The Modern State and Economic Leadership: Canada, New Zealand and Australia's Trade and Investment Relations with Japan 1985-1998

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by

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Glossary of Abbreviations

AJBF - Australia-Japan Business Forum
AMC - Australian Manufacturing Council (A)
APEC- Asia Pacific Economic Cooperation
ASEAN - Association of Southeast Asian Nations
Austrade - Australia Trade Commission (A)
BIE - Bureau of Industry Economics (A)
CER - Closer Economic Relations (NZ & A)
CIBS- Canada's International Business Strategy (C)
DFAIT - Department of Foreign Affairs and International Trade (C)
DFAT - Department of Foreign Affairs and Trade (A)
EPA - Economic Planning Agency (J)
FDI - Foreign Direct Investment
FDIAG - Foreign Direct Investment Advisory Group (NZ)
GATT - General Agreement on Tariffs and Trade
GDP - Gross Domestic Product
GNP - Gross National Product
IBDR - International Business Development Review (C)
IPFP - Investment Promotion and Facilitation Program (A)
ITAC - International Trade Advisory Committee (C)
JAG - Joint Action Group (NZ & A)
JETRO - Japan External Trade Organization (J)
MFAT - Ministry of Foreign Affairs and Trade (NZ)
MFP - Multifunctionpolis (A)
MITI - Ministry of International Trade and Industry (J)
MOF - Ministry of Finance (J)
NRI - Nomura Research Institute (J)
OECD - Organization for Economic Cooperation and Development
OPEC - Organization of Petroleum Exporting Countries
SAGIT - Sectoral Advisory Groups on International Trade (C)
TCS - Trade Commissioner Service (C)
Tradenz - Trade Development Board (NZ)

A - Australia, C - Canada, J - Japan, NZ - New Zealand

Introduction

Governments around the world are preoccupied with the confusing, uncertain and often chaotic influences of an expanding free market economy, increased globalization, major attempts to deregulate national regulatory systems, and the closely related development of powerful multi-national corporations. In the 1970s, free market western industrial nations partially, but by no means systematically, squared off against the USSR and China-led communist block, numerous socialist states, and a multitude of developing nations. Near the end of the 20th century, with communism in full-scale retreat and socialism largely politically discredited, the free market stands in the ascendency. While significant academic and political voices continue to express concern about a head-long rush into open markets, deregulation and business-driven economies, the rush of political and commercial sentiment appears to have shifted decisively away from government-led economic development.

The primary purpose of this study is to examine the role of the state in the management of national economies in an area of state liberalism. In the post-war period, when many governments had faith in their ability to lead economic planning, departments and agencies attempted to manage and shape national and regional development. In the current age of neo-classical economics, where country after country has publicly indicated their greater confidence in the ability of the free market to determine the best economic opportunities, governments have surrendered some, if not all, of their responsibility for managing the shape, direction and character of the national economic and commercial system. By accepting this limited role, the argument will be advanced — western industrial governments have not provided leadership and direction in a time of dramatic economic change.

Testing the proposition proposed above requires an examination of the acceptance of neo-classical ideas of the state by a national government or national governments and an assessment of the impact of this approach to state affairs on economic policy and outcomes. This study considers how three western governments, Canada, Australia and New Zealand, reacted to the pressure to liberalize the state. Each government adopted, to a greater or lesser degree, the proposition that the role of government in the economy should be reduced. The study then examines how these three countries responded to a major shift in economic prospects and opportunities and how national choices affected economic activity. The specific case under investigation is that of changes in national trade with Japan in the period 1985 to the present. Japan was selected for two main reasons. First, it is the largest (in the case of Australia) or second largest (for Canada and New Zealand) trading partner of the three countries under investigation. Second, Japan has undergone major changes in its internal and economic trade relationships over the past fifteen years, creating risks and opportunities for countries relying on access to the Japanese market. The transitions in the Japanese economy provide an opportunity to gauge the responsiveness of national governments and their ability and willingness to translate international market intelligence and understanding into concrete national economic policy and action.

Canada, New Zealand and Australia embrace, to greater or lesser degrees, a neo-classical mindset which promotes limited governmental involvement in the economy. The actions and initiatives that these governments could undertake, therefore, were constrained by the bounds of an approach to political economy which dictates that economic decisions should be made by the marketplace and not by governments. While the investigation is rooted in a consideration of the intellectual debates surrounding state involvement in economic planning, it seeks to examine the practical, political and administrative issues associated with international trade, the mobilization of national government action, and the shifting ground that lies under the business-government relationship in the late 20th century global economy.

I. Canada, New Zealand and Australia

The selection of Canada, Australia and New Zealand allows for the comparison of actions and initiatives among countries which share many commonalities. All three are young countries with the bulk of their original immigrants coming from Britain. Britain was also the primary market for many of the products these countries produced and preferential purchasing agreements meant that for many years, New Zealand and Australia, in particular, did not have to look for other buyers for their products. As economic links have diminished, emotional ties to Britain have remained strong, to varying degrees by country, within certain segments of their populations.

All three countries are wealthy and possessed of vast quantities of land relative to their populations. The development of their countries was built on individual hard work and frontier spirit. Sheep and cattle stations in the outback of Australia and farms and ranches in the Canadian prairies are often hundreds of square kilometres large and worked by a single family. Particularly in Canada and Australia, the weather is often harsh and dangerous. Individuals had to be strong and self reliant, or at least so national mythology has it.

While national pride has it that Canada, Australia and New Zealand were built with hard work, all three nations are amply endowed with natural resources. Canada has large forests, oceans and lakes rich with fish, generous supplies of coal and minerals and countless miles of rich farmland. Australia has large supplies of minerals (nickel, zinc, bauxite, iron ore)oil and non-oil energy resources (coal, natural gas) along with vast areas of land suitable for running sheep and raising cattle. New Zealand has a generally benign climate which, combined with rich soils, means almost anything can grow including fruit (eg.apples, pears, berries, kiwi fruit, lemons, oranges), vegetables, pine trees and grass for grazing livestock. It also has excellent fishing grounds and a good supply of natural gas. To some extent, these natural endowments have been both a blessing and a curse. Possession of such bounty has made each of these nations complacent, able to rest on simply selling off that which has come relatively easily. It has been difficult to generate much incentive to develop new industries or to be concerned about adding value to resources before exporting them, when the simple export of those products nature bestowed has made each of these countries comfortable and wealthy for decades.

By the latter part of the 20th century, however, the world had begun to change. Canada, New Zealand and Australia can no longer rely on the export of primary products to ensure them their prosperity. Increased competition with emerging new competitors, diminished resource supply in some instances, the volatility of commodity pricing and the increase in technology has forced these nations to begin to confront the idea that change is in order. This is not an easy process. There is a general sense in each of these nations that a prosperous past ensures a prosperous future. There is a both a sense of entitlement — a feeling that one is owed a good future — and a sense that nothing else could be possible. There are government and industry leaders in each of these countries who see that change is needed, that a wealthy future is not guaranteed. Governments in each of these countries have begun programs to get businesses working together to capture export markets, to generate a sense of pulling together, sacrificing now for later, putting petty grievances aside to ensure a good future for the entire nation. These are not strengths these countries possess in abundance but they are skills they will need in the years ahead.

As well, Canada, Australia and New Zealand all are part of the western capitalist tradition. They all now embrace neo-classical economic theory and believe that government should play a limited role in the economy. As these countries share so much in common, this comparison of the economic choices made and decisions taken with regard to Japan could prove useful for each of them. A brief analysis of Canadian, Australian and New Zealand approaches to international business development since 1985 (the year of the Plaza Accord) reveals some interesting trends. New Zealand's dramatic decrease in governmental involvement after decades of subsidies and regulation contrasts with Canadian and Australian attempts to determine what kind of leadership government can best give the business community. While other countries could be chosen for this kind of study, the unique similarities of these three countries makes for fascinating analysis.

II. Japan

The decision to look specifically at international business development policies and strategies in the context of these countries' relations with Japan was made for a number of reasons. Firstly, by looking at the relations with one country, the actual impact of policies and strategies is more readily traced. While the drawback is that one could lose the bigger picture, Japan is such an important trading partner for all three countries that it comprises a substantial portion of the bigger picture. (Japan has been Australia's most important market since 1967, Canada's second most important export market since 1973, and Canada's overwhelming dependence on the US market makes Japan that much more important, and New Zealand's second for most of the 1980s and 1990s. In addition, as the world's second largest economy with a Gross Domestic Product of over US$5 trillion, Japan is a significant economic force. Despite recent difficulties and further challenges ahead, few commentators are seriously willing to write off Japan. The general consensus is that Japan will continue to be an important economic power in the long term and countries that do not pay attention to what happens in Japan, do so at their economic peril. The fact that Japan is difficult to understand for westerners and that it does not always react in the way they expect makes the challenge of really paying attention to Japan and understanding the impact of what it does on its trading partners that much more formidable.

Finally, Japan was selected because the changes that took place in Japan following the 1985 Plaza Accord were substantial and of potentially great significance for its trading partners. As a number of significant economic changes stem directly from the Plaza Accord, it provides a useful and justifiable point of departure for the investigation. The time since the Accord offers a unique opportunity to track definitive changes in Japan and to assess their impact on three of Japan's trading partners. It further offers the chance to analyze the reactions, initiatives and, to a limited extent, the results of the activities undertaken by Canada, Australia and New Zealand. The theoretical and policy implications of the emphasis on Japan are considerable. An activist state, faced with the radical changes underway in Japan, might well study the transitions, develop policies for responding to them, and implement national initiatives designed to protect or expand market share in the changing Japanese economy. A state driven by neo-classical consideration, on the other hand, might well collect market intelligence — for international affairs remains a generally-accepted responsibility of the national government — but would be less likely to translate the information into concrete government action. Instead, the national government would leave the matter of an industrial or commercial response to the business sector.

This thesis examines the commercial relations of Canada, Australia and New Zealand with Japan from 1985 until 1997. The Plaza Accord of 1985 both reflected and sparked many changes in the Japanese economy and altered Japan's trade and investment relationships dramatically. The rapid appreciation of the yen saw the Japanese move labour-intensive manufacturing off-shore, stimulate domestic consumer demand, radically alter its import mix, expand investments in high technology industries and begin economic deregulation. Definitive changes, such as these, in an economy so vital to those of its trading partners are of critical importance. The thesis examines the efforts made by these countries to come to terms with the altered Japanese economy and, in the process, discusses effective government strategies for international business development.

III. The Japanese Economy — Background

Any study of Japanese trade involves a series of assumptions about the nature and current conditions of the Japanese economy. Since the 1970s, much has been written about Japan and the Japanese economy. The earlier writers like Ezra Vogel[1] and William Ouchi[2] extolled the virtues of Japanese management and Japan Inc. — the partnership between government and industry. These were followed by authors like Shintaro Ishihara[3] who either heightened fears, or others like Jon Woronoff[4] who highlighted many of Japan's problems and predicted Japan's imminent economic and social decline.

More recent writing reveals a similar range of opinions although there appears to be some agreement that Japan is likely to remain a major global force. For how much longer and how important the country will remain so important

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[1] Ezra F. Vogel, Japan as Number One: Lessons for America, (Cambridge: Harvard University Press, 1979).
[2] William Ouchi, Theory Z: How American Business Can Meet the Japanese Challenge , (Reading, Mass.: Addison-Wesley, 1987).
[3]Shintaro Ishihara, The Japan That Can Say No: Why Japan will be First among Equals , (New York: Simon and Schuster, 1991).
[4] Jon Woronoff, Japan As Anything but Number One, (New York: M.E. Sharpe, 1990).

economically, though, is still hotly contested. These contrasting views are well summed up by two statements about Japan's economic future. In their book on future trends and predictions, Marvin Certon and Owen Davies boldly state that "As the 1990s began, Japan was the most vibrant economic force in the world. When the decade ends, it will not even be among the top ten."[5] On the other side Tokyo based financial journalist, Eamonn Fingleton, argues strongly that Japan's economic prowess has been consistently underestimated and that "Assuming there is no major disruption in world trade, the stage is set for Japan to surpass the United States and become the world's largest economy by the year 2000."[6]

The majority of writers on the future of Japan predict a more moderate future for the land of the rising sun — although the rapid and diverse changes in the Japanese situation make predicting the future a difficult challenge indeed. Most believe that the Japanese economy will remain reasonably strong despite a number of serious challenges the nation faces in the short and medium term. Problems include a rapidly aging population, concerns about the education system, disarray in the financial system, public disillusionment with politicians and a new distrust of bureaucrats, ongoing tensions in Japan's relations with the United States and the potential "hollowing out of the economy" as manufacturing goes overseas. Despite these difficulties, many commentators point to the Japanese ability to work together to overcome adversity as the key to Japan's continued economic strength. Christopher Wood suggests "Japan as a society has a tremendous record for pulling together in a crisis, as opposed to the dog-eat-dog

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[5] Marvin Certon and Owen Davies, Crystal Globe, (New York: St. Martin's Press, 1991), p.133.
[6] Eamonn Fingleton, Blindside — Why Japan is Still on Track to Overtake the U.S. by the Year 2000, (New York: Buttonwood Press, 1995), p.326.

behaviour normal in Anglo-Saxon countries" [7] and to focus on long term planning and to make use of industrial policy. A number of the books that discuss these Japanese attributes in detail are by Americans striving to show in a balanced way what the United States could learn from Japan. Clyde Prestowitz [8] and William Holstein [9] both encourage America to consider developing some form of industrial policy along Japan's lines.[10]

Despite the sweeping changes that have overtaken the Japanese economy since 1985, the transformation has attracted relatively little scholarly attention. Japan's increase in overseas investment is analyzed in The New Wave of Foreign Direct Investment in Asia,[11] and Fingleton[12] details Japan's emphasis on high technology, including its global monopolies in a range of small but often vital industrial products. However, while academic studies and popular newspaper and magazine articles touch on many of the other areas, there are few systematic studies of the recent Japanese economy available in English.

The main assumption of this thesis is that the Japanese economy will remain strong and that Japan will continue as a world economic leader in the short and long term. Western commentators, particularly those with little detailed knowledge of Japan, have been far too quick to dismiss Japan in the past.

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[7] Christopher Wood, The Bubble Economy, (London: Sidgwick and Jackson, 1992), p.14.
[8] Clyde Prestowitz, Trading Places: How We Are Giving Our Future to Japan and How to Reclaim It, (New York: Basic Books, 1989).
[9] William Holstein, The Japanese Power Game: What It Means for America, (New York: Scribner, 1990).
[10] Other examples are William Dietrich, In the Shadow of the Rising Sun: the Political Roots of American Economic Decline,* (Pennsylvania: Pennsylvania University Press, 1991) and Stephen Cohen, Cowboys and Samurai: Why the U.S. is Losing the Industrial Battle and Why it Matters, (New York: Harper Business 1991).
[11] Nomura Research Institute and the Institute of Southeast Asian Studies, The New Wave of Foreign Direct Investment in Asia, (Singapore: Institute of Southeast Asian Studies, 1995).
[12] Fingleton E., op cit.

Predictions of Japan's rocky future were inaccurately made after the Second World War, after the oil shocks, after the yen rapidly increased in value and again in the late 1990s. As outlined in chapter three, Japan's future has a very stable base. Those nations whose economies rely on Japanese trade and investment must, therefore, make a significant effort to understand the changes that are transforming the Japanese economy and ensure that they are well positioned to take advantage of them.

IV. National Governments and International Trade

This study situates itself in the broad body of scholarly writing on international political economy. As Susan Strange has observed about international trading relations, "exchanges in international trade are not simply the outcome of market forces, of relative supply and demand. Rather, they are the result of a complex and interlocking network of bargains that are partly economic and partly political."[13] Through an analysis of the Canadian, Australian and New Zealand responses to Japan's economic changes, this thesis seeks to discover the economic and political conditions that conditioned national responses.

Since the late 1970s, both in academia and in government, there has been an upsurge in the popularity of libertarian, laissez-faire ideology and policy-making. While strong advocates for state intervention and state-managed economies continue to offer their opinions on the development of the globalizing economy, proponents of the small government philosophy have attracted much

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[13] Susan Strange, States and Markets: An Introduction to International Political Economy , (London: Pinter, 1988).

greater attention. Those who adhere to the neo-classical approach have a strong belief in the inherent logic of the unregulated marketplace and much less faith in the efficacy of government direction or leadership in the economy. These politicians and scholars believe that the private sector makes better economic decisions than the government and that government's role is to negotiate freer trading arrangements with other nations. Although many of the Asian governments do not accept this view of the (limited) role of government, their different approach is often dismissed by western critics and seen as having limited applicability in a non-Asian environment. The governments of Canada, New Zealand and, to a lesser extent, Australia have accepted this free market ethos with remarkable consistency and commitment. That their countries' economies have fallen behind those of several Asian nations and that a future based on the sale of resource products now appears to be precarious seems less important than that the private sector be allowed to take the lead in determining national economic direction.

Michael Porter, who has explored how nations gain competitive advantage in certain industries and the implications of this information for firm strategy and national economies, has had a significant impact on both Canadian and New Zealand policy development. Porter has also authored or co-authored books on each of those countries.[14] However, part of Porter's message is often overlooked. While he clearly identifies areas that governments should avoid, he just as clearly identifies what governments should do. These go beyond what

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[14] Graham T. Crocombe, Michael J. Enwright and Michael E. Porter, Upgrading New Zealand's Competitive Advantage,* (Oxford: Oxford University Press, 1991); Michael Porter, Canada at the Crossroads: The Reality of the New Competitive Environment , (Ottawa: BCNI; Ottawa, Government of Canada, 1991).

Canada and New Zealand have so far been willing to consider: "One of the most important roles of government is signaling, in which government highlights information and issues of importance to firms. This is best illustrated today by MITI in Japan."[15] He also asserts: "By stimulating early demand, confronting industries with the need for foreign technology through symbolic cooperative projects, establishing prizes to highlight and reward quality, encouraging rivalry, and other policies, the pace of innovation and upgrading is accelerated."[16]

As will be further emphasized in the following chapter, this thesis explores the appropriate role for government in the development of international trade in an increasingly globalized world. Through case studies, it sets out to add to the arguments advanced by authors such as Robert Kuttner[17] and Paul Hirst and Grahame Thompson[18] who contest the notion that governments should stay away from direct management of the economy. The comparative case study approach illustrates effective and ineffective approaches to government involvement in international trade development and provides a more substantial foundation for assessing who, where and why governments should become directly involved in economic planning.

V. Globalization

The issues with which this thesis concerns itself occur during a time where the world appears to be becoming increasingly internationalized. Growing

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[15] Michael Porter, The Competitive Advantage of Nations, (New York: The Free Press, 1990), p.639.
[16] Ibid., p. 639.
[17] Robert Kuttner, Everything for Sale: The Virtues and Limits of Markets, (New York: Alfred A. Knopf, 1997).
[18] Paul Hirst and Grahame Thompson, Globalization in Question, (London: Polity Press, 1996).

interconnections among many places in the world have led to talk of a new global economy. As Peter Dicken comments,

> "Few, if any, industries now have much 'natural protection' from international competition whereas in the past, of course, geographical distance created a strong insulating effect. Today, in contrast, fewer and fewer industries are oriented towards local, regional or even national markets. A growing number of economic activities have meaning only in a global context."[19]

Exactly what globalization means, how much it has increased and what that means for the world and for individual nations are all hotly debated topics. A good basic definition of globalization is supplied by Doremus, Kellre, Pauly and Reich. They argue:

> the term *globalization* refers to the worldwide spread of production facilities and processes, which brings in its wake a new international division of labor. A fuller and commonly accepted definition refers to the spread of corporate finance, investment, production, management, sales, labor, information, and technology across national borders and, by virtue of the efficiency-driven, competitive forces thereby put in place, the resulting tendency for economic and political variables to converge toward global norms.[20]

Researchers from various disciplines are attempting to define what this means for the nation state and what it means for individuals.[21] Some see increased prosperity for all; others envision powerless individuals in the face of the monolith of multinational corporations; while a few others question whether globalization is even occurring to the extent to which both promoters and critics

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[19] Peter Dicken, Global Shift: The Internationalization of Economic Activity , 2[nd] Ed (New York: The Guilford Press, 1992), p.4.
[20] Paul N. Doremus, William W. Keller, Louis W. Pauly and Simon Reich, The Myth of the Global Corporation,* (Princeton: Princeton University Press, 1998), p.151.
[21] See Martin Carnoy, Manuel Castells, Stephen S. Cohen, Fernanado Henrique Cardoso, The New Global Economy in the Information Age: Reflections on Our Changing World ,* (Pennsylvania: The Pennsylvania State University Press, 1993).

proclaim.[22] An understanding of what is actually happening in this new global economy is vital for accurate analysis of the best methods of governance — domestic, regional and international — for the future.

VI. Structure of the Thesis

This investigation adopts a comparative historical case study approach to the issue under consideration. The underlying purpose is to argue that national governments have, by adopting a neo-classical approach to economic leadership, not assumed a primary role in responding to changing international economic circumstances. By moving away from one of the key functions of an activist state, these national governments have relied on the business community to take primary responsibility for shaping international trade relations. After placing the study within the context of writings on government and international trade (Chapter One) and explaining its methodology (Chapter Two), the thesis explores the history of the trade and investment relationships that Canada, Australia and New Zealand developed with Japan (Chapter Three). Chapter Four then describes the changes in the Japanese economy since the 1985 Plaza Accord and assesses the impact of these changes on Japan's trading partners. This establishes a foundation for the subsequent assessment of national administrative and policy responses to the Japanese economic transitions. Chapters Five, Six and Seven

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[22]For various viewpoints, see Walter Wriston, The Twilight of Sovereignty,* (New York, Scribner, 1992); William Greider, One World, Ready or Not: The Manic Logic of Global Capitalism,* (New York: Simon & Schuster, 1997); Paul N. Doremus, William W. Keller, Louis W. Pauly and Simon Reich, The Myth of the Global Corporation,* (Priceton: Princeton University Press, 1998); Paul Hirst and Grahame Thompson, Globalization in Question,* (London: Polity Press, 1996).

describe the current state of exports to Japan and of Japanese investment in Canada, Australia and New Zealand respectively. While this is the heart of the thesis, these case studies are designed to focus on the development of national government policy and administrative strategies for the encouragement of trade and investment with Japan. Chapters Eight and Nine then analyze the differences among the three countries in their commercial relations with Japan and discuss the options available for future trade and investment relations. The majority of the thesis describes and analyzes the background to, and the impact of, national policies and trade and investment initiatives. But the underlying purpose is to consider the intersection of trade and government initiative, by way of a three country comparison. Within the context of current scholarship, the thesis explores the arguments for government involvement in the management of national economies in an era of economic globalization.

Scholars have long debated the appropriate relationship between government and business and have, at a much more modest level, assessed the impact of culture on business and government relationships. This thesis examines three countries, each a developed nation with a British colonial heritage, and considers their economic relationships with a culturally distinctive, Asian superpower. The thesis is about the tension between ideology and practice, between the current national economic path and future opportunities to expand international trade, between domestic culture and the forces of globalization, and about the dangers inherent in the contemporary near-consensus in Canada, Australia and New Zealand about the limited and declining role of government intervention in their national economies.

Chapter One
Governments and International Trade: Analysis, Ideology and Assumptions

> Around the world, the growth and survival of semiconductor industries has not just been a matter of 'hacking it', or fostering competition, or having very good schools — although each of these ingredients played a part. Every country that has waited for the industry to develop 'naturally', through the flux and play of market forces, *is waiting still.* Canada is as populous as some countries that now make semiconductors, and its people are just as well educated. It had as much 'natural advantage' for the semiconductor industry in 1980 as Korea did — indeed, much more, since it was richer, its people were better educated, and it was closer to major markets and research centers in the United States. Hong Kong had as much 'natural' inclination for semiconductor making as Singapore ten years ago — just as crowded! Just as much influenced by Confucian culture! The governments of Korea and Singapore deliberately cultivated the industry; the governments of Canada and Hong Kong did not. Korea and Singapore now have a semiconductor industry; Canada and Hong Kong do not. Governments may not have been able to 'pick' winners, but they seemed to be able to 'make' winners, to create advantages for themselves.[1]

The decisions made by the governments of Australia, New Zealand and Canada regarding trade and investment relations with Japan emerged in a specific ideological and intellectual context. Over the last twenty years of the twentieth century, the western consensus around the issue of state intervention in the management of national economies has come under increasing attack, initially from external critics and later by top-ranking government officials. While the primary emphasis in this study will be on specific government decisions, these initiatives emerged as part of a general policy or philosophy on government involvement in the economy. It is important, therefore, to begin by exploring some of the literature on the appropriate role for government in the economy.

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[1]James Fallows, Looking at the Sun. The Rise of the New East Asian Economic and Political System, (New York: Pantheon Books, 1994), p.63.

These issues have been placed in stark relief by the financial and economic transitions that followed the Asian monetary crisis of 1998. The rapid collapse of the economies of Thailand, Malaysia and Indonesia, and the flow-through difficulties in Hong Kong, Japan, and major regional trading partners, provided a graphic illustration of the interdependence of contemporary economic systems and of the inherent uncertainties involved with international trade. If anything, the economic crises in South East Asia and Japan in 1998 provide strong evidence of the importance of monitoring, understanding and responding quickly and accurately to changes in the international trading environment. As well, these transitions have provided a dramatic test of the ability of national governments to assist, buffer and guide their domestic economies through times of international economic change.

I. Neo-classical argument

Neoclassical economists believe in the primacy of market forces in allocating resources and setting prices. When the market is completely unfettered and there is perfect competition, the argument goes, then the market is at its most efficient and society's resources are distributed most effectively. While neoclassicists acknowledge that market imperfections can exist, these are seen as relatively minor. The neoclassicists emphasize a limited role for government. They would agree that there are certain essential economic functions of government including creating macroeconomic stability; providing the nation with proper physical infrastructure; supplying national security, education and other 'pure public goods'; and redistributing income so that the poor can meet basic needs.

Milton Friedman, one of the most famous neoclassicists, wrote:

> the scope of government must be limited. Its major function must be to protect our freedom both from the enemies outside our gates and from our fellow citizens: to preserve law and order, to enforce private contracts, to foster competitive markets. Beyond this major function, government may enable us at times to accomplish jointly what we would find it more difficult or expensive to accomplish severally. However, any use of government is fraught with danger. We should not and cannot avoid using government in this way. But there should be a clear and large balance of advantages before we do. By relying primarily on voluntary co-operation and private enterprise, in both economic and other activities, we can insure that the private sector is a check on the powers of the governmental sector and an effective protection of freedom of speech, of religion and of thought.[2]

Most neoclassical economists would also agree that government may step in when price distortions occur because of market failure. The difficulty comes in determining what constitutes legitimate market failure. According to Robert Wade,

> neoclassical economics teach that market failure of a kind that could be improved upon by a sectoral industrial policy is rare. Indeed, some economists think that there are few inherent market failures and that existing market imperfections are often due to government actions which distort markets. They are pessimistic about politicians' willingness to resist the temptation to misuse economic powers, and still more pessimistic about the ability of governments to detect opportunities which private entrepreneurs have missed.[3]

The neoclassical argument is based on the theory of comparative advantage. This theory states that each country would be best off if it concentrated on the production of those products and services to which it is best suited. As Wade explains,

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[2]Milton Friedman, Capitalism and Freedom, (Chicago: The University of Chicago Press, 1962), pp.2-3.
[3]Robert Wade, Governing the Market. Economic Theory and the Role of Government in East Asian Industrialization, (Princeton: Princeton University Press, 1990), p.13.

> Resources will be so allocated provided that international market forces are allowed to determine the relative prices of internationally traded goods in the domestic economy. And that requirement, in turn, calls for free trade, or a close approximation to it, with low or no impediments to imports and with relative prices that give no more incentive to sell on the domestic market than to sell abroad.[4]

As the market knows best, interference by governments distorts the rational decisions made by corporations and consumers. Governments which believe in neoclassical economics (e.g. the United States, Canada, New Zealand and Australia), therefore, see little role for themselves in promoting one industry over another as this would distort market forces. (There are exceptions to this, however. For example, most countries, including those listed above, intervene in the agricultural sector.) While many of the Asian governments agree with the importance of the market in principle, they also believe that the market does not always know best. Too much domestic competition or a short term crisis can eliminate firms which would be successful in the long term with a little support at the crucial time. Not all industries are created equal; not all industries guarantee the same economic future for a nation. It therefore makes sense for governments to promote one over another. Some neoclassical economists might partially agree. As Bela Bellasa argues,

> some neoclassical economists acknowledge the advantages of non-neutrality, that is, policies biased towards the *manufacturing* sector, hence a market augmenting role for public agencies. Within the manufacturing sector, however, all such economists would firmly reject application of the non-neutrality principle. For these analysts, there can be no advantages in policies favouring *particular industries* within the sector (so-called targeting).[5]

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[4]Ibid., p.14.

[5]Bela Ballasa, 'The Lessons of East Asian Development: An Overview,' Economic Development and Cultural Change, 36(3), 1988, S273-S290, quoted in Linda Weiss and John Hobson, States and Economic Development, (United Kingdom: Polity Press, 1995). p.140.

Since the 1980s, when a conservative counter-revolution challenged the ascendency of interventionist governments, economists moved beyond their long-standing celebration of the fundamental primacy of the market-place and emphasized both the limitations of state-driven intervention and the basic 'incapacity' of states to direct economic development. While some economists acknowledged that the 'activism' of East Asian governments had assisted in regional expansion, they often dismissed this 'model' as being irrelevant or difficult to assess accurately. Some have argued that the success in Asia occurred despite rather than because of government involvement in economic planning and development.[6]

II. Industrial Policy

There are economists, however, who believe that governments should play a more active role and promote some form of industrial policy. Industrial Policy has been defined as "programs adopted by the government to promote the growth and competitiveness of companies and workers."[7] The idea of government or national action to encourage economic development has been around a long time. One of the first people to argue in favour of industrial policy was Friedrich List (1789-1846), a German political economist. List explored the role of nationality and/or collective action as an intermediary between individuals and the human race

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Italics in citation.
[6]Linda Weiss and John Hobson, op cit., p. 140.
[7]David Crane, The Canadian Dictionary of Business and Economics, (New York: Stoddart, 1993), p.316.

generally. While Quesnay (the originator of the idea of universal free trade) and Adam Smith wrote about world-wide freedom of commerce, List did not believe this would be of equal benefit to all countries. He believed "that free competition between nations which are highly civilised can only be mutually beneficial in cases when both of them are in a nearly equal position of industrial development."[8] A nation that is industrially or commercially under-developed, however, must strengthen itself before it begins competing on a free basis with advanced countries. List believed that the state's coordinating role should primarily apply while a nation was developing, for example, expertise in a certain industry. Once the country has fully developed that industry, the state's role should begin to decline.

Many of the recent writings about industrial policy have stemmed from interest in the spectacular growth of the East Asian economies, beginning with Japan. In 1982 Chalmers Johnson, identified Japan as a "capitalist developmental state" in contrast to the American-style "capitalist regulatory state."[9] By this he meant that the Japanese state "had played primarily a developmental role in its economy, rather than the regulatory role prescribed by Anglo-American theory."[10] Capitalist development states are plan-rational and thereby concerned with "the structure of domestic industry and with promoting the structure that enhances the nation's international competitiveness."[11] This is most often illustrated by the existence of an industrial policy and clear goal-oriented strategies for its

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[8]Friedrich List, The National System of Political Economy, (New York: Augustus M. Kelley, 1966), p.xxvi. Reprint of 1885 edition.
[9]Chalmers Johnson, MITI and the Japanese Miracle. The Growth of Industrial Policy, 1925-1975, (Stanford: Stanford University Press, 1982).
[10]Chalmers Johnson, Japan: Who Governs? The Rise of the Developmental State, (New York: W.W. Norton & Company Inc. 1995), p.101.
[11]Chalmers Johnson, MITI and the Japanese Miracle, p.20.

implementation. Market-rational economies, on the other hand, focus on rules and concessions; trade policy is often subordinate to foreign policy.

Johnson describes industrial policy as "the initiation and coordination of governmental activities to leverage upward the productivity and competitiveness of the whole economy and of particular industries in it. Above all, positive industrial policy means the infusion of goal-oriented, strategic thinking into public economic policy."[12] He goes on to explain that it does not mean that the market is replaced or that government tells business what it must do. Instead it "reflects the cooperative efforts by the public and private sectors to understand the nature of technological change and to anticipate its likely economic effects."[13] In capitalist development states, economic growth is a priority. Close ties between government and business are encouraged to facilitate the exchange of information and coordinated decision-making. A central government agency like the Ministry of Finance/Ministry of International Trade and Industry in Japan or the Industrial Development Board in Taiwan is usually involved.

Following Johnson, other authors have also studied Asian economies and evaluated the role of government in their recent economic success. Those who argue that the government played a decisive role in the success of Asian economies include Robert Wade in his study focused primarily on Taiwan, and Alice Amsden's look at the role of the Korean government.[14]

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[12]Chalmers Johnson, 'Introduction: The Idea of Industrial Policy', in Chalmers Johnson, ed., <u>The Industrial Policy Debate</u>, (Los Angeles: ICS Press 1984), p.8.
[13] Ibid., p.10.
[14]Robert Wade, <u>Governing the Market</u>; Alice Amsden, <u>Asia's Next Giant: South Korea and Late Industrialization</u>, (New York: Oxford University Press, 1989).

A number of authors, many of them American and many specialists in East Asia, have continued on this theme, and encouraged the United States to begin to look seriously at some form of industrial policy.[15] One of the first was Clyde Prestowitz, former Counselor for Japan Affairs to the U.S. Secretary of Commerce. He wrote:

> The real question is what kind of environment do we want to create for our economy. At issue is not pure free trade or total protectionism — we never have had and never will have either one; but rather what combination of free and managed trade we will have. It is not a matter of whether the U.S. government intervenes in the economy — it does and will intervene, massively; but whether it will do so in a way that helps or hurts. Some commentators argue that we cannot copy Japanese. Of course not, but there is a difference between copying and learning from others. We must learn what we can from Japan in order to make our system work better.[16]

William Dietrich set forth a similar argument. His thesis is that Japan's success has been based on the comprehensive and system-wide use of industrial policy and that the only way for America to counter the Japanese challenge and regain world economic leadership is for America to develop its own industrial policy. To develop that industrial policy requires a strong central state and a top professional bureaucracy. He writes: "How long and how hard a beating do we have to take at the hands of the Japanese until we recognize that something is seriously wrong, until we understand that Japan has a superior economic

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[15]Other books on similar themes include The Industrial Policy Debate, Chalmers Johnson ed., (Los Angeles: ICS Press, 1984); Marie Anchordoguy, Computers Inc. Japan's Challenge to IBM, (Boston: Harvard University Press, 1989); Stephen Cowen, Cowboys and Samurai: Why the U.S. is Losing the Industrial Battle and Why it Matters, (New York, Harper Business 1991); Pat Choates, Agents of Influence, (New York: Alfred P. Knopf, 1990) which looks at the way the U.S. has allowed Japanese business and government to influence American policy-making; and James Fallows, Looking at the Sun. The Rise of the East Asian Economic and Political System, (New York: Pantheon Books, 1994).

[16]Clyde Prestowitz, Trading Places: how we are giving our future to Japan and how to reclaim it, (New York: Basic Books, 1989), pp.315-16.

system?"[17] He continued on to say that trade talks focusing on getting Japan to remove non-tariff or structural barriers to the entry of U.S. goods will not work because that is asking Japan to, in effect, change its economic system and play by America's rules.

> But they are now playing by their rules and winning the game. It is we who must change.... Today's game is managed trade. Japan is not going to open its markets, not going to eliminate its trade surplus, not going to halt its pursuit of technological dominance... We can engage and contain the Japanese only by means of an American industrial policy. We can open Japan's markets only by means of managed trade.[18]

This message, with different emphasis, was also delivered by Eammon Fingleton who argues that "for the most part these difficulties can be addressed only by an effective industrial policy. The problem for Washington is that America at present does not have the organizational resources needed to administer an ambitious industrial policy. In particular it lacks the strong government agencies of East Asia."[19] William J. Holstein agrees. He writes:

> Despite clear evidence that the Americans already have an industrial policy, some more orthodox members of the Republican Administration still argue that any such policy is bad. It is a fight between the true believers in free markets and congressmen, both Democrats and Republicans, and other members of the Administration, such as Commerce Secretary Robert Mosbacher, who feel some greater governmental role is necessary to help American companies fight against Japan. Although the word Japan is not often mentioned, that is what the debate is really about.[20]

All of these authors make it clear that they believe Japan's approach to trade is different than America's and that it is time the U.S. lost its fixation on its

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[17]William Dietrich, In the Shadow of the Rising Sun: the political roots of American economic decline, (Pittsburgh:: Pennsylvania University Press, 1991), p.249.
[18]Ibid., p.250.
[19]Eammon Fingleton, Blindside, p.328.
[20]William Holstein, The Japanese Power Game: What It Means for America , (New York: Scribner, 1990), p.279.

utopian ideals of free trade. While free trade may be beneficial to the world as a whole, it does not benefit those countries which practise it while their competitors do not. While Japan and many of the Asian countries might profess to believe in free trade, their definition is radically different from the American definition. As Marie Anchordoguy says "a free market to the Japanese, means a market without such formal constraints as tariffs, quotas, and prohibitions on foreign investment; it has nothing to do with whether competitive foreign products are actually purchased."[21]

York University's Daniel Drache argues in the same vein.

> It is not good enough for a government to subscribe uncritically to the dictates of free trade that require it to open its markets regardless of costs and consequences. Rather, it should not give more than it is getting from the globally driven system. It has to have the option to protect itself when the negative effects of trade-led development threaten its national interest. In the past, countries often resorted to beggar-thy-neighbour policies when things went wrong and the international economy failed to live up to its promise to provide jobs through exports. Today, a return to traditional protectionism is not on the cards for any country. Thus, all states require an alternative. They need to have strong policy instruments that will let them plan and finance their strategic goals including job creation, science and technology policy, R&D, environmental policy, affirmative action programmes and the like. This re-tooling of regulatory policy does not require governments to choose between free trade or protectionism, but between the diminishing prospects for free trade and expanding the conditions for managed trade.[22]

Several other books discussing the Asian approach to economic development are also relevant. Paul Hirst and Graham Thompson look at Asia in general and argue:

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[21]Marie Anchordoguy, Computers Inc., p.135.

[22]Daniel Drache, "From Keynes to K-Mart" in States Against Markets. The Limits of Globalization, Robert Boyer and Daniel Drache, eds., (London: Routledge, 1996), p.34-35. For a previous edited collection in the same vein see The New Era of Global Competition: State Policy and Market Power, Daniel Drache and Meric S. Gertler, eds., (Montreal: McGill-Queen's University Press, 1991).

> Surely Asian policies still have much to teach us and laissez-faire is by no means an obviously successful route to economic development, either in newly industrializing economies or in failing advanced economies.. . Far from validating a laissez-faire approach, the experience of Asian NICs shows how necessary are determined public policies and a substantial measure of social consensus in promoting growth through large-scale public and private investment if developing countries are to succeed. What is exceptional are the *political* sources of mobilization of resources, not the boring conclusions of economic theory.[23]

Linda Weiss and John Hobson focus on "the role of political institutions in economic development"[24] asserting that a strong state is vital for national economic development and industrial transformation. They believe that this is as applicable to highly developed as it is to newly developing nations. They look at the various kinds of state structures and government-business relations and advance a theory of East Asian political economy called 'governed interdependence'. In brief, their theory states that government and business are interdependent, that there are rules for how this interdependence is managed and that the state takes the lead in managing the relationship.[25] They write:

> The important point is not that East Asian bureaucrats are omniscient or infallible...But if error-free management were a useful criterion of effectiveness, it is hard to know how even the private sector would qualify. The point is that, by exacting performance standards in exchange for support, and by focusing resources on key technologies, East Asian policies look quite different from those pursued elsewhere in the industrialized world.[26]

As Japan's economic expansion slowed down, less has been published that celebrates the accomplishments of the Japanese or East Asian 'miracle.' Instead, the balance has shifted toward journalists and commentators who use the current

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[23]Paul Hirst and Graham Thompson, Globalization in Question, (London: Polity Press, 1996), p.114.
[24]Linda Weiss and John Hobson, States and Economic Development, p.1.
[25]Ibid., p.169-170.
[26]Ibid., p.154.

difficulties as a sign that the underlying economic model of government managed economies was and is flawed. Nonetheless, there remain those analysts who believe that state-guided economies have considerable potential. Robert Kuttner is one who does not trust "the unfettered market-place and trust in its ability to increase wealth, promote innovation, and 'optimize outcomes' — and to regulate itself flawlessly all the while."[27] He continues to make a case for a mixed economy in which government steps in to override markets for a variety of reasons. Nobody has the time to calculate, much less optimize, each decision, Kuttner says and cites examples of situations and experiments in which people did not behave rationally. He goes on to discuss economic development and the state and how what might be initially more efficient — importing goods from another country — may not turn out to be the most efficient in the long term.

In a similar vein, Paul Omerod observed that while Adam Smith argued that free markets, in which everyone, whether a buyer or a seller, followed his or her self interest would lead to outcomes which were to the benefit of all, his analysis was much more complex than is now remembered. Omerod writes:

> Smith's insistence on the importance of the institutional framework and the overall set of moral values in which free markets operate was neglected, for such concepts do not convert readily into the language of mathematics. Neither was his deep interest in the process of economic growth and the processes by which some nations become rich while others remain poor addressed by the new system of economic analysis.[28]

So deeply entrenched are western sentiments about the primacy of the individual and of individual companies to act as they see fit, that it is often difficult

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[27]Robert Kuttner, Everything for Sale: The Virtues and Limits of Markets, (New York: Alfred A. Knopf, 1997), flyleaf.
[28]Paul Omerod, The Death of Economics, (London: Faber & Faber, 1994), pp.45-46.

to even discuss industrial policy or specific government roles with business or government people in North America. James Fallows, an American journalist, describes it this way:

> The Anglo-American system of politics and economics, like any system, rests on certain principles and beliefs. But rather than acting as if these are the 'best' principles, or the one that their societies 'prefer,' Britons and Americans often act as if these were the *only possible* principles and that no one else, except in error, could choose any others. That is political economics becomes an essentially religious question — leading to the standard drawback of any religion, the failure to understand why people outside the faith act as they do.[29] (italics in original)

The Cold War helped consolidate this position by pitting state-led command economies against laissez-faire economies. Now that Asian economies appear to be foundering, critics are quick to assert that this was inevitable and that it is clear industrial policy never worked in the first place.

Those who believe in some kind of government industrial policy or economic leadership make a number of points. Firstly, they point to the need for government or part of government to play some kind of coordinating role to bring the various players (industry associations, state or provincial governments, academic, private think tanks) together to chart a plan for the nation's economic future. That it is better to have a strategic plan than not seems self evident and industrial policy advocates do not see how one can be developed without coordination. As one analyst wrote, "If 'mission statements' and 'corporate culture' are key ingredients in the quest for excellence of private sector firms, they

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[29]James Fallows, Looking at the Sun, p.180.

are even more important at the nation-state level."[30] Linda Weiss and John Hobson state:

> One major substantive conclusion of our analysis is that modern economic development generally requires a central coordinating intelligence. In particular, coordinating capacity is a key element of national competitiveness and the 'new competition'. This applies to all countries, regardless of 'level' or 'phase of development'.[31]

Australian academic and consultant, Jenny Stewart, agrees:

> the hard choices involved in industry policy cannot be made without a partnership, whether informal or detailed, which makes for mutual obligations. Only in this way is it possible to devise and maintain the necessary balances between production and consumption, between the long term and the short term, and between co-operation and competition on which successful industry policy depends.[32]

In short, in order to develop a strategic effective plan government and industry must work in concert and one of those two bodies must develop ways to ensure this occurs. Government needs to stimulate the private sector, not replace it.

Another common theme advocated by industrial policy advocates is that both to develop and to implement a strategic plan, a nation must pull together. There must be a sense of individuals being willing (or not being given a choice) of sacrificing today for what could be tomorrow. The high savings rates that exist in most of East Asia and that have fueled its growth are a classic example. Governments have put in place policies which force its citizens to save. The nation must come first: before its states, provinces or other regional configurations, before its special interest groups, before its consumers, before its electorate. Paul

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[30]Kimon Valaskakis, Canada in the Nineties: Meltdown or Renaissance? (Ottawa: The Gamma Institute Press, 1980), p.81.
[31]Linda Weiss and John Hobson, States and Economic Development, p.246.
[32]Jenny Stewart, The Lie of the Level Playing Field, p.136.

Krugman, in arguing that there is nothing particularly complicated about Asia's recent success, says that:

> the newly industrializing countries of the Pacific Rim have received a reward for their extraordinary mobilization of resources that is no more than the most boringly conventional economic theory would lead us to expect. If there is a secret of Asian growth, it is simply deferred gratification, the willingness to sacrifice current satisfaction for future gain.[33]

While this might not be complicated, most forms of deferred gratification are difficult to even get many westerners to discuss let alone contemplate.

More than just deferred gratification, an industrial policy philosophy emphasizes what is best for the group or the nation over what might be best for an individual. Neo-classical philosophy disputes the idea that there is a difference. Their argument would be that by acting in one's own best interest, one is acting in the best interests of the country. Friedman wrote that the problem with many government initiatives is that

> they seek through government to force people to act against their own immediate interests in order to promote a supposedly general interest. They seek to resolve what is supposedly a conflict of interest, or a difference in view about interests, not by establishing a framework that will eliminate the conflict, or by persuading people to have different interests, but by forcing people to act against their own interest. They substitute the values of outsiders for the values of participants; either some telling others what is good for them or the government taking from some to benefit others. These measures are therefore countered by one of the strongest and most creative forces know to man — the attempt by millions of individuals to promote their own interests, to live their lives by their own values.[34]

Industrial policy advocates point out that proper industrial policy works closely with the market, not in opposition to it. Generally, resource allocation

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[33]Paul Krugman, 'Does Third World Growth Hurt First World Prosperity?', Harvard Business Review, July -August 1994, pp.113-121.
[34]Milton Friedman, Capitalism and Freedom, p.200.

decisions are left to the market and the government only interferes when it believes that the market is not operating in the nation's best interest. Government gets involved to prevent excessive competition or to direct resources into industries which have the best long term potential. Some new industries, particularly those in the high technology manufacturing sector, require financial backing that individual companies seldom have. Competitiveness is still demanded in the long term; firms are just given help to grow into competitiveness. Unfortunately as Pranab Bardham argues,

> Most modern debate on development options has been restricted to the polar opposites of private market and centralized bureaucracy. Even critics of neoclassical theory, 'in their eagerness to emphasize the highly interventionist nature of the East Asian state, often overlook... (the fact that) the intervention schemes have worked closely with the market.' Indeed, as more and more comparative research makes clear, states active in dynamic industrial economies are not replacing markets but strengthening them.[35]

One of the main arguments against industrial policy is that government is no good at 'picking winners'. How can government possibly second guess the market and determine what products will or will not be economically successful? Kimon Valaskakais, chair of ISOGROUP (a global consulting a planning network), argues that there are problems with this

> oft-made assertion that market forces allocate resources best and that government bodies are congenitally inefficient. This assertion is based on a comparison of economic *theory* with the *practice* of government mismanagement. It is not, however, based on actual market practice. In fact, if one were to oppose ideal public management with actual market practice, one might get very different results. There are many examples where well-run public enterprises defeat their private counterparts. The Swiss National Railways have, over the years, been a model of efficiency

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[35]Pranab Bardham, 'Symposium on the State and Economic Development', Journal of Economic Perspectives 4(3), 3-8 as quoted in Linda Weiss and John Hobson, States and Economic Development pp.252-53.

> which shames many private-sector carriers in North America. From 1975 to 1986, the public sector Soviet and Czech national hockey teams have regularly defeated and sometimes humiliated the National Hockey League private sector professionals, in spite of the latter's large salaries and 'perks'.[36]

Robert Wade agrees. He says that selective sectoral targeting does not involve 'picking winners'. Instead, governments help 'make' winners by selecting new technologies for development.

> The popular belief that governments cannot 'make winners' rests on remarkably little empirical research into the record of different governments in selective industrial promotion. Many governments, especially in small countries, routinely target industrial assistance at specific industries and even at specific firms, particularly where economies of scale call for a minimum level of subsidy per firm. Yet we do not have systematic data on the performance record of different governments which would allow us to distinguish those with one failure out of four from those with seven failures out of eight....Research on this question has to balance the record of government failure against the record of failure by private business; and examine, too, what happens to economies where few transformation projects are attempted because the government declines to take an initiative and private business declines to take the risk.[37]

Marie Anchordoguy, in her investigation of Japan's efforts to develop a national computer industry, writes:

> Foreign observers are often critical of government intervention because they question the government's ability to choose new technologies in which to invest. But the decision to do research to develop technologies to produce VLSI was not a matter of picking a winner out of a hat. Dr. Leona Esaki, a top researcher at IBM and one of the few Japanese scientists to receive the Nobel Prize, said in a 1976 interview that the development of VLSI was definitely necessary for future advances in both software and hardware. Dr. Yasuo Tarui, head of the VLSI projects, said that the Japanese based their predictions of what types of ICs would be coming out in the future on forecasts made by U.S. studies.[38]

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[36]Kimon Valaskakis, Canada in the Nineties: Meltdown or Renaissance, p.156, italics in original.
[37]Robert Wade, Governing the Market, p.356.
[38]VLSI are densely integrated computer chips. Marie Anchordoguy, Computers Inc. Japan's Challenge to IBM, p.137-38.

While nations with a clear industrial policy believe in the neoclassical tenent of comparative advantage, where they differ is in their belief that a country's comparative advantages can be altered. Traditional theory takes comparative advantage as being determined by factor endowments (those attributes a country possesses such as natural resources, an educated population or a low cost labour pool) as given and unalterable. Industrial policy advocates argue, led by Harvard economist Michael Porter, that a nation's comparative advantages can be modified or even created.

Anchordoguy's study suggests, as she writes in her conclusion, "that nations can create comparative advantage by changing their factor endowments and that, in the computer case, industrial policy has played a key role in encouraging and facilitating this change."[39] For Bela Gold:

> Virtually all empirical findings of comparative advantage represent no more than ex post facto rationalization of past trade patterns, often reflecting market interventions rather than substantial differentials in efficiency and costs. Moreover, even the demonstrable comparative advantages prevailing in a given period have frequently been undermined and even reversed thereafter through determined efforts to advance technologies, shift input requirements, alter transport costs, and develop new markets.... The very identification of current comparative disadvantage often represents the first step in developing means of overcoming them.[40]

William Cline similarly argues that, "Increasingly, trade in manufactures appears to reflect an exchange of goods in which one nation could be just as likely as another... to develop comparative advantage, and the actual outcome is in a meaningful sense arbitrary."[41] The implications of this idea that nations can and do

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[39]Ibid., p.185.
[40]Bela Gold in Productivity, Technology and Capital, (Lexington: Lexington Books, 1979), p.11-12 as quoted in Robert Wade, Governing the Market.
[41]William Cline, Reciprocity — A New Approach to World Trade Policy?, Institute for International Economics, Washington, D.C. 1982 p.39-40 as quoted in Robert Wade, Governing

create their own comparative advantage are enormous for countries like the three countries under review here who have tried to believe otherwise. The global economy makes the concept that nations create their own advantages even more likely. Kimon Valaskakis comments:

> The global mobility, not only of capital and technology, but to a lesser extent of labour and resources, has led to an international economy where competitive advantage is not fixed but shifting. Since competitive advantage is the result of particular factor endowments within each country, as these endowments change with trans-national factor mobility, competitive advantage shifts with them.[42]

Comparative advantage, then, is not arbitrary but develops according to the strategies and activities of business and governments. The difficulty industrial policy advocates have with leaving decisions to the market is that those nations who lack strong natural comparative advantages would then have to accept a relatively poor future. Leaders like Senior Minister (former Prime Minister) Lee Kuan Yew from Singapore were determined that this would not be the case. He was determined that natural resources could include human capital and aimed to develop a skilled, educated and hard working population well suited for knowledge-intensive industries.

Various options are open to nations contemplating some form of industrial policy. As Jenny Stewart wrote:

> There is no example of a successfully industrialised country in which government has followed a 'laissez-faire' policy in the sense of being indifferent. Even Hong Kong, one of the most market-oriented places of all, has practised a policy best described as 'active non-intervention'. The kind of intervention practised is critical. Somehow, a balance must be

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the Market.
[42]Kimon Valaskakis, Canada in the Nineties, p. 70.

achieved between allowing sufficient competition to keep firms from stagnating and not allowing so much that they are simply overwhelmed.[43]

III. Government's role within a neo-classical framework

Scholars who do challenge the value of a neo-classical approach to economic management very rarely advocate a return to major social-democratic state intervention. Instead, they argue that the relatively small shifts in government policy and action can bring dramatic results. Michael Porter has written most extensively on this subject.[44] He exhorts governments to get the economic fundamentals right, with an emphasis on education, research universities and advanced infrastructure. In keeping with, but pushing the boundaries of, neoclassical theory, he writes:

> Government should play a direct role only in those areas where firms are unable to act (such as trade policy) or where externalities cause firms to underinvest. Externalities occur where the benefits to the nation as a whole exceed those accruing to any single firm or individual, so that private entitites will tend to underinvest in such areas from the perspective of the nation. Good examples are general education, environmental quality, and some types of R&D that can boost productivity in many industries.[45]

Porter goes on to describe ways he believes government can help industry become more competitive. Industry should be challenged and pushed to improve. This can be done by rewarding excellence through high profile awards and prizes (Japanese companies compete for the Deming Prize), awarded for excellence in

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[43]Jenny Stewart, The Lie of the Level Playing Field, p.135.
[44]Michael E. Porter and the Monitor Company, Canada at the Crossroads; Graham T. Crocombe, Michael J. Enwright and Michael E. Porter, Upgrading New Zealand's Competitive Advantage, (Oxford: Oxford University Press, 1991).
[45]Michael E. Porter, The Competitive Advantage of Nations, (New York: The Free Press, 1990), p.621.

productivity and quality control, by ensuring that both government and the nation's firms and consumers are demanding and sophisticated buyers. Early and high level demand should be encouraged by making sure consumers (government, industry and individual) order the next generation's systems rather than settling for that which is currently acceptable. In this way, he writes, firms are pushed to innovate in order to satisfy demand. He discusses the ways the Japanese government gave companies incentives to purchase certain kinds of robots and also arranged a leasing company to provide financing.[46]

Government also needs to pay attention to future economic trends and possibilities. Porter says that signalling, whereby government points out to firms, issues and information that it believes important, is vital. Government leaders are in a position to survey the broad picture and have a platform from which to express opinions on important national issues or problems. While under this scenario government does not tell firms how to respond, it makes sure they are aware of emerging trends and it makes clear that their competitors are also aware. Along the same line is the sponsorship of cooperative research projects. As Porter says of Japan:

> The most important role of Japanese cooperative research is to signal the importance of emerging technical areas and stimulate proprietary firm research, not to achieve efficiencies in R&D. MITI believes that Japanese firms are not always forward-looking and need highly public and visible stimuli to investigate new fields. Cooperative projects do this and enhance internal R&D spending because firms know that their competitors are investigating the field as well.[47]

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[46]Ibid., p.651.
[47]Ibid., p.636.

What stands out from Porter's analysis is the long term, non-partisan nature of many of his suggestions. Government's role is somewhat like that of a coach. Its decisions will not always be popular, even though it has the long term interests of the nation at heart. He says, "The long time horizon and uncomfortable nature of the most effective policies raise difficult challenges in nations where special interest groups wield political power or where the national consensus for industrial development is not strong."[48]

Porter's has been the most prominent voice advocating more aggressive state leadership in managing national and regional economies, but he has not been alone. (Where Porter clearly stands apart, incidentally, is in his ability to influence directly national governments. This will be seen in subsequent discussions of the development of Canadian and New Zealand policy.) While advocates of the social-democratic approaches to economic management — state-ownership, protectionism, and high levels of regulations — have been quite vociferous in their condemnations of current economic policy, few have done little more than suggest a return to policies that did not work all that well in the past. There are major political exceptions — Tony Blair's 'New Labour' approach in Britain, for example — and some new ideas circulating among academic analysts.[49]

Many of the tools available to governments are ones which almost all nations, even those based on a neo-classical economic philosophy, already use (eg. education and training policies, research and development priorities, labour

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[48]Michael E. Porter, The Competitive Advantage of Nations, p.682.
[49]See, for example, George Soros, The Crisis of Global Capitalism, New York: Public Affairs, 1998 and Bob Rae, The Three Questions: Prosperity and the Public Good, Toronto: Canbook, 1998. Bob Rae, formerly Premier of Ontario, is now a political analyst.

market regulations). The government's use of these instruments of state power for the purposes of economic development fit with the theory of economic growth called New Growth Theory or Endogenous Growth Theory. This theory states that technological change results from the resources that are devoted to it. To increase the economic growth rate, technological change and capital accumulation must increase rapidly. The main ways in which this can occur are through the stimulation of savings, the subsidization of research and development, the targeting of high technology industries and the encouragement of international trade. As Richard Rosecrance argued, "Intervention at an early point in the chain of development can influence results later on, which suggests that the United States and other nations can and should deliberately alter their pattern of comparative advantage and choose their economic activity."[50]

The crux of the New Growth Theory is that the greatest profit is found in the worldwide marketing of a new technology before competitors have an opportunity to copy it. New Growth Theory centers around dynamic comparative advantage which an introductory economics text describes as :

> the ability to produce a good at a lower opportunity cost than any other supplier and results from being first in the field and getting the first crack at accumulating specialized human capital to exploit a new technology. Eventually, all countries can produce all goods at the same opportunity cost (to a reasonable approximation), but the first in a field can dominate that field for some time.[51]

The development of this dynamic comparative advantage requires capital, hence the need for high savings rates and subsidized research and development. High

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[50]Richard Rosencrance, 'The Rise of the Virtual State,' Foreign Affairs, Vol. 75, no. 4 I (July/August 1996), p. 55.
[51]Michael Parkin and Robin Bade, Economics: Canada in the Global Environment, 3rd ed., (Don Mills, Ontario: Addison-Wesley, 1997), p.807.

technology industries afford the greatest opportunity to develop goods which others will not be able to immediately duplicate.

The 'state-as-coach' idea, wrote Kimon Valaskakis, is based on the idea that government provides information and planning. However,

> There is an ideological blindness, in the West, concerning planning which has become a dirty word in the wake of the prevalence of the state-minimization doctrine. What has been the actual record of the past few years? Have the partially planned, totally planned or completely unplanned economies fared best?
>
> The *completely planned* economies have fared worst, including Russia, Eastern Europe and Mao Tse Tsung's China, before that country revised its strategies in the Japanese direction. The *completely unplanned* economies, like Britain, have steadily de-industrialized. Britain has lost one-third of her industry to foreign competition since 1979. The *partially-planned economies* have done best, led by Japan.[52]

Although neo-classical arguments have attracted the greatest amount of political attention in recent years, advocates for planned and managed economies continue to argue that, even or perhaps because of economic globalization, the state still has a powerful role to play. The comparative resurgence of the left, particularly in Europe, in 1997 and 1998 suggests that these ideas might well find fertile group among the political leadership and might emerge as a counter-balance to the prevailing neo-classical 'consensus.'

IV. Impacts of globalization and its effects on the importance of the state

A discussion of the appropriate role for government would not be complete without looking at the increasingly interconnected world in which governments

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[52]Kimon Valaskakis, Canada in the Nineties, p.164, italics in original.

now find themselves. With few exceptions (even countries as traditionally isolationist as North Korea and Albania are reaching out beyond their borders), nations have recognized that they do not exist in a vacuum and that they are part of what is being called the global economy. More companies operate globally in the 1990s than in the 1970s. By the end of 1993, the stock of worldwide foreign direct investment was estimated to have reached $2.14 trillion and total sales of foreign affiliates topped $5 trillion.[53] What this globalization means for the role and power of national governments is still unclear. Until recently, countries were relatively able to control the economic activity occurring within their boundaries.[54] Globalization has made this more difficult although opinions on how much more difficult vary.

Much of what has been written so far focuses less on government direction in international business development and more on what globalization means for the balance of world power. Some authors, however, are writing on what they believe globalization means for the role of the state. Countries may be less able to pursue their own economic policies as they lose control to this global machine. Perhaps a new kind of nation state is emerging or the global system of business is constructing a new political order. Anthony McGrew argues that although "the present global system is riven by discord, cultural diversity, economic inequality and political fragmentation ...and lacks established forms of government, (this) should not lead us to neglect the profound significance of the emergence of a

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[53]Edward. J. Graham, Global Corporations and National Governments, (Washington: Institute for International Economics, 1996), p.4 and 13.
[54]Daniel Drache, 'From Keynes to K-Mart' in States Against Markets: The Limits to Globalization, p.49.

global political system."[55] He describes the variety of players, beyond nation states, which are active in the arena of global politics. These range from multinational corporations to international organizations to subnational government agencies. While McGrew believes that "processes of globalization have had and continue to have dramatic consequences for the modern nation-state,"[56] he points out that the impact globalization has varies among states (as nation states themselves vary dramatically in form) and across issues and that, therefore, generalizations are risky.[57] Susan Strange notes that:

> the impersonal forces of world markets, integrated over the postwar period more by private enterprise in finance, industry and trade than by the cooperative decisions of governments, are now more powerful than the states to whom ultimate political authority over society and economy is supposed to belong.[58]

Strange believes that changed world circumstances has meant that states are losing their power to direct economies. Macro-economist Robert Boyer argues that the market alone will not be a successful co-ordinating mechanism: "Markets only become truly efficient when they are embedded into systems developed by the state or private corporations which then play the role of government."[59]

Kenichi Ohmae takes the view that globalization will bring significant economic benefits. As the world becomes increasingly interlinked with the United

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[55]Anthony G. McGrew, 'Global Politics in a Transitional Era', in Anthony G. McGrew et al.eds., Global Politics: Globalization and the Nation State, (London: Polity Press, 1992), p.313.
[56]Ibid., p.321.
[57]Other books which argue, from varying starting positions, that globalization is taking place include Christopher Chase-Dunn, Global Formation: Structures of the World Economy, (Cambridge, Mass.: B. Blackwell, 1989); Paul Kennedy, Preparing for the Twenty-First Century, (New York: Vintage Books, 1993); and P. Dicken, Global Shift: The Internationalisation of Economic Activity, (New York: The Guildford Press, 1992.)
[58]Susan Strange, The Retreat of the State: The Diffusion of Power in the World Economy, (Cambridge: Cambridge University Press, 1996). p.4.
[59]Robert Boyer, "State and Market: A new engagement for the twenty-first century?" in States Against Markets: The Limits to Globalization, p.86.

States, Europe and Japan at the center, government's main role now " is to ensure that its people have a good life by ensuring stable access to the best and the cheapest goods and services from anywhere in the world".[60] To him:

> In the interlinked economy, it does not matter who builds the factory or who owns the office building or whose money lies behind the shopping mall or whose equity makes the local operation possible. What matters is that the global corporations that, one way or another, do business within a set of political borders; act as responsible corporate citizens. If they do, no matter what their home country, they will treat the people fairly, give them good work to do, and provide them with valuable products and services. If they do not, the people will neither work for them nor buy what they produce.[61]

Former U.S. Secretary of Labour, Robert Reich, has a slightly different outlook. While he agrees that companies operate globally and that it does not matter so much which country owns what, he does believe it is important what kind of a value a country's citizens can add to the world economy and thereby improve their standard of living.[62] Reich thinks that it is incumbent on a government to maximize the national economic benefits which companies can bring, no matter where they are headquartered.[63] Reich calls this

> a positive economic nationalism, in which each nation's citizens take primary responsibility for enhancing the capacities of their countrymen for full and productive lives, but who also work with other nations to ensure that these improvements do not come at other's expense. This position is not that of the laissez-faire cosmopolitan, because it rests on a sense of national purpose — of principled historic and cultural connection to a common political endeavor...Neither is this the position of a zero-sum nationalist: here the overarching goal is to enhance global welfare rather than to advance one nation's well-being by reducing another's. There is

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[60]Kenichi Ohmae, The Borderless World, (New York: McKinsey & Company, 1990), p.12.
[61]Ibid., p.194.
[62]Robert Reich, The Work of Nations: Preparing Ourselves for 21st Century Capitalism, (New York: Alfred A. Knopf Inc. 1991), pp.138 & 168.
[63]Edward. J. Graham, Global Corporations and National Governments, (Washington: Institute for International Economics, 1996), p.34.

> not a fixed amount of world profit to be divided or a limited market to be shared.[64]

Reich sees globalization as an opportunity for nations to work together and to make the world a better place.

In writings like those of Reich and Ohmae, there is often a sense that globalization, free trade and the predominance of the unfettered marketplace are a completely 'done deal'; that there are no alternatives, that governments no longer have any power nor are likely to have any in the future. The world has changed and it is now one in which this amorphous force called the international marketplace is in charge. Linda McQuaig, in discussing this phenomena (primarily in the context of inflation and unemployment), argues that the Canadian government has accepted the doctrines of neo-liberalism so profoundly that it has abandoned its role, right and responsibility to work in the best interests of its citizens. To those who argue that world economic forces have rendered the state powerless, McQuaig responds that the willingness of national governments to respond to the dictates of the financial marketplace indicates that the state is anything but powerless, can act decisively to meet the needs of certain economic interests and can have substantial influence. She says:

> The obstacles preventing us from gaining control over our economic lives have little to do with globalization and technology. Governments have backed off from taking action to fight unemployment and provide well-funded social programs not because they lack the means but because they've chosen to render themselves impotent, powerless in the face of capital markets. The technological imperative turns out to be mostly a failure of will on the part of government.[65]

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[64]Robert Reich, The Work of Nations, p.311-312.
[65]Linda McQuaig, The Cult of Impotence: Selling the Myth of Powerlessness in the Global Economy, (Toronto: Penguin Books, 1998), p.26.

Others are also unsure — both of the reality of globalization and of its benefits. Daniel Drache points out that after four decades of liberalized trade, less than one-quarter of all trade can be considered free.[66] Political economist Manfred Bienefeld does not believe that globalization will increase prosperity rather that globalization "is far more likely to yield instability, conflict and polarization ultimately leading to stagnation and decline."[67] In a detailed examination of the mythology and free enterprise euphoria surrounding globalization, Paul Hirst and Grahame Thompson argue:

> Obviously, it is no part of our aim here to deny that such trends to increased internationalization have occurred or to ignore the constraints on certain types of national economic strategy. Our point in assessing the significance of such internationalization as has occurred is to argue that it is well short of dissolving distinct national economies in the major advanced industrial countries or of preventing the development of new forms of economic governance at the national and international levels.[68]

Such a view is shared by Doremus, et al. In their study of multinational corporations, they discovered that there exists a strong link between corporate behaviour and national cultures and operating styles. The United States, Germany and Japan are the home base for a large proportion of the globe's multinational companies. In each case:

> enduring national political structures continue to shape the operations that most decisively determine the futures of those corporations — their internal governance and long-term financing operations, their research and development (R&D) programs, and their direct investment and intrafirm trading strategies. At the core of the world's leading multinationals, in short, there is no such thing as globalization[69]

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[66]Daniel Drache, "From Keynes to K-Mart" in States Against Markets: The Limits of Globalization, p.38.
[67] Manfred Bienfeld, 'Strong National Economy: A Utopian Goal,' in States Against Markets: The Limits of Globalization, p.428.
[68]Paul Hirst and Grahame Thompson, Globalization in Question, p.4.
[69]Paul N. Doremus, William W. Keller, Louis W. Pauly, Simon Reich, The Myth of the Global Corporation, (Princeton: Princeton University Press, 1998), p.4.

Martin Carnoy of Stanford University also believes that multinationals are closely tied to their home countries. He points out that American parent operations hold approximately 78% of all assets, 70% of sales and 74% of employment of U.S. multinationals (1988 figures).[70] Japanese figures could well be higher. In addition, most multinationals depend on their home markets for acquiring capital and for high end research and development.[71] The nation state, therefore, remains crucial as the future of a multinational company is closely tied to the strength of its home economy.

V. The Future of the Nation State

While there is a considerable literature that critiques contemporary assumptions about globalization and, as also seen above, that advocates a return to central government-directed economies, it is important to consider briefly a related body of analysis on the future of the nation-state. Scholars have been observing a variety of competing trends in recent years, including economic and cultural globalization,[72] declining support for the integrity of the nation-state, a rise in ethnic nationalism and regionalism (with consequent threats to the integrity of the territorial state), the continued power of multi-national corporations,[73] and the emergence of new technologies that, in their complexity and speed, defy the

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[70]Martin Carnoy, "Multinationals in a Changing World Economy. Whither the Nation-State?", The New Global Economy in the Information Age, (Pennsylvania: The Pennsylvania State University Press, 1993), p.53.
[71]Martin Carnoy, Manuel Castells, Stephen S. Cohen, Fernando Henrique Cardoso, The New Global Economy in the Information Age, p.9.
[72] Richard Falk, "State of Seige: Will Globalization Win Out?," International Affairs, vol. 73, no. 1 (1997), pp. 123-136.
[73]Vivean Schmidt, :The New World Order, Incorporated: The Rise of Business and the Decline of the Nation State," Daedalus, vol. 124, no. 2 (Spring 1995), pp. 75-106.

ability of national governments to regulate or control them.[74] At their most extreme, these analysts argue that the nation-state, as currently configured and understood, will dissolve over time, retaining at best minimal functions and providing limited direction for the citizenry.[75] Less dramatic interpretations argue that nations are losing their territorial imperative and no longer exercise tight control over a defined physical space, that the role of government will decline in many non-essential areas, that devolution to local or regional authorities will accelerate.

Peter Drucker nicely ties together the concerns about globalization, the changing nation-state and the role of government in the management of national economies when he argues:

> Despite all its shortcomings, the nation-state has shown amazing resilience...So far, at least, there is no other institution capable of political integration and effective membership in the world's political community. In all probability, therefore, the nation-state will survive the globalization of the economy and the information revolution that accompanies it. But it will be a greatly changed nation-state, especially in domestic fiscal and monetary policies, foreign economic politics, control of international business, and, perhaps, in its conduct of war.[76]

Vincent Cable, contending that national functions are being increasingly overtaken by international governance and regulation, suggests that "It is tempting to conclude that economic globalization has made the traditional nation-state

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[74] Susan Strange, The Retreat of the State: The Diffusion of Power in the World Economy, (Cambridge: Cambridge University Press, 1996); on the reality that the state is a social construction — and therefore logically subject to de-construction if circumstances are right — see Thomas Biersteker and Cynthia Weber, eds., State Sovereignty as Social Construct, (Cambridge: Cambridge University Press, 1996). See also Vincent Cable, 'The Diminished Nation-State: A Study in the Loss of Economic Power,' Daedalus, vol. 124, no. 2 (Spring 1995), 23-54.
[75] One of the best and most thoughtful reviews of this subject is David Elkins, Beyond Soveireignty: Territory and Political Economy in the Twenty First Century, (Toronto: University of Toronto Press, 1995).
[76] Peter Drucker, 'The Global Economy and the Nation-State,' Foreign Affairs, (September/October 1997) 67(5), 159.

redundant. The truth is much messier...National economic sovereignty is being eroded, slowly and differentially, not eliminated."[77]

The on-going debate about the role of the state in the management of economic affairs will continue in a very different context, one in which the basic functions, operations and even existence of the nation-state are questioned. There is a somewhat short-term outlook to much of this writing, best exemplified in Francis Fukuyama argued (rather narrowly and on the basis of the short-term euphoria that surrounded the collapse of the former Soviet Union) that liberal democracy and capitalism had carried the great struggle of the 20th century and would remain ascendant thereafter.[78] The continued crises in Russia, the fall-out from the economic turmoil in East Asia, and the re-emergence of the left as a political force in the western industrialized world suggests that the old order, including the nation-state, might well prove more resilient that some analysts have assumed.

Conclusion

This review of the major intellectual currents relating to the role of the state in the managing of national economies reveals both the complexity and intensity of the issue. For politicians and analysts alike, this question strikes at the heart of contemporary discussions about the political process, the relationship between government and business, national responsibility for economic prosperity, and on-going debates about the power — or powerlessness — of the

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[77]Cable, 'The Diminished Nation-State,' p. 38.
[78]Francis Fukuyama, The End of History and the Last Man, (New York: Free Press, 1992).

state in an era of globalization. These debates have been pushed forward by the pressures of contemporary events, including the formidable rise of Asian economic power, Japan's ascendency as an economic superpower, and the East Asian financial crises of 1998. The lengthy run of economic prosperity in major western industrial nations, capped by the continued strength of the American economy, the seeming success of the New Zealand 'experiment' in national economic liberalization, and the continued power of multi-national corporations have provided practical evidence of the potential value of the neo-classical approach to economic management. But many observers are less sanguine about a globalized economy run according to the dictates of international business, and worry about regional and national economic disparities, about state systems that place trade liberalization ahead of pressing domestic social and cultural needs, and about the seemingly widespread western political acceptance of the idea that national governments can no longer aspire to control and manage state economies.

This literature review illustrates that a great deal remains unanswered about the received wisdom concerning neo-classical economic approaches, and that even basic assumptions about the shape and nature of the nation-state and of 'globalization' need to be considered very carefully. For the purposes of this study, arguments advanced by Robert Wade, Ian Marsh, Jenny Stewart, John Hobson, Daniel Drache, and Linda Weiss, and approaches to state involvement advocated by Michael Porter illustrate the strong body of analysis and interpretation that supports continued state involvement in the management of national economies. While many of these same authors would argue that the social-democratic structures of the 1970s and 1980s limited economic flexibility and interfered with the ability of national economies to respond to developing opportunities, they (and others) share a common view that business-led, laissez-faire economics is rarely in a country's best interest. Moreover, many scholars agree that the issues of globalization, the changing role of the nation-state, and national government responsibility for economic management will have a profound and direct influence on the prosperity of individual nations and on the level of citizens' satisfaction with their national governments. The concerns that lie at the heart of this investigation, therefore, address issues of considerable intellectual and practical significance, and touch on matters central to the political agendas in each of the countries under examination.

Chapter Two
Research Design, Methods and Conceptual Considerations

I. Introduction

This thesis sets out to explore the role of the state in the management of national economic development in an age of economic liberalization. As discussed in the previous chapter, it is situated in a growing and complex body of literature on such themes as the re-emergence of neo-classical economics, the impact of down-sizing on the ability of governments to manage state affairs, and the effects of globalization on the functions of the nation-state. The study focuses on developments over a fifteen year period in three countries — Canada, Australia and New Zealand — that have, to greater or lesser degrees accepted the arguments in favour of limited government. In each instance, the countries were brought to this new ideological and political position by significant budgetary difficulties and by the failure of state-managed economic policies to cope with the rapid changes in the international economy.

The 'new' politics of the 1980s and 1990s has raised numerous questions about the legitimate role of governments and has been marked by business-led assertions that the government should not intercede in the management of the economy. National governments, and not just in the three countries under investigation, have generally accepted this argument and have severely restricted their involvement with economic planning, state ownership, and government-mandated economic development. Even as the process unfolded, however, critics (particularly, but not solely, on the left-wing of the political spectrum) questioned the ready acquiescence to the imperative of national and international business, and challenged the notion that governments should, indeed, accept a more limited role in the management of social and economic affairs.

While the debate has, at times, the character of a contest between the ideas of the past and those of the present, between the state-management orthodoxy of the 1960s and 1970s and neo-liberal assumptions of the 1980s and 1990s, it centres on questions of current political and national importance. If the government is to accept a more limited role within society, what specific activities should attract its attention and resources? More generally, is it fair, or economically safe, to assume that the national business community will, indeed, act in the best interests of the nation? Is there not a major role — perhaps only that described by Michael Porter in developing the foundation of economic development — for the national government in the identification of economic opportunities and the support of these activities? If the government has a specific function on the economic front, beyond providing basic welfare services for the economically disadvantaged, then the literature and the political agendas of countries undergoing this political reorganization provide little consistent indication of these responsibilities.

Even within Canada, Australia and New Zealand, questions have emerged about the legitimacy of the limited government model. Canadian opponents of the new ideology worry about regional disparities and about mounting evidence of a growing gap between rich and poor. New Zealand critics, likewise, point to the dramatic shift in income distribution and to the economic hardship that is occurring in several key sectors and in rural areas. Australia has a well-articulated agenda of moving closer toward the Asian marketplace but the state has few specific mechanisms for pushing the economy in this direction. In all three countries, national governments speak enthusiastically about the prospects for economic development in the digital age, but no longer use the levers of subsidized investment or state ownership to push the economy in this targeted direction. All three nations, as well, worry about their continued dependence on natural resources, particularly when faced with mounting evidence that this area of economic development is a weak and uncertain foundation for national growth and prosperity. All three countries are, as well, heavily dependent on international trade, particularly in raw and partially processed materials, and are therefore quite vulnerable to the dramatic shifts that have been occurring in the global economy. Political and administrative efforts to bring national economies in line with the new realities of globalized financial and trade markets, and with the rapid and multi-directional reorientation of the world economy run into difficulty in an era when governments assume that leadership and decision-making will come first and foremost from the business sector.

While the importance of the issues is quite evident, scholars have not yet found a systematic means of either assessing the specific impact of the new economic orthodoxy on state policy and decision-making or analyzing the effect of the new approach to governance on national economies. This thesis tackles one specific element of this broad and vital issue. In the current economic order, international trade plays a crucial role in determining the prosperity of most nations. The ability of a country to sell into existing markets, to develop new trading partners, and to adapt the national economy to suit the fast-moving changes in the global and regional trade order has become a cornerstone of national prosperity. The economic success of Singapore, South Korea, Taiwan and Hong Kong over the 1980s and 1990s, for example, rests substantially on their ability to anticipate developing trends and respond accordingly. The economic difficulties of Brazil and Argentina, in contrast, owe a significant amount to these nations' inability to adjust to changing regional and world economic influences. In all instances, the vulnerabilities of global finance and the potentially damaging effects of rapid shifts in economic circumstances can, as in the case of South-East Asia in 1997 and 1998, cause extreme national economic dislocation.

Focusing on the role of the nation-state in monitoring, evaluating and responding to the international trade environment, then, is a useful means of assessing the impact of neo-liberal ideology on the economic role of the nation-state. Neo-liberal analysis would argue that the state should not interfere directly in economic affairs, and should instead restrict its activities to the support of business operations and international trade activities. The state, in this conception, would maintain embassies, assist national business people in their trade efforts, and provide a steady flow of statistical and market information that is best collected through the country's overseas consulates and trade offices. Further, and following Michael Porter's analysis, the state could and should play a role in helping to identify international opportunities — which are often beyond the view of small and medium-size business — and could even play a facilitating role in bringing businesses together to capitalize on economies of scale and collective commercial action. Under the previous welfare state model, the state could have taken a more interventionist role, moving beyond the identification of opportunities and, through its use of state regulation, financial subsidies, and direct ownership of the means of production, taking direct action to develop a perceived overseas business opportunity or steering companies in recommended directions. The manner in which national governments orchestrate and encourage international trade, then, provides a useful window into the functioning of nation-states, and should offer an illustration of the degree (if any) to which neo-liberal ideology has affected the role of the national government in the management of international trade. Given the contemporary centrality of international trade to national economic prospects, this theme affords a useful examination of one of the key instruments of national development and therefore of the operations of the nation-state in an age of globalization.

The specific approach adopted here is a three country comparison of national responses to international trade promotion and development. The international trade environment is a complex, multi-faceted arena for national and business politics and action. An investigation of three countries and their approaches in the face of major political reorientations provides an opportunity to assess national differences, to compare the timing, nature and impact of national policies, and thereby to assess the different implementations of neo-liberal ideology in national administrative practice. While it would also be very worthwhile to study countries from completely different cultural regions, this thesis looks at those in the Anglo-American tradition. The three countries selected — Australia, Canada and New Zealand — share enough in common (relationship with Britain, English language, a Pacific Rim location and reasonable proximity to Japan, related political systems, similar administrative systems) that it is easier to search both for similarities and for differences. By restricting the number of variables as to culture, language, political ethos, commercial orientation, it is easier to identify the unique and specific elements in the reactions and policies of the individual nations.

In the late 1990s Australia, Canada and New Zealand all had, and have had for over a decade, governments with a neo-classical, non-interventionist philosophy. By comparing their reactions to changes in the economy of one of their most vital trading partners (Japan), there is an opportunity to gauge the effectiveness of the limited government model. By definition the limited government approach constrains the initiatives government can undertake and promotes economic decision making by the signals and guidance of the marketplace and not by government. This study then affords an opportunity to analyze the effectiveness of the responses and the initiatives the three countries undertook within their definitions of the neo-classical approach. This not only allows for comparisons but it allows for analysis of the bigger questions: Does a country's international business profile change without government direction? Can governments operating within the neo-classical model have much impact on their nation's international business development? What kinds of government intervention are successful in a business-first economic climate? As discussion in the previous chapter illustrates, the questions run through the current academic debate concerning neo-liberal economies but have not yet become the focus of systematic analysis.

Simply undertaking this study implies some uncertainty about the effectiveness of the neo-liberal approach to international business development. Comparing the approaches of three similar countries sheds light on the above questions and adds to the understanding of both the intellectual discussion surrounding state involvement in economic planning and the practical, political and administrative issues associated with international trade and national economic development.

II. Research Methods and Approaches

A research project of this nature requires the examination of primary and secondary material relating to three countries, with the additional requirement that the economic transition in Japan had to be understood in considerable detail. Given the research emphasis on the period after 1985, access to government correspondence and other internal documentation was not possible due to limitations on access to current government material. As a consequence, the research plan focused on published primary materials, numerous interviews with appropriate government officials, and extensive use of national trade data. In addition, published and unpublished material prepared by business organizations, particularly those involved with international trade, and newspapers, journals and other periodicals covering international economic issues provided additional insights.

As described above, this project examines the relationship between the formulation of government policy relating to international trade and the actual impact of that policy on import and export results. Government policy was assessed through a detailed examination of official policy statements, both published and unpublished, and through speeches and other public comments made by the politicians responsible for trade or senior civil servants. This material permitted an evaluation of specific government targets and priorities, and provided insight into the public pronouncement of national governments relating to international trade. The value of the published documents is limited somewhat by their public (and occasionally partisan) nature. The governments of Canada, New Zealand and Australia could not be completely frank in their description of opportunities and barriers regarding trade with Japan, since such pronouncements would be carefully scrutinized and criticized by their political constituents and, perhaps less dramatically, by the Japanese. Political and official speeches and statements, likewise, provided useful insights into changing government policies and ideas, but with similar caveats as to their utility and comprehensiveness. While some of the government documents utilized herein were designed for public circulation, many of the more detailed policy statements circulated only within specific government ministries and were not intended to be distributed widely.

Official and public declarations of government policy reveal what the government wants to do, or what the government tells the public what it wants to do. These documents do not necessarily reveal the practical and administrative manifestations of these major policy decisions. As a result, an extensive series of interviews was conducted with officials responsible for international trade and, specifically, economic relations with Japan. Approximately forty interviews were conducted with government officials, ranging in length from an hour to a day of consultation. Officials were questioned on their areas of specific responsibility; in most instances, representatives had responsibility for only a specific segment of national international trade policy and restricted their comments to areas of direct involvement. (The sensitive nature of the officials' position also meant that they were often reluctant to answer questions of an interpretative or potentially critical nature. When they did reply, they often did so with the assurance that their responses would not be attributed to them directly.) Interviews were conducted both in the home offices and in the Japanese consulates of Australia, New Zealand and Canada. Drafts of the specific country chapters were shown to many of these people for verification of factual information. These interviews provided insights into the intersection of government policy and commercial realities, and offered an opportunity to gauge the application of official initiatives in the Japanese setting.[1] (Additional interviews were conducted with journalists, business people and academics from the four countries involved in the study.) The interviews afforded an opportunity to review the background to the development of post-1985 government policy on trade with Japan, to consider the importance national governments attached to specific trade initiatives, to understand the administrative implementation of national policy, and to learn about the internal mechanisms of trade policy formulation.

Assessing the impact of government policies is, of course, a difficult process and one that is affected by the many competing influences and forces that

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[1]Australia was the most difficult country from which to obtain access to government officials although people at the Australian Embassy in Tokyo provided very useful comments and insight; Canadian officials were the most generous in providing opportunities for interviews. New Zealand officials work in a much smaller diplomatic service and therefore cover a wider range of responsibilities; finding a meeting time was often a challenge but the assistance received at the meetings was invaluable.

impinge on the unfolding of government initiatives. In this instance, however, trade statistics provide an excellent means of examining the impact of trade policy and trade initiatives. If the national government targets the improvement of trade in a specific sector, the trade data should reveal aspects of the impact of that specific policy. The trade data is quite diverse as it is collected by national governments,[2] other trading nations (in this case, Japan) and international organizations. This project uses a combination of sources. Relying on statistics provided by international organizations affords more direct comparisons, particularly as to assigned value of trade. The national data, however, is often the information used by individual countries in the formation of trade policy. This project draws on both sets of information.

The primary source material utilized in this study permits a thorough investigation of the questions and problems posed at the outset. While the availability, in later years, of internal correspondence and the reflections of long-retired politicians and civil servants will provided for a more nuanced assessment of the evolution of trade policy relating to Japan, the internal dynamics of policy formation are not the primary concern here. This project aims at a broader and comparative analysis, and seeks to identify the connections between national policy and actual trade results and is not, therefore, focused on the internal dynamics of the policy-making process. By combining the assessment of official policy statements, interviews with key officials, and changing patterns of imports and exports as revealed through national and international trade statistics, this

[2]Canada and Australia have long kept excellent trade and investment statistics; New Zealand's are a little less complete.

thesis is able to consider the impact of neo-liberal economic approaches on national economic development.

The decision to proceed with a comparative approach was predicated on the assumption that the contrasts and similarities between the three countries would better reveal the impacts of neo-classical economic thought and would demonstrate the nation-specific manner in which these ideas were implemented as state policy. The core hypothesis of this study is that western industrial governments have, by accepting the argument that they should play only a minimal role in guiding the economy, opted not to provide economic leadership in a time of considerable change and transition, particularly in international trade. To make an appropriate case, it was deemed necessary to assess both specific national trade policies and to consider the effect, or lack thereof, of these trade policies on national performance in the field of international trade. Examining three countries instead of a single state enables a fuller analysis of the general impact of the neo-classical economic policy and to provide verification, if possible, beyond a single case.

As much scholarship is rooted within national boundaries, the comparative approach employed here allows the investigation to move beyond a single case study to consider how different countries (although with many attributes in common in the case of Canada, New Zealand and Australia) responded to similar challenges and circumstances. This has made it possible, at least in a preliminary fashion, to distinguish that which is national from broader international developments and reactions. The comparative approach in this kind of a governmental and political study provides some distance from personalities and policies which could threaten to overwhelm a single country study. This helps to ensure that broader questions and issues are not overlooked and that the general conceptual and intellectual considerations are given a more comprehensive background.

This study divides a large and complicated theme — the role of national governments in the management of national economies — into a smaller field of study. Thus, the focus is exclusively on international trade development. Further, the thesis does not endeavor to cover all nations, or even all those nations that have adopted a more neo-classical approach to economic management. Instead, it focuses on three countries, arising out of similar constitutional and political roots and sharing similar economic fundamentals, each of which is heavily involved in international trade. And, finally, rather than cover trade relations on a global scale, a subject of great complexity and multiple levels, the decision was taken to emphasize a single country, Japan, that figures prominently in the international trade of each of the nations involved in the study. The attractiveness of Japan, beyond the obvious consideration that it is one of world's largest and most dynamic economies, lies in the fact that it has experienced a dramatic internal economic re-organization that resulted in major changes to its international trading activities. Thus, Japan presents an excellent case study of the responsiveness of national governments and business sectors to changes in the international trade environment.

III. Services as a Factor in International Trade

While this thesis will focus exclusively on trade in products, there has recently been growing discussion on the increasing importance of services (ranging from tourism to insurance) in international trade. This will not been explored here for two main reasons. Firstly, trade in services is hard to quantify. There is a wide range of activities covered under the term services. For many of these activities, there is no regulating body that keeps track of how much money changes hands and when. When an architecture, law or accountancy firm sets up an office overseas, for example, it is not easy to determine how much of the firm's profits return to the home country and what percentage remains abroad. While it is easy to track when a product leaves one country and arrives in another, and consequently where the money changes hands, it is much harder to know when the services of a Canadian bank in Japan return money to Canada.[3] As Peter Dicken "Unfortunately, the statistical data on the services sector in general and on the commercial and business services in particular at an international scale are

[3]The tourism industry is a bit of an exception as tourism revenues are much easier to track. Customs and immigration officials at airports and border crossings monitor the numbers of people arriving and leaving. Random surveys of visitors can give a general idea of the average amount of money spent on accommodation, food and souvenirs. The average amount of money spent in each category can be multiplied by the number of visitors to give an approximate value to the tourism industry in a particular country.

While tourism is easier to quantify in an international context than many of the other services, tourist jobs, in the main, are in the low wage end of the service economy. Chambermaids, waiters and tour guides are not often well paid. Many jobs in the tourism industry are actually minimum wage, supplemented by tips if the worker is good or lucky. While this is not to say that tourism's role in a nation's international economy should be ignored, it should probably not be the main focus for a developed country hoping to increase its economic potential. The other difficulty with tourism is that it is often subject to whims, fashion and the economic realities of far away places. There is often little the host country can do to counteract sudden downturns in its tourist numbers. (The currency crisis in Korea has had a big impact on the tourist industry in places as diverse as Australia, Japan and Hong Kong.)

abysmal. There is no statistical series comparable to that available for merchandise production and trade."[4]

Secondly, trade in products, particularly manufactured products, continues to be very important, forming the foundation of a nation's economic development. Stephen Cohen and John Zysman even argue that without an industrial base there will be little in the way of services. They contend:

> Shift out of manufacturing and it is more likely that you will find that you have shifted *out of* such services as product and process engineering, than *into* those services. This is true of a large number of high-level service activities, the very services that are supposed to drive the argument for development by sectoral succession — out of industry and up into services. These services are complements to manufacturing, not potential substitutes or successors. The wages generated in services that are tightly linked to manufacturing exert an enormous effect on wage levels in services quite independent of manufacturing, activities as distant as teaching, government work, hairdressing, and banking[5]

There is certainly no doubt that much of the service industry is a function of manufacturing (hence the name 'service') whether or not it is created in response to a perceived need by the manufacturing industry. A visit to a technology company trade show underscores this point. Many of the companies present are those which sell, or hope to sell, services to these high technology manufacturing companies. These services range from real estate companies experienced in finding suitable locations for technology companies to patent lawyers to firms which arrange escrow accounts for investors in new technologies.

To summarize, the service sector will not be incorporated in the investigations that follow. Manufacturing and resource processing remain as

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[4]Peter Dicken, Global Shift: The Internationalization of Economic Activity (New York: The Guildford Press, 1992), p.18.
[5]Stephen S. Cohen and John Zysman, Manufacturing Matters. The Myth of the Post-Industrial Economy. (New York: Basic Books Inc., 1987), p.7, italics in original.

essential elements in the national economies of Australia, Canada and New Zealand, and are therefore of continuing importance in charting these countries' international economic activities. The data on services is, as discussed, very difficult to track and to identify with precision, making extensive analysis of this sector impressionistic and statistically unreliable.

IV. Additional Conceptual Considerations

The research project will, in the main, focus on national governments, policy-making and the national experience in international trade. It is simplistic and inaccurate to assume that these policy and political considerations represent the sum total of the major influences on a nation's international trading activity. Canada, for all its rhetoric about being a multi-cultural trading nation, actually has performed poorly by international standards, and likely for reasons that are as much cultural as economic. Much the same can be said for New Zealand and Australia. Assessing the nature and impact of cultural influences on national business and economic development is, however, very much a separate project, albeit one that emerges logically from the present investigation. Scholars are just beginning to explore the influence that culture has on business. This study will illustrate that the responses of Canada, New Zealand and Australia to the Japanese market reflect elements of their history and contemporary political systems; it offers only preliminary observations on the degree to which 'national culture' influenced these trading relationships. While it is widely recognized that culture has an impact on business, in what way and why is much more difficult to grasp. Analysts in marketing and advertising have struggled for years with the more superficial aspects of culture and language to determine what influences purchasing decisions. But determining the reasons and value orientations behind those decisions is much more challenging. As business people increasingly recognize that, as Lisa Hoecklin observed, "Business and culture are not discrete, rational domains of activity separate from a society's particular cultural beliefs and values",[6] interest in understanding differences in value orientations has increased.

The way in which value orientations combine to form a nation's business culture has only been explored in a couple of studies, although scholars have been noting the different 'forms' of capitalism in European, North American and Asian settings for some time. The hesitation in dealing with national business cultures is probably due to the necessity of using very large sample sizes (to overcome individual personality differences and determine cultural responses) from numerous countries, to reach reliable conclusions. The most well-known study was that conducted by Geert Hofstede who analyzed over 116,000 individual responses from 67 countries to a questionnaire issued by IBM in 1968 and 1972. His analysis led him to identify four dimensions of work-related value differences: power distance, uncertainty avoidance, individualism vs. collectivism and femininity vs. masculinity.[7] His second book, Cultures and Organizations[8] re-examines the material in Culture's Consequences in a style more suitable for a

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[6]Lisa Hoecklin, Managing Cultural Differences: Strategies for Competitive Advantage, (London: Economist Intelligence Unit/Addison Wesley, 1995), p.21.
[7]Geert Hofstede, Culture's Consequences: International Differences in Work-Related Values, (London: Sage Publications, 1980).
[8]Geert Hofstede, Cultures and Organizations: Software of the Mind (London: McGraw Hill, 1991).

general audience and adds material on Michael Bond's Chinese Value Survey [9] as well as that on organizational culture differences conducted by the Institute for Research on Intercultural Cooperation. [10]

A later work by cross-cultural management consultants Charles Hampden-Turner and Alfons Trompenaar, explores the business cultures of the U.S., Britain, France, Germany, Japan, Sweden and the Netherlands. They discuss how each nation has a unique combination of values: "This value set is an economic fingerprint, which, we believe, correlates with specific types of economic achievement and failure."[11] Hampden-Turner and Trompenaar, therefore, have taken the idea of the importance of understanding business culture a step further. It is important, they argue, to know the cultural make-up of other nations to determine how best to do business with them. But they also assert that a nation must understand its own cultural make-up if it is to take control of its economic future and realize the barriers to economic growth. [12]

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[9]Michael Bond had a questionnaire designed by a number of Chinese social scientists (Hofstede's survey had been designed by westerners) and administered the resulting Chinese Value Survey to 100 students in 22 countries. The results correlated quite closely to Hofstede's findings except for the absence of uncertainity avoidance and the addition of what Bond referred to as Confucian dynamism and Hofstede as long term versus short term orientation. The article discussing the survey's findings can be found under the following reference: The Chinese Culture Connection (a team of 24 researchers) (1987) 'Chinese values and the search for culture-free dimensions of culture' Journal of Cross-Cultural Psychology, vol. 18, no. 2, pp.143-164.

[10]In this study, the IRIC conducted interviews and issued questionnaires to staff in 20 units (entire organizations or parts of organizations assumed to be culturally homogeneous) from five organizations in Denmark and five in the Netherlands. The number of people in each unit varied from 60 to 2500. The study revealed that while the 20 units showed only slight cultural differences among their members, there were considerable variations in the practices of members.

[11]Charles Hampden-Turner and Alfons Trompenaar, The Seven Cultures of Capitalism, (New York: Doubleday, 1993), p.16.

[12]Charles Hampden-Turner and Alfons Trompenaar also published Riding the Waves of Culture: Understanding Cultural Diversity, in Global Business (New York: McGraw Hill, 1993, 1998) which looks at managing in the global multi-cultural business community of the 1990s.

Business and economics scholars, most of them rooted in the western academic tradition, have focused their culture-based studies on "other" (i.e. non-western) countries and conducted relatively little research on the cultural foundations of Anglo-American business. Much has been written about Japanese culture and the ways in which it influences how Japanese people approach business and government. Conversely, little has been written about similar issues in countries like Canada, New Zealand and Australia. Most scholarly and journalistic investigations of Japan's trading relationships emphasize the manner in which Japanese culture and commercial structure constrains imports and investment — both through formal, direct methods and informal often underlying factors (e.g. language, long term business focus, convoluted distribution systems).[13] A much smaller body of work shifts from the emphasis on cultural and structural barriers in Japan and examines instead those factors within western industrialized nations (like Canada, Australia and New Zealand) which limit their ability to seek or seize international economic opportunities in Japan. Instead, most of the Canadian, New Zealand and Australian writing on culture emphasizes a search for identity and sense of self and for an explanation of what makes them different from each other and their noisier British and American cousins.[14]

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[13]A few examples of the many include Allan Goldman, Doing Business with the Japanese, (New York: State University of New York Press, 1994); Mark Zimmerman, How to Do Business with the Japanese, (Tokyo: Tuttle, 1985); Jared Tayor, Shadows of the Rising Sun: A Critical View of the Japanese Miracle, (Tokyo: Tuttle, 1993); Robert Christopher, The Japanese Mind, (New York: Fawcett Columbine, 1984); Robert Dore, Taking Japan Seriously: A Confucian Perspective on Leading Economic Issues, (London: Athlone Press, 1987).

[14]Canadian examples include Allan Smith, Canadian Culture, the Canadian State and the new Continentalism, (Orono: University of Maine, 1990); Andrew Fenton Cooper,eed., Canadian Culture: International Dimensions, (Toronto: Centre on Foreign Policy and Federation, 1985) which examines Canadian efforts at cultural diplomacy; Duncan Cornell Card, Canada-U.S. Free Trade and Canadian Cultural Sovereignty, (Victoria: Institute for Research on Public Policy, 1987); W.L. Morton, The Canadian Identity, (Toronto: University of Toronto Press, 1972) which attempts to state "the character of Canadian nationhood in its peculiarly intimate association with

V. Intersection of domestic politics with international trade policy

The focus on international trade and related policy developments does not give extended attention to the impact of domestic political consideration on trade initiatives. A change in the national government could, and often does, have marked effects on economic policies. In all three countries, and in fact in any democratic nation, the ebb and flow of electoral politics and internal political considerations can have a profound impact on the development of international relations. At times, it is as basic an issue as the structure of the domestic legislative and constitutional system. The division of powers between federal and provincial/state governments in Canada and Australia has an impact on economic planning and action. New Zealand's unicameral system, in contrast, provides the country with an opportunity for more decisive political action, and thus empowers leaders in a way that the Canadian and Australian structures do not.

There a number of ways in which rivalries between internal political jurisdictions manifest themselves. In some instances inter-state or province fighting results in domestic decisions being made for political rather than practical reasons. In these instances, the impact on international business development

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the Commonwealth of Nations and the United States of America"; and the amusing Mervyn J. Huston, Canada Eh to Zed. A Further Contribution to the Continuing Quest for the Elusive Canadian Identity, (Edmonton: Hurtig Publishers, 1973). New Zealand examples include David Novitz and Bill Willmott, Culture and Identity in New Zealand, (Wellington: GP Books, 1989); Keith Sinclair, A Destiny Apart: New Zealand's Search for National Identity, (Wellington: Allen and Unwin, 1986); Gordon McLauchlan, The Passionless People, (Auckland: Cassell New Zealand, 1976). Australian examples include Charles Price, ed., Australian National Identity, (Canberra: Academy of the Social Sciences in Australia, 1991); Donald Horne, The Lucky Country, (Sydney: Penguin Books, 1964); Vance Palmer, The Legend of the Nineties, (Melbourne: Melbourne University Press, 1954); John McLaren, ed., A Nation Apart. Personal Views of Australia in the Eighties, (Sydney: Longman Cheshire Publishers, 1983); Robin Boyd, The Australian Ugliness, (Victoria: Penguin Books,1963); Ian Craven, ed., Australian Popular Culture, (Cambridge: Press Syndicate of the University of Cambridge, 1994) which includes a chapter called "A brief cultural history of vegemite"!

comes because the country loses or diminishes an opportunity to develop or increase its production of a desired product. The location of new government sponsored industrial projects, for example, are often determined by which province or state's turn it is or which place yells the loudest rather than by which location makes the most practical sense. When discussing Canada, Michael Porter made this point and explained that it has meant new industries are located far from other related companies or plants, making it much more difficult for them to become viable. Porter wrote:

> "Competition among provinces to be the chosen location for federal development or procurement initiatives has often resulted in projects being located in areas distant from any cluster of related industries. Again, short-term job creation has usually been a higher priority than the fostering of viable industries and industry clusters."[15]

In other instances the confusion of multiple layers of government, overlapping jurisdiction and competition within a country for the same offshore resources leaves potential international partners or customers at best confused, and more likely, to turn their attentions elsewhere. Australian industry analyst Jenny Stewart says:

> The states' regulatory powers have been a continuing, although not overwhelming, source of irritation to businesses producing for the domestic market. Variations between states in matters such as labeling and packaging have added to costs, and the existence of state and federal awards governing similar activities have allowed plenty of opportunity for union arbitrage. Competition between states for investment have posed a more serious problem for locally based firms producing for the domestic market...With most manufacturing protected from imports (either explicitly or because of natural protection) these inefficiencies, while irritating, did not matter a great deal. As protection began to be reduced, however, the need for national standards and for better co-ordination between the states in matters such as transport and electricity generation became more pressing, if not always obvious to those in government. By

[15]Michael E. Porter and the Monitor Company, Canada at the Crossroads, p.283.

the beginning of the 1990s, it was generally agreed that federal-state relations — both fiscal and regulatory — needed urgent attention and remedial action.[16]

Inter-provincial/state battles for investment monies from abroad is a classic case of fighting which clearly works to the detriment of the federalist nation. Rather than a concentrated effort simply to bring an investment project to Canada, time, energy and money are devoted to fighting about where this investment should go. Provinces or states work to out-bid each other to lure investment to their territory. There is no sense of a national objectives or vision; instead the country appears fragmented, disorganized and acrimonious. The state governments often offer more in incentives to the investing company than that company had ever contemplated requesting. Money is unnecessarily spent and Canada or Australia appear, at times, to potential investors to be ridiculously desperate.

On a more positive note, a look at the impact of domestic politics on international business development could encourage a nation to think of what is possible if it pulls together as it would more clearly see what it loses by pulling apart. Rather than a country where regional interests come first, a sense of national vision could be developed. While not an easy prospect, teamwork is most often developed in response to an outside force. Perhaps if Canada, for example, were to realize what it loses, in absolute dollars and cents, from all its in-fighting, the work of developing a national purpose would seem more appealing. Ian Marsh has made a similar proposal for Australia. He points out:

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[16]Jenny Stewart, The Lie of the Level Playing Field: Industry Policy and Australia's Future, (Melbourne: The Text Publishing Company, 1994), p.217.

> The idea of a national vision or purpose would also be differentiated from the electoral strategies that might be adopted by the major parties. A central requirement for a national vision is that it be bipartisan at least in its major elements.[17]

Responsibility for developing this national vision, Marsh suggests,

> might be lodged with an independent, technically qualified agency and the findings would need to be introduced to the political process in a way that engages the relevant stakeholders and the major parties....The variety of agencies who might play a role in this process include Australia's extensive array of think tanks. Such bodies are ideally placed to act as brokers between the sectional interests of their primary sponsors and wider national interests and opportunities.[18]

Domestic political structures matter and can have a significant influence on national policy formation. As the subsequent chapters reveal, internal political considerations, be they the division of powers between jurisdictions or more basic, electoral requirements can change government direction or result in the development of new initiatives. In this way, nations become both the beneficiaries and the captives of their internal political systems and processes, and international trade policies will often be influenced by these pragmatic, domestic considerations.

VI. Corporate response to government policies/international trade arrangements

Business-government interaction sits at the centre of any consideration of international trade development. Governments do not operate in a vacuum, particularly in an age of business-first neo-classical economics. Business keeps a

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[17]Ian Marsh, Beyond the Two Party System: Political Representation, Economic Competitiveness and Australian Politics, (Cambridge: Cambridge University Press, 1995), p.185.
[18]Ibid., p.183.

very careful, often critical, eye on government actions and priorities. Governments, in turn, look to business to support and sustain new programs initiated under these approaches to economic development. Organizations like the Business Roundtable in New Zealand purport to provide a business response to government policy proposals, although such groups tend to represent larger businesses (and often multi-national business interests) and do not always have a broad, national constituency. Moreover, these organizations often speak only for one side of business and only on a limited range of issues. In Canada, Australia and New Zealand, discussion focuses much more frequently on what governments should not be doing rather than on what positive contributions government can make. It is difficult to find examples of business encouragement for specific government initiatives, beyond cutting taxes and reducing regulatory burdens.

Nonetheless, business has long played a crucial role in national economic development and, under the neo-classical approach, now has an even more central function. Rosabeth Moss Kanter discusses ways in which towns or cities can get their populations working together to create what she calls world class regions. She says that through civic forums in which business and government participate, they must identify the core skills of an area and the investments needed to increase the region's stock of world class concepts, competence and connections.[19] A classic example of a company working to improve the domestic economy, Kanter says, was Wal-Mart's 'Bring it Home to the USA' suppliers program which began in 1985 when, imported goods made up over one third of Wal-

[19] Rosabeth Moss Kanter, World Class — Thriving Locally in the Global Economy, (New York: Simon & Schuster, 1995), p.23.

mart's sales. "To encourage manufacturers to produce goods in the United States, founder Sam Walton issued a mandate:

> 'Find products that American manufacturers have stopped producing because they couldn't compete with foreign imports.' Buyers targeted import items and gave lists to state industrial development agencies to find manufacturers for conversion to Wal-Mart's program. Walton wrote three thousand domestic suppliers, asking them to commit to improving facilities, machinery, and employee productivity; some 1,800 suppliers agreed. Southwest Missouri University conducted evaluations to help suppliers qualify for Wal-Mart business."[20]

Such corporate altruism is, however, relatively rare; few Canadian, Australian or New Zealand companies wear their national pride as overtly as does Wal-Mart.

In fact, one of the themes that runs through the country comparisons that follow is the arms-length approach that business routinely takes to government policy-making and program implementation. Even in an era where the national polity has indicated a willingness to delegate considerable economic leadership to the business community, the evidence from Canada, New Zealand and Australia is that the business sector has been reluctant to accept the responsibility. Under the neo-classical model, the business community is expected to set the direction, provide leadership and ensure national prosperity by responding creatively to the commercial opportunities that arise in a globalized economy. The corporate response to efforts by the governments of New Zealand, Canada and Australia to promote international trade suggests that the business sector has not yet fully accepted its role in the new economic order.

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[20]Ibid., p.127.

VII. Conclusion

There are numerous approaches available to the researcher seeking to explore the role of government in international business development, and countless questions and issues to be addressed. This thesis has opted for a specific focus — international trade promotion initiatives undertaken by national governments — and a comparative approach. By considering the different policies and priorities of Canada, New Zealand and Australia, and by juxtaposing these initiatives against the volatile and vital transformations of the Japanese economy, this study will consider the ability and willingness of governments, operating in an age of free market economics, to provide coherent and strong leadership in the field of international trade. Given the contemporary assumptions about the continuing importance of international trade and the growing influences of globalization, the ability of national governments to orchestrate, promote and encourage international trade will likely prove crucial to national economic success.

This examination demonstrates, through an analysis of trade and investment policies, that several key political considerations exert a significant influence on the development and application of economic initiatives by national governments. Implicit in this study is the assumption that, though similar, the actions taken by New Zealand, Australia and Canada differ in significant respects and that these differences can, in part, be attributed to key political/cultural variables. For example, variations in political structure, ranging from New Zealand's unitary state to Canada's increasingly decentralized federation, influence the responsiveness and flexibility of the national government.

Similarly, although each country has undertaken a generally neo-liberal economic agenda, the different approaches have included New Zealand's thorough market liberalization, Canada's privatization of Crown corporations and Australia's emphasis on export promotion. Actions of national governments are constrained, as well, by the level of commercial preoccupation with a major trading partner: the United States in Canada's case, Australia for New Zealand and Japan for Australia. Not surprisingly, the development of policies specifically targeted at Japan reflect the relative importance of that country to the three nations under review. For Australia, Japan is of primary importance, while New Zealand has assigned a relatively low priority to Japanese trade. In Canada, Japanese trade rests a distant second to the country's unbroken preoccupation with the United States of America. Finally, the study considers the degree to which national civil servants charged with monitoring trade and investment relations with Japan identified the major changes that occurred in the country following the 1985 Plaza Accord. Australian officials, it appears, understood the significance of the changes early on, Canadian agents came to the realization that major shifts had occurred later on, and the New Zealand government demonstrated less understanding of the complex reorientation underway in Japan.

The field of international trade and investment is complex and fast-moving, and rarely more so than in the 1990s. The globalization of economic relations has placed a high priority on national businesses "getting it right" in terms of changing patterns of investment and developing opportunities for trade. One of the fundamental realities of the contemporary world economy is that the growing complexity of international commerce has occurred at a time when national governments have accepted a more limited role in the management of domestic economies and, consequently, have generally reduced the level of involvement in the promotion of international trade and investment. Scholars and commercial analysts, including even, for example, George Soros, international currency speculator, have begun to question the legitimacy of this neo-liberal approach to economic management and started to enumerate the consequences of reducing the role of government in the regulation and promotion of economic development. This investigation of trade relations between Japan and Canada, Australia and New Zealand, rooted in an analysis of the internal administrative and political dynamics of the countries in question, seeks to add to this debate and to question the decision, made in numerous countries around the world, that economic policy should be left largely in the hands of the private sector.

Chapter Three
Patterns of Japan's Trade and Investment with Canada, New Zealand and Australia prior to 1985

Much of the debate surrounding the current and future role of the nation-state in the management of economic affairs is based on unclear assumptions about developments in the past. Understanding historical transitions, in this instance in the manner in which governments interceded in the creation and maintenance of international trading opportunities, helps place more recent activities in context. For much of the 20th century, national governments in Canada, New Zealand and Australia have provided only the most basic of assistance to companies seeking to expand overseas. Laissez faire economics of the type advocated for the modern period has a long history in the western industrial world. Only for relatively brief periods, from the 1960s to the 1980s, did a truly activist state seek to control and direct commercial and economic affairs. And, even then, most governments acted within a very narrow range of options and considerations, most of them based on historic trading opportunities.

Although the nature and scale of trade with and investment from Japan has changed markedly in the final fifteen years of the 20th century, the opportunities presently available to Canada, Australia and New Zealand owe much to the openings created after the 1985 Plaza Accord. Just as surely, the narrowness of vision, the political and administrative stumbling blocks, and the cultural impediments standing in the way of commercial success and of a stronger relationship with Japan originated through decades of earlier contact and exchange. A country by country investigation of the patterns of trade and investment provides a foundation for analysis of post-1985 trade relations. It reveals those parts of the relationships which are strong but, in particular, it illustrates the roots of the complacency and cultural misunderstanding and suspicion that has, to various degrees, characterized the relations of these three nations with the Japanese.

Despite the similarities among the three countries, each has had its own unique relationship with Japan. A look at the initial contacts each of the former Dominions had with the Japanese is instructive. The first known Canadian in Japan was Ranald MacDonald (born of a Hudson's Bay Company trader father and a west coast aboriginal mother). In 1848 he signed on to a whaling ship heading to the Far East, asking in advance to be let off near the island of Hokkaido. He was held under quasi-arrest by Japanese authorities in Nagasaki and pressed into service as an English teacher. One of his students, Enosuke Moriyama, eventually served as an interpreter for U.S. Commodore Perry. (Given the large number of Canadians teaching English in contemporary Asia, it is fitting that the first English teacher was a Canadian.) One of the earliest Japan-New Zealand connections was two American brothers from New Zealand who operated a paddle steamer between Yokohama and Tokyo in the late 1860s. It is also thought that these two men established a coach service between the same Japanese cities for the Australian company Cobb and Co.[1] While an early example of Kiwi entrepreneurship, it is somehow fitting that the New Zealanders were working for a non-New Zealand company. The most famous early Australian in Japan was Henry Black, a *rakugo* or vaudeville performer. Around the turn of the century, he traveled the country

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[1]Tom Larkin, 'Japan: Changing Problems', in John Henderson, Keith Jackson and Richard Kennaway, eds., Beyond New Zealand: The Foreign Policy of a Small State , (Aukland: Methuen, 1980).

with his troupe of six and his Japanese wife, telling stories and doing impersonations. He was famous enough that he was actually asked to recite for the Crown Prince.[2] While these examples demonstrate a certain amount of style and courage, it is interesting to observe that all the individuals involved were selling a service not a product and that their objectives and the benefits were personal — not for King or country.

I. Canada

A. Diplomatic Relations

Canada was, until the 1930s, a diplomatic satellite of Great Britain, relying on the mother country for overseas representation. Only slowly did Canada establish missions abroad and begin to develop its foreign service. Japan, in contrast, moved fairly rapidly in the early 20th century to create an international presence, largely to encourage overseas trade, to counter the entrenched stereotypes about Japanese society, to learn more about the industrial advances in the western world and to defend the interests of Japanese nationals migrating to foreign countries. Not surprisingly then, Japan created a diplomatic presence in Canada before Canada developed one in Japan.[3]

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[2]Gavan.McCormack, 'The Australia-Japan Relationship — The First Hundred Years' in G. McCormack, ed., Bonsai Australia Banzai, (Leichhardt, NSW: Pluto Press, 1991), p.15.
[3]This section on Canada — Japan relations is drawn from Carin Holroyd and Ken Coates, Pacific Partners, (Toronto: James Lorimer and Company, 1996). Also useful in providing an overview to Canada-Japan relations before 1985 are Klaus Pringsheim, Neighbours Across the Pacific: The Development of Economic and Political Relations Between Canada and Japan , (Westport: Greenwood Press, 1983) and Frank Langdon, The Politics of Canadian-Japanese Economic Relations, 1952-1983, (Vancouver: UBC Press, 1983).

The Japanese Consulate General in Vancouver was established in 1889 and was followed in 1903 by the establishment of an additional office in Ottawa. Both offices were opened largely in response to the growing number of Japanese immigrants to British Columbia and the mounting hostility against them. Tensions exploded with the Vancouver Riot of 1907 and in 1908 a 'Gentleman's Agreement' was signed in which Japan voluntarily slowed migration to Canada.

In other matters, the existence of treaties between Britain and Japan, accords to which Canada was, as a member of the British Empire, automatically tied, set the parameters for Canadian actions. The Anglo-Japanese Alliance, signed in 1902 and renewed in 1911, made Japan an ally of Canada, at least through the troubled years of World War I. When the accord came up for renewal again in 1921, Prime Minister Arthur Meighan played an important role in having the agreement scrapped in favour of a new Four Power (Britain, Japan, United States and France) treaty. Canada signed as a member of the British delegation.

The Canadian government appointed its first trade representative to Japan in 1897 and opened a trade office in Yokohama in 1904. Gradually, the country realized that it should not continue to rely on British diplomats to handle Canadian consular matters and decided it needed a more direct presence in Japan. In 1928 an exchange of Ministers between Canada and Japan was negotiated and, the following year, Herbert Marler became Canada's first minister to Japan. The Japan station was only the fourth mission Canada had established overseas (after Washington, London and Paris) and therefore of considerable significance in Canada's embryonic international operations.

The first Japanese minister to Canada, Prince Iyemasu Tokugawa, arrived in Ottawa in the fall of 1929 and remained for five years. Tensions between the two countries increased as Japanese militarism escalated. Canada supported the League of Nation's statement of censure over the Japanese invasion of Manchuria but the growing importance of Canada's trade with Japan kept diplomatic relations on a relatively even keel. However, when Canadians in Asia found themselves in the path of Japanese armies or attacked by anti-foreigner mobs in Japan, feelings hardened and when Japan announced its decision to join with Germany and Italy, forming the Axis alliance, the cries for a cessation of Canadian trade with Japan and further restrictions on Japanese immigration grew louder. (Reverend Marcel Fournier, a Dominican Father, was charged with spying for Canada.)

Japan figured minimally in Canadian plans for the first twenty years after the Second World War, although a liaison mission was re-established. (Canada was, through much of this time, also struggling to come to terms with the manner in which it had treated Japanese-Canadians during the war — including their forced evacuation from their homes on the British Columbia coast, confiscation and the sale of their goods at rock-bottom prices.) Japan's historic ties to the Canadian resource sector, combined with the demands from a rapidly growing industrial economy, ensured that the trade links between the two countries would resume and then expand. Most of this expansion took place with relatively little assistance from the Canadian government or business community. The Japanese identified what they needed and Canadians were pleased to sell to them, provided the price was right.

The Trudeau government of the 1970s, worried that Canada was becoming too dependent on the United States, made some efforts to expand economic and diplomatic contacts with the European community and with Japan. A strong personal relationship developed between Prime Minister Trudeau and Yasuhiko Nara, Japanese ambassador to Canada, resulted in 1976 in a 'Framework for Economic Cooperation'. However, within the following decade, it was apparent that little had substantially changed in Canada-Japan relations. The civil service and the Canadian business community were not prepared to put substance into the political rhetoric and Canada moved toward increased integration with the United States, culminating in the Canada-United States Free Trade Agreement (1988) and later expanded to include Mexico as the North American Free Trade Agreement (1992), a blazingly clear indication that Canada saw its future as inextricably tied to the United States.

B. Canada-Japan Trade 1870 to 1945

Trade between Canada and Japan began a decade before the establishment of diplomatic relations between the two countries. The first indications of trade between Canada and Japan are from the late 1870s; ironically, given Canada's future resource-dominated trade with Japan, a shipment of manufactured goods sent from Canada to Japan is recorded in 1878. It was around 1885-1886, however, with the completion of the Canadian Pacific Railway and the establishment of shipping connections between the two countries, that regular trade began to grow steadily.

Canada sought markets for its traditional trading goods, primarily forest products, grain and fish, hoping to offset declining trade with Britain and to avoid too great a dependence on the United States. Lumber and wooden ships' masts went to Japan in 1886, a small amount of coal was sent in 1891, the first shipments of wheat and salted herring were exported in 1892 followed by salted salmon in 1896 and Douglas fir lumber in 1903. Importantly, Japanese immigrants to Canada were among the first to identify the potential trade opportunities across the Pacific, and these small traders led the way in establishing business connections with Japan.

Japan's first entree into the international marketplace was with tea and silk. The initial shipment of silk from Japan reached Canada in 1887. Silk was to Japan as wheat was to Canada in the late 19th century, earning 40% of Japan's foreign exchange and therefore a crucial resource, along with tea exports, in enabling the country to purchase foreign technology and manufactured goods. Japan's rapid industrialization rested, therefore, on the exports of this most traditional of Japanese products. By the late 1920s, silk represented over 60% of Canada's imports from Japan. 'Silk Expresses', Canadian Pacific Railway trains running the raw product to textile mills in New York where most of it was turned into ladies' stockings, burst into prominence. The west coast port of Vancouver and the Canadian Pacific rail system owes much of its early prosperity to the steady flow of silk from the Orient to North America.

Over the years, Canada found ready markets in Japan for its raw materials, but this seldom resulted from Canadian initiative. Early in the century, the Japanese Consul General in Canada, Tatsugoro Nosse, observed that Japanese buyers had difficulty finding Canadian firms interested in selling into the Japanese market. Instead, large Japanese trading companies actively sought out Canadian products, particularly raw materials, often guaranteeing or financing part of the cost of extracting the resources. Canadian business devoted more energy to restricting imports, in textiles and other manufactures, for example, than it did promoting its exports to countries such as Japan, which were clearly eager to buy.

Sir Wilfrid Laurier, Prime Minister from 1896 to 1911, was the first Canadian leader to become truly enthusiastic about the prospects for Canadian trade with Japan. Laurier and his ministers believed Canada could export pulp and paper, fresh and canned fruit, preserved beef, pork, butter, cheese and fish to this newfound market. Their most hearty enthusiasm was reserved for the export potential of wheat for the Prime Minister felt that bread could replace rice as the staple food of Japan. The Japanese failed to fit into Laurier's grand scheme, but his vision of transcontinental prosperity ensured that the Canadian government began to take Japan seriously.

By 1929, the year that diplomatic relations were established between Canada and Japan, Japan had become Canada's fifth largest trading partner with 3.1 percent of Canada's exports going to Japan and 1.0 percent of its imports coming from there.[4] Canada's exports consisted mostly of wheat and flour (51% of total exports to Japan in 1929), fish, and wood products. Japan's rapid industrial expansion during World War I created additional opportunities. Canada began to export lead, nickel, zinc and aluminum on a relatively large scale and Japan became one of the main customers for these products.

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[4]Canada sent 36.7% of its exports to the U.S. and 31.5% to the United Kingdom in the same year. Its third and fourth place ranked export partners — Germany and the Netherlands — were only slightly higher than Japan.

In the pre-World War II period, when Canada was either slightly ahead of, or on par with, Japan in industrial terms, markets also existed for Canadian manufactured products. A few items — shoes, tires, automobiles and electrical equipment — found Japanese purchasers, and in 1935, manufactured goods represented 24.5% of Canadian exports to Japan, although this was due at least in part to the reduction of resource exports caused by trade conflicts between Canada and Japan. Problems began in 1931 when Canada increased tariffs on certain imports into Canada, duties which fell disproportionately on Japanese imports. In retaliation, the Japanese government soon placed an additional 50% duty on Canadian wheat, flour, lumber, wood pulp and wrapping paper. Canada again responded in kind, levying a duty of 33 1/3% on all Japanese imports. The 1935 Canadian election resulted in a change of government and the introduction of a less protectionist trade policy. The new regulations saw a return to pre-existing trade arrangements, with manufactured products dropping to less than 2% of total Canadian exports.

Japan did not usually figure as prominently in Canadian import markets, which remained the domain of American and British traders, and even the small flow of Japanese goods began to dry up in the 1930s. As cotton and manufactured textiles took over from silk, the traditional Japanese trade evaporated. Canadian businesses imported a small volume of household and novelty goods, but Japan actually had very little to sell that Canada could not get more cheaply or more reliably elsewhere.

Canada-Japan trade leveled off at the end of the war but three years later, in 1922, Canadian exports to Japan surpassed Japanese exports to Canada for the first time. Japanese exports languished through the 1920s and 1930s, while Canadian sales to Japan grew substantially. In 1929 Canadian exports hit a pre-war high of over $42 million in exports, almost $30 million more than Japan managed to sell to Canada that same year.

Japan's aggressive tactics in the Far East in the 1930s slowed pre-war commercial relations considerably. Canadians reacted to Japanese expansionism and military prowess by clamping on a series of trade restrictions, only to have Japan retaliate in kind. When war broke out in 1941, trade ceased for the duration of the conflict. Only in 1947, with the Allied Occupation fully in place in Japan and most of the war-time leadership relegated to the sidelines, did Canada re-establish trade contacts with Japan. Lingering war-time stereotypes and hostilities in conjunction with the devastation wrought on Japan's economy prevented a rapid expansion of commercial links.

C. Canada-Japan Trade 1946 to 1985

Japan was physically and psychologically flattened by the final stages of the war. Brought to its knees by the final American bombardments, Japan faced the formidable task of rebuilding. The country desperately needed food and the raw materials necessary to revive its crippled industries. Traditional Asian suppliers, themselves recovering from the war or, as in China, engulfed in revolution, could not readily supply Japan's needs. But Canada could. It had abundant grain, forest products, and minerals. The country also had a sizable industrial base, hastily retooling from the production of military materials to consumer goods. Japanese authorities were soon worried about an over-dependence on Canadian resources, particularly since Canada appeared reluctant to purchase Japanese goods. Anxious to continue selling to a rapidly rebuilding Japan, Canadian politicians and business leaders recognized Japanese concerns and soon began to open the Canadian market to Japanese imports — principally inexpensive manufactured goods and textiles.

Canadian consumers benefitted from the importation of cheap Japanese trade goods, which capitalized on abundant, hard-working and inexpensive Japanese labour. The Japanese turned to the revitalization of their economy with the same drive and determination they had committed to the war effort and, by the mid-1950s, cheap imports from Japan flooded into western markets. Competing Canadian industries, particularly a beleaguered domestic textile industry long-sustained by protective tariffs and government benevolence, suffered serious losses. But Canadians had their appetites whetted by cheap Japanese imports, and there was little prospect of closing off these trade ties. Canadians could scarcely complain —– exports to Japan topped $127 million in 1956, more than three times higher than the best pre-World War II annual trade. Even though imports sky-rocketed from slightly more than $3 million in 1948 to over $60 million by 1956, Canada maintained a very favourable balance of trade with Japan.

Over the following three decades, until the dramatic reorientation of Japanese trade in the mid-1980s, Canada-Japan trade followed along the basic track laid down in the post-war period. Canada sold an ever-increasing volume of raw materials to Japan — minerals, lumber, pulp and paper and foodstuffs — and purchased an equally rapidly growing quantity of manufactured goods from Japan. Canada maintained a healthy surplus throughout this period (except for 1972 when imports from Japan exceeded Canadian exports), supporting Canada's continued belief that its seemingly inexhaustible supply of resources would sustain prosperity indefinitely.

Table III-1

Canadian Exports to and Imports from Japan, Selected Years 1961-1985
(U.S.$m)

	Exports			Imports		
Year	Japan	Total	Canadian % of Total	Japan	Total	Canadian % of Total
1961	232	5865	4.1%	117	5786	2.0%
1965	293	8107	3.6%	213	7987	2.7%
1970	762	16179	4.7%	557	13357	4.2%
1975	2081	33990	6.1%	1185	35140	3.4%
1980	3751	67730	5.5%	2384	61004	3.9%
1985	4222	90780	4.7%	4475	78673	5.7%

Source: International Monetary Fund, Direction of Trade Statistics Yearbooks, various editions 1960-1989.

Table III-2

Commodity Composition of Exports
Canada to Japan, 1970-1980

Commodity	1970	1975	1980
Live Animals	0.1%	0.1%	0.2%
Food, feed, beverages & tobacco	16.1	25.5	17.5
Crude Materials*, inedible	50.1	55.4	44.7
Fabricated Materials**, inedible	31.1	15.9	35.2
End Products***, inedible	2.5	3.1	2.4

*Grains, ore, pulp and natural gas
** Leather, lumber, pulp, wood products, metals, organic and inorganic chemicals
*** Machinery, transportation and communication equipment, personal and household goods, miscellaneous end products

Source: Statistics Canada, Exports-Merchandise, various editions, Catalogue 65-202 Annual.

The principle change in this period occurred on the Japanese side. Through the 1960s, Japan's exports to Canada consisted of low-priced, inexpensively produced, consumer goods — the type that gave the label 'made in Japan' an unappealing public image. Canadian competitors, particularly in the textile trades, maintained their criticism of 'unfair' Japanese trade but limited consumer interest placed a cap on the value and impact of Japanese trade goods. But then Japan began the reorientation of its economy that became the country's hallmark. The production of low-end products was handed over to the new low-wage economies in Southeast Asia, and Japan reoriented its industrial plant to focus on new technologies, particularly steel, automobile manufacturing and ship-building.

The first automobiles matched the Japanese reputation for exporting 'cheap' goods. The early Datsun (Nissan), Toyota and Honda products were inexpensive, lightly built, small and quickly adopted as consumer vehicles and second family cars. North American manufacturers paid little attention, scarcely perceiving the Japanese cars as much of a threat, so confident were they that they would hold onto their market share. They were wrong, for although consumer loyalty to the Big Three North American automobile manufacturers (Chrysler, Ford and General Motors) has proved reasonably strong, the quality of the Japanese products improved dramatically from the 1960s to the mid-1970s, with the automobiles moving from low-end consumer vehicles to high quality, reasonably priced, and eminently reliable mid-range vehicles. Cars like the Honda Civic, Toyota Corolla and Datsun 610 became familiar on Canadian roads, and higher cost cars — Datsun 240Z, Mazda RX7 and even four-wheel drive vehicles — competed favourably with North American products.

Japan quickly capitalized on other commercial opportunities. Although the Japanese, at this point, developed few new products on their own, they perfected the art of copying and adapting expensive items for mass consumption. Miniaturization and the use of transistors sparked a veritable flood of Japanese electronic products into North America, pushing many North American producers out of the market and establishing a Japanese ascendancy. By the late 1970s, Japan had transformed its commercial image, no longer the exporter of cheap Oriental trade goods, but now the manufacturer of the world's most reliable and inexpensive automobiles, and the best electronic products. Japanese manufacturers and traders had completed a stunning reversal of corporate and national imagery, establishing Japanese products at the forefront of the consumer electronic revolution.

D. Investment

Japanese investments in Canada have been traditionally made to support Japan's internal industrial requirements. Beginning early in the 20th century but accelerating in the 1960s, Japanese companies invested in Canadian resources to guarantee themselves access to timber, minerals and food supplies. Forest products, copper and coal were the chief areas of investment. Many of the agreements came in the form of joint ventures with Japanese trading companies (*sogo shosha*). Japanese companies also often took minor equity positions in Canadian companies whose products they desired (copper being a prime example). Almost fifty percent of the Japanese investment made in Canadian resource development came in the form of loans, including corporate bonds and debentures. Initially, the amount of money involved was small because, prior to the 1960s, Japan was not particularly active in foreign investments and because Canada was not deemed a prime investment market.

The initial 'wave' of resource investment peaked in the early 1970s when, according to geographer David Edgington, "investments in local assembly industries were also made to facilitate the continued exports of parts and components from Japan and to overcome Canadian tariffs and other forms of trade protection. Throughout this period, Japanese trading companies and banks set up offices in Canada to assist both exports and imports."[5] Throughout the 1980s Japan steadily increased its presence in Canada, moving from being the eighth largest foreign investor in Canada to the third largest, behind the United States and the Unite. Kingdom. (The vast majority of this increase occurred after 1985 (discussed in Chapter 4).) From 1980 through 1982, pulp and paper and mining were the primary recipients of Japanese investment capital. Investment in both sectors declined after 1982 but pulp and paper investment experienced a resurgence of activity after 1986.

E. Summary

Canada's relationship with Japan until 1985 was, overall, a positive one. The two countries became involved early on in their respective diplomatic lives, each establishing a presence in the other's country before the turn of the century. Canada had a seemingly limitless supply of many of the resources Japan needed to industrialize and Japan was not only willing to buy but, in many instances, Japanese

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[5]David Edgington, Japanese Direct Investment in Canada: Recent Trends and Prospects , (Vancouver: University of British Columbia, Department of Geography, 1992).

companies were prepared to help finance the costs of obtaining the resources they needed. Japan moved from selling silk and tea to selling automobiles and electronics but Canada made few changes in its export mix, content with the status quo and reassured as the balance of trade between the two countries remained in Canada's favour from 1886 to 1984.[6] Canada remained focused on the United States and put little effort into really pursuing the Japanese market or diversifying its exports.

It is not surprising then, but it should be upsetting for Canadians, that, as analyst Klaus Pringsheim concluded, "Japan remains unwilling to regard Canada as anything more than a resource hinterland of the United States and is as yet not disposed to consider Canada as a major potential supplier of manufactured and processed goods for the Japanese market, nor as a sophisticated industrial nation, distinct and separate from the United States."[7] He might have added that this approach was acceptable to Canada.

II. New Zealand

A. Diplomatic Relations

New Zealand-Japan relations were extremely limited prior to the Second World War. This was due, at least in part, to the fact that, prior to 1945, New Zealand did not have much of an international presence. Indeed, it did not have a Department of External Affairs until 1943 and much of its foreign relations were

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[6]Canada maintained a trade surplus with Japan through this period, except for 1920 and 1921, when a short-term boost in the silk trade temporarily boosted Japan's trade figures.
[7]Klaus Pringsheim, Neighbours Across the Pacific, p.195-96.

conducted for it by Britain. The first contacts, therefore, were as the result of agreements between Japan and Britain, like the agreement regarding 'the expenses incurred for shipwrecked subjects' from 1878-1911 to which New Zealand was a party. The Anglo-Japanese Alliance of 1902 made Japan and New Zealand allies during World War One and it was the battle-cruiser HIJMS Ibuki which escorted New Zealand troops to war in Europe in 1915.[8]

The first Japanese official responsible for New Zealand, Mr. K. Ueno, was the Japanese Consul who arrived in Sydney in 1908. The first Japanese Consul-General in Wellington was Mr. Kiichi Gunji who arrived in April 1938 although there was an Honorary Consul for Japan in Wellington from 1897 (Alfred Aldrich, originally from Britain, worked on the railways in Japan and then retired to New Zealand as Honorary Consul)[9] and in Auckland from 1919.[10] Japanese immigration to New Zealand was minimal; prior to the Second World War, only twelve Japanese people became New Zealand citizens.[11]

The Japanese Consulate closed in December 1941 upon the declaration of war. New Zealand played a more limited role in the Pacific War against Japan (most of the country's troops were committed to Europe) but it was part of the Occupation Forces and a signatory to the Japanese terms of surrender. Indirectly, however, the war of Japanese aggression had a profound impact on the country. New Zealanders feared a Japanese invasion and prepared an extensive network of

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[8]Maarten Wevers, Japan Its Future and New Zealand, (Wellington: Institute of Policy Studies, University of Victoria), 1988.
[9]Information supplied by Dr. Ken McNeil, lecturer in East Asian Studies at the University of Waikato, September 4, 1997.
[10]Maarten Wevers, Japan and Its Future and New Zealand, p.113.
[11]Information supplied by Dr. Ken McNeil, lecturer in East Asian Studies at the University of Waikato, September 4, 1997.

civil defense positions. They welcomed the large American armed forced stationed on the country and followed the Allied advance across the Pacific Islands with rapt attention and growing confidence. New Zealanders developed a strong antipathy toward the Japanese, one influenced by government war-time propaganda, and the effects of this anger linger long after 1945. After the war, New Zealand was worried about future security in the Pacific and pushed unsuccessfully for a more restrictive settlement with Japan.[12] In 1947, a non-diplomatic trade representative, Mr. R. Challis, was appointed to Tokyo. His trade office became the first New Zealand legation in Japan upon the signing of the San Francisco Peace Treaty in 1952. The next year, the Japanese opened an office in Wellington.

Bilateral political relations improved quickly. New Zealand Prime Minister Holland's visit to Japan in 1956 was the first official visit by a New Zealand Prime Minister. Prime Minister Kishi made a return visit to New Zealand in 1957 and set the pattern for a relatively regular schedule of visits of the leaders of the two countries. Over the following twenty-five years, official relations expanded. Various accords were signed, including an Agreement on Commerce (1958), an Exchange of Notes on Full Relationships under the GATT (1962), a Double Taxation Convention (1963), Fisheries Agreements (1967 and 1978), an Air Services Agreement (1980) and various other agreements on matters ranging from fisheries to immigration.[13] Direct flights from Auckland to Tokyo began in 1980 and in 1985 and New Zealand increased its presence in Japan by opening a Consulate-General office in Osaka.

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[12]Tom Larkin, 'Japan: Changing Problems' in Beyond New Zealand.
[13]Maarten Wevers, Japan, Its Future and New Zealand.

B. New Zealand-Japan Trade, 1880-1946

Trade between New Zealand and Japan began in the 1880s but was extremely limited until well into the 1920s. New Zealand produced a relatively limited range of products and only some of these — wool and sheepskins particularly — were of much interest to the Japanese. The Japanese had little use for New Zealand's other main exports, dairy products and frozen meat, as they were not part of the average Japanese diet. Transportation of goods was an additional challenge as, until the mid-1930s, there was no direct shipping service between New Zealand and Japan; all goods had to be sent via Australia and reloaded for Japan there with all the costs and delays that that involved.[14] New Zealand was not too concerned, however, as it was primarily interested in maintaining its share of the British and, to a lesser extent, American markets. New Zealand had the opportunity in 1895 and again in 1911 to become party to the Anglo-Japanese Commercial Treaty but declined both times, primarily out of fear of possible Japanese immigration.[15] Nonetheless, small quantities of wool, sheepskins, butter and tallow were exported to Japan and larger amounts of silk, cotton, footwear, clothing, glassware, and toys were imported.[16]

During and after World War I was a period of rapid industrial expansion for Japan and trade between New Zealand and Japan began to grow. In 1928 Japan dramatically increased its purchases of New Zealand wool and for the first time in

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[14]M.P. Lissington, <u>New Zealand and Japan 1900-1941</u>, (Wellington: New Zealand Government Printer, 1972), p.126
[15]Ibid.
[16]Ibid., p.125-26.

the history of the relationship, the balance of trade tipped in New Zealand's favour.[17] In this same year, the two nations signed a limited trade agreement, New Zealand's first with a non-Commonwealth nation.[18]

Exports to Japan as a percentage of New Zealand's total exports fluctuated considerably during the 1930s. In 1930 only 0.3% of New Zealand's exports went to Japan but by 1937 exports to Japan had reached 4.7%, making Japan New Zealand's third most important customer (after Britain and the United States) for a brief period of time. An increase in sales of wool, partly due to a trade dispute between Australia and Japan, was the main reason for the surge in trade but sales of tallow, casein (a protein found in milk which forms the basis of cheese), dried and preserved milk, scrap metal and even butter and meat expanded. Imports from Japan also increased in 1936 and 1937 with cotton and linen clothing, toys and hosiery making up the bulk of the increase and purchases of silk and linen declining.[19]

Trade began to decline after 1937. The New Zealand government strongly encouraged the growth of domestic industries and restricted the importation of non-essential goods which included the majority of Japanese imports. This, combined with the Japanese invasion of Manchuria which resulted in the placing of wartime restrictions on Japanese industry and a boycott of Japanese goods in New Zealand, further limited the

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[17]Ibid.
[18]Maarten Wevers, Japan, Its Future and New Zealand.
[19]M.P. Lissington, New Zealand and Japan 1900-1941, p.125-135

trading relationship. Even wool exports were down as Japan was purchasing most of what it needed from Australia.[20]

C. New Zealand-Japan Trade 1946-1985

Trade between New Zealand and Japan did not resume in earnest until 1948. Britain and Japan signed a Sterling Area Agreement designed to increase non-American trade with Japan. New Zealand, Australia, India and South Africa were also parties to the agreement, which saw the signatories agree to increase trade significantly.[21] Wool continued to be New Zealand's major export along with smaller quantities of sheepskins, casein and seeds. In return, Japan sent over textiles and, ironically, given the later pattern of New Zealand-Japan trade, timber and wood manufactures.[22] For the first two years of the agreement, however, New Zealand and the other signatories to the agreement had difficulty finding enough Japanese goods to import to balance the value of goods being exported. In New Zealand's case, this was exacerbated by the country's import restrictions. Japan became frustrated that Britain and the other nations were not buying sufficient Japanese products and in 1950 stopped purchasing New Zealand and Australian wool temporarily.[23]

The Korean War had a tremendous impact on Japan's economy. U.S. purchases of Japanese goods escalated dramatically and sparked a major expansion

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[20]Ibid.
[21]Ann Trotter, New Zealand and Japan 1945-52: The Occupation and the Peace Treaty , (London: Athlone Press, 1990), p. 117 and 175.
[22]Ibid. p. 175; Ministry of Foreign Affairs and Trade, Report on and Analysis of External Trade Statistics of New Zealand 1949-52.
[23]Ann Trotter, New Zealand and Japan 1945-52.

of Japanese industry. From 1949-1951 the value of Japanese exports to New Zealand increased in value by almost sevenfold and the variety of products expanded considerably.[24] Nonetheless, New Zealand did not see Japan as a particularly important trading partner. Britain was continuing to purchase all of New Zealand's surplus dairy produce and meat. Wool was the only major New Zealand export sold on the open market. New Zealand felt that as long as the relationship with Britain was strong, there was little need to look for markets further afield.[25]

During the early 1950s, exports to Japan and imports from there hovered around 1% of the New Zealand total. By 1960 this had increased to almost 3%, still a small amount but growing.[26] Japan and New Zealand signed a trade agreement in 1958 that allowed New Zealand to compete for "all of the Japanese foreign exchange available for meat imports, and 90 percent of that for wool."[27] Wool continued to be New Zealand's most important export but then it was followed by frozen meat and then casein, scrap iron, timber, sheepskins and a few other products. In comparison, Japan was exporting almost one hundred different items; none, with the exception of cotton fabrics, of much importance or value on its own.[28]

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[24]Ministry of Foreign Affairs and Trade, Report on and Analysis of External Trade Statistics of New Zealand 1949-52.
[25]Ann Trotter, New Zealand and Japan 1945-52.
[26]Ministry of Foreign Affairs and Trade, Report on and Analysis of External Trade Statistics of New Zealand 1962-63 and 1963-64.
[27]New Zealand Centre for Japanese Studies, Japan and New Zealand Historical Connections Proceedings of a Colloquium held in Wellington, 20 February 1997, p.13.
[28]Ministry of Foreign Affairs and Trade, Report on and Analysis of External Trade Statistics for the Year 1961.

Table III-3

New Zealand Exports to and Imports from Japan, Selected Years (1961-1985)

(U.S.$m)

	Exports			Imports		
Year	Japan	Total	New Zealand % of Total	Japan	Total	New Zealand % of Total
1961	42	794	5.3%	23	804	2.9%
1965	52	1002	5.2%	60	968	6.2%
1970	120	1211	9.9%	112	1163	9.6%
1975	278	2157	12.9%	420	3148	13.3%
1980	680	5407	12.6%	784	5472	14.3%
1985	828	5714	14.5%	1220	5944	20.5%

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, 1960-1989.

As can be seen in Table III-3, Japan's importance as a trading partner for New Zealand increased significantly between 1960 and 1985. In 1962 the two nations granted each other most favoured nation trading status.[29] Exports to Japan increased from just over 5% of New Zealand's total exports in 1961 to 14.5% in 1985 while imports soared even more dramatically from 2.9% to 20.5% over the same period. In 1972 Japan became New Zealand's third most important trading partner for both exports and imports.[30]

New Zealand's exports to Japan consisted predominantly of crude materials (primarily wool and pulp) and food products (dairy produce and meat) although basic manufactures (paper and non-ferrous metals) increased dramatically as a percentage of New Zealand's exports to Japan between 1970 and 1980, actually comprising almost 2% of Japan's imports in this commodity in 1975.[31] Imports from Japan were primarily manufactured products: communications equipment, cars, machinery, textiles and chemicals.[32]

As Tables III-3 and III-4 illustrate, New Zealand's trade relationship with Japan. As the country's reliance on Britain declined in the 1970s, Japan's importance as a destination for exports increased dramatically. New Zealand purchases from Japan increased even faster, suggesting that Japanese firms capitalized on the opportunities presented by the new trade relationships much

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[29]Tom Larkin, 'Japan: Changing Problems' in John Henderson, Keith Jackson and Richard Kenaway, eds., Beyond New Zealand, p.190.
[30]Ibid., p.191.
[31]Bureau of Industry Economics, Australia and New Zealand in Asia — an analysis of changes in the relative importance of Australia and New Zealand as suppliers of goods to East Asia, 1970 - 1980, (Canberra: Australian Government Publishing Service, 1984), pp.58-59.
[32]Tom Larkin, 'Japan: Changing Problems' in Beyond New Zealand, p.191.

faster than New Zealand companies. In both imports and exports, the range and variety of commodities changed relatively little. Crude material exports dropped substantially as percentage of overall trade between 1970 and 1980, and basic manufacturers (slightly processed items) increased substantially in the first half of the decade. Overall, however, the shift in trading activities was relatively minor.

Table III-4

Commodity Composition of Exports By New Zealand to Japan, 1970-1980

Commodity	1970	1975	1980
Crude Materials	54.65 %	39.30%	40.60%
Food Products	35.47	35.54	33.54
Chemicals	5.10	3.44	4.28
Basic Manufactures	2.61	19.63	19.93
Oils and Fats	1.64	1.68	.03
Machinery	.05	.14	.23
Beverages	.01	.00	.01
Energy	.00	.10	.70
Misc. manufactures	.12	.05	.21
Other goods	.35	.12	.48

Source: Bureau of Industry Economics, Australia and New Zealand in Asia — an analysis of changes in the relative importance of Australia and New Zealand as suppliers of goods to East Asia 1970-80, Australian Government Publishing Service, Canberra 1984.

D. Investment

Historically New Zealand has not been particularly successful in attracting foreign investment. Many offshore investors believed that New Zealand's small internal market limited its economic development potential and were unimpressed by the country's regulatory environment which they felt would make doing business there difficult and not profitable. In addition, while New Zealand governments embraced a policy of seeking to attract foreign direct investment, the general populace had been much less supportive and concerns were often expressed about the desirability of offshore investment. Overall, many investors felt that other countries presented more enticing investment opportunities.[33] Nonetheless, the United Kingdom invested a substantial amount of money in agricultural and industrial development early in New Zealand's history and Australia and the United States later became the country's largest investors.[34]

The first Japanese investment in New Zealand occurred relatively early in the New Zealand-Japan relationship. Kanematsu-Gosho, a major trading house, opened its doors in 1937. Following this, other companies entered the field: Sanyo electrical manufacturing (1948), YKK zipper producers (1959), and Brother Distributors and Toyomenka trading companies (1959). A small number of additional new ventures built on these early developments, so that by 1987 there were about 60 companies on Japanese investment operating in New Zealand. These firms covered a wide spectrum, from automobiles and computers to tourism and pulp and paper, and including forestry, fishing and transportation. Trading houses

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[33]Maarten Wevers, Japan, Its Future and New Zealand, p.183.
[34]Ibid.

made up one third of the companies; another third were directly involved in manufacturing. Most of the Japanese firms were relatively small (employing ten people or fewer), and only ten had more than 50 employees. The largest Japanese-based firms were New Zealand Aluminum Smelters (with over 1,000 employees), Mazda Motors (NZ), Mitsubishi Motors (NZ), Nissan Motors (NZ), Toyota (NZ) and Carter-Oji Kokusaku Pan-Pacific.[35] NEC and the New Zealand Post Office (now Telecom Corporation of New Zealand Ltd.) formed a software-production joint venture company called Telecommunications System Support in 1982.

E. Summary

Until the 1980s, while the diplomatic relationship swung from friendly to fearful and back again, the trading relationship between New Zealand and Japan had been characterized by relative indifference on both sides. New Zealand did not produce many products. Of those it did produce, only wool and sheepskins were of much interest to Japan until the 1960s. For New Zealand, maintaining preferential access to the British market was of the greatest important. As far as Japan was concerned, New Zealand was a tiny market never representing even 1% of Japanese total exports. Japan gradually became a more important market for New Zealand, and the focus for more attention, from the mid-to-late 1970s on as New Zealand began to realize it was overly dependent on the British market.

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[35]Ibid., p.186.

III. Australia

A. Diplomatic Relations

D.C.S. Sissons, who has written extensively on early interaction Australian-Japanese relations, writes that "Contacts between Australia and Japan are as old as the treaties that marked the end of Japan's seclusion."[36] Some of the early Australians who went to Japan included a young merchant from Melbourne, Alexander Marks, who went to Yokohama in 1859; J.R. Black arrived in Japan in 1862 and became active in the newspaper business (Black's son Henry was the *rakugo* storyteller mentioned earlier); and J.H. Brooke, a political leader from Victoria, went to Japan in 1867 and became the proprietor and editor of the Japan Daily Herald.[37] By the 1880s a small number of Australians had settled in Japan, teaching, establishing businesses or preaching Christianity.[38]

The first Japanese arrived in Australia in the early 1870s. The earliest for whom there are records was Sakagawa Rikinosuke, an acrobat who arrived in 1871, married an Australian woman, became naturalized and purchased land.[39] In 1886 an Englishman toured Australia for fifteen months with 'The Japanese Village', a Japanese group of traditional craftsmen, acrobats and jugglers which proved very popular with Australian audiences.[40] As early as the late 1800s there

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[36]D.C.S. Sissons, 'Immigration in Australian-Japanese Relations, 1871-1971' in J.A.A. Stockwin, ed., Japan and Australia in the Seventies, (Sydney: Angus and Robertson, 1972), p.193.
[37]Ibid., p.193.
[38]Five nuns from Sydney's Society of the Sacred Heart are some of the most well known missionaries and are particulary noted for the schools they built. Episodes. A Glimpse of Australia-Japan Relations 1859-1979, produced by Eric White Associates under the auspices of the Embassy of Japan in Australia, p.4.
[39]D.C.S. Sissons 'Immigration in Australian-Japanese Relations, 1871-1971' in Japan and Australia in the Seventies, p.194.
[40]Episodes. A Glimpse of Australia-Japan Relations 1859-1979, p.5.

were already a few Japanese living in the remote ports and towns of north and west Australia. The majority of these were fishermen, mainly pearl fishermen, workers in the Queensland sugar cane fields and poor farm women from the remotest parts of Japan who were brought to Australia to be prostitutes. The Yoshisa Emigration Company sent the first group of fifty contract labourers to work on sugar plantations in Queensland in 1892.[41] The flow of immigrants continued but Australians began to fear that the Japanese would take over their jobs. The result was the Immigration Restriction Act of 1902 which aimed at keeping Australia 'white' and the Japanese out. The only Japanese, other than a few tourists and students for short term stays, were business men who moved to the larger centers.[42] One of the earliest Honorary Japanese consuls in the British Empire was Alexander Marks (mentioned earlier) who upon returning to Australia from Japan served as Honorary Japanese Consul for Victoria from 1879-1902.

Like Canada and New Zealand, Australia was also included in the Anglo-Japanese Alliance of 1902 because of its ties to Britain, and Australian troops were accompanied by Japanese Navy escort as they sailed to war in Europe in 1915. The first economic ties between the two countries began in 1902 when the government of New South Wales stationed a Trade Commissioner to the Far East in Kobe.[43] A Japanese Consul arrived in Sydney in 1908. Until 1935 Australia did not have much trade representation abroad nor a separate Department of External Affairs. Like Canada and New Zealand, it relied primarily on British

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[41]Ibid., p.7.
[42]Ibid.
[43]David Abe and Ted Wheelwright, 'Japanese Global Economic Strategies and Australia' in Bonsai Australia Banzai: Multifunctionpolis and the Making of a Special Relationship with Japan, (Leichhardt, NSW: Australia Pluto Press, 1991), p.76.

representation. One of the earliest Trade Commissioner Posts established was in Tokyo in 1935. The Australian legation in Tokyo established in late 1940, was also one of Australia's first foreign diplomatic posts. The legation closed upon the outbreak of war, re-opened as a mission in 1947 and became an Embassy in 1952.[44]

The Australia-Japan Agreement on Commerce was signed in July 1957. According to Alexander Downer, Minister for Foreign Affairs, discussing the Treaty forty years later, it heralded an era of unprecedented growth in trade relations between Australia and Japan. For Australia, the Treaty was a clear vote of confidence in Japan's ability to sustain its impressive post-war economic growth. The Treaty was also a constructive way of encouraging Japan's inclusion in regional and global deliberations — of facilitating, where possible, an international role for Japan more commensurate with its growing economic prowess.[45]

Also in 1957, the first reciprocal Prime Ministerial visits took place. Australian Prime Minister Menzies went to Japan in April and Prime Minister Kishi visited Australia in December. Following on from the Commerce Treaty and the Prime Ministerial visits, relations between Australia and Japan steadily improved. The Treaty was re-negotiated in 1963 and commercial and social ties strengthened in succeeding decades. While the Basic Treaty of Friendship and Cooperation was signed in 1976, serious negotiations had taken place as the two countries worked to resolve differences on resource policy.[46] The successful conclusion of the Basic

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[44]T.B. Millar, Australia's Foreign Policy, (Sydney: Angus and Robertson Ltd., 1968), p.325-331.
[45]''Natural Partners' — Australia and Japan: Past, Present and Future', Address by the Hon. Alexander Downer, MP, Minister for Foreign Affairs, to the 20th Australia Japan Relations Symposium, Canberra, 26 May 1997. (Www.dfat.gov.au/.../fa_sp/downer_ajrs.html)
[46]Shinobu Ohe, 'Future City Planning: The Japanese Experience and the MFP' in Bonsai Australia Banzai: Multifunctionpolis and the Making of a Special Relationship with Japan , p.88.

Treaty of Friendship and Cooperation was followed by the Australian government's formation of the Australia-Japan Foundation, an organization in include various forms of cooperation and interaction.[47] The Joint Declaration on the Australia-Japan Partnership was signed in 1995 and followed up in 1997 by the Australia-Japan Partnership Agenda in which it was agreed, among numerous other items, that the two countries would hold annual Prime Ministerial meetings.[48]

B. History of Australia-Japan Trade

As with Canada, Japan's involvement with Australia was spurred on by the Japanese desire for resources. Australia has vast quantities of minerals and non-oil energy resources as well as sugar, wheat, coal, nickel, zinc, bauxite, wool, beef, veal, lamb, mutton and iron ore and concentrates. Japan began importing many of these resources long before 1945. Ease of shipping between Japan and Australia made the country a common supplier.[49]

Japan first began trading with Australia in the later part of the 19th century. Japanese trading companies (*sogo shosha*) were instrumental in forging this trading relationships and their primary interest was wool. Changes in clothing styles and the desire for new military uniforms caused the beginning of a wool industry in Japan in 1876. By about 1879, Australian merchants had set up shop in Yokohama and Kobe and were selling wool to Japanese traders who in turn sold it to the

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[47]David Abe and Ted Wheelwright, 'Japanese Global Economic Strategies and Australia' in Bonsai Australia Banzai, p.77.
[48]''Natural Partners' — Australia and Japan: Past, Present and Future', Address by the Hon. Alexander Downer, MP, Minister for Foreign Affairs, to the 20 th Australia Japan Relations Symposium, Canberra, 26 May 1997. (Www.dfat.gov.au/.../fa_sp/downer_ajrs.html) and the Australia-Japan Partnership Agenda, August 1, 1997, p1.
[49]David Edgington, Japanese Business Down Under—Patterns of Japanese Investment In Australia, (London: Routledge, 1990), p.50.

Japanese government. The first Japanese trader to set up shop in Australia was Teiji Akiyama who established a store in Melbourne in 1881. In 1890 Kanematsu Shoten, the trading company which would have considerable involvement in trade between Japan and Australia, opened an office in Sydney.[50] Although it appears that Kanematsu had initially hoped to import Japanese rice into Australia, he instead began exporting Australian wool to Japan.[51] Japanese trading companies rushed to enter this new market. Until the 1920s, however, the wool trade was primarily controlled by Australian merchants (some based in Japan) who sold wool on consignment to Japanese trading houses. By 1941 there were 31 Japanese trading companies in Australia. [52]

During the early 1900s about one percent of Australia's trade was with Japan. The relationship grew slowly but steadily. By the late 1920s, seven percent of Australia's exports went to Japan and three percent of imports came from there.[53] During the early 1930s, trade between the two countries began to flourish. The Japanese occupation of Manchuria in 1931 spurred an increase in the need for warm winter uniforms and therefore Australian wool.[54] By 1936 Japan had become Australia's second largest export market (behind the United Kingdom), taking 13% of Australia's exports and was the third most important source of imports (6%) behind the UK and the USA.[55] Japan's primary exports were silk and

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[50]Ibid., p.81.
[51]Ibid., p.82.
[52]Ibid., p.82.
[53]Gavan McCormack, 'The Australia-Japan Relationship — The First Hundred Years' in Bonsai Australia Banzai.
[54]David Abe and Ted Wheelwright, 'Japanese Global Economic Strategies and Australia' in Bonsai Australia Banzai, p. 76.
[55]David Edgington, Japanese Business Down Under — Patterns of Japanese Investment in Australia, p. 82 and Episodes. A Glimpse of Australia-Japan Relations 1859-1979, p.11.

other textiles and a few household goods, such as dishes, toys and glassware. In return, Australia supplied 95 per cent of Japan's wool and 75% of its wheat during the 1930s.[56]

Japan approached Australia to suggest concluding a trade agreement many times (1911, 1915, 1926 and 1935) but Australia was reluctant, primarily due to its strong loyalty to Britain. In fact, as many of Japan's exports to Australia competed with British goods, Britain soon applied pressure on Australia to purchase less from Japan. The formation of the Australian Trade Diversion policy in 1936 contained import licensing requirements and punitive tariffs designed to reduce imports from Japan.[57] Japan responded in kind, imposing tariffs or restricting Australian imports altogether. Many Australians, particularly those involved in exporting to Japan, successfully lobbied their government to drop the tariffs and, even after the Japanese invasion of China, to forgo any punitive measures whatsoever. Although by the late 1930s relations between the two countries were strained, as late as 1941 the Australian Prime Minister said "Australia wanted to draw closer to Japan and the Minister for the Army said Australia had no quarrel with Japan."[58] The eventual outbreak of full-scale hostilities did result in a cessation of Australian-Japanese trade for the duration of the war.

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[56]Ibid.
[57]David Abe and Ted Wheelwright, "Japanese Global Economic Strategies and Australia" in Bonsai Australia Banzai, p.76.
[58]Ibid., p.77.

C. Australia-Japan Trade 1946-1985

Wool continued to dominate Australian exports to Japan (and cotton textiles made up the largest share of Australia's imports from Japan) up to the Second World War and even up until the 1960s. Australia's exports diversified after the war and the country began selling a rapidly increasing volume and variety of goods to Japan. In the early 1950s the Australian-Japanese balance of trade was substantially in Australia's favour with Japan taking 14 percent of Australia's exports but providing only 2 percent of its imports.[59] The Japanese need for resources was part of the reason for the imbalance but a significant factor was Australia's discriminatory import tariffs and reluctance to buy Japanese goods. Japanese leaders recognized this and pressed for access to the Australian market. In 1957 the Australia-Japan Commerce Agreement was concluded and Japanese goods began to flow into Australia while Japan increased its purchases of Australian wool, wheat and barley. Again, the Japanese trading companies (*sogo shosha*) were instrumental in this increase in trade.[60] During the 1960s Australian exports of wool and agricultural products remained strong and were joined by exports of mineral ores and metals. By the following decade, aluminum, coal and natural gas were also being shipped to Japan.

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[59]Ibid., p.77.
[60]Ibid., p.51.

Table III-5

Australian Exports to and Imports from Japan
Selected Years 1961-1985
(U.S.$m)

	Exports				Imports	
Year	Japan	Total	Australian % of Total	Japan	Total	Australian % of Total
1961	420	2376	17.7%	110	2096	5.2%
1965	495	3014	16.4%	329	3374	9.8%
1970	1254	4789	26.2%	577	4540	12.7%
1975	3471	11899	29.2%	1759	9986	17.6%
1980	5871	22031	26.6%	3477	20335	17.1%
1985	6295	22611	27.8%	5430	23499	23.1%

Source: International Monetary Fund, Direction of Trade Yearbook, 1960-1989.

Trade with Japan was of significantly more importance to Australia from the 1960s through to 1985 than it was for either Canada or New Zealand. As early as 1961, almost 18% of Australia's exports went to Japan and by the mid-1970s that percentage had risen to almost 29%. Imports (primarily manufactured goods and machinery and vehicles)[61] increased from 5% to 23% over the same period making Australia a very significant market for Japan. Japan became a very important trading partner for Australia and because of the key materials Australia supplies to Japan (bauxite, coking coal, iron ore, meat, wheat), Australian exports were very important to Japan.[62] However, while Japan's importance to Australia as a source of imports increased over this twenty-five year period, the reverse was not the case. In 1961 Australia supplied 7.8% of Japan's imports but by 1985 it was only supplying 5.8%. To analyze the reasons for this decline, it is necessary to look at the kind of goods purchased by Japan from Australia: crude materials, energy, food products and, to a lesser extent, basic manufactures. During this twenty-five year period, Japan's import needs changed and the importance of crude materials declined. Although Australia increased its share of the Japanese market for crude materials, that market had significantly decreased in size causing Australia's overall trade with Japan to suffer. During this period, Japan worked hard to diversify its sources of supply for most of its import categories. Pressure from important trading partners and the Japanese

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[61]Australian Bureau of Statistics, Overseas Trade Australia Part 2: Comparative and Summary Tables 1981-82.

[62]Sir Robert Norman, 'A Growing Complementarity', Japanese Investment in Australia, (Canberra: The Australia-Japan Economic Institute, 1971), p.13.

desire to ensure competitive and secure access to food products, energy and crude materials drove the Japanese to buy from competing suppliers.[63]

The composition of Japanese imports from Australia (Table III-6) changed relatively little over the 1970s. Energy shipments (primarily coal) increased substantially and crude material sales to Japan declined (as they did in New Zealand). In most areas, the decade saw a maintenance of Australia's trade composition with Japan, with a continued reliance on unprocessed or partially processed items. The scale of trade with Japan increased dramatically, befitting the rapid expansion of the Japanese economy, which had the effect of convincing many Australian observers that trade with Japan was flourishing. Only a few observers recognized the long-term importance of not diversifying their trade with Japan and of not developing better markets in Japan for Australian manufacturers.

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[63]Bureau of Industry Economics, Australia and New Zealand in Asia — an analysis of changes in the relative importance of Australia and New Zealand as supplier of goods to East Asia, 1970 — 1980, p.17.

Table III-6

Commodity Composition of Japanese Imports from Australia (1970-1980)

Commodity	1970	1975	1980
Crude Materials	56.9	43.2	36.9
Food Products	18.0	22.3	21.5
Energy	16.6	26.1	32.1
Basic Manufactures	5.0	5.6	6.1
Chemicals	2.1	1.8	2.7
Oils and Fats	.6	.5	.1
Machinery	.4	.2	.2
Misc. Manufactures	.2	.1	.1
Beverages	.0	.0	.0
Other goods	.2	.1	.2

Source: Bureau of Industry Economics, Australia and New Zealand in Asia — an analysis of changes in the relative importance of Australia and New Zealand as suppliers of goods to East Asia, 1970-80.

D. Investment

Japanese investment in Australia really began in the middle of the 1960s when Japanese trading companies began investing in and lending to a number of mineral and other resource projects. (In 1960 a federal government ban on the export of iron ore was lifted and exploratory work soon discovered vast reserves of high grade ore.) Australia had vast supplies of minerals and limited international trading contacts and the Japanese trading companies capitalized on this opportunity.

Initially, Japanese involvement was as a customer for Australian mines, signing long term sales contracts which enabled exploration and development to begin in the Pilbara (Western Australia) and in Tasmania.[64] The Japanese steel industry which had begun importing small amounts of Australian coking coal in the 1950s, was such an eager customer that it was the catalyst for the development of coal-mining in central Queensland. The steel industry was aided by state governments, anxious to assist the development of their hinterland land regions, which made large investments in ports and roads and provided generous incentives to overseas investors willing to exploit iron ore and coal deposits for sale into Japanese markets. This was particularly the case in the isolated Pilbara region of north-west Australia, where mining towns and new port facilities were constructed at Dampier, Port Headland and Cape Lambert.[65]

By the early 1970s, Japanese companies reached beyond iron ore and coal and were investing in other mineral projects including solar salt, coal char, bauxite-

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[64]David Edgington, Japanese Business Down Under, p.54-55.
[65]Ibid.

alumina and manganese. The major buyer of all of these minerals was Japan. Soon Japanese investors moved into exploration for nickel, uranium, and oil and natural gas.[66] The Japanese also looked to Australia for aluminum as the high energy requirements for aluminum smelting meant Japan was forced to reduce its own aluminum industry.

After the two oil shocks of the 1970s Japanese trading corporations and processing industries became concerned about being too dependent on a limited number of resource-suppliers and began to diversify their sources of supply. In some areas, this change in thinking was to Australia's detriment as Japan began to look to other countries for alternative sources of iron ore, beef, natural gas and even coal. (It was at this time that the Japanese steel producers and the British Columbia government first entered into discussions about a major coal project.) For its non-oil energy needs and for iron ore, though, Japan continued to focus on Australia. Between 1979 and 1982, nine steaming coal projects were established with Japanese equity in New South Wales and Queensland and many others were under discussion.[67] Japanese companies such as Mitsui, C. Itoh and Mitsubishi were involved in iron ore development projects in north west Australia. By the early 1980s the Japanese steel industry was buying almost 45% of their iron ore from this area. Japan's purchases represented approximately 65% of the total iron-ore production of Western Australia.[68]

It is very important to note that while Japanese trading companies and steel mills invested in numerous mining projects, their investments were seldom of any

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[66]Ibid.
[67]Ibid., pp.60-61.
[68]Ibid., p.55.

significant size. What the Japanese brought to the projects was a long term commitment to purchase the coal and the iron ore. Bank loans were based on the security these long term purchase contracts provided. After 1982, however, Japan needed less of Australia's resources. The decline in oil prices and a global recession were part of the reason but more significant were the decisions Japan had made to diversify supplies of the resources it needed (in part by encouraging countries like Canada and Australia to develop additional mining projects) and to begin to focus on less-resource dependent industries.

Japanese manufacturers moved into Australia toward the end of the 1960s. They hoped that, by producing locally, they could get around Australian import tariffs and thereby maintain or even increase their share of the market.[69] Some companies began by establishing representative offices (staffed by Japanese engineers who could assist the *sogo shosha* or the Australian distributors, both of whom lacked technical knowledge) while others, particularly those companies which produced products where more contact between the manufacturer and the customer would be desirable and which no longer wanted to rely on a *sogo shosha*, started with sales and distribution companies. Fuji Electric (1967) and Bridgestone (1970) began with representative offices while Industrial Sewing Machines (1958) NSK (ball bearings) (1956), Koyo ball bearings (1964) initially set up sales and distribution offices.[70]

Toyota was one of the first Japanese companies to actually begin producing in Australia, at least partially in an attempt to circumvent tariff barriers. It began

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[69]Ibid., pp.123-24.
[70]Ibid.

limited production in conjunction with Australia Motor Industries in 1962 and then established a representative office the following year. In 1966 Nissan, which had been marketing in Australia since the early 1960s, arranged for cars to be manufactured by the Pressed Metal Corporation in Sydney. The Australian government put in minimum local content rules and Toyota and Nissan raised their levels of local content. (Toyota also encouraged a Japanese component manufacturer, Nippondenso, to built an Australian manufacturing subsidiary). By the early 1970s, the Australian government demanded 85 percent local content and the auto makers had to decide whether to abide by the regulations or withdraw from the market. Both companies decided to stay. Toyota built an engine factory and Nissan began manufacturing after its purchase of Motor Producers Ltd from Volkswagon.[71]

A number of Japanese colour-TV manufacturing plants were also opened in Australia. By 1983 there five colour-TV plants wholly or partially owned by Japanese companies: Sharp (100% Japanese owned), Sanyo (100%), Matsushita (100%), Rank-NEC (40% in 1983, 100% owned by NEC in 1985) and AWA-Thorn (15% in 1983, 60% in 1985).[72] At the end of the 1970s, two existing Australian companies were purchased by Japanese manufacturers. The Chrysler Motors subsidiary was purchased by Mitsubishi Motors (1979) and the Uniroyal Tire Subsidiary was taken over by Bridgestone Tires (1981).

Japanese involvement in the capital-intensive chemical, petroleum and basic metal production industries did not occur, with the exception of industrial salt

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[71]Ibid., pp.141-143.
[72]Ibid., p.147.

processing in Western Australia, until the early 1980s. In 1981 Japanese companies invested Australian $225 million in the Boyne Island aluminum smelter at Gladstone in Queensland. In the same year, other Japanese businesses invested in a coal to oil liquefaction pilot plant in Victoria.[73] Again, the ultimate market for the products of these investments was Japan. In 1985 Sumitomo Electric and Australian producers formed a joint venture to capture a portion of Telecom Australia's demand for long distance fibre-optic cable.

E. Summary

The commercial relationship between Australia and Japan evolved with more deliberate thought than in either Canada or New Zealand, where trade and investment developments were more a result of happenstance on their part and commercial action by the Japanese. At the end of the nineteenth and beginning of the twentieth centuries, Japanese trading companies played a definitive role in forging trading relationships between the two countries. Australian merchants were not left behind here, though, as they quickly controlled most of the wool trade and sold on consignment to Japanese traders. When pressure from Britain resulted in the Australian Trade Diversion policy, many Australians successfully lobbied the government to drop the punative tarrifs against Japan. Australians had quickly realized the importance of the Japanese market. Australia diversified its export mix (although it did remain with primarily resource products) and by 1970 over one-quarter of all Australian exports went to Japan.

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[73]Ibid., p.128.

An analysis of the pattern of trade between the three countries and Japan reveals several key considerations, including the continued reliance on the sale of resource products and the purchase of an increasing variety of Japanese manufactures. Several other important developments stand out. Most significantly, and despite a major expansion and transformation of the Japanese economy, none of the three countries made significant gains in capturing a greater share of the Japanese market. All three nations sold more, and bought more, but this was generally in keeping with the growing size and diversity of the Japanese economy. Australia maintained its lead in exports over Canada, and New Zealand continued to represent but a small fraction of Japan's growing international trade. Other nations, particularly the United States and several East Asian nations, clearly did much better in responding to the opportunities in Japan. In each instance, the general growth in trade with Japan (both imports and exports) masked the fact that none of the countries responded creatively to the Japanese transitions. Governments in New Zealand, Canada and Australia took satisfaction (and some measure of the credit) in the improving trade, but few officials were concerned about the fact that decades-long patterns of imports and exports appeared to be continuing despite the changes occurring in the Japanese economy.

Table III-7

Japanese Exports to Australia, Canada and New Zealand Selected Years, 1960-1985
(U.S.$m)

Year	Total	Australia	% of Japanese total	Canada	% of Japanese Total	New Zealand	% of Japanese Total
1961	4234	100	2.4%	117	2.8%	22	0.5%
1965	8456	319	3.8%	215	2.5%	61	0.7%
1970	19318	590	3.1%	563	2.9%	114	0.6%
1975	55728	1738	3.1%	1151	2.1%	393	0.7%
1980	130435	3407	2.6%	2449	1.9%	680	0.5%
1985	177189	5430	3.1%	4559	2.6%	1082	0 .6%

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, selected years.

Table III-8

Japanese Imports from Australia, Canada and New Zealand Selected Years, 1960-1985

(U.S.$m)

Year	Total	Australia	% of Japanese total	Canada	% of Japanese Total	New Zealand	% of Japanese Total
1961	5810	452	7.8%	266	4.6%	50	0.9%
1965	8168	552	6.8%	355	4.3%	61	0.7%
1970	18881	1508	8.0%	929	4.9%	158	0.8%
1975	57846	4154	7.2%	2498	4.3%	367	0.6%
1980	141284	7018	5.0%	4752	3.4%	834	0.6%
1985	130516	7516	5.8%	4802	3.7%	910	0.7%

Source: International Monetary Fund, Direction of Trade Statistics Yearbook, selected years.

IV. Conclusion

A brief overview cannot do full justice to the complex interplay of politics, culture, business and international markets that underlies the commercial relations between Japan and Australia, Canada and New Zealand. In this early period, however, several key characteristics stand out, their significance to become even more evident in the discussion that follows. The experience of these countries reveals the degree to which deeply entrenched habits of business and politics, themselves in turn rooted in the cultural assumptions of the country at large, influence international trading options. Countries seeking to break into new markets, to identify new opportunities in the 'new world order' inevitably find themselves struggling with their history in an attempt to re-order the operative cultural assumptions and break well-established habits and commercial traditions. Several key considerations stand out.

A. Relative Importance of Japanese Trade

Prior to the late 1970s Australia was the only one of the three countries which had definitely decided that Japan would be an important market. Canada was focussed on the United States and New Zealand on Britain; both made little effort to look any further afield. Despite the fact that limited attention was given to their relationships with Japan, for a good deal of their trading history, Japan was among the top five and often even top three of their trading partners.

B. The Mix of Trade Goods

All three countries relied on the export of their resources and made little or no effort to trade manufactured goods. Canada exported forest products, wheat, fish and minerals while New Zealand's primary export was wool followed by sheepskins, tallow, casein and later dairy products and meat. Australia's main export was also wool although wheat, barley, minerals, coal and natural gas were also important. The resource wealth of these nations appears to have made them complacent. Over the decades Japan made and exported a whole range of products but the other three countries remained content to rely on the sale of their resources.

C. Comparative Balance of Trade

Except for 1920 and 1921, the balance of trade between Canada and Japan was continually in Canada's favour from 1886 to 1984. From the 1880s until 1928, the balance of trade for New Zealand and Japan was in Japan's favour. From 1928 until World War II, trade fluctuated and the balance of trade shifted. From the end of the war to 1957, the balance of trade was in New Zealand's favour. Since then New Zealand's imports from Japan have far outweighed its exports. Australia's balance of trade position reflects the country's more active involvement in promoting Japanese trade. By the 1970s Australia had established a trade surplus with Japan and maintained this favourable arrangement into the next decade.

D. National Attitudes Toward Japanese Trade

In all three cases, although less so in Australia, national attitudes towards Japanese trade mirrored a resource-first, protectionist approach to international trade generally. All three countries moved only slowly out of the umbrella of the British Empire, in Canada's case only to rush for the protective cover of the American economy. At the national level, governments saw certain benefits in encouraging trade with Japan, which quickly emerged as an important commercial actor on the international stage, but they rarely made much of an effort to sell this vision to the business community or country at large. Japan's cultural distinctiveness and deeply entrenched Anglo-Imperial anti-orientalism made it easier for Canada, Australia and New Zealand to turn their backs on the country's trade potential; Japanese aggression before and during World War II only re-enforced existing negative stereotypes and made it more difficult to convince business people and investors to consider targeting the Japanese market.

As Japan emerged as an economic superpower in the 1960s and 1970s, and as established protectionist trade arrangements collapsed in the face of changing international trading regimes, Canada, Australia and New Zealand found themselves scrambling to capitalize on the new trade and investment opportunities. Australia, not surprisingly, was first and best in the race, able to capitalize on several decades worth of the careful cultivation of Japanese prospects (albeit in a narrow range of products) and because of its willingness to sell natural resources to the growing industrial nation. Canada followed suited, somewhat more reluctantly and with even less certainty of purpose. But the Canadian government and business community was prepared to sell to Japan and to accept Japanese investment, provided that the Japanese took the initiative. Lagging behind, New Zealand clung to the comfort of its long-standing trade relationship with Britian and its dependence on a very slim range of resource exports (meat, diary, fish and forest). Only a major financial shock at the end of the period in question — the much-debated financial crisis that hit New Zealand in 1984 — broke the country's complacency and made New Zealanders consider a major shift in economic direction.

It is important to remember that Japan's emergence as an international trading power was not restricted to the post-World War II period. Before the war, Japanese trading companies had made significant inroads overseas and the Japanese government was encouraging greater involvement with diverse foreign markets. For each of Australia, Canada and New Zealand, Japan represented a considerable market and therefore a potentially valuable trading partner. But the three countries, brought into economic maturity under the protection of Britain, remained largely content with trading relationships with the English-speaking world, and averse to the cultural and social adaptations necessary to capitalize on trading opportunities in Asian markets, took a passive, complacent approach to the possibilities of Japanese trade and quickly turned to national protectionism in the face of economic turmoil. This created an opening for Japanese companies to move first to open trade ties and to begin to exploit the possibilities for resource and manufacturing investments. In the dance of capital and market share that is the international trading world, Japan had taken the lead, thus ensuring that its priorities, needs and vision of the future dominated commercial relations with New Zealand, Australia and Canada in the period before 1985.

Chapter Four
Japan's Economic Transition Since 1985

I. Introduction

If governments are to take the lead in managing national economies, it is essential that they anticipate and capitalize on developments in international trade. While this has been the case throughout the 20th century — New Zealand's inability to respond creativity to the loss of British preference is a classic example — the current globalized, interconnected and fast-moving international economy presents an even more dramatic challenge. This study uses a case-study approach to examine national abilities to identify and respond to changes in international trading environments. Since the 1960s, the Japanese economy has been among the world's most dynamic. It has undergone major shifts and reorientations and has presented new challenges and opportunities for international trading partners. The period after 1985 witnessed particularly dramatic transitions and thus presented formidable difficulties for companies and nations reliant on Japanese trade.

Despite decades of trade and diplomatic ties that stretch back to the 19th Century, Canada, New Zealand and Australia, did not (and do not) understand Japanese economic and social evolution particularly well. The veil of Oriental mysticism, tinged with a strong streak of anti-Asian racism in each of the settler dominions, kept the Japanese at arm's length and prevented the Canadians, New Zealanders and Australians from developing a strong appreciation of Japan's commercial potential, business culture and political realities. The implications of this lack of insight became particularly evident in the post-1985, when a failure to comprehend internal Japanese transformations meant that none of the three countries fully capitalized on the opportunities that attended the restructuring of the Japanese economy. Canada, New Zealand and Australia did not, as governments or business communities, understand the cultural nuances and sensitivities of Japanese business; nor, consequently, were they able to anticipate properly Japan's response to the increased value in the yen. Understanding these two elements — Japanese business culture and the evolution of the Japanese economy before 1985 — is pivotal to the analysis of the manner in which the three countries attempted to react to Japanese business opportunities over the past decade.

II. The Japanese Economy from 1952 to 1985

The San Francisco Peace Treaty of April 1952 signaled the end of the Allied Occupation of Japan and, among other things, Japan's resumption of control over the formulation of its economic policies. Earlier, in 1949, the yen-dollar official exchange rate had been set at ¥360 to one U.S. dollar. By the end of 1955 the Japanese Economic Planning Agency announced the first of its five year plans, outlining targets for the GNP growth rate.[1] Between 1955 and 1970 the Japanese government regularly underestimated the growth of the economy which typically reached the five year goals in two or three years. These government plans signaled a commitment to growth which encouraged investor confidence and consumer optimism and thereby sparked growth.[2]

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[1]Takatoshi Ito, The Japanese Economy, (Massachusettts: The MIT Press, 1994), pp.65-67.
[2]Ibid., pp.65-67.

From 1953 to 1957 Japan was in a trade deficit position although the severity of the deficit declined over time. Japan regained pre-war per capita production levels by the mid-1950s[3] and by the end of the decade the economy was soaring. Prime Minister Ikeda put forward his ten year Doubling Income Plan in 1960 and achieved it in seven years. Japan sustained growth rates of about 10 percent through the 1960s. The government selected industries perceived to be important to Japan's economic future and supported them with export subsidies and low-interest loans and by limiting imports of similar products. While 'made in Japan' had once meant inferior and unreliable, Japanese products soon began to earn a reputation for being of good quality at reasonable prices. Japan reoriented its economy, handing over the manufacture of low-end products (inexpensive textiles, plastic toys, dishes) to its Asian neighbours, and focusing on new technologies like steel, automobile manufacturing and ship building.

As Japan's economy grew so did its trade surpluses. It became evident that the yen was undervalued. As the yen was not the only currency to need realigning, the Bretton-Woods fixed-exchange rates were converted to floating exchange rates in early 1973. The yen quickly appreciated to ¥300 to a U.S. dollar from its fixed rate of ¥360. Naturally, this imposed difficult adjustments on Japanese exporters. Little did they know that a larger challenge was right around the corner — the quadrupling of OPEC oil prices in the fall of 1973 and another dramatic rise in 1979-80.

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[3]Edwin Reischauer, The Japanese Today, (U.S.: Belknap Press, 1988), p.114.

Western observers assumed that the OPEC oil crisis would stop the Japanese 'miracle' in its tracks. In the short term this prognostication proved correct. Imported oil accounted for over 60 percent of Japan's energy resources[4] and many of its industries were heavy consumers of energy. The 'oil shocks' hit Japan very hard and inflation spiraled. However, Japan adjusted quickly and learned the valuable lesson of its vulnerability. Government and business worked hard to make industry more energy efficient and to find other sources of supply.

Prior to 1985, then, Japan had already demonstrated phenomenal powers of economic adaptation and resilience. Japan began by hauling itself up from the ashes of World War II to become the largest or second largest trading partner of most nations in the Western Pacific and East Asia by the late 1960s.[5] Japan then adjusted to a dramatic currency realignment and two oil shocks. Despite countless forecasts to the contrary, the country remained economically formidable. With this history then, it is not surprising that Japan developed ways of coping with the increased value of the yen.

III. The Japanese Economy after 1985

Through the early 1980s, as Japan's trade surplus continued to increase, international frustration began to mount. The United States, in particular, complained that the Japanese yen was heavily undervalued and pushed for exchange rate corrections to be made. The Americans believed that the trade

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[4]Ibid., p.118.
[5]Ibid., p.115.

deficit was the fault of exchange rates. The prevailing attitude was that there was nothing wrong with the U.S.-Japan trade deficit that a rate of one hundred eighty yen to the dollar would not solve.

In September 1985, at the Plaza Hotel in Washington, the leaders and Finance Ministers of the G5 nations met to discuss these concerns. They agreed to put in place mechanisms that would see the yen (and the Deutschemark) increase in value and the dollar decrease. The resulting agreement was called the Plaza Accord and signaled to speculators and investors that it would not be wise to continue to bet on the dollar increasing in value. In the first day of trading after the Plaza Accord announcement, before any intervention whatsoever, the yen increased in value by five yen to the U.S. dollar.

On this front, the Plaza Accord was extremely successful. The yen appreciated rapidly after September 1985 (see Table IV -1). The main purpose of the Accord, however, was to address the United States-Japan trade imbalance by making American goods less expensive and Japanese goods more expensive so that Japanese customers would buy inexpensive American goods and Japanese companies would have to raise their prices in dollar terms and would therefore lose customers. Initially, Japanese companies did reel from the shock of such a rapidly strengthening yen and the Japanese economy subsequently experienced a brief recession until late 1986. Soon thereafter, as manufacturers adjusted to the appreciation of the yen, the economy bounced back and began to expand. A look at Japan's balance of trade statistics (see Table IV — 2) provides no clues that between the fall of 1985 and the summer of 1987, the yen had doubled in value.

Table IV-1

Japan's exchange rate:
Yen per $1.00 U.S. (Average Market Rate)
1965 to 1994

Year	Yen per U.S. Dollar
1965	360
1970	360
1975	297
1980	227
1985	239
1986	169
1987	145
1988	128
1989	138
1990	145
1991	135
1992	127
1993	111
1994	102
1995	94
1996	109
1997	121

Source: International Monetary Fund, International Financial Statistics Yearbook, 1995, pp. 468-469.

Table IV-2

Japanese balance of trade: merchandise, imports, exports and trade surplus 1965 - 1995

(U.S.$b)

Year	Exports	Imports	Surplus
1965	8.33	6.43	1.90
1970	18.96	15.00	3.96
1975	54.65	49.71	4.94
1980	126.74	124.61	2.13
1985	174.02	118.03	55.99
1986	205.59	112.77	92.82
1987	224.62	128.20	96.42
1988	259.77	164.77	95.00
1989	269.55	192.66	76.89
1990	280.35	216.77	63.58
1991	306.58	203.49	103.09
1992	330.87	198.47	132.40
1993	351.31	209.74	141.57
1994	384.18	238.25	145.93
1995	429.32	297.24	132.07
1996	400.28	316.72	83.56
1997	409.24	307.64	101.60

Source: International Monetary Fund, various issues of the International Financial Statistics Yearbook.

There were a number of reasons why Japan's balance of trade did not behave as western economists expected. The first was that the benefits of a strong yen had been overlooked. The resource products Japan purchased to fuel its industries were suddenly half as expensive as they had been months earlier. These lower priced inputs made a substantial difference to an energy and resource hungry Japan. Secondly, Japanese companies were willing to take minimal profits or even sustain a loss to maintain their market share over the long term. This was not a reaction the more short term focused Americans had anticipated. A good part of the reason why Japanese companies were able to contemplate such a strategy was the support from the government upon which they could depend. They knew that they could depend on the government to ensure that Japanese industry got the financial backing it needed to remain competitive.

From 1986 until the middle of 1990 in Japan is often referred to as the time of the 'bubble economy'. During this period, massive expansion occured primarily due to a rapid surge in domestic demand — a growth in capital investments and in personal spending.[6] Stocks and real estate prices skyrocketed. People and companies borrowed large amounts of money to purchase or invest in other properties using real estate as equity. Land prices, particularly in downtown Tokyo, were so high that, as one author commented, "Narrow slivers of property in central Tokyo served as collateral for the acquisition of vast estates overseas."[7] Japanese homes, previously derogatorily referred to as 'rabbit hutches' were now worth more than palaces in Beverly Hills. The press was filled with stories of wild

[6]Economic Trends, Japan Economic Almanac, 1996.
[7]Taggart Murphy, The Weight of the Yen: How Denial Imperils America's Future and Ruins an Alliance, (New York: W.W. Norton & Company, 1996), p.195.

excess with Japanese banks at the centre. As Taggart Murphy comments "The great names of Japanese banking — Sumitomo, Fuji, the Industrial Bank of Japan — shoveled vast amounts of credit at the flimsiest of ventures, often managed by the *yakuza*, the Japanese underworld."[8]

Eventually, this could not last and the price of real estate peaked and fell. As the collateral they were holding was now worth less than it had been, banks began calling in loans or limiting further expansion. Investors could no longer count on receiving a substantial capital gain so they began to worry about the profitability of companies and they started selling shares. This bursting of the 'bubble' led to numerous bankruptcies and a banking sector which was seriously overstretched.

A number of financial commentators argue that the entire bubble economy — its boom and its bust — was engineered; the Ministry of Finance (MOF) set up the crash to move money from wealthy individuals to Japan's large companies. Eammon Fingleton wrote that "the MOF never lost its grip on the markets: it engineered the crash as a counterintuitive piece of industrial policy to effect the transfer of wealth from rich private citizens to corporate Japan."[9] The MOF inflated the financial markets (by increasing the money supply thereby inducing a fall in interest rates and cutting borrowing costs for industry) and this triggered a boom in real estate purchases as the banks financed speculators who bought real estate and then used that real estate as collateral to buy even more.[10] Taggart Murphy quotes a Bank of Japan official as saying "We intended first to boost the

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[8]Ibid., p.196.
[9]Eammon Fingleton, Blindside, p.288.
[10]Ibid., p.289.

stock and property markets. Supported by this safety net — rising market— export oriented industries were supposed to reshape themselves so that they could adapt to a domestic-led industry."[11]

By this criteria, the 'bubble' economy appears to have worked. Corporations profited by selling large numbers of shares at exaggerated prices to unwise speculators. When the securities prices fell, the victims were not the issuing companies but the purchasers who were generally wealthy individuals or small companies.[12] In the eyes of the Japanese government, this was fine as it evened out some of the inequalities of personal wealth and transferred it to corporate Japan. The purpose of this transfer of money was to give Japanese companies the opportunity to reshape themselves and adjust to a domestic-led economy. As Murphy said, it did just that. When the bubble was over, he wrote:

> Japan had added to its GNP an amount equivalent to the GNP of France. Most of its industries were fully competitive in world markets at rates of 110 yen to the dollar and beyond. Most important, Japan's administrators believed they had achieved the goal of the century, a wholly integrated industrial structure under Japanese control. Hardly a key manufactured component for any downstream manufactured product was not being made by a Japanese company. Japan depended on foreigners only for commodities, commercial aircraft (for which most components were manufactured or could be manufactured by Japanese companies) and certain kinds of software.[13]

The Plaza Accord had a dramatic impact on numerous aspects of Japan's economy. The following sections will highlight those which had the most dramatic impact on Japan's trading partners.

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[11]Taggart Murphy, The Weight of the Yen, p.199.
[12]Eammon Fingleton, Blindside, p.290. Conversation with Eammon Fingleton, Tokyo, Japan, 19 November 1997.
[13]Taggart Murphy, The Weight of the Yen, p.199-200.

IV. Increased investment abroad

One of the more obvious results of the rapid rise in the value of the yen was the equally rapid increase in Japanese direct overseas investment. While the Japanese government had discouraged foreign direct investment (FDI) in the 1950s and then been relatively neutral toward FDI in the 1960s and 1970s, in the 1980s it encouraged companies to invest abroad.[14] This was not difficult as Japanese manufacturers wished to take advantage of the lower labour costs abroad and to use local production as a way to avoid the increasing protectionism in Europe and the United States. As Table IV-3 illustrates, the scale of foreign investment increased dramatically. In 1985, the first year of the re-valued yen, Japanese overseas investment reached almost $6.5 billion (U.S.). It almost tripled over the next two years and more than doubled again by 1989. Foreign Direct Investment peaked at over $48 billion (U.S.) in 1990 and then began to decline precipitously after that time. This pattern reflected the artificial wealth of the "bubble economy," based on the vast increases in the value of Tokyo real estate, and the consequent Japanese enthusiasm for buying up overseas properties and businesses. The bulk of overseas investment initially, therefore, was in manufacturing. Many of the affiliated parts makers for the automobile industry also set up production lines in North America.

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[14]Paul Bowles and Brian MacLean, 'Regional Blocs: Can Japan be the Leader?' in Robert Boyer and Daniel Routledge, eds., States and Markets: The Limits to Globalization, p.159.

Table IV-3

Japanese direct foreign investment abroad 1965-1995

(U.S.$b)

Year	Amount of Foreign Direct Investment
1965	.03
1970	.26
1975	1.53
1980	2.39
1985	6.45
1986	14.48
1987	19.52
1988	34.21
1989	44.16
1990	48.05
1991	30.74
1992	17.24
1993	13.74
1994	17.97
1995	22.66
1996	23.44
1997	26.06

Source: International Monetary Fund, International Financial Statistics Yearbook 1994, pp. 450-451 and International Financial Statistics Yearbook 1995, pp. 470-71.

In North America, in particular, however, the first surge of investment in manufacturing investment was followed from 1988 with investments in non-manufacturing businesses like real estate companies, financial institutions, insurance companies and resort properties. A number of high profile investments such as Sony Corporation's purchase of Columbia Pictures in 1989 and Mitsubishi Estate Company's purchase of Rockefeller Centre in 1990 were met with American anger and fear. In Hawaii and Australia, Japanese investors also bought large numbers of homes and commercial properties, driving up local land prices. In many cases, the new home owners often remained in Japan, leaving the houses empty for much of the year and contributing little money or energy to the community. While the high prices pleased the sellers, many Hawaiians and Australians were resentful.

Direct overseas investment has had an impact on Japan's total trade surplus (although the total surplus has remained about 1985 levels, see Table IV-3) and its surpluses with individual countries. The anticipated declines in Japan's trade, however, did not occur. Overseas production by Japanese companies of automobiles and electrical equipment has also resulted in 'reverse importing' whereby Japanese manufacturers ship their products back to Japan. In 1989 10% of all of Japan's finished products imports were reverse imports.[15]

Additional production shifted offshore after 1993 when the value of the yen again began to climb. For many manufacturers, an exchange rate of ¥100 to the dollar meant that they were simply not viable if they did not find new ways to

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[15]Isaya Shimizu, 'Overseas Investment', Japan Economic Almanac 1990, p.42-43

survive. For most of the larger companies this meant a further shift to overseas production. In the early 1990s Sony announced plans to have close to half of its electronics production overseas by 1997; Matsushita Electric Industrial Co. planned for overseas output to be 50% of its total overseas sales by fiscal 1996[16] and to transfer its production of playback only VCRs and radio-cassette players to Malaysia, Sanyo moved its production of North-America bound VCRs to Indonesia, Nikon arranged for 50% of its camera production to be done overseas; Toyota to boost its overseas production, and Nissan to increase its U.S. production.[17]

What is most significant about this shift of manufacturing investment abroad is that substantially more of it is going to Asia and less to North America and Europe. (This is sometimes masked by the fact that Japanese direct investment in non-manufacturing sectors in Europe and North America remains strong.) In 1988 67% of Japanese foreign direct investment in manufacturing went to North America; by 1993 this had dropped to 37%; investments in Europe followed a similar pattern. (See Table IV-4.) In the same period, investment in Asia went from 17% to 33% of Japan's total.[18] China showed a particularly dramatic increase, growing from around 1% of total manufacturing FDI in the mid-1980s to over 12% in 1993. This transfer of manufacturing to Asia tends to be

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[16]Hideshi Shirae, 'Production Flees Abroad as dollar crashes through ¥100 floor', Japan Economic Almanac 1995, pp.16-17.
[17]Hidenaka Kato, "Strong yen weakens manufacturers, may hollow industrial base", Japan Economic Almanac, 1994 p.22.
[18]Kiyohiko Fukushima and C.H. Kwan 'Foreign Direct Investment and Regional Industrial Restructuring in Asia', The New Wave of Foreign Direct Investment in Asia, (Singapore: Nomura Research Institute and Institute of Southeast Asian Studies, 1995), p.3.

accompanied by a reduction of facilities in Japan[19] and is occurring not just to take advantage of cheap labour but also to capitalize on the growing consumer markets in the region.[20]

[19]Hideaki Ohta, Akihiro Tokuno and Ritsuko Takeuchi, 'Evolving Foreign Investment Strategies of Japanese Firms in Asia', The New Wave of Foreign Direct Investment in Asia, p.44.
[20]Kiyohiko Fukushima and C.H. Kwan, 'Foreign Direct Investment and Regional Industrial Restructuring in Asia', The New Wave of Foreign Direct Investment in Asia, p.8.

Table IV-4

Japanese manufacturing FDI to Asia and the world

(U.S.$m and %)

	81-85	1985	1986	1987	1988	1989	1990	1991	1992	1993
World	2365	2352	3806	7832	13805	16284	15486	12311	10057	11132
	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)	(100)
N.A	1056	1223	2199	4848	9191	9586	6793	5868	4177	4146
	(44.7)	(52.0)	(57.8)	(61.9)	(66.6)	(58.9)	(43.9)	(44.7)	(41.5)	(37.2)
Europe	249	323	370	851	1548	3090	4593	2690	2101	2041
	(10.5)	(13.7)	(9.7)	(10.9)	(11.2)	(19.0)	(29.7)	(21.9)	(20.9)	(18.3)
Asia	589	460	804	1679	2370	3220	3068	2928	3104	3659
	(24.9)	(19.6)	(21.1)	(21.4)	(17.2)	(19.8)	(19.8)	(23.8)	(30.9)	(32.9)
NIEs	264	253	573	878	775	1347	805	640	439	735
	(11.2)	(10.8)	(15.1)	(11.2)	(5.6)	(8.3)	(5.2)	(5.2)	(4.4)	(6.6)
ASEAN	301	166	193	704	1360	1553	2028	1945	1808	1474
	(12.7)	(7.1)	(5.1)	(9.0)	(9.9)	(9.5)	(13.1)	(15.8)	(18.0)	(13.2)
China	10	22	23	70	203	206	161	309	650	1377
	(0.4)	(0.9)	(0.6)	(0.9)	(1.5)	(1.3)	(1.0)	(2.5)	(6.5)	(12.4)

Note: Figures within parentheses are in percentages.
NIEs = Korea, Taiwan, Hong Kong and Singapore
ASEAN = Thailand, Malaysia, Philippines and Indonesia.
Source: Kiyohiko Fukushima and C.H. Kwan, 'Foreign Direct Investment and Regional Restructuring in Asia,' The New Wave of Foreign Direct Investment in Asia , p. 4.

Japan and the Asian countries appear to be following a regional division of manufacturing.[21] As incomes rise in the newly industrializing countries, production shifts from Japan to them. Middle-range value added products (cellular phones, standard fax machines, computer displays, large colour televisions) produced in Japan are being shifted to countries like Singapore and Malaysia while lower-priced labour-intensive products (small colour televisions, lower-priced audio-visual products, computer assembly, electrical parts) once produced in Singapore and Malaysia are being transferred to Indonesia and the Philippines.[22] As is evident in Table IV-4, China began to attract a significant amount of Japanese direct investment in 1993. China's huge population and the existing levels of technical knowledge give China a strong advantage over other low-income countries in the attraction of investment monies. This also means that while China is attracting Japanese investment in manufacturing of low-cost items, some Japanese high-technology production is also being established in China. Japan continues to produce the high technology high value-added products, as will be discussed in the next section.

V. Switch to emphasis on high technology

As Japan started to move much of its labour-intensive and middle range value-added production overseas, it worked to ensure its industrial base did not 'hollow out', leaving the country without an industrial infrastructure. Two of the

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[21]This theory is referred to as the flying geese pattern of development and was first put forward by Japanese economist Akamatsu Kaname.
[22]Hideaki Ohta, Akihiro Tokuno and Ritsuko Takeuchi. 'Evolving Foreign Investment Strategies of Japanese Firms in Asia', The New Wave of Foreign Direct Investment in Asia, p.46.

ways to ensure this does not occur are to produce more value-added products domestically and to develop new industrial technologies.[23] Japan adopted both strategies.

Japan continues to produce the high value-added products such as high-performance home appliances, laser disk players, high definition and digital televisions, CD-ROM multi-media products, digital compact cassette recorders and certain computer-related parts, such as customized memory chips and high-performance work stations.[24] While the markets of the western industrialized nations will remain interested in these products, Japan attached even greater importance to the large and expanding markets of Asia. As these countries become more prosperous, they represent enormous opportunities for the sale of consumer goods.

Japan is also working hard to develop new technologies. The country has taken the lead in the production of industrial robots with over 60% of the industrial robots operating in the world in Japan.[25] Industrial robots have been traditionally targeted at automobile and electronics manufacturers but slow sales have encouraged robot manufacturers to develop robots which can be used in warehousing and distribution and personal robots which do jobs such as cleaning offices or retrieving objects. Japanese companies are trying to develop lower cost robots and robots with improved visual techniques and the ability to handle fragile

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[23]Shirae, Hideshi 'Production Flees Abroad as dollar crashes through ¥100 floor', Japan Economic Almanac 1995, pp.16-17.
[24]Hideaki Ohta, Akihiro Tokuno and Ritsuko Takeuchi. 'Evolving Foreign Investment Strategies of Japanese Firms in Asia', The New Wave of Foreign Direct Investment in Asia, p.56.
[25]Japan Economic Almanac 1995, p.103.

objects.[26] While neither industrial nor personal robots have yet attracted much attention, the industry holds considerable potential.

Japan is in a good position to lead many energy-related industries, likely to assume additional importance as more countries industrialize and begin to draw heavily on the world's traditional energy supplies. Fingleton says that Japan is at the forefront of the development energy-saving applications for superconductivity, the design of energy-efficient modes of transportation like the magnetic levitation train, and the commercialization of solar power for use in pocket calculators, street lights and air conditioners.[27]

The prospects for growth in the electronics industry are also strong, particularly as Japanese businesses are continually searching for new applications of existing technologies. High definition television, for example, is being used to teach medical students and has potential for use in aviation (higher definition radar screens) and architecture and engineering (for visual databases).[28] Car navigation systems, video CD systems, flat and wide screen televisions and videophones all have considerable commercial potential as the world embraces the digital revolution.[29]

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[26]Compiled from Nikkei Publications. 'Makers seek to add machine value as market shrinks for 2nd Year' Japan Economic Almanac 1995, p.102.
[27]Eammon Fingleton, Blindside, pp.297-298. Conversation with Eammon Fingleton, Tokyo, Japan, November 19, 1997.
[28]Ibid., p.299.
[29]Toru Hirose, 'Growth seen in industrial items, but consumer goods still failing', Japan Economic Almanac 1995, p.78; Eamonn Fingleton, Blindside, p.299.

VI. Change in composition of imports

Until the 1970s Japan primarily imported raw materials and exported manufactured goods. After the Plaza Accord this changed. Resource products, which in 1985 made up two-thirds of Japanese imports, dropped to 50% by 1991.[30] Japan began to import more manufactured products, particularly relatively easily manufactured products such as textiles. This change stemmed from a number of factors. First, as mentioned above, Japan's investment in overseas manufacturing increased greatly and imports from these overseas affiliates have been quite steady. Second, consumer attitudes toward foreign products have been changing. By 1988 a survey by the Manufactured Imports Promotion Organization revealed that 75% of the Japanese population would not discriminate between imports and domestic products. Third, Japan's trade surpluses with numerous countries, particularly the U.S., led to pressure on the Japanese to purchase abroad. Lastly, rapid industrialization in the Asian region has meant that a number of economies are capable of supplying less expensively a range of products Japan needs.[31]

This change has dramatic implications for those nations whose trade with Japan is substantially resource-based. As James Lambert, First Secretary (Economic) at the Canadian Embassy in Tokyo, observed:

> Japan's requirements for raw materials remain considerable and, in the medium term, resource exports to Japan will continue to prove lucrative. It must be recognized, however, that they will constitute a declining share of Japan's total import demand. Countries (and companies) that do not begin

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[30]James Lambert, 'Japan's Changing Marketplace: Japan's Major Trading Partners', Doing Business in Japan, The Canadian Chamber of Commerce in Japan, (Toronto: Key Porter Books Ltd.,1994), p.28.
[31]Ron Wickes and Aldith Graves, The Japanese Market for Manufactures Imports: the Door Opens Wider, East Asia Analytical Unit Working Paper No 1, Department of Foreign Affairs and Trade, Australia 1993, pp.7-8.

to work to shift their export offerings into higher value-added categories (for example, by moving from sawn lumber to ready-made window frames and sashes) risk excluding themselves from the most dynamic areas of economic growth in Japan.[32]

While importing the basic value-added products, Japan concentrates on the production and exportation of high technology products such as semiconductors and electronic equipment.[33] As Ron Wickes and Aldith Graves concluded:

> Of 35 sectors of manufactures trade, all but 4 increased more than two-fold between 1985 and 1990 in terms of their US dollar value, over half grew more than three-fold, and imports in two sectors — the more important being road vehicles — grew by nine times. While growth rates have been high for a number of categories of manufactures, the absolute increase in Japan's manufactures imports has been quite concentrated, with big increases in a few important sectors, miscellaneous manufactures (imported art works, toys, jewellery among other items), clothing, road vehicles, non-ferrous metals, and various types of electrical machinery. These five sectors accounted for over 40 per cent of the total increase.[34]

Imports into Japan are continuing to increase. A report by the Nomura Research Institute puts the worst case, what it terms the 'slow increase scenario' as having Japan's import penetration level increase at a rate of about half a percentage point a year, so that by the year 2000, the level of import penetration will be 16.9%. NRI's 'standard scenario' calls for growth to 21.4% by the year 2000 and the 'rapid increase scenario' has the level of import penetration at 24.9% by the same year.[35]

This increase of imports into Japan obviously opens up opportunities for Canadian, Australian and New Zealand exporters. But Japan's import profile is

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[32]James Lambert, 'Japan's Changing Markeplace: Japan's Major Trading Partners', Doing Business in Japan, p.31.
[33]Nippon: a charted survey of Japan 1994/95, edited by the Tsuneta Yano Memorial Society, p.73.
[34]Ron Wickes & Aldith Graves, The Japanese Market for Manufactures Imports, p.2.
[35]Yoshikazu Takao and Nobuya Nemoto, 'Long-term Outlook: Japan's Economy in an Era of Structural Change,' Nomura Research Institute Quarterly, (Summer 1995), p. 6.

continuing to shift away from resource products as its industries move overseas and their need for raw materials declines.[36] By 1995, 59.1% of Japan's imports were manufactured products with the consequence that the real opportunities lay in manufactured products outside Japan's high tech strategic industries.

VII. Focus on domestic demand

An important contributing factor to Japan's initial ability to cope with the rise of the yen after the Plaza Accord was strong domestic demand, particularly rising personal consumption and a real estate boom (particularly in Tokyo).[37] To take advantage of this domestic market, producers targeted new products at Japanese consumers rather than North American ones. Kenneth Courtis, strategist and senior economist for the Deutsche Bank Group in Asia, points out:

> From 1975 to 1985, the period of Japan's export boom, about three-quarters of innovation-related investment was targeted at the development of new products and services designed to penetrate the North American and European markets. Since 1986, however, there has been a complete reversal, with about 80 percent of innovation investment now targeting the domestic market. This means that new products and services will increasingly be introduced in Japan first. In short, Japan is positioning itself to play a role in the world economy similar to that which the United States played in the 1950s and 1960s. Then, new products were first developed and introduced into the American market, and as the international product life cycle unfolded, were released in sequence around the world. Over the 1990s, Japan will move to occupy a similar role as the new product laboratory for the world economy.[38]

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[36]Conversations with Embassy Staff, Canadian Embassy Japan, Tokyo, Japan, 23 September 1997.
[37]Toshinori Dozen, 'Economic Outlook — Healthy once more — Japan's Economy swings back into gear', Japan Economic Almanac 1988, p.5.
[38]Kenneth S. Courtis, 'Japan in the 1990s: To Still Higher Levels of Performance', Doing Business in Japan: An Insider's Guide, p.8.

Many of the new products popular in Japan are high value-added and luxury products. In textiles, Toyobo Company has been selling luxurious cotton yarn and various products made with this yarn and making steady profits.[39] Mitsui Petrochemical industries has plans to transform into "a supra-petrochemical enterprise creating products that never existed in the conventional petrochemical industry" according to their managing director, Akira Imamichi.[40] Popular items in 1994-95 were minidisc players (which store and play over an hour's worth of music on rewritable floppy discs), personal handy-phone system terminals and the Pajero Mini four-wheel drive car.[41] New models of personal computers, low malt beer (to avoid high liquor taxes) and slimming gels and soaps were also big sellers.[42] In response to the Japanese public's demand for more leisure facilities, resort development within Japan has become a growth industry. In a 1989 Nihon Keizai Shinbun survey, two hundred companies reported planning or working on resort developments in over 300 locations scattered throughout almost every prefecture in the country.[43]

A number of interesting consumer items are doing well in Japan but have not yet found much a market in other countries.[44] There is a quixotic, experimental element to the Japanese consumer market. Items such as the head cooling pillow for hot summer nights, refrigerators with five or six compartments, each with a different cooling system for a different kind of food, sensor controlled mirrors to

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[39]Akira Hirai, 'Strong Yen Strategies', Japan Economic Almanac, 1989, p.77.
[40]Ibid.
[41]Ichiro Sasaki, 'High-performance, status products find buyers; other markets still slow', Japan Economic Almanac 1996, p.146.
[42]Ibid.
[43]Genichi Takenouchi, 'Resort Development', Japan Economic Almanac 1990, p.212.
[44]The section of the chapter describing Japanese products and services follows Carin Holroyd and Ken Coates, Pacific Partners, Chapter 9.

bring natural sunlight into dark buildings, low tables with a heat source below and a quilt over to trap warm air for homes without central heating on cold evenings and answering machines to discourage obscene phone calls (push a button and a threatening male voice yells out or a 100 decibel blast shrieks into the caller's ear) all hold potential for markets outside Japan.[45] Those that pass the test of Japanese consumers will likely find their way to foreign stores in the years to come.

Other larger and more commercial products include temporary sidewalks (standard modular concrete curb pieces which are inexpensive and easy to install and therefore useful during road construction projects), a car wash that takes up only 360 sq. feet, automated downtown parking towers (a Ferris-wheel style elevator rotates cars and empty spaces up and down the parking tower) and capsule office buildings and hotels (with individual working or sleeping compartments.[46]

Unique food and restaurant ideas are also commonplace in Japan. Consumers can buy apples inscribed with personal messages that have been grown into the fruit, ice cream with flavours such as sweet potato, basil leaf, blue cheese and oolong tea, curry donuts and hot cocoa with chili sauce. Theme restaurants (multicourse meals all focused on one ingredient such as garlic), bars where you pay for the time spent not the alcohol consumed, rental restaurants where customers come in and cook their own food for large parties (an opportunity for company executives to show off their cooking skills), bars with nurseries, cook-it-yourself restaurants and restaurants where noodles float down chutes in front of

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[45]Leonard Koren, 283 Useful Ideas from Japan, (San Francisco: Chronicle Books, 1988).
[46]Ibid.

customers who grab them with their chopsticks are some examples of the growing variety of Japanese dining experiences.[47]

Many of the above products and services have been available in Japan for a few years and represent the trend toward innovation directed at the Japanese consumer. The Japanese are well-known for their insistence on quality and service and Japanese producers have learned to satisfy these demands. Japan has an unparalleled ability to target niche markets and a strong service orientation.[48] More new products and services are likely on the horizon as the Japanese Ministry of Finance is hoping that domestic consumption will help spur the economy out of its recession.[49]

III. Deregulation of the Japanese Economy

Under pressure from the Keidanren (Japan Federation of Economic Organizations) and the business community, the Japanese government began deregulating the Japanese economy in 1993. (The first action program was actually announced by Prime Minister Nakasone in July 1985 but little progress was made.) In March 1995 it announced its 'Deregulation Action Plan' which outlined the government's strategy for reviewing a variety of its regulations. Japanese and western perceptions of what constitutes deregulation often differ. Glen Fukushima, Vice President of the American Chamber of Commerce in Japan and Vice President of AT&T, writes that deregulation is often mistranslated into

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[47]Ibid.
[48]Interview with Roger Boisvert, President, Global Online, Tokyo, Japan, 27 October 1997.
[49]Douglas Bingeman, Speech in the 'Atlantic Canada Products for Japan' edited conference proceedings, New Brunswick, October 9, 1996.

Japanese to mean "an easing or relaxation of regulations" which summarizes some of the communication difficulty. He goes on to say that "...in Western systems, people tend to assume that everything is permitted unless explicitly proscribed, whereas in the Japanese system, people tend to assume that everything is proscribed unless explicitly permitted."[50] Freedom or lack of restrictions, therefore, is the exception rather than the norm.

As Japan believes its economic future lies in manufacturing, particularly high end manufacturing, while deregulation may occur in non-strategic industries, Japan continues to protect those industries it deems vital. While the U.S., Canada, Australia and New Zealand have focussed on leveling the playing field and making sure everyone plays by the same rules, Japan continues to emphasize what is best for Japan. Marie Anchordoguy summed up this difference: "Japan is much less concerned with the rules of the playground; her primary objective is to win the game."[51] The difference on access to the Japanese market for foreign firms depending on whether or not they fall within the strategic category, is well illustrated by an American Chamber of Commerce in Japan forum at which nine American company representatives described their company's experiences in Japan. Those in the consumer products or services that were not strategic reported no difficulties, while those with products considered strategic all expressed various degrees of dissatisfaction with trade barriers.[52]

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[50]Glen S. Fukushima, 'Economic Trends, Internationalisation and Deregulation', in Gerald Paul McAlinn, ed., The Business Guide to Japan, (Singapore: Reed Academic Publishing Asia, 1996), pp.22-23.
[51]Marie Anchordoguy, Computers Inc., p.5.
[52]Glen S. Fukushima, 'Economic Trends, Internationalisation and Deregulation', in The Business Guide to Japan, p.20.

Nonetheless, deregulation of a number of industries (securities, banking, telecommunications) is underway or under consideration.[53] That this occurs is not due really due to foreign pressures (although deregulation of certain sectors such as the securities industry diverts attention away from the more important strategic industries) but because an easing of regulations in certain sectors is seen to be good for Japan by the government bureaucracy.

In 1995, government rules under review of importance to Canadian, Australian and New Zealand firms included regulations "on housing construction materials, regulations on packaging and distribution of food products, and to a lesser extent, myriad controls on telecommunications."[54] The government has put measures in place to reform its procurement system and to encourage foreign firms to enter the Japanese market.

After the October 1996 election, Prime Minister Hashimoto put forth "the most specific package of reforms proposed by any Japanese leader in the last decade."[55] Its stated goal was to make Tokyo "an international market comparable to the New York and London markets by the year 2001 by changing the laws covering banking, securities, insurance, foreign exchange and related areas."[56] The financial crisis that hit in 1998 detracted from the ambitious goal. Some foreign companies have entered the Japanese financial market under the new regulations, but development has been significantly slower than the government

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[53]Interview with Roger Boisvert, President of Global On-Line, Tokyo, Japan, 27 September 1997.

[54]Richard Wright,'New Hope But Modest Progress on Japanese Deregulation,' Canada-Japan Trade Council Newsletter, March-April 1995, p. 1.

[55]Canada-Japan Trade Council Newsletter, January-February 1997, p.1.

[56]Ibid.

had hoped. This plan, seen as a long-term strategy, has the potential to create competition in the Japanese market and thereby offer many new opportunities for foreign firms in Japan. However, many, including the Chairman of the Keidanren, do not believe that the deregulation program has gone far enough as the plan is rather ambiguous as to which regulations will be removed and how quickly they will be dropped.[57]

April 1st 1998 saw the next step in the implementation of Japan's financial reforms (often referred to as the Big Bang) aimed at liberalizing its financial markets by 2001. There are numerous changes designed to establish rules for fair and transparent transactions, develop a user-friendly market, expand options for borrowers and investors and improve service and competition. Opinions by business leaders and politicians on the future success of the Big Bang reform remain mixed. Concern is routinely expressed about the current levels of government spending in Japan — even as the public and foreign governments encourage a boost in expenditures to stimulate the local economy. Similarly, public and professional confidence in Japan's political leadership is very low, and few observers express much confidence in their ability to lead the country out of its economic turmoil.[58] On a more general scale, Japan's economic difficulties have had a marked international impact and observers in Japan and outside the country have commented extensively on the impact of the domestic problems on

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[57]'Making Deregulation Happen', Keidanren (World Wide Web Site: http://keidanren.or...ish/journal/jou005.html).

[58]Interviews with M. suga, General Manager, Cargill Incorporated, Tokyo, Japan, October 1997.

the international economy. This has, if anything, demonstrated to Japanese and international observers alike, the continued and growing importance of the nation.

IX. Japan in the Late 1990s

Throughout the 1990s, western analysts have been far from uniform in their interpretations of the current and future state of the Japanese economy. Most general observers have proceeded with the assumption that Japan's day has passed and that the false bubble economy of the 1980s has given way to a more realistic future, one that is well represented by the current recession in the country. They have consistently argued that a western-style economic regime with more open markets, less government interference and an improved financial system are essential if Japan is to re-establish its economic direction. The 1997-1998 round of scandals in the banking sector, the falling yen, low business and consumer confidence all lend support to this pessimistic description of a post-war miracle that appears to have turned into a mirage.

Given Japan's importance in the global economy (it accounted for 13% of world trade and controlled one-third of the world's savings in 1998), analyzing both where Japan sits now and what its economy is likely to do in the short and long term is vitally important. The media has been filled with stories of the Japanese economy and predictions about its future. As has been the case from the

1970s through the 1990s, when it comes to Japan, analyses vary dramatically.[59] Clearly there has not been consensus and there is not consensus today.

The gap in opinion may be illustrated with these contrasting quotes. For example, Robert Neff of Business Week wrote "Politicians who cannot rule, bureaucrats who cannot regulate. Voters who do not care. Corporations that do not change. It looks pretty dismal for Japan.[60] Eamonn Fingleton, on the other hand, sees it differently:

> The competitiveness of Japanese industry has continued to improve as you see from the exports and current account surpluses. All the previous press forecasts about the supposed breakdown of the employment system and the hollowing out of Japan's export industry have now been proved to have been false and most of what the press is saying today will be proved to be similarly ridiculous. I am therefore sticking to my forecast that the yen is going to be ¥70 to the dollar in 2000.[61]

Such differing opinions come from people who have spent a good deal of time studying Japan. It is worth noting that foreigners, particularly westerners, have a history of continually underestimating Japan. They have predicted its economic demise many times over. Japan has remade itself in the face of national crisis numerous times — from the end of Tokugawa era when the country was forced open by the West, to the end of World War 2, to the oil crises of the 1970s (no major nation was hit harder than Japan as it relied on imported oil for about 60% of its total energy needs), to the Plaza Accord.[62] Each time when an

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[59]Book titles have run the gamut from Ezra Vogel's Japan as Number One, Clyde Prestwitz;s Trading Places: How we are giving our future to Japan and how to reclaim it ; Eamonn Fingleton's Blindside: How Japan is on track to Overtake the U.S. by the year 2000 ; to Jon Wornoff's Japan as — anything but— Number One, Brian Reading's Japan: the Coming Collapse and Bill Emott's The Sun Also Sets.
[60]Robert Neff's May 18, 1998 article in Business Week quoted by Canadian Ambassador to Japan Leonard J. Edwards in his speech to the Vancouver Board of Trade on July 3, 1998.
[61]Correspondence from Eamonn Fingleton, April 22, 1998.
[62]Aoi Miyazono, Manager, Weldwod Canada (Japan), Tokyo, Japan, October 1997.

initial slowdown occurred, commentators said that this was it — Japan was in serious long term trouble. Westerners have tended to overestimate the crisis and underestimate Japan's capacity to rebound.[63] Whether or not the 1990s predictions of doom and dismay by Western analysts and commentators are the latest example of underestimation of Japan remains to be seen.

X. Problem Areas

A. Financial Sector

The main area attracting the attention of commentators is the financial system. The 1990s have seen a variety of scandals and bankruptcies in Japan's financial systems, beginning with the fallout from the heady years of the bubble which left hundreds of companies and individuals bankrupt and a financial sector drastically overstretched.

Since 1993 the government has been talking about deregulating the financial sector. As mentioned, specific reforms to change the laws covering banking, securities, insurance, foreign exchange and related areas were proposed in late 1996.[64] While deregulation has begun critics both inside and outside Japan say that the deregulation reforms are not specific enough and do not go far enough. External observers have been relentless in insisting that Japan has to move faster and more dramatically to improve its financial system.

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[63]Peter Campbell, Consul General for Canada, Osaka, Japan, November 1997.
[64]Canada-Japan Trade Council Newsletter, January-February 1997, p.1.

In late 1997 bankruptcies again rocked the financial world particularly when a number of blue-chip financial institutions declared bankruptcy. These included Sanyo Securities Corporation, Hokkaido Takushoku Bank and, most startlingly, Yamaichi Securities, one of Japan's big four brokerage houses. Embarrassing scandals and corporate malfeasance, including a number of instances of paying gangsters not to disturb annual general meetings and compensating special corporate clients for trading losses, have been publicised.

The Ministry of Finance has put in place what it terms Prompt Corrective Action guidelines to encourage better risk management. Using stricter definitions of problem loans, banks will be required to reach capital adequacy standards of 8% for banks with international operations and 4% for banks with solely domestic operations. Based on self-assessment by the banks, the new system divides loans into four categories of degree of risk, from no problems (the vast majority of loans) to extreme (where the debtor has gone bankrupt). While there is no question that Japan's loan situation is a large problem, the ¥76.7 trillion ($850 to $900 billion) figure often mentioned in the press includes loans in all three problem categories, including category 1 for which there is only a limited risk that the loan will go bad. (The Bank of Japan has calculated that only around 16% of the ¥65 trillion in category 1 will turn bad.) The 'problem' loans form about 12% of all loans and, therefore, while the problem is very serious, it is not quite as severe as it might appear on the surface.[65]

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[65]Presentation by John Sloan, Economic Section of the Canadian Embassy, March 31, 1998 in Vancouver; Gee, Marcus. 'The Real End of Japan Inc.', The Globe and Mail, April 18, 1998, p.D4.

Critics say again that while these measures are on the right track, it is unclear if they go far enough and they point out that the government is still spending a great deal of money propping up banks. On July 2, 1998, the Japanese government put forward a plan to establish a 'bridge bank' system whereby "failed banks would be put under temporary public administration before being dissolution while their healthy loan business is taken over by public bridge banks."[66]

B. Decline in Consumption

In early 1998 there was a good deal of discussion about recent declines in Japanese consumption. Analysts have laid the blame for this decline on the increase in the national sales tax which went from three percent to five percent in April 1997, the end of a special income tax break and a hike in medical payments that went into effect September 1997.[67]

In the last half of 1997 and early 1998, Japanese consumers were spending less on certain luxury items like personal computers and cars.[68] But they were spending more on less expensive activities: movie theatres, family restaurants, home delivery sushi shops, and rental karaoke rooms have thrived. Domestic travel was up.[69] Retail sales and department sales were down but convenience store sales were up. (Interestingly, foreign retailers were using this

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[66]'Japan to Spend $321 billion to bail out banks', The Vancouver Sun, July 2, 1998, p.1.
[67]Japan Economic Almanac, 1998, p.134.
[68]Japan Economic Almanac, 1998, pp.90, 100 and 132.
[69]'Japan consumers go for 'cheap, close and simple', Nikkei Weekly, January 12, 1998, p.2.

opportunity to try to get a foothold in Japan as land prices decreased and laws relaxed.)[70]

In early April, there was a great deal of publicity about Tokyo department sales having plummeted 21.4 percent in March from the same month the previous year. Commentators neglected to note that this decline was dramatically exaggerated by the year earlier buying that preceded the consumption tax increase last April.[71] Other months indicated that retail sales were up compared with the previous year. Japan's Economic Planning Agency minister, Koji Omi, pointed this out at a news conference in Tokyo in April 1998 and made it clear that, despite the rumors, he did not believe Japan is in any form of deflationary spiral, (falling demand, falling production, falling prices) as had been suggested.[72]

C. Unemployment

Unemployment reached 4.1% in April 1998, the highest since 1953.[73] Some analysts also argue that this is understated as the definition for being unemployed is tighter than in many other countries (for example, a person counts as being employed even if he/she only works an hour a week). Many companies went bankrupt in 1997 and 1998 and others laid off middle managers, something very rare in country where people have tended to work long term for one corporation.

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[70]Japan Economic Almanac 1998, p.134.
[71]William Mallard, 'Time to 'buy Japan,' minister proclaims', The Vancouver Sun, April 22, 1998.
[72]Ibid.
[73]William Mallard, 'Japan jobless rate surges, soon to pass that of U.S.', The Vancouver Sun, May 30, 1998, p.E3.

D. Low Growth

Japan's real economic growth (average annual % change in GDP) averaged about 11% in the 1960s, 6% in the 1970s, 4% in the 1980s and has been less than 2% through the 1990s.[74] There has been talk of a Japanese recession for years but it was not until 1998 that Japan technically entered a recession following two successive quarters of real GDP declines. Early in 1998, the IMF predicted zero growth for Japan in 1998 and the OECD projected minus 0.3 % growth.[75]

The Japanese government made various efforts to revive the economy. In October 1997 the government announced a number of economic stimulus measures (mainly tax reform and deregulation of sectors like trucking and telecommunications).[76] In December, Prime Minister Hashimoto announced a ¥2 trillion income tax cut and a tax reform plan calling for a reduction in the corporate tax rate.[77]

At the end of March 1998 the government announced that it would inject 16.6 trillion yen ($170 billion) into the economy, almost 8 trillion of it through public works spending. The government had committed itself to curtailing government spending, beginning with tax reform and deregulation before feeling compelled to increase government spending.[78] The Japanese Foreign Ministry's economic affairs bureau told reporters in April 1998 that it hopes that this economic stimulus package will lead the OECD to revise upwards its growth

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[74] Marcus Gee, 'The real end of Japan Inc.', The Globe and Mail, April 18, 1998, p.D4.
[75] 'Japan hopes OECD will raise its 1998 GDP forecast', Reuters, April 26, 1998.
[76] 'LDP drafts measures to revive ailing economy', The Japan Times, October 22, 1997, p.1.
[77] Japan Economic Almanac 1998, p.59.
[78] 'Public works focus of Japan plan but huge tax cuts possible in mix', The Vancouver Sun, March 27, 1998, p.D3.

forecast for the Japanese economy and noted that the government was now expecting to reach its target of 1.9 % growth.[79] Again, critics called this too little too late. Paul Summerville, chief economist at RBC Dominion Securities said "They need brain surgery and a heart transplant, and what do they get? A couple of Band Aids."[80]

E. Demographics — Aging population

Japan has the most rapidly aging population of any country on earth. By the year 2020, demographers estimate that 22-23% of the population will be over the age of 64. (The U.S. is very concerned about the same problem, and the prediction for them is 16%.) This obviously has an impact on all kinds of areas — on the medical care system, on social services, and on government pensions (powerful blocks of elderly likely to begin demanding changes to Japan's limited pension plans just when the shrinking pool of workers is unable to pay for them: in the 1980s 8.5 workers per retiree; by the year 2000 or so 2.5 workers per retiree). Japanese government recognizes this to be a very serious problem.

F. Population Stagnation

The birth rate in Japan has dropped dramatically in the latter part of the 20th Century and at 1995 stood at about 1.4 births per woman, not enough to keep the population constant. The low birth rate, the death rate from the aging

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[79] 'Japan hopes OECD will raise its 1998 GDP forecast', Reuters, April 26, 1998.
[80] Marcus Gee, 'The real end of Japan Inc.', The Globe and Mail, April 18, 1998, p.D4.

population and low immigration could mean that the population could fall quite dramatically in the upcoming years.

G. Current Strengths

In 1996 Japan's GNP reached an all-time high of US$5 trillion representing about 70% of the GNP of the rest of Asia and 80% of the GNP of the United States. Japanese per capita income was now approximately 36% higher than that of the United States.[81] In the first seven years of the 1990s, Japan's per capita GDP (measured by market exchange rates) rose 56% to $36,500.[82] In this same period, Japan's current account surpluses totaled $655 billion compared to $192 billion in the first seven years of the 1980s.[83]

Japan has also had a buoyant consumer market. Total sales through large retail outlets increased to record totals by 1996; family incomes (in yen) increased as did savings and disposable income.[84]

> In 1992 Japan surpassed the United States to become the world's biggest market for diamond jewelery. The figures, compiled by the De Beers diamond organization, imply that Japan's per capita diamond purchases now run twice the American rate. The Japanese now drink about 12 percent more spirits than Americans. Japan scores higher than the United States in the percentage of households with telephones (99 versus 94 percent), air conditioners (68 versus 64 percent), and washing machines (99 percent versus 75 percent). Japan also leads in households with colour television sets, videocassette recorders and microwave ovens. Japan leads the world in the number of hospital beds per 1,000 population.[85]

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[81]Glen S. Fukushima, 'Economic Trends, Internationalisation and Deregulation', in The Business Guide to Japan, p.21.
[82]Fingleton, Eamonn. 'Posioned Chalice: The False Promise of Post-Industrialism', The Tokyo Report, Hotel Okura Executive Luncheon Meeting, Wednesday, November 12, 1997.
[83]Ibid.
[84]Japan External Trade Organization, Nippon 1997 Business Facts and Figures, 1997.
[85]Eamonn Fingleton, Blindside, p.65.

A record 16.69 million Japanese went overseas in 1996. As of 1997, Japan had more housing starts annually than the United States, despite having less than half the population.[86] The Japanese lived longer than people from any other country in the world. Life expectancy for women was 83.5 years and for men was just over 77. 90% of Japanese considered themselves to be middle class (only 5.2% said lower class); over 140 Japanese companies were listed in Fortune Magazine's Global 500 for 1996; record numbers of Japanese high school graduates went on to university or junior college (46.2%) in 1996.[87] Japan had US $250 billion in foreign currency reserves to fall back on and as the world's largest creditor nation, $1 trillion for emergencies.[88]

Most importantly, a great deal of Japan's success was tied to its emphasis on manufacturing. Eammon Fingleton says that Japan has clearly and successfully targeted selected industries based on a number of criteria including high entry barriers, definite economies of scale, good export prospects, research opportunities and elastic demand.[89] He describes in detail the large range of industries and technologies that Japan dominates directly (robotics, cameras, auto industry manufacturing equipment, copiers, musical instruments, superconductivity, energy efficient transportation technologies and more) or through its domination of key components (notebook computers, printers, compact disk players, semiconductor materials and equipment, supercomputers, cellular phones, fax machines, optical scanning equipment and more).[90] These

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[86]Bank of Japan, Comparative Economic and Financial Statistics Japan and Other Major Countries 1997, p.39.
[87]Japan External Trade Organization, Nippon 1997 Business Facts and Figures, 1997.
[88]Jack Robertson, 'U.S. Should Not View Japan as next Asian domino', Reuters, March 23, 1998.
[89]Interview with Eammon Fingleton, Tokyo, Japan, 19 November 1997.
[90]Eamonn Fingleton, Blindside, pp.68-75.

manufacturing strengths, and in many cases monopolies, he argues, leave little doubt as to the strength of Japan's economic future. Fingleton goes further. He writes, "By pumping its huge savings single-mindedly into a narrow range of high-growth monopolistic industries, Japan's economic leaders can realistically aim to control the world's economic future."[91] Fingleton's argument has many critics, and the financial difficulties of 1998 have undercut suggestions about Japanese prescience. Critics point out that investments in certain high technology areas have produced uneven returns and that the nation's pattern of politically-driven investments in roads, railways and other civic works are often economically inefficient and even counter-productive.

H. Difficulty Understanding Japan

Opinions about are so varied and the facts point in so many different directions in trying to understand what has been happening in Japan. Firstly, the situation is complicated. Japan faces some serious problems and it has some amazing strengths. Some of its strengths and also its weaknesses are long term and others are short term. Among those closest to the situation, there is considerable optimism. Interviews with over forty western and Japanese business and government people from September to December 1997 provided an excellent opportunity to gauge business reaction to changing Japanese circumstances. The foreign business people expressed concern about short-term economic and political problems, and worried about the prospects for a brief period of

[91]Ibid, p.34.

recession.[92] At the same time, with only a few exceptions, they indicated that they felt Japan's long-term prospects were very favourable and that there was no reason to abandon the market at this time.[93]

Analysts of the Japanese situation struggle constantly with the complexity of the economic situation, the practiced vagueness of Japanese official spokespeople, and the absence of country-specific analysis of the Japanese economic environment. Neither New Zealand nor Canada has any press people permanently stationed in Japan, for example, so they must rely on sources from other countries, principally the United States and Britain.[94] Many of the Anglo-American business people who are in Japan are there for short periods of time and do not speak or read Japanese. But even for people who do have access to detailed information on Japan, including most Japanese, it is still hard to develop a strong impression of national economic developments. In contrast to the situation in most western nations, where government policies and actions are studied in exceptional detail, there is little in-depth analysis of Japanese official activities. One financial journalist based in Japan said that by the time one develops senior contacts in the Ministry of Finance or the Ministry of International Trade and Industry, one generally realizes that these individuals are

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[92]Interview with Mr. Oiwa, General Manager, Falconbridge Japan, Tokyo, Japan; Mr. Seiichi Tanaka, Manager, Weyerhauser Japan, Tokyo, Japan, October 1997.

[93]The interviews, conducted as part of a Japanese Ministry of Foreign Affairs-financed project on North American business adaptions to Japan, included a specific question on the current and future state of the Japanese economy. These interviews were conducted by the author with representatives of Canadian companies (and a few American firms) based in Tokyo and government officials in the Canadian embassy. Most of the executives were at the presidential or vice-presidential level; the others were the mangers of the Japan offices of Canadian firms. The question referred to above was only a small portion of the broader business practise-related interview and questionnaire process. Because the material related only to Canadian business leaders and did not include New Zealand and Australian executives, it was not felt appropriate to include a detailed analysis of this material in this study.

[94]There are three Australian news bureaus (Fairfax, News and the ABC), however.

not going to tell you what you need or want to know. Obviously, then, one of the major challenges facing a government wishing to monitor developments in Japan is securing sufficient, timely information to provide an adequate assessment.

Analyzing Japan is complicated by Japan's complexity and the fact that the Anglo-American world is too quick to decide that Japan is not doing well. It is too ready to leap to this conclusion and so jumps on facts that it thinks back this up. Parts of the western world has not really wanted Japan to do that well. Much of what Japan does flies in the face of neo-classical economics and many have been waiting over the last few decades to demonstrate that the Japanese model does not work. The Americans have, in particular, been quick to criticize the Japanese model and have been most anxious to both recognize and denigrate Japanese achievements. A 1995 American book, The Myths of Japanese Quality, offers a biting, unbalanced and generally unfair assessment of Japan's strengths and weakness, and is a strong example of the desire in some western quarters to document Japan's shortcomings.[95]

Not only do many Anglo Americans not want to believe that Japan is doing well but Japan is also quite content for us to believe it is not doing well. Glen Fukushima, vice president of AT&T Japan and president of the American Chamber of Commerce in Japan summed this up nicely in a recent Economic Strategy Institute seminar in Tokyo. He said that:

> Japan isn't the next economic basketcase in Asia, although the country is happy to let Americans think that it is. Japan is no economic domino and faulty thinking in the United States that Japan's economy is about to melt down plays into its hands... The country hopes that the perception of

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[95]Ray and Cindelyn Eberts, The Myths of Japanese Quality, Upper Saddle River: Prentice Hall, 1995).

> Japan as being economically stressed will make the United States reluctant to ask it to take a bigger role in the effort to pull the rest of Asia out of the morass. The party line in Japan is that the fragile Japanese economy can't absorb any more Asian imports to help boost its neighbour, lest it drown as well.[96]

A number of long term Japan watchers have pointed to this same phenomena on many occasions. The Japanese do not want to be seen as doing too well or the rest of the world will require them to take on more responsibility.

Analysts often look at Japan in a vacuum. The 1998 economic contraction is the first such contraction in Japan in 23 years. In that same time period, the United States went through six, the United Kingdom five and the other G7 countries two each. None of the economic contractions in any of the other countries gave rise to as much comment as that of Japan.[97] Commentators discuss Japan's record high unemployment without mentioning that most countries would be euphoric at an unemployment rate that low or discuss restructuring and the impact on lifetime employment and middle managers without noting that similar things have happened in other nations. The previous generation in many industrialized countries worked for the same company for almost all of their lives; few in this generation are likely to do so. The world is changing and so Japan is changing too.

Anglo-Americans have a hard time understanding how Japan does things. When the Japanese do things that do not make sense to us, the assumption is automatically that they must not work. Commentators write:

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[96]Jack Robertson, 'U.S. should not view Japan as next Asian domino', Reuters, March 23, 1998.
[97]Len Edwards, Canadian Ambassador to Japan, 'Asia Pacific Update: Focus on Japan: CRISIS OR RENEWAL: What's really happening in Japan?', transcript of his speech to the Vancouver Board of Trade, July 3, 1998.

> For Japan to survive and thrive in the new global economy most of the formal and half-hidden protective devices must go. Japanese — individually and corporately — face a new world of personal responsibility in which the race goes to the swift and imaginative, not to the finely-machined cog in the system.[98]

Or, "If Asian countries are to recover, they need to become more open, more direct, more individualistic."[99] In other words, the Japanese need to become more like westerners as they know what is best. Somehow, it is hard for the Anglo-American world to contemplate a different way of doing things.

The Japanese sense this attitude from the west and there is an element in Japanese politics and government that is not impressed with the external commentary and advice — particularly when it comes from countries and governments that have not done as well as Japan in the postwar period. Late 1997 and early 1998 have seen Japan come under intense international pressure, notably from the United States, to take steps to revive its flagging economy. Shotaro Oshima, senior Foreign Ministry official, said after the April 1998 announcement of the economic stimulus package:

> while Japan was very sensitive to overseas calls for action, it was best placed to decide what measures should be taken and when...The international community has been very much concerned about the way the economy has been going and we have been very much aware and sensitive to these concerns ... But at the same time, the Japanese economy is something we know best.[100]

Perhaps there is a very valuable lesson in this comment — we should not assume, as has often been done in the past months, that the Japanese economy is out of control and slipping into a desperate crisis. Reflecting back on the

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[98]Jonathan Manthorpe , 'Japan will need radical makeover to get ailing economy back on feet', The Vancouver Sun, April 22, 1998.
[99]Marcus Gee, 'Asia's Cultural Handicap', The Globe and Mail, January 21, 1998.
[100]'Japan hopes OECD will raise its 1998 GDP forecast', Reuters, April 26, 1998.

remarkably Japanese economic accomplishments from 1960 to the mid-1990s, Anglo-Americans might start by assuming that Japanese officials understand their dilemmas and are developing suitable responses — suitable Japanese responses — to cope with them.

XI. Conclusion

For Canada, Australia and New Zealand, Japan will continue to be a formidable economic player in the foreseeable future. Despite superficial perceptions to the contrary and the recent financial crises, Japan's future, particularly over the medium to long term, remains vibrant. A strong manufacturing base, domination of key sectors, vast savings and good administrative controls combine to create the underpinnings of economic strength. In addition, Japan's economic history reveals the country's extraordinary ability to cope with and adjust to change. From the devastation at the end of World War II through currency re-alignments and oil shocks, Japan has consistently shown an ability to adapt to changed circumstances and end up in a stronger position than before the crisis occurred, despite western predictions to the contrary.

Japanese business and government are continually focussed on the long term and it is this shared focus and their ability to work together for the economic good of the nation that propels the country forward. The Ministry of International Trade and Industry, the Ministry of Finance, the various *keiretsu* companies and even the general population focus on what is good for the future of Japan. The Japanese bureaucracy, primarily MOF and MITI, then plan and implement strategy which will ensure that Japan remains economically strong even if this means short term sacrifice.

If the governments of Canada, Australia and New Zealand believe that Japan is going to continue to be of considerable significance, there needs to be a concerted effort to convince the private sector in those nations that they cannot afford to make the decision to bypass Japan. (As is discussed in the succeeding chapters, efforts in this direction has been made in Australia and Canada but with limited success.) Even more importantly, there must be a more general study of what it is likely that each of these countries can sell to Japan in the future.

The post-Plaza Accord changes in Japan's import profile to move away from resource products toward manufactured products has potentially profound implications for nations who have been primarily resource and agricultural exporters. Japan's clear and successful plan to target high technology manufacturing industries and to protect those strategic industries is also of crucial importance. While Canada, Australia and New Zealand do not manufacture products which compete with Japan's strategic industries, there are nonetheless important implications. An understanding of Japan's strategic planning and the way in which it works to achieve the economic goals it has set reveals that for other countries to compete effectively in Japan, they must determine what they have or what they can do that Japan wants. Japan can obviously not produce everything it needs and its shift toward off-shore production is recognition of this fact.

Japan has clearly opted for the high value-added end of the manufacturing sector. Japan's evolving division of labour sees it producing the most expensive and most technologically demanding products while other nations, further down the line, produce the less technically sophisticated items. Japan's direct investment in manufacturing in Asia, as discussed earlier, is evidence of this division. Leon Hollerman in his discussion of Japan's economic strategy in Brazil made this point a decade ago when he wrote:

> the rationale of Japan's direct foreign investment may include a calculated disaggregation (or 'unbundling') of the production process, with some stages being assigned abroad and some retained at home. In arranging this allegedly 'horizontal' distribution of production between Japan and the host country, Japan retains for itself the higher value-added operations that yield the best rates of return.[101]

While a distressing prospect for a country like the U.S. which competes directly in Japan's strategic industries and has no desire to be anywhere but at the top of the manufacturing system, for Canada, Australia and New Zealand this change should be one that heralds opportunities. If they can determine how to accommodate the needs of 125 million people, with a per capita GDP significantly higher than the U.S. and an eye for quality and innovation, the potential economic benefits are considerable. Nonetheless, Canada, Australia and New Zealand need to decide if they want to move up the economic hierarchy and/or whether they can afford not to make such changes. Increased competition for resources and agricultural products from developing countries, (in which in many cases Japan has been increasing investment in both manufacturing and resources) combined with Japan's decreasing purchases of those products means

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[101]Leon Hollerman, Japan's Economic Strategy in Brazil. Challenge for the United States , (Lexington: Lexington Books, 1988), p.11.

that to increase sales to Japan in the future, Canada, Australia and New Zealand must be looking toward manufactured products.

The Japanese bureaucracy is committed to looking after Japan's best interests. Therefore, to determine what a nation will be able to sell successfully in Japan, it is worthwhile, maybe even vital, to understand how to make products or plans which will be attractive to the Japanese bureaucracy. Canadian Roger Boisvert, founder and president of Global Online Japan, the first internet service provider in Japan, has a good example of just this concept. He tells of convincing the Japanese government to give him permission to start his business. He says:

> I had to present it in a way that would make the government want to do it for me. I had to think of what was in it for Japan. I told them that if Japanese companies do not have access to the most up to date information in the world, then they will fall behind and the country will fall behind. [102]

The government was convinced enough to give Boisvert permission.

For the governments of Canada, New Zealand and Australia to develop economic plans and to guide their private sectors in profitable directions, they must make a concerted effort to understand what Japan wants and to help their private sectors move in those directions. For too long, the English speaking nations have decided that Japan cannot possibly work the way it does and therefore have avoided seeking to understand how the bureaucracy works and how to use that to their advantage as Boisvert's example shows.

On the investment front, there are also numerous issues. While the governments of Canada, New Zealand and Australia are interested in more of Japan's foreign investment, their general populations are not always so receptive

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[102]Roger Boisvert, 'Doing High Technology Business in Japan', presentation sponsored by Ladner Downs and Deloitte Touche, Vancouver, May 27, 1998.

and often send out negative messages. (Australia's Pauline Hanson, independent Member of Parliament, has stirred up a lot of these sentiments recently as have the Reform Party in Canada and the New Zealand First Party in New Zealand.) In all three nations, the governments have tried to explain the benefits of foreign investment with varying degrees of success.

Again, it must be recognized that Japan (both government and private sector) will continue to look out for what is best for Japan and its overseas investment policies will be formed accordingly. If Canada, Australia or New Zealand want more than they are getting out of the Japanese investments that do come, then it is up to them to make that clear. While the Asian nations, which are now receiving most of the manufacturing investment, often apply conditions (i.e. only in these sectors, only as a joint venture) to protect their own economies or nurture their own industries, many of the western democracies are reluctant to do so. In many instances, in fact, inter-state or provincial rivalries or a desire for political advantage have led to situations where the federal and/or provincial or state governments have not only not applied conditions but have actually offered much more in the way of inducements than the investing company actually anticipated or needed. The result is that investments are made as a series of individual decisions and neither the government nor the nation as a whole determines what is economically and socially best. Along the same lines, it is worth these nations looking again at Japan's manufacturing structure and deciding if they want to encourage investment that might make them part of that system. While they cannot offer the low labour costs of Southeast Asia, motivated well-educated workforces in economically stable societies could still be attractive to Japan, particularly for the second tier range of products.

The decade following the Plaza Accord saw Japan become stronger, not weaker. Japan has shown that it can function with a very strong yen (although the yen has weakened recently). Japan increased its overseas investment dramatically, altered its import mix away from resource products and toward low end manufactures, focused on strategic high technology sectors, emphasized the demands and tastes of its domestic consumers and begun a deregulation program in those areas where it believes deregulations will benefit Japan. Each of these changes had, and will continue to have, serious ramifications for Japan's trading partners, including Canada, New Zealand and Australia.

The changes in the Japanese economy, part of a rapidly shifting international economic system, are representative of the challenges facing national governments that attempt to control, monitor and direct international trade. For countries like Canada, Australia and New Zealand, which have substantial trade relationships with Japan, staying abreast of and responding to shifts in the Japanese economy is essential. Failure to capitalize on opportunities or to anticipate major shifts can (and has) caused domestic economic difficulty. The Japanese economic changes occurred at precisely the time that many western governments, the three under study here included, were changing from a government-directed economic order to a neo-classical model of political economy. Therefore, the responsiveness and adaptability of these western economies and governments provides a useful illustration of the utility of the 'smaller government' approach to the direction of national economies. The following three chapters look, individually, at how the three countries have responded to date.

Chapter Five
North Pacific Partners — Canada-Japan Trade Relations

> Implicit in Team Canada is the recognition that the private sector — not government — is the ultimate generator of wealth. It is individual Canadians and firms that innovate, that invent, that invest and that create new jobs. The Government, however, has a clear responsibility to 'get the big picture right' — to establish a fiscal, economic and policy framework that is conducive to wealth and job creation.[1]

I. Introduction

Although the neo-classical model has been advanced by its proponents as a 'solution' to the economic ills of all nations, the practical reality is that each country has responded quite differently to the pressures to conform to a more liberalized and globalized economic order. Canada has long suffered, and benefitted, from its proximity to the United States and has been constrained by the realities of close integration with the world's largest economy. For Canada, the most fundamental struggle has been between the relative ease of approaching the American market and the much greater complexity and difficulty of coming to terms with non-North American countries. Despite decades of rhetoric about Canada's prominent place on the Pacific Rim, the country has routinely wrestled with its social and economic relationships with Asia, particularly Japan.

While Japan is striving to re-orient itself in a changing world, Canada also began to realize a need to determine its future goals and direction. Recognition that the world is now indeed a global village has dawned and some discussion on

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[1]Minister of Supply and Services Canada, Canada's International Business Strategy 1996-97 Overview, p.3.

how Canada will make a home within that village has started. In addition, the decimation of the cod stocks in Newfoundland, the troubled west coast fishery and declining timber resources are ringing alarm bells about Canada's future dependence on primary industries. These concerns have generated some discussion at both public and governmental levels and Canada began to take more clearly proactive steps to secure its future. Michael Porter, in his 1991 analysis of Canadian competitiveness, summed up the situation. Until recently, he wrote, there was the belief that

> the Canadian economy could maintain an equilibrium — based on the sheer magnitude and quality of its resources, combined with a sheltered market — without a reduction in the Canadian standard of living. We believe, however, that the current situation is different. Increasing globalization of trade and investment, accelerating technological changes, rapidly evolving company and country strategies, and — more recently — the Free Trade Agreement with the U.S., represent significant discontinuities in the nature of international competition confronting Canadian-based industry....Although Canada's status as a wealthy nation is not in doubt, the risk is of a slowly eroding standard of living over the coming years.[2]

Canadians, in the late 1990s, were somewhat concerned about the future of their economy but unsure what steps to take to improve the situation and who should take them. The role of government in addressing these problems and in developing a national strategy has fluctuated throughout the latter part of the twentieth century. At the centre of much of this debate has been Canada's relationship to the United States.

The late 1950s saw the Conservative Diefenbaker government move in a nationalistic pro-European anti-American direction. (Plans were even made to shift about 15% of Canada's trade with the United States to Britain.) The

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[2]Michael Porter and the Monitor Company, Canada at the Crossroads, p. 5-6.

Liberals under Lester Pearson turned the country back toward the United States and signed the Auto Pact Agreement (a free trade agreement in car parts) in the late 1960s. When the U.S. economy weakened in the early 1970s, Canada again looked to Europe. The Contractual Agreement between Canada and the European Economic Union was signed but never went very far.[3]

The Liberal governments of the 1970s under Pierre Elliot Trudeau also attempted to plan a national industrial strategy. However, fighting among federal government departments and with provincial governments, each with its own agenda, along with an unsupportive private sector meant that Canada's industrial strategy did not really get off the ground.[4] The Trudeau regime was particulary committed to regional economic development, although few of the many schemes targeted at the poorer parts of the country did much more than consume large quantities of the government's largesse. Eventually, growing dissatisfaction with the failure of Liberal economic schemes, unhappiness with the cost and ineffectiveness of Crown corporations, western anger at perceived confiscation of regional resource revenues through the National Energy Program, and unease about the size and cost of the massive federal bureaucracy contributed to the demise of the Liberal Party in the 1984 election and provided the Conservative administration with a substantially free hand in its planned assault on government involvement in the economy.

The election in 1984 of the Progressive Conservative government of Brian Mulroney represented a watershed in Canadian political life, particularly in terms

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[3]Kimon Valaskakis, Canada in the Nineties. Meltdown or Renaissance? , p.61.
[4]Ibid., p.63.

of the role of government in the national economy with its promised a huge cut in government spending. They began an active campaign to downsize the government and to privatize numerous government owned enterprises. They sold off PetroCanada (the national energy company), Canadian National Railways, Air Canada and a variety of other Crown corporations. They reduced the role and the funding for regional development, slashed grants to corporations and generally reduced the role of government in the economy. The Post Office and some cultural agencies were the few government organizations to remain untouched. Surprisingly, this dramatic reduction in the scope and position of government elicited very little protest. The general public appeared either not to recognize or not to care (with the exception of the academic left who were generally ignored).

When the Liberals under Jean Chretien took power in 1993, they promised a more interventionist government. In fact, however, little changed. A few small support programs (such as those for east coast fishers) remained in place but even Crown corporations like the Canadian Broadcasting Corporation and the Post Office were required to operate on a more commercial basis. The mid-1980s to the late 1990s, therefore, have seen a much more severely limited role for the Canadian government with the one exception of macro-economic management (setting of interest rates, inflation fighting tactics etc.). Privatization and downsizing of government has seriously stripped away the ability and willingness of the Canadian government to intervene in the economy. The Canadian government has largely adopted the neo-classical approach to business management. Therefore, despite governmental attempts to streamline and focus international business efforts — most notably through Canada's International

Business Strategy and the Team Canada initiatives — the country's international trade profile had not yet adjusted significantly to reflect the new realities.

Canada's response to Japan's economic changes reveals the implications of this approach. As Canada's second largest trading partner and a strikingly important global trader accounting for 20% of world GNP,[5] Japan represents an opportunity for Canada to diversify both geographically, from an over-dependence on the United States, and sectorally, from its historical and contemporary emphasis on resource exports. Recognition of Japan's potential for Canada resulted in 1993 in the publication of Canada's Action Plan for Japan, a booklet which "articulates a set of principles and initiatives which are most appropriate to realize Canada's potential in seven of Japan's highest-growth sectors."[6] Nonetheless, while the value of Canada's exports to Japan have increased in the 1990s, exports to Japan as a percentage of Canada's total exports have declined. While Japan rapidly increased its imports of manufactured products, Canada has continued to export primary and partially processed goods. Many of Canada's recent initiatives have not yet had time to achieve results and success stories, such as the recent increase in exports of prefabricated buildings, indicating that a long-term healthy trading relationship with Japan is not out of the question. However, Canada still has a long way to go to capitalize on the potential of the Japanese market. The achievement of results will require a concerted, directed effort.

This chapter examines 1990s changes in the Canadian government's approach to international business development, with emphasis on Canada's

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[5]Department of Foreign Affairs and Trade, Canada's Action Plan for Japan 1996, p.1.
[6]Ibid., p.1.

investment and trade relations with Japan. The final section discusses the responses of the Canadian government and business communities to changes in the Japanese economy and considers the current status of Canada's trade relations with Japan. Throughout, the discussion reveals the tensions between the idea of a limited role for government and the opportunities for government leadership on the matter of international trade.

II. Canada's Trade Policy

A. The Administrative Structure of Trade and Investment in Canada

Canada is comprised of ten provinces and two territories and operates under a federal political system.[7] The provincial governments have primary jurisdiction over health, education and social welfare and are engaged in a continual tug-of-war with the federal government over further provincial responsibilities. Many of the provinces have provincial international business or trade ministries and some maintain trade offices abroad. (B.C., Quebec and Alberta all have trade offices in Tokyo.) On the federal front, the Department of Foreign Affairs and International Trade (DFAIT), formerly External Affairs,[8] has primary responsibility for the coordination of Canada's economic relations and the expansion of Canada's international trade.[9] Restructuring within DFAIT began in 1993 and by 1998 all activities, from general relations through to trade, relating

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[7]The provinces are British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Newfoundland. The territories are the Yukon and the Northwest Territories. The territories have less autonomy than do the provinces.
[8]The Department of External Affairs became the Department of Foreign Affairs and International Trade on November 12, 1993.
[9]http://www/dfait-maeci.gc.ca/english/infoweb/mandate.htm

to a country were coordinated out of one division. While DFAIT is responsible for Canada's international relations, Industry Canada focuses on national economic issues and domestic industry sectors.[10]

The main responsibility for investment rests with the Investment Development Section (also known as TBRI), in the Investment, Science & Technology, and Partnering Division of DFAIT. This Section's objective is

> to increase Canada's share of the world's inward foreign direct investment by attracting and retaining international business investment. In concert with geographic divisions, TBRI is to deliver a responsive Investor Servicing Program, a pro-active Promotional Investment Program and Corporate Services.[11]

An Investment Partnership Canada unit, jointly managed by DFAIT and Industry Canada, has also been created to target and service specific multinational enterprises.[12] For a while, Canada had a Foreign Investment Review Agency designed to review new investments and acquisitions and to regulate the operations of foreign corporations in Canada. The Mulroney government disbanded the Agency in 1985 and only investments of over $150 million are now screened.[13]

B. Trade Policy Priorities

Canada has four trade policy priorities: to manage the Canada-U.S. economic relationship, to support an effective World Trade Organization, to

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[10] http://www.ic.gc.ca/ic-data/ic-eng.html

[11] Memo from Robert Collette, Department of Foreign Affairs and International Trade, November 12, 1996.

[12] Ibid

[13] Tony Clarke and Maude Barlow, MAI: The Multilateral Agreement on Investment and the Threat to Canadian Sovereignty. (Toronto: Stoddart Books, 1997), pp.22, 36, 57.

improve international rules governing foreign direct investment and anti-competitive behaviour and to widen Canada's network of free trade partners.[14] According to DFAIT's Trade Policy Planning Division, these priorities have evolved through years of consultation with the public and private sectors.[15] There does not appear to be a clear process for the development of specific trade policy priorities and changes appear to happen gradually. While the federal cabinet is aware of these priorities, they do not require cabinet approval.[16]

The four trade policy priorities selected are an interesting reflection of the nation. While the focus on managing the country's relations with the United States is an understandable focus given Canada's overwhelming reliance on its southern neighbour, its other priorities, while admirable, are better suited to a country which truly is a global trader. Perhaps they reflect how Canadians, or the Canadian government, like to see themselves —as one of the world's greatest trading nations —rather than as a country which exports 82% of its goods to a single country. It is interesting that Canada does not choose to target the expansion of trade with a small number of countries. The fourth priority of widening Canada's network of free trade partners would seem to address this but the details reveal such a wide sweeping agenda —"encouraging the expansion of NAFTA", "building stronger ties with the EU", "pursuing a Free Trade Agreement of the Americas", "further the momentum of the Miami summit by

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[14]Minister of Supply and Services Canada, Canada's International Business Strategy 1996-97 Overview.
[15]Correspondence from Robert W. Eberschlag, Trade Policy Planning Division, Department of Foreign Affairs and Trade, 18 March 1996.
[16]Ibid

initiating discussions with the MERCOSUR countries (i.e. Brazil, Argentina, Paraguay, Uruguay)", "seeking further commitments across the Pacific with Canada's partners in APEC" —that there is little focus to the goal.

C. The Emergence of the Team Canada Approach

Most international business planning was previously done through a system of annual reporting from Canada's embassies and consulates abroad. Every post would identify the sectors holding the greatest potential for Canadian companies, the steps proposed to pursue these opportunities and the money required. Policy issues would also be identified and passed on to Ottawa at this time. Ottawa would then assign funds to each post to be spent on the activities identified. This system was later formalized and became the foundation for the development of an International Trade Business Plan.

The development of Canada's International Business Strategy (CIBS) began in 1990.. Reporting from the posts abroad continued but the main difference in the CIBS process was the desire to represent all of government's efforts, not just those of the one international trade department. Initially, CIBS began simply as a commitment between Industry Canada, External Affairs (now Department of Foreign Affairs and International Trade) and Investment Canada (now subsumed into DFAIT) to coordinate their activities to some degree[17] and to develop an international trade business plan together with the private sector. Gradually other departments and the provinces began to participate.

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[17]Communication with Jennifer Rosebrugh, Deputy Director, Trade Planning and Coordination Division, Department of Foreign Affairs and International Trade, December 1996.

In 1995 CIBS came to form the core of what the government now refers to as Team Canada initiatives — efforts designed to strengthen Canada's exports and "double the number of active Canadian exporters by the year 2000."[18] The Team Canada approach was adopted in response to the International Business Development Review Report submitted on September 30, 1994.[19] The report was written by L.R. Wilson, head of Bell Canada Enterprises, and twelve other Canadian business people recruited from various provinces and industry sectors. Their task had been "to review the federal government's international business development programs and services."[20] The review was sparked by an interest within DFAIT in obtaining a comprehensive private sector evaluation of the workings of the Ministry. The Minister of International Trade, Hon. Roy MacLaren, had been asking questions about how well the Trade Commissioner Service had been serving its clients, particularly as 1995 signaled the beginning of the TCS's second century of service. The private sector team concentrated on DFAIT but also looked at what some of the other eighteen departments with international business related programs and services were doing. One of the objectives of the study was to identify areas where funding could be cut.[21]

The report consists of an introduction and then twenty recommendations, some of which are quite broad and a few of which are more specific (for example,

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[18]Minister of Supply and Services Canada, Canada's International Business Strategy 1996-97 Overview, p.3.
[19]'Team Canada: Working Toward Canadian Success in International Markets', an address by the Honourable Roy MacLaren, Minister for International Trade, to the 52nd Annual meeting of the Canadian Exporters' Association. October 2, 1995, p.2.
[20]International Business Development Review Report, submitted to the Honourable Roy MacLaren, Minister for International Trade, September 30, 1994, p.1.
[21]Correspondence from Alan Virtue, Department of Foreign Affairs and International Trade, January 16, 1997.

the expansion of certain programs). The first of the report's recommendations was that there was far too much duplication of programs and services related to international business development and that "all federal and provincial activities relating to international business promotion be better coordinated, in part by strengthening the International Trade Business Plan by linking resource decisions within the context of this plan."[22] Recommendation 5 suggests the focusing of resources and attention:

> The Committee recommends the Government of Canada make difficult choices and focus, as other countries have done, on the sectors that the international marketplace is signaling as the growth industries of the future.[23]

Sectors listed as examples include advanced materials, bio-technologies, information technologies, advanced manufacturing technologies, medical, education and healthcare products and environmental industries. The report goes on to say: "We must focus our business development programs on geographic markets of greatest opportunity for Canadian business." Specific geographic markets, however, were not identified. Reaction to the report overall was mixed but generally favourable. The recommendations regarding the selection of specific sector and geographic markets on which to focus was very controversial. One DFAIT official summed it up this way:

> The recommendation stirred up all the old fears both within government and in the business community that good firms were going to be short changed because they were not in the sector or the country of 'the week'.[24]

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[22]International Business Development Review Report, submitted to the Honourable Roy MacLaren, Minister for International Trade, September 30, 1994, p.3.
[23]Ibid., p.5.
[24]Correspondence from Alan Virtue, Department of Foreign Affairs and Trade, January 29, 1997.

Geographic specifics were, therefore, not given and the sector list was indicated as the growth sectors for Canada over the coming years. Selling the recommendation involved a process that would see DFAIT defining core services for all sectors and markets with 'enhanced' levels of service for priorities.[25] The need for a process to review the chosen countries and sectors was also discussed. The Minister of International Trade thought that both the general idea of choosing target markets and sectors was a good one but he also recognized the difficulties and felt that it was vital that the 'client' be fully involved in making the decision.[26]

The purpose of Canada's International Business Strategy (CIBS) was, therefore, to develop the federal government's long range plans for international business development priorities through a consultative process between the government and the private sector. Following the establishment of the CIBS, representatives from Industry Canada, the Department of Foreign Affairs and International Trade, the provincial governments, industry associations and private sector companies began to meet twice a year as members of National Sector Teams to discuss and design sector strategies and to review proposed promotional activities for the year.[27] Currently, there are 30 National Sector Teams to match the industry sectors DFAIT chose as priorities.[28] CIBS attempts to streamline the promotion of international business by bringing together all of the various players involved in the export of Canadian goods. Industry Canada's

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[25]Ibid.
[26]Ibid.
[27]Correspondence from John Skeggs, Department of Foreign Affairs and Trade, December 13, 1996.
[28]Government of Canada, 'Working Towards Canadian Success in International Markets', p.1.

knowledge of the domestic market is combined with DFAIT's understanding of off-shore markets, the regional knowledge of the provincial international trade ministries and the hands-on expertise of the private sector. The National Sector Teams are allocated financial resources from cabinet (the one and only blueprint for allocating financial resources for international business programs and services) and each National Sector team consults on a regular basis and determines how that money is spent.[29] All international business promotion initiatives are to be approved by the National Sector Teams. In addition sub-groups of the National Sector Teams have been started for each of the sector's priority countries. Representatives from Canada's post in the country involved, DFAIT and Industry Canada join with people from the sector to determine direction and strategy for that sector in that country.[30]

By encouraging cooperation and assigning the National Sector Teams fiscal responsibilities, the federal government hopes to eliminate duplication and overlap in services. Agreements to participate in the CIBS process (a memorada of understanding, letter of understanding or letter of agreement) have been reached with all of the provinces and territories,[31] with the exception of Quebec. According to a Ministry official, the strength of that province's involvement in the National Sector Teams exceeds that of any other province[32]. Among other items, the provinces and territories agree to supply their "sector strategies and initial

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[29]Interview with Jennifer Rosebrugh, Deputy Director, Trade Planning and Coordination Division, Department of Foreign Affairs and International Trade, October 11, 1996.
[30]Telephone discussion with Maurice J. Hladik, Director of Trade Coordination and Advisory Committees Secretariat, Department of Foreign Affairs and International Trade, April 14, 1997.
[31]Interview with Jennifer Rosebrugh, Deputy Director, Trade Planning and Coordination Division, Department of Foreign Affairs and International Trade, October 11, 1996.
[32]Correspondence from John Skeggs, Department of Foreign Affairs and International Trade, December 13, 1996.

listings of proposed activities related to the CIBS early in the planning process" and "to provide timely input into the CIBS development and review process".[33]

Underlying the National Sector Teams are Regional Trade Networks. These networks are "a regional equivalent of the National Sector Teams, only they are horizontal rather than sectoral."[34] They bring together federal and provincial governments and agencies at the regional level to combine expertise and resources and thereby provide better service to the business community. They offer "training and counseling, and provide companies with market intelligence and international financing information."[35] The Regional Trade Networks also produce Regional Trade Plans which, while containing sectoral and market priorities, are primarily focused on mechanisms for service delivery.[36]

While the private sector is heavily involved in the National Sector Teams, further opportunities for industry participation on a policy level are also encouraged through Sectoral Advisory Groups on International Trade (SAGIT), made up of people from private companies and the International Trade Advisory Committee (ITAC), through which senior representatives from the private sector give confidential advice to the Minister of International Trade.[37] SAGITs were first created during the negotiations for the Canada-U.S. Free Trade Agreement.[38]

The Team Canada approach with its various initiatives including those

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[33]Government of Canada Memorandum of Understanding, Canada-Northwest Territories Cooperation, March 1996.
[34]Correspondence from John Skeggs, Department of Foreign Affairs and International Trade, December 13, 1996.
[35]Government of Canada, 'International Business Development — Team Canada'.
[36]Correspondence from John Skeggs, Department of Foreign Affairs and International Trade, December 13, 1996.
[37]Interview with Jennifer Rosebrugh, Deputy Director, Trade Planning and Coordination Division, Department of Foreign Affairs and International Trade, October 11, 1996.
[38]Ibid.

outlined here (CIBS, the National Sector Teams, the Regional Trade Networks) and numerous high profile Team Canada missions to a variety of Asian countries was an attempt to address the recommendations in the International Business Development Review Report. The government acted quickly. It was only a year and two days after the IBDR report that Minister MacLaren announced the Team Canada initiatives at the annual meeting of the Canadian Exporters' Association.[39]

The Team Canada initiatives were seen as a strong start at streamlining and focusing Canada's international business activities. However, while resources and personnel have become more focused, the government is still shying away from the fifth recommendation in the IBDR report which was to choose priority sectors and priority geographic areas. The political risks of choosing one sector or geographic area over another and alienating potential voters proved too great for the politicians. In July/August 1995, a DFAIT memo to cabinet outlining and calling for the adoption of priority sectors and priority countries got as far as the cabinet before being turned down. The closest the government came to prioritizing is summed up in Roy MacLaren's comment when introducing the Team Canada initiatives: "Although we shall continue to offer a broad range of support to all companies in all sectors, we shall be offering enhanced support in certain key areas."[40]

It is this desire to streamline and focus without specifying sectors and geographic areas that causes problems. For example, most of the difficulties with

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[39]The IBDR report was submitted on September 30, 1994 and the Team Canada initiatives were announced on October 2, 1995.

[40]Team Canada: 'Working Toward Canadian Success in International Markets', an address by the Honourable Roy MacLaren, Minister for International Trade, to the 52nd Annual meeting of the Canadian Exporters' Association. October 2, 1995

getting the National Sector Teams started and organized are related to the fact that there are so many of them. Initially, DFAIT planned to have only Sector Teams for those sectors where it thought the country's strengths lay but few well organized sectors were excluded. Those which have been excluded could well be added, at least as sub-sectors, if they lobby hard enough.[41]

As the industry associations were not the architects of the National Sector Team process, some of them have simply passively bought in to the process rather than taking a pro-active approach. The stronger and better organized of the industry associations (such as automobiles), wanted to take charge of the process. As of 1997, there were 23 National Sector Teams and many of these have working groups or Sector Teams to cover sub-sectors. The Agriculture and Food Products National Sector Team, for example, has 25 working groups covering sub-sectors such as beef, grain, wine and dairy.[42] These National Sector and sub-sector meetings involve provincial and federal bureaucrats from a number of departments and 23 teams meeting twice a year means a lot of meetings for the government participants. Ways to get around this problem — conference call meetings or exchanging as much information over the e-mail — have been tried.

Other problems with the system are not insurmountable; they simply require time to work out. Provincial budgeting schedules do not match with the budgeting schedules of the National Sector Teams with the result that often the provinces do not have their plans in place until after the National Sector teams must submit their list of approved expenditures. A more complicated challenge is

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[41]Interview with Patricia Cronin, Japan Division, Department of Foreign Affairs and Trade, October 10, 1996.

[42]Government of Canada, 'Working Towards Canadian Success in International Markets', p. 4.

making sure that everyone participates in the National Sector Team process by submitting all their planned international business expenditures to the teams for approval. Some federal departments are still trying to work around the system and budget for events which should be under Sector Team approval within their own budgets. The process, and the rationale, here are fairly simple: Government departments require funds to proceed with their own trade development activities and agendas. Waiting for the more cumbersome, consultative process to provide the necessary funds typically takes a great deal more time and the results are much less certain. As a consequence, many senior officials prefer to proceed within existing departmental operations.

Overall, while the federal government has recognized the need for a more targeted approach to key global markets, it has been reluctant to spell out what those are or to specify what it hopes to sell where. The second section of the CIBS overview has a few paragraphs on the potential of many of the markets in the world and each is presented in an equally positive term.[43] The International Business Development Report recommended funding cuts to DFAIT's headquarters operations, stating that "from a business perspective, the most valuable international business development service is that being performed overseas" and that the cuts should include cuts in both trade policy and trade promotion.[44] DFAIT, struggling under the effects of several consecutive years of

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[43]Canada's International Business Plan, Overview, pp.22,24, 37. ("Italy offers tremendous potential for Canadian commercial interests... A small and prosperous country, Austria offers good potential for Canadian business interests... While South Asia has not been a traditional market for Canadian goods, services and investment, this situation is rapidly changing."
[44]International Business Development Review Report, submitted to the Honourable Roy MacLaren, Minister for International Trade, September 30, 1994, p.8.

budget cuts, found its resources spread very thinly over a broad and complex set of responsibilities. Given that many of its headquarters and consular activities were formally mandated and not, like most aspects of trade promotion, discretionary, DFAIT is consistently worried that additional reductions in staff and resources will harm further its ability to perform its many tasks.

III. Contours of Canada-Japan Investment & Trade

At the same time that Canada was revamping its overall international trade strategy, there was a growing recognition that the government needed to pay more attention to Japan. Prior to 1992, there was not a coordinated strategy for Japan nor was there a perceived need for one. Japan was still seen as a relatively insignificant trading partner by most members of the business community — and it has traditionally been the business community from which the government takes its lead — and Canadian exports to Japan were increasing even as Japan's economy was slowing down.[45] Since 1993, all DFAIT activities (diplomatic, trade and investment) related to Japan took place out of one place — the Japan division — to ensure greater coordination. Until 1993, it would be safe to say that the Canadian government and the national business community did not pay much attention to the changes occurring in the Japanese economy and it did little to respond to those of which it was aware. America was simply too large and too dominant a presence within Canada. The latter part of the 1980s was taken up with discussions on the pros and cons of the Canada-U.S. Free Trade

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[45]Interview with Bruce Christie, Japan Division, Department of Foreign Affairs and Trade, October 10, 1996.

Agreement, so perhaps this is not too surprising. Canada's presence in Japan includes the Embassy in Tokyo, a Consulate General in Osaka and trade offices in Fukuoka (established in 1991) and Nagoya (established in 1992); the formalities of state are well-looked after between the two countries. Rather, it is the question of economic relationships and commercial possibilities that has attracted less attention that was warranted.[46]

A. Japanese Investment in Canada

The Canadian government, beginning in the early 1980s, was gradually stripping away the remaining vestiges of economic nationalism and encouraging greater foreign investment. The 1985 Investment Canada Act proclaimed that Canada is "open for business" and subsequent federal government investment policy decisions have been made with this in mind.[47] Canada had, and has, limits on foreign investment in, or foreign acquisition of companies in, financial services, broadcasting, cultural industries, fishing, uranium, telecommunications and transportation.[48] For the most part, however, the federal government has encouraged foreign investment and supported initiatives to open up the Canadian economy.

As mentioned, Japan's investment presence in Canada developed steadily through the 1980s. Japan became Canada's third largest investor, behind the United States and the United Kingdom. In 1986, following the Plaza Accord,

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[46]Canada's Regional Program in Japan — Ni-Ka On-line. Http://www/dfait-maeci.gc.ca/ni-ka/offices/regnprg-e.as
[47]Minister of Supply and Service, Investing and Doing Business with Canada, (Ottawa: Prospectus Inc., 1996), p.60.
[48]Ibid., p.61.

Japanese investment in Canada began to increase dramatically. While in 1984 Japanese invested $2.1 billion, by 1986 this had increased to $2.7 billion and by 1994 $5.9 billion and to $7.1 billion by 1997. (See Table V-1) Although these amounts paled in comparison with the massive American investments in the country, Japan nonetheless increased its share of total direct investment in Canada from 2.4% in 1984 to a peak of 4.3% in 1992 and 1994. (The United States' share declined during this same period from 75.3% to 64.3% in 1992.)[49] In 1997, Canada received 3.8% while the United States received 69.3% (see Table V-1). Most of the Japanese investment, it should be noted, came in the automobile sector, as Japanese firms sought to capitalize on the opportunity to secure specialized access to the American market under the Auto-Pact agreement.

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[49]Statistics Canada, <u>Canada's International Investment Position 1994 Catalogue 67-202</u>.

Table V-1
Japanese and US Direct Investment in Japan
1984-1995
(C$m and %)

	Japan	United States	Total
1984	2,074 **(2.4%)**	64,762 **(75.3%)**	85,964
1986	2,679 **(2.8%)**	69,241 **(72.1%)**	96,054
1988	3,582 **(3.1%)**	76,345 **(66.7%)**	114,480
1990	5,214 **(4.0%)**	84,353 **(64.3%)**	131,131
1992	5,899 **(4.3%)**	89,115 **(64.3%)**	138,696
1994	6,552 **(4.3%)**	101,514 **(66.4%)**	152,784
1995	6,702 **(4.0%)**	113,092 **(67.3%)**	168,077
1996	7,054 **(4.0%)**	118,261 **(67.7%)**	174,578
1997	7,123 **(3.8%)**	130,022 **(69.3%)**	187,586

Source: Statistics Canada, Canada's International Investment Position, 1994,1995 and 1997, Catalogue 67-202.

This post-Plaza surge in investment also saw Japanese investors begin to move away from the traditional resource areas and into a broader range of investments, including auto assembly and auto parts manufacturing, the processing of wood fiber into newsprint, and such services as hotels, banking and construction (see Table V-2). This diversification in investment was not unique to Canada. Japanese companies wished to take advantage of lower labour costs and overcome protectionist sentiments which were rising in the face of Japan's massive trade surplus. Production in Canada, particularly after the Canada-U.S. Free Trade Agreement, offered Japanese companies access to the lucrative American market without the tensions that production in the U.S. itself would bring. On a cyclical basis, key sectors (Wood and paper in 1988 to 1994, chemicals beginning in 1990, minerals and metals in 1990) attracted considerable attention. Many Japanese finance and other service companies followed the manufacturing companies so that they could continue to service them, resulting in sizable investments in finance and insurance. According to David Edgington, a Canadian geographer specializing in the study of Japanese business activity, in 1986, Canadian subsidiaries of Japanese banks handled close to 90% of Japanese financial activity in Canada.[50] By 1990 automotive, banking and service sectors accounted for 36% of all Japanese investment in Canada.

[50]Carin Holroyd and Ken Coates, Pacific Partners, p.134.

Table V-2 [51]

Japanese Direct Investment in Canada, by Industry, 1984-1995
(C$m)

	1984	1986	1988	1990	1992	1994
Food, beverages	9	9	15	38	24	25
Wood, paper	73	93	788	1096	1187	856
Energy	709	715	251	-63	130	194
Chemicals, textiles	15	1	7	220	240	226
Minerals, metals	124	125	415	747	927	925
Machinery, equip.	34	121	175	271	337	486
Transportation eq.	348	768	815	757	898	955
Electrical	89	182	225	281	302	278
Construction	4	4		178	270	278
Transport. Services	5	5	16	50	16	50
Finance/Insurance	201	328	576	888	842	982
Consumer Goods and Services	372	197	100	368	285	286
Other	91	131	200	384	404	414
TOTAL	2074	2679	3582	5214	5802	5849

Source: Statistics Canada, Canada's International Investment Position, 1994, Catalogue 67-202.

[51] Although both Table V-1 and V-2 were drawn from Statistics Canada material, the statistics reported by Statistics Canada were not consistent.

The late 1980s saw a large number of Japanese purchases of major hotel and resort properties in B.C. (see Table IV-3) and a gradual expansion of the auto plants as they worked to serve not only the Canadian market but the whole North American market. There are three Japanese-owned auto production plants in Canada: Honda Canada (started in 1986), Toyota Motor Manufacturing (1988) and CAMI Automotive (a Suzuki-GM Canada joint venture which commenced operations in 1989). The three are in southern Ontario, in Alliston, Cambridge and Ingersoll respectively. In 1995 these three plants produced over 391,000 units, about 16.5% of light motor vehicle production in Canada.[52] Over 85% of the vehicles produced at these plants were destined for export, primarily to the United States. The Honda, Toyota and CAMI plants represent a combined investment of about C$2.6 billion and employ approximately 5,400 people at full production.[53] Toyota announced plans in 1994 to invest C$600 million and build a second Cambridge plant which is scheduled to open in August 1997. Early 1997 saw the announcement of the investment of an additional C$400 million to enable the Cambridge plant to produce a new car.[54] Honda also announced plans in late 1997 to expand its Alliston plant.[55]

Supporting these three manufacturing plants are over twenty machine tool operations and manufacturers of auto parts and related materials which employ almost 14,000 people. Most of these plants commenced operations in the late 1980s and almost all of them are located in Ontario (see Table IV-4). In 1984 Pacific Automotive Cooperation or PAC was formed to facilitate Japanese

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[52]Japan Automobile Manufacturers Association, JAMA Canada Annual Report 1996, p.5.
[53]Ibid., p.4.
[54]Canada-Japan Trade Council Newsletter, January-February 1997, p.6.
[55] The Globe and Mail December 24, 1997, p.B1.

investment in the auto parts sector and particularly to assist with the formation of joint ventures between Canadian and Japanese companies.

Table V-3

Major Canadian Hotel and Resort Properties Purchased by Japanese Investors

Japanese Investor	Hotel/Resort Name	Location	Year
Tokyu	Pan Pacific	Vancouver	1986
Itoman	Harrison Hot Springs	Harrison	1987
Aoki	Westin Hotel	Vancouver	1988
Listel	International Lodge	Whistler	1988
IPEC/ICEC	Nancy Green Lodge	Whistler	1988
IPEC	Harbour Towers Hotel	Victoria	1988
Mutsumi	Whistler Fairways Hotel	Whistler	1988
Okabe	Coast Hotel/Motel Chain	Van./B.C.	1988
Okabe	Ramada Ren Hotel	Vancouver	1988
Palios	O'Douls Hotel	Vancouver	1989
Chotokan	Radium Hot Springs	Resort Radium	1989
Yamanouchi Pharmaceutical	Chateau Whistler (80%)	Whistler	1989
Crossroads Enterprises	Royal Oak Inn	Victoria	1989
Libest	Westbrook Whistler	Whistler	1990

Table V-4
Japanese Automotive Parts-Related Investment And Joint Ventures in Canada

Company	Type of Venture	# of Employees	Year Operational	Product Line
		Automotive Parts Manufacturers		
ABC Nishikawa	Joint	125	1989	Panels Parts
Atoma Int.	Joint	2,500	1989	Auto Parts
Alcoa Fujikura	Joint	270	1995	Wiring Harness
Bridgestone	Direct	2,175	1990	Tires
Canadian Auto Parts Toyota	Direct	161	1984	Aluminum Wheels
Craft Originators	Direct	75	1995	Labels & Emblems
DDM Plastics	Joint	596	1989	Plastic Bumpers
F&P Mtg.	Joint	408	1987	Stampings, Support Beams
Freudenburg-Nok	Joint	140	1991	Gaskets, Fuel System Parts
General Seating	Joint	290	1989	Seating
Intertec Sys	Joint	106	1995	Instrument Panels
Lear Seating	Licence Agr.	2,000	1984	Seat Frames
Manchester Plastics	Licence Agr.	1,230	1995	Door Trim
MSB Plastics	Direct	170	1989	Mould Compnents
Nichirin Inc.	Direct	224	1987	Hosing & Tubing
NTN Bearing	Direct	119	1973	Bearings
Omron Dualtech	Direct	160	1984	Auto Relays
Progressive Moulded Products	Sub-Contract	250	1984	Cooling Fans
Quality Safety Sys.	Joint	668	1987	Seat Belts
Rockwell Int.	Joint	480	1986	Suspension Systems
TS Tech Canada	Joint	100	1995	Seat Assemblies
Vuteq Canada	Direct	238	1989	Window Shields
Waterville TG	Direct	1,343	1986	Weather Strips
Yachiyo of Ontario	Direct	140	1990	Stamping, Welding
		Materials and Machine Tools		
Aclo Compunders	Joint	75	1986	Plastic Compound
Canada Mould Technology	Joint	49	1989	Dies
DNN Galvanizing	Joint	100	1993	Galvanized Steel
Monzen Steel	Joint	4	1996	Automotive Steel Coil
Sanyo Canadian Machine	Direct	52	1982	Assembly Line Equipment
Z-Line	Joint	55	1990	Coated Steel

Source: Pacific Automotive Co-operation Inc. (PAC), JAMA Canada Annual Report, 1996.

Investment in Canadian forestry by Japanese companies has a relatively long history and some important developments have occurred since 1985. The establishment of two pulp mills in northern Alberta is among the most important developments. In 1990 Daishowa opened a C$580 million bleached kraft pulp mill near the community of Peace River. The company signed a renewable twenty-year forestry management agreement to harvest an area of more than 24,000 square kilometres. The province spent C$65 million on road and rail access, including some of the costs incurred in building a new bridge to be used only by the mill.[56] The second mill was built by Alberta Pacific (a joint venture of three primarily Japanese-owned entities, with Mitsubishi Corporation being the dominant interest) between Athabasca and Lac La Biche. Alberta-Pacific has the forestry management rights to a 61,000 square kilometre area in northeast Alberta. It received C$275 million in subordinated debentures from the Alberta government which also invested about C$75 million in infrastructure costs.[57] Daishowa also purchased High Level Forest Products in Northern Alberta in 1990. Daishowa-Marubeni Ltd. (a joint venture between Daishowa Paper and Marubeni Corporation, a Japanese trading company) announced plans to build a C$900 million coated paper mill in Peace River, Alberta. The mill is scheduled to open in October 2001 and to employ 300 people.[58]

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[56]Carin Holroyd and Ken Coates, Pacific Partners; Larry Pratt and Ian Urquhart, The Last Great Forest: Japanese Multinationals and Alberta's Northern Forests (Edmonton: NewWest Publishers Ltd, 1994.)
[57]Larry Pratt and Ian Urquhart, The Last Great Forest p.151.
[58]Canada-Japan Trade Council Newsletter, January-February 1997, p.6.

Japanese companies have also moved into investments in value-added forest products. The Canadian Chopstick Manufacturing Company (45% owned by Mitsubishi Canada and 55% by Chugoku Pearl and Company) had a chopstick manufacturing operation in Fort Nelson, B.C. (It closed on April 1, 1997.) Mitsui Homes established a prefabricated homes manufacturing plant in Langley, B.C. Developments of this sort — Japanese companies working in Canada but exporting back to Japan — may give the impression that Canadian firms are rapidly expanding their trade with Japan. The reality is much simpler: Japanese firms have discovered that Canada is a relatively low-wage, high quality base for Japanese production. These are Japanese initiatives, not Canadian ones.

While Japan's investment in Canada has increased and a number of significant Japanese investments were made, Canada has failed to capture a full share of the Japanese foreign direct investment monies that were available. Canada received U.S.$7.8 billion or 2.6 % of Japan's cumulative total overseas investment for the fiscal years 1951-1994. In 1992 Canada received U.S.$753 in Japanese FDI, receiving $562 million or 2.2% of all Japanese overseas investments while Australia, with a smaller economy than Canada, received almost U.S.$24 billion or 7.4% of the cumulative total (1951-1994) and $1.9 billion or 6.3% of total Japanese investment in 1992 (see Table V-5). As can be seen in Table V-5, in 1994, both Australia and Canada received the same amount of investment. This was due to a sudden drop in Japanese investment in Australia (see Chapter Seven).

A comparison between Canada and the United States is also instructive: in 1993 when Canada received U.S.$753 million (2.2% of total Japanese investment), the United States received $13.8 billion or 40.5%. Therefore Canada received only 5.2% of the North American total, which is disproportionate to its share of the population.[59]

There are several key factors which explain Canada's low share of Japanese FDI. While some of the reasons may not be things the nation wants or is able to do anything about, such as its small market and lack of incentives to invest in order to reduce trade imbalances, addressing others is vital. Political and labour instability is a major factor. According to a 1994 Canadian Embassy report on trends in Japanese foreign direct investment: "It will be important to continue to stress recent favourable economic developments including the significant drop in cost per unit in Canadian manufacturing and changes in the exchange rate that have moderated the high cost position of a few years ago."[60] The report goes on to say: "A key challenge for Canada will be to demonstrate its advantages over the U.S. as a location for JFDI. Decisive factors considered by Japanese investors will be access to technology, improved productivity levels, exchange rates, taxation regimes, and labour climate."[61] However, the most important factor will be the ability of Canadian industry "to provide Japanese investors with investment opportunities in high growth knowledge-intensive industries."[62] Canada must have interesting investment opportunities

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[59]Carin Holroyd and Ken Coates, Pacific Partners, p.135.
[60]Stephanie LeBlond, 'Trends in Japanese Foreign Direct Investment to the year 2000', Canadian Embassy, 1994, p.14.
[61]Ibid., executive summary.
[62]Ibid., p.14.

to offer the Japanese if it expects to obtain money from them. There is a role for government to play in ensuring that these enticing investment opportunities exist and that the Japanese are attracted to them.

In September 1996, a *Keidanren* (Japanese Economic Federation) Business Partnership Mission came to Canada seeking to learn about investment opportunities and to find corporate partners. The Mission, instigated in response to an invitation from the Canadian government, was the first one to visit Canada since 1989 (around the time of the Canada-U.S. Free Trade Agreement).[63] Meetings were set up with business people in information technology, processed foods and building products. The goal, however, was as much to collect information on current Canadian conditions as it was to explore possible trade and investment opportunities and technological partnerships. The mission appears to have been successful as members were impressed by the vitality of Canada's software companies and by Canada's abilities in biotechnology.[64] The Infotech sector group recommended that a catalogue of Canadian information technology and telecommunications technology companies interested in the Japanese market be compiled.[65]

> The report of the Keidanren Business Partnerships Mission will be publicized in Japan by the mission members and the Keidanren Japan-Canada Economic Committee. It will be a key source of information on Canada for Japanese companies interested in trading or investing in Canada or developing joint ventures or other partnerships with Canadian companies. The positive tone of the report is an important boost for bilateral economic relations. While noting that Mission members learned much about Canadian economic conditions and competitiveness during

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[63]Koichiro Ejiri, Speech to the Canadian Chamber of Commerce in Japan in Canadian (The Canadian Chamber of Commerce in Japan Journal), Winter 1997, Volume 10, Issue 1, p.30.
[64]Ibid., p. 32.
[65]Canada-Japan Trade Council Newsletter, November-December 1996, p.10.

> their tour, the report emphasizes the need for Canadians to better inform themselves of changing trends and market conditions in Japan.[66]

The pattern of Japanese investments in Canada reveals that many of the significant decisions pre-dated the Plaza Accord. That the Japanese moved before the formal change in the value of the yen occurred reflected the nation's response to growing North American criticism of massive Japanese trade surpluses. The Japanese government was upset by pointed, and often bitter, condemnations of Japanese trade successes — the very trade situation that resulted in the collective demand for a re-valuation of the Japanese yen in the 1985 Plaza Accord.[67] Before the accord was passed, but in an atmosphere of widespread criticism of Japan and the expressed desire of the Japanese government and business community to head-off extreme action through voluntary initiatives, Japanese firms began to expand investments in Canada and other countries. To this extent, the Plaza Accord codified processes and understandings that were already in place; it remains a useful symbolic turning point in Japanese economic affairs.

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[66]Ibid., p.11.

[67]The best evidence of this is Shintaro Ishihara, The Japan that Can Say No: Why Japan will be First Among Equals, (New York: Simon and Schuster, 1991).

Table V-5

Japan's Foreign Direct Investment
Selected Countries
1984-1996
(US$m)

Country	1984	1986	1988	1990	1992	1994	Cumul. (1951-1994)	Cumul. %
Australia	105	881	2,413	3,669	2,150	1,265	23,932	5.16
Canada	**184**	**276**	**626**	**1,064**	**753**	**1,265**	**8,261**	**1.78**
China	114	226	296	349	1,070	2,565	8,729	1.90
Mexico	56	226	87	168	60	613	2,793	0.60
New Zealand	15	93	117	231	67	115	1,376	0.30
S. Korea	107	436	483	284	225	400	5,268	1.14
Singapore	225	302	747	840	670	1154	9,535	2.06
U.S.	3,359	10,165	21,701	26,128	13,819	17,331	194,429	41.94
Total	10,155	22,320	47,022	56,911	34,138	41,051	463,606	

Source: Pacific Basin Economic Council Statistics, 1996 (formerly Pacific Economic Community Statistics, 1988, 1990, 1994).

B. Japanese Trade with Canada

Japan is Canada's second largest trading partner, after the United States, and has been in this position since 1973.[68] Approximately 4-5% of Canadian exports go to Japan every year. In contrast about 82% of Canadian exports go to the United States and about 1-2% to each of the United Kingdom and South Korea, Canada's third and fourth ranked partners respectively. Canadian exports to Japan for 1995 totaled slightly under C$12 billion, a 24% increase over the previous year.[69] In 1996, exports dropped approximately 13 percent to C$10.5 billion.[70] (See Table V-6 which, to provide for greater comparability with New Zealand and Australian tables, reports the trade data in American dollars.) The decline in trade and in the Canadian percentage of total Japanese trade illustrates the degree to which Canadian firms — and the Canadian government — failed to anticipate the post-Plaza shifts in Japan. By not noticing the shift to a more consumer-driven economy, with a consequently lessening of Japanese reliance on imported raw materials, Canadian businesses had missed out on important business opportunities. Had Canada simply maintained its percentage share of the Japanese market, the nation would have done several billion dollars a year in additional trade. That it did not do so illustrates the direct cost of not anticipating major changes in patterns of international trade.

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[68]Ministry of Supply and Services Canada, A Review of Canadian Trade Policy, (Ottawa: Ministry of Supply and Services, 1983), p.218.
[69]Statistics Canada, International Trade Division, Exports by User Defined Groupings to Japan 1995.
[70]Klaus Pringsheim, 'Canada's Processed Food Trade with Japan (1995-96)' in the Canada-Japan Trade Council Newsletter, May-June 1997, p.2.

Table V-6

Canadian Exports to Japan
(US$m)

Year	Value	% of Total Exports
1989	$ 7,429	6.2
1990	7,135	5.6
1991	6,190	4.9
1992	6,073	4.6
1993	6,419	4.6
1994	6,857	4.3
1995	8,531	4.5
1996	7,471	3.7

Source: International Monetary Fund, Direction of Trade Statistics 1996 and 1997.

Canadian exports to Japan continue to consist largely of resource products (see Table V-7) although sales of machinery and transportation equipment are slowly increasing. Prefabricated buildings were the main success story with sales in 1995 increasing to a total of over C$130 million,[71] a jump of almost 140 % from the previous year. (While 1995 was an impressive year, the following two yeas were very sluggish for housing starts and Canadian lumber and prefabricated housing companies were affected.) Canada "surpassed the United States to become the world's largest supplier to Japan of pre-fabricated buildings."[72] Canada's success here can be attributed, at least in part, to the long term promotional efforts of the government, including programs like the B.C. Trade and Investment Office's 'Canada Comfort Direct'[73] and the 'Atlantic Canada Home Program', both of which aim to build product demand and awareness.

Canada Comfort Direct began in 1992 under the then B.C. Trade Development Corporation. As of 1997, to become a member, companies were vetted by the B.C. government to ensure that they were serious and ready to do business in Japan. Each company agreed to produce promotional material in Japanese, attend at least six trade shows and pay a $36,000 annual fee. The 1997 Canada Comfort Direct program contained three main parts. The first was the Canadian Building Products Showcase consisting of one big display and two smaller ones which were displayed all over Japan at trade shows, seminars and

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[71]Statistics Canada, International Trade Division, Exports by User Defined Groupings to Japan 1995.
[72]Department of Foreign Affairs and International Trade, Canada Export Vol.14 No. 4 March 4, 1996, p.1.
[73]Interview with John Tak, B.C. Trade and Investment Office, Tokyo, June 1996.

workshops. There was also a permanent building products display in one of the meeting rooms in the B.C. government's Japan office. Member companies were permitted to use these meeting rooms when they are in Japan on business. The second part was trade promotion seminars and workshops in which member companies participate. These were very successful with good attendance and strong interest shown by the Japanese attendees. Lastly, there was the incoming buyers' service. The B.C. government organized and arranged itineraries for Japanese buyers to go to Canada. In 1996 there were two or three of these buyers' missions a week.[74]

Canada Comfort Direct also helped Japanese builders through the steps of importing from Canadian manufacturers or consolidators. Direct links were made between Japanese industry and the Canadian companies through the B.C. government. According to Jim Anholt the program has been a major success. Many of those companies which did not participate were having difficulties in the Japanese market while those who did participate were doing well. In 1997-98, there were twenty companies in Canada Comfort Direct. All but three were from B.C. with one from each of Ontario, Quebec and Manitoba. Some companies which were members in previous years now have enough business on their own and no longer need Canada Comfort Direct's services.[75]

The B.C. government was very pleased with the program and soon invited the other provinces to join in. Not surprisingly, the other provinces refused as each wanted to start its own program. Atlantic Homes Canada (which began in

[74]Interview with Jim Anholt, Japan Representative, Government of B.C., Tokyo, October 6, 1997.
[75]Ibid.

1996) and the Quebec Wood Export Bureau (which first appeared in 1991 but only commenced full operations in 1996) are two resulting provincial initiatives. Quebec felt that participation in Canada Comfort Direct's costs was too expensive and the requirement to participate in a requisite number of trade shows too demanding so the Quebec Wood Export Bureau differed in these areas.[76]

The B.C. government, as a reflection of its desire to push the forestry industry toward more value-added products, encouraged the formation of the B.C. Woods Specialty Group in the mid-1990s. In 1997 the organization was made up of over one hundred value-added wood manufacturers in sectors ranging from furniture to structural components and housing components. Funding came from the association's members and from the provincial and federal governments. The B.C. Wood Specialties Group provided a referral service for companies looking for value-added wood products. It also arranged overseas trade missions and incoming visits and plant tours.[77] (Those companies who are part of B.C. Wood Specialties group get a 40% rebate from them for their participation in Canada Comfort Direct.)

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[76]Interview with David Beardsall, Director of the Economic Section, Délégation Générale du Québec, Tokyo, October 23, 1997.
[77]B.C. Trade and Investment Office, The 1997 International Directory of Canadian Building Products and Services, p.30.

Table V-7

Top Ten Canadian Exports to Japan 1995
(C$, 000)

Lumber logs and plywood	2,630,081
Wood pulp	1,585,631
Coal	1,229,190
Fish and seafood	873,255
Canola	812,990
Copper	560,925
Aluminum	453,202
Chemicals	400,025
Paper	357,910
Wheat	314,449

Source: Statistics Canada, Exports by Country, 1995.

Canada's contemporary trade profile with Japan (see Table V-7) differs little from its long-standing export list. While Canadian business has responded creatively, particularly in the automotive sector, to opportunities in the United States of America, it had not done so with Japan. The list of leading exports to Japan — lumber, wood pulp, coal, fish, canola, copper, etc. — is scarcely that of a significant industrial power. It is, instead, the market profile of a 19th century, pre-industrial economy, striving to establish a commercial base for itself. That the country had consistently turned its attention to the easier markets, selling manufactured goods and raw materials into the U.S. and, largely, natural resources to other industrial countries, had brought Canada considerable prosperity over the years. And although critics raised concerns about heading into the 21st century on the back of a pre-industrial resource economy, the country's continued strong performance in international rankings on standard of living and quality of life stripped away much of the urgency. For their part, the Japanese found Canada to be a receptive foundation for selling automobiles into the United States and a reliable source of natural resources needed in the Japanese manufacturing process.[78]

IV. Canadian Responses to Changes in the Japanese Economy

In one of its periodic statements about Canada's approach to Asia, the Asia Pacific Foundation concluded:

> Ten years ago, Canada lagged well behind other developed countries in paying attention to the rapidly growing Asian economies despite efforts in the late 1970s and early 1980s to increase our focus on Asia. Our

[78]For a review of developments relating to Canada's top exports to Japan, see Appendix One.

> preoccupation during this time was with the US market. Top-level negotiations which led to the Canada-US Free Trade Agreement sent a signal to business: look south. Only in the past few years has an awareness of the economic importance and benefits of greater trade and investment ties to Asia spread through the national, and a majority of our provincial governments, as well as parts of the private sector.[79]

In the late 1980s Peter Campbell, the then Director of the Japan Division of the Department of Foreign Affairs and Trade and now (in 1998) the Consul-General in Osaka, began to notice changes occurring in the Japanese economy.[80] He recognized that Canada was not in a good position to respond to these changes and noted that the country lacked a sense of what it wanted from the relationship with Japan.[81] Officials at the Canadian Embassy in Tokyo were also concerned. A Canadian Embassy report from 1992 noted that Canada did not appear to have paid much attention to the major changes in the Japanese marketplace, particularly the changes in Japan's import profile with its increased focus on manufactured products. As a result "over the past six years, Canada's overall trade performance in Japan has lagged behind that of all our major competitors (with the exception of the USA)."[82] As another Embassy official observed "Canada's share of Japanese non-oil imports dropped from 5.4 percent in 1985 to 3.9 percent in 1992. In Canadian dollar terms, the failure to hold market share meant a loss of $3.5 billion in export revenue in 1992."[83] The

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[79]Asia Pacific Foundation of Canada, Canada Asia Review 1997, p.9.
[80]Interview with Peter Campbell, Consul General for Canada, Osaka, Japan, November 1997.
[81]Interview with Patricia Cronin, Japan Division, Department of Foreign Affairs and Trade, October 10, 1996.
[82]J.M. Lambert and M. Taylor, Penetrating the Japanese Value-Added Marketplace: Strategies and National Approaches of Canada's Competitors, Canadian Embassy Report, September 1992, executive summary. The Embassy and DFAIT's Japan Division became the impetus for Canada's Action Plan for Japan which is discussed below.
[83]James M. Lambert,'Japan's Changing Marketplace: A Survey of Japan's Major Trading Partners' in Doing Business in Japan-An Insider's Guide, Canadian Chamber of Commerce in Japan, 1994, p.26.

report, which surveyed trade representatives from the U.S., U.K., France, Germany, Australia and New Zealand, concluded that the higher the proportion of value-added goods in a country's exports to Japan, the better.

All of the countries surveyed (except New Zealand), aimed to take advantage of this new opportunity and increase their exports of manufactured products.[84] Some commonalities existed in the trade strategies adopted by the countries surveyed. As described in the Embassy report, these included:

> developing an advocacy approach to persuade competitive firms to pursue the Japanese market seriously and overcome notions about its impenetrability; allowing the duration of Japan-specific trade initiatives to exceed those for other markets in recognition of the time required to establish a foothold in Japan; encouraging companies to view the Japanese market as a global one (by targeting sales to Japanese subsidiaries abroad, or by pursuing Japanese ODA contracts); enhancing prospects for success by working with Japanese partners, either through distribution arrangements, joint ventures, or by investment in, or acquisition of, Japanese firms.[85]

In the early 1990s the Canadian government realized that it must develop more concrete strategies for coping with the changes in Japan. The few Canadian firms which were exporting industrial machinery and equipment took advantage of Japan's dramatic increase in imports of these products from 1985-1991. Japanese imports of machinery and equipment from Canada rose 232.8% in this period and reached 4% of total Japanese imports from Canada. However, 85% of all Canadian exports to Japan were raw materials and resource products and the small growth in manufactured products could not offset the decline in the resource sector.[86]

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[84]J.M. Lambert and M. Taylor, Penetrating the Japanese Value-Added Marketplace: Strategies and National Approaches of Canada's Competitors, executive summary.
[85]Ibid.
[86]Carin Holroyd and Ken Coates, Pacific Partners, Chapter Seven.

V. Canada's Trade Relations with Japan in the Late 1990s

In 1993 the Canadian Minister for International Trade, Roy MacLaren, launched Canada's Action Plan for Japan. The Action Plan was developed with a focus on what Canada could do rather than on the problems in the Japanese market. DFAIT and the Embassy wanted the plan to be Canada's plan not the government's plan. To this end, DFAIT sought to spark industry involvement and leadership.[87] The private sector and the federal and provincial governments worked together to develop the Action Plan designed to "alert industry to the changing market conditions, encourage product adaptation and assist with product promotion."[88] Seven sectors, where it was thought a concerted effort could make a difference, were selected. For each sector, an industry lead group was developed. Sometimes this was an industry association; in other cases, a dozen or so of the top companies in the sector were approached to take this role. While DFAIT employees wrote the report (it was initially hoped that the industry groups would write the plan for their respective sectors), they "made sure that what went into the plan represented what our clients wanted, not what we in our ivory tower thought they needed." [89]

The first Action Plan was published in January 1994 (subsequent editions were published in November 1994, 1995 and 1996). The introduction to

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[87]Correspondence from Peter Campbell, Canadian Consul-General in Osaka, Department of Foreign Affairs and Trade, February 28, 1997.
[88]Department of Foreign Affairs and Trade, Canada's Action Plan for Japan, November 1995 edition, introduction.
[89]Correspondence from Peter Campbell, Canadian Consul-General in Osaka, Department of Foreign Affairs and Trade, February 28, 1997.

the 1994 Plan states that it represents "an integrated effort on the part of all federal and provincial governments in support of clearly articulated private-sector strategies for realizing our potential in the high growth sectors".[90] Peter Campbell says that the plan is short, to the point and rather unsophisticated. The goal was to create a plan that the business community "would actually read and use."[91]

The Action Plans represented a promising beginning and indicated that Canadian officials are aware of the implications of the changes in the Japanese economy. However, the plans provided only vague guidelines, not clear directions, and offer little real leadership. Much of the booklet consists of contact names and provides few clear indications of what must be done to capitalize on Japanese opportunities. Pat Cronin from the Japan Division of DFAIT argues, however, that contact names are what business people are seeking. They are not interested in the big picture or a strategy but simply in what will help them do business. The problem then is that the Action Plan is trying to be two widely different things: a tool for business people interested in exporting to Japan and a statement of Canada's overall plan of action with regard to Japan.

Nonetheless the strength of the Action Plans is that they clearly articulate a recognition of the importance of Japan as a trading partner for Canada, a desire to improve Canada's sales to Japan and the sectors through

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[90]Department of Foreign Affairs and Trade, Canada's Action Plan for Japan, January 1994 edition, Introduction.

[91]Correspondence from Peter Campbell, Canadian Consul-General in Osaka, Department of Foreign Affairs and Trade, February 28, 1997.

which this improvement should take place. As mentioned, seven sectors are highlighted in the Action Plans. These sectors are described as seven of Japan's highest-growth sectors but it is not clear if these particular sectors were chosen because of their specific long-term potential or because they are currently doing well. After two editions, two new sectors were added (consumer products/furniture and health care products/medical devices) and two others (aerospace and auto parts) were "'graduated' from the Plan."[92] The word 'graduated' implies that these sectors have realized their potential but how that was determined is not explained. Discussions with DFAIT employees clarified that placement in the Action Plan carries with it a guarantee of a certain status of funding. Aerospace and auto parts, strong industries with lots of money, do not need the help of the Action Plan.

The seven sectors in the 1996 Action Plan are building products, fish and seafood products, processed food products, consumer products/furniture, health care products/medical devices, tourism and information technologies. Only one of these — fish and seafood — is currently in the list of top ten exports at the moment. (See Appendix 1). The sectors chosen range from those in which Canada is doing very well (building products, fish and seafood) to those in which Canada shows potential but currently maintains low market share (processed food products, health care and medical products, information technologies and furniture). Tourism and the telecommunications section of

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[92]Department of Foreign Affairs and Trade. Canada's Action Plan for Japan, November 1995, Introduction.

information technologies fall in the services area and are therefore harder to quantify on a market share basis.

The Action Plans play a significant role as an indicator of the fields in which government foresees promise. Klaus Pringsheim, President of the Canada-Japan Trade Council, in noting the increase in Canadian processed food sales in Japan, attributes a portion of this increase to the highlighting of "processed food products as one of Japan's highest growth sectors...There is no doubt that this fact has encouraged Canadian processed food producers to step up their efforts in this area."[93]

Canada's exports to Japan remain much as they always have been. Forest products, fish, grain, aluminum and coal (more recently) predominate. While progress in diversifying exports and moving toward value-added products has been made, the impact has been slight. Canada is not insignificant to Japan — it is the seventh largest source of imports — but it is of limited interest. Many of Canada's exports could be purchased from other countries, sometimes at better prices. It is Canada's political and economic stability which most interest the Japanese who focus on long-term stability of supply of raw materials. If the trading relationship is going to expand and change, it will be up to Canada to make the changes.

That the pattern of Canada's trading relationship with Japan has remained so consistent suggests a lack of responsiveness to changes in the international trade environment. Government officials have, on occasion, indicated

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[93]Klaus Pringsheim, 'Canada's Processed Food Trade with Japan (1995-96)' in Canada-Japan Trade Council Newsletter, May-June 1997, p.4.

opportunities for expanded trade, and politicians have attempted a variety of consultative means of encouraging greater attention to the Japanese market. Canadian business, for its part, has remained locked into a North-South trade axis with the United States and only a few firms have re-tooled sufficiently to do business with Japan. The Japanese have generally found what they wanted in Canada and have, if anything, been surprised with how easily the country's political and administrative leaders have accommodated their interests. But when the federal-provincial division of powers is added to the unwillingness or inability of the national government to provide direction to the country's business community, it is clear that Canada lacks the political structures and political will necessary to respond quickly and effectively to international opportunities, even to when they involve a major and long-standing trading partner like Japan.

VI. Future Importance of Japan to Canada

The 1997 report by the Asia Pacific Foundation succinctly summarized Canada's current export situation with Japan:

> Exports to Japan have been strong for the past two years, reflecting Japan's slow economic recovery, the competitiveness of Canadian exports due to the low value of the dollar and better commodity prices. A pleasing aspect of the performance was the significant narrowing of our trade deficit, which, though persistent since the mid-1980s, was not excessive until the early 1990s.[94]

A less encouraging feature was the source of increased exports. While promising new areas like computer software and prefabricated buildings showed

[94] Asia Pacific Foundation of Canada, Canada Asia Review 1997, p.30.

strong growth, most of the increase was in the traditional area of raw materials and semi-processed goods like softwood lumber, copper concentrate, gold, wheat and meat. These are the products that dominate Canadian exports to Asia. While all export growth is of benefit to Canada, these traditional exports have neither the value-added nor the job-creating power of manufacturing, the sector where Canada lags most seriously in Asia. The much greater earnings from these commodities in 1995 largely reflected temporary price increases for a range of products. The handicaps in selling manufactured goods in Asia remain.[95]

> Nowhere is this lack of market penetration in manufactured goods more serious than in Japan. Our dependence on raw material exports to Japan is an Achilles' heel as demand for these products will stagnate or even decline as basic changes that are already underway in the Japanese economy evolve further. The most important of these are the aging of the population, deregulation of the economy and the shift offshore of a large portion of Japan's manufacturing industry.[96]

These comments by the Asia Pacific Foundation reflect a concern that this export portfolio is not in Canada's economic best interests. The APF, also, is evidently of the opinion that Asia, and particularly Japan, are of significance for Canada's future. Agreement on this, however, is not widespread and many Canadians, including some in government, are content for Canada to remain primarily an exporter of resources and automotive products to the United States. (The continued strength of the American economy during the 1990s has strengthened this viewpoint.) If this attitude predominates, particularly in government, then the future of the Canada-Japan trading relationship will remain

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[95]Ibid.
[96]Ibid., p.32.

unchanged. There will be the odd corporate or sectoral success story but generally Canada will remain a resource exporter to a country whose need for resources is declining.

The situation on the investment front is similar. Canada does not appear to have any particular plan for attracting Japanese investment. Therefore, while the country attracted some investment, it did not attract much relative to other nations. Canada is enthusiastic for results but the nation's recruiting efforts tend to be focused on attracting any investment from anywhere to anywhere in Canada. Provinces often compete for potential investments, working to outdo one another in the incentives they offer potential investors, often thereby offering more than would have been needed otherwise. Japanese investments in coal in B.C. and timber in Alberta invoked other examples of provincial efforts to lobby hard to secure investments which could well have arrived without the inducements.

Conflicting federal-provincial jurisdiction was mentioned as an investment obstacle in the 1992 Canada-Japan Forum 2000 report. Since then, the First Ministers of Canada (the Prime Minister of Canada and the provincial premiers) have been working to eliminate inter-provincial barriers to trade, investment and labour mobility.[97] There is still a great distance to go as interprovincial trade barriers and protectionist provincial regulations exist in sectors ranging from forestry to post-secondary education. Even more, a national investment strategy which determines the sectors and the conditions under which

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[97]Ni-Ka Online — Canada Japan Forum 2000 report http://www.dfait maeci....n/cajp2000 /section4.htm

investment is sought is needed. Some discussion as to what sectors need protecting is necessary. While the Asian nations, who are now receiving most of the world's manufacturing investment, often apply conditions (only in these sectors, only as a joint venture) to protect their own economies or nurture their own industries, many of the western democracies are reluctant to do so. The result is that investments are made as a series of individual decisions and the nation as a whole does not determine economic and social priorities. In the 1990s Canada protected industries it determined to be culturally significant such as broadcasting; potentially other resource or newly developing industries needed similar protection or assistance.

Canada's experience, reflecting a continued reliance on resource exports and an open market for foreign investment, has not served the country particularly well with regard to the changes in the Japanese economy. Is Canada, finally, up to the task of addressing the opportunities to be found in the world's second largest economy? The answer, to date, is mixed but far from favourable. The difficult task of understanding and working with the complex cultural and commercial realities of the Japanese economy continues to elude a country that, given its economic choice, prefers to rely on ready and assured access to the American market.

Canada's collective inattention to opportunities in Japan reflects the combination of a wide variety of factors. The most dominant reason is the most obvious: Canada's continued economic reliance on the United States. With the world's largest economy stretched out along a 3,000 mile undefended, economically permeable border, it makes little sense to many Canadians to seek out distant and uncertain markets. But Canadian officials at the provincial and federal level recognize the potential risks of this dependency and have endeavoured to guide the business community into a more pro-active stance. That many leading Canadian firms are branch plants or subsidiaries of major American corporations limits their interest in international expansion or their responsiveness to government entreaties. And given the diminished role of government in Canadian life, a legacy of the largely unsuccessful attempts to economic management in the 1970s and 1980s, it is clear that Canadian business generally does not expect the government to provide much leadership. Furthermore, the continuing tensions between federal and provincial governments stands as a routine break on creative, collaborative and consistent economic planning. Even with the rapid growth in the country's Asian-born population, there has long been a reluctance to develop trading opportunities on the other side of the Pacific ocean. Collectively, this has contributed to an attitude of complacency and to a lack of innovation in international trade and to a consistently weak performance in the Japanese marketplace. There are other difficulties: a limited culture of entrepreneurship, especially on the international front, a steadfast belief that resource production will fuel prosperity into the distant future, and a limited pool of risk capital in the country (and a strong pattern of corporate mergers and take-overs that had absorbed large portions of the nation's investment base).

Canada and Canadian business have not capitalized on the opportunities presented by the Plaza Accord and, with only a few exceptions, are not aware of what has been missed. In an era of business-led economic development, when the federal government has made only limited attempts at leadership and has devoted its efforts to consultation and trade missions, Canada has not participated significantly in the economic transformation of the world's second largest economy. While it is impossible to determine the precise 'cost' of inaction and missed opportunities, it is clear that Canadian businesses and therefore the Canadian economy have not exploited the openings created in post-Plaza Accord Japan.

In the final analysis, this is both a testament to the failure of laissez faire economics, and an indication of the peculiar, parochial tendencies of Canadian business and government. It is worth noting that the Department of Foreign Affairs and International Trade provided useful assessments of opportunities in Japan, and that politicians blocked significant attempts to push Canadian businesses toward these opportunities. Whether a more interventionist political regime would have produced better results is impossible to assess with any degree of validity. What is clear is that the current Canadian approach to international trade development failed to capitalize on one of the most significant economic transitions in the past fifty years and that the country has missed out on important, long-term development prospects as a consequence. If nothing else, the experience should raise questions about the legitimacy of a business-driven international trade agenda and about the developing pattern of political acquiescence to the dictates of Canadian business.

Proposing an alternate approach for Canada is limited by the rigidities of the political/constitutional system (and the country's ongoing preoccupation with the prospect of Quebec separation) and the North American nature of the

Canadian business community. The federal government has the financial resources and, through its embassies and other agencies, the market intelligence necessary to effect a change, but it has lacked the political will. The lingering memories of several decades of failed economic development projects have soured the Canadian public on the idea that the federal government might make careful and judicious investments of long-term national benefit, and continues to spur the movement in favour of smaller government. The response, or lack thereof, to the Japanese economic situation offers a compelling illustration of the potential costs of an economically inactive state and of the relative inability of a government that attempts to lead through consultation to shape a strong, rapid and consistent economic response.

Chapter Six
Kiwis and the Japanese: New Zealand-Japan Commercial Relations

> As the global economy develops and interdependence increases, most countries relate to the world on the basis of a strategy, despite varied political, cultural and institutional heritage. That strategy is aimed, with mixed success, at encouraging forex-led growth. It is clear that the development of a strategy is not a recipe in itself for success. But without it, success may be difficult to achieve. Japan and West Germany are countries that have successfully developed strategies and linkages within their economies to provide a competitive focus, with short-term directions always within a constant strategy.[1]

I. Introduction

More than any other country, New Zealand typifies the political and economic potency of neo-classical economics. The irony is quite dramatic. For much of the 20th century, New Zealand had one of the most strongly state-managed economies in the non-communist world. To the delight of social democrats around the world, New Zealand's economy produced a high level of personal prosperity and a stable economic and social system. When the system began to collapse in the early 1970s, advocates of a business-driven economic order came forward with radical prescriptions for the country's reformation. By the early 1990s, New Zealand had been transformed from a closed, highly protected economy to an open, competitive business environment. The country was very well-placed to respond, based on the leadership provided by the business community, to the opportunities of the globalizing economy. As such,

[1]New Zealand Trade Development Board, Ten by 2010— A Goal for New Zealand, May 1990, pp.10-11.

New Zealand provides an excellent test of the efficacy of a free market economy as a means of developing a national economy and capitalizing on opportunities for international trade.

For most of the 20th Century, New Zealand enjoyed the considerable benefits of a highly protected economy. The foundation rested on the imperial preference – assured access to the British market – which in turn guaranteed high prices and steady demand for New Zealand's natural products. The country became particularly adept at marketing agricultural products (sheep, beef and dairy products) to a highly receptive British market. Little effort was made, or was needed, to seek out additional purchasers.

Imperial preference provided the country with a spring-board to national prosperity. By the 1950s, the steady flow of New Zealand goods resulted in the country establishing one of the highest per capita incomes in the world. Further, the national wealth thus created encouraged governments flush with tax revenues and imbued with social democratic fervor, to expand steadily their social welfare programs, thus ensuring that the benefits of New Zealand's prosperity were widely distributed. A government-dominated economy was accepted by New Zealanders as an integral element of national life.

Government played a vital role in managing the business environment. As Peter McKinlay states:

> New Zealand's experience of government, from the late 19th century, was an interaction of these two main strands: the dominance of central government and the widespread acceptance of the attitude that, given New Zealand's peculiar difficulties, government had an overriding role to

intervene in order to bring about outcomes, which, although collectively desired, were seen as unlikely to ensue without government intervention.[2]

However, "historically, the goal of much of New Zealand trade policy was to encourage and subsidize New Zealand exports while protecting its firms at home and targeting particular industries for special favour."[3] The primacy of agricultural and rural society was entrenched through a complex web of farm subsidies and regulations. High tariff barriers and a full slate of state-owned enterprises provided government officials with active tools for the management of the national economy. The creation and protection of New Zealand-based manufacturing, with high tariffs keeping out imports in many key fields, followed logically. As Roger Kerr, Executive Director of the New Zealand Round Table notes:

> Prior to 1984 there was hardly a single area of New Zealand economic policy which could be termed even vaguely orthodox, liberal or outward-looking. Our industrial relations system was notorious for its inefficiency, inflexibility and adversarial nature. Macroeconomic policy was a shambles, and Keynesian demand management an article of faith. We had high personal tax rates, and a welfare state whose generosity was quite out of proportion to our ability to fund it. Capital markets were highly regulated. Anything that moved was licensed, and import protection was fortress-like. Most industries were chronically inefficient, and none more so than those that were delivering what we euphemistically called government 'services'.[4]

New Zealand's closeted economic and social world began to unravel in the early 1970s. Britain's determination to join the European Economic Community resulted in the elimination of the imperial preference that had

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[2]Peter McKinlay, Redistribution of Power? Devolution in New Zealand, (Wellington: Institute of Policy Studies, 1990), p. 10.
[3]Graham T. Crocombe, Michael J. Enright and Michael E. Porter, Upgrading New Zealand's Competitive Advantage (Oxford: Oxford University Press, 1991), p.143.
[4]Roger Kerr, 'The Business Experience of Economic Reform in New Zealand', Speech to the Japan/New Zealand Business Council 23rd Joint Meeting, October 17th 1996.

created and protected New Zealand's prosperity. The New Zealand government met the gathering economic crisis by rallying to the defense of the existing system. Farm subsidies increased and the government's commitment to protectionism remained in an increasingly desperate attempt to maintain the status quo. Segments of New Zealand's business community, concerned about mounting government debt, campaigned for new approaches to government, but initially to little avail.

The New Zealand 'revolution' hit in 1984, immediately following the election of the Labour Party in that year. Within an hour of becoming Prime Minister, David Lange was informed by his predecessor, Robert Muldoon, that the government was in serious financial difficulty. In the crisis-filled atmosphere which followed, a small group within government sought to restructure the New Zealand economy. Within a matter of months, radical measures were implemented, including a major currency devaluation.

The transformation of the New Zealand economy and government was dramatic in scale and impact. In addition to the rapid devaluation of the dollar, the New Zealand government eliminated most agricultural subsidies, turned government departments and statutory corporations into state-owned enterprises (which were privatized gradually), reduced government regulations, and substantially decreased the size and authority of the civil service.[5] New Zealand was transformed, with stunning speed and depth, from a government-controlled, centrally-managed economy to a free market, limited government business

[5]The New Zealand Treasury Department's analysis and comments on the economic issues facing New Zealand in 1984 are contained in a document entitled Economic Management published by the Treasury in July 1984.

environment. By the early 1990s, scarcely half a decade after the beginning of the changes, most vestiges of state-management had been eliminated. There was a complete retreat from the belief that government intervention is either necessary or recommended for economic success. As Peter McKinlay wrote, "Instead, almost as a 'swing of the pendulum' effect, the perceived failures of the policies of intervention of successive New Zealand governments have seen a growing concern that government intervention is to be avoided if at all possible."[6] Economic commentator Brian Easton goes even further, saying that "'Commercialisation' defined as the application of business principles to the public sector... became an all-encompassing application to all public sector activity, whether or not there was a problem."[7]

Business groups, particularly the influential New Zealand Business Round Table, urged the government to complete the revolution. This, undertaken by the National Party after the 1990 election, included a preoccupation with eliminating the deficit and the international debt burden (the latter completed in 1996), further reductions in tariffs and regulations, user-pay approaches to government services, and the application of business principles to government operations. Advocates argued, successfully in the main, that the internationalization of trade and New Zealand's growing reliance on export markets, required that business be left substantially unregulated in the management of market opportunities. As Rick Christie of Tradenz said, "... for the first time in decades, we are seeing exports driven by the fundamentals of our

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[6]Peter McKinlay, Redistribution of Power?, p.12.
[7]Brian Easton, The Commercialisation of New Zealand, (Auckland: Auckland University Press, 1997), p.26.

comparative and competitive advantages, rather than by historical/political relationships or centrally-driven subsidies and other economic distortions."[8]

While it is hardly surprising that New Zealand's business community would back a free market approach, the positive response of the government sector was in some ways, unexpected. Civil servants not only adapted to the new national situation but many of them were strong supporters, having advocated a need to move in this direction for years. Peter McKinley writes "It is clear, for example, that Treasury was advocating major reforms to the structures of both trading and non-trading activities of government well before the 1984 election."[9]

Civil servants were aided in accepting this stance by substantial reductions in the government payroll, staff reorganization, the sale of state enterprises to private owners, and the seeming success of the business model in reversing New Zealand's fortunes. Nonetheless, it is surprising that government officials, the very ones charged with managing the transformation of the New Zealand economy, now accepted as a matter of faith that government was to have only a minimal economic role. It is particularly striking that this acceptance of a much smaller government role remained after such a successful government-engineered transformation was complete.[10]

While New Zealand's metamorphosis assumed a great deal of attention, the impetus for these changes was external. It was New Zealand's realization that to function in the world of the 1980s, required more efficiency, more drive

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[8]Rick Christie in the New Zealand Trade Development Board's New Zealand in the Global Marketplace, August 1992, p.2.
[9]Peter McKinlay, Redistribution of Power? p.9.
[10]This perspective was confirmed through interviews with over a dozen Wellington-based senior civil servants and five Japan-based consular officials, 1995-1997.

and more awareness of the global marketplace. Nonetheless, in the late 1980s, New Zealand was caught up its own domestic turmoil and was too preoccupied at home to be paying much attention to economic changes occurring in Japan. While this was understandable, what is less clear is why New Zealand continued to delay making a detailed response to its second most important trading partner. As Japan quickly escalated its imports of manufactured products, New Zealand remained an exporter of primary products. As of 1998, the composition of New Zealand's exports had not changed dramatically and the civil service and industry associations had not undertaken a systematic attempt to create a new trading relationship with Japan or anywhere else.

II. New Zealand's Trade Policy

A. The Administrative Structure of Trade And Investment in New Zealand

New Zealand is a unitary state. Two government bodies deal with New Zealand's international affairs. The Ministry of Foreign Affairs and Trade [11] (MFAT) conducts the government's business with other governments and international organizations and is the principal agent for trade policy strategy and negotiations.[12] MFAT is supported by other government departments such as Treasury, the Ministry of Commerce and the Ministry of Fisheries in these areas. It also works closely with a crown entity, the Trade Development Board (also

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[11]From 1943-1970, this department was called the Department of External Affairs. In 1970, it became the Ministry of Foreign Affairs which it remained until 1988 when it was amalgamated with the International Trade Relations Division of the Department of Trade and Industry and renamed the Ministry of External Relations and Trade. The department assumed its current name in 1993. Ministry of Foreign Affairs and Trade, A Guide to the Ministry, p.4.
[12]Interview with Richard Nottage, Secretary of Foreign Affairs and Trade, September 5, 1997.

known as Tradenz), created in 1988 with a mandate to develop and expand New Zealand's foreign exchange earnings.[13] Responsibility for the direction and activities of Tradenz has been devolved to an independent Board of Directors, whose members come primarily from private enterprise.[14]

Responsibility for foreign investment now rests with a Foreign Direct Investment Advisory Group established in December 1991. The FDIAG is chaired by the Prime Minister and is composed of private sector members and representatives from the Ministry of Foreign Affairs and Trade, Tradenz and the Ministry of Commerce.[15] The Secretariat is housed in Tradenz along with the Tradenz Investment Services Group, whose help desk answers inquiries about investing in New Zealand. The Ministry of Foreign Affairs and Trade broadly promotes investment in New Zealand ('the green and pleasant land' approach as one official described it)[16] while Tradenz focuses on the sectoral and individual company level,[17] particularly by matching the interests of offshore investors with New Zealand investment opportunities.[18]

The Ministry of Foreign Affairs and Trade and Tradenz both came into their 1990s existence as part of the public sector reforms. The previous Department of Trade and Industry split off into three segments: the Trade Commissioner Service, which merged with the Market Development Board and

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[13]New Zealand Trade Development Board, Ten by 2010 — A Goal for New Zealand, May 1990. p.1.
[14]New Zealand Trade Development Board, The Strategy for the New Zealand Trade Development Board, May 1990, p.2.
[15]Interview with Richard Nottage, Ministry of Foreign Affairs and Trade, September 5, 1997.
[16]The comment comes from a New Zealand civil servant who asked not to be identified.
[17]Sandra Williams, To'aiga Su'a-Huira and Colin Campbell-Hunt, TRADENZ: Building a state agency for export development, Case Research Publication CRP1/95, (Wellington: the Victoria University of Wellington Printers, 1995), p.22.
[18]Communication from John Arathimos, Executive Officer, Foreign Direct Investment Advisory Group, Tradenz, March 18, 1997.

became the New Zealand Market Development Board, the forerunner to Tradenz; the Ministry of Commerce, which focuses on domestic issues; and the trade policy and negotiations section, which merged with the Ministry of Foreign Affairs to become the Ministry of Foreign Affairs and Trade.

The Ministry's trade policy function is complemented by Tradenz's "programmes to promote foreign exchange earnings."[19] The MFAT trade policy function is

> researching, monitoring, evaluating and analyzing information and developments and providing advice to Ministers on events, specific issues, legal obligations or comments on proposals from other departments which affect New Zealand's foreign affairs and trade interests with individual countries. It includes organizing visits and meetings and liaising and consulting with affected interests.[20]

The Ministry negotiates with other governments on market access and trading regulations, manages New Zealand's relationships with other nations, manages government programs such as Official Development Assistance and Asia 2000.[21] (Asia 2000 began in 1989 as a government initiative to encourage the business sector to begin thinking about Asia and has since attracted considerable corporate sponsorship.) MFAT has slightly over 600 staff, about one-third of whom serve overseas in 45 Embassies, High Commissions or Consulates. The Ministry is divided into seven regional divisions (Americas, Australia, European, Middle East and Africa, North Asia, South Pacific, and South/South East Asia) and four functional divisions (Development Cooperation,

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[19]Http://www.mft.govt.nz/Guide/function.htm
[20]Ministry of Foreign Affairs and Trade, Corporate Plan 1995-96, (Wellington: MFAT, 1995), p.12.
[21]Ministry of Foreign Affairs and Trade, <u>New Zealand Trade Policy: Implementation and Directions: A Multi-Track Approach</u>, (Wellington: MFAT, 1993), p.vi.

Economic, Environment and Multilateral Trade).[22] Tokyo, Washington and Canberra are MFAT's largest overseas offices. The Secretary of Foreign Affairs and Trade is the Ministry's Chief Executive.

In 1993 MFAT provided a detailed look at New Zealand's trade policy options, setting out New Zealand's trade policy objective — "to promote New Zealand's economic growth through trade and thus improve the living standards of New Zealanders on a sustainable basis" — and the four different policy tracks for pursuing this goal.[23] These four policy tracks are: domestic policy (ensuring that economic policies promote efficiency and improved export performance), the GATT (working with other countries for a successful conclusion to the Uruguay Round), regional economic groupings (the Closer Economic Relations, Asia Pacific Economic Cooperation, closer trading relationships with other trading partners) and bilateral negotiations. Within the field of bilateral negotiations (and keeping in mind, New Zealand's four main markets-Australia, the European Community, the United States and Japan) priorities have been determined.

> Too strict a segmentation of the world is a misleading approach for setting New Zealand trade policy objectives. But with six out of ten top export markets in the rapidly growing Asian region, Asia is clearly the priority area. Our strategy can be summed up as 'Asia first, but not Asia first and last.'[24]

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[22]Ibid., p.viii.
[23]Ibid., p.iii.
[24]Ibid.

In keeping with these policy tracks, the New Zealand government has played, and continues to play, an active role in GATT, particularly through the Cairns group on agriculture,[25] and in APEC.

The idea for both Tradenz, and its predecessor the Market Development Board, developed from a 1984 private sector steering committee recommendation that the work of off-shore Trade Commissioners needed to be supported and enhanced by a New Zealand-based business led organization.[26]

Tradenz set to work to develop a strategic direction for both itself and the country and quickly began by attempting to set a goal as to the amount of foreign exchange New Zealand needed to obtain to increase the country's GDP per capita levels and thereby its standard of living. In 1955 New Zealanders ranked eighth in the world for its standard of living but by 1987, had fallen to twenty-third.[27] In 1990 Tradenz published its vision document Ten by 2010, a Goal for New Zealand, which described the Tradenz goal of a top ten standard of living ranking by the year 2010. To achieve this, New Zealand's foreign exchange earnings had to increase from $18 billion in 1990 to $32 billion by the year 2010.[28] Increased foreign exchange earnings occurs by making products to sell overseas and by encouraging foreigners to spend money in New Zealand either as tourists or as investors.

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[25]The cairns group refers to the agricultural policy section of the Uruguay round talks aimed at updating the General Agreement on Tariffs and Trade.
[26]Sandra Williams, To'aiga Su'a-Huira and Colin Campbell-Hunt, TRADENZ: Building a state agency for export development, p.1-3.
[27]New Zealand Trade Development Board, Ten by 2010— A Goal for New Zealand, May 1990 p.3.
[28]New Zealand Trade Development Board, Ten by 2010— A Goal for New Zealand, May 1990. p.1.

The Trade Development Board brings together the private and public sectors. As many of the Board's directors are business people, the Board is able to act as a link and advisor from business to government. The reverse should also be true, in that the same mechanism could work to ensure the spread of information and ideas from government to the business sector. In practice, and clearly in government intent, the consultation flows from business to government.[29] Feedback from the business sector has been strongly supportive of having a government organization involved in export development without hindering the development of private sector services and initiatives.[30] Joint Action Groups (JAGs) were set up as a forum for discussion on strategic issues, sector priorities and implementation programs.[31] The first Joint Action Group, the Food and Beverage Export Council, was established under the Department of Trade and Industry, prior to the formation of Tradenz. Its purpose was to give the government advice on trade promotion. JAGs evolved over time to be designed to help industry members to develop their international market development strategy.

The JAGs, which include such groups as the New Zealand Wine Guild, the New Zealand Software Association and Constructive Solutions (the building industry group), decide on products, markets and promotional strategies. In 1998 there were 30 JAGS[32] with approximately 1100 exporters participating, a

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[29]Discussions with the Honourable Dou Graham, Minister of Justice, Government of New Zealand, Ottawa, Canada, 22 November 1998.
[30]Report of the Review Committee on Tradenz, July 1994, p.5.
[31]New Zealand Trade Development Board, Growth Through Forex — Brief to the Incoming Government, November 1990, p.34.
[32]Williams, Ifor Ffowcs, 'Hard and Soft Networks. Helping Firms Co-operate for Future Growth'', New Zealand Strategic Management, Summer 1996, p.32.

sizable percentage of the 1650 significant exporters in New Zealand.[33] Tradenz actively assists in the formation of JAGs but once the JAG has been formed, the participants take over and Tradenz staff attend meetings as observers only.[34] Each JAG determines its membership criteria, its goals and its projects. Shared market research and generic product promotion are examples of common JAG activities.[35] By the late 1990s, JAGs had yet to move into the area of product research and development. Tradenz provided limited funding for the JAGs, available competitively; the rest of the funding was supplied by the participant firms.

The JAGs worked out sectoral goals and then, with Tradenz assistance, determined target countries. JAG members went on their first visit to a country simply to get a feel for the market and learn a little about how things were done in that country. On the second visit, they might have met potential customers or agents and by the third visit were possibly ready to attend trade shows or more specific meetings. Tradenz's focus is on 'capabilities' and on determining what New Zealand companies can produce and matching that with an appropriate market. Eugene Bowen, Senior Trade Commissioner (Japan) notes, that in 1997 Tradenz began to look more specifically at markets and sectors in which they see potential and encourage the formation of a JAG in this area.[36]

In 1996, Tradenz had slightly more than 300 people on staff; over half of these were based offshore. Most of the overseas staff are local employees,

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[33]Sandra Williams, To'aiga Su'a-Huira and Colin Campbell-Hunt, TRADENZ: Building a state agency for export development, p.7-9.
[34]Ibid., p.9.
[35]Ibid., pp.7-9.
[36]Interview with Eugene Bowen, Senior Trade Commissioner (Japan) and Regional Manager, Tradenz, October 27, 1997.

including New Zealanders hired while abroad. There are 33 offices overseas centered on seven regional hubs: Singapore, Tokyo, Sydney, Hamburg, Los Angeles, Dubai and Santiago.[37] According to the 1994 report of the Review Committee on Tradenz, East Asia, particularly China, became the primary focus of Tradenz's initiatives since 1990.[38]

B. TRADENZ and the Development of New Zealand Trade Strategy

From 1992 through 1995, Tradenz published three documents[39] in which it described New Zealand's economic position and provided the outline of an export strategy designed to achieve the targeted progress in terms of foreign exchange earnings and addressing the issues which stand in the way of improved export performance. The documents were a valuable national exercise and a first attempt to identify potential markets.[40] While the three publications discuss the broad outlines of a strategic plan, Rick Christie, former Chief Executive of Tradenz believes that the responsibility of a strategic plan for New Zealand lies elsewhere. He observed:

> While it is not the role of Tradenz to develop a strategic plan for New Zealand, from our work with companies in the export sector we have concluded that an export strategy for New Zealand would not be out of place. It would certainly be very relevant if New Zealand is to succeed in deploying its scarce resources effectively and profitably.[41]

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[37]New Zealand Trade Development Board, New Zealand in the Global Marketplace, (Wellington: New Zealand Trade Development Board, 1992), p.6.
[38]Tradenz, Report of the Review Committee on Tradenz, (Wellington: Tradenz, 1994), p.26.
[39]New Zealand in the Global Marketplace (1992), Stretching for Growth (1993) and Stretching for Growth — Two Years into an Eight Year Journey (1995).
[40]Interview with Eugene Bowen, Senior Trade Commissioner (Japan) and Regional Manager, Tradenz. October 27, 1997.
[41]Rick Christie in the New Zealand Trade Development Board's New Zealand in the Global Marketplace, August 1992, p.2.

Responsibility for the development of this export strategy is unclear, although one Tradenz official suggested the Treasury department might logically take the lead. as a possibility[42]. It is also not clear what Christie envisaged as being encompassed by MFAT's New Zealand Trade Policy.

In 1997 Tradenz produced the final publication of this series in which it discussed some of the forces and changes likely to shape market opportunities in the coming decades. Its aim was to encourage New Zealand companies to consider these changes and the implications for their business activities.[43]

While the Tradenz documents provided a useful point of departure for discussion of a New Zealand trade policy, the use of these materials illustrates the underlying lack of national direction in this area. In a government wedded to the idea that economic leadership comes, first and foremost, from the business community, it is hardly surprising that government agencies are not rushing to take responsibility for the formulation of a 'national' plan. Such a government-initiated, centralizing initiative would run counter to declared government policy. Tradenz, therefore, has been limited to provide vague guidelines and, more commonly, export assistance at the request of business. It does not have and does not take responsibility for carving out a national international trade agenda.

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[42]Interview with Ifor Ffowcs Williams, General Manager, Strategic Development Unit, Tradenz, March 12, 1997.

[43]Tradenz, <u>Competing in the New Millenium</u>, (Wellington: Tradenz, 1997), p.1.

C. Role of Government

Tradenz has been greatly influenced by the work of Michael Porter on national competitive advantage. His 1990 book was the culmination of a five year research project based on the study of competitive advantage in ten countries.[44] Porter identified four main determinants of competitive advantage in international trade: factor conditions (for example, natural resources, location, climate), home demand conditions, related and supporting industries and firm strategy, structure and domestic rivalry. He analyzed each of these determinants and discussed their implications for company strategy and government policy. Porter concluded that governments must strive to stimulate the continual upgrading of the economy by shaping and influencing "the *context* and *institutional structure* surrounding firms, as well as the *inputs* they draw upon."[45] His examples include "stimulating early demand, confronting industries with the need for frontier technology through symbolic cooperative projects, establishing prizes to highlight and reward quality, encouraging rivalry" and other policies to keep upgrading and innovation on track.

In 1990 a group of New Zealanders led by academic Graham Crocombe examined New Zealand's economy based on Porter's methodology and findings, producing a report often referred to as the Porter Report.[46] Analysis of New Zealand based on Porter's four determinants indicated New Zealand's weaknesses:

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[44]Michael E. Porter, The Competitive Advantage of Nations, p.620.
[45]Ibid., p.620. Italics in original.
[46]Graham T. Crocombe, Michael J. Enwright and Michael E. Porter, Upgrading New Zealand's Competitive Advantage.

> The Porter Report showed that our exports can be broadly categorized as lower margin commodities sold into lower growth market segments. Our production tends to be based in primary industries that have low barriers to competitors' entry and are politically vulnerable as other governments protect and support their domestic producers and markets.[47]

The final chapter, 'Implications for New Zealand', discusses clear suggestions for government policy on areas ranging from upgrading New Zealand's human resources to stimulating domestic competition, upgrading the technological base, the transportation and communication infrastructure and local demand conditions and stimulating cluster and new business development. The chapter ends with comments on the formation of a new business government relationship in New Zealand:

> The New Zealand government should move forcefully to embrace a new role, one that focuses on creating an environment in which New Zealand firms can prosper. Government must put in place the institutions and policies that provide the pressures, incentives and opportunities for New Zealand firms to improve and upgrade. This is a very different role from, and a far more subtle one than either heavy intervention or a strictly hands-off policy. This new role will also require a change in mindset in both government and a business community that too often sees government as both the source of and solution to its problems.[48]

Tradenz responded to a number of the Porter Report recommendations, particularly those which focused on the areas in which government should <u>not</u> be involved. The government started a number of initiatives to stimulate the development of industry clusters (including the film industry in Wellington, forestry and forest engineering in the Rotorua area, the marine industry in Auckland). The Ministry of Foreign Affairs and Trade's <u>New Zealand Trade Policy</u>, as previously discussed, is a comprehensive look at what the government

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[47] New Zealand Trade Development Board, <u>New Zealand in the Global Marketplace</u>, p.13.
[48] Graham T. Crocombe, Michael J. Enwright and Michael E. Porter, <u>Upgrading New Zealand's Competitive Advantage</u>, p.177.

of the 1990s saw as its role in direction setting and spelt out governmental involvement in breaking down trade barriers to allow New Zealand to compete on a more level playing field. Other of Porter's recommendations were not quickly adopted, including educational and technological upgrading, symbolic cooperative research projects or government white papers which signal possible directions for the private sector. Other initiatives, like Asia 2000[49] and Focus Latin America (a 1996-1997 program to highlight the market potential of Latin America through the media and governmental announcements) and the formation of the Joint Action Groups are along the line of Porter's recommendations.[50]

Porter's work assumed importance within New Zealand but much more on the marketing than the policy side.[51] The overall philosophy of the New Zealand government, and the people who work for it, has been a laissez-faire approach. More discussion on the appropriate role for government could still occur. As Douglas Myers, former Chair of the New Zealand Business Round Table stated:

> The relevant debate is not about big government or small government, do-everything government or do-nothing government. It is about what constitutes good or efficient government: governments doing the right kind of things — the things that only governments can do — and doing them well.[52]

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[49]Asia 2000 focusses on increasing awareness of Asia in New Zealand. Among other activities, Asia 2000 assists New Zealand journalists to visit countries in the Asian region, offers trade and investment seminars to help New Zealand business people establish contacts in Asia, organizes Asia 2000 week for the community at large and works to increase the study of Asia (including Asian languages) in New Zealand schools and universities.
[50]Interview with John Jenner, Deputy Chief Executive Office, Tradenz, Wellington, New Zealand, 5 September 1997.
[51]Interview with Richard Nottage, Secretary of Foreign Affairs and Trade, September 5, 1997.
[52]Douglas Myers, Chairman of the New Zealand Business Round Table, 'The Role of Government in the Business Sector', MBA Programme 1992 Contemporary Issues Lecture, University of Canterbury, 30 October 1992.

Debate about 'the right kinds of things' government can do, along the lines that Porter discussed — the organization of cooperative research projects, signaling, high profile awards, long term planning — is useful. Myers also argued that "the ingredients of good government today are now widely understood around the world,"[53] but this is not completely true. While there may be agreement, at least in most of the western world, that private entrepreneurs and not governments create wealth and that a government's role is to get the infrastructure and the setting right so that business can get on with producing and selling goods and services. Definitions of 'getting the setting right' vary considerably. Most East Asian governments clearly believe that effective government involves leadership, having a national economic plan (beyond the elimination of trade barriers) and, to some extent, showing business what could be possible. They do not embrace the idea that the growth of the private sector should be entirely in the hands of business.[54]

In New Zealand, the residue of the old, interventionist order remained in place, and government retained an active role (particularly when compared internationally) in the provision of basic social services, welfare, health care and education. Where government policy is more consistent with neo-classical models is the acceptance of a limited role in the ownership and management of the national economy. Under the National Party, New Zealand has pursued an active policy of 'getting the fundamentals right'[55] and providing an open,

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[53]Ibid.
[54]Interview with Simon Tucker, Ministry of Foreign Affairs, Wellington, New Zealand, 5 September 1997.
[55]This is the definition offered by Minister Douglas Graham, Minister of Justice and long-time National Party cabinet minister, in a November 1998 discussion.

competitive and favourable environment for business. The national government and the state civil service appears to accept the argument that business is best left to the business community, a philosophy that runs counter to the East Asian economic model.

D. Trade Policy Priorities

The Ministry of Foreign Affairs' publication New Zealand Trade Policy: Implementation and Direction, as discussed earlier, provides an overview of what the New Zealand government sees as its trade policy objective (the promotion of the nation's economic growth through trade) and the four main ways it aims to achieve this. Along with efforts to improve New Zealand's domestic structure (everything from immigration to transportation to industry assistance), the primary focus of New Zealand's trade policy has been to improve market access and trading regulations and strengthen diplomatic and trading relationships whether this is achieved multilaterally, regionally or bilaterally.

The Ministry of Foreign Affairs and International Trade's Corporate Plan 1995-96 identified a number of key economic and political objectives on which the government intended to focus. These included pursuing and enhancing an open, international trading system, improving upon key economic relationships, asserting a greater role for New Zealand in the wider Asia-Pacific region, building New Zealand's reputation as a responsible international citizen and acting internationally in support of the environment and sustainable development, and promoting New Zealand's Antarctic interests. The only specific trade related priority is the second one – moving key economic relations to a new level. As part of this objective, the Ministry noted that it planned to continue discussions with ASEAN on possible links between CER and the ASEAN Free Trade Area, to conclude a Trans-Tasman Mutual Recognition

Agreement and to continue discussing with Chile the possibility of a Free Trade Agreement.[56]

These major policy statements on New Zealand's international trade priorities represent the public manifestation of a complex consultative process. Under the 1990s approach to the management of the national economy, the government works closely with the business community in the development of national priorities and the identification of future opportunities. To a substantial degree, the economic sections of the nation's foreign service agencies see their function as working alongside New Zealand business in the cultivation of markets.[57] New Zealand has an advantage, as well, in the small size of its civil service. Interagency and field-headquarters liaison is generally quite open and supportive. Whereas larger states generally develop policy within agency or departmental limits, bringing more fully formed statements forward for general discussion, New Zealand has and often takes the opportunity to cultivate contacts, share ideas and prepare more consultative plans with other government and business groups and individuals.

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[56]Ministry of Foreign Affairs and Trade, Corporate Plan 1995-96, p.6.
[57]Interview with Richard Nottage, Ministry of Foreign Affairs, Wellington, New Zealand, 5 September 1997.

III. Contours of New Zealand-Japan Investment and Trade

A. Japanese Investment in New Zealand

New Zealand defines foreign direct investment as consisting of those investments by non-residents that are equal to or greater than 25% of a corporation's voting share capital. This is seen as the minimum ownership which gives the investor some "control over the management and activities of the business."[58] Since 1985, with the exception of investments in broadcasting, commercial fishing within the Economic Exclusion Zone and rural land, investments below NZ$10 million have not required government consent. Those investments valued at over NZ$10 million must be approved by the Overseas Investment Commission. However, very few applications are turned down.[59] While the government sees foreign investment as vital to New Zealand's economic future (former Prime Minister Bolger has said that in order to maintain current levels of development $10 billion in new investment is needed annually),[60] the general public is not convinced and quickly becomes wary of announcements of investments from overseas, particularly Asia. Roger Peren summed it up well when he wrote:

> Though most New Zealanders seem to be broadly in agreement about the benefits of foreign investment, and prepared to acknowledge the historical importance of British, Australian and American capital in our own development, there is still quite frequent criticism of particular new projects or of sales which might lead to 'foreign ownership'.[61]

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[58]Pat Colgate and Kathryn Featherstone, 'Changing Patterns of Foreign Direct Investment in the Pacific Region: New Zealand Country Paper', Report to PECC, (Wellington: New Zealand Institute of Economic Research, May 1992), p.3.
[59]Ibid., p.3.
[60]'Japanese investment likely to halve as boom-year growth subsides', The National Business Review, July 24, 1992, p.2.
[61]Roger Peren in the introduction to Ian Duncan, 'Foreign Direct Investment Benefits and Costs', New Zealand Centre for Japanese Studies, Working Paper No. 5, November 1992, p.1.

One of the election platforms in 1996 of the New Zealand First party (subsequently part of the ruling coalition government) was a strong stand against 'too much' foreign ownership and immigration. A 1994 National Research Bureau survey found that "the predominant position of New Zealanders with regards to Asian investment is that they have mixed feelings about it (46%) with a near balance among those who think it is good for New Zealand (25%) and those who think it is bad (18%)."[62]

Australia, the United States, the United Kingdom, Japan and Germany have, through the 1990s, accounted for over 90% of foreign direct investment in New Zealand. Australia is the largest cumulative foreign investor followed by the others in the order listed above. The majority of investment by all these nations took place after 1985 when New Zealand began to liberalize its trade and financial sectors.[63] Brian Easton argues that

> independence of the New Zealand government was bought at the price of surrendering the ownership of New Zealand business to overseas concerns, for they covered the gap in the shortage of local savings. Today over half of the members of the New Zealand Business Roundtable (a private sector sponsored think tank which contributes extensively to public discussion on New Zealand's economy) run firms which are largely overseas-owned. The New Establishment has become hostage to foreign investors.[64]

There is growing recognition that foreign ownership of New Zealand exacts a price. The increase in foreign ownership of major Kiwi companies and the retirements of a generation of business leaders prompted an April 1998 article in

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[62]R.D. Cremer and B. Ramasamy, Tigers in New Zealand? The Role of Asian Investment in the Economy (Wellington: The Institute of Policy Studies, 1996), p.1.
[63]Published data on direct foreign investment in New Zealand is difficult to find and often requires the use of data supplied by the investor countries. As a consequence, detailed statistical information is not available to the same extent as it is for Australia and Canada.
[64]Brian Easton, The Commercialisation of New Zealand, p.120.

the *New Zealand Sunday Star Times* to ask the question, "Who is left to lead Corporate New Zealand?"[65] Including unlisted companies and State Owned Enterprises, over half of the largest 50 companies in New Zealand were either completely foreign owned or controlled in 1998. Some of the biggest of these include Telecom (78% foreign ownership), Carter Holt Harvey (80%), Fletcher Energy (58%), Fletcher Paper (55%), Fletcher Forests (65%), Wilson & Horton (99%) and Lion Nathan (75%)[66].

Japan invested in New Zealand through the 1980s at a slow although relatively steady rate. During the period of Japan's dramatic increase in overseas foreign investment (1985-1989), however, New Zealand received nowhere near the levels of investment that Japan made in other countries.[67] (This applies however the investment relationship is assessed — as a total sum or on a per capita basis.) Not only were countries like the United States and the United Kingdom receiving large sums of Japanese investment but so were the Netherlands, Singapore, Hong Kong and Australia. New Zealand, however, as of 1985 had received only 0.3% of all Japanese offshore investments and the percentage was probably lower in the following years. Not only does Japanese investment in New Zealand represent a tiny portion of Japan's total overseas FDI but it is also a small portion of total FDI in New Zealand. With the exception of 1990, "Japanese investment has never exceeded 3% of total net FDI flows into New Zealand."[68]

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[65]Daniel Riordan, 'Who is Left to Lead Corporate New Zealand?', Sunday Star Times May 3, 1998, p. D1-2.
[66]'Foreigners own more than many realise', Sunday Star-Times, May 3, 1998, p. D5.
[67]Ian Kennedy, Japan and New Zealand: Adding Value, p.186.
[68]R.D. Cremer and B. Ramasamy, Tigers in New Zealand? The Role of Asian Investment in the Economy, p.64.

Table VI-1

Japan's Foreign Direct Investment
Selected Countries 1984-1996
(US$m)

Country	**1984**	**1986**	**1988**	**1990**	**1992**	**1994**	**Cumul. (1951-1994)**	**Cumul. %**
Australia	105	881	2,413	3,669	2,150	1,265	23,932	7.4
Canada	184	276	626	1,064	753	1,265	8,261	2.6
China	114	226	296	349	1,070	2,565	8,729	1.9
Mexico	56	226	87	168	60	613	2,793	0.9
New Zealand	**15**	**93**	**117**	**231**	**67**	**115**	**1,376**	**0.4**
S. Korea	107	436	483	284	225	400	5,268	1.6
Singapore	225	302	747	840	670	1,054	9,535	3.0
U.S.	3,359	10,165	21,701	26,128	13,819	17,331	194,429	60.4
Total	**10,155**	**22,320**	**47,022**	**56,911**	**34,138**	**41,051**	**463,606**	

Source: Pacific Basin Economic Council Statistics, 1996 (formerly Pacific Economic Community Statistics, 1988, 1990, 1994).

Until the late 1980s, there were no policies or government-directed activities to attract investment into New Zealand from anywhere, including Japan. Around this time, concern began to be expressed by the Japan New Zealand Business Council about New Zealand's small share of Japanese investment and the relatively low number of investments occurring outside the real estate, tourism and transportation sectors. Although the general public and many leading politicians remained nervous about encouraging overseas investment, cabinet ministers began taking trips to Japan to promote investment in New Zealand and an investment counsellor was attached to the Embassy in Tokyo from 1992 to 1994. The government used the investment counsellor to spark private sector interest in encouraging Japanese investment into New Zealand. The government's commitment to the development of investment leads and business opportunities was limited to the creation of initial private sector interest. The government strategy was to open the office, demonstrate the opportunities, and then remove the Japan-based position.[69]

In 1990 the Japan, New Zealand Business Council published a report on Japanese foreign direct investment in New Zealand. The report was initiated by the Council's perception "that investment between Japan and New Zealand is inadequate relative to the growth in Japanese global investment, as a proportion of the growing trade between the two countries and relative to other countries which welcome investment."[70] Along with a synopsis of the current investment situation, the Council went on to explain its views on the problems of attracting

[69]Interview with Richard Nottage, Ministry of Foreign Affairs, 5 September 1997.
[70]Japan New Zealand Business Council, Japanese Direct Investment in New Zealand, (Wellington: Japan New Zealand Business Council, 1990), p.3.

Japanese investment to New Zealand and recommendations on how to address these shortcomings. A number of the problems the Council cited (such as competitiveness, policy stability, internal cost structures) were a focus of the government in the 1990s and improvements have been made while others required changing a Japanese perception (for example that New Zealand is too small and too far from other markets to warrant investment). The final group of problems are those of lack, or perceived lack, of commitment, coordination or strategy and will be addressed later.

Japanese investment increased in 1990 and 1991 but fell again as the glow of New Zealand's economic restructuring and privatization began to fade. (See Table VI-1.) Even at its peak, however, Japanese investment in New Zealand did not represent more than 0.6% of Japan's total foreign investment, putting New Zealand on par with Bermuda and Italy.[71] While visiting at the New Zealand Institute of Economic Research in 1991-92, Professor Masahiko Ebashi completed a study of Japanese companies in New Zealand and discovered that "as far as Japan is concerned trade is directly linked with investment. The 43 of 59 major Japanese companies operating here who responded to his survey accounted for more than 44% of all New Zealand exports to Japan in 1990-91."[72] This data suggests that little of New Zealand's trade with Japan has been the result of any Kiwi initiative; as in other areas of the New Zealand-Japan relationship, Japan and the Japanese companies provided the primary initiative. This conclusion is also backed by the results of a New Zealand Institute of

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[71] 'Japanese investment likely to halve as boom-year growth subsides', The National Business Review, July 24, 1992, p.2.
[72] Ibid.

Economic Research survey which found that "In terms of innovation, the most common source of new product ideas was the Japanese participant, rather than the New Zealand manufacturer."[73]

The diversity of Japanese investment in New Zealand increased in the late 1980s through the early 1990s. (See Table VI-2.) Forestry (timber and pulp) and auto production were major areas of manufacturing investment. Interest in New Zealand's agricultural sector grew, particularly in the production of venison and beef, pumpkin and wasabi (Japanese horseradish).[74]

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[73]Jim McCrea, Managing Director of Air New Zealand in a speech entitled 'The Direction of Expanding Trade and Investment between Japan and New Zealand, and Cooperation in Third Markets' given to the 22nd Meeting of the Japan-New Zealand Business Council, October 1995.
[74]Changing Places — New Zealand in the Nineties, Richard Le Heron and Eric Pawson, eds., (Auckland: Longman Paul Ltd. 1996), p.37.

Table VI -2
Major Investments in New Zealand by Japanese Companies 1986-1996

Japanese Company	Company Purchased	Product	Ownership	Year
*Shiseido (NZ) Ltd.	Shiseido Co. Ltd.	Cosmetics - Manufacturing		1960s
Brother Japan	Brother Distributors	Building Products	100%	1987
Mitsubishi Motors	Todd Motors	Motor Vehicles	100%	1988
Honda Motor Corporation	NZ Motor Corporation	Motor Vehicles	100%	1988
*International Pacific College		Education	100%	1989
Okazake	Oliver Corporation	Farm	100%	1989
Sumitomo	Nelson Pine Forests	Forestry	100%	1989
Canon Electronics	DRG Business Equipment	Business Equipment	100%	1990
Orix Corporation	Budget Lease	Motor Vehicle Leasing	100%	1990
Tachikawa Forest Products Ltd.	New Plant	Forestry	100%	1990
Suntory Japan	Cerebos Gregg New Zealand Ltd.	Food	100%	1990
Nissho Iwai/Juken Sangyo Co. Ltd.	Northern Pulp and Forests Ltd.	Forestry	100%	1991
Juken Nissho	Carterton Forestry	Forestry	100%	1991
Asahi Chemical Industry & Co Ltd.	Watties Prepared Foods	Food	Joint Venture	1991
Itoham Foods	Five Star Beef Ltd.	Beef	Joint Venture	1991
Innosho Woods/National House Industrial	New Plant	Wood Processing	100%	1992
Oji Paper Co. and Co. Itoh	Southland Plantation Co. of New Zealand	Forestry & Pulp Processing	Joint Venture	1992
Sumitomo Forestry Company Ltd.	Nelson Pine Industries Ltd.	Forestry	100%	1992
Shiseido Company Ltd.	Plant Expansion	Cosmetics	100%	1992
Sumitomo Corp.	Summit Wool Spinners	Carpet Yarn Mill	100%	1992
Mitsui Osk Kogyokaisha	Greenhouse Park Flowers	Flowers	100%	1992
Southland Plantation Forest Company of New Zealand Ltd.	Takitimu District Block	Forestry	100%	1994
Kirin Brewery Company	Lion Nathan Ltd.	Beer	45%	1998

Source: Bancrop Holdings Ltd. 1990-1994 Review of Operations and Economic Commentary .
*R.D. Cremer and B. Ramasamy. Tigers in New Zealand? The Role of Asian Investment in the Economy. Institute of Policy Studies, Wellington, 1996. p.67.

During the late 1980s and early 1990s, investment in hotel and resort properties increased dramatically. (See Table VI-3.) Japanese interest in the real estate sector was sparked by the growing travel industry (as Japanese began increasingly to travel abroad, Japanese companies capitalized on the opportunity to cater to them) and international investors' desire to move into stable property investments.[75]

[75]Masahiko Ebashi, Japanese Direct Investment in New Zealand, (New Zealand Institute of Economic Research, 1993), p.9.

Table VI-3

Major New Zealand Hotel, resort and other properties purchased by Japanese investors

COMPANY	PROPERTY PURCHASED/DEVELOPED	YEAR
Eiichi Ishii & Kohei Yamashita	Millbrook Resort (50%)	1988
Tokyu Corporation	Pan Pacific Hotel	1988
Okabe Enterprises	White Heron Hotel	1989
EIE Corporation	Finance Centre	1989
Pasco Corporation	Telecom House	1989
Pan Pacific	New Hotel Auckland	
Otaka Holdings Ltd.	Hotel du Vin	1990
Otaka Holdings Ltd.	Hyatt Kingsgate Hotel	1990
Hotel Shuzan	Maruia Springs Motor Inn	1991
Japan Golf Systems (since purchased back by NZ firm)	Wairakei Golf Course	1991
Victoria Group	Mt. Hutt Ski field	1991
Hando	CBD Property	1991
Convelle Enterprises	Walter Peak Tours	1991
Nakano Corporation	Peat Marwick House	1992
NZ Plan International	Coutts Island	1992
Hirai Family	NZ Plan International Resort 50%	1992
Masafumi Fukumoto	NZ Golf Systems Ltd.	1993
Tokyu Tourist Corp & Tokyu	Pan Pacific Properties	1993

Source: Bancrop Holdings Ltd. 1994 Review of Operations and Economic Commentary, pp.28-33 If not otherwise indicated, ownership is 100%.

The final section of the Japan New Zealand Business Council report speaks of a need for New Zealand to show more professionalism and coordinate its approach among both public and private sector organizations when marketing investment opportunities to Japanese investors. As one observer commented, "We (New Zealanders) were not good at attracting investment, even when we were keen to get it. We had to learn to put together attractive projects."[76] The Council saw a role for government in determining priority areas for investment: "Government has a responsibility to inform the investment markets of sectors of investment which meet the economic, social and regional objectives of New Zealand".[77] It also believed that government should help develop a larger sense of purpose and direction for the nation. As the Council observed:

> It is critical that New Zealand determines the vision for its economy over the next decade and communicates this vision to those who are in a position to assist with its implementation, by means of future investment. This process requires leadership from Government with formulation shared equally between Government and the private sector.[78]

An Institute of Policy Studies publication (1996) also supports the concept of selecting priority sectors for FDI: "...prioritizing certain sectors to attract more FDI may not necessarily be a bad thing. Given the small size of the domestic market, New Zealand could, for example, prioritise export-oriented industries for foreign investment. Foreign investment could thus be used to develop a competitive advantage."[79]

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[76]Comments received from Roger Peren, New Zealand Centre for Japanese Studies, Massey University, June 24, 1997.
[77]Japan New Zealand Business Council, 'Japanese Direct Investment in New Zealand' (Wellington: Japan New Zealand Business Council, 1990), p.32.
[78]Ibid., p.34.
[79]R.D. Cremer and B. Ramasamy, Tigers in New Zealand, p.91.

The government of the 1990s was now firmly committed to attracting foreign investment from anywhere. In 1997 Tradenz published three booklets for potential investors painting a broad picture of New Zealand's social and economic climate and describing the opportunities available in New Zealand's main business sectors (food, resources, manufacturing and services). Each of these main sectors is broken down further into five sub-headings[80] each describing each of the regions of New Zealand and its infrastructure, work force, current business activities and potential opportunities.[81] These publications represent the first step in addressing the concerns raised by the Japan New Zealand Business Council and the Institute of Policy Studies. Determining a response to cries for increased protection of strategic or national assets such as forests, may prove more challenging. New Zealand has, as mentioned, few restrictions (only rural land and the fishing sector) on investment in place. While there are some protections through acts such as the Resource Management Act, whether or not these are sufficient remains to be seen.

B. Japan's Place in New Zealand's Trade

Japan is New Zealand's second largest export destination, after Australia. The United States, United Kingdom and South Korea are the third, fourth and fifth ranked export markets respectively. In 1995/96, 16.3% of New Zealand's $NZ 20 billion worth of exports went to Japan; Australia received 19.7%.[82] (See

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[80]Tradenz, New Zealand — A Wealth of Opportunities, March 1997.
[81]Tradenz, New Zealand — Regions of Opportunities, July 1997.
[82]http:///www.tradenz.govt...ports/closeup/2/5.shtml

Table VI-4 which, to provide for greater comparability with Canadian and Australian tables, reports the trade data in American dollars.)

Table VI-4
New Zealand Exports to Japan
(US$m)

Year	Value	% of Total Exports
1989	$ 1,538	17.4
1990	1,493	15.8
1991	1,523	15.9
1992	1,463	15.6
1993	1,531	14.7
1994	1,873	15.7
1995	2,225	16.2
1996	2,207	15.4

Source: International Monetary Fund, Direction of Trade Statistics 1996 and 1997.

New Zealand's exports to Japan consist primarily of resource and agricultural products. For many decades, wool was New Zealand's most important export, but by the 1990s it had been replaced by aluminum, forest products, dairy products, fish, fruits and vegetables. (For a detailed assessment of individual sectors, see Appendix II.)

New Zealand's trade profile with Japan is very similar to Canada's, involving exports to Japan of sizable qualities of raw and partially processed materials and imports of highly processed and manufactured items from Japan. Like Canada, New Zealand has been content to let Japan determine the shape and contour of its international trading relationship and has done very little to develop new markets in line with the evolution of the Japanese domestic market. On a gross national level, this has meant that absolute values of New Zealand exports to Japan have remained high, and have even grown, giving the impression that the country is doing well in maintaining and extending its economic relationship with its second largest trading partner. (See Table VI-4) As the list of the leading exports reveals (see Table VI-5), New Zealand has made few inroads into Japan's consumer markets, save for the sale of agricultural products. As well, despite substantial increases in Japanese imports generally, New Zealand has not been able to significantly change Japan's presence in its national trade picture.[83] Trade to Japan represented over 17% of New Zealand's total trade in 1989 and it accounted for slightly more than 15% in

[83]Interview with Eugene Bowen, Senior Trade Commissioner (Japan) and Regional Manager, Tradenz, 27 October 1997.

1996. The country's businesses had not, in the first decade after the Plaza Accord, made significant inroads into the Japanese marketplace.[84]

[84](For further details on New Zealand's exports to Japan, see Appendix 2.)

Table VI-5

Top Ten New Zealand Exports to Japan 1996 (fiscal year)

(NZ$, 000)

Aluminum, unwrought	458,843
Wood in the rough	250,038
Cheese and Curd	157,188
Fish; Frozen	132,797
Casein	112,376
Acyclic Alcohols	109,678
Fruit, Fresh	104,222
Fibreboard of Wood	100,018
Wood Pulp	97,751
Wood Sawn or chipped lengthwise	90,277

Source: Ministry of Foreign Affairs and Trade, New Zealand External Trade Statistics June Years Ending 1996.

IV. Responses to Changes in the Japanese Economy

New Zealand's response to the major economic changes occurring in its second largest trading partner have been minimal as of 1998. Japan's dramatic import profile shift toward manufactured products does not appear to have really been noticed, let alone to have caused concern. When a New Zealand embassy official in Tokyo was asked about this change and the impact it could have on a resource-based economy like New Zealand's, the response was that "New Zealand will never sell anything to Japan that it doesn't grow."[85] The previously mentioned Canadian Embassy survey of trade representatives from six nations reported that New Zealand was the only nation surveyed which did not have plans to take advantage of Japan's import change and increase exports of manufactured products.[86] As in other areas of national trade policy, this approach indicates New Zealand's willingness to leave the initiative to the private sector.

As of 1997, there were 15 staff in New Zealand's Tokyo Embassy and two staff in the Osaka consulate. In the view of the general manager of Tradenz's strategic development unit, such a number of people and the accompanying resources meant that New Zealand is already putting into Japan "a level of effort over and above what the market warrants".[87] This opinion, however, is not shared by all Tradenz staff, including John Jenner (Deputy Chief Executive Officer). Tradenz staff help individual companies decide whether or

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[85]Interview with Nils Holm, New Zealand Embassy, June 1996.
[86]J. Lambert and M. Taylor, 'Penetrating the Japanese Value-Added Marketplace: Strategies and National Approaches of Canada's Competitors", executive summary.
[87]Interview with Ifor Ffowcs Williams, General Manager, Tradenz, March 12, 1997.

not to enter the Japanese market but Japan is not promoted in any general sense nor is there particular identification or encouragement of specific industries which might do well in Japan or any other geographic market.[88]

V. Current Status of New Zealand's Trade With Japan

New Zealand's trade with Japan has continued largely unchanged for decades. Wool sales have declined and logs, wood panels and aluminum exports have increased but otherwise cheese, casein, meat, fish and vegetables have remained primary export items. With the important exception of Eugene Bowen, Tradenz's Senior Trade Commissioner (Japan), no officials were overly concerned about whether or not it changed. For most other New Zealand government officials, while there was a desire to add more value to the agricultural products New Zealand produces, there was not a strong belief about the importance of diversifying away from agriculture or primary products.

Most New Zealanders have a deep faith in their ability as an extremely efficient producer of agricultural products and believe, therefore, that the country's economic future is secure. In some sectors, such as dairy, New Zealand is perhaps the most efficient producer in the world. While many countries in the world can no longer compete efficiently or economically in agriculture and should move into other fields, the argument goes, New Zealand is one of the few countries that should stay producing what it is producing. In the world of comparative advantage, New Zealand's lies in agriculture. People

[88]Interview with John Jenner, Deputy C.E.O., Tradenz, 5 September 1997.

will always need to eat, there will always be a need for what New Zealand produces.

While this argument has much validity, in a couple of areas it falls short. Primary products are vulnerable to competition from others and to rapid changes in price. This makes for a shaky foundation on which to rest a nation's economic future. In addition, recent technological changes are having an impact on agriculture and the number of people that sector is likely to employ in the future. Economists like Jeremy Rifkin believe that the "technology revolution is changing the nature of modern agriculture and, in the process, raising serious questions about the future of farm labor."[89] William Knoke illustrates this brilliantly in his description of recent changes in carrot harvesting in California:

> where society has taken another step in the march toward zero-labor agriculture. A gigantic self-propelled 'Bolthouse Harvester' rambles along speedily, enabling only three workers to pick seventy-five tons of carrots an hour. Nonexistent ten years ago, two dozen harvesters supply over half the US carrot market today, revolutionizing the industry and throwing thousands of laborers out of work.[90]

Eugene Bowen recognizes challenges ahead for New Zealand's participation in the Japanese fruit and vegetable market. He says that both New Zealand's absolute costs, "due to the strength of the New Zealand dollar, very high sea-and-air-freight rates, a high cost structure including land prices, and high price expectations among suppliers", and relative costs are high "as lower priced suppliers such as Chile, Mexico and China provide cheaper alternative product This factor will cost us market share and depress exports." New

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[89]Jeremy Rifkin, The End of Work, (New York: Putnam Publishing Group, 1995), p.109.
[90]William Knoke, Bold New World: The Essential Road Map to the Twenty-First Century , (New York: Kodansha International, 1996), pp. 66-67.

southern hemisphere suppliers like Chile and Tasmania are an additional threat as they reduce New Zealand's off-season supply advantage.[91]

Japanese consumers have also changed and are no longer prepared to pay high prices for excellent quality (for example, perfectly shaped fruit) which was a niche market for New Zealand with sales of fruit for the gift market. Bowen considers that the price-quality compromise has impacted heavily on New Zealand. Importers, distributors and retailers report a certain degree of dissatisfaction with New Zealand due to rising prices and a perceived recent decline in quality particulary in asparagus, beans, melons and paprika. These two complaints are probably linked "as higher prices become increasingly difficult to command, this is interpreted by some traders as a reduction in quality."[92]

On top of these factors, while people will always need to eat, what they eat changes. The number of people who are vegetarians has increased exponentially in the 1980s and 1990s. Within this group, an increasing number have become vegans and do not eat any animals products whatsoever, including eggs, milk, cheese, yogourt, ice cream. Questions are even being raised, including within the medical community, about the health implications of ingesting dairy products. The Japanese, perhaps even more than peoples of other nations, are subject to fads or changes in group thinking. Mad cow disease and the recent e-coli outbreak have made the Japanese particularly concerned about food safety. Despite the often heard Kiwi remark that there will always be a

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[91]Eugene Bowen, 'The Japanese Imported Fruit and Vegetable Market, 1997', Tradenz Tokyo Market Research, Unpublished Paper, p.1.
[92]Ibid., p.2.

market for dairy, this might not necessarily be the case. As Klaus Pringsheim of the Canada-Japan Trade Council points out with regard to the agri-food market:

> The Japanese consumer's tastes and proclivities are constantly changing in response to domestic and international perceptions in regard to food safety, nutritional considerations, pricing, and various fads which suddenly affect the popularity of one or another food product.[93]

Not only agricultural products, but also New Zealand's other prime commercial areas — tourism, fish and aluminum — are in strongly competitive fields. The emergence of new competitors — Russia in timber, for example — could undercut New Zealand's current markets. This is exacerbated by Japan's tendency to cultivate numerous suppliers of particular items and not to allow itself to be caught without options. It is not inconceivable that Japan could buy many of the products it currently purchases from New Zealand from other countries. As journalist Colin James identified in 1992, the resources upon which New Zealand bases its prosperity can expect to encounter increasing international competition:

> During the 1980s Chile emerged as a competitor in a variety of products New Zealand exports: forest products, pipfruit, kiwifruit. Better organized and with vigorous investment, Argentina, Uruguay and Brazil could become similarly tougher competitors for our sorts of temperate primary products during the 1990s. During the following decade the same competition could come from the huge agricultural lands of Eastern Europe, particularly the Ukraine, once issues of ownership and distribution are resolved and the environmental degradation stalled. Two of our big four markets for primary products, North America and Europe, will logically be more favourable to their near neighbours than to a part-European, part Polynesian, Asianising country at the bottom of the world. Competition will also intensify in other current export destinations, such as the Middle East. Moreover, Africa might be our next primary products competitor, as countries emerge from the dead-end of development economics and one-party rule and look to rebuild their

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[93]Klaus Pringsheim, 'Canada's Processed Food Trade with Japan (1995-96)' in the Canada-Japan Trade Council Newsletter, May-June 1997, p.2.

economies on indigenous strengths, part of which are pastoral primary products. Those international, cultural and economic realities tell us that the lambs-for-cars economic base of the prosperity consensus is not an option. To do better than stand still economically — a state which caused serious social damage over the past half-decade — New Zealand will have to find investment and innovation that improves the diversity of and return from its products. The export volume increases due from newly maturing forests will mask this in the mid-to late 1990s. But sooner or later that mask, too, will be stripped away.[94]

VI. New Zealand's Opportunities with Japan

While the mid to late 1990s saw Tradenz make a concerted effort in the fresh horticultural produce area, Bowen believes that

> We have effectively covered the market over the last five years with a wide range of horticultural missions and often extensive commissioned research from companies and producer groups. The lack of outstanding issues and the improving availability and quality of data from alternative providers has resulted in virtually no horticultural research or mission activity planned for 97/98 (compared with 3 missions in 93/94 and 4 missions in 94/95). The net impact of those factors on the New Zealand fruit and vegetable trade with Japan will be that volumes are unlikely to grow significantly, and returns, especially expressed in dollar terms, are likely to gradually decline. This will lead to a shake-out of small NZ companies and a reevaluations by the larger surviving NZ traders of Japan as a market and of New Zealand as a supply source.[95]

Opportunities for New Zealand in Japan in the agriculture field rest in two main areas: organic produce (as part of a concerted campaign emphasizing New Zealand's record for food safety) and processed food products. Organic products are rapidly increasing in popularity and are likely to remain an important growth area. A major hurdle, however, is the automatic fumigation of imported produce which "effectively robs the product of its pesticide-free status. For this reason some supermarkets are handling only domestic organic product

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[94]Colin James, New Territory: The Transformation of New Zealand 1984-92, (Wellington: Bridget Williams Books Limited, 1992), pp.297-98.
[95]Eugene Bowen, 'The Japanese Imported Fruit and Vegetable Market', p.2.

while others are labeling the product 'organically grown'."[96] In response to this emerging market opportunity, Tradenz is encouraging the formation of a separate organics Joint Action Group.

Japanese consumers are now purchasing more frozen, prepared and processed food products. Busy lives and family members who increasingly eat separately have seen consumer demand for individual portions, boil in the bag meals and more user friendly forms of all foods. Fruit juices instead of fresh fruit and frozen sliced vegetables instead of fresh vegetables are trends in Japanese future consumption.

In the processed food area, Mr. Bowen also says Tradenz in Japan has been active in finding customers for potential new products and giving New Zealand companies the specifications of the required product. Over NZ$50 million in new processed food business has been generated this way and Japanese clients now approach Tradenz directly with their requests. Tradenz passes these requests to companies.[97] According to Bowen, other sectors in Japan with potential for New Zealand companies include telecommunications, software, products for the aged including health products and barrier-free buildings, furniture and garden products. Tradenz has begun to encourage the formation of JAGs in a number of those sectors. But, it is important to note, New Zealand is striving to enter markets like those listed above several years behind major competitors (North American companies in telecommunications

[96]Ibid., p 6.
[97]Interview with Eugene Bowen, Senior Commssioner (Japan) and Regional Manager, Tradenz, October 27, 1997.

and healthcare and software, European companies in furniture), several of whom have already made sizeable inroads into the Japanese market.

VII. Future Importance of Japan

While MFAT and part of the business community see New Zealand's future substantially in Asia, there is no certainty on how important Japan will be. On the one hand, government officials say that Japan is of enormous significance. This is followed up, however, by the argument that Japan is a tough market and while it is New Zealand's second largest market now, it may not always be so. If it is easier to sell in China, Korea or Southeast Asia, then, of course, companies will sell there. While this, of course, makes sense it still belies the sporadic and limited nature of New Zealand government's commitment to trade promotion and it misses the continuity that is essential to the development of long-term trade relations with Asian partners, including Japan.

Bowen summed it up by saying "it will be difficult to sustain our level of trade with Japan".[98] He went on to say that New Zealand wants balanced trade and does not want to become too dependent on one market the way the Australians are on Japan. While there is no intention of discouraging trade with Japan, Japan's own internal restructuring and the recent economic surges of various other Asian nations make this a good time to explore other opportunities.

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[98]Ibid.

To some New Zealand officials, this could be a good time to let things in Japan settle and a vital time to get a foothold in China.[99]

John Jenner, Deputy Chief Executive of Tradenz, points out that for the small to medium new exporters of 1996, the second most prominent market was Japan. First time New Zealand exporters entered the Japanese market with products ranging from a sports drink to live ferrets to prefabricated houses and were successful (defined as having made at least one sale).[100]

VII. Conclusion

Despite the small size of the New Zealand government bureaucracy, there appears at times to be little communication between officials at the Ministry of Foreign Affairs and those at Tradenz. As documented earlier, the opinions expressed by Eugene Bowen at Tradenz in Tokyo concerning future developments in Japanese trade were very different than those held by the leading trade officials in Wellington. Summarizing, therefore, what constitutes the New Zealand government's view on various aspects of the New Zealand-Japan relationship is somewhat difficult. If Bowen's arguments were followed, a more government-directed, pro-active approach would be taken to cultivating opportunities in Japan. And from his base in Toyko, Bowen is able to take a more direct role in encouraging business development. But Bowen's position is not shared by key personnel in the national administration, nor do they appear to have discussed their views on this important theme. The more pro-active

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[99]Ibid.
[100]Interview with John Jenner, Deputy Chief Executive, Tradenz, September 5, 1997.

approach advocated by the individual in most direct contact with the Japanese situation is unlikely, given current arrangements, to become effective national policy.

As discussed in the introduction, a coincidence of timing meant that Japan's economy was restructuring during the late 1980s and early 1990s, just as New Zealand was in the process of its own radical transformation. This meant it did not pay as much attention to Japan's changes as it would have otherwise done. Nonetheless, as New Zealand is of less importance to its trading partners than they are to New Zealand, it has a special need to nurture its trading relationships. Proper nurturing implies paying attention to developments in other countries and adjusting exports to meet needs. As Roger Peren observed:

> Adjusting exports is a matter of practicalities (and calculations of profit and loss) as well as policy — or strategy. Many in this country and elsewhere insist that 'relying on business' is the only way; 'governments are bound to get it wrong!' they say.[101]

Relying on business to make these adjustments without government guidance or leadership has not always proved to be effective either, particularly as a long term

strategy.

Commercial links with Japan provide an important benchmark because the change in Japan's import mix should be heralded as an exciting opportunity for New Zealand business. Japan is now beginning to import the very products that an economy that hopes to be strong in the future should be producing. As Michael Porter, speaking at an Auckland Trade Development Board function in

[101]Communication from Roger Peren, Director, New Zealand Centre for Japanese Studies, Massey University, 24 June 1997.

April 1997, said, "It is not just cranking out butter more efficiently or simply adding value to goods. It's the value per day of work that we are worried about. You want to produce products that can command high value per day worked so that you can always keep raising your salary and the nation's."[102]

New Zealand's willingness to allow its future to be one based on the sale of primary products and to ignore changes in major trading partners that foretell future loss of market share potentially has an enormous price tag. For a country and a government bureaucracy that has managed to transform certain sectors so comprehensively and generally successfully to stand back from tackling this vital international challenge seems incomprehensible. Michael Porter summed it up best when he explained that the challenge now was "whether New Zealand enjoys this moment of brief prosperity and lapses back, or if you are going to continue going forward."[103] How New Zealand responds to Japan will provide an indication of the country's future prospects.

New Zealand, like Canada, has prospered for many years on the basis of its endowment of natural resources. An economy based largely on agriculture and the international trade in raw materials provided the country with an enviable standard of living and considerable long-term stability. For New Zealand to reorient its economic system represents a substantial challenge, for it requires the restructure of political, business and social relationships that sit at the heart of national culture. New Zealand's determined support for its agricultural sector, after all, has striking parallels in most countries, including

[102]Michael Porter speaking at a Trade Development Board function as quoted in the New Zealand Education Review, April 16, 1997.
[103]Ibid.

Japan. There is, moreover, little sense of urgency surrounding the need to develop new commercial relationships and the successful restructuring of the economy over the past fifteen years has generated considerable confidence in the value and sustainability of the 'New Zealand model.' If the country does not see a compelling reason to change, does not feel than a major economic reorientation is essential, and maintains its strong faith in traditional economic enterprise, there is little pressure on public officials to change. And if that same country, and its government, count on the business community to identity opportunities and to make productive use of the nation's natural and commercial endowments, there is little chance that a government-led initiative will find much favour. To summarize, few individuals involved with New Zealand business, government or Japan relations see a compelling reason to alter current policies, and the maintenance of economic stability and general prosperity in the country means that there are few if any external demands for the development of new approaches to international trade. For better of worse, New Zealand has decided to proceed on the assumption that a laissez faire approach to economic management is in the country's best interests. And, as will all economic models and approaches, only time will tell if the assumption was correct.

Chapter Seven
Waltzing with the Japanese: Australia-Japan Commercial Relations

I. Introduction

The rhetoric of neo-classical economics resonates strongly from Australia. A country with a strong Labour Party tradition and with a deep commitment to social welfare programs, Australia has nonetheless joined with other western nations in downsizing its governments, restricting the power of trade unions, and otherwise limiting the role and authority of the state. At the same time, however, Australia has made a concerted effort to re-position itself economically, to lessen dependency on traditional trading relationships with Britain and the United States and to embrace the reality of being an Asian nation. The improvement of trade connections with Japan provides Australia with an opportunity to achieve several of its objectives. The goals of expanding trade with Asian countries, diversifying the country's export base, and developing a more internationally competitive economy, as in Canada, emerged at a time when the Australian governments of Paul Keating and John Howard spoke openly about limiting the role of the state and liberating the nation's entrepreneurial energies. Along with many countries, Australia has been wrestling with the seemingly contradictory objectives of providing a new direction for the national economy while reducing the influence of government in the marketplace.

Japan has been of great importance to Australia since early in this century and has been Australia's most important trading partner for a number of decades.

Australia has, therefore, been more committed to the Japanese market than either Canada or New Zealand. During the years after the Plaza Accord, Australia paid attention to the economic changes taking place in Japan and attempted a variety of strategies to try to better position Australia to respond to these new realities. These strategies were directed at diversifying Australia's exports to Japan toward more value-added products, both in recognition that Japan's import needs were changing and in acknowledgment of the fact that Australia was too dependent on mineral, energy resource and agricultural exports. Australia's efforts at investment promotion in Japan came both because Japan had dramatically increased its investments abroad and because Australia hoped to attract Japanese manufacturing investment which would allow Australia to increase its exports of manufactured products to Japan and to other countries.

The mid-1980s had been a time of political change for Australia. From the end of World War Two until 1983, Australia had deliberately focused on a manufacturing sector designed primarily to serve the domestic market. According to Ian Marsh,

> The idea was to increase population and to build a 'modern' society. This policy was adopted in full recognition that economies of scale would probably not be realized and that continuing protection would be required. The price was willingly accepted as the cost of enhanced defense capability and a richer citizenry."[1]

However, increasing current account deficits and resultant higher unemployment made it gradually become clear that Australia needed to make its manufacturing sector internationally competitive if it wanted to ensure a decent standard of

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[1]Ian Marsh, Beyond the Two Party System: Political Representation, Economic Competitiveness and Australian Politics, (Cambridge: Cambridge University Press, 1995), p.135.

living for its citizens. In addition, although Australia of the 1970s had a relatively small public sector in comparison to other OECD countries, it was a reasonably interventionist government which saw a role for itself in charting the nation's destiny.

Much of this changed in the 1980s but the groundwork for the economic and public sector reform had been developed during the Liberal government of Prime Minister Fraser (1975-March 1983).[2] The reforms themselves were implemented by the Labor government (under Prime Ministers Bob Hawke and Paul Keating) in power from 1983 to 1996 thereby demonstrating the bipartisan support for a changed role for government and a desire to support initiatives that sought to make Australian industry more internationally competitive.

Prime Minister Paul Keating, though attempting to hold onto Labor's traditional political support, recognized the need for sweeping economic and administrative change in the country. In particular, he argued that the nation's economic future lay in developing greater ties with Asian countries and with modernizing and adapting the Australian system. Keating was not, however, able to prevent the gathering power of the right-wing Liberal-National Party coalition in the country. In 1996, John Howard led the Liberal-National coalition into office and took immediate steps to challenge the long-standing power of Australia's trade unions, to reducing government spending and limiting administrative interventions in the economy and society. Starting with the Keating administration and accelerating with the emergence of the Howard

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[2]Michael Pusey, Economic Rationalism in Canberra. A Nation-building State changes its Mind, (Cambridge: Cambridge University Press, 1991), p.7.

government, Australia found itself closer to the ideological and political models already in place in New Zealand and Canada, and very much a part of the neo-liberal revolution that had taken root throughout the western world.

This chapter examines Australia's approach to international business development with specific emphasis on Australia's trade and investment relations with Japan. Compared with Canada or New Zealand, the Australian government has taken a slightly more proactive role with regard to both investment and trade promotion and development. The case study of the relationship with Japan affords an interesting opportunity to analyze the extent and impact of the government's actions. While on the investment front, the Australian government appears to have been quite successful, an overview of Australia's top ten exports to Japan, as outlined in the middle of the chapter, illustrates Australia's continued dependence on mineral and agricultural products. The final section of the chapter discusses the response of the Australian government and business community to the changes in the Japanese economy and looks at Australia's current trade relations with Japan and the potential for the future.

II. Australia's Trade Policy

A. The administrative structure of trade and investment in Australia

Australia is a federal parliamentary state comprised of six states and two territories. The federal government has primary responsibility for immigration, defense, foreign policy, customs and excise, the national economy and Reserve Bank and the postal system. The states generally look after justice, education, health, transportation and housing. This division of jurisdictions is outlined in Australia's constitution of 1901, drafted when the Commonwealth of Australia was first proclaimed.

Responsibility for the government's foreign investment policy lies with the Treasury Department. The Foreign Investment Review Board, a unit of Treasury, acts as an advisor on foreign investment issues generally. It examines foreign investment proposals and makes recommendations to the government. Generally, Australia encourages foreign investment and recognizes the benefits FDI brings to the country. There are, however, a number of investment types and sectors which require governmental approval. Under the Foreign Acquisitions and Takeovers Act (1975), proposed investments in rural properties, agriculture, forestry, fishing, resource processing, oil and gas, mining, manufacturing, non-bank financial institutions, insurance, sharebroking, tourism (hotels and resorts) and most other services all need governmental approval.[3] In addition, all proposals valued over certain thresholds ($3 million for rural property, $5 million for the purchase of an existing business, $10 million for new businesses, $20 million for offshore takeovers and all tourism facilities that include accommodation) require approval.[4]

While Treasury is in charge of Australia's foreign investment policy, responsibility for promoting foreign direct investment into Australia rests elsewhere. In 1987 the Investment Promotion and Facilitation Program (IPFP)

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[3]Foreign Investment Review Board Web Site: (Http://www.treasury.gov..au/organizations/fibr/PolicyAll.html#general).
[4]Foreign Investment Review Board Web Site: (Http://www.treasury.gov..au/organizations/fibr/PolicyAll.html#general). In 1997-98 Australia's foreign investment policy was under review.

was established to "encourage foreign direct investment (FDI) in Australia."[5] Its goals were to promote Australia as an investment destination by addressing concerns that foreign investors might not know enough about Australia and to respond to the active promotion for investment undertaken by other countries. The program is a partnership between the Australian Trade Commission (Austrade), whose Investment Australia unit has primary operational responsibility, and the Department of Industry, Science and Technology.[6] Investment Commissioners are located overseas and assisted by Austrade's Trade Commissioners in additional locations and by staff in Australia itself.

The Department of Foreign Affairs and Trade (created when the Department of Trade and the Department of Foreign Affairs were merged in 1987) deals with the broad issues of international relations including ensuring Australia's security, encouraging global cooperation and promoting Australia's standing as a member of the international community. The first objective of the Department of Foreign Affairs and Trade, however, is "to increase Australia's economic prosperity through trade and investment flows."[7]

The Australian Trade Commission or Austrade was established in 1986 and soon became a part of the DFAT portfolio, reporting to the Minister for Trade, to be Australia's "export and investment facilitation agency".[8] Its mandate is to assist Australian exporters sell their products and services off-shore and to encourage and promote direct investment into Australia from

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[5]Bureau of Industry Economics, Evaluation of the Investment Promotion and Facilitation Program, (Canberra: Australia Government Publishing Service, 1996), p.xiii.
[6]Australian Department of Foreign Affairs and Trade website (http://www/dfat.gov.au)
[7]Australian Department of Foreign Affairs and Trade website (http://www/dfat.gov.au)
[8]Austrade web site (http://www.austrade.gov.au)

overseas investors. Austrade works on a fee for service basis and employees have strict performance standards. Austrade works very closely with companies through to the culmination of a deal.

Austrade has a flat organizational structure. Ten Executive General Managers report to the Managing Director who reports to a Board of Directors drawn largely from the private sector. Six of the Executive General Managers are based overseas in the regions they manage. Japan and South Korea have been designated as a single region.[9] Austrade has main offices in Tokyo and Osaka and smaller offices in Nagoya, Fukuoka, Sendai and Sapporo.[10]

Austrade began creating Joint Action Groups (JAGs) in 1992. JAGS begin as government initiatives but evolve to become industry-funded. The need or opportunity for a JAG is identified and an industry audit undertaken. Market and product priorities are selected and then the JAG develops its own marketing strategy and business plan. Gradually, responsibility for the JAG moves from Austrade to the industry. Austrade's contribution is on average four hundred hours of work.

The advantages of the JAGs are joint promotional activities in overseas markets and access to government funding that would not otherwise be available. As of 1997, funds were no longer available for JAGs to use for promotional activities (other than the Export Market Development Grant Scheme which is an incurred expense rebate program and is also available to independent

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[9] Australian Trade Commission Annual Report 1994-95, pp.12-13.
[10] Ibid., p.34.

companies). As they must now fund the cost themselves and coordinate the sharing of information without government support, companies have lost interest in forming JAGs.[11]

Australia's experience with the JAGs demonstrates one of the limitations of the limited government approach to economic management. The guiding principle behind the JAGs makes sense: the government would establish the joint action groups, assist them in developing a presence, and provide initial funding. Once they were started, successful JAGs would continue and would be financed by private sector interests, who would see the demonstrated merit in this approach to market improvement. Several JAGs continue to operate, but they generally represent a continuation of industry associations or groups that functioned before the government initiative started. The initiative did help introduce some companies to opportunities for commercial development, but the effort lost momentum after the government reduced its support. The effort, while of some practical benefit, demonstrates the limitations of the reliance on industry and business to fund and coordinate international trade development. Businesses operate within a narrow frame of self-interest; convincing commercial firms to devote time and resources to initiatives of more national or collective benefit (or to an activity that might strengthen a competitor or require the sharing of sensitive information) is a difficult task that many companies and sectors were not willing to undertake. In Australia, the challenge inherent in the

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[11]Correspondence from Peter Harrison, Manager of the Austrade Export Network Centre in Melbourne, July 7, 1998.

government's decision to set up and then withdraw funding from the JAGs was not one the private sector appeared prepared to accept.

Although the transition to industry-led JAGs is a difficult one, Australia's Joint Action Groups are successful and have had an impact on exports. Table VII-1 lists the main JAGs in operation as of 1997 and the estimated increase in exports due to each JAG's establishment. The Furniture JAG has the greatest number of companies while the Geoscience JAG has had the strongest export impact in financial terms.

Table VII-1

Joint Action Groups

Joint Action Groups in Operation as of 1997	Date Established	# of Companies	Export Impact 5 Years from Establishment (A$M)
Hay	1992	8	165
China	1992	35	200
Wood	1993	7	90
Peppermint	1993	11	20
Teatree*	1994	15	25
Horses	1994	20	100
Fellmongery**	1995	6	50
Seeds	1996	7	75
Furniture	1996	120	150
Internet	1997	30	100+
Geoscience	1997	20	300+

Source: Harrison, Peter. Manager Austrade Export Network Centre in Melbourne, Powerpoint presentation material, June 1998.
* Teatree is an Australian tree which produces a particular sap that has antiseptic properties.
**Fellmongery is the process of separating the wool from skins in the tanning process. This JAG supplies high quality Australian merino sheepskin leather to garment producing countries.

B. Trade Policy

In Trade Outcomes and Objectives Statement 1997, the Australian government set out its mission statement and described the five fundamental objectives of its trade policy. The mission statement reads:

> Australia's trade policy aims to create jobs and increase living standards by raising the sustainable rate of economic growth. The central task is to secure the best possible conditions and opportunities, especially market access, for Australian firms and industries trading and investing overseas, as well as supporting measures which increase the competitiveness of the Australian economy.[12]

The five objectives of the national trade policy are: to raise Australia's international competitiveness, to secure better market access for Australian goods, services and investment overseas, to promote Australia as a destination for inward foreign investment (including as a destination for regional corporate headquarters), to develop markets and promote Australian business and exports overseas, and to defend and advance Australia's commercial interests through stronger and fairer trade and investment rules.[13] Australia's trade policies are direct and specific. Clear priorities like the promotion of Australia as a foreign investment destination put the onus on the Australian government to be an active player in changing the country's destiny.

III. Contours of Australia-Japan investment and trade

In the early 1980s, Australia began to recognize the necessity of moving away from an overdependence on resource and agricultural products. As the

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[12]Commonwealth of Australia, Trade Outcomes and Objectives Statement, (Canberra: Commonwealth of Australia, 1997), p.17.
[13]Ibid., pp.17-18.

Minister for Foreign Affairs, Bill Hayden, said in his speech at the ninth Australia-Japan ministerial committee in early 1987,

> The Australian economy has depended for decades on its exports of mineral and energy resources and agricultural products. Indeed they still constitute 80 percent of all our exports. Economic circumstances dictate that this must all change. Our major exports face a near term trend of falling prices and-or massive subsidization. Our terms of trade have fallen so precipitously that we have had to produce almost 3 per cent more since 1984 just to cover lost purchasing power of our exports. The present Australian government has resolutely and innovatively sought to shift the orientation of our industry to promote a modern, outward looking industrial structure.[14]

Politicians were not the only ones concerned. The Australian Manufacturing Council (AMC) also expressed its fears about Australia's overdependence on raw material exports in a time when the value of resources was decreasing as a percentage of total world trade. The Council hired a consulting firm to analyze "the issues and impediments to growth, with the objective of initiating positive responses from all those groups and individuals who must contribute to a reversal of the trend."[15] One of the study's three main conclusions was that

> Australia needs to take a more strategic approach to assisting industrial development. This will entail an approach that is built around an understanding of our own competitive position and the recognition of the actions and reactions of countries in this area. Finally, it requires us to have broadly agreed national objectives to which we are committed, and a clear sense of how we can best achieve these.[16]

The AMC decided that more work needed to be done to build on the conclusions of the study and commissioned three Australian Graduate School of Management

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[14]Speech by the Minister for Foreign Affairs, Bill Hayden, Australia-Japan relations, at the ninth Australia-Japan ministerial committee in Canberra on 8 January 1987 in AFAR, January 1987, p.3.
[15]Australian Manufacturing Council, The Global Challenge. Australian Manufacturing in the 1990s, Final Report of the Pappas Carter Evans and Koop/Telesis Study, July 1990, preface.
[16]Ibid.

professors to look at, among other things, the "policy changes required to maximize the benefits of the process of internationalization for Australia."[17] The resulting report published in 1992 produced mixed conclusions.[18] Although eleven manufacturing sectors with export potential were identified and general agreement on the main focus of industrial policy was reached, the authors did not agree on the best approaches for government. Two of the authors supported a more interventionist approach for government while the third did not. The review was not sufficiently important so as to alter government policy, nor did it offer a sufficiently strong conclusion to compel the government to respond to its recommendations in any direct or meaningful way.

A. Japanese Investment in Australia

By 1984 Japanese foreign direct investment represented over 14 percent (A$7.3 billion) of total direct investment in Australia. While Japan continued to rank third, behind the United Kingdom and the U.S., as a source of Australian investment capital, 14 percent was a dramatic leap from the three percent that Japanese investment constituted a decade earlier.[19] The 1990s saw even more significant changes to Japan's investment profile in Australia. Japanese multinationals have become significant investors in Australia and, as a consequence, total Japanese investment continued to increase. According to a

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[17]Philip Yetton, Jeremy Davis and Peter Swan, Going International. Export Myths and Strategic Realities, Report to the Australian Manufacturing Council, (Australia: AGSM Limited, 1992), preface.
[18]Ibid.
[19]David W. Edgington, Japanese Business Down Under: Patterns of Japanese Investment in Australia, (London: Routledge, 1990), p.2.

1997 East Asia Analytical Unit report, "Of the total stock of FDI in Australia at 30 June 1995(A$129.4 billion) Japan accounted for A$18.7 billion, or 14 per cent, compared to shares of 27 per cent for the USA and 24 per cent for the UK."[20]

[20]East Asia Analytical Unit-Australian Department of Foreign Affairs and Trade, A New Japan? Changes in Asia's Mega Market? (Canberra: Commonwealth of Australia, 1997), p.151.

Table VII-2

Direct Investment in Australia by Japan, United States and the United Kingdom, 1984-1991
(US$m)

	Japan			United States			United Kingdom			
Year	%	US$	Base 1984	%	US$	Base 1984	%	US$	Base 1984	Total
1984	7.5	2,159	100	36.1	10,405	100	31.0	8,914	100	28,790
1986	10.2	2,892	134	33.3	9,431	91	30.3	8,590	96	28,335
1990	14.3	9,929	460	27.0	18,764	180	28.7	19,978	242	69,582
1991	16.2	12,397	574	26.9	20,568	198	25.2	19,271	216	76,421

Source: Stephen Nicholas, David Merrett, Greg Whitwell, William Purcell with Sue Kimberley, Japanese FDI in Australia in the 1990s: Manufacturing, Financial Services and Tourism , Australia-Japan Research Centre, Pacific Economic Papers, No. 256, June 1996.

The rapid growth in Japanese investment in 1990 and 1991 was partially due to the second surge in Japanese investment abroad (discussed in Chapter Four) and partly due to the beginnings of concerted efforts by the Australians to bring Japanese investment to their country. (These efforts are discussed in the next section.) Britain and the United States retain their positions as the leading sources of Australian direct foreign investment, but Japan emerges the post-Plaza Accord era as a major player in the Australian investment scene.

B. Investment Promotion

This success at attracting Japanese investment did not happen on its own. In the early 1980s the Australian government began a concerted effort to attract Japanese investment, particularly into the manufacturing sector. With only a small number of large corporations and a relatively low domestic savings rate, Australia has lacked significant investment capital. As the Australian government was becoming concerned about Australia's overdependence on its resource sector, it hoped that increased Japanese investment in the manufacturing and processing sectors would help change this. Various measures and programs were gradually put in place to encourage Japanese companies to invest in Australia, particularly in certain sectors.

An investment mission to Japan took place in November 1986. The mission members and their Japanese counterparts discussed the impact of the increased value of the Japanese yen and the economic adjustments Japan was looking at making. Australia outlined the benefits that could accrue to both parties if Japan was to look at investing in Australian manufacturing.

A major objective of the mission, therefore, was to demonstrate the capabilities of Australian industry, particularly in the following areas: the further processing of food, wool, metal and mineral resources; areas where Australia has world class scientific skills and technical capabilities such as computer software, biotechnology and telecommunications; and the automotive components industry where existing links with Japanese industry provide the base for competitive manufacture of components in Australia both for export and for domestic use. The other major objective was to outline the structural changes that have occurred in the Australian economy recently and which provide the base for industry's improved competitive position.[21]

A large Japanese investment mission then came to Australia in February 1987. The resulting Japanese report was mixed but generally indicated that Australia had work to do before the Japanese would be prepared to invest significant sums. Australia recognized that it was not seen by the Japanese as a natural location for manufacturing, having neither low priced labor (like some of the Asian countries) nor access to a large domestic market (as Canada does with the United States.[22]

In response to the various mission reports, Australia began a concerted effort to convince the Japanese and others, that Australia was a worthwhile place in which to invest. The aforementioned Investment and Promotion Facilitation Program was started and an investment commissioner assigned to the Tokyo Embassy. Initially, the program focused on playing a facilitatory role by running seminars and producing brochures. This had so little impact that the program was changed. The investment commissioner's position was reorganized to become part of a new Investment Promotion Section within Austrade and by

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[21]Statement by the Minister for Industry, Technology and Commerce, Senator John Button, in Hansard, 13 November 1986.

[22]Australia-Japan Business Forum, Report of the AJBF Economic Survey Mission to Japan, June 1987: Endaka, A difficult question for Japan and for Australia, p.28.

1996 there were three investment commissioners assigned to Tokyo.[23] The parameters of the job also shifted from a focus on generic investment promotion to the promotion of particular projects (preferably in manufacturing or processing, particularly of products of interest in Japan) with specific investors.[24] The investment commissioners (increased to four in 1997) all came from industry and were in their positions for a maximum of four years. They were responsible for getting results, measured through specific targets for the amount of investment capital and employment, or they were not kept on. The government's approach was very pragmatic; if the investment was not going to add value or create jobs, agents were not directed not to pursue it.[25]

Investment commissioners deal with manufacturing and service investments but do not work in real estate. They have a targeted list of sectors (including forestry and wood based products, food processing, mineral processing and high tech) but generally focus on what they think is possible to accomplish. Most, if not all, of the easy deals are done by the private sector so those worked on by the IPFP are already in the 'too hard' basket (meaning that private companies would not be interested). Private companies usually work on a fee for service basis and will not start without that initial fee. The IFPF commissioners, therefore, take on those investment possibilities which will take more work.[26]

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[23]Jamie Anderson, 'From Sensitivity to Vulnerability: The Emergence of Asymmetrical Interdependence in the Australia-Japan Trading Relationship 1983-1996,' MA thesis. University of Melbourne, Chapter 3, p.19.
[24]Ibid. Chapter 3, p.7.
[25]Interview with Leonie Muldoon, Minister-Counsellor, Austrade, November 21, 1997.
[26]Ibid.

The IPFP program is very strict about performance and verifies its results annually through a survey of each of the companies which invested in Australia. Companies are specifically asked if they would have invested had the program not been in place. Table VII-3 lists companies that answered that they would not have invested without the program. On an annual basis, the four investment commissioners annually carry about one hundred projects and from these generate an average of A$200 million in investment (with the creation of about 250 jobs in Australia) from Japan.[27] (Other investment counsellors are based in London, New York, Frankfurt, Singapore and China.)

An evaluation of the IPFP was concluded in 1995 by the Bureau of Industry Economics (BIE). The Bureau's task was to evaluate the effectiveness of the program, make suggestions for improvement and indicate whether the program should continue. The resulting report provided an overview of the IPFP, discussed whether or not this kind of government intervention was warranted and whether or not it had been successful. In determining whether or not the program was successful, the evaluation took into account "an economy-wide view of the effects of any additional activity induced by the IPFP which assumes that such activity will largely displace domestic activity in the long run"[28] for example, by competing against domestic companies or driving up labour costs.

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[27]Ibid.

[28]Bureau of Industry Economics, Evaluation of the Investment Promotion and Facilitation Program, (Canberra: Australian Government Publishing Service, 1996), p.xv.

The BIE confirmed that many potential foreign investors were not aware of investment opportunities in Australia or held negative views of Australia's potential as an investment location. It concluded that:

> Private markets do not always provide the incentive and expertise to fully address these deficiencies....The BIE is satisfied that the IFPF is an appropriate intervention to deliver promotion and facilitation services and has successfully done so."[29]

The report continued by saying that the BIE was:

> satisfied that the IFPF has been successful at the margin in attracting additional foreign direct investment (FDI) to Australia. The BIE estimates that around A$235 million a year on average has probably been directly invested in Australia by foreign companies as a result of the IPFP's activities over the three financial years..."[30]

A number of these additional investments were made by Japanese including Hokushin's new fibreboard plant in Tasmania, Meiji Milk's milk powder manufacturing plant and Hino Motors' automotive plant.[31] (See Table VII-3.)

Other government initiatives to encourage investment included visits by the Japanese media to Australia to ensure it was accurately informed, a newsletter, trade and investment seminars in both Australia and Japan, and regular visits to each country by people from industry and government.[32]

The Partnership for Development and Fixed Term Arrangements Programs, developed in the late 1980s, were designed to encourage international companies in the information technology industry "to expand their strategic global activities in Australia and to actively seek out Australian products,

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[29]Ibid. p.xiii.
[30]Bureau of Industry Economics, Evaluation of the Investment Promotion and Facilitation Program, p.xiv.
[31]Bureau of Industry Economics, Evaluation of the Investment Promotion and Facilitation Program, p.57; Jamie Anderson, From Sensitivity to Vulnerability, Chapter 5, p.3.
[32]Jamie Anderson, From Sensitivity to Vulnerability, Chapter 3, p.6.

services and skills with international prospects and mutually beneficial returns."[33] In exchange for access to federal government supply contracts, the government attempted to extract a commitment to Australia from the international information technology company and sought to ensure that the company maintained an agreed upon level of exports and of research and development. Companies who signed a Memorandum of Understanding with the Australian government were encouraged to have a strategic plan for their business future in Australia and as part of that, to plan to enter into "strategic alliances with local firms and institutions where commercially viable and appropriate to do so."[34] The partnership agreements were not legally enforceable but appear designed to let participating international companies know that the Australian government was paying attention and hoping for future benefits to accrue to Australia.

C. Results of Investment Promotion

The investment statistics reveal that Australia's investment promotion activities in Japan have had a positive impact. From 1988-1992 Australia received approximately 5-7% of total Japanese foreign direct investment, a sizeable percentage for a reasonably small population and substantially more than Canada and most of the APEC countries. (See Table VII-2). This relative share of Japanese investment monies continued until 1992 and then decreased slightly in 1993 and even more in 1994. In 1995, however, there was a dramatic increase in Japanese direct investments into Australia to a value of US$2.6

[33]Commonwealth Department of Industry, Technology and Regional Development, Partnership for Development Program, p.3.
[34]Commonwealth Department of Industry, Technology and Regional Development, Partnership for Development Program, p.42.

billion, representing 5.2% of total Japanese FDI.[35] This made Australia the fourth highest Japanese FDI recipient, after the United States, China and the United Kingdom. In 1996 this again changed dramatically when Australia's share fell suddenly to only 1.6%.[36] Reasons for the sudden drop were unclear and were partially the results of a series of circumstances. For example, following the usual pattern of large investments followed by minimal investments, no investment took place in the automotive sector in 1996 as there had been a significant investment the previous year. Australian observers hope this is an aberration and that Australia will re-assume its Japanese FDI recipient status in 1997.[37] The Australian government's program of investment promotion, designed to link Australian needs with Japanese investors, represented a substantial effort to move beyond a simple reliance on the market place. Using a strongly commercial model of investment promotions (officials responsible for this area work to substantial investment targets), the Australian government has been able to develop specific leads and opportunities and, over a three year period, has claimed some significant achievements. (See Table VII-3)

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[35]Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 6, June 1996, p.2.
[36]Australia-Japan Economic Institute, Economic Bulletin, Volume 5, No 6, June 1997, p.3.
[37]Australia-Japan Economic Institute, Economic Bulletin, Volume 5, No 6, June 1997, p.3.

Table VII-3
Investment Promotion and Facilitation Program, Direct Results of the Investment Promotion and Facilitation Program, Tokyo, 1994-1997

Company	Business Area	Investment Location	Investment Capital (A$)
Sakata Beika	Food Processing	Victoria	6 million
Hino Motors	Automotive	New South Wales	8 million
Stehr Group	Fishery	South Australia	01.6 million
Bao Shan	Mineral Trading	Western Australia	0.6 million
Hokushin Co. Ltd.	Forestry Value-Added	Tasmania	90 million
Enya Systems Ltd.	High Technology	Queensland	1.3 million
Enya Systems Ltd.	High Technology	ACT	0.7 million
Konaka Corporation	High Technology	New South Wales	0.6 million
Asahi Industries	Hay	Victoria	2 million
Meiji Milk Ltd.	Milk Powder Man.	Victoria	49 million
Shin-Etsu Chemical	Mineral Processing	Western Australia	67 million
Mitsui Company - Nippon Paper	Forestry	Western Australia/Victoria	200 million
Dowa Mining	Mining	Tasmania	Depends on deposits identified
Japan Petroleum Exploration	Petroleum Exploration	Western Australia	10 million (+ 20% of all additional costs incurred)
Nozaki & Co. Ltd.	Food Retail	New South Wales	0.7 million
ANA Trading Co.	Retail	New South Wales/Queensland	0.7 million
Nichiyu Giken Kogyo	High Technology	New South Wales	0.5 million
Asahi Chemical Industry Co. Ld.	Beverage Manufacturer	South Australia	Not Available
Nittetsu Mining Co.	Mining	New South Wales	60 million
Work Vision Co.	Media Service Sector	Queensland	0.7 million
SBR	Software	Victoria	0.5 million
Woodland	Software	Queensland	0.2 million
Total			523.2 million

Source: Austrade Tokyo, IPFP Tokyo Successes Since February 1994, unpublished paper.

Table VII-4

Japan's Foreign Direct Investment
Selected Countries 1984-1996
(US$m)

Country	1984	1986	1988	1990	1992	1994	Cumul. (1951-1994)	Cumul. %
	1.03	**3.95**	**5.13**	**6.45**	**6.3**	**3.08**		
Australia	**105**	**881**	**2,413**	**3,669**	**2,150**	**1,265**	**23,932**	**7.4**
Canada	184	276	626	1,064	753	1,265	8,261	2.6
China	114	226	296	349	1,070	2,565	8,729	1.9
Mexico	56	226	87	168	60	613	2,793	0.9
New Zealand	15	93	117	231	67	115	**1,376**	**0.4**
S. Korea	107	436	483	284	225	400	5,268	1.6
Singapore	225	302	747	840	670	1154	9,535	3.0
U.S.	3,359	10,165	21,701	26,128	13,819	17,331	194,429	60.4
Total	10,155	22,320	47,022	56,911	34,138	41,051	**463,606**	

Source: Pacific Basin Economic Council Statistics, 1996 (formerly Pacific Economic Community Statistics, 1988, 1990, 1994).

While the increased value of Japanese investments in Australia were important enough on their own, even more striking was the composition of these investments. The 1990s have seen a shift in the composition of Japanese investment in Australia. Australia began to attract Japanese direct investment into manufacturing industries. This success, combined with Japanese divestments of real estate and business services, saw manufacturing assume a much larger percentage of total Japanese FDI in Australia. This increase, however, was not just relative to other industries. As Tables VII-4 and VII-5 indicate, Japanese investment in manufacturing increased dramatically from 1984, when it was $29 million, to 1995 when it was $800 million, a twenty-six fold increase in Japanese manufacturing FDI in dollar terms. This increase, although dramatic, represented only a relatively small addition to Australia in total foreign investment is manufacturing.

The manufacturing sectors which saw the most Japanese investment through this time period were transport equipment, processed food and metals. On the transport equipment side, Toyota and Mitsubishi dramatically increased their investments in the late 1980s. Toyota Motor Australia was formed as a joint venture with Toyota and United Australian Automotive Industries (UAMI) itself a joint venture between Toyota and General Motors.[38] Mitsubishi Motors took over Chrysler's Australian operations and continued to make improvements those plants. In 1995, Mitsubishi Motors increased its investment in Australia by beginning to manufacture 6-cylinder engines and Daimante vehicles and

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[38]Peter Drysdale, Japanese Direct Foreign Investment in Australia in Comparative Perspective , Pacific Economic Papers, No. 223, (Canberra: Australia-Japan Research Centre, 1993), p.22.

investment valued at A$525 million.[39] The Foodstuffs sector has seen Japanese companies establish yoghurt, infant formula, sake and rice cracker operations among others.[40] The mining and metals sector has always attracted Japanese interest due to the Japanese demand for Australian resources from coal to non-ferrous metallic ores.[41]

In 1995 there was a particularly noticeable increase in Japanese FDI in the metal and transport machinery sectors. In addition,

> research by Austrade's investment promotion office in Tokyo also points to continuing interest among Japanese companies in the areas of food processing, timber processing, mineral processing and oil and gas exploration. Growth in Japanese investment into Australia is likely to occur in these areas.[42]

Australia, therefore, is likely to remain of interest to Japanese investors for some time.

The pattern of Japanese direct investment in Australia (see Table VII-4 and Table VII-5) illustrates the changing nature of post-Plaza Accord Japanese business activity. In the period from 1984 to 1990 (Table VII-4), for example, Japanese manufacturing investment in Australia declined from over 27% of the total to less than 10%. Real estate investment, perhaps the most high profile outlet for the cash-rich Japanese, soared from $9 million U.S. in 1984 to over $1.3 billion six years later. The influx of Japanese money, much of it to the tourist regions of Queensland, sparked considerable local backlash and concern about the high level of Japanese ownership. After the first flush of post-Plaza

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[39]Australia-Japan Economic Institute, <u>Economic Bulletin</u>, Volume 4, No 6, June 1996, p 6.
[40]Ibid., p.4.
[41]Ibid.
[42]Ministry of Foreign Affairs and Trade, <u>Country Economic Brief — Japan</u> (Wellington: MFAT, 1997), p.36.

prosperity, the Japanese investments shifted back closer to the traditional pattern of long-term commitments to resource development and local manufacturing. Japanese investment in Australian manufacturing increased four-fold between 1992 and 1995, with the greatest advance coming in the transport machinery fields. In other sectors, Japan firms continued their high level of investment in Australian mining, reduced their commitments in real estate, and added significantly to Japanese holdings in the finance and service sectors.

Table VII-5

Japanese Direct Investment in Australia, by sector 1984-1990

(US$m)

	FY 1984	%	FY 1986	%	FY 1988	%	FY 1990	%
Manufacturing	29	27.6	123	14.0	211	8.7	360	9.8
Mining and Agriculture	5	4.8	195	22.2	186	7.7	769	20.0
Banking and Insurance	9	8.6	92	10.5	363	15.0	200	5.5
Real Estate	6	5.7	127	14.5	1,270	52.6	1,333	36.4
Commerce	27	25.7	77	8.8	92	3.8	326	8.9
Other Services	31	29.5	265	30.2	292	12.1	679	18.5
Total	107		881		2,414		3,667	

Source: Drysdale, Peter, Japanese Direct Foreign Investment in Australia in Comparative Perspective. Pacific Economic Papers No. 223, Australia-Japan Research Centre, September 1993.

Table VII-6
Japanese Direct Investment in Australia by Sector, 1992-1995
(U.S.$m)

SECTOR	FY 1992	FY 1993	FY 1994	FY 1995
Food	34	619	58	25
Textiles	0	0	4	0
Wood/Pulp	0	0	0	75
Chemicals	0	7	0	6
Metals	131	42	18	281
General Machinery	36	9	4	6
Electrical Machinery	22	4	3	0
Transport Machinery	2	27	18	383
Other	0	4	1	24
Total Manufactures	**224**	**712**	**629**	**800**
Agri/forestry	16	9	6	26
Fisheries	1	1	0	2
Mining	206	292	117	364
Construction	15	12	0	22
Commerce	187	173	54	321
Finance	63	38	120	129
Services	164	106	196	218
Transport	2	8	0	5
Real estate	1,272	540	143	744
Total Non-Manufacturing	**1,925**	**1,179**	**636**	**1,83**
Branch/ Expansion	0	13	0	4
Grand Total	**2,150**	**1,904**	**1,265**	**2,635**

Source: Australia Foreign Affairs and Trade, Country Economic Brief — Japan, May 1997, p.36 and Australia-Japan Economic Institute, Economic Bulletin, Volume 4 No 6, June 1996, p.2.

D. The Silver Columbia Plan and the Multifunctionpolis Proposal

Two of the more interesting events in the Australia-Japan relationship were the Silver Columbia Plan and the Multifunctionpolis proposal. The Silver Columbia Plan was a Japanese Ministry for Trade and Industry idea to send large groups of Japanese retirees overseas to live out their remaining years in sunnier and less polluted climates — but still in Japanese communities. The two countries most seriously considered to receive these Japanese senior citizens were Australia and Spain. The Japanese bureaucrats who designed the plan "had expected that it would be welcomed as a token of closer cooperation that Japan was being asked for, since the overseas settlement of Japanese elderly people might be expected to stimulate various service industries in the host country to cope with their needs."[43] Public reaction in Australia was strongly opposed, however, and the plan went nowhere. It is interesting to note, though, that in Spain a slightly altered version did indeed occur. This version has Japanese technicians who are still working "sent to the Barcelona area to train people as skilled technicians and then settle there for their old age."[44]

The Multifunctionpolis or MFP was also originally a Japanese idea. It was proposed in early 1987 by the Japanese Minister for International Trade. When the Australians expressed interest in receiving more detail, a MITI

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[43]Gavan McCormack, 'Coping with Japan: The MFP Proposal and the Australian Response' in Bonsai Australia Banzai: Multifunctionpolis and the Making of a Special Relationship with Japan, p.38.
[44]Shinobu Ohe, 'Future City Planning: The Japanese Experience and the MFP', in Bonsai Australia Banzai: Multifunctionpolis and the Making of a Special Relationship with Japan , p.85.

planning group completed a more comprehensive plan. Gavan McCormack explains the proposal:

> At the core of the project was the notion of constructing somewhere in Australia a new city (to cost around $1 billion), a prototype twenty-first century city in which residence, work, leisure, health and education needs for a population of about 100,000 people would be met in a single, integrated physical location. As the MITI report expressed it: 'the MFP would be a fusion of high-tech industries destined to comprise core industries in the 21st century and high-touch oriented industries which support creative human people accompanied by their families.' Computer and information technology, biotechnology and health sciences, new and rare materials technology were identified as strategic industries whose development should be fostered on the 'high-tech' side, while 'high-touch' implied the growth of a 'Convention Services' industry, based on resorts, sports and tourism.[45]

The MFP plan would, therefore, see Australian and Japanese business and government working together on an unprecedented scale. As a beginning, eighty companies from each country contributed a $10,000 annual fee. This money was matched by the two governments and was used to fund a Joint Secretariat and a Joint Steering Committee.[46] Despite a good start, however, it quickly became apparent that the two countries had different visions and priorities.

> The question of priorities almost immediately divided the two sides. While the Japanese were anxious for a site to be quickly designated and the character and components to be settled thereafter, the Australian side wanted first to decide on what the 'multi-functions' might be before turning to the location of the 'polis'. And the Australian side was notably slow to warm to the 'high-touch' and 'resort' elements of the Japanese vision.[47]

These differences continued and although the Japanese began to play less of a role and the MFP began to become more of an "intense effort to secure

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[45]Gavan McCormack, 'Coping with Japan: The MFP Proposal and the Australian Response' in Bonsai Australia Banzai: Multifunctionpolis and the Making of a Special Relationship with Japan, p.39.
[46]Ibid., p.44.
[47]Ibid., p.46.

Japanese involvement in and commitment to Australia,"[48] Australian public and media opinion of the proposal was hostile and suspicious. In 1990 Australia settled on the site for the project as Adelaide rather than the Gold Coast as the Japanese had hoped. The Japanese gradually lost interest and the project never materialized.

E. Japanese Trade with Australia

Japan has been by far Australia's largest export market since 1970. Japan accounted for over A$15 billion (or 20 %) of Australia's total exports in 1996.[49] Australia's next largest markets are Korea (9.5%), New Zealand (7.3%) and the United States (6.4%). While the total value of Australian exports has remained fairly stable, Japan's percentage of Australia's total exports has declined from over 25% in the late 1980s to approximately 20% in 1996. In this pattern, Australia closely parallels the experience in other resource-dependant countries, like Canada and New Zealand. And as with the other two countries in this study, Australia adhered to a similar pattern of adhering to the export of raw and partially processed trade goods. The marked shifts in Japan's internal economy was not reproduced in any significant change in trade relations with Australia, despite some significant efforts by the Australian government to encourage a reorientation of trade and enhanced export of manufactured goods.

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[48]Ibid., p.46.
[49]Australia Bureau of Statistics, International Merchandise Trade, December Quarter 1996, pp.10-11. (See Table VII-7 which, to provide for greater comparability with Canadian and New Zealand tables, reports the trade data in American dollars.)

Table VII-7

Australian Exports to Japan
1989 - 1996

(US$m)

Year	**Value**	**% of Total Exports**
1989	9,761	26.4
1990	10,232	26.3
1991	11,496	27.5
1992	10,737	25.3
1993	10,466	24.6
1994	11,613	24.5
1995	12,184	23.0
1996	12,019	19.7

Source: International Monetary Fund, Direction of Trade Statistics Yearbook 1996 and 1997

Japan is a critical market for many of Australia's agricultural and resource industries. It is the most important market for beef, cheese, animal feeds, seafood, iron ore, natural gas, copper ore, coal, lead ore, zinc ore, aluminum, and petroleum and one of the largest for sugar, wheat and wool.[50] No only is Japan Australia's biggest market for a variety of traditional commodities but Australia is also Japan's most important supplier for an equally large number of products. (See Table VII-7). If anything, Japan is becoming more dependent on Australia as a source of commodity imports while Australia is beginning to diversify its export markets. In 1995 Australia sold a smaller percentage of its wool, cotton, iron ore, copper, zinc ore, liquified natural gas and a variety of other products to Japan than it had done five years previous.[51] This was probably due to the relocation of Japanese firms to other countries in Asia (Indonesia and Malaysia) which can supply some of the raw materials themselves.[52]

Japan remains Australia's most important market for Crude Materials and Mineral Fuels but while worldwide exports have been growing in the latter 1990s, Japan's share has been declining. Other Asian markets, China and South Korea particularly, are increasing in importance.[53]

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[50]Australian Embassy Tokyo, Australia-Japan Priority Market Access Issues, (Tokyo: Australian Embassy, 1997), p.1.
[51]Australia-Japan Economic Institute, Economic Bulletin, (Volume 4 No 8, August 1996), pp.1-3.
[52]For additional information on Australian exports to Japan, see Appendix 3.
[53]Ibid., p.4.

Table VII-8

Commodities for which Japan was Australia's Biggest Market 1995		Commodities for which Australia was Japan's Biggest Supplier 1995	
Cotton	22.3%	Wool	54.9%
Woodchips	99.0%	Iron Ore	48.8%
Iron Ore	44.2%	Lead Ore	36.3%
Copper Ore	54.9%	Zinc Ore	55.6%
Lead Ore	44.6%	Aluminum Ore	49.7%
Zinc Ore	41.5%	Titanium Ore	63.5%
Coking Coal	41.3%	Salt	49.0%
Steaming Coal	55.7%	Coking Coal	50.0%
LNG	97.0%	Steaming Coal	55.1%

Source: Australia-Japan Economic Institute, Economic Bulletin Volume 4 No 8, August 1996.

Table VII-9

Top Ten Australian Exports to Japan 1996

(A$m)

Coal, coke and briquettes	3,556
Combined confidential items of trade and commodities	2,858
Metalliferous ores and metal scrap	1,935
Meat and meat preparations	1,252
Non-ferrous metals	911
Cork and wood	552
Textile fibres and their waste	490
Petroleum and petroleum products	464
Gold, non-monetary	466
Fish and seafood	411

Source: Australian Bureau of Statistics, International Merchandise Trade December Quarter 1996.

IV. Australian responses to changes in the economy

Many of the changes in Australia's reaction to Japan began slightly prior to the Plaza Accord, with the election of the Hawke Labor government in 1983. The previous Liberal-Country Party Government had made little effort to direct or monitor Australia's trading relationship with Japan. As a result, Australia found itself very dependent on a declining Japanese need for its resources.[54]

The Hawke government recognized that raw and barely processed primary products composed the vast majority of Australian exports to Japan. Many of these products were in those Japanese import sectors in which there was little or no growth. As a result, Australian exports to Japan as a proportion of total Japanese imports had been gradually declining over the previous decade.[55]

As Prime Minister Hawke said in a speech to the Australian-Japan Co-operation Committee soon after his election,

> Important structural changes have taken place, however, in the Japanese economy. We must recognize and adjust to the implications for Australia. Lower, though, still significant growth rates in Japan, and a re-alignment of Japanese energy and industry policies are of particular importance to Australia. Most importantly, the growth prospects for Australian raw material exports to Japan, are diminished. Alternative, supplementary markets must be sought and, with Japan, new growth sectors we can profitably supply identified.[56]

This clearly reveals Australian recognition of the changing Japanese economy and the current and future impact of these changes on Australian exports.

Australia, therefore, began in 1983 to develop concrete strategies for diversifying Australian exports to Japan away from resources and barely processed goods in the low growth sectors of the Japanese economy to higher value-added products in the high growth sectors of the Japanese economy. In early 1984 the

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[54]Jamie Anderson, From Sensitivity to Vulnerability, Chapter 3, p.19.
[55]Ibid.
[56]Bob Hawke, Speech to the Australian-Japan Co-operation Committee, Canberra, 25 August 1983, in AFAR, August 1983, p.465.

Australian government commissioned two Japanese consulting companies, Nomura Research Institute and Seibu Marketing Information Services, to put together a report "on what Australian companies have to do to effectively enter the Japanese market."[57] When the report was completed, seminars were held around Australia to disseminate the results to Australian companies. This was the first stage in a Japan market strategy; a concerted effort to encourage Australian manufacturing and service companies to enter the Japanese market.

As an additional part of the market strategy for Japan, an Australian senior trade mission visited in Japan in July 1984 and a Japanese mission came to Australia later that same year. These missions identified products with a good potential for growth in the Japanese market (examples included computer software, medical equipment and instruments, aluminum products and wine). The Australian mission recommended that promotional missions take place in Japan throughout 1985 which did occur.[58]

The report from the Japanese mission outlined ways to promote Australian products in Japan and tips on the quality Japanese consumers demand. It specifically emphasizes the benefits of joint ventures with Japanese companies:

> Australian exporters are advised to make a thorough study of just where they have an advantage over Japanese companies, and then go into partnership with Japanese firms in order that they may provide complementary assistance as required. Rather than undertaking the total manufacturing process right through to packaging in Australia, depending on the circumstances, Australian companies may be better off employing a flexible policy whereby the degree of processing prior to export is decided by the particular characteristics of individual products.[59]

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[57]Prime Minister Bob Hawke, Speech to the 12th Australian-Japan Relations Symposium, AFAR, Vol. 55. No.3, p.202.
[58]AFAR, January 1985, p.4.
[59]Australian Government Publishing Service, Persistence, Performance and Price -Report of the Japanese Market Access Promotion Mission to Australia, (Canberra: Australian Government Publishing Service, 1984), p.5.

Even more directly, the report suggested that a good public relations campaign might help improve the 'Made in Australia' image and "make up for the somewhat high prices and less-than-perfect quality of some manufactured products from Australia."[60]

The early 1980s also saw the Australian and Japanese governments agreed to the formation of a trade forum, the Australia-Japan Business Forum, made up of senior business leaders from both countries. The forum created an opportunity for discussion on ways that Australian goods and services could be better promoted in Japan.[61] From 1986-1991, in cooperation with Austrade, the AJBF

> conducted no fewer than seven survey missions to Japan to investigate marketing opportunities for Australian exporters in areas as diverse as ferrous castings and forgings (1987), building materials (1988), marinas (1989), giftware (1989), processed food (1991) and automotive parts (1991).[62]

In June 1987 the Australia-Japan Business Forum conducted an Economic Survey Mission to Japan. The objective of the mission was to "develop an Australian business perspective of the structural changes taking place in the Japanese economy (and) as a result to identify the implications for Australian industry."[63] The resulting report indicated a clear understanding of the economic changes occurring in Japan and their importance for Australia. While Japan's need for deregulation and its growing focus on high technology and domestic demand were mentioned briefly, the report went into some detail on the implications of Japan's increase in overseas investment and on the adjustments in Japan's import mix.

Regarding overseas investment, the report stated:

> Substantial movement offshore of resource intensive production is also occurring, either to tap lower costs of production, for example in the N.I Cs, or to invest behind emerging protectionist barriers in major markets such as the

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[60]Ibid., p.7.
[61]Report of the Japanese market access promotion mission, AFAR, February 1985.
[62]Jamie Anderson, From Sensitivity to Vulnerability, Chapter 2, p. 5 (sic).
[63]Australia Japan Business Forum, Report of the AJBF Economic Survey Mission to Japan, June 1987, p.1.

United States and Europe. This movement will have major implications for Australia, as a major supplier of primary commodities.[64]

As more labour intensive manufacturing moves offshore, the report says:

> some of the manufacturing industry which moves from Japan will go to countries that are themselves resource rich (for example, Brazil). Most will go to countries remote from Australia (in particular North America), where we will face strong competition from suppliers such as South Africa, Brazil and Columbia.[65]

While the outlook in the resource area is not so positive, the report points out that "there are some positive signs in parts of the manufacturing and service sectors...Australia will need to adapt its attitude and approach if it is to capitalize on these opportunities — including development of links with Japanese companies."[66] Clearly then, Australia was very aware of what was happening in Japan and what would be required of Australia to take advantage of this transformation.

From 1986, the Japan market strategy initiatives were taken over by the newly created Austrade. The government continued to be concerned about the composition of Australia's trade with Japan and to work to expand Australia's range of exports, particularly processed or manufactured exports. Most of these efforts consisted of trade promotion events, the provision of research and other business services and general encouragement and assistance to Australian companies considering the Japanese market.[67]

The most extensive of these promotions, and the largest Australia had ever undertaken anywhere,[68] was 'Celebrate Australia' which took place in November 1993.

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[64]Australia Japan Business Forum, Report of the AJBF Economic Survey Mission to Japan, June 1987, p.vii.
[65]Ibid., p.21.
[66]Australia Japan Business Forum, Report of the AJBF Economic Survey Mission to Japan, June 1987, p.viii.
[67]Rawdon Dalrymple, Australian Ambassador to Japan, 'The Australian Government's Role in the Relationship with Japan,' speech to the Australian Chamber of Commerce, Tokyo, 31 January 1991, pp.8-9.
[68]Rawdon Dalrymple, Australian Ambassador to Japan, 'Celebrate Australia: Taking a Different Approach,' speech to the 31st joint meeting of the Japan-Australia and Australia-Japan Business

Celebrate Australia was a month of events ranging from "exchanges and seminars in business, education, science and technology" to ballet performances and street theatre to department store and restaurant promotions.[69] A desire to convey a strong positive image of Australia's export potential, particularly of manufactured products, and to highlight Australia as an investment location underlay many of the Celebrate Australia events.[70] The government's goal was to present Australia "as a centre of high quality educational services, cutting-edge scientific and medical research, outstanding food and wines, dynamic business activity and cultural achievement."[71]

The Australian government began to realize the high costs and difficulty of entering the Japanese market for small and medium companies, particularly through Tokyo or Osaka. The 1991 McKinsey Review of Austrade's operations, therefore, "recommended a major reallocation of Austrade's resources to the Asia Pacific region. In response to the review, the Federal Government announced a 40 percent boost in Austrade resources over the following three years to strengthen its presence in Asia."[72] Japan received a considerable portion of the new funds. These funds bought increased resources for Australian exporters interested in entering the Japanese market. In January 1991 a new consulate and Austrade office were opened in Fukuoka. Additional consulates with Austrade representation opened in 1992 in Sendai, Nagoya and Sapporo. In conjunction with the Australian Chamber of Manufactures, the Ministry of Small Business, Construction and Customs opened the Australian Business Office in Osaka in

Cooperation Committees, Tokyo, 19 October 1993.

[69]Senator Gareth Evans and Senator Peter Cook, Joint Statement, 'Celebrate Australia Campaign Opens in Japan,' News Release, 31 October 1993.

[70]Ibid.

[71]Ibid.

[72]Jamie Anderson, From Sensitivity to Vulnerability, Chapter 1, p.12 (sic).

December 1992. The main purpose of this office was to assist smaller Australian companies by matching them with Japanese business partners.[73]

The Australian Business Centre opened in Tokyo in May 1995. Its purpose was to bring together in one place all of the Australian governmental organizations involved in the promotion of trade, investment and tourism with Japan and thereby begin to create "a united Australian presence in Tokyo."[74] In addition, the member organizations could keep costs down by sharing everything from meeting rooms and receptionists to promotional efforts and market research. This small, low-profile move was indicative of the Australian government's attempts to address the practical requirements of Australian firms seeking to do business in Japan. While there was little proactive in the initiative, and did not offer leadership or direction, the Business Centre represented a pragmatic effort to help national businesses overcome the high cost of doing business in Japan.

All of these initiatives, reports and speeches then point out that Australian government and industry were well aware of the changes in the Japanese economy and formulated steps to address the impact of these changes on Australia. As discussed earlier in the chapter, many of the Japan market initiatives undertaken, while not unsuccessful, appear not to have been dramatic enough to actually affect Australian exports to Japan in any meaningful way.

V. Status of Australia's investment and trade with Japanin the late 1990s

The activities the Australian government undertook in pursuit of Japanese investment into Australia, particularly the manufacturing sector, have been discussed

[73]Minister for Small Business, Construction and Customs, 'Australian Business Office Set to Take on Japan,' News Release, 8 December 1992.
[74]Minister for Trade, 'Australian Business Centre in Tokyo,' Media Release, 14 July 1994.

earlier. Some of these programs were directed more broadly than just Japan; other initiatives were aimed solely at Japanese investors. The evaluation of the Investment Promotion and Facilitation Program completed in 1996 concluded that the program has been successful and has brought investment to Australia that would otherwise have not occurred. On the Japan side, the various initiatives and programs also appear to have been successful. Australia has a larger share of Japanese investment per capita than most other nations (see Table VII-2) and many of the recent investments have been in the manufacturing area.

Despite Australia's successes in attracting Japanese investment, the future remains somewhat uncertain, for Australia has neither a large domestic market nor secure low cost labour. Most of the Japanese industries locating abroad are electronics, heavy machinery, chemicals and automotive and these are not a good match with Australia's strengths.[75] Nonetheless, Australia's investment efforts have produced some return and will most likely continue to do so. New investments are likely to be in the financial services and telecommunications area in the wake of Japanese deregulation in these sectors; most likely, however, resource businesses and investments will continue to attract the greatest Japanese interest as they continue their efforts to ensure the country a steady supply of essential raw materials.

On the trade side, according to a senior Austrade representative in Tokyo, many Australian exporters have taken their eyes off Japan and are focusing on China and Vietnam. In 1996, 50% of the new Australian exporters surveyed said that they were only interested in the ASEAN countries.[76]

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[75]Interview with Leonie Muldoon, Minister-Counsellor, Austrade, November 21, 1997 and Investment Promotion 1997, Queensland State Government Briefing, 11 November 1997, unpublished paper.

[76]Interview with Ian Wing, Minister-Counsellor (Marketing), Australian Embassy, November 1997.

Sectors which have potential for Australian sales to Japan include defense systems integration (Australia is a good generalist), organic food (seminars are sold out), custom-made jewellery, top end gemstones, scientific equipment, building materials, high technology (multimedia, software, packaged software, telecommunications), services for the aged, health care services, financial services. Third country projects have also proved successful, particularly in Asia. Residual bad feelings against Japan are tempered when the Japanese and Australians work together in Asia.[77]

VI. Conclusion

In the mid-1980s Australia shifted the focus of its manufacturing sector from the domestic market to the international market. Previously it had been felt that simply selling those products manufactured in Australia to Australians was adequate even if this did not allow factories to achieve economies of scale and required continued protection for the various manufacturing industries.[78] However, years of rising trade deficits and escalating unemployment forced Australia to realize that a future tied to sales of natural resources was an unstable one, at best. Commodity and resource prices had been fluctuating, but primarily declining, for decades, a situation well summed up in the following description: "In 1981, Japan had to export 500 cars to buy one shipload of Australian coal. In 1991, 200 cars were enough. By the year 2001, only 100 cars will have to be sold to pay for a shipload of Australian coal."[79] Australia recognized that it had no choice; it would simply have to export manufactured products.

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[77]Ibid.
[78]Marsh, Beyond the Two Party System, p.135.
[79]Keniry, John, 'An Exportable Feast': Towards a Sectoral Policy for an Export Oriented Food Processing Industry", in Marsh, ed., Australian Business in the Asia Pacific Region: The Case for Strategic Industry Policy, (Sydney: Longman Professional Publishing, 1994), p.237.

Since Japan was Australia's largest trading partner it was important that Japan purchase Australian manufactured goods. Australian government and industry were paying attention to Japan and there was recognition that the Japanese economy was undergoing significant changes, including a significant shift toward domestic consumption. The realization that in the future Japan might not need as large a quantity of Australian resources meant that being able to begin increasing sales of Australian manufactured products to Japan was doubly important.[80]

At the same time that the Australian government was changing its domestic focused manufacturing sector to one that exported internationally, it was also beginning to embrace what was called 'economic rationalism'; the policy school of thought based on neo-classical economics which projects only a limited role for government. Acceptance of economic rationalism was bipartisan, extending beyond the Hawke government which first introduced it.[81] Therefore, while successive Australian governments attempted a variety of initiatives specifically to encourage the sale of Australian manufactured products in Japan, most of these initiatives fell within the very narrow band of actions acceptable to an economically rationalist government.

Much more than either Canada or New Zealand, Australia depends on Japan. For this reason, Australia has been much more Japan-focused. Australian government and industry have been more aware of what occurs in Japan and more sensitive to those changes. Australia has made more effort to have Australians study Japanese and to invite Japanese students and tourists to Australia.

This awareness and this dependency have meant that Australia has been quite pro-active with regard to improving trade with Japan, both in terms of increasing total volume and of altering export composition toward more manufactured products and of

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[80]Jane Madden, Minister-Counselllor (Marketing), Australian Embassy, November 1997.
[81]Marsh, Beyond the Two Party System, p.137.

increasing investment from Japan. On the trade front, the government commissioned Japanese consulting companies for advice, sent trade missions to Japan, expanded Austrade assistance outside the Tokyo-Osaka corridor, organized numerous promotional events and spoke frequently to Australian industry about the need to expand the range of Australian exports to Japan, particularly to include processed or manufactured products. The Australian government also made strong efforts to attract Japanese investment, again primarily to the manufacturing sector. The main vehicle was the Investment Promotion and Facilitation Program with its investment counsellors and their strict responsibility for bringing investment to Australia which will create jobs or improve Australian industry.

Australia has been successful on the investment front attracting substantially more Japanese investment than is likely to have been the case without government efforts through the IPFP. While a good deal of the Japanese investment was, by dollar value, still in traditional resource areas like mining and forestry, much of the new investment was in manufacturing (see Tables VII-3 and VII-4). Australia, therefore, has been reasonably successful at both increasing Japanese investment and in ensuring that much of the additional investment is in processed or manufactured products. However, as far as adjusting Australia's export profile to Japan to one that contained more processed and manufactured goods, the Australian government was less successful.

In the final analysis, not a great deal has actually changed between the early 1980s and the late 1990s. Because the Australian government left the fundamental decisions to the business community — a cornerstone of the neo-liberal approach to the economy — Australia remained and remains economically dependant on the extraction and export of resource products. While there have been some minor gains in value-added and manufactured items (more the former than the latter), Australia, like Canada and New Zealand, remains predominantly wedded to a 19th century economic foundation based on resource production. The Australian situation illustrates that governments can, even in a neo-liberal framework, influence trading and investment patterns and redirect elements of the domestic economy to respond to international opportunities but it also reveals that there are significant limits on what can be accomplished when governments lack direct influence and control over key levers of economic decision-making.

Chapter Eight
Comparisons and Analysis

The broad purpose of this study has been to examine, by way of a three-country comparative investigation, the impact of neo-liberal economic ideology on the role and activity of governments in the contemporary global economy. The specific focus has been on Canada, New Zealand and Australia's international trade and investment activities, specifically with Japan. The thesis has examined the practical, political and administrative issues associated with international trade between these countries and Japan, the mobilization of national government action, and the business-government relationship as seen in each of the nation's economic relationship with Japan. Comparing and contrasting the approaches of the three countries to the dramatic changes which occurred in Japan in the decade after the 1985 Plaza Accord provides insight into which policies and practices were effective and which were not.

As mentioned at the outset of the study, one of the goals of comparing the reactions of Canada, New Zealand and Australia to changes in the economy of one of their most important trading partners (Japan), is the opportunity to gauge the effectiveness of the limited government model which, by definition, constrains the initiatives government can undertake and promotes economic decision making by the marketplace and not by government. This chapter analyzes the effectiveness of the responses and the initiatives the three countries undertook within their definitions of the neo-classical approach. It compares the actions of each country then analyzes the resulting impact on patterns of trade and investment between each of the three countries and Japan.

There are numerous political conditions that influence international trade and affect a country's capacity and ability to manage economic affairs. (There are, as well, a variety of cultural, economic and industrial factors that can shape the manner in which a country responds to changing international circumstances; these broader national issues will not be addressed herein.) For the purposes of this discussion, five key variables — political structure, the nature of internal economic changes, national economic and political preoccupation with a major trading partner, the centrality of Japan to nation's plans for long-term economic development, and governmental awareness of the post-Plaza Accord changes in Japan's economy — have been selected for the purposes of the three country comparison. (The comparison is displayed graphically in Table VIII-1.) These political and administrative influences on trade help illustrate the similarities and differences in the responses of Canada, Australia and New Zealand to the changing Japanese economy and provide an indication of the manner in which the three countries implemented their neo-classical economic ideas in their export policies. The discussion that follows considers these issues on a country by country basis.

I. Political Context

A. Political Structure

A nation's political arrangements exert a significant influence on the development and implementation of government policy. The nature of decision-making, division of powers, the relative strength of regional governments and a

Table VIII-1

Influences on Trade and Investment Policy with Japan

Variable	Canada	Australia	New Zealand
Political Structure	Federal/Provincial	Federal/State	Unitary
Internal Changes	Privatization	Export Promotion	Market Liberalization
Major Partner	USA	Japan	Australia
Centrality of Japan	Secondary	Key Nation	Limited Priority
Administrative Awareness of Changes in Japan's Economy	Delayed Awareness	Aware	Relatively Unaware

variety of other factors can determine a country's ability to respond on a national level and can therefore determine the government's capacity to manage the economy.

Canada

The existence of and competition between ten provincial, two territorial and a national government make understanding Canadian governance extremely difficult for Canadians, let alone foreign importers or investors. Although the federal government is responsible for international trade, a number of the provinces have ministries of international business and some have trade offices abroad. As Michael Porter wrote, "The combination of federal and provincial trade promotion programs and trade office abroad can cause confusion for prospective exporters and creates the impression of a highly fragmented national export promotion effort."[1] Provinces often appear (and are) to be selling competing products. For a company hoping to invest in Canada or buy its products, this confusion is an unnecessary burden.

Australia

Australia's combination of federal and state governments poses similar, although less severe problems. Particularly on the investment front, the eight states have been known to fight among themselves either to attract investment to

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[1]Michael E. Porter and the Monitor Company, Canada at the Crossroads, (Ottawa: BCNI Government of Canada, 1991), p.317.

Australia or to entice projects to go to one state rather than to another.[2] According to Michael Pusey, sociologist from the University of New South Wales, however, the Canberra federal government "has enjoyed a considerable authority and prestige which has in many respects overshadowed the other two tiers of government — the states and local government respectively."[3] This has meant that, compared with Canada, the national government exercises considerable control, is better able to establish and implement a nation-wide agenda, and is seen in the country at large as the legitimate locus of major decision-making authority (although states like Queensland and Western Australia routinely challenge this assertion). The Australian government's reorientation of the national economy toward Asia is a strong example of national influence and leadership.

New Zealand

New Zealand's unitary system of government is of great advantage in the international arena. It allows the country to present a unified front to the outside world and helps limit the number of competing visions of the country. The national government can speak for the country and know that no significant dissenting or contradictory voices will be heard from its constituent parts. Other nations are clear on the rules and with whom they should deal; provincial or state

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[2]Jenny Stewart, The Lie of the Level Playing Field, (Melbourne: The Text Publishing Company, 1994), p.xv. Interview with Leonie Muldoon, Minister-Counsellor, Austrade, November 21,1997.
[3]Michael Pusey, Economic Rationalism in Canberra: A Nation-Building State Changes its Mind, (Massachusetts: Cambridge University Press, 1991), p.30.

officials are not fighting among themselves to offer better inducements for investment or selling competing products.

The unitary system has additional benefits on the domestic front. One level of government means that decisions can be made more quickly — even complete changes of direction can take place rapidly. (Some New Zealanders would argue that this can also be a liability. Many felt that the events of the mid-1980s were far too dramatic and rapid and subsequently voted for a new electoral system (Mixed Member Proportional) that would likely ensure coalition governments and slower decision-making.) The one level of government allows the business community to have greater access to government and government to business. This opens the opportunity for more coordinated decision-making and greater interaction generally.

B. Internal Changes, Mid-1980s through the 1990s

While the details vary, all three countries went through similar philosophic and economic shifts in the mid-1980s. The prevailing ideology in the Anglo-American world was one that supported the free market and limited the role of government. The newly elected 1984 Progressive Conservative (Canada), Labour (New Zealand) and Labor (Australia) governments all embraced this philosophy and spent much of their terms in office cutting back on the role of government and facilitating industrial leadership.

Canada

In 1984 Brian Mulroney's Conservative government promised a huge cut in government spending. An active campaign began to downsize government and to privatize numerous government owned enterprises. They sold off PetroCanada (the national energy company), Canadian National Railways, Air Canada and a variety of other Crown corporations. They reduced the funding for regional development, cut grants to corporations and generally reduced the role of government in the economy. The Post Office and some cultural agencies were among the few government organizations to remain untouched. Surprisingly, this dramatic reduction in the scope and position of government elicited very little protest. The general public appeared either not to recognize or not to care (with the exception of the academic left, who were generally ignored). The government's purpose was to do more than simply save money, although that was the primary selling point with the general government. The Mulroney administration sought, as well, to significantly reduce the role of government in the Canadian economy and society and capitalize on the widely-recognize budgetary crisis to begin the process. The election of the Liberal Party in 1993 did not bring major changes in government priorities. The end of the 20th century, therefore, has seen a much more severely limited role for the Canadian government with the one exception of macro-economic management (regulation of interest rates and other monetary policies.) Privatization and downsizing of government has seriously stripped away the ability and willingness of the Canadian government to intervene in the economy. The Canadian government has largely adopted the neo-classical approach to business management.

Australia

The mid-1980s were a time of political change for Australia also. The Australian government had traditionally seen itself as the leader of Australia and had not hesitated to intervene in seeking to chart the nation's destiny. This began to change with the Hawke Labor government, which built on the groundwork for economic and public sector reforms established by the previous Liberal governments. These changes were less dramatic and far reaching than those that occurred in New Zealand or even in Canada, but the general trends were the same. At this time, Australia also decided to make its manufacturing sector internationally competitive, a radical change from its previous focus on a manufacturing sector designed to primarily serve the domestic market.

New Zealand

The latter half of the 1980s was a time of radical political, social and economic change for New Zealand. What became known as the New Zealand 'revolution' began in 1984, immediately following the election of the Labour government. Serious financial difficulties forced the government to restructure the New Zealand economy. Within a matter of months, radical measures were implemented, including a major currency devaluation, the elimination of agricultural subsidies, the transformation of government departments and statutory corporations into state-owned enterprises (later privatized), reduced government regulations, and substantially decreased the size and authority of the civil service.[4] By the late 1990s, New Zealand had changed from a government-controlled, centrally-managed economy to a free market, limited government business environment. A complete retreat from the belief that government intervention is either necessary or recommended for economic success had occurred, ironically led by government itself.

C. Preoccupation with Major Partner

National preoccupation with a particular trading partner (usually its most important) has the potential to blind a country to economic possibilities in other areas. In some cases, as in New Zealand's pre-1980 dependence on Great Britain, a concentrated focus can have disastrous consequences when conditions change. An assessment of the trading emphases of Canada, Australia and New Zealand illustrates the degree to which each nation has, at different times, been fixated on a major partner and how the effect this focus has had on the countries' economic development.

Canada

Despite Canadian government rhetoric that "Canada ranks as one of the world's leading trading nations"[5] and that "in relative or per capita terms, Canada is far more deeply involved in international commerce than is the U.S.",[6] the

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[4]The New Zealand Treasury Department's analysis and comments on the economic issues facing New Zealand in 1984 are contained in a document entitled Economic Management, published by the Treasury in July 1984.
[5]Canadian Department of Foreign Affairs and International Trade web site: 'Canada's International Trade and Investment: A Summary', http://www.dfait-maeci....vest/ 60057.htm#Section1
[6]Ibid.

reality is that the 1990s have seen Canada become increasingly continental in its trade. Over 81 per cent of exports are destined for the United States and almost 68 per cent of imports originate from there.[7] The emphasis on North American trade carries significant costs. As a 1997 report on Canada's economic relationship with Asia, prepared by the Asia Pacific Foundation of Canada, states, "dependence on one market, no matter how big, has its drawbacks. This is all the more so because of the integration of the U.S. and Canadian economies, which necessarily follow much the same business cycle. When the U.S. economy slows, ours inevitably follows, and export growth dries up."[8] Another important cost of Canada's over-emphasis on the U.S. is the limits continentalism places on Canada's view of Asia. As the APF report goes on to say, "During the early 1990s, it seemed as if Canadian companies that were not already selling overseas decided that the obstacles in Asia were too great to overcome."[9] Further, "In Canada there is often a need to explain, 'why Asia' to hesitant export-ready companies."[10]

Canada has traditionally found it easier to take the path of least resistance. It simply requires less effort to export to the United States than to Japan or anywhere else. That this results in Canada becoming an economic satellite of the United States seems to cause few much concern. A Canadian Embassy official in Tokyo, when asked about Canada's over-dependence on the U.S. market, said "Exports are exports. It doesn't matter where they go."[11] As

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[7]Ibid.
[8]Asia Pacific Foundation of Canada, Canada Asia Review 1997, (Vancouver: Asia Pacific Foundation, 1997), p.8.
[9]Ibid., p.30.
[10]Ibid., p.31..
[11]Interview with Michael Martin, Canadian Embassy in Tokyo, June 24, 1996.

Japan's market is commonly considered to require more time, money, knowledge and effort to enter than almost any other market, it is natural that many potential exporters shy away. Canadian officials and the Canadian business community, generally take a very short-term outlook on economic and political developments. National governments operate with a view to the next election (generally held every three to four years) and are loathe to gamble on policies or initiatives with a long-term return. Similarly, Canadian companies have a very narrow time perspective, operating with a close eye to quarterly returns and with less attention to the longer view.

Australia

Japan has been Australia's largest trading partner since the 1960s, purchasing large quantities of Australian wool, minerals, energy and foodstuffs. While Australia has been well aware of Japan's importance, Japan has not assumed a position of economic dominance in Australia. Government and industry have encouraged Japanese tourism and investment and the education sector worked hard to educate Australians about Japan and to provide opportunities to learn Japanese. As the manufacturing sector began to look beyond the domestic market, though, Japan was not the only country on its mind. Many Australian manufacturers saw the Japanese market as too difficult and immediately turned their attentions to other markets in Asia or North America. This was not a decision made on the basis of a careful cost-benefit calculation. Rather, it appears to represent a general assumption that investment in Japan is difficult, costly and with uncertain returns.

New Zealand

In 1960, only about 4% of New Zealand's exports went to Australia. By the 1990s, this had risen to almost 20% and Australia is New Zealand's most important trading partner. A Closer Economic Relations (CER) agreement was signed between the two countries in 1983 and revisited in 1988 and 1992.[12] New Zealand's trading relationship with Australia is very important and most tariff, subsidy and restriction issues have been resolved over the last decade or so. Current negotiations tend to focus on the harmonization of standards across both countries.[13] The relationship is made more interesting by the fact that in numerous sectors (eg. beef and wool), Australia is New Zealand's main competitor. Due to this and New Zealand's past experience with relying too heavily on the British market, New Zealand recognizes Australia's importance but does not let Australia dominate its trade planning. There has also been talk of expanding the CER to include other countries, particularly those in the South Pacific and in Southeast Asia, as a possible way to further Australian/New Zealand interests in the Asia Pacific region.[14]

D. Centrality of Japan

In each of the national cases under investigation herein, Japan has been and continues to be an important trading partner. Economic connections have not, however, necessarily resulted in the governments and general population

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[12]Ministry of Foreign Affairs and Trade, New Zealand Trade Policy. Implementation and Directions: A Multi-Track Approach, (Wellington: MFAT, 1993), pp.iv and 85.
[13]Ibid., p.86.
[14]Ministry of Foreign Affairs and Trade, New Zealand Trade Policy. Implementation and Directions: A Multi-Track Approach, pp.85-86.

giving serious consideration to developments in Japan. The importance that each country attaches to Japan is a crucial factor in determining how much attention has been paid to the changes occurring in the Japanese economy. And this, in turn, has affected whether or not any systematic or creative policy or economic response was deemed necessary or appropriate.

Canada

Japan is Canada's second most important trading partner, and often touted publicly as such, but Japan is such a distant second to the United States (4% of export as compared with 82%) that, outside of British Columbia, it is often overlooked. Japan's primary importance to Canada is the opportunity it offers Canada to diversify geographically, away from its over-dependence on the U.S., and sectorally, away from resource products and toward the value-added products the Japanese are now buying.

Australia

Japan is of the utmost importance to Australia. It is Australia's largest trading partner and takes about 20% of Australia's exports, over double its next largest export market, South Korea. Japan is, therefore, likely to continue to be Australia's most vital export market for the foreseeable future. Australia has also been positioning itself, both to the international community and to its domestic audience, as part of Asia and attempting to carve a role for itself in that part of the world. Its political and diplomatic relations with Japan are of paramount importance in its efforts to achieve that leadership role.

New Zealand

Although Japan is also New Zealand's second largest trading partner, buying about 16% of New Zealand exports, Kiwi views on the importance of Japan vary. While Japan is seen as important, there is concern that New Zealand not be too dependent on one market (one government official suggested that New Zealand wanted to avoid the kind of dependence that Australia has on Japan). From this thinking comes the view that New Zealand trade should be diversified. In addition, Japan's changing import profile and recent economic difficulties mean that if it is easier for New Zealand companies to sell somewhere else, they will do so. While trade with Japan is certainly not discouraged, there is no specific focus on Japan either.

E. Awareness of the Changes in Japan's Economy

Recognizing the importance of trade with Japan to a nation's economy did not, of necessity, mean that the country's administrative and political leaders followed Japanese developments carefully. In the post-Plaza Accord environment, Japan's economic conditions changed dramatically, creating opportunities and posing potential danger for long-standing trading partners. The level of knowledge and insight possessed by each nation about the internal dynamics of the Japanese economy contributed significantly to the countries' ability to respond to and capitalize upon the changing circumstances.

Canada

From the mid-1980s through to the early 1990s, Canada was preoccupied with negotiations for the Canada-U.S. Free Trade Agreement and later the North American Free Trade Agreement. This meant that for the best part of the decade, both government and business were looking south, focused on the American market. However, about 1989 government officials at the Canadian Embassy in Tokyo and the Japan Division of the Department of Foreign Affairs and Trade in Ottawa began commenting on the changes occurring in the Japanese economy and pointing out the implications of a lack of action on Canada's part. Within the next few years, the government began developing its response to Japan's changes.

Australia

The Australian government and the Australian business community was aware of the changes occurring in the Japanese economy almost as they were happening. As early as 1983, Prime Minister Hawke, in a speech to the Australian-Japan Co-operation Committee, noted that structural changes were taking place in the Japanese economy and that these, particularly the decline in growth prospects for raw material exports, had implications for Australia.[15] A report from the Australia-Japan Business Forum's 1987 Economic Survey Mission to Japan explained in great detail the economic changes happening in Japan and their importance for Australia. Government reports and speeches make it clear that the Australian government was particularly aware of Japan's

[15]See chapter seven, page 281.

increasing overseas investment and its shifting import profile (away from resource products toward more value-added goods) and wanted to capitalize on these changed circumstances.

New Zealand

New Zealand did not pay much serious attention to the changes occurring in Japan after 1985. Few government publications mentioned much about what was happening in Japan or their implications for New Zealand. This can be partially explained by the fact that, for much of this time period, New Zealand was engulfed in its own economic transformation and too busy with domestic matters (although these had been partially caused by international events) to focus much on Japan. This is also a reflection of the New Zealand's more casual attitude toward Japan as its trading partner (relative to Australia and Canada.

F. Trade and Investment Promotion Policies – A Political Spectrum

The four countries covered in this study have approached the matter of trade and investment promotion from a variety of angles and perspectives. For the most part, Australia, Canada and New Zealand have relied on business initiatives to stimulate international trade and have, as argued, viewed government as a comparative passive partner in the identification of opportunities and the encouragement of new commercial initiatives. Japan, conversely, has operated on the basis of a more interactive relationship between business and government, and has attempted (not always with success) to develop strategies that suited the nation's long-term interests. When viewed comparatively, striking differences emerge between the policies adopted by the four countries.

In the 20th century, the spectrum of national economic policies in so-called free market countries ranged widely, from state ownership and centralized control (the New Zealand model), to mixed economies that sought a balance between government control and the private sector (the Canadian model), to countries that emphasized trade and market liberalization, but often used protectionist measures to safeguard domestic industry (like the United States of America). The rush to market liberalization has removed many of the old levers of economic control. Few countries see state ownership as a viable tool for economic management, and there are widespread domestic and international pressures that mitigate against the use of protective tariffs, subsidies, or substantial government investment in private sector initiatives. This has caused considerable difficulty for political parties of the left (the New Democratic Party in Canada and the Labor Party in Australia and New Zealand) as they have struggled to develop economic platforms that draw together their parties' historical beliefs and actions with contemporary sentiment against major government intervention. The "New Labour" strategy of the British Labour Party has attracted considerable interest in all three countries, but only at the cost of considerable dissension within the individual parties.

Demonstrated graphically (see Table VIII-2 and Table VIII-3), the political spectrum has shifted dramatically since the 1970s, when governments in Australia, Canada and New Zealander operated on the assumption that governments would play a major role in economic planning and development.

Table VIII-2

Government Responsibility for Trade and Investment Promotion, 1970s

Minimal Responsibility..Full Responsibility

Canada   Japan

Australia

New Zealand

Table VIII-3

Government Responsibility for Trade and Investment Promotion, 1990s

Minimal Responsibility...Full Responsibility

Canada   Japan

Australia

New Zealand

Global and national forces have clearly eroded the authority and flexibility of the state on matters of economic management, and the influence of the arguments in favour of market liberalization is observable in all four of the countries. Canada, Australia and particularly New Zealand, however, have generally accepted the idea that governments play a relatively small, supportive role in the cultivation of international trade and investment opportunities. In Japan, in contrast, and even in the wake of a lengthy period of political and economic upheaval, the belief in the efficacy of government involvement in economic planning and trade development remains quite strong. Even the Keidanren (Federation of Economic Organizations), while arguing for deregulation, supports a role for government in long-term planning and strategy. Given the widespread agreement in political and business circles that national governments did not have primary or even major responsibility for the promotion of international trade and investment, it is hardly surprising that Australia, Canada and New Zealand did not respond as nations to the changing conditions in Japan. There is also substantial evidence, and this is a telling point, that the business communities in these three countries also did not reaction with innovation and creativity to new Japanese economic realities.

II. Government and the Management of International Trade: The Japanese Example

The analysis of the reaction by Australia, Canada and New Zealand to the changing economic realities in Japan reflects the implicit assumption that national governments had options available to them, even in an age of widespread laissez faire capitalism and expanding globalization. Politicians and civil servants in all three countries have argued, supported by business leaders, that the changing realities of global economics effectively tied the hands of governments and limited the program options available. Although observers have argued strongly against the "myth of government impotence," to use Canadian Linda McQuaig's phrase, the idea that governments have little role to play in the direction and management of national economies has become widely accepted.

But not Japan. Given the focus herein on trade relations with Japan, the world's second largest economy, it is fitting to examine the actions adopted by the Japanese government from the 1970s to the present relating to the promotion of international trade. This brief analysis provides a useful counterbalance to the assessment of reactions in Australia, Canada and New Zealand to developments in the Japanese economy and provides a view from the opposite end of these important trading relationships. More importantly, the Japanese experience with the promotion of international trade provides a useful test of the main arguments advanced herein, namely that governments can play a significant role in the management of international trading relationships and that they can do so without upsetting the basic competitive structure of the modern market economy.

When most people think of Japan and industrial policy, they focus on many of the methods Japan used in the early stages of industrial expansion. These included promoting selected industries and changing this focus as economic conditions changed; setting out economic objectives in five year plans; controlling foreign exchange and the licensing of new technology; avoiding the creation of monopolies and encouraging competition by ensuring that two or more companies receive similar technology but also trying to avoid "excessive" competition; encouraging the merger of weaker companies with stronger ones; using tax strategies to encourage industries with good growth prospects; attempting to steer companies into the most productive lines of activity and helping companies in declining industries to diversify.[16] The Ministry of International Trade and Industry (MITI) and the Ministry of Finance (MOF), the primary players in executing Japan's industrial policy, have adjusted their strategies and activities as times and conditions have changed. In the 1980s and 1990s, a variety of factors led to adjustments in Japan's industrial policy: a nation-wide push toward deregulation of the economy, increased conflict between the nation's business community and its bureaucrats, Japan's position at the leading edge of manufacturing technology and on the world scene economically, and international pressure to avoid industrial subsidies.

Japan's industrial policy at the end of the twentieth century focused much more on "signaling" areas of potential development, encouraging specialized research and development targeted at international markets and the use of government procurement to support industry. Through massive government investments in research and development and organized encouragement of private sector investment,[17] far beyond anything attempted by Australia, Canada or New

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[16]Takatoshi Ito. The Japanese Economy (USA: MIT, 1992), p. 196-201.

[17] Government funds as a percentage of total research and development are only about 20 percent. (Victor Argy and Leslie Stein, The Japanese Economy. (USA: New York University Press, 1997), p.95.)

Zealand, and through cooperative initiatives between government, universities and the private sector, the Japanese government has identified areas of crucial development. As one study observed, "Japan does not pick winners. It picks teachers, key technologies such as microchips, whose brains will spread most diffusely through the economy. Japanese culture has a logic of community that asks: 'Which are the technologies whose contribution to other technologies, to people in general, and to the economic infrastructure as a whole, will do most to develop these? An economy must be seeded with millions of microchips if the systems utilizing such chips are to find acceptance with customers.'" [18] Government-directed investments in such areas as digital machine tools, industrial robots, semiconductors, microchips, consumer electronics, and the like served to maintain the commercial vitality of the domestic economy and to give Japanese industry a dominant position in key industrial technologies. These, in turn, have emerged as the cornerstone for Japan's international trading position and its vast web of foreign direct investments.19

A. Government Initiated Joint Research Projects

One of MITI's priorities has been, and continues to be, the encouragement of research and development. It has been involved in the establishment of

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[18] Charles Hampden-Turner and Alfons Trompenaars, The Seven Cultures of Capitalism: Value Systems for Creating Wealth in the United States, Japan, Germany, France, Britain, Sweden, and the Netherlands (New York, Doubleday, 1993), p. 193.

[19] This argument is pursed in detail in Eammon Fingleton, Blindside.

Technology Research Centers which are composed of a number of private companies which work together to conduct research on specific areas of interest.[20] One of the best examples of the success of these joint research projects is seen in the evolution of Japan's computer industry.[21] Government policies changed as the industry evolved and as the Japanese firms strengthened and helped create an industry that has enjoyed a prominent position in the international marketplace.

In the 1960s, the goal was to help the Japanese computer companies catch up to IBM and develop the technology necessary to compete with IBM. To this end, the Ministry of International Trade and Industry divided the six Japanese computer companies into three groups which competed against each other in product development and marketing. MITI offered financial assistance, set-up a competitive framework, exhorted the companies to work on the industrial developments it believed to be important and ensured that state-owned companies like NTT, the phone company, purchased what was produced. As each of the firms knew that its competitors were working on the development of similar technology, no one wanted to allow the others to get a head start.

By the late 1970s, the Japanese computer firms were stronger (and consequently not as willing to take direction from MITI). The prevailing international acceptance of free trade meant that overt aid to industry would result in complaints from overseas. In addition, MITI now wanted the Japanese computer industry to take a leading international position. It wanted Japanese

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[20] Victor Argy and Leslie Stein, The Japanese Economy, p. 95.

[21] Marie Anchordoguy, Computers Inc. Japan's Challenge to IBM (Boston: Harvard University Press, 1989).

companies to develop, as Anchordoguy writes, "machines to compete with as yet unannounced IBM computers - to help them stake out a technological advantage."[22] She explains that using the threat of market liberalization, MITI pressured the industry into reorganizing into two research groups (dropping one of the firms out in the process) to work on the production of densely integrated chips called VLSI. Although the firms were initially reluctant to reorganize, they eventually agreed and were rewarded with promises of strong measures to support and promote the domestic computer industry and substantial government procurement of Japanese computers. It is unlikely that an individual computer firm would have taken the financial and failure risk involved in advanced VLSI research without the government project. As Anchordoguy states, "Indeed, R&D in new areas is risky and inevitably involves some failures. By getting the firms to pool their financial and human resources, and by having three groups* take different approaches to the same research problem, the probability of success was increased. Most important, all members of the research cooperative got access to the resulting patents at low cost."[23] Secondly, MITI's VLSI project had positive results. Japanese computer manufacturers were successfully able to produce low cost, high quality VLSI chips and many of the project's technical goals were also achieved. Both of these factors led to increased sales of Japanese computers in both domestic and international markets.

The 1980s saw the Japanese make a concerted effort to move away from the IBM standard and to this end, the Japanese government established four new

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[22] Ibid., p. 137.
[23] Ibid., p. 145. *NTT was also pursuing its own research on VLSI.

projects: the Supercomputer Project, the 5th Generation Computer Project, the Sigma Project, and the TRON Project. As Anchorodoguy observed, "By supporting these and other R&D projects, the government is substantially reducing the costs and risks for the firms to explore frontier technology and to break away from the IBM standard."[24] While not every project goal was achieved, there were many successes. Most importantly, the government-led projects set goals and directions and allowed firms to take risks and look into the future in ways they would not have otherwise been able to do.

B. Economic Objectives

The Japanese government clearly believes that strength in certain industrial sectors is the key to the nation's future and does not hesitate to support those industries accordingly. As historian and Japan specialist Thomas Huber observes, Japan believes in the production of "high technology, high value-added manufactured goods, in quantities beyond what is domestically consumed so that they can be easily converted to capital flows or goods flows abroad. Production of a surplus of tradeable goods, especially high technology tradeable goods, is of strategic value because it can be easily converted to political influence."[25] Since the 1970s, Japan's economic development strategies have been firmly focused on

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[24] Ibid., p.150-51.

[25] Thomas M. Huber, Strategic Economy in Japan (USA: Westview Press, 1994), p. 115.

international objectives and on expanding the country's overseas trade and investment position.

In the 1990s, Japan has opted for production of the high value-added, technologically demanding products. Although large amounts of Japanese foreign direct investment have gone overseas in the last fifteen years of the 20th century, the most expensive and technologically demanding products continue to be produced in Japan. The Japanese government specifically emphasizes manufacturing, especially high tech manufacturing, and it communicates this to the nation's business leaders. The bureaucracy is committed and focused on what is in the best interests of Japan and makes decisions accordingly. Those who know Japan best know that to get permission in Japan to do something, one must first demonstrate how the granting of that permission will benefit Japan. Unlike the situation in Australia, Canada and New Zealand, the government of Japan decided that a coordinated approach between business and government was crucial to the nation's success and has widely communicated this expectation of cooperation in the national interest. The result has been the establishment of a formidable international trading nation with extensive overseas investments.

C. In Search of Excellence

The Japanese government rewards and promotes excellence, believing that to do so will ensure the domestic success of Japanese industry (keeping competitors at bay) and maintain the attractiveness and competitiveness of Japanese products internationally. Consumers (government, industry and individual) are encouraged to be demanding and particular. Firms are, in turn, pushed to satisfy this demand. For government purchases or government-assisted industry purchases, consumers expect the most up-to-date products or the next generation's systems rather than settling for that which is currently acceptable. Companies vie for the Deming Prize which highlights excellence in productivity and quality control. Consumers and employees continually look for ways to make both products and services better, expect excellence and are willing to pay for it. The result, in terms of international trade, has been to establish an effective Japanese `brand' that equates Japanese-made products with technological excellence and commercial creativity.

D. Government Agencies

The Japanese government has put numerous agencies in place to assist in the attainment of its overall economic policy goals. These goals range from the promotion of exports to the development of applied research and technology and support of technical innovation, and from small business development to counterbalancing international frustration with Japan's trade surplus to the promotion of small and medium sized enterprises. The various agencies attempt to address one or more of these goals and most have been reasonably successful.

1. JETRO and the Promotion of Trade Connections

JETRO (the Japan External Trade Organization), established in 1958, has played a central role in the development of Japan's international trade. It is funded, staffed and controlled by MITI. JETRO serves a number of functions, acting primarily as an organization for implementing trade policy. For the first two decades after its inception, JETRO focused on promoting exports. During the second half of the 1980s, Japan's burgeoning trade surpluses were causing trade friction in the international community. In response, JETRO made a complete shift and began promoting imports.[26] This effort, while clearly designed to stimulate imports, has the added benefit of keeping foreign markets open to Japanese trade goods. In 1999, JETRO had 35 domestic offices and 80 offices overseas in 58 countries, including Australia, Canada and New Zealand. JETRO also acts as an intelligence agency, conveying economic and political information to Tokyo, monitoring legal disputes involving Japanese companies abroad and paying close attention to scientific and technical developments overseas.[27]

JETRO plays a strategic role for the Japanese government. Firstly, its on-the-ground presence in almost sixty countries (and in more than one city in many countries) means that JETRO is the face of Japan to many non-Japanese business people. The focus on import promotion means that foreign business people all over the world are making use of JETRO research libraries, attending JETRO seminars on doing business in Japan and reading JETRO publications on accessing the Japanese market. Although Japan's trade surplus remains large, it makes it hard to argue that the fault is entirely that of Japan when no other country makes as much of an effort at helping foreigners export to it.

Secondly, this large network of Japanese `intelligence' officers are gaining a great deal of insight into the countries in which they are posted. Both Japanese business people and government officials have a well-earned reputation for doing

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[26] JETRO web-site: http://www.jetro.go.jp

[27] Thomas M. Huber, Strategic Economy in Japan p. 109.

their homework and amassing great amounts of information in case it might one day be useful to Japanese government and business. JETRO, then, provides excellent international market information, helps smooth fears and frustrations among its trading partners, and helps prevent trade retaliation by providing clear evidence of Japan's willingness to encourage foreign businesses to sell their products to Japan.

2. Business Support Programs

Japan has maintained a variety of business support programs, while many countries have been cutting initiatives designed to assist the private sector. Perhaps most significantly, the Japanese government uses these initiatives to push national objectives, to promote international trade and to share technological information and insights. Japan's Small and Medium Enterprise Agency was founded in 1948 as part of MITI's industrial policy apparatus.[28] SMEA "takes the lead in promoting industrial innovation for small firms" and has developed a wide array of programs to support small business.[29] While Australia, Canada and New Zealand have similar business support programs, they lack the continuity and government-direction that is evident in the operations of SMEA.

The Small Business Corporation plays a leading role in the dissemination of technical expertise to small businesses. SBC offers a variety of courses at nine

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[28] John Jay Tate. "MAC and the Japanese Miracle: Public Technology Centers and Economic Development from 1881 to 2005" in the Association of Japanese Business Studies 1999 Best Papers Proceedings, AJBS Twelfth Annual Conference June 4-6, 1999., p.273.

[29] Ibid. p.272.

schools across the country. Annual enrollment is around 10,000 participants, the majority of whom are company representatives. Business leaders from public sector training institutions also actively participate in the SBC programs and this, combined with the overall success of the Corporation, has according to John Jay Tate of the University of California- Berkeley, "led some recent officials at the Small Business Corporation to refer to their program as the Harvard Business School of Japan."[30]

The Japanese Ministry of Agriculture and Commerce first supported the creation of a network of public technology centers in 1881 and has maintained a high level of technological support since that time. These centers were initially run by municipal and prefectural governments throughout Japan. They have evolved over the decades, supporting first textiles and craft industries, moving on to heavier industry and then to assembly-based industry. In the 1980s and 1990s, public technology centers were reorganized at least partially to help improve regional economic development. The heart of much of the reorganization was the set-up of what were called technopolises. A public technology center forms the core of a technopolis and other research facilities and offices are built around it. There are about 25 technopolis projects and many of these were set up in more outlying areas to encourage technical development in these areas.[31]

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[30] Ibid., p.275.

[31] Ibid., p. 277-78.

E. Deregulation and Mercantilism

In keeping with developments in other countries, deregulation has emerged in Japan as a key element of the new industrial strategy. International trade liberalization and international trade agreements have forced the Japanese government to accept that the old structures will no longer suffice. Escalating anti-protectionist feelings overseas led Japan to begin to eliminate its most obvious tariff and non-tariff barriers. Although politicians have grappled, with limited success, with the balance between international expectations and domestic political concerns, the country has moved slowly down the path of economic liberalization. Deregulation of the financial sector, for example, has been occurring in the late 1990's and sectors as diverse as textiles, insurance, banking and household goods became much more open to foreign competition than they were in the past. In other sectors, however, Japanese non-tariff barriers remain (ie. the operation of the country's diverse and complicated product distribution system) and some product categories are virtually closed to outsiders.

Japan observers, like Eamonn Fingleton, have been quick to point out that areas selected for deregulation have been picked with two considerations in mind: the anticipated international response to the specific initiatives and a continuing desire to protect vital high-technology sectors. Fingleton goes on to argue that the Japanese bureaucracy acts as "the primary instrument of protection" by the number of rules and regulations they put in place in front of foreign suppliers. The primary focus at the end of the 20th century, he argues, is "on certain targeted industries, notably high technology ones. A good example is the helicopter industry. Before foreign helicopters can be imported into Japan, they have to be taken apart and their electronic systems individually bench-tested in Japanese laboratories at great expense to foreign manufacturers."[32]

This is a definitive strategy on the part of the Japanese to control their domestic economy and protect domestic manufacturing. While much of what is done today is more subtle than in the past (and can be difficult to analyze clearly because there are also numerous examples of situations where the non-tariff barrier is simply a quality standard the foreign producer does not reach) and would be hotly denied by Japanese leaders in official settings, the Japanese government and the public feel that it is the government's role to place the best interests of Japan first, a condition that does not hold firmly in Australia, Canada and New Zealand. Contrary to western rhetoric, they do not always feel that the free market is the way to do this.[33] While deregulation and a limiting of government involvement in certain areas of the economy are occurring, spurred on by both domestic and international pressure, most Japanese do not embrace western economic theory. As Eisuke Sakakibara, senior bureaucrat at the Ministry of Finance recently wrote in a discussion on reform and deregulation in Japan, "(I)t should be clear that reforms based on the doctrine of Western-style individualism or Anglo-Saxon free market capitalism cannot be implemented in

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[32] Eamonn Fingleton, Blindside, p.264. Fingleton cites the glass and pharmaceutical industries as other examples.

[33] While the West continuously speaks of unfettered free trade, members of the public are less enthusiastic when the effects of foreign competition affects them directly.

Japan, or, if implemented are destined to fail.... Japan requires a distinctively Japanese type of reform."[34]

In sum, then, the Japanese government has responded to foreign pressure, generally and correctly interpreted as a threat to Japan's massive export trade, by accepting a small measure of deregulation. In so doing, however, the government has ensured that its `Japan first' ethos remains firmly in place. There remains a willingness to limit deregulation and market liberalism if such measures are deemed to be a threat to the domestic economy. Finding the appropriate balance between these two positions - domestic protection and ensuring access to international markets — has been taxing at times and has often resulted in extensive and often angry political exchanges between the Japanese governments and its trading partners.

F. Challenges for the Future

The Japanese government's management of the international trading environment has not been an unblemished success. International pressure to liberalize Japan's domestic marketplace have resulted in sanctions and resistance directed at Japanese exports and foreign direct investment. There is in the United States an ever-present threat to restrict Japanese imports and to demand greater reciprocity in the trading relationship. Moreover, the widespread acceptance of the `limited government' approach to economic development has raised concerns

[34] Eisuke Sakakibara, "Reform, Japanese Style" in Unlocking the Bureaucrat's Kingdom: Deregulation and the Japanese Economy. Frank Gibney, Editor (Washington: Brookings Institution Press, 1998), p.87.

in many countries about the tight bonds between government and industry in Japan. The country has itself undergone significant internal changes. The recession of the late 1990s, although not as severe as many western analysts assumed, lessened public support for the constant interventions of the Ministry of Finance and the Ministry of International Trade and Investment. Declining national confidence in the competence and foresight of the country's bureaucrats, combined with widespread trade liberalization and the emergence of powerful international financial organizations like the World Trade Organization, have led to growing expectations that Japan would have to compete internationally largely on western terms.

But while acknowledging the shortcomings of the Japanese system of industrial policy and international trade promotion, it is also important to recognize the country's notable successes, particularly when developments over the past two decades are considered. Faced with significant internal changes – the rise in the value of the yen, demographic pressures, soaring domestic labour and infrastructure costs – and a globalizing world economy, the Japanese government worked closely with industry in developing a coherent and nationally-relevant industrial and international trade and investment strategy. The pattern is well-known: the shifting of manufacturing capacity to low-wage countries, development of overseas plants to capitalize on markets within regional trading blocks and protected national economies, efforts to maintain the value of the yen at a level tenable for exporters, a lessening (but not abandonment) of domestic barriers to imports and foreign direct investment, industrial specialization in key, high-return sectors (particularly relating to computers and robotics). The result has been the maintenance of an exceptionally high level of international trade, a massive trade surplus with the United States of America, and the continued refinement of the country's industrial plant to focus on new and emerging technologies and key, high-value industrial products.

The efforts of the Japanese government to manage the nation's economy and its international trade and investment activities have been, unsurprisingly, not perfect. Domestic political turmoil, particularly the decline of the once vaunted Liberal Democratic Party and a series of bewildering scandals in the financial sector, lessened public confidence in government and business. In addition, according to many observers, Japan's bureaucrats remained locked in a regulatory mindset and are not yet fully enthusiastic about the shift in their role from one of direct management to indirect guidance of the national economy. [35]

Nonetheless, Japan's accomplishments are noteworthy, particularly given the pace and nature of internal and international pressures that the country has experienced since the mid-1980s. Largely due to government initiative and close government-business relations, Japan rebuilt itself from amidst the rubble of World War II. The country re-invented itself economically several times since them, and is determined to do so again, this time in the context of a liberalized international trade environment with an emphasis on high technology. The belief in Japan that government agencies are responsible for providing direction and guidance remains substantially in place, and so does the idea that industry is

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[35] Leon Hollerman, "Wither Deregulation: An Epilogue to Japan's Industrial Policy," pp. 243-270.

expected to work with the government in the development of economic plans that serve the interests of the nation as a whole.

The Japanese model is not readily transportable to Australia, Canada or New Zealand (although, interestingly, some aspects of Japanese business practices have been introduced and widely adopted in all three countries). Political and administrative conditions and national cultures in the three countries differ profoundly from those in Japan. But Japan's experience is nonetheless relevant and salutary, for it demonstrates that, in international market conditions similar to those faced in Australia, Canada and New Zealand, government agencies could and did intervene in economic management and did assist industry and business in responding to rapidly changing international realities. Japan's economy remains competitive, internationally and domestically, and operates on standard free market principles. Government intervention has not forced the Japanese economy onto a path of subsidies, overt protectionism or state ownership. The message from Japan is that government can play a formidable role in the management of national economies and the cultivation of international trade.

III. General Trade And Investment Promotion And Diversification Initiatives

Between 1985 and 1997, all three countries undertook major reforms of their approaches to trade promotion and development. These were discussed in detail in Chapters five, six and seven and are summarized below.

Table VIII-4

Summary of General Trade And Investment Promotion Initiatives

Country	Major Initiative
Canada	Canada's International Business Strategy
	Team Canada
	National Sector Teams
Australia	Formation of the Austrade
	Joint Action Groups
New Zealand	Formation of Tradenz
	Joint Action Groups

Canada

Prior to 1990 Canada's international business planning had been coordinated through a system of annual reporting from Canada's embassies and consulates abroad. Canada's International Business Strategy developed out of a desire to more fully represent all of the government efforts to promote international trade and not just those of the one international trade department. By 1995 CIBS formed the core of Team Canada initiatives — the new name for a variety of efforts designed to increase Canadian exports. (Team Canada trade missions to Asia (1996) and Mexico and South America (1998) were the most high profile of these initiatives and the ones with which the general public is aware.) The purpose of CIBS was to develop the federal government's long term plans for international business development strategies through a consultative process with provincial governments, various federal departments, industry associations and private companies. Representatives from the aforementioned groups met in National Sector Teams (matched with sectors that the government has quietly determined are priorities) to determine sector strategies and promotional plans. CIBS and the National Sector Teams are a concerted effort to streamline government involvement and focus Canada's international business activities, although the desire to avoid political problems has stopped the government from publicly stating priorities for either industry sectors or countries. Since the 1985 Investment Canada Act, Canada has been openly encouraging foreign investment with restrictions in only a minimal number of areas.

New Zealand

As part of the public sector reforms, the Trade Development Board (also known as Tradenz) was created in 1988. The idea for Tradenz developed from a steering committee recommendation that there was a need for a New Zealand-based business-led organization to support the work of Trade Commissioners overseas. Tradenz has an independent Board of Directors whose members come primarily from private companies. Its mandate is to develop and expand New Zealand's foreign exchange earnings. Between 1992 and 1995, Tradenz published three documents which outlined the basics of an export strategy for New Zealand and set target goals in terms of foreign exchange earnings. Tradenz, however, does not feel that responsibility for development of an export strategy falls within its purview and discussions with various government officials did not indicate a consensus on who has responsibility for this.

Tradenz encourages the development of Joint Action Groups (JAGs) which are industry groupings that come together to develop international market development strategies. Tradenz assists in the formation of JAGs. Once a JAG has been formed, the industry participants take over and Tradenz steps back. JAGs determine their own membership criteria, goals and plans. They work out sectoral goals and, with Tradenz assistance, select target countries.

On the investment front, New Zealand has been become much more open. Since 1985 investments of less than NZ$10 million no longer need approval with the exception of those in broadcasting, commercial fishing and rural land. The government sees foreign investment as vital to the country's economic well-being and is actively encouraging investment from everywhere.

Australia

The Australian Trade Commission (Austrade) was formed in 1986 and is part of the Department of Foreign Affairs and Trade. The Austrade mandate is to assist Australian exporters to sell their products and services off-shore and to promote foreign direct investment into Australia. Austrade works closely with companies on a fee for service basis. Austrade started the creation of Joint Action Groups in 1992. These JAGs, very similar to those of New Zealand, begin as government initiatives but gradually become industry led and funded.

Australia's foreign investment policy is currently under review. The Foreign Acquisitions and Takeovers Act of 1975 outlines a variety of investment types and sectors which require government approval. Concerted efforts at promoting foreign investment into Australia began in 1987 with the establishment of the Investment Promotion and Facilitation Program (IPFP).

This program was designed to promote Australia as an investment destination by ensuring that foreign investors received as much information as necessary about Australia and by locating investment commissioners in various overseas locations. Initially, investment commissioners focused on generic investment promotion (eg. running seminars and producing brochures) but this did not generate results. Later investment commissioners promote specific projects and have clear targets for the amount of investment capital and/or future employment the investment they procure generates.

III. Japan-specific Trade And Investment Promotion Initiatives

Along with the changes in the way general trade promotion is undertaken in Canada, Australia and New Zealand, these countries also began various initiatives specifically designed to promote trade with Japan. Again, these were explained in detail in chapters five, six and seven and are summarized below.

Canada

Canada's most specific Japan-related trade initiative was its launch of *Canada's Action Plan for Japan*. Coordinated by the Department of Foreign Affairs and Trade, the federal and provincial governments worked with industry representatives to put together this annual report which identifies seven high growth sectors with potential for Canada. The primary strength of the Action Plans is the clear identification of Japan's importance to Canada as a trading partner, the need and desire to improve Canadian sales to Japan and suggested sectors through which this can be done.

Other successful initiatives have been provincial programs for manufacturers of prefabricated homes and their components (for example, windows and doors) The British Columbia Trade Development Corporation (now B.C. Trade and Investment Corporation) launched Canada Comfort Direct in 1992. Companies pay an annual fee and their representatives can participate in trade promotion seminars and workshops, have their products displayed as part of the Canadian Building Products Showcase and are linked directly with

Japanese builders looking to import from Canada. This produced significant increases in sales for participating firms and the Quebec Wood Export Bureau and Atlantic Homes Canada (comprised of the four Atlantic provinces) have begun similar initiatives. (All the provinces were invited to join Canada Comfort Direct but Quebec and the Atlantic provinces started their own programs in an unfortunately typical example of provincial rivalries.)

Australia

As mentioned earlier, Australia was both aware and concerned about the economic changes occurring in Japan very early on. A large number of small initiatives took place in response. These ranged from trade promotion events — the most involved of which was Celebrate Australia, a month of events highlighting Australia to Japan — to increased provision of business services (Austrade offices were set up in several Japanese cities) to economic missions to general encouragement of Australian companies to consider the Japanese market. Along with promoting trade with Japan generally, the Australian government was keen to diversify Australian exports to Japan away from primary products toward more value-added goods. As part of this, the government wanted to promote Japanese investment in manufacturing or processing industries in Australia with the idea that the products these companies produced in Australia would, in all likelihood, be sold back to Japan. Under the Investment Facilitation and Promotion Program, four investment commissioners were assigned to Tokyo in 1997 and they generate approximately A$200 million in investment annually.[36] They promote specific projects (usually investment opportunities in manufacturing or processing of products) to specific investors and are judged on the results they obtain. The IPFP generally, and in Japan specifically, has been judged to be a success by the Australian government.

New Zealand

New Zealand undertook little in the way of Japan specific initiatives, programs or publications. Tradenz in Japan (and Eugene Bowen, Senior Trade Commissioner Japan and Regional Director, specifically), however, has been active in encouraging the formation of JAGs in sectors in which it sees potential for New Zealand and in seeking customers for New Zealand products. In the late 1980s, the Japan New Zealand Business Council noted New Zealand's small share of Japan's skyrocketing overseas investment and urged that the situation be addressed. Cabinet ministers began visiting Japan to promote investment and an investment counsellor was attached to the Embassy in Tokyo from 1992 to 1994.

It is important to consider the impact the general changes to international business development and the specific Japan initiatives have had on Canadian, Australian and New Zealand trade with Japan.

IV. Comparison of Trade With Japan — Value And Volume

For all three countries, Japan is an important trading partner. The degree of this importance ranges from Australia which sends 20% of its exports to

[36] Interview with Leonie Muldoon, Minister-Counsellor, Austrade, 21 November 1997.

Japan, to Canada which sends slightly over 4%. New Zealand falls somewhere in the middle with Japan receiving just over 16% of its exports. Between 1985 and 1997, Canadian exports to Japan have fluctuated in value with a peak in 1995 of US$8.5 million. New Zealand's Japanese exports slowly but steadily increased in value over the 1990s and also experienced a big jump in 1995 before a subsequent decline. In U.S. dollar terms, Australian exports to Japan were worth about $12 billion (after bouncing around the US$10-11 billion range throughout the early 1990s), Canadian exports to Japan were approximately $7.5 billion and New Zealand exports to Japan around $2.3 billion in 1996. The trade volumes remained relatively stable over the period in question, with the annual fluctuations revealing the inevitable variability of international trade, including exchange rates, short-term shifts in markets, commodities' prices, and localized matters.

Canada

In the period of this study, Canadian exports to Japan did not particularly increase in value with the exception of 1995. In 1989 they were US$7,429 million and in 1996, they were US$7,471 million. As a percentage of total exports, exports to Japan declined from 6.2% in 1989 to 3.7% in 1996. (See Table V-6)

Australia

Australian exports increased in value between 1989 when they were US$9,761 million and US$12,019 million in 1996. As a percentage of total

Australian exports, they declined from 26.4% in 1989 to 19.7% in 1996. (See Table VII-6)

New Zealand

New Zealand exports to Japan increased in value between 1989 when they were US$1,538 to 1996 when they were US$2,207. As a percentage of total New Zealand exports, exports to Japan declined from 17.4 % in 1989 to 15.4% in 1996. Worried about becoming too dependent upon Japan, as Australia has become, New Zealand has made an effort to diversify its trade and has done relatively little to expand its economic relationship with Japan.

V. Comparison of Trade with Japan — Commodity Composition

Canada, Australia and New Zealand have long depended on their rich national endowments. As the world economy changed in the last decades of the 20th century, and as new competitors entered the resource markets, the reliance on exports of natural resources has meant, that the three countries have often avoided the challenges and, unfortunately the benefits, of a more diversified export profile. As Michael Porter wrote,

> Canada, Australia and New Zealand, with national advantages primarily in resource industries, have a similar problem. In a sense, a nation without abundant natural factors has a sort of advantage in economic development. It avoids the temptation of relying too much on natural advantages.[37]

[37]Michael E. Porter, The Competitive Advantage of Nations, p.677.

As was discussed in the previous chapters, Canada, New Zealand and Australia are all primarily resource and agricultural exporters, particularly when it comes to Japan. As might be expected, there is some overlap in those products which are the most important Japanese exports for each of these countries. The one product category which falls in the top ten exports to Japan for all three countries is fish and seafood. Given the importance of the fisheries in these countries and Japan's position as the world's largest market for imported fish and seafood, this is hardly surprising. For further details, see appendices

Other than fish and seafood, the most important Australian and New Zealand exports to Japan do not coincide. Australia's main exports are in the minerals and energy sectors while New Zealand's tend toward agricultural products. Canada and Australia are both major exporters of coal to Japan. (The further development of coal extraction in both countries was instigated by the Japanese after the 1970s oil shocks. A desire to diversify away from oil and to guarantee multiple sources of supply sent Japanese steel producers abroad. Once the Japanese had signed long term agreements with multiple suppliers, they began to bargain down the price.) Canada and New Zealand both export sizeable quantities of aluminum and forest products (wood pulp, sawn wood, lumber) to Japan. Competition in forest products is likely to increase as New Zealand discovers ways to improve the tightness of its wood's grain. New Zealand trees grow too quickly for the wood to develop an adequately tight grain to make it strong enough for use in construction. Companies have been working on a processing plant to make lamstock (small wood strips laminated with glue) to overcome this problem. Currently New Zealand wood is used mainly for packaging, which is not as highly valued as construction materials.

The emphasis by all three countries on resource and agricultural exports has caused varying levels of concern nationally. The Australian government has expressed many times its concerns about the country's dependence on exports of barely processed products. New Zealand feels much less worried. Government officials often state the belief that people will always have to eat and therefore New Zealand's food exports will always find a market. Declining fish stocks on both the Atlantic and the Pacific coasts, combined with shrinking markets for British Columbia lumber, have forced Canadians to realize that a resource-based economy may not guarantee a prosperous long term future. Economists and political analysts of all shades of opinion agree. Kenichi Ohmae writes, "We have to accept the fact that, for developing and developed economies alike, for Canada and Australia as well as for Brazil and the OPEC nations, natural resources are no longer the key to wealth."[38] Australian industry policy analyst Jenny Stewart concurs and explains why:

> There are two reasons why a nation which bases its economy around the export of commodities and which imports manufactured goods will find its terms of trade deteriorating over the longer term. The first relates to the differing intrinsic natures of the two types of goods: manufactured products, being far more differentiable than commodities and basically transformed manufactures, allow producers of them much more scope for extracting profit. The second relates to the side-effects of the industrial policies pursued by the advanced nations, which have allowed them to influence the production of raw materials to suit their own purposes and to distort world prices for food and fibre....Prices for manufactured goods and for services keep climbing. For commodities, they remain virtually static. The result is inevitable. Countries exchanging commodities for

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[38]Kenichi Ohmae, The Borderless World, (New York: McKinsey & Company, 1990), p.193.

manufactured goods are fighting a losing battle. The only way they can maintain their incomes is by selling higher volumes at the world price.[39]

Harvard University's Michael Porter issues similar cautions. He notes:

> The concern about resource-based industries should not be about their inherent desirability, but about the extent to which they contribute directly and indirectly to productivity growth, which is primarily related to the sophistication of the skills and technology employed in them. In a global economy characterized by rapidly advancing technology, reliance solely on resource endowments in an industry carries formidable risks. One obvious risk is resource depletion. A second risk is that new sources of resources will come onto the market. Falling transport costs, new resource exploitation or processing technologies, or government subsidies may bring previously uneconomic resource supplies onto the market. This may also occur as new countries attempt to climb the development ladder, because industries depending heavily on natural resources are particularly accessible to developing countries. Competing solely on the basis of resource advantages in commodity industries makes nations particularly vulnerable to subsidies and to exogenous price and cost swings.[40]

Porter goes on to say that the third risk is the possibility of technological advances which create substitute products for resources. He says that resource-based industries must continually upgrade and improve their processes and products if they wish to sustain productivity growth. "By not upgrading, even wealthy, resource-based economies run the risk of an erosion in their relative standard of living."[41]

For Canada and Australia, diversifying the composition of their exports to Japan is believed to be important. It was a critical goal, particularly for Australia, during the period of this study. The following tables compare the commodity composition of each country's exports to Japan in 1985 with its composition in 1997.

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[39]Jenny Stewart, The Lie of the Level Playing Field, p.48 and p.56.
[40]Michael E.Porter, Canada at the Crossroads, p.69.
[41]Michael E. Porter, Canada at the Crossroads, p.69.

TABLE VIII-5:
Commodity Composition: Japanese Imports By Japan from Canada, 1985 and 1997 (% of Total Trade)

Commodity	1985	1997	% Change
Live Animals	.04	.01	-75%
Food, feed, beverages & tobacco	17.7	16.8	-5%
Crude Materials,* inedible	50.1	28.8	-43%
Fabricated Materials,** inedible	28.8	44.0	53%
End Products,*** inedible	3.3	9.9	200%

*Grains, ore, pulp and natural gas

** Leather, lumber, pulp, wood products, metals, organic and inorganic chemicals

*** Machinery, transportation and communication equipment, personal and household goods, miscellaneous end products

Source: Statistics Canada, Exports-Merchandise Various editions, Catalogue 65-202 Annual and the Canada Japan Trade Council Newsletter, January-February 1998.

The key category here is the final one 'End Products Inedible' as this contains manufactured products including machinery, transportation and communication equipment, personal and household goods and other end products. Canada's success at diversifying its exports to Japan away from primary and partially processed goods toward manufactured products is reflected in the increase in the percentage of its exports contained in this category. As Table VIII-1 reveals, from 1985 to 1997, the percentage of Canadian exports to Japan in the End Products, Inedible category increased 200% but from a low base of 3.3%.

TABLE VIII-6
Commodity Composition: Japanese Imports from Australia
1985 and 1997
(% of Total Trade)

Commodity	1985	1997	% Change
Food and Live Animals	15.6%	17.4%	10%
Beverages and Tobacco	<.1%	.2	50-75%
Crude Materials, Inedible	29.3	21.6	-26%
Mineral Fuels	34.3	27.5	-20%
Animal and Vegetable Oils	.1	.1	0%
Chemical and related products	.3	1.1	73%
Manufactured Goods, (classified by material)	7.1	8.8	21%
Machinery and Transport Equipment	.8	2.7	70%
Misc. Manufactured Articles	.3	.9	67%
Commodities and Transactions (includes confidential items of trade)	12.2	19.6	38%

Source: Australian Bureau of Statistics, International Merchandise Trade Catalogue 5422, March, June, September and December 1985 quarterly reports and December 1997 report.

In Australia's case, it is important to note that this commodity breakdown can be slightly misleading with regard to manufactured products. The category entitled 'Manufactured Goods, Classified by Material', is comprised of various basically transformed materials. The sub-categories here are leather and leather manufactures, rubber manufactures, cork and wood manufactures, paper and paperboard, textile yarn, non-metallic mineral manufactures, iron and steel, non-ferrous metals and manufactures of metals. In 1997 80% of total exports to Japan in this category were non-ferrous metals and an additional 9% were non-metallic mineral manufactures. (In 1985, the percentages were 85 and 6 respectively.) Therefore, the increase from 7.1 percent to 8.8 percent shown in the table does not indicate a diversification of exports but simply an increase in the value of non-ferrous metal exports.

In the 'Machinery and Transport' category, the total value of Australia's exports rose 600% from about A$72 million in 1985 to A$459 million in 1997.[42] As Table VIII-2 shows, this category grew as a percentage of total exports to 2.7 percent, a definite improvement over 1985. Road vehicles in 1985 constituted over 50 percent of Australia's 'Machinery and Transport' category at a value of about A$39 million. By 1997, they were worth A$87 million but had decreased as a percentage of total exports in this category to 19%. Major increases occurred in the exports of office machines and automatic data processing systems which skyrocketed from slightly over A$7 million of exports in 1985 to A$148 million in 1997, constituting 32% of Australian exports in this category. 'Power

[42]Australian Bureau of Statistics, International Merchandise Trade Catalogue 5422, March, June, September and December 1985 quarterly reports and December 1997 report.

generating machinery and equipment' also experienced a large increase in sales from barely A$6 million in 1985 to A$89 million in 1997.[43]

[43]Ibid.

TABLE VIII-7
Commodity Composition: Japanese Imports By Japan From New Zealand, 1989* and 1997
(% of Total Trade)

Commodity	1989	1997	% Change
Food and Live Animals (HS2 categories 1-11, 16-21 & 23)	41.9%	39.3%	-6%
Beverages and Tobacco (HS2 categories 22 & 24)	.1%	.2%	50%
Crude Materials, inedible (HS2 categories 12,25,26,31,41,43,44,45,47& 51)	21.4%	25.1%	15%
Mineral Fuels (HS2 category 27)	2.5%	1.4%	-44%
Animal and Vegetable Oils (HS2 category 15)	1.5%	1.6%	6%
Chemical and related products (HS2 categories 29,30,32,32,33,35,38,39)	5.4%	11.1%	51%
Manufactured Goods — classified by material (HS2 categories 40,42,46,48,49,52,54-59,63,68,72-74,76,78,81-83.)	25.9***	19.0%***	-27%
Machinery and Transport Equipment (HS2 categories 84-89)	.7%	1.3%	46%
Misc. Manufactured Articles (HS2 categories 34,37,61,62,64-66,69,70,71, 90-97.)	.4%	1.0%	60%

* Figures for 1985 are not available.
** The HS2 codes contained in each category are listed in parentheses.
*** Aluminum comprised 95 percent of this category in 1989 and 88 percent in 1997.

Source: Statistics New Zealand, Overseas Trade Exports, Country of Destination by HS2 Chapters, For the Calendar Year 1989.

Statistics New Zealand supplied the exports information in HS2 commodity breakdowns. These have been adjusted to fit the same category breakdowns as those used in Table VIII-2. The same caveat, therefore, applies to the 'Manufactured Goods, Classified by Materials', category. For New Zealand, the vast majority of this category is aluminum. Aluminum made up a full 95% of this category in 1989. By 1997, this had decreased to 88% but the difference was made up by exports of iron and steel, which were 9% of the category total.

There have been clear increases in the percentage of exports in the two categories which clearly contain manufactured goods. In the 'Machinery and Transport Equipment' category, increases occurred in the sub-categories of nuclear reactors, boilers and machinery, and mechanical appliances, electrical machinery and equipment and vehicles. In the 'Miscellaneous Manufactured Articles' category, exports of optical equipment, furniture, soaps and apparel all increased substantially. New Zealand has increased the proportion of manufactured exports it sends to Japan. The increase, however, is very small and as the starting point was manufactured goods as a very tiny portion of overall exports, very little has changed.

Despite general agreement that this dependence on resource exports is unwise, neither New Zealand or Australia has succeeded in changing the situation much, at least with regard to exports to Japan. Although slightly less than 10% of Canadian exports to Japan in 1997 are manufactured, this is a substantial improvement over 3% a little over a decade before. Australia and, to a lesser extent, Canada have made some attempts to alter their export profile to Japan and ensure that a large proportion of exports are processed or manufactured, bit success has been relatively elusive. Government literature in both countries speaks of an increase in manufactured and processed exports to Japan but the real increase has been slight in Australia's case and moderate in Canada's.

VI. Future Sectors

It is interesting to note the governments of Canada, New Zealand and Australia all see similar products as being key future exports to Japan. Government officials in each country mentioned that sectors with potential for Japan include processed foods, health care and medical products (particularly products for the aging population), building products and software and information technology. The software market in Japan in 1995 was worth more than US$6 billion and the increasing use of computers in Japan is likely to continue to increase, particularly as the Japanese Ministry of Education has pledged to ensure that all schools are well equipped with computers. The U.S. dominates the packaged software market in Japan but there is room for competition.[44] For Australia and New Zealand organic foods are also of significant potential and Canada and New Zealand share an interest in adding value to their wood products by increasing their exports of furniture.

[44]Klaus Pringsheim, 'Welcoming Remarks', The Japanese Market for Quebec Software, Edited Proceedings of a Conference sponsored by the Canada-Japan Trade Council and JETRO, September 24, 1996.

VII. Comparison of Investment from Japan

Japan is the third most important investor in Canada and Australia and the fourth for New Zealand. Japanese investment makes up 4% of the total investment in Canada, less than 3% of that in New Zealand and about 14% of Australia's total. For all three countries, Japanese investment rapidly increased after the 1985 Plaza Accord and a direct reaction to the rapid appreciation in the value of the yen.. Japanese automobile and forestry companies increased investments in Canada, Australia and New Zealand to take advantage of lower relative labour costs (and in Canada's case, to capitalize on the free trade agreement with the United States) and to circumvent growing protectionist feelings. In Canada and Australia, major investments also took place in metals and minerals. New Zealand received investments in agriculture (particularly meat processing) and Australia also received major Japanese investments in a range of food processing areas.

In dollar terms, Australia has received the largest share of Japanese investment of the three countries studied. Cumulatively to 1994, Australia had received US$23,932 million of Japanese investment compared with US$8,261 million for Canada and US$1,376 million for New Zealand. Throughout the late 1980s and the 1990s, Australia's efforts to attract Japanese investment (described in Chapter seven) were quite successful and resulted in dramatic increases. Although geographically and demographically Australia is much smaller than Canada, Australia received a much greater proportion of Japanese foreign direct investment than did Canada. In 1988, when Canada received US$626 million in Japanese FDI, Australia received four times as much at

US$2.4 billion. Over the next few years, Australia's comparative success at attracting Japanese investment continued. (See Table VIII-2.) While Australia was not as successful at attracting Japanese investment in 1994 and 1996 as in previous years, in 1995 Australia attracted US$2.6 billion of investment, over 5% of total Japanese overseas foreign direct investment.

TABLE VIII - 8:
Japan's Foreign Direct Investment
Selected Countries 1984-1996
(US$m)

Country	1984	1986	1988	1990	1992	1994	Cumul. (1951-1994)	Cumul. Total Japan FDI %
Australia	105	881	2,413	3,669	2,150	1,265	23,932	7.4
Canada	184	276	**626**	1,064	753	1,265	8,261	2.6
China	114	226	296	349	1,070	2,565	8,729	1.9
Mexico	56	226	87	168	60	613	2,793	0.9
New Zealand	15	93	117	231	67	115	1,376	0.4
S. Korea	107	436	483	284	225	400	5,268	1.6
Singapore	225	302	747	840	670	1154	9,535	3.0
U.S.	3,359	10,165	21,701	26,128	13,819	17,331	194,429	60.4
Total	10,155	22,320	47,022	56,911	34,138	41,051	463,606	

Source: Pacific Basin Economic Council Statistics, 1996 (formerly Pacific Economic Community Statistics, 1988, 1990, 1994).

Australia has also been successful with its attempts at diversifying the range of sectors into which it attracted investment and, in particular, at attracting investment into manufacturing industries. Japanese Ministry of Finance reports show that notifications of investments in Australia's manufacturing sector were 30% of total Japanese investment in Australia between March 1994 and March 1996 compared with 8%between 1987 and 1990.[45]

Summary

In dollar value terms, Australian and New Zealand exports to Japan increased while Canada's basically stayed constant (with the exception of 1995) within the 1985 to 1997 period. As a percentage of total exports, exports to Japan for all three countries declined. Canada was reasonably successful at diversifying its export mix to Japan (although 90% of its exports remain raw materials or barely processed goods). New Zealand made little effort to diversify the exports sent to Japan and its export profile did not change at all. The Australian government was very concerned about its over-dependence on resource exports and spoke publicly about the need for a more balanced export profile but its 1997 export commodity breakdown is little different from that of 1985.

As for the attraction of investment, while New Zealand and Canada did signal an increased openness to investment in all sectors, they did little to directly solicit investment from Japan or to set guidelines for what kind of investment they wanted to get or how they would get it. The Japanese investment in New Zealand

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[45]Australian Department of Foreign Affairs and Trade web site: http://www.dfat.gov.au/geo/na/japan_brief.htm#2, page 2.

and Canada was seldom a result of anything these countries did but more a Japanese response to outside factors, such as looking for access to the U.S. market (in Canada's case), a need for timber or a hotel or resort property. The Australian government, on the other hand, targeted Japanese investors specifically and worked to match them with projects in need of investment. The Australian focus was on investment in manufacturing and processing industries. Australia was successful both in receiving Japanese investment and in obtaining it in the sectors in had targeted.

The neo-liberal approach to improving trade and investment between Canada, Australia and New Zealand and Japan achieved limited results. The three governments, to varying degrees, attempted within neo-liberal constraints to increase Japanese investment in their countries, increase exports and diversify their export profiles to include a higher percentage of manufactured goods. While Japanese investment in all three countries increased, much of that increase was due to the desire by Japanese corporations to circumvent the rapidly escalating yen and growing protectionist sentiment. Australia is the exception of the three countries here as the Australian government's carefully orchestrated Investment Promotion and Facilitation Program was directly responsible for orchestrating $532 million in Japanese investments into Australia in the 1994-1997 period. On the trade front, change for all three countries was rather limited. Although the total value of exports to Japan increased for New Zealand and Australia, they did not increase as a percentage of total exports and exports from Canada to Japan did not increase at all. As far as diversification of exports into more processed and manufactured goods, Canada was somewhat successful but Australia and New Zealand were not.

Changing a nation's export profile or investment procurement within the bounds of a neo-liberal philosophy then appears unlikely. Despite various efforts by government to encourage the business sector or to leave change in the hands of the business community, little occurred in any of the three nations under consideration here. In a period where considerable economic change took place in the Japanese market, none of the three countries under investigation responded with much creativity or innovation to the post-Plaza Accord realities. Canada, Australia and New Zealand opted to continue along proven pathways, even when faced with considerable evidence that such an approach limited their commercial opportunities in Japan. The reasons for this reluctance to innovate vary from country to country, and regionally within each nation. Australia had committed much of the nation's economic future to developing trade with Asia, and it is not surprising that this country was the most innovative of the three nations. At the same time, as with Australia's response to the multifunctionpolis, there were important cultural limits and nationalistic considerations that slowed economic adaptation. In New Zealand, in contrast, the country's wholehearted commitment to business-led economic development convinced the government that national leadership in the field of international trade cultivation was not necessary. Canada continued to wrestle with the delicate balance between federal and provincial responsibilities and lacked the national will and central control necessary to mount a truly coherent response to the changing Japanese economy.

In the end, Canada, Australia and New Zealand ended the first decade after the Plaza Accord in much the same economic relationship with Japan as they had in 1985. The impetus for trade relations remained largely with the Japanese; Japanese corporations set the agenda for expanding trade and investment activities. And each of the three countries continued to rely on natural resources to hold Japanese interest and to maintain a share of the rich and expanding Japanese market. Absolute and relative increases in the value of Canadian, Australian and New Zealand trade with Japan, due largely to the high prices available in the Japanese market, gave each of the nations the misleading impression that they were capitalizing on Japanese opportunities to preparing their countries for future expansion in Japan. That the fundamentals of the Japanese marketplace had changed, and that the country's import/export profile had shifted dramatically largely escaped the notice of the Canadian, Australian and New Zealand business communities. None of the three countries responded with much creativity or forward-planning to the emergence of a "new" Japanese economy and, most tellingly, none of the three national governments saw it as their mandate to provide determined and systematic economic leadership.

Chapter Nine
Conclusions and Future Prospects

> Liberal states are primarily those of the English-speaking world: Britain and the settler societies of the United States, Australia, Canada and New Zealand. They can be usefully distinguished by their regulatory goals and by their state-society relations, in particular the government-business relationship and the state's role in the economy. With a state tradition built on the primacy of individual over collective rights, the suspicion of state power and the celebration of free markets as the key to prosperity, liberal states have long approached their economic role, and the interventions that must perforce be carried out from time to time, as something to be tolerated, however momentarily, rather than improved and perfected. [1]

The world's economy has experienced dramatic transitions in the latter quarter of the 20th century. The circumstances faced by governments of Canada, New Zealand and Australia are part and parcel of a broad international reconfiguration of the global economy, one spurred by such central political events as the collapse of the Soviet Union and such diffuse phenomenon as the profound impact of technological innovation. The difficulties that the three countries under investigation have faced in attempting to capitalize on opportunities in the Japanese economy — one of the world's most important and most difficult domestic markets — are but a small piece of a complex global puzzle. The issues investigated in this work, particularly the administrative and commercial transitions associated with the shift from state intervention toward a neo-liberal economic philosophy, have implications that both affect the specific countries and trade relationships under investigation and extend beyond them. While this examination has emphasized the importance of international influences, it is important to recognize that other factors, unrelated to ideology and new theories of economic management, were influential in determining the

[1] Linda Weiss, The Myth of the Powerless State, (Ithaca: Cornell University Press, 1998), p.20.

actions of national governments. The examination of the policies of these three countries toward one of the world's largest and most important economies, that of Japan, has demonstrated a pattern of comparative inaction and a strong reliance on business-led initiatives. There were (and are), of course, factors other than neo-liberal ideology affecting government decision-making and influencing the nature of national policies after the mid-1980s. These political and policy-making considerations weighed heavily on government leaders and, in many cases, opened the door to market liberalization and the adoption of neo-liberal economic development policies.

It is important to remember, for example, that mounting national debts and deficits had, by the early 1980s, effectively tied the hands of governments. This was particularly the case in New Zealand, where unwise expenditures by the Muldoon administration had brought the country to the edge of bankruptcy. Australia and Canada were only in marginally better fiscal shape, having lived through two decades of intense state intervention in social and economic affairs and having produced massive national debts as a consequence. The rise of power of the Progressive Conservatives in Canada in 1984 and attempts by Paul Keating to re-orient the Labor Party of Australia around a less interventionist economic strategy originated in the realization that their governments had little financial flexibility. As an important corollary to this, the financial difficulties experienced in the countries created considerable doubt among the electorate about the ability of governments to provide strong economic leadership and to make decisions and investments in the long-term interests of the nation. The adoption of the laissez-faire model, then, came at least in part by default, due to the absence of a suitable, viable, and politically acceptance plan for national economic leadership.

Further, in each of the three countries, pressing domestic matters distracted attention away from matters of international commerce and investment; in neither Australia, Canada nor New Zealand was there a ground swell of public interest in patterns of international trade or in the nation's international economic performance. Canadian politicians devoted far more time, for example, to the ongoing debate about Quebec independence than they did to international trade concerns. New Zealanders, in contrast, argued at length about the current and future role of their vaunted welfare state and about the need to respond to the country's legal and moral obligations to the Maori. Australia addressed similar concerns about Aboriginal rights, and faced a debate similar to that in New Zealand about the future of state intervention and support. In Australia and Canada, long-standing conflicts over the division of powers between the national government and state/provincial administrations made it very difficult to develop a coherent national policy in any field, including international trade. The financial pressures outlined above also generated debate about the future of state-owned corporations, many of which were the focus of considerable public sentiment; concerns about the future of nationally-owned utilities, resources, and service providers (especially in the health care sector) served as the focus for intense national debate.

As well, national governments sought to reassure electorates reeling from years of economic turmoil that they were protecting the nation's well-being by strengthening existing trade connections, rather than by trying to convince the business community and the public at large to take bold steps toward comparatively unknown markets. Canada, for example, used its political resources to negotiate a free trade agreement with the United States (later expanded to include Mexico), a process that engulfed the country in dramatic political debate but that attracted virtually no discussion in the United States. Australia and New Zealand, likewise, expanded trade connections between the two countries, adding to what was already a very strong economic relationship. Following this line, and given that Japan was, before 1985, already Australia's largest trading partner, it is not surprising that the Australian government was able and willing to do more than Canada or New Zealand to extend commercial relations with that country. In all three countries, pursuing the familiar was easier and more politically acceptable than chasing after new markets.

Neo-liberalism figured prominently in the actions, and inactions, of the national governments of Australia, Canada and New Zealand vis-a-vis trade and investment opportunities in Japan. The argument that governments had but a minimal role to play in business development and in the direction of the national economy found adherents in many places, including political parties of the right and the left, and among many leading members of national civil services. But the pattern of inactivity in the promotion of international trade and investment with Japan described herein reflected more than the extension of a political ideology. In each case, neo-liberalism suited the countries, providing an appropriate model for international business development that fit with the nation's fiscal and administrative resources and that meshed with the political preoccupation with domestic affairs.

Understanding of Japan

Part of international business development is a good understanding, at both the government and corporate level, of the countries with which one is doing business. Too much of what Canadians, Australians and New Zealanders know about the Japanese economy is gleaned from second hand sources, translated materials or official Japanese representatives. Australia is the only one of the three countries to have a permanent newspaper or magazine correspondent stationed in Japan. While programs like those run by New Zealand's Asia 2000 Foundation and Canada's Asia Pacific Foundation sponsors journalists to go to Asia for a period of time, this is a poor substitute for the long term Japan-based correspondent. By the same token, while the number of Canadians, Australians and New Zealanders living in Japan has increased over the last decade, few of those stay for extended periods or devote that time to developing a deep understanding of the Japanese economy and political situation. In telling contrast, Toyota Motor Corporation's Tokyo office alone devotes most of the resources of a twenty-member department to simply monitoring relevant international political and economic events, particularly those in the United States. When long-time Japan-based financial journalist Eamonn Fingleton spoke in Tokyo in November 1997 on the future of the Japanese economy, no Canadian, Australian or New Zealander attended. And a March 1998 talk in Vancouver about recent events in the Japanese financial system, and the impact of the Asian currency crisis on Japan and what all this means for Canada, by Canadian Embassy official John Sloan, attracted only a couple of dozen people, mostly local Japan experts.

What all this means is that few Canadian, Australian or New Zealand individuals or companies are well informed about what is really occurring in Japan. The cartelization of the Japanese media and Japan's desire to paint itself a certain way to the outside (and even inside) world makes it very difficult to know the truth: so Japan is a challenge even for those who truly make an effort. Those who do not try hard to know what is really happening in Japan must make do with what the Japanese government wants them to think. A nation that is not well informed cannot easily analyze events or trends (such as changes in the Japanese economy from the mid 1980s through the mid 1990s or the 1997 Asian currency crisis) and reach well-reasoned conclusions.

For the most part then, the changes between 1985 and 1998 in the Japanese economy that were most noticed in Australia, Canada, and New Zealand were those that appeared on the surface, and that were well-covered in the daily media. After the mid 1980s, when the prevailing theme was Japan buying up the world, the emphasis was on the fall-out from the bursting of the bubble economy and lower Japanese growth rates. North Americans and others in the Anglo-American world easily accepted the proposition that Japan and Asia were in decline. To do so backs up the dogma that government intervention in the economy (at least in a different way than that of the critics) is economically unsound and it restores assumptions of Anglo-American laissez-faire policy. As this was what many people wanted to hear, few looked much further.

While there is no question that Japan's financial system was in considerable turmoil and that substantial debt from the aftermath of the bubble economy continues, what this meant for Japan and what it means over the longer term is far from clear. Some serious analysts of Japan have argued that much of the bubble economy and its subsequent burst were carefully engineered to move capital from the hands of consumers and small business and into corporate coffers.[2] This viewpoint is a radical departure from the idea that errors in judgement allowed the financial sector to go wildly out of control only to be eventually roped in by a desperate government. As the result was the addition to its GNP of an amount equivalent to the GNP of France, fully competitive industries at 110 yen to the dollar and dominance of most key industries,[3] one is forced to contemplate the idea that the Japanese government did indeed know what it was doing.

This is true also of the second stage of the financial crisis which occurred in late 1997 when a number of blue-chip financial institutions including Sanyo Securities Corporation, Hokkaido Takushoku Bank and, most startlingly, Yamaichi Securities (one of Japan's big four brokerage houses) declared bankruptcy. In addition, Yamaichi and some other institutions were indicted for corporate malfeasance including bribing government officials, paying gangsters not to disturb annual general meetings and compensating special corporate clients for trading losses. While much has been reported about these events, most coverage was a simple description of what took place or laments on the seriousness of Japan's economic crisis. Few people, foreign or Japanese, were asking the most pertinent questions. The Japanese government could easily have bailed out Yamaichi Securities. Why did it decide not to do so? Companies have

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[2]Eammon Fingleton, Blindside; Murphy, Taggart. The Weight of the Yen.
[3]Taggart Murphy, The Weight of the Yen, p.199-200.

been paying gangsters not to disturb annual general meetings for years. The practice is so well known that it is described in introductory books about Japan. What made the government suddenly decide to crack down on Yamaichi? There are a few possible answers to these questions and it will probably be difficult to discover which is correct. What matters, though, is that countries like Canada, Australia and New Zealand have commentators raising the questions and not accepting what appears on the surface as being the full story. Each country has a distinct national interest in operating in Japan; it follows, therefore, that each country should have its own, independent economic and political intelligence about the country.

Critics have been quick to dismiss Japan in the past and their analysis has subsequently proved to be incorrect. Critics spoke of the early 1990s as a time of Japanese recession. Yet in the first seven years of the 1990s, Japan's per capita GDP (measured by market exchange rates) rose 56% and Japan's current account surpluses increased three hundred fold from the same period in the 1980s. The emphasis on Japan's financial woes masked, for most observers, the fact that Japan was continuing to make powerful inroads into critical high technology areas. Japan has retained its emphasis on a manufacturing-based economy and has not followed the western lead in assuming that a service-based economy will provide a sustainable high national standard of living. While this does not guarantee a rosy future for Japan, it suggests that the land of the rising sun should not be lightly dismissed. Many Canadian, New Zealand and Australian officials and companies, however, are happy to buy the idea that Japan is in decline or that the market is too difficult to warrant the necessary effort and therefore turn their attentions elsewhere. Officials at all three Embassies reported frustration at how ready new exporters from their countries were to decide to bypass Japan for what were perceived as more promising markets elsewhere in Asia. The lack of understanding of Japan then has the potential to exact a heavy economic price in missed opportunities to develop new export markets and, in the process to, diversify national economies away from a heavy reliance on resource natural resources and primary products.

Beyond the Free Market Model — Do Governments Matter?

In different ways, the three countries studied in this thesis have begun to alter their approach to government involvement in international business development. New Zealand went through its dramatic shift away from a government-dominated socialist economic model toward a free trade business led model. The Canadian and Australian governments began to worry about their over-dependence on resource exports and look for ways to develop alternate exports. Australia became quite pro-active, particularly with regard to Japan, sending trade and investment missions, commissioning consulting companies and implementing a variety of market strategy initiatives. Canada developed the Team Canada approach, an initiative designed to increase Canadian exports by encouraging a more coordinated national approach.

New Zealand's changes were radical and resulted in a more economically rational system but also drastically limited government's role, for good and ill. In New Zealand in 1998, if direction for international business development is to come, it will have to come from the business community. As most of the largest corporations in New Zealand are not Kiwi-owned, the likelihood of the New Zealand business community developing a national direction-setting plan is slim. New Zealanders, generally, do not appear concerned and feel surprisingly confident that their agricultural strengths will sustain them indefinitely. Short of the occurrence of another fiscal crisis as serious as that in the early 1980s, it is extremely unlikely that New Zealand will change its casual, uncoordinated approach to international business development in the near future.

Australia and Canada have begun to experiment with numerous pro-active approaches on the international business front. All of these initiatives, however, remain within a very limited band of options acceptable to a neo-classical mind set. While some of the Australian and Canadian approaches have been successful, the results have been fairly minimal thus far. While government literature in both countries points out an increase in manufactured exports, for example, that increase is small and sometimes due to manipulation of statistical categories (eg. so that slight modifications to resource products move them into value-added categories). And in Canada, continued rhetoric about Canada's role as a global trading nation has done nothing to diminish the nation's complete reliance on the U.S. market.

In none of these countries has there been much serious discussion of forming a national industrial policy, targeting specific sectors, promoting more strongly directionist government-business policies or of anything less than a policy of international free trade. Other options are seen as being either economic heresy or as extending outside the role of government. The possibility then that there will be radical changes in the government approach to international business development in Australia and Canada remains slim. Again while both countries are concerned about their dependence on resource exports and the lack of strong alternate sectors (Canadian and Australian officials are more worried than are New Zealanders), a commitment to the neo-classical approach and to limited government narrows the interventionist options. Government wishes to take its cue from business but the corporate sector does not spend much time on national economic planning. Forestry or mining companies, for example, are too busy with their own work and too concerned with the future of their industry to be wondering if the nation should be developing a computer industry.

In the trading relationships explored here — those between each of Canada, Australia and New Zealand with Japan from the mid-1980s until 1998 — government played a limited role on trade, with the exception of Japan. Governments tinkered around the edges of a free market model — sending and hosting government-business trade missions, writing reports indicating broad national directions, and hosting trade fairs and promotional events. There were a few more pro-active measures which saw these governments focus on getting businesses in various sectors to coordinate international efforts through the National Sector Teams in Canada and Joint Action Groups in New Zealand and Australia. And on the investment front, the Australian government's Investment Promotion and Facilitation Program has also had been a considerable success. These provide the exception that proves the rule, however. Generally, the neoclassical model on which Canada, Australia and New Zealand base their governmental roles and responsibilities, limits what governments are prepared to do.

From the results of this study of government involvement in international business development — through the case studies of Canada, Australia and New Zealand's trade and investment relations with Japan 1985-1997 — some broad conclusions can be proposed. Firstly, without some form of leadership (whether it is supplied by government or by industry in some form), dramatic intentional changes in a country's export profile are unlikely to occur. In the areas where the Canadian, New Zealand or Australian governments did nothing to change their trade or investment relations with Japan, nothing changed that Japan did not initiate.

Secondly, while even simple leadership, for example, governments pointing out certain recommended directions through speeches or signed agreements, builds awareness in the business community and has some impact, bold and clear initiatives are required if significant change is desired. Australia did a lot of talking about the need to diversify its trade with Japan but all the initiatives it actually undertook were very small and had little impact.

Thirdly, the initiatives that governments undertake can either operate on a private sector model as with Australia's Investment Promotion Facilitation Project, they can be government-led, or they can be government-started but industry-led. Canada's National Sector Teams and Australia and New Zealand's Joint Action Groups would be a good example of the latter and representatives from all three countries extolled the virtues of these industry-government collaborations. It is important that the initiatives be well thought out and coordinated, that there is industry participation and that there be some guidelines by which success can be monitored.

Fourthly, governments will not get everything right; neither does the public sector. But if change is needed and governments do nothing, very little will occur. Governments need to see the national picture and determine if the country is on the right path toward the future. If adjustments are needed, it is up to government to put those in motion or ensure that someone else will. If a national government is going to be peripheral to international business development, then it had better be sure that the country has a pro-active and innovative business sector willing to take risks and display leadership. It is far from clear that such a business sector exists in Canada, Australia or New Zealand..

Analysts from as broad a spectrum as Kennichi Ohmae, Michael Porter and Jenny Stewart all agree that for a country in the 21st century to stake its economic future on the sale of its natural resources is folly. Increased competition in the resource sector, along with the decreased value of commodity exports, means that more value-added exports are needed to underpin an export economy. The passion with which this is felt by members of the general public naturally varies depending on recent events. Desperation in British Columbia's forestry industry in early 1998 has rekindled sentiments about the dangers of relying on a resource based economy.[4] Yet despite this recognition, the perceived importance

[4]It is interesting to note, that while newspaper articles blame much of B.C.'s forestry woes on declining demand in Japan, this is not wholly accurate. Japanese housing starts rose dramatically in 1995 as consumers tried to beat the implementation of an increase in the consumption tax. Housing starts now are simply back to levels prior to this blip. At least part of B.C.'s troubles with regard to Japan are due to increased competition from Scandinavia.

of Japan and the range of free market acceptable initiatives undertaken, little has changed in the export profile of two of the three countries with Japan and Canadian exports are still 90 percent resources or partially processed goods. No manufactured products make the list of top ten exports from any of the three countries to Japan despite the overall rise in Japan's manufactured imports. It is incumbent, therefore, on the governments of Canada, New Zealand and Australia to ensure that their populations have something beyond resources to sell. To depend on industry to lead this change (when the captains of industry are busy keeping their own companies afloat) makes no sense.

Canada, New Zealand and Australia must recognize that the neo-liberal approach that they embrace so heartily is not followed in many other places in the world. Analysts have begun to identify the flaws and tensions inherent in neo-classical approaches to the management of national economies. The preoccupation with free market economics at the expense of more social agendas has not brought uniform prosperity nor has it brought widespread public acceptance of the new approach to governance As Jenny Stewart wrote about Australia,

> If history teaches us anything it is that nations whose ruling elites hold to beliefs inappropriate to their circumstances will, at the very least, fall behind those with a more realistic view of the world. Australia's governing elite has been held in thrall by the dogma of the level playing field: the belief that the path to prosperity lies in exposing our industries to the cleansing power of market forces. Somehow, an assumption made for analytical and expository purposes in a single academic discipline — economics — has become the mainstay of public policy.[5]

[5]Jenny Stewart, The Lie of the Level Playing Field, p.2.

Similarly, not everyone believes either that globalization is inevitable, that it is uniformly positive or that it will result in a diminished role for national governments. As political scientist Linda Weiss wrote,

> It seems likely that as we move into the twenty-first century, the ability of nation-states to adapt to internationalization (so-called globalization) will continue to heighten rather than diminish national differences in state capacity and the associated advantages of national economic coordination.[6]

James Fallows describes the costs of ignoring the importance of government leadership and involvement in ensuring its nation's economic success. He writes,

> Until the borderless world arrives, each person's prospects for a satisfying and rewarding job rise and fall with the welfare of companies based in his or her homeland. (Ask anyone in Britain.) If Northern Telecom, based in Canada, loses market share to Fujitsu, there will be fewer opportunities for Canadians. They will not sit on the Fujitsu board, nor supervise Fujitsu's labs, nor decide about Fujitsu's line of credit at the major banks in its corporate family, nor serve as its company doctors, nor do the architectural design and construction for its new plants. They may eventually get to work at branch plants and dealerships set up in Canada, but that will never be the same... Once a country becomes fundamentally dependent on another for technology and money, then it clearly is happier to get investment than to have it go somewhere else. ... But it is clearly better to have more control over the decision yourself — or by people subject to the constraints of your political system and social mores[7].

So, in answer to the question this thesis poses — can governments operating in a neo-classical framework have an impact in national economic development — the answer is a qualified yes. They can make a difference but only if they view their neo-classical bounds as being somewhat elastic. Canada was able to adjust its exports to Japan to include more manufactured products and

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[6]Linda Weiss, The Myth of the Powerless State, p. 21.
[7]James Fallows, Looking at the Sun, pp.421-422.

Australia was able to attract a disproportionate share of Japan's FDI, through programs that were government-led but used private sector methods and ensured industry buy-in. Most importantly, though, is it appears governments could have done much more if they had tried to do so. Overall, these governments did not really produce very much in the way of concrete change. The belief that it is up to business to lead the way and that government is to facilitate what business wants has proven to be very constraining. Tight reins on what governments should do may not be the answer when more dramatic change is needed. Perhaps, then, the idea of a more direct role for government in national economies in need of re-direction will soon also gain greater public and business acceptance.

International Trade and Market Liberalization: Theoretical Implications

This investigation of the international trade policies of Australia, Canada and New Zealand, tested by way of an examination of the reaction of these governments to changes in the Japanese economy, offered an examination of the impact of free market philosophies on government policy. At one level, this study demonstrates that neo-liberal ideology and the attendant political and policy-making realities has affected the management of national economies by government and has constrained the ambitions and expectations of politicians and civil servants. It has also argued, based on the positive impact of a series of comparative small national initiatives, that government policies and intervention can and have made a difference in influencing international trade and investment. Put simply, prevailing economic ideology has effectively tied the hands of government and has reduced their willingness and ability to respond to changing conditions and opportunities, often to the detriment of national economies. It remains, however, to consider the relevance of this study to the theoretical literature and academic debates that framed the inquiry.

In recent years, scholars in a variety of academic disciplines have debated the contemporary and future impact of economic globalization and of the wide-spread acceptance of neo-liberal concepts of the state's role in economic management.

At one extreme, analysts argue that the age of the nation-state is essentially over, and that international forces and organizations have effectively eviscerated the authority of national governments. Others contend that the general abandonment of government intervention as an economic strategy has left individual countries vulnerable to international market pressures and to the decisions of multi-national corporations. Over-riding the debate about the effectiveness of government intervention is a growing sensitivity to economic globalization and to the fundamental reality of an interconnected global economic system that limits the ability of national governments to manage their economies in isolation from international pressures and events.

The actions of Australia, Canada and New Zealand provide a useful illustration of the impact of neo-liberal ideology. In none of the countries did the national business community, operating with few barriers or hindrances imposed by governments, respond creatively and effectively to changes in the Japanese economy. Other countries, like Sweden, did capitalize on the shifting nature of Japanese commerce, and Japan itself proved quite adept at reaction to a changing international marketplace. But the businesses in the three countries under investigation did not react in a positive manner to the changing dynamics of one of the world's largest economies and did not shift their production, marketing or investment activity in a strategic fashion to capitalize on new opportunities. There were internal reasons for this relative inaction. Canadian and Australian businesses are effectively locked into a pre-1980s mindset of reliance on exports of raw materials; neither country's business community has proved particularly adept at transforming in response to shifting global realities. In New Zealand, the shift from a state-run to a free enterprise economy has been quite successful, and the government has sold off most of the state-owned enterprises that once dominated the country. But in New Zealand and Canada (and, to a substantial extent, Australia as well), many of the major corporations are foreign-owned. The dominant corporations have tended not to use Canada or New Zealand as a base for innovation or economic transformation and have instead relied on traditional products and manufactures. For countries that rely heavily on resources and primary processing, like the three under investigation here, businesses have not proven to be particularly effective in responding to global market conditions or to the demand for a shift to manufactured products.

The free market system invariably implies that there will be winners and losers. Some countries will benefit from the shift to globalization and to interconnected international markets; other countries will suffer economically in the more open-ended competition. The analysis of the response of Australia, Canada and New Zealand to major changes in the Japanese market suggests that the three countries will have difficulty adapting to the opportunities and realities of the new order. With governments accepting a limited, responsive, role in business development, and with the business communities revealing (to this point) little enthusiasm for creative international marketing and a reliance on long-standing patterns of trade, it is unlikely that these national economies will react quickly and effectively to a dynamic, open, and highly competitive international marketplace. Advocates of neo-liberal approaches to economic management assume that countries and economies will respond creatively to opportunities, and give little attention to the inevitability of some countries, regions, industries and populations experiencing severe dislocations due to shifts in largely unregulated international markets. More attention needs to be given to the "losers" in the race toward economic globalization, to the impact of international market pressures on localized markets and industries, and to the disruptions that can accompany major economic shifts.

Scholars have long been interested in national industrial policy and in the economic outcomes associated with government intervention in industrial development. Under the ascendancy neo-liberal model, the common economic strategy involves a reduction of government activism, not its extension. As this study has demonstrated, governments in Australia, Canada and New Zealand have opted to take the lead from the business community and, at their most activist, to work in association with government agencies. The absence of policy or, as in these three cases, the imposition of severe limits on government involvement in economic affairs, will increasingly become a field of inquiry. In the 1970s, national governments in western democracies were actively involved in the management of the economy; by the late 1990s, most governments had withdrawn from these activities.

More research is required, on both domestic and international markets and on a variety of countries, to ascertain the effectiveness of the new approach, if it can be called such, to industrial planning. The vast majority of the analytical work on industrial policy is predicated on the idea of an activist state, and assumes the willingness of the government to take a lead role in managing the economy. Current political and ideological realities work against such an approach. And even if the analysts themselves favour a return to state leadership - and many of them do - it is important that scholars begin to examine cases where governments have stepped out of the activist role and start to develop models and suggest approaches for economic guidance that work in such a non-interventionist environment. There are, as Australia, Canada and New Zealand have demonstrated in relatively minor ways, still tools, actions and programs available for governments seeking to improve economic conditions, even in a neo-liberal environment. There are also ways in which the business community or industry associations could also take the lead in developing strategy for international business development. It is vital that theoretical and conceptual work keep up with changing political realities and begin to provide suggestions and analysis of the new political-economic milieu.

In the late 1980s, many western observers looked to Japan for an example of state management of economic development. The bursting of the "bubble economy" dampened enthusiasm for the Japanese model and resulted in widespread criticism of the Japanese approach to government-business relations.

Much of the current political and journalistic commentary has assumed that Japan is in great difficulty, a misunderstanding of the country's current economic situation and future prospects. A close examination of the Japanese government's current activities, including its strong support for information technology and high technology manufacturing, makes it clear that the government has not abandoned its interventionist approach and continues its efforts to direct the development of the national economy. In the past, too much was made of Japan's economic and commercial success, and western observers often uncritically advocated adopting that model of government-business relations. At the end of the 20th century, commentators moved too quickly to dismiss Japan's achievements and to assume that the country's pattern of state intervention did not work as effectively in the era of free markets and globalization.

Furthermore, as demonstrated with the three countries under investigation here, consideration must also be given to the economic opportunities missed by those countries, regions and sectors that misread or ignored fundamental shifts in the international economy. The assumption seems to run through the literature – ignoring the earlier experience of countries like Argentina, Brazil and Chile – that first world nations will retain their position throughout the process of globalization. Capitalist economies, it is implicitly asserted, will retain their comparative position through their advanced stage of economic and political development. This investigation at least raises questions about the inevitability of wealthy countries, like Australia, Canada and New Zealand, retaining their relative position. The emergence of Japan, Singapore, and Taiwan as economic powers was hardly predicted thirty years ago, nor did forecasters recognize the potential decline in the economic importance of countries like the three under consideration here. But if their response to the Japanese market is an indication of economic prospects – and that is very important and as yet unproven – then the economic future might not be very favourable. If these countries could not respond quickly, creatively and effectively to the Japanese market, it is possible that they will not react appropriately to future shifts in global markets (unless, of course, they replaced the missed opportunities in Japan with new markets in other countries).

Trade liberalization and the widespread adoption of the neo-liberal approach to economic management have dominated the western political scene for less than two decades. While enthusiasm for free markets remains widespread, problems are beginning to appear. The attempt to secure a Multilateral Agreement on Investment (MAI), which would have further liberalized international finance and investment, collapsed due to the protectionist sentiments and worries of, at least, the general public in many of the participating countries. Similarly, as the uneven development of the global economy under free trade conditions continues, concerns arise in countries that are not seen to be benefitting from market liberalization. Analysts who predicted the end of the nation state and the continued rise of international organizations and multi-national corporations might well have failed to account for the persistence of nationalist sentiment, the resilience of national governments, and the potential re-emergence of state intervention as government policy, following a downturn in national or international markets. This is not to argue that the situation in western democracies will soon return to the level and nature of state intervention evident in the 1970s and early 1980s; it does suggest that governments will seek, and electorates will demand, measures to protect and improve national economies. The nation state is not about to fade into political obscurity.

The relative failure of state-driven economic management to provide for the stability of national economies did much to lay the foundation for widespread acceptance of neo-liberal policies. Political parties and leaders who continue to advocate a return to the interventionist strategies of the past have, in Australia, Canada and New Zealand, experienced electoral difficulty and will likely continue to do so. At the same time, the relatively small adaptations of the national economies of these three countries to respond constructively and creativity to changing global markets suggests that the laissez faire approach is not sufficient. Governments have a significant role to play, as analysts from Adam Smith to Paul Omerod have argued, and will continue to be central players. The evidence from this study of trade and investment policies suggests that three major trading nations did not capitalize extensively on opportunities presented by the changing Japanese market. State-ownership and massive intervention are not options that any of the countries would consider. More logically, however, a system involving government and business cooperation, with governments assuming a greater responsibility than at present for signaling important opportunities and for providing the infrastructure and support necessary for the business community to respond to ever-shifting global markets would be worth discussing. If nothing else, governments have a responsibility to provide clear, nationally relevant intelligence and coordination designed to capitalize on the natural partnerships that should develop with the business community.

The emergence of freer international trade, increased globalization and greater support for neo-liberal economic policies need not mean the end of serious industrial planning and policy-making. The governments of Australia, Canada and New Zealand, to greater or lesser degrees, have interpreted the advent of the free market era to mean that governments should leave the development of business opportunities largely to the private sector. As analysts have argued, there are many policy options available to national governments other than state ownership and intense intervention. Industrial policies that emphasize signaling and the targeting of specialized markets, products or technology can, as in Japan's case, prove to be highly effective means to stimulating national economic growth. Government involvement is not, clearly, inherently opposed to the functioning of the free market and should, in fact, be an important adjunct to private sector activity. In their relations with Japan, Australia, Canada and New Zealand have effectively left the challenge of reacting to opportunities to business, even though private enterprise was not particularly well prepared to respond.

This examination of efforts by the governments of Australia, Canada and New Zealand to enhance trade and investment relations with Japan illustrates the fundamental importance of the debate about the role of the state in the management of economic affairs. Forecasts of the imminent decline in the importance of the nation state appear to be significantly over-stated. Similarly, the widespread acceptance of globalization hides the degree to which national business and political communities retain serious concerns about the loss of national autonomy and economic control through the liberalization of trade and investment. Politicians who, reacting to the interventionist excesses of the pre-

1980s period, argue that governments have no major role to play in economic management and international competitiveness are missing important aspects of contemporary commerce. Left to their own devices, the evidence from the three countries studied here reveals, national business communities will seek to expand traditional markets and will not necessarily pursue international opportunities with the creativity and enthusiasm that the current global marketplace demands.

> Creating an internationally competitive domestic economy is, for countries like Australia, Canada and New Zealand, a formidable challenge. National electorates do not want to hear warnings about imminent dangers; they seek words of reassurance from their political leaders. But changing domestic and international realities will create a different future, one that may not fit well with the commercial structures and attitudes of the past. While there is little support for a return to high levels of state intervention, there is considerable evidence and strong intellectual support for the idea of a centrally coordinated national strategy, with an influencial role for government, particularly in terms of signaling and the establishment of a firm foundation for international trade and investment. Governments do matter but, as the experience of the last thirty years makes clear, they cannot act on their own. Cooperative and creative involvement with the private sector is vital. In addition, the shift away from subsidies and protectionism and toward the identification of national strengths and international opportunities is crucial to national economic success. The fast pace of change in international economies, shifting markets, dramatic alterations in financial markets, and the rapid

emergence of new competitors makes it more important, not less so, that national governments accept a key role in the management of their country's economic future.

Appendices

Appendix I. Top Canadian Exports to Japan

The following section provides a brief overview at each of Canada's top ten export items.

A. Forestry

Forestry — lumber, logs and plywood, followed by wood pulp and further down by paper — tops the list of Canadian exports to Japan. (See Table V-7) Canadian lumber and pulp sales in Japan have increased greatly in the last couple of years. Coniferous lumber sales grew by 12% in 1994 and 1995 and pulp increased by 53%.[1] Japan now purchases 25% of Canada's wood exports.[2] Most of the forestry industry is in western Canada, particularly B.C. and northern Alberta. DFAIT, the B.C. Trade Development Corporation, the Council of Forest Industries and other trade associations have all been promoting Canadian lumber. The initial focus was on the promotion of 2x4 housing construction which uses Canadian softwood. As a result sales of Canadian softwood, much of it cut in Canada, have been increasing.[3] Automation and computer control have now enabled Canadian mills to supply large volumes of wood cut to Japanese sizes so much of the lumber Canada sells to Japan goes into traditional Japanese style housing.[4]

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[1]James Tiessen, Canada-Japan Trade Perspectives (Ottawa: The Canada-Japan Trade Council, 1996), p.23.
[2]Ibid., p.21.
[3]Ibid., p.23.
[4]Correspondence from Peter Campbell, Consul-General in Osaka, April 14, 1997.

The Japanese Ministry of Construction has recognized fifteen Canadian lumber grading organizations. This means that structural lumber approved by these organizations will be permitted for use in the construction of Japanese 2x4 homes. Previously, lumber used in Japan had to be graded by a Japanese grader.[5]

B. Coal

Much of recent Canadian coal development occurred in response to Japanese demand. The 1970s, after the first oil shocks, saw representatives of Japanese steel mills searching the world for stable long-term supplies of metallurgical coal. During the same period, the B.C. government wished to open up the northeast corner of the province, site of vast coal reserves resulting in the establishment of the Northeast British Columbia Coal Project. In return for an assured long-term purchase agreement, the federal and provincial governments entered into a comprehensive development agreement with Quintette Coal Limited, the promoter of the Northeast Coal Project, to construct a $2.1 billion infrastructure system including a new town, road, rail and a new deep water port facility.[6] (Over half the cost of this came from the federal and provincial governments.)

Quintette and Bullmoose, the two northeast coal mines, and several mines in southeastern B.C. are the B.C. suppliers of Japanese coal. Two mines in Alberta, (one of which is the Gregg River Mine that is 40% owned by six Japanese steel companies and one Japanese trading company) supply the rest of

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[5]Canada-Japan Trade Council Newsletter, January-February 1997, p.5.
[6]David L. Anderson and Donald W. Barnett, 'Japanese Coking Coal Procurement Strategies Revisited: The Political Economy of Price Renegotiation', in JBA, Vol 19-No. 1&2, 1989/90, p.3.

Canada's coal shipments to Japan. In 1997, Canada sold 16 million tons of metallurgical coal and 2.6 million tons of thermal coal to Japan. This represented about 50 percent of total Canadian coal sales.[7]

C. Fish and Seafood

Canada has been reasonably successful in its efforts to sell fish products to Japan. Japan imports more than one third of the world's total fish exports, making it the world's largest market for imported fish products. Canada has about a 5% market share and in 1994 ranked as the eighth-largest supplier of fish to Japan.[8] For Canada, Japan is the second most important market and is the primary, if not sole, market for a substantial proportion of Canada's seafood exports. One hundred percent of B.C. sales of geoduck clams, sea cucumbers, sea urchins, herring roe on kelp and black cod, for example, go to Japan.[9] While the volumes for some of these products may be small, the prices are high. Canadian frozen snow crab has been particularly popular and exports of crab now account "for 42% of Canada's marine product exports to Japan."[10] Over the past few years, Canadian seafood exports have begun to favour shellfish over salmon although it is likely that this will shift back.Canada is the only supplier of surf clams and has a strong presence in the salted and frozen herring roe, snow crab, sea urchin,

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[7]Coal Association of Canada web site: www.coal.ca
[8]Department of Foreign Affairs and Trade, Canada's Action Plan for Japan 1995, p.7.
[9]Telephone conversation with John Spence, Oceans Champion, Strategic Planning for Applied Research and Knowledge (SPARK), September 1994. Detailed information on market sales to Japan was provided by Jim Seciccone, CEO, Northern Native Fishing Corporation.
[10]Tiessen, James. Canada-Japan Trade Perspectives, p.27.

black cod, crab, shrimp, hokkigai clams, live and frozen lobster, sockeye and coho salmon markets.[11]

D. Canola

Canada is one of the world's largest producers of canola (formerly known as rapeseed and referring to the oil, meat and seed of the Canadian-developed rapeplant) and Japan is a major importer. Canada supplies over 95% of Japan's imports of canola.[12] Canola is grown and harvested on over 2 million hectares in Alberta, Saskatchewan and Manitoba. The main competitor of canola seed is the U.S. produced soybean. In the early 1970s, Japan removed its import tarrifs and quotas on canola seed and soybeans but maintained its tarrifs on crude and refined canola oil and soybean oil. These tarrifs have naturally discouraged in Canada processing. "The value of sales of this commodity grew by 31% in 1995, while the volume increased by 25% to reach 1.89 million tons. Prices have been good, as they rose from $400 to about $485 per ton in 1995."[13]

E. Copper

As copper is a vital element in the electronics and other high technology industries, this metal figures prominently in Canada's trade with Japan. The market has, however, been rocked by a series of upheavals — declining world prices, the substitution of other minerals for copper, recycling (which now accounts for over 40% of copper supply), reduced consumption, and the

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[11]Department of Foreign Affairs and Trade, Canada's Action Plan for Japan 1996.
[12]James Tiessen, Canada-Japan Trade Perspectives, p.26.
[13]James Tiessen, Canada-Japan Trade Perspectives, p.26.

emergence of greater international competition — and has not come close to matching the remarkable growth experienced through the 1950s and 1960s.

Japan is a major importer of copper concentrate but not of processed copper. Canada produces large quantities of concentrate, but also maintains several large smelters, all of which produce for the international market. Canada suffers from several liabilities, including its comparatively high costs of copper production, the vast distances required to move concentrate to smelters and then to markets, and the complex international regulations. The latter is particularly true of the Japanese trade, which maintains strong protective tariffs in order to ensure the viability of the domestic smelting industry. As a consequence, Japan purchases large quantities of copper concentrate, particularly from British Columbia mines (due to lower shipping costs).

Japanese companies, therefore, have maintained strong ties with Canadian copper mining firms in order to ensure a steady supply of copper concentrate to the Japanese market. In the spring of 1995 alone, two new developments emerged. Princeton Mining Corporation and Mitsubishi Materials Corporation established a strategic alliance to further the development of the Huckleberry open pit mine in Northern British Columbia. Mitsubishi provided a $60 million loan and also agreed to purchase the mine's entire production at a fixed price for a five year term. At the same time, Imperial Metals Corporation and Sumitomo Corporation agreed on a joint venture (with Sumitomo owning 35%) to develop the Mount Polley copper-gold property in central British Columbia.

F. Aluminium

Alcan Aluminum has been involved with Japan since before World War I. The second export shipment from Alcan's smelter at Shawinigan, Quebec went to Yokohama in 1901.[14] In the late 1990s, Alcan's Kitimat Works smelter in Kitimat, B.C. is the source of virtually all of Alcan's exports to Japan.[15] The Kitimat Works smelter opened in 1954 and began selling to the Japanese marketplace in 1977. Currently about 58% of the approximately 272,000 tons of metal produced annually at Kitimat Works is sold to Japan, primarily to manufacturers in the automotive and construction industries. In 1993, for example, this worked out to be 167,400 tons of aluminum, sold at an average of $.55 per pound, with a total value of US$184.5 million.[16]

G. Chemicals

Canada is an active, but far from dominant, player in the international chemical trade, much of it an off-shoot from the country's petroleum industry. Canadian chemical production expanded dramatically in the 1970s, following the world oil crisis and a loosening of trade restrictions. The industry remains volatile, with markets for individual products fluctuating widely over time (exports to Japan of organic chemicals, for example, jumped from $194.4 million

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[14]Duncan Campbell, Global Mission — The Story of Alcan, (Toronto: Ontario Publishing Company Ltd., 1985).
[15]Correspondence from Les Holroyd, Public Relations Consultant, Alcan Aluminum Ltd., November 1996. With the exception of 6,000 tons, all primary aluminum shipped from Canada to Japan in 1995 came from Alcan. The 6,000 tons came from the Alouette smelter at Sept Iles, Quebec. Alouette is 20 percent owned by a Japanese company.
[16]Correspondence from Ralph Reschke, Public Relations Representative, September 1994.

in 1990 to $234 million the next year, only to fall precipitously to $151.9 million in 1992).

H. Wheat

Wheat is the most important cultivated crop grown in Canada. Canada grows several classes of common wheat (based on seed colour and hardness and on whether the wheat is sowed in spring or fall) and one class of durum wheat. Common wheat is used for all kinds of flours and cereals; durum is used in pasta products. Canadian production is approximately three times domestic consumption so the industry is strongly export-focused. Japan imports close to 25% of its wheat from Canada (a total of 1,470,000 metric tonnes in 1993). Exports to Japan made up 7.2% of total Canadian international wheat sales in the mid-1990s. The regulation importation of wheat in Japan is controlled by the government-owned Japanese Food Agency. There are no explicit tariffs or quotas on Japanese imports of wheat but instead the imports are regulated by the amount purchased by the JFA. The JFA also substantially increases the price it charges its millers from the price it pays the Canadian Wheat Board.

Canada's share of the Japanese market has been static for many years, despite numerous efforts to boost Canadian sales. Recently, Canada has endeavored to strike an alliance with Japan to use Canadian wheat, paid for by the Japanese, to meet Japan's growing commitments to foreign aid. This would, in turn, increase Canadian sales — nominally to Japan, but practically to other, developing countries.

Appendix II. Top New Zealand Exports to Japan

The following section provides a brief overview of each of New Zealand's top ten exports to Japan.

A. Aluminium

Aluminum continues to be an important export product for New Zealand and Japan is its primary market. Over 50% of New Zealand's aluminum exports go to Japan; the remainder goes to other Asian countries. New Zealand's major aluminum exporter is Comalco New Zealand Ltd., a wholly owned subsidiary of Comalco Limited, Australia, which was established in 1988. Comalco owns 79% of the New Zealand Aluminum Smelters' plant at Tiwai Point, with the remaining 21% owned by Sumitomo Chemicals of Japan. The smelter's three pot lines produce more than 270,000 tons of aluminum annually, usually in the form of ingots.[17]

B. Forestry (Wood, including pulp, and Wood Sheets and Panels)

Japan is the second largest destination for New Zealand forestry products with 37.3% of New Zealand's log exports (by volume, 42.3% by value) and 38.4% of its lumber exports (by volume, 23.0% by value) going to Japan.[18] New Zealand's planted forests are largely owned by private companies. The largest of these are Carter Holt Harvey and Fletcher Challenge which has recently completed a NZ$11 million plant to produce laminated post and beams for Japanese residential

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[17] Comalco New Zealand, Comalco New Zealand Annual Report 1995, p. 3.
[18] Discussion with Phil Lindsay, Ministry of Forestry, March 20, 1997.

construction[19] and a 13 million moulding plant for the US market.[20] Over the last decade, numerous Japanese companies have also invested in most areas of New Zealand forestry including forests (Juken Sangyo Nissho, Iwai Oji Sankoku and C. Itoh), sawmilling and/or remanufacturing (Tachikawa, Juken Sangyo, Nissho Iwai, National House Industrial Company, Innosho Woods and Oji Paper), pulp production (Pan Pacific Forest Industries) and panels (Sumitomo Forestry Company).[21] The majority of exports from these Japanese companies go to Japan. Almost all of New Zealand's forestry exports come from planned production forests, predominantly radiata pine. These planned, managed forests and the ideal climactic and soil conditions which exist in New Zealand (enabling trees to grow to optimum harvestable value in under thirty years) indicate good future potential for the industry. As domestic demand is relatively static, the future lies in export markets of which Japan is a very important part. New Zealand pine is being accepted in Japan "with the greatest hindrance to increasing supply not being a limited market size but New Zealand's suppliers performance (delivery, quality, price, marketing, customer and consumer perceptions) and the fact that there is no middle ground on specifications."[22]

The forest industry is also actively pursuing value added opportunities in the housing and furniture markets. Japan's moves toward performance based standards in the housing market bode well for New Zealand. Segments like posts

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[19]Coakley, Peter, 'Forestry', report to the twenty-second meeting of the Japan/New Zealand Business Council, October 25-27, 1995, p.4. Correspondence from Phil Lindsay, Ministry of Forestry, March 27, 1997.
[20]Correspondence from Celia Ryan, Ministry of Forestry, June 19, 1997.
[21]Correspondence from Phil Lindsay, Ministry of Forestry, March 27, 1997.
[22]Ibid.

and beams for the traditional housing market which are currently species-based will become based on objective strength tests. Radiata pine and lamstock (wood strips laminated with glue) could then enter this lucrative market.

C. Cheese

All New Zealand cheese exports are conducted through the New Zealand Dairy Board, a private sector company with statutory authority for the export of New Zealand dairy products. New Zealand exports cheddar, gouda, egmont, mozzarella, cream and parmesan cheeses to Japan. Japan has been New Zealand's largest export market for a number of years and continues to show considerable growth potential as consumer demand continues to grow. In the June 1995 to June1996 period, New Zealand sold 45,000 metric tons of cheese (valued at NZ$147.7 million) and 2,800 metric tons of cheese curd which is used to manufacture processed cheese (valued at NZ$9.5 million) to Japan.[23] These sales constitute 28% of total New Zealand cheese sales[24] and just less than thirty percent of Japan's total natural cheese imports.[25]

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[23]Correspondence from the Public Affairs Department at the New Zealand Dairy Board, February 17, 1997.
[24]Correspondence from the Public Affairs Department at the New Zealand Dairy Board, February 17, 1997.
[25]Katayama, Sugio. "Dairy Products", a report to the twenty-second meeting of the Japan/New Zealand Business Council October 25-27 1995, p.3.

D. Fish

As the world's largest market for fish, Japan is a vital market for New Zealand. It remains the most important market for New Zealand fish and seafood products in both volume and value. Although the early 1990s saw decreases in export volumes to Japan due to an increase in New Zealand's exchange rate and declines in purchases of squid and whitefish, sales have increased again. In 1995, Japan took 28.4% (valued at NZ$351 million)of New Zealand's total fisheries exports.[26] New Zealand has about a 1 percent share of Japan's market and is the 15th largest supplier of fishery products to Japan.[27] Japan is the main market for New Zealand salmon (69% of total sales), snapper (61%) and rock lobster (46%) and the second most important market for hoki (30%), %), ling (28%), squid (14%) and greenshell mussels (14%).[28]

In its 1993 marketing strategy '$2 Billion by 2000', the seafood industry is focusing on changes in the product mix and targeting products at markets where the most value can be obtained. As part of this change, the New Zealand Fishing Industry Board foresees a decline in the importance of the Japanese market by the year 2000. The Board is hoping for increased sales in the rest of Asia and in Europe to make a more balanced portfolio of export markets.[29]

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[26]New Zealand Fishing Industry Board Home Page. Http://www.seafood.co.nz
[27]Ian Kennedy. Japan and New Zealand: Adding Value, (Wellington: the Institute of Policy Studies, 1992), p.115 and 119.
[28]New Zealand Fishing Industry Board Home Page. Http://www.seafood.co.nz
[29]New Zealand Fishing Industry Board, The New Zealand Seafood Industry Economic Review 1993, 1994 p.17.

E. Casein (a protein found in milk which forms the basis of cheese)

Slightly over 18% of New Zealand's exports of casein go to Japan making that country New Zealand's second largest market for casein after the United States. In the June 1995-1996 period, New Zealand sold 13,000 metric tons of casein (valued at NZ$112 million) to Japan.

F. Acyclic Alcohol

Acyclic alcohol includes products that contain a straight chain of carbons such as methanol, ethanol and propanol. Methanex New Zealand, a subsidiary of Methanex Corporation, is New Zealand's producer of methanol. Methanex New Zealand operates two petrochemical plants in Taranaki on the North Island's west coast. The plants convert natural gas from the nearby gas fields into distilled methanol. (One of the two plants has the additional capability of converting the methanol into unleaded petrol.)[30] Japan is Methanex New Zealand's largest customer and Japan's importance as a market has been growing since 1984. In 1996, 50 percent of Methanex New Zealand's exports went to Japan.[31] Methanex and Methanex New Zealand are also of vital importance to Japan. Methanex supplies 50% of Japan's methanol needs.[32] While this is Methanex as a whole, 96 percent of Methanex's sales to Japan are sourced from New Zealand.

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[30]Methanex New Zealand: World Class Producers of Methanol & Petrol, a Methanex brochure, p.1.
[31]Correspondence from Investor Relations and Corporate Information, Methanex.
[32]Discussion with Gerry Kennedy, Methanex New Zealand, September 9, 1997.

G. Fruit (This statistical category of fruit is comprised of the various berry fruits, kiwifruit, passionfruit and jackfruit)

Japan was New Zealand's most important market for raspberries taking 62% of total production in the late 1990s. Almost two tons of New Zealand raspberries, valued at about $30,000, go to Japan each year.[33] Japan is also important for blackberries (10% of exports to a value of $7,000) and strawberries (24% of exports with a value of slightly less than $2 million dollars.)[34] However, it is the kiwifruit which makes up the bulk of New Zealand's fruit exports to Japan. In 1995, kiwifruit sales to Japan were valued at over $138 million, (down from 1994 when they totaled $179 million). As the New Zealand Kiwifruit Marketing Board states in their 1996 annual report, "Japan is the market that can make or break a season, accounting for a little under 20 per cent of our global volume but a significantly higher percentage of our revenue."[35] From about 1992, New Zealand began to face tough competition from Chilean kiwifruit producers with a low priced product. In addition, while New Zealand used to be the only producer in the market from May until October, Chilean suppliers have reduced this exclusive time period to the latter two months only. This threat has diminished somewhat as Chile has not been consistent on quality or supply.[36] In 1994, the New Zealand Kiwifruit Marketing Board appointed Dole to be "the sales force and distributor of all New Zealand kiwifruit sold in Japan"[37] Dole

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[33]Correspondence from Bob Fergusen, New Zealand Berryfruit Growers Federation Inc., May 29, 1997.
[34]Correspondence from Bob Fergusen, New Zealand Berryfruit Growers Federation Inc., May 29, 1997.
[35]New Zealand Kiwifruit Marketing Board Annual Report 1996, p.8.
[36]Interview with Eugene Bowen, Senior Trade Commissioner (Japan) and Regional Manager, Tradenz, October 27, 1997.
[37]Richard Brookes, Wayne Cartwright and Mark Domney (prepared under contract to the Kiwifruit Industry Marketing Review Steering Committee and the New Zealand Fruitgrowers

replaced a system of nine distributors which had begun to develop problems as a number of the distributors were handling product from both Chile and New Zealand rather than being completely committed to New Zealand.[38] Last year, the arrangement with Dole was altered so that three more companies (Royal, Union and Nishimoto) also have special trading arrangements. (Other companies can also sell New Zealand kiwifruit but they do not have the special arrangement that the four companies have.)

Although not in the top ten exports, two other products are important exports for New Zealand in the Japanese market.

H. Vegetables

Onions, squash and asparagus are the major vegetables New Zealand exports to Japan.[39] The Japanese market price of onions fluctuates widely depending on the quality of the domestic crop. New Zealand supplies a reasonable percentage of the import market (ten percent in 1994) and has the advantage of being capable of supplying onions when Japanese onions are not in season.[40] Squash imports into Japan have been increasing annually and New Zealand is a source of a large percentage of these imports. In 1994, over sixty percent of the 156,000 tons that came into Japan originated in New Zealand.[41] Approximately 70,000 of the 156,000 tons are Buttercup Squash. According to the New Zealand Buttercup Squash Council, "the Buttercup Squash grown here in

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Federation Inc.), Kiwifruit Industry Marketing Review, October 1994, p.83.
[38]Ibid.
[39]Ian Kennedy, Japan and New Zealand: Adding Value, p.110.
[40]Fumio Wada, 'Fruit, Vegetables and Garden Plants', a report to the twenty-second meeting of the Japan/New Zealand Business Council, October 25-27, 1995, p.8.
[41]Ibid., p.7.

New Zealand is, in fact, a Japanese product. As they supply seed no modifications are made here."[42] Japan buys over ninety-nine percent of New Zealand's exported Buttercup Squash which makes up sixty percent of all Japanese imported Buttercup Squash. High prices and inconsistent quality have seen New Zealand lose market share in asparagus to Australia and the United States.[43] Carrots were an important export item for awhile. However, they were mainly used by juicing companies and when the interest in vegetable juices died off so did carrot sales. An interesting company to note is Christchurch's Jatra Corporation which recently began exporting wasabi to Japan.[44]

I. Beef

Japan is New Zealand's third most important market for beef, after the United States and Canada, and earned New Zealand NZ$123.62 million in 1995/96.[45] New Zealand's share of the Japanese beef import market is approximately 5 % placing New Zealand as the third largest supplier of beef to Japan, a long distance behind the United States and Australia. While those two countries export grain-fed beef, however, New Zealand exports grass-fed beef. While grass-fed beef is seen as inferior by the Japanese, aggressive marketing which focuses on the healthiness and safety of New Zealand beef might allow New Zealand to develop its own niche.[46]

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[42]Correspondence from Becky Robson, New Zealand Buttercup Squash Council Inc. May 6, 1997.
[43]Eugene Bowen, 'The Japanese Imported Fruit and Vegetable Market, 1997', Tradenz Tokyo Market Research, unpublished paper.
[44]Boucher, Mark, 'Wasabi Shipment to Japan first for Jatra', Export News, February 2, 1995.
[45]Correspondence from Innes Moffat, Market Development Officer, New Zealand Meat Producers Board, March 7, 1997.
[46]Ibid.

New Zealand's beef exports to Japan make up over one tenth of the total value of New Zealand beef exports and are continuing to increase.[47] Beef replaced sheepmeat as New Zealand's largest meat export to Japan in the late 1990s. This is due to the continuing high demand for beef in Japan and to strong marketing efforts by the New Zealand Meat Group and other companies.[48] Japanese investment has also helped the industry grow.

Itoham Foods Inc. (the largest domestic beef distribution company in Japan) established a joint venture with the Asian New Zealand Meat Company (ANZCO) to produce grain finished beef for mid-range Japanese tastes. Projected annual sales at full capacity are over NZ$60 million.[49] ANZCO (a New Zealand Japanese joint venture) also formed a joint venture with New Zealand Beef Holdings Ltd to market New Zealand beef in North Asia, particularly Japan.[50] ANZCO and Itoham Foods have set up an additional joint venture with Affco called Manuwatu Beef Packers. They plan to rebuild Affco's plant and turn it into a chilled beef processing facility. All of these ventures "represent investments to consolidate New Zealand's presence in the Japanese market."[51] The Japanese market has considerable potential for New Zealand beef exporters. Gradual liberalization of the market and rising Japanese beef consumption all bode well for the future but success in increasing sales to Japan will depend on the resources available "to invest in establishing a presence in Japan and in

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[47]Shiratake, Akira, 'Meat', A report to the Twenty-Second Joint Meeting of the Japan/New Zealand Business Council, October 25-27, 1995.
[48]Ibid.
[49]Ministry of Foreign Affairs and Trade, 'Foreign Direct Investment: Examples of New or Expanded Businesses', p.1.
[50]Ian Kennedy, Japan and New Zealand: Adding Value, p.96.
[51]Ibid.

developing working links with end users."[52] Two New Zealand companies have also been exporting hamburger patties to Japan.[53]

Appendix III. Top Australian Exports to Japan

The following section provides a brief overview at each of Australia's top ten export items.

A. Coal

Japan is the world's largest importer of both coking coal and steaming coal. Coking coal is used primarily by the steel industry and steaming coal is consumed by the electric power and cement industries.[54] Japan imports about 6o million tonnes of coking coal annually, approximately 85 percent of which came from Australia, Canada and the United States.[55] Australia supplies the largest amount, about 50% of Japan's imports. Australian coking coal has been consistently lower priced than either Canadian or American, however, Australia has not been able to capture a larger share of the market as Japan does not wish to become too reliant on one supplier.[56] Australia is also Japan's major supplier of steaming coal. In 1995, Australia supplied 56% of Japan's steaming coal imports.

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[52]Ibid., p.96.
[53]Ministry of Foreign Affairs and Trade, ASIA: Trade & Economic Prospects. (Wellington: MFAT, 1995), p.50.
[54]Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 8, August 1996, p.11.
[55]Richard J. Koerner, Behaviour of Pacific Energy Markets: the Case of the Coking Coal Trade with Japan. Pacific Economic Papers No. 252, (Canberra: Australia-Japan Research Centre, 1996), p.1.
[56]Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 8, August 1996, p.11.

B. Combined confidential items of trade and commodities

Due to the nature of this category, it is difficult to know much about what it contains. That the bulk is uranium exports seems a reasonable assumption. Japan is a large consumer of nuclear power; its 43 nuclear power plants supply approximately ten percent of Japan's energy supply. According to a 1994 Australia-Japan Economic Institute Bulletin, "the bulk of Australia's uranium is sold on long term contracts which have been about twice the spot price to the Japanese. The industry has been able to survive due to these contracts having been signed five years ago at higher prices that cannot be reduced. These long term contracts were in response to uncertainty over future supply but are soon due for renegotiation which places the industry under threat if the spot price continues to stay low."[57]

C. Metalliferous ores and metal scrap (Iron Ore, Copper Ore, Titanium and Aluminum Ore)

The bulk of Australia's metalliferous ores is made up of iron ore, copper ore, titanium and alumina and of these, iron ore is the most important. Japan accounts for almost half of Australia's iron ore sales (valued at close to $1.3 billion in 1995)[58] and has been an important buyer from immediately after December 1960 when the Australian government lifted its embargo on iron ore exports.[59] While Japan is Australia's most important market for iron ore, Japan's relative share of Australian exports has declined from 74% in 1982 to 46% in

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[57]Australia-Japan Economic Institute, Economic Bulletin, Volume 2, No 4, April 1994, p.8.
[58]Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 8, August 1996, p.7.
[59]Mayumi Kamada, Australia-Japan Business Cooperation Committees: Forging Channels of Communication. Pacific Economic Papers. No.219, (Canberra: Australia-Japan Research Centre 1993), p.3.

1993. Lower levels of steel production due to Japan's recession and the growth of the steel industry in Taiwan, China and South Korea are contributing factors.[60] Australia is Japan's largest supplier of iron ore followed by Brazil and India. Predictions are that the Japanese steel industry will pick up again as demand from the construction and shipbuilding sectors increases. This should result in expanding demand and increased prices for iron ore.

Japan is also an important market for Australian exports of copper ore. In 1995, Japan imported 214 thousand tons, 55 percent of Australia's total exports. Australia used to be even more dependent on the Japanese market.[61] In 1990, Japan took over 90% of Australia's total copper ore exports. Since then, Australia has been diversifying its markets and while the volume of its sales of copper ore to Japan has remained steady, its overall copper ore exports have risen dramatically so that Japan is no longer its only real market. Copper ore is also supplied to Japan by Chile, Indonesia, Canada and the Philippines. Australia only holds 6% of the market.

Titanium metal is used in chemical plants, oil refineries and aerospace technology while titanium dioxide pigment is used in paint and plastics and to coat paper.[62] Australia is Japan most important supplier of titanium and was responsible for 64% of Japanese titanium imports in 1995. South Africa and India are other major suppliers of titanium to Japan.[63]

Australia is also Japan's largest supplier of aluminum ore. In 1995, 49 percent of Japan's aluminum ore imports came from Australia. However, despite

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[60]Australia-Japan Economic Institute, Economic Bulletin, Volume 2, No 4, April 1994, p.5.
[61]Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 8, August 1996, p.7-8.
[62]Ibid., p.9.
[63]Ibid., p.9.

growth in aluminum consumption in Japan, the volume of Australian aluminum ore exports to Japan are down by 30 percent and relative market share has also fallen.

In 1995, Australia was responsible for 45 percent of the world's tradeable lead ore. Of this 146,706 tons, about 37 percent went to Japan, making Australia Japan's most important source of lead ore.[64] Australia is also Japan's most important source of zinc ore. In 1995, Australia supplied 56 percent of the Japanese market. Zinc is used to galvanize coated steel strips, wires and tubes which are used in the automotive and other industries. Other main zinc supplying nations are Peru and the United States.[65]

D. Meat

Australia's major meat export is beef. The liberalization of the Japanese beef market that took place in 1991 saw a significant increase in Australian beef exports to Japan.[66]

E. Non-ferrous metals (includes nickel, aluminum, copper, lead, zinc, tin)

Australia is one of the world's largest producers of nickel. Nickel is used primarily in the production of crude steel because of the metal's strength, hardness and ability to resist heat. In 1995, Australia supplied about 5.5 % of

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[64]Ibid., p 7.
[65]Ibid., p.8.
[66]Department of Foreign Affairs and Trade, Japan: A Guide to the Country and its Relations with Australia, (Canberra: DFAT, 1993), p.59.

Japan's nickel imports (3,939 tons), mainly in the form of nickel bars, rods and pipes rather than raw ore.[67]

F. Textile fibres (Silk, cotton, wool, synthetic fibres)

Wool and cotton exports make up most of this category. Australia supplied 54% of Japan's imported wool in 1995 making Australia Japan's largest source of wool. The Japanese market for wool is, however, decreasing in importance to Australia as in 1995 Japan only accounted for 8 percent of Australia's wool exports. In 1990, Japan had taken 19 %. This decrease was due to the relocation of Japanese textile plants to countries where labour is less expensive, particularly China.[68] As China is now Australia's largest export market for wit is clear that while the wool may no longer be going to Japan, it does appear to be continuing to go to Japanese companies.

Cotton is another important Australian export to Japan. Australia supplied 19 percent of Japan's imported cotton in 1995. Actual volumes of Australian cotton exports to Japan are down, though, and have been for four consecutive years. Japan has simply not been importing the volumes it did in the past. In fact, a recent Australia-Japan Economic Institute bulletin reports that there has been a 46% drop in the volume of Japan's cotton imports since 1990.[69]

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[67] Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 8, August 1996, p.6.
[68] Ibid., p.5.
[69] Ibid., p.6.

G. Petroleum

Almost all of Australia's liquid natural gas exports go to Japan. In 1995, Australia exported 6.82 million tons of LNG to Japan which was 95 percent of Australia's exports (the remaining five percent went to other customers after contracts with Japan had been filled) and 16 percent of Japan's imports.[70] Other LNG suppliers to Japan are Indonesia and Malaysia.

H. Gold, non-monetary

Gold is primarily used in the manufacture of jewelry and for coins and medals, and is therefore greatly affected by levels of disposable income. As the Japanese economy strengthens, the demand for gold is likely to increase. In 1995, Australia exported 73 million tons of gold to Japan (valued at ¥85 billion) which was 27 percent of Japan's total imports of 271 tonnes of gold.[71]

I. Fish and seafood

Although Australia has a large fishing zone, the waters are relatively low in nutrients and do not support great numbers of fish. Australia is not, therefore, one of the world's large seafood producers. Three high value products — rock lobster, prawns and abalone — make up more than 90 percent of Australia's seafood exports[72] Australia's seafood exports to Japan are comprised primarily of these same three products and small quantities of a few other products such as

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[70]Australia-Japan Economic Institute, Economic Bulletin, Volume 4, No 8, August 1996, p.12.
[71]Ibid., p.13.
[72]Anthony Kingston, Tony Battaglene, Perry Smith and Stephen Beare, Changes in the Japanese Seafood Market. Discussion Paper 913, Australian Bureau of Agricultural and Resource Economics, 1991, p.5.

sea urchin roe, tuna and other fish.[73] While Japan is Australia's most important export market for seafood, Australia is of much less significance to Japan as Australia supplies less than five percent of Japan's seafood imports.

Tiger and banana prawns make up the majority of Australian prawn exports to Japan. As they are similar in appearance, the banana prawns must compete with farmed white prawns from South-East Asia.[74] The expenses of Australian fishing compared to Asian prawn farming make it difficult for Australia to compete on price. Australia is an important supplier of rock lobster to Japan and accounts for about 27 percent of the market. The vast majority of Australia's fresh, frozen and chilled abalone and over half of its canned abalone exports go to Japan. "In 1988-89 Australia supplied 78 per cent of the frozen abalone imported by Japan and 98 per cent of all imports of canned abalone."[75]

[73]Ibid., p.6.
[74]Ibid., p.7.
[75]Ibid., p.8.

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