Australia–Japan trade relations: the coal industry as a case in point

Mark Beeson

Introduction

A good deal of contemporary economic debate revolves around the significance of foreign trade. Indeed, some observers have plausibly questioned whether trade figures are any longer meaningful indicators of national economic welfare (Reich 1992). Yet trade is often taken to be a crucial determinant of national living standards and is therefore the focus of specific government policies intended to further ‘national interests’. Much attention has been given to the merits of ‘free’ as opposed to ‘strategic’ trade, with national policy-makers often favouring some pragmatic combination of the two. Australia, however, has been a conspicuous champion of free trade, an idea that has come to occupy an increasingly central position in its foreign economic policy. As a consequence of this, multilateralism has tended to replace bilateralism as the basis of Australia’s international economic relations. However, it is not clear whether the move toward free trade and multilateralism is necessarily working to Australia’s advantage. It is important, therefore, to try and gauge the effectiveness and implications of the increased emphasis on trade liberalisation.

The recent publication of the Taylor Report (1994) into Australia’s coal industry and associated trade with Japan presents an opportune moment to retrospectively assess the impact and development of Australian trade policy in this regard, especially as the Report’s subsequent endorsement by government implies that its conclusions are in line with current national trade policy in general. Japan is Australia’s major trading partner, and coal is Australia’s largest single export; the

Mark Beeson is a postgraduate student and tutor in the Department of Politics at Murdoch University in Western Australia 6150.

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industry remains, therefore, a major contributor to Australia’s economic well-being. Coal may not be the sort of high value-added, technologically-sophisticated product considered necessary by many to rectify Australia’s trade deficit, but it is still the nation’s major export earner and therefore an important benchmark against which to measure the effectiveness of government policy.

The first section of this paper examines the Taylor Report and Australian-Japanese trade relations in the coal industry. It is suggested that the Report reflects the free trade orthodoxy that has come to characterise Australia’s international economic relations. It will be argued that the Report fails to take account of the specifics of Japanese corporate organisation and commercial practices and consequently is unlikely to provide the basis for policies to redress the declining profitability of Australian mines. An examination of the strategies employed by Japanese buyers of Australian coal, and an explanation of the significance of Japanese company structures is presented to demonstrate the necessity of addressing the specificity of bilateral relations. In the second part of this paper consideration is given to the rise of free trade and the decline of a bilateral capacity within the Australian bureaucracy. Free trade is contrasted with strategic trade, and the potential implications of both these positions are considered in the light of contemporary theoretical debates.

The Taylor Report, coal, and Australia-Japan trade

The main intention of the Taylor Report was to examine impediments and opportunities for developing an ‘optimal’ coal industry, and to recommend appropriate policy directions for the Australian Coal Industry Council (ACIL), governments, industry and unions. While the Report’s terms of reference were uncontroversial and principally concerned with the introduction of best practice in coal production and export, as well as the development of new markets, it is important to recognise the general environment from which the Report emerged. The coal trade with Japan has become the subject of intense disputation between the coal employers on the one hand and the union movement on the other. At the centre of this disagreement are competing interpretations of the causes of Australia’s diminishing export revenues, which have declined for all types of coal since the 1970s (Koerner 1993: 69). Consequently, the two sides have divergent suggestions about the most appropriate method of ensuring that future prices are maximised. It is against this backdrop that the Taylor Report was instigated.

An area of fundamental disagreement between employers and unions was revealed in the Taylor Report. Employers argued that coal was underpriced, buying practices were uncompetitive, and market forces. Indeed, one of the main arguments was because market forces were not being allowed to operate. The submission called for the establishment of a government coal market, with the government representing the Korean interests of the coal producers, and others representing the Australian interests of the coal producers, to ensure the autocratic ‘management’ of the industry (Australia and Japan). These diametrical positions are also present in the current reference to the strategic trade.

The conclusion to the report moves closer to the ACIL’s recommendation for policies. The suggestion regarding strategic trade is for it to be a key element in the formulation of policy decisions and programmes. It is argued that strategic trade could be designed to enhance the long-term competitive position of the Australian coal industry. It could also be part of wider government strategies for industry reform and enterprising, such as industry restructuring, infrastructure restructuring, industry restructuring, and shipping. There are several examples of such initiatives. The need for greater flexibility in pricing successfully importing countries for example. To answer these recommendations, the structure of Australian coal industry would need to be restructured, the commercial policies changed.

The trade relations between Australia and Japan are common structures in global trade. Exports to Japan have been one of the major features of the recent general growth in the economy, and it is one of the major factors in Australia’s export growth. Coal, oil, and gas and diverse products are being shipped to Japan. Australia are dominated by exports of coal and oil. The volume of trade with Japan, this is being increased in recent years, given the historical

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was revealed in their respective submissions to the Inquiry. The Construction, Forestry, Mining & Energy Union (CFMEU 1994) argued that coal prices have declined as a result of collusive Japanese buying practices, rather than as a result of the influence of market forces. Indeed, one of the Union’s major claims is that prices have fallen because market forces are constrained. As a consequence, the CFMEU submission called for either a more transparent buying process or the establishment of a ‘countervailing ability’, that is, a unified approach to coal marketing. By contrast, the Australian Coal Association (1994: 11), representing the employers, was keen to stress the importance of not jeopardising Australia’s ‘dependability premium’ through aggressive government intervention. Rather than the collective approach to negotiations advocated by the CFMEU, the ACA was concerned to ensure the autonomy of its members and ‘management’s ability to manage’ (Australian Coal Association 1994: 17). The appropriateness of these diametrically-opposed approaches will be taken up below with reference to the specificity of Japanese corporate practices.

The conclusion of the Taylor Report, it should be noted, is much closer to the ACA’s position. Taylor (1994: 12) considers the CFMEU suggestion regarding the establishment of a countervailing marketing force to be ‘a high risk strategy and not appropriate’. Investment decisions and production levels should be determined by ‘market prices’, with industry viability being underwritten by a series of measures designed to enhance productivity. These latter initiatives are a familiar part of wider governmental reform strategies, namely: industrial relations reform and enterprise bargaining, ‘best practice’ implementation, and infrastructure reform through increased competition in rail, ports and shipping. There may be something to be said for all of these proposed initiatives. The question is, however, whether these reforms even if successfully implemented would rectify the problem of declining coal prices. To answer this question it is necessary to take a closer look at the structure of Australia–Japan trade, the structure of corporate Japan, and the commercial practices that help determine prices.

The trade relationship between Australia and Japan typifies some of the common structural problems that characterise the Australian economy. Exports to Japan are dominated by primary products despite some recent general growth of elaborately transformed manufactured exports from Australia. In addition to coal these include metals, wool, natural gas and diverse agricultural products. In contrast, Japan’s exports to Australia are dominated by machinery and equipment, particularly motor vehicles (Australia–Japan Economic Institute 1993: 18). Although Australia is one of the few countries in the world to enjoy a trade surplus with Japan, this is declining noticeably. This pattern is likely to continue given the historical trend for commodity prices to fall relative to
manufactures. The growth in service exports, specifically in the form of expanded Japanese tourism, has also been offset by increasing payments for Japanese shipping and transportation services, exacerbating a more generalised services deficit in Australia.\textsuperscript{1}

It is important to establish, therefore, whether the market-based policy the Taylor Report advocates is the most appropriate given the specificity of Australia–Japan trade. Certainly the logic of ‘comparative advantage’ theory would suggest that Australia is not necessarily disadvantaged in pursuing its specialisation in resource production. Yet even if this proposition is accepted, such a strategy would only be successful if Australia received the maximum possible return for its exports — especially given the historic decline in resource prices generally. If the organisation and operational logic of corporate Japan creates additional entry barriers for Australian exports, or systematically works to circumvent the operation of market forces, then a market-based strategy may not deliver optimum outcomes. A closer examination of the structure of Japanese corporate organisation may illuminate this issue.

**Corporate Japan** The *keiretsu* network is one of the central organisational principles around which Japanese capitalism revolves. There is a good deal of variation subsumed under the *keiretsu* label. Individual industrial groupings may have varying degrees of horizontally or vertically-integrated operations, and greater or lesser degrees of hierarchical control.\textsuperscript{2} Horizontal *keiretsu* involvement in an affiliation of firms over a wide range of industries, such as Mitsubishi, which within the overall group of companies includes banking, heavy industries, brewing, chemicals, engineering, paper, food, petroleum, electronics, mining, textiles, shipping, and cars (Eli 1990: 21). Vertical *keiretsu* has a more tightly defined production focus and rationale, and consists of one or more large industrial conglomerates and their subsidiaries, plus allied companies, major customers and subcontractors — Toyota, for example (Lawrence 1993). But even Toyota, although largely independent, is also a member of the wider Tokai Group, which includes a range of companies involved in diverse activities from finance to construction and retailing.

Generally, a *keiretsu* consists of a main bank, a trading company (*sogo shosha*), and various manufacturing companies. Although not as tightly demarcated and organised as the pre-war *zaibatsu* groups, the *keiretsu* continues to dominate the Japanese economy. Loyalty, identity and corporate cohesion are reinforced by participation in presidents’ councils, in which the leaders of the various divisions meet to discuss group policy. Group companies have cross-holdings of infrequently traded shares in fellow *keiretsu* members which reinforce company loyalty and dependency, while simultaneously insulating individual companies from political, ethnic, and sectoral perspectives and ensuring profitability, can be seen as the central considerations.

Gerlach (1992: 16) suggests that the keiretsu is best thought of as a set of networks in which industries preferential trading networks create a mutual benefit to all participants, which do not trade with each other and are outside of Japanese industry networks, particularly when profit is not the main consideration.\textsuperscript{3} These networks are not oriented towards long-term, mutually beneficial outcomes but rather than achieving short-term gains. The keiretsu relationships is created around the concept of Markt, Australia. As a consequence, the *sogo shosha* to fulfill their role in the capacity to moderate the Japanese trade deficit, but also to maintain the ‘Australia’s’ large market. Kenichi Ohmae has described the Japanese market as a much wider market within companies to other economies (Ohmae 1994). Again, in the Japanese corporate context, what we point out, loyalty to the group is not the main factor that might push the group’s interest over that of the individual. The trading relationship between the *sogo shosha* and the Japanese government as well as the employees who have subsequently entered them often has three functions: trading, investment and financial banking); and individual responsibility.

The *sogo shosha* may provide resources and systems to the different firms, even to the extent that loss of profit or a degree of operational control may be overcome through the *sogo shosha’s* long-term

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companies from hostile takeovers. Japanese industry’s long-term perspectives and emphasis on market share, rather than immediate profitability, can be more readily understood in the light of these considerations.

Gerlach (1992: 82) suggests that the *keiretsu* structure outlined above is best thought of as a process, rather than a fixed entity. The *keiretsu* networks are neither completely open nor closed, but based on preferential trading patterns which endure over time and generally are of mutual benefit to members. This is not to suggest that group members do not trade with outside companies, but that, *ceteris paribus*, members of Japanese industrial groups will favour other members where possible, particularly where this does not interfere with commercial considerations. The point to emphasise is that Japanese commercial relationships are not driven simply by market pressures—fostering long-term, mutually-beneficial relationships may be more important than achieving short-term financial gain. The significance of enduring relationships is crucial in understanding the role of the *sogo shosha*.

Significantly, there is no equivalent to the Japanese trading houses in Australia. As a consequence, local companies are dependent upon the *sogo shosha* to fulfil a role that Australian-based business does not have the capacity to perform. This not only exacerbates Australia’s services trade deficit, but leads to the somewhat paradoxical result that some of ‘Australia’s’ largest exporters are Sumitomo, Mitsubishi and Itochu. Kenichi Ohmae has suggested that Australia’s inability to penetrate the Japanese market stems, in part, from a dependence on Japanese trading companies to organise the export of Australian produce (Hartcher 1994). Again, it is important to emphasise that the intricacies of Japanese corporate relationships may mean that simply being ‘competitive’ may not guarantee success. As Shao and Herbig (1993) point out, loyalty to the *keiretsu* has led the trading companies to stop the importation of products that might compete with those of affiliates, a factor that might help account for the low level of Australian exports of elaborately transformed manufactures to Japan (Garnaut 1990: 73).

The trading houses were initially encouraged by the Japanese government as a means of ensuring resource security, about which the Japanese feel extreme vulnerability. Their role and operations have subsequently expanded but they continue to perform three primary functions: transaction intermediation; financial intermediation (qua-banking); and information gathering (Kojima and Ozawa 1984: 16–17). The *sogo shosha* coordinate and link the productive activities of client firms, even to the extent of sharing financial risks. This provides a greater degree of operational certainty and allows short-term time horizons to be overcome through stable, long-term relationships. Similarly, the *sogo shosha*’s long-term relationship with a main bank provides access to
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capital for clients or to make investments on their own behalf. Unlike comparable western companies, however, the sogo shosha may be prepared to sacrifice short-term (or any) profit on some of these investments in order to cement long-term trading relationships and ensure continuing control of high volume trade for a major client.

The impact of Japanese trade practices in Australia

The potential importance of these minimally profitable investments is apparent in the Australian coal industry. The sogo shosha’s principal profits in the coal industry are derived from commissions on coal sales, often from both buyers and sellers (Parker 1992: 15). From the sogo shosha’s point of view, ensuring control of the high volume trade is of greater importance than securing a profit from a small stake in an Australian mine. Not only will a strategic investment in an Australian mine give the trading houses valuable information about possible conditions on the Australian side, but systematically induced over-supply may depress coal prices, a situation from which the trading houses’ most important clients will benefit (McIntosh Baring 1993: 45). In the coal industry, where the trading companies’ major profits are derived from their role as high-volume suppliers to Japanese steel mills and electricity utilities, securing these lucrative relationships—which in the case of the mines may be reinforced through keiretsu ties—is obviously of critical importance. Small investments in new mines may be a relatively cheap and effective manner in which to ensure this outcome. In 1992 Japanese companies owned more than 20% of Australia’s coal export capacity (van Os 1992).

It is important to recognise that not only do the sogo shosha take a long-term view of their trading relations, but they are still informed by a conception of ‘national interest’. Price is not the sole criterion by which decisions to purchase are made. Japanese resource buyers have been keen to ensure a diversity of supply, which not only increases supply security, but as Koerner (1993) suggests, allows buyers to minimise coal prices by playing off one supplier nation against another, to a point where Australian import volumes to Japan have declined as a matter of policy, despite being the lowest cost supplier. Contrary to what orthodox economics might predict, price has not been the sole or even the most important influence on buyer preferences. On the contrary, Japanese buying practices have been informed by a long-term perspective in which the sogo shosha have played an important foreign policy role, mediating Japan’s national resource security policies (Shao and Herbig 1993: 42). A government-sponsored research body in Japan has developed a specific long-term strategy for the Japanese government and buyers, designed to encourage over-supply and price suppression (Marris and McGregor 1994). In such a context, no amount of productivity increase is expected to improve sales.

The coal price is only the economic outcome of a complex of factors. The decision process bears little relation to the groups of information gathered by competitors and intermediaries. Although there is a small number of large contacts, much of what Australian sellers offer to Japanese buyers involves lobbying, settling first, and coming to terms in negotiations.

The net effect of this is a monopsonistic framework for the sale of the coal industry. The increased prices in the industrial structure within which we have superior resources are not able to provide adequate return on their strategic investments, and are at a major disadvantage in any situation that is perceived as a predatory tactic they adopt.

Despite this, the coal industry to some extent is an exception of this role. Rex Connor in particular has increased the price of coal over the past few years (Byrnes 1994: 31). However, it seems keen to continue this interventionist role under the cover of policy toward the domestic industry other than to regulate (Byrnes 1994: 1)—it is a knee-jerk reaction. Clearly, relations here are expected to produce...
productivity increases or more cooperative workplace relations could be expected to improve Australia’s market share or mine profitability.

The coal price negotiating process is another important example of economic outcomes being determined by a more complex array of factors than simply supply and demand. The reality of the negotiation process bears little resemblance to the idealised abstraction of discrete groups of informed buyers and sellers responding to unimpeded market forces. Although there is a multitude of sellers, and theoretically no small number of potential customers, the sogo shosha’s information gathering and organisational ability allows them to provide a crucial intermediary function which effectively limits the number of buyers (Parker 1992). Actual negotiations are led by a principal mill or power utility which sets the standard for the other Japanese buyers. In contrast, Australian sellers usually negotiate individual contracts, allowing the Japanese buyers to pressure the weakest, least profitable mines into settling first, and thus setting a low bench-mark for subsequent negotiations.

The net effect of the Japanese strategy is that they ‘act in a monopolistic fashion’, according to McIntosh Baring’s (1993: 4) study of the coal industry, which concluded that ‘an improvement in real prices in the international coal market is unlikely while the current structure within the Australian coal industry is in place’ (McIntosh Baring 1993: 41). Not only do the representatives of Japanese buyers have superior negotiating tactics and skills, but the sogo shosha are often able to provide inside knowledge about the profitability of mines via their strategic investments in Australia. Clearly, ‘Australian’ companies are at a major disadvantage when conducting price negotiations, a situation that is exacerbated by a general lack of unity occasioned by the tactics they adopt.

Despite this, options remain. The possible efficacy of government intervention to overcome Australian disadvantage was demonstrated by Rex Connor in the 1970s, who managed to extract a dramatic price increase from the Japanese buyers without endangering the entire trade (Byrnes 1994: 74–76). In contrast, the current Labor administration seems keen to distance itself from the problematic legacy of the interventionist Whitlam era. In one of its few major pronouncements on policy toward the coal industry, price formation is barely mentioned, other than to state that the government does not want to become involved (Crean and Cook 1992: 28). However given the importance of the industry to Australia—coal achieved $7.6 billion in export earnings in 1993, representing 12 per cent of total merchandise exports (Taylor 1994: 1)—it is critical that policy ensures maximum prices are achieved. Clearly, relatively small changes in price or market share may be expected to produce large effects in a comparatively small economy like Australia.
Australia’s.

The current round of coal negotiations has generated only modest price increases for producers, despite a general tightening of world coal supplies and the estimated ¥200 billion ($3.3 billion) windfall profit enjoyed by the Japanese electric power companies as a result of the appreciating Yen (Hartcher 1995). The Australian representatives appeared to adopt a more unified and coherent position in the recent negotiations, but it is significant that Australian companies were ‘punished’ for even this modest rise with reduced tonnages. While there may be no simple method of redressing the coal producers’ disadvantage, it is not impossible that effective strategies could be developed—especially with government assistance—to at least maximise the industry’s short-term position. Such a development appears unlikely, however.

The non-interventionist tenor of government policy toward the industry becomes more comprehensible when it is considered as part of Labor’s broader stance toward trade issues. In short, market forces are considered to be the most effective and efficient determinants of economic outcomes. But as this examination of the coal industry suggests, there are many factors influencing coal prices other than the simple operation of the forces of supply and demand. It is important to ask, therefore, whether policies informed by what is known in Australia as ‘economic rationalism’ are the most appropriate basis for international economic interaction. Consequently, the second part of this paper will consider the emergence and implications of economic rationalism in Australia, the concomitant decline of a bilateral capacity, and the implications of such a position in light of developments in strategic trade theory.

Trade theory and Australian policy

An interesting preliminary question is whether the emergence of neoliberalism or economic rationalism as a global phenomenon is to some degree an inevitable response to a process of ‘globalisation’. Technological change, financial capital mobility, and changes in the nature of production processes are placing increasing pressures on policy-makers to respond to and manage the process of structural adjustment to advantage national economic spaces. However the sort of neo-liberal, free-market policies favoured by many western governments have not been universally adopted, as the Japanese-influenced ‘developmental states’ of East Asia demonstrate (Henderson 1993). Indeed, even in Japan, despite intense pressure from the US amongst others, the economy remains highly regulated and subject to many influences other than those of market forces.

Therefore, despite national policy autonomy being circumscribed to an unprecedented degree, significant variations may not only continue but also have important implications for deregulation and the role of the economy being subject to some degree inevitable change on specific forms (Beeson 1991). What, then, of the implications of this?

Economic rationality

Economic rationalism within Australia has been subjected to much criticism and Keating admitted that it was increasingly technically flawed, and the need for governmental rationalisation. Certainly, the impact of many of the 1980s indicates that activities were not consistent with economic rationalism.

Central to economic rationalism is the assumption that ‘in settling for less, we settle better than inadequate policies that err on the side of neoclassically-driven market predication, markets should move toward an elastic, competitively economically rational allocation. ‘Distortions’ must be corrected in order to work with the market schema, government and as it is not suitable to legitimate to continue with the private sector in this way, only rendered seminar.

The cumulative impact of its involvement in this kind of situation stressed the efficiency of a multilateral, and
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unprecedented degree in an increasingly internationalised economy, significant variations in national policies remain. Differences in policy may not only confer possible advantages on individual nations, but may also have important secondary implications for other nations. So despite deregulation and the minimisation of government involvement in the economy being portrayed as not only desirable and efficient, but to some degree inevitable, such policies are actually chosen and dependent on specific forms of re-regulation under government auspices (Cerny 1991). What, then, is the basis of economic rationalism and what are the implications of Australia choosing such policies?

Economic rationalism in Australia  Michael Pusey (1991) was instrumental in drawing attention to the growing influence of economic rationalism within the Canberra bureaucracy. While Pusey’s book has been subjected to often-merited criticism (Blandy 1992), Pusey identified an important attitudinal shift that has characterised the Hawke and Keating administrations. The Labor government has taken an increasingly technocratic and managerial approach to the conduct of politics and the management of the economy, producing a governmental rationality increasingly predicated on a market calculus. Certainly, the implementation of various forms of industry policy during the 1980s indicated that government efforts to influence economic activity were not totally disavowed, but in the area of trade relations economic rationalism was especially influential.

Central to economic rationalism or neo-liberalism is the conception that ‘in settling matters of resource allocation, imperfect markets are better than imperfect states’ (Colclough 1991). This normative assumption informs and places important constraints upon the type of policies that emanate from the neo-liberal model. In the idealised, neoclassically-derived abstraction upon which neo-liberal policies are predicated, markets are thought to have an ability to ‘self-correct’ and move toward ‘equilibrium’. Competitive market forces give the economically rational model its dynamism. Importantly, ‘rigidities’ and ‘distortions’ must be minimised or removed to allow the market forces to work with maximum ‘efficiency’ (Whitwell 1993). Within this schema, government intervention is seen as being inherently inefficient, as it is not subject to the ‘discipline’ of market forces, and only legitimate to correct cases of ‘market failure’ (Moore 1993: 4). The private sector is considered to be the source of capitalist dynamism and only rendered sub-optimal by government inhibitions and restrictions.

The cumulative effect of a paradigm that eschewed government involvement in shaping economic outcomes and which, on the contrary, stressed the efficacy of market forces, was to create a climate supportive of multilateral, as opposed to bilateral trade relations. Rather than
negotiating with other states on a one-to-one basis, multilateralism appeared to Australian policy-makers to be congruent with an increasingly influential and international free trade agenda. Free trade is premised on the possibility of achieving an international trading system in which ‘rigidities’ and ‘distortions’ may be eliminated, something best overcome through multilateral negotiations. Within this schema, the concept of ‘comparative advantage’ (each nation doing what it ‘naturally’ does best) is considered the most efficient basis for what, precisely, each nation should produce; trade is conceived to be a ‘positive sum game’, in which all benefit from increased economic growth.

**The dominance of free trade** The free trade model has assumed a dominant position within Australia partly as the result of a series of significant reports to government, and the proselytising efforts of an influential coterie of academics and advisers (Higgott 1992). One of the most influential determinants of Australia’s recent trade policy has been the Garnaut Report (1990). This Report has already been extensively reviewed, but it is still worthwhile briefly noting some aspects germane to this discussion.

The Garnaut Report reflects and defines the Australian free trade orthodoxy. Australia is thought to enjoy a comparative advantage in resource production, an advantage enhanced by the Australian economy’s ‘complementarity’ with those of its Asian neighbours. Little acknowledgment is given by Garnaut to the role played by the governments of many Asian states in actively developing a comparative advantage in manufacturing industries. Consequently, consideration of the specific policies—protectionism, industry assistance etc.—that underpinned this development, and with which Australian exporters must deal, is also neglected. The prescriptive elements of the Garnaut Report similarly do not reflect important changes in the nature of international trade. ‘Strategic trade’ is considered in more detail below, but neither it nor the growth of intra-industry trade (contrary to the logic of comparative advantage theory) are sufficiently considered by the Report. While there may be a good deal to be said for free trade, its unilateral implementation and the unforced concession of trade advantages to competing nations invites those nations to exploit the advantage offered without the necessity or guarantee of reciprocal concessions (Matthews and Ravenhill 1991). The single-minded pursuit of liberalisation and growth risks leaving Australian policy ill-prepared to deal with either its non-achievement or the contingencies of non-market-conforming trade relations.

The general pro-market, free-trade prescription is maintained with remarkable uniformity in a number of other government reports. It is not necessary to review these here, other than to note the consistency of approach and the cumulative effect of unfettered, flexible trade policy available to and done by the Asia Pacific Economic Co-operation, limits the option of further concessions (Kemp 1995). The capacity of the Australia-Japan relationship to continue to promote free trade and, if possible, become more accommodating, the net effect of a reduced economic rationalism.

**The impact of disunity** Within the economic rationale and the related sections in departments, particular departments have assumed predominant roles in the reorganisation currently under way in Foreign and Defence Affairs. The extent and manner of a more diffuse approach partly the result of the near triumph ensured in the debate over interventionism and protectionism (Garnaut 1986: 167). The Ministry of Trade and Resources and Foreign Affairs with the Finance Department were the key players, government with the Treasury, ‘fragmented’ and disinterested;

Stokes points out, is actually in charge of the allocation of resources Development Division, that of Treasury, ‘the practical bilateralism because

The effects of disunity and the Australia-Japan relationship. The Secretary, argued in the early '80s was in no doubt that ‘Japan Market Access’ and manufactures to the ‘Access approach’.
approach and the lack of alternatives offered to policy-makers. The cumulative effect of such advice is to circumscribe the range of policies available to and developed by government. Australia’s free-trade based Asia Pacific Economic Cooperation (APEC) forum initiative further limits the options in trade policy, especially given Australia’s conspicuous championing of the benefits of market forces (Beeson 1995). The capacity or willingness of government to intervene in attempting to influence economic outcomes, therefore, is constrained by a normative commitment to non-intervention in the interest of promoting free trade. This reluctance of the part of government to become more actively involved in trade relations is both a cause and effect of a reduced bilateral capacity.

The impact of diminished bilateralism Given the dominance of economic rationalism within the bureaucracy generally, and in trade-related sections in particular, it is unsurprising that more activist departments have suffered a concomitant decline. The intersection of a predominantly neo-liberal economic policy agenda with bureaucratic reorganisation culminated in the merging of the departments of Trade and Foreign Affairs. Jones (1991: 25) has detailed the manner in which the bilateral approach associated with the Department of Trade was undermined, replaced with a multilateralist thrust ‘pursued in the manner of a moral crusade’. The eclipse of the Department of Trade was partly the result of intense bureaucratic rivalry with Treasury; the latter’s triumph ensured the dominance of market mechanisms over interventionism as the principle policy stance of government (Whitwell 1986: 167). The significance of the demise of firstly the Department of Trade and Resources, and subsequently the merger of Trade with Foreign Affairs was that the capacity of the bureaucracy to provide government with informed, bilaterally-based trade options became ‘fragmented’ and consequently ‘lacking in focus’ (Stokes 1994: 77). As Stokes points out, foreign affairs personnel were often uninformed about and disinterested in trade matters, a situation that was exacerbated by the allocation of trade policy concerns to the Economic and Trade Development Division, whose policy orientation was closely aligned to that of Treasury. As a consequence, multilateralism rather than bilateralism became the centrepiece of government policy.

The effects of a diminished bilateral capacity are apparent in the Australia–Japan relationship. Paul Barratt (1992), a former Trade Secretary, argues that Australia’s economic integration with Asia in the early ’80s was informed by a bilateral focus on specific nations. The ‘Japan Market Strategy’ was instrumental in increasing exports of manufactures to Japan, Barratt claims, by adopting a ‘systematic strategic approach’. This identified specific market opportunities and attempted
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research and development, depending upon individual firms and the activities occur; much is necessarily the by-product of productive activity.

There are two forms of trade policy conflation that are worth considering: the first is the practice of trade negotiations (Matthews 1992). Coal negotiations are examples of the second form, employed by one form or another. Japan has been the second form (strategies, practices, or the system). With an unwillingness to see that Japan’s importing a comparable industry. In the case of industry trade, such as the distribution system, that compete with the advocates of free trade, the import system from the official tariff bars (Garnaut 1989). These are non-tariff barriers exacerbated by other elements of production.

Certainly, Japan’s trade surplus with the US has been achieved, however, under pressure rather than a result. Japan has been a managed trade for American industry. The possible role in the debate that played an important role, one of its severest criticisms was based on the importance of Japan, on the basis of rising small scale of foreign trade and competitiveness.
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research and development—factors that confer particular advantages upon individual firms, and by extension upon the countries where such activities occur; markets are increasingly seen as neither perfect, nor necessarily the best way to encourage the development of specific forms of productive activity (Milner and Yoffie 1989).

There are two aspects of strategic trade theory that tend to be conflated but which are important to distinguish: some industries are considered worthy of support as they confer specific national economic advantages—the acquisition of key technologies, for example. Other forms of trade policy are considered strategic in the manner of game theory (Matthews and Ravenhill 1994: 40). The Japanese approach to coal negotiations is an example of the latter; the particular strategies employed by one nation may confer an advantage over rivals. Indeed, Japan has been held up as the exemplar of non-market-based trade strategies, practising instead what Drucker (1986: 98) calls ‘adversarial trade’, or the systematic attempt to eliminate rival companies combined with an unwillingness to participate in reciprocal trade. It is noteworthy that Japan’s import profile is conspicuously different to that of other comparable industrialised nations, demonstrating low levels of intra-industry trade, something attributed to bureaucratic obstacles, the distribution system and a reluctance to import sophisticated products that compete with domestic industry (Lincoln 1990). Yet influential advocates of free trade in Australia argue that Japan has the ‘cleanest import system for manufactured goods amongst OECD countries; official tariff barriers have almost no effect on trade’ (Drysdale and Garnaut 1989). The point ‘revisionist’ critics make, of course, is that non-tariff barriers are the greatest obstacles to trade, a situation exacerbated by organisational structures that retain the most valuable elements of production in Japan.

Certainly, Japan has made efforts to reduce its politically embarrassing trade surplus with the US. Where increased market access has been achieved, however, it has generally been as the result of direct political pressure rather than the operation of market forces. Similarly, it is claimed that ‘managed’ trade, in which Japan ‘voluntarily’ restricts exports to the US, has been responsible for the recovery of important sections of American industry (Tonelson 1994). The importance of trade and its possible role in determining national living standards has sparked an important debate in the US. Krugman (1987), for example, who initially played an important role in popularising strategic trade theory, is now one of its severest critics. Krugman (1994) now places greater emphasis on the importance of domestically-generated increases in productivity as the basis of rising living standards, and suggests that the comparatively small scale of foreign trade in the US economy (about 10%) makes the trade and competitiveness debate a ‘dangerous obsession’.

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True, domestic productivity is crucial to living standards; but where governments adopt various trade and industry policies in an attempt to encourage the development of industries in which productivity gains are most easily achieved—even if these policies are unsuccessful—they are likely to impinge on external economic relations. Where nations seek to advantage domestic producers through subsidies, tariffs or any of the range of strategies available to policy-makers, then it is important that potential trading partners take heed of such measures. Government assistance, market power, and collusive bargaining may be theoretically undesirable ‘distortions’, but where they clearly exist and exert an influence on economic outcomes it is appropriate that policy takes account of them.

Conclusion

Free trade has become an increasingly dominant influence on Australian international economic policy under the current Labor administration. As a consequence, there has been a concomitant decline in Australia’s bilateral capacity. Market forces, rather than government initiatives, are generally seen as the most effective means of promoting structural adjustment and remediying Australia’s perceived economic difficulties. Government intervention is seen as an unwelcome ‘distortion’ rather than as a potential source of national advantage. Such a position is at odds with most of Australia’s neighbours. Australia’s reliance on free trade may, therefore, have a twofold disadvantage: firstly, it may deny Australian-based producers the sort of assistance and advantages their competitors enjoy. Secondly, a relatively inflexible adherence to neoliberal policies may cause Australia to neglect the specificity of individual bilateral relations, where particular policies may have important implications that may impinge on trade and economic outcomes.

The coal industry and its relationship with Japan presents a clear example of the possible shortcomings of the free trade position. By failing to recognise the specific operational logic and corporate structure of Japanese industry Australian policy-makers and coal industry representatives are inherently disadvantaged. The Japanese negotiators are able to out-maneuvre the Australians as they are both better organised and not relying on market forces to achieve optimum outcomes. It is important to recognise that coal prices are not simply determined by the laws of supply and demand alone. Japanese market power and a policy of supply diversification mean that Australian ‘efficiency’ increases alone are unlikely to increase market share or profitability. A stronger bilateral capacity within the bureaucracy may have provided a more sophisticated approach and a broader range of options with which to deal with these complexities. There may be a

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good deal to be gained from where there are advantages recognises and accepts.

Yet there would be nothing of the free-trade group appointed charged with APEC make anything obvious or simple face, but it would be to recognise non-monetary industry illustration of the untroubled, be a regrettable, unsurprising manner at least acknowledged.

Notes

1. The Taylor Report, specific flagged vessels initiative some balance of payments

2. Some comment horizontal kigyo, expatriates in the is conflated, as it conforming nature exhaustive deliver

3. One contemporary subjected to international sustain the kind (example) relating something in the companies can fellow keiretsu and exodus of Japanese appreciation involved (Dobson 1993: 18) and capital may not be to choose that produces

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good deal to be said for the benefits of untrammelled market forces, but where there are clearly other factors at work it is important that policy recognises and addresses those factors.

Yet there would seem little likelihood of any change to the dominance of the free-trade orthodoxy in the short-term. Australia’s role as a self-appointed champion of trade liberalisation in international fora like APEC make any strategic intervention more difficult. There may be no obvious or simple solutions to some of the trade difficulties Australia faces, but it would seem advisable to at least retain the capacity to recognise non market-conforming ‘distortions’ when they arise. The coal industry illustrates that international trade relations are shaped by more than the untroubled operation of market forces. Whether this is taken to be a regrettable tilting of an otherwise level playing field, or an unsurprising manifestation of commercial reality, it is important that it is at least acknowledged in the construction of policy. AQ

Notes

1. The Taylor Report (1994: 146), in line with its broadly non-interventionist stance, specifically rejected any suggestion that the use of Australian-flagged vessels might be encouraged through subsidies or regulation—an initiative some argue might reduce both dependence on Japan and the balance of payments deficit.

2. Some commentators (Odagiri) distinguish between vertical keiretsu and horizontal kigyo-shudan, stressing the more independent nature of the firms involved in the latter. For the purposes of this paper the two will be conflated, as it is only intended to indicate instances of the non market-conforming nature of Japanese operational logic, rather than provide an exhaustive delineation of Japanese corporate structures.

3. One contemporary argument suggests that as Japanese industry is subjected to intensified competition from other nations it is less able to sustain the kind of preferential trading and working (life-time employment, for example) relationships that distinguish it from its western rivals. There is something in this. However, it is equally plausible to argue that where companies can continue to pursue mutually beneficial relationships with fellow keiretsu members they are likely to do so. It is noteworthy that the exodus of Japanese manufacturing to Southeast Asia in the wake of the Yen appreciation involves replicating keiretsu structures throughout the region (Dobson 1993: 37). Similarly, while the nexus between the Japanese state and capital may have been eroded by deregulation and political-economic dislocation, it is likely that where cooperation is possible business is likely to choose that path rather than abandon what has been historically a mutually productive relationship.
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References


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Introducing women to work

Part of the post-war fare for women was a discourse that gender differences meant women were unsuited to many jobs. This case in point is the work of William Karant-Nunn.

The First World War saw the mobilisation of labour for both men and women. For instance, patriotism and the desire to help women’s issues resulted in the Women’s Peace Fellowship in the absence of a female physical force which propelled women into war:

In Britain, there was a call for women to join the war effort.

In Australia, the Women’s Peace Fellowship was established and its aims were to remove barriers to women’s activism. Conciliation and Arbitration Board, 1991: 36

Dr Roslyn, Humanitas
PO Box 12