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(as delivered)

**‘A Revitalised Japan: Opportunities for
Queensland and Australia’**

Your Excellency Governor Penny Wensley and Mr McCosker. Ladies and Gentlemen.

I'd like to acknowledge the presence of:

- Mr Tim Nicholls, Queensland Treasurer and Minister for Trade;
- Dr John McVeigh, Minister for Agriculture, Fisheries and Forestry;
- Ms Fiona Simpson, Speaker of the Legislative Assembly;
- Ms Yoko Yanagisawa, Consul-General of Japan to Queensland;
- Mr Geoffrey Ewing, President of the Australian Institute of International Affairs, Queensland;
- Ladies and Gentlemen.

It is a genuine honour for me to deliver this lecture which I understand to be the fifth in the series of Fernberg lectures designed to highlight the connections between Queensland and the world.

So I would like to thank Her Excellency Governor Penny Wensley in particular and, of course, the Australian Institute of International Affairs, for the invitation to speak to you this evening.

My topic will be the changes currently underway in Japan, the likelihood of success of structural reform and what it all might mean for Australia – and for Queensland.

And it's a very good time to be having this conversation. Japan is back at the centre of world news.

Observers near and far are watching with keen interest to see whether Prime Minister Shinzo Abe can succeed in his goal of revitalising Japan's economy – and in his closely-related aim of normalising parts of the country's security posture.

Old Japan hands would be forgiven a healthy dose of cynicism.

We have seen Japanese leaders announcing bold new reforms many times before, only to be stymied by vested interests.

But this time, I believe things could be different, and I'll take you through the reasons why that may be the case.

Whether or not Mr Abe will ultimately be successful, this is a very interesting time to be Australia's Ambassador in Japan.

For the first time in two decades, there is a real sense of optimism in Japan about the country's economic future.

Business leaders in Japan are increasingly confident about economic prospects – first, it was just positive views of a business-friendly government coming to power, but new orders in key business sectors seem to be swelling. The real economy is feeling the impact of Abe's policies.

The possibility of economic revitalisation is on the horizon, and hopes and expectations are high.

And Japan's revitalisation would unquestionably be good news for Australia. Japan's economy is of such a scale and our economies so entwined that this has always been so, even with the low growth of the last decade and more. But a growing Japanese economy would be all the better for us.

Australia has for many decades been a stable and reliable supplier of resources and energy, a stable and profitable destination for investment, as well as for tourism and education.

So we have the opportunity now to leverage off this relationship of trust and this reputation for mutual reliability, as Japan's economy returns to growth and, potentially, opens up.

But it's not the only thing on the horizon – there is also the possibility of Japan normalising elements of its security posture. This is something Mr Abe has said is his 'historical mission' to achieve.

Again, this would be good news for Australia. Our cooperation on security issues has been growing strongly in recent years.

This growth has its roots in our shared strategic objective of a peaceful, stable and prosperous Asia-Pacific region.

We both want to work to build positive and comprehensive regional relationships, including with China; to achieve long-term peace and stability on the Korean Peninsula; to strengthen regional architecture such as the East Asia Summit; and to promote rules-based frameworks that are so central to the pursuit of our security and economic objectives, such as on maritime security or on trade.

So if Mr Abe was to achieve his goals, there is real potential to further deepen and broaden our engagement in security and defence issues.

And this would be a very welcome and very natural evolution of our bilateral relationship.

That relationship is not only a professional interest for me – it's also something that I'm personally passionate about.

I first set foot in Japan in 1978. I studied for a year in Japan in the early 1980s and I have had the privilege of being posted to Japan as a diplomat in each of the past three decades.

In all, I've spent about 12 of the past 35 years in Japan.

So I saw Japan at its most economically confident.

And I've seen it during what's called the 'lost two decades' - the 20 or so years of stagnation and low growth that followed the bursting of the 'bubble economy' in the late 1980s.

And I can tell you that now, for the first time since then, there is a real sense of optimism in Japan.

Prime Minister Abe has an unprecedented opportunity and a very clear mandate to pursue his goal of revitalising the Japanese economy.

And, as I mentioned earlier, expectations are high.

The early signs are good – in the second quarter of 2013, the Japanese economy grew at an annualised 3.8 per cent.

To put that in context, Japan's economy grew by 1.9 per cent in 2012 and contracted by 0.6 per cent the year before – the year in which Japan fell victim to the triple disasters of earthquake, tsunami and nuclear accident.

With these early achievements, Mr Abe has managed to focus international attention back on Japan.

And this will only increase over the next few years, as Tokyo prepares to host the 2020 Olympic Games.

The decision to hold the games in Tokyo has been an additional shot in the arm for Japan, further boosting not only business confidence but also a nation-wide feeling of optimism.

The 1964 Tokyo Olympics heralded Japan's return to the global stage after the devastation of World War II. The 2020 Olympics might just confirm Japan's emergence from the lost two decades.

Japan and Queensland

But before I get into the changes afoot in Japan, I wanted to speak about the importance of the bilateral relationship to Queensland – which in so many ways has been on the front line of Australia's engagement with Japan.

And it has been so for more than a century.

Queensland was where Japan established its first consulate in Australia - in Townsville in 1896.

Queensland was home to the first-known Japanese immigrant to Australia – a man who arrived in the early 1870s and eventually settled on a farm near Cairns, after marrying a local woman.

This immigrant was, of all things, a circus acrobat – proving, perhaps, that Queensland was a magnet for skilled workers even then.

Over the next two decades, the acrobat was joined by many of his countrymen and women.

And many of them really were skilled workers.

Japanese pearl divers were in demand on Thursday Island, where they braved the 'bends', shark attacks and cyclones that could wipe out an entire fleet – and a very high death rate – to collect oyster shell from the ocean floor.

Thursday Island is, incidentally, one of the very few Australian places to have a Japanese-language name – it was known as 'mokuyo-to', a direct translation of 'Thursday Island'.

Many Japanese storytellers have been drawn to the adventure and tragedy of the lives of these pearl divers on Thursday Island, and elsewhere in northern Australia.

The 1984 novel *Mokuyo-to no Yakai*, or *Soiree on Thursday Island*, by the renowned Japanese historian and novelist Shiba Ryotaro, is perhaps the best-known example, introducing a new generation of Japanese readers to the plight of the pearl diver.

The gathering of pearl shell was northern Queensland's principal enterprise at the turn of the 20th century – and a significant export earner.

And the Japanese involved in the industry weren't only divers. Many of Thursday Island's boats and boatyards were owned and crewed by Japanese citizens.

So even in one of Queensland's earliest industries, Japan played a key role. Japanese workers were also well-represented in northern Queensland's sugar cane fields.

Today, the industries have changed, but Japan's role is no less significant.

So just as it was in 1890s and early 1900s, Queensland remains at the forefront of Australia's engagement with Japan.

This is a point I would like to emphasise, because it is an asset for Queensland in dealing with Japan.

Queensland is the origin of much of the coal that fuels Japan's power plants and the beef that is served at its tables.

It's also the destination for a large proportion of the Japanese tourists and exchange students visiting our shores. And more than one-fifth of the sister city and sister state relationships between Australia and Japan involve Queensland.

The Queensland economy – like that of Australia more broadly – owes a great deal to Japanese trade and investment. This is why senior Queenslanders visit Japan – the Premier himself has only just concluded a very successful visit promoting Queensland's trade and investment interests.

So no state in Australia stands to gain more from the changes that are afoot in Japan today.

Before talking about the changes afoot in Japan, it's important to remember that Japan never stopped being important to Australia.

Japan's importance to Australia

The rise of China and its remarkable levels of growth – which, by the way, are not unlike the levels Japan achieved in the 1960s and 70s – have captivated the Australian business community, and the Australian media.

Very few column inches in Australia's newspapers are devoted to coverage of Japan.

Only two Australian media outlets maintain correspondents in Tokyo, whereas there are four Japanese outlets in Australia.

And this is a pity – it contributes to the lack of coverage of Japan and to a lack of understanding here of Japan's ongoing importance to us.

But in some ways, the media's neglect of Japan is understandable. Growth rates of eight per cent make much better news stories than two decades of deflation.

But this is not a zero-sum equation. It never has been. The success of China does not come at Japan's expense.

As we all know, China became Australia's number one export market in 2009 – replacing Japan, which had held that position for four decades. And of course China is now Japan's largest trading partner.

Nothing has changed here in Queensland, though – Japan remains this state's largest merchandise export market.

For Australia as a whole, Japan is now our second-largest export market – also accounting for around one-quarter of our total export earnings.

And for Japan, Australia is its third largest source of merchandise imports, so we are important to one another.

And Australia's exports to Japan are still growing. They have doubled over the past decade.

Queensland's exports to Japan are also growing, increasing by 5.1 per cent, or \$572 million, in 2011-12 alone.

So Japan is more important than ever as a trading partner.

But exports are only part of the economic story. When investment is included, Japan becomes by far our most important economic partner in the region.

Japan is by far the largest investor in Australia from the Asian region, and our third-largest investor overall – behind the United Kingdom and the United States.

And it shows no sign of being challenged in that position for decades to come.

Japan's investment in Australia withstood the global financial crisis. And it is still growing.

Japanese investment has been absolutely critical to the development of many of Australia's largest industries.

Without Japanese investment and export demand, Australia's mining industry – Queensland's mining industry – would be unrecognisable today.

And keep in mind that much of this has come about during Japan's 'lost two decades'. Just imagine what an economically resurgent Japan might have to offer Australia.

'Abenomics'

Since becoming President of the LDP, the Liberal Democratic Party, last September, Shinzo Abe has led the LDP-Komeito Coalition to two decisive victories.

He won the Lower House election in December 2012, and took control of the Upper House this July.

Both of these elections were fought on the economy, with Abe presenting an ambitious plan to get the economy moving again, by stimulating growth and ending persistent deflation.

And his solid win in the upper house elections was, in part, a reflection of the hope of economic recovery generated by Prime Minister Abe since taking office.

He has received a clear mandate in both elections.

People seem to want stable government capable of implementation and better economic prospects, and they believe Mr Abe can deliver it.

And delivering on his ambitious suite of economic policies will be crucial to ensuring the longevity of his prime ministership.

On winning power in December last year, he moved quickly to implement new economic policies aimed at achieving recovery.

He embarked on a three-pronged approach, combining fiscal stimulus, monetary easing and growth-oriented reforms.

These are the 'three arrows' known collectively as 'Abenomics'.

Mr Abe implemented the first of his 'three arrows' by injecting a record one trillion dollars into the Japanese economy through an early supplementary budget and the subsequent regular budget for the current financial year.

The second step, monetary easing, was implemented by the Bank of Japan under the new leadership of Governor Kuroda.

The Bank signalled that it would, in effect, double the money supply over two years.

This was well above the expectations of most observers.

The government and the Bank have committed to a two per cent inflation target.

This itself is an ambitious target in a country that has barely seen price growth exceed one per cent in two decades.

In a speech at the New York Stock Exchange on the 25th of September, Mr Abe announced that he would be firing the 'third arrow' of his growth strategy as soon as he returned to Japan.

He described this arrow as a 'bold tax reduction in order to stimulate investment'.

Mr Abe has previously announced other elements of the third arrow, which together comprise measures aimed at breaking down barriers to industrial competitiveness and stimulating long-term growth.

These measures include:

- the creation of special economic zones subject to accelerated deregulation;
- deregulation to unleash innovation, especially in health, renewable energy and IT;
- deregulation of the electricity market; and
- an aggressive expansion of trade diplomacy aimed at opening overseas markets.

These measures could become the basis of deeper, more fundamental reforms in the future.

In March, shortly into this process, Mr Abe surprised everyone by announcing that Japan would seek to join the Trans-Pacific Partnership negotiations with 10 other Asia-Pacific countries, including Australia, New Zealand and the United States.

Japan was successful in its bid, and formally joined negotiations in July.

That bold and far-reaching decision transformed the TPP into a potential region-wide free-trade bloc 40 per cent bigger than the size of the European Union.

Can Mr Abe succeed?

This is an ambitious agenda, so the question is: can Mr Abe succeed?

Without ambitious and decisive structural reform, the first two arrows of fixed stimulus and monetary easing might falter, and fail to lead to a permanent change in the behaviour of business and consumers.

And there is also political risk.

As I mentioned in my introduction and as old Japan hands would attest, we have seen Japanese leaders announcing bold new reforms many times before.

Reforms that were often ultimately stymied by vested interests.

But this time, I believe things could be different. I say that for three reasons.

First, Mr Abe is politically in a very good position.

His Cabinet continues to poll very well, with approval ratings above 60 per cent.

He has secured a majority in both houses of the Diet.

And he has a luxury not often afforded to Japanese prime ministers – the prospect of political stability, with the likelihood of not having to go to the polls again for almost another three years.

This is very unusual in Japan because, unlike Australia, lower and upper house elections are rarely held simultaneously.

So, there have rarely been such favourable political circumstances for change in Japan.

And Mr Abe has a clear *mandate* for change in order to make the economy grow.

The second reason I believe Mr Abe could succeed is Mr Abe himself.

Mr Abe is proving to be a careful, calculating, and commanding leader.

He has clearly learned from his difficulties during his earlier prime ministership 2006-07, and is proving an accomplished political manager.

He also has a strong, disciplined and competent team of ministers.

Unlike previous LDP Governments, where we have seen prime ministers over-ridden by party and factional interests, Mr Abe and his Cabinet are driving much of the policy agenda in Japan.

The decision to join the TPP is one example of this.

Mr Abe makes effective use of the undoubted expertise of the bureaucracy, as well as making careful use of advisory councils as alternative sources of advice.

One telling sign of his seriousness is the centralisation of responsibility for the TPP negotiations and domestic policy coordination under a special “TPP headquarters” in the Cabinet Secretariat.

This is designed specifically to cut through bureaucratic “stove-piping” and produce cross-portfolio positions in the national interest.

Mr Abe’s linking of economic recovery to Japan’s influence and strategic position is another sign of how serious he is.

I think Prime Minister Abe realises that without economic recovery, without restoring Japan’s economic weight, Japan’s influence in the world will wane.

In a speech he gave in Singapore in July, he pointed out that: “without growth there can be no fiscal reconstruction; without growth Japan can neither maintain nor enhance its social security system; and without growth a strengthening of its diplomacy and national security will also be impossible.”

That clear vision also came through strongly in Mr Abe’s announcement that Japan would seek to join the TPP.

The announcement was not heavily caveated with reservations or vague sentiments.

It was clear and stark. It portrayed the TPP as an historic opportunity to renew Japan, and one that would pass if Japan did not act quickly.

Of course, some of the changes will take years to complete.

We know this from experience – our own deregulation process in the 1980s and 1990s was slow and had its ups and downs.

And it’s important to note that Japan is, of course, part of the global economy – and these are uncertain times. There’s always a risk that Mr Abe will face *external* hurdles in addition to the many domestic hurdles he will need to surmount.

Changes already underway

The third and final reason I believe Mr Abe's reform agenda may succeed is the fact that Japan is *already* changing.

Reform – at least to some extent – is inevitable.

Mr Abe's ambitious plans are adding another layer of change to that already taking place – change driven by demographic and economic realities.

That change is most evident in the decisions that are being made by Japanese companies and individuals.

Responding to developments in Japan and overseas, Japanese companies are more and more investing offshore, often in widely dispersed value-chains.

When talking about the Japanese market, it no longer makes sense to be looking only domestically.

More and more, when we think of the “Japanese economy” we should be thinking not just about GDP but also GNP – taking into account the contribution of Japanese firms overseas.

China is of course an important part of this, but Japan's overseas economic presence is also very strong in South-East Asia, South Asia, and other regions.

Increasingly Australia's commercial partners are Japanese firms located in third countries.

A good example of this trend is the 1.2 billion US dollar Binh Duong project north of Ho Chi Minh City in Vietnam.

Tokyu Corporation, which is a Japanese railway operator and real estate developer, has established a joint venture with a Vietnamese partner to design and construct the Binh Duong residential and community complex.

Several Australian firms have already secured contracts with Tokyu in relation to this project, providing architectural, engineering and other services.

At the same time, there is a move toward greater internationalisation of Japan's work force.

Two of Japan's leading retail firms – Rakuten and Uniqlo – made headlines last year when they announced their companies would be adopting English as their internal language.

But language proficiency is only one part of internationalisation.

Developing a more globally-capable workforce – or “global human capital”, to use the current parlance – is a major challenge that Japanese firms are embracing.

It is also a major opportunity for Australian education providers and partner companies, which are well-placed to meet this demand for global skills.

And of course Queensland is well placed – because, as I’ve said, it’s on the front line in our engagement with Japan.

And there are two social and demographic trends that will have a profound effect on Japan’s society and economy.

First, more and more Japanese women are deciding to work, and to work longer, often simply through sheer economic necessity.

The Abe Government – Prime Minister Abe himself – has said he will introduce reforms to facilitate and encourage this, which is welcome.

And second, the ageing of the population is putting further strain on the health and social security systems.

It is also increasing the need for products and services – indeed, for ways of planning whole communities – that take more account of the needs of older people.

So put together, these social and demographic pressures – the changing business environment for Japanese firms; Mr Abe’s rare position of controlling both houses of the Diet with three years before the next scheduled election; and the Prime Minister’s strong political management and drive – mean Abenomics have a very good chance of success.

Security

I mentioned earlier that much of Mr Abe’s motivation to achieve economic recovery is to restore Japan’s influence in the world across the wider political and strategic domains.

There has been some speculation in parts of the international media that Mr Abe’s success is evidence of a resurgence of nationalism in Japan.

But this is a misreading of where Mr Abe is coming from and a misunderstanding of the Japanese electorate: the two elections were fought almost exclusively on economic grounds.

What we *are* seeing, though, is Japan being clearer in its desire to be a more normal country in defence and security terms.

Mr Abe made his desires very clear, in fact, at the United Nations General Assembly in September.

There, he spoke of his ‘obligation’ to make Japan a dependable force that works for good in the world – or a ‘Proactive Contributor to Peace’.

As I'm sure you are aware, under Article 9 of its Constitution, Japan renounces war as a sovereign right and vows not to keep a standing army, air force or navy.

According to Japan's own interpretation of its Constitution, Japan cannot exercise the right of collective self-defence granted to all countries under the United Nations Charter.

In other words, Japan's Self-Defense Forces – among the world's most sophisticated militaries – cannot come to the aid of allies and friends if those friends are attacked.

In outlining the constitutional restrictions preventing his country from exercising collective defence while in New York recently, Mr Abe said "Japan should not be the weak link in the regional and global security framework".

He will press ahead with his attempt to reinterpret the Constitution – to achieve his 'historical mission'.

At present, I would say that the government does not have the numbers in the Diet nor the public support to pull this off.

Japan's sense of itself as a pacifist nation remains very strong, its people not convinced of the need for change.

Mr Abe, incidentally, has described his position as "active pacifism".

Obviously, this is an issue on which Japan has to have its own debate, and make its own decision.

From an Australian perspective, though, a decision that would enable Japan to play a greater role in contributing to international security would be welcome.

Revising Article 9 of the Constitution is only one part of Mr Abe's defence and security agenda.

He has slightly increased Japan's defence budget after declines every year for 11 years.

In October, Mr Abe will present legislation to the Diet which will establish a Japanese National Security Council and tighten the country's information security arrangements.

This will allow the Japanese Government to coordinate its decision-making better – to make decisions rather like we do in our government, with ministers debating their pros and cons across the Cabinet table.

He has committed to releasing Japan's first-ever National Security Strategy.

And he will revise Japan's National Defence Program Guidelines – a strategic document not unlike our Defence White Paper – as well as the 1996 US-Japan Defence

Guidelines, which set out how the US and Japanese forces coordinate with each other in response to various threats.

When I was posted to Tokyo in the early 1990s, Japanese officials were often puzzled about why we would want to talk to them about regional security issues.

Now, Japan is our closest security partner in Asia.

This partnership draws heavily on our respective alliances with the United States, but also on an expanding bilateral security framework between Australia and Japan.

We are natural strategic partners. We share common values and interests, including a commitment to democracy, the rule of law, and open markets.

We share common purposes in the security sphere, including in humanitarian and disaster relief, nuclear non-proliferation, cyber security, space and counter-terrorism.

Australia is one of very few countries that has an annual 2+2 meeting of foreign and defence ministers with Japan.

A bilateral Information Security Agreement and an Acquisition and Cross-Servicing Agreement with Japan came in to force earlier this year.

And Australian troops have provided security for Japanese Self-Defense Force engineers in Iraq and airlift capacity for Japanese medical teams in Pakistan.

More recently, RAAF C-17 aircraft provided strategic airlift capacity to Japan in the aftermath of the 2011 disasters.

Our security cooperation has grown extensively in recent years, and we we are looking for new ways to further strengthen our defence cooperation, including on defence science and technology.

Japan and Australia are like-minded on many foreign and security policy issues – indeed, in the vast majority of cases it is reasonable to claim that Australia's national interest is Japan's national interest, and that which is contrary to Australia's national interest is contrary to Japan's national interest.

Prime Minister Abe's clear interest in engaging in our region, including in South-East Asia and the Pacific, offers opportunities for further cooperation between Australia and Japan.

Conclusion

Managing public concerns over elements of his security and defence agenda – including attitudes towards constitutional revision and collective defence, and the media's sensitivities over his new information security legislation – will take time and energy.

In pursuing this agenda, I think Mr Abe will be careful not to be seen to be taking his eye off what the public see as the main game – the economy.

While he may see security and defence as his ‘historical mission’, it was his economic plans that won the LDP two elections.

I expect Mr Abe will also remain mindful of perceptions in the region of his security and defence agenda – even though his proposals still impose more self-restrictions than any of its neighbours would accept for themselves.

Ultimately, Mr Abe’s success and longevity will depend on his ability to deliver on the economy - to ensure that the early good signs turn into lasting improvements.

If Mr Abe can continue to demonstrate the bold leadership that is required to implement structural reform – if he can achieve success in reviving the Japanese economy – then a stronger Japan will naturally become a more active force on the global stage.

And Mr Abe will be justified in his assertion that “Japan is back”.

A revitalised Japan is very much in Australia’s national interest.

It can only lead to even greater opportunities for engagement between Australia and Japan – opportunities that will likely be seized right here in Queensland, as always on the front line of the Australia-Japan relationship.

Thank you.

ENDS