

# Joint Presentation with ANU Japan Institute

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‘What Does the New Government of Japan Mean for Australia?’

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**KENT ANDERSON:** I want to lay a bit of an overview, but before I do that I would like to say that thanks to my colleagues here, the Japan Institute is a new initiative of the ANU. It was launched by the Japanese Ambassador and the ANU Vice Chancellor about two months ago, and this is our first public appearance. We hope to do more in the future.

While my colleagues will give you the best advice and indeed the advice that people all over the world contact them to give, there are also many colleagues of ours who could not make it today.

One of the things I thought I could do in setting out the groundwork is to pose the question: Why talk about Japan at all? I bet if this were a conference on China we would have twice the number of people; if it was on India we might have 50 per cent more. Why Japan at all?

I am guessing that most of you understand why Japan is important today, just as it was important yesterday and will definitely still be important tomorrow, economically, politically, people to people, and let me add just one more: Japanese is the most commonly taught language in our school systems from the primary to the tertiary level, so our children are learning about foreign countries through a Japan prism more often than any other prism in this country and that is hugely important.

But what about this election they have just had on 30 August? It is exciting - the Democratic Party of Japan was elected to power with 318 seats when you add up the little bits as well, leaving only 119 for the Liberal Democratic Party, and Professor Yukio Hatoyama was named Prime Minister of Japan.

Almost 55 years of one-party dominance by the LDP came to an end. There was a short phase in 1993 when the Opposition was in power and I will talk about that because I think it is interesting and important, but this is the first real change.

We all knew it was coming. The polls for an entire year told us it was coming, and it would have been amazingly difficult for the Democrat Party not to win this election. Yet still it is big and it is significant.

In 2008, one of the most popular television shows was a drama called *Change*, which was about what happens when a young politician gets into power and takes on a change agenda. This was definitely influenced by the Obama election and the Obama experience, and that had an influence too, I suggest, on the voters.

All of a sudden it was seen that you don't have to accept the current system, you can precipitate change. And indeed 1 September when we all woke up, or if we had stayed up to watch the election, we all saw the headlines – Japan Changes – I did quite a bit of media at that time and I think I was saying some of the things that other people were saying.

There were three things that I was saying on 1 September that really matter and will be interesting to watch:

One is that we anticipate the shift from the LDP to the Democrat Party of Japan to be a shift in power within who governs Japan – from a bureaucratic to more of a political-driven shift of policy.

Secondly we see a shift from the traditional sources of power in the agricultural and heavy industries, to a more consumer focus. That is a shift from rural to urban. Again, many people were pointing this out.

The third change is the anticipated foreign policy shift, with a more independent Japanese voice. Whenever you say 'independent Japanese voice' it is code for independent of the United States.

So that was part of my message, but I have to say my main message to the media in that immediate aftermath was one of slight caution – change is great, particularly in English, we love these headlines about change. But my primary message in post election was caution. How much change and how realistic would it be?

There was caution because of what I call the false summits we have experienced in the past. Anyone who is a trekker or a hiker knows that as you are going up the hill sometimes you think you are on the top only to find out there is another way to go. Particularly for me, the 1993 experience with the Hosokawa Government coming in was a false summit. Hosokawa ran at the head of an Opposition party; we expected this to be a radical difference and nine months later he was out of power and 11 months later his coalition was out of power, the LDP came back, albeit with Murayama as Prime Minister and things more or less went on the same – not a lot of fulfillment of the change we were anticipating.

Also in some ways we can see that Koizumi is a bit of a false period. We expected radical differences and Koizumi did present a tremendous amount of change during his time, but as soon as he left power will all the pieces set up to continue these reforms, things went back to the old ways of doing business. False summits are things we have come to expect from Japanese politics, so I was sending a message of caution, and moderation of expectations.

It is not just that Japanese politics always promises these changes and doesn't deliver; it is very easy to be radical when you are in Opposition, particularly for a very long time. As a matter of fact the only way you distinguish yourself is to say radical or different things. From 2007 we had the Democrat Party in power in the Upper House but again, part of its primary policy seemed to be just doing things that were different from the LDP, so I was cautioning that change is going to be hard to deliver once it was in power. Countries with double party systems know this because it happens all the time.

Another thing I was cautioning about in the change agenda was something all commentators in Japan and most knowledgeable commentators in Australia know - the Democrat Party is not the most coherent grouping of people.

On the one hand we have centre-rightists – with an emphasis on the right – former LDP Party members, who were strong policy members. On the other hand we had a centre-left that was heavy on the left, including former socialists. What they were united in was that the LDP should not be in power. That was about it.

So how the party was going to be able to keep these coalitions together was going to be something we would have to watch.

I have just got back from spending a month in Japan and what I have to do today is tell you I was wrong. I told the media what I thought was going to happen and I think I got it wrong. I think this change is real. I think I am seeing something I have not seen in all my experience of following Japan.

The politicians are taking a lead – one example: the discussion about whether Tokyo should have one major international airport and one minor domestic airport. That policy was thrown up when the Minister just said it at a press conference without clearing it through everyone else.

A second example – there is a shifting of policy away from the traditional areas to the consumer welfare. This is important for many people in this room because one of the traditional areas has been overseas development - foreign aid. What I was seeing was a shift away from those traditional areas to things of urban concern: child welfare payments; a shift directly targeted at consumers, directly targeted at urban areas at the expense of rural industry interests.

A third example – we are seeing real change in independence from the US. I don't see this as completely radical; I don't see a shifting of the importance of the coalition between the US and Japan and Australia for that matter, but we do see a challenging of issues, and this was apparent in the *Australian* newspaper this morning with the Marine helicopter base in Okinawa and the friction that the US and Japan are having over this.

The US Ambassador pointed out interestingly and importantly that when Obama came to power they also reflected on this. So it is only fair to give the new Government time to reflect - but it is a real reflection, it is not just superficial.

So to wind-up: big change; I think it is real, and I do caution a little bit of moderation, but I have changed my message.

**JENNY CORBETT:** Thank you very much for inviting me to take part in this. I head the Australia Japan Research Centre and my background is in economics, so my brief here is to talk about what the new Government's economic policy is going to be and how it might affect Australia.

I will say that the interesting things are not only the economics; the interesting thing is that this really does look like a political change of some considerable significance. Like Kent, I have just come back from a period in Japan, and like him I went a skeptic and came back, not optimistic because on the economic front optimism is not the right word, but certainly more curious and less expecting business as usual.

So let me say a few things about what it looks like the new Government is trying to do on the economic front and how that might affect Australia.

Most of you will already know that the manifesto the DPJ took to the polls had some rather specific observations about its philosophy towards the economy. It also had some glaring gaps. A lot of the media commentary at the time picked up those features.

The things that were fairly clear were that the DJP was selling itself to the voters as being concerned about consumers, concerned about the elderly, concerned about young people who were unemployed, concerned about small and medium enterprises. It wanted a fair go for the people who hadn't really benefited from more than 10 years of slow growth, and certainly for the people who had been disproportionately affected by it.

So it was definitely a manifesto which said resources and attention should be shifted where possible to those groups and away from the big powerful, traditional supporters of politics in Japan – the big business interests. The catch phrase is 'people not concrete'. So it is the social side of the economy, not the big projects.

Where they were very vague and disappointingly did not say anything in their manifesto was how to achieve this. None of these resource transfers can be easily achieved at the best of times, but they are going to be infinitely more difficult if you have a slow growing economy, and that is Japan's big problem. There is nothing in the manifesto, and there has been virtually nothing post election on how to tackle that problem.

So the economists' commentary of what the Government is doing is coming back to the fact that there is a gap in the vision of what they are trying to achieve. This policy package about moving resources, redistributing resources to consumers is consistent with the philosophical things that Hatoyama has said in his various, sometimes controversial public statements. They are in his personal philosophical statements on his website and part of that got picked up in the *New York Times* and everybody ran around saying 'oh my goodness, this is going to be a socialist experiment, the new Government is anti-capitalist and we are going to have a renegade in our midst'.

For someone who has spent so much time in Europe, this seemed to me to be extremely alarmist. What this looked like to me was a classically European Democratic Socialist Party...yes we call it Socialist, but we know what it means, it is New Labour. There are any number of similar sorts of parties in Europe and nobody has any trouble living with them. The rhetoric did not bother me, but it clearly has troubled people.

Thinking now about what the Government has actually done since it came to power: it has moved ahead quite quickly with some of its electoral promises. It has moved on the child benefits, it is moving on the job seekers allowance, these are all handouts to people who are seen to be struggling in the current Japanese system.

So the spending side is moving ahead. The really hard part is where is that money going to come from and that is not entirely clear. What they say in public is that the money will come from big cuts in the public sector. They are going to eliminate waste (sounds familiar) there is going to be a massive productivity dividend from the public sector and they are going to cut some public works-type programs - spending less on bridges to nowhere and giving the money to consumers instead.

They have said they are not going to raise consumption tax – at least not for a few years – because that is particularly politically sensitive. So it is not quite clear what they plan to do on the tax side and I think they are being deliberately vague, certainly until after the Upper House elections.

What we may see is the need to issue new Government debt to fund this, at least in the first few years and they are certainly panicking the markets that they may be going to issue debt. I was talking to one of the market analysts in Tokyo who says that some of the market analysts who watch Japan who are in New York have started really panicking that there may be a major default on Japanese debt.

The view of the informed people in the Tokyo market is that view is laughable, but none the less there is a bit of rumbling in New York that things might get so bad that this would become risky. We have certainly seen the rate of interest the Japanese Government pays for its debt rising because people are a bit more nervous.

So there is a fundamental problem about this whole policy package, which has not yet been addressed. We are going to shift resources – good. Where are we going to find those resources? Not clear.

Moreover, the real problems for the Japanese economy are long term in that they are the facts of an ageing population and a strengthening currency which has been apparent for pretty much 10 years and, as I am sure Peter is going to talk about, the moving offshore of a lot of the productive capacity. Domestic growth in Japan has been slow and productivity growth has been fairly slow too.

Most of the economic growth that Japan achieved over the last six years has come from exports, so any Government in Japan needs to be looking at the long term productive capacity of the economy – how do you get productivity back into this economy? Every economist that you poke on this subject is going to say structural reform – this is an economy that has been heavily regulated; it is an economy that still has a lot of creative capacity, but a lot of that capacity needs to be unleashed by removing regulation and there is nothing in this manifesto or in the current set of policy proposals really addressing that.

There is some token gesture towards making life easier for small and medium enterprises – it is probably not a very well thought-out policy for small and medium enterprises but at least it is there. But there is really nothing else. There is no real discussion yet on where that fundamental recovery could come from. The idea that by moving the structure more towards domestic consumption you will reignite growth is not terribly plausible. Quite a lot of the research about what caused the long downturn in the 1990s shows that the problem was not really domestic consumption in Japan. It is nice for trade partners to think that Japan is going to consume more at home, but actually that is not really a big problem. It is a much bigger problem in places like China.

So that is the real key that we have to watch – whether the DPJ can find a way to start to address those problems and can somehow connect with a structural reform policy program it can live with. The problem is that it is distancing itself from its predecessors and they were very vocal on the subject of structural reform and this Government has, for political reasons, walked away from that agenda.

Whether it can find a version of that agenda that works for it is going to be the key to whether it is really successful because even the most optimistic scenario – even the deep dyed Keynesians, and I am pretty close – would not expect to see growth restored simply by giving spending power back to consumers and pumping a lot of fiscal stimulus into the economy. That may get you over a hump, but it is not going to get you the long term results.

**TESSA MORRIS-SUZUKI:** So Japan has a new government. It is a new government that has come to power in the middle of an important turning point for the East Asian Region as a whole. There are all sorts of questions over the future role of the United States in the region; over the role of China; over Japan's relations with its neighbours.

The new Prime Minister, Mr Hatoyama, is eager to develop a policy that balances the US-Japan alliance and close relations with Japan and its Asian neighbours, but how that is going to work out remains to be seen.

Having said that I need to stop and clarify something: you might have thought I had just been describing Japan in 2009, and indeed I think everything I have said applies to Japan in 2009, but actually that was a description of Japan in 1955. At that point a brand new party, the Liberal Democratic Party, had just taken over the reins of government. It was led by another Mr Hatoyama - Ichiro Hatoyama.

At that point in 1955 few people would have imagined that the LDP was going to remain in power almost continuously for almost half a century, and probably most people would not have imagined that it would ultimately be driven out of power by a new government headed by another Mr Hatoyama, the grandson of Ichiro Hatoyama.

I am making this comparison because I think it is helpful to go back to the middle of the 1950s. It helps us to see what has changed, what has stayed the same and what has come full circle. If we go back to the middle of the 1950s, the creation of Liberal Democratic rule in Japan was part of the whole process of consolidating the Cold War order in East Asia. So by the middle of the 1950s, Japan had recovered from the effects of the Pacific War and was embarking on its era of miraculous growth.

But in the 1950s, when the Liberal Democratic Party first became the ruling party, there were still options available in the emerging Cold War order, and it is interesting to see that the elder Mr Hatoyama wanted to develop a policy that involved links to both camps in the Cold War.

He pushed hard and successfully for the resumption of relations with the Soviet Union, although he did not manage to get a peace treaty signed between Japan and the Soviet Union, and one of the issues for the current government is the fact that Japan still has no peace treaty with Russia.

He also pushed hard to develop relations with the People's Republic of China and even with North Korea, but in the end this push to create an almost independent or at least balanced role for Japan between the two Cold War camps ran up against the rock of American opposition. The US was very reluctant to see Japan develop too close links with what was then called Red China, and Japan's attempts to develop links to North Korea ended in a rather tragic fashion which I won't go into here. So what is known in Japan as "Hatoyama Diplomacy" came up against a range of limitations.

Then in the late 1950s and into the '60s the first Prime Minister Hatoyama's successors, Prime Ministers Kishi and Ikeda, took Japan in a different direction, tying Japan much more firmly and unequivocally into the American camp, into basically a subordinate relationship with the US.

This resulted in a Cold War system that has survived pretty much until very recently; a system where Japan was unequivocally the economic power in Asia, but politically played a quiet role under the US umbrella which enabled it to keep its military spending and regional political profile low. All of that was overseen by LDP rule.

Now the Cold War order is coming to an end. You will have seen on television this week the celebrations in Europe for the 20<sup>th</sup> anniversary of the fall of the Berlin Wall, and I think we all imagined that the fall of the Berlin Wall was the moment when the Cold War ended. But that was the Cold War in Europe. What's been happening in Asia is entirely different; obviously the equivalent of the Berlin Wall in East Asia is still there. That line across the middle of the Korean Peninsula is as heavily guarded as it was in the 1950s.

So the process of the Cold War ending in East Asia is much slower and it is still going on and we don't know exactly where it is going, but I would like to think the coming to power of this new

Government in Japan under a new Prime Minister, Mr Hatoyama, is a step in the process of the ending of the Cold War in East Asia.

For the past couple of decades or so, since the ending of the Cold War in Europe, the Japanese Government under the LDP had been struggling to find a new place for Japan in a changing regional order. Obviously the big issue is the rise of China, the fact that Japan is no longer unequivocally the economic powerhouse. What is Japan's economic and political role in this changing region?

On the whole I think we can say that successive Liberal Democratic Party governments failed to find a new role for Japan in the region. There are all sorts of reasons for that failure, but being an historian one of the ones that I would like to mention is the question of the burden of history.

The fact is that despite various efforts along the way, the LDP really did not manage to face up to Japan's historical responsibility in a way that satisfied regional neighbours. To a degree this had to do with the fact that Japan has been in this subordinate position to the US which has enabled it to get away with not facing up to the historical past.

We have seen, for example, how issues like the visits of former Prime Minister Koizumi to the Yasukuni Shrine and various unfortunate statements by politicians have kept aggravating this problem.

If we look at it from that point of view, I think the advent of the new government in Japan does bode well for the future. The new Prime Minister Hatoyama is known for his quite liberal foreign policy stance, particularly for being a keen advocate of an East Asian community. His vision of the community, a little like Kevin Rudd's vision, has been criticised for being rather thin on specifics, but he is clearly very committed to good regional relations; he is not burdened with a history of making tactless statements about the war. He made it very clear before the election that he would not be visiting the Yasukuni Shrine.

The response of China to the new government has generally been cautiously positive and in terms of Japan's relations with Russia we might mention that the Prime Minister probably benefits from the legacy of his grandfather and also on another personal note, maybe from the fact that his son is an academic and town planner working very successfully in Moscow.

All the same, just over the past few weeks we have seen some of the difficulties that the new Prime Minister is going to face in developing what we might call "Hatoyama Diplomacy Mark II". That relates to what has been said already, the fact that the Democratic Party is a very broad church. There are all sorts of opinions within the party, and we have seen this recently in the issue of the bases in Okinawa. At the moment there is a very controversial issue about what to do with a US base that sits in the middle of a densely populated area.

The previous government agreed with the US military that it was to be moved to a new airfield to be built on top of an Okinawan coral reef in the middle of the habitat of a highly endangered dugong which is supposedly protected under international agreements. Neither current nor

proposed location invokes enthusiasm from Okinawans, 20,000 of whom rallied this week to demand that the new government keep its election promise and move the base outside Okinawa. In response, the Foreign Minister has made one statement on the issue; the more conservative Transport Minister has suggested something else; the Prime Minister suggests something else again. There is clearly a division of opinions going on, and there is also, as Kent emphasised, the question of the bureaucracy: how much are the politicians going to be able to overturn the very entrenched power of the bureaucracy.

Nevertheless, I don't want to underestimate this new age of "Hatoyama Diplomacy". If we think of it in terms of relations with Australia, there are a lot of positives. It is very important to Australia that close cooperative relations develop between the countries of North-East Asia which are overwhelmingly our major economic partners.

This new relationship between Japan and its neighbours is inevitably going to need some rebalancing of the US-Japan relationship, however important that relationship remains. On international issues like the East Asian Community, I think the position of the new government presents excellent opportunities for collaboration with the government in Australia.

Areas like nuclear disarmament, on which cooperation was already initiated between Australia and the previous Aso government, also offer very good prospects for cooperative action – much better with the new government than the old government.

The North Korea issue, which is currently in a state of stalemate but which holds the key to the ending of the Cold War in Asia, is another area where the new Japanese government may be able to do something to overcome the impasse which really paralysed the old regime.

So if the first Hatoyama Government in the 1950s marked the consolidation of the Cold War in North-East Asia, I think the new Hatoyama regime may in time be come to be seen as a very small step in the long, drawn-out process of undoing East Asia's Cold War.

**SHUN IKEDA:** We have heard a heavy entrée and heavy main courses and I felt I was going to come at the end as a dessert, but with yet another heavy main course waiting, mine is a kind of refreshment between the two courses.

I am not going to talk about how this new DPJ is faring on the broad education front. I would like to be more specific. There are 30 items that the DPJ selected as the targets of restructuring or abolishing or rearranging with other Ministries, so they can reduce it to much less burdensome undertakings.

Most of you are aware that in Japan there is a classification of undertakings, whether they are to be continued put on hold or completely abolished – and some of the education items are no exceptions.

This is just my observation, but one of the things I noticed was that even before the DPJ was elected, it had been saying that so-called mind notes "Kokoro no Nooto" or 「心のノート」., which is a kind of supplementary text book for ethics education, was a government-imposed

moral and ethics view on primary and secondary school children and it should be abolished as a supplementary text.

If a school chooses it as a kind of sub-reading text it is okay but at the moment almost all Japanese schools have been adopting the mind notes to complement the moral education textbooks. These textbooks in Japan are inspected, but not censored, by the Ministry of Education and Science. However this particular supplementary text has not been inspected by the Ministry and has not been discussed in public, so the DPJ regards this an imposition of the Government's stance on to Japanese students at the primary and secondary stage.

These mind notes have been in existence since 2002, and the new government is trying to abolish this supplementary text which the previous government had distributed to all schools at primary and secondary levels.

Naturally it had opposed the introduction, saying it would lead to the nationalisation of moral education. So there is a big debate at the moment which perhaps is not attracting media attention yet, but may influence some of the things that Australia will find when dealing with Japanese in the future. This is my personal view, but because of this kind of supplementary text in moral education – a subject called moral and ethics education in Japan - more or less most Japanese children are using this kind of text to formulate a certain type of ethics or moral integrity and standard.

So whenever you deal with Japanese, you can to some extent anticipate where they come from and what their basic moral and ethic standard is, but if this kind of unified morals supplementary text is abolished, then each and every school can choose its own supplementary text, perhaps Australians who deal with the next generation of young Japanese may find they are not as predictable as they are at the moment.

At the moment there is strong opposition from the LDP and others. One of the newspapers is campaigning by saying this kind of supplementary text is very important for Japan and claims that this is a fight led by the All Japan Teachers Association against the Ministry of Education and Science. So it will be important to observe from now on what is going to happen to these mind notes; whether they will be completely abolished, put on hold or continued.

If the mind notes are completely abolished, and each school or each teacher of moral or ethics education chooses whatever they want as their supplementary text, then it will be interesting to see what kind of moral and ethical integrity standard will be formulated among the future generations of Japanese students at the primary and secondary school levels.

**PETER DRYSDALE:** My task is to talk about foreign policy and foreign economic policy, because this is where the interests in the new Government in Japan and Australia come together, although the things that Jenny talked about in respect of positioning on the economy ultimately

may be much more important than the direct intersection of foreign and foreign economic policy in the management of the relationship between our two countries.

It seems to me that there are two elements in this and I want to touch on one that may seem peripheral at the beginning, which is the new process of government we have seen come with the DPJ. The second element is the substance of policy change that has come.

The first element may turn out to be much more important than the second in some ways, as Kent and others have hinted, because there has been a huge change in the fundamental 1955 system of government, and that will effect the way in which we all do business with Japan in future. I am not sure that that is well understood – including in this town yet.

It will affect the way in which we do business with Japan in future because basically the new government will see a move away from government behind closed doors – there has been a bit of movement in that direction since Koizumi, but it has been very tentative – and a movement away from government by bureaucracy. . This has really been quite decisive. We have had a situation in Japan where senior bureaucrats basically declared government policy without reference to the political process almost at all, but this has changed fundamentally.

Vice-Ministers are now no longer permitted to make independent statements in respect of policy at press conferences and so on; the press clubs have been broken up – this is a really fundamental change. You ask anyone in the Japanese press about whether the system has changed and you will find they are unambiguous about it.

So there is a new assertion of policy authority by the political leadership. This will change the way we have to do business with Japan. It means in respect of all Japan's relations, not only the Australian relationship, but also importantly the US relationship, that there will be less predictability. Japan will be less of the one-stop policy shop it was in the past.

It will require a great deal more diplomatic energy and effort to understand what is going on in Japan and to connect effectively with it in the management of our interests in Japan. This is potentially a fundamental change in the relationship between Australia and Japan.

I should say that I am not sure whether we are up to this, whether we have the resources in government in the universities, or in the community more broadly, to put the effort into engaging with Japan in a way that will realise the potential Tessa referred to at the end of her remarks.

I agree with her entirely, there is huge potential in the development of the new relationship with Japan through the election of this new government, but it does require a lot more effort and a lot more engagement on a wider front than we have been used to in our dealings with Japan in the past.

Our diplomats have been comfortable and pretty sure in dealing with one or two bases in Japan in the past and getting it right – this is no longer the case. That is a fairly important observation about what the new government in Japan means for Australia.

The substance has already been touched upon to some extent, but let me just review a couple of issue before wrapping it up: the most important question, which has been reported in the *New York Times* today, is about the tensions in the relationship between the US and Japan in consequence of the repositioning of the DPJ on the alliance. That is potentially an important issue for Australia because our relationship with Japan, right back since the '57 agreement and the peace treaty for that matter, has been nested within the alliance framework with the US.

If that were to change in any significant way, then we have got a whole new set of questions we have to think about in dealing with Japan. The issue is whether or not it represents a fundamental shift in the diplomatic position of Japan by the new government. There is an argument, which I tend to buy – and it is analysed in a fair amount of detail in various contributions to our East Asia Forum blog in the last week or two - which argues that what we see here is a shift within structural parameters that is fairly predictable.

There was evidence of this shift towards a more Asia-centred foreign policy under previous LDP governments – it was made explicit by Fukuda but after Koizumi all of the LDP Prime Ministers were dipping their lid to the importance of what they said was the Asian relationship – for that read the China relationship.

So that is a structural shift taking place and where it will end up is less than certain at this time. It doesn't necessarily mean there is any fundamental shift in the alliance relationship and we should note that the American administration has been extremely careful, some would say patient, and proper in its dealing with the repositioning of Japan on the alliance relationship. This includes its dealings over the problems of the Futenma base on Okinawa, and the renegotiation of its status which is clearly in the offing now and which won't be solved by the presidential visit to Tokyo.

Australia is dealing with the same set of issues, and this is where there is an opportunity for the development of a carefully nuanced and evolving position on the shift in power balance in Asia and the Pacific that we need to work at.

The bottom line from our viewpoint is that it is really important to work on that in a way that doesn't see any sudden shift or destabilisation of the key alliance relationships both countries have, and will have for some time, with the US in managing their interests in East Asia and the Pacific.

The biggest nightmare for anybody who thinks about Japan in the context of the rise of China is the going-over-the-cliff syndrome, and that is the last thing we would expect any Japanese government to do, and the last thing we would want to happen.

The East Asia Community idea is part of the evolution of this re-thinking, linked to the emergence of Asian power, and as Tessa said, there is potentially a close alliance of interests in that respect. The Hatoyama idea and the Rudd Asia Pacific Community idea have some different colourations but basically they are consistent in purpose and philosophy. It will require a lot of effort to think that through and it is important for Australia not to be dismissive of the process,

because success will achieve the objective that that both our government and the Japanese Government apparently have in respect of the development of regional arrangements.

There are other areas that are important, just let me mention one of them: the establishment of the G20 process has fundamentally changed the world economic order. The Japanese bureaucracy is still shell shocked by all this and hankering for the days when Japan had a preferred position in world governance in the G8 process.

That is still there and it makes for difficulties in the intersection of our fundamental interests with Japan's interests over the development of the G20 process, but the G20 is firmly in place. The American President has made that clear, and the sequence of meetings through Canada and Seoul next year will entrench that process unless there are some big political shocks to knock it off course.

We still have to sort some things out with Japan on that front - and that will matter very much to the effective working relationship between Australia and Japan in the G20 process. It will have to be done at a high political level; it can no longer be done by bureaucrats who are hankering for the simple order of the past.

The final area that is worth mentioning is the big shift that there has been in respect of agricultural protectionism. There is no question that Japan is still an agricultural protectionist country under the Hatoyama administration, but there has been a fundamental shift in direction. The preferred instruments to support the agricultural sector and communities in Japan are moving away from direct subsidisation of farm prices and outputs towards community or household support for agricultural communities.

That may seem a lot of technical mumbo-jumbo for most of you, but it is really important as to how our interests might play out in respect of a shift in a position in agricultural policy in Japan. It is important not only for our interests but also for Japan's foreign economic policy, because the one thing that has been holding Japanese initiative back in the development of closer economic integration is the burden it has had to carry from the old approach to agricultural protection.

That burden will be relieved if the new Agricultural Minister, Akamatsu, carries out the manifesto of the DPJ on this and that is very important for Australia and very important for Japan's economic diplomacy.

## QUESTIONS

**How big an issue is China and Japan's policy towards China going to be for the new government and generally how they going to handle it compared to their predecessors?**

**PETER DRYSDALE:** It is front and centre of the shift in foreign policy position that has come with the new Government. It is not only that China is such a big thing, and that importantly it affects Japan's economic interests, it is also that the competitiveness and strength of Japanese business now depends on production based in East Asia, most of it in China.

This happens through the investments of the leading Japanese businesses in the region, taking advantage of the cost and competitiveness of producing output there. So it was inevitable that China had to be dealt with in a different way to what it was under Koizumi and the policies of the DPJ Government are a reflection of that.

At the same time, China still represents a significant foreign policy challenge for Japan and that is why the alliance relationship with the US is still so important. It is at the core of strategic thinking in Japan. The tension between the overwhelming economic importance of China and the strategic and political complications of its rise as a power that is different in many ways from Japan and its alliance partners, remains an endemic part of the Japanese policy problem.

**JENNY CORBETT:** One of the things that still puzzles me is that there still seems to be a gap in Japan's understanding of where China's interests lie in the region. Everything that Peter says is correct – Japan's interests are extremely closely tied up with China's functioning and economy - yet there are what appears to be blind spots in some of the discussions coming out of Japan on what is the appropriate economic policy for the region.

There are some elements – for example the East Asia foreign policy proposal - that would be in China's interests as well as in Japan's interests, so that is relatively straightforward. But there are some elements of discussion about policy for the region which clearly would not be in China's interests although they would be in Japan's.

For example, the idea of a common currency. This has suddenly come back on to the front pages of newspapers as a result of remarks from the Asian Development Bank, picked up and reflected back by Japan's Finance Minister, together with some confused messages from Washington on what they would like to see on a common currency.

So here is the idea that there should be some kind of Euro-like common currency for East Asia. The proposal has largely come from groups of Japanese economists working on this and nobody thinks it will come soon, but the benefits of such an idea is that when you have production networks throughout the whole region, removing currency fluctuations between countries is very beneficial to trade flows within the region.

This is good news, particularly for Japan which is at the hub of these production networks, but what else goes with a common currency? Essentially a common monetary policy. You can't have a common currency unless you have a common monetary policy. Well, in this region at the moment that would mean Japanese monetary policy for the whole region – not a good idea. Not the way Japanese monetary policy is currently being run.

So we are a very long way from this being a well thought out proposal and it certainly would not be in China's interests as far as I can see. It seems to be one of those examples where Japan has not thought through what would be the likely Chinese response to this, because it hasn't thought through what would be the benefit cost to China.

**PETER DRYSDALE:** I guess if you take that particular issue, this is a Government in transition, because Hatoyama has not embraced that idea and there is no coherent policy on it as yet and as things settle down, reality will bite home. There is no question that this is an approach that is neither acceptable to nor sensible for China to buy into, because the idea of a coincidence of monetary policies between an economy like Japan's and China's is not a sensible option at this point.

**Can you see the DJP seeking Australia's help to achieve its goals? Where do you see us fitting into their scheme of things? Where do you see them seeking Washington's help?**

**KENT ANDERSON:** I would be interested in what others have to say, but I think the first thing is that we don't know. Even though they have been in power for two-and-a-half months, they have been out of power for 55 years, so the obvious points of connection and knowing who to contact, who to ask and who to deal with have still not been worked out and that is why you are getting very inconsistent messages depending upon who is speaking and when.

Not only is it inconsistent between the politicians, it is very inconsistent between the politicians and the bureaucracy. More commonly the bureaucracy is just saying 'I don't know, don't ask me'. I wish I had a clear answer but I think we need more time to become comfortable with each other.

In the long run, the interest alliance between Japan and Australia seems very obvious and eventually the penny will fall off the table and everybody will see it makes sense to work together on a number of things, such as the Asia Forum.

**TESSA MORRIS-SUZUKI:** Following on from both the questions, I think there are a lot of areas where Australia and Japan could work more closely together under the new government. Even in terms of the question of the relationships between politics and the bureaucracy, there are interesting parallels in the two countries. But maybe one way of thinking about it relates to what Peter had to say, that there are a lot of new opportunities opening up for connection between Australia and Japan, not simply at the political or business level but at the level of social movements or grassroots groups.

There are many social problems that are shared by both countries. For the Democratic Party government in Japan these problems include homelessness, the under-employed young, all sorts of health issues, ageing, and so on. These are really important, and what we have not done very successfully is to link up groups in our two countries working on these issues; for instance, we could link up the Australian and Japanese professionals who work on homelessness, or the professionals who work on questions of aged care in both countries. There are all sorts of possibilities for closer cooperation there.

Just one other point, that relates to the China question as well. The new government in Japan will be interested in the whole question of multiculturalism. Multiculturalism and Japan are not words that commonly go together very much. In terms of the relationship with China, from the political and business point of view, everybody knows that China is vital.

But from an ordinary Japanese person's point of view there is a lot of fear - racism, or at least nationalism - in the media when it comes to portray China. Part of that is related to the fact that Japan has a large and growing Chinese migrant population. Since last year Chinese have become the largest foreign group in Japan, overtaking Koreans.

There is a tendency for the media to present sensational reports whenever a Chinese migrant happens to commit a crime,. There is also a relatively big Japanese community in China now, and they sometimes are presented in the Chinese media as creating problems.

So the people-to-people links have all sorts of positive possibilities, but there are also negative possibilities of stirring up nationalist feelings. One of the things the Hatoyama is going to have to come to terms with is how to deal with that diversity.

The Democratic Party has some proposals – one that has been put forward, and has been debated for some while, is a law to allow foreigners in Japan to have local government voting rights. But it is also likely that they may be interested in learning from Australia's experience in dealing with ethnic and cultural diversity.