

PERSPECTIVES

**INSTITUTIONALISING INTERESTS: JAPAN-
AUSTRALIA RELATIONS IN THE 21ST
CENTURY**

OUTCOMES REPORT

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The Lowy Institute for International Policy is an independent international policy think tank based in Sydney, Australia. Its mandate ranges across all the dimensions of international policy debate in Australia – economic, political and strategic – and it is not limited to a particular geographic region. Its two core tasks are to:

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Institutionalising interests: Japan-Australia Relations in the 21st Century

Outcomes report

Prepared by Dr Malcolm Cook

On 12 October the Lowy Institute hosted a conference to analyse the recent decision by the Australian and Japanese governments to launch free trade agreement negotiations and to sign the joint declaration on security cooperation. The Institute is very grateful to the Australia-Japan Foundation and the Japan Chamber of Commerce and Industry, Sydney for their generous support. The Australia-Japan Foundation also helped in the planning of the conference. The conference was held under the Chatham House rule to ensure frank discussion. Speakers from Japan included former Vice Minister of Foreign Affairs, Yukio Takeuchi and the Dean of the Asian Development Bank Institute, Masahiro Kawai. Speakers from Australia included Peter Baxter, the head of the Northeast Asia division in the Department of Foreign Affairs and Trade, and Peter Grey of the Department of Foreign Affairs and Trade, the chief negotiator for Australia in the free trade negotiations with Japan.

The conference first focused on the two largest developments in the bilateral relationship in the last decade at least, the commitment to negotiate an Australia-Japan FTA and the Japan-Australia Joint Declaration on Security Cooperation, the first security agreement modern Japan has signed with a country outside of the United States. Ten years or even five years ago, neither of these long-desired initiatives was seen to be in the realm of the possible. Today, they are being acted upon.

The conference then widened its focus to look at Australian and Japanese interests in regional integration and a significant policy challenge facing Australia and Japan in the coming decades. The challenge chosen for Japan was addressing its demographic decline by opening up to much greater immigration. The challenge identified for Australia was managing its growing strategic relations with the region's great powers, Japan, the United States, China and India.

While this was a conference on one of Australia's most important bilateral relationships – Japan has been our largest export market for each of the last forty years – regional themes were frequently revisited and distinctly shaped the discussions of Australia-Japan relations in the present and in the future. A couple of participants noted that you cannot understand Australia-Japan relations unless you look at them from a regional perspective.

The ubiquitous rise of China

While China was not in the title of the conference and no panel focused on China, China's new leadership role in East Asia came up so frequently, at times one would think the conference itself was on China. There was much more discussion of Japan-China relations, Australia-China relations and China's role in East Asia than of the United States, despite it being an alliance partner of both Australia and Japan. This alone might be a good proxy measurement of East Asia's changing power balance and people's expectations for the future.

Discussions of China represented a mirror effect. On one side, the rise of China and its more active economic and diplomatic role in East Asia was seen to act as a spur, particularly for Japan, to strengthen its ties with countries in East Asia and beyond with a focus on traditional partners like Australia and new powers like India. On the other side, there was quite a bit of focus on how China would perceive, and potentially respond to, other countries' responses to the rise of China adding a new and uncertain dynamic to bilateral relations.

Power shift to East Asia

A second, more general regional theme was how the centre of global power, economic and security, was shifting to East Asia. The rise of China is a significant part of this but other factors like the simultaneous rise of India and its increased interest in East Asia, and the nuclearisation of the Korean peninsula also factored in. The nuclearisation of the Korean peninsula means that North Korea was no longer simply a regional problem but is now a global one, as recent tensions between Israel and Syria reflect.

The power shift to East Asia is redefining the boundaries of East Asia and the wider Asia Pacific, which itself is helping recast Australia-Japan relations. The Shanghai Cooperation Organization (SCO) led by China spans central Asia and Russia and reaches into India and the Middle East. In a more fundamental way, the inclusion of India in the East Asia Summit stretches the boundaries of 'the region' (by over 1 billion people), leading to the question of where East Asia or the Asia Pacific begin or end. The more economic and security weight

shifts to East Asia, the more blurred will the lines become between East Asia and other regions, and for that matter between East Asian discussions and global ones. Australia's relations with Japan, or for that matter with China, now cannot be fully grasped without looking to relations with the United States and increasingly with India as well.

Leadership changes

Speculation also abounded about how the change from Prime Minister Abe to Prime Minister Fukuda and a potential win by the Australian Labor Party on 24 November would affect the bilateral relationship. In the case of Fukuda, concerns were raised that the Liberal Democratic Party's heavy losses in the July 2007 Upper House elections, particularly its unprecedented losses in single-member rural districts, may cool Japanese interest in free trade agreements with major agricultural exporters like Australia. Prime Minister Fukuda himself comes from one of the rural areas in Japan that benefits the most from agricultural protectionism. Fukuda's long history of support for good relations with China and a regional focus to Japanese foreign policy may also mute some of the concerns that Japan and China are heading towards a competitive and acrimonious relationship that could divide the Asia Pacific.

Japanese participants were more concerned that a Kevin Rudd-led government might focus more efforts on building a stronger bilateral relationship with China and pay less attention to relations with Japan. It was noted that Mr. Rudd's public comments on the joint declaration on security cooperation were not quite a ringing endorsement.

An Australia-Japan FTA

The first session of the day dealt with the prospects for the completion of an Australia-Japan FTA. These negotiations bring together the depth and importance to both sides of the bilateral economic relationship, the two regional factors mentioned above, and how domestic politics complicates international policy.

On the Australian side, an FTA with Japan is key, as Japan is our largest export market by far, with exports to Japan equaling about 3% of our gross domestic product, roughly the same share as our agricultural industry. An FTA should also help open up Japan's large services sector to Australian providers. Services in total account for roughly 75% of the Australian economy and services exports often benefit more from FTAs than non-agricultural primary exports or manufacturing exports. Strategically, an FTA with Japan would add to Australia's drive to sign FTAs with its major trading partners around the world and insulate it from trade

diversion effects from bilateral and regional FTAs of which it is not part. For the Japan FTA, there is an important timing issue as Australia is negotiating an FTA simultaneously with China and progress on one front may help encourage progress on the other

While Australia is not as important in general terms for Japan (Australia's is Japan's 12th largest export market), Australia is a key supplier of necessary primary resources for Japan from coal to beef. Roughly 60% of Japan's exports to Australia are in the automotive sector that could benefit from an FTA. An FTA with Australia is also more important strategically for Japan for two reasons. First, there is rising concern in Japan, egged on by local supporters of FTAs, that China's rising demand for primary resources (with India a potentially second large source of global demand) could threaten Japan's future access to these necessary inputs. Australia is the second major primary resources exporter that Japan has signed an FTA with after Indonesia. Australia is the second largest supplier of these resources to Japan after Indonesia. One Japanese participant noted that there is concern that climate change may impinge upon Australia's future ability to be a secure supplier of agricultural products.

As with China, Australia is the first major developed country with which Japan has begun FTA talks. This means that the demonstration effect of the Japan-Australia talks will be quite important for Japan, particularly in relationship to its desire for future talks with the United States and the European Union. If Japan is unable to deliver on a deal with Australia due to domestic political intractability, then other major trading partners will be less keen to start (or restart in the case of South Korea) FTA talks with Japan. If a comprehensive deal can be struck, however, then the opposite will be true.

The Japan-Australia talks also highlight the interconnected nature of bilateral and regional FTA talks beyond the simple demonstration effect. For Australia, Japan is also pondering starting FTA negotiations with its largest trading partners, including the United States and the European Union, while long-stalled negotiations with South Korea could pick up. Keidanren, Japan's top business association, is also keen on a Japan-China FTA. If an agreement with Australia is not completed before Japan starts negotiations with these giants, then Japan-Australia FTA talks may fall down the pecking order.

Japan is keen to ensure that it achieves congruent market access and investment provisions as was granted to the United States in their trade deal with Australia. However, Japan is concerned that whatever market access provisions it offers Australia will be asked for by future negotiating parties. This heightens Japanese concerns over access to its agricultural markets and weakens Australia's argument that it is a small agricultural producer incapable of

'flooding' the politically sensitive Japanese market. Japan has already signed a trade agreement with Thailand but was able to limit access to its agricultural markets by offering Thailand greater technical assistance and other elements of 'economic cooperation'. Australia as a developed country with a policy commitment to 'comprehensive' free trade deals is not amenable to such a trade-off.

The Joint Declaration on Security Cooperation

The second session focused on the joint declaration on security cooperation (not a treaty or a pact) and as is often the case with strategic discussions featured the most debate. The discussion had two dimensions. The non-controversial one was about how Australia's and Japan's shared security interests were growing in number and depth, particularly as Japan's active security interests extend beyond self-defence. Australia-Japan cooperation in Cambodia, Iraq, East Timor and the Boxing Day tsunami all reflect this dimension. All agreed that the joint declaration was a good thing for recognising these ties and providing a framework to institutionalise them further.

However, Australia-Japan relations and the joint declaration sparked debate when it was looked at in a regional context, particularly in relation to China and the United States. The focus of contention was not so much on the content of the declaration or the existing level and forms of bilateral security cooperation but rather on the more ambiguous problems of the political presentation of the joint declaration and its possible perceived role in US-China global rivalry. It was noted that Prime Minister Howard himself went to Tokyo to sign the declaration and officials talked about the possible elevation of the declaration in the future. In contrast, Prime Minister Howard did not go to Lombok to sign the Lombok security treaty with Indonesia in 2006.

The high-level political presentation of the declaration sparked concern that this might be read the wrong way in Beijing, particularly if there is a growing division in the Asia-Pacific between a US-Japan alliance front and China and its security partners in and beyond the Shanghai Cooperation Organisation. The declaration was signed at the same time that Japanese foreign and defence policy was becoming more assertive and focused on democratic values that are not present in China.

In addressing these concerns, it was noted that there has been no Chinese official criticism of the declaration and that having Prime Minister Howard and Prime Minister Abe signing it provided the proper political message, especially as this declaration is such a departure for

Japan. Prime Minister Howard and Prime Abe also announced the beginning of official FTA negotiations on this same trip, another hard political sell in Japan demanding high-level support. Domestic political change in Japan and its move to a more assertive and institutionalised foreign and security policy actually provided the opportunity for such a bilateral declaration. Australia has for many years in a bipartisan manner encouraged Japan to play a larger role in regional and global issues, an interest well served by the joint declaration.

Regional integration in East Asia

These themes of Japan-Australia relations in a regional context and the Washington-Tokyo-Beijing strategic triangle came out again when we discussed Australian and Japanese perspectives on the vexed and changing question of East Asian regional ‘architecture’. The past decade has seen the rapid development of East Asian regional architecture with the formation of the ASEAN+3 process in 1997 and the establishment of the East Asia Summit (ASEAN+6) in 2005. Japan is a leading member of both and was the key country in pushing for the inclusion of Australia, India and New Zealand in the Summit. The original idea for the Summit was for it to stay limited to the ASEAN+3 countries (the 10 ASEANs, Japan, China and South Korea).

As with security cooperation, Australia and Japan have shared a rich and successful partnership in the creation of regional bodies, from the formation of the Asian Development Bank to APEC to the East Asia Summit. Japan and Australia also share the central foreign policy goal of keeping the United States constructively engaged in East Asia and Japan has supported Australia’s interest in being part of East Asian integration.

At the moment, it appears that the China-Japan diplomatic competition for regional leadership is behind the flourishing of East Asian regional bodies with the Chinese favouring the Australia-minus ASEAN+3 process as the ‘main vehicle’ for East Asian integration while Japan is the leading force for the East Asia Summit. Both Japan and China, however, agree that ASEAN should be the ‘driving force’ of East Asian regionalism. The ASEAN Secretariat oversees the logistics for both the ASEAN+3 process and the Summit and their annual meetings are tacked on to the annual ASEAN summits.

The Japanese evolutionary position is that all of these regional organisations, including APEC, can co-exist in a cooperative and effective manner while the membership and mandate of the East Asia Summit will be determined in time. Since Australia is not a member of the ASEAN+3 process but has deep interests in regional economic integration (our three largest

export markets are the +3 countries of the ASEAN+3), its interests in the strengthening of the Summit and revitalisation of APEC are stronger.

At the moment, the East Asia Summit is being developed as a leaders' strategic dialogue that, from ASEAN's perspective at least, is expected to help strengthen ASEAN integration and the program of the ASEAN+3 process. Australia, however, is keen for the Summit to look at financial integration, an area of focus and action for the ASEAN+3 process, while Japan has put resources behind the idea of a 16-country East Asia trade agreement. For the East Asia Summit to prosper, Australia and Japan will have to continue to work together and ensure they are singing from the same song sheet. A Summit that remains primarily as a support group for ASEAN is not in Australia's or Japan's interest. A Summit that eventually includes the United States as a member may well be.

Future challenges

The themes of the future great power landscape of East Asia and Japan's place in it were the key ones in the last session of the day that looked at a future challenge facing each country. For Japan, the challenge was addressing its demographic decline – Japan's population is already shrinking. This decline will have untold but deep effects on Japan's long-term economic and fiscal outlook as well as its strategic weight. It also poses a society-changing policy challenge as Japan needs to open up its borders to much larger flows of permanent migration.

Here, Australia's own history of immigration and its modern opening-up to East Asia may act as a useful partial model for Japan. Australia's immigration policy is tailored to the demands of the workforce and focuses on skills (marketable), age (young adults preferred) and language in its points system. This pragmatic system focused on the economic benefits of immigration to Australia makes this open policy more politically palatable and helps ensure quick integration into Australia of migrants under this scheme. Japan could adopt a similar one, with the exception of language, given the problem that nowhere else speaks Japanese. Australia's opening to immigration was also helped early on by a sense of strategic vulnerability and the need to populate the continent to defend it. Japanese policy makers are very unlikely to have such a strategic *deus ex machina*.

For Australia, the challenge chosen was the complication of a long-standing concern, how to balance our relations with great powers and particularly our relations with our security guarantor, the United States, and the leading powers of Asia where our economic present and

future lie. This balance was either much easier or even illusory when Japan was the leading power in East Asia, given Japan's more defining alliance relationship with the United States and its strong support for Australia's inclusion in East Asia. Now though, Australia is the smallest (by far) member in a five-power (at least) constellation that will shape the future of East Asia and Australia's place in it. The five powers are the United States, China, Japan, India and Australia.

At the moment, Australia has the 'best ever' relations with these four powers, with India being the newest and the least-developed bilateral link. The most important and potentially positive element of the East Asia Summit may well be India's inclusion as its interests and influence in East Asia are bound to expand. The conference discussions were dogged by this more complex power landscape and what it meant for Australia through the discussion of China and Australia-Japan relations. Adding a more engaged India and the still dominant role of the United States globally simply adds to the complexity and the number of ways Australia could be forced to choose between a globally dominant but wounded United States, a rising China becoming the paramount power in the region, a more assertive and concerned Japan and an emerging India wanting a say in East Asia.

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