

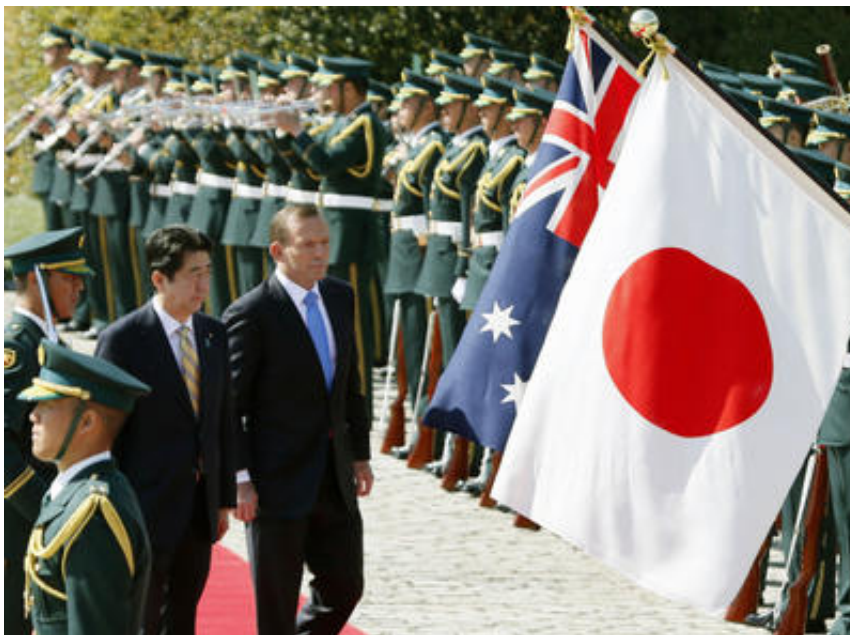
The new Australia-Japan relationship

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Prime Minister Shinzo Abe's visit to Australia this week comes at a key time for the Australia–Japan relationship. The bilateral relationship is as strong as it has ever been and is seen as one lynchpin in regional stability and prosperity.

Japan is Australia's second most important economic partner, with trade and investment of close to US\$80 billion annually — Australia is Japan's fourth largest trading partner. Less recognised is the strategic importance of the economic relationship: Australia is the largest supplier of strategic raw materials to Japan and underwrites its industrial strength. Australia supplies over 63 per cent of Japanese coal imports and 62 per cent of iron ore. Outside of crude oil, Australia is the largest supplier of energy fuels to Japan, with Qatar recently catching up to Australia in the supply of LNG. Each accounts for close to one-fifth of LNG imports for Japan. Australia's role as a stable supplier of strategic raw materials contributes to Japanese and regional economic and political security.



The closeness and familiarity between the two countries has deepened over the years, built on their large scale and broad-ranging economic relationship. This is a remarkable achievement given where the two countries came from as adversaries in World War Two.

Abe will be the first Japanese prime minister to address both houses of the Australian Parliament. Abe and [Australian prime minister Tony Abbott](#) ^[1] share a strong personal relationship, one that helped bring conclusion of the long-awaited [Economic Partnership Agreement \(EPA\) in April](#) ^[2] this year when Abbott visited Tokyo. The EPA will not have the transformative effect on the economic relationship of the 1957 Agreement on Commerce (which

Abe's grandfather Kishi signed in Canberra in 1957) or the 1976 Basic Treaty of Friendship and Co-operation. The former helped bring Japan into the global trading system with equal treatment just over a decade after the war, while the latter boosted Japanese investment and movement of people between the two countries.

The EPA was Japan's first deal made with a developed country, other than its agreement with Switzerland, and the first that had any impact, however limited, on liberalising the protected agricultural sector in Japan. The agreement allows both sides to get on with the broader relationship.

Circumstances are very different today from when Abe last visited Australia in 2007 when Sydney hosted the APEC summit — the last Japanese prime ministerial visit to this country. That was before the global financial crisis and when Abe was being credited with fixing the Japan–China relationship while overseeing a stagnant economy. Today the Japanese economy is poised to escape two decades of low growth thanks to the economic policy package known as Abenomics, but the relationship with China is in disarray.

China is the most important economic partner for both Australia and Japan. Both countries, from the base of a strong bilateral relationship, also rely on their alliance relationships with the United States to maintain peace and stability in the Asia Pacific.

Both countries are grappling for a broader framework within which to manage their relationships in Asia. With last week's decision to re-interpret the Japanese Constitution to permit commitments to collective defence, some see a thickening of security ties [across the US–Japan](#) ^[3] and US–Australia relationship as naturally extending into a formal trilateral alliance. But harder heads know that this would not be without considerable risks and that the region needs a broader framework in which to engage China and other players.

China is the largest economic partner for almost every country in the region. The continuing strength of Japanese manufacturing competitiveness is built on offshore investments in China and Asian regional supply chains, while Australian resources help fuel Chinese industrialisation. Australia's biggest growth potential lies in exporting services and high value-add products to China and throughout the region.

China is embedded in the global trading system and has shown it is keen to play a positive role in broader regional economic cooperation. There is also growing concern within China about its tensions with neighbours.

Australia and Japan are both now part of the Trans-Pacific Partnership (TPP) and the Regional Comprehensive Economic Partnership (RCEP), the two mega-regional economic agreements under negotiation in Asia and the Asia Pacific. The TPP does not include China and RCEP does not include the United States, so Australia and Japan have a critical role to play in ensuring that these agreements do not divide the region but are instead complementary and bring China and the United States into a closer and more comprehensive trans-regional arrangement in the longer term. The deepening of regional economic interdependence will help countries manage their other differences.

This is the constructive diplomacy on which the Australia–Japan partnership now needs to be brought to bear. It would involve a more strategic partnership that promotes deeper regional cooperation, similar to the time that Japan and Australia led the creation of APEC in the 1980s. Prime Minister Abe’s visit offers an opportunity to display Japan’s willingness to invest in just such an endeavour.

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[1] Australian prime minister Tony Abbott:

<http://www.eastasiaforum.org/2014/03/31/abbott-pivots-from-enragement-to-engagement-of-asia/>

[2] Economic Partnership Agreement (EPA) in April:

<http://www.eastasiaforum.org/2014/04/15/japan-and-australia-beef-up-relations/>

[3] across the US–Japan:

<http://www.eastasiaforum.org/2014/07/03/the-future-of-us-japan-military-exercises/>