Bilateral Economic Relations in a Global Political Economy: Australia and Japan

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Abstract: This paper argues that despite the internationalisation of economic activity, and a concomitant diminution of economic policy-making autonomy, national policy settings continue to display a surprising degree of divergence and remain important determinants of economic outcomes. Similarly, there are distinctively different and enduring patterns of corporate organisation across nations which confer specific competitive advantages. Important theoretical and empirical questions are raised, therefore, about the potential efficacy of national economic policies and their capacity to accommodate such divergent practices. This paper examines the bilateral relationship between Australia and Japan, and assesses the effectiveness of Australia's predominantly neoliberal economic policy framework in the light of such national and organisational variation. It will be suggested that Australian policy-makers' faith in market mechanisms caused them to underestimate the significance of Japanese commercial practices and regional production strategies, rendering attempts to transform the relationship largely unsuccessful.

For all the attention given to fashionable concepts like 'globalization', individual bilateral relations continue to be invoked as measures of the comparative efficacy of national economic policy settings. Caveats about the theoretical utility of national economies notwithstanding,[1] there is still something to be said for this sort of analysis. At the very least, an examination of specific bilateral relations allows more detailed consideration to be given to the interaction between distinctive national economic patterns of organisation, and the sorts of policies that are designed to enhance or accommodate such variations.

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The potential significance of a bilateral perspective at both at the levels of theory and political discourse is, of course, most apparent in the US-Japan relationship. This relationship embodies the distinctly different styles of capitalist organisation that have attracted the attention of scholars (Thurow, 1992; Tyson, 1993) and, superficially at least, appears to offer the possibility of empirically comparing alternative economic paradigms. However, the US's unique, possibly 'hegemonic' role in the global political economy confers power resources and economic leverage that are simply unavailable to other actors. Consequently, there is a constant temptation for the US to deviate from its own multilateral, market-oriented rhetoric in pursuit of narrow national gains, making it less useful for the purposes of comparative analysis.

Australia, by contrast, while also having Japan as its major economic partner, has adhered more strictly to the logic of market conforming, neoliberal economic policy settings. Australia's bilateral relationship with Japan therefore provides a particularly useful empirical study with which to consider the potential efficacy of a predominantly neoliberal policy framework when dealing with other nations, or more particularly, the transnational corporations (TNCs) that emanate from such countries. Of central interest here is whether the distinctive patterns of corporate organisation found in Japan place trading partners at a competitive disadvantage. In a word, are the sorts of deregulatory policies promoted and adopted by countries like Australia likely to generate the sorts of unequivocal gains their advocates hope, or will they perpetuate a pattern of uncompetitiveness and structural dependency?

At the outset it is important to stress just how crucial the bilateral relationship with Japan is from an Australian perspective. Not only is Japan Australia's largest trading partner and an increasingly important source of capital investment, but Japanese companies are key players in shaping emerging patterns of regional production. Without policies that are capable of accommodating the reality of Japanese corporate practices and organisational logic, the Australian government risks entrenching its somewhat marginal economic position within the region. Furthermore, a failure to recognise and take account of the organisational principles of Japanese corporate capital may mean that the trade and investment which does occur between the two countries may reinforce rather than alleviate Australia's dependent position. The relationship with Japan, then, represents an important test of Australian economic policy and a benchmark against which to measure recent attempts to transform Australia into a more competitive, technically sophisticated, and less resource-dependent economy. Moreover, this sort of case study contains potentially important insights into the more general interaction between market-oriented Anglo-American economies and those of East Asia.

In the first part of this paper briefly I outline important assumptions of the neoliberal model and explain its attraction to policy makers in Australia since the 1980s. Some of the more significant initiatives taken by the Australian Labor Party (ALP) during its thirteen year administration - like the Asia Pacific Economic Cooperation (APEC) forum and domestic reform - are detailed. Next, I consider the specific organisation of Japanese corporate capital and its subsequent impact on Australia. I illustrate how the structure of Japanese corporations has important trade implications that are generally not captured in the neoliberal framework which dominates Australia's external economic relations. Finally, I examine the way Japanese corporations are integrated into the region of which Australia is a part. I suggest that Australia is unlikely to become part of increasingly important regional production networks and may remain relatively marginalised from the dynamic economies to its north.

1 Neoliberalism in Australia

While there may be fundamental structural differences in the way capitalism is organised across nations, governments still have a potentially important role to play in enhancing specific forms of competitive advantage and determining the manner in which nationally-based economic entities are integrated with the global economy. It is not so much a case of *whether* states chooses to intervene in determining the operational environment of national economic structures, but of *how* they do (Dunning, 1992). The overall mode of governance remains a crucial determinant of the relative attractiveness of individual nations to increasingly mobile international capital. What is particularly noteworthy in the Australian case, however, is the enthusiasm with which the ALP leadership has embraced neoliberal ideas as the theoretical and operational basis for its attempts to reorient and revivify national economic activity.

Many of the factors that encouraged the adoption of neoliberal policies in Australia were ubiquitous. Central here, of course, was the increasing mobility of capital and the international integration of financial markets (Webb, 1991). While the extent of transnational capital flows may have circumscribed national economic policy autonomy, it did not render it redundant. Even within the structure of national capital markets, important differences remain between Japan and the US, for example, differences which are reflected and reinforced by the activities of their national banking sectors and their relationship with government (Pauly, 1994). Yet Australia is again distinguished by the speed with which a newly-elected Labor government moved in 1983 to deregulate the financial sector and 'float' the dollar. While there were clearly important international ideational currents sweeping through the Anglo-American economies which encouraged the emergence of what Cerny (1993:67) calls an 'embedded financial orthodoxy', not the least of which were the apparent limitations of Keynesian demand management and the increasing fiscal burden imposed by welfare states, a shift to wholesale deregulation was not the only possible policy response. The Japanese government, for example, patently took a very different view about the desirability and necessity of both a diminished government role and widespread financial deregulation (Sheridan, 1993: chapter 9).

The Importance of Contingency

To explain the early adoption of neoliberal policies in Australia, and the subsequent direction of policy, it is necessary to briefly say something about contingent national circumstance. Several inter-related factors are of particular importance here. Firstly, the Labor government that oversaw the deregulation of the Australian economy from the early 1980s was at pains to demonstrate its competence in the area of economic management. The dismissal of the previous Labor administration under Gough Whitlam in 1975 and the reputation for economic incompetence that this bequeathed Labor are central parts of any explanation of Labor's subsequent embrace of neoliberalism. Secondly, the new Labor administration led by Prime Minister Bob Hawke and Treasurer Paul Keating took an infinitely more pragmatic view of the business of government than did their predecessors. 'Sound', market-sanctioned, economic management was the hallmark of the new Labor administration. This tendency was enthusiastically supported by key elements of the public service, which provided influential, neoclassically-oriented economic advice to the inexperienced new Treasurer (Kelly, 1992). Finally, a growing perception existed in Australia that it was being left behind by the emergent regional economies and increasingly marginalised in an expanding global trading system.[2] This mounting sense of crisis provided a critical catalyst for a radical shift in policy-orientation.

Indeed, the rise of neoliberal ideas in Australia cannot be understood without reference to the influence of a coterie of academic economists, advisers and commentators that have systematically promoted market-oriented policies as the answer to the perceived problem of national economic decline. Certainly, such ideas may have been gaining ground within Anglo-American political elites since the 1970s, but in Australia a distinctive 'epistemic community' coalesced around such ideas and actively promoted them to policy makers, something that helps explain both the speed with which they were adopted and the extent with which they were applied (Higgott, 1992). It is possible to identify key individuals that have exerted a powerful influence on the course and content of Australia's economic policies. Ross Garnaut (1990), for example, was at one time Bob Hawke's principal economic adviser, and subsequently authored an extremely influential report that formed the basis for subsequent policy toward East Asia. Importantly, Garnaut not only suggested that Australia would be best served by allowing market forces to determine economic outcomes, but also argued that this had been the cause of the region's rapid economic development. Such an analysis, however, fails to take account of an impressive body of evidence that suggests that state intervention has played a significant role in the development of many, if not all the nations of East Asia (Appelbaum & Henderson, 1992). It is precisely the specificity of the historical trajectories of many Asian economies, in particular their integral and distinctive corporate relations that is neither addressed nor appreciated by Australia's dominant policy approach.

And yet, paradoxically enough, it is the same sort of market-oriented vision that is so central to Australian political discourse that is currently exerting a wider, regional ideational influence. APEC, and its deregulatory, free-trade agenda has rapidly become an important piece of regional political architecture (Beeson, 1995a). Although it is not possible here to fully consider the implications of APEC on regional economic policies, a couple of points can be briefly made: Firstly, while the establishment of APEC may be seen as a triumph of Australian diplomacy, this does not mean that its liberalisation timetable will be implemented or adhered to, especially within its increasingly ambitious-looking time frame.[3] Secondly, and more importantly for the purposes of this paper, market-conforming initiatives of the sort proposed by APEC officials are unlikely to address the fundamental causes of trade friction between members, nor bring about a transformation in the position of countries like Australia and the US. Much of the competitive advantage enjoyed by countries like Japan springs from the manner in which individual capitalist enterprises are organised within that country. Furthermore, even though established patterns of economic activities in the region are being transformed in the wake of the restructuring of Japanese productive activities, this is no guarantee that Australia will benefit.

The success of Australian policy seems even less assured when Japan's APEC strategy is considered. Somewhat surprisingly, Japanese economists have been at the forefront of promoting a Pacific free trade area since the 1960s (Korhonen 1994).

Unlike their Australian counterparts, however, they have exerted little influence over the policy making process in Japan. Genuine trade liberalisation might have threatened the Japan’s mercantilist trade and industry strategies and the constellations of political and business forces that supported them (Nester 1991). Japanese policy makers only became seriously interested in institutionalising a trade liberalisation mechanism in the Asia Pacific when access to critically important markets was jeopardised by a rising tide of protectionism in the United States. Ironically, the Japanese encouraged Australia to promote APEC’s development because of residual regional suspicion of Japan and its war-time role (Funabashi 1995). It is important to recognise that Japan’s attitude to trade liberalisation remains highly ambivalent: domestic politics, especially the power of the agriculture lobby, make it extremely difficult for Japanese governments to pursue liberalisation seriously - a situation the recent elections have done little to change.[4]

Before considering the crucially important regional organisation of productive activities in any detail, it is also important to say something about another dimension of Australia's market-oriented restructuring: domestic reform. Australian policy-makers attempts to make market mechanisms the central organising principal of economic life have not been confined to international fora. Simultaneously, Labor has attempted to place competitive market pressures at the heart of national economic organisation.[5] Again key advisers and reports to government have been central in defining the course of national economic reform.

The Hilmer (1993) report effectively did for the domestic economy what Garnaut had attempted to do for Australia's external relations: establish an agenda of reform with market mechanisms at its centre. Privatisation policies are the predictable centrepiece of envisaged domestic reforms, along with a more generalised policy of micro-economic reform, particularly in the labour market through the development of a more 'flexible' workforce. While the privatisation agenda might be criticised for failing to acknowledge the importance of the public sector in Australia's social and economic infrastructure development, a more substantial critique can be made of Hilmer-style innovations: even if such reforms are implemented they are unlikely to transform Australia's marginal and dependent relationship with the countries to its north. The sort of 'efficiency' gains promised by Hilmer are unlikely to make Australia a more attractive investment proposition in the eyes of potential investors like the Japanese: in the more valuable areas of high skill manufacturing, labour costs are not central determinants of investment locations. In less valuable forms of production, Australian workers cannot hope to compete with wage levels in Indonesia or the Philippines by increases in productivity and the like.

To understand the role Australia plays in the calculations of Japanese investors, and why internal initiatives like labour market reform are unlikely to transform its position, it is necessary to take a closer look at Japanese activities in the region. Only a regional perspective can explain the position of individual nations in increasingly integrated transnational production networks.

2. Neoclassical Assumptions and Japanese Corporate Organization

The organisation of the firm, and the overarching corporate structures within which it is embedded is one the most noteworthy and distinctive qualities of the Japanese political economy. What is equally striking, however, is how little such differences are factored in to either theoretical analysis or pragmatic policy-making in Australia. This failure to acknowledge the specificity of Japanese organisational and commercial practices leaves Australian policy-makers poorly-equipped to comprehend or react to the activities of Japanese multinationals in Australia itself, or in the wider region. Much of this lack of theoretical sophistication can be attributed to the continuing dominance in Australia of a body of thought that draws its principal inspiration from neoclassical economics. It is important, therefore, to say something about the assumptions this model makes about the organisation of economic activity in general and those of the firm in particular.

The theoretical implications of methodological individualism, which lie at the heart of the neoclassical approach, go some way to explaining not only a consequent focus on improving individual productivity in the labour force, but also the neoclassical model's depiction of the firm. Alfred Marshall's ideal-typical conception of the firm, for example, paralleled the neoclassical notion of the calculating, utility maximising household. Factors of production were assumed to be readily substitutable in a 'representative firm', which responded to 'natural' market pressures in a perfectly competitive environment (Hunt, 1979: 271-86). Market forces assured that equilibrium was maintained between supply and demand, and that no firm was able to assume a position of market dominance. In short, market mechanisms achieved optimal economic outcomes and allocation of resources. Clearly, there is an important normative, not to say ideological sub-text here. What is important in the context of this discussion however, is that this sort of ahistorical idealisation continues to underpin mainstream economic theory in Australia, and exerts an important influence in determining the shape of what Hall (1993:279) calls a 'policy paradigm', or the 'framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing'.

In Australia, the market-conforming neoclassical model has been especially influential, especially in the area of external economic relations. But what the neoclassical tradition - which provides the theoretical backdrop for the more general neoliberal paradigm - most conspicuously fails to acknowledge is the importance of historical contingency. Rather than the sort of uniform abstractions posited by the neoclassical model, an examination of the historical evolution of corporate organisations generally, but particularly within nations, reveals important differences in the evolution of firms. Lazonick (1993: chapter 1) distinguishes between three major historical forms of capitalist corporate development: the era of market coordination (entrepreneurial capitalism epitomised by nineteenth century laissez faire Britain); managerial capitalism (developed in the US and predicated upon greater organisational coordination and the more effective utilisation of productive resources); collective capitalism (planned coordination extended horizontally across groups of legally distinct firms, and vertically to include the shop floor). The point to emphasise here is that in neoclassical analysis significant national differences, which help determine the structure of individual economies and their subsequent inter-national articulation are submerged in the pursuit of theoretical elegance and parsimony. To appreciate the importance of this omission, it is important to detail more fully the organisation of Japanese corporate capital.

Collective Capitalism

Historical experience appears to refute many of the assumptions of the neoclassical model and the neoliberal policies that flow from it. Japan is only the most striking example of a nation where the evolution of more extensive productive activities has conferred specific advantages of scale and scope on industry. In contradiction to the neo-classical ideal, oligopolisation has not necessarily been a source of 'inefficiency', but the potential basis of significant competitive advantage for individual enterprises and a pre-requisite for expansion (Chandler, 1990). In Japan these potential benefits were recognised and institutionalised in ways that conferred enduring competitive advantages on Japanese corporations.

Of particular significance here, are the co-operative relationships that developed between private corporations and the state. Ironically, US efforts after World War II to break up the *zaibatsu*, or the privately-owned industrial empires that dominated the Japanese economy before the war, were instrumental in entrenching the influence and power of the bureaucracy and establishing the preconditions for the type of government-business cooperation that characterised Japan's high-growth period (Johnson, 1987). Consequently, older *zaibatsu* groupings like Mitsubishi, Mitsui and Sumitomo, far from disappearing, became pillars of Japan's post-war political economy. The continued importance of the huge Japanese industrial groups in the post-war is easily demonstrated: although there were over 1.5 million corporate enterprises registered in 1982, only 2,455 were classified as 'big businesses' (over ¥1 billion capitalisation), while 'very big business' (over ¥10 billion capitalisation) represented a mere 322 firms (Sumiya, 1989:105). In addition to Mitsubishi, Mitsui and Sumitomo, the Fuyo, Dai-Ichi Kangyo and Sanwa Groups make up the 'big six' industrial groups that dominate Japan's economy.

In the post-war period Japanese corporate groups have been generally subsumed under the rubric *keiretsu* which, Gerlach (1992a:82) argues, are best seen

> not as a particular pattern among specific sets of firms but as an overall *process* in which arms'- length markets are replaced by intercorporate cooperation of varying degrees of intensity: by long-term relationships among legally independent enterprises; the linkage of business ties across multiple market sectors (most commonly, although not exclusively. with equity ownership); and the setting of these relationships in a symbolic framework and in the context of broader networks each partner has with other firms. [Emphasis in original.]

It is important to recognise that relationships between firms in Japan simply do not follow the idealised pattern of arms-length relationships between distinct and inherently competitive enterprises that orthodox theory suggests. Rather, *keiretsu* networks are intercorporate alliances that represent preferential trading relationships which have generally endured for decades. These mutually beneficial alliances are reinforced by the structure of *keiretsu* networks. Individual industrial groupings may have varying degrees of horizontally or vertically integrated operations, and greater or lesser degrees of hierarchical control. Horizontal *keiretsu* involve an affiliation of firms over a wide range of industries, such as Mitsubishi, within which the overall group of companies includes banking, heavy industries, brewing, chemicals, engineering, paper, food, petroleum, electronics, mining, textiles, shipping, and cars. Vertical *keiretsu* have a more tightly defined production focus and rationale, and consist of one or more large industrial conglomerates and their subsidiaries, plus allied companies, major customers and subcontractors - Toyota, for example. But even Toyota, although largely independent, is also a member of the wider Tokai Group, which includes a range of companies involved in diverse activities from finance to construction and retailing.

Generally, a *keiretsu* grouping consists of a main bank, a trading company (*sogo shosha*), and various manufacturing companies. Loyalty, identity and corporate cohesion are reinforced by participation in presidents' councils, in which the leaders of the various divisions meet to discuss group policy. Group companies have cross-holdings of infrequently traded shares in fellow *keiretsu* members which reinforce company loyalty and dependency, while simultaneously insulating individual companies from hostile takeovers - allowing Japanese companies to privilege market share over short-term profitability. Alliance patterns based on cross equity holdings are characteristic of Japan's industrial organisation in general, and not confined to more formal inter-market groupings (Gerlach, 1992b:18)· The structure of Japanese capitalism predisposes companies to inter-act in particular ways and to cooperate over time for reasons that are not apparent in orthodox analyses that simply focus on profitability and commercial gain. This is not to suggest that group members do not trade with outside companies. Rather, it is to suggest that, *ceteris paribus,* members of Japanese industrial groups will favour other members where possible, particularly where this does not interfere with commercial considerations. Japanese commercial relationships are not driven simply by market pressures - fostering long-term, mutually beneficial relationships may be more important than achieving short-term financial gain.

Keiretsu networks, then, predispose Japanese companies toward long-term preferential business relationships that are not simply predicated upon short-term commercial benefit. However, the maintenance of these relationships would be more problematic were it not for the activities of another distinctive feature of corporate Japan, the general trading companies or *sogo shosha*. The *sogo shosha* merit especial consideration not only because they illustrate the shortcomings of the neo-classical conception of the firm, but because they are often the principal instrument through which Japan's economic relations are mediated, and the initial point of contact with which trading partners must deal.

The trading companies emerged largely as a result of Japan's resource dependence. The process of national industrialisation inaugurated in the early Meiji period meant that Japan was necessarily forced into greater trade with the rest of the world. The trading companies rapidly expanded and took over the organisation of Japan's export and imports, allowing them to play an important role in facilitating - even leading - national industrialisation and economic development. Their role and operations have subsequently expanded but they continue to perform three primary functions: transaction intermediation; financial intermediation (quasi-banking); and information gathering (Kojima & Ozawa, 1984:16). Even though some Japanese manufacturers have established independent distribution networks, the *sogo shosha* continue to play a crucial role in securing the resource supplies upon which Japan's expanded manufacturing capacity depended. Less apparent, but equally significant, is the trading companies' role as a financial intermediary where they perform important credit provision and risk-sharing functions. In effect the trading companies act as 'quasi-banks and quasi-insurance agencies', providing important potential competitive advantages for clients (Sheard, 1992). Finally, and perhaps most importantly, the *sogo shosha* provide an unparallel information gathering and dissemination service for themselves and their clients. These structural characteristics not only influence corporate behaviour amongst

Japanese firms, they also have important implications for trading partners like Australia.

The Impact of Japanese Corporate Structures on Australia

The advantages conferred on Japanese corporations by their distinctive organisational patterns are not solely internal to the firm. On the contrary, the *keiretsu* structure provides specific benefits when dealing with foreign competitors, both in Japan and overseas. This is nowhere more apparent than in Japanese corporate relations with Australia. A couple of examples will illustrate their potential importance.

Despite the best intentions of government in Australia to transform the structure of the domestic economy and encourage the export of high value-added goods, Australian exports remain dominated by commodities. Of these, coal remains Australia's largest single visible export, representing about $A 8 billion in sales and more than 12% of total merchandise exports. Japan is Australia's principal customer and therefore a critical influence on coal prices. This would be the case even in a situation where market forces were the primary determinants of value. However, what an examination of the Australia-Japan trading relationship reveals is that market forces have very little to do with the setting of coal prices; something of even greater significance given that the negotiations between Australia and Japan effectively set the benchmark for world coal prices.

The crucial role played by the *sogo shosha* in the coal trade is not simply motivated by or a response to market forces. The trading houses have played an important role in facilitating the state-guided growth and international expansion of Japanese industry. Moreover, they have been an important extension of Japan's overall economic policies, especially in furthering Japan's resource security policy. This has meant that the activities of the *sogo shosha* in Australia have not been driven by commercial considerations alone. Indeed, the *sogo shosha* have been prepared to sacrifice short-term (or any) profit on their comparatively small investments in coal mines in Australia to cement strategically important long term trading relationships, and ensure continuing control of high volume trade for a major client; it is the relationship with the Japanese buyer that is the real source of profitability for the *sogo shosha* (Beeson, 1995b).

These minimally profitable investments take on additional significance in the context of the coal industry in Australia. The *sogo shosha's* principal profits in the coal industry are derived from commissions on coal sales, often from both buyers and sellers. From the *sogo shosha's* perspective, ensuring control of the high volume trade is of greater importance than securing a profit from a small stake in an Australian mine. The trading houses' strategic investments in Australian mines are important for two reasons: they provide valuable information about possible conditions amongst Australian producers which may be used in price negotiations; they permit a systematically induced over-supply that may depress coal prices, something from which the trading houses' most important clients will benefit (McIntosh Baring,1993:45). In the coal industry, where the trading companies' major profits are derived from their role as high-volume suppliers to Japanese steel mills and electricity utilities, securing these lucrative relationships - which in the case of the mills may be reinforced through *keiretsu* ties - is obviously of critical importance. Small investments in new mines may be a relatively cheap and effective manner in which to ensure this outcome.

Table 1

Australia's Commodity Trade with Japan ($A millions)

	1983/4		1993/4	
	Exports	Imports	Exports	Imports
Food and Live Animals	1156	36	3002	38
Beverages and Tobacco	1.7	0.6	43	25
Crude Materials Except Fuels	1997	34	3245	59
Mineral Fuels, Lubricants and Related Materials	2074	3	4874	12
Animal and Vegetable Oils, Fats and Waxes	6.5	0.6	13	-
Chemical and Related Products	27	217	123	445
Manufactured Goods	127	866	1215	1196
Machinery and Transport Equipment	36	3672	521	9133
Miscellaneous Manufactured Articles	17	415	103	829
Others	1083	90	2726	136
Total Trade	6527	5337	15865	11873

Source: Australian Bureau of Statistics Catalogue Nos 5422.0 & 5410.0

While such investments are obviously not enough to guarantee control of the industry or even individual companies, it is important to recognise that the ability of Japanese companies to dominate the Australian coal trade is not dependent on ownership levels alone. What Australian policy-makers and orthodox economic commentators generally fail to recognise is that there is a commonality of interest between the trading companies and the major commercial consumers in Japan - encouraged and assisted by the Japanese government - which gives Japanese investors in Australia a greater collective influence than their individual stakes would suggest. Moreover, this Japanese unity is in marked contrast to and actively encourages fragmentation and competition on the Australian side.

Not only do the *sogo shosha* take a long-term view of their trading relations, but the conception of the 'national interest' is not simply political rhetoric. Price is not the sole criterion by which decisions to purchase are made. Japanese resource buyers have been keen to ensure a diversity of supply, which not only increases supply security, but as Koerner (1993) suggests, allows buyers to minimise coal prices by playing off one supplier nation against another, to a point where Australian import volumes to Japan have declined as a matter of policy, despite being the lowest cost supplier. Contrary to what orthodox economics might predict, price has not been the sole or even the most important influence on buyer preferences. On the contrary, Japanese buying practices have been informed by a long-term perspective in which the *sogo shosha* have played an important foreign policy role, mediating Japan's national resource security policies (Shao & Herbig, 1993:42). In such a context, no amount of productivity increases or more cooperative workplace relations could be expected to improve Australia's market share or mine profitability.

The coal industry in not the only sector to be disadvantaged by Japan's corporate structures. Even where highly competitive export products have been developed in Australia, 'invisible' trade barriers mean that it has been virtually impossible for them to penetrate the Japanese market. Over the last ten to fifteen years a new generation of aluminium-based, ship builders has emerged in Australia, specialising in the highly competitive passenger ferry and luxury pleasure craft markets. Although these Australian-based exporters are generally considered to be amongst the best in the world in terms of price and quality, they have been notably unsuccessful in winning export orders from Japan, despite achieving numerous sales in China, Hong Kong, and European nations with rival industries.

Even though there are more than 2,000 ferries operating in the Japanese archipelago, and that in any given year up to 10% will need replacing with precisely the sorts of boats that are manufactured in Australia, only three sales have been achieved, compared to thirty in China in the last five years (ASM 1995: 8). Senior executives in key Australian boat builders attribute this to the structure of Japanese industry.[6] Once again, price is of less significance than loyalty to fellow group members involved in the manufacture of rival boats in Japan (Beeson, 1995c). Indeed, there is some suspicion that the only ferry sale achieved thus far was for 'tokenistic' reasons, and needs to be seen in the wider context of trade disputes with the US. Even if such observations are dismissed as self-serving, it is clear that Japan's import pattern remains 'startlingly different', in that it has not followed the trend evident in other nations and increased intra-industry trade; in fact, argues Lincoln (1990:48), it is actually lower now than in 1970. Even where intra-industry trade does occur it is at the low-value end of production; a corollary of this is that in those sectors of the economy where Japanese exports are highest, imports are lowest.

The point to emphasise here is that Japanese corporate organisation represents a structural barrier that effectively reduces the level of imports into Japan. This is particularly so where *keiretsu* members are themselves actively involved in a particular industry, and where that industry is vertically organised (Lawrence 1993). Similarly, government agencies have presented additional obstacles to imports through complex regulatory standards and preferential government purchasing arrangements, especially in the area of manufactured goods (Lutz 1992).

Clearly, then, there are substantial grounds for questioning the efficacy of a policy paradigm that places great reliance on market forces when these are neither the sole, nor in many cases the primary determinant of economic practices. As Table 1 indicates, although exports of manufactured goods from Australia have increased, it has been from a low base, and is, in any case, dwarfed by the growth of manufactured imports from Japan. Australian exports remain predominantly unsophisticated raw materials. It might be objected that as Australia is one of the few countries to enjoy a trade surplus with Japan, it has little to worry about.[7] However, there are still significant grounds for concern. Most importantly, Australia is losing its share of Japan's market. Australian producers' reliance on the *sogo shosha* to manage their export trade frustrates attempts by Australian companies to broaden their export profile (Hartcher 1994). Japan's historical restructuring away from energy and resource intensive industries may have made a decline inevitable, but Australia has been unable to transform its position, partly because of its structural dependency on Japanese intermediaries.

An examination of specific industries reveals, then, that Australia's position in relation to Japan is not solely due to the influence of market forces or comparative advantage. Yet such specificity is only part of the picture neglected by the neoclassically-inspired, neoliberal economic policy framework. Of equal significance in comprehending the behaviour of corporate capital in general and Japanese organisational logic in particular, is the wider regional framework within which such relationships are embedded.

3. Australia, Japan, and Regional Integration

The region of which Australia and Japan are a part has become the focus of increasing scholarly interest and political activity. Although the defining 'the region' is a somewhat arbitrary process (Cumings, 1993), for the purposes of this paper it will be taken to include (in addition to Australia and Japan) the nations of the Association of Southeast Asian Nations (ASEAN), the newly industrialised economies (NIEs) of Singapore, Korea, Hong Kong and Taiwan, as well as China. The significance of the region here is that it forms the crucially important backdrop against which Australia's bilateral relationship with Japan is played out. Potential investors and economic partners in Japan do not simply react to initiatives within Australia, but consider Australia as one possible investment location amongst many in an evolving mosaic of regional opportunities. Significantly, however, an examination of the historical trajectory of regional development and the dialectical interplay with Japanese economic interests reveals that established patterns of interaction exist, reinforced by evolving production networks throughout the region, which predispose investment decisions toward particular areas for specific reasons. Simply establishing political mechanisms, like APEC, which are intended to liberalise trade and investment is unlikely to alter the entrenched patterns of regional economic activity.

In this regard, it should be noted that Japan's much-discussed role in the East Asian region is hardly a new one. Extensive economic activity between Japan and the region were established before World War II, a factor which influenced subsequent patterns of interaction (Petri, 1992). Indeed, Japanese colonialism in Taiwan and Korea was not only instrumental in accelerating economic development, but provided an important exemplar for two more regional states that have eschewed the nostrums of orthodox economics in their own economic development (Cumings, 1984). When Japan's economic relationship with the region resumed it was similarly characterised by a reluctance to rely on market forces alone to determine its external policies. A perception of resource vulnerability led to active state involvement in securing adequate supplies through strategic investments throughout the region. Furthermore, as rising living standards made traditional Japanese industries like textiles less competitive, the government was actively involved in the re-structuring of industry and the regional patterns of investment that emerged as a result (Okimoto, 1989:chapter 1).

In such a context the importance of Japanese capitalism's distinctive organisational logic becomes more apparent. On the one hand the ownership structure of *keiretsu* partners insulates Japanese companies from the sorts of short term shareholder pressures which affect their 'stand alone' western rivals, and which make corporate re-structuring inherently risky. A close relationship with government ensures that Japanese companies' reorganisation strategies will occur within a wider framework of government sponsored trade and aid packages that make relocation or restructuring easier (Hatch & Yamamura 1996). Finally, the complex structure of Japanese corporations, with their internal industrial, financial and trading arms, means that they are uniquely capable of reproducing internationally the sorts of organisational structures that underpinned their domestic rise (Steven 1996).

Yet despite the structural power of Japanese corporations, manufacturing investment is, of course, particularly welcomed by other national governments because of its job-creating potential and possibilities for technology transfer. Three broad phases of post-war Japanese regional trade and investment in manufacturing may be distinguished. In the immediate post-war period Japan had an intermediate role in a three-way trade relationship between the US and the region, importing advanced industrial goods from the former and exporting simple manufactures to the latter. From approximately the mid 1960s to the mid '70s a combination of rising Japanese labour costs and regional protectionism saw the electronics and (especially) the textile industry move off-shore, in order to reduce production costs and protect markets. From the late 1970s Japanese industry was continually restructured in an effort to lower costs and raise productivity, frequently resulting in the export of low value-added forms of production while retaining high value-added in Japan and 'maintaining its economic dominance of the region' (Morris-Suzuki, 1991:149).

Furthermore, as Japanese multinationals are moving into the region they are 'creating *de facto* exclusive production networks, replicating *keiretsu* and other domestic structures abroad' (Dobson, 1993:37).This enables Japanese multinationals to internalise transaction costs, opening up possibilities for transfer pricing,[8] as well as reinforcing control through a greater reliance on Japanese management. Significantly, Japanese multi-national trade within the region remains predominantly *inter*- industry, rather than following the general international trend toward intra-industry trade. The manufactured exports to Japan that do occur are often unfinished, intermediate goods. A significant development in the region has been the entrenchment of the triangular trade relationship between Japan, the US and the region as a whole. The combination of foreign protection and the dramatic Yen appreciation during the 1980s in particular, not only caused Japanese industry to restructure and move elements of production offshore, but also altered the pattern of trade between the regions. While the NIE's exports gained an increasing share of the US market, Japanese capital goods exports to the NIEs also grew. Japanese multinationals are significant actors in this three way trade, with affiliated production aimed at third countries, circumventing protection barriers and taking advantage of lower labour costs (Park & Park, 1991).

The point to emphasise here is that while there may be some degree of 'convergence' in the way Japanese and Anglo-American TNCs conduct their operations, there are still important differences which may be entrenched in emerging tightly integrated, regional production networks. As Doherty (1994: 14) notes, the 'traditional' pattern of Japanese production has not disappeared in Asia, but remains and is 'organised hierarchically to ensure that Tokyo retains the lion's share of decision-making authority, technological capability, and sourcing'. Importantly, however, Doherty (1994:20) adds the caveat that the specific pattern of regional integration and interaction will be determined by the 'interplay between individual corporate strategies, and home- and host-country government regulations and policies'. It is at this point that the potential inadequacy of a strategy that relies principally on market forces to determine its position in a regional division of labour is most starkly revealed: in contrast to Australia, other nations in the region are actively trying to attract Japanese investment through particular inducements and - perhaps most importantly - by integrating themselves within integrated trans-regional production networks.

The importance of this interplay between economic and political initiatives can be illustrated in the car industry. Japanese investment has produced a complex system of connected and mutually dependent production processes and supplier networks that span the region. Toyota, for example, uses Thailand to supply diesel engines and electronics, the Philippines for transmissions, Malaysia for steering gears, and Indonesia for petrol engines (Kubo, 1992:32). Toyota not only gains from emergent local economies of scope and scale but is increasingly encouraged to cement this position by host government polices. Thailand, Malaysia, the Philippines and Indonesia have signed a brand-to-brand 'complementation pact' which halves the tariffs on imports from member countries (*Nikkei Weekly*, 1995:18; Machado, 1992). Clearly, this fusion of economic and political imperatives locks the region into a potentially mutually rewarding symbiosis. Moreover, the establishment of a free trade zone within the ASEAN nations threatens to not only exclude outsiders from internal production networks (Kanazawa, 1995:22), but raises questions about the relevance and continuing importance of overarching bodies like APEC.

From an Australian perspective, serious doubts must be raised about the attractiveness of that country as a potential investment location - especially for manufacturers - given the emerging regional networks of production from which it appears to be increasingly excluded. To test this supposition it is necessary to consider the pattern of Japanese economic activity in Australia in greater detail.

Implications for Australia

Before considering the specifics of Japanese economic involvement in Australia it is worth reminding ourselves of the rationale that has informed the Australian government's predominantly neoliberal policy framework. In essence, it is a paradigm that assumes that initiatives internal to Australia which enhance and respond to market mechanisms will encourage productive investment by countries like Japan.[9] The government's own specialist advisory body - the East Asia Analytical Unit (1992:63) - provides an apposite summary:

> The benefits of lower inflation, reductions in tariffs, increased labour market flexibility and lower waterfront costs will help attract investment. *Further reform designed to improve the efficiency of Australia's economy will similarly be the most important means by which the Australian Government can address the underlying impediments to stronger Japanese investment in Australia's manufacturing sector*. [Emphasis added.]

Even if important questions about the continuing usefulness of a concept like 'Australia's economy' are set aside, there are, as we have seen, reasons to question the efficacy of this sort of strategy.

As Table 2 indicates, investment in manufacturing by Japanese companies in Australia has been of less significance historically than investment in mining, service industries and real estate. True, in the years 1993 and 1994 there has been a notable improvement in the percentage share of investment directed toward manufacturing, but several important caveats should be noted in this regard. Firstly, the total amount of Japanese investment in those years was significantly reduced as the demise of the 'bubble economy' in Japan caused a general reduction in capital outflows from Japan. Secondly, in both years, new manufacturing investment was concentrated almost exclusively in one area: the food industry (Australia-Japan Economic Institute, 1994). Furthermore, the food processing industry has the sort of 'tight linkages' that mean processing must be performed close to the point of production (Cohen & Zysman,1987:17-9). In other words, in the food industry Japanese companies have little choice other than to invest in the country in which the raw materials are produced.

While this investment may be welcome in itself, it is important to recognise that it is at the lower end of value-adding manufacturing industries, and not integrated with the sorts of regional production networks that characterise the automotive and electronics industries for example. Overall, however, and despite a general restructuring of Japanese manufacturing capital into the East Asian region in response to the relentless pressures of an appreciating Yen, Australia's share of overall Japanese investment has declined during the 1990s (JETRO, 1995: 2). There is no certainty, therefore, that once having obtained important strategic positions in agri-businesses in Australia that even such limited forms of new manufacturing investment will continue.[10] Furthermore, it should be noted that previous Japanese investment in the agriculture sector has been designed to promote Japanese control of the industry, vertically integrating production from the farm gate to the supermarket shelf in Japan, with a consequent marked diminution of the share of profits remaining in Australia (Morrison 1993; Fowler 1996).

This phenomenon is less surprising when considered in relation to Japanese capital's historical involvement in Australia. Even before the Second World War, Australia was an important and reliable source of resources for the Japanese economy. The *sogo shosha* established important trading linkages in Australia which underpinned Japan's national resource security policy. Ultimately these initial connections would allow the trading houses to dominate the bilateral trade relationship, leaving 'Australian' exporters dependent on the *sogo shosha* to manage the export and import of goods, even to third parties. Generally, Japanese investors showed little interest in Australia as a potential investment location, especially as far as manufacturing was concerned, until the late 1960s. Significantly, when Japanese investment did occur it was for much the same

Table 2
Japanese Direct Investment in Australia by Sector:1983-94
(% share and $US millions)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	Cumulative 1950-1994
Manufacturing	9.03	27.6	2.8	14	20.8	8.7	3.7	9.8	13.4	10.4	37	49.7	14.6
	15	29	13	123	254	211	159	360	342	225	712	629	3514
Mining and	31.9	4.8	5.3	22.1	9.5	7.7	12.1	21	11.4	10.3	15.7	9.7	16.9
Agricultural	53	5	25	195	116	186	516	769	291	223	302	123	4066
Banking and	1.2	8.6	52.1	10.4	17	15	12.8	5.5	2.8	2.9	2	9.4	8.5
Insurance	2	9	244	92	208	363	545	200	72	63	38	120	2040
Real Estate	1.2	5.7	12	14.4	33.6	52.6	38.1	36.4	49.2	58.6	28.1	11.3	33.5
	2	6	56	127	411	1270	1623	1333	1255	1271	540	143	8049
Commerce	53	25.7	12.4	8.7	8.9	3.8	7	8.9	8	8.6	9	4.2	8.1
	88	27	58	77	109	92	296	326	204	187	173	54	1942
Other services	3.6	29.5	15.6	30.1	10.3	12.1	26.2	18.5	15.1	9.2	8.2	15.4	18.1
	6	31	73	265	126	292	1117	679	385	200	157	196*	4357
Total	166	105	468	881	1224	2414	4256	3667	2549	2169	1922	1265	23968

Source: Drysdale, P (1993) & Australia-Japan Economic Institute *Economic Bulletin* Nos 1 (6) & 3 (6).
* Some figures unavailable

reasons as in the US and Europe: the desire to protect and expand market share (Edgington, 1990). Recent research confirms that the overwhelming reason Japanese manufacturers invest in Australia remains a desire to supply the Australian market (Nicholas, S et al, 1995).

The automotive industry in Australia provides an important example of the rationale that underpins Japanese involvement in Australia - and an important test of the efficacy of government policy settings. The first point to recognise is that, as an important review of Australian manufacturing put it, 'Australia would not have a car industry without protection' (Pappas Carter Evans and Koop/Telesis Study,1990:189). Toyota decided to establish its first offshore engine plant in Australia because it wanted to maintain its position in a small, but lucrative market - a possibility that government policy otherwise constrained (Edgington,1990:143). Although protection in Australia may have been crucially important in initially attracting foreign investment, it ultimately led to an inward-looking, uncompetitive and over-supplied domestic market. Somewhat ironically, given the Labor government's general enthusiasm for market forces, a state sponsored industry plan was responsible for rationalising and re-orienting the car industry during the 1980s.

What the history of vehicle production in Australia demonstrates is that government policy may exert a crucial influence on the investment decisions and production rationales of overseas-based multinationals. Indeed, given the huge sunk costs that are necessarily associated with car production, government policy - or the legacy of former policies - becomes a particularly important determinant of future activities. It is difficult to imagine that either Toyota or Mitsubishi would have chosen to re-invest in Australia if it were not for their extensive existing commitments. However, even where such investment occurs, given Australia's relatively marginal position in regional production networks, local operations are heavily dependent on the success of single models and continued supply of increasingly expensive components from Japan.[11] Despite the extent of Japanese manufacturers existent investments, therefore, indefinite future commitment to Australia's small and crowded market cannot be assumed. This is especially the case where Australia's APEC commitments and concomitant move to dismantle tariff protection are perceived by locally-based producers to be significantly disadvantaging them in relation to rivals in more protected markets like Indonesia and Malaysia (Carruthers, 1995:40).

Clearly, there is a good deal more than just the simple operation of market forces and the comparative efficiency of national labour forces determining the production strategies and investment decisions of TNCs. The strategic importance of the car industry in underpinning national economic capacities and structures means that many national governments are unwilling to rely on market mechanisms to determine their position in regional divisions of labour. Moreover, the willingness of the US to use its economic and political leverage to achieve measurable bilateral results in the recent dispute over car parts with Japan, further undermines the potential utility and relevance of the neoliberal paradigm (Beeson, 1995d). There are, however, further reasons for questioning the utility of a reliance on market mechanisms in determining economic outcomes, as the Australia-Japan case once again illustrates.

While the dominant neoliberal policy framework in Australia may have had little impact in transforming the pattern of direct investment in Australian manufacturing it has, however, had a significant impact in other areas. The most striking characteristic of Japanese investment revealed in Table 2 is the high level of real estate investment., especially in the late 1980s and early '90s. Plainly there is a direct link here with Japan's own deregulatory experience. In both Japan and Australia as capital became more easily available on international financial markets banks pursued new customers in order to maintain market share in the face of new forms of competition. Real estate developers became important targets of new lending. The consequences of what proved to be an unsustainable and speculative lending boom continues to haunt a Japanese banking sector plagued with mammoth and unrealisable debts. What is less generally recognised, however, is the impact of Japan's bubble economy on smaller economic partners like Australia. The disparity of economic size meant that individual Japanese companies had a significant impact on the real estate sector in Australia (Rimmer, 1993). Acting as a conduit for highly mobile and speculative investors in Japan such companies were instrumental in fuelling a destructive bout of asset inflation and speculation in Australia. Even where this investment has provided source of capital for the increasingly important tourism industry in Australia, it should be noted that - in keeping with the Australian government's overarching commitment to investment liberalisation - there has been little attempt to evaluate the impact or control the direction of such significant investment inflows (Berry, 1994:192).

A more considered review of Japanese investment would have revealed the same patterns of vertical integration in the tourism industry that characterised the agricultural sector (Roberts 1992). The scale of Japanese investment in the tourism industry during the period of the bubble economy - it reached some $A 9 billion by 1989 (Dwyer and Forsyth 1991) - had far reaching impacts outside the industry itself. Firstly, when the bubble collapsed many Japanese investors tried to disinvest, a process made more difficult by the consequent deterioration in real estate values (Smith 1995). Perhaps of greater long term significance, however, was a resurgence of economic nationalism, which while raising legitimate questions about the wisdom of allowing Australia's economic sovereignty to be undermined and the quality of the jobs provided in industries like tourism, also fuelled a xenophobic response to international economic developments (David & Wheelwright 1989).

Finally, it is worth noting that the service sector in general and the banking sector in particular are similarly unregulated, and have generated equally ambiguous outcomes. While the ostensible rationale behind Labor's opening up of domestic banking sector to foreign competition was 'efficiency' gains, there has been little obvious benefit from this process in the form of lower interest rates, increased availability of capital for productive investment, or better customer services (Hawtrey et al, 1991). Yet such an outcome is less surprising when it is recognised that Japanese banks in particular were principally concerned with following the logic of Japanese corporate organisation and servicing existing Japanese clients (Nicholas et al, 1995), rather than attracting new Australian business or establishing a retail networks. What the new banks and finance houses did do, however, was to facilitate flows of financial capital from Japan to Australia, a potentially significant development given that the great majority of Japanese investment in Australia is in the form of portfolio, rather than direct investment. The sheer size of these flows means that changes that are marginal in a Japanese context may have significant impacts on Australia (Higgins, 1992). Moreover, the leverage conferred by such disparities in economic weight and influence means that it is possible for Japanese institutional investors to deliberately engineer currency fluctuations in order to generate speculative short-term gains (Burrell, 1993:1).

4. Concluding Remarks

This paper has considered the usefulness of Australia's neoliberal economic policy framework in relation to the Japanese political-economy and, more specifically, forms of Japan-based corporate organisation that do not necessarily have market mechanisms as their central organising principle. It should be emphasised that no judgement is being made or attempted about the possible 'fairness' of such commercial practices. Rather, the intention has been to see how well a specific policy paradigm can account for and accommodate distinctively different economic relationships. If the efficacy of competing forms of national economic management is to be judged on a calculus of narrow national economic advantage then there are reasons for questioning the appropriateness of Australia's embrace of neoliberalism.

In the region of which Australia is a part market forces are clearly neither the sole, nor often the major determinants of economic outcomes. Both at the level of the firm and in the distinctive cooperative relationships that have evolved between governments and private capital throughout East Asia, patterns of economic activity and the organisation of industry owe much to the structure of corporations and the activities of state governments keen to ensure they are part of emerging regional production networks. Whether providing inducements to private capital is an appropriate use of taxation revenues is less important, in the context of this discussion, than is the recognition that such practices are important determinants of productive investment flows. Similarly, whether Japanese-style corporations are well advised to favour group loyalty over profitability is of less significance here than is the recognition that such considerations are central to any explanation of corporate behaviour amongst Japanese firms. As Encarnation and Mason (1994:441) observe, 'ownership can - and does - matter'. Certainly, there may be a degree of convergence occurring in the behaviour of transnational companies from around the globe, but this is easily overstated; there are still important differences in corporate logic between those TNCs based in Anglo-American economies and those from East Asia. True, not all the nations of East Asia and the companies based therein follow the 'Japanese model', but the distinctive patterns of economic activity associated with Chinese capitalism[12] hardly invalidate a more general claim: policy paradigms that do not take account of the specificity of the distinctive commercial practices found in countries like Japan are unlikely to plausibly account for, much less respond effectively to such differences in commercial logic and behaviour.

And yet despite Australia's proximity to East Asia, its public policy, especially in its external aspects, remains predicated upon an idealised depiction of free market capitalism that is generally not even observed in its Anglo-American strongholds. Australian policy-makers continue to place great hopes in their ability to persuade other countries of the merits of more market-conforming public policy frameworks. Even if they are successful in reducing the high levels of overt tariffs and the complex array of 'invisible' barriers to trade this will have little impact on the distinctive patterns of corporate organisation that characterise the region. Similarly, persuading Australia's workforce to adopt more 'flexible' work practices in pursuit of productivity and 'efficiency' gains is unlikely to lead to Australia being integrated into regional patterns of production or necessarily leave 'Australian' companies any more able to compete with Japanese rivals that enjoy cooperative links with other *keiretsu* members and which are less dependent on short term profitability.[13]

A closer reading of the specific historical trajectories of capitalist development within the East Asian region might leave Australian policy-makers better able to comprehend and respond to the varieties of regional commercial practices. Moreover, such a reading might also provide an alternative to the dominant neoliberal model. Clearly, the rapid transformation and industrialisation of the region to Australia's north provides potentially important lessons about ways to achieve economic development. While there may be much that is not readily applicable to a country like Australia with notably different political traditions, it may at least provide the basis for a less doctrinaire approach to policy-making. Without a more complex and nuanced approach to the region it seems unlikely that Australia will be able to maintain its present position, let alone take advantage of its location adjacent to the most economically dynamic region on the planet.

Footnotes

[1] The transnationalisation of economic activity, especially production, and the sorts of trade flows it generates, has rendered questions of nationality increasingly problematic. See Strange (1995) and Reich (1992).

[2] Although Australia was situated next to the most rapidly developing economic region in the world, Australia's overall share of world exports declined from 2.04% in 1963 to 1.23% in 1983 when Labor took office (Pinkstone, 1992: 377).

[3] Under the APEC trade liberalisation timetable the 'industrialised' economies are expected to achieve 'free and open trade' by the year 2010, and the 'developing' economies by 2020. It should be pointed out that this could mean that 'developing' economies like Korea might have free access to the US market for ten years - an unlikely prospect given the US protectionist sentiment in the face of continuing trade deficits.

[4] The difficulties trade liberalisation causes Japan can be seen by its innovative solution to the problem of appearing to open its rice market while simultaneously marinating the support of the agriculture lobby. Under a new scheme imported rice will be immediately 're-exported' to developing countries (Boyd 1996:10).

[5] It should be acknowledged, however, that neoliberalism has not been the sole influence on domestic policies. Labor's traditional affiliation with a relatively powerful national union movement acted as an important brake on wholesale reform. Indeed, the Labor government's time in office has been characterised by half-hearted attempts at pursuing the sorts of industry policies that have been employed with notable success by its Asian neighbours. But what is most striking about the reform process in Australia is the manner in which the trade union movement itself has gradually been co-opted into the attempted reorganisation of economic activity, ultimately embracing the disciplinary logic of the 'globalization process' and the need to comply with the apparently irresistible imperatives of international economic competition (Campbell, 1993).

[6] Personal interview, John Farrel Managing Director, Oceanfast Marine Group.

[7] Australia has generally enjoyed an annual trade surplus with Japan in excess of $US 2 billion during the 1990s.

[8] It is worth noting that the Australian tax office is sufficiently concerned about Japanese corporations shifting profits offshore to have launched a special investigation into their

activities. (Featherstone 1995).

[9] The general structure of industry within Australia makes productive foreign investment especially important. Most indigenous 'Australian' TNCs are 'multi-domestic', that is, they do not operate in the most highly traded product areas, but generally 'export' by establishing plants within target markets overseas. These sorts of industries, like food and construction, do little to address Australia's balance of trade problems, especially its manufactures deficit. Consequently, encouraging export-oriented manufacturers to establish subsidiaries in Australia becomes even more imperative. See, Craig & Yetton (1994).

[10] The most recent figures available at the time of writing suggest that while Japanese investment rebounded from its recent low levels it has returned to a more familiar pattern. In the first half of 1995 42% of new investment went into real estate (Hartcher, 1996:3).

[11] Toyota's new Australian plant, for example, will be largely dedicated to producing the Camry model for export markets. While this may be no bad thing in itself it is questionable whether such a model is likely to capture a share of emergent regional markets in which auto makers place such hopes. Moreover, there is little possibility of boosting local R&D when the models are developed in Japan as part of a Tokyo-based world production strategy. Furthermore, given Australia's attraction as a potential investment location in comparison with the US and Japan is seen to be lower labour costs, local operations are likely to be less capital intensive, and the resultant product less competitive. (Based on personal interviews with Toyota Australia executives).

[12] For a useful discussion of the differences between Japanese-style and Chinese capitalism, see (Whitley 1991).

[13] Significantly, however, this still workplace reform still appears to be the newly-elected coalition government's principal strategy for attracting Japanese investment. (Gordon 1996).

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