

# Australia-Japan Bilateral Trade and Investment Retrospect and Prospect

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## 1. INTRODUCTION

Trade between Australia and Japan has registered an impressive 8.6 increase in real terms (representing a rise of A\$9,625 million) since the *Australia-Japan Trade Agreement* came into being in 1957.<sup>1)</sup> In just ten years after this, by 1966, Japan had replaced the United Kingdom as Australia's most important export market and in 1970 she replaced the U.S. as Australia's most important two-way trading partner.

As a result, for Australia, Japan is now ranked (by 1981/2 figures) first as trading partner (first for exports, second for imports). On the other hand Australia, for Japan, (1981 figures) is ranked fourth in world trade (ninth for exports, fifth for imports). The bilateral trade between the two countries stands as the seventh largest in the world.

The aim of this paper is to provide an overview of the trading and investment relationship which has developed between Japan and Australia over the last twenty-five years or so, and also to present some potential prospects for the future.

## 2. AUSTRALIA-JAPAN TRADE RELATIONS

### 1957-1974, The Years of High Growth

Between 1957/8 and 1973/4 (the time of the first oil 'shock'), the value of Australia's exports to Japan increased by A\$1952.7 million to A\$2158.1 million – a tenfold nominal increase in 16 years. Japan's share of Australian exports rose from 13 to 31 per cent (Table 1), almost equal to the combined total share of Australia's next two largest export markets – Britain and the U.S.

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1) The continuation of a variety of import controls and embarrassing trade balances with Japan (to Australia's favour) throughout the 1950s caused Australia to reappraise its trading relationship with Japan and eventually grant it 'most favoured nation' status. Under pressure from Japan, Australia realised that it could not continue increasing its exports to Japan whilst denying access to Australian markets for Japanese goods. In 1956/7, at the time of the *Australia-Japan Agreement*, 14 per cent of Australia's exports went to Japan but only 2 per cent of Australia's imports came from there (Table 1).

Just before the effects of the first oil crisis were to reduce Japan's rate of growth in GDP from about 10 per cent down to 5 per cent per annum (1974/1983 average) Australia stood as number two supplier behind the U.S.<sup>2</sup> Australia's imports from Japan also rose rapidly up to 1973/4 (comprising 18 per cent of total Australian imports in that year), although from a much lower base. In 1973/4 Australia returned a large favourable balance of trade with Japan, the value of exports being nearly twice the value of imports (Table 1).

This growth in trade between the two countries was accompanied by striking changes in its composition. In 1957/8, three-quarters of Australian exports to Japan consisted of agricultural products, wool alone accounting for two-thirds. By 1973/4 over half of Australia's exports to Japan consisted of mineral ores, concentrates and metals – the value of iron ore exports alone surpassing that of wool (see AJEI 1980: 4).

In the intervening period 1960 was another landmark in the history of Australia-Japan trade. In that year the Federal Government relaxed its embargo on the export of iron ore – partly in response to considerable interest on the part of the Japanese steel industry in purchasing Australian ore. The lifting of the embargo paved the way for long term export contracts which enabled iron ore development to begin in the Pilbara area of Western Australia, and also Tasmania, by the mid-1960s.<sup>3</sup> At the same time Japanese steel corporations' imports of Australian coking coal, which had begun in a small way in the 1950s, surged ahead forming the basis for the opening up of an entirely new coal mining province in central Queensland. Table 2 shows the very rapid increase in a variety of mineral and agricultural exports to Japan during the 1960s and early 1970s.

In terms of the percentage share in Japan's total trade, Australia's share of both exports and imports did not increase so rapidly. During this period of high growth Australia maintained about a 7 per cent share of Japan's imports (see Table 3) and took about 3 per cent of Japan's exports. But Japanese exports to Australia did change greatly in composition – from light industrial products and textiles to heavy industry products and engineering (Table 4). For example, textiles decreased from 44 per cent of total imports in 1956/7 down to 12 per cent in 1973/4, whilst transport equipment and other machinery increased their shares (AJEI 1980). In this way Japan increasingly matched the structure of Australia's growing import demand. By the early 1970s (long before the current trade frictions with Europe and the U.S.) Australia had become Japan's leading market for exports of motor vehicles and steel products.

The greatest economic importance of Australia to Japan, however, over this period of

- 2) During the 1950s Australia was already Japan's second largest supplier of raw materials, after the U.S., with wool destined for Japan's textile industry comprising about half of the export trade at that time. The transport cost advantage due to the proximity of the two countries has been a crucial factor explaining the special advantages Australian resource exports enjoyed in the Japanese market.
- 3) The exporters of iron ore, principally Hammersley and Mount Newman, trade with Japan under long term contracts concluded with a consortium of Japanese steel mills for which Nippon Steel acts as the negotiating agents. Long term contracts in iron ore and coking coal with Japan's steel mills were the initial stimulus to Australia's first mining boom of 1967-1972. The existence of these contracts prior to the mine development, made possible the debt financing of many mineral resource projects.

Table 1: Australian Trade with Japan, 1957/8 to 1981/2

Year	Exports to Japan (\$'000)	% of Aust. Exports	Imports from Japan (\$'000)	% of Aust. Imports	Trade (\$'000) Balance	Trade Surplus
1957/8	205,434	13	47,630	3	+157,804	4.31
1958/9	204,620	13	59,899	4	+144,721	3.42
1959/60	269,347	14	83,066	5	+186,281	3.24
1960/1	322,976	17	130,890	6	+192,086	2.47
1961/2	373,810	17	98,990	6	+274,820	3.78
1962/3	346,165	16	129,377	6	+216,788	2.68
1963/4	487,810	18	162,468	7	+325,342	3.00
1964/5	440,740	17	258,574	9	+182,166	1.70
1965/6	470,410	17	280,173	10	+190,237	1.68
1966/7	586,512	19	296,044	10	+290,468	1.98
1967/8	642,072	21	343,310	11	+298,762	1.87
1968/9	822,101	24	414,676	12	+407,425	1.98
1969/70	1,025,341	25	481,203	12	+544,138	2.13
1970/1	1,190,858	27	573,581	14	+167,277	2.08
1971/2	1,360,152	28	628,569	16	+731,583	2.16
1972/3	1,932,316	31	738,950	18	+1,193,366	2.61
1973/4	2,158,141	31	1,084,968	18	+1,073,173	1.99
1974/5	2,456,206	28	1,417,639	18	+1,038,567	1.73
1975/6	3,192,131	33	1,609,061	20	+1,582,570	1.98
1976/7	3,955,629	34	2,149,988	21	+1,805,641	1.84
1977/8	3,896,083	32	2,111,908	19	+1,784,174	1.84
1978/9	4,111,151	29	2,425,953	18	+1,685,198	1.70
1979/80	5,083,382	27	2,527,000	16	+2,556,382	2.01
1980/1	5,223,801	27	3,627,618	19	+1,596,183	1.44
1981/2	5,351,389	27	4,527,495	20	+823,894	1.18

Source: Australian Bureau of Statistics, *Overseas Trade*, various issues AJEI (1980)

high growth, was that it was the major supplier of key raw materials needed by Japanese industry, such as iron ore, coal, bauxite, and alumina (Table 3). In order to sustain the very high growth rate in Japan's steel industry and aluminium industries between 1963 and 1973, enormously increased imports of raw materials were needed. For example, the large lumpy demand for iron ore and coking coal which arose as new Japanese steel mills came on stream in the 1960s could not be filled from Japanese sources or through spot purchases on the world market. Therefore long term contracts, together with small equities in the mining projects taken out by Japanese trading companies for their affiliated steel mills, tended to provide the modus operandi of the early trade in these raw materials (Smith 1978). By 1973 Australia was the critical source of supply of iron ore (47 per cent of Japan's total iron ore imports), coking coal (37 per cent), and bauxite (50 per cent). Australia's exports also grew so that it

became the key supplier of wool, alumina and beef (Table 3).

In this period of high growth much was written about the underlying complementarity of the Australia-Japan trade relationship, commenting not only on Australia's increasing dependency upon Japan as a market (see Table 1) but also on Japan's dependence on Australia for a high proportion of certain raw materials. By the early 1970s it was found that the Australian and Japanese economies were linked to the extent that a 10 per cent fall in Japanese GDP produced a 2.5 per cent fall in Australia's GDP together with a half per cent rise in unemployment (Crawford & Okita 1976). Another study found that, taking industry interactions into account, exports to Japan led to employment of 5.9 per cent of the 1972/3 work force (James 1974). The rising perception in both countries as the extent of this complementarity in trade led to some friction in the early 1970s. In Australia there were fears of over dependence upon Japan as an export market, whilst Japan became increasingly aware of the need to diversify resource suppliers – especially after the 1974 oil crisis. However, this period of strong expansion in trade saw new trade agreements initiated. In 1973 the Nippon-Australia Relations Agreement (NARA) was announced, which led to the signing of the renamed *Basic Treaty of Friendship and Cooperation* in 1976.

#### **1974-1982, the Oil Crises to the 'Resources Boom'**

For Japan, the oil crisis and the high inflation of early 1974 marked the end of the post war era of high growth. The immediate effect of the 1974-75 Japanese recession was that Japan's share in Australia's total exports fell below 28 per cent, the first reversal for almost 20 years (see Table 1). Moreover, the impact of the oil price escalation on the level and structure of Japan's import demand was to increase the share of oil imports from 16 per cent in 1973 to 33 per cent in 1974. Consequently, Australia's share of Japan's total imports in 1974 was cut back to under 7 per cent, lower than at any point in the previous ten years. Australia slipped from being the second most important supplier in 1973 to ranking fifth - behind the U.S., Saudi Arabia, Indonesia, and the United Arab Emirates by 1980.

- 4) Due to the long term contracts Australia very quickly became the largest source of iron ore imports. From about the beginning of the 1970s Japan became increasingly aware of the need to diversify resource suppliers, and this perception increased after the 1974 oil crisis. By this time Japan depended on Australia for nearly half of its total iron ore imports. As the result of Japan's steel-makers and trading companies diversifying their sources (for example by helping to develop substantial mines outside Australia, such as in Brazil) the present dependency rate on Australian ore has fallen to about 39 per cent in 1981/2 (Table 3). Australia's coking coal industry is also suffering similar setbacks: the steel corporations have adopted a policy of diversifying sources of supply of this raw material from the U.S., Canada, China and South Africa. Australia's labour unrest is often mentioned as one direct cause of the diversification policy (but see Hawke 1982 for an alternative point of view). This pattern of encouraging a variety of sources tends to be combined with a tendency for Japanese purchasers to show impressive solidarity and sharing of information. Ultimately this means that whilst there is competition between all suppliers of minerals and energy products for the Japanese market – both from Australia and elsewhere – there is very little or no competition among Japanese purchasers (see also Kojima 1978: 204-214). In this situation Australia's dependence upon Japan is much greater than Japan's dependence upon Australia: Japanese corporations can diversify their supply sources much more than Australian miners can diversify their markets.

Table 2: Australian Exports of Major Resource Goods to Japan and Percentage to Japan. 1963/64 - 1981/82

Commodity	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
<b>Iron Ore</b>										
Value (\$'000)	72	86	2,626	42,747	89,801	155,843	244,678	329,290	326,253	384,075
Tonnes ('000)	12	97	333	5,165	10,914	17,471	29,366	41,933	41,530	56,416
% Value to Japan	97.3	99.5	97.1	92.8	87.1	86.8	88.1	88.0	86.9	87.5
% Tonnes to Japan	97.2	99.7	97.2	93.0	87.2	85.7	86.9	86.7	81.1	85.1
<b>Exports to Japan</b>										
Value (\$'000)	427,959	543,084	609,375	695,896	733,009	700,679	816,093	854,533	929,474	
Tonnes ('000)	64,973	64,144	62,548	61,819	56,642	53,317	56,969	55,043	52,453	
% Value to Japan	85.9	76.9	70.0	77.2	79.6	72.4	75.8	76.5	73.8	
% Tonnes to Japan	83.0	75.2	79.2	76.5	75.8	67.0	72.1	73.4	70.4	
<b>Coal</b>										
Exports to Japan	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
Value (\$'000)	30,388	48,084	59,476	68,707	82,714	114,218	153,566	172,133	197,786	260,254
Tonnes ('000)	3,587	5,756	7,314	8,540	10,021	13,663	16,521	16,494	18,192	23,081
% Value to Japan	93.6	93.9	94.2	95.5	97.1	97.5	93.4	86.3	83.2	89.5
% Tonnes to Japan	92.8	93.6	94.1	95.3	96.6	97.3	93.7	85.5	83.3	89.6
<b>Exports to Japan</b>										
Value (\$'000)	303,280	561,747	847,821	1,045,708	1,107,491	1,081,072	1,200,626	1,401,560	1,561,441	
Tonnes ('000)	23,635	24,320	22,630	26,866	26,427	25,611	28,560	32,770	31,140	
% Value to Japan	87.2	77.9	82.8	81.6	26.7	71.2	71.7	70.9	68.2	
% Tonnes to Japan	84.9	74.5	77.4	78.0	69.8	65.9	67.1	69.4	67.5	
<b>Meat</b>										
Exports to Japan	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
Value (\$'000)	7,863	9,175	14,491	15,498	25,179	18,629	26,753	39,530	73,155	167,212
Kg. ('000)	23,915	23,156	33,595	35,857	54,016	38,229	61,991	71,882	117,490	169,265
% Value to Japan	3.8	3.8	6.0	6.4	10.1	7.3	7.2	10.5	14.7	21.6
% Tonnes to Japan	6.4	5.5	9.0	10.0	14.5	10.5	12.2	14.0	18.3	21.9
<b>Exports to Japan</b>										
Value (\$'000)	166,497	39,672	118,221	148,911	172,106	246,104	316,755	307,498	278,306	
Kg. ('000)	119,682	56,973	157,509	173,936	163,082	153,420	140,469	138,476	136,484	
% Value to Japan	23.2	10.2	20.0	19.6	17.8	16.9	21.3	22.7	24.8	
% Tonnes to Japan	20.5	11.0	22.2	21.0	18.1	17.1	18.9	18.7	21.5	

Table 2: Australian Exports of Major Resource Goods to Japan and Percentage to Japan. 1963/64 - 1981/82

Commodity	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
<b>Sugar</b>										
Value (\$'000)	53,683	35,143	18,109	21,121	21,024	24,301	36,387	42,854	56,290	71,539
Tonnes ('000)	360	500	409	617	552	582	519	484	534	584
% Value to Japan	34.3	31.2	19.3	21.1	21.5	19.9	31.3	28.6	26.7	28.6
% Tonnes to Japan	31.7	38.8	32.1	36.8	34.0	28.2	37.4	30.8	27.6	28.0
<b>Exports to Japan</b>	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	
Value (\$'000)	57,022	106,360	214,668	274,207	217,667	224,643	270,369	307,824	140,123	
Tonnes ('000)	483	225	559	733	698	688	733	691	510	
% Value to Japan	25.5	16.5	37.7	43.0	40.6	50.1	41.2	26.9	18.3	
% Tonnes to Japan	27.1	11.3	27.9	28.7	28.2	37.4	33.7	18.7	17.4	
<b>Wheat</b>										
Exports to Japan	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
Value (\$'000)	27,562	23,616	18,679	23,834	32,279	62,435	50,725	40,159	72,137	42,463
Tonnes ('000)	512	443	364	432	612	1,147	1,014	821	1,466	752
% Value to Japan	7.6	7.9	7.1	6.6	9.4	24.2	15.0	9.3	17.1	15.5
% Tonnes to Japan	7.4	7.8	7.0	6.6	9.4	23.5	24.7	9.0	17.3	13.9
<b>Exports to Japan</b>	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	
Value (\$'000)	57,869	136,778	124,586	114,902	115,966	117,648	146,976	125,703	156,370	
Tonnes ('000)	424	995	1,056	1,076	1,158	969	992	781	995	
% Value to Japan	11.2	13.3	13.5	13.3	11.4	14.8	6.8	7.4	9.0	
% Tonnes to Japan	8.3	12.8	14.1	13.5	10.6	14.2	6.7	7.5	9.1	
<b>Wool (Greasy)</b>										
Exports to Japan	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70	1970/71	1971/72	1972/73
Value (\$'000)	277,783	239,502	255,316	270,908	243,588	260,905	254,642	197,148	217,788	482,036
Kg. ('000)	196,822	192,401	212,085	223,373	225,890	240,482	258,200	254,681	285,239	229,160
% Value to Japan	32.3	33.2	36.5	37.3	37.9	36.3	37.3	40.0	41.5	45.3
% Tonnes to Japan	31.4	31.3	35.4	36.0	35.8	36.1	36.3	39.2	41.5	45.0
<b>Exports to Japan</b>	1973/74	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	
Value (\$'000)	405,721	207,089	299,155	384,101	287,153	330,486	315,952	292,031	281,033	
Kg. ('000)	175,261	138,530	198,436	208,326	145,079	154,800	122,283	114,669	102,598	
% Value to Japan	38.2	31.2	35.5	30.1	28.9	26.9	24.6	20.1	19.1	
% Tonnes to Japan	35.9	30.3	34.0	30.8	29.4	27.3	24.3	21.2	17.1	

Sources: ABS Cat. 5423.0, AJEI (1980).

Surprisingly, in the years following the 1974 oil crisis, Japan's share in Australia's total exports continued to grow (up to 1977), together with Australia's share of total Japanese imports (up to 1976). The reason was that the value of some major commodities such as coal rose significantly, and at the same time Japan's cutbacks of Australian raw materials were less severe than for other suppliers (Drysdale and Kojima 1978: 28).

The intensity of trade interdependence reached a peak in 1976/77 with Japan taking 34 per cent of Australia's total exports and supplying 21 per cent of imports. Since that time, there has been no expansion of Australian exports to Japan in real terms, even though Japan has resumed a moderate economic growth. Japan's share of Australia's total exports declined

Table 3: Japanese Imports of Major Raw Materials from Australia and Percentage from Australia 1965, 1970, 1975, 1980, 1981

Commodity	Import from Australia*	1965	1970	1975	1980	1981
Iron Ore	Value from Aust.	1.0	150.9	305.5	311.9	304.0
	% from Aust.	0.5	35.0	45.6	39.7	39.4
Coal	Value from Aust.	32.2	88.2	278.6	391.4	503.2
	% from Aust.	33.0	24.4	26.8	38.8	41.4
Bauxite	Value from Aust.	1.4	6.4	12.6	19.8	15.4
	% from Aust.	23.5	48.6	55.5	56.6	53.4
Alumina	Value from Aust.	1.3	7.7	16.0	34.9	34.4
	% from Aust.	100.0	100.0	100.0	90.2	95.4
Nickel Concentrates/Matte	Value from Aust.	--	9.4	15.6	20.6	18.5
	% from Aust.	0.0	13.3	26.7	20.2	27.5
Wool (excl. tops)	Value from Aust.	103.0	99.1	121.5	112.5	109.5
	% from Aust.	82.6	78.4	83.5	78.1	80.4
Wheat	Value from Aust.	9.9	20.6	66.0	47.1	41.9
	% from Aust.	10.9	18.1	19.4	16.9	15.0
Sugar	Value from Aust.	9.1	18.5	40.5	88.8	58.9
	% from Aust.	16.1	18.2	7.9	32.4	36.7
Meat	Value from Aust.	n.a.	n.a.	n.a.	96.2	82.5
	% from Aust.				33.5	23.3
TOTAL ALL COMMODITIES	Value from Aust.	199.5	539.5	1,363.8	1,585.2	1,632.0
	% from Aust.	6.8	8.0	7.2	5.0	5.2

\* Value is in billion yen.

Source: Ministry of Finance, *Japan Exports and Imports*, Tokyo, Japan Tariff Association, various issues.

to 27 per cent in 1981/2 (Table 1) and conversely Australia's share of Japanese imports declined to about 5 per cent in 1981 (Table 3).

This situation reflects not only a policy of diversification of raw supplies<sup>4)</sup> but also a structural change within the Japanese economy. In Japan there has been considerable expansion of machinery industries since 1979 – such as automobiles and electrical machinery – while the traditional processing industries such as petrochemicals, textiles, paper and pulp, steel and aluminium smelting have been in decline (Mochizuki 1982). This is the major reason why there has been no expansion in traditional raw materials trade with Australia in iron ore, coking coal and bauxite. For example crude steel production in Japan reached a peak of 119.3 million tonnes in 1973 but declined following the oil crisis. A recovery began in 1978, yet the outlook for steel production is rather gloomy and production is unlikely to reach pre-1974 levels in the foreseeable future (Suzuki 1982). Australia's exports of iron ore to Japan have also fallen in real terms since 1973/4 (Table 2).

Despite this reduction in overall intensity, for certain industries there is still a significant degree of interdependence. Japan still (Table 3) depends (in 1981) on Australia for about 80 per cent of wool imports, about 40 per cent of iron ore, 41 per cent of coal, 72 per cent of beef, and 95 per cent of alumina supplies. Conversely Japan remains the number one market for many of Australia's export industries (1981/2) including wool, coal, iron ore, sugar, alumina, wood chips, cotton, industrial salt, copper ore, zinc ore, pearls and silver.

Japan's exports to Australia have grown strongly since 1974, especially in the last three years (Table 1). In terms of its composition by commodities, textiles continued to decline in relative share whilst electrical equipment (colour TV sets, radio equipment and household items) increased their share along with passenger vehicles and rubber tyres, iron and steel, calculators, cameras and photocopiers (see AJEI 1980: 23 and Table 4).

Towards the end of the 1970s Japan's dependence upon overseas sources of energy materials to replace oil seemed to suggest that new sources of energy materials to replace oil seemed to suggest that new sources of trade between the two countries would develop in the 1980s. In order to reduce the over-reliance upon oil as a source of energy from 75 per cent in 1977 to 50 per cent in 1990 the Japanese government began projecting demand for a large rise in coal imports (from 58 million tonnes to 143 million tonnes in 1990), especially in steaming coal.<sup>5)</sup> From 1978 onwards these large projections formed the basis of negoti-

5) Oil accounts for about 51 per cent of Japan's energy requirements. Virtually all of this oil is imported, with over 70 per cent of imports coming from the Middle East. The remaining 33 per cent or so of Japan's primary energy supply comes from coal (17 per cent), liquified petroleum gas – LPG – and liquified natural gas (7 per cent), nuclear power (5 per cent) and hydropower and other sources (4 per cent). Most of these non-oil energy sources are also imported (MITI 1982). After 1979 Japan's concern as to her vulnerability as a result of this dependence was reflected in energy policies developed in that year which sought a major diversification away from oil to alternatives such as coal and synthetic fuels, as well as continued attempts to conserve fuel. Projections were made in 1979 for oil's share of energy supply to fall to about 50 per cent in 1990 from 70 per cent. The contribution of coal was projected to rise from 14 per cent to 18 per cent, LPG and LNG from 8 per cent to 14 per cent, nuclear power from 4 per cent to 11 per cent, and hydro and synthetic fuels

Table 4: Australian Imports of Major Japanese Manufactured Goods (\$'000) and Percentage from Japan 1965/6, 1970/1, 1975/6 and 1981/2

Commodity	Imports from Japan	1965/6	1970/1	1975/6	1981/2
Artificial resins and plastics	Value from Japan	6,604	16,303	29,887	65,194
	% from Japan	9.8	18.1	18.0	15.1
Chemical elements and compounds	Value from Japan	10,859	23,429	58,351	77,529
	% from Japan	12.4	16.6	21.2	15.7
Rubber manufactures	Value from Japan	3,696	13,744	38,653	99,627
	% from Japan	13.1	23.0	34.6	35.0
Textile yarn, fabrics etc.	Value from Japan	63,902	93,127	140,871	197,785
	% from Japan	27.5	30.9	25.8	18.0
Non-metallic mineral manufacture	Value from Japan	9,363	15,890	37,628	72,891
	% from Japan	17.6	18.4	22.7	17.8
Iron and steel	Value from Japan	35,534	75,863	96,903	338,876
	% from Japan	41.2	54.7	62.7	58.7
Manufactures of metal	Value from Japan	12,640	21,003	36,545	156,092
	% from Japan	17.6	19.2	18.5	24.3
Machinery except electric	Value from Japan	20,007	64,101	149,209	691,137
	% from Japan	3.5	8.1	11.2	18.9
Electric machinery and appliances	Value from Japan	18,645	43,503	319,952	850,900
	% from Japan	10.3	15.5	38.6	34.6
Transport equipment	Value from Japan	34,008	99,258	451,526	1,395,554
	% from Japan	9.1	17.3	44.8	43.0
Professional, scientific and photographic etc.	Value from Japan	7,723	18,191	51,659	160,048
	% from Japan	9.7	13.0	18.8	19.3
TOTAL ALL COMMODITIES	Value from Japan	280,173	573,581	1,609,061	4,527,495
	% from Japan	9.5	13.8	19.5	19.7

Source: Australian Bureau of Statistics, *Overseas Trade*, various issues.

from 5 per cent to 11 per cent (MITI 1981). Due to the close links Japanese companies and public authorities began to forge with a wide range of Australian resource projects from the end of the 1970s it was thought that Australia would play an important role in supplying the required fuels – for example supplying 50 per cent of the increased demand for coal. The impacts by the world economic recession and falling real oil prices have drastically reduced these optimistic projections (see later).

ations between Japanese end users (such as electricity companies) and trading companies on the one hand and Australian and overseas mining corporations, over long term contracts and Japanese equity participation in the development of steaming coal reserves in central Queensland and the Hunter Valley region of New South Wales.<sup>6)</sup> This projected demand for alternative energy resources by Japan also stimulated the development of huge natural gas reserves on the North West Shelf of Western Australia and uranium mines in the Northern Territory and Western Australia.

The so-called 'second oil shock' in 1979, when oil prices doubled, intensified Japan's search for non-oil energy fuels and synthetic fuels, such as from shale to oil and coal to oil projects. This further promised to prolong the raw materials domination in Australia's trade with Japan, and even to increase the role of Australia as a key supplier of these raw materials.

On top of this, the oil crises forced Japanese industries which consume large amounts of oil based energy – such as aluminium, petrochemicals, paper and pulp, iron and steel – into severe structural recession. Official reports in Australia in the 1970s therefore recommended that Australia should take advantage of these structural changes occurring in the Japanese economy (see Crawford and Okita 1976; Study Group 1979). This could be done by shifting emphasis towards raw materials processing (which would then increase the value-added component of Australian exports), specialising in resource-intensive manufactured goods as well as encouraging intra-industry specialisation in the manufactured goods in which Australia was supposed to have some natural comparative advantage.<sup>7)</sup> This concept has also been discussed within Japan for some time (Kojima 1978) as it was thought that the relocation of energy and resource intensive industries outside Japan would facilitate industrial restructuring towards a more 'knowledge-intensive' economy based upon high technology manufacturing such as computers, robots and precision instruments which consume far less energy per value of output.<sup>8)</sup>

Because of the desire by both countries' governments to explore the potential of increased processing of raw materials within Australia, in 1978 at the 5th Japan-Australia

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6) Japan's imports of steaming coal, which is used as the energy input for steam power generation in electricity generation and also the cement industry, were negligible until 1973 because of Japanese controls imposed to protect the domestic coal industry together with higher pollution and operating costs of coal fired stations. Japan's imports of steaming coal increased dramatically however after 1979 to supply both the cement industry and electricity power companies. Australia's exports increased in volume from 1.2 million tonnes in 1979/80 to 5.4 million tonnes in 1981/82, but its share dropped as significant volumes were imported from America and South Africa. Contracts made as recently as 1982 were for steaming coal exports from Australia to increase by about 10 million tonnes per annum over the next ten years to supply Japanese power companies (Tex Report 1982).

7) One example of inter industry specialisation is the world trade in motor vehicle components in order to produce a 'world car', and the Australian Federal Government's recent export complementation plan for the Australian automobile and automotive parts industry.

8) Kojima (1978) lists six factors accounting for this reorientation towards high technology: (1) the availability of land for heavy industry in Japan is limited; (2) the severe problems of environmental pollution; (3) the increasing logistics problem of supplying heavy industry in Japan with raw materials; (4) higher energy costs; (5) the revaluation of the yen; (6) higher wages within Japan.

Ministerial Meeting, it was decided to establish a study group to examine the feasibility of raw materials processing in industries such as alumina and wood pulp.<sup>9)</sup> Japanese involvement in aluminium smelting in Australia was seen to have particular mutual advantages as Australia is the major source of bauxite and alumina and has electricity costs of about only one-quarter of those in Japan (Australia/Japan Joint Study Group 1980). Since that time Sumitomo Light Metal, together with other Japanese companies, actively participated in the financing and development of Comalco's Gladstone aluminium refinery in Queensland, with Sumitomo also supplying technology as well as capital funding.

Japan's long term dependence upon overseas sources of energy materials to replace oil, together with raw materials processing opportunities for the Japanese market, suggested therefore that trading intensities between the two countries would increase again in the 1980s (Myer 1978). The promise of new Japanese markets led to a new wave of foreign investment into Australia from 1979 onwards. According to surveys carried out by the Australian Department of Industry and Commerce, A\$230 billion worth of mining and resource projects, together with resource-oriented manufacturing such as alumina smelters, was committed or in the final feasibility stage in December 1982 (compared with A\$29.3 billion in December 1981 and A\$35.5 billion in June 1981). By the crest of the wave of the so-called 'resources boom' (about mid-1981) it was thought that whilst the 1960s and 1970s saw the rapid expansion of Australian exports of iron ore, coking coal, bauxite and alumina to Japan, the following decade should see a new phase in trade based on energy commodities and processed raw materials (Stirling 1981).

At the same time Japanese industry was seen to be well placed to take advantage of Australia's increasing import demand resulting from equipment for resource development, electric power generation, and a general expansion of the domestic economy. Not only was the greater use of Japanese machinery and technology foreseen but also the greater use of Japanese finance capital. The potential of deregulating Australia's banking system, leading to the entry of Japanese and other banks, encouraged no less than 19 Japanese banks to establish representative offices in Australia between 1979 and 1981, in order to be well placed should

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9) A good example of early initiatives in this field is the processing of nickel concentrates to nickel matte for export to Japan – this started in 1973 (Smith 1978). As Japan's own nickel refining industry became more strongly subject to import competition, negotiations between the Western Mining Corporation and Sumitomo Metal Mining Company resulted in sales of concentrates being gradually replaced by sales of higher value-added nickel matte. This has greatly reduced the cost to the Japanese end users and increased the value of Australia's nickel exports to Japan. With regard to aluminium smelting, a smelter in Bluff, New Zealand, was first developed in 1971 with 50 per cent of equity from Japanese concerns (Showa Denko and Sumitomo Chemical) and 50 per cent from Comalco which provides alumina processed in Gove, Queensland. In the late 1970s almost one third of Japanese aluminium smelting capacity was scrapped or frozen and a domestic production limit was set at about 15 per cent 1977 production levels. Recently (1982) Comalco has purchased 50 per cent of the equity in Showa Denko in order to secure a long term downstream outlet for its aluminium ingots produced in the Gladstone refinery. Other opportunities for further processing of Australian resources for the Japanese markets include copper ore, iron ore, ferro silicon from silicon ore, synthetic rutile from rutile, chlorine based chemicals and caustic soda from industrial salt, and petrochemicals from natural gas.

Table 5: Phases of Japanese Business Activity in Australia

Type of Company	First Phase, 1947-1950s	Second Phase 1960-1974	Third Phase 1974 Onward
Trading Company	<ul style="list-style-type: none"> <li>• establishment of offices to facilitate agriculture and pastoral trade</li> </ul>	<ul style="list-style-type: none"> <li>• small equities in mines and long term contracts</li> </ul>	<ul style="list-style-type: none"> <li>• general upgrading of Australian operations in terms of staff etc.</li> <li>• increasing investment in energy resource projects (e.g. steaming coal) and raw materials processing (e.g. aluminium smelting)</li> </ul>
End Users of Minerals and Energy Resources e.g. steel companies and electricity companies		<ul style="list-style-type: none"> <li>• ditto</li> </ul>	<ul style="list-style-type: none"> <li>• ditto</li> </ul>
Manufacturing Companies		<ul style="list-style-type: none"> <li>• increasing sales to Australia and establishment of sales subsidiaries</li> </ul>	<ul style="list-style-type: none"> <li>• manufacturing plants established (e.g. autos and electronics) to break the tariff barriers</li> </ul>
Banks and Security Houses		<ul style="list-style-type: none"> <li>• equity established in merchant banks and money market firms</li> </ul>	<ul style="list-style-type: none"> <li>• establishment of representation offices</li> <li>• loans made to resource projects and public authorities</li> </ul>

Adapted from Stirling (1981), AJEI (1981)

full banking licences be granted to overseas banks (AJEI, 1981).

### 3. JAPAN'S DIRECT FOREIGN INVESTMENT IN AUSTRALIA

#### General

A summary of the history of Japanese transnational activity in Australia is shown in Table 5. Initially investment was limited to assist trading companies to set up local subsidiaries and carry out their business in agricultural and pastoral products. Japanese investment in Australia only began in earnest however in the mid-1960s along with the mining boom. To begin with, the long term contracts between mine operators and the Japanese trading companies substituted for ownership ties as a means of safeguarding access to markets and sources of raw materials. Yet whilst Japan's initial role in Australia's mineral boom was that of chief customer for the new export projects, it soon began to assume a second important role – that of direct investor in Australian mineral projects. This role was pioneered by the trading company Mitsui, which initiated Japanese equity in both iron ore and coal development projects. This initiative was then followed by several other leading

trading companies.

Whilst investments in iron ore and coking coal joint ventures tended to be the largest in terms of cost, trading companies also took shares in other early mineral projects – based chiefly on exports back to Japan – such as solar salt, coal char, bauxite, alumina and copper. When government restrictions on capital outflows from Japan were lifted at the end of the 1960s the volume and diversity of investments in Australia and also world-wide began to expand. Japan's share of direct foreign investment in Australia rose from 3.9 per cent in 1967/8 to 12.0 per cent in 1971/2. The main impetus for this new direction came from the reversal in Japan's balance of payment situation – from a high deficit to a high surplus – together with official liberalisation of overseas investment. In Australia's case this motive was reinforced by a sense of urgency in securing raw materials supplies, so that several major trading companies, such as Mitsui and Sumitomo, began to invest heavily in a wide range of export oriented resource development projects (e.g. in fisheries, wood chips, beef cattle, cotton growing, wool scouring, etc.).

At this time there was also a flurry of activity by Japanese financial institutions to establish representative offices or form equity participation in existing Australian financial institutions such as merchant banks. Between 1969 and 1971 seven Japanese banks established representative offices in Australia, and there were eight instances of equity participation in Australian financial institutions during this period (AJEI 1981).

By contrast with the large involvement of Japanese trading companies in Australian resources, Japanese manufacturing investment in secondary industry (i.e. excluding resources processing) has generally been instituted directly by the manufacturers themselves. Those manufacturers who captured substantial shares of the Australian market tended to establish their own sales distribution and servicing channels rather than rely upon the trading companies. In the period from 1967 to 1974 local production facilities were set up in twenty-one cases, either with majority Japanese equity or by joint ventures (AJEI 1981). These types of investments – in transport equipment, light electrical machinery and bearings etc. – were regarded as an effective means to expand Japan's share of the Australian market. If local production went ahead not only could Japanese products be introduced under lower import duties and be better serviced and distributed within Australia, but faced with Australian protectionist policies many firms had to establish local production operations in order to expand their market share behind the tariff wall.<sup>10)</sup>

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10) A good example is motor car manufacturing where the Federal Government in Australia has put pressure upon Japanese manufacturers to move towards assembly and manufacture in Australia (Mori 1974). After the 25 per cent tariff cut in July 1973, Toyota and Nissan – which were already assembling automobiles in Australia – found that the local content program of the then existing Australian car production plan became unprofitable, and so made efforts to recommence exporting complete cars to Australia. The resulting increase in imports of completely built up cars from Japan in 1973/4 was remarkable, accounting for 90 per cent of total imports and 27 per cent of new car registrations. It was only when the Federal Government changed the car production program again in November 1974, by raising the tariff and limiting import than Nissan and Toyota resumed local production of cars. Another example concerns the import of colour televisions from

Since 1974 there has been a new wave of investment activity in alternative energy sources and raw materials processing (see above). These projects have been pursued by two groups of investors. First of all the trading companies have been increasingly investing in upstream large scale energy resource developments as they are losing custom from traditional sales and exports of coal and iron ore. Secondly, final users such as Japanese electricity companies have been investing in mining projects and granting loans for vital hydrastructure developments, such as railways, in order to secure long term supplies of their long term materials.

Apart from establishing production facilities the 1970s saw a sharp increases (from 30 cases in 1971 to 96 in 1981) of Japanese investment in sales and service subsidiaries which allowed more control over distribution and service industries. No doubt the establishment of this large number of sales subsidiaries (together with about 40 representative offices supplying technical service back up to imported products) has allowed the recent large increase of imports into the Australian market (see above). This type of investment, together with production facilities in certain cases contributed not only to short term increases in the exports of Japanese goods but also to long term increases in the export of component parts and replacements. Another category of Japanese investment in Australia has been in the tourist and real estate sectors.

### **Some Characteristics of Japanese Investment in Australia**

Despite the increased level of interest that Japanese corporations have taken in Australia over the last 15 years or so, their investment has remained at a modest level compared with the United Kingdom or the U.S. Over the last ten years Japan has provided about one-eighth of total foreign investment flowing into Australia (Table 6).

Figures released by Japan's Ministry of Finance reveal that Japan's annual investment in Australia amounted to about A\$340 million in 1981/2 – a drop from the previous year's figure of A\$420 million. Due to the timings of investment the annual amount invested in any particular country fluctuates from year to year, but Australia is consistently in the top six host countries receiving Japanese investment. The cumulative total amount of Japanese investment in Australia stands at about A\$2.4 billion. Australian investment in Japan on the other hand has been miniscule amounting to only A\$5 million in 1981/2 according to Australian Bureau of Statistics estimates.

From a survey carried out in mid-1981 it is possible to show the top ten Japanese corporations operating in Australia – ranked by turnover (Table 7). Mitsui and Co., Mitsubishi Australia, C. Itoh, Sumitomo, Kannematsu-Gosho and Nissho Iwai are all general

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Japan after commencement of colour broadcasting in March 1975. The penetration of colour TV sets in Australia was the most rapid in the world with a million sets being sold annually in the first four years. Imports from Japan were generally in the smaller screen size range as Japan exercised voluntary restraint on the large sizes which had traditionally been produced locally. This situation together with high import tariffs led to a number of Japanese manufacturers (e.g. Sony and NEC) setting up local production facilities or joint venture operations.

Table 6: Inflow of Foreign Investment into Australia (A\$ million)

Year	DFI from Japan	Portfolio Investment & Institutional Loans	Total Japan	Total all countries	Japan's % share	Yearly % change of Japan's investment
1972-73	-16	64	51	476	10.7	--
1973-74	52	25	77	490	15.7	+51.0
1974-75	55	12	67	953	7.0	-13.0
1975-76	84	14	97	861	11.3	+46.2
1976-77	85	53	138	1,504	9.0	+40.8
1977-78	119	79	197	1,335	14.8	+42.7
1978-79	66	209	276	2,059	13.4	+39.0
1979-80	219	182	340	2,033	16.7	+23.2
1980-81	326	433	718	5,044	13.1	+89.8
1981-82	494	609	1,103	8,836	12.5	+53.6

Source: Australian Bureau of Census and Statistics, Cat. 5306.0

wholesale trading companies (known as *sogo shosha* in Japan). They have dealt in Australia's primary exports and supplied manufactured imports such as textiles since the late 1950s and early 1960s. The other top companies, Nissan Motor Company, Mitsubishi Motors, Australian Motor Industries and Thiess Toyota base their investment on automobile manufacturing, importing, distributing and retailing.

Table 7: Top Ten Japanese Companies in Australia (by turnover) Mid-1981

Name	Revenue (A\$ million)	Japanese ownership (%)
Mitsui and Co. (Australia)	1,400	100
Mitsubishi Australia	1,378	100
C. Itoh and Co. (Australia)	835	100
Sumitomo Australia	500	100
Nissan Motor Co. (Australia)	431	100
Mitsubishi Motors Australia	428	99.6
Australian Motor Industries	335	50
Kanematsu-Gosho (Australia)	287	100
Thiess Toyota	240	100
Nissho Iwai Australia	205	100

Source: AJEI (1981)

Taken together the major characteristics of Japanese direct overseas investment in Australian enterprises can be summarised as follows (see also Edgington 1983a).

1. By number of cases most of it is small to medium scale in manufacturing (either processing or secondary industry) and distribution. In terms of capital involved however, the major concentration is still in resources development – largely coal and iron ore. Here Australia is unique in its departure from the norm, for Japanese investment overseas, where the major concentration has been in manufacturing industries.
2. The majority of investments in mining and energy resource developments – together with resource processing – have been by the trading companies such as Mitsui and Co. These investments have normally been by way of long term loans, and perhaps a minority equity interest, linked to long term sales contracts. The Japanese approach is in contrast with that commonly adopted by British and U.S. investors, which is to gain majority share holding so as to ensure control over the management of the project.<sup>11)</sup>
3. For secondary manufacturing there has been majority equity taken by a Japanese corporation in just over half the cases. Current Japanese investment in manufacturing is too limited to bear comparison with investment in Australia by British and U.S. interests. Large scale British and U.S. investment extends over an area ranging from petrochemicals, transport and other machinery, pharmaceuticals, cosmetics and paint manufacture. By comparison the scope and diversity of large scale Japanese investment in this sector has been limited in the main to transport machinery and electronics.
4. In other fields, especially in sales subsidiaries, a holding of 100 per cent equity is the norm. Yet in the finance and banking field Japanese firms have only been able to obtain a minority equity in local merchant banks and finance companies. Here, apart from the potential dividends arising from investment in financial concerns, this equity has been used to persuade the management to develop a firm business relationship with Japanese interests. This arrangement facilitates the long term financing of resource development projects with funds channelled from the Tokyo money market.
5. The majority of Japanese investment in Australia is in fact held in portfolio form – that is very small shareholdings, usually less than 25 per cent equity which are not counted as direct foreign investment (Table 6). This reflects the general popularity of the Australian share market among Japanese investors and also the success of State and Federal Government bodies raising loans for infrastructure projects (e.g. electric

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11) The small investments in mining projects are said to allow access by the Japanese trading companies to business and industry information – via a seat on the board of directors. Access to information regarding production costs is particularly important as it also allows the investing firm access to operational knowledge of the industry worldwide.

power stations) in the form of bonds issued on the Tokyo share market.

The early 1980s saw the opening of offices in Australia by three of Japan's most important investment houses – Nomura Securities, Yamaichi Securities and Daiwa Securities. So, whilst Australia and Japan have traditionally been trading partners rather than a source and recipient of capital exports, the establishment of these offices plus the spread of the representative offices of the major banks may give an added boost to Japanese capital exports to Australia, mainly for resource oriented projects.

#### 4. SOME PROSPECTS FOR THE FUTURE

##### **Trade in Raw Materials**

In 1982 and 1983 the Japanese government, the steel industry and electric power utilities all released forecasts revising downwards earlier demand projects for long term mineral and energy supplies (e.g. MITI 1982). This has had the effect of delaying the development of new Australian resource projects.<sup>12)</sup>

Japanese steel mills for example are operating at about 70 per cent of capacity and estimates of future Japanese steel production have been continuously revised downwards since 1973 (see Suzuki 1982) due to the reduced world demand for steel. Present iron ore deliveries to Japan are about one third below the contractual tonnage, and due to the steel mills' diversification policies Australian iron ore mines are also operating well below capacity. The potential for an Australian steel industry in the Pilbara region funded by Japanese capital, as was suggested in the 1970s, appears to have lapsed. Any increase in Japanese requirements for Australian iron ore in the foreseeable future will be met by expanding existing projects rather than opening new mines. Whilst there has been a rapid growth in steel production in South Korea and Taiwan in the last five or six years, the iron ore requirements of these countries are still small and will not represent a significant proportion of Australian iron ore sales for some years.

In terms of demand for non-oil energy products such as coal, from a situation of rapidly escalating oil price rises in 1979 and 1980 the situation has recently changed dramatically. Whilst the weakness in world prices assists Japan's growth it has slowed down developments of overseas resource projects which are alternatives to oil. For example the projected demand for steaming coal is largely dependent upon the speed at which the planned construction of coal burning power stations will proceed, together with the relative price advantage between oil and coal. Although the Japanese government hopes to continue the tendency to reduce its

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12) In April this year the Australian Department of Trade sent a special mission to Japan to look at the implications for Australian trade due to weakening international oil prices (the so-called 'reverse oil crises'). It reported that the Japanese economy faced a period of subdued economic growth involving the cancellation of a number of coal-fired power station projects which were to have been the basis of expanding steaming coal exports from Australia (Walsh 1983). Whilst the Japanese Ministry for International Trade and Industry had predicted steaming coal imports of 53 million tonnes in 1990, a more realistic figure is reported to be 30-35 million tons.

dependency upon oil it is clear that the softening of oil prices together with energy conservation programs is slowing the demand for alternative sources. Thus whilst the large North West Shelf project in Western Australia will export LNG to Japan, shipments have been delayed by two years to 1988 due to the downturn in the demand for energy. Firm contracts with Japanese purchasers have still not yet been signed.

For agricultural and pastoral products the outlook is also far from bright. Australia could supply a far bigger proportion of the Japanese market for foodstuffs and agricultural raw materials were it not for a network of quotas and other restrictions designed to protect Japanese domestic primary producers. From the Australian side there is also concern that pressure is being brought to bear upon Japan to buy raw materials such as beef, and also coal, from the U.S. These pressures for preferential bilateral trade relations are based upon the need to reduce the large imbalance in Japan-U.S. bilateral trade. Wool exports are not likely to increase markedly as wool processing and spinning is decreasing in Japan due to high labour and environmental impacts. Trade with South East Asian countries may grow however as Japanese textile spinners have encouraged subsidiaries in these lower cost countries.

### **Long-term Contracts**

Ideally, under long-term contracts partners should have greater interest in maintaining a long term trade relationship than exercising short-term leverage. However from the Australian side there has been recurring concern about Japanese bargaining strength, especially in the coal trade, caused by the united purchasing policies of Japanese steel mills.<sup>13)</sup>

In April and May 1983 a number of Australia-Japan trade negotiations were concluded. They resulted in:--

- (a) a loss of income to Australia from iron ore exports of A\$150 million during 1983/84 compared with the previous year.
- (b) a loss of export income from coking coal of about A\$160 million during the same period.
- (c) a loss of export income from steaming coal of about A\$30 million.

They represent a 6 per cent fall in total exports to Japan in 1982 and over 12 per cent fall of income from iron ore and coal exports in this period. These events have led at least one commentator to predict that 1983/4 will see the first year in which Australian will import more from Japan than the value of exports to Japan from Australia (Walsh 1983). The price reductions in coal and iron ore arising from the 1983 contract negotiations have resulted in considerable loss of faith in the value of long-term contracts, from the Australian side, as a

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13) Whereas the Nippon Steel Corporation handles all major purchases of Australian iron ore and coking coal by the Japanese steel industry, Australian producers are not well coordinated and tend to compete with each other in accepting lower prices in return for commitments to buy larger quantities. This tough negotiation stance allows the steel mills to bring about a major reduction in raw materials prices, shifting much of the burden of the recession from themselves to coal and iron ore miners.

means of stabilising the income earned from mineral exports. However, as Smith (1978) points out, it is important to consider whether Australia's sales of basic minerals would have been even further reduced since 1974 if the trade had not been conducted under long-term contract.

### **Raw Materials Processing and Secondary Manufacturing**

The question of whether or not Australia can process locally more of its mineral resources at internationally competitive prices will have an important bearing on the future of Australia-Japan trade and also economic development in Australia. Recent developments, for example a new law enacted in May 1983 to protect basic materials industries which are in structural decline, suggest that the potential relocation of Japan's heavy manufacturing industries – such as aluminium, wood pulp and petro chemicals – may proceed more slowly than was expected in the 1970s. As a consequence the processing of Australian minerals and energy resources to supply Japan with intermediate products may not increase as rapidly as earlier projections indicated. Moreover, the questions of whether raw materials processing projects, such as copper smelters, will establish in Australia rather than in some other countries in the Western Pacific, for example Indonesia, will be decided solely on their commercial viability. However, any general reduction of Japan's overseas investment in raw materials intensive industries will tend to decrease the potential of Australian resource exports to markets in the Western Pacific outside Japan itself.

The new Australian Federal Government's attitude to foreign investment in Australian resources is also important. Japanese corporations have never taken any great interest in being major partners in Australian resource projects. In fact it is unlikely that trade would increase further merely by the presence of larger shares of Japanese equity. For Japan the chief purpose of overseas investment in resources is to secure resources for its domestic industries rather than to profit entrepreneurially by investing in internationally traded commodities – such as oil and aluminium.

As regards secondary industry, if the high market penetration of Japan's exports to Australia continue, Japan may be under more pressure to either voluntarily restrict imports or set up local production facilities. Yet it should be noted that Japanese subsidiaries in Australia face many difficulties including high production costs, limited market opportunities in the domestic market, lower standards of locally procured parts and components. Moreover, these drawbacks make it difficult for Japanese subsidiaries to enjoy the benefits of economies of scale necessary to use Australia as an export base for markets in other countries.

## **5. CONCLUSIONS AND SUGGESTIONS FOR FURTHER RESEARCH**

The Australia-Japan economic relationship has been important in the two countries' overall economic growth. For example, in the period up to the mid 1970s, when the trade

between the two countries was growing most rapidly, GDP in the Australian mining sector grew three times as rapidly as GDP for the economy as a whole (Drysdale and Kojima 1978: 8). About three quarters of mining output was exported, with Japan being the largest market. Conversely, during the period of high growth the largest increment in supplies of iron ore, coal, bauxite and alumina, came from Australia.

As a consequence of this, even though the growth of other markets (e.g. in East Asia and Europe) has reduced the dependency of Australian mineral exports upon Japan somewhat, the Japanese market is still critical. Investments in new mines or large scale extensions of existing operations still require the backing of firm contracts to supply Japanese markets.

Table 8: Table Showing the Importance of Australian Mineral Production and Exports, 1960-1980

	1960	1965	1970	1975	1980
Mining, GDP as percentage of total GDP*	1.87	1.92	3.57	4.50	5.1
Mineral exports as percentage of total exports	6.56	10.60	26.83	34.63	27.1

\* excludes mineral processing

Sources: Australian Bureau of Statistics, *Australian National Accounts*, various issues.  
Australian Bureau of Statistics, *Overseas Trade*, various issues.

In the future however there appears to be little foreseeable growth in the traditional bilateral trade relationship based upon exports of Australian raw materials, therefore Japan's impact upon Australian development will be somewhat of a lesser order of magnitude. Whilst the capacity within Australia to supply even greater levels and a wider range of mineral and energy resources has been developed, trade interdependency has been reduced by the slowing down of world trade in the 1980s; structural change within Japan; a diversification of Japan's energy and raw materials sources; and a slowdown in energy consumption. The combination of all these forces has diminished the promise of new trades in non-oil energy fuels together with the demand to relocate resource-intensive manufacturing outside Japan. Some commentators are now saying the special relationship in Australia-Japan trade has ended (Financial Review 1983).

The bilateral trade and investment relationship is also clouded by the lack of clear policies towards Japan from the new Australian Federal Government on issues such as foreign investment rules; access for Japanese banks; the degree of intervention in resource negotiations; protection of Australian manufacturing industry from Japanese imports; uranium exports; and industrial relations. From the Australian side the new government is also expected to

seek assurances from Japan concerning market access for beef and agricultural products and the potential that there will be bilateral favouritism towards the U.S. and the E.E.C. at Australia's expense.

The relationship between Japan and Australia however is not developing in a vacuum. In the long term their economic future is bound up with developments in the Pacific economic region. The economies of the Western Pacific are growing strongly (Department of Trade and Resources 1983) and the network of relationships developing between nations in this economic region is creating a more diffuse structure. Within Australia many official reports (e.g. Study Group 1979) have stressed the long term potential of industrialisation of the countries of the Western Pacific for Australian raw materials and manufacturing exports. Many commentators have called for a greater multilateral involvement by Australia and Japan in the economic growth of the West Pacific (see comments made at the Fourth Economics Issues Symposium, Financial Review 1983).

One scenario therefore is that the raw materials relationship which was concentrated with Japan in the 1960s and 1970s may spread to other countries in the remainder of the 1980s and 1990s. This trend will be heightened if there is a large scale relocation of energy and raw materials intensive industries from Japan to her Asian neighbours.<sup>14)</sup> Tied to this scenario is the viewpoint that, even though stagnant oil prices have caused a reduction in energy conversion efforts in Japan, there is still a long-term need to lessen its dependency on oil and gradually increase the use of coal, natural gas and nuclear energy. Moreover, any increase in future oil prices will accelerate energy conversion and the tendency of Japanese basic heavy industry to go off-shore.

An alternative scenario can be generated however which is more pessimistic from Australia's point of view. This involves the continuation of present trends plus the possibility that basic industries in Japan will not be allowed to run down but will be restructured and made more efficient with energy saving technology and robotics. In this case Australian raw materials exports will remain stagnant as the industrial structure of countries such as Korea and Taiwan will not change dramatically.

Yet another possibility is that, if the raw materials trade is running down then there might exist opportunities for Australia to supply Japan with certain high technology goods and other sophisticated products and services — such as computer software, finance and management services, tourism and leisure oriented goods and services, and so on. Conversely there may be potential to attract Japanese investment to the new high technology parks proposed in South Australia and Canberra.

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14) Okita (1982) reports that Japan is helping to build a steel mill in Shanghai, People's Republic of China, which will import iron ore from Australia. Also, Korea is now importing more beef than Japan because of rising living standards in that country.

### **The Regional Implications of Japan-Australia Economic Relations**

Domestic structural responses arising from changes in trade and investment patterns upon individual countries constitute a major problem in the economic relationship between nations. For this reason the regional impacts within each country of the growing Australia-Japan relationship are worthy of study. Yet it is important that research into the regional implications of any of the scenarios mentioned above must be seen in terms of the growing economic integration within the Pacific Rim economy as a whole.

Whilst the concept of a Pacific Basin economic community has been widely discussed (e.g. Crawford 1980), analysis of this issue has tended to treat each country as a 'pin point'. Studies have not been so forthcoming which investigate what is happening within each country's spatial economy due to the international changes outlined above. This omission has important policy ramifications, for should a more formal union evolve between Pacific Rim countries then regional policies to protect depressed regions will have to be formulated. For example, the Treaty of Rome establishing the European Economic Community admits the need for such action by allowing for the application of community funding for financing structural adjustment of declining regions.

The Japanese economy has only limited experience of problematic structural adjustment, in terms of spatial relocations within the labour market. Prior to 1974 the most significant example were:

- (a) agricultural adjustments causing depopulation of rural areas;
- (b) the decline of coal mining areas, such as the southern island of Kyushu, due to a switch in policy towards importing coal in the 1950s;
- (c) the reduction of the textile spinning industry and its relocation to South-east Asian countries;
- (d) structural adjustment of certain inefficient small and medium size firms which are spatially concentrated and entirely specialised in producing specific exportables (e.g. knives and forks firms located in the Tsubakuro area of Japan).

Since the two oil shocks however, the decline of traditional heavy industry and the relative growth of new high technology industries appears to be benefitting the Kanto region (centred on Tokyo) at the expense of the Kansai region (centred on Osaka).

Within Australia, increased integration of the Pacific economy is having a variety of regional impacts (Linge 1979, Wilde 1980, Edgington 1983a). The demand for mineral and energy products strongly favours the mineral-rich states (Queensland and Western Australia) whilst import penetration from newly industrialising countries in the West Pacific has hit hard those regions (South Australia and Victoria) whose economies have been most oriented towards manufacturing industry.

Finally, as the author and others have argued elsewhere, as organizational perspective on changes in global trade and investment should not be forgotten. Trade is not a phenomenon which merely occurs on the wharves and docksides of the world's major ports.

Transnational corporations, due to their ability to organize and control trade and production on an international basis, are producing their own corporate strategies which have particular structural and spatial outcomes (see Fagan *et al.* 1981, Edgington 1983b).

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