financial and technological capability have driven the economic relationship to new heights. Japan-China trade has grown enormously, rising from US\$5 billion in 1978 to US\$211 billion in 2006. Last year two-way trade exceeded a quarter of a billion US dollars, one of the biggest bilateral trade flows in the world. Japanese investment in China has reached US\$58 billion in over 30,000 projects, creating more than 10 million Chinese jobs. These aggregate statistics reflect a myriad of bilateral economic activities ranging from large private and official lending to direct investment, joint ventures, technology licensing arrangements and technical cooperation that underpin a huge economic relationship. And Japan owes its own economic recovery over the past six years to the Chinese boom, as much as to any other single factor. The successful re-location of uncompetitive Japanese industrial capacity to China is a major element in the continued growth in the competitiveness of the Japanese economy.

On quite conservative projections, the growth of China's trade will see it emerge as a more and more important market for its East Asian and global partners, including Japan. I recently completed detailed projections that set these things out. Last year, China displaced the United States as Japan's largest import supplier. China is already Japan's second largest export market after the United States, only by a smidgen if Hong Kong is included. By 2006,

China had displaced Japan as the world's third largest exporter, and it now ranks only after Germany and the United States as a global trader.

These realities shape thinking in Japan about management of the rise of China, despite the strategic uncertainties of dealing with a partially reformed economic system and very incompletely representative political system in its giant neighbour.

Much thinking outside Japan about Japanese foreign policy posture assumes that a cornerstone in mainstream Japanese foreign policy is a containment strategy towards China, a strategy which deviates from Japan's traditional China policy. This was a view that was quite fashionable in this country until very recent times. Former Prime Minister Abe and his Cabinet were indeed proponents of this posture, swimming against Japan's foreign policy tradition, though even Abe committed early to patching up relations with China.

While Abe and his faction pushed for values-based diplomacy such as an alliance of democracies (which really meant excluding and surrounding China), the Fukuda Cabinet's line once more reflects core Japanese foreign policy thinking more deeply, anchored in the economic and geo-political realities the country faces. Developments in the China-Japan relationship over the longer term and in recent times confirm the power of these geo-political realities.

As the *Economist* correctly observed during Prime Minister Rudd's visit to Japan, it is difficult to put a cigarette paper between the present Australian and Japanese governments' thinking and strategic interests on this, the biggest issue for the region of our times.

I have written that Kevin Rudd is Prime Minister of Australia at a juncture in human history that presents him and us with a remarkable and fortunate opportunity but bears with it an awesome responsibility. His particular background puts him and Australia to an unusual degree in a position to leverage Australia's strategic interests in managing the rise of China. The dangers and challenges in exercising the leverage are almost as immense as the management of the Chinese economic and political transition in world affairs itself.

I know that there are many sages and practitioners in this town who would suggest that any Australian Prime Minister, with their sound advice, would bear this mantle equally well.

That is nonsense, as any serious player will acknowledge: at the margin (a margin that John Howard demonstrated in the early days of his Prime Ministership can be extremely wide!) the man or woman in the box seat really makes a difference.

On the China front the Prime Minister has so far hardly put a foot wrong and has rightly received plaudits from where it matters both in China and around the world for the deftness of his initial diplomatic effort.

Why the Noise

When Rudd was elected Prime Minister, there was a universal chorus of comment from the Japanese press, not uninfluenced by official thinking in Tokyo, which tagged him with a Chinese flag, raised questions about his commitment to the American alliance relationships in East Asia and the Pacific and implied that he was bound to under-rate the relationship with Japan. This was half-formulated Japanese thinking informed by the importance of ‘relational dealings’, not clear-headed analysis of deep structural interests. Its wellsprings lay deep, in the unresolved and disturbing uncertainties in Japan itself about how to deal with its increasingly powerful neighbour and sometime adversary.

Any new Australian leader similarly well equipped for the task with which *both nations* now have to struggle would have received a similar and totally undeserved diplomatic bagging in Japan.

The whales and the logistics of Rudd’s international travel arrangements came after and are a distraction around these realities.

But there were diplomatic wobbles on both sides. This has not been unusual with Japan at the beginning of new governments in Australia of either stripe. Do these diplomatic wobbles on both sides mean that there is something seriously awry in the relationship with Japan, as Australia’s current political *ronin* are inclined to suggest?

Hardly, but they do remind us that the relationship with Japan requires its own kind of diplomacy and they recommend the new strategic focus in the relationship that is now starting to emerge in dealings between the two governments – a focus that has been absent

for some time, despite the warm and cuddly feeling between former Prime Minister Howard and the transient former Japanese Prime Minister Abe.

Common Strategic Interests

Japan is still Australia's largest export market. Japan is Australia's closest political partner in East Asia and both Australia and Japan have inextricable political and security ties with the United States across the Pacific. Whichever way you measure it, Japan is either the largest (at current international market prices) or the second largest (at purchasing power parity) economy in Asia and it is far and away the most sophisticated and wealthy one. It has a vibrant and open democracy, the third largest in Asia after India and Indonesia. Its disastrous experiment with military power in the Pacific War motivates a low posture defence policy which continues to inject its own kind of stability into East Asian security affairs.

None of these circumstances is static. The biggest changes are being driven by China. China has already overtaken Japan as our largest bilateral trading partner overall. China will also have a profound effect on regional political and security as well as economic affairs over the years ahead. China will be a central preoccupation if not the proximate subject in dealings between Australia and Japan for many years to come. So it is understandable there has been some noise in the relationship about the China-thing. At the same time, working on strategies to benefit from the rise of China injects a whole new priority into Australia's relationship with Japan.

Asia's growth is changing the structure of the world economy and shifting global economic power and ultimately strategic weight towards China and India. Australia is positioned to help define a constructive response to this historic change.

Economic and political changes in East Asia and the Pacific challenge the primacy of American power and America's ability to re-assure China and Japan about strategic intentions.

These developments underline the gap in the framework for regional political and security dialogue in Asia, and the role that such a dialogue could play in helping to manage the long-term change in the structure of Asian economic and political power.

The scale of Asia's impact on the global economy means that there is urgency in energizing a regional caucus to deal with Asia's global responsibilities – in trade policy, on the financial and macro-economy, and on climate change.

Pressures for political change are present throughout the region, including in China, where a representative political system will be difficult to establish but important to successful globalization.

Scorecard

Prime Minister Rudd's diplomatic test in Japan a few weeks ago was to establish a strong common agenda and invigorate the relationship with Japan to address it. In this there were five important priorities, as I've written before.

The first was to work with Japan in strengthening regional cooperation arrangements.

Already Mr Rudd had flagged the urgency of introducing political and security issues into regional dialogue through APEC and/ or the East Asian Summit in his Asia Pacific Community idea. Prime Minister Fukuda has signalled interest.

The second on which there has been some success was active engagement with Japan on the reinforcement of safeguards against nuclear proliferation regionally and globally, one of the biggest worries in the international security environment today.

The third was establishing common cause on climate change. The invitation of the Japanese Government to Prime Minister Rudd to attend the G8 Summit at which this issue will be a primary focus is an important statement of common purpose here.

The fourth was to extend bilateral and trilateral security cooperation with Japan, and to begin a dialogue on cooperation in the region on non-traditional security issues. The initiatives at last week's trilateral foreign ministers' meeting flow from this.

The fifth, of course, was to shift the logjam in negotiating a Free Trade Agreement with Japan. We need a new Agreement not only to deepen our bilateral economic relationship but also to serve as a template for regional economic arrangements.

Achieving that objective was improbable, given the weakness and fragility of the current Japanese political leadership. But it is no excuse for not maintaining the pressure at both ends to do a deal, and a much better deal than currently seems in prospect.

A score of 4 out of 5 is not bad.

What about whales, you ask? There has even been some progress in getting that issue into perspective at a government-to-government level, though not in the public perception or discourse.

This leads me to my final question, about fundamental issues that we still need to address in managing the relationship with Japan.

Issues

There are huge assets in the relationship between Australia and Japan that both sides have invested in over the last 50 years. That is a remarkable diplomatic and national achievement. The governments have been important in that, but both communities more broadly have been active and generous participants. At the business strategic end are the Australia-Japan and Japan-Australia Business Cooperation Committees. They are a huge asset that remains in place and has been frequently called into play. There are the sister city and other community relationships. There are the university and school programs and exchanges. There is a deep private infrastructure and goodwill that provides core ballast in managing a relationship as big as this with success and a fair degree of ease.

But is what we have adequate to covering what's at stake in the relationship now and for the future? And are we allowing the assets we have to waste away? I am afraid that the answer to the first question is unambiguously 'no' and to the second unambiguously 'yes'.

Consider the media. The print media coverage of the issues surrounding the Rudd visit and Japan more generally has been limited and pretty ratty. There is reason for this beyond what either government has done either on substance or diplomatics. In the past, many of Australia's top journalists were schooled in Japan. There is much less chance of that now. The Fairfax Group have had no bureau in Japan for some time. Australia's only financial newspaper has no correspondent in Australia's largest economic partner. This is a national

disgrace which both denies public access to important background on developments in the Japanese economy and politics and takes the pressure off good management of the relationship. It is not the fault of government, but it is nothing less than a national disgrace. The Japanese media is hardly more adequate but at least the *Nikkei* is still on the ground in Australia. The narrowness of access of the Japanese government to independent and reliable reporting and analysis on developments in Australia is surely a worry too.

Consider the educational foundations for Australian understanding of Japan. Japanese studies in Australia remain active and vibrant and have held up remarkably well, especially dare I say it, at my own university. But the overall picture disguises some disturbing trends below the surface. Beyond language study, there is a decline in study of economic, political, social and other affairs in Japan. Student uptake partly drives this, and Australian student uptake has declined while foreign student uptake has grown. This is clearly in part a product of the posture of the former government and its rhetoric and policies, which discouraged elevation of community commitment to the arduous task of being Asia-literate. The Rudd government is changing that decisively but the effect will be some years coming.

Consider the broader intellectual dialogue between our two countries. Once the leading edge of interaction with Asia more broadly, with one or two notable exceptions, intellectual dialogue is on the wane. Here government needs to work with the institutions, educational and other, in invigorating the interaction. Today, there are challenges in the relationship that cry out for new initiative by our governments and our business leaders – initiatives to support collaborative research and exchange as we seek solutions to the social, political, development and other problems that confront our peoples and policy makers and that we share with our region. In climate change, regional cooperation, security affairs and on a range of public policy issues there is work to do together. There is also huge scope for increased scientific collaboration in areas of strength.

So I end with a modest and specific plea.

The established relationship between Australia and Japan provides a platform on which to build an invigorated dialogue for exploring more actively together the issues that are now being accorded priority by both governments in their official discussions. This can be promoted through establishing a new bilateral forum for one-and-a-half track dialogue on

all aspects of both countries' interests in regional affairs including the global regimes that protect them.