Australia’s engagement with Asia
Australia-Japan Trade relations
Many thanks and full credit to HTAWA
"As early as the 1960s, Japan began to economically absorb Australia into Asia ... Japan by the 1980s had made Australia an Asian economic state" – Michael Byrnes, journalist
1930s

- Trade with Japan growing from the 1910s, 1920s and early 1930s (much smaller than in comparison to Britain)
- By 1932, 10% of Australian exports went to Japan
- Relationship so optimistic that there were talks of trade treaty from 1934

**1936 Tariff Policy**
- Collapse of wool trade with Japan

- Trade continued to deteriorate
  - Militarism
  - 1931 – Invasion of Manchuria
  - 1937 – Invasion of China

- Lost opportunity
1940s

- No trade with Japan during WWII 1941-45
- Divisive debate in Australia around recommencement of trade with Japan
- 1947 – “It seems to me quite clear that there is a division in Cabinet opinion in Canberra between those who are mostly concerned with the political and psychological opposition in Australia to trade with Japan and those who recognise the importance of the Japanese market to the future of the Australian wool industry” – Macmahon Ball
- August 1947 – private trade resumed
- Concerns about renewed militarism
- “Trade should not be resumed at an early stage, and should certainly await a peace treaty” – Evatt
- 1949 – Chinese Revolution compounded fears
1950-1954

  - US approach/Aus approach

- 1952 – Ratification of Treaty
  - Article 12 – Japan had to preference Australian imports for four years

- Continued concerns over resumption of trade
  - *White Australia.* “If we are to preserve this white bastion in the Pacific we must be realistic to the point of cruelty”

- Trade crisis developed which frustrated the Japanese
  - Australia was now privately exporting again to Japan, but Japan was unable to export goods to Australia due to continued import restrictions
1950-1954

- Vocal opposition to Japanese imports in Australia
  - Australian manufacturers
  - Concerns about offending British exports to Australia (loyalty to Britain)
- 1953 - Import restrictions loosened slightly
- 1954 – Japanese purchased less of Australia’s wool
  - Australia fearful that we would risk losing our export income

Statistics:

1951
- Exports to Japan 6%
- Wool, wheat, barley

1953
- Exports increase to 10%
1954-1957

- Shift towards more Japanese trade began after 1954
- Australia began to see Japan as a potential ally
- Continued concerns about Australian wheat market losing business to Japan
- Anti-Japanese feeling relaxed mid 50s (Indochinese crisis)
- Growing willingness to see Japanese industrial development as an opportunity rather than a threat (help of ANZUS)
  - “It is a mistake to suppose that we can live in the same world as the Japanese, and yet completely cut ourselves off from them in trading” – Gullet
- Informal talks began in October 1955 to reach a trade agreement
JAPANESE TRADE AGREEMENT 1957

- "The present trade balance between our two countries is far too unnatural and unreasonable, and that no one can expect such a state of things to last long" – President of Japan-Australia Society letter

- Extremely controversial
- April 1957 – Menzies' visit to Japan
- Japanese Trade Agreement signed 6 July 1957
  - Duty-free wool imports for three years; end discrimination on Japanese imports
  - Equality established in Aus-Japan trade. Position still worse than Britain

- British exporters not happy
- Australian industry not happy

- Significance
  - 'A watershed in the nature and conception of the relationship' between Australia and Japan – Peter Drysdale (economist at the time)
  - Extremely positive for overall relations with Japan. Helped to break the ice and move on from post-war animosity
1960s

Japan's Real Economic Growth Rate in a Long-Term Horizon

y/y % chg.

5.2% 1970s

4.4% 1980s

1.5% 1990s

0.6% 2000s

Notes: 1. Data up to 1980 are based on the 68SNA (System of National Accounts), while those from 1981 are based on the 93SNA.
2. Data for the 1950s is the average of the year-on-year rates from 1956 to 1959.

Source: Cabinet Office.

Strong Japanese growth facilitated a boom in the Australian export industry
1960s

- Significant boom in the relationship
- 1961 – 17% exports to Japan (25% to Britain)
- 1963 – Trade Agreement renewed
  - Uncontroversial
  - Japan committed to *gradual* exports to Australia
  - Australia withdrew discrimination of Japanese trade under Article 35 of GATT
  - Australia has one of the most liberal trade policies with Japan in the world
- 1963 – Japan-Australia Business Cooperation Committee
- 1969 – Japan replaced Britain as Australia’s biggest export market
1960s

- Exports
  - Late 60s – Significant growth in natural resources.
  - Growth of mining sector in Australia. Coal, iron ore (first exports to Japan).
  - 1962 – 58.5% of value of Australian exports to Japan came from wool.
  - 1970 – 18.4% of value of Australian exports to Japan came from wool.

- Imports
  - Textiles
  - Iron, steel, vehicles, machinery

- Expanded trade an ‘essential element in the rapid economic development of Australia” – Roderic Pitty

- Continued problems with relationship
  - Criticisms over business visas and WAP (Topic 3)
1970-1979

- 1971 - Japan now took 25% of Australian exports
- 1974 – Japan was getting 47% of its total iron ore, 43% of its coal from Australia
- Huge amounts of Japanese investment dollars encouraging growth in Australian mining sector
- John Menadue (Ambassador in Japan 1977-1980) encourage more social/cultural engagement to balance the relationship
  - Also called the "NARA Treaty" Nippon-Australia Relations Agreement.
  - Signed (1976), ratified (1977)
  - Addressed concerns that the relationship with dominated by trade
- 1976 – Australia-Japan Foundation. Promote cultural and scientific exchanges
1980-89

- High rate of Japanese investment in Australia
  - Kick started Australian tourism boom.
  - Real estate
  - Increasing Japanese ownership of Australian assets
  - Foreign ownership concerns (Japan's equal to America's by 1990)

- 1985 Australian exports to Japan
  - 40% energy; minerals 24%; rural 26%

- Australia's protection of manufacturing sector and Japan's protection of agricultural sector caused problems

- Australia's share of imports to Japan falling

- High profile Hakwe visits in 1984 and 86.
**ECONOMIC PROBLEMS IN AUSTRALIA**

(Reserve Bank of Australia graph showing percentage of the labour force unemployed between 1950 and 1990.)

- Sluggish growth
- High unemployment
- Inefficient industry
THE ECONOMIC GROWTH OF ASIA

- Australia began to appreciate the ‘economic miracle’ taking place in Asia

  - "Australia must respond to the powerful and direct implications of Northeast Asian economic growth"
  - "More closely complementary to Australia in their resource endowments and in the commodity composition of their trade than any other economies on earth"

- 1992 – DFAT report
  - "Australia's future economic growth will depend to a significant extent on its success in increasing its economic interaction with the North-East Asian region"

- Connected by an on-going effort
ASIAN ECONOMIC GROWTH

GDP based on Purchasing Power Parity valuation (PPP, current international dollar billion)

Note: The number on the bar represents the Asian economy as a percentage share of world GDP (PPP).

E = Estimate  F = Forecast
1. An international dollar would buy in the cited country a comparable amount of goods and services a US dollar would buy in the United States. Local currency values are converted into international dollars using PPP exchange rates
2. Composed of 5 countries: Indonesia, Malaysia, Philippines, Thailand and Vietnam
3. Newly Industrialised Economies: Singapore, Hong Kong, South Korea and Taiwan

Sources: International Monetary Fund, World Economic Outlook Database, October 2015; Austrade
“To our north was the fastest growing region in the world”

China – Deng’s reformist policies from 1978 would create the giant of the future

On economic potential. “For too long Australians had perceived Asia as a threat. The time had come to see it as an opportunity” – Hawke

“Enmeshment with Asia was not just words. It was a whole new mind set, a different way of thinking about the region and about ourselves. Enmeshment meant change, radical change. It was a case of change or be left behind, with our living standards declining, our economy and way of life stagnant, our citizens envious and, in the long term, left to become the poor white trash of Asia” – Hawke

“The focus had to be on contributing to, and benefiting from, the phenomenal economic growth of our region. We had to develop an export culture, with Asia firmly in our sights”

Connection with social/cultural. “Australia could not identify its economic destiny with Asia and at the same time be in any way racist in its immigration or trade policies”
HAWKE ECONOMIC REFORMS

- ALP government saw a strong link between Asian economic engagement and domestic reforms
- “Australia had to be part of the Asian economic miracle” – Don Watson
- “I am utterly convinced that our prosperity, or national wellbeing, our ability to maintain and build a good society, depend on our moving boldly to integrate our economy with the economies of East Asia” – Keating in 1993
- “The world was kicking at Australia’s door; to stand there with our hands pressed against it was folly”
A DIFFERENT APPROACH

- Liberated Australian economy to connect with Asian markets. Wanted to create a freer trade environment to connect Australia with Asia. “Two interrelated themes of freer international trading environment and Australia’s greater enmeshment with the region”

- The only course was to modernise the economy

- Significant domestic reforms
  - Floated dollar
  - Deregulation financial sector
  - Liberalised foreign investment policy
  - Cut company tax to attract investment
  - Significantly reduced tariff protection in Australian manufacturing
    - 1988 and again in 1991
DEPARTMENT OF FOREIGN AFFAIRS AND TRADE

- 1987 – Trade department and foreign affairs department combined together

Australian Government
Department of Foreign Affairs and Trade
Cairns Group

- Crisis in agricultural trade
  - Euro subsidies $100 billion for European Common Agricultural Policy
  - US retaliate in 1985 with the Economic Enhancement Programme
- Hawke actively engaged with the region to secure a better deal for farmers
- Formed the Cairns group in 1986
- There were 14 original member countries—Argentina, Australia, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, the Philippines, Thailand, and Uruguay
- Bob Hawke's congress address 1988 [http://www.youtube.com/watch?v=u7BOIUCDwk](http://www.youtube.com/watch?v=u7BOIUCDwk)
FORMATION OF APEC

- January 1989 creation of the Asia Pacific Economic Cooperation (APEC) forum to promote greater regional economic cooperation and encourage free trade program to phase out tariffs.

- Objective was to build regional co-operation. Proposed the need for ‘a more formal vehicle for regional co-operation’

- Integrated smoothly with ASEAN

- Accepted by community

- November 1989 – First meeting in Canberra. Korea, Japan, 6 ASEAN, NZ, US. China, Taiwan, HK.
1990s

- 1990 – recession in Japan throughout decade
  - ‘The Lost Decade’
- Political instability
- Fall in Japanese investment in Australia
- 1995-1996 – Fall in Australian exports to Japan
- 1995 – Joint Declaration on the Australia-Japan Partnership
  - "The Government of Japan welcomes Australia’s decision to create its future in the region and reaffirms that Australia is an indispensable partner in regional affairs"

- Asian Financial Crisis 1997-1998
- 1999 – The trading relationship "has now passed the high-water mark. Future relationships will probably be more difficult, certainly different" - Menadue
2000s

- 2002 – Japanese FTA discussed
- Continued commitment to economic engagement
- "Most substantial and successful" economic relationship of the period
- The rise of China
HOWARD’S APPROACH TO ECONOMIC ENGAGEMENT

- August 1997 White Paper *In the National Interest*.
  - “The two most profound influences on Australian foreign and trade policy over the next fifteen years will be globalisation and the continuing economic rise of East Asia”
  - “The countries of East Asia will become even more important to Australia as trade and investment partners, and in security terms”
  - “There is no more important issue facing Australia’s foreign policy than our engagement with Asia”

- Worked on APEC but favoured bilateral agreements

- Asian Financial Crisis 1997-8
  - Started in May 1997 in Thailand and spread
  - Australia’s contributions
  - $4 billion given to the International Monetary Fund (IMF)
  - Australia “became a genuinely close partner and regional friend, in goods times and bad” – Downer
IMPACT OF ECONOMIC ENGAGEMENT

- Australia has become linked an heavily dependent on Asian economies
- Australia has been the beneficiary of Asian technology (cars, computers)
- Engagement has opened up very large markets for Australian produce
- Engagement has arguably secured Australia’s high standard of living
- Encouraged development and growth in Australia’s mining and tourism industries
  - Tourism industry employed 1 million by the end of the century
- The cost for Australia in losing British trade would have been significant if Australia had not developed trade links with Japan in the 1950s
- 1992 DFAT report - "Successful economic performance, in turn, will be a prerequisite for Australia to maintain its political and strategic relevance in the North-East Asian region"
- Encouraged regional security