Australia’s Market Access Agenda Towards Japan

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AUSTRALIA’S MARKET ACCESS AGENDA TOWARDS JAPAN

The Australian Government’s trade policy with Japan since the 1980s has aimed to improve market access in the hope of addressing Australia’s dependence on a narrow range of commodity exports. When bilateral negotiations proved almost completely unsuccessful in diversifying or expanding exports, Australia decided to pursue its bilateral goals through multilateral negotiations. This approach was successful in the cases of the beef and rice markets, especially when the weight of the United States was behind the negotiations. When the US attempted to use managed trade to increase its exports of cars and car parts to Japan, Australia supported Japan’s protestations and ensured that the US–Japan Framework Agreement was implemented on a MFN basis. Trade diversion still occurred, however, with Japanese buyers being biased towards American goods. While the outcome of Japan’s market-opening measures will not become entirely apparent for a number of years, this paper warns that open markets may not necessarily lead to increased Australian exports.

Introduction

Until 1983 the Australian Government did not have a strong interest in pursuing issues of market liberalisation with Japan. In both its bilateral and multilateral diplomacy towards Japan, the Liberal Government, under Malcolm Fraser, had focussed upon protecting existing levels of market access, rather than opening Japanese markets further to expand this trade. The Hawke and Keating Labor Governments which followed had more proactive approaches to the bilateral trading relationship, recognising that changes were occurring in the trading relationship with Japan and in Australia’s exports to the world.

The Government’s approach to market access policies towards Japan and the world changed as the terms of trade for Australia’s raw material and commodity exports deteriorated throughout the 1970s and early 1980s. In the late 1970s and early 1980s emerging economic challenges – the global recession, the restructuring of Japanese industry and the changing Japanese relationship with the United States and the European Community – presented Australian policymakers with a new environment in which to deal with Japan. Unlike in the 1950s and 1960s, the assumption that Australian economic growth was synonymous with Japanese economic growth became increasingly tenuous (Meaney, Matthews
and Encel 1983: 29). The share of Australian exports destined for Japan as a percentage of total 
Australian exports declined from 36 per cent to 26 per cent from 1976 to 1983 (Australian Bureau 
of Statistics 1994a). And not only was the Japanese market for many Australian commodities 
contracting, but Australian exporters were also facing new challenges from countries, particu-
larly the United States, who were using political pressure to resolve trade negotiations with the 
Japanese (Horne 1992: 86). The Australian trade surplus with Japan halved during this period 
(Tweedie 1994: 174), the value of Japanese purchases of Australian goods showed hardly any 
rise in real terms in the early 1980s (Meaney, Matthews and Encel 1983: 29) and Australia’s 
share of Japanese imports fell from 8 per cent in 1970 to less than 6 per cent in 1983.

These downward trends resulted from factors over which Australia had very little control, 
such as Japan’s changing industrial structure. Australia–Japan trade was still strong. Japan 
took 26 per cent of Australian exports in 1983 and two-way trade totalled more than A$10 billion 
(Australian Foreign Affairs Record October 1983: 643), but while Australia was supplying 50 per 
cent of Japan’s iron ore imports, 40 per cent of its imports of coking coal, 80 per cent of its sugar 
imports, 60 per cent of its beef imports, and 80 per cent of its wool imports at this time, all of 
these commodities were showing low or negative growth (Horne 1992: 87). Australia was also 
in a situation of ‘commodity dependence’. Iron ore, coal, wool and beef together accounted for more 
than 62 per cent of Australia’s exports to Japan in 1993 (Australian Bureau of Statistics 1994b: 
109–118). The Government recognised the need to expand and diversify exports to Japan away 
from a reliance upon minerals, commodities, and a narrow range of agricultural products to new 
areas, particularly in agricultural products, processed foods and services. It pursued a range of 
policies to diversity trade, including investment facilitation, direct marketing efforts, and 
efforts towards improving access to Japanese markets. This paper focuses on its efforts to 
expand market access.

Australia also had the problem of a largely inefficient manufacturing sector and market 
access strategies were only part of Labor’s wider plan to transform the Australian economy 
from one which was inward-looking, inflexible and specialised in the export of primary 
products, to an open, market-responsive economy with a more diverse pattern of exports. The 
focus of this paper, however, is on the Australia–Japan trading relationship, rather than on 
domestic economic policy, particularly on how improving access to Japanese markets was 
seen by the Government as a way of increasing and diversifying Australian exports to Japan, 
and on the strategies used to achieve this aim.
In his first visit to Japan as Australian Minister for Foreign Affairs, Bill Hayden clearly understood the challenges facing the Australia–Japan trading relationship. Hayden recognised that ‘...the realities of the world economic situation are such that the rate of growth of our trade [with Japan] is going to be much less than it has been in the past’ (*Australian Foreign Affairs Record* July 1983).

The Hawke Government, and later the Keating Government, had two complementary goals in the areas of market access and trade liberalisation. One objective was multilateral trade liberalisation, particularly in the agricultural sector, through organisations and groupings such as the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO) and the Asia Pacific Economic Cooperation (APEC) forum. The second goal was to protect and increase access to the Japanese market for Australian exports by addressing Japanese impediments to trade and by ensuring that Australian producers were not disadvantaged by preferential trading agreements between Japan and its other trading partners. In a multilateral context, Australia viewed Japan as a powerful and influential partner in pushing for international and regional trade liberalisation. In a bilateral context, it viewed a further opening of the Japanese market, or continued non-discriminatory openness of the market where this did exist, as an important part of its goal to diversify and expand exports to Japan. This second goal is an area rarely touched upon in academic research on the Australia–Japan trading relationship. This paper examines the approach Australia took towards increasing access to Japanese markets, focusing on the Labor Government’s policy over the period 1983 to 1996.

**Trade Liberalisation and the GATT: Australia’s underlying bilateral agenda towards Japan**

In October 1983 Prime Minister Hawke referred to shared Australia–Japan interests in international trade when he declared to a gathering of Australian and Japanese business leaders that ‘as countries whose prosperity critically hinges on vigorous growth in international trade we [Australia and Japan] need to act together to ensure the maintenance of conditions necessary to a strong and resilient world economic and trading system’ (*Australian Foreign Affairs Record* October 1983: 650).

Hawke delivered this message to Japanese Prime Minister Nakasone during his visit to Tokyo in early 1984, and in return formed an agreement with Nakasone on the following strategy:
‘...support of an open, multilateral trading system, in which market access is determined by competitive performance and in which there is no surrender to political pressures for bilateral solutions to trading problems.’ *(Australian Foreign Affairs Record March 1984: 202)*

According to Hawke, Nakasone agreed that Australia and Japan would pursue this approach in the ‘search for a satisfactory basis for a new round of Multilateral Trading Negotiations (MTNs)* *(Australian Foreign Affairs Record March 1984: 202).*

Despite the multilateral rhetoric of the Government’s early approaches to trade liberalisation and market access in Japan, its attention was more heavily directed towards pursuing bilateral approaches to diversifying and expanding trade with Japan. The issue that dominated these efforts during the early and mid-1980s was the wish to protect and expand Australian beef exports to Japan. Although it was a traditional export to Japan, beef was a relatively small part of the trade in minerals and commodities. The Government’s efforts to expand the trade in beef, a sector with strong potential growth prospects, was part of its aim to reduce Australia’s dependence on other mineral and commodity exports which were facing low growth prospects.

Nakasone may well have meant what he said on his support for rules-based international trade, but his ability to fulfil these commitments proved questionable within a relatively short period of time. Within a few months of Prime Minister Hawke’s visit, the Japanese Government had bowed to American pressure in beef negotiations, and Prime Minister Nakasone’s commitment to an open, multilateral trading system was looking decidedly shaky *(Welfield 1992: 256)*.

Australia strongly protested about the US–Japan agreement on beef and despatched a number of bilateral delegations to Japan to present its grievances. Following Australia’s strong protestations, and an intensive series of bilateral negotiations between Australian and Japanese officials during May and June of 1984, the Hawke Government did manage to gain a slightly altered agreement, although this final outcome was still highly favourable to the United States, a fact that would become readily apparent in subsequent years. While this agreement resulted in an increase of Australian beef exports to Japan in dollar terms, the outcome was a significant setback for the Hawke Government, considering the much larger benefits which could have been expected if increased market access had been implemented in a non-discriminatory manner.
Despite this disappointment, the Hawke Government again pursued an agenda of bilateral cooperation in international trade matters when Prime Minister Nakasone visited Australia in January 1985, with an emphasis on agricultural issues (Australian Foreign Affairs Record January 1985: 7). Australia was keen to achieve agricultural reform, not only in Japan, but in global markets, and looked to Japan to ‘play a leading role’ in the MTN process (Hayden 1985).

In a speech to the Australia–Japan Ministerial Committee meeting in Tokyo, the Australian Minister for Primary Industry, John Kerin, delivered the message that Australia wanted a clear commitment from Japan on agriculture (Kerin 1985). But while the Japanese were willing to give a loose and vaguely defined commitment to an open, multilateral trading system, as exemplified by Nakasone’s commitments to Prime Minister Hawke in 1984 and 1985, they were much less willing to define a clear position on specific aspects of the MTN process such as agricultural trade. The sensitivity in Japan towards reforming agricultural trade meant that the Australian Government could expect neither strong nor automatic Japanese support for its own MTN agenda. Nor could it expect a significant diversification or expansion of bilateral agricultural trade with Japan unless this issue was resolved. Japan’s intransigence on agricultural trade at the multilateral level left few prospects for the Australian Government to achieve an adjustment in policy at the bilateral level.

The release of a series of market-opening measures by Japan in August 1985 proved that Japan was less than enthusiastic about addressing agricultural issues in the MTN process, and this did not augur well for Australian hopes to diversify and expand international agricultural trade, a point highlighted by Australia’s Minister for Trade (The Age 5 August 1985). But while Labor Government’s response to Japan’s market-opening measures emphasised the multilateral implications of Japanese agricultural policy, the Japanese position was also an obvious setback to Australian desires to expand and diversify the bilateral trading relationship. Without further concessions on agriculture by the Japanese, Australia could not expect any significant growth in agricultural exports to that market, and this further complicated its efforts to diversify its commodity exports to Japan.

Despite the seemingly intransigent Japanese position on agricultural trade in the MTN process which emerged between 1983 and 1985, Prime Minister Hawke used his visit to Japan in May 1986 to call for Japan ‘to take the initiative to put agricultural trade on the agenda’ during the upcoming round of the GATT in September (Japan Times 16 May 1986). Australia still sought bilateral dialogue with Japan on the MTN process. In February 1987

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looked to Japan to support Australia’s proposal for an immediate, concerted and coordinated action to resolve difficulties in global agricultural trade through the Uruguay Round (Australian Foreign Affairs Record January 1987), and believed that it would be ‘in Japan’s own interests to do so’ (Miller 1987).

The subdued reaction from Japan to the Australian agricultural proposal brought the Australian Government to reappraise its bilateral approach to trade negotiations. In addition, by mid-1987 it had become apparent that, despite assurances to the contrary by Japanese Government ministers and business representatives, the Japanese Government, bureaucracy and industry could, and certainly would, accede to the pressures of trading partners such as the United States in granting trading preferences not only the beef trade, but in other sectors as well.4

Between 1983 and 1987 bilateral negotiations had proved almost completely unsuccessful in protecting traditional Australian trading interests in the Japanese market, let alone in diversifying or expanding Australian exports to Japan. This reflected the growing asymmetry between the two countries balanced strongly in Japan’s favour, as recognised by the Australia–Japan Business Forum (Australia–Japan Business Forum 1987: 20).

While the Japanese Government and business community had given lip service to Australian demands for non-discrimination in trade and increased market access, on a bilateral basis there was little that a minor trading nation with limited negotiating power could do to influence Japanese trading policies and business practices. Australia was only one of a multitude of domestic and international voices in Tokyo that were attempting to steer Japan’s approach to the MTN process. In comparison to electorally powerful Japanese domestic groups (such as rice farmers), and major international economic powers such as the United States and the European Community, Australia could expect to exert only a marginal influence on Japanese trade policy. With regard to both bilateral trade negotiations and the MTN process, Australia’s relationship with Japan between 1983 and 1987 was one of reliance and linkage dependency, a fact recognised by senior representatives of the Hawke Government in late 1987 (Australian Foreign Affairs Record November/December 1987: 598–9). The Hawke Government had not only found it difficult to improve market access for Australian exports to Japan, but to protect existing trade. Australia’s frustration was compounded in early 1988 when Japan eventually responded to the agricultural components of the Uruguay Round of GATT. There was no evidence to suggest that any part of the Japanese plan had been influenced by Australian efforts, and it seemed that even those aspects of the Japanese plan...
that did agree with Australian goals did so because of political expediency rather than any sharing of Australian objectives. It appeared that Japan’s proposals on agricultural reform would agree with the Australian Government’s goals only when they posed a low electoral risk to the Japanese Government. In terms of the Labor Government’s desire to expand and diversify Australian exports to Japan through improved market access, the Japanese plan had almost nothing to offer, laying the onus for agricultural reform with exporting countries (Australian Foreign Affairs Record February 1988: 57; Australian Financial Review 5 February 1988).

Recognising the limits of bilateralism in attempting to influence Japanese agricultural policy, the Hawke Government from the late 1980s increasingly aimed to merge bilateral and multilateral trade diplomacy, with the belief that multilateral diplomacy could have ‘an important impact on the conduct of domestic decision making, even in a tightly drawn bilateral dispute’ (Australian Foreign Affairs Record November/December 1987: 599). In seeing that Australia had much to gain with a further opening of the Japanese market this policy was also aimed at addressing commodity dependence in the trading relationship at the bilateral level.

This new approach became most readily apparent in the ongoing issue of access for foreign beef imports.

The strong Australian protestations and intensive bilateral negotiations between Australian and Japanese officials had done little to influence Japanese decision making on beef access. The Hawke Government increasingly acknowledged the limitations of its bilateral beef strategy and concluded that the most effective way to promote beef exports would be to throw its weight behind the American campaign to force open the Japanese agricultural market through multilateral negotiations in the GATT (Australian Foreign Affairs Record April 1988). This revised approach proved very successful and an agreement was signed in June 1988 between Japan the USA providing for the replacement of the discriminatory quota system with tariffs from 1 April 1991, as well as a number of reforms to the distribution system (Australian Foreign Affairs Record June 1988; Australian Financial Review 20, 21, 22 June 1988).

In response to the agreement, the Australian Government acknowledged that ‘as long as retail prices respond to the removal of quotas, and assuming that on the Australian side we get our product development and promotion strategies right, we should be able to look forward to a substantial long-term growth in Australian beef exports to Japan’ (Dalrymple 1991).
Politically motivated beef deals, such as those that had been negotiated between Japan and the United States during 1984 and 1985, would be almost impossible under the new system.

The result in the GATT negotiations on beef was not due to Australian, or Australian Government efforts alone, a fact recognised later by the Australian Ambassador to Japan, Rawdon Dalrymple (Dalrymple 1991). The successful outcome of the negotiations was undoubtedly the consequence of intense US pressure on Japan at a time of growing protectionist sentiment in Washington. This should not diminish the Australian Government’s achievement in ensuring that Australia shared in the benefits of the agreement. Given previous discrimination in beef negotiations between the United States and Japan, it was by no means automatic that Australia should share in the market-opening agreement. The outcome represented a major success for Australian trade diplomacy, particularly when compared to the failures of the previous negotiations on beef in 1984–85.

With the resolution of the beef issue, Australia turned its attention to the diversification and expansion of other agricultural exports to Japan. In June 1988, shortly before a visit to Australia by Japanese Prime Minister Takeshita, Prime Minister Hawke highlighted the lack of access for Australian agricultural products in the Japanese market as the biggest issue between the two countries (Shirae 1988: 3).

Ongoing bilateral dialogue on agricultural liberalisation throughout 1988 culminated in an Australian proposal at the Australia–Japan Ministerial Committee meeting in early 1989 for the creation of a high-level Australia–Japan group on agriculture, which was established later that year. This high-level group would deal with Australia’s agricultural concerns and make recommendations to be taken up at the ministerial level. The group would aim to give more momentum, more coherence and more substance to the bilateral exchange on agriculture, and direct ministerial discussions more to the policy and political realities of Australia–Japan agricultural trade (Cook 1989).

The Australian Government used this group to pursue a number of grievances with Japan between 1989 and 1991 in areas such as quarantine, dairy produce and grain. (Dalrymple 1991). The Government’s focus was now upon exporting to new areas, and it had success in some minor products, such as certain fruit and vegetable items. The Government was also successful in gaining Japanese recognition of the Australian Animal Health System (AHS) covering quality control of meat exports. In more high-profile areas such as dairy products, grains (including rice) and sugar, Australia–Japan cooperation in the high-level group on agriculture was less successful, and the Australian Government turned to multilateral negotiations. According to
representatives of Japan’s Ministry of International Trade and Industry, the likelihood of significant barrier reductions on a bilateral basis was much smaller in these areas. Japan had little incentive to liberalise agricultural sectors such as rice and dairy products for Australia’s benefit alone, when such liberalisation would undoubtedly have had the same domestic political costs as opening to all countries, without the benefit of appeasing Japan’s other major trading partners, particularly the United States (Matsumoto interview 1995).6

With the resolution of the beef issue, and recognising the limits of bilateral negotiations on other agricultural products, the Australian Government saw that the major challenge was access to Japan’s rice market. Any exception to the GATT reform process was seen by the Australian Government as acting to undermine the entire thrust – and success – of the GATT agricultural negotiations (Evans 1991a). The Government also expressed its interest in the areas of coal, steel, industrial products, services, and intellectual property rights, but given Australia’s leadership of the Cairns Group, and its strong stake in agricultural reform, agricultural issues continued to dominate Australian goals. During the concluding stages of the Uruguay Round, the key objective was to work with Australia’s ‘Cairns Group’ partners to focus pressure on hold out countries’ (Australian Labor Party 1993). In terms of agricultural protection, Japan was certainly viewed as a ‘hold-out’ country.

While the Government emphasised issues of multilateralism in its public statements on rice, it was well recognised within Australia that the liberalisation of the rice market, and other areas of Japanese agriculture, could offer considerable benefits in terms of an expanded and diversified market for high quality, competitive Australian produce.8 The opening of the rice market was also seen as a hurdle which needed to be crossed if significant progress was to be made in opening Japan’s other agricultural markets.

Although a considerable level of bilateral dialogue on the Uruguay Round of GATT continued between various Japanese Ministries and the Australian Embassy in Tokyo, and between Japanese and Australian representatives at the GATT between 1988 and 1993, Labor Government Ministers also made regular statements on the need for Japan to accelerate its GATT efforts.

The Australian Government was particularly dissatisfied with Japan’s goal of ‘food security’, which had been consistently used by Japanese negotiators as a reason to avoid significant concessions on agriculture,9 and this view was put frequently by Government Ministers.10 In 1991 Prime Minister Hawke called for Japan to ‘play a leadership rather than merely subsidiary role’ in the GATT, ‘not least by being prepared to make some significant
further gestures in the liberalisation of access to its own markets’ (Evans 1991b). This approach was indicative of the Australian Government’s position towards Japan’s role in the Uruguay Round, and was repeated regularly in discussions between Australian and Japanese officials up until the conclusion of the negotiations in December 1993 (Australian Embassy Tokyo 1993).

The benefits for Australia from the conclusion of the Uruguay Round of GATT in December 1993, in terms of bilateral trade with Japan, were primarily in the area of agricultural trade. In addition to various agricultural commitments, Japan also signed the WTO Sanitary and Phytosanitary (SPS) Agreement, which set out clearer and more detailed rights and obligations covering quarantine and food safety measures to prevent their use as unjustified technical barriers to trade, and agreed to impose measures only when risk had been scientifically proven (Australian Embassy Tokyo 1996: 4). For Australia and the Cairns Group, the concessions offered by Japan fell far short of the desired objectives. Australia had sought comprehensive tariffication without exception from Japan, but while this had been achieved in the beef sector, and to a lesser extent in the dairy and sugar markets, the Government recognised that access to Japan’s agricultural sector overall remained ‘tightly controlled through a range of tariff and non-tariff barriers’ (Australian Embassy Tokyo 1996: 3–4). Despite strong Australian representations to Japan at the bilateral and multilateral level, it seemed that Japan was considerably more powerful in the trade negotiating process.

It is difficult to measure the total benefits to Australia of the outcome from the Uruguay Round. While Australia did gain improved access to various Japanese agricultural sectors, this did not mean that Australia would automatically share in the benefits of this market opening and expansion. The ability to change commodity dependence in the bilateral trading relationship with Japan depended upon the effectiveness of Australian exporters in penetrating the Japanese market.

**Post-Uruguay: Australia’s ongoing approach to diversifying and expanding trade through improved market access**

Following the conclusion of the Uruguay Round in December 1993, the Australian Government continued to take a ‘proactive and vigilant approach to market access issues’ (Australian Embassy Tokyo 1996). The Australian Embassy in Tokyo closely monitored Japan’s market-opening measures to ensure that Australian exporters were able to obtain a fair share of any new opportunities, and that this increased access took place on a non-discriminatory basis.
The Government also continued to pursue a range of issues through formal and informal bilateral consultations with relevant Japanese Government ministries, and took market access concerns to bodies such as the Japanese Fair Trade Commission (FTC) and the Office of the Japan Trade Ombudsmen (OTO). Through the operations of the Australian Embassy in Tokyo, it became actively involved with the Japanese Government’s Deregulation Action Plan announced in 1994, which introduced a range of deregulation measures to make the Japanese market more accessible to foreign goods and services (Farbenbloom interview 1995). The Australian Government made a submission to Japan in December 1994 outlining regulatory issues which either directly or indirectly affected access to Japan’s markets by Australian companies (Australian Embassy Tokyo 1994). This submission was particularly relevant in terms of the Australian Government’s desire to diversify trade with Japan. The bulk of the report dealt with Australian grievances in the manufacturing and service sectors and, perhaps not surprisingly, these priority areas were matched in many cases by Austrade efforts to expand Australian exports in these sectors (Australian Embassy Tokyo 1994). In agricultural, which was an important component of the submission, the emphasis was upon diversifying Australian exports towards new items such as apples, melons, mangoes and citrus fruits.

Following its submission, the Australian Government continued to pursue improved market access through bilateral and multilateral initiatives, which were often linked to Austrade goals. Areas focussed upon included the housing and construction, information and telecommunications sectors. Another issue given a high priority after the conclusion of the Uruguay Round, and in line with Austrade marketing efforts, was improved market access for Australian-built high-speed ferries (Australian Embassy Tokyo 1996: 20–21; Department of Foreign Affairs and Trade 1996: 49).

The other area of particular interest for the Government in terms of market access was the emergence in the early 1990s of bilateralism in the automotive sector. The Government had viewed auto parts exports to Japan with particular interest since the mid-1980s, and had seen the expansion of Australian exports in this area as an important component of its trade diversification goals. In its marketing and investment promotion efforts, the Government had placed a heavy emphasis on supporting strong growth in this sector. This emphasis seemed justified from the late 1980s as the Australian share of total Japanese imports of auto parts increased dramatically. By 1992 Australia was the equal third largest supplier of auto parts to the Japanese market alongside Italy, and behind only the United States and Germany.
Pacific Economic Papers

(Dalrymple 1992). Up until this time the issue of access to the Japanese auto parts sector had not been of major concern to the Australian Government (Dalrymple 1991). The United States perceived the situation differently. By the early 1990s trade friction between the United States and Japan had come to a head, with the US increasingly dissatisfied with the persistent trade imbalance between the two countries that was balanced heavily in Japan’s favour. Two-thirds of the imbalance consisted of Japanese auto and auto parts exports (Lincoln interview 1994).

Under the ‘Global Partnership Plan of Action’, which was part of the 1992 Tokyo Declaration Agreement negotiated by President Bush and his Japanese counterpart Prime Minister Miyazawa, the Japanese Government agreed to assist and facilitate the entry of US manufactured autos and auto parts to the Japanese market, along with broader measures to assist the entry of other foreign competitors (Japan Times Weekly International Edition 20–26 January 1992). The agreement also included commitments by major Japanese auto companies such as Toyota, Nissan, Mazda, Honda and Mitsubishi to drastically increase their purchases of US cars and car parts. This posed a strong challenge to Australian auto parts trade.

Fears in the auto parts sector were compounded during 1993 and 1994 as the United States and Japan attempted to negotiate the US–Japan Framework Agreement. Australia feared that this bilateral managed trade policy could be a disaster for Australian exports, not only in the auto parts sector, but in other sectors as well. It was feared that if the US pushed hard enough for access to the Japanese market for US industries, the Japanese would accommodate their major trading partner partly by squeezing out the products of other, less important trading partners such as Australia. Even the Japanese media acknowledged that as a highly competitive supplier of a range of goods and services exported by the United States, ‘Australia would be the first casualty of any outright US–Japanese trade war… and the fallout from a clash of the titans would certainly squash the junior partner’ (The Japan Times Weekly International Edition 17–23 May 1993: 8).

These developments posed a strong challenge to Australian efforts to diversify and expand trade with Japan, as US policy was targeting areas, such as manufactures and services, towards which Australia was hoping to diversify its export trade. Throughout 1993 and 1994 the Australian Government supported Japan’s resistance to pressure from the United States for managed trade outcomes. Japan’s Prime Minister Miyazawa welcomed this support (Australian Financial Review 29 April 1993) and the Japanese Government assured Australia that
‘Japan would not accept any US proposals for a managed trade regime that would hurt smaller countries such as Australia’ (*Australian Financial Review* 3 May 1993). Both Australia and Japan agreed that managed trade could be ‘fatally dangerous to the international liberal trade order from which both nations benefit so much’, and agreed to put this mutual position to the US (*The Weekend Australian* 1–2 May 1993).

Following increasing international condemnation and pressure, and a breakdown in negotiations with the Japanese in February 1994, the Clinton Administration began to back away from its demands for ‘numerical benchmarks and targets for increased imports in specific sectors’ (Bhagwati 1994: 8).

During bilateral talks with both Japan and the United States, Australia sought assurances that the US–Japan Framework Agreement would be implemented on a Most Favoured Nation (MFN) basis, and both sides publicly reaffirmed this undertaking as part of the final agreement (Department of Foreign Affairs and Trade 1994: 6). Despite this undertaking, Japanese auto industry buying trends during 1995 provided further concern for Australia. The fear was not so much that the Japanese Government would accede to US demands through discriminatory policy adjustments, as Japan had already made its position clear on this issue during the 1993–94 negotiations, but rather that private companies would respond to US pressure by diverting trade from other suppliers, such as Australia.14

This fear was based on sound reason, as it had become widely accepted within Australian Government circles that the earlier 1992 Tokyo Declaration between Japan and the United States had contributed to the considerable amount of trade that had been diverted away from Australian suppliers. Between 1992 and 1994 Australia’s share of the Japanese auto parts market declined from 5.5 per cent to 3.5 per cent (even more dramatically, the European Union’s share declined from 32 per cent to 25.9 per cent) while the United States’ share had increased from 34.6 per cent to 42.1 per cent (Australian Embassy Tokyo 1995). In response to these concerns, and in line with its desire not only to maintain but to expand auto parts exports to Japan as part of its broader trade diversification goals, the Government made some policy adjustments.

During 1995 Australia expressed its concerns at the ministerial and official level in Tokyo and Washington (*Nikkan Kogyo Shimbun* 27 May 1995; *Yomiuri Shimbun* 23 May 1995). To safeguard its concerns, the Government also gained approval to participate as a ‘third party’ in the WTO consultations on the dispute that were initiated by Japan in mid-1995 (*Australian Financial Review* 2 June 1995), and made representations to Japanese auto industry associa-
tions and major Japanese auto manufacturers (Australian Embassy Tokyo 1996). Shortly after the conclusion of the US–Japan Framework Agreement, the Government also despatched a joint industry–government trade mission to Japan to examine the possible benefits to Australian industry of the Japanese deregulation efforts announced under the plan (Cook 1995). In conjunction with the Australian automotive industry, the Government established mechanisms with Japan and the United States to monitor implementation of the agreement to ensure that Australian companies were not further disadvantaged (McMullan 1995). In early 1996 the Government invited the Japan Automobile Manufacturers Association to send a mission to Australia later in the year (Australian Embassy Tokyo 1996).

The emergence of veiled bilateralism between the US and Japan had hindered Australian efforts to diversify exports to Japan in the very important auto parts sector, a point recognised by Senator McMullan, Australian Minister for Trade (Australian Financial Review 6 June 1995), and by representatives of the Japan External Trade Organisation (JETRO), who conceded that the situation of Japanese auto companies favouring US suppliers was ‘likely to persist’ (Yamaguchi interview 1996).

APEC: An alternative approach to liberalisation

The other area of multilateral trade liberalisation in which Australia sought cooperation with Japan was the Asia Pacific Economic Cooperation (APEC) concept, which was launched by Prime Minister Hawke in South Korea on 31 January 1989. As was the case with Australia’s approach to Japan in the GATT, in APEC Australia had a number of multilateral (in this case regional and multilateral) and bilateral goals relating to Japan. While Gareth Evans, Australia’s Minister for Foreign Affairs at the time, later claimed that the initiation of APEC was motivated by ‘Australia’s appreciation of the economic potential of the Asia Pacific region’ (Evans and Grant 1995: 129), there are alternative interpretations. Whatever the case, while APEC cannot be viewed strictly in terms of Australian efforts to address commodity dependence in the bilateral trading relationship with Japan, APEC could be used to raise bilateral grievances of market access and trade liberalisation. While APEC represented a way to address regional and international goals, in terms of the bilateral relationship with Japan it was also an important adjunct to other Government policies that were geared to diversify and expand the bilateral trading relationship.
The success of the Hawke Government in gaining Japanese support between 1988 and 1991 for the APEC process was a considerable achievement given prevailing domestic and external constraints on an expanded regional role for Japan at that time, particularly as the smaller and middle-sized powers had deep concerns over Japan’s intentions (Cooper, Higgott and Nossal 1993: 103–104). The Japanese Ministry of Foreign Affairs, in particular, did not want the impression created that Japanese regional diplomacy cared only for trade and economic issues (Nakayama 1989). Japan took a low profile in the APEC initiative. It played a discreet, secondary role behind Australia during the early APEC initiatives of 1989–91, but this role was certainly supportive of broader Australian goals. The APEC process was, however, still at a relatively early stage at this time (Evans 1991a).

Between 1991 and 1996 Australia actively encouraged Japanese involvement in APEC as a means to encourage greater economic liberalisation and openness in the Asia-Pacific region, and within Japan itself. The initial APEC meetings in Canberra, Singapore, Seoul, Bangkok and Seattle largely dealt with organising the structural and institutional foundations of APEC, and focussing the group on economic issues and APEC’s role in underpinning the multilateral trading system (Australian Labor Party 1993: 20; Japan Economic Journal 8 April 1989: 1–4). It was not until the 1994 Bogor Summit that the APEC leaders directly addressed the issue of trade liberalisation (Evans 1995a).

According to Prime Minister Keating, as a result of the Bogor Declaration Australia would receive $7 billion in additional income each year, and a boost in its economic performance by 3.8 per cent (the Australian 17 November 1994). In reality, however, the outcome of the Bogor meeting in terms of economic benefits for Australia was unclear, with the Labor Government being unable to explain exactly how these estimates were reached. Little, if anything, was said in the Bogor Declaration about removing non-tariff barriers, which were a frequently criticised aspect of advanced industrial markets such as Japan, and even tariff reductions in areas such as agriculture were not guaranteed. The Bogor declaration was a broad statement of intent rather than a binding agreement and, in the short term at least, it offered few concrete benefits for Australia in terms of not only the trading relationship with Japan, but with the region as a whole. According to at least one Australian academic, the Bogor Declaration was little more than ‘a free trade fraud’ (Burchill 1995: 115, 119).

The closest cooperation between Australia and Japan on the APEC agenda, in terms of specific trade liberalisation goals, took place following the Bogor meeting and in the lead up to
the APEC summit in Osaka in November 1995. Throughout 1995 Australia actively sought Japanese support for the concept of ‘comprehensive’ coverage, whereby all trade sectors and industries would be included in APEC liberalisation measures. In the view of Australia, and in contrast to Japan, there should have been no basis under APEC for exemption of any industry from the Osaka action plan, including agriculture and services (Evans 1995b).

According to Evans shortly before the Osaka meeting ‘[i]t is crucially important if the Bogor momentum is to be maintained, that the liberalisation process extend across all sectors without exception’ (Evans 1995b). In particular, Australia hoped that the issue of agricultural liberalisation, which had only been partially addressed by Japan under the Uruguay Round of GATT, could be further addressed under APEC. This emphasis on ‘comprehensiveness’, particularly in reference to agriculture, related closely to other Australian Government efforts to diversify and expand trade with Japan (and the region) and can be viewed as a further policy adjustment by Australia aimed at addressing commodity dependence in the bilateral trading relationship. From Japan’s perspective, however, and in line with its own approach to liberalisation in the agricultural sector, which had become apparent during the Uruguay Round of GATT, a certain amount of flexibility would be needed when considering individual countries and industries (Matsumoto interview 1995; Hatakeyama 1995).

In the lead up to the Osaka meeting Japan, strongly supported by APEC members China, Taiwan and South Korea, argued that sensitive sectors such as agriculture should be allowed differential treatment under APEC, an approach that was strongly resisted by Australia and other APEC members including the United States, Thailand, Canada, and New Zealand (Calvert 1995). Australia maintained that the Bogor Declaration was unambiguous on the question of comprehensive coverage, and believed that there was already a great deal of flexibility under the generous timeframes agreed to in Indonesia. This Australian insistence on comprehensive coverage in APEC related closely to other efforts to diversify and expand Australian exports not only to Japan, but also in broader terms.

Under the eventual APEC Osaka Declaration, Japan announced some 50 deregulatory steps and reduced tariffs on 697 industrial items including textiles, chemicals and steel (The Japan Times 20 November 1995). The majority of these concessions, however, represented reductions in tariffs that had already been announced by Japan under the Uruguay Round of GATT, and Japan merely pledged to speed the pace of these reductions. It also pledged to cut tariffs on 55 agricultural and fishery products, to take deregulation measures to improve foreign access to the Japanese market and to simplify auto inspection procedures (The Asahi
Evening News 20 November 1995). These concessions also related closely to deregulation arrangements already in place or under consideration by Japan under its own deregulation program, the Uruguay Round agreement, or other arrangements such as the bilateral US–Japan auto negotiations. From Australia’s perspective, Japan made few new or substantial commitments under the Osaka agreement.

Japan, along with China, South Korea and Taiwan, succeeded in having the concept of ‘voluntary liberalisation’ entrenched in the end agreement (APEC Economic Leaders Declaration for Action 1995). The concept of ‘comprehensiveness’ was included in the end draft at the insistence of countries such as Australia and the US, but the agreement still permitted differential treatment for areas such as agriculture that had been identified as ‘sensitive’ by Japan and some other APEC members.

Before the Osaka meeting senior Japanese Government officials declared that the issue of agriculture would be sensitive during negotiations, with Japanese bureaucrats who were opposed to further farm liberalisation putting their position strongly to the Japanese Government (The Japan Times 10 November 1995; Matsumoto interview 1995). While the Japanese Government declared that Japan had ‘every intention of liberalising the agricultural sector based on the Uruguay Round’ (The Japan Times 10 November 1995), even this approach had its constraints, and Japan was not willing to make any further concessions on agriculture under APEC. Agriculture had effectively been exempted from the APEC liberalisation process (The Japan Times 17 November 1995).

While Australia certainly did not initiate APEC merely as a method to manage the bilateral trading relationship with Japan, APEC was viewed by the Labor Government as an important adjunct to its other bilateral and multilateral strategies towards Japan, particularly a way to address commodity dependence in the bilateral trading relationship with Japan. It was hoped that APEC would facilitate the diversification and expansion of Australian trade with Japan.

With regard to commodity dependence, however, Australia’s involvement with the APEC process, in the medium to short term at least, appeared to provide little additional benefit to already existing efforts, such as trade liberalisation through the newly established WTO, to diversify and expand Australian exports to Japan.
Conclusion

While it is without a doubt that Federal Labor Government trade liberalisation policies towards Japan over the period 1983–96 corresponded with broader global market-opening efforts, it is clear that many of these policies had a strong and underlying bilateral agenda. These policies were not only tied to Australia’s pursuit of multilateral trading goals, but were an important part of Australia’s attempts to diversify and expand exports to Japan. In the face of changes to the Australia–Japan trading relationship which had appeared by the early 1980s, the Federal Labor Government recognised that a situation of commodity dependence had emerged for Australia. To challenge this dependence required a concerted trade diversification and expansion strategy. Improved access to Japanese markets was just one aspect of this strategy and it was hoped that Australian efforts through GATT, APEC and a range of other trade liberalisation measures would contribute to other efforts to address Australia’s heavy and sensitive reliance upon minerals, commodities and a narrow range of raw and barely processed agricultural products. While these traditional areas of trade were still viewed as important, Australia sought to move further into new areas, and particularly into value-adding, increasing its access to overseas markets.

The degree to which the Government was successful in gaining access to Japanese markets is not completely clear. While Australia did enjoy improved market access in a range of sectors, the impact that this had upon the diversification of exports to Japan is difficult to measure. The outcome of many of the market-opening commitments made by Japan through the Uruguay Round, the Osaka APEC Declaration, and a range of other less significant agreements, will not become entirely apparent for a number of years as these arrangements are implemented. It should also be noted that an open market for Australian products in Japan does not necessarily translate to increased or diversified exports. In the case of auto parts, for example, a transparent and open market is not always a fair one, with the possibility of Australian exporters being discriminated against at the private sector rather than at the policy level.
Notes

1 The Fraser Government strongly emphasised the importance of reliability and stability during bilateral and multilateral trade negotiations on issues such as beef, sugar and coal but had experienced repeated problems due to Japan's adjustment to changing global trade and development prospects. On the sugar dispute and the Fraser Government's response see Australia-Japan Economic Relations Research Project (1979), on the beef dispute see George (1984), and on the coal dispute (as well on the beef and sugar disputes) see Alan Rix, Australia and East Asia: Japan, op cit, pp 193–7

2 By May 1987 Australia's share of the quota beef market in Japan had fallen to less than 60 per cent, even lower than the figure estimated from the original agreement of February 1984, and in the offal beef market the United States had secured an 80 per cent share. See question from Mr Hunt, MP, to Prime Minister Hawke, Hansard, 5 May 1987.

3 Sensitivity in the Japanese agricultural sector was the end result of various policy measures, institutions and principles that had evolved from the 1920s and 1930s when the Government had first initiated policies to stabilise the supply of rice in response to consumer unrest. See George and Rapkin (1993) and George and Saxon (1986).

4 For example in 1985 after the Japanese Government urged the private sector to examine the possibility of concluding long-term contracts with American suppliers, a major US coal supplier concluded an agreement for the supply of 1 million tonnes of steaming coal to Japan at a cost well above Australian supplier prices (The Age 17 June 1985; the Australian Financial Review 18 June 1985).

5 In a speech to the Australian Institute of International Affairs in June 1987, the Deputy Secretary of the Australian Department of Foreign Affairs, Philip Flood, declared that the United States had used diplomatic pressure to ensure that quota increases in the Japanese beef market were biased in favour of grain-fed beef and had secure a major share of the market see Flood (1987), p. 306.

6 For further discussion of the limits of the Labor Government's bilateral trade liberalisation approach to the Japanese agricultural market see also Snape, Adams and Morgan (1993), p. 161

7 The Cairns Group, a coalition of 14 like-minded agricultural exporting countries, was initiated by Australia in August 1986. It sought to address issues of illiberal international agricultural trade. For details of Australian involvement with the Cairns Group see Cooper et al. (1993), pp. 50–82

8 According to the Australian Rice Growers' Cooperative, if access to the Japanese rice market was opened to the order of 5 per cent under the GATT, Australian growers of Japonica rice would gain upwards of A$45 million per year in export income (Australia-Japan Economic Institute 1993).

9 With particular reference to rice, the 'food security' doctrine forwarded by Japan's Ministry of Agriculture, Forestry and Fisheries (MAFF) was based 'solely on Japan's particularistic national characteristics, interests and needs, namely, the claim that no comparable food with the same cultural and dietary importance exists in other
countries.’ MAFF bolstered this argument by stressing Japan’s extreme reliance on food imports. See George and Rapkin (1993), p. 28 and p. 45.

10 Foreign Minister Evans told a gathering of Australian and Japanese business representatives in Tokyo in June 1990 that ‘food security...should not be the only matter that counts’ for Japanese trade negotiators. During the same visit to Japan, Evans was much more assertive on Australia’s position when he declared that ‘Japan can’t simply hide under the table while the EC and the US are shelling each other on the subject of agriculture. Japan must take a position and it must be a more liberal position than it had adopted so far.’ See Evans, *Australia: Japan’s Pacific Partner* op cit. and Australian Embassy Tokyo (1990), p. 7.

11 For details of outcomes for Australia see Department of Foreign Affairs and Trade (1993).

12 The Government sponsored an AJBF Auto Parts Mission to Japan in 1991 (Australia–Japan Business Forum 1991). It instituted the Export Facilitations Scheme (EFS) in 1989 which allowed participants to import duty free vehicles and components equal in value to their eligible exports, up to a limit of 20 per cent of their production. The component producers scheme under the EFS allowed export credits up to a limit of 25 per cent of original equipment sales. This scheme also allowed duty free vehicles imports in return for arranging exports of components (Committee for Review of Export Market 1989).

13 In February 1993, the new US President, Bill Clinton, told Japanese officials that he supported the Super 301 trade law then under consideration by Congress. President Clinton argued that trading partners of the US, particularly Japan, could only avert the revival of article 301, which had by that time expired, by opening their markets (*The Japan Times Weekly International Edition*, 22–28 February 1993).

14 According to Bob McMullan, Australian Minister for Trade ‘[w]hat makes this dispute more complex is that it reflects the private activities of corporations rather than solely the activities of governments. ‘The difficulty for us (Australia) is whether there are private arrangements made by companies to get the pressure of themselves, and do a deal which advantages the United States and disadvantages us’ (*The Age*, 29 May 1995).

15 The Australian initiative can be seen as an attempt to gain international status, but this is not a sufficient explanation and ignores the more important structural and situation factors which contributed to the APEC initiative. More likely explanations for the Hawke initiative point to Australian desires to incorporate Australia more fully into the rapidly expanding Asia–Pacific economy, and to signal to the region the break with Australia’s regionally insular and protectionist past. Perhaps equally important in motivating the APEC agenda, and the most relevant aspect in terms of the focus of this study, was the contribution that APEC could make to the manoeuvrability in Australia’s international economic diplomacy at both the bilateral and multilateral level. This aspect of APEC was viewed as particularly important in terms of the emerging economic conflict between APEC members Japan and the United States, and to a lesser extent China and the United States, from the early 1990s (see Inouchi and Terada 1992, p. 12)
There was considerable divergence of opinion within the Japanese bureaucracy on the merits of Hawke’s APEC proposal. While a number of Japanese departments and agencies had put forward proposals for a ministerial level conference of Asia-Pacific countries during the 1980s stemming from the PECC concept, the Foreign Ministry had been much more reluctant (*Japan Economic Journal* 1989, pp. 1–4).

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