

3 THE JAPAN-AUSTRALIA PARTNERSHIP IN THE ERA OF THE EAST ASIAN COMMUNITY

CAN THEY ADVANCE TOGETHER?

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Australia's engagement with East Asia and the Pacific was widely perceived to be its overriding foreign policy priority during the 1980s and 90s, especially when Prime Ministers Hawke and Keating were in power. Australia was actively engaged in regional economic diplomacy. The partnership with Japan functioned successfully as part of Australia's strategy through their joint initiatives in establishing regional economic institutions such as the Pacific Economic Cooperation Council (PECC) in 1980 and the Asia Pacific Economic Cooperation (APEC) forum in 1989, each serving as catalysts in promoting Australia's regional engagement at that time. These regional institutions were designed to promote economic cooperation with member states and, more symbolically, to nurture togetherness with them by tackling common problems and pursuing shared goals such as trade liberalisation in the region. Sharing a view with Australia that the stability and prosperity in East Asia and the Pacific was a vital national interest, Japan—Australia's largest trading partner—consistently supported Australia's engagement policy. The significance of Japan's supportive role in Australia's engagement was fully acknowledged by Australia, as declared in Australia's first *Foreign and Trade Policy White Paper* that 'the partnership with Japan will have a decisive bearing on

Australia's overall standing in East Asia and [Australia's] degree of participation in regional affairs' (Commonwealth of Australia 1997:60).

However, the foreign policy priorities and approaches of the Howard government were perceived to be distinctive from those of the Hawke and Keating governments. Conspicuous differences stemmed from Howard's deliberate design and implementation of his foreign policy which placed a higher priority on security issues, attached more significance to relations with the United States and the United Kingdom, and promoted bilateral trading arrangements in lieu of regional institutions. Enormous changes emerged in East Asia after Howard came into power in 1996. The Asian financial crisis, the aftermath of continued economic and political uncertainty, especially in Southeast Asia, the historic transition to democracy and decentralised rule in Indonesia, and East Timor's independence movement were all intermingled in the articulation of his foreign policy. For domestic political reasons, Howard also displayed indifference to the feelings of Southeast Asians, as seen in his 'pre-emptive strike' statement made in December 2002, which indicated that he was prepared to order pre-emptive strikes in Southeast Asia to prevent terrorists' attacks against Australia. These characteristics helped create a general impression in East Asia that Australia had turned away from engagement with the region, despite the Howard government's frequent statements about Australia's continuing interest in strengthening relations with East Asia. This foreign policy approach under Howard can be characterised as 'inconsistent engagement', representing a divergence between foreign policy statements and actual implementation.

One of the most striking features of this 'inconsistent engagement with East Asia' was that there was no regional institution that Australia could utilise to promote its foreign policy. Australia's exclusion from ASEAN+3—which in recent years became more institutionalised—and the declining significance of the Asia Pacific Economic Cooperation process (APEC) highlighted the absence of a useful foundation for Australia's further engagement with East Asia, and at once symbolised Australia's growing isolation in the region. This also meant that Japan and Australia lacked a common foreign policy grounding in regionalism, an essential component that had characterised the Australia-Japan partnership over several decades.

With Japan as a major player in East Asian regionalism, Australia's increasing indifference towards East Asian affairs and its declining presence could be seen as detrimental to the Japan-Australia partnership.

Since winning a fourth term in October 2004, however, Howard has directed his foreign policy focus towards forging closer relations with East Asia by vigorously pursuing bilateral and regional diplomacy. This is evidenced by Australia's improved relations with Indonesia and Malaysia, two Southeast Asian countries that had a history of overt criticism of Howard's regional policy approaches. Even his former political rivals such as John Hewson (*Australian Financial Review*, 3 December 2004) and Paul Keating (*Sydney Morning Herald*, 4 April 2005) acknowledge the achievements Howard made through his later diplomacy in East Asia, including the announcements on the launch of free trade agreement (FTA) negotiations with ASEAN and China.

This chapter aims to examine the implications of the rise of East Asian regionalism for the Australia-Japan partnership. In particular, it investigates whether both nations can sustain their partnership, which evolved around regionalism over a number of decades, exploring the upsurge of Japan's interest in East Asian regionalism and examining Australia's foreign policy under the Howard Government. A clear regionalist approach was missing during the Howard government's first three terms (1996–2004), but his government demonstrated a keener interest in furthering relations with East Asian countries and promoting East Asian regionalism since late 2004. The change in Australia's stance on East Asia was well accepted by the region, allowing Australia to participate in the first East Asian Summit, held in Kuala Lumpur in December 2005.

Rise of East Asian regionalism

Regionalism is a concrete manifestation of regional consciousness perceived by members because it needs a boundary to differentiate insiders (members) from outsiders (non-members). A regional concept that establishes a particular geographical boundary is necessary for any instance of regionalism. The concept of East Asia as a region is relatively new. Until the appearance of the abortive East Asian Economic Caucus (EAEC) idea, which was put forward by Prime Minister Mahathir of Malaysia in the

early 1990s, there was no strong conceptual framework for regionalism in East Asia as a whole. What was significant in Mahathir's EAEC proposal was that he introduced the concept of East Asia, integrating Northeast Asia and Southeast Asia into one regional unity. Most of these countries had previously been involved in 'Asia Pacific', 'Southeast Asian', or 'Pacific' regional institutions for economic cooperation, including APEC, the Pacific Economic Cooperation Council (PECC), or ASEAN. It was difficult for regional countries to accept the 'East Asia' concept initially because other regional institutions, especially APEC, were prominent as useful regional institutions during the 1990s. Many countries in East Asia thus found it unnecessary to rush into the creation of East Asian regionalism. This was the case in Japan, whose attitude to the EAEC was lukewarm, despite Mahathir's strong expectations of its leadership role (Terada 2003).

A major reason for Japan's unsupportive stance was that Japan did not view 'East Asia' as a concept for regional cooperation. Japan instead adhered to the concept of 'Asia Pacific', which includes the Pacific nations such as the United States and Australia, as a basis for promoting regional economic cooperation. In fact, it was Japan and Australia that exercised coordinated leadership in the establishment of APEC in 1989 (Terada 1999). Japan's refusal at that time to become involved in the formation of East Asian regionalism meant that there was insufficient critical driving force towards creating East Asian regionalism. Yet later it was to be Japanese Prime Minister Junichiro Koizumi (2002a) who started urging regional countries to 'act together and advance together', envisaging the creation of an East Asian community in a major speech in Singapore in January 2002. Koizumi's insistence on the creation of a community in East Asia triggered other East Asian leaders to follow Japan's initiative. This is partly because Japan, previously non-committal towards the EAEC, now became one of the most enthusiastic supporters of East Asian regionalism and even displayed its readiness to lead the creation of an East Asian community.

A regional institution around which the community in East Asia is expected to revolve is the ASEAN+3 framework established in 1997 in Kuala Lumpur, as Koizumi suggested in his Singapore speech, to make 'the best use of (ASEAN+3) to secure prosperity and stability' in East Asia. As in Europe, institutionalisation of ASEAN+3 is expected to be crucial to successful community building and coordinated management

of a variety of emerging regional problems in East Asia. Japan's strong involvement in the ASEAN+3 process and its advocacy of an East Asian community have been milestones for East Asian regionalism, given Japan's initial hesitation to become involved in the EAEC. Regional cooperation on the ASEAN+3 basis is now extending to such areas as an emergency communications network among the energy ministers, the creation of an East Asian rice reserve system, a framework action plan to prevent and control SARS (severe acute respiratory syndrome), and a new oil reserve system to prepare for possible petroleum shortages arising from instability in the Middle East. Japan has found the development of these cooperative schemes in East Asia useful as vehicles encouraging the establishment of an East Asian community. The crux of the argument lies in the fact that Australia was excluded from these emerging regional cooperation schemes in East Asia, underlining the lack of an effective regional mechanism where Japan and Australia would exercise policy coordination for regional cooperation as they did in the case of PECC and APEC.

The Australia-Japan partnership and APEC

The history of the development of Asia Pacific economic cooperation is important in the evolution of Australia-Japan relations. Regional economic cooperation was a significant national interest for both countries, and both were encouraged to cooperate in building new institutions in the region. Major regional economic institutions such as the Pacific Trade and Development Forum (PAFTAD), the Pacific Basin Economic Council (PBEC), PECC, and APEC were the products of initiatives taken jointly by Japanese and Australians. Although the interests of both countries in promoting regional economic cooperation were distinctive, certain elements drew the two countries together in these institution-building endeavours. The most conspicuous element was diplomatic complementarity between the two countries. Japan's attempt to conquer the Asia Pacific region in World War II and its subsequent rapidly growing economic presence were obstacles to its involvement in regional economic diplomacy. Australia's traditional ties with Britain and its 'White Australia' policy initially made it difficult for Australia to be accepted by other regional countries. These

historical and cultural disadvantages led Australia to strive all the more in its regional diplomacy, while Japan's economic presence and its cultural and historical closeness to other Asian countries were useful to Australia's regional diplomacy. On the other hand, Australia's non-threatening middle-power status, underpinned by its lesser economic presence, and its active and dexterous diplomacy, compensated for Japan's more muted regional diplomatic role. This partnership—wherein each compensated for the other's shortcomings—functioned well in the establishment of PECC and APEC (Terada 2000).

When APEC emerged as a major regional institution in 1989, it represented the achievement of maturity and success in the Australia-Japan relationship because Japan and Australia had played key roles in its establishment. APEC has adequately proven the viability of a 'merger' between two distinct nations, which complemented each other to overcome their national shortcomings. Together they represented a formidable regional force, particularly as both countries continued to cooperate in the development of the APEC process. The APEC Leaders' meeting, the highest level meeting within the APEC framework, stemmed from ideas floated by Australian Prime Ministers Hawke and Keating, which Japan strongly supported.¹ Describing an episode where the United States urged Australia to join a movement for encircling Japan with 'a network of free-trade arrangements' in 1992, Keating (2000:33–4) clearly stressed that this option was not in Australia's interest and wrote 'we did not benefit from approaches that discriminated against Japan', due in part to Australia's trade surpluses with Japan. Even though this rejection invited bitter reactions from the United States, it was based on Keating's desire to convey a message to Australia and the region that 'there was a shift in our approach to Asia', a symbol of which was Australia's keener engagement in regionalism such as APEC. At the 1995 APEC Leaders' Meeting in Osaka, Japan and Australia were in conflict over the inclusion of areas like agricultural products for achieving the Bogor Declaration, but they reached a compromise in the course of bilateral meetings convened to resolve the problem; the meeting between Prime Minister Keating and Minister for International Trade and Industry Hashimoto was especially critical in achieving this (Terada 2000).

However, APEC is perceived to have lost its functional momentum after the Asian financial crisis and its failure to advance the Early Voluntary Sectoral Liberalisation (EVSL) program. A view has emerged that APEC has failed to deliver on its core trade liberalisation goal (Ravenhill 2001), although the targets for trade liberalisation are still down the track and there is some time before they have to be met. Japan managed to entice some ASEAN countries to support its stand on ruling out the inclusion of agriculture in EVSL by offering substantial aid in the wake of the Asian financial crisis at the 1998 APEC meeting in Kuala Lumpur. Australia's Trade Minister Tim Fischer was 'underwhelmed at the Japanese failure' (*The Australian*, 16 November 1998). These developments reflected the increasingly distinctive Australian and Japanese approaches to trade liberalisation, especially over the treatment of agricultural products. They also foreshadowed that the Australia-Japan partnership might eventually be frustrated over regional economic cooperation, especially over trade liberalisation projects.

Howard's indifference to East Asia in his foreign policy and his sporadic regional commitments had the effect of undermining the viability of APEC and its ability to exercise regional economic leadership. All Australian prime ministers from the early 1970s—Whitlam (1981), Fraser (1984), Hawke (1994) and Keating (2000)—displayed a special interest in regional economic institutions and took decisive steps to give effect to this interest. Australia's leadership in regional institution building was, historically, a positive signal of Australia's engagement with East Asia and the Pacific, both to the region and at home. Former foreign minister Percy Spender (1969:195) commented that 'our future to an ever-increasing degree depends upon the political stability of our Asian neighbours, upon the economic well-being of Asian peoples and upon understanding and friendly relations between Australia and Asia'. This statement epitomises what has come to reflect Australia's comprehensive and consistent interests in engagement policy. Yet, as Dalrymple states, while Labor governments tried to 'minimise the perception of differences between Australia and East Asia through the postulation of convergence, the Howard government was comfortable in portraying Australia as, in effect, permanently and irreparably separate from East Asia' (2003:156). Simon Crean, then Opposition Leader, targeted the inconsistency of Howard's foreign policy

on regional engagement: 'the Howard Government's decision to shift foreign policy away from the processes on regional engagement and to focus exclusively on bilateralism has undermined 50 years of bipartisanship in this country' (*Sydney Morning Herald*, 5 May 2002).

It was Hawke's and Keating's vision that APEC would become a major economic driving force in the region, accelerating the movement towards regional trade liberalisation and ensuring the continual prosperity and security of the region. But with Keating's demise in 1996, the importance of APEC as the symbolic organisation of Australia's regional engagement and the main vehicle to promote regional trade liberalisation was relegated to the periphery in Australia's political sphere. The Howard government's distancing of itself from East Asia was also strongly criticised by Australian academics and former senior diplomats. For instance, Ross Garnaut, Peter Drysdale and Stuart Harris, long-standing experts on politics and economics in East Asia at the Australian National University, wrote an article to *The Australian* (7 November 2001) in their joint names, demonstrating that Australia's relations with the region became 'more fragile and less productive than at any time for several decades'. Richard Woolcott, former Secretary of the Department of Foreign Affairs and Trade, also criticised Howard's inability to carefully and skilfully handle Australia's relations with its neighbours, especially Indonesia: 'it is painful to encounter the extent to which Howard is widely seen in our region as a narrowly focused domestic politician, uninterested in and uncomfortable with Australia's Asian and Pacific neighbours' (*Sydney Morning Herald*, 6 November 2001).

From the perspective from Japan, APEC's ineffective trade liberalisation program in part prompted Japan to become more enthusiastic in pursuing and formulating other regional and bilateral arrangements. The fact that both Japanese foreign and trade ministers did not attend the 2002 APEC Mexico meeting strengthens the perception that Japan placed more priority on ASEAN+3 than on APEC. In short, while ASEAN+3 has become more institutionalised and ideas for the establishment of an East Asian community including a regional integration scheme have been more vigorously pursued by many countries in the region, APEC—which Japan and Australia once commonly regarded as the principal regional

organisation—came to be widely seen to be ‘crisis-stricken, becalmed or adrift’ (Webber 2001:339).

Trade liberalisation schemes without ‘the Pacific’ nations

One of the important implications of APEC’s ineffective trade liberalisation program is that member states have instead promoted bilateral arrangements to attain further trade liberalisation, a trend that involves Japan and Australia as well. More significantly, these moves towards trade liberalisation can also be associated with ASEAN+3 forming a kind of an East Asian free trade agreement that excludes the Pacific nations such as the United States and Australia. In effect, while Australia was disengaged from East Asia, Japan, along with China, became a linchpin in the FTA movement in East Asia by employing the so-called ‘multilayered trade policy’, focused on the pursuit of bilateral and regional FTAs that would complement the World Trade Organization (WTO)-based multilateral attempts to facilitate the endeavours towards global trade liberalisation. Symbolically, this trade policy approach of Japan triggered a domino effect of FTAs in East Asia. For instance, China’s interest in concluding FTAs is believed to have been spurred by Japan’s interest in an FTA with South Korea, announced in October 1998. This move by Japan and South Korea led China to feel isolated from the FTA movement in East Asia. China ultimately joined this movement by proposing an FTA with ASEAN in October 2000, which was officially agreed on in November 2001.

Koizumi’s 2002 proposal for a Japan-ASEAN Comprehensive Economic Partnership Agreement, which would include FTA elements, was a response to the China-ASEAN FTA proposal. The Japan-Singapore Economic Partnership Agreement (JSEPA), signed in 2002, prompted Malaysia and Indonesia, initially the least enthusiastic about bilateral FTAs in the region, to develop their own FTA proposals with Japan (Terada 2006). China’s and Japan’s FTA approaches to ASEAN also contributed to South Korea’s developing an interest in pursuing the same path when, at the 2004 ASEAN Economic Ministers’ meeting in Jakarta, South Korea agreed with ASEAN to complete an FTA by 2009. These developments reflected the growing push for the completion of FTAs with ASEAN by Japan, China and South

Korea, paving the way for the eventual establishment of an East Asian FTA through the possible consolidation of the existing bilateral and regional FTAs in the region.

The 2003 ASEAN+3 summit meeting in Bali witnessed a number of statements and speeches that stressed the desirability of East Asian cooperation, including a region-wide FTA. This seemed to represent significant progress in the institutionalisation of ASEAN+3. Chinese Premier Wen Jiabao proposed that research be undertaken for the establishment of a free trade area in East Asia, signifying China's interest in promoting greater integration between the 13 East Asian economies. South Korean President Roh Moo-hyun underscored the desirability of further promoting exchanges of people and information in East Asia that would encourage even wider regional integration. Singapore Prime Minister Goh Chok Tong asked Japan and China to seek to negotiate a bilateral FTA with a view to the creation of an East Asian FTA, reflecting a general view in the region that the movement towards an FTA between these two nations was a missing link in the recent proliferation of FTAs in East Asia (*Nihon Keizai Shimbun*, 8 October 2003).

The ineffectiveness of APEC also led to Japan's decision to abandon its pursuit of 'open regionalism', an approach to which Japan had committed itself over many years in line with the non-discriminatory provisions of the GATT (Article 1). Instead, Japan developed its interest in discriminatory bilateral and regional trading arrangements under GATT Article 24. Japan's commitment to open regionalism, in an attempt to seek consistency between regionalism and multilateralism, subsequently became the benchmark of APEC's trade liberalisation approach. Open regionalism is based on most-favoured nation (MFN) treatment, which was set up within the GATT system to avoid trade discrimination against third states by granting equal treatment to all. When a regional economic institution fostered trade liberalisation among its members, controversy would arise as to whether the benefits gained through liberalisation within the region would be applied to outsiders or not. Maintaining consistency with the non-discrimination principle of GATT Article 1 was therefore an issue in any regional policy approach that would be considered by Japan. Importantly, developing the concept of open regionalism was a joint undertaking between the Japanese and Australian academics over the

decades; the Japanese coined the term and set up the basic framework, and Australians developed the concept with empirical research (Terada 1998). For instance, Peter Drysdale (1988:237–38), who discussed the concept at the 1980 Pacific Community Seminar in Canberra with Saburo Okita (former Japanese Foreign Minister and architect of Asia Pacific Economic Cooperation), had in 1968 attended the first PAFTAD meeting, which discussed the feasibility of a Pacific Free Trade Area (PAFTA), an idea proposed by Kiyoshi Kojima, elaborated the concept he then called 'regionalism without discrimination'. Drysdale justified creating an Asia Pacific regionalism based on unconditional MFN by arguing that 'the concentration of Pacific countries' trade within the Pacific is such that most of the benefits from trade liberalisation on an MFN basis are likely to accrue within the region'. In fact, in 1965 the ratio of intra-regional trade among nations in Asia and the Pacific accounted for 46.8 and 51.9 per cent in exports and imports, respectively, and these figures rose to 64.6 and 62.5 per cent in 1987 (cited in Garnaut 1997:148). This is essentially how some of the basic ideas for the subsequent creation of APEC were conceived in Japan and Australia.

Some time later, however, Noboru Hatakeyama (1996), former Vice Minister of International Affairs at the Ministry of International Trade and Industry (MITI) and subsequently Chairman of Japan External Trade Organisation (JETRO), began to promote FTAs as an option for Japan's international trade policy, insisting that Japan should consider a trade policy that involved bilateral and regional arrangements despite these arrangements being discriminatory. This is an approach that Japan itself had long criticised. While stressing that FTAs were 'legal' as stipulated in GATT Article 24, Hatakeyama suggested that Japan should confront the reality of growing bilateral and regional FTA networks in the world and remove the 'taboo' surrounding Japanese trade policy over many years by pursuing a 'multilayered' trade policy. Hatakeyama (1996) wrote that Japan was not a 'saint', implying that Japan should also be allowed, like other countries, to have FTAs. Hatakeyama (personal interview, 10 April 2003, Tokyo) later added that 'it was good in the end that the multilayered approach would allow Japan to make more options for promoting trade liberalisation'. These propositions gradually came to be shared by many officials in MITI after Mexico and South Korea approached Japan for FTAs

in late 1998, at the same time as the concept of open regionalism was gradually losing its policy relevance and validity within the Ministry. Japan's growing interest in the pursuit of bilateral and regional FTAs—with their legally binding provisions for the reciprocal exchange of preferences which discriminate against non-partner countries—marks a distinctive departure from APEC's approach to non-discriminatory and globally-oriented regional integration that Japan strongly supported over many years.

Significantly, this paradigm shift in Japanese trade policy did not originally entail the possibility of concluding an FTA with Australia, which also pursued FTAs vigorously. It is true that Howard was able to persuade Koizumi to set up an FTA study group to examine the feasibility of such an agreement when he visited Japan in May 2005. But it was believed that an FTA with Australia, one of the world's largest agriculture exporters, would inevitably provoke a strong resistance from Japan's agricultural pressure groups and politicians, who rely on farmers' votes for their elections and who oppose liberalisation of key agricultural sectors such as rice, beef, wheat, or sugar. Indeed, Japan still maintained substantially high tariffs on those products, for example rice (778 per cent), sugar (325 per cent), wheat (252 per cent) and beef (50 per cent) (*Nihon Keizai Shimbun*, 7 November 2005). Even Japan's FTA with Singapore—which hardly exports any agricultural products to Japan—contained a provision for only a 14 per cent increase in the number of Japan's zero-tariff commitments with regard to agricultural products. Moreover, the content of this commitment had already been negotiated within the WTO framework, meaning that there were no agricultural products in the JSEPA from which Japan agreed to remove tariffs (Terada 2006). This fact underlines the infeasibility of the Japan-Australia FTA. As a senior official of the Ministry of Agriculture, Forestry and Fisheries stated: '[s]hould Japan be able to forge a FTA with Australia, it could do so with all of the countries in the world' (personal interview 11 July 2002, Tokyo). This suggested that Japan and Australia, between whom an FTA was seen as highly unlikely to materialise, would not easily maintain their partnership in promoting regional economic integration in East Asia, even if Australia intended to join the movement towards the formation of an East Asian FTA.

The Australia-Japan partnership in an East Asian community

As a nation that was pursuing the concept of 'Asia-Pacific' or 'Pacific' regionalism, Japan was previously uninterested in joining regional institutions that excluded 'Pacific' nations. This was evident in Japan's strong insistence on America's inclusion in the first APEC meeting, despite Australia's hesitation over the establishment of APEC (Terada 1999). Japan supported Australia's inclusion in East Asian regionalism, as seen in its announcement in April 1995 that 'it would not participate in the informal ASEAN 7+3 meeting at Phuket unless ASEAN invited Australia and New Zealand as well' (cited in Leong 2000:78). Japan was also supportive of Australia's membership in the Asia-Europe Meeting (ASEM) that initially comprised the then 15-member European Union and 10 Asian countries. Prime Minister Hashimoto (1997) explicitly reiterated this position during his visit to Canberra in April 1997: '[w]e should like to do our part for that ... We are taking this task on ourselves, as we would like you to join ASEM as a member of the Asian side.'

Yet, for Japan to continue to recognise the significance of the Japan-Australia partnership, Australia needed to be more explicitly committed to engagement with East Asia. When Japan expressed its support for Australia's participation in ASEM, there was 'uncertainty how hard Australia wanted to push its bid' for its ASEM membership and Australia's 'soft-peddalling' approach to membership confused and concerned Japan (*Australian Financial Review*, 28 April 1998). Moreover, Japan was concerned about Australia's declining influence in East Asia and its deteriorating relations with Indonesia and Malaysia, the key members of ASEAN who occasionally blocked Australia from joining regional institutions. For instance, Malaysia was behind the exclusion of Australia from the 1996 ASEM Bangkok summit and warned that including Australians 'would be like admitting Arabs to the European Union' (*Sydney Morning Herald*, 4 March 1996). Indonesia, together with Malaysia, was pivotal in ASEAN's rejection of Australia's proposal of a FTA among ASEAN, Australia and New Zealand in October 2000 (*Age*, 7 October 2000).

At stake in terms of the actual organisational links between ASEAN+3 and an East Asian community that Koizumi proposed is whether Australia as well as New Zealand should be included in any activity associated with ASEAN+3. Koizumi said in his Singapore speech (2002a): '[t]hrough this cooperation, I expect that the countries of ASEAN, Japan, China...Australia...will be core members of such a community.' Yet Australia—whose relations with ASEAN countries, especially Malaysia and Indonesia, were strained until late 2004, when the leaders of both countries decided to visit Canberra to promote bilateral relations—was not expected by many in the region to be a natural member of the community. In fact, when Koizumi proposed an East Asian Community in his trip to Southeast Asia in January 2002, he faced difficulties in convincing ASEAN leaders, especially Prime Minister Mahathir, that Australia should be included in the community (*Australian Financial Review*, 10 January 2002). The fact that Australia has not become a member of ASEAN+3, despite Koizumi's advocacy, represented a discrepancy on the point of Australia's participation between already existing regional institutions and an envisaged regional community. Koizumi said in his Sydney speech in May 2002, 'I do not believe it is always the best policy to set up new organisations or institutions to build a community (Koizumi 2002b).' He did not touch on ASEAN+3, the significance of which he stressed in his Singapore speech a few months before, somewhat contradicting his earlier approach to the establishment of a community in East Asia. The Tokyo Declaration, launched by Koizumi and his ten ASEAN counterparts in December 2003, mentions creation of an East Asian Community as a significant goal, but it does not include any statement about membership. It says, 'to build an East Asian community which is outward looking...upholding Asian traditions and values, while respecting universal rules and principles [would be important].' This may reflect a view that, although the community is outward looking—suggesting that any country can join it—any potential member should possess or understand Asian traditions and values.

However, it remained questionable as to whether Australia displayed sufficient understanding of these so-called Asian traditions and values, as former Australian diplomat Dalrymple once argued: 'Australia's cultural

differences with its neighbours would increasingly appear too manifest, and its identification with the US and Europe too close, to be reconciled with the forces driving East Asian regionalism' (2003:150). In fact, Australia's interest in exposing itself to a debate on its understanding of Asian political, social, and cultural values in association with the development of East Asian regionalism had previously been clearly rejected by Alexander Downer, the Australian Foreign Minister, in his address at the 2000 Asian Leaders Forum in Beijing, when he sought to draw a 'distinction between cultural regionalism and one based upon practical considerations of trade and economic relationships' (*Straits Times*, 29 April 2000). Appearing to be at odds with Australia's long-term regional policy approach, the central implication of Downer's remarks was that Australia did not see itself as belonging culturally and socially to the East Asian regional entity and that ASEAN+3 was not useful as a way of promoting Australia's national interest. Regional doubts about Australia's participation in East Asian regionalism, partly caused by the Downer statement, lingered as a result.

In the meantime, in Japan, the groups responsible for foreign and trade policymaking tended to see Australia's unfriendly relations with Southeast Asia as detrimental to Japan's regional policy. Japan became increasingly interested in ASEAN+3 rather than APEC in its foreign and trade policies, and began pursuing bilateral FTAs with major East Asian nations to strengthen general economic relations with them. There was no policy framework for Australia to be involved in this foreign and trade policy approach, and this indicated that Australia's significance in Japan's total foreign and trade policy was declining. It was true that Japan was still Australia's largest export market and the third largest foreign investor in the early 2000s, but the relationship was perceived not to be advancing soundly. For instance, a Japanese report, presented in the 2001 Australia-Japan Conference in Sydney, which 'likened the Japan-Australian relationship to an "ageing marriage"' represents a view that the bilateral relations might become 'one in which both are satisfied with maintaining the *status quo*, while having no real interest in one another' (cited in Rumely 2002:3). This raises the important question of why Koizumi advocated the inclusion of Australia in his proposed East Asian community at a time

when Australia was perceived to be detached from East Asia in its foreign policy.

There were other policy groups in Japan who believed in the usefulness and effectiveness of the partnership with Australia in achieving Japanese national interests. According to a senior official of the Ministry of Foreign Affairs, who declined to be named (personal interview, 9 April 2003, Tokyo), three significant elements affect the Australia-Japan partnership in East Asian regionalism: a tendency to fear China's possible predominance within ASEAN+3 and East Asia as a whole; security issues emerged as a more significant policy area in the bilateral relations with the United States, subsequently leading to the establishment of the trilateral defence talks among Japan, the United States, and Australia, thus enhancing Australia's presence in Japan's security policy; and the consideration that the United States had expressed concern about the rise of China as detrimental to American interests in East Asia. In short, the rise of China was a new factor that reconnected Japan and Australia in more strategic and political arenas, and the United States hope that both nations would play a checking role against China. US concern over China derives, for instance, from China's military build-up, as emphasised by US Defense Secretary Donald Rumsfeld, who believed that China's improved ballistic missile system would allow Chinese missiles to 'reach targets in many areas of the world... Since no nation threatens China, one wonders: Why this growing investment? Why these continuing large and expanding arms purchases?' (cited in *Straits Times*, 5 June 2005) Importantly, such a stark view on China's increasing military spending as threatening the delicate security balance in East Asia was widely shared by Japanese leaders including then Foreign Minister Machimura and Defence Agency Minister Ohno, as was seen in their talks at the US-Japan 2+2 Consultative Committee in May 2005.

According to a Ministry of Foreign Affairs official (personal interview above), some top senior officials in the Ministry believed that Japan would be isolated within an East Asian framework, in which most of the members are developing countries, whereas China could be seen as the leader of this group. Ministry officials believed that Japan would face a difficulty in injecting considerations that reflected the perspectives of developed

countries. For these reasons, these officials hoped that Australia would see the need to join Japan in an attempt to be more committed to creating better relations with Southeast Asia, with which China has also been engaged in making cooperative relations. Hitoshi Tanaka, a Vice-Minister, who was one of these senior officials in the Ministry of Foreign Affairs and had been responsible for drafting Koizumi's Singapore speech, commented on Japan's need to have Australia participate in East Asian cooperation

[i]n my heart I truly hope Australia will participate in the East Asia summit... We have worked very hard to make it possible. We are doing this not for Australia's sake, but for Japan's sake. We need you... I have a very strong feeling about our cooperation with Australia and I have been advocating it for a long time (*The Australian*, 28 May 2005).

The development of this policy stance indicates that there have been competing views on Australia among Japanese policy makers. Asian specialists in MOFA were said to oppose the inclusion of Australia, mainly because Japan has been engaged in strengthening the relations with ASEAN, as was evident in its efforts to organise the 2003 Japan-ASEAN Commemorative Summit in Tokyo; also, the inclusion of Australia, with its troubled relations with some ASEAN members, was considered not to be helpful. The Ministry of Economy, Trade and Industry (METI), whose primary interest has revolved around an FTA with ASEAN or its individual members, also did not welcome Australia's involvement as a result. Initially, METI promoted the idea of an East Asian Free Business Zone that did not envisage Australian membership. Given these divergent views on Australia within Japan and the region, Japan hesitated before revealing the intended membership of the proposed East Asian community—to be included in the Tokyo Declaration—as an agenda that Japan and ASEAN should promote in concert. This was simply because Tokyo could predict ASEAN's opposition to Australia's inclusion and thought it inappropriate to cause problems with ASEAN in a commemorative ceremony by making public its proposal to include Australia in the membership of an East Asian community (personal interview with a senior METI official, 24 December 2003, Tokyo). Japan's proposition that Australia should be a core member of an East Asian community was based on a condition it hoped Australia would meet, namely a fundamental transformation in

Australia's foreign policy orientation in order to change the negative view of Australia held by some East Asian countries, and Koizumi's Singapore speech partly aimed to convey such a message to Australia. Japan had difficulty adjusting government policy over the treatment of Australia at home, and internationally ASEAN's opposition to Australia's involvement in East Asian regionalism made it difficult for Japan, the first nation that proposed Australia's inclusion in the East Asian community, to make a strong push in this direction.

New developments in Australia's engagement policy

Since winning his fourth election in October 2004, Howard seems to have focused on East Asia more directly. Howard can already claim some achievements, including improving the previously strained relations with Indonesia and Malaysia through his swift and generous rescue packages for the Indonesians who suffered from the earthquake and tsunami in December 2004, and also through Indonesian and Malaysian leaders' visits to Canberra in April 2005. The achievements also include reaching agreements on the launch of FTA negotiations between Australia, New Zealand and ASEAN, as well as launching several bilateral FTA arrangements, including one with China. These foreign policy developments in Australia's relations with East Asia created a new opportunity for Japan to forge a stronger partnership with Australia in community building in East Asia.

Australia's involvement in the FTA networks in East Asia—given that Australia had already concluded the trading arrangements with Singapore and Thailand—could help Australia's entry into the movement towards the creation of an East Asian community. In a practical sense, FTAs can integrate markets, facilitate investment, and promote the exchange of business people among the signatories, an element that helps Australia to be recognised as an integral member of the region. Australia's sound economic growth over the decade has contributed to its being an attractive FTA partner, as is evidenced by Malaysia's interest in an FTA with Australia. In addition, Howard's participation in the summit meeting with ASEAN leaders in November 2004 in Laos—in which the three parties agreed to

begin talks towards the creation of an FTA among ASEAN, Australia, and New Zealand (AFTA-CER)—was important as a positive sign of Southeast Asian countries' greater receptiveness to Australia's engagement policy. It is noteworthy that this meeting was held on the occasion of the ASEAN+3 Meetings, of which Australia is not an official member, even though the AFTA-CER FTA proposal was once rejected in 2000, mainly because of Malaysia's opposition.

The issue of Australia's commitment to East Asian cooperation also surfaced during heated debate on Australia's membership in the inaugural East Asian Summit in Malaysia, December 2005. Australia initially gave the cold shoulder to ASEAN's request that it sign the ASEAN Treaty of Amity and Cooperation (TAC), on the grounds that it was perceived to be a remnant of the Cold War and bore little relevance to the contemporary regional order. But ASEAN, especially Malaysia, the host of the Summit, insisted that signing the TAC should be a precondition of Australia's participation in the Summit. Australia hesitated to sign the TAC, which included the principle of non-interference in the affairs of other countries, a linchpin of ASEAN's political values. This was because Australia feared that its diplomatic reach would be restricted if it could not assist the United States to promote human rights and democracy in Southeast Asia. Moreover, Howard's pre-emptive strike statement in the wake of the terrorist attack in Bali in December 2002 appeared to contradict this principle. So Australia's eventual decision to sign the TAC indicated that it placed higher value on participation in the Summit than on Howard's personal political faith. This decision was a key to East Asia's full acceptance of Australia as a fellow member.

Downer had at one stage ruled out Australia's interest in the ASEAN+3 framework, as mentioned above, but other Australian leaders attempted to overturn this position. Treasurer Peter Costello stated, '[w]e would love to have ASEAN Plus Four. We have pursued it and we will continue to pursue it' (cited in *Far Eastern Economic Review*, 5 June 2003). Downer ultimately discarded his previous doubts about ASEAN+3 and worked hard to persuade Howard to sign the TAC so that Australia could be admitted to the inaugural East Asian Summit. ASEAN+3 and East Asian Summit can serve to 'provide a framework for demonstrating East Asian

influence and leadership on regional and international affairs' (Drysdale 2003:12), enabling East Asian leaders to identify common positions more easily and to articulate them more effectively in multilateral institutions such as WTO and the United Nations. Australia's decision to sign the TAC, overturning its previous position suggests that the significance of this argument has been acknowledged by Australian political leaders.

The birth of East Asian regionalism involving Australia, initiated by Koizumi, was to be realised through the organisation of the East Asian Summit, held in Malaysia in December 2005. Japan, as well as Singapore and Indonesia, supported Australia's membership in the summit. This encouraged Australia to sign the TAC, a precondition for it to be invited to the Summit. Like Australia, Japan at one time hesitated to sign the TAC, as Prime Minister Koizumi stated in the 2003 ASEAN+3 meeting in Bali: 'I believe it is possible for Japan to strengthen its ties with ASEAN in the future without Japan signing the treaty. I think we have the understanding of ASEAN members on this point' (cited in *Asahi Shimbun*, 16 December 2003). However, China's announcement that it had signed the treaty influenced Japan's subsequent decision to do so. Importantly, before its decision to sign it, Japan had examined the impact and implications of the Treaty for its foreign policy, especially the US-Japan alliance system, and the result of the analysis was delivered to Australia through its Embassy in Tokyo (personal interview with a senior official of MOFA, 14 June 2005, Tokyo). It was Foreign Minister Nobutaka Machimura who suggested to his counterpart, Alexander Downer, in their meeting in March 2005, that Australia sign the TAC which, Machimura argued, would not cause any serious problem for Australia's foreign policy (*The Australian*, 6 August 2005).

The movement in Australia's regional diplomacy in recent times was a welcome development for Japan, which had been worried about Australia's inconsistent engagement with the region, especially after Howard came into power in 1996, as outlined above.

Japan and Australia have been also engaged in strengthening their bilateral relations, especially in security and defence areas. Japan's generous and crucial contribution to help fund the multinational force in East Timor (INTERFET), which was led by Australia, was a good case of cooperation

between the two nations in political and security areas. Welcoming Japan's contribution of some hundreds of engineers in East Timor, as part of peacekeeping efforts in the former Indonesian province, Howard (2002) said that 'We see that kind of security involvement of Japan in the region in an extremely positive light.' This proposition is a foundation on which Australia's consistent and bipartisan support for Japan's bid to be a permanent member of the Security Council of the United Nations has been built.² In February 2005, in response to requests from Japan as well as the United States, Australia decided to despatch its troops to Iraq to protect Japanese Self-Defence Forces (SDF) there. In May 2005, the trilateral strategic dialogue among the United States, Japan, and Australia was upgraded to a ministerial-level forum involving the three Foreign Ministers. The highlight of both nation's interest in forging closer strategic ties is the formal declaration of security cooperation, launched by Howard and Abe in March 2007. This may be a symbolic attempt to formalise the bilateral cooperation on security, as seen in Cambodia and East Timor previously, but the declaration and the subsequent coverage of it in major Japanese newspapers, which was very rare previously, reinforced a view among the Japanese that Australia was now the second closest strategic partner after the United States. Japan's initial interest in inviting Australia into its proposed East Asian Community is partly motivated by Japan's wish to check China's growing political influence in the region, as well as its long-term regional partnership with Australia. These developments can be seen as a means of achieving the common strategic interests that the three countries share.

Japan's agreement to set up a feasibility study for a bilateral FTA (a development that sounds perplexing at first glance, as Australia is one of Japan's largest agricultural exporters) can be seen as reflecting Koizumi's desire to take Australia's trade interest more seriously as a sign of Japan's gratitude for Australia's deployment of troops to Iraq to protect Japan's SDF units (*Nihon Keizai Shimbun*, 26 April 2005). It also reflected Japan's intention to strengthen relations with Australia more comprehensively despite the political difficulties the FTA would cause at home. Accordingly, should the Japan-Australia FTA occur, it might be Japan's first bilateral FTA that is promoted primarily on the basis of political and strategic

considerations rather than economic considerations. It can be argued that, in the era of the East Asian Community, the Australia-Japan partnership should be built on such a substantive and solid framework, as this will reinforce the wider strategic and economic interests shared by Japan and Australia in more stable and resilient ways.

Conclusion

Historically, the Australia-Japan partnership was strengthened through the activities undertaken towards the realisation of economic institutions in the Asia-Pacific region, and it was the partnership with Japan that helped to promote Australia's engagement with the region. Yet Howard's early disengagement with regional institutions, including APEC, and growing indifference towards his Southeast Asian partners placed the function of the Australia-Japan partnership under uncertainty, and this view was further strengthened by Japan's keener commitment to East Asian regionalism like ASEAN+3, which excluded Australia.

However, the partnership was strengthened by incorporating more strategic elements following the emergence of China. If China's interests in improving and strengthening its relations with ASEAN and its further commitment to the formation of an East Asian community were seen as a way of China creating its own sphere of influence in East Asia, this would be counterproductive to America's regional interests. So the role of the bilateral partnership between Japan and Australia, both key regional US allies, was to counter the emergence of China's ambition to dominate the region. However, a complicating factor is the fact that China's substantially growing economy means that both Japan and Australia have a strong interest in forging better economic relations for the sake of their economic growth. The fact that China was the world's largest importer of iron ore and wool in 2004 explains Australia's keener interest in the FTA with China. The fact that China has replaced the United States as Japan's largest trading partner illustrates its closer mutual economic interdependence with China, prompting many Japanese business leaders to request Prime Minister Koizumi not to visit the Yasukuni Shrine so that this major cause of the bilateral tensions would not hamper the smoother economic ties.

Therefore, the separation of strategic and political issues from economic and business interests in attempts to deal with the rise of China might be a key to the successful formation of an East Asian community. For instance, in their meeting in Washington in July 2005, Howard was reported to have turned down Bush's request that the United States and Australia work together to 'reinforce the need for China to accept certain values as "universal"' on the grounds of Howard's approach towards China which was 'to build on the things that we have in common, and not become obsessed with the things that make us different' (*Straits Times*, 19 August 2005). This indicates Australia's reluctance to contain China strategically in East Asia especially in the East Asian Summit, in line with US interests. However, as long as Japan maintains extremely high tariffs on Australia's key agricultural exports, it is highly unlikely that Japan and Australia would be able to conclude a bilateral FTA, suggesting that both nations lack a basis for future joint initiatives in promoting regional economic integration in East Asia. Moreover, the divergence of Japanese and Australian approaches to agricultural liberalisation also makes it difficult for them to forge a partnership in the WTO Doha Round negotiations, which has been hampered by differing tariff reduction proposals among key members including Japan and Australia. Given that Australia has been committed to improving its strained relations with Indonesia and Malaysia about which Japan had long worried, a key factor for restoring the bilateral partnership—in both regional and global bodies—is whether Japan can compromise over its highly protected agricultural products.

The 'isolation' factor has been a backdrop to Australia's commitment to regional institutions (Terada 2000), so the emergence of East Asian regionalism and the declining significance of APEC highlighted the lack of useful mechanism on which Australia could rely for avoiding its isolation in the region. In this sense, if Australia were admitted to the gradually expanding array of meetings, working groups, and cooperative linkages within ASEAN+3, it would be able to create networks of the responsible officials in relevant ministries such as trade, industry, or finance and the ways in which they are associated with their counterparts in other member economies. As these intra- and inter-governmental interactions and networks between government agencies in East Asia will become more

entrenched among members, they can be instrumental in nurturing a sense of 'togetherness' among those officials, including Australia. They are also useful in identifying common policy interests among members.

Given the fact that the existence of different levels of policy discussions on the basis of their shared interest in regional economic cooperation played a significant role assisting Japan and Australia in their initiatives in Asia Pacific regionalism, this movement also should involve academic as well as business exchanges. The intellectual assets represented by those policy networks, which sustained the leadership role of both nations in institution building in the Asia Pacific region, can provide a platform for both nations to think through the evolution of the East Asian community idea and the relationship of East Asian cooperation arrangements in the new regional policy environment that faces both countries in the twenty-first century.

Notes

- 1 Aware of 'the fact that East Asia was the only part of the world not to have a regular Summit of leaders,' Hawke was encouraged to propose such a meeting within APEC in mid-1991 (Mills 1993:195); yet Hawke's prime ministership was taken over by Keating late that year, and Keating instead proposed the leaders' meeting in April 1992. Keating had canvassed the idea with major regional leaders including Japanese Prime Minister Kiichi Miyazawa, who officially supported the idea during his visit to Canberra in April 1993. This idea was later adopted by US President Clinton when the United States hosted the APEC meetings in Seattle in 1993.
- 2 Prime Minister Hawke officially supported Japan's permanent membership of the UN Security Council as early as 1990, in one of the earliest expressions of support Japan received in this regard (Terada 2000:192).

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