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The Past Fifty Years – Retrospective and Prospective

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It is a remarkable pleasure and signal honour to present this keynote address to the Fiftieth Anniversary Conference of the Joint Australia–Japan, Japan–Australia Business Cooperation Committee Conference—remarkable most importantly because of the huge achievement of these meetings and your Joint Committees over the years; remarkable also to have been there at the beginning and to be here still for this celebration now; and a signal honour to have been asked to do what any one of a galaxy of distinguished friends and stalwarts of JABCC and AJBCC might well have been invited to do with more distinction.

Reflecting on the relationship between Australia and Japan today reminds me of the tremendous, forward-looking vision of the architects of the Agreement on Commerce that was signed in Hakone just over fifty-five years ago.

**Genesis of the relationship**

It is difficult to re-imagine the circumstances in which Prime Minister Menzies and his Trade Minister McEwen took the bold step of initiating negotiations with Japan and carried the enabling legislation through Parliament. The Pacific War was just a decade over when the negotiations began. The Opposition voted against the Bill in the Australian Parliament, a shame that among other more fundamental things drove Gough Whitlam, later Australian Prime Minister, to commit to deepening and extending the relationship through what became the Basic Treaty of Friendship and Cooperation between our two countries. Japanese Prime Minister Takeo Miki was his compatriot in that effort; Malcolm Fraser completed the work.

Crawford (Sir John was then Secretary of the Department of Commerce & Agriculture) and McEwen, in Australia, and Ushiba, in Japan, were the
visionaries but, later, the leadership of the business community and men like Adachi, Nagano, Mawby, Madigan and Hugh’s father, Bill Morgan, transformed their vision of the relationship into the reality of its scale and importance today. When I committed to work on the relationship with Crawford just a few years later, these men, and many others, extended their support to my work and their advice and kindness was a great strength then and remains an important legacy for me today.

It is difficult to imagine today that when Crawford opened talks with Japan in the mid-1950s, he did so by hitting a tennis ball into Ambassador Nishi’s back yard in Canberra as a pretext to start negotiations without drawing attention to the initiative. And at the end, when Ushiba cabled Tokyo from Canberra that Australia had offered to extend most-favoured-nation treatment in trade to Japan, he was immediately recalled to Tokyo, his colleagues fearing he had lost his senses. Gaimusho thought him in need of serious rest from the stressful task of negotiating with the Australians. But Ushiba was of course an immensely reliable witness.

The Commerce Agreement had an enormous immediate impact on the relationship. It more than doubled the intensity of Australia’s export trade with Japan and Japan’s export trade with Australia in just a couple of years. Later in 1976 the Basic Treaty of Friendship and Cooperation (the Nara Agreement) did the same for Japan’s investment into Australia and people movement between our two countries, almost trebling the intensity of Japan’s direct investment into Australia.

These were bilateral agreements, it should be remembered, that were nonetheless ordered around the most-favoured-nation principle or non-discrimination in our trade and other dealings. The Agreement on Commerce
entrenched Japan’s march towards establishing equal trade treatment under the GATT, at a time when Article 35 still allowed signatories to discriminate specifically against Japan. It served Japanese diplomacy well in securing equal treatment in the global trading system and it served Australian diplomacy well in establishing the base for Australia’s becoming the number one supplier of a whole range of industrial raw materials not only to Japan’s but also to world markets.

It was not just the immediate impact on bilateral trade and later investment that was important. These Agreements changed the whole structure of economic and political dealings between Australia and Japan. They were not just economic agreements but also political settlements of enormous significance, made possible at that time under the umbrella of the great global institutions and the security arrangements that America bequeathed through the Pacific Pacts and the Atlantic Charter during and after the Second World War.

At the beginning of the 1960s, with the iron ore export embargo in prospect of being lifted, the Nagano mission came to Australia in March 1961 to see for themselves whether Australia might become a large and reliable resource supplier to Japan. The mission from Japan was impressed with — even amazed by — what it saw when it flew over the Pilbara. It was also gradually persuaded to enter into long term contracts to make the giant new resource projects in Australia bankable. The Japanese mills were wary about moving to long term contracting, having relied on spot purchase of ore out of Malaysia and elsewhere before the Australian projects came on stream. So long term contracts were not, as is often believed, a Japanese invention, but an Australian one.
Out of the Nagano mission, the Australia–Japan Business Cooperation Committee was born in August 1962, and the Japan–Australia Business Cooperation Committee six months later. Little under a year later the first joint meetings were held in Tokyo, in May 1963, and, in September 1964, the second joint meeting was held in Canberra. The meetings of the Executives were held in the Mills Room at the Australian National University, and I was privileged to take part in those meetings as a postgraduate student assisting the Australian side. That was an historic event of which the University remains extremely proud. The ANU looks forward to the conferring Honorary Doctorates of Science on Sir Rod and Mimura-san on Wednesday afternoon to celebrate this long connection and your Committees’ and your own distinguished contributions to the relationship. After I went to Japan later that year, Sir Tadashi Adachi, Shigeo Nagano and many of their colleagues welcomed me warmly and assisted my work immensely.

**Achievements**

As I’ve said before, Australia and Japan have achieved so much together not despite but because of their differences – through their economic relationship and also in the perspectives we came to share in the international community and our work in building regional cooperation through APEC. The relationship that has grown since the 1950s is one of the most remarkable diplomatic and political achievements in the past half century. It has been critical in building a vision and exemplar for how the huge plurality of people in the Asia Pacific region might live on good terms and in prosperity.

Both countries have also brought a strategic dimension to the economic partnership, working together to support cooperation and development in East Asia, notably in getting APEC off the ground.
This is an immensely important bilateral relationship, not merely because it has brought trade, economic prosperity and amity to our two societies. It is the leading edge of Australia’s economic and political relationships in East Asia. Getting the relationship with Japan right is also a key element in getting Australia’s relationships in East Asia right. It is a core element in Japan’s resource and energy security. It is also an important ballast and lever for Japan in dealings with its neighbours in East Asia and across the Pacific with Washington.

Japan remains Australia’s second largest export market, taking 19 per cent of merchandise exports and 4 per cent of services trade. Imports from Japan proper, of course, have dropped back to 8 per cent of total imports, not importantly because we don’t still buy Japanese brands, but because Japanese brands are now shipped in significant volume from China and from Southeast Asia. There has been a huge triangulation of Japanese trade with Australia through other Asia, a phenomenon about which I wrote a few years back. Thirty years ago no one predicted that this would happen; that Japanese firms would lead the region in developing the most powerful and integrated manufacturing hub in the world today, encompassing first the Northeast Asian newly industrialising economies, then Southeast Asia, now China, with the promise of deeper integration with South Asia already on the slipway.

Offshoring by Japanese corporations in Asia means that, now, between around 40 per cent of Japanese corporate manufacturing output is produced outside Japan, much of it in China. Japanese investment pioneered the immensely efficient Asian production networks and the deep integration that has helped to drive Asia’s growth. These powerful economic links, of course, have also
come to provide important ballast in what from time to time can become, as we have recently seen, troubled political affairs.

The Asian Century

Now the Asian Century is already here. The industrial transformation of Asia is a development on a scale unprecedented in human history. Following the industrial revolution towards the end of the eighteenth century, Europe and North America each in turn came to dominate the world economy and global power. Now economic weight is shifting towards population weight. Asia is re-emerging as the world’s biggest element in the world economy. In 1960, Asia produced little more than 15 per cent of world output. Today that share is close to 30 per cent. This has happened in the space of a few decades whereas it took more than three quarters of a century for the industrial revolution to transform the European economy and political power.

Twenty years out, even ten years out, Asia’s influence will be even greater.

By 2025, one in two of the world’s population and four of the 10 largest economies will be in Asia. Asia will likely account for almost half of the world output and more than half world trade, with China accounting for half of that. In 2010, China’s per capita income was 20 per cent of the United States’; by 2050 it will be 55 per cent and India’s likely 42 per cent. The Chinese economy will likely be bigger than America’s within the current decade.

Asia has never been of greater global significance, as global economic and strategic weight shifts from west to east. Global institutional frameworks are coming to reflect this, with six members of the G20 being Asian countries, including Australia.
These changes have had a particularly rapid and profound impact on our region. Just on a decade ago, East Asia’s trade with America accounted for 23 per cent of its total trade, with China less than 10 per cent; last year, American trade was 10 cent of East Asia’s trade, China’s over 23 per cent. By last year, China was the major trading partner for every economy in East Asia (including Australia) with the sole exception of the Philippines.

This is the background to the Australian Prime Minister, Julia Gillard, commissioning a White Paper on *Australia in the Asian Century*. The White Paper is due for release in a few weeks, and I’m sure the Prime Minister will tell you something about that this evening. Our aim has been to understand the implications of the changes under way and to analyse the opportunities and risks. There are risks in maintaining the momentum of the huge change in Asia and managing the shifts in political power that change inevitably entails. Achieving projected economic growth outcomes will require vast investment in, and improving the quality of, human capital in the emerging Asian economies. It will require deep reform and institutional change to systems of governance. And as growth continues, it will require managing effects on environmental outcomes, climate change, and on food and energy security.

This is, of course, not just an Australian challenge. As I travel in our region, in Japan, in China, I am reminded by all with whom I speak that we share in common the challenge of managing this change and capturing its enormous benefits.

Your Committees have been at the forefront of constructive bilateral cooperation over the past fifty years. In the Asian Century your collaboration and strategic input will remain central to the quality outcomes you have served to achieve in the past fifty years.
Japan and Australia, and in particular their two business communities, have deep experience and substantial assets which they can deploy together on this great task. A starting point in our thinking in Australia about what kind of partnerships we’d like to have with our newly emerging neighbours in the region — with Indonesia, with China, with India — is what we have achieved together with Japan. There are things that we have yet to do, that we can do better, but what we have achieved in the Australia-Japan bilateral relationship in our regional partnership is a model, a reference point in what we need to do with others.

To be frank, I think we have been underutilising the assets of our relationship in recent years. Inter-ministerial meetings have fallen into disuse. The FTA needs to be dealt with promptly and clear the way for credible Japanese economic diplomatic initiative. Both countries have approached these negotiations too narrowly, without strategic purpose. Setting our sights on a traditional bilateral FTA is selling the relationship short. Rather our strategic focus needs to be on the achievement of deep and efficient economic integration of the two economies in Asian and global markets and serving as a model of regional integration with open participation to regional partners able and willing to comply and sign on automatically.

The absence of strategic engagement from both sides infects bilateral and regional initiatives. It’s not that the closeness in the relationship is not there, as Julia Gillard’s visit to Sendai at the time of Japan’s great national tragedy last year demonstrated so poignantly. But we need to look forward together, more so now than ever before in the last 40 or 50 years and act strategically. The challenges that we face in our region mean that the time has come to stop treading water, to lift our ambitions for change, decisively.
We have many things on which to work together.

The shifts that need to take place in response to the huge changes that have already taken place and are still to come in the Asian Century— in mindset, in international commercial innovation and strategic positioning, in private and non-official diplomacy, in our universities — are not tasks that can or should be left to governments alone.

Success in managing change in our external economic or political circumstance, of course, resides more in how we manage our own economic and political affairs than it does, of course, in what others do. Having a resilient, internationally-open, competitive, well regulated economy with strong micro and macro-economic policy settings and institutions allows us best to capture external opportunity as well as protect against external shocks.

The work that your Committees have initiated on financing and managing national and regional infrastructure development is crucial in this context. As this country emerges from the resource boom, investment in Australia’s economic infrastructure and reform of infrastructure markets are critical to improving national productivity and maintaining robust growth. Our regional and urban infrastructure in growth centres in the north and across the country is under pressure; improved inter-urban connectivity in the southeast will be crucial to international engagement and competitiveness. The scope for bi-national cooperation in this area is palpable — where is the Japanese and Australian forward-thinking on high speed rail development between Australia’s major cities. Here is an area in which there is obvious scope for a significant bi-national project, subject to testing against the international competition. In Japan, there are also infrastructure challenges: your ports, for example, no longer match international competitive scale or capacity.
Your Committees’ infrastructure missions to India and Indonesia over the past couple of years underline a broader interest. There is urgent need for better infrastructure in emerging Asian countries both to sustain growth and promote global recovery. With booming populations in some countries (India, Indonesia) and rapid urbanisation in all, particularly China, existing infrastructure is inadequate. The Asian Development Bank (ADB) estimates that approximately $8 trillion is needed in national infrastructure in Asia between 2010 and 2020 alone. This estimate does not take account of the huge demand for trans-national infrastructure within in the region (around another US$1 trillion), and on the drawing boards in regional agencies. The estimate of Asian infrastructure requirements stands next to the OECD’s estimate that global infrastructure requirements over the next two decades will be around $50 trillion, highlighting the importance of Asia in global infrastructure demand.

It helps to work together in entrenching these priorities in our region too. Australia and Japan did that when they got APEC up and entrenched its liberalising agendas. In the case of infrastructure, for example, it’s not just a question of commitment to getting infrastructure into place; infrastructure projects won’t be got up — they won’t be financed, publically or privately — unless regulatory frameworks are got right to make them bankable projects.

These issues are at the heart of the agenda for regional cooperation over the coming decades. As we prepare for the APEC Summit in Bali next year, there is focus on the long term ambition for regional reform and deeper economic integration in our region. This will require defining a new set of principles for regional cooperation, a target for 2030, beyond the Bogor Goals of trade and investment liberalisation in 2020.
These issues are also an important part of the G20 agenda going forward — a forum in which Japan can, and should, play a more active role with Australia, especially as we host the G20 Summit in Brisbane in 2014.

So, Chairmen, as I reflect upon your valuable work and example; on where we have come from over the past 50 years; on the incredible journey that I’ve been privileged to join, a journey that I could not have imagined being able to make as I was growing up as a boy during the Pacific War: I am excited by what we can do together in the years and decades ahead.

Congratulations on a job well done! O tanjobi, omedetto gozaimasu.