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Australian Trade and FDI Relations with Japan: Reflecting on the Past Seven Decades

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Abstract

The post-World War II reconstruction of global trade and foreign direct investment (FDI) has been a significant topic of discussion in the analyses of numerous bilateral economic relations, including those that are located in Asia Pacific. Since the reconstruction, Multinational Enterprises (MNEs) have increasingly internalised trade and FDI in markets where they are active. Markets and MNE activities have grown together while governments have become more responsive to this process. This paper discusses the above process along with an analysis of the rise and development of the economic relationship between Australia and Japan from the immediate post-World War II phase through Australia's neo-liberal trade policy phase. The post-World War II relationship began in the 1950s, and grew during the Cold War years, the end of which has created competitive pressures on the Australian economy. Australia has tried to overcome this by progressively adapting a unilateral neo-liberal trade policy and encouraging its trade and investment partners to do the same, unsuccessfully in most cases where such partners have extensive state subsidy structures in place. The paper discusses the effects of major events such as the Plaza Accord and the end of Japan's 'bubble economy' on the relationship. The discussion extends into the development of new challenges in the 2010s.

Keywords: Australia, trade, FDI, mining exports, Japan, neo-liberalism, post-war trade system

Introduction

Asia and its Pacific seaboard have become a region with robust growth and rapidly developing political and strategic challenges. There are many nations that are presently seeking bilateral free trade agreements. Hence, the nature of trade in the region is being modified. China's preference, as the largest market, for bilateral, rather than multilateral, relations with the rest of the region, in particular, have been receiving much attention (Cai 2010, Chinn 2009, Dent 2010, Nabers 2008). Among other nations of the region, the strength of respective relationships built after World War II, have been tested from different perspectives (Jain and Bruni 2004, Chanlett-Avery and Vaughn 2008, Richardson 2011b, Schoenbaum 2008, Tow et al. 2007, Yamakage 1997). Focus on bilateral trade agreements are characterised by the desire of the nations to connect political ties along with the economic ones (Ito 2010: 19). The way in which the post-World War II political settlements have begun facing new challenges has attracted increasing attention (Beeson and Yoshimatsu 2007, Dent 2009, Rumley 2005, Shigematsu 2006). Not every bilateral relationship in the region is governed by an FDI and trade agreement. South Korea has ratified a free trade agreement with the US in 2011. Japan does not yet have a bilateral investment treaty with the US, which is a major destination of Japanese FDI (Tobin and Busch 2010: 14). Nor does Japan yet have such a treaty with Australia or South Korea. Australia signed a free trade agreement with the US in 2004 (Dee 2005). It is negotiating similar agreements with others. Being able to continue to export its resources and agricultural produce to Asia Pacific is the most significant aspect of Australia's focus on the changes in the region (AJS 2009, Bisley 2004, Drysdale 2010, Fitzpatrick 1990). Australia has not yet signed free trade agreements with Japan, South Korea, and China though they are being negotiated. Presently, Trans Pacific Partnership is an ongoing multilateral process that involves Australia, and other Asia Pacific nations (Richardson 2011a).

The post-World War II trade structure

The global economic system has been built on three distinct phases, the post-World War II “system”, preceded by the 1930s’ period of protectionism and national autarchic competition (the post-World War I period), which followed the *Pax Britannica* (with its the gold standard, as opposed to the present dollar-indexed exchange rates) that collapsed with the start of World War I (Hirst Thompson 1999: 8). The period in which we now live is different in many ways, from the post-World War II period economy though there is little consensus on which theoretical framework(s) accurately describe it (Quiggin 2010). One significant question for the purposes of this paper is whether the rise and development of Australia’s trade and investment relationship with Japan is explainable solely by the post-World War II theory frameworks. An earlier version of a section of this paper previously appeared in Bayari (2012a).

At the end of World War II, the US policy makers were determined to restore an ‘open world economy’ based on the principles of a ‘self-regulating market’ (Block and Somers 1985: 74). This paper does not discuss the veracity of the notion that markets can ‘self-regulate’. The post-World War II system was based on the assumption of such ‘self-regulation’. As it is well-known, the framework of the contemporary international governance, including that of trade and FDI, became grounded in the 1944 Bretton Woods Conference. This conference proposed an International Trade Organization (ITO) to complement the functions of the IMF and World Bank, and its charter was completed in 1948 (Bossche 2005: 79). The charter, however, never passed the US Congress, and the ITO never eventuated.

In 1947, the GATT was signed and over the years it became the de facto ITO, and seven rounds of GATT negotiations were completed (Bossche 2005: 81). In 1994, the GATT framework was institutionalised by the WTO, at the eighth (Uruguay) round. The original GATT rules and principles remain operational under the WTO. Australia was an original GATT signatory, though with

serious reservations, and did not commit to cut its manufacturing tariffs as other signatories were unwilling to commit to reducing their agricultural tariffs (Arndt 1965). Japan joined GATT in January 1956. The Doha round (the ninth) of the WTO began in November 2001 but is yet incomplete, and each round took longer to complete since the first one in Geneva in April 1947.

Theories that cover the centuries-old social phenomenon of cross border business either focus on trade or FDI trends (Morgan and Katsikeas 1997). But rarely on both phenomenon simultaneously. Hirschman (1945) saw the dynamics of the post-World War II interstate trade bargaining in terms of differentiation based on the notions of ‘co-operation’ and ‘non-co-operation’. In the construction of the framework to define the post-World War II global trade order, there has been debate on the role of the states’ foreign policies, and their functions (Ikenberry et al. 1988). Kindleberger (1973) proposed that the existence of a single hegemon can be a stabilising force that can prevent global economic closure. This framework was a precursor to ‘hegemonic stability theory’, which holds that the origin of the post-World War II ‘open trading system’ is the result of the emergence of the US as a ‘hegemonic state’, similar to the hegemony exercised by the UK from the 19th century till its collapse in 1914 (McKeown 1983).

There are factors beyond the issue of hegemony in international trade, as per Snidal (1985). The cooperation of the nations is also a factor, and as a hegemony has many facets, the hegemonic stability theory has limitations (Snidal 1985). The inter-state politics of trade is a challenge to the arguably stable nature of this theory (Gowa 1989). The ‘cooperative game theory’ perspective in Snidal’s hegemony framework proposes that the aspects of acquiescence, coercion, challenge and coalitions, among others, are inherent to the relationship between the hegemon and the rest (Goodin et al. 2005). Following Waltz’s (1979) ‘structural realism’ theory, Lake suggests the ‘international structure’ framework to emphasise the enforcement of an international economic power structure as being preferable by the states to the

real nature of the transnational system, which he argues to be ‘anarchic’ (1988). According to Keohane (1984) ‘international cooperation’ ensures that ‘voluntarily co-operating’ states gain ‘positive-sums’. However, ‘neorealists’ (Grieco 1993, Krasner 1991) reinforce the notion that the ‘interstate conflicts’, not ‘co-operation’, (as in Keohane), dominate the resolution toward ‘positive-sum games’. Taken as a combined framework, the works of Keohane and Krasner constitute the ‘neo-liberal institutionalism’ that views ‘states as actors’, and the international order (as in the post-World War II period) as the ‘context’, or the ‘variable’ (Katzenstein 1990: 15). While the theoretical framework summarised above is intact the nature of trade and FDI has changed. MNEs have come to dominate international trade and FDI, and neo-liberal trade deregulation has amplified this process.

Theorising MNEs, international trade and FDI

Growth in economic relations are not fully explainable by international trade theories that present trade as an ‘integrative’ force that fosters convergence (Rodrik 2002: 3). Theories which treat international trade and international production [i.e. FDI] that observe MNEs as the agents and mediators of these activities have steadily gained significance (Dunning 2000, 2006, Rugman and Verbeke 2004, Collinson and Rugman 2007). This is the present context of Australia’s trade and FDI relationship with Japan. Neo-classical theories evolved in the 19th century to explain efficient resource allocation within a relatively developed economy but their utilisation to analyse contemporary trade and FDI are unsuccessful (North 2003). As per Dunning, the ‘international trade’ perspectives inspired by neo-classical framework, such as Aliber (1982) and Kojima (1982), downplay the significance of the advantages that MNEs possess and utilise (2000). Perspectives such as Aliber (1982) and Kojima (1982) implicitly assume that in trade all goods are exchanged between independent buyers and sellers across national borders while in fact, as theories that simultaneously cover international trade and international

production (i.e. the 'eclectic paradigm') explicitly postulate, the transfer of immediate products is undertaken within the same MNEs (Dunning 1988: 2).

International trade and international production are the MNEs' realm. Intra-firm trade is an ever expanding avenue of exchange as a means for MNEs to consolidate their global competitive positions, and rationalising their cross-border value added activities (Eden 2005, Ernst 2008, Narula and Dunning 2000). A MNE's behaviour is resultant of its country's own institutions, and cannot be reduced to international trends or global governance organisations' policies (Dunning 2005). Institutions play a major role in MNE formation (Dunning 2006, Dunning and Lundan 2010, Dunning and Zhang 2008). The reverse, however, is also true. MNEs can, and do, influence institutions and government activities.

As international trade and international production form the MNEs' realm, they can only be explained within the same framework of analysis, which is what the 'eclectic paradigm' does (Ietto-Gillies 1992, Tolentino 2001). FDI distribution is explainable by two types or variables, country-specific (that of the host) and firm-specific (that of the MNE) (Dunning et al. 2005: 36). Since the early 1980s, the relationship between the MNEs and national governments around the globe have become increasingly co-operative in correspondence to the process of globalisation (Dunning 1998). Australian economy too experienced a spectacular resources sector growth via MNE FDI from the early 1980s onwards. The debate on the new taxation on resources sector and the way which some Australian resource magnates define the matter may perhaps be seen as proof of how things have changed. Neo-liberal trade and tariff deregulation allowed MNEs to benefit from free movement of capital, and gave them unprecedented access to the Australian market (Stilwell 2008: 71). MNE activities, and their interaction with government policies have long gone beyond the post-World War II theoretical formulations.

Several elements that can help such a new understanding include a possible focus on institutional economics and MNE behaviour. MNE behaviour primarily depend on the country of origin. Japanese MNEs are relatively more integrated with national institutions, that lead to a more cohesion between the firms and the rest of the economy (Benito et al. 2003, Ferner et al. 2004). This is the major difference between Japan and the Anglo-Saxon economies (i.e. Australia, New Zealand, the UK etc.) (Bayari 2011). MNEs structure markets as they engage in FDI and trade in locations that are not always geographically connected (Dunning and Lundan 2010). That is, MNE FDI and trade activities connect different markets, rather than different nations connecting their own markets by engaging in trade with each other bilaterally and/or multilaterally. This point is often overlooked.

When we talk about a bilateral free trade agreement we are also discussing new rights and freedoms for MNEs that are active in either one or both of the two nations, though these MNEs need not be indigenous to those two nations. It needs to be stated that an indigenous MNE can do better out of such a treaty due to its possession of home advantages. MNE activities are driven by profit motive and they do suffer from forms of unpredictability due to differences across borders, and forms of institutional change (Cantwell et al. 2010). As a result, MNE activity has become progressively more dependent on institutional underpinnings (Dunning and Lundan 2010).

Institutions form the basis of the modern market economies and their multilateral relations, including trade and FDI (North 2005). Studies of institutions are frequently piled under 'neo-institutionalism' (with its variations of 'institutionalism' or 'new institutionalism') which holds that institutions, in formal, informal and culturally-patterned ways, dominate all social organisations, and their interaction, and that institutions are themselves social products (Acemoglu et al. 2001, DiMaggio and Powell 1991, Rodrik et al. 2002). Institutions of a nation shape the character of its MNEs.

Rodrik et al. (2002: 12, 36) place Australia alongside Canada, New Zealand as 'neo-European countries' which developed from colonial origins that proceeded with the replication of the UK's institutions, and present a model of economic growth that is based on the quality of institutions, rather than the affects of geography, climate, natural resources, or integration with international trade links. In another comparative study that also names Australia, Acemoglu et al. state that differences in institutions and state policies are at the root of large differences in income per capita across countries (2001: 1395). An important premise of their discussion is that many nations have been linked to the post-World War II global system but not all have grown in the same scale. For example, in comparison to Australia, not every nation with massive coal and mineral reserves have developed into a modern extractive economy that contributes to global price setting of raw materials.

Institutional economics framework ignores the critical point in the way in which such extractions are dominated by foreign-capital-dominated MNEs. It lacks a framework to calculate net benefits to all parties. This is because it assumes markets to be neutral even though, clearly, government policies and MNE activities shape markets. Nations that possess resources do not necessarily possess the capital necessary to extract and trade (export) them. It is also not possible to talk about a fair and equal distribution of gains from the exploitation of resources. This is because capital, and thus profits, belong elsewhere. Taxing these profits is interpreted, by some, as an "unjust" activity of a government of the land where the resources are located. Consequently, and speaking strictly in context of this argument's framework, some nation states have increasingly assumed the role of mere gate keepers (for the lack of a better description) of resources even though they are located in their lands.

Japanese FDI, Australian exports and neo-liberal trade deregulation

There are then two main factors that govern Australia's trade (resource exports in this instance), 1) MNE activity, and 2) Australia's institutional

framework. Deregulatory policies have been in ascent since the 1980s in Australia and they have governed all aspect of Australian economy (Bayari 2012a). In the early 1980s [beginning with the Hawke Labor government], Australia has initiated neo-liberal bilateral trade and FDI policies and this has influenced the context of the economic links with Japan without altering the essential structure of the relationship (i.e. Australia's main exports to Japan are coal, minerals, and the newly developing natural gas resources). Australia's policy changes led to alteration of the Japanese FDI in Australia, and this was previously discussed (Bayari 2012a). The policy changes created a new atmosphere which was significantly different from the post-World War II period in which the relationship was established. Since the late 1980s, Australia has been campaigning for unilateralist neo-liberal deregulation, and import tariff reduction (Bayari 2012a, Beeson 1997, 1996, Capling 2001).

Australia-Japan bilateral relations, and Japanese FDI in Australia has inspired many academic inquiries (Beeson 1997, 1999, EAAU 1997, Low and Marriott 1996, McQueen 1991, Meaney 1999, Sheridan 1992). The post-World War II Japanese manufacturing FDI in Australia has been significant (Bayari 2011, 2012a, 2012b, Edgington 1990). Japanese manufacturers began closing factories in Australia from the late 1980s onwards. Reasons for this are the unilateral neo-liberal trade deregulation, and the removal of tariff protections in Australia (Bayari 2008). When the manufacturing industry tariffs began to be reduced, the Australian market became unprofitable, due to competition from the flood of cheaper imports. Moreover, Japanese manufacturers have also mainly carried out FDI in mainland Asia after the 1985 Plaza Accord. The most recent (2007-2011) Japanese FDI in Australia has been characterised by acquisitions in Australia's food, brewery and insurance sectors, by Kirin, Asahi and Dai-Ichi correspondingly (Bayari 2012b).

Australia's post-World War II export trade with Japan is a form of convergence of economic interests (Sheridan 1992). The reason behind this bilateralism is not solely the integrative force of trade (as neo-classical framework suggests)

but several factors which include; 1) the establishment of the post-World War II system in Asia Pacific, 2) the market structures that applied during the Cold War, 3) the availability of Australian resources, 4) the existence of MNEs that operate in Japan and Australia, 5) availability of Japanese FDI for resource extraction and export, and 6) Australia's unilateral neo-liberal trade deregulation policies since the 1980s.

In short, the increase in MNE activity (trade and FDI) and the rise of unilateral state policies for neo-liberal trade deregulation are phenomena that follow the rise of the post-World War II system. The effects of the Cold War structures are evidently visible in the fact that while Australian resources have been exported in increasing quantities, some regions of Asia are still developing their resources sectors, and the infrastructure (mines, roads, rail, ports and the related cross-territorial access agreements). Unlike Australian economy, their resources were not integrated into the global demand during the Cold War, which makes their entry into the markets much slower as resources sector requires massive FDI outlay initially. MNEs in the Australian resources sector have grown in size as new reserves were discovered, and developed to meet the increasing global demand during the Cold War. FDI and foreign credit have been readily available during the boom times.

In Australia, 83% of all mining production, and exports are owned by foreign MNEs (Edwards 2011: 1-5). In this instance it is difficult to use the above-stated theoretical frameworks that assume that local independent sellers market their coal, gas, iron ore, rare earth minerals etc. to foreign independent buyers. Utilising such a framework disregards the MNE FDI in resource extraction and exports. The top mining MNEs that operate in Australia, and their foreign ownership percentages are as follows: *Xtrata* (100%), *Anglo-American* (100%), *Peabody* (100%), *Newmont* (100%), *Barrick* (100%), *BHP Billiton* (76%) and *Rio Tinto* (83%) (Edwards, 2011). Australian mining exports are integrated into the global MNE business of FDI and trade. *BHP*

Billiton is the biggest mining MNE in the world (and the third largest MNE), and *Rio Tinto* is the fourth largest mining MNE. The two form over 70% of all listed company resources in Australia (Edwards 2011: 1-5). It is hence not possible to argue that local firms are marketing local resources to foreign buyers.

Exports of grains, the other major Australian trade commodity, is another interesting case. The Australian Wheat Board, a major supplier of Japanese MNEs, used to be a grain export monopoly of the country (see Anderson et al. 2007: 17). In 2011, a US MNE bought the Australian Wheat Board's grain trading and origination arm, and GrainFlow storage and handling business from Agrium, after Australia's Foreign Investment Review Board (FIRB) approved the deal. Japanese MNEs called *sogo shosha* (trading houses) have FDI in Australia's food and resources industries, hence are not solely buyers of produce from local producers. Such MNEs grow produce, raise cattle, extract and process natural resources, and export them to Japan, and other markets (Ceda 1997, Ikeda 2007, Nicholas et al. 2003). Given the size of the Japanese consumer market (approximately six times that of the Australian market) the volume of food exports to Japan is also quite substantial (see DFAT 2011). The nature of MNE role in trade is evident. In Australia, Kirin and Asahi, two MNEs, have become, in the last years, major players in beverage and dairy production, and exports (Bayari 2012b). By contrast, Australian FDI in Japan has historically been minuscule (Bayari 2012a, Australia at Aichi World Expo 2005: 2, Senate Foreign Affairs et al. 2000: 88-110, 188-192). This paper does not cover the statistics of Australia's trade with Japan but it should suffice to say here that, presently, over 75 per cent of Australian exports to Japan consists of coal, iron ore and other minerals, and over 46 per cent of its imports from Japan are automotive vehicles, automotive parts and supplies, and engineering equipment (DFAT 2011). As stated above, Australian resources exports (to Japan and everywhere else) are extracted and traded by MNEs that are overwhelmingly non-Australian-owned.

Trade and international production are two distinct and complementary modes of behaviour of a MNE operating in a market, as in the case with the history of the Japanese MNEs in Australia (see Bayari 2004). The official theoretical framework that governs Australia's trade and inward FDI rules is neo-liberalism, which is defined, in practice, by the unilateral government actions since the 1980s that encourage the foreign trade partners, and foreign investors to reciprocate with a view to achieve absolute multilateralism (Bayari 2012a, Beeson 1996, 1997, Jones 2002). That is, it is a similar mind set to the one behind the proposed Trans Pacific Partnership of eventual multilateral zero tariffs. This somewhat resembles the reality of the Australian tariffs policy. After a series of reductions over several decades, Australia unilaterally reduced its manufacturing tariffs to 5 per cent in January 2010.

The process of neo-liberal trade deregulation does not correspond to the reduction in state power (Dunning and Zhang 2008). Neo-liberal economics has not fully inhabited the present economic policymaking, which contains an eclectic mixture of monetarist and Keynesian ideas for domestic matters, with a neo-liberal trade policy (Quiggin 2001). The unilateral neo-liberal trade deregulation (with its import tariff reductions) history of Australia have been an attempt to redirect the national economy away from the limitations and structures that developed during the Cold War, without an accompanying strategic decoupling from the Cold War alliances. Australia's range of policy blueprints for unilateral neo-liberal trade deregulation and import tariff reductions are outlined in a government report entitled *Australia and the Northeast Asian Ascendancy*, which is authored by Ross Garnaut (1989). Australia was the first GATT member to be reviewed (voluntarily) under the Trade Policy Review Mechanism in 1989, and for a second time in 1994. Naturally, Australia's efforts were praised in the subsequent GATT report. The second review comments that Australia, since 1989, continuously implemented an ambitious long-term programme of structural reform, in

which continuous trade liberalization and market deregulation are central elements (see GATT 1994a, 1994b).

The post-World War II stage of Australia and Japan trade and investment relations began in the 1950s. In the eyes of the Australian government, the rest of Asia, as an economic partnership zone, (South East Asia in particular) came into focus in the 1990s (Higgott and Nossal 1997, Wesley 1997). Japan worked with Australia in the formation of APEC, that may have had as one of its objectives the “inclusion” of the ASEAN economies. Australia’s dedication to the neo-liberal notion of “free trade” was unambiguous in its involvement in the formation of APEC. But the 1997 market collapse in Asia reduced all enthusiasm. During the Howard Liberal/National coalition government (1996-2007) Australia has moved its focus away from APEC (Terada 2005: 17). Presently, there is arguably some enthusiasm for the premises of TPP, and its general framework that aims to blackball those who decline to join at first but wish to do it later.

The politics, economy and the Cold War onset in the 1950s

The first recorded trade between Australia and Japan took place in 1890, when an Osaka firm began importing Australian wool. The contemporary bilateral relationship was established in the period that followed World War II. Australia’s chronic dependence on commodity exports, and Japan’s industrial demand for cheap and plentiful supply placed the two nations in a co-dependency. Australia is overtly dependent on inward FDI and trade. Japan by contrast has many manufacturing MNEs that export from their local and overseas factories. Japan relies on the consumer markets of Asia, the EU and North America, and continues to provide a trade surplus for Australia and remains its third major foreign investor. The economic bilateralism of the two is resolute, and structured due to the geographical proximity, and the nature of their trade.

The aim of the post-World War II growth policies defined Australia's future relations with Japan (Meaney 1999: 27). Japan swiftly became a major topic for discussion among Australian business leaders and politicians (Japan Secretariat 1984, Stockwin 1972, Meaney 1999). Bilateral relations between the two nations began to contain a wide range of issues (Rix and Mouer 1984). The 1957 *Commerce Agreement* and the 1976 *Basic Treaty of Friendship and Cooperation* were two major formal agreements that set the tone of the bilateral economic, political and trade relations in the post-World War II period. Some in Australia, reportedly, resisted the 1976 agreement due to the projected implications of the size differences between the economic strengths of the respective partners (Clark 2011: 12). Still, to this day, the *Basic Treaty of Friendship and Cooperation* remains the only one of its kind that Australia has concluded with any country (Woodard et al. 2007: 16).

The 1957 *Commerce Agreement* was an important development. Japan became Australia's largest export market by 1966. The agreement was signed on behalf of Australia on 6 July at the city of Hakone near Mount Fuji by Jack McEwen (Fischer 1997: v). Robert Menzies who also visited Japan in 1957 was the first Australian prime minister to do so. The agreement was signed for Japan by the foreign minister, Nobusuke Kishi. He visited Australia, the same year, after he became prime minister. This was the first such visit from Japan. McEwen, said to be the main architect of Australian post-World War II trade policy, later stated that 'as our trade relationship with Britain was diminishing, it seemed to me in the 1950s that the only other comparable outlet for our products in the world was Japan, and that is why I went there and negotiated the [1957 *Commerce Agreement*] Treaty' (quoted in Alford 2007: 3). McEwen, despite his apparent conservative credentials, was a resourceful expert on global trade of his time. In 1965, also under McEwen's ministership, the first ever trade agreement between the USSR and Australia was signed. In the 1950s and the 60s, the USSR and Japanese economies were growing faster than the rest of the world (see Spufford 2010).

The post-World War II bilateral trade links between Japan and Australia were formulated around the time when the US was forging stronger peacetime links with Japan. The US government was supporting Japan's entry into international markets with such treaties as the *San Francisco Peace Treaty* (signed on 8 September 1951) and the *US-Japan Mutual Co-operation and Security Treaty* (signed on 19 January 1960) (Yamakage 1997: 227-278). Japan's re-entry into the global community also coincided with the ANZUS Treaty between the US, Australia and New Zealand, signed on 1 September 1951 (Meaney 1999: 27, 108). The treaty did not automatically eventuate at the end of the World War II, and was a result of the political changes that were developing in Asia at the time, though even before the war, in the 1930s, Australia had proposed a form of 'Pacific Pact' (Edwards and Pemberton 1992, Holdich et al. 2011).

The political developments and the Cold War business

There were two main dimensions in the rise of Australia-Japan relationship in the 1950s. First was obviously the new political developments in Asia, that posed challenges the newly instituted post-World War II order in the region, second was the perceived need for economic co-operation that was assisted by the geographical proximity (Rix 1986: 180, Watt 1967: 200-208). As the new red lines were drawn across the map of the region, the two nations found themselves on the same side of an economic and political structure, as independent of their respective national agendas, though not against their economic aspirations. One pressing issue for Australia was how to position itself in Asia Pacific with the contraction of the UK's power, and the rise of the US influence (Umetsu 1995).

Overall, in the early 1950s, the prevailing political consensus in Australia was that the post-World War II stability in the Asia-Pacific region and beyond depended upon an economically strong Japan, firmly aligned with the West (Way 1997). Australia's allies, the US and the UK, were both ready to help

Japan to achieve this end and encouraged Australia to do the same (Way 1997: xv). However, even after joining GATT, Japan was still not getting 'most-favoured-nation-treatment' from Western nations (except for the US), and it used the 1957 *Commerce Agreement* with Australia to put an argument for similar treatment from other nations (Alford 2007: 4). Japan's GATT entry had some effect on the equation between Australia and the UK. The Imperial Preference System [IPS] (which was then the foundation of the Commonwealth nations' economic alliance) was declining, and the UK's strength in Asia was weakening (Forsberg 2000: 54). Australia appeared to be convinced that there was a need to quickly integrate Japan into the Western fold. A Federal Cabinet submission in Canberra in 1952 stated that: 'It is essential that Japan be given opportunity to develop and maintain a viable economy ... Japan's exclusion from GATT would deprive her of the advantages to be gained from trading with the greater part of the free world ... and would give her strong inducements to redirect her trade towards the USSR and China' (Brown 1952: 29).

Consequently, even the question of easing restrictions on imports from Japan came to be considered as part of 'the political objective of keeping Japan' within the Western alliance (Departments of Commerce and Agriculture, External Affairs, Trade and Customs and Treasury 1953: 55). The start of the Cold War hastened Australia's export reorientation away from Britain towards Japan (Fitzpatrick 1997: 110). Australia's economic relations were altered after World War II and the UK's entrance into the EEC. The decline of UK economic interest in Australia was a steady and continuous post-World War II development in the context of the UK withdrawal from its former colonial markets (Fitzpatrick 1997: 102-103, Tow and Trood 1997: 1-9). This process hastened as the UK moved closer to the date of its entry into the EEC, which required the UK to dissolve the IPS.

As a result of the settlement of the political and trade matters, Japan was able focus on its economic growth from the late 1950s onwards (Selden 1997: 312).

By 1971, in the Western economic and political bloc, 'Japanese export expansion accounted for as much as 54 per cent in the case of steel products, 46 per cent for motor vehicles, 90 per cent for civilian use electronic equipment and apparatus, 54 per cent for steel vessels and 38 per cent for general machinery' (Tsuru 1993: 83-84). Japan's long growth period after World War II kept fuelling Australia's export industries (Senate Foreign Affairs et al. 2000: 1-8). The two economies were now in a state of symbiosis.

Thus, Australia's economic fortunes became very closely tied to those of Japan, in the post-World War II growth period (Senate Foreign Affairs et al. 2000: 88-110). With the onset of the Cold War, the two economies became more closely integrated. This was because Japan, and other nations of the Western bloc, could not access the resources of Eastern Europe, Manchuria, North Korea, and China (Cumings 1997: 151). The global markets were divided into political zones that allowed little flexibility for trade, manufacture, and FDI. While the Cold War continued a thaw developed. Kissinger visited China in 1972, following the Kennedy and Johnson administrations' interest in exploring the establishment of ties with Beijing (Kissinger 2011). Australia started its own 'ping-pong diplomacy' with Beijing in 1971 (Clark 2011). Both countries saw their political overtures as a first step towards an economic partnership with China. Australia was over-reliant on the trade and political structures that were put in place after World War II (Fitzpatrick 1997: 117-119). With the end of the Cold War, the global economic exchange system was altered, which was a change that had a significant impact on relations between Australia and the world. Hirst and Thompson argue that: 'While the Cold War prevailed, competitiveness remained couched in fundamentally geopolitical terms: the struggle between the two main politico-ideological blocs locked all remaining world issues into a single geomilitary confrontation. Once this was over, the differences between countries came newly to the fore, and particularly the differences between them in terms of their economic performance as measured by their 'competitiveness' (Hirst and Thompson 1999: 114)

The end of the Cold War combined with the fact that the EU, Japan, and East Asia closed the competition gap between themselves and the US during the 1980s, meant changes in the global trade order were in the offing (Ravenhill 1997). The US began to have less of a desire and a reduced ability to keep underwriting the collective good of the international order that had promoted world trade and economic growth after World War II (Ravenhill 1997: 83). As the conflict of trade interests re-emerged, competition became more important than harmony and order in global markets. By the middle of the 1990s, the revival of trade competition and protectionist measures was intruding into Australia's trade (Head and Bell 1997: 67).

During the Cold War, Australia had a relatively weaker status in world economics (Crough et al. 1980: 17). After the Cold War, it has remained a subordinate partner in the global system (Beilharz 1994: 100). Due to its middle-sized market, it has limited influence and power in the post Cold War economic relations (Leaver 1997: 89). With the revival of trade competition and protectionist measures, the Australian economy began to feel the pressure of the new economic order. From the early 1980s onwards, in order to overcome the limitations of its market size Australia has attempted to promote free trade through multilateral and regional economic diplomacy (Cooper et al. 1993: 172-173).

External challenges to the relationship

Trading blocs are politically driven entities (Doremus et al. 1998: 13). Overall, the triad of the EU, Japan, and the US has not always been stable (McQueen 2003: 126-127). The economic relations of the Cold War masked the extent to which the Australian economy was dependent on the post-World War II global structures of politics and trade (Fitzpatrick 1997: 119). The Plaza Accord negatively affected economic relations between Australia and Japan. The Plaza Accord, signed on 22 September 1985, meant that Japan would

intervene in currency markets to appreciate the Japanese yen (Funabashi, 1988: 3-18). The rise in the Japanese yen reduced the competitiveness of the Japanese exports (Morris-Suzuki 1998: 49-57). The inner workings of the Japanese market model soon began to lose ground (Hashimoto 2003: 210). The Plaza Accord caused a major shift of Japanese manufacturing to Asia because of the new organisation of work, and the new FDI patterns. With the reorganisation of manufacturing, Japan needed less raw materials from Australia, as it focused more and more on value-added products and reduced its heavy manufacturing industries. From the late 1980s onwards, manufacturing MNES, including the Japanese, could not sustain sufficient economies of scale in such a small market without the protection of the tariff barriers that had originally caused them to invest.

The collapse of the 'bubble economy' with the 1992 crash of Tokyo Stock Exchange led to an extended period of economic stagnation (Halevi and Lucarelli 2002: 35). The malaise lasted several decades and contributed to the stagnation of economic relations between Australia and Japan. The appreciation of Japanese currency led to a series of events that affected the market linkages between Japan and Australia. 'The Bank of Japan followed Alan Greenspan's massive monetary expansion after the 1987 stock market crash. Exchange rate up, interest rates down, fiscal deficit up ... The bubble [economy] was inevitable. Then ... the Bank of Japan ... changing tack to rigorous monetarism ... abruptly raised interest rates in December 1989 and ... abolished window guidance, the most important channel of liquidity. The bubble burst and the long agony of debt inflation ... began' (Schmiegelow 2003: 81). After the 1992 collapse, the Japanese government began to focus on attracting foreign investors to revitalise the Japanese economy (JETRO 2003: 5). In 1997, Asia experienced a sharp downturn in business and trade activity, which affected the region for a period of time.

APEC and MFP

There are two developments that represented the attempts by Japan and Australia to extend their bilateralism into new domains. During its own market deregulation in the 1980s, Australia became fascinated with Japan's long term growth performance (Japan Secretariat 1986, Australia-Japan Relations Symposium, 1986, 1988). Their bilateral relationship was a factor in Australian responses to regional economic affairs (Crawford and Okita 1976; Toyama and Tisdell 1991). It was also a reflection of the global milieu. In the early 1980s, Japan and Australia showed an effective joint leadership. The establishment of APEC is an example of this (Funabashi 1995). APEC was conceived as a possible future common market for the Asia-Pacific region. Japan lobbied for it intensely (de Prado Yepes 2003: 3). After years of discussions, APEC was formally proposed and it was finally hosted by Australia in 1989. In APEC, Australia's neo-liberal policymakers 'found' hopes of 'free trade' partners across Asia-Pacific and had dreams of stronger market links with Japan (Beeson 1996: 35-40). 'Their ... regional profiles helped Tokyo and Canberra cooperate in soliciting a regional consensus about the value of the regional institution for multilateral cooperation, not only for Asian countries but also for the United States' (Soeya 2001: 23). It was a significant achievement among all the 'globalisation' currents but APEC has not met the original expectations (Tracy 1997). A former Australian foreign minister suggested Australia's future in East Asia as being independent of its APEC membership and authorship (FitzGerald 1997: 9). The TPP framework is the new multilateral project that somewhat resembles the APEC's principle premises.

In the boom environment of the 1980s, there were plans to tie Australia's resources with Japanese 'know-how' to develop major projects such as the Multi Function Polis (MFP), which was celebrated and promoted both by Japanese experts and by journalists in Australia (Inkster 1991: 1-23, Hamilton 1991: chapter 1). The project was subsequently abandoned due to

several factors, one of which was the bursting of Japan's 'bubble economy' in 1992. The MFP project was the peak of all the efforts to further Japan-Australia economic relations, and its cancellation was a major letdown for planners, politicians, academics, and the business world alike (Parker 1998: 1-4). The MFP was to involve the building of a small city with the latest technological advances which would be a mixture of an expo, techno-park or Silicon Valley, depending on which account one reads. It was Australian requests to Japan for closer economic links that initiated the MFP (McCormack 1991). It was an attempt by the 1980s 'Japanese development model' to respond to Australian politicians' requests for economic help (McCormack 1998: 32). However it became a failed attempt at technology transfer that was different from the prior Japanese FDI modes in Australia (Tsuru 1993: 202).

New directions

From the 'post-bubble' 1990s onwards, Australia and Japan sought new definitions for their relationship. Japan began to think of Australia as a partner in a new type of multilateralism (Takaki 1994: 12), as well as a co-participant in regional security (Sajima 1996: 28). The need for political cooperation was seen as a necessity due to the nature of the economic links between Australia and Japan (Takaki 1994). For both countries, economic relations in the region were never detached from global or regional strategic interests (Bolt 1990: 60). As the economic links were under threat since Japan's recession that began in the 1992, 'commonality of interests' in regional security and in regional economic cooperation was highlighted to reinforce the relationship (Australia-Japan Research Centre 1994: 7). A 'commonality between Japan and Australia ... exists with respect to the ambiguous nature of their identities as regional actors ... Japan and Australia ... have always had to find a delicate balance between [their] alliances and diplomacy' (Soeya 2001: 23). The bilateral lapse in economic links were addressed in two reports, *Strengthening Australia-Japan Economic Relations* (De Brouwer and Warren

2001), and *Japan's Economy, Implications for Australia* (Senate Foreign Affairs et al. 2000). The first report analyses the relationship from the point of view of trade management and deregulation. These reports make several recommendations for improving market relations between Japan and Australia. The second report was the result of a Senate sub-committee inquiry into the relative lack of recent Japanese initiatives in Australia (Senate Foreign Affairs et al. 2000). Japan and Australia continue to seek a new direction in their relationship. The future of the relationship is guided by the current free trade agreement discussions (see Australia Japan Trade and Economic Framework 2003: 10-12). Currently there are more than 70 bilateral arrangements between Australia and Japan (JETRO 2012). The fourteenth round of Australia-Japan free trade agreement negotiations was held in early 2012.

Rare resources

With the end of the Cold War and the rise of China, Japan's economic links with its neighbours were re-aligned (Soderbeg 2011). Under neo-liberal financial deregulation, the global economy has gone passed the period of division among the East, the West, and the non-aligned. There is now increasingly better access to resources in Mongolia, Russian Far East, and Kazakhstan, which was not a possibility during the Cold War (see Jiji 2011). Parts of the Asian mainland have become major resource export zones. For the most part, global mining supplies are now distributed primarily by demand and price. There is a Mongolian export boom in rare earth, copper, iron, silver and coal, all of which are transported via Far East Russia (Humber and Kate 2011). Moreover, the Mongolian reserves of rare earth minerals are also opening up to value-added processing (Harrison 2010). This would have been impossible three decades ago, politically and logistically.

Asia's strategic resources sector is being reorganised. For close to a decade Chinese companies have become dominant exporters of rare earth minerals

(Simpkins 2009). China has become the biggest supplier and Japan is the biggest exporter of these minerals (Bradsher 2009). In 1999, the Chinese government introduced export quotas for rare earths and begun reducing exports in 2001 with sizeable reductions in 2009 and 2010 (Keenan 2011). The region's major MNEs in Japan and South Korea have been suffering a supply shortage of these strategic resources. Chinese manufacturers will soon be unable to meet their own needs despite China's production capacity (Ratnam 2011). There are however vast potential rare earth reserves elsewhere (Scissors 2011). It is expected that mining MNEs in Australia can contribute to meeting the rare earth demand shortfall (Simpkins 2009). Industry analysts suggest that Australia, with its reserves that forms 46 per cent of rare earth minerals in the world, may be able to supply all of Asia by 2014 (Harrison 2010). There have been some disagreements over the present status of the sea lanes in international waters in the South China Sea (Metzler 2011, Richardson 2011c). This may prove to be a significant matter for Australia because its exports to Japan, Russian Far East and South Korea go through the same international waterways (Kaneko 2011).

Australia's Foreign Investment Review Board (FIRB) has introduced new regulations on the nation's strategic resources and locations to ensure a policy of maintaining its position as a reliable supplier to all its trading partners (Dorling 2011, Keenan 2011). This contributes to the maintenance of the existing export structures. Australia's [then] Foreign Minister Kevin Rudd in November 2010 talks with [then] Japanese Foreign Minister Seiji Maehara reaffirmed Australia's commitment to provide a reliable long-term supply of rare earth minerals (AAP 2010, AFP 2010).

In August 2011, the world began to feel the effects of the US credit downgrade, which was followed by a downgrade for Japan. This followed the 'Lehman Brothers shock' in September 2008, and its aftermath, which did not impact on Australian trade and investment relations with Japan (see Bayari 2012b on the investment aspect). Japanese FDI in Australia has in fact increased due to

several major acquisitions. Statistics show that the nature and the volume of trade between Australia and Japan has not been greatly altered since the ‘Lehman Brothers shock’ (see DFAT 2011). Hence, there were no changes in the nature of this economic relationship despite the global economic downturn.

Conclusion

Australia has maintained a continuous trade and FDI relationship with Japan, since the 1950s, which was constructed under historically specific conditions that affected them both. The relationship has continued beyond the beginning and the end of Cold War. The paper has argued that the ‘eclectic paradigm’ of international trade and FDI can be applied to this relationship. Both nations have had to deal with their own specific problems while maintaining the relationship, and the analysis here has been an attempt to define its history and the global politics context. Constrained by the structures developed as a result of the Cold War economics, Australia has experienced the pressures of the post-Cold War competition. Consequently, Australia began to reduce tariffs in multiple and clearly marked stages, while advocating the same to others, as it started on a path of neo-liberal deregulation in the 1980s. Australia’s relationship with Japan has been through decades of global political and economic changes. While benefiting from the post-World War II system governed by the WTO (and the preceding GATT) rounds, Australia and Japan have also relied on their economic partnership, which originated from specific historical and political conditions. After the Cold War ended the global trade order has changed with the opening of new markets for resources and manufactures. However, Australian trade and FDI relations with Japan has predominantly followed the structural path that was developed in the 1950s.

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