Australia and Japan: Moving Forward Together in Our Region

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Ladies and gentlemen. I am delighted to have this opportunity to speak about 'East Asian Integration and the Future Australia-Japan Relationship' at the Annual National Conference of the Australian Studies Association of Japan.

First though, I would like to express my thanks to the Australian Studies Association of Japan for the invitation to address you today. The Association plays an important role to deepen mutual understanding between our two countries, in particular by encouraging bright young Japanese scholars to focus on Australian studies. While I know that the Association is a very egalitarian organisation, I would like to acknowledge the contribution made by current president, Professor Masami Sekine, and also former president, Professor Akio Watanabe, both of whom have been recipients of awards from the Australia-Japan Foundation.

It is very fitting that today's conference should be taking place during the same week that the 'Basic Treaty of Friendship and Cooperation' between our two countries was signed 30 years ago — that is on 16 June, 1976. As many of you will be aware, we are celebrating this anniversary with the 2006 Australia-Japan Year of Exchange.

The Year of Exchange involves a very extensive program of bilateral exchanges, collaborative activities and events in a diverse range of fields, including the arts, education, science and technology, sport and tourism. It incorporates over 150 community events in each country, including exchanges between sister states/prefectures and sister cities and more than 30 sister school visits. The aim is to celebrate the close and enduring connections between Australia and Japan: our strong economic links, deep political ties and warm people-to-people contacts.

Today I want to talk about how the relationship between Australia and Japan is moving forward. The relationship is moving forward from a position of strength and a firm foundation of friendship that has a long history. To quote Prime Minister Howard on our ties again: "old friends are the best friends".

That is very true in the case of Australia and Japan. For example, many of you may not know that our official trading ties stretch back over 100 years to 1903 when New South Wales established a Trade Commissioner's office in Kobe - the first real Australian Trade Commissioner's office in Asia. And although in 2006 Australian forces provide a secure environment for Japanese troops in Iraq, in 1915 the roles were reversed when Japanese ships played a vital role in escorting the ANZAC

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troopships on their way to Gallipoli.

Next year is the 50th anniversary of the 1957 Australia-Japan Commerce Agreement which normalised our trading relationship following the Second World War. Ten years after that agreement, Japan had become Australia's number one trading partner and it remains so to this day. More than one fifth (or 20%) of Australia's exports go to Japan which far exceeds Australia's total exports to all the countries of ASEAN combined or our total exports to all countries of the EU combined. It is more than three times our exports to the United States and more than 80% greater than our exports to China, our second largest market. Even during the past decade or so of Japanese economic stagnation, Australia's exports of goods and services increased by almost 65 per cent.

When much of the media and business focus around the world is focussed on growth in China and India, these figures remind us that Japan is likely to remain Australia's number one export market for a good many years yet. Of course Australia, like Japan, will pursue every opportunity in the fast growing Chinese and Indian markets, but it also worth keeping in perspective the continuing importance Australia and Japan have to each other: we should not overlook, for example, that Australia is Japan's fourth largest suppliers of imports.

Another aspect of the shared interests of the two countries is our shared values and outlooks, particularly in relation to the region in which we live. Since I began my posting in Tokyo around a year and a half ago, I have been struck by the extent to which Australia and Japan share similar views on many subjects. We are both strong liberal democracies with highly-developed market economies in a region where that is the exception rather than the rule. We also both have strong alliance relationships with the United States, and place high value on a continued US presence in the region. We are both major aid donors to the region. And we have a high level of common understanding on many of the serious issues that face the region and the world.

It is natural therefore that, while Japan is assuming an increasingly active role in international affairs, much of what it does is being done in cooperation with Australia. Australia and Japan have worked closely together in operations in places like Cambodia and East Timor. And at the end of 2004 both Australia and Japan were at the forefront of the international response to the Indian Ocean tsunami disaster.

Of particular note, of course, is our cooperation in Iraq. Australian troops in al-Muthanna province are helping to maintain a secure environment for the Japanese personnel whose reconstruction work is helping the Iraqi people build a secure, democratic future. This is a significant example of our shared commitment to contribute to solutions to the security challenges that face us all.

That commitment also manifests itself in less high-profile ways, such as our ongoing and close cooperation on arms control and counter-proliferation issues, including in the Proliferation Security Initiative, on counter-terrorism, and on other non-traditional security threats like avian influenza.
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It is because so much of our work together is done in our region and for the benefit of our region that I have chosen as the title of my speech today, "Australia and Japan: Moving Forward Together in Our Region" — I wanted to make the point that our relationship is undeniably moving forward and that it is moving forward in a way which is making a great contribution to our region’s security and prosperity.

Of course, our efforts in the region are not driven by altruism alone. Our region itself is also very much moving forward. We are fortunate to live in a dynamic and rapidly changing region and one with enormous potential. The most significant socio-economic development of the 21st Century is that the centre of gravity of the world’s middle class has shifted from Europe and North America to Asia. For the first time in history we have a global middle class and that global middle class will increasingly be made up predominantly of people from India and China and of course Japan. It is the Pacific Rim that will be the focus of world events this century and the economies of Asia are set to influence the world economy in a way that last occurred more than five hundred years ago.

I mentioned China and India and it is of course the growth of those two countries which is providing much of the impetus for our region’s current dynamism. As I said earlier, Australia naturally — like Japan — sees great potential in those two countries and is looking to make the most of the opportunities that they offer.

The visit by Chinese Premier Wen to Australia in April makes our relationship with China particularly topical and I think it is appropriate that I diverge for a moment to discuss what China means to Australia. Shortly before Premier Wen’s visit, our Foreign Minister noted that Australia and China share a lot of interests in the region through APEC, through the ASEAN Regional Forum and nowadays through the East Asia Summit. As China’s economy grows, then naturally as a country it will become increasingly significant in our region and the world of large. We see it as important that China’s growing economic weight is accommodated in the region.

At the same time, while the region and the countries in it accommodate China’s growth it is important that China also understands that as it becomes more powerful and more influential in the region, its rise can arouse sensitivities. So we look forward to China playing a very constructive contribution in the affairs of the region. One recent illustration of how that is able to occur is the way China has been playing an important role in helping to promote the six-party talks with North Korea.

Australia wants to engage with China to encourage its emergence as a responsible and constructive player on the world stage just as we welcome the increasing role India — as the world’s largest democracy — is playing in world affairs. While these developments are occurring naturally, I need hardly say that they do not in any way mean that our close relationship with Japan is being diminished in any way at all. Certainly, our relationship with China is a very important one to us — a good constructive relationship with China is good for Australia and we are always working towards that. But Australia and China, in particular our political systems, also have significant differences. These differences mean that many of the democratic values and interests we share with Japan are qualitatively of a different order than those areas in which Australia and China share interests.
Australia and Japan share an interest in seeing our region fulfil its potential and it is for that reason that we are also working together in efforts to bring our region closer together. We are doing that through the efforts we have been making to help our region tackle the kinds of issues I mentioned earlier, but we are also doing that in our efforts to shape the institutional architecture that underpins the increasing integration of our region.

When people talk about regional architecture at the moment, what is often uppermost in their minds is the East Asia Summit. That is of course natural — the East Asia Summit is grabbing a lot of attention because it is new and because it has brought Australia, New Zealand and India together with the ASEAN+3 countries in to this new forum.

The East Asia Summit is a new and exciting development and Australia’s participation in it is very significant. I’m sure all of us look forward to seeing how it develops. But we need to remember that it is only in its very early stages and has yet to work through what its role should be. We will need to work hard to make sure that it develops in the right direction and in doing so we will of course be working closely with Japan, which has been a key proponent of an open and inclusive East Asia Summit.

The development of the East Asia Summit will take place in a context where there are a number of other institutions and mechanisms that are already well established and working well. There are a range of these, but two of the most significant are APEC and the ASEAN Regional Forum, both of which have a broad agenda and a broad membership that includes the United States. Australia and Japan share an interest in keeping the United States actively involved in the region and it serves that interest that we both therefore work to ensure APEC and the ARF remain strong and continue to function well. In particular, Australia will be hosting APEC again in 2007. Australia is committed to maintaining the strength and relevance of the group through a series of successful meetings which will strengthen APEC’s position as the pre-eminent forum in the Asia-Pacific region. Much of that work will no doubt be done in cooperation with Japan.

This brings me to one of the most significant developments, both for the Australia-Japan relationship and for our place in the region. That is the fact that we have recently set up a three-way ministerial-level dialogue between Australia, Japan and the United States on strategic and security issues.

The inaugural ministerial meeting of the Trilateral Strategic Dialogue took place in Sydney on 18 March this year between Foreign Minister Downer, Foreign Minister Aso of Japan and US Secretary of State Rice. The importance of the trilateral relationship is highlighted in their Joint Statement which recognised that, “as longstanding democracies and developed economies, our three countries have a common cause in working to maintain stability and security globally with a particular focus on the Asia Pacific region.” Reflecting the breadth of our three countries’ shared interests, the Ministers’ discussions covered a very wide range of topics, from regional strategic issues, such as the rise of China and India (about which all the Ministers spoke positively), to regional and international challenges such as North Korea, Burma and the Iranian nuclear issue, and transnational issues such as...
as pandemic diseases and counter-terrorism.

Of course, the Foreign Ministers of Australia and Japan did not miss the opportunity to have their own bilateral discussions. They issued a very strong statement about the importance of the relationship between our two countries in the form of a Joint Ministerial Statement, called "Building a Comprehensive Strategic Relationship".

The two Foreign Ministers said "the partnership between Australia and Japan was stronger than ever." They noted it "was based on shared democratic values, mutual respect, deep friendship, and shared strategic views," and they "celebrated the profound contribution each country had made to the other's economic development."

The Ministers noted that "Australia and Japan had developed a comprehensive strategic relationship of great significance for both countries" and decided that this partnership should be developed further, including by strengthening our bilateral strategic dialogue. They also spoke of our "proud record of achievement in working together to improve regional and international security" — some of the highlights of which I mentioned earlier — and said we would "identify new areas to broaden the existing partnership on security matters."

I’ve been speaking about how our political and strategic partnership has been moving forward and I think the Trilateral Strategic Dialogue is one of the most significant developments in that respect. I spoke earlier about the strength of our longstanding trade and economic partnership and how Japan has been Australia’s number one trading partner for over forty years. But that does not mean we can afford to rest on our laurels. As Ministers Downer and Aso recognised in their recent statement, our trading relationship needs to be a dynamic one. We need to keep it moving forward too. It is important to develop and deepen the bilateral economic partnership between Australia and Japan as part of the strategic relationship. I’d now like to talk about how that can happen and how our two countries are moving down that path.

Fundamentally, we believe a Free Trade Agreement between Australia and Japan is the way to do this.

While we give top priority to achieving further progress in trade liberalisation in the WTO, Australia is active in promoting FTAs with our important trade partners. We do this to realise benefits beyond those it would be possible to achieve under the WTO. The result of this approach has already seen Australia conclude FTAs in the region with New Zealand, Singapore and Thailand, as well as with the United States. Furthermore, we have already started negotiations with other countries, such as China, Malaysia and ASEAN as a group. At the same time, Japan has also completed or is negotiating FTAs with many countries in the region. Australia believes it would be a great shame if its relations with Japan, our closest partner in the region, were to fall behind these developments. On the other hand, an FTA between Australia and Japan would send a strong signal of economic leadership within East Asia. An FTA would strengthen our trade in goods and services, and also open up many new opportunities for two-way investment and for the movement
of professionals and the like, thereby bringing great economic benefits to both countries, as well as creating new opportunities for cooperation in regional economic affairs.

Such thinking informed the decision of Prime Minister Howard and Koizumi in April last year to have our two countries carry out a study into the feasibility of an Australia-Japan FTA. In March this year, Australian and Japanese officials agreed in Tokyo to accelerate work on this Feasibility Study with a view to finalising it by the end of the year. This could mean we might be able to see negotiations on an FTA commence earlier than originally envisaged. It also reflects the importance both sides attach to the bilateral trade and economic relationship, as an element of our countries' comprehensive strategic relationship.

The work done by both sides so far has shown that an FTA would have very significant benefits for both countries. I don't want to spend much time talking about figures, but let me just note a couple of things. Our joint research has shown that an FTA or Economic Partnership Agreement (EPA) between Australia and Japan would increase Japan's economic growth by up to 650 billion yen per year — that's greater than for any of Japan's other FTAs — both those already signed and those under negotiation.

I think it's also important that I mention agriculture, which is often put forward as a reason why it would be difficult for Japan to conclude an FTA with Australia. The fact is that Australian agricultural exports are nothing like the kind of threat to Japan they're sometimes made out to be. While Australia has a much bigger land area than Japan, it is a very dry continent and as a consequence Australia's agricultural production is only one third that of Japan's, with very limited scope for expansion. Furthermore total agricultural imports from Australia are only small compared to Japan's own production — less than 6 per cent. Even if all tariff barriers between us were dropped — something unlikely in an FTA in any event — Australian agricultural exports to Japan would only increase by 5 per cent, which is the equivalent of less than 0.3 per cent of Japanese production.

To illustrate this point, let me use rice as an example, because it is usually seen as the most sensitive product. Japan produces about 9 million tonnes of rice each year. This is more than 10 times Australia's rice production of around 830,000 tonnes. In the past five years Australia has exported only around 70,000 tonnes of rice each year to Japan. This is hardly a threat to Japan's rice farmers.

But in any case, a trade negotiation whether it is one in the WTO or a bilateral FTA is a total package of items. To reach agreement on the package there is always give and take in negotiations. The outcomes of our FTA negotiations with a range of countries illustrate the significant extent to which Australia has exercised flexibility. We have shown flexibility on sensitive products, just as we expect the other side to show flexibility on issues sensitive to us.

Let me make the more important point, though, that in fact, Japan has a lot to gain from an FTA with Australia, even when it comes to agriculture. Because we have very different climates and our seasons are opposite, our agricultural industries are complementary, rather than competitive. At a time when Japan is concerned about its long term food security, it is important to note that Australia
already contributes to Japan's food security by supplying important raw materials for vital parts of the Japanese food industry. This is not just Aussie beef which is well-known but for example, Australia supplies over 50 per cent of the wheat used for udon noodles in Japan. Udon made with Australian wheat is regarded as tasty and of the highest quality. An FTA would further ensure Japan’s food security.

Similarly, Australia is a stable supplier of the essential resources and energy that power Japan’s economy. Australia supplies more than 60 per cent of Japan’s coal and iron ore needs and is Japan’s number one supplier of a further seven minerals such as zinc and alumina ores. Australia also supplies large quantities of alumina, 25 per cent of Japan’s uranium requirements and 18 per cent of Japan’s LNG needs with that figure set to grow our coming years — with the recent signing of new LNG contracts. When you turn on your light or drive your car, there is every chance you are using Australian energy or Australian resources.

An FTA however is much more than an agreement to eliminate or reduce tariffs on goods. It is also about opening up markets in the services sector such as financial insurance, distribution and packaging services. Other areas where liberalisation could occur include the very large government procurement market, greater mobility of professionals and skilled workers and investment.

On investment, for instance, Australia has granted significant investment concessions under its FTA with the United States and such concessions can also be expected to be up for negotiation with China. If, under an FTA with Japan, Australia extended the same investment concessions, Japanese businesses could acquire with greater certainty equity in the mines and farms needed to ensure Japan’s future resources, energy and food needs are met.

Ladies and Gentlemen, let me say in conclusion that the relationship between our two countries is one that is going from strength to strength, in all its aspects — in people-to-people links, in our strategic cooperation, in the work we are doing to ensure our region’s stability and prosperity and to bring our region closer together, and in the trade and economic relationship where we are investigating the feasibility of a Free Trade Agreement. If and when we conclude an FTA, it will mark a very significant milestone in our relationship and truly cement our longstanding friendship. An FTA would set us up very well for the next fifty years of our trading relationship, just as the landmark 1957 Australia Japan Commerce Agreement laid the foundation of the extraordinary growth in our relations and the prosperity we have engaged over the past fifty years.