

CHAPTER 8

JAPAN'S RELATIONS WITH ITS LEADING TRADING PARTNERS

Japan's place in Asia

8.1 To this point, the Committee has concentrated on developments in Japan and their implications for Australia. The Australia-Japan trading relationship, however, is not conducted in isolation; it is very much part of a wider regional and global economic network. The management of future Australia-Japan relations must take account of developments in this network and, in particular, the tenor of its relations with other countries. In this chapter, the Committee looks at Japan's role in the Asia Pacific region, its relationship with its largest trading partner the United States and the emergence of China as an economic power.

8.2 Japan is the second largest economy in the world. It occupies an even more dominant place in the Asian region, where its economy is by far the largest. With 70% of Asia's GDP, Japan is 'twice as large as all the rest of the Asian economies put together, and is seven times the size of the Chinese economy'.¹ It has a pivotal role in regional trade and investment flows and is deeply involved in Asian economies in terms of trade, investment and financial transactions. Japan's position at the centre of a network of investments and aid programs throughout Asia strengthens the economic integration of Japan in the region.² Overall, the sophistication and sheer size of Japan's economy will guarantee its place as the leading economic power in Asia for many years to come.³

8.3 Asia's share of the world's GDP in 1965 was a modest 9 per cent but since that time, and most notably during the early 1990s, Asia's economy has blossomed. In 1995, Asia's share of world GDP passed the 25 per cent mark.⁴ During this period of economic growth, a close interdependence between Japan and other Asian economies developed. From the late 1980s, Japanese companies took an increasing interest in direct investment in Asian economies and Japanese-affiliated companies in Asia have played a substantial part in expanding trade in the region. In particular, the Japanese manufacturing industry has built an extensive production network in East Asia.

1 Figures taken from Speech given by Consul-General Shimanouchi, March 1999, 'Economic Crisis in Asia and What Japan is Doing', <http://www.embjapan.org/miami/speech4.html> (3 April 2000)

2 DFAT, submission no. 32, p. 7; Austrade, submission no. 35, p. 5.

3 DFAT, submission no. 32, p. 5.

4 Hisamitsu Arai, Vice-Minister for International Affairs, MITI, 'A Scenario for Dynamic Recovery from the Asian Economic Crisis', 21 August 1998, <http://www.miti.go.jp/report-e/g311002e.html> (19 November 1998).

8.4 The late 1980s witnessed a period of intense foreign investment when firms from Japan were looking for lower cost production bases abroad to escape escalating costs at home and the appreciating yen. This surge in manufacturing in Asia caused an ‘unprecedented shift in productive capacity within the region’.⁵

8.5 Mr Hisamitsu Arai, Vice-Minister for International Affairs, MITI, explained in August 1998, the evolution of this close interdependent relationship between Japan and Asian economies:

The roots of our interdependence lie in the Asian growth mechanism. In the late 80s, Japanese companies began to establish offshore operations and Japanese import[s] substantially increased subsequently, providing [a] new market for Asian economies.

The first countries to grow were the Newly Industrializing Economies, consisting of the Republic of Korea, Taiwan, Hong Kong, and Singapore. When the NIEs eventually found their own currencies rising, they responded in much the same way as Japan had during the period of yen appreciation. They began to shift to domestic, demand-led growth, and to increase their imports from ASEAN and China, developing production bases in these expanding economies.

As ASEAN nations and China began to grow at unprecedented rates, Japan and the NIEs continued to increase their consumption of imports and their industries continued to move offshore.

As a result, Asia now has an extremely high degree of intraregional trade interdependence. This intraregional structure is also apparent in terms of investment. The NIEs have been the major investors in ASEAN and China, followed by Japan. Trade interdependence within the region—including Japan and the nine East Asian countries—namely, the four NIEs, four major ASEAN economies and China—has risen as high as 52 per cent.⁶

8.6 In the process of developing closer economic ties with Asian economies, Japan’s aid program has often worked hand in glove with private sector interests. In 1992, Mr Edward J. Lincoln observed that Japanese bilateral foreign aid remained closely coordinated with, and connected to, other Japanese commercial interests. There was an understanding that foreign aid projects should be used to provide the infrastructure needed by Japanese firms investing overseas. He noted:

5 Stephen Thomsen, ‘Southeast Asia: the Role of Foreign Direct Investment Policies in Development’, Working Papers on International Investment, 1999/1, OECD, 1999, pp. 4–5, 12.

6 Hisamitsu Arai, Vice-Minister for International Affairs, MITI, ‘A Scenario for Dynamic Recovery from the Asian Economic Crisis’, Thailand-Japanese Association and JETRO, Bangkok, 21 August 1998.

A major increase in direct investment, supported by large amounts of foreign aid helping to create the necessary infrastructure for that investment, is the principal vehicle for the increasing Japanese investment in Asia.⁷

8.7 Japan has continued to invest heavily in the region and is now a major generator of foreign direct investment. According to the *OECD Observer*:

Japan is now the largest single investor in terms of stock in Thailand, Indonesia and Malaysia, and the second largest in the Philippines after the United States. And while Japan has helped to expand Asia's productive capacity in the last few decades, it has also played a key role in boosting the inflow of technology, know-how and human resource development in the region.⁸

The Asian economic crisis

8.8 The emergence of this web of close commercial ties that link Japan with other Asian economies means that any significant disruption in one economic system will register in the other.

8.9 During the first half of the 1990s, East Asia had been the growth centre of the world and its economies were achieving outstanding success. This economic boom came to a jarring halt in 1997 with the onset of the Asian economic crisis. It began in Thailand in July 1997 heralded by a plunge in the value of the Thai baht, and spread rapidly throughout Asia.

8.10 Given the sheer dominance of the Japanese economy in the Asian region and the close economic interdependence that has developed between Japan and Asia, Japan has a substantial capacity to influence regional affairs. Although Japan's economy had been sluggish since its bubble economy collapsed in 1990, its poor performance did not trigger the Asian economic crisis. The genesis of the crisis lay elsewhere. It is true, however, that once the economic crisis gathered momentum, Japan's ability to make a significant contribution to the recovery was constrained by its own ailing economy. JETRO argued:

East Asian countries had been highly dependent on exports to Japan, and Japan's imports from the region are more responsive to Japan's economic growth than to price fluctuations. East Asian economic recovery is therefore intimately tied to economic recovery in Japan, which, it is hoped, will be speedy and lead to ongoing growth.⁹

7 Edward J. Lincoln, 'Japan's Rapidly Emerging Strategy Toward Asia', Technical Paper No. 58, Research Programme on Globalisation and Regionalisation, OECD, April 1992, pp. 9, 27–8.

8 'Japan and Asia: developing ties', *OECD Observer*, 1 August 1999.

9 JETRO, *JETRO White Paper on International Trade, 1999*, p. 26. See also evidence presented by Colin Haseltine, DFAT, *Committee Hansard*, 15 February 1999, pp. 23–4.

8.11 If the Japanese economy remains in recession or very near to negative growth rates, its ability to assist the Asian economies regain their economic dynamism is severely curtailed. In other words, a shrinking Japanese economy means a limited role for Japan 'in salvaging Asian partners from the serious recession in the wake of the financial crisis'.¹⁰

Japan's own recovery a tonic for the region.

8.12 Some countries, however, are concerned that Japan will try to export its way out of trouble instead of looking to lift economic activity through domestic-led growth. Rather than expand its export market, Japan has been called on to revive its own economy so that it will create increased demand for imports. A number of economists pointed out:

While a depreciation of the yen may be a necessary component of Japanese adjustment, it is critical that Japan not rely predominantly on external demand to extricate itself from recession. Such a development in Japan would significantly impair the ability of the poorer, more deeply affected, Asian countries to recover from the crisis.¹¹

8.13 Professor Drysdale agreed. He argued that Japan's recovery would help economies across East Asia rebound, reinforcing what is going on in the rest of East Asia and encouraging domestic recovery even further.¹² Put in its simplest terms, Professor Haruo Shimada stated:

The single most important role that Japan can play to help Asian economies to recover from the damage of financial and economic crisis is to grow and to purchase commodities produced in the hard hit Asian economies. The vigorous growth of [the] Japanese economy can help recovery of Asian partners by promoting their exports to [the] Japanese market at better prices.¹³

8.14 In general, the Japanese Government accepts willingly that it has an obligation to help its neighbours—that it must do more to revive its economy if it is to serve as an engine of growth for the Asian region. Moreover, there is recognition that Japan and East Asia are in a community bound together by common economic interests. The Japanese Government acknowledged that the country's efforts for

10 Haruo Shimada, Professor of Economics, Keio University, 'The Prospect and Challenges of Japanese Economy, Politics, Society After the Financial Crisis in an International Perspective', 1999, <http://www.ndu.education/inss/symposia/pc99/shimada.html> (3 April 2000).

11 Marcus Noland, Sherman Robinson and Zhi Wang, International Economics Policy Briefs, 'The Depressing News from Asia', September 1998. See also Transcript: Deputy Secretary of the Treasury, Lawrence H. Summers 2/26 Q&A at Japan National Press CLUB, 26 February 1999.

12 Professor Peter Drysdale, *Committee Hansard*, 23 August 1999, p. 765.

13 Haruo Shimada, Professor of Economics, Keio University, 'The Prospect and Challenges of Japanese Economy, Politics, Society After the Financial Crisis in an International Perspective', 1999, <http://www.ndu.education/inss/symposia/pc99/shimada.html> (3 April 2000)

economic revival are extremely important for the stability and prosperity of Asia but, similarly, Japan cannot enjoy security and economic growth without the stability and prosperity of the Asian economy.¹⁴

8.15 Despite Japan's recognition of the need to improve its own economic performance, some in the international world complain that Japan is not matching its words with action. The United States has urged Japan to strive for significant rates of economic growth and has repeatedly insisted that an early restoration of growth is vital for Japan and the whole region. It warned Japan against the 'complacency of diminished expectations' and explained:

...a willingness to accept as adequate, growth in the one percent range, is to establish a pattern in which global growth may not be fully balanced and is to run the risks that if there are fluctuations, growth would again be negative.¹⁵

The G-7 Ministers meeting in Tokyo in January 2000 also called on Japan to further strengthen the financial system and to continue structural reforms.¹⁶

8.16 DFAT argued that it was possible to overstate the importance of Japan to the economic circumstances of South East Asian economies. It pointed out that the Japanese situation is not as critical to the recovery of a number of South East Asian economies as might be thought because Japan's importance as an export destination to a lot of economies has been declining over a long period of time. Mr Colin Heseltine told the Committee '...manufactures of crisis affected Southeast Asian economies comprise a much higher proportion of total exports into countries such as the US than they do in Japan'.

8.17 Nonetheless, DFAT acknowledged that, if the Japanese economy were to recover and to show strong positive growth, then that would clearly be an important factor. It believed that the value of the yen against the United States dollar, was probably where the impact on Southeast Asian economies would be the greatest. It suggested 'a stronger yen-US dollar rate would give regional Southeast Asian exporters a competitive edge relative to Japanese exporters'.¹⁷

14 Policy speech by Prime Minister Keizo Obuchi to the 144th Session of the Diet, 27 November 1998, <http://www.kantei.go.jp/foreign/souri/981204policy-speech.html> (19 October 1999). See also Takashi Imai, Chairman of Keidanren and Kezai Koho Center, 'Japanese and Asian Economies Recovering Together', Occasional Paper Series no. 8, Keizai Koho Center, January 1999.

15 USIA, Washington File, Transcript: 'Treasury's Summers Jan. 21 Pres Briefing in Tokyo', 21 January 2000, <http://www.usia.gov/cgi-bin/washfile/display.pl?p=/products/washfile/.../newsitem.shtm> (25 January 2000)

16 USIA, Washington File, 'Text: Statement of the G-7 Finance Ministers Tokyo Meeting', 24 January 2000, <http://www.usia.gov/cgi-bin/washfile/display.pl?p=/products/washfile/.../newsitem.shtm> (25 January 2000).

17 Colin Heseltine, DFAT, *Committee Hansard*, 15 February 1999, pp. 23–4.

8.18 Clearly, it is in the interests of the whole region for Japan to shake off its economic malaise as soon as possible.¹⁸ Without a strong and durable revival in domestic demand, Japan will not be able to provide an expanding market for other Asian economies. The United Nations Conference on Trade and Development (UNCTAD) maintained:

Recovery of the Japanese economy will be crucial to recovery in the rest of Asia.¹⁹

Direct aid to Asian economies in crisis

8.19 Since its economic slowdown, Japan has been preoccupied with domestic troubles. Yet, even in a time of economic adversity, Japan has not sat on the sidelines nursing its own economic wounds. It has been conscientious in searching for effective solutions to the Asian economic crisis.

8.20 Japanese leaders have openly and repeatedly stated that Japan would honour its responsibilities to help its neighbours overcome their economic difficulties and to assist in revitalising their economies.²⁰ Prime Minister Keizo Obuchi in August 1998, pledged strong support to those Asian economies under economic stress. He stated:

...Japan has responded seriously to the turmoil of the currency and financial markets of the Asian countries...Japan will continue to play a leading role toward the economic recovery of the Asian countries, providing all possible assistance.²¹

8.21 Japan worked closely with the IMF, World Bank and the Asian Development Bank to assist those Asian countries in economic trouble. From the beginning, the ASEAN countries and Japan agreed to consolidate further their close economic relations to help the region through this difficult time. As early as December 1997, the ASEAN member states publicly thanked Japan for its contribution to financing packages in the region.²²

18 For example see, Consul-General Shimanouchi, 'Economic Crisis in Asia and What Japan is Doing', May 1999 and Policy speech by Prime Minister Keizo Obuchi to the 144th Session of the Diet, 27 November 1998 <http://www.kantei.go.jp/foreign/souri/981204policy-speech.html> (19 October 1999).

19 United Nations Conference on Trade and Development, *Report, 1998*, Overview, p. vi.

20 Address by Japanese Prime Minister Keizo Obuchi to the 143rd session of the Diet, 7 August 1998, <http://www.infojapan.org/announce/announce/1998/8/807-0.html> (25 April 2000). See also Consul-General Shimanouchi, 'Economic Crisis in Asia and What Japan is Doing', May 1999; Sei Nakai, Senior Deputy Director-General of the International Bureau, Ministry of Finance, 'Efforts Toward Recovery of the Japanese Economy and Japan's Response to the Asian Currency Crisis', The National Investment Company Service Association, 1999.

21 Address by Japanese Prime Minister Keizo Obuchi to the 143rd session of the Diet, 7 August 1998, <http://www.infojapan.org/announce/announce/1998/8/807-0.html> (25 April 2000).

22 The Ministry of Foreign Affairs of Japan, Joint Statement of the Meeting of Heads of State/Government of the Member States of ASEAN and the Prime Minister of Japan, Kuala Lumpur, 16 December 1997. The ASEAN member states also thanked Japan in 1999 for its continued assistance. See Joint Ministerial Statement of the Third ASEAN Finance Ministers Meeting, Hanoi, 20 March 1999.

8.22 In February 1998, the Japanese Government announced an initiative to provide quick and adequate liquidity support for those Asian economies experiencing economic turmoil—‘Emergency Measures Placing Special Focus on Stabilizing Southeast Asian Economies’. The following April, it followed this initiative with additional support measures contained in its Economic Stimulus Package.

8.23 At this time, Japan, the largest contributor to international efforts to help Asian economies suffering from the economic crisis, provided financial assistance of over \$US40 billion to Indonesia, Thailand and Korea. Assistance in this package targeted four main areas:

- support for facilitating trade finance ‘two-step loans’ of Export-Import Bank of Japan;
- support for economic reforms by setting up an emergency special interest rate system for yen-denominated government credits with quick disbursement;
- improvement of support for human resource development such as receiving trainees and dispatching specialists; and
- support for securing basic necessities such as food and medical supplies (500 thousand tons of rice from government stock pile on loan, and 100 tons grant by aid).²³

8.24 This contribution to alleviate economic hardship by supporting the recovery of the Asian economies was further boosted in October 1998 with the announcement of the New Miyazawa Initiative. This initiative was to provide \$30 billion in financial assistance to five crisis hit economies in Asia—Thailand, Malaysia, the Philippines, Indonesia and Korea. Half of this sum was in the form of yen loans to promote economic recovery and the other half was to enrich financial reserves to meet the financial demand for economic reform.

8.25 In general, the measures were to assist Asia’s structural reform and human resources development and to alleviate the plight of the most disadvantaged sectors of the society with direct assistance in food and medical supplies. Mr Sei Nakai, Senior Deputy Director of the International Bureau, Ministry of Finance, provided details of this package:

With this initiative, Japan stands ready to provide a package of support measures for the recovery of the region’s real economies, which is the most urgent challenge facing the Asian countries. Financial assistance of \$15 billion will be made available to meet the medium-term and long-term financial needs of Asia; specifically, to strengthen the financial sectors; to promote economic recovery; to protect the vulnerable; and to resolve the credit crunch. Another \$15 billion will be set aside for possible short-term

23 Comprehensive Economic Measures, Ministry of Foreign Affairs of Japan, 24 April 1998, <http://www.mofa.go.jp/policy/economy/measure98/measures.html> (15 February 1999).

capital needs during the process of implementing economic reforms. Other measures, such as the provision of guarantees, to help Asian countries raise funds from international financial markets, also are included in this initiative.²⁴

8.26 The Miyazawa Initiative is providing an invaluable infusion of support to assist the region's nascent recovery and to provide assistance for achieving currency and economic stability in Asian countries.²⁵ This initiative stands as testimony to Japan's commitment to help the Asian economies restore their economies to good health.

8.27 As of May 1999, two-thirds of this assistance had been committed. Japan gave notice of its intention to continue to implement and even build on this initiative 'both in substance and in scope in the coming years'. Japan's Finance Minister, Mr Kiichi Miyazawa, stated that the government planned to extend financial support to Vietnam as well, apart from the \$30 billion previously announced.²⁶

8.28 As Asian economies such as the Republic of Korea, the Philippines, Thailand and Malaysia showed positive signs of recovery during 1999, Japan continued to offer support. In May 1999, at the APEC Finance Ministers meeting, Japan announced the 'Resource Mobilization Plan for Asia'—the second stage of the New Miyazawa Initiative. Japanese leaders could see that the economic turmoil of the past two years had subsided and that the region had entered a period of relative economic calm. It believed that the Asian economies, having passed through the initial stage of the economic crisis and the second stage of preventing further stagnation of their economies, were now entering a new stage of cooperation in the construction of a more stable and robust economy. To help them recover fully and to maintain steady growth, Japan announced that it stood ready to provide assistance to mobilise a total of ¥2 trillion of domestic and foreign private funds for Asia.²⁷

8.29 Many in the international community readily accept that no other country has matched Japan's generosity in providing assistance to countries affected by the Asian economic crisis.²⁸ It is also a source of international pride for Japan that it has

24 Sei Nakai, Senior Deputy Director-General of the International Bureau, Ministry of Finance, Japan, 'Efforts Toward Recovery of the Japanese Economy and Japan's Response to the Asian Currency Crisis', the National Investment Service Association, <http://www.us-japan.org/JapanBoston/nakai.htm> (3 April 2000).

25 See statements by Michel Camdessus, Managing Director of the International Monetary Fund, 'World Economic Outlook: Implications of Reform for Japan and the IMF', at the International Finance Seminar, 18 May 1999. Economic Planning Agency, 'Follow-up and Future Schedule for Implementation of the Emergency Economic Package: Pursuing the Revitalization of the Japanese Economy', 23 April 1999.

26 Speech by Mr Kiichi Miyazawa at the APEC Finance Ministers Meeting, Malaysia, 15 May 1999, <http://www.mof.go.jp/english/if/e1b068.htm> (4 April 2000).

27 Speech by Mr Kiichi Miyazawa at the APEC Finance Ministers Meeting, Malaysia, 15 May 1999, <http://www.mof.go.jp/english/if/e1b068.htm> (4 April 2000).

28 Colin Heseltine, DFAT, *Committee Hansard*, 15 February 1999, p. 3; DFAT, submission no. 32, p. 51.

accepted its responsibility as a major economy in Asia, and provided by far the largest amount of support for the crisis-affected Asian countries.²⁹

8.30 Mr Michel Camdessus, Managing Director of the International Monetary Fund, acknowledged the valuable assistance provided by Japan and noted its new program which dovetailed with Miyazawa's first initiative. He observed that the objective was to accelerate the full recovery of the countries and to facilitate their return to the international market. In assessing Japan's resource mobilization plan, he stated:

I think this was a well inspired and timely initiative. By doing that Japan demonstrates the role of leadership it must have in this part of the world and in the world in the future. I wanted to say that, seen from the point of view of the IMF with the responsibilities we have to speed up the recovery of all these countries, these initiatives are extremely welcome and this is an occasion for me to express my gratitude to Japan for its permanent support in all our labors to try to make the world economy a more prosperous one and one which offers to the poorest real chances of development.³⁰

8.31 Although Japan is offering substantial assistance to the Asian economies, many people, unlike Michel Camdessus, have criticised Japan for not providing the leadership necessary to guide Asia out of its difficulties. Given the dominance of its economic standing and its close relations with countries in the Asian region, many have argued that Japan has not made an appropriate contribution to regional development: that it has shunned its responsibility as a regional leader.

8.32 They were not referring to its assistance programs but to its commitment to restructure its economy. More specifically, they argued that Japan must show the way ahead by offering a strong and more open market to its neighbours. To this end, first of all, Japan itself must aggressively implement structural reform to realise robust economic fundamentals. They argued that at the same time, Japan should promote further opening and improvement of its domestic markets to contribute to the efficient and fair allocation of world resources. DFAT submitted:

...aid is a poor substitute for trade, and Japan should not expect its generous financial assistance to the region to shield it from criticism that its domestic difficulties are compounding East Asia's problems and threatening to delay its recovery.³¹

29 Sei Nakai, Senior Director-General of the International Bureau, Ministry of Finance, Japan, 'Efforts Toward Recovery of the Japanese Economy and Japan's Response to the Asian Currency Crisis', New Delhi, <http://www.us-japan.org/JapanBoston/nakai.htm> (3 April 2000).

30 Michel Camdessus, Managing Director of the International Monetary Fund, transcript of a Press Briefing at the Japan Press Club, 18 May 1999.

31 DFAT, submission no. 32, p. 51.

Professor David Reid told the Committee that Japan ‘has failed to lead Asia out of its peril and it has actually been part of the problem’.³²

8.33 Japan’s leadership in economic reform would not only provide markets for other Asian economies but stand as a model of economic restructuring that other countries in the region could follow. Dr Wendy Smith emphasised that Japan’s influence in the region extends beyond management systems, production systems and work ethics and that ‘the socio-cultural impact of Japan’s very high level of direct foreign investment in South-East Asian countries has been striking...’³³ Clearly, Japan is well placed to encourage countries in the region to undertake economic restructuring. Keidanren insisted that Japan must serve as a standard bearer for structural reform. It stated:

...whether it is in the area of adjusting national legal and taxation systems to globally practiced standards, developing a strategic industrial-technology policy for the future or overhauling the social security system. All this is to build the necessary underpinnings of renewed economic vibrancy. Simultaneously, we in Japan must strive to increase imports by expanding domestic demand with the government steadily applying measures to keep up the level of economic activity.³⁴

8.34 In the current situation, Japan should be at the vanguard in driving Asian economic recovery by offering a healthy, open market to its neighbour’s exporters. But for some it has been ‘a millstone around the neck of the world economy’.³⁵ The United States, in particular, would like to see Japan exert more leadership in pursuit of increased openness in the world trading system. Put succinctly, ‘Insular thinking in an economic powerhouse such as Japan can have negative effects worldwide’.³⁶

Implications for Australia

8.35 Australia’s economy has also been affected indirectly by economic developments in Japan through Japan’s trade and investment linkages in third markets, particularly in the East Asian region.³⁷ Australia’s exports to the rest of East Asia which accounted for 37% of its exports in 1997 have fallen sharply. According to DFAT:

32 Professor David Reid, *Committee Hansard*, 25 February 1999, p. 192.

33 Dr Wendy Smith, *Committee Hansard*, 17 May 1999, pp. 557–8.

34 Keidanren, ‘For Asia’s Economic Renewal: A Proposal by Japan’s business community’, 13 March 2000, <http://www.keidanren.or.jp/english/policy/2000/007/proposal.html> (31 March 2000).

35 United States Information Agency, Transcript: Deputy USTR Fisher—16 June Worldnet Program on APEC (U.S. to continue pushing trade liberalization at APEC), 17 June 1999.

36 See United States Information Agency, Transcript: Deputy USTR Fisher—16 June Worldnet Program on APEC (U.S. to continue pushing trade liberalization at APEC), 17 June 1999; Remarks of Ambassador David L. Aaron, Under Secretary of Commerce for International Trade before the American Chamber of Commerce of Japan, Tokyo American Club, 29 July 1999.

37 DFAT, submission no. 32, p. 65.

To the extent that the weaker Yen weakened regional currencies and threatened to delay recovery in the region, it weakened Australia's medium to longer term export growth prospects. Thus, Australia has supported US and Japanese efforts to stabilise the value of the Yen.³⁸

8.36 DFAT told the Committee that over the past year, Australia had been working very closely with Japan on the Asian economic crisis, with extensive exchanges on how best to assist some of the countries most seriously affected. It noted that Australia and Japan are the only two countries to have contributed to all three IMF packages to affected countries.³⁹

8.37 For many years, Japan and Australia have worked together to develop a framework that would promote economic cooperation throughout the Asia Pacific region. In 1976, that Prime Ministers of both countries signed a basic treaty of friendship which recognised that:

...co-operation between the two countries should have in view not only their own mutual benefit but also their common interest in the prosperity and welfare of other countries, including those in the Asian and Pacific region, of which we are a part.⁴⁰

8.38 Their persistence in seeking ways to develop greater regional cooperation was rewarded in 1989 with the inauguration of APEC, a forum of 12 Asia-Pacific economies, now grown to 21 members, with the stated goal of promoting a more open trading system. At that time, Australia recognised that a strong and open multilateral trading system was fundamental to the economic growth and prosperity of economies in the Asia-Pacific region. It still believes that this is the case and looks to Japan's continued support to promote free and open trade in the region.

8.39 More recently, Japan, as an advocate for trade and investment liberalisation, has been reluctant to assume a leadership role in fora such as APEC and WTO.⁴¹ Some countries feel a mounting disappointment with Japan's reticence to step forward. The rice tariff decision, the overall slow pace of regulatory reform and a general sense that Japan has pulled back from its commitment to free and open trade

38 DFAT, submission no. 32, p. 65.

39 Colin Heseltine, DFAT, *Committee Hansard*, 15 February 1999, p. 1; DFAT submission no. 32, p. 51. Mr Ian Macfarlane, Governor of the Reserve Bank of Australia, also observed that Australia, apart from Japan, was the only country to contribute to all three financial assistance packages. He stated further 'the Australian authorities were able to play a useful role because they had been building an understanding of regional developments for many years, in part reflecting the strong trade links with the region, but also a more general interest on the part of business and academic communities'. Speech to the Asia Pacific Forex Congress, Sydney, 27 November 1998, http://www.rba.gov.au/speech/sp_gov_271198.html (18 December 1998).

40 Basic Treaty of Friendship and Co-operation between Australia and Japan, signed in Tokyo 16 June 1976 and entered into force on 21 August 1977.

41 See Remarks of Ambassador David L. Aaron, Under Secretary of Commerce for International Trade before the American Chamber of Commerce of Japan, Tokyo American Club, 29 July 1999.

feeds that sense of dismay. Australia fears that an erosion of commitment by the larger economies, such as Japan and the United States, toward the global trading system would jeopardise progress toward greater trade and investment liberalisation.

8.40 A major worry is that Japan, troubled by its own economic problems, will turn increasingly inwards. A number of witnesses before the Committee noted that many Japanese feel threatened by globalisation and the increasing presence of foreign companies in their marketplace. They believe that it is destabilising and undermining their traditional social forms.⁴² Professor Morris-Suzuki pointed out that these misgivings fuel a growing public sense of nationalism. She told the Committee that there is widespread anxiety and concern in Japan about its future role in the world and growing criticism of neoclassical economics in Japan—of conventional economics which is seen by many people as being the cause of the contemporary crisis.

8.41 In summary, she suggested that ‘there is a feeling, certainly amongst some sections of the media and public, that Japan is losing control over its own financial system and over its own economy to some extent particularly to US based multinational enterprises’.⁴³ She saw this apprehension expressed at a public level rather than a national level for example reflected in an increasingly anti-American tone in the media.⁴⁴

8.42 Professor Drysdale also believed that the disquiet being generated in Japan by economic uncertainty has led to some contrariness in policy thinking. He submitted:

...the malaise in Japan and the East Asian crisis have, deep down, shaken policy psychology in Japan. Japan’s own economic fragility and incomplete structural reform provide fertile ground for contrarian thinking in the period immediately ahead...⁴⁵

8.43 He stressed that this type of thinking could influence foreign economic policy choices on regional and international arrangements and that Australia must work to ensure that Japan does not move toward policies contrary to Australia’s interest.⁴⁶ Japan’s retreat from its commitment to trade and investment liberalisation is of significant concern to Australia.

8.44 As noted in Chapter 6, Japan is sending confusing signals about its approach to trade and investment liberalisation. On the one hand it forthrightly defends a free

42 Professor Teresa Morris-Suzuki, *Committee Hansard*, 24 May 1999, pp. 601–2. See also views of David Askew, *Committee Hansard*, 17 May 1999, p. 545.

43 Professor Teresa Morris-Suzuki, *Committee Hansard*, 24 May 1999, p. 605.

44 Professor Teresa Morris-Suzuki, *Committee Hansard*, 24 May 1999, p. 601.

45 Peter Drysdale, ‘Where is the Japan Economy Heading’, Summary of APSEM Public seminar presentation, 19 May 1999.

46 Professor Peter Drysdale, *Committee Hansard*, 23 August 1999, pp. 767–8; and Professor Peter Drysdale, ‘Where is the Japanese economy headed?’, summary of APSEM Seminar Presentation, 19 May 1999.

and open global trading system but on the other holds back from further opening its markets. Professor Drysdale told the Committee:

I think the bottom line is that this fluidity in policy thinking in Japan presents a strong case for close and active engagement by Australia in dialogue with Japan on how these changes will effect our interests in Japan and in the Asia–Pacific region, and an even closer dialogue than we presently have, which is very close indeed.⁴⁷

8.45 Australia is also particularly concerned about being left out in the economic cold should the Asian countries form a trading bloc. Again, Australia hopes that Japan would oppose such a situation developing. So far, Japan has refused to endorse the proposed East Asia Economic Caucus (EAEC), a consultative body of East Asian countries seeking to enhance economic cooperation in the region. At the moment, this group has indicated no wish to include Australia in its circle.

8.46 Japan, however, has participated in the ASEAN + 3 forum. This gathering of Leaders of the ASEAN countries and of China, Japan and the Republic of Korea is an important step in developing dialogue and cooperation in the region. The leaders of China, Japan and Korea met as a group with those of ASEAN at the ASEAN summits in 1997 in Kuala Lumpur and in 1998 in Hanoi. Economic cooperation figures prominently in their talks.

8.47 At their gathering in Hanoi, the leaders, in a move to formalise the ASEAN + 3 as a regional forum, agreed on the importance of holding regular meetings to enhance the dialogue process and strengthen cooperation.⁴⁸ They met again in 1999 where the emphasis was on ‘cooperation and collaboration with each other, thereby strengthening the elements essential for the promotion of peace, stability and prosperity in the region’. Some, however, regard the ASEAN + 3 as a revived or recasted EAEC and harbour apprehensions of Australia being shut out of an

47 Professor Peter Drysdale, *Committee Hansard*, 23 August 1999, p. 768.

48 Rodolfo C. Severino, Secretary-General of the Association of Southeast Asian Nations, at the regional conference on ‘Common Currency for East Asia: Dream or Reality’, Penang, 5 August 1999, http://www.asean.or.id/secgen/sg_eac.htm (2 August 2000); Press Release, ‘ASEAN to Promote Comprehensive Development’, <http://www.asean.or.id/amm/amm33pre1.htm> (26 July 2000).

important Asian trading group.⁴⁹ It would be expected that Japan would resist any move by this group to form a preferential trading bloc.⁵⁰

8.48 Japan has also given support for Australia to be accepted as a member of the Asia-Europe Meeting (ASEM).⁵¹ Japan is proving itself a vital partner and valuable friend to Australia in Asia.

8.49 The Committee appreciates that Japan is going through a difficult economic transition that may lead some Japanese to question its commitment to promoting free and open trade in the region.

Recommendation

The Committee recommends that the Australian Government, through its numerous institutional arrangements with Japan and its network of political, official and business contacts, encourage Japan to step forward as a regional leader to guide and assist its neighbours to establish a more open trading system in the region.

The Japan–United States trade relationship

8.50 The Japan–United States relationship—a relationship between the two most powerful economies in the world—is the mainstay of the global economy and any tremors from a clash between these two economic giants would register around the world.

8.51 Japan’s relationship with the United States, its largest trading partner, forms the cornerstone of Japan’s foreign policy.⁵² The relationship, however, is complicated and not without friction. At times, underlying tensions build and then subside for a

49 The Ministry of Foreign Affairs of Japan, ‘Joint statement on East Asia Cooperation’, 28 November 1999; *Financial Review*, article by Bruce Cheeseman, ‘Mahathir finally wins push for East Asia trade zone’, 27 July and editorial, 28 July 2000; Manuel F. Montes, Kevin F.F. Quigley and Donald E. Weatherbee, ‘Growing Pains: ASEAN’s Economic and Political Challenges’, Asia Society Publications, December 1997, http://www.asiasociety.org/publications/asean_challengers.html (2 August 2000). See also Press Conference by the Press secretary, 11 December 1998, ‘Significance of the goals of the ASEAN Summit Meeting’, <http://www.mofa.go.jp/announce/press/1998/12/1211.html> (28 July 2000); Joint Communique of the Thirty Third ASEAN Ministerial Meeting, Bangkok, Thailand, 24–25 July 2000. See Report of the Senate Foreign Affairs, Defence and Trade References Committee, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, July 2000, paras 9.77–9.84.

50 See Report of the Senate Foreign Affairs, Defence and Trade References Committee, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, July 2000, para 9.79.

51 Yukio Satoh, ‘Japan-Australia Relations: Emerging Partnership’, Speech of the Japanese Ambassador at the Foreign Correspondents’ Association in Sydney, 1 November 1996.

52 For example see Address by Japanese Prime Minister Keizo Obuchi to the 143rd session of the Diet, 7 August 1998, <http://www.infojapan.org/announce/announce/1998/8/807-0.html> (25 April 2000). See also Policy speech by Prime Minister Keizo Obuchi to the 144th Session of the Diet, 27 November 1998.

while. According to Mr Peter Hartcher, the Japan–United States trading relationship appears in good shape, but ‘if you scratch the surface and talk to senior people in Japan, there is tremendous accumulation of resentment, of hostility’.⁵³ Over recent years, as the trade surplus with Japan has widened, the relationship has become strained.⁵⁴

8.52 The United States trade deficit with Japan, which had been shrinking from 1995, underwent a reversal in 1997 and ballooned in 1998. The statistics for 1998 show that Japan’s trading surplus with the United States increased by 14% and stood at \$US64,094 million. This increase contributed to a worrying overall trend in the United States trade deficit, which in 1998, amounted to \$US168,587 million, 53% above the 1997 figure. This sharp increase in the United States’ trade deficit creates an environment likely to foment resurgent protectionist tendencies in the United States.⁵⁵

8.53 In part, the United States trade deficit was driven by a significant fall in exports to countries with slow or negative economic growth such as Japan. Indeed, in 1998, reduced exports to Japan from the United States was the major factor behind Japan’s trade surplus with the United States.⁵⁶ To redress this imbalance, the United States urged countries such as Japan ‘to move forward to restore growth to their economies to help promote economic stability and growth in emerging economies’.⁵⁷

8.54 As the economic crisis in Asia deepened and Japan showed no signs of pulling itself out of its economic mire, the United States became increasingly impatient with Japan’s lack of aggression in tackling its domestic problems. In July 1998, Mr Richard Fisher, Deputy United States Trade Representative, noted:

In the past year, Japan has at times reminded me of an All-Star baseball player who, with the game on the line in the ninth inning and all the world watching, simply sits down and refuses to get into the batter’s box. We

53 Peter Hartcher, *Committee Hansard*, 15 April 1999, p. 340.

54 Gregory Dodds, Austrade, *Committee Hansard*, 27 May 1999, p. 633. Austrade told the Committee that Japan’s trading surplus has increased by 23% and although Japan’s exports are down, its imports are down further. So Japan is losing on exports, but infuriating the Americans and other trading partners by buying much less from them.

55 Deficit figures in Bruce Odessey, USIA Staff writer, ‘1998 US Trade Deficit Sets Record; Trend Continues in ’99’, <http://usinfo.state.gov/topical/econ/new1.htm> (7 April 2000); See for example, International Monetary Fund, Press Conference by Michael Mussa on the Interim Assessment of the World Economic Outlook and International Capital Markets, 21 December 1998, <http://www.imf.int/external/np/tr/1998/TR981221.htm> (18 November 1999); and Marcus Noland, Sherman Robinson and Zhi Wang, International Economics Policy Briefs, ‘The Depressing News from Asia’, September 1998 and MITI, *White Paper on International Trade 1999*, Chapter 2, ‘The Changing Japanese Trade Structure and Recent Trade Trends’. Also and Christopher Pokarier, submission no. 10, p. 8.

56 MITI, *White Paper on International Trade 1999*, Chapter 2, ‘The Changing Japanese Trade Structure and Recent Trade Trends’.

57 Bruce Odessey, USIA Staff writer, ‘1998 US Trade Deficit Sets Record; Trend Continues in ’99’, <http://usinfo.state.gov/topical/econ/new1.htm> (7 April 2000).

expect more of our key ally in the Pacific and our largest Asian trading partner.⁵⁸

8.55 This frustration with Japan spilled over to public quarrelling when Japanese steel imports flooded the United States market in 1998.⁵⁹ The Japanese steel industry was hit hard by the economic downturn in both domestic and overseas markets and industrial production fell by some 7% in 1998. With demand in the Asian region collapsing and the currencies in most of the steel-producing countries in the region depreciating, Japan looked to other markets to absorb its excess in steel production. The Northern Hemisphere markets were swamped with what were cheap steel imports. In 1998, Japanese exports of steel to the United States soared to 6.1 million metric tons representing a 163.4% increase on the previous year.⁶⁰ According to Hamersley Iron:

The natural response of the steel industries in the Northern Hemisphere was to say to their governments, 'Let's put in place some antidumping actions or protectionist actions', and you can see in the United States already the United States government has imposed constraints on hot coil exports and they are looking at other actions on other areas like carbon steel.⁶¹

8.56 Indeed, the United States took decisive action in enforcing its antidumping and countervailing duty laws against Japan. It issued a strong warning informing the Japanese Government that the American Government expected steel imports to revert to pre-crisis levels. It told Japan:

...if such a roll-back does not occur in short order, the Administration would self-initiate trade action to ensure a reduction of imports and to prevent further injury to U.S. steel producers and workers. Thus, the roll-back will be enforced, if necessary, through Administration trade action. Our intent is to act forcefully if normal trade patterns are not promptly restored.⁶²

8.57 Although the acrimony generated by the dispute over Japanese steel imports has eased, the United States is still annoyed at Japan's seeming half-hearted

58 Text: Deputy USTR Richard Fisher on US-Japan Trade, Testimony of Ambassador Richard Fisher Deputy United States Trade Representative, House Ways & Means Trade Subcommittee Executive Session, 15 July 1998.

59 Colin Heseltine, DFAT, *Committee Hansard*, 15 February 1999, p. 2.

60 Text: Barshefsky to House Subcommittee on Steel Imports—Testimony of Ambassador Charlene Barshefsky, United States Trade Representative, to Trade Subcommittee of the House Committee on Ways and Means, 25 February 1999.

61 Philip Mitchell, Hamersley Iron Ltd, *Committee Hansard*, 24 February 1999, p. 90. Hamersley told the Committee that Japanese exports into the US in 1998 went up by 260% from roughly 2½ million tonnes to 8 million tonnes and exports into South-East Asia fell by about 24%.

62 Text: Barshefsky to House Subcommittee on Steel Imports—Testimony of Ambassador Charlene Barshefsky, United States Trade Representative, to Trade Subcommittee of the House Committee on Ways and Means, 25 February 1999.

commitment to promoting free trade. In May 1999, Ambassador Charlene Barshefsky noted:

For eight years, Japanese families, businesses and consumers have endured sluggish growth and stagnation; in the past two years, slowdown has become recession. This has complicated the efforts of Japan's neighbors to recover from the crisis, as Japanese imports dropped significantly last year. It has also increased the potential for trade tensions as U.S. exports to Japan have dropped and the trade imbalance has grown.⁶³

Put succinctly she stated, 'Last year's import surge has raised immense frustration in Congress and industry. It is hard to overstate the tension in the U.S. surrounding this issue'.⁶⁴

8.58 The United States did not hold back from further chiding Japan and in July 1999 warned:

Frankly, the growth of the trade imbalance since 1997 is reminiscent of past strategies to get well by intensifying efforts to export to the US. But I can assure you that the long-term effects—both political and economic—will be unfortunate for our relationship.⁶⁵

8.59 In early 2000, the United States told the Japanese that more needed to be done to open its markets. It cited in particular the public construction market. The United States Under Secretary of Commerce for International Trade pointed out that in 1999 American companies were only awarded \$50 million (0.02%) worth of contracts in Japan's \$250 billion public works market.⁶⁶

8.60 This trade dispute between the United States and Japan has implications for the global economic system and for Australia. At a time when the international economic system is looking for direction to take it further along the path to trade and investment liberalisation, the major economies, such as Japan and the United States, are not providing guidance, indeed they have got caught up in their own trade squabbles. Already both APEC and the WTO have stepped back from a determined effort to see a further opening of trade, particularly in the area of agriculture, a sector of most concern to Australia.

63 Ambassador Charlene Barshefsky, United States Trade Representative, Tokyo American Center, Tokyo, Japan 13 May 1999, <http://www.usia.gov/regional/ea/apec/barsh513.htm> (23 July 1999).

64 Ambassador Charlene Barshefsky, United States Trade Representative, Tokyo American Center, Tokyo, Japan 13 May 1999, <http://www.usia.gov/regional/ea/apec/barsh513.htm> (23 July 1999).

65 Secretary of Commerce for International Trade before the American Chamber of Commerce of Japan, Tokyo American Club, 29 July 1999.

66 USIA, Washington file, 'Text: Trade Administration News Release on Japanese Construction', 14 January 2000, <http://www.usia.gov/cgi-bin/washfile/display.pl?p=/products/washfile/.../newsitem.shtm> (25 January 2000).

8.61 The lack of leadership by the United States, Japan and the European Union helped to undermine progress at the WTO meeting in Seattle. Mr Robert G. Lees, Secretary General of the Pacific Basin Economic Council, noted:

These nations should be setting the model for the WTO in trade and investment liberalization. Instead, they seem to be all too frequently mired in drawn out and acrimonious debates and disagreements over politically charged trade issues. It is time for the leaders to lead, to finally put aside petty bickering, and to implement free trade in practice as well as theory.⁶⁷

8.62 The Committee reiterates its belief that Australia must seek the assistance of other countries to collaborate in helping to restore confidence in the WTO process.

8.63 Australia could also suffer through managed trade negotiations between the United States and Japan. Japan has a number of bilateral agreements or understandings with the United States on increasing market access or reducing trade barriers which cover goods such as automobiles and automobile parts, semiconductors, financial services and insurance.⁶⁸ Australia competes with the United States on a number of levels for a share of Japan's market, particularly in the agricultural sector. It is possible that Australia's trading interests could be harmed by measures taken by Japan to redress the trade imbalance as was the case in the early 1990s.

8.64 By the beginning of the 1990s, trade friction between Japan and the United States was mounting as the United States became increasingly concerned about its persistent trade deficit with Japan. As part of bilateral trade framework talks to resolve this trade imbalance between the United States and Japan, the United States was looking to facilitate the entry of its manufactured and auto parts to the Japanese market. According to Mr Jamie Anderson:

Australia feared that this bilateral managed trade policy could be a disaster for Australian exports, not only in the auto parts sector, but in other sectors as well. It was feared that if the US pushed hard enough for access to the Japanese market for US industries, the Japanese would accommodate their major trading partner partly by squeezing out the products of other, less important trading partners such as Australia.⁶⁹

8.65 Although the Australian Government took steps to ensure that the United States–Japan auto and auto parts agreement was settled on a most favoured nation (MFN) basis in a multilateral forum, a number of Australian economists believe that the agreement resulted in a 'Japanese import regime that discriminates against

67 Robert G. Lees, 'Report from Seattle', Secretary-General's Letter, in *Pacific Journal*, February 2000.

68 WTO Trade Policy Review of Japan, 19 January 1998, <http://www.tradepolicy.com/tradenews/0000000d.htm> (21 February 2000).

69 Jamie Anderson, 'Australia's Market Access Agenda Towards Japan', *Pacific Economic Paper no. 291*, May 1999, p. 12.

Australian and other non-American exporters of auto parts'. It would seem that private Japanese companies responded to United States' pressure by diverting trade from other countries such as Australia.⁷⁰

8.66 In the present situation, with the United States' trade deficit with Japan again growing, the United States might apply pressure on Japanese policy makers to accept more United States' exports. Thus, it is important for Australia to recognise that the growing tension between Japan and the United States could damage its trading position and hence Australia must ensure that it maintains its position in the Japanese market.

8.67 This commercial interconnectedness between the United States, Japan and Australia is made more complicated because to a large extent Australia's trading dependence on Japan is a dependence through Japan rather than on Japan. Mr Timothy Marney, Treasury Department of Western Australia, pointed out that, in the main, Japan's export performance determines its industrial production, which in turn determines the demand for Australian commodities. The United States, as Japan's main market, is a key in this trading link. Mr Marney told the Committee that in essence what Australia supplies to Japan is transformed in a manufacturing process and then exported to other markets, 'so the performance of other markets is crucial'.⁷¹

Recommendation

The Committee recommends that the Australian Government take careful note of the trade tensions that exist between the United States and Japan and maintain and strengthen dialogue with both countries to ensure that any attempt by the US to use political leverage to negotiate a managed trade agreement or arrangement with Japan does not harm Australia's interests.

The China–Japan trade relationship

China's growing economy

8.68 Mr C. Fred Bergsten pointed out that political rivalries pose a daunting barrier to effective cooperation in the Asia Pacific region. He argued that at the highest level of geopolitics, China, trying to maintain an authoritarian regime while embracing market economics, and Japan, an established democracy for over half a century, are

70 See Jamie Anderson, 'Australia's Market Access Agenda Towards Japan', *Pacific Economic Paper no. 291*, May 1999, p. 113 and Julia Lowell, 'Free Trade Champion? Australian Views of the US Trade Crusade against Japan', *Pacific Economic Paper no. 295*, September 1999, pp. 15–16.

71 Timothy Marney, Treasury Department of Western Australia, *Committee Hansard*, 25 February 1999, p. 161. See also Julia Lowell, 'Free Trade Champion? Australian Views of the US Trade Crusade against Japan', *Pacific Economic Paper no. 295*, September 1999, p. 15.

clearly competing for the leadership of Asia.⁷² Some witnesses can see a rocky phase ahead for the next decade in the Japan-China relationship.⁷³

8.69 Clearly, the emergence of China as an economic force in the region creates problems for both the United States and Japan and again has far reaching implications for Australia. Mr Pokarier observed:

Japan is increasingly over time going to have to figure out how it is going to balance a more influential China in the region with its close relationship with the United States. That will really fundamentally depend on how the US strategises China.⁷⁴

8.70 As economic interdependence among these three countries intensifies, the United States and Japan will look to China as a regional partner and leader. The United States and Japan recognise the importance of engaging China in the region and the challenge before them is to be part of the process that sees this nation incorporated into the region as a ‘peaceful, prosperous and constructive partner’.⁷⁵

8.71 As noted by a number of economists:

How a fully developed and thus powerful China will choose to play its role in the world economy is one of the biggest unknowns of the next generation. But in all likelihood, China will learn about its new role by sharing responsibilities with the US and Japan to safeguard growing common interests of all three.⁷⁶

8.72 Along similar lines, DFAT acknowledged that the relationship between China and Japan has been uneasy through most of the past 100 years. Dr Richard Rigby, Assistant Secretary, North Asia Division, told the Committee that both countries have ‘a very clear understanding that there is a need for a strong and basically good relationship between the two of them’. In summary, DFAT submitted that despite irritants in the relationship, Japan felt confident that it could manage relations with

72 C. Fred Bergsten, ‘The New Asian Challenge’, *Institute For International Economics Working Paper 00-4*, March 2000, <http://iie.com/CATALOG/WP/2000/00-4.htm> (8 June 2000)

73 See for example David Askew, *Committee Hansard*, 17 May 1999, p. 545.

74 Christopher Pokarier, *Committee Hansard*, 16 April 1999, p. 436.

75 USIA, Washington File, ‘Text: Ambassador Foley Remarks to Foreign Correspondents Club of Japan’, 18 January 2000, <http://www.usia.gov/cgi-bin/washfile/display.pl?p=/products/washfile/.../newsitem.shtml> (25 January 2000). See also Professor Tessa Morris-Suzuki, submission no. 3, p. 5; and the views of Peter Hartcher, *Committee Hansard*, 15 April 1999, p. 340.

76 Michael Borrus, Stephen S. Cohen and John Zysman, ‘The American Perspective on the Liberalization of Trade and Investment’, The Policy Study Group on China-Japan-US Cooperation in Asia-Pacific Regional Trade and Investment Liberalization, Interim Report, 1998, <http://socrates.berkeley.education/~briewww/pubs/wp/135.htm> (12 January 2000).

China 'in a way which is mutually beneficial to both countries and which in turn is beneficial for the whole Asian region'.⁷⁷

8.73 The Committee once again draws attention to its report on APEC where it highlighted the value of this organisation as a regional forum whose influence has spread beyond the boundaries of trade. The report noted that through dialogue and cooperation, APEC has built up a reservoir of good will and understanding between members and established a network of deepening diplomatic relations.⁷⁸ APEC provides an ideal forum in which members such as the United States, Japan and China can manage their relationship in a spirit of cooperation. According to a group of parliamentarians, academics and media analysts attending a workshop on the region, APEC is a forum uniquely suited to deal with the complicated strategic interactions in the Asia Pacific. It found that:

Australia and Japan should act to keep other member economies, particularly the US and China, actively engaged in the APEC process and to recognise the powerful informal role that APEC plays in promoting peace and security in the region.⁷⁹

8.74 The Committee recognises that Australia's role in influencing the triangular relationship between Japan, the United States and China is limited. It does see a role though for APEC in providing a forum that can facilitate or promote a cooperative approach by the three countries not only toward achieving the goal of free and open trade and investment in the region but to assist China in its economic integration in the region.

Recommendation

The Committee recommends that the Australian Government take an active part in persuading other APEC members, especially Japan, to become more actively engaged in the APEC process with the aim of strengthening regional cooperation and enhancing dialogue between member economies.

77 Dr Richard Rigby, DFAT, *Committee Hansard*, 15 February 1999, p. 13; DFAT, submission no. 32, p. 52.

78 See Report of the Senate Foreign Affairs, Defence and Trade References Committee, *Australia and APEC: A Review of Asia Pacific Economic Cooperation*, July 2000, paras 2.149 and 2.150.

79 Yoichi Funabashi and Peter Drysdale, Report on a Roundtable discussion 'Australia-Japan New Initiative for APEC 1999', July 1999.

