Shioya: NIRA has been holding the Asia Leaders’ Forum jointly with the Asia-Australia Institute of the University of New South Wales since 1995. The foreign affairs minister of Australia has participated every year, and we have managed to build and maintain good momentum. In April this year, the seventh forum, which I attended, was held in Beijing, and despite his very busy schedule as Australian foreign affairs minister, Mr. Alexander Downer once again very kindly attended.

The forum provides an opportunity for free discussion among Asian countries. I believe that Australia and Japan have many common interests in Asia and that through their cooperative efforts, the two countries are showing the way forward for the Asian region.

Professor Tadao Umesao, who studies Japan from a historical and ecological perspective, has suggested that even though Japan is in Asia, cultural and historically it resembles a society in Western Europe. Australia, however, usually considered to have its face turned toward Western societies such as Europe and America, has begun the transition to an advanced multicultural country, one that has been trying hard to formulate progressive policies on such issues as minorities and immigration.

THE DEVELOPMENT OF THE BILATERAL RELATIONSHIP

NIRA is currently conducting research on Japanese culture, history, tradition, and identity, and on the forces that will influence Japan in the next century. We are also exploring our relationship with East Asia, so we are following with great interest the debates in Australian society about relations with its Asian neighbors and about multiculturalism.

So today I would like to discuss how Australia deals with Asia-related issues. I would also like to review the relationship...
between Japan and Australia and consider how the two countries could make further joint progress in their relationship with Asia, looking to learn what we can do for the further development of Asia. Our two countries have a long history of trade, especially the wool trade that started about 120 years ago. Since World War II when we were in conflict, we have been enjoying good mutual trade relations and progress has been very smooth. Japan is the source of about 20 percent of all Australian commodity exports, and trade between the two nations exceeded A$30 million last year. So to start our discussion today, perhaps we could hear your account of the way Japan and Australia’s relationship developed, before considering where we are now and what our future prospects are.

Grey: The Australia-Japan relationship has been identified by the Australian government as one of its major bilateral relationships. So along with our relationship with the United States and those with Indonesia and China, it is critically important and one that we have been working very hard on to maintain and extend.

As you mentioned, the commercial relationship between Australia and Japan goes back a long time. But it grew very rapidly from the late 1950s onward, especially with the signing of the 1957 commerce agreement between Australia and Japan, after which the two countries really set the institutional foundations for bilateral growth in trade. That was driven by a relatively small number of enlightened and forward-looking people on both sides of the relationship. Trade was still narrowly based.

Today we have a huge base of support for the relationship, actually at the ordinary, people-to-people level right through to the full range of political leaders on both sides. And as for trade, though some items remain critically important, including minerals and energy, it’s also a very broadly based trading relationship. And the story of the development over this period is really the story of the development of the Australia-Japan relationship.

Several reasons are responsible for this successful trading relationship, but fundamentally it is because of the complementarity of the two economies. We were able to rapidly expand our exports, initially of coal and iron ore, and increasingly also of raw materials and energy such as LNG and uranium, when Japan was rapidly rebuilding its own economy. And in turn, Australia provided an open and very good market for Japanese manufactures. So this complementarity between the two economies has been the fundamental feature of the development of our commercial relationship over the past 30 or 40 years.

I think, however, it is also very important to recognize that we quite quickly moved beyond this commercial relationship into a broadening out of our bilateral relations, especially in the 1970s and 1980s and on into the 1990s, and that took form in several ways. One was an expansion in people-to-people links with exchange students in the 1970s and 1980s. Another is the rapid growth in tourism in the 1980s and the increasing number of Japanese high school and university students going to Australia. So the trade relationship has broadened out into a people-to-people relationship. On the Australian side, again at the cultural level, it’s broadened out with the teaching of the Japanese language in Australia. On a per capita basis, Australia has the second highest number of Japanese-language students in

Peter Grey

The Australia-Japan relationship has been identified by the Australian government as one of its major bilateral relationships.

Australian ambassador to Japan since 1998. He was formerly the deputy secretary of foreign affairs and trade, and the Australian ambassador to APEC.
the world.

The third element of the relationship’s development that has probably occurred most intensely over the past 10 to 15 years is the realization by Australia and Japan that they share several perceptions concerning regional and global developments. And this has enabled a whole range of areas of cooperation to develop regionally and globally.

For example, at the global level we share interests and concerns about nuclear disarmament and nonproliferation issues. At the regional level, we share many interests and have been able to cooperate in very practical ways, going back to the Cambodian Peace Initiative and, more recently, to cooperation over the East Asian financial crash and the crisis in East Timor.

We shouldn’t be surprised that we are increasingly able to cooperate in these areas. Japan and Australia are both developed countries in the region. We have robust democratic processes, liberal processes, and we both have an alliance with the United States. So it’s not really surprising that we have similar perceptions and interests.

So we are now developing into a really quite complex and very important wide-ranging relationship, a relationship in which the basic *modus operandi* in a sense has now changed, and we now have an enormous range of formal and informal contacts between Australia and Japan. We talk to each other on environmental issues, energy policies, international trade developments, international financial developments, nuclear disarmament, regional security, piracy in the region, and the list goes on and on. I think this list provides a strong framework in which the relationship can operate.

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**The Bilateral Relationship and the New Economy**

**Shioya:** May we return to the economic relationship you mentioned earlier? Japan has always relied on Australia for its raw materials. Today, 58 percent of our aluminum is imported from Australia, along with 53 percent of coal and 51 percent of iron ore.

Australia and Japan also jointly host a business conference hosted by the Australia-Japan Business Cooperation Committee (AJBCC). Until now it has dealt mainly with energy and resource issues, especially resource trade. The most recent meeting on October 28 was held in Brisbane, and e-commerce was also on the discussion agenda. I personally welcome the attempt to introduce this important new topic, but I would like to hear your own opinion on how the e-economy is actually affecting the Australia-Japan relationship.

**Grey:** To answer that question, you really must look at what’s happened in the Australian economy in the past 15 years or so.

First is the very fundamental economic reform and restructuring that began in Australia in the early 1980s. This has continued essentially without interruption and has resulted in the complete transformation of the Australian economy. Essentially there has been a process of liberalization and deregulation, which has resulted in Australia now having a very open and flexible economy. The results have been quite remarkable and probably not noticed as much internationally as they should be.

During the 1990s the rate of productivity growth in Australia exceeded even that of the United States, reaching almost...
three percent toward the end of the decade, a remarkable figure by any standard. This has also resulted, not surprisingly, in very high rates of growth. We have had 12 consecutive quarters of growth in excess of 4 percent, and it took place right through the Asian financial crisis, even though more than 71 percent of our exports were with countries affected by the East Asian crisis.

The reason I mention this is that it shows the greater flexibility and adaptability of the Australian economy. Furthermore, the picture of the Australian economy that has shown up recently has been the extent to which Australians have adapted with great speed to new technologies.

The second point is that we now we have an economy where 64 percent of GDP is provided by the services sector, which is about the same as in the United States. The information technology and telecommunications sectors now provide 7 percent of GDP, more than double that of the “traditional” agricultural sector.

We are now in a position where Australia is the second-largest information technology and telecommunications market in the Asia-Pacific region after Japan. Nearly 40 percent of Australian businesses are online, way ahead of most European nations such as the U.K., where the comparative figure is about 25 percent. And 30 percent or more of Australian homes were connected to the Internet at the beginning of this year. The bottom line is that by almost any standard or basis for assessment, Australia is already very much a new economy.

I’d like to return to your question about what this means for our relationship with Japan in a commercial sense. First, we can continue producing our basic commodities and products such as iron ore and coal even more efficiently than in the past, and that brings enormous benefits to Australia and to Japan in the sense of getting the best value for money with raw materials imports. Second, new areas of opportunity have opened, to add onto the existing commercial links. We have already seen an increase in Australian IT companies in the Japanese market.

We also want to encourage greater interest among Japanese businesspeople and entrepreneurs to enter the Australian market. So I too was very pleased to see a new focus of the AJBCC at the recent conference.

But this is an area where we still face challenges and we must work on that. I think at this stage, that neither Japan nor Australia looks to each other naturally in this particular area. For example, I know that 100 or more Australian IT companies have set up in Silicon Valley. And that is the natural focus of their interest at this time, and their major focus.

I suspect that the same situation applies to Japanese IT companies. We would like to reach a situation where Australian and Japanese companies see each other as natural partners in IT, as we are in other areas of trade. I think we are already starting to see the beginnings of this relationship. As I mentioned, the number of Australian companies interested in doing business with Japanese companies and setting up business in Japan has grown dramatically over the past year or so. I see no reason why it shouldn’t grow further.

Japan and Australia have highly educated workforces and strong economies with many existing links that can be built on. There is no reason at all why our current relationship can’t be a springboard for the establishment of even greater commercial links.

For example, because of the emphasis on Japanese language over the past 20 years, we now have Australian entrepreneurs and Australian software developers who are fluent in Japanese, and even those who are not know enough about Japanese cultural and business traditions to understand how to adapt to the new business climate between the two countries.

Shioya: Compared with the figure you just mentioned in regard to home Internet connection in Australia, only 21.4 percent of Japanese homes are wired. I must say that Australia is advancing much more quickly than Japan and probably has a much better IT environment than Japan has. Within the Australian IT industry, I’m sure many companies, entrepreneurs and businesspeople we are unaware of here in Japan are using
cutting-edge technology.

I’d also like to note that the investment exchange between Japan and Australia is not good. Although Japan is the third largest source of foreign investment for Australia, most direct investment in Australia still comes from the United States and Europe. Australia is ninth on our list of sources for foreign investment with a figure of only A$1.2 billion.

Australia has advanced rapidly in the deregulation of telecommunications and the privatization of electric power and is now a very attractive investment market, thus the interest shown by European and American companies. Such corporations as AMEX, Citicorp, and IBM have already set up call centers in Australia. Japanese companies and corporations should probably focus more on Australia as an investment market.

I recognize that Australia’s direct investment in Japan is not very great either. If you look at the balance, only A$0.2 billion has been directly invested in Japan. Therefore the upcoming conference of the Australia-Japan Business Cooperation Committee is going to further discuss new investment areas, and we must have great hopes for their activities.

Grey: I think that’s true, we need to encourage more investment. There are particular issues in terms of Japanese investment in Australia. In the 1980s and 1990s, much of it was in tourism and real estate-related activities, and much of that has been withdrawn. I think in regard to Australia there was a perception that investing in Japan was very expensive, certainly in the 1980s. I think that is less an issue now and few barriers now exist to investment in Japan.

On the other hand, it is still a very large market and a very difficult one to buy into, especially for smaller Australian companies. But it is happening. We have seen investment and joint ventures occurring in niche areas and specialized areas. For example, a very innovative Australian investment bank has a joint venture with what was the Industrial Bank of Japan, and derivatives trading is an area where they have special international skills.

But there’s a need for more work. The AJBCC is something we must work on. We are also very pleased that the various teams—led usually by MITI (Ministry of International Trade and Industry)—visiting various countries, examining IT policy and IT practices and developments, have decided to include Australia. What we need to do is to take advantage of that kind of activity to build a profile of Australia in Japan as being a productive, IT-capable country that should be attractive for Japanese investors.

**JAPAN, AUSTRALIA AND THE ASIA-PACIFIC**

Shioya: I’d like to change the subject to Australia’s relationship with the Asia-Pacific area. Historically Australia had a whites-only immigration policy, one that has changed drastically to accommodate multiculturalism, and Australia now enjoys a culturally diverse society. I would like your opinion on what sort of meanings this multiculturalism has for the Australia-Asia relationship.

Grey: I must say cultural diversity is now a key part of the modern fabric of Australian society. And I think it is now very well accepted within Australia. I think it is actually quite surprising, and also very positive, that we had such a major shift in the past 30 or 40 years to develop such a culturally diverse country with such little anxiety associated with it.

I’m always surprised when I see the figures that 25 percent of Australians were born in...
another country and that 17 percent still speak
a language other than English at home. Migrants come from such places as Korea,
Hong Kong, Malaysia, and Vietnam—in fact
every country in the region has been a source
of immigrants to Australia. And of course, they
are all very welcome.
I think this has undoubtedly assisted our
relationship with the region. That we now
have significant regional countries represented
directly in Australia must be a positive
development, especially when viewed as a
practical issue. We now have a very large pool
of native speakers of a range of Asian regional
languages in Australia. It is no problem to find
a Vietnamese or Mandarin speaker for help in
establishing a business, which is one reason
why Australia is such a popular location these
days for international call centers. It goes
beyond business to the future role and
development of Australia. We attach a high
priority to our engagement with the Asian
region, and no real debate exists within
Australia about why we should be engaged—
and are engaged—in the region.

Shioya: The relationship between Japan and
Asia has been very sensitive, and we recognize
that this has to do with what has happened
historically in Asia. If you could provide us
advice on how Japan might improve its
relations with the rest of Asia, based on your
experience in this regard, I would be grateful.

Grey: I don’t think Australia is in a position to
advise Japan on that issue, but what I can say
is that Australia is very comfortable with Japan
taking a stronger leadership role in the region.
And not just in the region, but also globally.
For example, Australia has for a long time been
a consistent supporter of Japan having a
permanent seat on the United Nations Security
Council. Prime Minister John Howard in his
statement to the Millennium Summit in New
York this year stressed that point. So Australia
is very comfortable with Japan having that
role, and you already do have a key role within
the region economically and in terms of aid
funds and other forms of support for countries
in the region.

For example, Japan quickly was able to come
forward with US$100 million worth of
assistance for the UNTAET (United Nations
Transitional Administration in East Timor)
operation. That was a very important part of
putting together the whole package of
measures to enable UN-sponsored activity in
East Timor last year. So Japan has already been
playing a very active and constructive role in
the region, and we are very happy to
encourage Japan to do more.

Shioya: For my final question I’d like to ask
you what Japan and Australia might do to
further the development of the Asian region,
how we might work together on political,
economic, and cultural issues to improve the
whole Pacific region. What sort of potential do
you think there is?

Grey: I think there is very substantial scope for
Japan and Australia to do more than we are
doing together now, both regionally and
globally. And I think the important point is
that all the preconditions for further
cooperation are there. This is what we’ve been
talking about today, in terms of the solid
people-to-people linkages, the political
linkages, the economic linkages, together with
the fact we both share an alliance with the
United States. And we both have bustling
energetic democracies. Many, many situations
exist in which we can cooperate very closely
and take issues forward.

Australia and Japan worked very closely on
the East Asian economic crisis, and I think both
countries played substantial and constructive
roles. We have also played constructive roles
in developing the institutional framework
within the region. Both countries were critical
in the early development of APEC (Asia Pacific
Economic Cooperation) and the ASEAN
(Association of Southeast Asian Nations)
Regional Forum. So we want to see Australia
and Japan continuing to work in further
developing regional architectural issues and
further enhancing development generally in
the region.

The South Pacific is an area where Australia
obviously has a great deal of interest, and in
recent times some concern in specific areas, and we are certainly happy working with Japan there. There are already practical examples. I recently talked with the president of JICA (Japan International Cooperation Agency) about some projects we jointly fund and manage in the aid context in the South Pacific. It is clear that more scope for that type of activity exists.

At the global level, we both need to continue work on nonproliferation issues, and we have a strong interest in the need to ensure that a new global trade round is launched as soon as possible.

**Shioya:** Thank you very much for your comments. As I said at the beginning of this discussion, NIRA has been making great efforts for further development of the Australia-Japan relationship, and for Japan’s relationship with other countries, and we look forward every year to the annual Asian Leaders Forum with the Asia-Australia Institute. I do hope that we will get further support from you on these issues.

**Grey:** Thank you very much, and we appreciate your interest in Australia.