US trade policymakers claim that single-handed US efforts to increase Japanese imports of foreign goods and services are benefiting exporters worldwide. Many observers disagree, arguing instead that US unilateralism is severely undermining the multilateral world trading system. Opinion is divided: while officials in the European Union and Japan have been openly critical of aggressive US trade policies, smaller countries such as Australia seem to be taking a more nuanced view of the ‘free trade champion’.

This paper explores Australian views of US market-opening measures aimed at Japan, drawing on a series of interviews with Australian government officials and business leaders. It considers how US policies have impacted on Australia’s export opportunities in Japan and what policy tools are available to Australia for influencing the outcomes of US–Japan negotiations. Two opposing views are reported: first, that Australia should counter perceived US moves towards bilaterally managed trade and second that Australia should join with the US in its attempts to open Japanese markets.

‘We are asking Japan to open its markets. That will increase choice, quality, and competition for Japanese consumers of autos and auto parts. It will reduce prices for Japanese consumers of autos and auto parts. These steps will obviously be helpful to Japan’s trading partners who are trying to sell into those markets, and will obviously be helpful, we believe, to bring down the Japanese current account surplus which has been a persistent problem for the world economy.’

Dr Laura D’Andrea Tyson
Chair, Council of Economic Advisors
May 10, 1995

‘The United States cannot be the only engine of global growth or the sole buyer of goods to absorb the tremendous productive capacity of Asia. While we expect our trade deficit to increase as a consequence of the lower currency values in Southeast Asia and Korea, it is neither fair nor politically acceptable for the US to be the only country buying their exports. So we look to Japan, the world’s second largest economy, to play a central role in resolving this crisis. Japan’s policies must ensure not only effective market access for US goods and services, but also for the goods and services of the Asia-Pacific region.’

Ambassador Charlene Barshevsky
US Trade Representative
April 14, 1998
**Introduction**

This paper explores Australian perceptions of US attempts to open Japanese goods and services markets. Reporting on and analysing a series of in-person and telephone interviews with Australian business and government sources, it forms part of a larger project that examines the consequences for third-country exporters, and the world trading system as a whole, of unilateralist US approaches to making foreign markets more accessible to American goods and services.1

Most of the interviews for this paper were conducted from April to July 1998, when the author was a Visiting Fellow in the Australia–Japan Research Centre at the Australian National University. The respondents, who agreed to be interviewed on a not-for-attribution basis, were asked to respond to three general questions:

1. Do you believe that US attempts to open Japanese markets have tended to increase or decrease Australia’s export opportunities in Japan?
2. What channels are available to the Australian government and Australian business community, in Tokyo, Washington, or Geneva, for influencing the outcomes of negotiations of interest to Australia?
3. Have bilaterally negotiated trade deals between the United States and Japan tended to undermine negotiations conducted multilaterally through organisations such as the World Trade Organisation (WTO) or the Asia–Pacific Economic Cooperation (APEC) group of nations?

Respondents were also asked questions related to particular Australian industries and particular sets of US–Japan trade negotiations with which they were familiar, as well as whether the more effective dispute resolution processes – and more comprehensive coverage of tradable activities – introduced by the WTO have reduced the need for bilateral negotiations. The names and professional affiliations of respondents are listed in the Appendix.

The interviews reported on here were originally envisioned as a supplement to an empirical study of the effects of US–Japan trade negotiations on Australian exports. Initially, interviewees were selected because they were thought to have factual information relevant to the first question, in addition to being both available and willing to be interviewed. No attempt was made to ensure either the comprehensiveness or representativeness of the viewpoints.

To take fuller advantage of the broad as well as deep experience represented by the respondents in the sample, questions two and three were added in an attempt to get at some
of the fundamental issues facing both US and Australian trade policymakers. For Australia, these issues include the relative effectiveness and legitimacy of available trade policy tools, and in particular whether or not to join the bilateralist bandwagon. For the United States, the issues include not only whether third countries properly appreciate US efforts to expand world exports through market-opening measures, but whether a failure to appreciate them has potentially adverse implications for US leadership of the multilateral world trading system. Despite the limitations imposed by the relatively small sample of respondents, their answers provide thoughtful and sometimes challenging insights into these important policy issues.

Background

The Asian financial and economic crisis has, until quite recently, diverted US and world attention away from conflicts over trade balances and market access and towards problems created by opaque national banking systems and unfettered global capital movements. Since approximately October 1997, the international financial system, not the international trading system, has been the focus of attention for policymakers as well as pundits as they have haggled over mechanisms for stabilising weak Asian currencies and strengthening weak Asian economies.

In the United States, the crisis in Asia has produced a downturn, if not a complete hiatus, in the rhetoric blaming large US trade and current account deficits on unfair foreign trade practices. Although US officials have continued to call for Asian economies to open and deregulate their markets for goods and services, they have recognised that the major industrialised economies must 'accommodate transitional trade imbalances in crisis-affected countries' (Lipton 1998). Put simply, the United States has been willing to absorb increased numbers of Asian imports – at least temporarily – as part of an export-led recovery strategy for the region.

Japan was not one of the crisis-affected countries given latitude to export their way out of the economic doldrums via US markets. Nevertheless, in the first eighteen months of the crisis, American demands for more open and deregulated Japanese markets were largely subsumed into broader requests for macroeconomic stimulation of the Japanese economy. At the November 1997 APEC meetings, for example, President Clinton stressed the critical role of a strong Japanese economy in any Asian recovery.\(^2\) In the following months, a series of
speeches by US officials emphasised that strengthening its own domestic economy would be the single biggest contribution Japan could make to the economic health of the region – and the world.³ Further measures to eliminate longstanding barriers to imports, though welcome, would come a distant second.

By November 1998, however, the Japanese economy showed few signs of recovery and the truce over trade had begun to break down. At the APEC meetings in Kuala Lumpur, Tokyo chose once more to block tariff reductions on fish and forestry products, scuttling APEC’s plans to speed trade liberalisation in the region.⁴ Washington’s response was to express disappointment and some dismay. In a visit to Japan soon after the APEC meetings, President Clinton played it tough, stressing Japan’s need to carry through on existing trade agreements and raising the prospect of protectionist action should skyrocketing steel exports to the United States not be contained.⁵ Perhaps most significantly, US policymakers have once again declared their readiness to take unilateral measures against Japan and other countries that they believe unjustly limit imports. To American eyes, Japan’s failure to meet its responsibility to become an ‘engine of growth’ in Asia is another illustration of why US-initiated and US-enforced measures to open the Japanese market are a necessary public service for the rest of the world.

Unfortunately for US trade policymakers, the rest of the world isn’t united in agreement that unilateral measures such as Section 301 are appropriate policy tools for championing free trade.⁶ Former Japanese Prime Minister Kiichi Miyazawa, speaking at a joint news conference with President Clinton, probably represented the opinions of many when he said ‘the spirit of free trade cannot be pursued under the threat of unilateralism’.⁷ The European Union (EU) has been particularly vehement on the subject. Most recently, the EU has requested that a WTO panel investigate the international legality of Section 301, which forms the basis for threatened US sanctions over the EU’s banana import regime.⁸

It is perhaps not surprising that countries which have been frequent targets of aggressive US trade policy measures should be sceptical about the global benefits of those measures. A subtler question is whether countries that have not been particularly singled out by US policy see things differently. Do, for example, small to medium-sized countries with strong interests in increasing their exports to Japan find unilateral US attempts to open Japanese markets helpful or unhelpful? Put another way, is there any truth to the American claim that trade policy measures such as Section 301 benefit exporters worldwide? Perhaps even more importantly, is there any truth to the counterclaim that unilateralist US actions
are undermining the global trading system as represented by the World Trade Organisation (WTO) and other multilateral trading organisations?

For at least three reasons, Australia provides a good test of the proposition that US market-opening measures aimed at Japan have benefited third-country exporters. First, Australia is among Japan’s most important trading partners, and has a clear interest in US policies that might affect its access to Japanese markets. Second, Australia exports many of the products targeted by US negotiators. Third, unlike in many smaller Pacific Basin countries, the principal Australian industries that export to Japan are not entirely dominated by Japanese subsidiaries. Because they are likely to face barriers similar to those faced by US companies, Australian export industries could potentially benefit greatly from non-discriminatory US market-opening actions aimed at Japan.

US–Japan trade negotiations relevant to Australia

The selection in this paper of product categories – and thus negotiations – ‘possibly relevant’ to Australia is based on existing Australian export patterns as well as Canberra’s declared export priorities. Table 1 lists the top fifteen Australian exports to Japan as a percentage of total exports to Japan, as well as their relative rankings in and percentages of Australia’s total world exports. Of the eighteen sets of US–Japan negotiations selected for analysis (see Table 2), six cover products that are major Australian exports to Japan: coal and coke, cork and wood crude materials, dairy products, fish and seafood, non-ferrous metals, and meat and meat preparations. Another three categories of negotiated products, while not in the top fifteen exports to Japan, are in the top twenty Australian exports overall: office machines used for data processing (primarily computers), road vehicles, and vegetables and fruit. US attempts to open these Japanese product markets may therefore also offer strong opportunities for Australia to expand its exports to Japan.

Published statements about Australia’s export priorities also assisted in the selection of negotiations to examine. For example, ABARE (June 1999a, p. 3) states that, although now a net importer of forest products, ‘Australia is expected to become a regionally significant net exporter of forest products over the medium to long term’. Similarly, DFAT (February 1997) and the Australian Embassy, Tokyo (1998) identify several products receiving priority in Australian trade discussions with Japan, including horticultural products such as Tasmanian Fuji apples, mangoes, and ‘easy peel’ citrus (mandarins, tangelos, tangors); rice; housing
and building materials; automotive parts; medical services and health care; and telecommunications products and services.

The selection of relevant negotiations, organised by product group, is presented in Table 2. Using broadly defined product categories, we estimate that slightly over half of the more than 30 sets of US–Japan market access negotiations that took place between 1977 and 1998 involved goods and services Australia currently exports or potentially could export to Japan in the near future.\textsuperscript{9,10} While some of these negotiations were also conducted in multilateral forums, in the vast majority of cases the US was prominently behind the efforts to lower Japanese barriers to trade.
The impact on Australia’s export opportunities

How have US attempts to open these eighteen sets of Japanese product markets affected Australia’s opportunities to export to Japan? Perhaps unsurprisingly, we received mixed responses to this question. Nevertheless, in very general terms, most respondents believed that US efforts have benefited Australian exporters. One respondent stated simply that ‘the US acts as Australia’s bully’ in providing the clout necessary to force Japan to open and deregulate certain markets, particularly in agricultural commodity markets. There are important caveats to this general conclusion, however, caveats that may have important implications both for Australian trade policy and for the multilateral trading system as a whole. And, at the level of individual export sectors and commodities, respondents sometimes sharply differed on whether US actions have advantaged or disadvantaged Australian industry.

Table 2  US-Japan bilateral trade negotiations possibly relevant to Australia

<table>
<thead>
<tr>
<th>Negotiated Products</th>
<th>Significant Dates*</th>
<th>Negotiation Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-citrus horticultural products**</td>
<td>1997; 1999</td>
<td>301; GATT/WTO</td>
</tr>
<tr>
<td>Apples</td>
<td>1994; 1997</td>
<td>Bilateral; WTO</td>
</tr>
<tr>
<td>Tomatoes</td>
<td>1997</td>
<td>Bilateral</td>
</tr>
<tr>
<td>Autos &amp; auto parts</td>
<td>1987; 1993; 1995</td>
<td>Bilateral; 301; WTO</td>
</tr>
<tr>
<td>Rice</td>
<td>1994</td>
<td>WTO</td>
</tr>
<tr>
<td>Metallurgical coal</td>
<td>1983; 1994</td>
<td>Bilateral</td>
</tr>
<tr>
<td>Medical &amp; pharmaceutical products</td>
<td>1985; 1994</td>
<td>Bilateral</td>
</tr>
<tr>
<td>Wired telecommunications products</td>
<td>1994</td>
<td>Bilateral</td>
</tr>
<tr>
<td>Wireless telecommunications products</td>
<td>1989; 1994</td>
<td>Bilateral</td>
</tr>
<tr>
<td>Paper &amp; paper products</td>
<td>1985; 1992; 1994</td>
<td>Bilateral; 301</td>
</tr>
<tr>
<td>Wood &amp; wood products</td>
<td>1985; 1989; 1994</td>
<td>Bilateral; 301</td>
</tr>
<tr>
<td>Dairy products</td>
<td>1988</td>
<td>GATT</td>
</tr>
<tr>
<td>Fish, crustaceans etc.</td>
<td>1986; 1988</td>
<td>Bilateral; GATT</td>
</tr>
<tr>
<td>Aluminum</td>
<td>1985</td>
<td>Bilateral; 301</td>
</tr>
<tr>
<td>Computer parts</td>
<td>1985</td>
<td>Bilateral</td>
</tr>
<tr>
<td>Citrus fruit and fruit juices</td>
<td>1977; 1988</td>
<td>GATT</td>
</tr>
<tr>
<td>Leather &amp; leather footwear</td>
<td>1977; 1982; 1985</td>
<td>Section 301</td>
</tr>
<tr>
<td>Beef</td>
<td>1977–78; 1988</td>
<td>Bilateral; GATT</td>
</tr>
</tbody>
</table>

Notes:  * Primarily major settlement or decision dates, but in some cases initiation dates.
** Apples categorised separately. According to the USTR (February 1999), a WTO panel found against Japan in 1998 with respect to apples, cherries, walnuts and nectarines. A 1999 decision by the WTO Appelate Body also found against Japan with respect to plums, pears, apricots and quinces.
The first important caveat to the broad conclusion of American beneficence is that the product categories targeted for negotiation reflect US domestic economic and political interests, and not the interests of other would-be exporters to Japan. That is, US trade policymakers target markets in which US producers are either highly competitive (e.g. wireless telecommunications products in 1989), or for which powerful US domestic political constituencies exist (e.g. autos and auto parts in 1993). Their preferred strategy is to target markets that meet both criteria. Several of the respondents stated that, while they understood this self-serving approach to battling foreign trade barriers, they were quite sceptical about ‘holier than thou’ US rhetoric championing the world’s downtrodden exporters. None of the respondents believes that altruism is an important factor – let alone a driving factor – behind US efforts to open up Japanese markets.

A corollary to this observation is that US policymakers generally make no attempt to negotiate market access for individual products in which American producers have no advantage or interest. Some respondents argued that, on the contrary, where a foreign product could substitute for a related but different American product, US policymakers deliberately kept the scope of their negotiations narrow in order to achieve selective liberalisation favourable to the United States. This point was made by George Mulgan (1984), for example, with respect to the 1978 US–Japan bilateral agreement on beef. The agreement applied solely to grainfed beef, a major product of the United States, and not to grassfed beef, for which Australia had been a primary supplier to the Japanese market. In the first few years after conclusion of the agreement, US exports of grainfed beef rose dramatically, while the grassfed share of the Japanese beef market suffered a significant erosion. According to the respondents, the inroads made by US exporters during this period proved impossible for Australian exporters to reverse. In 1977 the Australian share of the Japanese beef market was over 85 per cent, while the US share was less than 9 per cent. Less than ten years after the conclusion of the agreement, the US share had risen to 50 per cent, while the Australian share had shrunk to just over 40 per cent.

According to the respondents, this type of pro-US import bias has been worst in cases like the 1978 beef agreement, where a US-imposed liberalisation first took the form of an expanded quota.11 Most US-led market-access agreements involving quotas require that the quotas be ‘global’ in nature, rather than being granted on a country-by-country basis, and that they also contain clauses specifying eventual tariffification of quotas. But in almost all cases such agreements also allow for an adjustment period during which quotas are expanded.
before being replaced by tariffs. This approach is problematic. Even when nominally administered on a global or MFN (most-favoured-nation) basis, quotas tend to be more susceptible to discriminatory manipulation than do tariffs. Because a few importers can often entirely fill a quota, the timing of the tendering system can be used to favour one country over another. In the case of agricultural products, where growing seasons can differ dramatically between the northern and southern hemispheres, this problem is especially severe. Our respondents argued that, with respect to US efforts to open the Japanese rice market, the initial timing of the tendering system set up by the Japanese Ministry of Agriculture, Forestry and Fisheries (MAFF) was heavily biased in favour of the United States as opposed to Australia.

A second corollary to the conclusion that bilateral US trade policies narrowly reflect US domestic economic and political interests is that, once official MFN status has been confirmed for a newly liberalised Japanese import sector, US policymakers make no attempt to ensure, and often have no way to ensure, that rival non-American producers actually receive equal treatment. In the case of the 1995 US–Japan auto and auto parts dispute, for example, two respondents stated that during the negotiations several Australian exporters were verifiably discriminated against by the Japanese auto industry. Most of these firms did not want to go public, as they feared the loss of future business opportunities. But when one company did publicly request support from the Australian government, it was apparently told that all would be well once Tokyo and Washington had promised to implement the agreement on an MFN basis. In the event, these respondents argued, Australian firms lost all their negotiating leverage because, having declared MFN, Tokyo and Washington walked away from the table without making any effort to ensure that it was carried out in practice. Japanese firms, and not the US or Japanese governments, were the ones making the import decisions, and – according to the respondents – they continued to discriminate in favour of the United States at the expense of Australia well after the signing of the agreement and declaration of MFN. Japanese import data confirm that, for some types of auto parts, Australia has lost market share and the United States has gained market share in the years following the 1995 negotiations.

Why would Japanese companies favour American imports over other imports, despite an official policy of MFN treatment? The theory suggested by the respondents centres on a need to insure against two types of risk: censure from the Japanese government and US retaliation. Our respondents argued that, MFN or no MFN, the pressure on Tokyo to increase
Japan’s imports very clearly come from Washington, not the world at large. Therefore, Japanese government measures to induce Japanese firms to increase their imports tend to focus on imports from the United States, not imports from third countries such as Australia. At the margin, pressure from Tokyo may give American imports an edge over other foreign imports in the minds of Japanese corporate leaders. Furthermore, Japanese firms are in general far more vulnerable to retaliation from Washington than they are to retaliation from the rest of the world. Not only is the United States the largest market for most Japanese exports and investment, it has also shown itself quite willing to take punitive action against perceived trade offenders. As Japanese firms might see it, should US trade policymakers choose to initiate a Section 301 complaint against them, potential losses would be huge.

There are, however, at least two weaknesses in this ‘insurance’ argument for Japanese discrimination in favour of American imports. The first is that Tokyo’s power to influence Japanese corporate decision-making may well be overblown. With respect to most manufactured products, at any rate, it is not at all clear that bureaucrats at the Ministry of International Trade and Industry (MITI) keep track of individual firms’ imports by item and by country of origin. Even if they do keep track, their power to censure firms who fail to raise their level of US imports is probably quite limited. Second, as US trade policymakers are frequently heard to complain, Washington’s influence over Japanese corporate decision-making also appears quite limited, notwithstanding the threat of possible Section 301 sanctions. If it is true that the threat of US retaliation encourages Japanese firms to expand their imports of American products, they rarely seem to get any credit for it in Washington. Except perhaps for the case of semiconductors, where foreign penetration of Japan’s domestic market appears to be both large and lasting, the typical American view of its bilaterally negotiated agreements with Japan is that they haven’t worked.16,17 This is true even in the context of the autos and auto parts dispute, where the threat of retaliation was quite real.18 Thus, even the second of the insurance arguments is less than fully persuasive.

A quite different response to the question of whether US market-opening measures have created export opportunities for Australia was that, while opportunities may have been created, Australian industry is not yet positioned to take advantage of them. For example, one respondent commented that the long-protected Australian forest products industry has traditionally not been export oriented.19 Roughly 60 to 70 per cent of Australian forests are state-owned, and wood-processing plants have been situated in areas with high local unemployment rather than where there is cost-effective access to foreign export markets.
Furthermore, a strong Australian environmental movement has put the industry at a disadvantage relative to its less environmentally conscious Asian neighbours. Although some controls are now being modified, quantitative ceilings imposed on unprocessed woodchip exports in the early 1990s acted as a binding constraint on the expansion of the foreign market for Australian woodchips, principally that of Japan. As a result, in recent years the Australian wood products industry has focused more on removing domestic barriers to profitability than on improving its external market access.

A comparable story is told about the Australian electric and electronic equipment industry, which is dominated by the subsidiaries of foreign multinationals, including several Japanese firms. These Japanese subsidiaries mostly export infrastructural items – Australia produces very little consumer electric and electronic equipment – and their target export markets are mostly in Southeast Asia and the Pacific. Only a few export to Japan, as their parent companies generally have separate and much larger presences in the Japanese market. While these firms do pay attention to market access issues, especially efforts to establish international technical standards for electric and electronic equipment, an equal if not greater priority appears to be to garner more support for the industry from the Australian government. For example, according to the Information Industries Taskforce (1997, p. 52): ‘the ability of the Australian information industries to maximise the benefits of any improvements in market access will depend on a number of related domestic factors’. The factors listed included the export readiness of information industries, the provision of competitive finance packages, government leadership, information on external markets and developments; encouragement for first-time exporters; and continued support for experienced exporters.

It is noteworthy that, while both the forest products industry and the electric and electronic equipment industry considered domestic barriers to export growth to be as big or bigger than any external barriers, the two industries had very different views on what government should do to reduce them. For the forest products industry, government itself was perceived to be a major part of the problem: according to NAFI (1999, p. 4), for example, the woodchip export licensing scheme has ‘damaged investment prospects, worsened regional economies, slowed down plantation establishment, and ... adversely affected national economic goals such as improving the balance of payments’. The Australian electric and electronic equipment industry, in contrast, was concerned that the government has not been doing enough. In particular, the Information Industries Taskforce (1997) would like to see
greater government cooperation with and financial support for industry to develop export markets.

Yet a third observation was made with respect to US efforts to improve access to the Japanese market for its metallurgical coal exports. As one respondent remarked, from Australia’s point of view Japanese coal and coke markets have never been closed. When the US Trade Representative (USTR) decided in 1994 to make an issue out of Japan’s declining imports of US coal, Australia was providing approximately 70 per cent of Japan’s steam coal and approximately 50 per cent of Japan’s metallurgical coal, and most Australian observers were unconcerned about the American action. One reason was that Japanese investment in Australian coal mines was high, and, as a result, there was reason to believe that Japanese firms might favour Australian over US coal. Furthermore, as the same respondent stated, Australians believed that the US share of the Japanese coal market was simply too small to worry about. What did worry Australian observers was that, as a result of the American action, Japan would be able to play off the United States against Australia in order to get concessions on price. This fear appears justified: by volume, Japanese imports of US metallurgical coal have continued to decline since 1994, while imports of Australian coal have been steady or have risen slightly. By value, however, Australian metallurgical coal exports have fallen over the same period, and contract prices are expected to fall a further 15–18 per cent in Japanese fiscal year 1999.22,23

While all the respondents agreed that US trade negotiators are in the business of looking after the narrow interests of US exporters and that US–Japan market access agreements therefore tend to be biased in favour of the United States, most concluded that US efforts to open Japanese markets have benefited Australia on net. An example is the Japanese rice market. One respondent stated firmly that without American pressure – and European support for that pressure – Australia and the Cairns Group of agricultural exporters would ‘never’ have been able to convince Japan to begin to dismantle its quantitative barriers against rice imports. Another cited the series of US–Japan negotiations in the 1980s that led to the 1988 GATT agreement on beef. According to this source, Japan’s liberalisation forced the Australian beef industry to upgrade to higher value-added, higher quality cuts. Without American pressure, this respondent argued, Australia would still be exporting low-margin manufacturing-grade beef to Japan under a highly restrictive quota. In fact, even in the case of the 1978 beef negotiations, when US producers of grainfed beef gained market share at the expense of Australian producers of grassfed beef, Australian beef exports to
Japan rose in absolute terms. Between 1978 and 1983, Japanese beef imports from Australia doubled in value – outpaced only by Japanese imports of beef from the United States, which more than tripled in value.  

The respondents also made a distinction between US–Japan negotiations that have targeted specific import sectors, such as the Market-Oriented Sector-Selective (MOSS) talks of the mid-1980s, and those promoting broad deregulation of the Japanese economy, such as the 1989 Structural Impediments Initiative (SII) and, to a lesser extent, the Framework talks of the early to mid-1990s. Several respondents viewed broad US–Japan negotiations more favourably because they are not simply blatant tools for US export promotion. For example, US attempts to secure the repeal of Japan’s Large-Scale Retail Stores Law (which limits the establishment, expansion and business operations of large stores in Japan), to encourage more active enforcement of Japan’s Anti-monopoly Act, and to eliminate anti-competitive government procurement practices such as dango, or bid-rigging, are all perceived as legitimate efforts to make Japanese markets more accessible to foreign, and not simply American, products. Even here, however, there are sceptics: one respondent argued that in the area of construction services, a primary focus of both the SII and Framework talks, the practice of dango has not been eliminated but rather modified so that US firms occasionally win contracts, but no other foreigners do.

Little appears to have been done to try to measure systematically the effects of US–Japan trade negotiations on Australia’s exports to Japan, or to isolate the effects of these negotiations from other factors that can influence the value and volume of bilateral trade flows. The same remark also applies to the United States, where, outside of a very limited study conducted by the US Congressional Research Service (Gold and Nanto 1991), we are aware of no systematic empirical work examining the actual outcomes of Super 301 and other market-opening measures from the point of view of US exporters.

**Influencing the outcomes of US-Japan negotiations**

According to the survey respondents, Canberra usually first learns about US–Japan bilateral trade discussions by means of its embassies, which are responsible for identifying and tracking foreign trade developments of possible interest to Australia. The consensus among the respondents was that word spreads fast, particularly when, as for most US–Japan trade negotiations, the initiator is the United States. In addition to the usual diplomatic channels,
Austrade and the Australian Embassy in Washington each have good contacts within the US business community who keep them informed of significant trade developments. Once an issue has been identified, Canberra assembles the facts on relevant trade patterns and decides whether or not to pursue it. Our respondents reported that the decision to pursue depends largely on the strength of Australian industry group advocacy, although in the case of industries that have national priority (such as information technology), the government sometimes takes the initiative.

If Canberra decides there is reason for concern about a set of US–Japan trade discussions, the first line of approach is usually to express that concern to the US side (if the United States is the initiator) with the intention of either securing third-party concessions or possibly joining with the United States in multilateral negotiations. As one respondent put it, ‘the United States tries to ameliorate any negative impact of bilateral negotiations on Australia, but they would still run over us if necessary’. In recognition of this essential US pragmatism, Canberra tries hard to find one or more US industry groups that have their own motives for supporting the Australian position. The reasoning is that US trade policymakers are bound to be more responsive to US industry groups – who can be quite politically influential – than they are to Australians, who have absolutely no voice in the US domestic political arena.

Perhaps the best example of this process in recent years was the US–Japan dispute over autos and auto parts trade in 1993–95, which began in July 1993 as part of the bilateral Framework talks introduced by President Clinton and then-Prime Minister Miyazawa. The dispute was intensified by a Section 301 investigation initiated by the USTR in October 1994, and by the US declaration of punitive sanctions in May 1995. A set of WTO-mediated ‘consultations’ culminated in a formal agreement in June 1995. Canberra obtained details on the talks as soon as they began and quickly decided that the outcome was of considerable economic and political interest to Australia. According to one interviewee, officials at the USTR asked an Australian Embassy official to review an early draft agreement because the USTR also recognised that greater access to the Japanese auto parts market would be in Australia’s interest. Policymakers in Canberra, however, did not want to seem to support US trade unilateralism and the request was refused. Instead, Canberra decided to play both sides of the field: as part of the WTO dispute resolution process, Australia requested participation in a proposed US complaint about Japanese automotive trade barriers, but Australia also
joined as a third party to Japan’s complaint about US Section 301 import duties imposed on Japanese autos.28

Australia’s situation with respect to US–Japanese autos and auto parts trade was and still is complicated. On the one hand, Japan is Australia’s largest export market (the United States is the second largest) and much of the iron ore, coal, aluminum, leather and other primary products that Australia sells to Japan end up as inputs to Japanese automobiles. Many of these, in turn, are exported to the United States. At the time of the dispute, officials in Canberra judged that punitive sanctions against Japanese auto exports to the United States invoked by the Section 301 process would have had a detrimental impact on Australian raw materials exports to Japan.29 On the other hand, Australia has found it difficult to crack the Japanese market in the areas of manufactured goods and agricultural commodities and therefore had a certain sympathy with America’s position. As stated by then-Trade Minister Bob McMullan, ‘Australia shares strongly the aims of the US in seeking a more open and transparent Japanese market’ (McMullan 1995). The problem with the US–Japan autos and auto parts dispute, officials in Canberra were careful to point out, was not the US goal of reducing stubborn Japanese non-tariff trade barriers, but rather the unilateral nature of the American approach.30

In fact, as Australian government press releases and speeches made clear at the time, and as the respondents confirmed, Australia’s greatest worry concerning the US–Japan auto parts dispute was that Australia would be left out of any negotiated settlement.31 Not only does Australia supply large quantities of raw materials to Japanese auto manufacturers, but as of June 1995 approximately 20 per cent of Australia’s auto parts exports – at a value of almost A$200 million a year – went to Japan.32 If implemented on a truly non-discriminatory basis, an agreement improving access to the Japanese auto parts market could have significantly aided Australian manufacturers. Correspondingly, if implemented in a discriminatory fashion, Australian manufacturers would have been significantly harmed.

The Australian government made every effort to ensure that the US–Japan auto and auto parts dispute was resolved on an MFN basis in a multilateral forum. Canberra also evidenced a healthy scepticism about the agreement: even after it was negotiated under the auspices of the WTO, the Department of Foreign Affairs and Trade promised to ‘examin[e] the fine print of the agreement to makes sure there is nothing in the detail or in its implementation to disadvantage Australia’ (Australian Senate 1995a). In the first few months after the agreement was signed, high-level Australian officials met bilaterally first
with Japanese and then with US trade officials to arrange to monitor the outcome of the agreement. Australia joined the EU and Canada as an observer to the annual consultations held by the US and Japan to evaluate Japan’s progress on the agreement, and has faithfully attended each year.33

Despite all these measures, the respondents said the agreement has resulted in a Japanese import regime that discriminates against Australian and other non-American exporters of auto parts. How has this been possible, given all of Canberra’s efforts to ensure MFN treatment? According to several of the respondents, the answer is simple. Japanese auto firms choose what to import on the basis of both quality and price.34 Although Australian auto parts are competitive on price, Japanese importers have used spurious concerns about their quality as an excuse for increasing their imports of American products at the expense of Australia. This type of discrimination is almost impossible to prove, even though – according to one respondent – Japanese importers have privately admitted what they are doing.

As one of the government respondents admitted, this type of situation leaves Canberra with little ability to safeguard Australia’s interests except to prevent the most blatant forms of discrimination in favour of the United States – and to increase its marketing efforts when Australian market shares start to slip. As a small country, Australia has few levers ‘to keep the US honest’. Among the levers identified by this respondent were the Cairns Group; Australia’s regional influence in Asia (mostly through APEC but also through its participation in US-led security arrangements); and Australia’s participation in international causes such as peacekeeping. The power of these levers lies mostly in moral suasion and accumulated goodwill. In the event of a serious trade conflict between the United States and Australia, this respondent did not think they would count for much.

**Conclusion: the impact on the world trading system**

Responses to the final question on how bilateral deals between the United States and Japan have affected the world trading system ranged from the slightly cynical to the very cynical. But while they all shared a certain degree of scepticism about Australia’s ability to influence the negotiating strategies of its trading partners, respondents’ conclusions about the appropriate role for bilateralism – and its use as an appropriate trade strategy for Australia – differed considerably.
One group acknowledged a role for bilateral trade consultations but believed that using multilateral forums to solve serious disputes was the only hope of even-handed treatment on trade for small countries such as Australia. Several interviewees stated that Australia would ‘never’ support US moves towards bilaterally managed trade, because, as a small country, Australia would have no leverage in such arrangements. A variation on this response was that, since Australia has excellent relations with Japan, to take a trade dispute to the WTO would be a confession of failure on par with using legal action to solve a marital dispute. If Australia had any serious market access problems with Japan (which more than one respondent implied it did not), there are ‘lots of forums’ – including APEC – in which to discuss problems. The WTO would be a last resort.

A point that was made to greater and lesser degrees by this group is that Australia has a very different, and perhaps much better, understanding of Japan than does the United States. As one respondent put it, the United States ‘goes hairy-chested’ when dealing with Japan, creating conflicts where they need not exist. However, the same respondent also suggested that ‘Asians’ respond differently to the United States than they do to Australia when Australia ‘thumps the table’. Because it is not as large or as powerful as the United States, this respondent argued, Australia is in a better position to push Asian countries into making difficult structural changes. The argument here is that the United States is often perceived as a bully, and Asian countries do not respond well to bullying. At the same time, this respondent stressed, the Australian government is very conscious to avoid the appearance of becoming ‘the stooge’ of US trade policy in Asia.

Almost the polar opposite position is taken by a second group of respondents, who argued that Australia is missing important opportunities as a result of its unwillingness to join the United States in efforts to pry open Japanese markets. Key to their position is the belief that, first, many Australian products are artificially barred from entering Japanese markets; and second, that Australia is and has been far too reluctant to push Japan on these points. One former government official experienced in Australia–Japan negotiations described Japan as ‘medieval, mercantilist and corrupt’, characterised by political–economic factions so deeply entrenched they can resist all but the bluntest of trade policy tools. Although, in his view, members of the US Congress cannot be trusted not to victimise Australia, Australia has had good relations with US trade officials, and can generally rely on their good faith when the United States conducts trade negotiations with Japan. In contrast,
he emphasised that Australia cannot rely on Japanese good faith in the same circumstances, whether at the legislative or bureaucratic level.

According to members of this group, Australian trade policymakers’ effectively complete reliance on multilateral mechanisms for solving trade disputes with Japan – and, more generally, their unwillingness to risk annoying Asian trade partners, especially Japan, by pushing them to open markets – disserves the Australian public. In their view, bilateral consultations (and even APEC meetings) do not provide Australia with sufficient leverage to force large countries to open their markets. In effect, therefore, Australian trade policymakers are relying on the WTO to solve Australia’s market access problems. Instead, these respondents argue, Australia should take a pragmatic approach, joining the United States (or the EU, or whomever) in their bilateral efforts to open markets when these markets are of interest to Australian producers. Not to do so, these respondents argue, leaves Australia with the moral high ground but little else. Instead of helping to make the world safe for multilateralism, they contend, Australia is simply missing the large and growing bilateralist boat.

Most of the respondents said that the multilateral world trading system has served Australia’s interests well (at least up to now). Their main point of contention is whether Australia should view US bilateralism as a threat to be conquered or an opportunity not to be missed. At least one respondent, however, was entirely cynical, stating rather bitterly that, as the Americans and Europeans set up the rules for the GATT, and the WTO is still ‘a US–EU club’, it doesn’t much matter whether trade negotiations are conducted in a multilateral framework or not. Either way, this respondent argued, unless Australia’s interests are closely lined up with one of these two major blocks, it can’t expect to get very far because the United States and European Union are able to bias WTO outcomes in order to favour themselves.

We conclude with two points made by the respondents, points that also serve as a mild warning to US trade policymakers. The first stresses the link between trade and security. As several of the respondents see it, the biggest threat that the United States can use is not the 301 threat to close the huge US domestic market but, rather, the threat to reduce or remove the region’s US security umbrella. One senior Australian government respondent claimed that at least three Asian countries, Korea, Taiwan, and Thailand, now openly discriminate in favour of US products and services as a sort of implicit payment for security guarantees. If this respondent is correct, US trade bilateralism will become less and less effective as US
regional security guarantees are (inevitably, in this author’s opinion) scaled back and removed over time.

The second point focuses on the international political fallout from perceptions of US trade policy arrogance. When asked whether the establishment of the WTO, with its new and improved dispute resolution process, has affected the way Australia perceives US bilateralism, another senior Australian government official stated ‘US bilateralism had mixed value to Australia under GATT, and still has mixed value under the WTO’. He also stated that, if he were in the US position, he would probably also choose to deal with Japan on a bilateral as opposed to multilateral basis on many issues. However, he went on to stress that even the powerful United States needs support for this strategy from other countries. And free trade rhetoric isn’t enough: small to medium-sized countries such as Australia, who have strong interests in expanding their exports to Japan and no particular reason to fear US trade pressure, are simply not convinced that the United States is their champion. US trade policymakers must work much harder to create a world constituency for their actions. If they do not, in the end, the United States could find itself increasingly isolated with respect to a broad portfolio of global economic and political issues that it cares very much about.
### Appendix: List of Australian interviewees

<table>
<thead>
<tr>
<th>Name</th>
<th>Office</th>
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<tbody>
<tr>
<td>Dr Robert Bain</td>
<td>National Association of Forest Industries</td>
</tr>
<tr>
<td>Mr Geoff Brennan</td>
<td>Canberra Liaison Pty Ltd and formerly Minister Commercial, Australian Embassies in Tokyo and Washington, DC</td>
</tr>
<tr>
<td>Mr Derek Brown</td>
<td>Japan Section, DFAT</td>
</tr>
<tr>
<td>Mr Mike Carney</td>
<td>Trade Negotiations Division, DFAT</td>
</tr>
<tr>
<td>Mr Peter Cook</td>
<td>Senate, Australian Federal Parliament and formerly Minister for Trade</td>
</tr>
<tr>
<td>Dr Wendy Craik</td>
<td>National Farmers Association</td>
</tr>
<tr>
<td>Ms Pamela Fayle</td>
<td>Market Development Section, DFAT</td>
</tr>
<tr>
<td>Mr John Fuhrman</td>
<td>Deputy Prime Minister’s Office</td>
</tr>
<tr>
<td>Mr Alex Gosman</td>
<td>Australian Electrical and Electronic Manufacturers Association</td>
</tr>
<tr>
<td>Mr Ian Grigg</td>
<td>Federal Chamber of Automotive Industries</td>
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<tr>
<td>Mr Mike Hedditch</td>
<td>Ricegrowers Association</td>
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<tr>
<td>Dr Peter Hussin</td>
<td>Trade Negotiations Division, DFAT</td>
</tr>
<tr>
<td>Mr Jim Kennedy</td>
<td>Ricegrowers Cooperative; Supermarket to Asia Initiative</td>
</tr>
<tr>
<td>Mr John Kerin</td>
<td>Formerly Australian Federal Parliament and Australian Meat and Livestock Corporation</td>
</tr>
<tr>
<td>Mr Bob McMullan</td>
<td>House of Representatives, Australian Federal Parliament, and formerly Minister for Trade</td>
</tr>
<tr>
<td>Dr Aurelia George Mulgan</td>
<td>School of Politics, University of New South Wales</td>
</tr>
<tr>
<td>Ms Janet Tomi</td>
<td>Japan Section, DFAT</td>
</tr>
</tbody>
</table>
Notes

1. For several of the interviews reported here, the author was joined by Doug Steigerwald of the University of California, Santa Barbara. See Lowell (1998) for further information relating to the larger RAND project on US trade unilateralism.

2. Apparently the Japanese were less than convinced by President Clinton’s argument. According to Miller (1997), Prime Minister Hashimoto responded in a press conference by saying, ‘We are not so conceited that we would think that we can be the locomotive for the Asia-Pacific region’.


5. See, for example, Clinton (1998) and Summers (1998). In fact, at the time of the President’s visit investigations had already been initiated against a host of countries accused of dumping steel into the United States at below-market prices (USITC 1999). Japan alone accounted for nearly half of the overall increase in US steel imports between the first ten months of 1997 and the first ten months of 1998 (USTR 1999a).

6. Section 301 of the 1974 Trade Act allows the imposition of US trade sanctions on foreign countries that US domestic authorities conclude have violated or denied US rights or benefits under existing trade agreements, or have adopted unjustifiable, unreasonable or discriminatory practices that burden or restrict US commerce.


8. The EU formally made its request on 17 February 1999.

9. One of the difficulties with following international trade negotiations, and particularly bilateral trade negotiations, is that press reports and even official documents are often quite vague as to the exact products covered under the negotiations. In some cases, this vagueness is probably deliberate because the negotiators on each side are not in complete agreement on what constitutes the full set of products being negotiated. This may still be true even after a settlement has been reached.

10. The estimated number of US–Japan negotiations will differ depending on treatment of recurrent negotiations over the same products as well as differing product categorisation. This paper tries to avoid the double-counting of products.

11. The 1988 GATT agreement on Japanese beef imports also began by expanding a quota, followed by tariffication.

12. MFN requires countries to treat all imports within a particular product category equally regardless of their country of origin. For a discussion of MFN and quantitative restrictions, see Jackson (1997, p. 170).

13. Probably as a result, a suspicious Canberra forcefully opposed the rice tariffication plan announced by Japan in December 1998, while the United States kept a relatively low profile on the issue. However Australia withdrew its technical objection to the
plan after receiving the largest allocation in the first Japanese rice tender for financial year 1999 (DFAT 1999a and 1999b).

14 The company was Howe Leather, which itself later became the subject of a US Section 301 investigation and eventually a WTO dispute resolution panel. See Australian Senate (1995b).

15 In one category, ‘parts and accessories for bodies of motor vehicles’, Japanese imports from Australia fell from an average of 2.5 per cent of total imports in 1995 to 0.6 per cent in 1997. Over the same period, average imports from the United States rose from 46.9 per cent to 50.3 per cent. Further study is needed, however, to determine what role other factors might have played in determining the decline in Australian market share. Sources: Japan Tariff Association, Nikkei Database and author’s calculations.

16 In fact, one of the biggest gainers from the 1986 US–Japan Agreement on Semiconductors (repeatedly renewed) has been the Republic of Korea, which now dominates the Japanese market for commodity chips. The agreement appears to offer a clear case in which US efforts to open a Japanese market have benefited a third country, but further empirical work is needed to establish whether this is so.

17 In public, US trade policymakers tend to be far more critical of agreements negotiated under previous administrations than they are of their own negotiations. The frustration, however, is real. See, for example, the influential discussions of the 1986 semiconductor trade agreement in Prestowitz (1988) and Tyson (1992), and the more general and more recent comments on trade agreement compliance in Aaron (1999).

18 See for example AAMA (1997).

19 Australia is a net importer of wood fibre, which is used for manufacturing pulp and paper. Some Australian forest products are exported to foreign niche markets, such as housing timbers and hardwoods for flooring and panelling, but roughly half of the value of Australian forest product exports consists of low value-added woodchips (NAFI 1996). Most woodchips are processed into pulp for paper production.

20 The Australia-wide ceiling on woodchip exports – originally introduced to boost prices of Australian woodchips on the Japanese market and to encourage the growth of the Australian wood processing industry – is gradually being phased out in favour of Regional Forest Agreements between the Federal Government and the states that specify ‘ecologically sustainable wood yields for that region’ (Forests Taskforce 1996). Woodchipping operations in areas of old growth forests are not permitted.

21 Infrastructural equipment includes items such as supply switches, transmission equipment, cables and transformers.

22 ABARE (June 1999b). With respect to Japanese fiscal year 1999, ABARE stated: ‘Australian export volumes are expected to be maintained, largely at the expense of US exports’ (p. 342).

23 Of course, the weak Japanese economy may have contributed far more important than US competition to the decline in Japanese contract prices for coal in the 1990s. Mulgan (1984) also points this out.

24 The official title for the Framework talks, launched by President Clinton in July 1993, is the US–Japan Framework for a New Economic Partnership. In addition to
promoting regulatory reform and increased competition, the Framework talks addressed five specific sectors: telecommunications, medical technology, financial services, insurance, and autos and auto parts.

26 As early as 1985, autos and auto parts were also a primary focus of the MOSS talks between the Reagan and Nakasone administrations.

27 As of July 1995, the Australian auto parts industry had annual sales of almost $A4 billion. The automotive sector as a whole provided around 47,000 jobs, of which roughly 22,500 were connected to auto parts manufactures (DISR 1995; DFAT 1995b).

28 Japan’s complaint against the US predated the US complaint against Japan, which, in the event, was filed but never formally processed. Agreement was reached before a WTO panel was established in either case.

29 In May 1995, the Clinton Administration placed a 100 per cent tariff on imports of thirteen luxury car models produced in Japan; had no agreement been reached, importers of these models were to have been billed at the end of June.

30 Some Australians, including a small number of our respondents, do not believe that Japanese non-tariff trade barriers are particularly high or particularly stubborn, either for Australian or for American goods and services. See for example Drysdale (1995).

31 Australia’s concerns were heartily – and vocally – shared by the EU. See for example European Commission (1995) and Nash (1995).

32 Australia primarily exports original equipment parts, not the after-market replacement parts that were a substantial focus of the US-Japan negotiations. Interestingly, automotive exports to the United States were even larger, with a value of around A$250 million a year (DFAT 1995a).

33 As specified in the original agreement, annual consultations to assess implementation and evaluate progress will be held until the end of 2000, at which point the United States and Japan will decide if continued consultations are necessary (USDoC and USTR 1996).

34 The notion of ‘quality’ has many dimensions. The respondents did not provide a definition and neither does this paper.

35 By managed trade, we mean the use of numerical targets for imports.

36 This respondent is obviously not the same as the one cited earlier, who argued that US bilateralism is helpful because ‘the United States acts as Australia’s bully’.

37 In this context, several of our respondents mentioned how useful the Cairns Group has been for pushing the agenda of agricultural liberalisation within the GATT/WTO. All agreed that Australia’s leadership of the Cairns Group is one of its most important trade and foreign policy tools.

38 He did not include Japan in this list, but some other respondents did draw that link.
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