



SPECIAL ASSESSMENT

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Asia's Bilateral Relations

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Japan-Australia Relations: Friends But Not Allies

Y O I C H I R O S A T O

Executive Summary

- In the post-Cold War and post-September 11, 2001 security environment, Australia has expressed increasing interest in security cooperation with Japan. Yet, asymmetry in interests and capabilities exists between the two countries.
- On the economic front Japan is the second most powerful world economy whereas Australia ranks number sixteen. On the security front, both Japan and Australia have considerable defense capabilities, but Japan has far greater legal and political restrictions on their use.
- Japan-Australia bilateral security cooperation has expanded from a limited scale, but tends to occur within multilateral frameworks. This emphasis on multilateralism can be observed in joint proposals for both economic and security cooperation. Japan pursues bilateral security cooperation with Australia as a part of its omni-directional efforts to increase cooperation with regional countries.
- Sensitivity to China and ASEAN countries' concerns are important factors shaping the extent of bilateral Japan-Australia cooperation.
- The South Pacific region offers the arena for closest security bilateral cooperation despite the divergent interests of Japan and Australia. Close proximity of Australia demands closer attention to internal security of the island states, whereas Japan's interests are more economic and maritime. In regard to Southeast Asia and Northeast Asia, Japan and Australia can only coordinate their respective foreign and security policies toward these regions. Security cooperation at the level of military operations needs to be inclusive of the ASEAN countries and China, focused on low-intensity missions, or both.
- The Japan-Australia relationship has direct interests for the United States, which has agreed to enter into trilateral discussions to exchange information and cooperate on regional and global issues. While China has expressed concern that such trends mark the possible emergence of a NATO-like structure in the Asia-Pacific, in fact current Japan-Australia cooperation along with the United States only marks an effort to enhance political and security ties amidst a changed regional and global environment.

OVERVIEW OF POLITICAL TIES

The closeness of bilateral ties between Australia and Japan can be measured by frequency of mutual visits by their prime ministers. Japan's prime ministers have visited Australia at an average interval of 5 years between 1957 and 2002. Australian prime ministers have visited Japan at an average interval of 2.6 years between 1957 and 2003. It took 13 years between the visit by Prime Minister Robert Menzies in 1957 and the next visit by Prime Minister John Gorton in 1970. Since 1970, Australian visits to Japan became more frequent, at an average interval of 1.9 years. These high-level visits have focused attention at particular times, but ongoing contact between Japanese and Australian officials also occurs in bilateral and multilateral settings that attract less attention, but nevertheless provide a basis for concrete, working-level cooperation.

The two countries also launched a major track-two diplomatic effort in 2001 under the co-chairmanship of Jeremy Ellis of the Australia-Japan Foundation and Minoru Murofushi of the Itoh Chu Corporation. The first meeting titled "Australia-Japan Conference for the 21st Century" issued a co-chairs' statement that identified as their common interests continued engagement of the United States in East Asia and China's integration into the region as a "constructive regional partner." In regard to sub-regional and transnational security issues, the statement also called for strengthening bilateral dialogue and "cooperation to improve capacity to respond to crises." However, the bilateral partnership was aimed at "reinvigorat(ing) multilateral processes in the region and globally." This emphasis on multilateralism can be observed in their proposals for both economic and security cooperation.

A meeting between Prime Ministers Koizumi and Howard on May 1, 2002 produced a joint statement titled "Australia-Japan Creative Partnership," in which both leaders emphasized the importance of "working together to meet regional challenges," including assisting the transition of East Timor and combating transnational problems in the region. The statement also emphasized that "regional diversity and the specific needs of other countries in the region" must receive consideration, and that U.S. engagement and presence in the region underpinned stability.

Cooperation on East Timor represents one example of the current nature of Japan-Australia interaction. Under the UN Peacekeeping Operation banner, Australia and Japan provided the largest numbers of troops to East Timor among the participating countries. The two countries consulted each other on their assessments of, and roles in, East Timor via diplomatic channels. Cooperation appears to have proceeded well, and both sides have suggested that East Timor is an example of solid bilateral cooperation within a multilateral framework.

Another example of cooperation relates to the Pacific Islands Forum (PIF). Japan has maintained close relationship with the PIF. Australia and Japan also bilaterally discuss security matters of the South Pacific Island countries, for Australia is the dominant security actor in this region. Australia sees an "Arc of Instability" made of politically fragile South Pacific island states and fears possible outflow of refugees from this region. Australia also fears that political vacuum may invite terrorists and criminals into these islands to use them as transit bases for entry into Australia. Meanwhile, Japan's interests in the South Pacific revolve around less restrained and affordable accesses to the region's tuna fishery and sea-lanes. Of particular concern is safe shipment of nuclear wastes and reprocessed plutonium through this region. Australia and Japan are primary donors of

economic aid to the region and coordinate their aid policies. Australia takes a leading military role in the region if supported by the PIF, whereas Japan has stayed out in this regard.

Australia, like many other industrialized democracies, has expressed diplomatic support for the cause of stopping nuclear weapons development by North Korea, Japan's most immediate security concern. Its financial contribution to Korean Energy Development Organization (KEDO) in the Framework Agreement of 1995 represented the softer side of Australian diplomacy toward North Korea, whereas its active involvement in the proliferation security initiative (PSI) during 2002-2004 crisis represents the harder side. In both instances, policies were coordinated with Japan, United States, South Korea, and some European partners.

Japan and Australia also cooperate on global security concerns, and their shared policy stance may even sometimes contradict that of the United States. On the issues of small arms control, anti-personnel landmine ban, and chemical weapons ban, Japan and Australia were leading advocates of international regimes, despite the U.S. reluctance to fully participate in them. Meanwhile, on other issues, such as global terrorism and proliferation of weapons of mass destruction (WMD), Australia, Japan, and the United States maintain close diplomatic cooperation.

ECONOMIC TIES

Japan has consistently been Australia's number one export destination since 1969. Australia's exports to Japan are concentrated in mining commodities, such as coal, liquefied natural gas (LNG), and iron ore, beef, and aluminum, which together account for around 60 per cent of merchandise exports. In all five product categories, Japan is Australia's largest market: coal (42 percent), iron ore (39 percent), beef (38 percent), aluminum (34 percent).

Items of Importance for Japan in Australia-Japan Trade

(in thousand US dollars)

	Japanese Exports to Australia			Australian Exports to Japan			
	Overall	Passenger Cars	Bus/ Trucks	Overall	Coal	Iron Ore	Gold
1997	7,970,000	244,618	125,370	14,546,000	426,061	180,938	35,837
1998	8,020,000	293,837	142,869	12,989,000	421,056	189,809	35,243
1999	8,446,000	289,568	112,076	12,808,000	354,266	160,818	26,179
2000	8,580,000	301,098	87,548	14,774,000	343,920	165,256	25,745
2001	7,693,000	306,287	75,033	14,385,000	442,851	184,494	18,172
2002	8,318,000	373,907	104,724	13,986,000	457,855	197,224	47,412
2003		457,348	111,895		427,729	209,481	12,278

Source: Ministry of Finance (Japan). Australian LNG export details are kept confidential.

Australia absorbs only a small part of the overall Japanese exports, and they are concentrated in transportation equipments (passenger cars, buses, and trucks) and components. Japan is the second largest source of merchandise imports for Australia.

Bilateral trade relations represent their comparative advantages, but the division of labor is less than perfect. While Japan is poor in natural resources and has to depend on Australian

exports, Australia has domestic automobile production under protective import tariffs. Japan could enjoy cheaper Australian meat and dairy products, had it removed restrictive import tariffs and quotas on them. The relative absence of the manufacturing industries in Australia limits the volume of components and capital goods exports from Japan.

Japan's principal export destinations, 2003

1	United States	24.6%
2	China	12.2%
3	Korea, South	7.4%
4	Taiwan	6.6%
5	Hong Kong	6.3%
12	Australia	2.1%

Japan's principal import sources, 2003

1	China	19.7%
2	United States	15.4%
3	Korea, South	4.7%
4	Indonesia	4.3%
5	Australia	3.9%

Compiled by the Market Information and Analysis Section, DFAT, using the latest data from the ABS, the IMF and various international sources. <http://www.dfat.gov.au/geo/fs/jap.pdf>

INVESTMENTS

Japan's outward foreign direct investments into Australia amounted to 567.3 billion yen (US\$4.11 billions) in 1989 at the height of its "bubble economy;" 38.3 percent of that amount went into the real estate sector, followed by the services (22.8), finance and insurance (13.0), mining (11.5), and trading (6.9). The overall outward FDI to Australia declined to less than half of its peak by mid-1990s, but the manufacturing sector, especially transport equipment, food processing, and metal industries recorded sizable Japanese investments during the first half of the 1990s. As Japanese FDI further declined to the recent bottom at 60.3 billion yen (US\$559.9 millions) in 2000 and show only a shaky recovery since then, and investments in the real estate sector radically fluctuated, mining, trading, services and metal industries consistently remained among the top recipients of Japanese money. Cumulatively, Japan holds roughly 48 billion Australian dollars (US\$31.5 billions) in FDI in Australia as of June 30, 2003, which placed it as the third largest foreign investment source for Australia. On the other hand, the bilateral investment relations remain one-sided. Australian FDI in Japan remain negligible for Japan, both in absolute and proportional terms, although Japan is the fourth destination for Australian FDI.

Australia and Japan are both strong supporters of the multilateral trade framework of the World Trade Organization (WTO), but their interests diverge in regard to trade liberalization in the agriculture and other primary goods sectors (such as forestry and fishery). Australia is a leading member of the Cairns Group countries, which most strongly promote agricultural trade liberalization and removal of agricultural subsidies in the WTO rounds. Meanwhile, Japan has numerous non-tariff trade barriers and high tariff rates against imported farm products and is most reluctant to open up its agriculture market. Its divided domestic politics makes it even harder for Japan to effectively use its farm sector opening as a bargaining chip in negotiating opening of the manufactured goods markets by others, including Australia.

Australia and Japan were the key initiators of the Asia Pacific Economic Cooperation (APEC). In the late 1980s, faced with Europe's accelerated move toward economic

integration (which eventuated in the form of European Union) and North America's pursuit of free trade agreements (which led to the North American Free Trade Agreement—NAFTA), Australia and Japan feared possible exclusion of East Asia and Oceania from the emerging two blocs. Therefore, integrating the Asian Pacific economies and anchoring U.S. links in the region were common strategic objectives of Australia and Japan. Both countries were opposed to regional trade groupings that excluded the United States, such as the East Asian Economic Group (EAEG) proposed by Prime Minister Mahathir of Malaysia. However, at the more specific policy level, their diverging interests over the primary products sector trade have been one of the leading causes of APEC's stagnation on trade liberalization. APEC's Early Voluntary Sectoral Liberalization (EVSL) initiatives have failed to jump-start the market opening process, and its members have been lacking a willingness to "volunteer" significant market concessions. Recent shift of focus onto trade facilitation measures in APEC implicates this difficulty. In this context, while Japan and Australia pursue bilateral agreements on free trade and other expanded economic cooperation with their respective third parties, a bilateral agreement between Australia and Japan lags behind and remains in the stage of agreeing to launch government level studies as of late April 2004.

Australia consistently runs a trade surplus with Japan, due both to strong natural resource exports and lack of sizable manufacturing sector—which would inflate machinery imports. However, its export sectors are increasingly dependent on Japanese FDI. Australia has signed a free trade agreement with the United States and is pursuing one with China and ASEAN. This diversified approach reflects not only Australian exporters' interests in increased exports on an absolute basis, but also their desire to diversify export markets. From the Japanese point of view, the Australian market is too small to be significant. The compatibility between the two economies in terms of product specialization has been further enhanced by Japanese FDI into Australia's primary export and resource- and energy-intensive manufacturing sectors, such as aluminum production. However, both the gap in economic sizes and lack of progress in global and regional agricultural trade liberalization (for which Japan is partly to blame) have placed Australia in a position to wish more.

SECURITY TIES

Both Australia and Japan place emphasis on their bilateral alliance with the United States as the cornerstones of their security policies. While Australia has actively cooperated with the United States in the security domain by jointly fighting wars in Korea and Vietnam during the Cold War years, Japan refrained from both direct troop dispatch beyond its territorial space and exercise of rights to collective defense. Troop deployments by both countries to the Operation Enduring Freedom—OEF (against the Taliban and Al Qaeda forces in Afghanistan) and the Operation Iraqi Freedom (OIF) have illustrated that the two alliances have evolved out of their Cold War mold. The alliances are no longer characterized by one-sided dependence on the United States and single-minded focus on containing another hostile superpower.

The most important uncertainty common in the Australian and Japanese security thinking is China's future. China's rapid economic growth provides greater opportunities for both Japan and Australia to gain through trade and investments. At the same time, both Australia and Japan perceive a mixed signal from China's simultaneous pursuits of active participation in regional multilateral security discussions and military modernization.

Therefore, both Australia and Japan prefer to keep the United States engaged in regional security through their bilateral alliances in order to hedge against a strong and hostile China. At the same time, enhanced alliances with the United States in anticipation of a strong and hostile China may unnecessarily alarm China, fulfilling its own prophecy. Therefore, engaging China in multilateral frameworks, such as the ASEAN Regional Forum (ARF) and more recently in APEC summit meetings, so as not to alienate it, and increasing economic interdependence through trade and investments, is the preferred approach by both Australia and Japan.

The two countries' strong alliances with the United States contrast with the absence of strong security cooperation between Australia and Japan. While realist theories of international relations point to the power gap between the stronger alliance partner (the United States) and weaker partners (Australia and Japan) and the former's preference for bilateral arrangements, which offer it a better bargaining position, several other factors also account for weak Australia-Japan cooperation.

First, Japan's present constitutional interpretation bars the country from exercising rights of collective defense. Under this pretext, enhanced U.S.-Japan cooperation since the 1980s, which increasingly constitutes *de facto* collective defense, has had to be explained as Japan's increased shouldering of its own "self defense." Since the present constitutional interpretation bars Japan from defending another country, but permits Japan to be defended by another country, Japan would have difficulty in explaining a security partnership with weaker partners, like Australia, as "self defense."

Second, both Australia and Japan hope and encourage China to be a responsible and cooperative regional security partner. Enhancing bilateral security cooperation, including Australia-Japan cooperation, without simultaneous development of multilateral frameworks that include China, would be counterproductive for this purpose. Multilateral frameworks in the Asia-Pacific region are still in their early stages of formation and yet to prove their problem-solving capacities.

Third, ASEAN members also are skeptical of a strong security partnership between outside powers. In addition to their common discomfort about a strong Japanese presence in the regional security matters, Indonesia in particular has less than a cordial relationship with Australia over such issues as Irian Jaya (West Papua), Aceh, illegal migrations, and terrorism. Japanese reluctance to assert not only its own leadership, but also joint regional leadership with Australia, was clearly visible even in the formation of APEC: an economic cooperation efforts in which win-win situations were easier to argue than in security cooperation.

Fourth, timing is also an important factor in explaining the infant stage of development of Australia-Japan bilateral cooperation. Incentives for cooperation clearly exist in both countries, though probably more in Australia, as demonstrated by increased frequency of the political and military exchanges. Nevertheless, both Australia and Japan are amid post-Cold War strategic reviews, and the fluid security conditions in the Asia-Pacific region, in particular after the September 11, 2001 terror attack on the United States, have necessitated a search for new areas of security cooperation, which open new opportunities but take time to articulate.

In this context, Japan and Australia have held annual consultations between their defense and diplomatic officials at the level of bureau chief and vice-minister since 1996. However, this development was preceded by annual Japan-China and Japan-Korea

meetings and less frequent high-level meetings between Japan and UK, Germany, France, and Russia. Japan also started regular high-level discussions with Indonesia, Malaysia, Singapore, Thailand, and Canada, following the launch of the annual discussions with Australia. Thus, the Japan-Australia bilateral consultations constitute only a part of Japan's broad network of similar bilateral links.

Australia and Japan have both announced their participation in the U.S. Missile Defense (MD). Australia has agreed to construction of a U.S. radar site to track ballistic missiles, in addition to participation in research and development. Japan has announced deployment of sea-based SM-3 and land-based Patriot-3 interceptor missiles and started retrofitting one of its Aegis destroyers, while continuing on the joint research with the United States on Theater High Altitude Area Defense (THAAD). However, third-party transfer of jointly developed technology by Japan and the United States would likely violate Japan's prohibition on arms export (including military technology transfer). While Japan's self-imposed restrictions against collective defense may limit the scope of U.S.-Japan cooperation, how much (if any) Australia-Japan cooperation will develop out of the MD is even less certain.

As allies of the United States, Australia and Japan share strong interests in nuclear nonproliferation. Despite its hesitation to actively participate in multilateral security actions that involve military forces, Japan has sent its coast guard ship to a PSI maritime interception exercise in the Coral Sea, Australia, in September 2003. However, another similar exercise to be hosted by Japan in May 2004 (in which a coast guard ship and Maritime Self Defense Forces' P-3C Orion plane was scheduled to participate) was cancelled due to Japan's fear of unnecessarily agitating North Korea at the time of the Six-Party talk over the issue of its nuclear disarmament and concerns among the Asian countries that the initiative may target China. With no plan of further participation in military exercises announced, Japan is focusing its efforts on training of Southeast Asian customs control personnel to curtail illicit trade of WMD technology and components.

UNITED NATIONS MISSIONS IN EAST TIMOR

The UN Peacekeeping operation in East Timor was a case of major collaboration between Australia and Japan among other participants but without heavy U.S. involvement. The United States only provided some logistical support to the operation, whereas some 1,600 Australian troops played a central role in maintaining law and order. Once the security situation stabilized, Japan's Ground Self Defense Force provided to the United Nations Mission of Support in East Timor (UNMISSET) nearly 700 military personnel at its peak to assist in reconstruction efforts of the war-torn country. (7,687 total uniformed personnel, including 6,281 troops, 1,288 civilian police, and 118 military observers were present in East Timor under the United Nations Transitional Administration in East Timor (UNTAET) as of March 31, 2002; UNMISSET has 1,738 total uniformed personnel, including 1,549 troops, 60 military observers, and 129 civilian police as of May 31, 2004) United Nations Secretary-General Kofi Annan appointed Dr. Sukehiro Hasegawa as his Special Representative for Timor-Leste and Head of the UNMISSET in May 2004. Dr. Hasegawa was earlier appointed Deputy Special Representative of the Secretary-General and Deputy Head of the UNMISSET on July 1, 2001.

CONCLUSION

Japan and Australia have enjoyed generally sound bilateral relations. Economic compatibility is already high, yet further specialization through trade liberalization is possible. In the post-Cold War, and post-September 11, 2001, security environment, Australia expresses increasing interests in security cooperation with Japan. Yet, asymmetry in interests and capabilities exists between the two countries.

Australia is concerned about stability in the South Pacific Islands, due to their geographical proximity and the possible outflow of refugees, illegal migrants, drug smuggling, and terrorists. Although Japan is remote from these islands, Japan's interest in a UN Security Council seat may lead to active involvement in the Pacific islands security matters beyond the current financial supporter role, in cooperation with, and under the leadership of Australia, as was the case in East Timor.

In Southeast Asia, Japanese and Australian concerns about transnational security threats overlap more closely, yet resistance to outside interventions is generally strong in this region, thereby limiting the scope of Japan-Australia bilateral cooperation. Provided with ASEAN's strong emphasis on respect of state sovereignty, Japan and Australia can only coordinate their respective bilateral cooperation with individual ASEAN countries.

Australian weight in Northeast Asian security issues, North Korea and Taiwan, is light. Australia's involvement in Northeast Asian security matters keeps pace with other industrialized (Western, including the European) countries, and its minimally "regional" character is shaped by its three important bilateral relations with the United States, Japan, and China.

Bilateral security cooperation has started on a limited scale, but tends to be folded in multilateral frameworks. Japan pursues bilateral security cooperation with Australia as a part of its omni-directional bilateral security relations.

Sensitivity to China and ASEAN countries' concerns are important factors that limit the extent of bilateral Japan-Australia and trilateral U.S.-Japan-Australia cooperation.