

**Creating an Asia Pacific Economic Community:
The Roles of Australia and Japan in Regional
Institution-Building**

by

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Declaration

**Except where otherwise indicated
this thesis is entirely my own work**

A handwritten signature in black ink, reading "Takashi Terada". The signature is written in a cursive style with a long horizontal stroke at the beginning and a large loop at the end.

Takashi Terada

February 1999

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Abstract

It took more than 25 years for the Asia Pacific region to create the inter-governmental economic institution, the Asia Pacific Economic Cooperation (APEC) forum after the idea was first mooted. The road towards the establishment of APEC represents an example of 'progress' in international relations because the gradual involvement of governments has promoted international economic cooperation among member states and, in turn, has helped to promote increased prosperity in the region. The thesis aims to examine how and why the regional economic institutions in Asia and the Pacific have progressed from the non-governmental Pacific Trade and Development (PAFTAD) and Pacific Basin Economic Council (PBEC) organisations to the inter-governmental APEC organisation via the quasi-governmental Pacific Economic Cooperation Council (PECC) in which government officials participate in a private capacity. The development of regionalism in Asia and the Pacific appears to be in sharp contrast to regionalism in Europe, North America, Latin America, Africa and Southeast Asia, where governments were involved directly in the initial stage of building regional economic institutions.

Personal networks and shared principles have contributed to linking the four institutions, to sustaining them and to elaborating their purposes. These institutions provide occasions where government officials, business leaders and academics can strengthen their commitment to economic cooperation by exchanging policy information, ideas and opinions. The thesis claims that the four regional economic institutions thus constitute the core of an Asia Pacific economic community.

For progress in international relations to occur, re-evaluation of policy goals and priorities is necessary, and this depends on the values and ideas of the individuals involved. From this standpoint, an analysis that links individuals, especially their ideas and public roles, to institution-building to analyse progress in economic institutions in the Asia Pacific region is required. An institution-building model is set out in Chapter 2 as a framework for the analysis, and the model is constructed from integrating the three hypotheses of international regime formation theory: leadership, common interests and cognitive evolution. The development of the Asia Pacific economic community can be divided into three phases. The thesis aims to examine 'progress' in the development of Asia Pacific economic cooperation by investigating the formation of each institution and its influence on the development of inter-governmental cooperation and institution-building.

PAFTAD, PBEC, PECC and APEC were the products of initiatives taken jointly by Japan and Australia: academics, business people, politicians and officials in both countries were central to establishing the four regional economic institutions. The thesis examines how these individuals produced ideas for regional institutions as well as helped to set the agenda and engage in diplomacy which persuaded participants to join these institutions.

The argument incorporate the three main schools of international regime theory about how new regimes are formed, and seeks to demonstrate that, at least in the case of Asia Pacific economic cooperation, all three schools of thought – leadership, common interest and shared understanding – help to explain regional institution-building. It gives special attention, however, to the role of leadership from individuals within participating states in the progress that has been made in the development of an Asia Pacific economic community.

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1 The process of forming an Asia Pacific economic community

International institutions¹ often evolve slowly and may change their original focus in response to changing internal and external circumstances. The initial purpose of the Association of Southeast Asian Nations (ASEAN) was to strengthen solidarity among those members facing the threat of communism in the late 1960s, but the end of the Cold War made it possible for ASEAN to shift its priority to activating regional free trade by establishing the ASEAN Free Trade Area (AFTA) and organising a regional political and security dialogue through the formation of the ASEAN Regional Forum (ARF). The European Union (EU), which is undergoing advanced and comprehensive integration, started with the formation of the European Coal and Steel Community (ECSC) in 1951, which was originally designed to ensure lasting peace in Europe. These examples indicate the sort of 'progress' made in international relations, defined as 'changes in the policies and relations of states that reduce conflict or increase cooperation so as to further security, welfare, or human rights' (Adler *et al.* 1991: 9). The establishment of AFTA and ARF sought to enhance ASEAN economic prosperity and improve regional stability, as did the development of the EU from ECSC.

This thesis suggests that the road towards the establishment of the Asia Pacific Economic Cooperation (APEC) forum in 1989 represents an example of progress in international relations because the gradual involvement of governments has promoted international economic cooperation among member states and, in turn, has led to increased prosperity in the region.² Elek (1996: 161), who was involved with the creation of APEC as an Australian official, describes the 'progress' in the development of an Asia Pacific economic community:

A progressively more effective forum for cooperation was seen to be needed so as to seize the many new opportunities and defuse the inevitable misunderstandings and tensions which, even now, threaten the cohesion of the region. Responding to the needs and characteristics of the region, a unique

¹ For discussions on the definition of international institutions, see Chapter 2.

² The concept of progress in international relations was pioneered by Adler and Crawford (1991).

approach to policy-oriented consultation and cooperation emerged in the Asia-Pacific region in the 25 years.

APEC is an official government organisation for discussing the economic cooperation and trade and investment liberalisation interests of its members. It holds annual meetings of trade and foreign ministers as well as the Leaders' Meetings of Prime Ministers and Presidents. Prior to the formation of APEC, three other non-government institutions focusing on economic cooperation were established in the region.³ The Pacific Basin Economic Council (PBEC) organises an annual convention of business leaders in the region; the Pacific Trade and Development (PAFTAD) Conference holds a regular conference among policy-oriented economists about regional economies and economic cooperation; the Pacific Economic Cooperation Council (PECC) runs regular semi-official meetings within a tripartite (business, academic and government) structure. The first PAFTAD and PBEC meetings were both held in 1968 and that of PECC in 1980. Although each is an independent institution in terms of purpose, secretariat, budget and the organisation of separate conventions, each aims to discuss regional economic cooperation and promote the attainment of further economic prosperity in a mutually cooperative way.

Aims and approach

As Elek observes, it took more than 25 years for the Asia Pacific region to create the government economic institution, APEC. The thesis aims to examine how and why the regional economic institutions in Asia and the Pacific have progressed from the non-government PAFTAD and PBEC organisations to the inter-governmental APEC organisation via the quasi-governmental PECC in which government officials participate in a private capacity. This is in sharp contrast to regionalism in Europe, North America, Latin America, Africa and Southeast Asia, where governments were involved directly in the initial stage of building regional economic institutions.⁴ One of the reasons the Asia Pacific region took an incremental approach to the building of economic institutions appears to lie in the 'historical experience and the complex motivations and attitudes

³ In this thesis, 'Asia and the Pacific' or 'the Asia Pacific region' refers to the region which consists of the current 21 APEC members.

⁴ They include the North American Free Trade Area (NAFTA), Common Market of the South (*Mercado Común del Sur; Mercosur*), and the Southern African Development Community (SADC).

which that experience has created' (Harris 1994a: 260). The thesis highlights the unique historical circumstances and background of the region that encouraged regional countries to begin with the non-government institutions, PAFTAD and PBEC, laying the foundation for PECC which, in turn, led to the establishment of APEC.

Former Australian Prime Minister Malcolm Fraser comments:

APEC ... is a creation of a great deal of painstaking effort and diplomacy over about 20 years. The move for such an organisation has been driven by politicians in Japan and Australia, by the business community in both countries and also by linkages between universities. (*Australian*, 10 April 1996)

Fraser's statement regarding the road towards APEC is a springboard to the approach in this thesis. PAFTAD, PBEC, PECC and APEC were the product of initiatives taken jointly by Japan and Australia: academics, business people, politicians and officials in both countries were central to establishing the four regional economic institutions. The thesis examines how these individuals produced ideas for regional institutions as well as setting the agenda and undertaking diplomacy to persuade participants to join these institutions. Their commitment to creating a new and more government-involved institution was reflected at each formative stage. The role of each country's leadership in the establishment of these institutions is useful for understanding the progress towards APEC.

The purpose here is to explore how the Japanese and Australians involved in the process came to articulate a vision of how to proceed, taking into account the history, attitudes and interests of the other countries in the region. Both governments state in the 1995 Joint Declaration on their Partnership that 'Australia and Japan are proud of their roles in the development of a sense of community in the Asia Pacific region.'⁵ The thesis attempts to explore 'the development of a sense of community in the Asia Pacific region' by examining the 'roles' played by Australia and Japan.

Analytical perspective

For progress in international relations to occur, re-evaluation of policy goals and priorities is necessary, and this depends on the values and ideas of the individuals

⁵ 'Joint Declaration on the Australia-Japan Partnership', announced by Prime Ministers Keating and Murayama in Tokyo, 26 May 1995.

involved. How and why do policy leaders come to change the standard, direction or purpose of policy? States are frequently assumed to act individually in international affairs. In fact, the actions of states are the actions of individuals on behalf of the states to which they belong; it is individuals who formulate the policies. They also create the norms of state behaviour in international relations and influence world politics. Individual input into foreign policy making is affected by the positions and roles of individuals in institutions and their influence in wider external environments.

Transformations of the international structure, such as the end of the Cold War, influence change in the foreign policies of states and increasing economic interdependence among nations has an impact on the emergence of economic regional institutions. Given the fact that it is policy elites who perceive the change of international or regional structure surrounding their states and decide how and to what extent the foreign policy of their states needs to be changed or whether a new policy needs to be created, it is after all individuals who 'provide the source of value, and they are the main standard by which to assess the quality of outcomes in international relations' (Adler *et al.* 1991: 12).

This proposition does not ignore the importance of other levels of analysis, such as the influence of international structure or state interactions on foreign policy making, but it asserts that a focus on the individual level of analysis of foreign policy is helpful in clarifying the causal factors impacting on the emergence or alternation of a country's foreign policy. In sum, 'one cannot understand changes in the "macro" structure of world politics without taking micro level variables into account',⁶ and this requires acknowledging the importance of individuals in international relations. The thesis is based on this analytical approach. From this standpoint, an analysis that links individuals, especially their ideas and roles, to institution-building to analyse progress in economic institutions in the Asia Pacific region is required. We need a model to explain how policy-oriented individuals transform their ideas into the policies of states. A framework for such a model is set out in Chapter 2. Of particular interest is how policy is developed through the agendas of international institutions. The model is constructed

⁶ Kauppi and Viotti 1993: 248. These authors emphasise 'micro' level analysis which focuses on the influence of individuals in international relations by introducing the work of Arnst Haas and James Rosenau.

by integrating the three hypotheses of regime formation theory: leadership, common interests and cognitive evolution.

The thesis identifies a number of individual leaders in Australia and Japan who, by directing their efforts, knowledge, energy and time, devoted themselves to the lengthy process of creating APEC over 25 years. The process represents a substantial effort by eminent people in both countries who played an important, perhaps an essential, part in bringing APEC to fruition in the late 1980s. The thesis extends the interest in Australia–Japan relations beyond bilateral affairs to highlight their role in the creation of PBEC, PAFTAD, PECC and APEC. This is the first substantial work on this aspect of the Australia–Japan relationship.

Elements of an Asia Pacific economic community: institutional linkages

The four institutions which are the focus of the thesis are linked in purpose and in their influence on the evolution of APEC, PAFTAD and, to a lesser extent, PBEC. These institutions can be regarded as forerunners to the establishment of PECC, just as PECC can be regarded as the forerunner of APEC. They also share similar goals and common functions. PBEC, PECC and APEC share the concept of open regionalism,⁷ and the principle of maintaining a non-discriminatory and free trade system in the region as well as internationally. PAFTAD is different: it is a network of economic policy researchers in the region holding regular conferences on specific themes relating to Asia Pacific economic cooperation, but Asia Pacific interests in the global trading system and open regionalism are also discussed in PAFTAD. Indeed, 'much of the current APEC agenda ... has come from the PECC process and is frequently based on work done or initiated within PECC ... the [APEC] task force mechanisms ... closely follow PECC format' (Harris 1994b: 17). It is true that once government-to-government talks commenced, PECC had a limited role in the day-to-day development and management of the process. Nevertheless, PECC continues to play a significant agenda-setting role — perhaps most effectively because it is done in a fairly low-key way. For instance, Elek emphasises the report of sixth PECC Trade Policy Forum in Batam, Indonesia in 1992 as follows:

⁷ Open regionalism means that trade liberalisation conducted among members is extended to non-members on the basis of non-discrimination.

'almost all of those ideas became conventional wisdom in APEC by 1995 regardless of little attention being paid to the report by any officials at the time'.⁸

Interaction among these four regional economic institutions is sustained by overlapping memberships who share common interests. Both PAFTAD and PBEC dispatch representatives to the steering committee of PECC, and PECC sends observers to APEC; the APEC Eminent Persons Group, which influenced APEC's orientation, included active members of PAFTAD and PECC; some PBEC members are also represented in the APEC Pacific Business Forum (PBF)⁹ which, in its recent development as the APEC Business Advisory Committee (ABAC), is expected to play a role in incorporating business agendas within the APEC framework. PBEC and PAFTAD also have maintained contact through a full-time official who regularly meets PAFTAD researchers; the outcomes of each PAFTAD meeting are published annually and delivered to the PBEC international secretariat. The PAFTAD secretariat comments in this sense that 'both organisations are conscious of the synergy of each other's work and foster their links' (*PAFTAD Newsletter*, No. 5, December 1989). PBEC has supplied PECC task forces with personnel, information and data and participated in PECC sub-committees (PBEC Japan Member Committee, 1995).

When the first PECC meeting was held in Canberra in 1980, 18 of the participants had attended the previous PAFTAD conferences. The six original members of the PECC steering committee were also active PAFTAD members. The Coordinating Group of PECC consists mainly of researchers who have been involved in a substantial way in the work of PAFTAD and it was the original PAFTAD network which was relied upon to develop expertise within the PECC. Accordingly, 'PECC does not, and should not, function independently of [PAFTAD and PBEC]; in fact it draws heavily on their expertise to provide business and research input into its own activities' (AUSPECC 1985: 7). It can be said that 'the fingerprints of PAFTAD are all over PECC and APEC' which, as Hugh Patrick (1996: 197), Chairman of PAFTAD, comments, 'is another way of saying that the economists actively involved in PAFTAD have also been playing

⁸ Personal interview, 17 May 1998, Canberra.

⁹ Of 33 members of PBF, 17 were PBEC members.

major intellectual and policy roles in PECC and APEC in virtually every Asian Pacific economy'.¹⁰

These personal networks and shared principles have contributed to linking the four institutions, to sustaining them and to elaborating their purposes. They are also conducive to strengthening shared beliefs in obtaining consensus and promoting cooperation, and to sustaining the solidarity necessary for increasing the understanding of cultural and social differences among members in each institution. These institutions provide occasions where government officials, business leaders and academics can strengthen their commitment to economic cooperation by exchanging policy information, ideas and opinions. These functions engender a sense of community among all individuals, organisations and states that are engaged in economic cooperation in Asia and the Pacific. The four regional economic institutions thus constitute the core of an Asia Pacific economic community which the 1994 EPG Report defines as 'a like-minded group that aims to remove barriers to economic exchange among its members in the interests of all'.¹¹ Their evolution represents the culmination of three decades of developments in the evolution of an Asia Pacific economic community.

The resolution and momentum of regional economic cooperation among member states appear necessary for the successful realisation of the challenging Bogor Declaration.¹² Attaining the goal will be challenging because uncompetitive sectors of each member state will resist liberalisation. The solid commitment of policies in each APEC member state to the Bogor Declaration can be created and maintained by the growing sense of community among them. As Harris (1994b: 12) notes, 'achieving a sense of regional community was itself a major need'. This thesis maintains that this empathy has been

¹⁰ The Japan Economic Research Center, which hosted the first PAFTAD conference in 1968, came to a similar conclusion. The annual report (1 December 1995) had a preface entitled 'Roots of APEC', claiming that PAFTAD has been important in terms of identifying issues and problems for regional economic cooperation by canvassing expert viewpoints for APEC.

¹¹ EPG 1994: 54. The report states that the term 'big family', originating from the Chinese, captures the concept. It is true that the word 'community', attached to regional institutions, has occasioned controversy since it carries overtones of an inward-looking approach stemming from the European Community (EC), a view that was expressed by some Asian leaders at the 1993 APEC Seattle Meetings. But the definition of community used here has no connotation of inwardness or exclusivity.

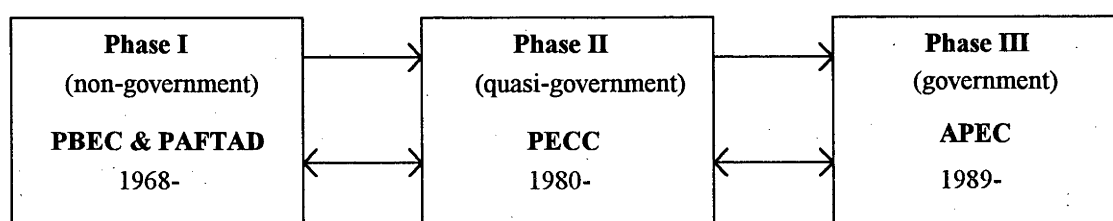
¹² The Bogor Declaration, issued by the APEC leaders in 1994, stipulates the deadline for trade and investment liberalisation: 2010 for developed nations and 2020 for developing countries.

gradually formed through the evolution of the four regional economic institutions. This represents progress in the formation of an Asia Pacific economic community.

Three phases of progress within an Asia Pacific economic community

The development of an Asia Pacific economic community can be divided into the three phases described in Figure 1. The first phase is the initial stage in which the non-government institutions, PBEC and PAFTAD, were established.¹³ During this phase, the non-government institutions, especially PAFTAD, promoted the need for regional cooperation through individuals, many of whom, as advisers to their governments, had an influence on foreign economic and trade policy in their own countries.

Figure 1 The three phases in the development of an Asia Pacific economic community



These personal networks built through PAFTAD were significant because the participants nurtured shared beliefs on economic cooperation. Policy discussion based on shared beliefs could be capitalised on to increase government interest and to contribute to governments' taking up the policy recommendations made in PECC in the second phase of Asia Pacific economic community-building. PAFTAD was described in the following terms: 'Without the work of a host of ... scholars from a variety of

¹³ Woods (1993) stresses the importance of the Institute of Pacific Relations (IPR) in terms of its relevance to the postwar regional economic institutions. Yet, he fails to take account of the vastly different environments in the prewar and postwar periods in Asia Pacific relations. Also, unlike the four postwar regional economic institutions, the IPR was not primarily intended as a vehicle to promote economic cooperation. There are few conspicuous similarities between the IPR and postwar regional economic institutions. I have not come across any document or statement in which anyone involved in the establishment of the postwar institutions actually referred to the IPR. My thesis takes the view that there is no direct causal link between the IPR and the four postwar regional economic institutions, instead arguing that the establishment of PAFTAD and PBEC represent the beginnings of an Asia Pacific economic community.

countries within the region, consciousness of Pacific economic and governmental cooperation could not have reached its current level' (cited in Woods 1993: 41).

PBEC has less policy influence, but is nonetheless significant. Prominent business people from the countries in the region came through it to articulate potential regional business opportunities and the significance for business, trade and investment of regional economic cooperation. In Japan, where business people play an important role in formulating economic and trade policy through participating in government committees, PBEC's influence may have been indirect but is nonetheless important.¹⁴ Business people who support Pacific cooperation influence policy making indirectly or unofficially. Shigeo Nagano, a founding father of PBEC, often visited the Japanese Prime Minister's office to emphasise the significance of Pacific cooperation to Ohira.¹⁵ Apart from Japan, the Chairmen of PBEC's Member Committees met privately with George Shultz, US Secretary of State, to talk about Pacific business issues in March 1985.¹⁶ This may have encouraged Shultz, who proposed a economic grouping in the Asia Pacific region on more than one occasion in the late 1980s.

As PBEC and PAFTAD are non-government institutions which have not directly influenced state policy, their main function in Phase I was to promote interaction in the region and to educate the states to recognise the importance of regional economic cooperation. This function is characterised by a view expressed by the Chairman of Mitsui Bank on PBEC which he characterised as 'an example of business ahead of government, thereby building a foundation for government to use it' (cited in Bryant 1975: 82).

Phase II marked the emergence of the quasi-government institution, PECC, which involves government officials working in a private capacity. The significant feature of

¹⁴ For instance, most members of PBEC in Japan are also members of influential Japanese business organisations such as *Keidanren*, *Nikkeiren* and *Keizai Doyukai*, and are involved in some economic deliberation councils.

¹⁵ Personal interview with Shinji Fukukawa, 15 December 1994, Tokyo. Fukukawa, then a secretary to Ohira, evaluated Nagano highly, as a businessman with a big vision as shown by his Pacific community idea. Nagano's successor, Noboru Goto, also had a long and close relationship with Prime Minister Nakasone and contributed to Nakasone's enthusiasm for Pacific cooperation.

¹⁶ As touched on in Chapter 8, Shultz proposed the establishment of an Asia Pacific forum to discuss and survey issues such as transportation, environment and education in Jakarta, in July

PECC is that the policy-involved network which had been fostered in PAFTAD and PBEC was enlarged to include government officials. Even though the status of official government participants is private, academic participants in PECC 'are acting politically, being concerned with policy participation, how to pursue their objectives and how to influence policy decision-making' (Harris 1994b: 14). Because they were at different stages of economic development and lacked confidence in their economies, a number of developing countries in the region were still reluctant to commit themselves to economic cooperation. But awareness of the interest in economic cooperation among states was certainly fermenting and gradualism evolved as the style within PECC in the 1980s. PECC acted as an intermediary in encouraging developing countries to accept the necessity for and significance of government economic cooperation, which materialised later as APEC. Fraser, who launched the PECC initiative, notes that 'it was that intermediate step [of PECC], I think, that enabled and encouraged countries other than Japan and Australia in the region to get used to the idea of some kind of regional organisation on a government level'.¹⁷

In the 1980s developing countries in the region had experienced high economic growth and had increasingly gained confidence in their economies. There was growing economic interdependence within the region and, along with the economic growth of developing countries, this highlighted the need to improve conditions for regional trade and investment. In this process PECC helped its participants to gain an understanding of the importance of regional economic cooperation. Patrick (1996: 199) comments that 'PECC had succeeded in raising consciousness at governmental as well as at business and academic levels of the need for supportive policies and arrangements — public goods — to support and enhance the rapid growth in regional trade, investment, and technology transfer'. Cooperation agendas such as harmonising product standards, improving transport infrastructures and investing in education to stimulate further growth were often discussed in the PECC working groups. PECC thus could suggest that 'the case for regional economic cooperation was becoming more compelling as the economies of Asia and the Pacific grew and developed' (Drysdale 1988: 208). These measures could only be achieved with government commitment, and PECC's role contributed to APEC's establishment.

1988. There is no evidence, however, to show any linkage between his meeting with PBEC Chairmen and this proposal.

In Phase III, the government institution APEC, which involves ministerial level participation, was established in 1989, and the involvement of prime ministers and presidents since 1993 has given APEC a high political profile. The three predecessor institutions are mechanisms to produce policy-oriented ideas and to familiarise government officials with the means and methods of economic cooperation, but not to develop policy itself. Because of the presence of government officials and high level political leaders, APEC can have whatever agreements it reaches reflected in policy much more directly, influentially and immediately than can PAFTAD, PBEC and PECC. APEC's contribution to economic cooperation, which includes human resources development and the improvement of trade infrastructure, as well as trade and investment liberalisation, is potentially much more powerful than the other three institutions.

At the same time, APEC's direct impact on state policy does not necessarily marginalise the other three institutions because interdependent personnel networks in an Asia Pacific economic community are important to APEC in overcoming some of its structural problems. For instance, APEC participants from governments frequently leave the organisation because of bureaucratic appointments; ministers and leaders have to cope with matters outside APEC, such as domestic economic policy and political infighting at home. Some participants do not appreciate the principles which have long been nurtured through the other three institutions for more than two decades: the importance of unconditional most favoured nation treatment, gradualism or decisions which are based on consensus. Some participants are apt to seek short-term and self-serving results. Yamazawa, Japan's representative to EPG, notes: 'I think the EPG has been doing what bureaucrats cannot or are unlikely to do. As bureaucrats have difficulty in going beyond the fixed procedures and change their position every few years, few have a big picture concerning APEC.'¹⁸ The roles played by the EPG or PBF, whose membership includes individuals, many of whom have experience of the other three institutions' activities, are important in providing APEC with comprehensive and long-term goals which serve regional interests.¹⁹

¹⁷ Personal interview, 12 October 1995, Canberra.

¹⁸ Personal interview, 13 December 1994, Kunitachi.

¹⁹ There were some members of EPG, for instance, who had little to do with Pacific cooperation issues. Harris (1994a: 266) argues that 'in the non-Asian countries, the link between PECC elites

The Leaders' Meetings relies on external advisory groups such as the EPG and ABAC for advice about the procedures of liberalisation and familiarising the APEC agenda. The role played by advisory groups involving a number of specialists who have studied and developed interests in regional economies over a long period is recognised as valuable. Australian Prime Minister, Paul Keating, an enthusiastic proponent of APEC, commended the EPG reports as a 'significant source of ideas on which leaders could draw at the Leaders Meetings' (*AFR*, 3 August 1995). EPG and PBF both help to create consensus among APEC leaders on the APEC agenda.

In sum, it is shared ideas such as open regionalism or commitment to global free trading systems and shared expertise in institutional settings that strengthen the links among the core institutions in the Asia Pacific economic community. These elements were a driving force in fostering progress towards APEC.

Thesis outline

Each Asia Pacific institution had distinctive origins. What were the common elements from which generalisations can be made? In Chapter 2 the institution-building model is developed in an attempt to analyse the formation of each institution. Following the three approaches to regime formation, power-oriented, interest-oriented and knowledge-oriented, three conditions necessary for creating a new institution can be identified: the presence of leaders, common interests among potential participants and shared beliefs in and understanding of causal mechanisms. The model, which has six stages, involves linking these three conditions and explaining how they coalesce to form the institution. The model is developed from the cognitive evolution theory advocated by Adler (1991), which specifies the process of policy development on the basis of collective understanding that influences government.

In the innovation stage, policy-oriented individuals (including academics, bureaucrats and politicians) generate basic ideas defined as the unmodified and original policy-oriented beliefs which will shape the ultimate policy. In the refinement stage, the basic

and those involved with APEC is weak or non-existent, whereas in the Asian countries they are generally strong, with many of the same people involved in both institutions'.

ideas are refined for adoption by the decision makers as policy in the selection stage. In the adjustment stage, individuals from leader states attempt to reach consensus among the potential participants of institutions by harmonising their own interests with those of others. In the demonstration stage, they issue institutional blueprints which represent a new institution's structure and future direction. In the negotiation stage, representatives of leader countries exercise diplomacy to persuade other countries to join the institutions which they hope to establish. The thesis attempts to apply this six-stage model to analysing the formative process of the four regional economic institutions in which Japanese and Australians played a prominent role.

The central element in the institution-building model is leadership. An understanding of the historical backdrop to Japan's and Australia's interests in Asia Pacific regionalism is necessary to analyse both governments' leadership role in PECC, the focus of Chapter 7. PECC was a new regional institution, and contrasted with earlier models such as the Colombo Plan, SEATO and ADB owing to its primary objective to promote closer economic integration in the region. Chapters 3 and 4 review the evolution of each government's ideas and approaches to Asia Pacific regionalism in the postwar era. This historical investigation is useful in gaining an understanding of how both countries arrived at a new interpretation of Asia Pacific regionalism and how both countries translated this new interpretation into the establishment of PECC.

Japan's approach to Asia Pacific regionalism was based on its overall foreign policy objectives and these objectives evolved over four prime ministerships: Kishi and Ikeda (1957–64), Sato (1964–72) Tanaka (1972–74) and Miki and Fukuda (1974–78). The first period focused on economic recovery and catching up with the West; the second on entrenching Japan's position as an ally of the United States; the third saw the implementation of a diplomacy that was autonomous from the United States; and the fourth on improving relations with ASEAN. These different foreign policy priorities resulted in different approaches to Asia Pacific regionalism. Importantly, during these periods, Japan was establishing the prerequisites for the leadership it later came to exercise in PECC. Japan's economic strength allowed it to make substantial contributions to Asian development and helped Japan gain credibility and improve relations with ASEAN. These were favourable conditions for Ohira's launch of the Pacific Basin Concept.

Chapter 4 focuses on the evolution of Australia's ideas and approaches from 1949 to 1975, when Australia gradually changed its view of the Asia Pacific region from seeing it as an unstable region and a vital threat to Australia's security, to an important market, and a key to its prosperity. This transformation took place over three periods: the Menzies era (1949–66), the post-Menzies era (1966–72) and the Whitlam years (1972–75). The economic aspects of foreign policy became increasingly important for Australia and influenced its Asia Pacific policy over these three periods. In the process of this paradigm shift in Australian views of the region, Australian prime ministers gradually committed themselves to a diplomacy in Southeast Asia that was conducive to establishing favourable relations with ASEAN. As Chapter 4 demonstrates, these two points were important preconditions for Australia's leadership role in PECC.

Chapter 5 extends the discussion in Chapter 2 by focusing on the factors that led Australia and Japan to cooperate in the establishment of these regional economic institutions. The chapter attempts to establish why both countries were able to forge a partnership in an Asia Pacific economic community. After reviewing the improvement in postwar bilateral relations, a prerequisite for the partnership, the chapter identifies three elements of the partnership in institution-building. They are 1) shared interests in building institutions of regional economic cooperation, 2) power complementarity between the two countries compensating for their respective diplomatic shortcomings and enhancing their leadership capabilities; and 3) a corps of influential policy people working for regional economic cooperation who nurtured policy networks between the two countries at various levels.

Chapter 6 focuses on the first phase of Asia Pacific economic institution-building through the formation of PBEC and PAFTAD. The chapter first discusses the basic ideas of Kiyoshi Kojima, Saburo Okita and Takeo Miki for PAFTAD, and of Shigeo Nagano and R.W.C. Anderson for PBEC, and explains what influenced their basic ideas in the innovation stage and how they were implemented to create PAFTAD and PBEC. It then turns to leadership roles in establishing PAFTAD and PBEC, including diplomacy and the impact of their 'institutional blueprints' on the potential participants.

Chapter 7 deals with the formation of PECC, the quasi-government regional economic cooperation body, as the second phase of progress in the development of an Asia Pacific economic community. Starting with Prime Minister Ohira's basic ideas and those developed by his Pacific Basin Study Group and the Nomura Research Institute, individual ideas, especially those of Saburo Okita, Malcolm Fraser, John Crawford and Peter Drysdale, were also crucial. These ideas were refined in the formation of PECC (the refinement stage) and both prime ministers, Ohira and Fraser, adopted them later (the selection stage). Australian diplomatic endeavours and Japanese cooperation in organising the Canberra Seminar, the first meeting of PECC held in September 1980, are also discussed.

Chapter 8 focuses on the origins of APEC, the third phase of the progress. The discussion begins with analysing the basic ideas on an inter-governmental regional economic institution: these were generated by Australian Prime Minister Bob Hawke, his Prime Minister's Office, DFAT and the Japanese Ministry of International Trade and Industry. It focuses on the process of refinement of their basic ideas and clarifies the factors directly encouraging Hawke to announce his APEC proposal in Seoul in January 1989 (the selection stage). The focus then shifts to the stages of diplomacy, adjustment and demonstration where both countries coordinated their approaches and made efforts towards the organisation of the first APEC meeting in Canberra in November 1989.

The concluding chapter firstly reviews the central question of the thesis: how and why 'progress' in the development of an Asia Pacific economic community grew from the non-governmental PAFTAD and PBEC organisations, to the inter-governmental APEC forums through the quasi-governmental PECC. It argues that a significant theoretical implication of the 'progress' is the promotion of 'institutional identity', increasingly entrenched in the progress, in Asia Pacific economic cooperation. Secondly, the chapter examines the role of the Australia–Japan partnership in building economic institutions in Asia and the Pacific, and highlights the features of the diplomatic partnership. Finally, it evaluates the application of the institution-building model to the formation of economic institutions in Asia and the Pacific. It concludes that the claims of the three dominant schools of international regime formation are all relevant in the case of Asia Pacific economic cooperation, and that the three elements are interlinked.

2 Leadership, common interests, cognitive evolution and international institution-building

Progress in international relations has simple but important requirements: 'it is necessary only that the ways by which states pursue their interests change in a manner that leads to less violent conflict among states, less poverty, and fewer human rights violations' (Adler *et al.* 1991: 14). 'Progress' in an Asia Pacific economic community involves the gradual engagement of governments in regional economic institutions with the potential to make progress in international relations. This chapter explores the elements important to international institution-building and a model is developed to analyse them. The model addresses the question of how international institutions have been built. It is designed to shed light on the origins of each institution, what caused these institutions to emerge, and what was the background behind the overall progress in an Asia Pacific economic community, from PAFTAD and PBEC (Phase I) to APEC (Phase III) via PECC (Phase II).

To understand how international institutions of the kind that have emerged in the Asia Pacific region are formed, it is helpful to draw upon three main streams in the literature on the theory of international regime formation. These stress power, interests and ideas, respectively. The stream in the literature which stresses power is associated with the study of the role of hegemony in the establishment of institutions. Analysis of participants' interests seeks to explain why participants join institutions. Ideas are important in creating shared beliefs and understandings. The role of ideas is related to the notion that 'cooperation is affected by perception and misperception, the capacity to process information and learning' (Haggard and Simmons 1987: 510). Yet it is not clear how these three elements of an international institution formation are related, which is the most influential at particular stages of formation and under what conditions this occurs. What follows is an attempt to clarify these relationships.

International institutions and international regimes are similar and some scholars of international relations use both terms interchangeably (Kahler 1995 and Mearshimer 1994–95). International regimes, following Krasner's definition, are sets of 'principles,

norms, rules, and decision-making procedures around which actors' expectations converge in a given issue-area' of international relations (Krasner 1983:1). Keohane, on the other hand, defines international institutions as 'persistent and connected sets of rules (formal and informal) that prescribe behavioural rules, constrain activity, and shape expectations'. He regards international regimes as a form of international institution.¹

Here the four organisations, the formation of which is the subject of the thesis, are called international institutions, although a number of scholars have confined the application of international regime theory to analysing APEC's activities, given its role as the most advanced regional institution in terms of government involvement. The crux of the analysis of international regimes is the explanation of how they influence international behaviour or become to some extent or other, a 'binding force' in state policy. This notion of a 'binding force' is fundamental to the idea of international regimes. Recent studies in applying regime theory to APEC suggest that APEC is at best a weak regime,² due to its non-binding character. For instance, although the APEC Bogor Declaration commits developing APEC economies to achieving free trade and investment in the Asia Pacific region no later than 2020, it does not stipulate any legal compulsion or binding force to achieve this objective.³ From this perspective, it may not be appropriate to regard APEC and the other three non-government regional economic entities as international regimes. Yet as Keohane (1993a: 31) insists, 'defining characteristics of regimes should not be central subjects for theoretical and empirical investigation'. Rather, the essence of international regimes and institutions lies in their function to promote international cooperation. Keohane (1984: 50–1) defines this as occurring 'when actors adjust their behaviour to the actual or anticipated preferences of others, through a process of policy coordination'⁴ and this definition is adopted by some

¹ Keohane (1989: 3–4) classifies international institutions as: 1) formal inter-governmental or cross-national non-governmental organisations, 2) international regimes and 3) conventions.

² See Crone 1993, Higgott 1993, Aggarwal 1994 and Kahler 1995. According to the classification of regimes defined by Levy *et al.* (1995: 272), APEC can be categorised as a 'tacit regime'.

³ This probably originated from APEC's character involving both developing and developed countries. PBEC, PAFTAD and PECC have certainly proposed a number of policy recommendations, but it has been left to participating states to decide whether or not to follow these recommendations.

⁴ The definition of 'policy coordination' employed by Keohane in this context is borrowed from Lindblom (1965: 227) 'a set of decisions is coordinated if adjustments have been made in them, such that the adverse consequences of any one decision for other decisions are to a degree and in some frequency avoided, reduced, or counterbalanced or outweighed'. Yet it should be noted that 'policy coordination' in the field of economics generally means 'the international

scholars in the field of international relations.⁵ Applying this definition to the field of Asia Pacific economic cooperation, one could say that policy coordination includes exchanging information, creating data or projecting policy recommendations in 'the development of common or mutually consistent approaches to such matters as trade policy, foreign investment policy, aid policy, structural adjustment policy and commercial policy' (Drysdale 1988: 220).

Yet Kahler (1994: 26) suggests that 'it is not clear that there is a direct and continuous relationship between institutions and cooperation, that is, that more institutionalisation produces more (and predictable and robust) cooperation'. The definition of cooperation certainly depends on what kind of policy the participants seek to coordinate through the development of institutions. Cooperation within Asia Pacific economic institutions is not necessarily the same as that within Kahler's image of institutions which are 'top down, contractual, and inter-governmental in form'. Kahler's image of international institutions is likely to stem from Western institutions where the objectives are generally economic integration involving legally binding force. This is not a goal even for inter-governmental cooperation in the Asia Pacific region where cooperation is more tacit and implicit than in Europe and North America. For example, cooperation within non- or quasi-government institutions like PBEC, PAFTAD and PECC is focused on the development of common economic policy approaches. The early stages of the APEC process in which liberalisation agendas were absent and negotiations were not conducted to coordinate different policies were also characterised by this form of cooperation. Given the differences in values, rules, economic and political systems, social understandings and national aspirations in the Asia Pacific region, cooperative processes and institutions encompass a broader range of cooperative activities than those in Europe and America, which have a legal institutional base.⁶ The concept of

coordination of monetary and fiscal policy, or the management of the exchange rate and the international monetary system' (Drysdale 1988: 220). APEC has not developed to the extent that it can coordinate monetary policy.

⁵ This definition has been adopted by a number of scholars, such as Kenneth Oye, Joseph Grieco and Peter Haas (Milner 1992).

⁶ Harris (1994a: 260) criticises the application of a concept that is more applicable to Western Europe than to the Asia Pacific region: 'the existing international relations and economic literature concerned with cooperation has been predominantly focused on global and western European economic institutions. This literature suggests that there is a need not just for common rules and understandings, but also for ways to limit free-riding and defection. But the relevance of this literature for cooperation in the Asia Pacific region is questionable.'

cooperation, the core objective of international institutions, which focuses on the development of common policy perceptions is more relevant to the Asia Pacific region.

Three approaches to international regime formation

The three dominant approaches to the study of international regime formation – based on the importance of power, interests and ideas – are summarised to demonstrate how they can be integrated in constructing a model of international institution-building and to identify their shortcomings.

Power-based approach

The power-based approach is borrowed from the hegemonic stability theory which 'holds that hegemonic structures of power, dominated by a single country, are most conducive to the development of strong international regimes whose rules are relatively precise and well obeyed' (Keohane 1989: 75). From this perspective, regimes are formed and maintained in the presence of the hegemon.⁷ This theory asserts that the creation, maintenance and decline of regimes are contingent upon the hegemon's ability and willingness, and that the interests of the hegemon determines the norms and rules of the regime. This kind of hegemonic leadership was exercised by the United States to establish the Bretton Woods and GATT system. Hegemonic stability theory does not explain the fact that although United States alone could be regarded as a hegemon in Asia and the Pacific in the 1960s, 70s and 80s, no strong regime or institution emerged in that time. This may be because the United States was so dominant in military and economic spheres, compared with the other countries, that it preferred to manage regional security and economic issues on a bilateral basis and was 'hostile ... to initiatives that might undermine its central place in the cold war bilateral arrangements of the region ...' (Kahler 1995: 112).

The United States did not rely on a multilateral approach in Asia and the Pacific because it could exercise its influence on other countries more directly and easily through bilateral rather than multilateral arrangements. The fact that Asia Pacific institutions

⁷ Hegemony can be defined as a situation in which 'a single powerful state controls or dominates the lesser states in the system' (Gilpin 1981: 144) or, in more detail, as 'being able to dictate, or at least dominate, the rules and arrangements by which international relations, political and economic, are conducted' (Goldstein 1988: 357).

began to flourish after the decline of US hegemonic power in the Asia Pacific region appears contrary to the theory.⁸

The theoretical significance of institution-building in this approach is the existence and activity of leadership. Leadership is necessary for the creation of international institutions, but institution-building may not necessarily require 'hegemonic' leadership implying leadership exercised through the imposition of will and measurable materialistic dominance over others. Kindleberger, a major advocate of the hegemonic stability theory, used the term 'leadership' instead of 'hegemon', arguing that 'it is possible to lead without arm-twisting, to act responsibly without pushing and shoving other countries'.⁹ In stressing the necessity of leadership for institution-building, the notion of followership, which means that other countries in an international institution follow or support what the leader does, becomes crucial. There seem to be two elements of leadership which encourage followership: the power to have others do what they otherwise would not do readily and the benevolence required to incorporate the followers' interests into institutions. In both respects, it is the leaders' interests that lead the creation of international institutions and norms or objectives are reflected by leaders' preferences and interests in forming the institution.

Russett and Starr (1996: 120) comment that coercive power based on material superiority is a 'crude form of influence' which 'is relatively rare in the vast web of daily interactions'. Also, the forced imposition of will in international institutions or forums tends to invite resistance from others, which coalesces in the form of a blocking power in opposition to hegemonic pretensions (Young 1994: 89). Any international institution takes a form of multilateralism when more than two countries seek to adjust their activities or policies to gain joint benefits.¹⁰ Therefore a coalition of countries which are

⁸ Patrick (1996: 198) comments that 'it was not until the beginning of the second Reagan administration that Secretary of States Shultz specifically endorsed a regional approach to Asia Pacific economic cooperation and arranged for active participation, for the first time, of the US government in PECC'.

⁹ Kindleberger (1986: 841) referred to the term *hegemony* as making him 'uncomfortable because of its overtones of force, threat, pressure'. He also set out five conditions as a leader for stabilising the world economy: to furnish an outlet for distress goods; to maintain the flow of capital to potential borrowers; to serve as a lender of last resort in financial crisis; to maintain a structure of exchange rates; and to coordinate macroeconomic policies. The conditions for leadership, however, seem too strict for any country to fulfil in contemporary international relations. Also, see Kindleberger 1973, Chapter 14.

¹⁰ Ruggie (1995: 14) in this context argues that 'the term multilateral is an adjective that modifies the noun "institution". Thus, multilateralism depicts a generic institutional form in

opposed to a leader would threaten the institution's viability. The leader prefers to negotiate rather than run the risk of an institution's collapse through imposing its will by force. The leader is expected to adjust its interests with those of others to gain support for an international institution which is a way of making 'its power legitimate in the eyes of others', so that it 'will encounter less resistance to its wishes.'¹¹

Interest-based elements

The necessity of harmonising the leader's interests with those of others validates the interest-based approach to institution-building. The power-based hypothesis is useful in explaining how leaders endeavour to create international institutions on the basis of their interests, but it highlights only the supply side of international institution-building and fails to explain the demand side – the followers' interests in joining such an institution. The interest-based hypothesis is better suited to analysing why others join and is based on the proposition that 'international regimes arise from the interaction of self-interested parties endeavouring to coordinate their behaviour to reap joint gains that may, but need not, take the form of public goods' (Young and Osherenko 1993: 249). Institution formation, development, changes and stability depend on participants' expectations of, and satisfaction with, benefits acquired from the institution itself. Keohane (1993b: 274) notes that 'facing dilemmas of coordination and collaboration under conditions of interdependence, governments demand international institutions to enable them to achieve their interests through limited collective action'. This assertion is useful in explaining why potential participants join international institutions and what factors contribute to reinforcing them. In as much as international institutions are established to achieve certain objectives, there must be interests behind their establishment.

Knowledge-based elements

Interest-based elements are useful for understanding the interests of participants in institutions, but help little in clarifying why the participants come to share such interests in joining and how and where institutions are created. Knowledge-based elements, which emphasise ideas and knowledge as explanatory variables, are useful for explaining

international relations ... multilateralism is an institutional form which coordinates relations among three or more states on the basis of "generalised principles of conduct".'

¹¹ Nye (1990: 31–32). Nye stresses the value of the institutions that encourage other states to channel or limit their activities in ways the dominant state prefers, because the dominant state may not need as many costly exercises of coercive or hard power in the bargaining situation.

the definition and evaluation that 'shared beliefs, understandings of causal mechanisms, and values among the relevant parties as well as identifiable communities, including epistemic communities and advocacy organisations that arise to propagate this knowledge are important determinants of regime formation' (Young and Osherenko 1994: 250). In other words, the formation of international regimes is contingent on 'actors' perception of international problems' which are partly 'produced by their causal and normative beliefs' (Rittberger *et al.* 1997: 137). Shared understanding, values or expectations on international issues encourage participants to cooperate in forming an international institution. Increasingly, complicated international relations may render states unclear about their interests; decision makers in states tend to have difficulties converting vague and indefinite state interests into concrete and definite means and aims. In such a situation, epistemic communities, defined as 'networks of knowledge-based communities with an authoritative claim to policy-relevant knowledge within their domain of expertise' (Haas 1993: 180) can provide advice, guidance or information for policy makers. By reducing uncertainty for policy makers, such professional groups can influence policy making, leading professionals to reflect upon their aims. If consensual knowledge or inter-subjective understanding is shaped and spread by professional transnational networks, states can be more cooperative and thus reach agreement more easily.

These considerations led Adler to invent the notion of cognitive evolution, which is defined as 'the process of innovation and political selection, occurring mainly within and between institutional settings, that creates the "objective" collective understanding that informs the interests of government' (Adler 1991: 54). Cognitive evolution is divided into three stages: innovation, selection and diffusion. Innovation 'occurs when new meanings and interpretations are generated by individuals within institutional structures'; selection means that 'the actors, structures and processes of the political system determine which expectations and values are turned into policies' (Adler 1991: 54). These two stages converge in making 'foreign policy', which Adler defines as the process where by 'intellectual innovations are carried by domestic institutions and selected by political processes to become the descriptive and normative set of understandings of what it takes to advance the nation's power, influence, and wealth' (Adler 1991: 50). The third stage is diffusion, which refers to 'the spread of expectations and values to other nations' (Adler 1991: 56) through agenda setting or

negotiation. This is important in cognitive evolution, which focuses on how nations 'react quite differently to similar material circumstances because of fundamental differences in normative beliefs about policies' (Goldstein and Keohane 1993: 16). To carry out successful institution-building it may thus be necessary for nations to share similar ideas, enabling them to pursue common interests.

Principles of the institution-building model

While none of the above three approaches is sufficient by itself, each makes an important contribution to understanding regime formation and institution-building from a different analytical angle. The problem highlighted by attempting to use these approaches as individually self-sufficient converges on the subject of 'level of analysis', which Buzan (1995: 199) argues 'is about how to identify and treat different types of location in which sources of explanation for observed phenomena can be found'. For instance, the power-based approach refers to the superior position and status of a leader state which influences decisions regarding the norms and the structure of institutions. The interest-based approach focuses on interactions among states on the basis of common interests. The knowledge-based approach deals with individual roles in creating policy-oriented ideas which become a foundation for the establishment of the institution. The question here is how each approach links with the other, a question often posed in regime theory literature.¹² The three approaches to regime formation lack analytical connection and thus it is not clear how they relate in understanding the process of institution-building. If all three elements were associated with the formation of an international institution, one would need tools to explore how the elements interact and each might be applied simultaneously to explain institution-building. International relations could be better understood with a multifaceted approach of the type presented here rather than relying on a single explanation. Kahler (1995: 10) argues that 'teasing apart interests-based and knowledge-based explanations is difficult', and Krasner states that 'politically relevant ideas are not formulated independently of interests and power' (cited in Goldstein and Keohane 1993: 13). Various causal components are, as Kahler and Krasner argue above, normally intermingled in the international arena in complicated cause and effect relationships in the building of

¹² This same kind of basic question is raised by Haggard and Simmons 1987: 512, Tooza 1990: 206, and Hurrell 1995: 72.

international institutions. Young (1994: 28) maintains that 'single-factor accounts are severely limited in explaining the formation of an international governance system. The challenge before us, then, is to devise a multivariate model of the (re)formation of international institutions.' The attempt to construct an institution-building model by integrating the three approaches is a response to the challenge set out by Young.

The ultimate basis for integrating the three approaches in constructing the institution-building model lies in the proposition by Haas (1990: 12) that 'we are entitled to hold that interests can be (but need not be) informed by available knowledge, and that power is normally used to translate knowledge-informed interests into policy and programmes'. Goldstein and Keohane (1995: 13) agree with Haas and comment that 'policy outcomes can be explained only when interests and power are combined with a rich understanding of human beliefs'. I thus incorporate the three principles, derived from these respective approaches in defining the configuration of a model of institution-building, and discuss its features below.

First, there is the need for leadership, according to the power-based approach. This stems from the assumption that an institution does not simply emerge and that it is highly unlikely for all potential members of an institution to possess the same willingness to join simultaneously without leaders who take the initiative. Second, there is the existence of common interests among the potential members. The leader's interest in institution-building needs to be linked with problems common to the potential participants which the institution is designed to resolve. This is because 'no collaboration is conceivable except on the basis of explicit articulated interests' (Haas 1990: 2), as the interests-based approach suggests. Third, there is the need to provide intellectual foundations. Interests 'cannot be articulated without values' (Haas 1990: 2), as the knowledge-based approach suggests, and ideas need to be transformed to serve common interests among the members. These three elements are integrated to construct a model of institution-building.

The significance of leadership

The need for leadership is a central tenet in this model of institution-building. Leaders are the founders of institutions and determine the basic lines and purpose of institutions, including their agendas and the potential members on the basis of the leaders'

understanding about the environment in which the institutions are established and the nature of their mission. This requires collaborative action with the other participants (Haas 1990: 2 and Reiter 1996: 30). For instance, the United States, the most powerful country in the region, hosted the 1993 APEC Seattle Meeting and successfully transformed it into an institution which would prosecute trade and investment liberalisation. Yet a legally binding force, which some in the United States wished to incorporate into the APEC principle, has yet to be agreed.¹³ Voluntary commitment to agreements reached in APEC based on consensus among members is an important criterion that Japan and Australia, the leaders in initiating APEC, embedded at APEC's inception as they took into account the preferences of developing countries in the region. Yamazawa, Japan's representative at the APEC EPG, comments that 'some characteristics of PECC such as open regionalism or a flexible procedure are attributable to Japanese leaders such as Saburo Okita. These features which were instigated by the Japanese are also embedded in APEC.'¹⁴ Gareth Evans, former Australian Foreign Minister, notes that in the early stages of APEC such an informal approach 'suited the mood of the participants, the great majority of whom, including Australia, were well content to let these things evolve naturally rather than forcing the pace' (Evans and Grant 1991: 125–26). What distinguishes APEC from international institutions like the IMF, GATT or NAFTA is that the United States did not assume leadership in creating the institution. These three institutions incorporate a binding force in their agreements. The APEC norms do not necessarily conform to the approach usually associated with the United States, and tend to follow the preferences of Japan and Australia, taking into account opinions of other APEC members, especially those from East Asia.

While the authority of leaders introduces an institution's norms, there is also the task of incorporating followers' interests into institutions. MacGregor-Burns (1978: 19) emphasises the leader–follower relationship and defines leadership as 'leaders inducing followers to act for certain goals that represent the values and the motivations – the wants and the needs, the aspirations and the expectations – of both leaders and

¹³ Among the members, for example, it was only the United States that sought to insist, unsuccessfully, on the necessity of binding force being incorporated into the APEC Investment Code that was discussed at the 1994 APEC Indonesia Meeting.

¹⁴ Personal interview, 13 December 1994, Kunitachi.

followers'.¹⁵ Following this definition of leadership, we may claim the crux of leadership centres on the skills of leaders in persuasion, guidance, cajolery and coaxing to 'produce cooperation wherein followers defer to a leader's conception of a particular aspect of their relationship' (Wiener 1995: 225). Leadership thus rests on the capability to 'direct other peoples' behaviour' to promote collective goals, which Malnes (1995: 93) calls directional leadership.

Foundations for leadership

Leadership can be exerted only when a leader has the capacity and the willingness, as well as the ability to operate in an appropriate and favourable environment. Capacity is equivalent to power; willingness rests on interests in creating an institution and a favourable environment is related to stable relationships with other member countries. A favourable environment also depends on the leaders' credibility among followers, and on the other countries' interests in the institution. Even if leaders were willing, they would hesitate or find it difficult to assume leadership without sufficient power and a favourable environment.

A leader's possession of 'hard power' such as military strength and economic prowess is certainly useful in making followers conform with its proposal for security or an economic institution. Yet even if leaders do not wield power based on their material dominance, other countries may follow voluntarily if they judge it to their advantage and if they perceive leaders' capabilities and intentions as suitable. This is because 'influence is a partly psychological phenomenon' (Russett and Starr 1996: 118). By conforming to leaders' wishes, followers may expect leaders to protect them on the basis of military strength or to provide aid or absorb more imports on the basis of economic power. Malnes (1995: 98) argues that 'directional leadership presupposes voluntary compliance on the part of followers'. Yet if some parties are forced to sacrifice their interests for collective goals in negotiations over trade or territories, voluntary compliance is unlikely. If leaders with superior material resources impose their will on others in forming an international institution, it would be very costly because this forced sacrifice could lead to resistance and reduce cooperation. In institution-building, the crucial point is whether followers join leaders' international institutions or not; bargaining or

¹⁵ MacGregor-Burns (1978: 19) writes that leadership is 'inseparable from followers' needs and goals'.

manoeuvring in negotiations is rarely necessary and confrontation is minimal. Dominant countries must know the other countries' preferences and incorporate them in planning strategies or come to a compromise. Nye (1990: 31) calls this cooperative power and it hinges on 'the attraction of one's ideas or on the ability to set the political agendas in a way that shapes the preferences that others express'. Cooperative power is a key element in leader–follower relations in institution-building, in which leaders endeavour to get followers to join the international institution that leaders hope to create. The capacity to create such cooperative power is partly contingent upon knowledge of the issues at stake.

Knowledge connected with 'cooperative power' can be produced by epistemic communities through their accumulation of expertise on specific policy. Knowledge of policy gained over a long period is important to the leader country because knowledge can bolster consistent and strong interests in building institutions. Policy-oriented experts in the leader states specialising in the policy area over time can take initiatives and play an important role in institution-building. This denotes knowledge as a source of power. Those experts' energy and proximity to government seem to be crucial in transforming policy-oriented ideas into sources of power, enabling individuals from a leader state to assume leadership in establishing institutions. Many of the members of epistemic communities are pioneers and long-standing experts on the issues with which international institutions are concerned.

To exercise a leadership role is frequently costly and difficult, as US Secretary of State, James Baker (1989) was aware: 'there is nothing more difficult to take in hand, more perilous to conduct, more uncertain in its success, than to take the lead in the introduction of a new order of things'. Leadership requires leader states to spend time, energy and capital and to run the risk of losing international prestige if they fail. This costly leadership exercise requires strong interests in leader countries relevant to institution-building. A leader should feel at least that 'controlling the (followers) will bring benefits and that these benefits will outweigh any potential costs [it] may pay for the influence attempt.'¹⁶

Leaders' interests in establishing international institutions are partly based on their learning achievement in which leaders interpret reality anew and reflect the interpretation in their foreign policy, because to establish an entity, including an international institution, is an initiative which needs new ideas and behaviours. Learning is a 'creative process by which individuals and organisations re-evaluate cause-effect relationships and arrive at new interpretations of the social world; these interpretations are then ejected back into the historical process, where they affect political action and events' (Adler 1991: 46-47). Such 'new interpretation of the social world' can be used to create an international institution to solve problems which old institutions cannot handle or resolve. For instance, PECC was a new regional economic institution that differed from other government-involved regional institutions such as the Colombo Plan, the South East Asian Treaty Organisation (SEATO), the Asian Pacific Council (ASPAC), and the Asian Development Bank (ADB) in Asia and the Pacific¹⁷ in that it was economic-centred and focused on facilitation of regional trade and investment. Japan and Australia as leaders arrived at this interpretation of building regionalism, as will be highlighted in Chapters 3 and 4, respectively.

A favourable environment is an important element in determining a leader's willingness to lead. As suggested above, the essence of leadership lies in interactions between leaders and followers, whose motivations vary, in pursuit of common purposes. If the leader country has a good relationship with its followers, it is easier for the leader country to get them to conform. Leaders' good relations with followers are instrumental in creating a collective understanding of international relations between them, which makes it easier for leaders to establish an international institution. Good relations with followers are relevant to a leader's reputation among followers, which is related to 'the degree to which its past behaviour affects expectations regarding its present and future behaviour' (Rothgeb 1993: 31). Sound diplomatic interaction with potential participants and common institutions where leaders and followers participate also help leader states understand others' desires to create an attractive plan of the institution.

¹⁶ Rothgeb 1993: 29. The United States' leadership in creating the Bretton Woods and GATT system exemplified this. It was in the strong interests of the United States which 'had ideological, political, and strategic motives to seek a liberal world economy' (Gilpin 1987: 90).

¹⁷ According to Palmer (1991), these institutions are categorised as old regionalism while PECC is termed as new regionalism.

Joint leadership

There will be instances where no one country is able to meet the three criteria for leadership in institution-building: capability, willingness and a favourable environment. It may, however, be possible that two or more countries can compensate for the other's shortcomings, enhance each other's leadership capability and take joint leadership. To succeed, joint leadership requires certain conditions. Joint leaders should have common interests in forming an institution; they should communicate with each other at a government level about relevant issues; and they need to maintain good relationships to minimise political disputes. They also need to allocate time and energy to discussions about relevant policies and have influential policy-oriented experts such as epistemic communities who have a network of counterparts in each country. In Chapter 5, these hypotheses will be tested in the case of the joint leadership of Australia and Japan in building the four Asia Pacific economic institutions.

Individual leadership

The argument about leadership has so far focused only on 'state-level' leadership, but analysis of 'individual' leadership is also crucial in institution-building. Individual leadership, which is 'oriented towards organising action' (Wiener 1995: 222–23) with cognitive resources such as competence, knowledge or skill (Malnes 1995: 96), points to human activities. State leadership does not explain how a leader leads, simply because a state itself cannot think, speak and move. It is individuals who generate ideas for the establishment of institutions. A framework to analyse institution-building needs to incorporate an examination of the nature of an individual leader's role. Recognising this leads to a more accurate and realistic understanding of the process of institution-building. Yet examination of state leadership is also useful in discovering why individual leaders are driven to establish a government institution, since their activities as state agents are dominated by their governments' interests in the institution. Each level of leadership has its own role.

Young (1991) introduces three types of individual leadership – structural, entrepreneurial and intellectual – in the process he calls institutional bargaining, in which autonomous participants interact to reach an agreement over contracts, rights or rules concerning an international institution. Structural leadership involves leaders who translate the possession of material resources into bargaining leverage in negotiations

over the establishment of international institutions. Entrepreneurial leadership relies on negotiation skills to set the agenda, initiate bargaining solutions or facilitate agreements, especially for focusing and targeting their own interests. Intellectual leadership develops ideas for participants to understand the issues at stake and 'to orient their thinking about options available to come to terms with these issues' (Young 1991: 288). In this context, a leader is a 'representative of one of the parties to the process of regime formation who, desiring to see a regime emerge and realising that imposition is not feasible, undertakes to use structural resources to craft attractive institutional arrangements and to persuade others to join forces in support of such arrangement'.¹⁸

Young's classification of leadership attributes helps in categorising individual leadership roles in the bargaining process, but it does not help us to understand why individual leaders are motivated to undertake a leading role in creating international institutions. To answer this question requires an investigation of the incentives and interests of individual leader's states or organisations in creating international institutions. In many cases of international institution-building, individuals exercise leadership roles in the name of, or as the agents for, states (or private organisations in non-government institutions). They act on behalf of their states' interests or goals. It is therefore necessary in examining government institutions to investigate the state's willingness to exercise leadership and ask how and why a leader state develops its own interests in creating institutions. Without examining the willingness of a state to take on a leadership role, we can hardly understand why individuals in leader states take such pains over their leadership to achieve collective goals.

Analysis of leadership involves analysis of domestic factors which affect leader states' willingness to exercise leadership in establishing international institutions, as well as those relating to the international stage where adjustments of interests and negotiations are undertaken with the potential participants. The analytical focus is nevertheless on individuals since the state's willingness is eventually reflected by individuals, including bureaucrats or intellectual leaders, through deliberation or reflection at home and adjustments and negotiations on the international stage. The argument aims to shed light on the channelling of individuals' ideas into the policy-making process and also on the

¹⁸ Young 1994: 90. Young (1991: 303-5) expects the failure of regime formation attempts unless at least two types of leadership interact.

process of disseminating ideas about new institutions in the international arena. The idea of cognitive evolution is helpful in understanding this process and this is elaborated and modified later.

Common interests conducive to institution-building

Common interests among potential members are one of the important elements in institution-building, and the key is the leader's task in finding and adjusting the interests among potential participants that might be covered by the institution. Stubbs (1992: 653) notes that 'the social psychology literature suggests that the expectation of followers with regard to the role of a leader focuses on problem-solving and the attainment of particular goals'. It is thus fair to assert that the *raison d'être* of international institutions that leaders attempt to establish is to resolve common problems, which can be achieved only through collaboration and gaining joint benefit through joint action. If restricted to international economic fields, these two interests, which create the motivation to join international economic institutions, depend on the degree to which potential members are linked economically. Crawford (1982: 22) captured the essence of interdependence:

... it is interdependence ... that is really responsible for most of the talk about a community of interests. It naturally leads to the idea that, because interdependence does have problems in it, does raise the issues, it would be wise to try to solve those issues on the basis of community action.

This is based on a negative aspect of interdependence, such as creation of economic friction. Positive aspects of interdependence tend to create strong incentives for the establishment of regional institutions to increase economic benefits among nations. APEC was established partly as a result of the growing intensity of intra-regional trade and investment. Currently about 70 per cent of APEC trade is intra-regional trade, and if members liberalise tariffs even on an MFN basis, benefits would mainly accrue to APEC members.¹⁹ Greater interdependence provides the incentive to harmonise customs procedures, remove impediments and increase investment. Greater

¹⁹ Drysdale (1988: 238) justified Asia Pacific regionalism based on unconditional MFN, noting that 'the concentration of Pacific countries' trade within the Pacific is such that most of the benefits from trade liberalisation on an MFN basis are likely to accrue within the region'.

interdependence also provides a rationale among regional countries for joining an institution through which they are able to manage economic cooperation to enhance economic welfare or lessen economic friction.²⁰

There are more general interests to consider than economic interests. These interests are associated with the functions served by international institutions: disseminating information to participants and reducing transaction costs. The provision of information is crucial, in that it is a process for achieving transparency, 'the core requirement of a regime' and 'an essential step in the process of institutionalisation', which has consumed substantial 'energy, initiative and informal diplomacy' (Higgott 1993: 304) in the Asia Pacific region. In addition, providing information enhances the predictability of participants' behaviour and builds confidence. Kahler (1994: 190) suggests that 'the striking cultural heterogeneity of the region is often advanced as a barrier to institutional innovation'. Such diversity in culture, political systems and the degree of economic development in the Asia Pacific region gives particular significance to institution-building in the region. Members need to clarify their common interests and the methods by which different interests can be accommodated despite different views or stances on certain issues because of regional diversity. Drysdale (1988: 26) takes a similar position:

... it is necessary ... to establish institutions and procedures which reduce uncertainties and anxieties in each country about the behaviour and foreign economic policy of other countries if the potential advantage of economic interchange is to be fully realised ... Reducing the uncertainties and anxieties associated with their heterogeneity through building up a strong framework for regional economic relations offers large potential gains to countries in the Pacific.

Once an institution, which helps to provide policy consistency, can meet the expectations of participants, it is much easier continue to utilise that institution than to form another framework. An international institution can complement a network of bilateral talks in a region more effectively than bilateral exchanges. As Aggarwal (1985: 28) argues, 'the construction of a multilateral mechanism is organisationally less expensive than is the development of many bilateral contracts'. In fact, the incentive to participate in an institution stems partly from the perception that 'the overlap of interests within the region is too great for an increasing number of issues to be treated

²⁰ Drysdale (1988: 26) comments that 'increasing economic integration among countries, and the presence of opportunities for further integration ... heighten the value of, and the need for,

bilaterally' (Drysdale and Patrick 1979: 73). Participants can reduce transactions costs by creating multilateral institution to discuss a newly emerging problem or policies.

In brief, states tend to have various interests in joining a newly established institution, ranging from acquiring economic benefits to getting to know each other.²¹ Nevertheless, leaders assume considerable importance in exploring the basis of common interests and incorporating them into the mission of an institution. It should also be noted that it is decision makers or politicians who are qualified to decide whether their nations should join international institutions. Such decisions are grounded in judgement as to whether the institutions are useful in managing economic interdependence or provide helpful information. Even if members of epistemic communities were influential in deciding the form and extent of interdependence with reference to economic evidence, the decisions are made in the political arena.

Cognitive evolution

Adler's idea of cognitive evolution, which involves the process of innovation and political selection and creates collective understanding, is helpful in understanding why leaders become willing to assume leadership roles. Cognitive evolution includes factors conducive to progress. Cognitive evolution involves (Adler 1991: 62) two necessary conditions for progress in international relations. These are, firstly, the emergence of new values, redefinition of old values, and change in values that advance human interests across national borders without harming other values or human interests; and secondly, a change in expectations regarding the quality of outcomes for the agent, including a redefinition of what exists, what can exist, what causes what, and what the concomitants of desired actions are. Then, there is the question of what actually causes such values and expectations to change among states. Adler's idea of cognitive evolution does not throw much light on this question since he is more concerned about the sharing of meaning and understanding the nature of international relations. Young (1994: 97) suggests that 'many of the cognitivists pay scant attention to the politics of knowledge', and Haas (1990: 11) states that 'change in human aspirations and human institutions over long periods is caused mostly by the way knowledge about nature and

such institutions'.

²¹ Harris (1994a: 261) outlines states' interests in the Asia Pacific region as networking, information-sharing, developing mutual trust, the habit of cooperation, and getting to understand one another, which are all characteristic of Asia Pacific approaches to cooperation.

about society is married to political interests and objectives'. It appears necessary to modify and extend Adler's idea of cognitive evolution by integrating other factors important to the development of ideas that support institution-building.

First there is the question of how in the 'selection' stage of cognitive evolution, when certain expectations and values are turned into policies, the meanings and understanding originally conceived by the members of epistemic communities in the innovation stage come to be shared by policy makers who have the authority to select policy. For an idea to be selected as policy, it is certainly helpful for decision makers to have common world views or share understanding of international relations with those who initially conceive new ideas in epistemic communities. Yet there are other factors that influence the decision makers' selection of an idea. The concept of cognitive evolution needs to incorporate the process where ideas generated in the innovation stage are adjusted to the interests and preferences of policy makers, but not necessarily shared by the idea innovators. This needs to be done on the basis of mutual understanding about the nature of international relations.

Secondly, in the diffusion stage, it is not clear how and why the member states come to share an understanding of certain aspects of international relations and hence, agree to adopt the idea as common policy. It is true that 'progress is the result of the increasingly rational pursuit of the shared ends' (Adler 1991: 25), but it is worth discussing further how these ends come to be shared among relevant individuals and how and why the shared ends are actually transformed into policy within a system of policy selection in each member state. Adler insists that 'when states negotiate and renegotiate their respective interests, they also implicitly negotiate and renegotiate meaning and understandings' through transmitting '*descriptive and normative conceptions of the national interests*' (Adler 1991: 58, italics in original). Yet it is implausible for an agreement on institution-building to be reached only on the basis of mutual understanding and it is not clear how and why states come to share an understanding or, more specifically, how the shared understanding contributes to an agreement. Since 'transmitting such a theoretically complex set of ideas to others is not easy' (Rothgeb 1993: 122), one may need to create a new version of the 'diffusion' stage by spelling out what sort of factors influence the diffusion of a policy produced by some country to others. In the same way that Young (1991 and 1994) uses empirical case studies to

underline the role of individual leadership in successful negotiations to create an international institution, power and interest-based factors as well as cognitive elements for establishing the institution need to be incorporated into the diffusion process. In the institution-building model developed in this thesis, it is leader states that innovate new ideas, transform these into policy, and exercise leadership in establishing international institutions by 'diffusing' their ideas to other states.

To explain institution-building more accurately, Adler's cognitive evolution can be modified by dividing the diffusion stage into two parts: the demonstration and negotiation of an idea and, a new dimension that I call the 'refinement' of an idea. This modification of Adler's work leads to the model outlined below.

Components of the institution-building model

Institution-building consists of six stages: innovation, refinement, selection, adjustment, demonstration and negotiation. The first four stages are evidence of domestic platforms in which the development of policy-oriented ideas in the leader states occurs. The last two stages involve diplomacy where leader states prosecute and adjust ideas consistent with mutual interests and attempt to persuade potential members to join institutions. These are analytically separate processes suggested by the literature on regime formation, of importance in institution-building, although in practice they may well be intertwined. An important feature in this model lies in its analytical focus on the micro-level of ideas and activities of individuals in leader states, rather than the macro-level of states' interactions.

Innovation

Walter Lippman (1922: 345) in *Public Opinion* states that 'the facts of modern life do not spontaneously take a shape in which they can be known ... they must be given a shape by somebody'. This is the essence of the innovation stage. Ideas, defined as beliefs held by individuals (Goldstein and Keohane 1993: 3), are necessary for policy formulation and implementation, since 'by ordering the world, ideas may shape agendas, which can profoundly shape outcomes' (Goldstein and Keohane 1993: 12). It is important in this stage to establish who has what kind of new ideas, what prompted the ideas to emerge and how these ideas help to identify national interests, defined as the

fundamental goals that direct the decision-makers of a state in formulating foreign policy. The central interest is in the way in which 'basic ideas' – the new ideas which come to shape policy – are refined and translated into policy.

The first stage of the progress requires persuasion that existing institutions and policies no longer serve national interests, and that, in some sense, previous policies are 'failing'. 'The 'failure' of previous policies, which leads to disappointment, uncertainty about the consequences of a given action, and intense disagreement among would-be collaborators, can trigger a search for new knowledge as a guide to policy' (Adler *et al.* 1991: 28). Reiter (1996: 33), describing organisation theory, also states that organisations 'most frequently adopt new beliefs after experiencing failures, as it both spurs action and provides a rich source of information for determining how to improve operations'. An interest in a new policy formulation may occur when individuals in leader states implement learning.²²

Refinement

The refinement process is the procedure whereby the 'basic idea' is refined, improved and developed through idea-producers' endeavours, feedback and interaction with experts, to define the area of national interests. A basic idea may be held by decision makers, mainly politicians, but the refinement process is usually carried out by others in epistemic communities at national and transnational levels, or by relevant government officials. The refinement stage is set up to spell out national interests and incorporate them into institution-building. Adler (1991: 77) argues that 'the concept of national interests must be ... concerned with how interests are born, how they evolve, and what their descriptive and normative characteristics and qualities are'. Thus, 'identification of national interests is a natural consequence' (Adler and Haas 1997: 375) of how basic ideas are developed. In terms of progress, the innovators refine their basic ideas about a new institution to match them with the national interests or to accommodate other countries' interests in the new institution.

²² According to Nye (1987: 380), there are two kinds of learning: simple and complex. Simple learning utilises 'new information merely to adapt the means, without altering any deeper goals in the ends-means chain', while complex learning 'involves recognition of conflicts among means and goals in causally complicated situations, and leads to new priorities and trade-offs'.

In discussing the establishment of the four Asia Pacific regional economic institutions under study, what contributed to the emergence of the basic ideas and how and why they developed and were refined is of particular interest. In fact, innovators have recourse to institutions to which they belong, international conferences in which relevant topics are debated, or transnational policy networks which study the same issues and refine the basic ideas in a process of sophistication to attract the attention of decision makers. Transnational epistemic communities play a crucial role in forming institutions because they provide participants with expertise, creating focal points that promote agreement on participation with their counterparts in other countries. In an Asia Pacific economic community, PAFTAD is one such body. It consists of influential policy-oriented economists in each country. In general, this community has access to and influences decision makers. This is a key to success in establishing institutions. The *PAFTAD Newsletter* (No. 5, December 1989) states:

The participants return home with wider perspectives, better information and new ideas all of which are communicated informally to government officials ... The extension of this networks of communication about policy ideas forms an important underpinning and is ... a major source in building upon the practice of Pacific cooperation.

This is suggestive of how active members of PAFTAD influence, directly or indirectly, policies on trade or economic relations in member countries. Thus PAFTAD, many of whose members are also involved in PECC activities, contributes to creating a shared understanding which has promoted regional economic cooperation and helped in the establishment of international institutions. This process is crucial to informing governmental officials and decision makers about the necessity and effectiveness of governmental institutions like APEC to increase economic benefits at the national and regional levels.

Selection

Once national interests have been clarified in the refinement process, decision makers select these national interests as the basis for the state's foreign policy.²³ Selection is the 'test of domestic politics' in which decision makers play the role of 'judge, jury, and if necessary executioner over professional output of expectations' (Adler 1991: 56)

²³ I do not take a realist stance which takes the existence of national interests for granted, but I instead focus on how national interests are defined.

developed in the previous stages. This is because any 'basic idea' going through the innovation and refinement stages cannot be transformed into policies without political selection. The basic ideas creating a foundation for national interests become policy input in the international arena in which leaders conduct diplomacy on the basis of their foreign policy. In this context, foreign policy can be defined as the substance, objectives and attitudes in a nation's relations with others on the basis of its national interests, whereas diplomacy can be described as the tools or measures used to put these into practice. It is imperative at this stage to know how and why the national interests developed from basic ideas are selected by decision makers. Since 'choices of specific ideas may simply reflect the interests of actors' (Goldstein and Keohane 1993: 11), the analysis of this stage requires that one knows policy makers' preferences and what causes specific ideas to be chosen. This is also important in verifying the willingness of leader states to assume leadership, as 'willingness will involve ... factors that affect how decision-makers see the world, process information about the world, and make choices' (Russett and Starr 1996: 21).

For instance, the genesis of the idea of the East Asian Economic Caucus (EAEC) was a product of Malaysian Prime Minister Mahathir's world view. According to him, the initial idea of the EAEC came to him from Malaysia's Department of International Trade and Industry which was irritated by the sluggish Uruguay Round negotiations in the late 1980s. Mahathir confessed he had no patience with the self-serving approaches taken by the United States and Europe which neglected the views of developing countries. He decided to adopt the EAEC plan to strengthen the voice of East Asian countries in international politics.²⁴ This illustrates the way in which decision maker's policy preferences and world views influence the selection process.

At this stage, relations between epistemic communities and decision makers are important, as is the degree to which these communities have been influential in promoting the ideas: members have to be part of the policy-making system. Adler (1991: 64) comments that 'together with their innovations, epistemic communities also

²⁴ *Nihon Keizai Shimbun*, 26 November 1995. He (Ishihara and Mahathir 1995: 44) explains what motivated his EAEC proposal: 'suppose Malaysia goes alone to Brussels to lodge a complaint against European protectionism. Our voice would simply be too small. Nobody would listen. But if the whole of East Asia tells Europe that it must open up its markets, Europeans will know that access to the huge Asian market obliges them not to be protectionist. That was the reasoning behind the EAEC proposal'.

introduce values and visions that can catch the imagination of decision makers who then ... may redefine strategic and economic interests'. Decision makers themselves can learn from previous failures and re-evaluate their own policy preferences, but in some cases, their re-evaluation is influenced by the judgments made in the epistemic communities. The adoption of new interpretations of international relations by policy makers is essential for institutional progress.

Adjustment

The adjustment and the demonstration stages – which I have added to the taxonomy of cognitive evolution – are necessary in order that different countries might 'share and coordinate their expectations and values' (Adler *et al.* 1991: 16). It is imperative for leader countries to make themselves understood and the motivation behind the creation of international institutions needs to be made clear. More significantly, leaders have to encourage potential participants to share the same interpretation and lay the foundation for acceptance of policy change. This may be a laborious process. States 'react quite differently to similar material circumstances because of fundamental differences in normative beliefs about politics' (Goldstein and Keohane 1993: 11), which makes it difficult to achieve harmony, the situation where the 'actor's policies (pursued in their own self-interest without regard for others) *automatically* facilitate the attainment of other's goals'²⁵ to emerge. In particular, the leaders' task in this stage converges on finding a 'focal point' which 'helps define acceptance solutions to collective action problems' and without which, regimes 'may often not ... be formed at all' (Rittberger *et al.* 1997: 144). Adjustment of different interests is, therefore, important for the subsequent negotiation stage when leaders attempt to persuade others to join the international institution, because 'persuasion can be successful when one appeals to the norms that others hold dear' (Russel and Starr 1996: 120). In this stage, it is thus important for leaders to demonstrate the benefits of establishing a new institution to the followers. If the views of leaders and followers differ, it is the leaders' task to adjust them or to seek to reconcile them.

Preliminary negotiations help leaders and followers reach a common understanding of problems or visions. This makes it easier for them to adjust interests or narrow the gaps

²⁵ Keohane, 1984: 51–52. He observes that 'when harmony reigns, cooperation is unnecessary ... yet harmony is rare in world politics'.

between different expectations among members. Leaders' goals can be legitimated by followers who perceive the benefits of complying with goals. Mahathir came to understand the reasons why EAEC was not accepted by other countries, especially Japan, and noted that if there were a problem with the EAEC, it was a failure to appreciate other countries' different opinions about it. He confessed that before the official announcement, he briefed all ASEAN members about the EAEC, but not Japan (*Nihon Keizai Shimbun*, 26 November 1995). This story confirms the importance of the adjustment stage in launching a new policy.

Demonstration

What kind of interests the potential participants expect to obtain by joining institutions and how these have been actually provided are keys in institution-building. Prior to or during negotiations to establish an institution, leaders need to offer what I propose to call the institutional blueprint for a newly evolving institution, including proposals to meet potential participants' interests. These blueprints are mainly developed in leader countries in the refinement process by experts from the epistemic community and are used to explain the institution's objectives to other nations. In many cases, blueprints are the result of the adjustment of leaders' and members' interests in the institution. It is important for leaders to create an attractive institutional blueprint which shapes the preferences that the potential participants are likely to follow, and involves 'a combination of imagination in inventing institutional options and skill in brokering the interests of numerous actors to line up support for such options' (Young 1989: 55). A blueprint designed by leaders helps create consensus regarding the agenda or organisational structure among the participants in the early stage of institution-building. In other words, the institutional blueprint is a tool for the development of inter-subjective understanding about regional cooperation. To create a good blueprint, leaders must conduct preliminary investigations to familiarise themselves with other countries' preferences through the adjustment stage.

Nordin Sopiee (1983: 199) pointed to the importance of adjusting leaders' and followers' interests and mentioned the Pacific Basin Cooperation Concept, one of the ideas behind PECC, arguing that 'it is imperative for the ASEAN states to perceive clear benefits from the Pacific Basin Concept, clear benefits furthermore which in totality far exceed the possible costs'. In an Asia Pacific economic community, a key

element of the institutional blueprint provided by leaders includes plans that contribute to further economic growth and prosperity in the region, the main interest of the participants. In terms of encouraging potential participants to accept the proposal more easily, transnational networks through PAFTAD and PECC may be important. In these networks, experts communicate new ideas or policy innovations about an international institution to colleagues from other countries, who then attempt to advocate the significance of a new institution to their governments. The transnational network of epistemic communities is thus effective in laying the ground for a new idea to be accepted by other countries.

Negotiation

The final stage represents official negotiations in the form of diplomacy or preliminary conferences among the leaders and other parties who consider their participation in a new institution by reviewing the institutional blueprint or judgment made in the adjustment process. The negotiation stage is the process whereby the potential members can also negotiate problems in the new institution, such as the agenda or the purpose, and agree on joining it – a process synonymous with Young's institutional bargaining. Young (1989: 373) addresses the significance of the leaders in the latter stage and asserts that 'efforts to negotiate the terms of international regimes are apt to succeed when one or more effective leaders emerge. In the absence of such leadership, they will fail.' Nye (1990: 182) comments that 'the games of world politics are being played by different actors with different piles of chips at different card tables', and the negotiation stage is where leaders on the basis of their own 'institutional blueprints' attempt to narrow differences between potential participants' interests in an institution. At this stage, leaders' behaviour may be characterised as persuasion, which means 'having another actor behave as desired without the use of promises or threats' (Russett and Starr 1996: 120).

Conclusion

The institution-building model aims to identify who interprets a new reality in international relations; whose interpretations get translated into policy; why and how the policy affects other countries; and how political processes determine whose interpretations of reality are more viable in a certain historical context (Alder and Hass

1997: 386). There appear to be some clearly identifiable processes in international institution-building. This chapter has attempted to abstract these factors. Needless to say, some factors are not always present in institution-building. The order of the last three stages of the institution-building model is not necessarily strict, and depends on the tactics of leaders. Furthermore, there are other factors which influence institution-building, but the important patterns are contained in the model outlined above. It remains in the rest of the thesis to test the usefulness of the institution-building model in understanding the formation of PAFTAD, PBEC, PECC and APEC as important steps in progress towards the formation of an Asia Pacific economic community.

3 Evolution of Japan's approaches to Asia Pacific regionalism from 1957 to 1978

As discussed in Chapter 2, leadership is essential to institution-building, and Japan and Australia were leaders in the establishment of the four regional economic institutions in Asia and the Pacific. Although PECC was a quasi-governmental regional institution, the Japanese and Australian governments were substantially involved in its formation, as will be seen in Chapter 7. Japan and Australia had in effect participated or taken the initiative in the establishment of several regional institutions in Asia and the Pacific, but PECC was a novel regional institution. PECC differed from PAFTAD and PBEC because of the involvement of governments, and it was distinct from SEATO and ASPAC because it was a purely economic institution. Because PECC was designed to promote regional economic integration, it was also different from previous economic institutions such as the Colombo Plan, the ADB and the Ministerial Conference on Southeast Asian Development, which were designed to promote development assistance and foreign aid to Southeast Asia.

Why did both countries' move to create PECC in 1980? If both countries were interested in the establishment of regionalism to promote regional trade and investment, why was a regional institution such as PECC not established before 1980? In considering those questions, it is useful to understand the development of policies on regionalism in both countries, the approaches they employed and the reactions of other countries to these ideas, prior to their successful leadership role in the 1980s.

As argued in Chapter 2, policy makers can absorb new meanings and interpretations of reality, alter their definitions of interests and be motivated to consider new courses of foreign policy. The distinctiveness of PECC from its precursor institutions implies that Japan and Australia's initiative in the formation of PECC was based on a fresh interpretation of Asia Pacific regionalism, serving new interests in their foreign policies. Both countries shared a desire for government involvement in Pacific cooperation to promote regional trade and investment, and this was a major driving

force behind its 'progress' from the first phase to the second in the development of an Asia Pacific economic community. A paradigm shift can take place on the basis of individual or institutional historical experiences. This requires historical investigation into how policy makers or policy elites interpret reality and modify their approaches to foreign policy over time. As seen in Chapter 7, Prime Minister Ohira acknowledged this by referring to his predecessors' ideas on Asia Pacific regionalism when he launched his Pacific Concept.

Chapters 3 and 4 analyse the evolution of both countries' interests in, ideas about and approaches to Asia Pacific regionalism by tracing the background to both countries' leadership role in PECC and APEC. This is explored mainly through a focus on the world views and activities of political leaders, especially prime ministers, who have the highest authority in foreign policy decision making, to clarify the development of both countries' Asia Pacific policy. This chapter centres on Japan's ideas and approaches to the old Asia Pacific regionalism, which have changed gradually over four distinct periods.

The first period coincided with the Kishi and Ikeda administrations (1957–64) during which period Japan was preoccupied with its own economic development and catching up with Western economies. Its interest in Asia Pacific regionalism stemmed mainly from these objectives. Kishi and Ikeda developed their own ideas on Asia Pacific regionalism with the aim of assisting economic development in Asia, but their plans were not realised, mainly because of Japan's lack of economic power and Asia's distrust of Japan's intentions. Japanese leaders realised that Japan needed to intensify its effort to establish leadership in Asian development on the occasion of the first UNCTAD in 1964. This provided an opportunity for Japan to change its policy approach on Asia.

The second period was 1964–72, the prime ministership of Eisaku Sato. During this time Japan increased its confidence as a developed nation as a result of its high economic growth and began to take more seriously its obligation to assist with Asian economic development. In pursuit of this goal, Japan took the initiative in the establishment of the ADB and the Ministerial Conference on Southeast Asian Economic Development in 1966. A key element behind the success of these initiatives

was that Japan's activities led partly to backing America's involvement in the Vietnam War and its containment policy towards China. Japan's leadership role in both institutions was thus sustained by the United States.

The third period coincided with the prime ministership of Kakuei Tanaka in 1972–74, a time when the old Cold War relationships in Asia changed dramatically following international acceptance of China and the cessation of the Vietnam War. Combined with these elements, the first Oil Shock encouraged Tanaka to secure a supply of natural resources independently from the United States and this was a major motivation behind Tanaka's plans for Asia Pacific regionalism. Yet Tanaka's diplomacy in Southeast Asia in 1974 sparked massive anti-Japanese demonstrations. This reaction shocked Japanese leaders and provided the second opportunity for Japan to change its Asia policy dramatically.

In the fourth period, Takeo Miki (1974–76) and Takeo Fukuda (1976–78) were encouraged to focus their foreign policy priority on improving relations with ASEAN rather than putting forward proposals on Asia Pacific regionalism, a result of Tanaka's diplomacy in Southeast Asia. Since the United States sought to avoid engagement in the region after the Vietnam War, Japan thought it essential to be involved in efforts to sustain regional stability in Southeast Asia. This can be seen in Miki's abortive attempt to attend the first ASEAN Summit Meeting in 1976 and the 1977 unveiling of the Fukuda Doctrine. As a result of diplomatic endeavours in this period combined with further economic growth and prospective stability in the region, Japan–ASEAN relations improved considerably.

A factor behind PECC's establishment in 1980 was relevant to Japan's fulfilment of leadership criteria in institution-building, as described in Chapter 2: ability, willingness and favourable conditions. An analysis of historical developments helps in understanding how Japan gradually came to meet these three leadership criteria. In terms of ability, Japan's high economic growth from the 1950s to the 1970s provided the economic power to assist economic development in Asia through trade growth, foreign aid and technical cooperation. Rapid economic growth, in turn, sustained Japan's self-awareness of its responsibilities in Asian economic development, and this was a major driving force behind its willingness to commit itself to regional

institutions from the late 1950s to the 1970s. The improvement in Japan–ASEAN relations in the late 1970s gave rise to favourable conditions for Ohira’s launch of his Pacific Concept. Japan had met the three leadership criteria before Ohira came into power. The argument in this chapter sets the scene for the examination of Ohira’s Pacific Concept in Chapter 7.

The beginning of Japan’s postwar diplomacy and economic cooperation in Asia

Japan’s early interest in Asia Pacific regionalism was necessarily linked to its overall foreign policy goals, and its most important goal in the early postwar period was economic reconstruction. After the Occupation in 1952, Japan committed itself to employing economic diplomacy in pursuit of this aim, as stated by Prime Minister Shigeru Yoshida. Nobuhiko Ushiba, a senior diplomat, recollected that Japan’s diplomacy in the 1950s concentrated on economic affairs to improve its own economic conditions (Ushiba and Yamamoto 1984: 7). Japan’s diplomacy in Asia was mainly directed towards this aim.

Immediately after the War, the concept of ‘Asia’, which came to be associated with prewar militarism, the Greater East Asian Co-Prosperity Sphere and repentance, was regarded negatively as a political concept, and it became taboo in Japanese society.¹ Yet the first Diplomatic Bluebook published in 1957 outlined three diplomatic principles and one of them was maintenance of Japan’s international status as an Asian nation.² Japan’s growing Asian consciousness was stressed in the Bluebook (MOFA 1957: 9) which described a strong bond between Japan and Asia in terms of geography, race, history, culture, psychology and spirit. The Bluebook identified three important issues that Japan needed to tackle urgently: good neighbourly relations with Asia, economic diplomacy and adjustment of relations with the United States. The Bluebook (MOFA 1957: 7–8) linked the first and the second issues to an argument about the ultimate purpose of Japan’s economic diplomacy in Asia:

Asian countries are yet to fulfil their economic potential despite possession of vast natural resources. We may state that there is much room for Japan to

¹ Ogura 1994: 7. Ogura, a senior diplomat, went on to argue that ‘Asia’ became detached from the Japanese psyche in the early postwar period.

² The other two principles were a United Nations-oriented diplomacy and cooperation with liberal and democratic countries (MOFA, 1957: 7–8).

cooperate with them by dint of our high-level technology and industry. In addition, if we help by introducing capital and technology from outside Asia, and take the initiative in both public and private sectors to encourage systematic, central and flexible economic cooperation that would enable Asia to embark on economic construction, we would see growing economic exchanges in Asia. To realise this scenario is crucial to the conduct of our economic diplomacy. As it is difficult for us to achieve further development without prosperity and peace in Asia, such economic cooperation is of vital importance in terms of our economic diplomacy.

Southeast Asia in particular was seen as a potential Japanese market and thus development cooperation in the region was regarded as essential (MOFA 1957: 9). Firstly, Japan had to earn foreign currency to finance its increasing demand for imports as its economy grew, and secondly it had to expand its export markets because its production was increasing. These two factors compelled Japan to make export expansion a priority in economic policy. Economic diplomacy was a means of achieving that goal (Yamamoto 1973: 32). One of Japan's main aims in conducting economic diplomacy in Asia at that time was thus to help its own economic development and to catch up with Western economies (Watanabe 1992: 106–7).

This goal of Japan's foreign policy in Asia was associated with the delivery of reparations and development cooperation. After the Pacific War, Japan started its interactions with Asia through negotiations for reparations, following the conditions decided upon at the San Francisco Peace Treaty in 1951.³ The negotiations started in 1955 and payments continued until 1977. This was one of Japan's main activities in postwar diplomacy in Asia. The third Diplomatic Bluebook (MOFA 1959: 62) outlined the basic objectives of reparations as follows: the restoration and development of the recipients' economies; amelioration of the recipients' attitude towards Japan; and greater economic interaction with recipients. Yet a diplomat who served as Director-General in the Economic Cooperation Bureau of Ministry of Foreign Affairs (MOFA) comments that there was also the realisation in the early postwar period that it was imperative for Japan to guarantee its survival by securing markets rather than by assisting Asia. Japan's reparations policy placed the highest priority on economic reconstruction in the early postwar period.⁴ Reparations were

³ Yamakage 1985: 136–41. Japan paid official reparations to the Philippines, Burma, Indonesia, South Korea, South Vietnam, Thailand, Singapore, Malaysia, Micronesia, Cambodia and Laos. These totalled US \$1.5 billion.

⁴ Personal interview, 23 January 1995, Tokyo.

provided with products and services, rather than finance. The Japanese government paid Japanese companies yen equivalents of the amount of reparations to recipients, and the companies provided services or products for the recipient country. This resulted in the creation of demand for Japanese products. Reparations paid by the Japanese government contributed to Japan's recovery and created footholds in overseas markets.⁵

In addition to reparations, the Japanese government offered economic aid such as yen loans and credit to war victims as further compensation. This helped assuage recipients' complaints about insufficient reparations. This development assistance also occurred through private companies' services and products, which also benefited the Japanese economy. Yamakage (1985: 140) observed:

Reparation and economic aid functioned well to maintain foreign currency reserves in Japan and to promote export growth. Moreover, products given as reparation were usually capital goods chosen to make a contribution to the recipients' economic development; thus they did not compete with the consumer goods which were the bulk of Japan's export products.

Even development cooperation and economic assistance were expected to help expand Japanese export markets and ensure import of natural resources. Evidence that reparations payments to and economic cooperation with Asia would help Japan's postwar economic reconstruction can be found in official Japanese documents. According to MOFA (1982: 158), 'reparation was expected to play a role in opening up avenues for our exports. Since our economy was devastated by the war and we are not endowed with natural resources, to foster exports was an overriding necessity at that time.' As mentioned previously, Japan expected Southeast Asia to be a potential market for its products, taking the place of China which, prior to the war, was both an export market and a natural resource supplier.⁶

⁵ Ushiba and Yamamoto 1984: 21–24. Ushiba acceded to the view that reparation were a type of cost for the market development of Japan's goods.

⁶ The first Economic Cooperation Whitebook published by Ministry of International Trade and Industry (MITI) (1958: 7) states that from the viewpoints of the industrialised countries, because it is necessary to expand markets for their industrial products to support their economic growth, underdeveloped countries are the largest markets. For this purpose, 17 missions were sent to Southeast Asia in 1957–60 to investigate possible construction projects which Japan could support. In addition, the Whitebook concluded that since competition in economic cooperation had intensified, Japan should consider more

The short history of relations between Japan and Southeast Asia⁷ had begun with Japan's aggression and brutality during the Pacific War, and the approach taken by Japan in its Asia policy led to strongly negative images of and attitudes towards Japan in Southeast Asia. Japan, unlike other regional countries, had implanted a deep negative image in the minds of Southeast Asians from the early stages of its relations, a cause of major difficulties in Japan's diplomacy in Southeast Asia. Japan's reparations system gave Southeast Asian recipients the impression that Japan was reaping benefits through reparations and development assistance that were intended to compensate war victims for physical and psychological damage. This resulted in a lowering of Japan's credibility and these negative perceptions were heightened by the arrogant attitude Japan displayed during the negotiations on reparations. Lim (1974: 71) describes Japan's attitude as 'hard-headedness, stinginess and intransigence'. Japan was too obsessed with its own economic reconstruction and the desire to achieve international status to consider the impact of its economic diplomacy on developing countries in the region.

Japan lacked two of the three essential leadership criteria when it began to develop its interest in Asia Pacific regionalism. Firstly, it did not have the economic power in terms of trade, investment or aid capacity to exercise decisive sway in Asia. Secondly, it had not forged sound relations with Southeast Asian countries and gained credibility with them. This chapter explains how Japan overcame these handicaps and laid the foundations for Ohira to launch the Pacific Concept and reviews the evolution of Japan's approaches to Asia Pacific regionalism in the postwar period.

The first period (1957–64)

Kishi's approaches to Asia Pacific regionalism

As Hosoya and Okawara (1995: 54) declare, Japan had no foreign policy on Asia in any real sense until 1957 when Nobusuke Kishi, who took over from Tanzan Ishibashi in February of that year, became Prime Minister. As Prime Minister, Kishi

seriously activating its economic cooperation to secure export markets and natural resource suppliers (cited in Morley 1963: 148).

⁷ Kuroda (1974: 148), a senior diplomat, states that 'for the past fifteen hundred years, Asia meant for the Japanese Northeast Asia, namely China and Korea. Since World War II, however, it has come to be taken for granted by the Japanese that Southeast Asia is a part of Asia.' This demonstrates Japan's relatively recent historical interactions with Southeast Asia.

showed a strong interest in Asia and launched Japan's Asian diplomacy for the first time in the postwar period.⁸ While focusing on economic development in Japan, Kishi proposed a Southeast Asia Development Fund, in which Japan and the United States would cooperate providing finance to save Southeast Asia from harsh poverty. Kishi (1983: 319–20) sought to create an Asian version of the World Bank saying that [his] 'principle idea [was] that money and technology [were] necessary for economic development' (cited in Yamamoto 1984: 14). Kishi (1983: 319) regarded this as one of the most significant of his domestic and international policies. Kishi expected the United States to play the role of major financial provider to the Fund, because Japan, whose per capita GNP was just US \$339, could not afford to fund Southeast Asian development. Kishi thought that instead Japan could provide technology by building technical training centres in Asia where Japan would offer technological knowledge and facilities.⁹ Yet Kishi thought the United States should not take too influential a role in the Fund as it would run counter to the enhancement of Asian nationalism. Japan thus proposed that it take the lead in the Fund to reduce American dominance (Yamamoto 1984: 15).

Kishi's prime motive in launching the Fund was expressed in a speech on Japan's foreign policy on 4 February 1957: 'in terms of accomplishing our economic development and our citizens' prosperity while contributing to other nations, I attach importance to economic diplomacy in providing reparation and development assistance' (cited in Yamamoto 1984: 5). Japan's trade had yet to be restored to prewar levels,¹⁰ its balance of payments with the United States was in substantial deficit, and it had lost four stable markets in Northeast Asia after the war: China, Manchuria, Taiwan and Korea.¹¹ Kishi thus had to take careful account of ensuring a

⁸ Even in the prewar period, Hideki Tojo only made one short visit to Singapore. Thus, Kishi, in a real sense, was the first Japanese Prime Minister in history to make a substantial visit to Southeast Asia.

⁹ The idea behind the US–Japan cooperative venture to help Southeast Asian development was similar to that espoused by Prime Minister Shigeru Yoshida. This idea was sustained by Yoshida's philosophy that 'if Communist China's economic progress substantially outstrips that of Southeast Asian nations in the years ahead, Southeast Asia will fall prey to communism' (cited in Miyagawa 1996: 160). MITI initiated an economic development plan for Southeast Asia on the basis of US–Japan cooperation in 1951.

¹⁰ Exports were 75 per cent and imports 94 per cent of their prewar levels and Japan's exports, unlike those of Britain and the United States, were vulnerable even to small fluctuations in foreign demand due to a lack of secure markets (Yamamoto 1984: 13).

¹¹ In 1934–36, these regions accounted on average for 44 per cent and 37 per cent of Japan's total exports and imports, respectively. After the war, the economies of Taiwan and South Korea were

stable market, and a most suitable market for Japanese products at that time was thought to be Southeast Asia. Kishi stated:

It is important for the recovering Japanese economy to secure a market in Southeast Asia. One of the aims of Japanese diplomacy is for Japan to assist Southeast Asia establish the fundamentals for economic development by means of our industrial power and technology. This would enlarge Japanese foreign markets and open the way to close political relations. (cited in Yamamoto 1984: 13)

This statement demonstrates his motive in promoting the Fund. Reparations were limited in terms of money and in terms of the number of recipients with which Japan could develop its export markets. Thus Kishi proposed the Fund for larger scale economic assistance, involving US finance (Uchida and Yamamoto 1974: 64). For Kishi, Southeast Asia was 'the region of economic opportunity' and 'the community within which Japan was destined for economic leadership' (Morley 1963: 147).

Another important rationale for Kishi in launching the Fund was to position Japan as a leader in Asia and to enhance its political voice in the United States. Before his trip to the United States in June 1957, Kishi first visited Southeast Asia to gain support for the Fund plan, so that he could negotiate with his US counterparts as the representative of Asia. Kishi (1983: 320) said: 'the realisation of the Fund would contribute to establishing Japan's status as a leader in Southeast Asia' and 'the establishment of Japan's position in Asia as the leader would enhance my position with US President Eisenhower in our negotiations' (312). According to Kishi, Japan intended to be a leader in Asia by liaising between Asia and the United States, enhancing Japan's status in the region.¹² He thought Japan should be on equal terms with the United States, and this encouraged him to renew the US–Japan Security Treaty in 1960.¹³ Kishi's ambition was also evident in his statement made in 1978 that 'although the idea of the Greater East Asian Co-prosperity Sphere has invited substantial criticism, even now I do not think it was basically wrong' (Shiota *et al.*

devastated, mainly because of their substantial military budgets, and Japan curtailed its diplomatic relations with China in 1949 (Kawajiri 1962: 64).

¹² The United States sensed Kishi's ambition and Dulles noted in 1957 that 'Mr Kishi is, perhaps, the first post-war Prime Minister, who is getting to act ... as though he wanted Japan to become again a great power' (cited in Buckley 1992: 69).

¹³ The renewed Treaty quarantined the privileges of US bases, but required that the United States consult Japan about deployment from the bases in Japan. The process of renewing the Treaty led to massive protests and riots in Japan, eventually forcing Kishi to resign.

1978: 145). There was no discontinuity in Kishi's pre- and postwar views on Japan's leadership status in the region.

Southeast Asian and US reactions to Kishi's plan

Kishi visited Burma, India, Pakistan, Ceylon, Thailand and Taiwan from 20 May to 4 June 1957 and went on to the United States on 16 June with the details of his plan. In the same year, he conducted a second tour of Southeast Asia and the Oceania (South Vietnam, Cambodia, Laos, Malaya, Singapore, Indonesia, Australia and New Zealand) from 18 November to 8 December. During these visits, Kishi explained the three principles of Japan's diplomacy and proposed the Southeast Asian Development Fund and Asian technical training centres. Most countries expressed interest in the plan, but the neutral countries, such as India, Ceylon and Burma, were cautious of the plan's political connection with the United States. Some Asian countries suspected that 'the fund might be used to facilitate Japanese economic control over the region' (Nishihara 1975: 7), and other countries in the region felt, as Olson (1970: 269) stated, that 'given the economic disparity between Japan and the rest of the region, only the Japanese would profit much from ... such regional arrangements'. The Filipinos and Indonesians suspected the plan of being an attempt to revive the Greater East Asian Co-prosperity Sphere (Kesavan 1972: 152).

Although the United States was in the throes of McCarthyism at the time, and feared that the plan might aggravate antagonistic relations with communist countries (MOFA 1982: 155), American opposition to the plan was directed mainly at Kishi's expectations of enhancing Japan's position rather than external factors which concerned the United States:

Washington was not enthusiastic about Kishi's proposals. [The plan] placed very heavy reliance on American financing while remaining essentially a Japanese initiative; nor did [the plan] give the United States much of a direct management voice. Congressional circles were in a budget-cutting mood, sceptical about foreign aid in general ... [A]t the time many American officials were still convinced that Asia simply did not want economic aid on a multilateral basis. Kishi's proposals, they felt, were likely to run into Asian opposition for this reason alone. (Huang 1975: 18)

The United States saw Kishi's plans as chiefly meeting Japan's desire to enhance its political standing and set up Asian markets with American finance for Japan's benefit.

This aspect in particular annoyed Congress. Kishi recalled that the United States did not see the importance of Southeast Asia in its national interests. This lack of awareness among American leaders that economic cooperation could contribute to regional stability may be one of the reasons Kishi's plan was not considered seriously in the United States (Kishi *et al.* 1981: 173).

Kishi's ambition was not realised. Kishi stated that 'thinking of the still vulnerable and not fully developed Japanese economy at that time, I regret that my proposals were premature' (cited in Chantapan 1993: 69). Although Kishi strove to undertake diplomatic negotiations with the United States on equal terms to attain his plan for the Asian Development Fund as Asia's representative, Japan was far from prosperous enough to assist other regional countries as a leader. In effect, most Americans saw Japan as 'a defeated World War II nation and a postwar manufacturer of trinkets and toys' (Maga 1990: 88), not as a rising leader in Asia. Given the gap between the reality and Kishi's illusionary hope about Japan's international status, and the Fund's aim to help create a large market for Japan's products and to enhance its status in the region with a heavy reliance on the US finance, it was not surprising that Kishi's proposal for the Fund was opposed by the United States and Southeast Asian countries.

Nevertheless, Kishi's two visits to the region helped pave the way for Japan's Asian diplomacy. His 'penitent, humble, yet dignified attitude' (Kurzman 1960: 317) and his apologies for wrongdoings in the war during his 1957 trip contributed to removing some of the psychological obstacles to Japan's regional diplomacy. His trips can be seen as a step in furthering Japan's relations with Southeast Asia,¹⁴ a prerequisite for realisation of Asia Pacific regionalism.

Ikeda's goals in Japan's foreign policy

Ikeda took over Kishi's position in July 1960 and was in power until 1964. On coming to office, Ikeda announced an 'income doubling policy', an embodiment of

¹⁴ During the Kishi Administration, President Sukarno of Indonesia, President of Prasad of India, the King and Queen of Nepal, President Garcia of the Philippines and Prime Minister Rahman of Malaysia visited Japan accompanied by a number of cabinet ministers (Morley 1963: 149).

his strong belief that Japan should catch up with the West economically.¹⁵ This stance was reflected in his approach to foreign policy. In pursuit of this aim, Ikeda, on his trip to Western Europe in 1962, proclaimed that Japan would become an Article 8 member of the IMF¹⁶ and a participant in the GATT Kennedy Round. This was despite the fact that Japan's GNP in 1960 was US\$ 43 billion compared with the US\$ 519 billion of the United States and US\$ 72 billion of Western Germany, and the ratio of imports liberalisation was just 44 per cent, against a rate of more than 90 per cent recorded in most Organisation of Economic Cooperation and Development (OECD) countries. These undertakings were to allow Japan to become a member of the industrialised countries, and matched Ikeda's hope of establishing Japan's status in the international arena. His trips to the United States and Canada in 1961 and to Western Europe in 1962 were to urge support for Japan's entry to the OECD, which symbolised the ultimate goal of Ikeda's foreign economic policy. Ikeda's efforts at economic diplomacy were directed towards Western industrialised countries to enable Japan to join the 'rich man's club'.

Another purpose of Ikeda's economic diplomacy was to improve Japan's external trade environment by urging countries not to apply GATT Article 35 against Japan.¹⁷ Unlike Kishi, Ikeda targeted Western countries in his economic diplomacy, and the reason was clear from the trade statistics. While Japan's exports to Asia represented 44 per cent of its total exports in 1950, the share had dropped to 33 per cent in 1960. Furthermore, Asia's share of total imports, 30 per cent in 1950, had fallen to 22 per cent in 1960.¹⁸ The Diplomatic Bluebook referred to economic diplomacy in the following terms:

As disadvantageous trade conditions are imposed on us by other industrialised nations, we have to intensify our efforts to gradually eliminate trade barriers through diplomatic negotiations with such nations. This

¹⁵ The political turmoil caused by Kishi's signing the renewal of the US-Japan Security Treaty in 1960 encouraged Ikeda to avoid political matters, and political confrontation with reformist parties. This led him to create his slogans such as 'generous and patient' or 'low-profile'.

¹⁶ An Article 8 member has to assume obligations not to impose currency controls on the grounds of international balance of payment difficulties.

¹⁷ Article 35 of GATT, exempting members from according most favoured nation treatment in tariffs and trade, was applied against Japan as a means of preventing the inflow of cheap Japanese commodities.

¹⁸ The decrease in the share of Japan's total imports and exports from Asia through the 1950s was caused by the fact that Japan no longer needed large volumes of agricultural products, such as rice and cotton, on which Asian countries relied heavily for exports (Morley 1963: 152).

undertaking is critical for promoting our trade expansion policy. (MOFA 1958: 9)

As Watanabe (1992: 85) argued, Japan's economic diplomacy at that time was implemented in two ways: increasing exports to Western industrialised nations and providing development assistance to Asian developing nations. Priority was given to the first aim. Catching up with the West became an important national goal and removing discriminatory arrangements such as the application of GATT Article 35 was an effective step towards achieving this aim. Japan thus became obsessed with establishing full membership in the OECD to establish its status as a developed country, an aim that the ninth Diplomatic Bluebook (MOFA 1965: 43) identified as the foremost objective of Japan's economic diplomacy in the postwar period.¹⁹

Ikeda's Asia diplomacy

While Ikeda, unlike Kishi, did not emphasise Southeast Asia as Japan's future market, he did make more genuine attempts to assist economic development in Southeast Asia. This represented a change in Japan's approach to Asia policy. Although Ikeda (1963: 2) admitted that he had no interest or experience in diplomacy before he became a politician, he attempted to mediate between Indonesia and Malaysia in their dispute caused by Malaysia's plan to form the Federation of Malaysia in 1963. This was regarded as 'Japan's first political role in Asia since the war' (Nishihara 1976: 8). Yasutomo (1983: 26) assessed Ikeda's diplomacy in the region positively: 'Ikeda became the first premier to define the special position of Japan in Southeast Asia; ... direct, official involvement in Asia was a new role for Ikeda and Japan.' While the 1957 Diplomatic Bluebook referred to the importance of Southeast Asia as a potential market for Japan, the 1960 Diplomatic Bluebook (MOFA 1960: 18) argued that as Southeast Asia faced the constant threat of communist insurgency, development cooperation in the region was important to prevent this. The emphasis had shifted to development cooperation. The United States might have encouraged this change. In 1960, the US National Security Council's guidelines on US policy to Japan stated:

¹⁹ When Japan was admitted to the OECD in 1964, the then Foreign Minister Etsusaburo Shiina mentioned that in establishing its international status as an industrialised nation, one of the main pillars of postwar Japan's diplomacy had been realised (Watanabe 1992: 85).

[The United States should] encourage Japan to complement United States and other Free World powers in stabilising the international power balance, particularly in Asia, by contributing to the economic development of less developed nations of the Free World, exercising a constructive and moderating leadership in the Afro-Asian Bloc ... (cited in Buckley 1992: 107-8)

The United States consistently urged Japan to sustain its Cold War policy in Asia and welcomed Japan's leadership role in this through its policies on Asia Pacific regionalism. In fact, Ikeda's awareness of Japan's high economic growth and Japan's OECD membership in 1964 were important reasons for Japan to develop new elements in its Asia policy, reflecting his approach to Asia Pacific regionalism.²⁰

On his first Asian trip in 1961, Ikeda visited Pakistan, India, Burma and Thailand. During the trip he realised there were many poor areas in these countries and that Japan could help them by describing the path Japan had taken in its economic development. He preached the effectiveness of a free economic system on the basis on Japan's experience of economic growth and he stated, after his first trip to Asia, that Asians thought of Japan as an 'advanced elder brother' (Olson 1970: 66). It was on his second trip to Asia in 1963, which included the Philippines and Indonesia, followed by Australia and New Zealand, that Ikeda tried to mediate in the Indonesia-Malaysia dispute, as mentioned earlier. He put forward his plan for Asian regionalism to the Filipino President, although this was quietly brushed aside by the President as premature. Ikeda, returning from his second trip to Asia, commented that 'Japan would assume the role of leadership in the Western Pacific, just as Britain had been the paramount power in Europe in the nineteenth century' (*FEER*, 28 January 1965). Japan's status in Asia mirrored Ikeda's hope that Japan would play a central role, creating a prosperous zone, which could underpin one of the three pillars in the world economy.

Ikeda's awareness of Japan as a leader in Asia was reflected in his efforts to 'enunciate a new and more positive aid policy which was to animate the next cabinet' (Langdon 1973: 92). Ikeda went so far as to say that 'it was Japan's duty to provide economic and technical aid, even if we have to borrow money from foreign countries

²⁰ Hellmann (1972: 69) commented that 'Ikeda went further than any of his predecessors to link Japan's fate with that of the region'.

to do so' (*Washington Post*, 5 December 1961). Ikeda's benevolent sentiments were in sharp contrast with the conventional image of his economically-obsessed diplomatic style.²¹ Ikeda's statements, indicating his views on Japan's leadership in Asia, characterised his confidence in Japan's continuing high economic growth. It was on this basis that Ikeda thought that Japan could assist with Asian economic development.

Ikeda's plan for Asia Pacific regionalism

Ikeda conceived the so-called three-pillar approach to international politics. Under this plan, the United States, Western Europe and Japan would be the three pillars promoting mutual cooperation to sustain the world economy. Ikeda's visit to Western Europe in 1962 sought to link Japan, which was enjoying high economic growth, with Western Europe, which was enhancing its prosperity through intensifying economic integration (MOFA 1963: 7). This diplomatic effort was to be carried out under the aegis of Ikeda's three-pillar approach. When he observed European economic growth first hand during his visit, he realised that a nation could not flourish in isolation and that high economic growth could not be attained without increasing mutual interdependence. As Ikeda (1963: 5) argued, Japan could not become one pillar of the world economy by itself and should therefore cooperate with Asian countries. He expected great prosperity to be created in Asia from Korea to Australia via Indonesia through the mutual exchange of natural resources and labour combined with successful growth policies within the region to create an Asian version of the EEC (Ito 1986: 243). Ikeda (1963: 5) thought that Japan, as one pillar of the world economy, should take the lead in fulfilling this ambition in Asia and, to achieve this aim, Japan should direct its economic strength towards Asia's peace and prosperity. This was his rationale for assisting Asia and, according to Ito (1985: 328), Ikeda's secretary, the creation of such regionalism was one objective of his diplomacy as Prime Minister. Yet Ikeda formulated few plans to externalise his grand concept and did not implement effective policies to assist Southeast Asian economic development, despite his intentions. This was mainly because Japan's economic

²¹ For instance, Ikeda's diplomacy was said to be 'connecting diplomacy with enlarging Japan's GNP' and avoiding 'getting involved in the politics of the cold war' (Khamchoo 1986: 66). Iriye (1991: 128) also concluded that Ikeda's diplomacy would be remembered as Japan's shunning a prominent international role and exclusively pursuing economic objectives. Yamamoto (1984: 44) criticises Ikeda for his obsession with the economy to the point that he neglected diplomacy.

strength was not yet sufficient to deliver substantial assistance for Southeast Asia's development.

UNCTAD and the opportunity for change in Japan's Asia policy

Japan's participation in the first United Nations Conference on Trade and Development (UNCTAD), held at Geneva in May–June 1964, forced Japan to 'learn' that Japan's Asia policy was no longer adequate and, as a member of the developed nations, it had to intensify its efforts to help economic development. In 1964, Japan became a member of the OECD and the Development Assistance Committee (DAC), which contributed to Japan setting up its ODA policy in earnest. In 1965, the repayment of its all debts to the World Bank symbolised Japan's changing status from being an aid recipient to an aid provider.²² It was not until the first UNCTAD Conference that Japan, as a developed country, was forced to think seriously about contributing to developing countries.

At the Conference, all developing countries were unified in demanding that developed countries increase the amount of ODA or grant preferential treatment. They 'acted like labour unions seeking wage rises' (Olson 1970: 142). Yet Japan, the only non-Western country and the poorest member of the rich man's club, faced a dilemma at the Conference; it had no choice but to support the United States and Europe despite the fact that it was an Asian nation.²³ It was more difficult for Japan than any other developed country to support the importation of more agricultural products from developing countries or to accord preferential treatment to them because of the affect this would have on Japan's declining industries. Also, Japan's low per capita GNP did not easily allow it to increase the amount of ODA to developing countries.²⁴ As a result of its experience at the Conference, Japan realised that 'things [had] reached a point where [Japan could] no longer act simply on the basis of profit and loss to the Japanese economy' (Okita 1966a: 132). Participation at the Conference led Japan to

²² Matsui (1984: 65) categorised 1965 as a year when Japan transformed the nature of its aid policy, focusing more on loans than reparations.

²³ Yamato (1964: 35), a delegate to the conference, stated that it was impossible for Japan to reconcile its stance as an Asian country with its position as a developed country.

²⁴ According to Asakai (1964: 4), head of the delegation, he returned to Japan, partly because of the developing countries' criticism of Japan's negative attitude, and extracted a pledge from Ikeda to increase Japan's contribution to ODA from 5.5 per cent to 1 per cent of its national income. This was a desperate move to avoid criticism. Asakai said that after Japan announced this plan, delegates of several developing countries praised Japan's decision.

realise 'for the first time ... that matters which previously had been considered domestic, such as the protection of agriculture and commodity import policies, could no longer be seen as Japan's concern alone'.²⁵ This experience led Japan to become more committed to regional economic cooperation in Southeast Asia.

Summary

Kishi's and Ikeda's ideas of Asia Pacific regionalism were sustained by their views of Japan as a leader in Southeast Asia. Yet, as long as Japan primarily sought to achieve economic growth, expand its export markets and to catch up with Western economies, it could not be regarded as a leader in the region. Japan's participation in the first UNCTAD provided a salutary lesson for Japan on what was required of a leader. Japan's bid for a leadership role in Asia and its proposal for Asia Pacific regionalism were, at best, based on rhetoric. During the period that Kishi and Ikeda were in power, there was no need for a substantive Japanese involvement in the region's politics while the United States was a willing and capable guardian of peace and security' (Shibusawa *et al.* 1992: 135). This enabled Japan to focus on the three major objectives of its economic diplomacy. However, as the United States became embroiled in the Vietnam War and Japan achieved further economic growth, America's expectations and Japan's intention to assume a leadership role in Asia increased.

The second period (1964–72)

Eisaku Sato and his foreign policy goals

Eight years under prime ministership of Eisaku Sato²⁶ saw Japan's style of diplomacy change. Sato followed US strategies in Asia more closely. Prior to becoming Prime Minister, Sato observed that 'in addition to regarding Asia as a market, I will make a positive political statement on Asian affairs for Japan's security and world peace, because international tensions are gathering in Asia' (cited in Yamamoto 1984: 73). The intention behind Sato's statement was mainly to signal that he was willing to share the burden with the United States of the US Cold War strategy in Asia.

²⁵ Caldwell 1972: 42. Asakai (1964: 8) wrote in this context that as a nation assuming responsibility for sustaining a sound world economy it needed to take more positive action to assist developing countries.

²⁶ Sato, Kishi's younger brother, came into office in November 1964 and held the longest single term of Prime Ministership in Japan (7 years and 8 months).

This stance was evident in his policy towards China. After his first meeting with President Johnson on 12 and 13 January 1965, Sato changed his views on China suddenly. Japan's original approach to the joint communique was to form its own China policy. Yet it seems that in the meeting, Japan's policy was rejected by the United States, which was committed to a policy of containment towards China. In his speech in New York on the second day of the summit meeting Sato declared 'we are more concerned about China's aggression than the United States, and we fully understand American policy on China, which prevents China's military invasion of its neighbouring areas' (*Yomiuri Shimbun*, 17 January 1965). Sato's sudden change of mind on China was embedded in US–Japan affairs, based on his desire for the return of Okinawa.

The importance of Okinawa to Sato is revealed in the fact that he was the first Prime Minister to visit Okinawa in August 1965. It was on this occasion that he made his famous statement: 'I well understand that the postwar era has not ended for as long as Okinawa is not restored to the fatherland'.²⁷ Sato seems to have found it politic to act in concert with the United States on the question of its China policy and to express Japan's support for the Vietnam War in order for Okinawa to be returned.²⁸ It was noteworthy, however, that Japan intensified its efforts to dilute the political overtones in its foreign policy statements and approaches for fear of giving the impression of hostility to China (Watanabe 1992: 117). This was because those who supported recognition of China were acquiring influence within Japan and trade with China was increasing. Sato's obsession with the return of Okinawa and his pursuit of US Asia policy, nonetheless, led to an intensification of his anti-communist stance.²⁹

²⁷ The support of the then US ambassador to Japan, Edwin Reischauer, on the Okinawa issue, encouraged Sato. Reischauer believed that as long as the United States continued to occupy Okinawa, the US–Japan partnership would not be properly established (Iriye 1991: 137).

²⁸ For instance, Sato visited South Vietnam in October 1967 to extract concessions from the United States on the Okinawa issue, although he faced strong opposition outside and even inside his own party (Sudo 1992: 70).

²⁹ Sato prohibited the Export–Import Bank from extending loans to China in 1965 and in September 1967 he visited Taiwan as Prime Minister. Both actions provoked antagonism from China and aggravated Japan–China relations. The purpose of these actions was also to attempt to win favour from the United States on the Okinawa issue. Sato was awarded Nobel Prize for Peace for contributing to Okinawa's return in 1974.

Sato's high profile in foreign policy and his explicit pro-American stance were also observed in his diplomacy in Asia. The United States increased its commitment to the Vietnam War and expected Japan to support its Cold War policy. This was made explicit in the statement by Dean Rusk, then Secretary of State, in July 1967, when he said that to ensure security for free Asian countries, Japan would be expected to create a 'soft wall', a stability in the region through economic cooperation (*Mainichi Shimbun*, 8 December 1969). Sato then attempted to use economic cooperation for political purposes and, to do this, relied on regional multilateral institutions to share the burden by allocating more economic assistance to non-communist countries in Southeast Asia and pursuing a high profile Asian policy (Yasutomo 1983: 56).

Japan's initiative in Asia Pacific regionalism

The first step in fulfilling this 'political' purpose was to convene the Ministerial Conference for Economic Development in Southeast Asia in Tokyo in April 1966, the first international conference convened by the Japanese government in the postwar period. The initiative was based on the notion that economic assistance to developing countries was the weightiest responsibility of developed countries and that inaction would result in international instability, which could cause communism to prevail (Yoshino 1966: 16). It was also partly a response to US urging. President Johnson delivered a speech in April 1965 in which he expressed his willingness to contribute US\$ 1 billion towards economic development in Southeast Asia and asked other countries, including even the Soviet Union and North Vietnam, to cooperate in this. Japan was expected to contribute more to the undertaking and senior US officials, including Walt Rostow and Eugene Black, visited Japan to persuade it to do so. Sato took steps to convene the Ministerial Conference, indicating his desire to integrate Japan's policy with that of the United States. At the Ministerial Conference, Japan announced the establishment of the Asian Agricultural Fund, an investigation into the possibility of importing grain on a long-term basis and a further endeavour to allocate 1 per cent of Japan's GNP to ODA (Yamamoto 1984: 90). The policies that Japan announced also marked a change in its approach to assistance in Southeast Asia, a transformation realised in Japan's participation in the 1964 UNCTAD meeting.

The second step was Japan's strong commitment to the establishment of the ADB.³⁰ Through its commitment to the ADB, Japan expected that 'larger projects could be financed and foreign aid would be more effectively utilised than in the case of bilateral aid' (Sudo 1992: 65). Japan's eagerness led it to commit US \$200 million as its contribution to the Bank and to invite the Bank to establish its headquarters in Tokyo. The sum of \$200 million was equivalent to the US contribution to the Bank and 'this was the first time since the war that a major American contribution to an international agency was matched by any other country in the world' (Jo 1968: 785).

Southeast Asian countries' acceptance of Japan's initiatives in establishing the two regional organisations was fuelled by their expectation that Japan would provide more assistance. In the early 1960s, most of the aid given by developed countries and international aid organisations such as the World Bank was to African and Latin American countries rather than Southeast Asian countries. In 1963, Southeast Asian countries obtained about only 8 per cent of the total aid, and the sum of Southeast Asian aid per capita was US \$2.9, compared with US \$5.9 and \$5.0 for African and Latin American countries, respectively.³¹ Southeast Asia had to rely on Japan, which allocated more than half its aid to Southeast Asia, making Japan its major source of aid. Such reliance created favourable conditions for Japan to assume a leading role in the establishment of the Ministerial Conference and the ADB.

Like Kishi and Ikeda, Sato's confidence in Japan as an Asian leader was another motivation pushing him to take the initiative in the two regional institutions, as can be seen in his speech in 1966 (cited in Yasutomo 1983: 56):

Japan, as one of the few countries in Asia enjoying political stability and possessing a highly industrialised economy, considers herself to be in a unique position to offer as much of a contribution as possible within her own capacity toward the achievement of stability and prosperity in Asia.

This perception was due partly to Japan's recording a trade surplus in 1965 and to US support for Japan in taking the lead in regional economic institutions. Sato

³⁰ Takeshi Watanabe (1977: 1–2), the first President of the ADB, explained the necessity of the Bank: 'we felt that the requirements of Asian development were too large to be met solely by the World Bank whose activities in Asia were far from adequate'.

³¹ *Sekai*, June 1966: 152–53. If South Vietnam, which obtained massive aid from the United States, was excluded from Southeast Asia, the sum per capita would have been much lower.

described Japan's initiatives as part of the peaceful purpose behind Japan's economic diplomacy (MOFA 1973: 1). It was also a sign of Japan's leadership obligations, as expressed in his speech in November 1969: 'I believe that it is Japan rather than the United States that should take the leading role in such fields as economic and technical assistance towards the nation-building efforts of the Asian countries' (cited in Guillain 1970: 488). Japanese prime ministers had touched upon the issue of US-Japan cooperation in development assistance in Southeast Asia, but Sato's speech showed a unilateral commitment to take the initiative on the part of Japan. It also reflected a willingness to share the burden with the United States.

Yet Japan, obsessed with taking a leading role in the region, neglected to address Southeast Asians' fear of its dominance as well as their negative perceptions of Japan. They criticised the two regional institutions that Japan had initiated as avenues to advocate its economic leadership (Chantapan 1993: 84). Their fear and lasting negative perceptions of Japan were especially evident when Manila was chosen as the location for ADB headquarters. Japan had hoped that Tokyo would be selected. This decision shocked Japan,³² but it carried with it a lesson, as Yasutomo (1983: 187) acknowledged. 'Beware of Asian fears concerning Japan's aspirations in the region, and do not consider prestige as an award automatically bestowed solely on the basis of a nation's economic accomplishments.' This lesson, together with the riots that took place when Tanaka visited the region in 1974, caused Japan to handle its diplomacy in Asia in the mid-1970s more sensitively.

Summary

Sato's strong commitment to assisting Southeast Asia on the basis of multilateral institutions provided the starting point for Japan's initiatives in the region. While Sato thought Japan should make a considerable effort to assist Southeast Asia, his policy priority seems to have been the integration of Japanese regional policy with that of the United States to create a favourable atmosphere for the return of Okinawa.³³ As

³² It was reported that Japan's delegate to the meeting, Aiichiro Fujiyama, a former Foreign Minister, suddenly became pale, when Manila was announced as the headquarter's location (Yasutomo 1983: 91).

³³ Sato, however, did not take any military action to support the growing US involvement in the Vietnam War, although he well understood and supported US Asia policy. Japan provided financial aid to South Vietnam, which accounted for \$9.7 million from 1964 to 1970, but Japan was ranked sixth in total aid to South Vietnam following the United States, Germany, France, Australia and Canada. Also, Japanese aid took the form of non-military commodities such as hospitals and medical assistance. When

the joint communique issued by Johnson and Sato in November 1967 pointed out, both leaders recognised that regional peace and stability would be maintained not only by military actions but also by political stability and economic development (Yamamoto 1984: 105). Japan was expected to make a substantial contribution to this economic support and Sato maintained this through Japan's initiatives in the Ministerial Conference for Economic Development in Southeast Asia and the ADB in 1966.

Southeast Asia's endorsement of Japan's leadership was important. When Japan's balance of payment turned to surplus in 1965, Japan could allocate considerable aid to, make substantial investments in and absorb export products from Southeast Asia, all of which helped their economic development. This second period saw Japan fulfilling a condition for its leadership role in Asia, namely the attainment of economic recovery and the establishment of its status as the industrialised nation in Asia through its commitment to Asia Pacific regionalism. Yet Southeast Asia's endorsement of Japan's political role remained qualified. Japan was rejected as a venue for the ADB's headquarters and negative views toward Japan increased during the Tanaka period.

The third period (1972–74)

Nixon's sudden announcement of the visit to China in 1971 and the prospect of the end of the Vietnam War led Japan to attempt to pursue a more independent foreign policy in Asia. This approach was promoted by Kakuei Tanaka. After Okinawa was returned to Japan in May 1972, Sato left office and Tanaka took over from him in July of the same year. As Prime Minister, Tanaka dealt with two major diplomatic issues, normalisation of relations with China and the 1973 Oil Shock, both of which contributed to Japan's pursuit of diplomacy independently from the United States. This distinguished Tanaka from his predecessors. Tanaka's ideas on Asia Pacific cooperation derived from his personal views, which were influenced by these two diplomatic events. In taking advantage of the opportunity to conduct more

the first ASPAC was held in Seoul in 1966, Japan intensified its efforts to prevent the Conference from becoming a military alliance against communist countries. This was due to the strong opposition of the Japanese public to the Vietnam War, and the Constitutional ban on Japanese military activities. Also, Japan wished not to antagonise China.

autonomous diplomacy, Tanaka hoped to establish a regional framework, partly to secure a stable supply of natural resources in Asia and the Pacific.

Tanaka and normalisation of the relationship with China

Following Nixon's visit to China in February 1972, Tanaka paid his historic visit to Beijing in September 1972, after which Japan normalised its relationship with China.³⁴ Although it took a further six years for Japan and China to reach agreement on the Japan–China Peace Treaty, rapprochement with China was significant in removing a substantial constraint on Japanese diplomacy in Asia and in enlarging Japan's diplomatic scope in the region.³⁵ This meant that Japan could conduct its regional diplomacy without being constrained by the China issue and without taking ideology into consideration. In developing its own Asia policy, Japan had to take into account US Cold War policy which, in the Asian region, had focused on China until 1972. Japan was now largely free of such ties in its regional diplomacy³⁶ and it no longer needed to deal with such problems in new approach to the region taken by Tanaka.

Although rapprochement would have been impossible without a change by the United States to its China policy, Tanaka's personal commitment to normalising the relationship was important.³⁷ Tanaka's determination was so firm that rapprochement was achieved soon after Tanaka came to office in the middle of 1972, despite the fact that the United States did not normalise its relationship until 1979. A Japanese diplomat pointed out that although Japanese foreign policy had been strongly influenced by US policy, Japan had proceeded independently with preparations for

³⁴ Nixon's announcement of his visit to China in July 1971 without any prior notice to Japan was a great shock to Japan, which had faithfully followed the US containment policy on China. The 'Nixon Shock' was part of the cause of Sato's resignation as Prime Minister. In fact, there had been strong voices in Japanese business and political circles (even in the Liberal Democratic Party (LDP) prior to this shock, that argued for a diplomatic relationship with China. Sato's successor was thus expected to take firm action towards rapprochement with China. Takeo Fukuda, foreign minister in the last Sato Cabinet, was thought to be a strong candidate, but his pro-Taiwan stance partly prevented his becoming the Prime Minister after Sato.

³⁵ Tanaka recalled that the normalised relationship between Japan and China was intended to reinforce regional security, a move more effective than creating an Asian version of the North Atlantic Treaty Organisation (NATO) (Yanagida 1983: 266).

³⁶ For instance, Japan confidentially dispatched a Director of the Asian Bureau in MOFA to Hanoi in March 1973 to seek rapprochement with North Vietnam when the Vietnam War was not yet over (Tomoda 1988: 46).

rapprochement (cited in Tomoda 1989: 44). Tanaka's prompt policy change, along with the fact that the United States was decreasing its commitment to Asia due to the end of the Vietnam War, enabled Japan to pursue its diplomacy in Asia more independently.

Tanaka's resource diplomacy

Another aspect of Tanaka's autonomy centred on resource diplomacy to ensure reliable supplies of natural resources. According to Kozo Watanabe, an LDP politician and one of Tanaka's factional aides, the sudden US announcement of Nixon's visit to China made Tanaka believe that Japan had been slighted and was not being accorded appropriate treatment as an independent country. It concerned him that US-China relations would become central to US Asia policy, marginalising US-Japan relations. Tanaka thus thought that Japan should do whatever it needed to secure suppliers of natural resources without such a heavy reliance on the United States (Tahara 1976: 166) and that diversified resource diplomacy was necessary to cater for the increasing domestic demand for energy (Shibusawa 1984: 78). Accordingly, Tanaka conducted resource diplomacy with many countries other than the United States to establish the means to obtain natural resources independently from the major oil companies of the United States, on which Japan had previously relied for oil.³⁸

Tanaka's belief was stimulated when the Organisation of Arab Petroleum Exporting Countries (OAPEC) announced it would cut oil production by 25 per cent and classified Japan as an 'unfriendly country' in October 1973.³⁹ Since Japan imported about 40 per cent of its oil from the members of OAPEC before the Oil Shock, (Yorke 1983: 52), OAPEC's announcement came as a shock to Japan. Although the United States supported Israel's occupation of the former Palestine area, Japan felt

³⁷ Tanaka had expressed his hope of rapid rapprochement with China before he came to office, a move which was well received by China. This was also a condition for Tanaka to garner support from Miki and his faction in the LDP Presidential election for Prime Minister.

³⁸ Hayasaka 1987: 328-29. Tanaka visited France, England, West Germany and the Soviet Union in September-October 1973; Mexico, Brazil and Canada in September 1974; and Australia, New Zealand and Burma in October-November 1974. This sort of resource diplomacy did not meet with strong criticism from other developed countries except the United States, because such countries, especially those in Europe, had also embarked on similar diplomacy for their survival.

³⁹ This was OAPEC's strategy to change the pro-Israel policy taken by many Western countries, including Japan.

compelled to take a different stance.⁴⁰ Chief Cabinet Secretary Nikaido announced on 22 November 1973 that Japan had requested Israel's withdrawal from all territories occupied in 1967, which represented 'the first break with American foreign policy since the war' (Yorke 1983: 52). An implication of the Oil Shock in 1973 for Japan's Asia diplomacy was that Japan took a foreign policy position that was not in line with that of the United States.⁴¹

Tanaka's vision of Asia Pacific economic cooperation

Tanaka's views on Asia Pacific regionalism were associated with his diplomacy on China and resources. He announced his notion of regional cooperation in a speech on the first administration policies made on 27 January 1973, expressing his hope to organise a conference to discuss broad issues of regional peace, stability and economic construction (*Nihon Keizai Shimbun*, 1 January 1973). His view was influenced by two factors looming in international politics at the time: the agreement to end the Vietnam War and China's re-entry into international society. Agreement was reached between North Vietnam and the United States four days before Tanaka's speech, and Tanaka thought that the move towards the end of the Vietnam War was essential for Japan to contribute to stability in the Indochina region. Establishing a dialogue with other Asian countries was the initial step.⁴² The plan for the Asia Pacific Peace Conference was the first regional cooperation policy that Japan attempted to initiate, because the Conference was to fulfil political as well as economic purposes. The reasoning behind the initiative lay in Tanaka's hope of taking a leading role in the establishment of a new regional forum in circumstances where

⁴⁰ When Henry Kissinger, US Secretary of State, visited Japan after OAPEC's announcement, Kissinger rejected Tanaka's request for a stable oil supply to Japan. Kissinger's refusal led Tanaka to consolidate his belief in autonomous diplomacy and gave Kissinger notice that Japan would support the Arab countries (Iokibe 1989: 49).

⁴¹ This pro-Arab policy was communicated directly to the Arabs through subsequent visits by major Japanese politicians with the aim of removing restrictions on oil exports to Japan. The courtship of the Arabs to secure oil led to increased government loans to them, and the DAC criticised the growth of Japanese aid as aiming to secure natural resources rather than assisting developing countries. The sum of loans to Arab countries amounted to 14 billion yen at that time (Inada 1985: 294).

⁴² On the China issue, then Foreign Minister Ohira commented that China would be invited to the Conference because Asia could not be free without a system in which Japan and China as two of the three regional superpowers along with India could talk about political affairs in Asia. However, some Japanese observers felt that as the Japan-China rapprochement had been attained just four months prior to Tanaka's policy announcement, the idea was premature. ASEAN countries were still struggling with what stance to adopt in relation to China and whether this might later create concern among other regional countries, and be seen as an attempt to dominate the region with China after the US withdrawal. Speed in handling the China issue was reflected in Tanaka's China policy (*Nihon Keizai Shimbun*, 17 January 1973).

SEATO and ASPAC were functioning ineffectively due to their anti-communist stance. According to Keiichi Konaga, Tanaka's secretary, a major motive behind Tanaka's launching the concept of regional cooperation was the idea that middle power countries in the region would join together to emulate superpowers such as the United States and the Soviet Union (Tahara 1976: 175).

The observation seems to be reflected in Tanaka's diplomatic positions: diplomacy conducted independently of the United States and an emphasis on the North-South problem rather than the East-West problem. The first view was reflected in his prompt approach to normalising relations with China and North Vietnam. Kozo Watanabe, Tanaka's political aide, mentioned Tanaka's idea that as an economic superpower, Japan should be independent of the United States and increase its influence by unifying Asia Pacific nations (Tahara 1980: 284). The United States was not envisioned as a Conference participant. In a sense, Tanaka's ideas on Asia Pacific regionalism, encouraged by drastically changing environments in Asia, were launched as an attempt to undertake 'autonomous diplomacy' from the United States.⁴³ Tanaka stated his second point of view regarding the North-South problem in his speech on administrative policies: 'the world cannot enjoy peace in a real sense without improving the maldistribution of wealth' and resolving the North-South problem (*Nihon Keizai Shimbun*, 27 January 1973). To improve regional cooperation, Tanaka instigated talks with regional countries about Asian stability in the post-Vietnam era.

Tanaka concealed another agenda behind the vision of regional cooperation. His stated views on regional cooperation were put together by MOFA, but when Tanaka was MITI Minister in 1971-72, he had discussed regional cooperation with MITI officials. This aimed to consolidate his vision of regional cooperation as a policy for winning the prime ministership (*Nihon Keizai Shimbun*, 27 January 1973). A participant in Tanaka's discussions within MITI revealed that Tanaka might also have been mapping out a profitable market behind his regional concept (*Nihon Keizai Shimbun*, 27 January 1973). Konaga suggested Australia, Brazil, Canada and

⁴³ For example, Tanaka talked with US presidents four times, but he did not raise his ideas on regional cooperation as part of the agenda at these meetings. The first meeting was in September 1972 in Hawaii. The second was in July 1973 in Washington, the third was in April 1974 in Paris and the fourth was in November 1974 in Tokyo. The first three meetings were with President Nixon and the last was with President Ford.

Indonesia, which were all rich in resources, as key countries for contributing to the Conference.⁴⁴ Tanaka dispatched a special envoy to Beijing and Jakarta to meet with Premier Chou En-Lai and President Suharto in February 1973 (*FEER*, 26 February 1973), but uncertainty in the region due to drastic changes in regional politics prevented either leader from responding positively to Tanaka's idea.⁴⁵

The crucial role of Tanaka's Southeast Asian diplomacy

Tanaka visited five ASEAN countries in January 1974 and he encountered massive riots in Thailand and Indonesia.⁴⁶ This marked an important turning point in Japan's leadership ambitions in Asia Pacific regionalism. Japan realised that it was imperative to change its stance and approach towards Southeast Asia and place a higher priority on improving relations with ASEAN. During his visits, Tanaka wished to convey Japan's appreciation of ASEAN's self-help endeavours and its respect for the solidarity of its members.⁴⁷ Tanaka also wanted to investigate Japan's role in a situation where the United States had decreased its commitment to the region, but Southeast Asia still faced a threat from China and the Soviet Union. Tanaka hoped to seek understanding from ASEAN, refuting the idea that Japan intended to control ASEAN countries using its economic might.

Anti-Japanese feeling had been exacerbated by Japan's growing economic presence in Southeast Asia, and malpractice by Japanese business people.⁴⁸ At Bangkok airport,

⁴⁴ Tahara 1976: 178. Tanaka talked about uranium development and regional economic cooperation with his counterparts from the above four countries when he visited them.

⁴⁵ In all five joint communiques issued with five ASEAN nations in 1974, Tanaka successfully conveyed the mutual agreement that regional cooperation was important for its contribution to regional prosperity and peace and that such cooperation should be in line with the interests of ASEAN nations. This was achieved despite the strong anti-Japanese sentiments prevailing Southeast Asia during his visits.

⁴⁶ Smaller-scale anti-Japanese activities were also seen in Singapore, where students submitted a document protesting about Japanese business practices, and in Malaysia where Japanese national flags were burned. As Manila was under martial law at that time, anti-Japanese demonstrations did not take place so overtly.

⁴⁷ Two of the regional institutions which Japan had expected to work with on the issues of regional cooperation and direct dialogue with Southeast Asia, ASPEC and the Ministerial Conferences for the Economic Development of Southeast Asia, had all but collapsed by the time Tanaka came to office in 1972. The Tanaka Administration instead shifted its focus to ASEAN. The Foreign Minister, Masayoshi Ohira, made a speech in the Diet in January 1973, in which he asserted that Japan highly valued ASEAN's self-help and its intention to pursue autonomy and was ready to offer full assistance and cooperation. This was the first speech in the Diet that officially acknowledged ASEAN (Yamamoto 1984: 322).

⁴⁸ There was a strong voice within the LDP against Tanaka's visit to Southeast Asia due to prevailing anti-Japanese sentiment in the region (Sato 1994: 124–25).

Tanaka faced almost 2,000 students carrying placards with slogans such as 'Get out you ugly imperialist' and 'Imperialist monster Tanaka' (Shibusawa 1984: 76). In Jakarta, when Tanaka arrived, the city was already filled with student rioters and the situation worsened the following day, when 'Cars were set ablaze, the Rising Sun was lowered from the flag masts of government buildings and troops fired over the heads of the mob'.⁴⁹

Why did such anti-Japanese protests gather such force?

Firstly, anti-Japanese sentiment was associated with the malpractice of Japanese business people in the region who used bribery, 'dummy' personnel and a discriminatory wage system. Anti-Japanese movements in Thailand and Indonesia also incorporated domestic anti-government elements; demonstrators thought Japanese economic entry into the region had contributed to local government officers' lining their own pockets (Lim 1974: 94). As Shibusawa (1984: 77) stated, 'there was rumour of corruption in high places as well as alleged collusion between Indonesian power elites and Japanese business interests'.⁵⁰ The exclusiveness of the Japanese living in the region also fostered anti-Japanese sentiment.⁵¹ Former Thai economic affairs minister Atthakorn made a similar point in 1969 noting that 'the Japanese come to Thailand by Japanese airplanes, stay at Japanese-managed hotels, do their sightseeing with Japanese guides and eat at Japanese restaurants. They bring Thailand no benefits' (Shibusawa and Saito 1974:1). This comment by an influential Southeast Asian is indicative of Southeast Asian sentiments towards the Japanese at that time. Their self-interested behaviour reminded Southeast Asians of Japan's wartime cruelty and was one cause of the anti-Japanese uprisings.

⁴⁹ *Straits Times*, 16 January 1974. In Jakarta rioters attacked Japanese companies and restaurants, set fire to Japanese cars, threw stones at hotels where Japanese journalists were staying and some Japanese journalists were chased by rioters with swords. The anti-Japanese riots, at least in Jakarta, were closely linked with Indonesian citizens' feelings of impatience because they did not enjoy the benefits of economic development, which President Suharto had promoted as his central policy.

⁵⁰ These rumours had reached Japan, and Tanaka, prior to his visit to the region, announced the government would order companies guilty of malpractice to withdraw their business from the region (*Nihon Keizai Shimbun*, 6 January 1974).

⁵¹ The then Indonesian Vice President Sultan stated that 'the Japanese are too exclusive ... They don't mix with our people ... They have their own clubs, their own restaurants, their schools. It revives bad memories of the occupation' (cited in Khamchoo 1986: 81).

Secondly, Japan's increasing economic presence stimulated nationalism among Southeast Asians. Thailand in particular, as it had never been colonised, reacted sharply to alien dominance of the indigenous economy and society (Lim 1974: 95). In the Thai domestic market in 1969, Japanese products formed a substantial proportion of synthetic fibre (100 per cent), auto-cycles (97 per cent), glass (87 per cent) and automobiles (55 per cent) (Khamchoo 1986: 79). Thailand's trade dependence on Japan was 37 per cent for imports and 21 per cent for exports, both of which were the largest among ASEAN members. Moreover, 82 per cent of the Thai trade deficit in 1972 stemmed from trade with Japan (*Nihon Keizai Shimbun*, 4 January 1974). In Indonesia's case, Japan had recorded trade deficits due mainly to its oil imports, but the problem lay in the nature of the investments. Japanese investments were the largest of all foreign investments in 1973, but unlike US investments, which were scattered in rural areas, Japanese investment focused on urban areas and deployed flashy neon advertisements (*Nihon Keizai Shimbun*, 17 January 1974). This gave the impression that foreign capital was mainly from Japan and suggested a more solid Japanese economic presence in Indonesia. Foreign capital was also seen to promote corruption among Indonesian officials. Rioters used the Japanese economic presence and Tanaka visit as scapegoats for anti-government rallies against corruption.⁵²

After returning to Japan, Tanaka made a swift announcement to promote economic cooperation conducted by the government. Economic cooperation sponsored by private Japanese companies was profit-based, and government-based aid accounted for only 21 per cent of total Japanese aid in 1972 (*Nihon Keizai Shimbun*, 17 January 1974). In addition, the government confirmed that Japan's aid should be directed towards improving the infrastructure of ASEAN countries, in line with the expectations of the inhabitants.⁵³ These moves were part of a review of Japan's Southeast Asia policy.

⁵² In Thailand and Indonesia, anti-Japanese riots 'soon died down under the weight of more pressing political problems' and 'hardly left any serious scars at all on the region's subsequent relations with Japan' (Shibusawa 1984: 78). As Indonesian Foreign Minister Malik said, Indonesian resentment towards ethnic Chinese, who benefited substantially from Indonesia's open economic policy, also contributed to the riot. In the wake of Tanaka's visit, Indonesia's investment laws were altered to prevent 100 per cent foreign ownership (cited in Funabashi 1995: 229).

⁵³ These movements resulted in acceleration of the establishment of the Japan International Cooperation Agency (JICA), which unified the then four international cooperation organisations set up in different ministries.

Tanaka's encounters with anti-Japanese protests in Southeast Asia were perhaps inevitable. While Southeast Asians were intensifying their self-help efforts through ASEAN, Japan was attempting to conduct diplomacy independently of the United States which had hitherto played a 'buffer' role smoothing tensions between the Japanese and Southeast Asians (Soeya 1991: 183). Yet, as the then Director-General of LDP, Nikaido, announced, these encounters were not necessarily harmful to Japan in the long run because they provided an opportunity for Japan to rethink its diplomatic approaches to Southeast Asia and assisted mutual understanding (*Nihon Keizai Shimbun*, 16 January 1974).

The fourth period (1974–78)

Takeo Miki and Takeo Fukuda, who came into power in December 1974 and December 1976, respectively, both placed a much higher priority on foreign policy towards ASEAN than on launching plans for Asia Pacific regional cooperation, discarding self-interested economic diplomacy. Nagai (1980: 7) comments that their diplomacy with ASEAN was an attempt to move away from a diplomacy of economy, by economy and for economy. Miki and Fukuda's ASEAN-centred diplomacy was a new approach, promoted by Tanaka's reception in Southeast Asia.

Miki Takeo and Japan's initial approach to ASEAN

When speaking of the anti-Japanese protests during in Tanaka's visit to ASEAN, Miki as Deputy Prime Minister said on 16 January 1974 that 'the time has come for the Government to conduct a serious review of previous foreign policy and of economic cooperation' (cited in Sudo 1992: 72). Miki took the anti-Japanese sentiments expressed during Tanaka's visits as a serious warning about Japan's Southeast Asia policy as well as an opportunity to review the policy conducted over the previous two decades (Sudo 1992: 72). The pro-ASEAN stance led to a common observation that it was not until Takeo Miki became Prime Minister in December 1974 that Japan paid serious attention to ASEAN.⁵⁴ For instance, Miki convened the Asia Pacific Ambassadors' Meeting, in which ambassadors exchanged views on regional affairs, especially ASEAN, in the post-Vietnam War era (*Nihon Keizai*

Shimbun, 16 July 1975). Miki also dispatched Saburo Okita, the then president of the Overseas Economic Cooperation Fund (OECF) to ASEAN in July 1975 to discuss Southeast Asian issues with US President Ford at his meeting in August 1975 (*Nihon Keizai Shimbun*, 10 July 1975). During his visit to Washington, Miki outlined his ASEAN policy and stated that 'Japan will be prepared to extend its positive support to ASEAN's activities, while respecting the initiatives and aspirations of its member countries' (Sudo 1992: 119).

At the 31st LDP convention held in January 1976, Miki spoke of ASEAN for the first time as the principal actor in Southeast Asia, which, along with Japan, could contribute to stabilising the region.⁵⁵ Miki envisaged three plans to improve relations with ASEAN countries: 1) to develop an Asian version of the Lome Agreement 2) to triple its Official Development Aid (ODA) and 3) to contribute to the International Agricultural Development Fund (Nakamura 1981: 131). Although all these plans were abandoned due to opposition from the Ministry of Finance, which had experienced financial difficulties caused by the Oil Shock and was reluctant to increase expenditure, they were indicative of Miki's keenness to forge good relations with ASEAN countries. Miki capitalised on every opportunity to express his pro-ASEAN stance.

Miki's pro-ASEAN stance was also evident when he attended the first G-6 Summit Meeting held in Rambouillet, France, in November 1975. Miki argued the significance of the North-South issue, although the Summit was designed to concentrate on trade and financial issues among developed countries and Japan was assigned to work on trade issues. Miki's suggestion that clauses concerning the North-South issue be incorporated into the Summit Declaration was rejected by other leaders, leaving Miki temporarily isolated. Miki, nevertheless, made a direct appeal to the host of the summit, President Giscard d'Estaing, and eventually managed to persuade him and

⁵⁴ As mentioned earlier, signs of Japan's greater priority to ASEAN were evident during the Tanaka administration, but support for and recognition of ASEAN was much more explicitly pursued by Miki. This view is shared by Khamchoo (1986: 191) and Yamakage (1991: 178).

⁵⁵ Sudo 1992: 120. In fact, Miki and MOFA regarded 1976 as the year for activating diplomacy in Southeast Asia (*Nihon Keizai Shimbun*, 30 December 1975).

other leaders to incorporate a clause on the North–South issue into the Declaration.⁵⁶ Miki's efforts stemmed from his consciousness of being the only Asian representative at the Summit, and his adherence to the North–South issue reflected ASEAN anxieties. His awareness of his role as the Asian representative also influenced Miki to show consideration for ASEAN countries by telling MOFA to pass on the outcomes of the Rambouillet summit to ASEAN (*Nihon Keizai Shimbun*, 21 November 1975).

Participation at the summit suggested to him an Asian version of the Rambouillet summit between Japan and ASEAN, an idea that could be regarded as the highlight of his ASEAN diplomacy. The rationale behind his thinking is reflected in his statement:

At the Rambouillet summit, the top leaders became so friendly with one another that they called each other by first names. This kind of communication has not been promoted between our country and the ASEAN countries, which are supposed to be in the closest relationship with each other. (cited in Khamchoo 1986: 193)

Miki then expressed a desire to visit the ASEAN countries when they were scheduled to hold the first ASEAN Summit Meeting in February 1976. MOFA thought that Miki's participation at the summit meeting could help it define Japan's ASEAN policy in a more concrete way (*Nihon Keizai Shimbun*, 30 December 1975).

Despite Miki's hope of attending the summit, he was not invited. This was partly because the summit was intended to discuss regional affairs after the communist victories in Indochina, and ASEAN countries feared Vietnam's reaction if Miki attended the summit meeting (*Nihon Keizai Shimbun*, 1 February 1976). If Japan were to join the summit meeting, Vietnam might view ASEAN as an anti-communist bloc. In short, ASEAN was struggling with issues of its own identity and wanted to avoid intervention from a larger country like Japan.

⁵⁶ Nakamura 1981: 141. As argued in Chapter 6, the North–South issue and bringing Asia and the Western countries closer together reflected Miki's enthusiasm about his Asia Pacific policy which he had conceived as Foreign Minister in 1966–68.

Furthermore, as Lee Kuan Yew said, ASEAN as an organisation had yet to define its relationship with Japan.⁵⁷ ASEAN members were still suspicious of Japan's approaches despite Miki's endeavours, as was evident in the first Japan–ASEAN official dialogue concerning ASEAN's complaint about Japanese synthetic rubber production and exports. Natural rubber was a major and crucial source of exports for some ASEAN countries,⁵⁸ and as the petrochemical industry grew, Japan was increasing its exports of synthetic rubber, causing the price of natural rubber to fall. ASEAN asked Japan to hold a meeting to resolve the problem, and the meeting was held in November 1973. During 1973–76, ASEAN continued to criticise Japan by name in the joint communiqués released after its annual ministerial meetings, although the communiqués accentuated its good relationships with other countries such as Australia, Canada and those in Europe (Kume 1977: 336). The prolonged process of resolving the rubber problem between Japan and ASEAN led to irritation with, and suspicion of, Japan among ASEAN countries. When Miki expressed his hope of attending the ASEAN summit meeting, a solution had not been reached. The problem was resolved immediately before Fukuda took over from Miki.

The United States, which hoped to reduce its commitment in Southeast Asia after the Vietnam War, and under pressure from Congress, welcomed Japan's initiative to contribute to the region (Sudo 1992: 81). This was apparent at the meeting between Miki and President Ford on 5–6 August 1975 in Washington in which US policy commitment to Southeast Asia was unclear, whereas Japan's approach was more decided. Miki, however, had to wait for ASEAN to consolidate and to assist it substantially with its economic growth before it would welcome Japan. Miki's consistent and tenacious pro-ASEAN approaches helped Southeast Asians gradually overcome their suspicion of Japan, giving a more positive perception of the country. Miki's endeavours paved the way for his successor, Fukuda, to liaise directly with ASEAN countries and announce the so-called 'Fukuda Doctrine'.

⁵⁷ *Yomiuri Shimbun*, 26 May 1976. Also, ASEAN members held different views on security and economic cooperation issues and thus they thought it wise to invite external countries including Japan to the summit meeting only after they had discussed and adjusted their differences.

⁵⁸ For instance, Malaysia, Indonesia and Thailand accounted for 40 per cent, 25 per cent and 10 per cent, respectively, of total world rubber production in the early 1970s (Yamakage 1991: 176).

Takeo Fukuda and the Fukuda Doctrine

Fukuda announced the Fukuda Doctrine on 18 August 1977 in Manila, the last stop of his visit to all ASEAN countries, including Burma. The Fukuda Doctrine is now regarded as 'a major turning point in postwar Japan-ASEAN relations in that it provided what Japan regarded as a statement of its political interests in the Southeast Asian region' (Morrison 1988: 422). Fukuda used this new policy to open 'a new page in Japan's foreign policy' (*FEER*, 2 September 1977). Evaluations of the Doctrine were based mainly on Japan's expression of its commitment to Southeast Asian stability, which was sustained by Fukuda's hope of making a political contribution in Southeast Asia. President Marcos, immediately after hearing Fukuda's Doctrine speech, showed his respect for Fukuda's foreign policy by stating: 'We have been waiting a long time for this kind of attitude to appear in Japan. Now, without any hesitation, I can say that ASEAN really has found a true friend in Prime Minister Fukuda' (cited in Shibusawa 1984: 105-6). This sort of praise was heard in every country he visited (Hara 1984: 247). Japanese prime ministers had never before received such tribute from Southeast Asia for their foreign policy positions.

ASEAN's changed attitude to Japan, which was partly caused by external factors, led to Fukuda's invitation to the ASEAN Summit Meeting and the announcement of the Doctrine. The US military withdrawal from mainland Southeast Asia at the end of the Vietnam War and the 1975 fall of the Lon Nol government in Cambodia and of the Thieu government in South Vietnam had heightened a sense of instability and insecurity among Southeast Asians. Insurgency also remained a significant threat in all ASEAN countries. Members were consolidating ASEAN by encouraging economic development. They decided that 'swift economic development [was] the only way to combat domestic insurgencies and perceived threats from Indochina' (*FEER*, 2 September 1977) and realised that Japan was the only nation that could make progress towards stability in the region. ASEAN countries were 'placing greater expectations on the fact that Japan's cooperation would be more positive than in the past' (Khamchoo 1986: 203) and began to see it 'as a potentially greater source of political support' (Morrison 1988: 421). Senior ASEAN officials and Ministers, including President Marcos, visited Japan at various stages before Fukuda's visit and expressed their desire for Japan's economic cooperation. ASEAN countries well understood the nature of Japan's contribution: 'political support'

through economic cooperation, unlike the military support offered by the United States.

Fukuda (1995: 277) outlined his philosophy on Asian policy in his memoirs:

Japan is an Asian country, and peace and stability in the region are indispensable to that of the world and are essential for Japan's prosperity. I was thus aware of Japan's responsibility to make a positive contribution to peace and stability in the region.

This idea in itself was not unique. The uniqueness lay in the fact Fukuda had articulated the methods to embody this notion in the Doctrine.

The first point of the Doctrine was that Japan, a nation committed to peace, rejected the role of a military power, and was resolved to continue to work for the peace and prosperity of Southeast Asia. This was thought necessary to provide a sense of security among ASEAN countries which were still anxious about Japan's possible re-emerging militarism and yet sought Japan's commitment to regional affairs. The declaration that Japan did not aim to be a military power was necessary for Japan to gain approval from ASEAN countries to play a political role in Southeast Asia. While previous Japanese leaders had expressed the same wish, the timing of the United States' reduction in its commitment to Southeast Asia coinciding with ASEAN's need for economic aid for its economic take-off rendered Fukuda's message much more acceptable to ASEAN.

The second point of the Doctrine was that Japan, as a true friend of the countries of Southeast Asia, would do its best to build a relationship of mutual confidence and trust based on a 'heart-to-heart' understanding, not only in political and economic areas, but also in social and cultural areas. This was based on Fukuda's idea that the Japan-ASEAN relationship, confined to money and goods, should be converted to one based on 'heart-to-heart' contact.⁵⁹ This abstract notion of 'heart-to-heart' relations was Fukuda's attempt to modify Japan's negative image as selfishly

⁵⁹ Fukuda had learnt a lesson about how to approach ASEAN from his predecessors' failures. Fukuda was a major Japanese political figure who took initiatives in fostering grass-roots level exchanges between Japan and Southeast Asia and made the decision to contribute 5 billion yen to the ASEAN Cultural Fund. Fukuda's personal affinity with Southeast Asia was embodied in the Doctrine.

pursuing economic benefits, as an 'economic animal', and to create a friendly relationship with ASEAN countries on the basis of mutual understanding and confidence (Nishiyama 1977: 5). The notion originated in Fukuda's memory of Japan's defeat in the contest over the ADB's headquarters with the Filipinos in 1966, an event to which Fukuda referred: 'if we do not develop a heart-to-heart relationship with the people in Asia, similar events will take place again' (cited in Sudo 1992: 122). Fukuda believed the emergence of the anti-Japanese protest movement unleashed during Tanaka's 1974 visit could have been avoided if Japan had attempted to cultivate mutual trust with Southeast Asia (Atarashi 1984: 112).

The third point was that Japan would be an equal partner with ASEAN members, and cooperate positively with them in their efforts to strengthen their solidarity and resilience while aiming to foster a relationship based on mutual understanding with the nations of Indochina. Japan would thus contribute to the building of peace and prosperity throughout Southeast Asia. This point, according to Yosuke Nakae, then Director-General of the Asia Bureau of MOFA and one of the drafters of the Doctrine, was the highlight of the Doctrine. At the LDP's Security Council, Nakae said that 'successful coexistence between non-communist ASEAN and communist Indochina would contribute to peace and stability in Southeast Asia as a whole, which would also be favourable for Japan' (cited in Yamamoto 1984: 329). This statement embodied Fukuda's wish to make a contribution to Southeast Asia by playing an intermediary role between ASEAN and Indochina as one of the few countries that 'maintained friendly relations with both groups' (Chantapan 1993: 157). Japanese leaders judged that if the fall of Saigon were to have a 'domino effect', it could lead to Vietnam's domination of ASEAN. Vietnam was leaning towards the Soviet Union because of worsening China-Vietnam relations; the oil route from the Middle East would be jeopardised, thus jeopardising the basis of Japan's economic security.⁶⁰ This dual-purpose diplomatic undertaking for the region and Japan helped link ASEAN and Indochina. Also, as one Southeast Asian observer noted, insistence on an equal partnership served to 'eradicate the negative image of

⁶⁰ Shibusawa 1984: 102. About 40 per cent of Japan's 1974 imports came through the Straits of Malacca and 78 per cent of oil imports was transported via the Straits (Kume 1977: 322).

Japanese economic exploitation, cultural arrogance and social aloofness towards Southeast Asian countries'.⁶¹

Apart from the Doctrine, Fukuda announced during his visit that Japan would provide a loan of approximately US\$1 billion to ASEAN countries for five major industrial projects. Japan also promised to multiply ODA in the coming five years (modified later to three years), and ASEAN countries were to be the major recipients.⁶² Fukuda, like most of his predecessors, thought the North–South issue was the most pressing problem in world politics, and this unprecedented amount of aid was another indication of Japan's wish to contribute to ASEAN's further development (Sudo 1992: 154). A number of factors influenced Japan to increase its ODA and focus it on ASEAN countries. The announcement of development aid helped dispel international criticism of Japan's previously low level of aid.⁶³ In addition, major developed countries such as the United States, Britain and France had recorded deficits, but Japan had recorded a US\$4 billion surplus and this was expected to increase in 1977. This situation provoked criticism from both developed and developing countries, so Japan decided to transfer some of the surplus into ODA. Also, in 1977 Japan was due to terminate its reparation payments to Asian war victims.

The Fukuda Doctrine and its implications

Nakae summed up the basis for the Fukuda Doctrine as follows:

We felt we could obtain autonomy in our diplomacy after the Vietnam War since during the war it had been difficult for Japan to take a different line on its foreign policy from that of the United States. We thought we could acquire a free hand for our diplomacy. (cited in Tomoda 1989: 60)

⁶¹ Chantapan 1993: 159. Japan, to avoid giving an impression that it took Indochina's side, expected Vietnam to utilise its aid to purchase goods from ASEAN countries.

⁶² ASEAN countries had pressured Japan to import more primary products from them, to increase its aid and to regulate aid conditions on a bilateral rather than a multilateral basis. The amount of Japan's ODA in 1974 halved in comparison with the previous year and the ratio of GNP accounted for 0.65 per cent, which was substantially below the 1 per cent of the national target due to negative growth caused by the Oil Shock (*Nihon Keizai Shimbun*, 19 December 1976). Japan recorded negative growth in 1974 for the first time in the postwar era.

⁶³ Shibusawa 1984: 103. In the 1976 fiscal year, Japan's ODA had decreased to 0.2 per cent of its GDP, while the figures in 1974 and 1975 were 0.25 and 0.23 per cent, respectively. For Western developed countries, the average figure was 0.33 per cent of GNP (Khamchoo 1986: 201).

This statement indicates that the Doctrine was an example of 'autonomous diplomacy', a feeling that Japan could conduct its regional diplomacy without ideological bondage, and without abiding by US Cold War policy in the region. Japan did not embark on prior consultation with the United States in launching the Doctrine (Tomoda 1989: 60), and the Doctrine did not smack of ideology, as reflected in its insistence on coexistence between ASEAN and Indochinese countries. Considering these elements, as well as the ASEAN-oriented character of the Doctrine, the Fukuda Doctrine may be characterised as foreign policy autonomous from the United States. Yet Fukuda himself took a different view.

Fukuda's diplomacy, according to Fukuda himself, aimed to be multi-directional (*zenhoui gaiko*). Fukuda conceived two diplomatic missions for his administration: to expand Japan's diplomatic basis and to allow Japan to assume a leadership role in the turmoil of the international economy (Fukuda 1995: 271–72). Multi-directional diplomacy was a tool to accomplish the first mission and meant, as he says in his memoirs, intensifying Japan's commitment to diplomatic affairs in other regions rather than adjusting diplomacy within a framework centred on the bilateral relationship with the United States (Fukuda 1995: 271). Fukuda, nevertheless, emphasises the relationship with the United States in the later section of the memoirs and writes that multi-directional diplomacy was to operate from the basis of Japan's relationship with the United States (Fukuda 1995: 272). Fukuda recollected that he visited the United States soon after his inauguration and that he and President Carter had discussed various international affairs, including Southeast Asia. As a result of these discussions, he visited ASEAN countries (Fukuda 1995: 272). The Joint Communique issued by both leaders recognised Japan's regional contribution and this was viewed as Japan sharing the burden with the United States; the United States would continue its security commitment, though to a lesser extent, and Japan would take the lead in economic cooperation.⁶⁴ Americans were reluctant to touch on Southeast Asia affairs in the wake of the Vietnam War and were willing to see Japan undertaking active diplomacy. The Fukuda Doctrine could be characterised as autonomous diplomacy, but the autonomous characteristics of the Doctrine were

⁶⁴ Richard Holbrooke, the US Assistant Secretary of State for East Asian and Pacific Affairs, commented on Japan's economic involvement in the region: 'What we have done ... is to tell the Japanese that it is our view that in the long run we hope the Japanese will play a constructive, larger role in terms of economic development' (*FEER*, 18 November 1977).

formulated within a framework of close bilateral relations with the United States. The Doctrine was an outcome of Fukuda's philosophy and diplomatic initiatives taken under circumstances where the United States had begun to disengage itself from the region and ASEAN countries had started to expect more from Japan.

The Fukuda Doctrine, combined with Miki's ASEAN-oriented diplomacy, constituted a favourable environment for their successors to launch a fresh approach to Asia Pacific economic cooperation. It was necessary that ASEAN countries would recognise Japan as a benevolent contributor to the region, one that did not seek reward and that conducted diplomacy on the basis of equality. Miki and Fukuda's pro-ASEAN diplomacy did not represent a bid for economic benefit, but was sincere in assisting ASEAN countries and treating them as equal partners. Their diplomatic efforts as well as Japan's growing economic power brought about more favourable conditions for Ohira to launch a major initiative for regional economic cooperation.

Conclusion

This chapter examined the background to the development of Japanese prime ministers' ideas and approaches to Asia Pacific regionalism as a means of setting the scene for exploring Japan's role in PECC in Chapter 7. It aimed to clarify how Japan came to meet the three criteria for foreign policy leadership established in Chapter 2: capability, willingness, and a favourable environment. At least until the mid-1960s, Japan's interest in Asia Pacific regionalism was driven by its interest in establishing stable markets for Japanese goods and securing natural resource suppliers, although Japan's economic strength still lagged behind other developed countries. Until the mid-1960s, Japan's ambitions for leadership in Asia could be regarded as mere rhetoric. At the first UNCTAD Conference in 1964, Japan was criticised for the inadequacy of its aid policy. When its balance of payment turned into a surplus in 1965, Japan was well on the way towards achieving the economic capability to allocate considerable aid to, make substantial investments in and absorb export products from Southeast Asian countries. The fact that Japan managed to cope with the economic difficulties caused by the Oil Shock in the mid-1970s and continued to record strong economic growth also helped entrench its economic prowess as an

economic power, a basis which enabled Japan to exercise a leadership role in institution-building.

As for willingness, Japan had shown a consistent interest in establishing Asia Pacific regionalism throughout this period and the main rationale behind Japan's interest stemmed from the recognition on the part of Japanese prime ministers that Japan should contribute to the development of Southeast Asia. The focus of the regional policies of Japanese leaders was to help Southeast Asian development and the key concept behind the policies can be encapsulated in the phrase 'solution to the North-South problem'. This reflected Japan's wish to contribute to regional economic development as a leader on the basis of its international status as the only industrialised nation in Asia, a perspective adopted by most Japanese prime ministers. Miki and Fukuda's approaches to ASEAN were also influenced by their consciousness of Japan as a leader contributing to ASEAN, under the banner of seeking a 'solution to the North-South problem in Asia'. There was thus no incompatibility in the motives behind Miki and Fukuda's ASEAN-centred diplomacy and those of their predecessors.

Another important achievement during this period in terms of Japan's leadership status was that Japan improved its relations with ASEAN countries. This is relevant to the third criterion of leadership in institution-building. The improvement resulted from Japan's learning from three occasions: its difficulties at the 1964 UNCTAD meeting; its defeat by the Philippines over the choice of location for the ADB Headquarters in 1966; and Tanaka's encounter with a strong anti-Japanese campaign and riots during his visit to Southeast Asia in 1974. These were important learning opportunities for Japan to establish itself as a leader in institution-building in the Asia Pacific region. These opportunities encouraged Japan to start committing itself to diluting the benefits-only approach that had characterised its regional economic policy. Miki and Fukuda learned from these diplomatic failures and conducted a diplomacy that was centred on Southeast Asia and aimed at forging a better relationship with ASEAN. Fukuda and Miki helped to consolidate Japan's acceptance by Southeast Asia and laid the foundation for their successor to launch a policy of Asia Pacific regionalism.

The Cold War structure, which encouraged Japan's leadership in Asia Pacific regionalism, was another favourable condition. All Japanese prime ministers since Kishi, except for Tanaka, discussed their policies on Asia Pacific regionalism and ASEAN with US presidents. Their policies to help economic development in Southeast Asia were conducted in the broader context of US–Japan cooperation. US endorsement was the first step for Japanese prime ministers in carrying out their policies on regionalism. In general, US presidents supported such Japanese initiatives as long as they matched US interests: to help economic development in free states in Southeast Asia. For instance, the United States gave strong support to Japan's leadership in establishing the ADB and the Ministerial Conference on Southeast Asian Development in 1966 under Sato when the United States was embroiled in the Vietnam War. The United States also supported the Fukuda Doctrine in 1977 when it could not maintain its commitment to Southeast Asia in the aftermath of the War.

In short, when Ohira came into power in 1978, Japan met these three leadership criteria to a substantial degree. This may have prompted Ohira to take a new approach to Asia Pacific regionalism. As discussed in Chapter 7, in launching the Pacific Basin Cooperation Concept, Ohira neither stressed the significance of assisting development in Southeast Asia nor used the term 'North–South problem'. This reflected a paradigm shift on the part of Japan and Ohira in launching the Pacific Basin Concept. Japan's approach, together with Australia's changing view towards the Asia Pacific region, contributed to PECC's establishment as a new institution whose main purpose was to promote regional trade and investment.

Nonetheless, Japan's regard for Southeast Asia, which was reflected in its Asia Pacific regionalism and further strengthened by Miki and Fukuda's diplomatic initiatives with ASEAN, was followed by their successors and incorporated into subsequent Japanese proposals on regional economic cooperation. Japan paid special attention to ASEAN countries and the ASEAN framework in its proposals on economic regionalism, as detailed in Chapters 7 and 8 on the origins of PECC and APEC. The rationale behind treating ASEAN respectfully in setting up PECC and APEC stems partly from the lessons Japan learned from its long-term diplomatic difficulties with Southeast Asia when putting into place plans for regional economic cooperation between the 1950s and the 1970s.

4 The evolution of Australia's approaches to Asia

Pacific regionalism

In the four decades after the Pacific War, Australian conceptions of the Asia Pacific region and the conception of Australia's interests in the Asia Pacific region changed quite remarkably. The war itself and security concerns in the Cold War period gave primacy to political and security interests in Australia's Asia Pacific diplomacy. Economic growth in Japan and, later, other East Asian economies saw Australia become gradually enmeshed in the regional economy. Economic interests were increasing in importance, alongside political and security interests in Australia's approach to the Asia Pacific region. This chapter looks at the evolution of Australia's approach to the Asia Pacific region after 1949.¹ How did Australia come to play such an important role in the establishment of PECC and APEC? These initiatives were born out of a new understanding of Australia's interests in the Asia Pacific region that emerged over these years. The following argument describes how this new understanding came about. An important strand in Australia's foreign policy approach towards Asia and the Pacific was its involvement in Southeast Asia. The growing relationship with the ASEAN group was an important part of the development of Australia's capacity to take the lead in establishing PECC and APEC, as will be seen in Chapters 7 and 8.

Australia's dual perception of the Asia Pacific region

Since Federation in 1901, Australia has looked at the Asia Pacific region in two ways: as an area of threat and as a source of economic opportunity. The region assumed significance to Australia because even though there was seen to be a military threat

¹ The year 1949 was significant for Australia's foreign policy, not only in terms of the change of government in December from Chifley's Labor to Menzies' Liberal-led coalition, but also because of changes in the regional situation. The UN Security Council approved Japan's establishment of a defence force of 150,000 in October 1948, which meant Japan was recognised as a US ally. Communist China emerged in October 1949 as a possible threat to Australia. Indonesia became independent in December 1949, which meant that this large and unstable country emerged as a threat to Australia. The Korean War, in which Australia was involved as an ally of the United States, broke out in June 1950. These events, within one and a half years of 1949, all made Australia realise that it had little choice but to commit itself to regional affairs for its security and prosperity.

from the north, the same area promised economic growth and opportunities for Australian trade and investment. Australian leaders came to realise that the maintenance of security and the enjoyment of Australia's affluence depended on stability and prosperity in the region. Australia's regional diplomacy has focused on both these elements, affecting its participation in regional security and economic institutions.

Akaneya (1986: 4) observes that 'the primary aim of Australian foreign policy has been directed at maintaining its security, and it has been repeatedly pointed out that Australian foreign policy is merely an extension of its defence policy.'² A vast territory, remote from major powers and with a small population, Australia was unsure of its protection against its threats such as Japan and China until the early 1970s. It had little choice but to rely on 'protectors' such as the United States.

J.D.B. Miller (1992: 115) presented another view:

The only continuing element in Australian concern about the outside world has been trade. Economic diplomacy, in the sense of efforts to secure preferential positions in lucrative markets, has been a feature of Australia's external activity for far longer than anything recognisable as political diplomacy.

This view is based on the fact that with its plentiful natural resources and agricultural products, but a small domestic market, Australia needs external markets for export earnings and has to engage itself in economic diplomacy in pursuit of this aim.

These two distinctive views of Australia's foreign policy priorities stem from the twin perception of the Asia Pacific region: as a region where Australia's security is at stake and as a region of economic opportunities. Former Foreign Minister Evans (Evans and Grant 1995: 348) notes that 'the great turnaround in contemporary Australian history is that the region from which we sought in the past to protect ourselves ... is now the region which offers Australia the most'. Australia's reinterpretation of its regional affairs provided a new element in its foreign policy.

² Grant (1972: 43) supports this defence-oriented interpretation of Australia's foreign policy: 'Defence, rather than foreign policy, appeared to be important because it was obvious that foreign policy was subservient to defence. As defence required the presence of protectors, foreign policy became an exercise in ensuring protection.'

This change of paradigm in foreign policy seems to have occurred gradually over three periods: the Menzies era (1949–66), the post-Menzies era (1966–72) with three Liberal prime ministers, and the Whitlam era (1972–75). These three periods involved different foreign policy priorities. While economic interests were pursued, security was a paramount objective in the Menzies era. In the post-Menzies era, security was still important but economic influences were gaining in importance. In the Whitlam era, economic factors overwhelmed security. The transformation of foreign policy priorities was affected by changes in regional affairs; the Asia Pacific region, especially Southeast Asia, was becoming politically more stable and economically more prosperous.

Both elements also guided Australia's approach to Asia Pacific regionalism. Australia under Menzies participated in the Colombo Plan in 1951, SEATO in 1954, and became a regional member of the Economic Commission of Asia and Far East (ECAFE) in 1963. After the Menzies era, it joined both ADB and ASPAC in 1966. In the Whitlam era, Australia participated in the Ministerial Conference of Southeast Asian Development in 1973 and, more importantly, it attempted to take an initiative in Asia Pacific regionalism. Though the initiative did not succeed, it was an important first step for Australia in learning about the requirements for Asia Pacific regionalism and laid the foundation for the successful PECC initiative.

The Menzies Government and Asia Pacific regionalism (1949–66)

Prominence of the defence–security factor in foreign policy

Robert Menzies was a dominant figure in Australian politics from 1949 to 1966, and security and defence were the first priorities in his administration's foreign policy. This was not only because Australia was seriously concerned about its security due to the unstable regional environment in Southeast Asia, but also because Menzies was 'less interested in trade problems than ... foreign policy including defence' (Watt 1967: 303). Economic interests in foreign policy, especially trade promotion, were primarily pursued by John McEwen, Minister for Trade and Industry and the Leader of the Country Party and the Department of Trade. As discussed later, it was gradually recognised that 'Australia's economic development would be increasingly tied to Asia', but given the nature of regional politics, defence was 'always the

dominant influence on policy formulation and execution', as Foreign Minister Hasluck noted in the mid-1960s (Porter 1993: 270–71).

The main concerns of Australia's security interests under Menzies are summarised in the following statement made by Menzies in 1951.

The first [vital interest] is ... the freedom of Australia. But that freedom cannot be defended merely on the coasts of Australia any more than it can be defended without the aid of powerful friends ... The great war [will] be ... conducted and promoted by Imperialist Communism ... the defence of Australia will essentially turn upon the success with which the countries of the British Commonwealth, the United States and the nations of Western Europe can turn back and defeat the aggressor ... we have vital interests in Western Europe, in the safety of the United Kingdom, in the Middle East, and that in addition to our vital interests near at hand we have during the cold war period a deep concern not only in Korea but in Malaya and in the South East Asia area.³

There were four elements in Menzies' foreign and defence policy approach: protecting the 'freedom of Australia' meant, most importantly, defending Australia's sovereignty and territory; second, reliance on the United States and, to a lesser degree, Britain for its defence; third, the greatest threat to Australia's security was the spread of communism in Australia's neighbourhood, and fourth, the region which concerned Australia most was Southeast Asia. While the first point was the goal of Australia's foreign policy, the second point represented the means to achieve it. The third point identified the threat that Australia believed it faced and the fourth the area that was vital to Australia's security. Given the nature of foreign policy in the Menzies era, it can be asserted that 'deep concern for security, even fear, was the first hallmark of foreign policy' and the second was 'hostility to Communism' (Renouf 1979: 452).

These four elements in Australia's defence-oriented foreign policy under Menzies were based on an interpretation of Australia's internal and external realities that persisted through his prime ministership until January 1966.⁴ On the continuity of

³ Cited in Camilleri 1973: 125. In this speech, interestingly enough, Menzies did not show any signs of forging good relations with any Asian countries to combat communism; instead he relied on European nations that were losing their interest in Southeast Asian affairs due to the emerging independence of Asian countries.

⁴ Menzies (1970: 44) also wrote that he was 'fortunate to have a Cabinet which unanimously shared [his] views'.

foreign policy, Minister for External Affairs, Barwick (1962: 4) noted: 'if our policies have been wisely conceived and steadfastly pursued, this continuing change [in international affairs] will not often call for more than slight corrections of the basic policy course'. Hasluck, who took over from Barwick in 1964, also emphasised continuity in foreign policy: 'I am not introducing any change in the foreign policy of the Government. The foreign policy is that of the Government, not of a person' (Commonwealth Parliament Debate (CPD), H. of R., 23 March 1965: 230).

The crux of the first and second points is explained by Mediansky (1974: 51):

... conservative spokesmen in Australia have constantly argued that a nation's role in international affairs is basically determined by its military strength. This ... belief in turn has emphasised the importance of loyalty to powerful friends and allies.⁵

The Australia New Zealand and USA treaty (ANZUS), signed in 1951 with the United States⁶ and New Zealand, and SEATO, signed in 1954, which included Britain as well as the United States provided the framework for defence and security policy. According to Spender (1969: 185), who was directly involved in negotiating the ANZUS treaty as Minister for External Affairs, ANZUS 'accords, while it endures, the protective shield of the mightiest power in the world, against any armed attack upon our country no matter from what nation that armed attack may come'. While ANZUS aimed for 'continent defence', evident in the view that 'when ANZUS was agreed upon ... Australia was 'preoccupied with defending Australia within Australia' (Renouf 1979: 138), SEATO was based on the 'forward defence' concept by which it was meant that Australia had to be protected from aggressors in its forward defence theatres in the north. While ANZUS covered the Pacific Ocean, SEATO covered Southeast Asia.⁷ SEATO was thus regarded as 'useful supplementary insurance against any US drift away from involvement on Southeast Asia' (Bell 1991: 47).

⁵ CPD, H. of R., 27 March 1951. Mediansky further noted that this propensity persisted in all foreign ministers, from Spender to Bowen, under the Liberal-Country regimes until 1972.

⁶ The United States saw ANZUS as a means of resisting communism in the Pacific Ocean, along with the cooperation of Australia and New Zealand, whereas Australia thought the major function of ANZUS lay in US protection of Australian territory.

⁷ Renouf 1979: 137. Britain and the Commonwealth also committed themselves to a defence planning arrangement called ANZAM (Australia, New Zealand and Malaya). Yet ANZAM did not cover the

ANZUS and SEATO provided an alliance framework and external assistance to compensate for the lack of defence capacity to deter a threat. Accordingly, for Australia which cannot defend itself because of its large land mass and its lack of military and economic power, its commitment to the establishment of ANZUS and SEATO was significant. Australia's commitment to conflicts in Southeast Asia was the price paid for having American and British presence in the region, and Australia had to be their faithful ally so that this loyalty would 'be reciprocated in the event of an attack directed against her.'⁸ Australia's Asia Pacific policy during the Menzies era generally revolved around ANZUS and SEATO.

The target of ANZUS and SEATO was communism, the third element in Menzies' speech. When ANZUS was being negotiated, Japan was the threat from which the Treaty was supposed to protect Australia. Yet the emergence of Communist China in 1949 and the subsequent outbreak of the Korean War in which China was later involved contributed changing threat perceptions. The rise of communism in Southeast Asia, supported by China, became the most dangerous element in Australia's security environment, as Casey depicted China's increasing influence in Southeast Asia as 'a snake in a dark room' (CPD, H. of R., 15 April 1958, 868). Just before he retired as prime minister, Menzies, in announcing the dispatch of Australian troops to Vietnam, endorsed Spender's claim that the basic cause of the conflict was the downward 'thrust by Communist China between the Indian and Pacific Oceans' (CPD, H. of R., April 1965: 1061). Assuming that ANZUS and SEATO were the central mechanisms in Menzies's defence-centred foreign policy, China and the spread of communism to neighbouring countries were its central targets.

The area Australia regarded as most important to its security was Southeast Asia, the fourth element in Menzies's speech. Casey (Current Note on International Affairs (CNIA) 1954: 738) justified Australia's commitment to the security of Southeast Asia:

'general threat of communism in the region', and SEATO was regarded by Australian leaders as 'a means of closing this strategic gap' (Buszynski 1983: 34).

⁸ Camilleri 1973: 21. For instance, when Australia began participating in the Vietnam War during the Menzies years, its action was justified on the grounds of encouraging 'the United States to remain present in the area and to sustain America's will to assist her ally' (Bull 1974: 348).

If the whole of Indo-China fell to the Communists, Thailand would be gravely exposed. If Thailand were to fall, the road would be open to Malaya and Singapore. From the Malay Peninsula the Communists could dominate the northern approaches to Australia, and even cut our life lines with Europe. These grave eventualities may seem long range – but it is not impossible that they could happen within a reasonably short period of time.

The domino theory underscored Australia's deep concern about security in Southeast Asia and laid the foundation for its commitment to SEATO. As the region was significant to Australia's security, 'it has been the consistent policy of this Government to work quietly through diplomatic channels and through private discussions ... to direct and attract the interests and attention of our most powerful allies to the importance of Southeast Asia', as Casey stated (CPD, H. of R., August 1954: 101).

These four elements were the core of Australian foreign policy under Menzies, and emerged mainly as the result of Australia's interpretation of regional affairs, which had an impact on definitions of its national interest. American and British presence in the region had sustained Australia's forward defence strategy which, as Smith (1997: 102) claims, 'overshadowed all other aspects of foreign policy' in the 1950s and 1960s. Yet when the premises of these four elements were breaking down, Australia was compelled to re-invent its Asia Pacific strategy. British Prime Minister Wilson announced the withdrawal of British troops from Southeast Asia in July 1967; US President Johnson announced that the bombing would be stopped in Vietnam and that he would not run for the presidential election in March 1968; and US President Nixon announced the Guam Doctrine in July 1969. These developments led Australia to reshape its approach to the region dramatically.

Economic interests of foreign policy in the Menzies era

Although defence–security factors were dominant in Australia's foreign policy under Menzies, economic interests had begun to have an impact. Asia came to be seen as the main growth prospect for Australian exports and Australia was becoming anxious to secure markets in the region and to pursue economic diplomacy pragmatically. In Australia, 'a significant proportion of GDP was earned through raw materials exports ... [to achieve] a high average standard of living' (Smith *et al.* 1997: 27), and the search for markets emerged as another important influence on foreign policy.

Australia sought legally-guaranteed bilateral treaties with its major trading partners to secure its markets. The Ottawa Agreement of 1932 was scrapped and a new agreement with Britain was signed in 1957. The 1957 Commerce Agreement with Japan (revised in 1963) was a 'watershed' in Australia's forging trade relations. Australia also supported GATT to modify the agricultural protectionist policies in industrialised nations in Europe and the United States, but 'without much success' (Crawford and Anderson 1968: 186). Accordingly, Australia under Menzies was yet to see greater merits in GATT, as McEwen thought that 'Australia preferred the known of the existing treaty with the UK to the unknown of a new round of GATT tariff negotiations' (Cumpston 1995: 143) in 1963 when Britain was still Australia's largest trading partner. This was mainly because the early rounds of GATT negotiations did not encompass trade liberalisation of agricultural products.

Britain's interest in joining the Common Market in Europe fostered Australia's interest in furthering economic links with the Asia Pacific region. How seriously Australia took this issue was evident in the fact that Australia used both the 'Commonwealth Conference and GATT to air its views on the threat of the United Kingdom's entry to her interests' although 'nothing specific about concrete ways of protecting Australian interests emerged' (Crawford and Anderson 1968: 198). This encouraged Australia's efforts at trade diversification 'with a greater emphasis on trade with Asia' (Crawford and Anderson, 1968: 223), and contributed to the push towards Australia's regional membership in ECAFE in 1963, as discussed later.

China is an example of Australia's pragmatic approach to trade expansion. Australia expanded markets in China from 1949 despite the fact that Australia came to regard China as a significant potential threat, acceded to US restrictions on exports of strategic materials to China and did not normalise diplomatic relations. China replaced Britain as the principal customer for Australian wheat as early as 1960-61 and Australia's wheat exports to China in 1961-71 accounted for A\$1000 million, 'representing 30-40 per cent of Australia's wheat harvest' (Bull 1974: 335). McEwen thought Australia should maintain its lucrative wheat and wool exports to Communist China, 'even though under American pressure Australia refrained from

recognising its communist government.’⁹ Casey said that ‘the question of recognition of Communist China in no way affected the possibility of trade between the [two] countries’ (CPD., H. of R., 13 August 1959: 198). Albinski (1965: 122–23) explained the Australian stance:

The nature of Australia’s strategic embargo against China is ... a very successful exercise in *realpolitik*. The Government’s position can variously be regarded as inconsistent, secretive or hypocritical. But at the bottom it is pretty much a case of having one’s cake and eating it too. Maintaining a stiff strategic materials policy helps to placate America ... and perhaps even softens her objections to Australia’s non-strategic trade with China.

The East Asian trade environment contributed to Australia’s trade and economic growth. The decrease in defence expenditure from 5.1 per cent of GNP in 1952–53 to 2.7 per cent in 1962–63 was partly attributable to its reliance on alliance systems such as ANZUS and SEATO, which allowed Australia ‘to concentrate on economic development’ (Edwards 1997: 23). Britain, which had been trying to join the EEC since 1961, remained Australia’s top trading partner until 1965. It was also Australia’s largest source of investment, accounting for 44 per cent in 1963–64 and 1964–65 (Edwards 1997: 11). Yet the Japanese market was looming large and would now replace the British market. These circumstances contributed to Australia’s boosting its resource economy, stabilising its balance of payments and attracting large inflows of foreign investment (Cumpston 1995: 143).

Australia under Menzies was committed to three regional institutions: the Colombo Plan, SEATO and the regional membership in ECAFE. These institutions are reviewed to clarify how the characteristics of Australia’s foreign policy under Menzies affected its approaches to and the nature of its engagement in these regional institutions.

Colombo Plan

The Colombo Plan for Cooperative Economic Development in South and Southeast Asia originated at the meeting of Commonwealth Foreign Ministers at Colombo in January 1950 and it was formally launched in July 1951 to facilitate development

⁹ Edwards 1997: 10. The policy to trade with China was odds with American policy which embargoed all trade with China.

assistance to non-communist countries in the region.¹⁰ The Colombo Plan initiative represented another strand in the development of Australia's relations with the region. Australia's critical commitment to the establishment of the Colombo Plan under the guidance of Minister for External Affairs Percy Spender was a key to its success.¹¹ His innovation and enthusiastic diplomacy were widely acclaimed;

Australia's plan to help Southeast Asia was a reference to Mr Spender's plan which stands as the most concrete result of the conference. The conference owes it almost entirely to Mr Spender's initiative, although some planning has already been done in the Ministry of External Affairs in Canberra.¹²

As a result of Spender's recommendation, the Consultative Committee's first meeting was held in Sydney in May 1950 under Spender's chairmanship to examine economic problems in Asia as well as the future blueprint of the Plan from both short- and long-term perspectives.¹³ The fact that Australia was nominated to organise the first meeting indicated support for Australia's diplomatic efforts and initiatives in the establishment of the Colombo Plan. There was faith in Spender's leadership in initiating the Colombo Plan: America and 'Australia were the two countries which could in cooperation, make the greatest contribution to stability and democratic development of the countries of Southeast Asia' (Spender 1969: 195).

¹⁰ Singh (1966: 174) attributed the significance of the Colombo Plan to it being the first meeting where 'the ministers of the newly independent Asian members of the Commonwealth participated on equal terms with their counterparts from the United Kingdom, Canada, Australia, New Zealand, and South Africa.'

¹¹ Regarding Spender as bringing 'an intelligent and informed mind to the conduct of foreign policy,' Booker (1976: 132) comments that 'if he had remained in office he would probably have become an excellent foreign minister: ... he might have put our foreign policy on a sounder intellectual basis and might, in the waves of anti-communist hysteria that followed, kept a steadier course than his successors.'

¹² *Manchester Guardian*, 19 January 1950. The original idea of the Colombo Plan came from a memorandum by Tange and McIntyre, Australian diplomats who acted as Spender's advisers, on the basis of Spender's basic ideas, which he had previously delivered to the other delegates and announced at the Meeting. Similar ideas had been already launched by Ceylon's Finance Minister as a Commonwealth version of the Marshall Plan. Spender advocated his proposal vigorously and called it the 'Spender Plan', encouraging the idea of mutual aid.

¹³ His initiative in the Colombo Plan was due in part to his early experience in Asia. Spender (1969: 194) wrote that 'at various times, from 1928 on, I had visited different countries of South and Southeast Asia ... Although my knowledge remained limited, my travels and observations had been sufficient to awaken in me some small understanding of the problems of the countries within the region and the new significance in world affairs these countries would inevitably have.' As a result of these experiences, his foreign affairs interests became more and more concerned with Asia. Spender (1969: 214) wrote: 'Australia's relationship to the Asian countries ... which had not attracted any great interest before World War II - had acquired special importance for me. When the opportunities came at Colombo in 1950, I was not wholly unprepared to advance a few ideas.'

One reason Australia took the initiative in establishing the Colombo Plan was to contribute to stability in Southeast Asia through loans and technical cooperation; this incentive was sustained by the aim of enhancing Australia's security. Australia's goal in its strong commitment to establishing the Colombo Plan parallels that of Australia's primary foreign policy objective: defence and security. Spender (1969: 196) recalled that 'security in the Pacific, economic and technical aid and political stability in Southeast Asia were, to me, rather like two sides of one coin,' and he hoped the Plan to help 'draw the teeth of Communist imperialism by carefully applied measures of economic assistance' for 'maintaining stable government' (CPD, H. of R., 9 March 1950: 629), as he declared in his first parliamentary speech as Minister for External Affairs. Spender described the implications of such measures for Australia's security as follows:

It is the belief of the Government and of myself that the steady advancement of the standard of living in the Asian countries which adjoin Australia is one of the best means of ensuring the security of such countries and the security of our own country. (Department of External Affairs 1951: 1)

Casey said 'the simple purpose of the Colombo Plan [was] to help the countries concerned to maintain democracy and to combat communism (cited in Hudson 1986: 249). Renouf (1979: 4), a senior diplomat, was more explicit: 'the Plan's prime purpose was to resist Communism, not to improve the economies of developing countries. The objective was, once again, the preservation of Australia's security.'¹⁴ These views all indicate that the major rationale behind Australia's commitment to the Colombo Plan was driven by security concerns in line with Australia's foreign policy priorities.

While security constituted Australia's imminent interest in the Colombo Plan, trade expansion was Australia's long-term interest in the Plan. Spender also saw the merit of the Plan as a contribution to the stability in the region which could help generate a massive market in Southeast Asia:

... we contemplate that it could aim at stimulating the productive capacity of these countries, and to that extent we look upon it as a prelude to the

¹⁴ The *Financial Review* (16 December 1952) also commented: 'The Colombo Plan will only achieve its objectives if the threat from the Communist armies is first sealed off. Unless this is done every penny put into the Colombo Plan will be lost to the free world.'

promotion of trade from which Australia can profit in full measure. This planning is essentially long-term planning. (CPD, H. of R., 9 March 1950, 630)

Australia's other long-term interest in the Plan was to improve Australia's newly forged relations with Asia through familiarising itself with Asia and developing goodwill in the region, which would benefit Australia's security in the long run. Spender (1969: 280) observed an achievement of the Plan in this context: 'the flow of Asian students, trainees and observers to Australia ... is bringing Australians and Asians into direct, personal, day-by-day contact ... changing social attitudes'. Although 'Colombo aid in economic terms is pitifully small in relation to Asian needs' (Greenwood 1957: 79), the Colombo Plan did assist economic development in Asia, enhancing Asian goodwill towards Australia and helping Australians become acquainted with Asians.¹⁵ These outcomes were also expected to contribute to Australia's security, the main focus of its foreign policy under Menzies.

SEATO

SEATO originated at a conference in Manila in September 1954 and Australia signed the Treaty with Britain, the United States, France, New Zealand, Pakistan, the Philippines and Thailand. Casey (*CNIA* 1954: 738) declared that the 'Australian Government encouraged the idea that a system of collective defence should be established in Southeast Asia, and has taken an energetic part in drawing up the Treaty'. The rationale behind Australia's keen support for SEATO was to resist the spread of communism in Southeast Asia.

Australia viewed Southeast Asia's instability seriously and it 'never regarded ANZUS as a 'complete and final answer to the problem of security in the Pacific.' As Casey observed (*Current Notes (CN)*, July 1951: 403), it had hoped more countries would become committed to regional security. Therefore, for almost three years, Australia intensified diplomatic efforts towards the expansion of ANZUS by including other governments interested in Southeast Asian security. It also wished for a comprehensive regional pact, especially among Commonwealth countries. Yet these hopes failed to materialise because 'the political differences, the conflicts of interest, a

certain lack of common tradition among many of the countries made it impossible ... to bring this broader concept into being' (Casey 1955: 62). Accordingly, Australia hoped many Asian countries would join SEATO.¹⁶

Casey visited the capitals of nearly all countries in South and Southeast Asia before and after the conclusion of the Treaty, to explain the need for such a treaty to their governments.¹⁷ His effort was not entirely successful as only three Asian countries became signatories to the Treaty. This was because most of the Asian countries had only recently obtained independence from European colonial powers, were strongly nationalistic, and wished to avoid an arrangement which seemed to be dominated by colonial powers. Yet these diplomatic efforts towards the establishment of SEATO demonstrated Australia's interests in regional instability and an awareness of its fragility.

Just as the Colombo Plan incorporated both political and economic aspects, SEATO also involved economic aspects. Article III stipulated joint action to 'promote economic progress and social well-being' and this was another of Australia's interests. Casey (1955: 108–9) addressed this point:

The pact should have some economic provisions. If there is to be a healthy political life in Southeast Asia, there must be a healthy economic life. We must sustain and if possible increase the flow of economic aid into Southeast Asia, and when possible, play a part in easing the economic difficulties of the region.¹⁸

The fact that Australia wanted to emphasise the effectiveness of economic aid in regional stability was evident in its hope to 'keep economic aid separate from defence

¹⁵ Booker (1976: 111), a senior diplomat, wrote: The Plan has always had widespread public support ... this may well have been because of the opportunity it provided for Australians to become acquainted with gifted and intelligent Asians from many countries.

¹⁶ Before attending the Manila meeting, Casey (1955: 107) expressed his views on SEATO: 'the Pact should include as many as possible of the free States of Asia. Every effort should be made to secure their adherence or, if they will not come in, to secure their understanding of our objectives and also their cooperation with us'.

¹⁷ Casey has already made himself known in the region through his first visit to Asia as Minister for External Affairs in July–August 1951. This visit included Jakarta, Singapore, Saigon, Bangkok, Hong Kong, Tokyo, Pusan, Manila and Kuala Lumpur. Watt (1972: 186–87) thought of this visit as a 'watershed in the attitude of the Australian Government to Asia, especially Southeast Asia'.

¹⁸ Casey had already justified this approach by declaring that 'the Australian Government regards the danger from communist subversive activities as a greater immediate problem than the danger of open communist aggression' (CNIA 1954: 743).

machinery' and it 'did not hope to see the Colombo Plan superseded' (Casey 1955: 109). This also indicated Australia's fear of insurgencies. Casey, like Spender in the Colombo Plan, did not conceal Australia's trade interest in Southeast Asia when promoting SEATO. He drew attention to the prices of basic commodities in Southeast and South Asia at the 1958 SEATO meeting in which he accentuated the relationship between export prices and political stability. (CPD, 15 April 1958: 869–70). Australia expected SEATO to be a regional institution in which the military security of Southeast Asia and economic development would be complementary. This mirrored its approaches to the establishment of the Colombo Plan.

Regional membership in ECAFE

ECAFE was a subordinate organisation under the UN's Social and Economic Council and established in 1947. ECAFE aimed to 'initiate and participate in measures for facilitating concerted action for the economic reconstruction of Asia and the Far East, for raising the level of economic activity...' (Singh 1963: 53). ECAFE served as a 'forum to exchange information and ideas on economic matters' by providing economic research, advice, and statistical information, and Australia became a founding member, playing 'a prominent part in the preparation of reports leading to the establishment' of ECAFE (Cumpston 1995: 271).

Australia's interest in ECAFE grew when its principal market, Britain, had expressed interest in joining the EEC since 1961. Australia decided to apply for regional membership of ECAFE and was admitted in August 1963. The change from non-regional to regional membership of ECAFE was a clear signal of Australia's heightened interest in Asia Pacific regional cooperation¹⁹ to promote its exports in the region. Only regional members could attend some ECAFE meetings, such as the intra-regional trade talks from which other Western powers were barred. Barwick (1963: 45) regarded the attainment of regional membership of ECAFE as 'the extension of the geographical area of the Commission to included the Continent of Australia' and 'an epoch making step':

In the affairs of the Commission, no longer do we stand without, looking in on and assisting in the affairs of others, speaking of 'their' affairs. We stand

¹⁹ Australia had been the only non-regional member to host the meetings of ECAFE at Lapstone in 1948 and Broadbeach in 1959.

within, dealing with and assisting in our affairs, thinking naturally of 'us' and of what can be done for the good of all of us.

Another incentive was to take joint action with other regional members against the EEC's discriminatory agricultural policy:

Australia's international trade problems are in certain instances similar to Asia's. Both rely heavily on exports of primary products and both are concerned about the protectionist development in agriculture of the EEC. Australia wishes to cooperate closely with Asian members of ECAFE in international trade discussions on these problems (*CNIA*, March 1963: 16).

Australia's shares of exports to and imports from Britain and Western Europe, which accounted for 46.4 per cent and 51.4 per cent, respectively, in 1959–60 dropped to 35.5 and 43.8 per cent in 1963–64. Its exports and imports in the Asia Pacific region rose from 44.3 and 38.8 per cent, respectively, in 1959–60 to 53.9 and 45.8 per cent (Crawford and Anderson 1968: 224). Australia's announcement of non-reciprocal tariff preferences to developing countries in 1968 reflected efforts to strengthen its economic links with Asia and the Pacific.

Yet as ECAFE was an institution concerned mainly with research and debate about regional economic conditions, it did not directly help Australia's economic interests by providing alternative markets in the Asia Pacific region. Regional membership of ECAFE had more symbolic than practical implications for Australia's trade policy, as Barwick described above.²⁰ This move also implied that Australia could no longer rely on the British market as it had since Federation and it fostered an interest in directing its trade more to the Asia Pacific region, a development that would become more conspicuous in the post-Menzies era.

Summary

The prospect of politically unstable regions close to Australia dominated the thinking of Australian leaders in the Menzies era, making economics subordinate to defence and security in its foreign policy priorities. Battles between communists and anti-communists in Southeast Asia were seen as a direct threat to Australia and its reliance

²⁰ According to Neale (1963: 147), Australia's regional membership of ECAFE was recognised as a sign that the Australian government 'was prepared to face the facts of international life and adjust its

on the United States through ANZUS and SEATO was the most important element of its foreign policy. Australia's principal stance on commitment to regional institutions at that time can be summarised as its working out 'a partnership with a number of Asian countries in which Australia could fulfil a useful contributory role in securing wider objectives' (Greenwood 1968:120). 'Wider objectives' here meant stability and prosperity in Asia, which was in turn supposed to contribute to Australia's security. Its involvement in development cooperation in Southeast Asia, implemented partly through the Colombo Plan and SEATO, was based on its assumption that regional stability and prosperity were necessary to check the spread of communism and that development cooperation was a way to achieve this aim. Australia's 'involvement in Southeast Asia's actual and potential conflicts [in the Menzies' era] was generally seen in terms of politico-military strategy, not in simple terms of defending immediate economic interests' (Edwards 1997: 11).

On the other hand, McEwen pursued economic diplomacy to promote trade, and trade promotion interests partly contributed to Australia's commitments to the Colombo Plan and SEATO; stability in the region would facilitate Australia's regional trade in the long run.²¹ Markets in Southeast Asia were not sufficiently developed, and in fact 'until the 1960s, Australian trade with mainland Southeast Asia ... was negligible.'²² Yet there was already an economic cooperation dimension in Australia's security interests in Southeast Asia at that time. Britain's moves to join the EEC encouraged the development of Australia's trade interests in the region and to seek a regional membership in ECAFE. These developments meant that Australia started thinking about emphasising the economic aspects of its foreign policy, which established the pre-conditions for trade engagement with the region, a dimension that had been pursued only in the relations with Japan in the Menzies era. This was sought more seriously in the post-Menzies and Whitlam eras.

actions and attitudes to its geographical environment, thus recognising Australia's deep concern in the region'.

²¹ Australia's trade interest in Southeast Asia had been already expressed as early as 1947 when Minister for External Affairs, Evatt (*CN* No. 18, 2 February 1947: 118), noted: 'Present indications are that there should be a spectacular growth in the exchange of Australian processed products for the raw materials in the intensely rich area of Southeast Asia ... The War terminated trade in most of the Southeast Asian areas but it is now recommencing and the only limitation in its development is our inability to meet all demand.'

Post-Menzies period (1966–72)

After Menzies resigned as prime minister in January 1966, three Liberal prime ministers came into power before the Labor Party under Whitlam's leadership won the election in December 1972: Harold Holt (January 1966–December 1967), John Gorton (January 1968–March 1971) and William McMahon. Paul Hasluck, who held the foreign affairs portfolio from 1964 until February 1969, was succeeded by four ministers within four years: Freeth, McMahon, Bury and Bowen. This was in contrast to the Menzies era where one prime minister and four foreign ministers served over 17 years.

There were distinctive foreign policy approaches in this era, which set them apart from those of Menzies. Economic interests came to be emphasised more tangibly. In addition, three prime ministers, especially Holt, committed themselves to forging sound relations with Asia, a move evident in the removal of restrictions on Asian immigration, terminating the White Australia Policy, which had hampered Australia's interaction with Asians. Although Australia could not alter the basic lines of its security-oriented foreign policy under Menzies, these elements heralded a deliberate shift away from the previous foreign policy style and the emergence of a new understanding of Australia's position in the region. The Vietnam War, British and American military withdrawal from the region and China's return to international society took place during this era, leading to a reassessment of regional approaches. At the same time, Australia was deeply immersed in these immediate and pressing issues during this period, and could not afford to commit itself to regional institutions.

Regional influences

The Vietnam War dominated foreign policy debates during the Holt government; the withdrawal of Britain and the United States from the region absorbed the Gorton administration; and the issue of the recognition of China increasingly occupied the foreign policy debate from the late 1960s and intensified under the McMahon

²² Tweedie 1994: 3. It is further commented (177) that '... it is really only since 1987 that the ASEAN nations ... have become significant trading partners'.

government. Grant (1970: 447) summarises the impact of the Vietnam War in Australia:

In the view of Australian government spokesmen from 1965 to 1968, Vietnam was the last bulwark, the first domino, the beginning of World War III. Victory was essential to preserve the security of Asia and even the stability of the entire world. Victory was essential to contain China and to contain communism. If Vietnam were to 'fall', Australia would not itself last long.

Under Holt, therefore, 'Australia's foreign policy was more closely identified with the United States than ever before' (Bull 1974: 346) and his declaration, 'All the way with LBJ', characterised this view.²³

When Gorton was in power, Britain and America's withdrawal, announced in January 1968 and July 1969, respectively, became central issues as Australia lost its principal allies in the region. This forced Australia to reassess its defence policies in Southeast Asia, which made it focus 'more directly on defence arrangements in Malaysia and Singapore than on the war in Vietnam' (Edwards 1997: 197).

Under McMahon, the major foreign policy debate was about recognition of China. Waller (1990: 45) regarded 'a more logical approach on Communist China' as the first task of his job as Secretary of the Department of External Affairs in April 1970. McMahon was then Minister for External Affairs and a major policy question which he and Waller addressed was Australia's relations with China. McMahon, after he became prime minister in 1971, hoped to recognise China, knowing that 'this was logical thing to do',²⁴ although he failed to achieve this.

These momentous changes in the region all required a rethinking of Australia's foreign policy interests. Prime Minister McMahon declared, during his visit to the United States and Britain in November 1971, that 'Australia would henceforth pursue its foreign policy according to its independent judgement and national interest' (CNIA, No. 11, 1971: 610). Gorton, the Minister for Defence, declared that there

²³ The Holt administration increased Australia's commitment to the Vietnam war, sending 8,000 men in October 1967, the peak of Australia's involvement (Rodan 1979: 313).

²⁴ Waller (1990: 43) recalled that after the Coalition lost the election in 1972, McMahon said to Waller that McMahon 'should have taken the chance and recognised China'.

was no likelihood of an attack on Australia within the next decade (*SMH*, 21 June 1971), implying that Australia did not have to rely on powerful friends as heavily as it had for its protection. The need for self-reliance in defence policy was recognised for the first time publicly in the 1972 *Australian Defence Review* as 'a central feature in the future development of Australia's defence policy'.²⁵ Australia's change of strategy, reflected in these statements, was conducive to closer engagement in Asia.

The need for Australia to deal with these critical issues distorted its intention to commit itself to regional institutions, a focus which was not seen as directly helping Australia tackle matters like its involvement in Vietnam. Australia's less enthusiastic attitude towards regional institutions during this era, with the exception of the ADB, was related to the fact that Australia was too mired in critical regional problems directly influencing its foreign policy direction to be strongly committed to regional institutions. Malcolm Fraser recalls that 'a lot of this period [the late 1960s] ... got overshadowed by the Vietnam conflict, I suppose, and that took people's energies away from other issues.'²⁶ Yager (1971: 198) writes that 'regional cooperation of any sort is still a new idea, and experience in cooperating to deal with tough, practical security problems is almost totally lacking'. ECAFE was thought to be 'too weak to create a basis for political action in Australia' (*Age*, 20 April 1968). ASPAC also failed to gain Australia's strong commitment, when cabinet endorsed Hasluck's view in 1966 that 'Australia should not expect too much from it' (Edwards 1997: 110). Australia's lack of enthusiasm towards ASPAC was related to pragmatism; 'in defence, politics and trade it is more beneficial for ... Australia to be associated by treaties and groupings with nations that are bigger and more powerful' (*West Australian*, 18 June 1967).

Nor was Australia enthusiastic about the Five Power Defence Arrangements (FPDA) agreed upon in London in April 1971, which included Australia, Britain, New Zealand, Malaysia and Singapore. Australia's agreement with the FPDA was influenced by the reassessment of its regional security policy resulting from the British and American withdrawals. Australia was not prepared to play a major role within the FPDA, which indicated it did not have high expectations of the

²⁵ Department of Defence 1972: 11. Dobb (1995: 33) regarded the 1972 Defence Review as 'a path-breaking document [as it] clearly foreshadowed much of Australia's current defence policy'.

arrangement. On returning from London, Gorton stressed 'the commitment was only to consult even though Australia had extended its commitment to the defence of Malaysia to include Sabah and Sarawak' (cited in McDougall 1997: 192). Gorton cast doubt on the continued practicality of the forward defence policy.²⁷ His lack of enthusiasm was matched by his successor, McMahon, who said: 'Nor do I think that there was any real necessity to have a five power arrangement so far as Britain, New Zealand, Singapore, Malaysia and Australia were concerned' (cited in McDougall 1997: 192). Australia's approach to the FPDA was related to the changing regional security situation, in which there was a diminished perception of threat.

Growing economic interest in foreign policy

The foremost feature of this era is that economic aspects rose in Australia's foreign policy priorities. Foreign Minister Freeth, in an article 'Australia and its relations with Asia' written in 1969 (57), started with the economic dimensions of Australia's foreign policy:

One of the important elements in our diplomacy is our recognition of the common need to advance the rate of economic development in the region ... [there are] goals which Australia through diplomatic effort, through economic assistance, through assistance in the field of trade, will strive to help these [regional] countries to attain.

Prime Minister Gorton also said to parliament that 'it is not to be thought that we look on our activities in the region as being purely, or mainly, military' (cited in Freeth 1969: 57). Australia's exports to Asia increased from 26.8 per cent in 1959–60 to 42.1 per cent in 1969–70 while exports to Europe fell from 51.1 per cent to 27.3 per cent in the same period (Grant 1972: 44). This trend was reflected in Australia's commitment to the establishment of the ADB. Australia regarded the Bank as 'a practical and imaginative step forward in economic cooperation in Asia' (CN 1966, 696) which was an acknowledgment that Australia found the Bank's program and purpose more effective than ECAFE or ASPAC for attaining economic development in Asia. Accordingly, it contributed US \$85 million, the fourth largest

²⁶ Personal interview, 12 October 1995, Canberra.

²⁷ The change of Australia's defence system from the forward defence to 'the continental' defence was precipitated by the resignation of two keen advocates of the former defence system: Hasluck, External Affairs and Fairhall, Defence, in February and August 1969, respectively.

contribution to the Bank, after Japan (US \$200 million), the United States (US \$200 million) and India (US \$93 million).

Australia's declaration that there was no immediate security threat to Australia helped it see the region more from an economic viewpoint. This view was elaborated in the report entitled *Strategic Basis of Australian Defence Policy 1971*, approved by the Defence Committee in March 1971, which stated that 'for the first time, that any threat of overt military aggression by China into Southeast Asia or by Vietnam beyond Indochina was unlikely' (cited in Ball and Kerr 1996: 11). This view contrasted sharply with thinking in the Menzies era.

Yet there was continuity in this era with the thinking of the Menzies era where establishing regional stability was seen as a precondition to closer economic cooperation. Gorton (CPD, H. of R., 25 February 1969: 33) addressed parliament in these terms:

Any examination of our policy in relation to our neighbours of the north will show that we have encouraged them to develop policies promoting political stability and economic growth ... promoting regional cooperation ... helping in conditions of stability to accelerate progress, and helping by military means to preserve conditions of stability are two sides of the one coin.

Leaders in the post-Menzies era continued to stress the security-defence aspects of foreign policy, as foreign minister McMahon (CPD, H. of R., 19 March 1970: 675) observed: 'it cannot be repeated too often that the supreme objective of our foreign policy is to protect and enhance our security and other vital interests – political, economic and social'. The post-Menzies period was a transition from Menzies' security-oriented foreign policy to Whitlam's economically-oriented approach.

Prime ministerial visits to Southeast Asia

Prime ministerial visits to Southeast Asian nations nurtured engagement with Asia and laid the base for Australia's subsequent initiative in regional institutions. This was an important element distinguishing foreign policy from the mid-1960s from politics pursued under Menzies. Menzies was a dominant political figure, but foreign policy and diplomacy in Asia was not his exclusive domain. Bell (1991: 40) wrote:

... though his (Menzie's) particular worldview did undoubtedly condition the general assumption of Australia's external policy during his time, practically all the work and most of the decision-making fell in foreign economic relations to John McEwen and in diplomatic relations to his four Ministers for External Affairs: Percy Spender, Richard Casey, Garfield Barwick and Paul Hasluck.

Menzie's lacked the qualifications to be an Australian representative of Australia's Asia diplomacy as he simply did not have a deep understanding of or interest in Asia. His cabinet colleague, Downer (1982: 197) recalled that Menzie's 'was not attracted to Asian people'.²⁸ His continuous support for the White Australia policy, the direction of which he influenced, as well as his defence of South Africa 'did little to endear Australia to her Asian neighbours'.²⁹ Menzie's (1970: 44) admitted that 'I am one of those old-fashioned Australian politicians who think that our nation's foreign policy should not be aimed at noisy demonstration or assertion'. It was left to his ministers for external affairs to emphasise the significance of Australia's relations with Southeast Asia and commit themselves to developing links between the two through active diplomacy,³⁰ as seen in McEwen's pivotal role in fostering relations with Japan. Casey was prominent in the early development of Australia's relations with Southeast Asia and his 'greatest contribution' was regarded as his good-neighbour attitude towards the region.³¹ Yet Menzie's lack of enthusiasm about Asia would not have helped the development of sound Australian relations with Southeast Asia.³²

²⁸ For instance, Walter Crocker, who was one of the first overseas professors recruited by ANU and left as High Commissioner to India in 1953, wrote in his diary in 1955 that 'Menzie's is anti-Asian, particularly anti-Indian. Yes, anti-Asian. He just can't help it' (cited in Pemberton 1997: 144).

²⁹ Rodan 1979: 310. Camilleri (1973: 20–21) wrote in this context: '... his contempt for the press, his insensitivity to criticism and his tight control of the party were not to be the ingredients of an assertive or independent foreign policy'.

³⁰ Barwick (December 1961–April 1964), successor to Casey, was referred to as 'more sensitive than Menzie's towards the feeling and ideas of Asian leaders' (Booker 1976: 188). Hasluck (April 1964–February 1969) was also depicted as believing that 'Australia's future was closely associated with Southeast Asia. This was a view he had held since his time as an officer within the Department of External Affairs [in the 1940s]' (Porter 1993: 269).

³¹ Renouf 1979: 459. He further argued that 'Menzie's was indifferent but Casey had a real feel for Asian peoples ... Casey has the credit for establishing good, overall political relations between Australia and Southeast Asia.' Stargardt (1977: 232) expressed a similar view: 'Although Menzie's showed his disdain for, and disinterest in Asia, some of his Ministers for External Affairs displayed greater flexibility. This was especially true of Casey...' In fact, Casey constantly visited Southeast Asia and its 'personalities and background conditions he probably knew better than any other Foreign Minister in the world' (Watt 1967: 301).

³² The qualifications of Spender, Casey, Barwick and Hasluck were assets to Australia during the Cold War when it was exposed to communism in its near north. Greenwood (1974a: 91) commented that Menzie's appointed his 'ablest man' for his Minister for External Affairs and that 'in the twenty years

Holt pioneered Australia's summit diplomacy in Asia, a very different approach from that of Menzies. Sheridan (1995: 7) referred to Holt as one 'who had he lived, may well have turned out to be an interesting and progressive leader in terms of Australia's involvement with Asia'.³³ His direct involvement in diplomatic efforts to forge friendly relations with Asia clearly indicated where Australia's security and economic interests were, 'making more credible his government's claim that Australia's future was dependent on the security and stability of the Asia region' (Rodan 1979: 314). Edwards (1997: 144) also comments positively on Holt's direct involvement in diplomatic efforts towards good relations with Asia that 'Holt did not conceal the fact that he had no specific purpose other than to emphasise his strong interests in close relations with countries of the Asia Pacific region and, by taking with him a large press contingent, to spread this message to the Australian people'.³⁴ Observing Holt's tours to Cambodia, Laos, Taiwan and South Korea in April 1967, the first visits by an Australian prime minister, the *Far Eastern Economic Review* (4 May 1967) wrote a report on the tours entitled *White Asians?* describing Holt as 'a good Australian emissary to send into Asia' and commenting:

Holt's approach throughout was not that of an European leader intruding into Asian affairs, but of an Asian leader dealing with neighbours – fellow Asian leaders ... [this] propensity on the part of Australians to regard themselves as ... people who must of necessity have close links, understanding and sympathy with the problems of their neighbours is ... intensifying, and Holt's tour ... will contribute to a further intensification.

Gorton and McMahon followed Holt undertaking prime ministerial visits to Asia in July 1969 and June 1972,³⁵ respectively, to promote direct dialogue with their Asian counterparts, dealing with regional affairs. Gorton's involvement in Asia was based on his understanding that 'many of [the conservatives'] traditional policies were no longer adequate, either strategically or politically', and 'his instinctive reactions

from 1949 to 1969, in both experience and capacity, the Australian ministers would compare not unfavourably with the Foreign Secretaries or Secretaries of States of the western powers'.

³³ Former colleague, Malcolm Fraser (personal interview) simply said Holt was 'symbolic' in changing the direction of Australia's foreign policy.

³⁴ An interesting and important element in Holt's diplomacy was that he capitalised on his visits to Southeast Asia to inform the Australian public of where Australia's interests lay, as Edwards (1997: 145) notes: 'Australians knew that they now had a Prime Minister with a markedly different view of Australia's future place in the world.'

³⁵ McMahon chose Indonesia, Singapore and Malaysia in his first trip abroad as Prime Minister.

prefigured policies more commonly associated with Whitlam' in many areas (Edwards 1997: 346). In January 1969 Gorton made it clear that he thought that Britain had become a foreign country for Australians, and should be treated as such, and that there was little value in the gathering of Commonwealth representatives (Bell 1991: 89). This symbolised the cessation of the priority Australia had given to Britain in its foreign policy for so long and upon which Menzies had attached such great store.

Prime ministerial visits to Southeast Asia allowed direct discussion with Asian counterparts and were probably the best way to make Australia's foreign policy understood in these countries. Australia participated in ASPAC as a means of furthering this aim. Australian diplomats warned against the expectation that it would produce substantial results, but said ASPAC had value in that it brought together the representatives of Asian governments (*Age*, 3 July 1967). ASPAC was the first institution in which Australia participated where, apart from New Zealand, all participants were from Asia: Japan, Malaysia, the Philippines, South Korea, South Vietnam, Taiwan and Thailand. The advantage to Australia was that it could communicate with Asians without the direct intervention of the superpowers.³⁶

The initiation of Australia's summit diplomacy in Southeast Asia also represented changing directions in Australia's foreign policy, based on a new interpretation of regional interests.³⁷ This movement, followed by all subsequent Australian prime ministers, was an important basis for forging better relations with regional countries, and a fundamental precondition for Australia's leadership in Asia Pacific economic institutions.

Change of immigration policy

Holt's willingness to forge better relations with Asia included dismantling the White Australia policy, a long-standing blemish on Australia's relations with Asia.

³⁶ Foreign minister Freeth (1969: 62–63) stressed the significance of the benefit when he said: 'we believe [ASPAC] has a potential to assist the region to develop a spirit of self-reliance and mutual cooperation, without the dominant presence of non-regional powers'.

³⁷ These trends also led to the organisational reshuffle of the Department of External Affairs in 1970 after which the renamed Department of Foreign Affairs had a new division covering Asia with three branches headed by an assistant secretary. They were Northeast Asia, Southern Asia and Southeast Asia

'Australia's immigration policy was discriminatory, barring Asians while simultaneously encouraging Europeans' (Millar 1991: 183), creating a negative view of Australia among Asians. Holt, who served as Minister for Immigration under Menzies from 1949 to 1956, thought the change would help alter 'Australia's image in the Asian region' (Rodan 1979: 312). Holt's initiative differed from the approach taken by Menzies, who did not allow any dismantling of the immigration policy.³⁸ Holt was keen to inform Asians of the demise of the White Australia policy in his regional diplomacy (Edwards 1997: 145).

The impact of the White Australia policy in foreign affairs was significant, because as Australia pursued economic diplomacy to encourage trade expansion with the region, business interactions with Asians needed to be on an equal footing. The White Australia policy had hindered Australia's regional economic diplomacy, as Tweedie (1995: 178) argues: 'the goodwill Australia derived in Asia from assistance measures was partly negated by the persistence of the White Australia policy and attitudes.'³⁹ Naohiro Amaya (1971: 165), regarded the discriminatory immigration policy as an impediment to furthering Australia-Japan relations:

It is very unpleasant and inconvenient that Australia imposes discriminatory and insulting restrictions on the entry of Japanese technicians and skilled labourers to Australia ... It is egoistic that while Australia strongly discriminates against Asians, it expects Asian markets to import more Australian products.

The dismantling of the White Australia policy was of 'fundamental importance in the development of Australian foreign policy and the search for friendly relations with non-European countries' (Watt 1967: 204), especially in Asia. Termination of the White Australia policy, finally accomplished in the Whitlam era, was necessary for Australia to strengthen its economic links with Asia and enhance its regional stand; without this, Australia's capacity for taking the initiative in establishing any economic institution in the region would have been thwarted.

(Akaneya 1986: 28). This probably led to better organisation and more emphasis on prime ministerial diplomacy in Asia.

³⁸ The Department of Immigration presented the proposal of reforms to the cabinet and Menzies in 1964, but Menzies vetoed them despite the fact that 'the proposal received wide Cabinet acceptance' (Rodan 1979: 311).

Summary

In the post-Menzies era, Australia established the preconditions for its subsequent engagement in Asia Pacific regionalism: it came to see the region more from an economic perspective, its prime ministers were more committed to diplomacy in Asia, and it started dismantling a discriminatory immigration policy. These changes represented a shift in Australia's foreign policy focus to the Asia Pacific region. Nevertheless, Australia did not easily cast aside the traditional foreign policy approaches of the Menzies era, which made it difficult for the country to adapt to a dramatically changing regional environment. As late as in March 1970, Foreign Minister McMahon stated that '... we still regard Communist China and other Communist regimes as a central obstacle to peace, stability and ordered progress throughout Asia' (CPD, H. of R., 19 March 1970: 677). This view lingered even after McMahon became prime minister despite his wish to recognise China. He did not anticipate what was to be a world trend regarding China when Whitlam visited China in July 1971 and criticised Whitlam by saying that 'I find it incredible that at a time when Australian soldiers are still engaged in Vietnam, the leader of Labor Party is becoming a spokesman for those against whom we are fighting (*Australian*, 13 July 1971). Yet Kissinger was in China at the same time as Whitlam and on 15 July, it was announced that President Nixon would visit China. This revealed the Coalition's inability to adjust Australia's foreign policy to a changing regional political scene.

The failure to adjust was also reflected in the government's reluctance to take the initiative in Asia Pacific regionalism. Minister for Foreign Affairs, Bowen, showed no enthusiasm in May 1972:

While proposals for the formation of an Asian Pacific Economic Community have been followed with close attention by interested departments, the Government has not contemplated any initiative with regard to the formation of such a community. The Government's view is that the present interests of Australia and the countries of the Asia Pacific area are better served by multilateral initiatives aimed at the expansion and liberalisation of world trade rather than through the creation of separate economic blocs which would result in the fragmentation of the present international trading system. (CPD, H. of R., 9 May 1972: 2269)

³⁹ For instance, when Australia attempted to become a regional member of ECAFE in 1963, the *Manila Chronicle* (7 March 1963) pressured Australia to modify the White Australia policy, as well as to expand Commonwealth preferential treatment to other Asian countries.

To model the region's economic cooperation on 'economic blocs' was simplistic and reflected a lack of careful examination.⁴⁰ Yet, the fact that the Coalition sponsored a joint research project by Australian and Japanese economists reflected the necessity of 'a continuing analysis of economic relations among the Pacific nations', as Bowen continued to maintain (Crawford and Anderson 1974:128), an illustration of Australia's growing economic interest in regional affairs.⁴¹ Whitlam finally channelled this interest through his regionalism proposal.

The Whitlam era (1972–75)

Characteristics of Whitlam's foreign policy

A turning point in Australia's foreign policy occurred when Whitlam came to office in December 1972 leading the first Labor Government in 23 years. He attempted to break the Coalition's foreign policy legacy. There were innovations on many fronts. Whitlam (1985: 25) recorded that 'our task after 2 December 1972 was not only to reverse the policies of two decades, but to change Australian attitudes, deeply entrenched over generations'. This included establishing diplomatic rapprochement with China, completing the evacuation of troops from Vietnam, dismantling SEATO, granting independence to Papua New Guinea, initiating the NARA Treaty with Japan and abandoning the White Australia policy. Such achievements were 'almost wholly due to the preparations made in Opposition and the initiatives taken in Government by [Whitlam's] Labor Party' (Whitlam 1985: 26). Viviani (1997: 100) attributed the change in Australian foreign policy to the value Whitlam placed on forging a national identity which was 'independent, non-military, anti-racist, region-oriented and internationalist'. These were the foundations on which Whitlam implemented a new foreign policy. Particular stress on economic interests and an Asian focus were essential components of Whitlam's foreign policy.

⁴⁰ Crawford (1963: 7) said 'Asian countries had problems quite dissimilar from Europe and that Common Market analogies were meaningless'.

⁴¹ This initiative was instrumental in generating the research links between Japanese and Australian academics who were to play a substantial role in the Australia–Japan joint leadership of the PECC initiative.

The emphasis on the economic aspects of foreign policy was most evident. Camilleri (1979: 253) said that 'without doubt it is the economic factor which represented the most significant innovation in Labor's approach to foreign policy'. The Department of Foreign Affairs (DOFA) records that [under Whitlam] the 'emphasis of Australian policy in Southeast Asia has shifted ... from military alliance and ideological considerations in the direction of increasing cooperation in trade, aid, cultural exchanges and increasing consultations' (*AFAR*, December 1973: 830). This approach was partly realised when Australia decided to participate in the Ministerial Conference for Southeast Asian Development in 1973. Japan initiated the Conference in 1966 but under the Coalition, Australia had bypassed the Conference for fear that it might place Australia's protectionist policy under close scrutiny.

Whitlam altered this stance in 1973 because of his belief that 'increasingly our foreign policy in Southeast Asia will be related to our efforts to develop mutually advantageous trade' (cited in Bates 1997: 249). The idea was translated into reality in July 1973 when the Whitlam government introduced an across-the-board 25 per cent tariff cut. It also established a division in the Department of Overseas Trade in December 1973 to promote trade with Southeast Asia. The difference in the approaches to the Conference and the tariff cuts shows how Australia under Whitlam accorded a stronger economic focus to its foreign policy. Woolcott (*AFAR*, May 1974: 318), then Deputy Secretary of DOFA, described Australia's changing interest in Southeast Asia:

[Australia] has in fact, shifted the whole emphasis of Australia's continuing involvement in Southeast Asia from one primarily based on ideological considerations and military alliance, to one based increasingly on developing trade with the countries of the region, on promoting progress through constructive aid programmes, on encouraging security through regional cooperation rather than military pacts ...

Bates (1997: 248) goes so far as to say that 'for Whitlam, Australians were Asians by an irrevocable fact of geography and the problems of Asia were also the problems of Australia'. For instance, recognising Beijing and Hanoi and establishing a 'working relationship' with Pyongyang in the first few days of his administration created a new

avenue for Australia's foreign policy and shifted its focus in the Asia Pacific region.⁴² As will be discussed in the next chapter, Whitlam also committed Australia to negotiations with Japan on the NARA treaty, which the Coalition had been reluctant to take seriously. Furthermore, Whitlam attached more significance to ASEAN which, according to Pemberton (1997: 143), 'the Coalition had largely ignored ... in favour of the American-inspired SEATO'.

Whitlam thought highly of ASEAN. The tariff cut Whitlam implemented was partly based on his hope that it would benefit the developing countries in Southeast Asia, 'serving to strengthen Australia's ties with the region' (Bates 1997: 243). Accordingly, Viviani (1997: 100–1) concludes, 'there are some precursors of a regional orientation in Casey and Barwick, but it is Whitlam who gives Australian foreign policy its most explicit Asia orientation' and he demonstrated that 'the US alliance [was] one major element of policy, but not the dominant core'.⁴³ Asian nations welcomed this new orientation which made it easier for Whitlam to achieve his foreign policy goals. The Indonesian Ambassador to Australia stated: 'it gives my Government much gratification that the present Government's foreign policy works towards a more independent stance in international affairs ... and a policy of orientation to regional cooperation' (*Australian*, 9 June 1973). In short, approaches which focused on economics and on Asia were among the significant achievements of Whitlam's foreign policy.

Whitlam and Asia Pacific regionalism

An example of Whitlam's innovative foreign policy was his proposal for regional economic cooperation, announced in January 1973. No Australian political leader had seriously promoted this idea in the postwar era. Although Whitlam's plan ultimately

⁴² Whitlam was very swift to give substance to the relationship with China after an agreement on mutual recognition was reached on 21 December 1972. The Australian Embassy and Ambassador were established in Beijing on 12 January 1973, followed by the closure of the Australian mission in Taipei. An Australian government trade mission visited China in May and the Chinese Minister for Foreign Affairs visited Australia in July to sign a three-year trade agreement. Whitlam visited Beijing as Prime Minister in November.

⁴³ Renouf (1986: 29) suggested that 'for many years, Australia had carried out little foreign policy of significance without first obtaining approval from the United States. Whitlam abandoned this subservience.' However, the importance of ANZUS did not change even in the Whitlam era. In 1973 Whitlam stated that 'ANZUS is a legal embodiment of the common interests of the people of Australia, New Zealand and the United States. These interests remain constant beyond changes of administration in Washington, Wellington or Canberra.'

failed, it was a precursor to Fraser's and Hawke's initiatives in Asia Pacific regionalism. Whitlam regarded the proposal as 'one of the keystones of Australia's foreign policy for the 1970s' (Bates 1997: 249). He stated the basic outline soon after he came into office:

... to meet the new realities and our perception of them, we shall be seeking new forms of regional cooperation ... We shall be charting a new course with less emphasis on military pacts ... The guidelines of the regional community that I foresee will be an organisation genuinely representative of the region, without ideological overtones, conceived as an initiative to help to free the region of great power rivalries that have bedevilled its progress for decades and designed to insulate the region against ideological interference from the great powers. (*AFAR*, January 1973: 33)

Whitlam's proposal on Asia Pacific association stemmed partly from his economic and Asia-oriented stances in foreign policy, in contrast with the approach of the conservative government.⁴⁴ Whitlam had already expressed similar views in 1969 when he saw Australia's regional role 'as helping to build the economies and societies as well as defences of all the countries in this region in cooperation with our rich associations in the Pacific Basin'.⁴⁵

A feature of his approach to regionalism was that it was a long-term undertaking and, accordingly, its structure and content could not be laid out in detail in advance:

I do not intend that Australia should try to impose a detailed formulation for setting up such a community ... we shall be patient and punctilious in our consultation and prepared at every turn to take account of and participate in the genuine aspirations of the region. But we shall be active in seeking this end. (*AFAR*, January, 1973: 33)

The proposal was exploratory and needed time to evolve, as Whitlam indicated in his address on 24 May 1973 (CPD, H. of R.: 2646):

⁴⁴ Whitlam stressed the importance of the economic aspect of Australia's foreign policy after he left politics and noted (1979b: 2) that 'Australia will need to be as close economically to her neighbours as she is geographically. It follows that Australia's preoccupations in foreign policy will be primarily economic, not military ... the greatest influences upon Australian foreign policy will be economic in nature, that is, the changes that are taking place in the regional economy.'

⁴⁵ CPD, H. of R., 26 March 1969: 902. This idea was similar to the Asia Pacific policy of the Japanese Foreign Minister, Takeo Miki. Whitlam (1985: 61), then Leader of the Opposition, was 'impressed' by Miki's idea to establish a closer association in the region when he met with Miki in Tokyo in January 1968. As mentioned in Chapters 5 and 6, in 1967 Australia's Minister for External Affairs, Paul Hasluck, was unenthusiastic about Miki's idea. Whitlam and Hasluck's different approaches reflected their distinctive foreign policy stances.

It is clear that the new regional arrangements we have in mind will be a low and delicate growth. We are content at present to let the concept take seed in the thinking of our neighbours in the belief that our research holds the best long-term promise for bringing about a greater understanding. We remain completely flexible on the timing, structure and membership of any future arrangements.⁴⁶

Whitlam's proposal was simply a declaration of his hope to organise a regional arrangement. A major incentive for Whitlam to push the idea lay in the lack of a regional mechanism in the Asia Pacific region, in contrast to other regions. In November 1973 Whitlam stated:

African states have their Organisation for African Unity. American countries assemble in the Organisation of American States. In Asia, in our region, there is nothing comparable. Our long term aim is for regional arrangements which, although they would be less institutionalised and more informal than the OAU or the OAS [would provide], a forum in which to talk informally together and promote greater understanding and cooperation. (cited in Knight 1974: 262)

An aim that Whitlam hoped to achieve through his regionalism was to create 'a means of better and more widely shared regional communications – something like a "mini-Commonwealth" though obviously without the same shared background and traditions and probably without a secretariat' (Knight 1974: 262). Yet this function was supposed to help avoid political problems such as the Chinese–Japanese struggle for influence in Asia, US–Japan rivalry on trade, and the waning influence of the United States (Hyde 1978: 132). Whitlam thought substantial changes on the regional scene required something of a regional mechanism which could at least enable leaders in the region to meet and discuss, albeit informally. He was convinced that this would contribute to regional stability.

In 1974, Whitlam elaborated his view that a regional forum would not be 'a body where decisions are made and then [made] binding, but where it is possible for heads of government regularly to exchange views which are of mutual interest' (cited in Albinski 1977: 92). A critical point here was membership. As Whitlam hoped to

⁴⁶ Later, the Minister for Foreign Affairs Willesee expressed the same view as Whitlam and stated on 15 June 1974 that the concept 'has sometimes been misunderstood as an immediate objective. I would say rather than it is an important future goal ... Perhaps this decade will see this aim fulfilled?' (cited in Knight 1974: 263).

'break down the long-standing preoccupation with ideological conflicts with defence-oriented answers to fostering stability' (Albinski 1977: 93), the two superpowers, the United States and the Soviet Union, were not considered as potential members. Probably because of his Asia-oriented foreign policy, Whitlam expected Japan and China to join the nations of Southeast Asia along with New Zealand and Australia. He argued that, even if a member of ASEAN did not forge diplomatic relations with China, 'China must sooner or later be in any regional association for consultation in our region' (CPD H. of R., 14 November 1973: 3920). Whitlam further suggested that no regional organisation could be very representative without China's presence (*AFR*, 26 February 1973). Whitlam sought to include Vietnam to ensure that it was not isolated from Southeast Asia (Viviani 1997: 104). A major purpose was to enhance confidence among nations whose diplomatic exchanges had been hindered by political complexities.

Whitlam's Asia Pacific association was also intended to furnish a base on which both the exporters of resources and the consumers 'could harmonise their activities, consistent with Labor's notions about "independence" and the appropriate wielding of resource policy' (Albinski 1977: 94). Whitlam's strategy would assist development in regional countries. Whitlam said to Indonesian leaders in February 1973 that 'our continuing encouragement and support for a new form of regional cooperation ... will speed your progress and bring nearer the fulfilment of your goals' (cited in Hyde 1978: 83).

Whitlam's regional diplomacy

Whitlam intensified diplomatic efforts in Southeast Asia in 1973 and 1974 to elicit favourable reactions from the region. He prepared well for his visits to the region: he sent a special envoy to discuss the nuances of each nation's perspective on Australia's foreign policy and regional proposals before his visits, and it was on the basis of these findings that his speeches were drafted. It was said to be 'one of the first occasions before a Prime Minister's overseas visit that Australian embassies have played a constructive role in the stance adopted through such close consultation' (*Australian*, 15 February 1974). The thorough preparation behind diplomacy reflected his commitment to his regional initiatives and his keenness to forge better relations with ASEAN countries.

Whitlam's first diplomatic foray was made during his visit to Indonesia in February 1973. In recognising the importance of Australia's relations with Indonesia, Whitlam thought it necessary to explore Australia's foreign policy approach with Indonesia. He declared during the visit that 'the futures of our countries are indissolubly linked together and our relationship will be a crucial factor in determining the future of our region for the rest of this century' (cited in Hyde 1978: 61). The emphasis on relations with Indonesia was a recognition that Indonesia's approval was necessary for Whitlam to take a concrete step towards his regional initiative. Whitlam was thus careful not to give an impression that the aim of regional proposal would be to absorb ASEAN, or that the structure would be augmented to include many more and diverse nations.⁴⁷ This was evident in the Joint Communiqué issued by Whitlam and President Suharto:

Australia would punctiliously consult with regional neighbours and would be sensitive to their ideas and aspirations. [Whitlam's] proposals were preliminary and exploratory. He recognised that new forms of regional cooperation would not be quickly or easily achieved. His ideas were intended to complement ASEAN and were in no way competitive, or alternative, to it. (AFAR, March 1973: 93)

Suharto largely welcomed Mr Whitlam's proposal for a widely representative Asian regional organisation, and their Communiqué stated that 'while such a concept was unlikely to come about in the short term, [Suharto] recognised its potential value in the long term' (AFAR, March 1973: 93). Yet Suharto stipulated that expanded regionalism was only acceptable after a lasting settlement in Indo-China (Hyde 1978: 68).

The strategy of support without rushing change was also the line taken by Foreign Minister Malik during his visit to Australia in November 1973. He recognised the difficulties in timing and deciding which countries should be invited, declaring Indonesia, nonetheless, in favour of the idea in principle (Age, 10 November 1973). Malik explained a major problem for Indonesia in accepting the proposal:

⁴⁷ Whitlam noted the importance of ASEAN when he stated: 'ASEAN is the only one which has a proper regional relevance, the only one which has a thriving future' (cited in Albinski 1978: 94). The *Far Eastern Economic Review* (Asia 1974 Year Book: 54) observed: 'Having got Whitlam to first assert

... from the onset in February, Indonesia never opposed the idea of a wider regional cooperation scheme and in fact we supported it, including the eventual participation of China. The problem only is, how to implement such an idea for regional cooperation. (cited in Knight 1974: 264)

Whitlam's visits to Malaysia, Singapore, Thailand, the Philippines, Laos and Burma in January–February 1974 were also designed to give 'life to his proposed regional plan' (Hyde 1978: 62) although ASEAN ministers had informally discussed his proposal and had already 'rejected it as it stood' (Albinski 1978: 97) in February 1973. Malaysia hoped ASEAN would develop further and feared domination by China and Japan under Whitlam's regional proposal, while Thailand seemed to regard Whitlam's idea as 'almost too remote to be considered seriously yet' (*Australian*, 5 February 1974). Yet Singapore was reported to support the concept 'largely as a countermeasure to great power rivalries disputing the area' and 'the Philippines was also active in efforts that might eventually see the expansion of ASEAN'.⁴⁸

In general, the Southeast Asians were not ready to take Whitlam's proposal up. Knight (1974: 262) highlighted three reasons for the cool reaction. Firstly, as the idea was presented rather vaguely, no one knew what it involved or was willing to discuss it in detail; secondly, Whitlam's unwillingness to give substance to the concept led to a debate which destroyed it before the concept could take shape, and thirdly, many countries, especially in Southeast Asia, were concerned about the roles that the great powers such as China, Japan or India would play.

The first and second reasons were crucial. Mackie (1976: 86) has stated that regionalism is a 'slippery concept, frequently generating vain hopes and false expectations' and thus 'it should be made quite clear why [regionalism] is important and what it means'. Yet Whitlam thought it too difficult to launch detailed plans for regionalism. Policy-oriented interactions not only among ASEAN countries but also with other developed countries including Australia were necessary for ASEAN countries to understand the merit of Asia Pacific economic cooperation. Yet it was as late as 1976 that ASEAN leaders themselves organised their first summit meeting to

the importance of ASEAN, the Indonesians, in their desire for better relations with Australia, moved during 1973 some way towards encouraging his concept.'

discuss the post-Vietnam War regional order. Uncertainty in the region partly caused ASEAN countries to be unable to accept or even consider seriously the Whitlam proposal.

On concerns about the roles of the superpowers, Malik spoke of a Southeast Asian view:

You cannot include China and not include Japan and if you have both Japan and China in such an association then you produce not only rivalry between the two but also Russia is left out and feels humiliated. It will resume its diplomatic offensive in Asia. (cited in Knight 1974: 267)

This was also recognised within Australia. The Secretary of DOFA, Alan Renouf, commented: 'I don't think there is any question of a new grouping in Southeast Asia until problems between the countries and China are cleaned up' (*Australian*, 21 November 1973). Only a few years had passed since China had gained international recognition; ASEAN countries had yet to follow the trend, and thus it was natural that they were reluctant to cooperate with China. Whitlam's pro-China stance affected his decision to include China in his proposal. Yet, as Malik said, recognition of China by ASEAN countries was a matter of time and 'all were agreed on the normalisation of relations with China' (Knight 1974: 264). This suggested that the realisation of Whitlam's regional proposal was simply premature, but possible in the future.

In brief, although Whitlam's proposal was vague, ambitious and premature, his concept of regionalism along with his pro-Asia stance marked a critical departure in the development of Australia's foreign policy in Asia and the Pacific. The proposal contributed to Australia's integration in the region, especially in Southeast Asia. Through the proposal, Australia was attempting to compensate for its lack of direct institutionalised access to the region, particularly through ASEAN. Whitlam's determination that he 'had no intention of throwing away' the proposal was sustained by his belief that it 'would be of advantage to Australia and its neighbours' (*AFAR*, February 1973: 99). The advantage lay in the part of the proposal which 'aimed at better communication, better understanding and more practical and frequent links

⁴⁸ Knight 1974: 268–69. The Philippines supported his plan as President Marcos put forward an almost

between the nations of the region' (Knight 1974: 272). The proposal could have been a constructive force behind Australia's intention to influence regional affairs in the post-Vietnam era. When Whitlam was in power, the region was in transition; the changing balance among the superpowers injected new uncertainties. This factor was 'a stimulus to this new search for effective regional cooperation' (Knight 1974: 272), but uncertainty in the region made it difficult for ASEAN countries to accept the proposal, forcing Whitlam to launch a proposal that lacked detail. Rather, ASEAN countries realised it was important to strengthen ASEAN. Yet when relations among superpowers stabilised, if the opinions of ASEAN countries were given high priority, and the structures were established to match purposes, there was scope for progress.

The Whitlam government was the first to 'give ASEAN real priority' (Viviani 1997: 105) as it increased support to ASEAN's economic projects and bilateral aid. It supported ASEAN's position on Cambodia in the United Nations despite initial hesitation (Pemberton 1997: 142). These pro-ASEAN positions made Australia the first country to support joint economic development projects among ASEAN nations in 1974. Canberra became the first site of the ASEAN Secretaries-General Conference held outside an ASEAN capital (Albinski 1978: 95). Whitlam is credited with improving Australia's relations with ASEAN countries and changing their perceptions of Australia, and his diplomatic efforts were significant in preparing for Australia's subsequent initiatives in Asia Pacific regionalism. His interpretation of regional affairs led to new directions in Australia's foreign policy, which became economically-centred and Asian-focused. The groundwork by Whitlam laid the foundation for Fraser to establish PECC in 1980. Without smoothing relations with ASEAN countries, they would have opposed Fraser's attempts to forge regional cooperation in precisely the way they had rejected Whitlam's. Yet the purpose behind Whitlam's regional proposal to help stabilise the region was not different from Australia's commitments to previous institutions under the Coalition.

Conclusion

In the period from the end of the Second World War to 1975, Australia, which initially had been preoccupied with defence and security, gradually shifted its foreign

policy interests to economic areas. The transition occurred under Menzies, in the period after Menzies and under Whitlam. These were elements in Australia's approach to the region which represented significant preconditions for Australia's initiatives in PECC and APEC. For instance, observing Whitlam's foreign policy, the Malaysian Deputy Prime Minister, Hussein Onn, noted:

Australia is retreating militarily from Southeast Asia and the concept of 'fortress Australia' is being fashioned. The 'forward defence' of Australia ... should now be transmitted into active initiatives to strengthen the economies of Southeast Asia. (cited in *Asia 1974 Year Book*: 55)

The Fraser government operated under this foreign policy approach, and Fraser (1980), who took the initiative in establishing PECC, stressed that: '... the basic motivation supporting the [Pacific] concept is clearly quite different from that which led to earlier efforts at regional cooperation, when political and strategic security considerations dominated'. Emphasising rapid economic growth in the region, Hawke (1994: 229), who took the initiative in establishing APEC, also followed this stance: 'For too long, Australians had perceived Asia as a threat. The time had come to see it as an opportunity.' It is noteworthy that the paradigm shift in Australian foreign policy emerged gradually in the post-Menzies era, when economic interests rose in importance alongside security interests in foreign policy and initiated prime ministerial diplomacy in Southeast Asia, starting with dismantling of the White Australia policy.

One element in Australia's foreign policy remained unchanged: its desire for American presence, as Bell (1996: 15) noted:

... from Korea to the Gulf War, examples of Australian dissent from American actions and perceptions were fairly rare, despite the independent efforts of the short-lived Whitlam Labor government ... Australia's most forceful initiatives in foreign affairs often sought not to offset US power but to increase the US presence in Asia and bolster its military effort against 'communism' in the region.

An implication of the gradual shift in Australia's foreign policy priorities was that as long as Australia maintained its strategic alliance with the United States and its efforts to keep it in the region, Australia would be freer to pursue its economic interests in the region. After 1975, Australia began to view Asia and the Pacific as a more prosperous and stable region despite a reduced US military commitment to the

region. Australia thus placed more significance on the economic aspects of foreign policy and the Fraser government sought to align Australia's trade interests more closely with foreign policy priorities. The entrenchment of ASEAN's solidarity and economic growth, and Japan's increasing economic role provided the foundation for this view. Australia sought to level off its relationship with Japan in realising its foreign policy goals, as discussed in the next chapter. It is true that trade promotion was a factor in Australia's commitment to the Colombo Plan, SEATO and regional membership in ECAFE, but they were long-term interests, not the imminent and direct interests that they became in the 1970s.

Spender (1969: 195) commented that 'our future to an ever-increasing degree depends upon the political stability of our Asian neighbours, upon the economic well-being of Asian peoples and upon understanding and friendly relations between Australia and Asia'. This statement epitomised a consistent element in Australia's interests in Asia Pacific regional institutions. It was expected that these institutions would contribute to stability and prosperity in Australia's neighbourhood and provided a framework for Australia's interactions with Asians. Australia had similar motivations in its commitment to the Colombo Plan, SEATO, regional membership in ECAFE, ASPAC, and Whitlam's premature regional proposal. It will be important to explore how Australia's approaches to Asia Pacific regionalism under Fraser differed from those traditional approaches in terms of its initiative in creating a new Asia Pacific regional institution such as PECC in Chapter 7.

During this period, Australia improved its relations with Southeast Asia as Australian political leaders' interactions with ASEAN countries gradually strengthened. Whitlam's regional proposal, his efforts towards forging better relations with ASEAN countries, and his emphasis on the economic aspects of foreign policy were conducive to changing 'Australian's perceptions and attitudes, which allowed his successors to carry out their policies' (Viviani 1997: 107). In sum, the gradual incorporation of economic factors into foreign policy priorities, the establishment of favourable relations with ASEAN and Australia's policy interactions with other regional countries through the participation in various regional institutions laid the foundation for Australia's leadership in the establishment of PECC.

5 Joint leadership in regional institution-building

Regional economic institutions in Asia and the Pacific progressed under the joint leadership of Japan and Australia. How and why were both countries able to forge a partnership in regional institution-building? This chapter traces the elements that brought both countries together in taking the initiative to establish regional economic institutions in Asia and the Pacific, while chapters 6, 7 and 8 will focus on the actual formation process of the four regional economic institutions. Chapter 2 put forward the institution-building model, and it was suggested that it was possible for two countries like Japan and Australia to enhance each other's leadership capabilities through diplomatic cooperation. Three elements provided a foundation for their joint leadership in the international institution-building: shared interests in building institutions; power complementarity compensating for shortcomings on each side in terms of influence and enhancing leadership capabilities; and a corps of people influential in policy and able to form transnational networks in the business, political and academic communities.

The chapter only discusses the Australia–Japan partnership, not partnerships in general. Nor does it claim that the three elements are sufficient for joint leadership. It simply suggests that these elements contributed to Australia and Japan forging a relationship that enabled them to play a leadership role in regional institution-building. Before examining these elements in the partnership in more detail, the chapter describes the improvement of postwar bilateral relations between Australia and Japan, which had been fractured by the Pacific War, since this was a prerequisite to the regional institution-building which both countries came to take.

Australia–Japan relations

It was no simple matter for countries that began from a position of mutual distrust to forge a diplomatic partnership which was to be a springboard for international initiatives. Australia–Japan postwar relations had just such an unpropitious start. A prerequisite for the joint initiatives involved in the establishment of PECC and APEC

was the consolidation of mutual trust and a shoring up of the overall bilateral relationship. Australia's hostility towards Japan was a major obstacle to the development of postwar relations, while one of Japan's important foreign policy objectives in the early postwar period was to forge friendly relations with the Western countries including Australia. In attempting to conquer the Pacific, Japan raided Australia in Darwin, Broome and Townsville, killing more than 200 people. Its submarines also penetrated Sydney Harbour. Australia lost 34,376 soldiers in World War II, of whom 8,031 were killed under 'inhumane conditions' in Japanese prisoner-of-war camps (Millar 1991: 120). It was thus no wonder that Australian antipathy to Japan was prevalent after the War. For instance, the Minister for Immigration, Arthur Calwell stated in 1948:

While I remain Minister for Immigration, no Japanese will be permitted to enter this country. They cannot come as the wives of Australian servicemen ... nor as businessmen to buy from or sell to us ... The feelings of the mothers and wives of the Australian victims of Japanese savagery are more important than any trade or other material advantage. (cited in Rix, 1986: 180)

Although China was emerging as the new threat and substantial economic opportunities were anticipated in the Japanese market, it was not easy for Australia to regard Japan with an less hostile attitude free from hostility.¹ Yet Australia came to engage positively with Japan, adopting a strategy that sought to link the two countries economically, supported by political and business ties, and reinforced by cultural and personal exchanges. Observing the change of Australia's attitude to Japan, Watt (1967: 206), a former Ambassador to Japan, notes:

The negative reaction of Australians to Japanese during and for some time after the war is understandable. Far more surprising is the gradual development, since the signature of the Japanese peace treaty in 1951, of an attitude of acceptance if not of actual friendship, which has permitted a surprising degree of mutually beneficial co-operation to develop between the two countries, particularly in the field of trade. This extraordinary change in outlook within a period of less than fifteen years requires some examination.

¹ Foreign Minister Evatt mentioned in 1947 that 'The first principle of our policy has always been the safety and security of the Pacific, including our own country. That calls for the disarmament and demilitarisation of Japan, destruction of its capacity to wage war, and a sufficient degree of supervision under the peace treaty to prevent the regrowth of war-making capacity' (cited in Watt 1967: 208).

MacMahon Ball wrote in 1948 (201) that 'it is rash and dangerous to assume that Japan cannot in the foreseeable future again become a danger to her neighbours', but by the early 1960s (1962: 267–69) he had changed his view substantially:

It is extremely important to recognise that she is certainly no longer a militarist or expansionist nation ... On all counts it would seem good sense for Australia to work as closely as possible with Japan.

In a 1967 poll, only 4.1 per cent of Australians polled considered Japan the most threatening country (Huck 1970: 316). Two factors accounted for the change in Australia's attitudes towards Japan in such a short period. The first was the securing of America's commitment to defend Australia and the Pacific region, realised through the Peace Treaty with Japan and the ANZUS Treaty. The second was the emergence of Japan as a market for Australian primary products, a development facilitated by the 1957 Australia–Japan Commerce Agreement (revised in 1963). The improvement in bilateral relations was subsequently marked by Japan's hope for a partnership with Australia in pursuit of Foreign Minister Takeo Miki's Asia Pacific policy of 1967; Australia's expectations for Japan's greater role in the region in the 1970s, affected by the possible withdrawal of Britain and the United States from the region; and the 1977 Basic Treaty of Friendship and Cooperation between Australia and Japan (the NARA Treaty). The growth of the bilateral relationship laid the foundations for the initiatives in PECC in 1980 and APEC in 1989.

The Peace Treaty with Japan and the ANZUS Treaty

For its own security and the stability of its neighbourhood, Australia was very keen in the early postwar period to secure a Pacific Pact, which aimed at a defensive military arrangement among countries that had a vital interest in the stability of the Pacific region. Australia saw the United States as a vital founding member of the Pact. Yet the United States did not express enthusiasm for the plan because America's main concern was containment policy, put in place in 1949, to stop the spread of communism in Northeast Asia. Percy Spender, Minister for External Affairs, had to be prudent and tenacious in his diplomacy to guarantee US commitment to the Pact. For its part, Australia had to temper its attitude towards Japan, with which the United

States hoped to sign a peace treaty quickly due to the emergence of Communist China and the outbreak of the Korean War in 1950.²

During his visit to Washington in September 1950, Spender (1969: 45) saw a document from John Foster Dulles who negotiated the Peace Treaty, which 'omitted altogether any mention of any restriction of any kind upon Japan's capacity to re-arm'. This was unacceptable to Australia, one of the few potential signatories that objected to it.³ Spender faced firm opposition from the United States on the question of Japan's disarmament, but he tried to strengthen Australia's position by taking advantage of Australia's bargaining position with the United States. For Australia to participate in a 'peace treaty with Japan was, from the US point view, highly desirable; disagreement and sustained opposition from [America's] most important fighting ally in the Pacific War was then to be avoided' (Spender 1969: 47). In his meeting with Dulles in September 1950, Spender thus aimed 'to bring about some firm defence arrangement in the Pacific' (Spender 1969: 48).

In 1951, Australia's security concern shifted from the possible threat of Japan to communist aggression. In February 1951, Dulles stayed for four days in Canberra to discuss the Japanese peace treaty as well as a Pacific security arrangement with Spender. This proved to be a turning point in Pacific diplomacy. During discussions, the atmosphere in the cabinet started changing. Spender (1969: 119) wrote:

One or two [members of the cabinet] were quite opposed to any Japanese re-armament, but hardly very lucid on how we could prevent it. A few thought, as was my own opinion, that Dulles's argument as recorded by me was impressive: the US approach to the Japanese peace settlement was, in general, sound. All agreed that we had to fight hard to obtain a U.S.A. guarantee [for a Pacific Pact].

With a change of attitude in the cabinet, Spender (1969: 120) tried 'to use to the utmost the negotiating value of an Australian agreement to sign any peace treaty as a lever to obtain effective security guarantees for Australia' from Dulles, who was still

² Dean Acheson noted in December 1949 that 'were Japan added to the Communist bloc, the Soviets would acquire skilled manpower and industrial potential capable of significantly altering the balance of world power' (cited in Gaddis 1982: 77).

³ Spender (1969: 54) explained Australia's view in 1950: 'The risk of Japan again being dominated by a militaristic and hostile clique at some future period ... was too real to be disregarded because of any

cautious about a Pacific Pact. After intensive discussions between Spender and Dulles, Australia finally accepted that the Peace Treaty with Japan should not impose any limitations on Japanese rearmament but a Pacific Pact, later called the ANZUS Treaty, would be ratified. Australia's goodwill towards Japan stemmed from 'the recognition that the postwar situation in the Pacific and East Asia has changed radically since the war' (Ball 1962: 261). Menzies (*CN* 1951: 172) reflected this recognition in Parliament when he stated that 'the particular danger to Australia was not that we would be invaded or occupied during the war, but that, if our friends were defeated in distant battlefields, we would be subdued by the enemy after the war'.

Although the onset of the Cold War helped to assuage Australia's attitudes to Japan, cautious and hostile views remained after the Peace Treaty was signed in 1952. Several Australian leaders played pivotal roles in improving relations with Japan, including Richard Casey, who was Minister for External Affairs during 1951–59. He stated in 1951 that 'the fear and hatred of Japan in 1945 was groundless today' (cited in Hudson 1986: 241). Casey later attempted to influence his cabinet colleagues, including Prime Minister Menzies who was very suspicious of Japan,⁴ by saying in 1954 that Australia should treat Japan 'in a more civilised way than in the past' (cited in Hudson 1986: 241). These comments derived from his belief that 'a viable Japanese economy was in Australia's interests' (cited in Hudson 1986: 241). Casey expressed his reasons for normalising relations with Japan in a cabinet submission in July 1954: there was concern that Japan would form an alliance with the communist bloc due to political and economic isolation; Australia should aim to support a moderate government and help keep Japan in the Western camp; such policies matched the views of the United States (Walton 1997: 24).

In the same year, Casey gave credence to his views by supporting Japan's membership of the Colombo Plan, initiated by Spender. Casey tried to influence the

short- or long-term advantages of a soft peace treaty without any safeguards ... we had to do all we could to insist that Japan would not be allowed unrestricted freedom to re-arm.'

⁴ Menzies in 1952 (189) wrote 'the Japanese soldier proved himself an uncivilised enemy and a brutal and inhuman jailer. Nobody in this generation of Australians will ever forget the instances, all too well attested, of brave soldiers murdered after capture, of nurses tortured and destroyed, of prisoners-of-war starved, enslaved, beaten, driven mad, driven into the grave ... Once these things are understood, it is

Indonesian Foreign Minister, Sunario, who had been most hostile to Japan's participation. Casey (1972: 191) realised that there was no point in carrying past resentments and 'Japan with its special skills could greatly assist recipient countries' within the Colombo Plan. The Colombo Plan was one of the first international organisations of which Japan became a member in the postwar period and Japan regarded it as the only organisation for economic cooperation which covered all Southeast Asian countries (MOFA 1959: 57). Australia also supported Japan's entry into the United Nations in 1956, which reflected Casey's view of Japan.⁵ Two important goals that Japan hoped to accomplish in the 1950s were economic recovery and gaining international acceptance. Japan owes as much to Casey as to the United States in realising the second goal.

The 1957 Australia–Japan Commerce Agreement

Casey's goodwill to Japan resulted from his expectation that Japan would be a major market for Australia's primary products. This economic interest was even more strongly pushed by McEwen and Crawford, who contributed substantially to Australia's changing views on Japan. They encouraged the growth of Australia–Japan trade by far-sighted commitment to ratification of the Australia–Japan Commerce Agreement in 1957. McEwen, Minister of Trade, and Crawford, Secretary of the Department of Trade, were described as 'the best minister–adviser team' in Australia's political history.⁶ The importance of both men in relation to links with Japan is characterised by Golding (1996: 173) who wrote: 'While there will always be debate about who formed the Australian initiative on formalising trade relations with post-war Japan, the weight of evidence seems to point to Crawford "carrying the idea and McEwen carrying the can".' Japan's purposes in requesting trade talks with Australia in 1953 'were simply to end discrimination in imports licensing and tariff treatment' (DFAT 1997: xvii) and the 1957 Commerce Agreement was especially significant for Japan. It was the first trade agreement that Japan had concluded in the postwar period and under the agreement, Australia became the first country after the

simple to understand that the instinctive reaction of Australia to any proposal for a Japanese peace settlement is, 'Keep them down! Don't let them rearm! Don't trust them!'

⁵ Cumpston 1995:260. Menzies in his 1957 visit to Japan pointed out that Australia supported Japan's return to international society, but that not all Australians were unanimous in their support.

⁶ Golding 1996: 129. He further comments that Crawford's influence on McEwen was so profound that observers of the period found it difficult to determine with whom the great initiatives of the next decades really originated.

United States and Canada to remove the application of the GATT Article 35 to Japan, removing all discriminatory trade treatment against Japan. Concessions benefited more than 90 per cent of Japan's exports to Australia (Drysdale 1987: 73). The chief Japanese negotiator, Nobuhiko Ushiba, thought this 'epoch-making' because Australia was to deal with Japan on an equal footing with regard to trade' (Ushiba and Hara 1979: 241). The first Diplomatic Bluebook (MOFA, 1957: 17) also declared it a 'landmark in the history of Japan's economic diplomacy.'

In the 1950s, strong anti-Japanese feeling still lingered in Australia. McEwen, who had been given the authority to negotiate the Agreement with Japan on condition that he refer all consultation back to his government, took the initiative in negotiations.⁷ McEwen, like Casey, foresaw in 1951 that 'a resurgent Japan could be a vital market for Australian primary products' because exports from Australia to Japan then amounted to £50 million and Japan was already Australia's fourth largest customer (Robinson 1971: 153). Robinson, who was in Japan when the treaty was signed in Hakone, thought McEwen's judgement 'rather courageous' in view of Australia's public opinion of Japan and notes:

There was probably no man in Australia with the sheer political stature and power of John McEwen to steer an Australian relationship with Japan so quickly and smoothly into channels where it became as accepted as any other popular item of conventional wisdom about Australian foreign affairs.⁸

Whitlam, then in opposition, also judged McEwen's approaches as 'far-sighted' with regard to the advantages of trade with Japan.⁹ McEwen's substantial involvement in the Agreement stemmed from his determination (cited in Golding 1996: 192):

⁷ Malcolm Fraser (personal interview), who was elected to a Liberal seat in the House of Representatives in 1955, comments: 'Menzies was keeping himself at arm's length from the negotiations, in case the political problems associated with the Treaty became too difficult at home. So, it was Crawford and McEwen who masterminded that Treaty from Australia's point of view and got it accepted by the Government and by the Parliament.'

⁸ Robinson 1971: 153. For instance, the then president of the NSW branch of the Returned Services League (RSL), Yeo, was opposed to the agreement with Japan and denounced Japan as 'the most treacherous country the world has produced in one thousand years' (cited in Greenwood 1974b: 191).

⁹ Whitlam (1985: 60) criticised McEwen, however, as 'short-sighted in impeding Britain's entry into the European Community through the 1960s'. Having known McEwen since 1934, when he had worked in Whitlam's father's office, Whitlam maintained a good relationship with him on the basis of mutual trust despite their different political affiliations

When I set out to convince the government and the Australian public that the Japanese could be trusted, I thought I was taking my political life in my hands. The whole country was still very aware of the bad treatment of Australia prisoners and of the threat that the Japanese had posed to Australia during the war ... At all times I was careful to describe the [Agreement] as 'my policy', not the government's policy ... I was willing to carry the political responsibility for the treaty on my own ... no one else was keen to share the burden of carrying it.

His strong support and involvement in trade relations with Japan as Minister of Trade led to his being a dominant politician in bilateral relations until his retirement.¹⁰

Crawford greatly helped to bring the Agreement to a successful conclusion. His major contribution to Australian trade policy was 'to facilitate a dramatic shift of Australian trade from Europe, especially the United Kingdom, to the Pacific and especially Japan' (Arndt 1985: 4). This view was evident when Crawford (1938: 76-77) justified his early suggestion for Australia to look to Asia and the Pacific:

... the prospects of expanding Empire markets for Australian produce are so limited that non-Empire markets must be cultivated ... Industrialisation in eastern Asia offers definite prospects of additional alternative markets.

From this starting point, Crawford paid particular attention to Japan, which was then at war in China. He expected Japan's further industrialisation would lead to increased sales of Australian products. Crawford (1938: 83-84) wrote:

Japan has a growing population, must industrialise and must have markets. The West has decided against Japan on the very readily appreciated grounds that the speed of Japan's impact is too great: it forces a heavy burden of change in old-fashioned industrial areas ... Japan has reason to fear the outcome of increasing economic hostility of the West ...

Economic accommodation of Japan by the West, he argued, could create 'a more reasonable attitude towards the problems of security in the Pacific', from which idea Crawford (1938: 89) developed a proposal for a 'collective political agreement in the Pacific'. In working towards this, Crawford (1938: 112) stressed 'the willingness to afford economic appeasement' to Japan because 'it alone can provide the conditions requisite for naval disarmament and any pact of mutual non-aggression' which a

collective regional agreement would cover. His support for a collective arrangement in the Pacific stemmed from his assessment that it could bring 'the double profit of economic gain and political security' to Australia (Crawford 1938: 110).

After the Pacific War, Crawford assumed the role of persuading reluctant colleagues and cabinet of the importance of the Agreement with Japan. It was Crawford who proposed in 1953 that McEwen put a case to cabinet that Australia should initiate trade talks with Japan 'as a device to forestall any Japanese action which might threaten Australia's wool exports'.¹¹ He also urged McEwen to persuade his cabinet colleagues to agree to Japan's admission to GATT in February 1955 (Golding 1996: 190). Before the formal negotiations, Crawford had prepared for such discussions through informal diplomacy because of the tense atmosphere at that time, as he recalled:

On two or three occasions I hired a room in the Hotel Canberra in order to meet Mr Nishi [the Japanese Ambassador], so that he could not be seen coming to my Department nor I seen to be going to the Embassy. In this way, we could talk quietly about a basis for resuming effective trade relations which also had wide implications for general diplomatic relations.¹²

Crawford even lobbed a tennis ball over the fence of the Japanese Embassy to create an opportunity to talk informally with the Ambassador.¹³ Crawford was pivotal in initiating and negotiating the Agreement. Without McEwen and Crawford's commitment, Australia would not have readily offered a former enemy most-favoured-nation treatment. The magnanimity of the offer is evident from the fact that Japanese negotiators did not anticipate that Australia was ready to provide most-favoured-nation treatment during the Agreement negotiations. The chief Australian

¹⁰ In 1967, a senior Japanese official said of McEwen that 'Australia's relations with Japan are completely in the hands of one man' (Robinson 1971: 154). His achievement regarding the Agreement was well appreciated by Japan, which awarded him the first-class Order of the Rising Sun in 1973.

¹¹ Golding 1996: 175. Even Crawford did not expect Japan to be such an attractive market for Australia and he (1980a) confessed that 'no one could have forecast how rapidly Japan would become a major market. This was before the mineral days so any judgement by me was limited to the primary rural industry.'

¹² Crawford 1980a. Crawford got on well with Nishi and rang him every time he went to Tokyo.

¹³ Crawford (1980a) described this as 'by good fortune, I was young enough then to play tennis at a place in Tennyson Crescent which was next door to the then Japanese Embassy. It was remarkable how regularly each Saturday afternoon the ball went over the next door and I went in and had a quiet talk with the Ambassador.'

negotiator, Westerman, who said to his counterpart, Ushiba (cited in Golding 1996: 193), that 'Australia will remove all discrimination', recalled:

[Ushiba] telegraphed what I had said back to Japan and asked for instructions. They wouldn't believe him and he was recalled. He was away for quite a while before they could be convinced. Then he came back and we got on with it.

Ushiba recalled (1984: 12) that the Commerce Agreement with Australia 'was the most successful diplomatic event that I was engaged in while I worked for the Ministry of Foreign Affairs'. The Agreement became the catalyst for boosting bilateral trade between Japan and Australia and the basis for consolidating relations.

The partnership with Australia on the Asia Pacific policy

After the Agreement was signed, there were few bilateral policy consultations except for two official Japanese prime ministerial visits in 1957 and 1963, although bilateral trade grew substantially. In December 1966, Foreign Minister Takeo Miki launched the Asia Pacific policy to promote regional cooperation. He was convinced that cooperation among advanced Pacific countries was essential to realise this objective. Miki particularly hoped for Australia's cooperation. His wish stemmed partly from his belief that Japan should not be involved with the American Far Eastern strategy and that an East-West detente could be accomplished.¹⁴ Miki might have thought that 'the formation of a multi-national association' might be one in which 'the weight of the United States would be counterbalanced by that of other participants'.¹⁵ Miki observed that Australia had started taking Asia seriously after it realised that Britain was seeking membership of the EEC and that it would therefore be Japan's best partner in its Asia Pacific policy. This was evident in Miki's belief that the 'attitude of the Australian government will have a major effect on the success or failure of this idea' (*Asahi Shimbun*, 29 March 1967).

Miki arranged two meetings with Australia at senior official and ministerial levels. These meetings were the initial step in the Australia-Japan partnership in economic

¹⁴ Welfield 1986: 14. This view stood in a sharp contrast with the policies of his Prime Minister Sato, who placed the highest priority on relations with the United States due mainly to the return of Okinawa from the United States.

institution-building in the Asia Pacific region. He dispatched a MOFA delegation headed by Hideo Kitahara, the Director-General of the Bureau of Europe and Oceania, to Canberra to hold meetings at a senior official level with his Australian counterparts on 16–17 January 1967. These meetings were regarded as an indication of a 'shift away from purely trading policies for both countries to an awareness of their dual responsibilities as the major economic powers in the Asian region' (*Canberra Times*, 17 January 1967). The meetings represented Japan's first attempt to assess the extent to which Australia would cooperate in the region.

The second meeting was between Miki and his counterpart, Paul Hasluck, who visited Japan to attend the general meeting of the ECAFE on 30–31 March 1967 in Tokyo. It was the first time that Miki had discussed the Asia Pacific policy with a foreign leader (*Daily Yomiuri*, 31 March 1967). Initially Hasluck considered the meeting a courtesy, but Miki's determination made the meeting more policy-oriented, partly because he wanted to hold regular meetings.¹⁶

The purpose of the senior officials meeting was to exchange views on areas of mutual interest in international affairs, including China, the Vietnam War, Indonesia and the United Nations, which were discussed on the first day of the meeting.¹⁷ On the second day, the head of the Australian delegates, Laurence McIntyre, the Deputy Secretary of the Department of External Affairs, asked Kitahara to explain Japan's stance on regional cooperation. Kitahara elaborated three points, ASPAC, the Ministerial Conference of Southeast Asian Development, and a suggestion for a joint study on regional cooperation. With regard to the third point, Kitahara stressed it was 'Miki's personal idea', and that Miki did not envisage a new organisation and that the aims might be realised over the next 10 to 15 years.¹⁸ Kitahara then mentioned that Japan was interested in Australia's reaction to a joint study, and that Miki thought

¹⁵ Guillain 1970: 494. These views on the United States were expressed in his criticism of Japan's America-oriented diplomacy in the 1950s.

¹⁶ *The Japan Times*, 31 December 1966. Kitahara brought with him greetings from Miki to Hasluck saying Miki hoped Hasluck would arrive a few days before the ECAFE meetings for talks with him. *Australian Archives (AA)*: CRS A 1838/280, item 3103/10/1 part 13: 'Japan, Relations with Australia', 1967–68, Outward Telegram, Department of External Affairs, to Ambassador Brown, 23 January 1967.

¹⁷ *AA*, Japanese/Australian Consultations on Political Matters, Summary Record of Officials' Discussions, January 16–17, 1967.

¹⁸ *AA*, Japanese/Australian Consultations on Political Matters.

this might be pursued initially partly through the exchange of scholars and professors.¹⁹

McIntyre was positive, saying that 'there would be general support in the Australian Government for Miki's concept, which might serve as a stimulus towards a greater sense of solidarity and understanding between countries in the ASPAC region'. Yet except for confirmation that Miki was not considering the establishment of any new organisation, Australia referred to Miki or his policy merely as a matter of form and focused instead on established institutions.²⁰ Australia withheld its reaction towards Miki's proposal, probably because the policy had been launched just one month earlier and Japan itself had yet to endorse it.

Australia's uncertainty about Miki's policy was noted during the Miki-Hasluck meetings. The Department of External Affairs had submitted a report to Hasluck about Japan to brief him and it stated: 'Mr Miki, in following Mr Shiina, who enjoys within Japan a reputation for his promotion of Asian regional cooperation, is reportedly eager to leave his own mark on Japan's foreign policy and is accordingly stressing the concept of regional cooperation.'²¹

Hasluck himself expressed a similar view in a letter to Prime Minister Holt after his talks with Miki in which he referred to Miki's policy. Hasluck, after listening to Miki's explanation of Asia Pacific policy, wrote:

These opening remarks seemed to me to be an echo of speeches he has made for political consumption and I thought there was more oratory than hard thinking in what he said particularly as he concluded by stressing that he did not have in his mind a pattern of any particular form of organisation ... (but) he left me with the impression that he might be feeling his way towards some new regional proposals that might have political value for him inside Japan.²²

With such an assessment of Miki's Asia Pacific policy, Hasluck suggested Australia should not 'proceed with any discussion of possible Australian participation at ... or

¹⁹ AA, Japanese/Australian Consultations on Political Matters.

²⁰ AA, Japanese/Australian Consultations on Political Matters.

²¹ AA, 'Visit to Japan', from Booker, First Assistant Secretary, Division II, to the Minister, 23 March 1967.

²² AA, Cablegram from Hasluck to Holt, 1 April 1967.

contribution to ... his (plan for an) agricultural fund.²³ Hasluck was not impressed by Miki, and this appeared to influence Australian government's reservations about Miki's Asia Pacific policy.²⁴

Hasluck was not necessarily wrong in noting Miki's political ambition behind his Asia Pacific policy initiatives, although one should realise that these two meetings were the first opportunities for the two countries to discuss policy seriously at an official and ministerial level. Australia had to develop confidence in its policy consultations with Japan. As Prime Minister Holt stated: 'we are still only at the beginning of what we confidently believe to be expanding association in trade and matters of mutual concern.'²⁵ Waller, former Secretary of the Department of External Affairs (1990: 45), also recalled that Australia treated Japan 'in much the same way ... as [it] treated the Philippines or Malaysia' until the very beginning of the 1970s.²⁶

Miki's Asia Pacific policy failed to gain Australia's full cooperation, but it contributed to the building of mutual trust between the two countries.²⁷ It also helped establish the foundation for both governments to have a policy-oriented dialogue at the official and ministerial levels and helped both countries find common interests in Pacific economic cooperation. Moreover, Miki's Asia Pacific policy led to the formation of the first PAFTAD meeting in January 1968, and Australians made a contribution to its establishment, as reviewed in Chapter 6.

²³ AA, Cablegram from Hasluck to Holt. The Agricultural Development Fund was regarded as a part of the Asia Pacific policy to help poverty in Asia.

²⁴ As discussed in Chapter 4, by contrast, Whitlam was 'impressed' by Miki's idea when he met with Miki as Leader of Opposition in Tokyo in January 1968.

²⁵ *CNIA*, January 1967: 33. This view was shared by the *Australian* (14 February 1967) which said that 'in terms of politics, tourism, sport and culture, we hardly know each other ... We must start talking to, as well as trading with, each other.'

²⁶ The 1993 report on Japan's defence policy tabled by the Senate Standing Committee on Foreign Affairs, Defence and Trade (2) also stated that the relationship between both countries 'in the 1960s and early 1970s was almost exclusively confined to the area of trade with little or no interaction in academic, social, scientific, cultural and other fields'.

²⁷ Although the Australian government was not very enthusiastic about Miki's policy, the media welcomed the initiative. The *Sydney Morning Herald* (1 April 1967) wrote of Australia's vital interest 'in the organisation of new schemes of international cooperation to replace British and American responsibilities' and commented: 'We should support the initiative in our own interest and in the interest of Asian prosperity and stability.'

Australia's expectations of a greater political role for Japan in Asia and the Pacific

Australia's reservations about Japan's regional policy, seen in its reaction to Miki's Asia Pacific policy, gradually changed with the hope of nurturing a partnership with Japan, especially after it observed the possible withdrawal of the United States and Britain from the Asia Pacific region in the late 1960s. As mentioned in Chapter 4, Britain's decision to withdraw its forces from East of Suez and the Nixon Doctrine compelled Australia 'to reassess and reformulate its overall foreign policy and from this emerged a new approach to Japan' (Akaneya 1986: 22). At that time, Australian political leaders started making statements in the late 1960s acknowledging Japan as a political power and expecting it to contribute to the regional stability.²⁸ In September 1969, Foreign Minister Freeth stated his expectation of Japan's role in the region: 'I would hope that the time will come when Japan could play a greater part in stabilising the region in a way which would make effective use of undoubted Japanese strength without appearing to present a danger to any of the countries in the region.'²⁹ This view was reinforced in Parliament in March 1970 by his successor as Foreign Minister, McMahon, who addressed the importance of Japan's commitment to the region:

In time, Japan's influence must inevitably extend beyond the commercial and economic sphere ... Japan can make a decisive contribution to the security of the [Asia Pacific] area by promoting industrial and commercial growth ... As a country of global stature her advice and counsel will be increasingly weighty in regional affairs. For Australia's part we welcome and will do our best to encourage her participation in the consultations that are becoming increasingly important in the political life of the region. (CPD, 19 March 1970: 677-78)

After McMahon's statement, Prime Minister John Gorton visited Japan in May 1970 where he and Prime Minister Sato agreed to extend coordinated efforts to provide capital, equipment and skills for modernising states in the Asia Pacific. This was 'the most elaborate cooperative understanding ever concluded between the two countries, and it was effected at the highest political level' (Albinski 1970: 306).

Prime Minister McMahon followed the trend in June 1971 in his address on Australia's policy approaches to Japan. The salient feature of this speech was his

²⁸ It is also true that these sorts of statements were made after pressure by the Nixon Administration to forge a close relationship with Japan, so that it could reduce its commitment to the Asia Pacific region.

declaration that 'I believe that together we can do a lot to help stability and economic progress in the Asian and Pacific region' (Camilleri 1973: 61). In this speech, he emphasised both countries' participation in regional multilateral groupings such as ECAFE, ASPAC, ADB and the Colombo Plan. This may be one of the first concrete statements by an Australian Prime Minister indicating interest in forging a partnership with Japan for the sake of the Asia Pacific region. Since then, both countries have consistently acknowledged the region as the focus for their partnership. This approach was reinforced under the Whitlam administration, which pursued a more autonomous foreign policy in terms of strengthening ties with Asia. The Fraser and Ohira governments finally realised a decade-long wish for mutual cooperation in the region in the form of PECC.

While Australia was encouraging Japan's active role in the region, it was seeking information about Japan to improve relations with it via the bilateral institutions. The Ministerial Committee which was established on 12–13 October 1972 became the main forum for consultative meetings at the highest level between the two countries.³⁰ A Standing Inter-Departmental Committee on Japan on which eight departments were represented was established in 1970 to 'review how policy towards Japan might be coordinated and to examine and report on the policy implications of the nine objectives' as well as to advise the Ministerial Committee (Sissons 1980: 233). In addition, the newly established Senate Standing Committee on Foreign Affairs and Defence began hearings on Japan in November 1971 and published a substantial report in 1973. The Japan hearings were the Committee's first hearings; an Australian parliamentary committee had been required to investigate and report on a foreign country.³¹ In addition, the Australian Government contributed \$60,000 to a three-year joint study of Australia–Japan economic relations, set up in March 1972. This study produced the Crawford–Okita Report in which the need for OPTAD was

²⁹ Quoted in Camilleri 1973: 61. Freeth was to be appointed as Ambassador to Japan in 1970.

³⁰ According to the then Ambassador to Australia, Shizuo Saito (1991:116), the idea came through the former Minister of International Trade and Industry, Kiichi Miyazawa, in response to McEwen's hope to develop the trade agreement into one covering all economic fields. Miyazawa, during his visit to Australia in April, hearing about McEwen's idea from Saito, commented that because a treaty or agreement was formal it could not necessarily meet the hopes of both sides, but a meeting where economic ministers could talk on all economic affairs would carry more flexibility. This plan was officially endorsed in the following month when former Deputy Prime Minister Anthony visited Japan.

³¹ The inquiry was referred to as 'valuable in drawing attention to the changes which had occurred since the end of World War II and in helping to steer the Australia–Japan relationship towards a more broadly-based one' (Senate Standing Committee on Foreign Affairs, Defence and Trade 1993: 2).

discussed.³² The *Australian Financial Review* (2 November 1970) carried a detailed and wide-ranging 76-page survey on Japan to help inform the public as part of Australia's push to create new bilateral relations with Japan.³³

Economic forces also stimulated a proliferation of bilateral institutions in the early 1970s. The fact that Japan replaced the United States as Australia's major partner for total export and import trade in 1970–71 encouraged Australia to further its relationship with Japan (Bull 1973: 338). While Australia had worried about the loss of its British market, especially after Britain sought to join the EEC in the mid-1960s, Japan had become Australia's largest market. Australia had already substantially redirected its trade by 1973 when Britain officially joined the EEC. In the early 1970s, as Broinowski (1983: 195) wrote, 'the consensus rapidly grew in Australia ... that Japan ... [had] replaced Europe and America as the most important trade partner and that Australia had a high stake in a stable and prosperous Japan'.³⁴ The driving force behind the growth of bilateral trade was the two countries' trade complementarity, based on their different resource structures: Australia exported natural resources and agricultural products and imported manufactured products, and Japan mirrored this pattern. Trade complementarity contributed to economic growth in both countries, especially in the 1960s and 1970s, with both benefiting from the other's comparative advantages, thus strengthening good bilateral relations.³⁵

As Bull (1973: 341) stressed, Australia's willingness to create a special relationship with Japan during the early 1970s 'was marked by the absence of any serious points of friction, and by the development of cooperation in the political as well as the economic fields between the two countries'. Significantly, this deepening relationship

³² The Japanese Government and its private organisations also provided equivalent financial support.

³³ The editorial suggested that an older generation's approach to Japan based on memories of the Pacific War should be changed; otherwise, Australia would miss 'the chance to move into a position where it can exert a creative influence on international trends.'

³⁴ Broinowski, then Executive Director, Japan Secretariat at DFAT, said that although wisdom dictated that Australia should always look at diversifying its exports, the plain fact was that no other markets were available singly or in combination to absorb a comparable volume of its exports.

³⁵ Drysdale 1981. For instance, Yoshihiro Inayama, then Chairman of Japan's largest business organisation, *Keidanren* commented in 1983: 'The remarkable growth of Japan's steel production from 13 million tons in 1960 to 120 million tons in 1973 was attributable to Australia's removal of the ban on its iron ore exports to Japan in 1960. Fortunately, during that period, Australia had supplied a massive quantity of coal as fuel. These facts indicate that Australia is a sort of mother to Japan's steel industry and is responsible for Japan's present prosperity' (*Nihon Keizai Shimbun*, 8 June 1983).

with Japan acted as a catalyst for Australia to become more integrated with the Asia Pacific economies.³⁶

The 1977 NARA Treaty

Japan had hoped to sign a Treaty of Friendship with Australia as it had with major Western countries, but Australia under the Coalition did not support this Japanese ambition. Again, Crawford, who was central to establishing the Australia–Japan Foundation in 1976 heading a committee which reflected his ideas, was very influential in reaching agreement on the 1977 NARA Treaty. It was said to be ‘the first wide-ranging bilateral treaty ... that Australia has concluded in its own right’. (Dobinson 1978: 111). Millar (1991: 351) writes of the implications of the Treaty for Australia:

There were ... few practical differences between the formal status in Australia of Japanese and British subjects or enterprises. For the majority of Australians, with their predominantly British heritage and strong anti-Asian prejudices, this was the culmination of a revolution.

Yet the road to agreement on this Treaty was lengthy and complicated. The Standing Inter-Departmental Committee on Japan (IDCJ) issued a report in 1972 that was lukewarm about the Treaty because it was thought it would be more advantageous to Japan than to Australia (Sissons 1980: 257). During hearings on Australia–Japan relations for the Senate Standing Committee on Foreign Affairs and Defence in 1971–72, officials carefully avoided any discussion about the Treaty, and private witnesses expressed qualified interest in the issue; ‘only one person, Sir John Crawford ... came before the Committee and argued vigorously in favour of a treaty.’³⁷ Crawford (cited in Rix 1992a: 11–12) believed that ‘with Japan, our whole economic involvement is so important that we really must have a fairly wide type of Treaty’ and argued to the Committee:

³⁶ Prime Minister Paul Keating said: ‘There is no doubt about Japan’s critical importance to the Australian economy. Japan was the earliest influence on Australia’s reorientation towards Asia ... Today, Japan is by far Australia’s largest partner, and Australia is Japan’s third-largest source of imports (Speech at Keio University, Tokyo, 25 May 1995).

³⁷ Sissons 1980: 256. Among all witnesses to the Committee, it was Crawford who furnished ‘by far the most informative evidence as to broad policy, and the most far-reaching in its conclusions’ (Rix 1992a: 4).

... it is a fairly typical comment: 'There is nothing in it for us.' Now I have never heard such nonsense in my life as to say that there is nothing in a negotiation over a general treaty with Japan ... I doubt if even the trade expansion that we want and an understanding on investment policy can be adequately achieved on an *ad hoc* basis. I believe we do need some framework of principles against which to negotiate ... This 'ad hockery' is quite dangerous if a very powerful trading partner is left to believe that we do not much care what happens.

Crawford's view appeared to influence the Committee, which had reservations about the Treaty but was of the opinion (cited in Rix 1992a: 83) that 'a treaty framework could be devised which would confer equal and mutual benefits to both parties'. Suspicion and opposition to the Treaty still lingered among officials because it was believed that Australia did not have such a treaty with any other country and that the agreement might have a negative impact on Australia's relations with other Asian countries (Sissons 1980: 257). This indicated that Japan was still to be recognised as a partner by Australia's officials.

Whitlam used his power as Prime Minister to end bureaucratic opposition to signing the Treaty with Japan. One of the earliest decisions he made after coming to office in December 1972 was 'to reverse the attitude of previous Liberal-Country Party Governments which had consistently rebuffed the Japanese wish to conclude with Australia ... a treaty of friendship, commerce and navigation' (Whitlam 1985: 61). During his government, the last vestiges of discrimination in immigration policy were eliminated, thus establishing the foundation to grant Japan equal status in respect of immigration matters under the new Treaty.

Whitlam requested the Department of Foreign Affairs to prepare a paper concerning the desirability of the Treaty, but the outcome was similar to the 1972 IDCJ report which came down against it. Because of Whitlam's dissatisfaction, the Department had the IDCJ prepare another report for him, but it continued to oppose the Treaty. The bureaucrats' opposition stemmed partly from lack of unity in the Committee where 'participants ... saw their role as speaking for, protecting and promoting their own departments' viewpoints, interests, territory, reputation, procedures and policies' (Matthews and Reid 1981: 324). Whitlam, receiving the report along with another chapter titled 'Australia's Policies Towards Japan', turned them down with the admonition:

I do not want another report from an Inter-Departmental Committee which will again negotiate compromises and come up with another 'on the one hand ... on the other hand', 'welcome though not seek', 'neither emphasise nor ignore' style of report. (cited in Matthews and Reid 1981: 324)

Finally, Whitlam, in response to Crawford's advice of June 1973, entrusted the task to an assistant secretary in Foreign Affairs who consulted within and outside the department to produce a report which recommended that a broad treaty with Japan be concluded.³⁸ Whitlam then participated at the annual meeting of the Ministerial Committee in Tokyo, October 1973 and agreed with the terms of the negotiation. The Treaty was finally signed by Prime Ministers Fraser and Miki in Tokyo, 17 June 1976, which gave Whitlam (1985: 62) 'great satisfaction'. One implication of the treaty for Australians was that 'memories of Japanese conduct during the Second World War had finally and officially been put to rest' (Renouf 1986: 159). This was an important step enabling both countries to conduct joint leadership in Pacific cooperation.

In setting up bilateral institutions in the early 1970s which facilitated interaction between both nations, Whitlam's involvement as Prime Minister was extremely significant.³⁹ Whitlam (1985: 61) had maintained a uniquely generous view regarding wartime Japan, noting that 'whatever may have been the failures of politicians and the instructions of the military in pre-war Japan, the Anglo-American world, including Australia, was largely responsible for goading Japan into war by restricting its access to markets and resources'. Whitlam therefore did not support his party's opposition to the 1957 Commerce Agreement with Japan in the Parliamentary debates.⁴⁰ These

³⁸ James Vernon (President of the Australia-Japan Business Cooperation Committee), Bob Hawke (President of ACTU), Crawford and Drysdale (both at the ANU) were among the principals with whom consultations were held.

³⁹ Whitlam (1981: 93) also took the initiative in establishing the Australia-Japan Foundation, based on his belief that: 'It is barbaric to assume that relations between two such countries as ours should be based purely and solely on money. I had thus attempted to begin to break down the great barriers of language, tradition, culture, and distance that separate our people'.

⁴⁰ Whitlam (1985: 61) thought in retrospect that 'at that time I was a constant and outspoken participant in debates on all subjects. Evatt's amendment was debated over five sitting days and attracted an exceptionally large number of speakers. There were 23 of my colleagues who supported it and 24 of McEwen's colleagues who, often less than enthusiastically, supported his argument.' Although Golding (1996:192) declares that 'in parliament there was bitter and unanimous opposition within the Labor party to the normalisation of relations with Japan'. Whitlam was an exception.

views underlined his decision, shared by Casey, McEwen and Crawford, to improve relations with Japan.

Although Australia's approaches to improving relations with Japan in the early postwar period were driven by pragmatism in securing Australia's security and economic interests, Japan's economic recovery and return to international society were helped by Australia's intentions. This was a basis for Australia and Japan to further bilateral relations and laid the foundation for cooperation in building the framework for an Asia Pacific economic community.

This is not to say that Australia–Japan bilateral relations developed without serious friction; trade disputes over Japan's beef and sugar imports became tense in the mid-1970s. Nevertheless, when Prime Ministers Tanaka and Whitlam discussed the issue when they met in Canberra in November 1974, they did not show hostility towards each other⁴¹ and the disputes that occurred when Japan broke its trade promise to buy Australian beef and sugar did not have a destructive effect on trade in other sectors. Bilateral trade disputes were thereafter handled primarily by relevant bureaucrats and ministers as well as business leaders.⁴² In this context, the long-standing Australia's balance of trade with Japan⁴³ may have contributed to a lessening of the political acrimony in trade disputes between Japan and Australia.

Improved bilateral relations led Japan to regard Australia in a more positive light. While Japan's share in Australia's overall trade has been substantial (26.4 per cent of exports and 20.3 per cent of imports in 1989), Australia's share in Japan's trade has not been so large (2.8 per cent in exports and 5.5 per cent of imports in 1989).⁴⁴

⁴¹ *Nihon Keizai Shimbun*, 6 November 1974. It is true that the two leaders scarcely discussed regional cooperation despite the fact that both had their own ideas on institutions of regional cooperation. This was because Australia first hoped to solve Japan's beef import restrictions and Japan, which was still suffering from the effects of the 1973 Oil Shock, wanted Australia's assurance regarding a stable supply of natural resources. This example supports the fact that the foundation for Australia–Japan's joint leadership was marked by few serious bilateral disputes.

⁴² Goto 1986: 128–29. An exception was when Prime Minister Fraser telegraphed a warning to Prime Minister Fukuda on 28 September 1977 that the beef dispute was harming the countries' overall bilateral relationship (*Asahi Shimbun*, 25–28 September 1977).

⁴³ Australia's trade surpluses with Japan were US\$ 2.2 billion (1975), US\$ 3.2 billion (1980) and US\$ 1.5 billion (1985).

⁴⁴ Figures cited in Mori 1991: 61 and Keating 1995. In 1965, Australia was the second largest supplier of Japan's imports after the United States, but in 1976, it became the third after the United States and Saudi Arabia and the fifth in 1980 (Nagasaka 1981: 238).

Nevertheless, the fact that Japanese leaders often expressed their gratitude to Australia's contribution to sustaining Japan's high economic growth was a token of Japan's high regard for Australia, stemming from the fact that Australia has been Japan's largest single supplier of energy and mineral products. When Prime Minister Bob Hawke visited Japan in January–February 1984, the five major Japanese papers (*Yomiuri*, *Sankei*, *Asahi*, *Mainichi* and *Nikkei*)⁴⁵ gave substantial coverage to the visit. Significantly, the first three papers ran editorials expressing the hope that both countries would forge a partnership in the Asia Pacific region on the basis of established friendship. The kind of mutual trust that has developed over the last four decades was a foundation on which both countries worked to build regional economic institutions.

First element: common interests in Asia Pacific regionalism

The first element of Australian and Japanese leadership in Asia Pacific cooperation is common interests in the Asia Pacific region, especially in relation to regional economic cooperation. Without these shared interests, any joint initiative would have foundered. As highlighted in Chapter 3, Japan began to assist economic development in Southeast Asia by encouraging regional economic cooperation, seeing this as a way of establishing its leadership credentials while its economy was growing and feeling obliged to make an international contribution. Australia, on the other hand, initially strove to develop a politically stable region. It took the initiative in establishing the Colombo Plan in 1950 with the hope that aid for development would contribute to security. Australia saw the region's economic growth and political stability as eventually creating a neighbouring market for its exports and came to the view that a regional economic institution would assist the trend. These differences in approach were driven by the nature of the two countries and their positions in the postwar world. Both countries also sought to address the North–South problem in the region as Whitlam (1979a) noted, referring to the idea that 'in our roles as advanced industrialised countries, we have the responsibility to ensure a more equitable distribution of the region's affluence'. Both countries came to feel that regional economic institutions would contribute to this aim. The earliest declaration

⁴⁵ See *Yomiuri Shimbun*, 30 January 1984, *Sankei Shimbun*, 3 February 1984, *Asahi Shimbun*, 1 February 1984, *Nihon Keizai Shimbun*, 1 February 1984 and *Mainichi Shimbun*, 27 January 1984.

of these shared interests in the Asia Pacific region was voiced during Ikeda's visit to Australia when both countries suggested making a concerted effort towards regional economic stability, although neither country took any specific action at that time. The Communique reported that leaders 'discussed ways in which Australia and Japan might, through the Colombo Plan and in other ways, cooperate in furthering economic development in Southeast Asia' (cited in Greenwood 1968: 120).

Awareness of growing intra-regional interdependence

An influential factor encouraging both countries to push for the establishment of a regional economic institution was increasing regional economic interdependence. In his first article discussing the PAFTA concept in 1965, Kojima noted both countries' increasing trade connections in the region⁴⁶ as well as their interest in free trade principles. By the 1980s, following strong economic growth in the East Asian countries, economic interdependence in the region was much more apparent. After taking the initiative in forming PECC, Crawford (1982a: 26) wrote that 'both Japan and Australia have to forge and support constructive relations with all our partners in the Pacific ... we cannot escape our interdependence; but to obtain the full advantage of it we need to collaborate with others'. As pointed out in subsequent chapters, leaders in both countries were aware of greater intra-regional economic interdependence, on the basis of which they committed themselves to the establishment of regional economic institutions. Both countries hoped to maintain and strengthen a GATT-based multilateral free trade system, as reflected in their dependence on global trade for prosperity, and regional economic cooperation was seen as a means of strengthening the free trade system. This was a major motivation in the APEC initiative.

Isolation factor

Australia and Japan differ in terms of territorial size, population, economic structure, history and ethnic composition, but their mutual interest in establishing a regional economic institution was partly based on the fact that both countries share similar values and systems which predispose them towards certain common policies. Japanese leaders have been aware of this point in stressing the value of the

⁴⁶ Kojima 1990: 8. One-third of both countries' exports went to the Asia Pacific region in the early 1960s.

partnership.⁴⁷ Kazuo Ogura (1992: 11), a senior diplomat, advocated a partnership with Australia for Asia Pacific integration and attributed the foundation of the partnership to shared values. He wrote that ‘the true impetus behind all regional integration is a tight partnership’, and asked ‘could [Japan and Australia] not promote specific forms of cooperation in specific fields with ... regional grouping ideas in mind?’ In discussing the basis of the Australia–Japan partnership, Ogura (1992: 11) emphasised the similarities between both countries: ‘Japan and Australia possess common values of democracy and freedom, they both support, in general, market principles and free trade, they have a very deep relationship based on economic interdependence, and they possess common interests in security and political aspects.’ An important ingredient shared by both countries in regional institution-building is self-identification as part of the Asia Pacific region. Japan is aware of its status as the leading industrialised nation in Asia and as the Asian representative in G7 Summit meetings. Australia is conscious that it is the only nation in the region that has close historical, cultural and political links with Europe and the United States and that it knows Asia better than any other community from the European tradition (Garnaut 1989: 3). By the late 1960s, this notion was commonplace among Australian leaders. After asking ‘does Australia regard itself as the “last remaining outpost of Western power” or do we see ourselves as being very much in the same boat as all our Asian neighbours?’, the *Australian Financial Review* (14 February 1967) answered the question by quoting then Prime Minister Holt, who said ‘his vision of Australia [was] as [a] “bridge” between the West and Asia.’⁴⁸ Japanese foreign policy leaders have also thought of Japan as having a bridging role in the Asia Pacific region.⁴⁹

⁴⁷ Prime Minister Nakasone (1985) in his speech in Canberra also emphasised the similarities of both countries as peaceful nations with the basic values of freedom and democracy. Nakasone regarded these shared values as the foundations of the Japan–Australia partnership.

⁴⁸ In 1964 the Minister for External Affairs, Garfield Barwick, characterised Australia’s position in international society as follows: ‘Australia is a middle power in more senses than one ... [I]t has common interests with both the advanced and the under-developed countries: it stands in point of realised wealth between the haves and the have-nots. It is at the one time a granary and a highly industrialised country. It has a European background and is set in intimate geographical propinquity to Asia. This ambivalence ... poses continuing problems in identifying peculiarly Australian objectives and in finding balance in the policies devised to attain them’ (CPD, H. of R., 11 March 1964: 484).

⁴⁹ Hasluck expressed a similar view that ‘we in Australia are in a position to be a bridge between the non-Asian and the Asian’ (CNIA 1966: 234). Interestingly, as argued in this thesis, Hasluck’s counterpart, Foreign Minister Miki, referred to the bridging role between Asia and the Pacific in proposing his Asia Pacific policy. The bridging role was also mentioned when Japan attended the first Asia Europe Meeting (ASEM) in March 1996.

Yet this awareness can make both feel isolated in their diplomatic mission in Asia and the Pacific. Japanese leaders' emphasis on the shared values with Australia represents to some extent their feeling of isolation in international society, symbolised in a Japanese minister's statement that 'Japan doesn't have many friends and Australia is one of them' (*Age*, 30 January 1989). Watanabe (1996: 11) calls this the Lilliputian syndrome 'never feeling quite at home placed among the alien Gullivers', and elaborates as follows:

The Japanese always feel that, after all their efforts, they have never been fully accepted by the 'civilised' world of the West, while consciousness of guilt prevents them from throwing themselves in the bosom of the Asian family. Likewise, in the midst of a massive Asia, the Australians feel that there exists 'seeming nearness yet infinite distance between souls and between lives that touch each other', while, placed in the great civilisation of the west, they can only hope to be a provincial part of it.

This 'Lilliputian syndrome' common to both countries, has drawn the two countries together. Japan welcomes Australia's increasing keenness to engage with Asia, which makes it easier for Japan to find common interests in the region and to promote the partnership. Okumura, a MITI official, also recalled that when Australia became more integrated with Asia, he expected Australia to be supportive of MITI in promoting the APEC idea.⁵⁰

The 'isolation' factor was also a backdrop to initiating regional economic institutions. Drysdale (1978: 3) comments that 'in their subsequent reactions to the changing international environment both countries moved towards closer involvement with each other'. The upsurge of debate about regional cooperation in Japan in the late 1960s was related to a fear that Japan might become isolated: the EEC was becoming more entrenched, leading to closed markets; America was also exploring the possibility of forming the Atlantic free trade area, and Latin America was attempting to promote regionalism. Furthermore, the decision to form the European Union and the establishment of a free trade arrangement between the United States and Canada in the late 1980s partly contributed to Australia's sense of isolation and caused it to look towards the establishment of APEC, as seen in Chapter 8. The fact that Europe had adopted inward-looking policies like the Common Agricultural Policy might have

⁵⁰ Personal interview, 25 January 1996, Tokyo.

caused Japan and Australia to feel isolated from the major powers.⁵¹ Hence, 'it is not at all surprising that these two countries have become the most active advocates' of Pacific cooperation ideas (Soesastro 1982: 19).

The isolation factor also contributed to both keeping their commitment to building regional economic institutions.⁵² Since regional institutions can act as an umbrella for common national interests, participation within them can be helpful in reducing isolation. Australia's middle power diplomacy for coalition-building with like-minded countries has worked in this sense. Japan launched the Pacific Basin Cooperation Concept partly to fulfil its comprehensive security concept, the essence of which was to 'stabilise the regional systems by strengthening cooperative ties with friendly states which share common or similar values and ideals' (*Sogo Anzenhoshō Kenkyū Gurupū* 1980: 23–34). According to Prime Minister Ohira's secretary, Shinji Fukukawa, Ohira was influenced by his good friend German Chancellor, Helmut Schmidt, who often said that Japan did not have a real friend. Ohira thus regarded his Pacific Basin Cooperation Concept as a means of creating new foreign partnerships.⁵³ It is plausible that Australia's commitment to launch the APEC initiative also had the effect of compensating for exclusion from other forums, such as the G7 and the Quadrilaterals.

While their position straddling East and West makes both countries feel isolated and provides a similar motive for establishing regional economic institutions, at the same time it encourages active diplomacy. Former Ambassador to Australia, Kazutoshi Hasegawa (1992), observed that Japan and Australia 'lie at the fringe of East and West', and that: 'we therefore are destined to understand two civilisations and to bridge the gap between them'.⁵⁴ Both can understand the interests of developing Asian and developed Western countries in the region and can play a bridging role. A

⁵¹ Drysdale (1988: 207) also writes that 'Australia's response to the damaging effects of the European Common Agricultural Policy ... was to intensify the development of new markets in Japan, the Pacific and East Asia. Japan's response to the emergence of a discriminatory bloc in Western Europe was to encourage closer economic relations with its main Pacific trading partners.'

⁵² Woolcott (1992b), who was closely associated with Australia's APEC initiative, pointed to the isolation factor as a reason for Australia's interest in initiating APEC.

⁵³ Personal interview, 15 December 1994, Tokyo. Fukukawa noted that Ohira saw Australia's power as sufficient for Japan to promote the Pacific Basin Cooperation Concept. Fukukawa now agrees with this.

⁵⁴ Hasegawa also observes that 'Japan, while retaining her Asian traditions, has sought to modernise by emulating the West. Australia, conversely, while guarding her Western origins, looks for stronger ties with Asia. Japan, looking to the West, has brought an Asian perspective to the OECD and the Group of Seven. Australia, growing increasingly multicultural, has established links with her Asian neighbours.'

senior Indonesian journalist said: 'Australia's presence in Asia should be evaluated highly. It has a unique role as an Asian country of Western origin ... [which] will promote the development of the region in terms of both culture and civilisation' (cited in *Look Japan*, 1997: 53). This is precisely the point of intersection for Asia Pacific regionalism.

Political commitment and consistent interest in OPTAD

Australia and Japan's strong interests in building regional economic institutions can also be judged by their political commitment. As discussed in Chapter 8, after the Ohira administration, three Japanese Prime Ministers in the 1980s, Suzuki, Nakasone and Takeshita, were supportive of Asia Pacific regionalism, although their interests in regionalism were not strong enough for them to contribute to launching a specific regionalism policy.

After PECC was established, Drysdale (1985: 101) observed Australia's consistent bipartisan approach to Pacific cooperation during the 1970s and 1980s:

It is worth stressing that this Australian vision ... is politically bipartisan. It is an important part of the world view of former Prime Minister Fraser, present Opposition Leader Peacock and it is a perspective shared by former Prime Minister Whitlam and the present Prime Minister Hawke and Foreign Minister Hayden.

From the Japanese standpoint, Australia's interest was encouraging and helpful. Fukukawa, Prime Minister Ohira's secretary, thought that because of Australia's strong research into and interest in Pacific cooperation, Australia would best understand and promote the fundamental ideas behind Japan's Pacific Basin Cooperation Concept ahead of any other country.⁵⁵ Okumura (personal interview) also regarded Australia's strong interest as valuable and observed:

Australia is highly regarded for having consistently shown its strong interests in Asia Pacific cooperation and for having exercised leadership ... Australia's role in paving the way for Pacific economic cooperation was exceptional and to my mind this was a major reason that Australia would be the best partner to realise MITI's APEC initiative.

⁵⁵ Personal interview, 15 December 1994, Tokyo.

The 1980s saw a deepening of Australia and Japan's political commitment to regional cooperation, laying the foundation for establishing APEC in 1989, after the establishment of PECC in 1980.

Their interests in establishing a regional economic institution had been evident in support for a specific form of regional institution such as Organisation of Pacific Trade [Aid] and Development (OPTAD), modelled after the OECD, first advocated by Kojima and Drysdale at the 1968 PAFTAD conference. As shown earlier, Australia did not think it appropriate to create new formal regional groupings in 1967 when Foreign Minister Miki was considering them, but it started reconsidering the matter when the 1971 Senate Standing Committee on Foreign Affairs and Defence (1973: 81) on Japan concluded:

The Committee strongly supports the suggestion for an Organisation for Pacific Trade, Aid and Development ... The Committee recommends that the Government officially support the establishment of such an organisation.

The 1976 Crawford–Okita Report, which aimed to 'explore together some of the important international economic policy issues' facing Japan and Australia emphasised the overlapping interests in regional economic cooperation and concluded that 'within an Organisation for Pacific Trade and Development, government-to-government consultations and negotiations on a regional level could usefully and functionally be built upon purposeful attempts to define codes of behaviour and objectives for foreign investment, aid and technology transfer activities as well as regular discussion of trade problems and problems deriving from trade instability' (Crawford and Okita 1976: 138). The two recommendations were based on the concept of OPTAD, a concept reactivated in the late 1970s and in the late 1980s. Okita, Chairman of the Osaka PECC meeting held in May 1988, advocated the idea (*Nihon Keizai Shimbun*, 18 May 1988), and Prime Minister Hawke in his Seoul Speech in January 1989 initially regarded a Pacific OECD as a model for his Asia Pacific organisation, now called APEC. Hawke's predecessor, Fraser (1984) also conceived the idea of a Pacific OECD in 1983. Consistent support for the OPTAD concept from the late 1960s to the early 1980s was a symbol of Australia and Japan's interests in institutionalising Asia Pacific economic cooperation and is indicative of

the two countries' leadership in building an inter-governmental regional economic institution.

Second element: power complementarity in Asia Pacific diplomacy

The second element of Australia–Japan's leadership lies in the two countries' complementary power profiles. One concept of power relates to how power brokers influence others to realise their goals. Japan's power stems from the size of its economy, its GNP (second largest in the world), provision of aid (largest in the world), and trade and investment flows in the region. Japan's foreign economic policy thus has a big impact on other economies in the region. Australia's power on the other hand lies in its resource base and its diplomacy, which cannot be quantified. Although Australia's economic and military power are relatively small, it has taken advantage of its 'middle power' status by taking the initiative on occasion and gaining credibility amongst other countries. The distinctive features of each country compensate for the shortcomings of the other and both have played complementary roles in the formation of regional economic institutions.

Japan's economic power

Japan's economic power was instrumental in attracting followers to an economic institution which it was keen to establish even if it had no intention of applying its economic strength in the bargaining process. Japan's economic power is such that followers feel that there are few countries in the region that can provide a comparable market for regional products and be 'a source of aid, investment and technology' (Lee 1990: 932). It is 'no wonder', as Stubbs (1992: 658) wrote, that countries in the Asia Pacific region 'have come to see Japan, as having the economic resources to occupy a leadership position'. In addition, the development of intra-regional trade centred on Japan can be said to give 'Asian countries a growing interest in following a Japanese lead' (*Economist*, 11 November 1989). Japan has the ability to influence regional countries economically to the extent that they may emulate Japan in the hope of achieving similar economic growth and of increasing their exports to Japan.

However, Japan's responsibility for the Pacific War and Japan's dominant economic presence also created anti-Japanese feeling in various countries. Prime Minister of

Singapore, Lee Kuan Yew said that 'Japan's neighbours have unforgettable memories of Japan's militaristic culture which resulted in unnecessary cruelty and inhumanity'.⁵⁶ Because the Greater East Asian Co-Prosperity Sphere constituted the ideological prop of the Pacific War, Asians suspected that Japan's launching of regional cooperation proposals was an attempt to create another Co-Prosperity Sphere through which it would again attempt to dominate the region. The Japanese were aware of this and were cautious in their approaches to regional cooperation and, more generally, to diplomacy in Southeast Asia. Tsuneo Iida, Deputy-Chairman of Ohira's Pacific Basin Study Group, comments:

In discussing Prime Minister Ohira's concept in the late 1970s, we were often told by Southeast Asians at that time that the concept amounted to the second Greater East Asian Co-Prosperity Sphere or that there was surely something like the Co-Prosperity Sphere concealed behind the rationale. Before the Study Group was convened, there had been a sort of taboo in Japan on talking about multilateral cooperation in the region.⁵⁷

This reluctance still lingered among Japanese leaders in the late 1980s when MITI started forging a vision of APEC. Shigeo Muraoka, then Vice-Minister for International Affairs recollected:

The reason I thought Japan should maintain a low profile and that Australia should take the initiative in organising APEC instead, lay in the belief that memories of the Co-Prosperity Sphere still pervaded the region and people would not readily support a Japanese idea which might remind them of the bad old days. I think the problem of the Co-Prosperity Sphere was deeply rooted.⁵⁸

The statements are representative of misgivings held by Japanese leaders as they worked to help create PECC and APEC, and illustrate Japan's hesitancy about building regional economic institutions. It was desirable for Japan to gain the support of a country with credibility and persuasive diplomacy. Such attributes would act as a substitute for Japan's diplomatic shortcomings. That Australia possessed these diplomatic features was part of the attraction for Japan in its move to forge a partnership for institution-building in the Asia Pacific region. O'Neill notes that 'a power [like] Australia is unlikely to affect seriously the outcomes of struggles in the

⁵⁶ Speech presented to the Asahi Shimbun Symposium, Tokyo, 9 May 1991.

⁵⁷ Personal interview, 26 December 1994, Kyoto.

⁵⁸ Personal interview, 20 January 1995, Tokyo.

United States, Europe, the former Soviet Union, China or Japan. What matters is what these states think of Australia' (*Australian*, 24 September 1993). In this sense, Japan has regarded Australia as a desirable partner for its regional diplomacy, despite its relatively small economic and military size.

Australia's diplomacy as a middle power

Australia's diplomacy is conditioned by its status as a middle power – a country whose economic or military size is neither too small nor yet substantial enough to have a direct and considerable influence on other countries. As former Secretary of DFAT, Michael Costello (1995: 117) comments, middle powers like Australia realise that 'the world will not come to us nor readily accommodate our preferences ... Acquiring the sort of economic and military dominance that would be necessary to aspire to our goals unaided is not an option.' Australians have long been aware of their country's middle power status; Greenwood (1963: 91) wrote:

In her approach to Asia, Australia appeared to start with certain advantages which were likely to stand her in good stead. Her basic lack of power, which in other contexts was a severe limitation, was in the Asian situation an asset, since it meant that there could be no fear or suspicion on the part of Asian countries that close ties with Australia could imply any threat to political or economic independence ... She did not possess the handicap of any imperialist involvement in Asia.⁵⁹

Australia can exercise its influence in the international arena through active diplomacy, because it is unlikely to succeed by imposing its will on other countries with limited material resources. Active diplomacy by a middle power involves initiative:

... the initiatives involve the middle power making a concerted effort to think through an international problem; generating a plan of action, often based on technical expertise; gathering support for ideas from as many like-minded states as possible; and then presenting the great powers with a suggested set of solutions, or with a process that might lead to a political solution. (Nossal 1993: 214)

⁵⁹ The *Australian Financial Review* (14 February 1967) described Australia's diplomacy: 'Australia has relatively little to offer its neighbours in terms of military power or economic aid. It can, however, offer an emotional commitment to regionalism. Given imaginative and astute diplomacy, Australia could emerge as a spokesman for Southeast Asia internationally and an honest broker within an uncertain and tumultuous region.'

Another strategy Australia employed to achieve its goals in its middle power diplomacy was to target multilateralism where its diplomatic interests coincided with others. Foreign Minister Evans (1993) regarded the distinctive characteristic of Australia's diplomacy as 'coalition building with "like-minded" countries', while 'concentrating resources in specific areas best able to generate returns worth having, rather than trying to cover the field'. To focus diplomacy on multilateralism can 'provide a legitimate entree for smaller states into the affairs of the international community as a whole, a voice that would otherwise be denied them', as Evans said. Thus, it is appropriate for Australia to pursue multilateral solutions to international problems, to embrace compromise in international disputes and to entertain notions of 'good international citizenship' to guide its diplomacy (Higgott *et al.* 1993: 19).

Middle power diplomacy was a hallmark of Hawke's diplomacy. Garnaut (1989: 6) argued in his 1989 report to Prime Minister Hawke that: 'as a middle power, we must rely on persuading other countries, and influential groups within these countries, that it is in their own interest to move in directions that are consistent with our own interests. Hawke (1994: 423) was aware of the coalition-building strategy which Garnaut promoted,⁶⁰ pointing to the essence of the middle power diplomacy in the case of the Cairns Group which had been established with the same objective as APEC:

Individually, the countries making up the group would have had virtually no influence on the [Uruguay] round. Collectively, however, they formed what has generally been recognised as an extraordinarily persuasive lobby in the cause of freer trade.

As a middle power Australia is said to be potentially 'wiser or more virtuous' than the bigger or lesser powers and more 'trustworthy' due to its tendency to resort to diplomatic influence rather than to force (Higgott *et al.* 1993: 18). It has 'manifestly no territorial ambitions or aggressive intent' (O'Connor 1995: 95). This traditional diplomatic approach can be a substitute for power-oriented diplomacy.

⁶⁰ Hawke (1994: 232) wrote: 'From 1983 onwards ... with Garnaut's guidance, we pursued these objectives ... Right from the outset we began coalition-building among similarly placed countries with the object of forcing a greater liberalisation of international trade.'

Power complementarity

Japan does not possess Australia's attributes of middle power diplomacy nor does it have the necessary credibility to practice active diplomacy in the region. When Japan has initiated regional or international agendas commensurate with its economic power, Australian diplomatic support has been substantial. Okumura (personal interview) comments that from Tokyo's standpoint, Australia can play a cushioning role, which lessens other Asian countries' suspicion and caution. As for Australia's APEC initiative, a Southeast Asian diplomat represented a 'fairly common regional sentiment' by referring to the 'fresh breeze blowing from the south' (cited in Hay 1994: 14), but a similar diplomatic initiative put forward by Japan would be unlikely to invite such acclaim due to its substantial economic presence in the region.

From Australia's viewpoint, it is advantageous to stand beside Japan in the Asia Pacific region. Australia's share of global trade in the postwar era has dropped; its position on the list of exporting countries dropped from 12 to 23 between 1978 and 1983, which reflected its declining relative trading position as well as influence in the Asia Pacific region (Higgott 1992: 128). Reviewing Whitlam's proposal for a regional institution discussed in Chapter 4, Millar (1991: 335) observes:

[Australia] just did not carry the political or economic weight, and no amount of rhetoric, no change of posture, could conceal this fact. Small in population, wealthy, white, Western-oriented, territorially larger but almost empty, separated from mainland Asia geographically and psychologically, Australia was at best an associate member of the Asian group of states, capable of making a contribution, but incapable of leading.

Partnership with Japan helped Australia overcome this natural weakness when taking diplomatic initiatives in the region. Australia recognised that Japan's position in the international trading system was influential in moving towards the goal of free trade as the 'champion of anti-protectionism', according to Foreign Minister Hayden (1987). Given the fact of Australia's concern about America's agricultural protectionism, it is in Australia's interests to support Japan as a regional as well as global leader on protectionism, allowing it to ride Japan's wave and gain a voice.⁶¹

⁶¹ Watanabe (1992: 142) also referred to this point as an Australian diplomatic strategy in terms of Australia-Japan relations.

Australia's increasing diplomatic reliance on Japan has been apparent since the late 1970s. After resolving the bilateral trade disputes on beef and sugar, Prime Minister Fraser visited Japan and met his counterpart Fukuda in April 1978. The visit was described as 'epoch-making' by the Japanese officials (Nakamura 1978: 18 and Ouoka 1978: 21) because both leaders focused their talks on international economic affairs, with little time spent on bilateral issues. These discussions were held before the US–Japan summit meetings between Carter and Fukuda. Fraser hoped to stress Australia's views on international trade through Japan: to liberalise agricultural markets and resolve the North–South issues. It was said that 'this tactic of riding the diplomatic coat-tails of Japan, an economic superpower, [has] taken a new development' in Australia–Japan relations (*FEER*, 9 June 1978). In fact, Japan supported and made efforts to secure Australia's participation in the G7 summit, but after this failed, Japan endeavoured to incorporate Australia's voice as well as ASEAN's into the G7 summit meetings. Prime Minister Fraser (*Australian*, 10 April 1996) recalled:

Since Prime Minister Fukuda's government, Japan has consulted Australia on matters to be raised at meetings of the Group of Seven leading industrialised nations and has always reported back to Australia on the results of the discussions ... A report would drift in from the United States several weeks later and from Britain even later.

Australia's and Japan's diplomatic roles are unique in the region. Japanese officials responsible for establishing both PECC and APEC acknowledge that if Japan had taken the dominant role, it would have been difficult for ASEAN countries to join these institutions. This was an important factor behind diplomatic cooperation between Japan and Australia.

Woolcott, former Secretary of DFAT (1992a), comments that 'we are in effect unequal partners in most of our key relationships with Japan ... Australia needs to make a greater effort to sustain the partnership than Japan ... we have to work a little harder to maintain that attention we want in Tokyo.' Yet given the complementary roles played by both countries in regional economic cooperation, Japan would not characterise the relationship as unequal. Because Japan is not a middle power, it tends to envy Australia's role in middle power diplomacy (Numata 1991). Mutual

diplomatic dependence was therefore a significant element in joint leadership in building Asia Pacific regionalism.

Third element: different levels of policy discussion

The third element of Australia and Japan's joint leadership is the frequency of political, business and academic exchanges between Japan and Australia. These channels make it much easier for politicians, bureaucrats, academics and business people to discuss policies on Pacific economic cooperation and to produce ideas on regional economic cooperation jointly. The variety of exchanges also shows that the significance of regional economic cooperation is widely acknowledged and supported by different sectors of the community in both countries.

Business sector

In the business sector, the Australia–Japan Business Cooperation Committee (AJBCC) in Australia and the Japan–Australia Business Cooperation Committee (JABCC) in Japan held their first joint annual meeting in 1963.⁶² Before PBEC was established in 1967, the annual joint meetings held between 1964 and 1966 set up a small committee on 'economic cooperation and the formation of the Pacific Basin Organisation'. Although the regional cooperation agenda was discussed at the annual PBEC meetings, the annual joint meetings since 1980 included a special session on the Pacific Economic Community. Japanese business leaders such as Nagano and Goto exerted their influence on their political leaders to push for regional economic cooperation, as will be discussed in the next chapter. The active involvement of Japanese business people in Pacific cooperation through PBEC sustained Japan's interest in Pacific cooperation from the 1960s to the 1980s, thus laying the foundations for the government to assume leadership in creating PECC and APEC. In Australia, 'the business leadership is strongly Pacific-oriented in its thinking' (Drysdale 1985: 101). Prime Minister Hawke also stressed the importance of support from the business sector. He discussed his APEC initiative with the business community which 'welcomed the idea.'⁶³ Opportunities to discuss regional economic

⁶² The meeting became a model for similar committees which Japan later established with other countries (Kamada 1989: iii) and PBEC developed out of this committee.

⁶³ Personal interview, 25 May 1998, Sydney.

cooperation among Australian and Japanese business leaders, in addition to PBEC, reflected their special interests.

Government and political level dialogues

Regular political interaction through official meetings started in 1967⁶⁴ with senior foreign affairs officials at the director-general and deputy secretary level. The first official meeting was held in Canberra between 16 and 17 January 1967 and this was the first time both countries met mainly to discuss regional cooperation rather than bilateral trade issues. Indeed the first official Australia–Japan meeting was partly designed to discuss issues of regional economic cooperation, including Miki’s Asia Pacific policy.

The Australia–Japan Ministerial Committee, consisting of both countries’ ministers of foreign affairs, industry or finance, was set up in 1972, a development that Australia regards as ‘the most important and wide-ranging bilateral forum in which Australia ... participates’ (*AFR*, 28 August 1995). Before that, both foreign ministers could only talk at the annual meetings of ASPAC or the ADB. Policy talks among ministers had been limited and both governments had lacked a vehicle for policy coordination at ministerial level. Japan was the first country with which Australia had a standing ministerial committee, a reflection of Japan’s importance to Australia: ‘Japan remains the most significant international associate’ for Australia (Millar 1975: 405).

The importance of this annual meeting was that it provided politicians and bureaucrats with first-hand information on mutual policies or interests, and enabled them to formulate a basis for policy cooperation (Minagawa 1983: 21). Rix (1992b: 202) interprets the Committee’s significance from Australia’s viewpoint as its information function: ‘Australia’s policy has been on the whole informed, attuned to Japanese realities and opinion, and open to discussion with Japan.’ Japan currently does not have any other regular ministerial meetings. The annual Australia–Japan Ministerial Committee meetings have been regarded as a symbol of bilateral closeness and, more significantly, as an important means for both countries to coordinate their

⁶⁴ There was a proposal to establish regular consultation between the Japanese Ministry of Foreign Affairs and the Australian Department of External Affairs in 1963, but neither showed much interest in it (Walton 1997: 32).

policies on regional economic cooperation beyond bilateral issues.⁶⁵ An example is the annual 1991 meeting where Japan agreed with Australia on the need to bring the three Chinas into APEC, a decision which was to be officially endorsed at the APEC Meeting held in Seoul in November 1991 (Woolcott 1992a).

As Dalrymple (1996: 40), former Australian Ambassador to Japan observes, 'recent Japan–Australian ministerial conferences and prime ministerial visits have also been remarkable for the relaxed and warm tone and atmosphere and the evident desire on both sides to cooperate'. The relaxed atmosphere was generated by the fact that there were few political problems between the two countries. Following the resolution of problems concerning Japan's beef and sugar imports from Australia in the 1970s, prime ministerial meetings between the two countries have seldom concerned themselves with bilateral disputes. Both leaders have focused instead on regional affairs, as in the meetings between Nakasone and Hawke in 1985 and Takeshita and Hawke in 1988.

Academic dialogue

The most important forums for academic interaction were the Australia–Japan Economic Relations Project headed by Crawford in Australia and its Japanese counterpart, the Japan–Australia Research Committee headed by Okita. Both bodies were established in 1972. The result of the Project was a report entitled 'Australia, Japan and the Western Pacific Economic Relations', the so-called Crawford–Okita Report, published in 1976. Of significance is the Report's recommendation that both governments, which bear 'large responsibilities towards ... the Western Pacific developing countries with whom their trade, investment, aid and political relations are closest', should seek to create a regional economic institution like OPTAD.'

The two forums included experts on the Pacific economy who had worked together in PAFTAD. The committee members themselves became intellectual conduits for both governments in building regional economic institutions. This group had a significant impact on their respective governments in establishing PECC. The forums

⁶⁵ A regional cooperation agenda was actually discussed at the second Meeting held in Tokyo, October 1973 (*Asahi Shimbun*, 31 October 1973).

and the work in PAFTAD were a prelude for both governments' commitment to PECC.

After the Crawford–Okita Report was launched in 1976, the Japanese project developed with the financial support of about 30 major Japanese companies. The Committee published Japan–Australia Relations Reports approximately every two years. It was one of the most important Japanese academic references on Australia, analysing Australia–Japan relations and the Asia Pacific economy.⁶⁶ The Committee comprised about 30 members including Saburo Okita, Kiyoshi Kojima, Shigeo Nagano, Noboru Goto, Shizuo Saito, Ippei Yamazawa, Akio Watanabe and Yujiro Eguchi. These people were all involved in PECC or PBEC; prominent specialists on Pacific cooperation joined the Committee. The Australia Project included John Crawford, Heinz Arndt, Peter Drysdale, Ross Garnaut, Stuart Harris and Ben Smith, all ANU experts on Asia Pacific economies or regional cooperation. They had been involved in PAFTAD and PECC in varying degrees. Its studies on Australia–Japan relations were intricately linked to those on Asia Pacific cooperation, and it could be anticipated that the Australia–Japan partnership would be exercised within the broader framework of Asia Pacific cooperation partly through the efforts of such policy-involved academics.

The frequent interaction between Japanese experts on Pacific cooperation and their Australian counterparts has enhanced the reputation of Australian academics in Japan. Academic links contributed to Australia's being regarded as the best partner for Japan in launching Asia Pacific regionalism. Muraoka, then MITI's Vice-Minister, notes that Australian studies on regional economic cooperation are more advanced than other countries, one reason MITI regarded Australia as a favourable partner to advance the APEC idea.⁶⁷ Academics in both countries kept up contact and such cooperation contributed to mutual interest in Pacific cooperation and eventually governmental activities in creating regional economic institutions.

⁶⁶ The Committee also published the periodical *Nichigo Bulletin* which ran from 1977 to 1984 and covered 35 editions. Each issue had articles, conference reports, current news on Pacific cooperation and on Australia, and was an important source for Japanese business people, academics and bureaucrats.

⁶⁷ Personal interview, Tokyo, 20 January 1995. This view was shared by Michihiko Kunihiro (personal interview, 16 January 1996, Tokyo), then Muraoka's counterpart in the Ministry of Foreign Affairs who states that 'it was well recognised in the 1970s that Australian scholars were pivotal in maintaining a

Conclusion

The forging of strong Australia–Japan bilateral relations after the Pacific War was an essential prerequisite for joint leadership in building Asia Pacific economic institutions. Australian leaders such as Casey, McEwen and Crawford saw sound trading relations with Japan as in Australia’s vital national interest and took strong initiatives in pursuit of this aim. A consequence was the 1957 Australia–Japan Trade Treaty, which not only boosted the bilateral trade but also helped assuage anti-Japanese feeling in Australia through the development of economic exchanges. The seeds of policy-oriented exchanges were planted by Japan when foreign minister Miki approached Australia to promote his Asia Pacific policy in 1967, a trend which developed in the late 1960s and the early 1970s when Australia encouraged Japan to play a political role in the region. A significant outcome was the establishment of the Ministerial Committee in 1972, representing the highest-level bilateral policy dialogue between the two countries. Australia’s interest in understanding Japan through bilateral dialogues and domestic committees culminated in the signing of the so-called NARA Treaty in 1977, an initiative strongly promoted by Prime Minister Whitlam. The development of bilateral relations during the 1950s and 1970s marked an important process of confidence-building between the two countries, and it was on this foundation that Australia and Japan forged their partnership in regional institution-building.

Shared interests in the Asia Pacific region, power complementarity compensating for diplomatic shortcomings in each country and a corps of people influential in policy and able to form transnational networks in the business, political, bureaucratic and academic communities helped the partnership develop. These elements combined to make the Australia–Japan partnership unique and enabled Australia and Japan to lay the foundation for coordinating diplomatic manoeuvres in the establishment of regional economic institutions, as subsequent chapters seek to demonstrate in the case of PAFTAD, PBEC, PECC and APEC.

small candle-light of momentum in Pacific cooperation and in successfully floating ideas to their political and business leaders’.

6 The Phase I: The establishment of PAFTAD and PBEC

The idea of an Asia Pacific economic community was not the creation of one political leader, nor did it become part of official policy without a considerable period of interaction and effort among intellectual and business circles in the region. Indeed, the intellectual and policy foundations for PECC and ultimately APEC were not laid primarily at government or political levels, but within a network of personal and business ties. These developed through PAFTAD and PBEC, the regional research and business forums established in 1968. The principal participants in these forums were private players, although they developed and exercised influence in the evolution of government policy through the establishment of regional cooperation arrangements.

Chapter 6 analyses the formation of these two non-governmental regional institutions, which constitute Phase I of building an Asia Pacific economic community, by applying the institution-building model, introduced in Chapter 2. The crux of the analysis is how individual leaders came to conceive the 'basic ideas' for PBEC and PAFTAD by interpreting the international environment anew, how these ideas were refined to form policy, and how leaders persuaded potential participants to join these institutions. As mentioned in Chapter 1, PBEC and PAFTAD's main functions in the progress towards an Asia Pacific economic community were to promote interaction among persons interested in regional economic cooperation and to inform governments of the importance of economic cooperation issues. The chapter explains why economic cooperation in the Asia Pacific region began with non-governmental institutions like PBEC and PAFTAD rather than inter-governmental institutions. This chapter also examines why both institutions were established almost simultaneously and what were the driving forces behind their development.

Innovation in the formation of PAFTAD

Chapter 2 identified the first stage of institution-building as innovation, during which individuals create the basic ideas from which institutions are built — why they think a regional economic institution may be necessary and how it should be established. Ideas which provide the intellectual base and rationale for new institutions emerge in many different ways, but there are always protagonists who are the driving force behind the creation of new institutional arrangements and policy directions. The creation of PAFTAD and PBEC was no exception. The important players in the early phase of innovation are the first focus. The questions that need to be asked are how the ideas on regional economic cooperation were first conceived and where they came from.

The three key Japanese players in the formation of PAFTAD and early thinking about regional cooperation were Kiyoshi Kojima, Saburo Okita and Takeo Miki, an academic, a bureaucrat and a politician, and all significant contributors to discussion about foreign economic policy in Japan. These three players did not suddenly come to think about the importance of regional economic cooperation in the mid-1960s, but had been considering Pacific economic cooperation for some time. Their involvement in the notion of Pacific cooperation had been individual, but Miki's political push to define an Asia Pacific policy brought them together in the formation of PAFTAD.

Kiyoshi Kojima and his PAFTA idea

Kiyoshi Kojima, professor of international economics at Hitotsubashi University, played a key role not only in introducing the Pacific Free Trade Area (PAFTA) concept, which was the central theme of the first PAFTAD conference in 1968, but also in the diplomacy behind organising the conference. Three factors influenced Kojima's thinking about the PAFTA idea: his interest in solving the North–South problem in Asia; economic developments in the EEC, which worried him because of their potential to isolate countries in Asia and the Pacific, especially Japan; and the internationalisation of the Japanese economy.

Kojima attributes his initial commitment to regional cooperation to his personal background, his place of birth and his childhood poverty.¹ Kojima visited several regional countries and attended international conferences on regional economic cooperation between 1961 and 1963² where he began to think seriously about Asia's underdevelopment. He (1980: 4) recalls that these trips were important to his understanding of economic conditions in Asian countries and states that: 'observations during these trips and discussions at international conferences were windows for my policy studies'. Kojima's academic work primarily focused on international trade theory and Japan's development in the international economy until the early 1960s. After his travels in 1961–63, he began to publish articles and books on Asian economic development.³ The shift in his academic work subsequently led to his interest in PAFTA.

The development of the EEC was a direct stimulus to the idea of PAFTA. Kojima wrote his first book on the EEC in 1962 entitled *EEC-no keizaigaku* [Economics of the EEC] in which he revealed his 'enthusiastic interest in this new way of organising regional economics', and described the growth of the EEC as 'wonderful' and 'a thing which has to be stared at in wonder' (Korhonen 1992: 119). Kojima thought the EEC could be a model for economic development in Asia. Yet his high regard for economic development in the EEC also raised the concern that Japan and other Pacific countries would be left behind; to Kojima, PAFTA was a response to the possibility of greater European integration. Later Kojima (1975: 235–36) wrote:

Is it not logical that these Pacific Basin countries should promote their economic integration, following the successful example of the European Community, in order to develop intensively these developing countries where there are plenty of resources and unlimited potential compared with an already well-developed Europe? Why shouldn't the five advanced Pacific

¹ Personal interview, 14 December 1994, Koganei.

² Kojima participated in a San Francisco Conference in October 1961 where he presented a paper on the Japanese economy, and a Conference in Karachi in December 1961 – February 1962 where he presented a paper on Southeast Asian economic structure. This was followed by a study tour to nine countries in South and Southeast Asia. He undertook another study trip to 11 countries in Central and South America in November 1962 – January 1963. He then went to Australia and New Zealand in March–April 1963 during which his interest in Australia and his connection with ANU began. He attended the UNCTAD Conference in New York in June – August 1963.

³ He edited three books on trade and economies in Asia in 1961–62, all of which were published in a series by the Institute of Development Economics. Then, in 1964, Kojima wrote a book entitled *Tei-kaihatsu koku-no boueki* [Trade in developing countries].

countries, the US, Canada, Japan, Australia and New Zealand, prepare for the formation of PAFTA?

The possibility of a regional arrangement in the Atlantic also worried Kojima and he thought that Japan would suffer most from the further development of the EEC. Britain's move to join the EEC would form an even larger European common market. There was discussion of a free trade area including the United States, Canada and the EFTA nations, should Britain's admission to the EEC fail. These plans for regional unification centred on Western Europe and America. According to Kojima, Japan, Australia and New Zealand were regarded as marginal; it was merely envisaged that they could participate as fringe countries of a large free trade area if they wished. This frustrated him deeply (1967: 13):

Shouldn't Japan prepare and propose a counter-plan, which is closely linked with Japan's interests and in which Japan will play one of the main roles? ... Our Pacific and Asian free trade area is such a plan and it will make America turn its eyes more seriously to the Pacific and Asian area.

Kojima (1967: 11) felt that globally-oriented multilateral trade liberalisation was the best option, and that participation in regional economic integration was a second-best policy strategy for Japan. Yet he thought that moves towards regionalism outside Japan would prevent it from achieving its preferred option.

The third motive behind Kojima's PAFTA was linked to his ideas on the internationalisation of the Japanese economy. Kojima's fundamental interest was in the direction the Japanese economy should take during the early 1960s and this interest resulted in the PAFTA concept. According to Drysdale and Yamazawa (1984: 3), Kojima was thinking of this issue while participating in various international conferences during this period. Kojima's conclusion was that the best choice for Japan was the expansion of freer trade with all nations and all areas of the world because of Japan's dual trade structure of exporting its products equally to advanced and developing nations. Yet Kojima (1967: 11) argued that 'we are rapidly approaching a situation where we must seriously study this second choice [PAFTA]'.

Kojima also recognised an international obligation for Japan in the PAFTA concept:

Japan needs some kind of new grand idea to inspire the whole nation. I feel that PAFTA and Japan's leadership in PAFTA could fill that need. Not only would Japan be doing something on the international scene that would be in its own best interests, as well as in the interests of world-wide trade liberalisation, but PAFTA would also help domestically to give the Japanese a new sense of pride in leadership and world recognition. (cited in Lockheimer 1969: 8-9)

Kojima believed that PAFTA was a useful means for Japan to realise its interests in the international economy and international politics.

Takeo Miki and Asia Pacific policy

The PAFTA concept was the focus of the first PAFTAD conference in 1968. The conference would not have attracted so much attention, either in Japan or world-wide, and might not have been the success it was, without foreign minister Miki's political support. Initially Miki hoped to use PAFTAD to realise his Asia Pacific policy. His interests in Asia Pacific regionalism were also linked to his concern about the North-South problem in Asia. In his first ministerial speech in the Diet in March 1967, Miki clearly indicated that the purpose of his Asia Pacific policy was to address the North-South problem and wealth disparity in Asia. Miki began his speech by noting that the North-South problem between advanced and developing countries, along with nuclear disarmament, were the world's most pressing problems. He went on to state that the attainment of prosperity in Asia was what Japan, as a member of Asia, sought most. Miki (*Nihon Keizai Shimbun*, 14 March 1967) referred to the North-South problem again at the end of his speech:

I believe that one of the important reasons why conflicts break out in the world one after another lies in the overwhelming disparity between developed and developing countries. In the ultimate analysis, this can be traced back to the question of poverty ... I consider that this is also the greatest source of instability in Asia ... Japan is deeply aware of its moral responsibility, as the only advanced industrial nation in Asia, to address itself seriously to this important North-South problem ... For this purpose, we are determined to improve the domestic system for the promotion of economic cooperation and to strengthen activities to promote positively our economic cooperation with developing countries in Asia.

The North-South problem in Asia was central to Miki's diplomatic philosophy, not only in his Asia Pacific policy, but also in his political life.

Miki, first elected in 1937, had already expressed his interest in the issue immediately after the war. In December 1948, Miki thought it necessary for Japan to forge close economic relations with Asian countries for Japan's economic independence and Asia's stability and recovery. He urged Japan to join what he called an Asia Economic Group, in which an Asian version of the Marshall Plan would be implemented with financial assistance from the United States (Takenaka 1994: 145). The basic idea of his Asia Pacific policy — the establishment of a multilateral institution to help economic development in Asia with financial assistance from the developed nations — was already evident at that time.

In September 1951, Miki's concern to reduce Asia's poverty emerged as a criticism of diplomacy under the Yoshida Administration. Miki thought Yoshida's diplomacy attached too much significance to the United States and Europe and neglected Asian countries. He told Yoshida that 'there would be no future in Japan if we were isolated from Asia ... Japan needs to play a sustaining role in Asia's economic development.'⁴ Miki's concern for a solution to the North–South problem in Asia and his belief that Japan should lead Asia's economic development continued from the late 1940s for over a decade. He felt Japan's diplomacy, which saw the United States and Europe as more significant in terms of trade, was at odds with his Asia-centred diplomatic approach.

After the mid-1960s, Japan's economy grew rapidly. Japan began to take initiatives to promote Asia's economic development when it hosted the Ministerial Conference for Southeast Asian Development in Tokyo and developed a strong commitment to the establishment of the ADB in 1966. In September, Miki (1966), as the Minister for International Trade and Industry, took up these causes:

The countries bordering on the Pacific are now fully aware of the fact that they belong to the Pacific region and, as such, are increasingly aware of the common ties of destiny that bind them ... there has been a growing trend in Asia, on its initiative and cooperation, to tackle the Asian problem ... The

⁴ Takenaka 1994: 149–50. During Question Time in the Diet in January 1954, Miki again criticised Yoshida's diplomacy as 'flawed' because he thought Yoshida did not recognise that 'Japan could not survive if it were separated from Asia'. Miki also said that to improve living standards in Asia meant to improve them in Japan as well (Takenaka 1994: 156).

cooperation of the Pacific nations in these encouraging developments in Asia has come to be most important.

A significant feature of this speech was that it incorporated the same logic that he came to employ in outlining his Asia Pacific policy, indicating the gradual evolution of his ideas from the mid-1960s. One can go so far as to claim that the Asia Pacific policy only became possible after his long-held diplomatic belief, namely, that a solution to the North–South problem in Asia, could be achieved on the basis of Japan’s high economic growth. Importantly, the changing environment in Asia in which regional countries felt uncertain about regional stability due to the Vietnam War led to the acceptance of Japan’s foreign policy initiative.

Taking advantage of these changes at home and abroad, Miki explained why he thought it appropriate to promote Asia Pacific policy in interviews with major Japanese papers immediately after he became foreign minister (*Tokyo Shimbun*, *Yomiuri Shimbun*, *Nihon Keizai Shimbun*, 3 December 1966). Firstly, the attempts of his predecessor, Etsusaburo Shiina, to foster regional cooperation in Asia had led to the establishment of the ADB and the Ministerial Conference for Southeast Asian Development. There was a growing expectation of multilateral cooperation among Asian countries. Secondly, Asia Pacific countries such as the United States, Canada, Australia, New Zealand and Japan were also intensifying their efforts to assist Asian countries. Thirdly, in Miki’s opinion, Japan held two international positions: one as an advanced country and the other as an Asian country. Since there were huge economic gaps between the industrialised and the developing nations in the region, Japan as the sole industrialised nation in Asia had to act as a bridge between them. Fourthly, Japan could not undertake this task alone. Cooperation with the other four advanced nations in the Pacific was necessary and Miki thought the ‘Asia Pacific’ framework should be pushed to assist this. These four points constituted the basic elements behind his Asia Pacific policy.

Saburo Okita and his OAEC concept

Saburo Okita (1993: 93), one of the architects of Japan’s high postwar economic growth as a senior economic bureaucrat, ‘had a long-standing interest in Asia, dating back before the war’. Okita was one of the few Japanese active in the intellectual and

the practical development of regional economic cooperation.⁵ Okita's experience in economic cooperation in Asia was unique. After serving as the first Japanese UN staff member at the ECAFE Secretariat in Bangkok in 1952, Okita (1955), as the head of the economic cooperation section at the Economic Planning Agency (EPA), participated in as many as seven Asian conferences associated with ECAFE and the Colombo Plan in 1955. He became a member of the so-called 'Three Experts Committee' which the executive secretary of ECAFE established to examine and recommend measures for promoting greater regional economic cooperation. This committee proposed an Organisation of Asian Economic Cooperation (OAEC) in 1962, the first substantial proposal for a regional economic institution (Okita 1966b). Although the OAEC plan was subsequently rejected by ECAFE as premature, his involvement in the committee helped him to expand his knowledge and expand his ideas on the Asian economy and regional cooperation.

In 1961 Okita (1961: 90) felt that Japanese interest in Southeast Asia, which had grown since the mid-1950s, was diminishing and attributed the loss of interest to Japan's national habit of jumping into something new, to its diminishing in trade in the region and its concerns about regional political instability. He thought it would be difficult to ensure Japan's prosperity in the long run without economic development in neighbouring countries and insisted that Japan should undertake economic cooperation in Southeast Asia more seriously with a view to the long term. Okita (1955: 27) had already argued that economic development in Asian countries was too sluggish and the development of their purchasing power was too slow in terms of Japan's need to increase exports. Japan's contribution to development cooperation in Asia was a means of solving both problems.

His push for Japan to take the initiative in regional cooperation in Asia also stemmed from recognition of Japan's responsibility as its economy grew and he wrote:

As the Japanese economy grows, Japan, in common with other advanced nations, will be expected to assume responsibility for economic development in developing nations ... I think the day is coming soon when Japan, which so far has been passive in international affairs, should realise that its own behaviour affects other nations. (Okita 1962: 80)

⁵ Okita made a substantial contribution to the formation of PECC as foreign minister, as seen in Chapter 7. This chapter focuses on the development of his earlier ideas in the 1950s and the 1960s.

Apart from awareness of Japan's growing responsibility as its economy developed, Okita thought it appropriate for Asian countries to follow the trend of regionalism in Europe and Latin America. Yet Okita understood that it would be impractical to apply in Asia the same kind of regional approaches that had been developed in Europe. Noting that it would be difficult for Asian countries to create a common market or free trade area in the region, he (1962: 77) argued that more appropriate measures for economic cooperation might realistically fall short of a common market in the Asian region. Okita (1966b: 29) proposed the establishment of a group of international civil servants, similar to the OECD in Europe, to pursue 'regional' rather than 'national' interests, the main rationale behind his introduction of the OAEC plan in 1961. The idea might have derived from his own experience working as a 'regional' public servant as an ECAFE official in the early 1950s.

In short, Kojima, Miki and Okita shared common elements in their interest in regional economic cooperation, which were the importance of assistance to economic development in Asia, solutions to Asia's North-South problem and Japan's responsibility for contributing to this issue. Yet Okita and Kojima had different approaches to achieving the goal. While Kojima advocated the creation of a free trade area in the Pacific which he thought would be useful for Asia's development, Okita preferred a regional organisation to foster economic cooperation. It is noteworthy that Kojima and Okita were commonly influenced by the development of regionalism in Europe: Kojima by the EEC and Okita by the OECD. In a sense, PAFTAD, as a regional organisation for economic cooperation in Asia, can be regarded as an entity in which Miki, Kojima and Okita's stances on regional cooperation were reconciled despite their different origins and backgrounds.

Refinement of ideas for Pacific cooperation

Refinement is the process by which basic ideas on international institutions are refined, improved and developed to define national interests. PAFTAD became the vehicle through which the policy interests of Miki were refined and adapted, and the ideas of Kojima and Okita were reshaped and refined to take into account not only Japan's, but also broader regional interests.

Kojima's activities

In 1963 Kojima published an article entitled 'Structures of regional economic integration in Asia' in which he divided Asia into three sub-regions and advocated the creation of a common market in each region to take advantage of potential economies of scale.⁶ In this paper he set out a free trade area or common market approach to regional cooperation in Asia. While undertaking research on the North-South issue and economic integration in the EEC, he developed the PAFTA proposal at a conference on Economic Cooperation for Trade and Development in the Pacific organised by the East-West Centre, Hawaii in February 1964 (Kojima 1984: 102). Kojima was dissatisfied with discussions at the conference because, despite focusing on the Pacific, it neglected Pacific trade. This prompted him to deepen his research on trade in the Pacific (Drysdale and Yamazawa 1984: 5).

Kojima was later involved in a joint research project directed by Bela Balassa in 1964-65 in which he examined the effects of Japan's trade liberalisation among industrialised nations. In the course of his research, he realised that the emerging EEC, which he had thought was such a positive development, would exclude Pacific basin countries from the European bloc (Kojima 1984: 101). In this joint study, Kojima adopted a methodology to estimate the effects of tariff reduction, an approach that was later used to explore the PAFTA concept (Drysdale and Yamazawa 1984: 5). Kojima first launched the PAFTA concept at a Tokyo conference which was held under the auspices of the Japan Economic Research Center (JERC) and chaired by Okita in November 1965. Kojima's ideas about PAFTA were conceived through participating in the conference and were stimulated by changes in the international trade environment.

PAFTA required the abolition of tariffs between Japan, Australia, New Zealand, the United States and Canada. This would result, Kojima explained, in a substantial increase in Pacific trade. Kojima also thought of PAFTA as a foundation from which the five Pacific countries could promote cooperation by increasing exports from the developing Asian countries. PAFTA 'married the objective of the liberalisation of

trade between industrialised nations to the objective of increasing aid to developing countries' (*PAFTAD Newsletter* No. 2, 1986). Kojima believed that support for the creation of PAFTA would be in Japan's national interest.

Miki's efforts

The refinement of Miki's Asia Pacific policy began with his commissioning the Ministry of Foreign Affairs (MOFA) to give the Asia Pacific policy substance after he had announced the basic ideas behind the policy in a newspaper interview immediately after he became Minister. At a Senior Officials Meeting held on 12 January 1967 which Miki attended, MOFA drafted two plans: one was to develop the Ministerial Conference of Southeast Asian Development, incorporating the four Pacific advanced nations, which Japan had initiated in 1966; the other was to create PAFTA.⁷ The proposals focused on three interests in Asia Pacific policy: 1) economic and technical cooperation; 2) institutions for expanding trade and 3) regional security (*Nihon Keizai Shimbun*, 27 March 1967). MOFA thought the Ministerial Conference of Southeast Asian Development and ASPAC belonged to the first and the third categories. The former was to focus more specifically on economic and technical cooperation in the region and the latter was intended to provide a forum for broader discussion of Asian affairs (*Nihon Keizai Shimbun*, 13 June 1967).

Miki noted that 'the Asia Pacific region will eventually create a new institution which the other regions will not be able to emulate; we are now at a stage of laying the foundation for such an institution' (*Sekai* 1967: 188). Miki did not necessarily intend to create a new governmental institution to implement his Asia Pacific policy, feeling that it was more realistic to take advantage of the existing institutions. He regarded ASPAC as a basis for the subsequent establishment of a new institution and thought it

⁶ See Kojima 1980, Chapter 14. The three sub-regions are the Indian continent (India, Pakistan, Ceylon and Burma), Southeast Asia (Thailand, Malaysia, Singapore, Indonesia, and the three Indochina countries) and East Asia (the Philippines, Hong Kong, Taiwan and Korea).

⁷ MOFA document 1979: 4. MOFA officials had discussed the issue with people from business and academic circles including Iwasa (President of the Fuji Bank), Mizukami (President of the Mitsui Corporation) and Aoba (Executive Director of the Japan Economic Research Committee), who were all associated with PBEC. The Vice-Minister of MOFA, Shimoda, anticipated MOFA's support for PBEC at that time. They also held discussions with Kiyoshi Kojima. *Nihon Keizai Shimbun*, 12 February 1967.

could become a part of Asia Pacific policy, promoting solidarity among regional countries.⁸

Miki also tried to refine the basic conception of his Asia Pacific policy through consultations with Australia, which he hoped would help promote the policy, as detailed in Chapter 5. Miki dispatched a MOFA delegation headed by Hideo Kitahara, Director-General of the Europe and Oceania Bureau, to Canberra to hold a Senior Officials' Meeting with his Australian counterparts on 16–17 January 1967. This was to assess the extent to which Australia was willing to cooperate.⁹ Miki himself arranged a meeting with the Australian Minister for External Affairs, Paul Hasluck on 30–31 March 1967 in Tokyo. This was the first time Miki had discussed his Asia Pacific policy with a foreign leader (*Daily Yomiuri*, 31 March 1967). As highlighted in Chapter 5, although Australia did not always react favourably to the establishment of a new formal regional institution, Miki saw that these meetings as an effective means to promote his policy overseas.

On 22 May 1967, Miki outlined the four key elements of his Asia Pacific policy in a speech entitled 'Asia Pacific Diplomacy and Japan's Economic Cooperation' at the Japan Committee for Economic Development. The four elements were:

1) Enlightenment. The aim was to bring about an awareness amongst countries in Asia and the Pacific that they shared a mutual destiny and to bring about a realisation that they were all in the same boat. This was based on the realisation that the stability and prosperity of Asia needed the cooperation of the developed countries of the Pacific; without a stable and prosperous Asia, the developed countries of the Pacific could not remain stable and prosperous.

2) Cooperation in Asia. Asian countries had proceeded enthusiastically with industrialisation after securing independence, but they realised that it would not be achieved easily or quickly. Accordingly, they slowed down the rate of development. Japan had to respond to these trends by extending its cooperation and understanding

⁸ Miki believed that ASPAC should deal with political and security issues and hoped to establish it as a regular forum for foreign ministers in the region. He said in 1967 that 'ASPAC gathers foreign ministers, but it focused on particular matters such as the content of development projects last year. It seems strange because we are foreign ministers, not experts on development issues. We should discuss matters like cultural or political issues freely. Even if we cannot reach an agreement, discussion itself is significant. Asian countries should get to know each other better' (*Asahi Journal*, 9 July 1967: 21).

⁹ Senior officials' meetings with New Zealand were held on 19–20 January 1967 in Wellington. Before these meetings, Japan had already held similar meetings with the United States, Britain, West Germany, France and Italy (*Asahi Shimbun*, 6 January 1967).

3) Cooperation among the advanced Pacific countries. This did not mean setting up a rich man's club, or establishing a closed bloc. The Pacific region had its own regional problems, and would reap benefits from fostering regional cooperation. Japan encouraged research by various authorities on how these nations might be linked to stimulate trade liberalisation among the advanced Pacific nations.

4) The North-South problem in the Asia Pacific region. It was essential for the 'have' countries of the Pacific to give assistance to the 'have not' Asian countries. This was the most important aspect of the Asia Pacific policy. Japan intended to make repeated requests to advanced Pacific countries, which had a deep interest in Asia, to increase their aid to the region. (*Nihon Keizai Shimbun*, 25 May 1967)

Miki particularly stressed the last point as the basis on which he wanted to develop Japan's diplomacy in the region, as reflected in the image of Japan's role as a bridge linking Asian and Pacific nations.

Miki's Asia Pacific policy introduced the concept of 'Asia Pacific' to Japanese diplomacy and Miki himself is regarded as the first Japanese politician who used the term 'Asia Pacific'.¹⁰ Beyond Miki's idealism, this concept hinged on the reality that Japan could not afford to assist Asian developing countries and it had to rely on other developed Pacific countries, as Miki conceded in an interview with the Japanese media. Asian countries hoped they would receive more aid and that aid conditions would be relaxed, allowing them to increase their exports of primary products. Japan thought it impossible to meet all these conditions (*Asahi Shimbun*, 22 April 1967). Ultimately, Miki failed to realise three specific policy goals, which MOFA had set out in the Asia Pacific policy.¹¹ Yet the establishment of PAFTAD was one successful outcome of Miki's Asia Pacific initiative.

Okita's activities

Okita's influence at home and abroad, gained through his experience in economic cooperation in Asia, was essential to the goal of establishing PAFTAD. More importantly, Okita's involvement in the abortive OAEC might have been useful in

¹⁰ Watanabe 1992: 108. Other Japanese politicians who had advocated economic cooperation in the region in the early stages were Ichiro Kono and Morinosuke Kajima. Kono's idea was that of an 'Asian Community' in 1965 and Kajima promoted an 'Asia Pacific Collective Organisation'. Yet these ideas did not necessarily have an impact on Japanese foreign policy at that time.

¹¹ ASPAC and the Ministerial Conference of Southeast Asian Development terminated in 1972 and 1975, respectively, at the end of the Vietnam War, and the PAFTA initiative was not realised.

establishing PAFTAD, which eventually became a research body whose main purpose was to analyse regional economic cooperation.¹² This was what Okita had set out to achieve.

Okita was not attracted by the free trade area approach favoured in Europe at the time. He supported a mechanism for institutional development in Asia which relied on a process of moving from economic cooperation to economic integration via economic coordination while developing OAEC rather than plunging directly into a free trade area (Okita *et al.* 1962). Okita (1962:51) thought the central issue of regional cooperation was trade because trade issues could sidestep ideological complexities such as those between Japan and China. He thought OAEC's most important task was to promote trade in the region and to educate experts from regional countries. OAEC was premature because it envisaged the inclusion of a ministerial conference where decisions would be binding on member countries. This was unacceptable to Asian countries which could not compete industrially with economic powers like Japan. Okita appeared to conceive the idea of a regional institution after OAEC and continued to advocate the creation of a regional economic institution such as OPTAD, as discussed in subsequent chapters.

Selection of ideas for Pacific cooperation

The third stage of the institution-building model is selection, in which political leaders choose the ideas which go through stages of innovation and refinement in forming the nation's foreign policy. Miki's selection of Kojima and Okita as advisers and their ideas for shaping his Asia Pacific policy were important in the creation of PAFTAD, although their initial commitment to regional economic cooperation was made individually. The importance of Miki's push for an Asia Pacific policy in relation to the establishment of PAFTAD was described by Kojima (1967:10):

It is said that at the initiative of the Foreign Minister Miki, the idea of an Asia Pacific policy is being carefully studied by the Foreign Ministry and is about to be put into practice ... The fact that the Foreign Ministry is now

¹² For instance, Eales Jr. and Trigg (1985: 8), who were involved in PBEC, referred to the formation of PAFTAD as defining a research program on a particular theme, discussing research results and their implications for policy, and publishing research findings.

studying this idea seriously gives us hope that our idea may see daylight sooner than anticipated. This is most gratifying, personally...

Okita (1993: 134–35) wrote:

Miki ... invited Kojima and myself to visit him at home. He told us that although he thought cooperation in the Pacific was very important, he was not exactly sure what Japan should be doing to help achieve it. He then asked Kojima and myself to flesh out the basic plan ... After discussing the matter, Kojima and I decided that we should organise a conference to bring together economists and other interested people from around the Pacific region.

This illustrates the origins of PAFTAD and implies that Miki regarded Kojima and Okita as specialists on regional economic cooperation and as his *ad hoc* advisers on the Asia Pacific policy.

Miki's reliance on Kojima and Okita was evident in the way in which he elaborated his policy ideas. Kojima (personal interview) believed that Japan should tackle the issue in cooperation with other Pacific nations, especially the United States; Miki also thought the advanced Pacific countries should cooperate in assisting Asian development. In June 1967, a senior MOFA official suggested ideas for implementing the policy for its Asia Pacific Ambassadors Meeting which included PAFTA, the Southeast Asian Revolving Aid Fund, the Pacific Investment Bank, and the Pacific version of DAC (*Mainichi Shimbun*, 25 June 1967). Most of them grew from Kojima's ideas, as Miki himself admitted (*Asahi Journal*, 1967:19).

When Miki clarified Japan's stance on trade regionalism in his speech at the ANU in July 1968, his sentiments corresponded with Okita's:

I am at times asked whether my scheme implies the creation of an EFTA or an EEC in the Pacific area. Certainly, as a trading nation, Japan must obviously work out and examine schemes for trade expansion. But, for the very reason that Japan is a trading nation, it would be an act of suicide on our part to create an exclusive and closed trading bloc in the Pacific area.¹³

¹³ Miki 1968. Miki's regard for Okita is clear from the fact that Okita accompanied Miki on his two important diplomatic missions: the 1972 visit to China, conducted before Prime Minister Tanaka's historic visit to China, and the 1974 visit to the Middle East to increase oil imports during the first Oil Crisis.

In 1962, Okita stated that: 'most of the products in the region should be bought by outside countries as the capacity of regional countries, including Japan, to absorb such products is quite limited; so-called open regionalism is thus necessary (Okita *et al.* 1962). Miki adopted Okita's rationale for openness in regional economic cooperation.¹⁴

Kojima put forward two objectives for the PAFTA concept; to expand trade among Pacific countries significantly and to increase aid to Southeast Asia through greater efficiency and organisation's operation. He (1967: 13) noted:

The simultaneous realisation of this two-pronged strategy is desirable, but in view of the practicabilities and difficulties in realising this strategy, an important choice faced by the Foreign Ministry's Asia Pacific policy is the question of which of the two approaches should be given the primary place and priority.

This statement indicates that Kojima had not yet decided which objectives had priority. Later Kojima (1980: 171–72) wrote that 'I must emphasise that the primary target in my proposal for the establishment of PAFTA is to promote successfully the modernisation and economic development of the Asian developing countries'. This emphasis on resolving the North–South problem in PAFTA probably attracted Miki to the PAFTA idea because of the priority he attached to assisting with economic development in Asia. Kojima later (1975: 236) expanded the virtues of PAFTA in terms Miki would have approved:

... a free trade area in the region could contribute to the transfer of markets in favour of Asian developing countries and pose a quite promising improvement in the balance of trade and employment as well as the national income of these developing countries ... it would be an economical and effective measure to support the economic development of Asian countries and to promote trade between advanced Pacific countries and developing Asian countries ... the liberalisation of trade among advanced Pacific countries and the transfer of markets in favour of Asian developing countries would lead to a more optimal allocation of resources and more prosperous trade in Asia and the Pacific.

¹⁴ Miki also referred to the mechanics of institutional development in Asia as economic cooperation, economic coordination and economic integration (*Mainichi Shimbun*, 21 May 1967), a conception which Okita had learned while developing the OAEC concept, as mentioned above.

Miki envisaged a gathering of scholars to help give substance to his Asia Pacific policy, and it was natural for him to select Kojima's PAFTA concept as the focus for these discussions. Miki provided the support that enabled Kojima to visit the advanced Pacific countries in April 1967 to investigate the possibility of organising what became the first PAFTAD conference. Because of Miki's backing, MOFA shared half the expenses for the conference with the Asia Foundation of the United States and invited relevant ambassadors and ministers as it expected the conference to be a useful source of advice on the Asia Pacific policy (*Nihon Keizai Shimbun*, 1 January 1968). Miki's concept of regional economic cooperation was inspired by, and based on, the ideas of Kojima and Okita; at the same time, their ideas had not come to fruition in policy debates and could not have been realised without Miki's political representations.

Negotiations, adjustment and demonstration

The last three stages of the institution-building model are adjustment, demonstration and negotiation. Adjustment occurs when leaders incorporate the interests of others through negotiations and create a institutional blueprint which describes the purpose and structure of the institution. Demonstration means that as a result of adjustment, leaders offer the blueprint to potential participants. Negotiation involves leaders' negotiating with potential participants, explaining plans, gaining participants' preferences and persuading them to join the institution.¹⁵

Negotiations

At Miki's instigation, Kojima undertook a study tour to the other four Pacific nations and Britain in preparation for the first PAFTAD conference in March–April 1967. MOFA provided financial support. The purpose of this trip was to assess the possibility of hosting a conference on the PAFTA proposal, gauging the amount of interest among scholars and seeking the possible participants (JERC 1968: 10). During the trip, Kojima asked Drysdale and Patrick to help plan the conference.¹⁶

¹⁵ As noted in Chapter 2, the order of three stages is not fixed and depends on the strategies of leaders.

¹⁶ Patrick 1996: 192. Drysdale had conducted field research at Hitotsubashi under Kojima in 1964–5 for his dissertation on Australia–Japan trade from his base at the ANU. Drysdale (1988:9) was then 'engaged in the cut and thrust of debate [with Kojima] about the emergence of a Pacific economic community to counterbalance what was then taking root in Europe'. Patrick stayed at Hitotsubashi University for a year, overlapping with Drysdale's period of study there. Patrick met Kojima and realised

Kojima knew both these scholars well and they were ideal young colleagues abroad for Kojima to rely upon to organise the conference because of their similar interests and research approaches, and their knowledge of the academic community in Australia and the United States.¹⁷

Kojima (personal interview) visited Australia first on his 1967 trip, partly because he had been impressed by his warm welcome from Crawford, then Head of the Research School of Pacific Studies at the ANU on his first visit to Australia in 1963. During the 1963 visit, Kojima might well have realised that Crawford, who also had an interest in Pacific cooperation, would support the idea of a conference on Pacific economic cooperation issues. As Okita (1987: 123) retrospectively observed: 'Crawford was a strong supporter of the concept and the cooperative spirit which it embodies from the very beginning'. Crawford resigned as Secretary of the Department of Trade in 1960 to become the head of the School and 'one of the Australia's best-known and highly esteemed economists, enjoying the respect of both sides of politics'.¹⁸ A major reason for his departure from the bureaucracy to academia was Crawford's hope of working on 'Australia's trade relations with Pacific countries'.¹⁹ Crawford's interest in regional economic cooperation as an academic was the basis for his commitment to Pacific economic cooperation. Crawford and Drysdale²⁰ were the Australian participants at the first PAFTAD, one of the first Australian steps towards support for a trade-oriented regional economic institution.

Kojima, confident following the strong support he had obtained in Canberra, left for New Zealand 'more convinced of the need to gather together a group of trade policy experts' (*PAFTAD Newsletter*, No. 2, March 1986). After meeting Frank Holmes in

they 'were both interested in the analysis of international trade, and the role of trade in growth and development' (Patrick 1996: 184).

¹⁷ Following Kojima's role in the 1960s, Drysdale and Patrick were to publish jointly a paper on Asia Pacific cooperation in 1979 which provided impetus for the surge of interest in Pacific economic cooperation in North America, as discussed in the next chapter.

¹⁸ Foster and Varghese, 1996: 129. His close political connections were regarded as beneficial to the ANU, and because of this, the future of the School was said to be assured.

¹⁹ Arndt 1987: 85. A condition of his acceptance of the offer to be the Head of the Research School was that the School should have a Department to 'study inter-governmental relations within Asia and the Pacific'. On the day of his appointment on 21 July 1960, Crawford stated that 'Australia must more and more closely study and develop its relations with its neighbours in South Eastern Asia and the Pacific' (cited in Arndt 1987: 85).

New Zealand, he flew to the United States where he held discussions with Patrick (Yale University) and Harry Johnson (Chicago University) and then Canada where he met Ted English (Carleton University). Kojima finally went to London where he held discussions with Crawford who was visiting the United Kingdom at that time. Patrick (1996: 183) describes Kojima as 'the founder and creator of PAFTAD' and called him an 'international institution builder'.

Adjustment

Because the participants at the first PAFTAD conference were professional economists, it was important for Kojima and Okita to demonstrate the benefits of participating in the conference. Those who had a scholarly interest in Asia Pacific economies were willing participants so that adjustment was not a major issue. Kojima initially thought that one of the purposes of the conference was to help attract the interest of academics, who tended to pay more attention to Europe or the Atlantic than to the economies, trade and developments in the Pacific region (JERC 1968: 2). This was an important aim of the first PAFTAD conference. Patrick (1996: 192) wrote that the participants 'turned out not to know a great deal about each other's countries, whose perspectives were predominantly global and bilateral, not regional'. Given the fact that before PAFTAD there had been 'virtually no practice of regional consultation or collaboration on Pacific economic policy research and thinking' (Drysdale 1984: 6), the idea of the conference was attractive and stimulated the academic interest of potential participants.

Discussion of trade policy issues in the Pacific and means of economic cooperation in Asia was fundamentally consistent with the interests of the five Pacific countries. Patrick (1996: 192) set out the different national as well as individual perspectives at the first PAFTAD conference. The United States was most interested in maintaining a stable world trading system; Canada was concerned about access to the US market; Japan was anxious about exclusion from Europe and the need to find other markets; Australia was worried about effective ways to export its primary products to Japan without being overwhelmed by Japanese manufactures and wanted to open up East Asian markets in the face of the development of the EEC; New Zealand was keen to

²⁰ Yamazawa (personal interview), Kojima's student and successor at Hitotsubashi University, attributed Kojima's choice of Australia for his first country to visit, to Drysdale, who just had begun his

attract Japan and to open new markets. These different concerns and interests, which were actually discussed at the conference, indicated the potential for cooperation, and raised the participants' expectations of the conference.

Political support from Miki and MOFA was also significant in sustaining international interest. According to Kojima, when he first proposed the PAFTA concept in 1965, reaction was muted. Yet, after Miki announced his Asia Pacific policy agenda in December 1966, the PAFTA concept began to capture world-wide attention (JERC 1968: 10). In his letter to Crawford to arrange a meeting between Crawford and Kojima during Kojima's visit to Canberra, Drysdale stressed Miki and MOFA's keenness to promote the conference.²¹ The foreign media gave wide coverage to Miki's Asia Pacific policy,²² which stimulated academic interest and ensured the significance of the conference.

Demonstration

Kojima together with Okita finally delivered a memorandum to potential participants at the end of 1967. Although this was a one-page letter, it became an 'institutional blueprint' for the first PAFTA conference, entitled 'JERC Conference on Pacific Trade and Development.'²³ It opened with a background on international trade:

International trade policies are volatile, in search of fresh directions in the post-Kennedy Round situation. A reshuffling of Atlantic trade is anticipated. In the Pacific and Asian regions, there is a need to develop measures for expanding trade among advanced countries, and trade and aid with developing countries, looking forward perhaps to the promotion of closer economic cooperation in these regions.

The blueprint then focused on the conference's main purpose, which was to discuss:

Alternative measures for expanding trade among Pacific advanced countries including possibilities of establishing a Pacific Free Trade Area; the

academic career at the ANU and could offer Kojima valuable assistance.

²¹ Personal letter from Drysdale to Crawford, 15 April 1967. Crawford, then in London, missed Kojima's visit to Canberra and Drysdale tried to organise a meeting for Kojima when he visited London.

²² *Times*, 22 March 1967 and 25 April 1967; *Sydney Morning Herald* 1 April 1967; *Melbourne Age*, 28 March 1967 and 5 April 1967; *Far Eastern Economic Review*, 9 March 1967, 6 April 1967 and 29 June 1967.

²³ Letter from Kojima and Okita to the participants of the first PAFTAD conference, November 1967.

integration by industrial sectors and regional financial organisation from the standpoint of each country's interests;

Policies of increasing aid to, and trade with, Asian developing countries and possible coordination of their efforts;

The new world trade policy in the post-Kennedy Round and the position of the Pacific and Asian regions.

Since the blueprint was delivered after Kojima's study tour, during which he held discussions with the potential participants, the content of the blueprint represented commonly held views of the international trade environment. Yet the blueprint helped potential participants prepare for the conference by providing a clear understanding of its purpose and the subjects for discussion.

Implications of the formation of PAFTAD

The first PAFTAD conference was held in January 1968 at the JERC and chaired by Okita. Miki delivered a speech welcoming participants.²⁴ PAFTAD was 'planned as a one-shot event' and none of those 'involved from the beginning anticipated [it] would persist and achieve so much as it has' (Patrick 1996: 191). The participants who recognised the desirability of holding further conferences felt that 'the need for analysis of Pacific economic policy problems and communication among researchers around the region was far greater than had been initially perceived' (Drysdale 1984: 2).

Without Crawford's leadership, PAFTAD might have ended in Tokyo. Recognising the value of continuing with PAFTAD and sensing a lack of the commitment on the part of the Japanese, Crawford pressed for a series of PAFTAD conferences and persuaded Arthur Paul, adviser to the Asia Foundation and a participant at the first meeting, that the Asia Foundation fund the second meeting. Crawford was responsible for Kojima's and Okita's first visit to the ANU in 1963 and 1967,

²⁴ Of the participants, twelve were from overseas (six from the United States, and two each from Canada, Australia and New Zealand) and 13 from Japan.

respectively,²⁵ and encouraged Drysdale's fieldwork under Kojima in 1964–65. Crawford's contribution in the early period of PAFTAD was significant.

The second PAFTAD conference was held in 1969 at the East–West Center in Hawaii and the third in Sydney in 1970.²⁶ Despite the fact that solving the North–South problem in Asia was a major rationale behind Kojima's, Miki's and Okita's interests in regional economic cooperation, this was not a major theme and there was no participant from the developing countries at the first PAFTAD conference. This was mainly because PAFTA was the central theme in the conference. Yet, Paul as well as Crawford vigorously articulated the concerns of the Asian developing economies at the first PAFTAD conference and insisted that any future conference include them. This came true at the second conference at the East–West Center. The new president of the Center, Howard Johns, who had just left the US Ambassador in Indonesia and worried about the exclusion of the developing countries, was also important in the decision of the Asia Foundation to fund the second conference.²⁷ The links among Japanese, Australian and American economists who shared common interests in regional economic cooperation were embedded in the formation of PAFTAD.

Since its establishment, PAFTAD has been active in delineating issues and considering policy options based on empirical evidence relevant to the regional economies and economic cooperation in Asia and the Pacific (Drysdale 1984: 1). It has consistently focused its research on 'how to enhance the economic growth and development of the Asia Pacific economies, and to achieve more efficient and effective economic relations with each other on the basis of economic policy and trade analysis' (Patrick 1996: 184). Miki thought an Asia Pacific economic cooperation project should evolve over time and never proposed the establishment of any formal institution. He also felt that Asia Pacific policy could initially be promoted

²⁵ Arndt 1987: 87–88. Based on this visit, Kojima wrote a paper titled 'An Impression of the Oceania Economy' *The Economic Record*, March 1964. Okita presented a paper for the conference, 'India, Japan and Australia: Partners in Asia', at the ANU in September 1967.

²⁶ Personal interview with Drysdale, 21 May 1998, Canberra. The Australian Department of Foreign Affairs 'had no hesitation at all in providing the money when asked for it for [the third conference in Sydney]'. This was an indication of the Australian government's interest in regional economic cooperation.

²⁷ Information from anonymous referee of *the Pacific Economic Papers*, 25 February 1999.

partly through the exchange of scholars.²⁸ PAFTAD's establishment was an important step in such a long-term undertaking and a useful organisation for identifying issues and problems relating to regional economic cooperation in which experts could be canvassed for their views. The establishment of PAFTAD meant that Miki's idea was partly realised. Miki's preference for Australia as a diplomatic partner opened a window for both countries' diplomatic cooperation, as discussed in Chapter 5, planting the seeds for Australia–Japan partnership in PECC and APEC.

Formation of PBEC

PBEC is another non-government regional economic institution, established in 1968 by Japanese and Australian business leaders, mainly through the Joint meetings of the Japan–Australia Business Cooperation Committee (JABCC) and the Australia–Japan Business Cooperation Committee (AJBCC). PBEC's purpose is to engage in consultations and an exchange of views on a multilateral basis among business people in the Pacific Basin and its principal objectives include improving the business environment and increasing international trade and investment. The annual international conference now brings together more than 700 business leaders and political leaders from more than 25 countries around the Pacific. It has served as a link between the two sectors for regional economic cooperation.

Two business leaders were central to establishing PBEC: Shigeo Nagano, President of the Fuji Steel Company, and Vice-Chairman of JABCC, and W.R.C. Anderson, Director of the Associated Chambers of Manufactures of Australia and Executive Director of AJBCC. Nagano had long entertained the idea of Pacific cooperation, and Anderson, who was impressed by Nagano's idea at the first joint meeting of JABCC and AJBCC, responded positively to it and worked hard towards the establishment of a regional business organisation with Nagano.

²⁸ Australian Archives, Japanese/Australian Consultations on Political Matters, Summary Record of Officials' Discussions, January 16–17 1967.

Innovation

Three factors contributed to Nagano's conceiving the 'basic ideas' for a Pacific regional arrangement. First, he was influenced by Robert Schuman, the architect of European integration; secondly, Nagano excelled at private business diplomacy, from which he learned the value of interactions among business leaders and lastly, he regarded Australia's partnership as vital for this undertaking.

PBEC's origins can be traced back to the mid-1950s. Nagano conceived his basic ideas on Pacific regional cooperation when he met Schuman, former French Foreign Minister and the founding father of the European Coal and Steel Community in 1958. Nagano was deeply impressed by Schuman's desire to achieve European peace by creating an economic community, encouraging him to think of a Pacific version of such a community (*Asahi Shimbun*, 11 February 1982).

After attending international commerce and labour conferences in Vienna and Geneva in 1953, Nagano visited Paris to meet Schuman. The French statesman told Nagano:

How much have rivers or mountains as invisible borders obstructed human freedom, happiness and cultural development? For instance, when you were encountering borders one after another while travelling in Europe, you must have felt inconvenienced by annoying procedures like entry, customs or exchanges of currencies. Europeans are always experiencing this. It is extremely inconvenient. The national border is a major impediment. I hope to create happiness and prosperity regardless of borders. The first step is economic unification. (Hazama 1977: 250)

When Nagano asked whether Asia could emulate and realise such a plan despite its differences with Europe, Schuman answered positively, which impressed Nagano. Nagano was also struck by Schuman's personal background, born as he was in a border area between France and Germany and serving both countries in turn in the two world wars. Nagano was persuaded that Schuman's background had contributed to his conceiving such a vast plan and that cooperation between Germany and France would make many developments possible in Europe (Hazama 1977: 251). Nagano realised that a borderless association or high-level cooperation among states must depend on human efforts (Hazama 1977: 255). Interestingly, Nagano, like Kojima and Okita, was also influenced by the development of regionalism in Europe but he

was more attracted by the political ideal of European integration than economic achievement. This reflects Nagano's broader perspective as a business leader.

Secondly, as Bryant (1975: 70) notes, Nagano had a reputation in regard to his diplomatic ability and experience; 'wherever he goes he seems to form joint committees and business conferences'. He was responsible for establishing the joint business cooperation committee with Australia in 1963, with the Soviet Union in 1965 and India in 1966. His commitment to these bilateral business committees was based on his belief that bilateral negotiations on practical economic matters would be conducted more smoothly if the negotiators could establish human and friendly relations beyond narrow practical and business interests (Hazama 1977: 255).

Japanese political leaders relied on Nagano as an envoy, evidence of the high regard in which his diplomatic skills were held. The meeting with Schuman resulted from Prime Minister Yoshida's personal request to convey his gratitude to Schuman who had returned a collection of valuable Japanese artefacts which France had seized during the Second World War. Prime Minister Kishi also commissioned Nagano as a roving ambassador to visit countries in Eastern and Northern Europe in 1958 where Japan's trade was insignificant. He discussed economic and trade matters with the relevant ministers in each country. Nagano said the experience gave him an understanding that even communist and remote countries wished to establish close trade relations with Japan and that mutual understanding based on regular meetings was desirable (Hazama 1977: 255).

Noboru Gotoh, Nagano's successor as the international chairman of PBEC and chairman of the Tokyu Group, thought Nagano's business diplomacy excellent when Nagano tried to find a means of resolving the Australia-Japan sugar dispute although his role had no official standing in the 1977 Joint meeting of the Australia-Japan Business Cooperation Committee. When the Australian trade minister approached Nagano to discuss the issue, Nagano suggested that Australia and Japan should continue their long-term contract, but that some of the sugar be kept in storage in Australia until the situation was reassessed. By implementing this suggestion, the

Japanese and Australian governments were able to defuse the dispute.²⁹ Nagano's commitment to private diplomacy was said to be driven more by national interest and a desire for world peace than by company or personal profit (Bryant 1975: 99). Nagano's unusual experience and atypical objectives in his private economic diplomacy came to the fore in the establishment of PBEC.

Thirdly, Nagano had developed a special feeling towards Australia, marking a new phase of business development between Japan and Australia, from which PBEC developed. His primary interest in Australia was related to his birthplace, Kure, where the Australian army was stationed during the Occupation after the Second World War. A number of Japanese women, who married Australian soldiers and went to Australia, were from Kure and Nagano had become involved with the issue of war brides. Nagano had long advocated a role for the Japanese wives in improving Australian attitudes towards the Japanese and commented:

Australian sentiment toward Japan was very antagonistic as a result of the Second World War. This feeling was underscored by the fact that Japanese women who were brought to Australia as 'war brides' were not allowed to become Australian citizens. (cited in *Fortune*, September 1972: 56)

Nagano was gratified that their reputation in Australia helped change Australians' attitudes to Japan, a development which, he believed, was partly responsible for the successful conclusion of his 1961 visit to Australia (*Asahi Shimbun*, 15 January 1982).

More importantly, Nagano, who called himself the 'steel man', was attracted by Australia's vast natural resources.³⁰ In 1960 Australia agreed to the conditional export of iron ore, which had been banned since 1938, and this decision opened up the way for exports to Japan. Nagano and the President of Yawata Steel invited the minister for mining in Western Australia to Japan in February 1961 to conduct

²⁹ *Nihon Keizai Shimbun*, 21 March 1989. Before observing Nagano's negotiations with the minister, Gotoh had believed that economic cooperation conferences run by business people could not produce any tangible results and that they were simply rituals.

³⁰ He first investigated iron ore reserves in the Philippines and Malaya during the early postwar period, but their mines were limited. Nagano's next targets were Australia and India.

business.³¹ Nagano led a goodwill mission on an exchange visit from the Tokyo Chamber of Commerce and Industry to Australia in March 1961. In 1963 the restriction of Australian iron ore exports was substantially eased, providing a significant boost to the Japanese steel industry and the Japanese economy more generally.

Nagano had realised the strength of the trade complementarity between the two countries and during the 1961 visit, he suggested annual meetings, which resulted in the formation of Japan–Australia Joint Business Committees. Nagano thought it useful to exchange views with business leaders (Kamada 1989: 79–81). As a result, he enjoyed friendly and cooperative relations with Australian business people through the joint meetings and concluded that ‘if Japan and Australia could get along so well, why shouldn’t we expand the concept to the other major countries around the Pacific rim’ (*Fortune*, September 1972: 57). PBEC was partly a result of the special empathy Nagano developed with Australian business people.

Nagano’s motives for creating the joint committee were driven both by economic and socio-cultural interests. This was evident when Nagano set up and headed a domestic committee of JABCC, where business experts studied political, cultural, academic and economic relations with Australia. A key element of Nagano’s diplomacy was mutual understanding and economic interests. The basic idea behind the formation of PBEC is summarised in Nagano’s statement of its purpose:

PBEC aims to strengthen and expand economic cooperation with developing countries through assistance, as well as increasing economic exchanges among the five advanced countries. If these activities help develop natural resources in the developing countries and lead to economic prosperity, I believe peace will prevail in Asia. (cited in Hazama 1977: 263)

Nagano’s ultimate purpose, which he linked with business cooperation in the Asia Pacific region, was to achieve peace in Asia, in parallel with Schuman’s approach.

³¹ The reason he focused on Western Australia was that he realised that miners in Western Australia, where there was no large steel producer like BHP, were keen to sell their iron ore to Japan (*Nihon Keizai Shimbun*, 26 January 1969).

Refinement

Report by Japan Economic Research Institute

Although Japanese business leaders, including Nagano, often discussed the creation of a Pacific community or a free trade area from the late 1950s to the early 1960s (Kamada 1989: 215), their talks did not come to fruition. Before he took the step that led to the establishment of PBEC, Nagano became one of the three leaders responsible for setting up a research committee called the Japan Economic Research Institute (*Nihon Keizai Chosa Kyogikai*: JERI). The Institute's primary purpose was to study Japan's foreign economic relations and how to strengthen them, and to compile basic data for drafting policies to promote Japan's development. The Institute established a research team consisting of senior economic bureaucrats from MITI, EPA and MOF as well as business people. In 1963, it conducted a substantial survey on the possibility of economic cooperation in the Pacific and published a report entitled *On the Direction of Economic Cooperation in the Pacific*. This was one of the earliest comprehensive research papers on Pacific economic cooperation. In this way, Nagano left the development of his basic ideas to the Institute's research.

Realising that similar suggestions made earlier tended to lack substance and that many had dismissed them as nothing more than a day dream while others pinned excessive hopes on them, the Institute launched a more detailed and substantial study on the basis of empirical data without any preconceptions. The most important suggestion made in the report, which had 127 pages plus 40 pages of appended statistics, was that in the initial stage, five nations — Japan, the United States, Canada, Australia and New Zealand — should convene a round table government conference at least once a year. The conference would allow cultural exchanges, and discussions of their economic development plus trade promotion (JERI 1963: 2).

Establishing a government conference was justified by the rapid development of the EEC and the emerging trend towards regionalism in the world economy. In addition, the report noted that Japan enjoyed close bilateral economic relations with the other four Pacific countries and had established government meetings on trade affairs with the United States and Canada. Business committees were active in the United States, Canada and Australia, as seen in both US–Canada and Australia–New Zealand

relations. The report concluded that under these circumstances, it was only natural to examine a mechanism for multilateral economic cooperation in the Pacific.

The report did not recommend the creation of a common market in the Pacific, along the lines of the EEC, because trade relations were not yet close enough and there was no firm foundation for a free flow of capital and labour among the five countries. As the five countries complemented each other in their economic and trade patterns, cooperation would bring great benefit to all despite the lack of cooperative mechanisms at the time. The report detailed the forms of cooperation to be given priority: 1) promotion of mutual understanding and cultural exchange; 2) exchange of economic information and promotion of joint research; 3) expansion of trade; 4) promotion of mutual understanding on economic policy; 5) promotion of technical and capital interflow; and 6) cooperation on a private level with other nations in the Pacific region. The report advocated a very loose organisation with only an elementary agenda for the conference. Yet it emphasised that even basic issues had seldom been taken up in the context of the whole Pacific region, and argued that such discussion would make a substantial contribution to increasing trade and expediting other forms of economic exchange.

The report can be regarded as one of PBEC's institutional blueprints and it served as the primary reference for Australian and Japanese business leaders in discussing ways of organising business cooperation in the Pacific and the basic direction which the organisation was expected to follow. Yet the report was not the final reference for the Japanese and Australians to present to the potential participants to explain the organisation.³² The report was a refinement of Nagano's basic ideas; Anderson from Australia would oversee the second phase of refinement through the annual joint meetings of AJBCC and JABCC from 1964 to 1967.

Japan–Australia Business Cooperation Committees

JERI's report was completed just before the first JABCC–AJBCC Joint meeting, held in Tokyo in April 1963, but it was intended to be made public only after the meeting due to the sensitivity of the subject matter which might have reminded Asians of the

Greater East Asian Co-Prosperity Sphere (Miyawaki 1967: 17). Three weeks before the meeting, two Japanese newspapers leaked the report, and this resulted in a number of inquiries from the foreign press and embassies in Tokyo. Australians directly asked the Japan Chamber of Commerce and Industry, which was responsible for organising the first Joint meeting, whether the joint meeting would consider the issue of Pacific cooperation, but the JCCI was reluctant to do this. Then the English summary of the report was officially delivered to the embassies of the relevant countries, including Australia, whose business representatives scrutinised it. Anderson reacted positively and assumed responsibility for putting Pacific cooperation on the official agenda at the second joint meeting held in Canberra the following year.

At the second joint meeting in 1964, a session entitled 'Formation of the Pacific Basin Organisation for Economic Cooperation and Development' was organised and the Japanese and Australians each submitted a paper on the topic. Anderson introduced the Australian viewpoint in which he stated that the aim of the joint meeting was consultation and cooperation for the mutual benefit of both countries. He went on to say:

If we are able to turn these aspirations into reality ... we should ask why stop at Australia and Japan? Let us share our experience with others. And [there is] no better place to start than in the Pacific. (Anderson & Seppelt 1964: 188)

Anderson hoped to extend the spirit of business cooperation between Australia and Japan to broader cooperation among the advanced free economies of the Pacific Basin — the United States, Canada and New Zealand — with later entry by the lesser developed countries. This was based on the notion that multilateral connections were necessary for getting to know each other, especially where there were wide divergences in cultural, language and social backgrounds in the Pacific. Anderson's perceptions matched those of Nagano and the contents of the Institute's report, indicating that the Australians and Japanese shared a fundamental understanding of regional economic relations. Yet Australia stressed business representation rather than government level organisation. As Anderson emphasised, this was because there

³² Nagasada Miyawaki, who was involved in working on the Institute's report, wrote an article (Miyawaki 1967) about the preliminary meeting of PBEC in Tokyo, in which he discussed the report in detail.

had already been government organisations such as ECAFE and the Colombo Plan, but they were not always centred on the Pacific Basin and could not directly reflect the business interests of the nations represented. Australia's suggestion was to set up a meeting including representatives of each nation's government, with business and trade union leaders, and served by a permanent secretariat which could embark on cooperative ventures.

Another feature of the Australian proposal was to proceed with the formation of a regional organisation gradually in recognition of the fact that this type of organisation could not be created at once. There were three steps: firstly, strengthening the activities of the Australia and Japan committees by implementing a policy aimed at encouraging business contacts between the two countries to be made through the committees; secondly, when the two committees succeeded in strengthening their contacts, other Pacific Basin countries should be invited to form business cooperation committees and the AJBCC would become the Pacific Basin Business Cooperation Committee; and thirdly, governments and the trade unions of member countries would be invited and the Pacific Basin Economic Cooperation Committee, consisting of the National Economic Cooperation Committee of each member country, would be established.

Finally, Anderson noted the aim was to concentrate on areas where agreement and joint action would be relatively easy. The emphasis would be on consultation and voluntary cooperation with no expectation of a free trade area or common market approach. He concluded:

... in deference to reality let us agree on actions that have a reasonable chance of success. We in Australia are trail blazing with the Australia-Japan Business Cooperation Committee. In order to build up confidence and courage we must have high expectations, and realisations, of success. Let us not be cautious, yet not too bold. (JABCC 1964: 190)

Many of these ideas were similar to those in the Japanese report, but some of the specific proposals, the gradual steps in the establishment of the organisation, were original. The leadership of the Australians, especially Anderson, was noteworthy.

Nagano then introduced the Japanese viewpoint and its content, including the six objectives of the organisation. This was similar to the suggestions already made in the Institute's report. The joint meeting eventually endorsed the following recommendations:

The formation of a Pacific Basin multilateral organisation for economic cooperation and development;

The formation of a sub-committee of the joint committee consisting of an executive director general and three committee members from both the Japanese and Australian committees;

The sub-committee to examine further the steps required for the formation of a multilateral organisation of Pacific Basin countries; and

The sub-committee to report back to the next meeting of the joint committee.³³

Nagano and Anderson were elected as chairman and vice-chairman of the sub-committee in the following year and their work on the sub-committee led Edward Warren, President of the AJBCC, to officially record that 'Mr Nagano Shigeo ... and Mr W.R.C. Anderson ... must be given the credit for being the guiding hands of the scheme since its inception' (AJBCC 1967: 1).

The third joint meeting was held in Tokyo in May 1965, and the main achievement was confirmation that the proposed organisation would mainly deal with trade promotion and capital flows. Before the joint meeting, the Japan Committee had consulted with relevant ministries, banks, and other economic organisations at home. Nagano said the Japan Committee reached the conclusion that any plan for Pacific Basin Cooperation should centre on the five advanced Pacific countries because there were enough similarities among them to make realistic approaches to problems possible.

Nagano also said that because the organisation was not expected to be anything like the EEC, members should be business people; there would not be scope for trade union representation, a rejection of Australia's proposal of the previous year. Nagano emphasised ideas from the Institute's report that Japan's business committees with

³³ 'Minutes of the closing session at the second meeting of the Joint meeting', 3 September 1964.

Canada and the United States and Australia's close relations with New Zealand, could be utilised to get these five advanced countries together to discuss the possibilities of setting up a regional organisation. This statement suggested that the three other countries should join Japan and Australia in discussing the organisation. More importantly, he insisted that the impression should not be given that this organisation was a 'rich man's club' and that there should be considerable emphasis on aid to the less developed countries in the region. Australians had not taken up this aspect during the joint meetings. Nagano's overture on the organisation's potential contribution to regional developing countries appeared to fall on deaf ears.³⁴

Yet this did not mean that the Australians were not interested in the region's development; one focus of their interest concerned the specific issue of Papua New Guinea (PNG) project. Anderson suggested: 'this is why the Australia Committee had suggested the idea of a PNG project as being a test case to show the bona fides of the more developed countries in the Pacific Basin.'³⁵ Anderson's presentation at the third joint meeting was dominated by the PNG joint project; the project's significance was as a concrete model to give potential members an incentive for joining the organisation.³⁶ According to Anderson, this was the reason the Australian committee recommended that observers be invited from New Zealand, the United States and Canada to observe the fourth joint meeting. Australians saw it as a step forward in the establishment of the organisation. The Japanese side concurred.³⁷

The fourth joint meeting was held in Canberra in 1966 where observers from Canada and New Zealand were invited to join the discussion in the Pacific Basin sub-committee. This Meeting saw a breakthrough in the establishment of PBEC; it was officially decided that a Pacific Basin Organisation for Economic Cooperation and Development would be established. The Australian paper put forward the following suggestions: initially the organisation would be restricted to developed countries; it

³⁴ Nagano's thoughts on the task of assisting the development in developing countries are also referred to in PBEC's official history (1997: 11-12).

³⁵ 'Minutes of the Meeting of the Joint Sub-Committee on the Formation of a Pacific Basin Organisation for Economic Cooperation and Development', 6 May 1965.

³⁶ The PNG project was the one of the earliest undertakings to which the joint meeting became committed.

³⁷ Following the decision, representatives from both countries conducted a joint survey on the development of PNG in 1966 and the results were presented at the 1966 fourth joint meeting in Canberra.

would be chiefly a businessmen's organisation but with government support; the extent of government representation should be considered; the main purpose initially would be to provide a forum for discussion and presentation of recommendations to governments and the operation of a secretariat would be considered. Agreement was reached and invitations were to be sent to appropriate commercial and industrial organisations in the United States, Canada and New Zealand. Nagano's three proposals on the objectives of the organisation were approved: to develop the exchange of goods and capital among the five advanced countries; to promote joint research and exploitation of natural resources in the region; and to foster cooperation among the five countries for economic assistance to the developing countries in the region.³⁸

Adjustment, demonstration and negotiations

Political representation had little to do with PBEC's establishment, so it is not necessary to consider the selection stage of the model here.³⁹ Because PBEC was expected to provide a forum for participants to get to know each other and discuss issues on which it was possible to reach consensus easily, serious disagreements among participants over the agendas was rare. Nevertheless, stories of the other three countries' participation revealed complications. At the fourth joint meeting in Canberra observers from Canada, New Zealand and the United States were invited, but participants from the United States did not come. Observers from New Zealand and the United States, but not from Canada, joined the preparatory meeting held immediately after the fifth joint meeting in Tokyo in 1967.

One of the main reasons Canada and the United States were not interested in the organisation was related to their trade shares with the region; Canada's trade with the Pacific countries excluding the United States, was only 1 per cent and that of the United States was about 12 per cent. Business people from both countries had

³⁸ Nagano 1967: 7. Apart from the above decisions, the most heated discussions in the fourth joint meeting concerned Kojima's PAFTA idea which Nagano introduced to indicate the estimate of tariff reduction among the five Pacific countries (AJBCC 1967: 4), although the agenda item that the Pacific Basin Organisation should be linked with PAFTA was rejected.

³⁹ This does not mean, however, that there was no government support for PBEC. For instance, MOFA announced that PBEC was a 'step toward realisation of [the Asia Pacific policy], a concept that Japan has been working on' (Lockheimer 1967: 4).

difficulty finding a strong interest in an organisation which appeared to have little impact on their overall trade (PBEC 1997: 6). The views of American observers in the preparatory meeting were broader and more globally-oriented than those of the Japanese and Australians, who tended to focus exclusively on the five Pacific countries (*Asahi Shimbun*, 28 April 1967). Japanese and Australian business leaders needed more time to convince the North Americans to join; wanting a year after the preparatory meeting to launch the first international general meeting officially in Sydney 1968 was therefore advantageous to Japan and Australia.

Demonstration

The fifth joint meeting was held in Tokyo on 24–25 April 1967 and was followed by the preparatory meeting on 26–27 April where 54 representatives from Japan, Australia and New Zealand and four American observers participated.⁴⁰ There were two sessions in the preparatory meeting each day and the small group meeting on Technical Arrangements, in which two of the four countries that were participating, was held between the two sessions.

There were two ways of demonstrating the value of PBEC's establishment: by inviting observers to the Pacific cooperation sub-committee at the joint meetings as was done in the 1966 joint meeting and in the 1967 preparatory meeting, and by delivering blueprints to the potential participants. The first approach was successful as this could demonstrate PBEC's usefulness to observers directly. New Zealand observers from the New Zealand Manufacturers' Federation who observed the fourth joint meeting reported back favourably on the need for the establishment of a Pacific Basin Organisation:

There are opportunities in discussions of this nature to influence the business outlook in the other countries in such a way that trade can be developed to the advantage of both the exporting and importing countries, rather than being competitive with their own production.⁴¹

⁴⁰ On the subject of the absence of Canada, where the influence of American capital was strong, it was said that Canada was uneasy about America's strong voice in the development of the Asian region. This might be one of the reasons Canada had not declared its participation in PBECC (*Asian Scene*, March 1968).

Before coming to the 1967 preparatory meeting in Tokyo, the New Zealand representatives liaised with government and agricultural business organisations to 'inform them of the objectives of [the meeting]' in which both 'expressed keen interest in [the meeting]' (PBECC 1967). Strong support at home as well as greater trade within the region encouraged New Zealand to become a founding member of PBEC with Japan and Australia.

American observers at the fifth joint meeting and the preparatory meeting in April 1967 were impressed by the talks about PBEC and said that they would inform their colleagues at home of the meeting's outcome and promised to gain consensus on American participation in PBECC (*Asahi Shimbun*, 28 April 1967). The Americans also promised to persuade their Canadian colleagues to join PBEC with them. Both countries joined the first international general meeting in 1968 in Sydney and officially became members, as noted below.

The blueprint for PBEC consisted of three key documents. The first was the Japan Economic Research Institute's Report. The second was *Pacific Basin Organisation for Economic Cooperation and Development: From Concept to Reality*, published in January 1967 by the Australia–Japan Business Cooperation Committee. Anderson, who prepared the blueprint, called it a 'white paper', and it outlined 'the ideals and history of all previous four Pacific Basin meetings' which had been 'distributed to representatives of all the five nations participating' in the preparatory meeting. Although it was a document of just eight pages, it consisted of four sections: What is the Pacific Basin Organisation?; Basic Policy Formulation — both sides'; What has been achieved? and Conclusion. It emphasised the need for the organisation (6):

The need to adopt and implement the proposals already set down for the establishment of a Pacific Basin Organisation for Economic Development is obvious. Considerable detailed thought has been given to its basic principles. Now we must act, for to transform past words into future practical reality is of paramount importance to all nations in the Pacific region.

⁴¹ PBECC 1967. The Pacific Basin Economic Cooperation Committee (PBECC) was changed to the Pacific Basin Economic Cooperation Council in 1969. It was later renamed the Pacific Basin Economic Council (PBEC).

There is no evidence to show how effective this blueprint was in persuading the business leaders of the other three nations to join PBEC. Yet they certainly read and referred to it since the blueprint was attached to the official record of the preparatory meeting. It was the only document which had been publicly available before the preparatory meeting to indicate what business leaders of Japan and Australia had discussed, what they wanted to establish and what tasks the organisation would undertake.

The third blueprint was a paper Anderson read at the fifth joint meeting in 1967 in Tokyo. It included the proposed constitution, rules, budget, and secretariat, on which the discussions at the joint meeting proceeded. Cook, an American observer, stated: 'we have learned a great deal from listening to the discussions in the past two days as background for the plans to be discussed in these next two days.'⁴²

Negotiations

A considerable task remained after the preparatory meeting: to make American and Canadian business leaders official members of PBEC. The Japanese business leaders were commissioned to take on the role of persuading the Americans and Canadians to join the general international meeting in 1968. At the Small Meeting on Technical Arrangements, Gibson, an American observer, gave his assurance as an individual to help explain to interested Canadian executives the formation of PBEC (PBECC 1967: 17). Nagano visited San Francisco in May 1967, where he met with four American business leaders who had observed the preparatory meeting and Gibson agreed to try and establish an American Committee on PBEC. The committee was established on 19 June. Gibson also promised Nagano he would talk to the next head of the Canadian Chamber of Commerce and Industry (CCCI) about PBEC (*Kaigisho News*, 18 June 1967). Nagano then flew to Canada where he met with the then head of CCCI who agreed to incorporate the issue of Canada's participation into the agenda for the CCCI's general meeting in July. Through these meetings, Nagano ensured the two countries' future participation at the time of his visit (*Kaigisho News*, 18 June 1967).

⁴² PBECC 1967: 31. The third blueprint was also a basis for the discussions at the Small Meeting on Technical Arrangements held as part of the preparatory meeting.

The Japanese and Australians had already discussed strategies to persuade the Americans to join PBEC. At the third joint meeting in 1965, it had been suggested that American interest might come more appropriately from the West Coast because business organisations between the East and the West of the United States had distinct identities; it would be best to concentrate on the localities with the greatest interest in the Pacific Basin. Nagano agreed with this approach and mentioned this when a mission went to the United States in 1964. By this time, the Japan–California Society had been formed, indicating the scope for setting up business committees on a regional basis. The strategy was implemented when Kazutaka Kikawada, President of Tokyo Electric Power, visited the midwest of the United States to encourage American participation in PBEC, as Nagano had done in his trip in May (*Asia Scene*, March 1968). Finally, representatives from the United States and Canada attended the planning meeting for the first general meeting in February 1968 and became official members then.

The first meeting of PBEC

The Pacific Basin Economic Cooperation Council was officially launched at the first general meeting held in Sydney in May 1968⁴³ and Nagano was unanimously elected as the first International President of PBEC, an acknowledgment of his long-term leadership in its establishment. Yet, without Anderson's favourable reaction in 1964 and his innovation in establishing organisation's framework, the formation of PBEC would have been delayed and may not even have been possible. As with PAFTAD, Japanese and Australians who shared similar goals were very much part of PBEC's formation.

At the first meeting, Nagano (cited in PBEC 1997: 8) observed that:

... just as neither Rome nor the EEC was built in a day, so it would take some time to come to any real form of regional economic cooperation. The Pacific Ocean once separated the nations located along its rim whereas now it had become a unifying force with developments in communications, transportation and technology. It also contained inexhaustible natural resources and a large number of developing countries — too big an area and

⁴³ Ninety delegates and 25 observers from the five founding member countries attended.

too large a work for any government or business man to tackle alone. It needed coordination and cooperation.

This statement reflected Nagano's jubilation at the realisation of his long-term dream, but, on the other hand, it recognised that there would be a burdensome and lengthy process until there was a tangible benefit.⁴⁴ There has been some scepticism about PBEC's role since its inception.⁴⁵ Yet Fourt and West-Oberne (1983: 9) evaluated PBEC as 'very important in promoting the concept in government circles around the Pacific, as well as acting as a catalyst at the national level for stirring interest in the concept'. PBEC, as a foundation institution for Pacific economic cooperation, undertook the spadework for subsequent institutions.

Conclusion

An important question in this chapter was to examine how and why the first phase of an Asia Pacific economic community, the formation of PAFTAD and PBEC, emerged by investigating the formation of these two regional institutions. The institution-building model, built on the three notions of regime formation (the necessity of leadership; the existence of interests among potential participants; and a shared understanding and views on regional economic cooperation) was applied as the analytical tool. As for the necessity of leadership, Kojima, Okita and Miki in the case of PAFTAD, and Nagano and Anderson in the case of PBEC played an intellectual and entrepreneurial leadership role. The focus on their 'basic ideas' helped clarify why PAFTAD and PBEC emerged almost simultaneously and it was related to events both within and outside the Asia Pacific region. The forces which led Kojima, Okita, Miki and Nagano and their partners in Australia to conceive and influence the basic ideas for these regional institutions were mainly external: the development of the EEC and the upsurge of regional approaches to economic cooperation in Asia such as

⁴⁴ It seems that the Japanese government initially expected PBEC to evolve into a government organisation for future Pacific economic cooperation (*Nihon Keizai Shimbun*, 27 April 1967).

⁴⁵ For instance, precisely because of the private status of the organisation, there was a view among PBEC and government circles that PBEC was 'becoming increasingly irrelevant as an actor in regional economic affairs ... PBEC's multilateral activities provide a less effective way of complementing commercial and diplomatic objectives than do the activities of bilateral business cooperation committees' (Woods 1993: 81). A participant at a PBEC meeting once confessed that 'the members seemed to feel that they had come to an impasse, that they could not really do anything further until there was a coordinated push from other countries. I wondered if I had wasted my time attending because there did

the ADB. Although those leaders, especially Kojima Okita and Miki, had a long-standing interest in the development of Asian economies, the movement of regionalism in Europe stimulated such interests. Yet a conspicuous element is the foresight of their ideas which anticipated these international events. New international structures provided the impetus for the refinement of their ideas about regional cooperation and the intensification of their efforts to realise them.

The second element, the existence of potential participants' interests in the institution and the adjustment of different interests among them, did not raise serious problems in the formation of the two institutions. This was because the participants were not bound by government policy: professional economists in PAFTAD and business leaders in PBEC. Yet different interests in regional economic cooperation at the governmental level could account for the emergence of PBEC and PAFTAD as non-government institutions. Kojima's PAFTA, Okita's OAEC, Miki's Asia Pacific policy and Nagano's Pacific version of the EEC, all of which, in some form or another, required government involvement, failed to materialise. A government institution did not eventuate because of the reluctance of the governments of regional countries, especially on the part of Asian developing countries. Most Asian countries had vivid memories of being colonised, had not achieved high levels of trade and economic interaction with each other and feared that their interests would be subordinated to those of the advanced economies. In addition, while the ideas of Kojima, Okita and Nagano were also intended to promote regional trade, the Asian developing countries were not as willing to be committed to regional trade cooperation as the people involved in the formation of PBEC and PAFTAD. Gordon (1966: 141–61), surveying the opinions of Asian leaders, notes that they were not attracted to trade-oriented regional cooperation but had begun to focus on other means of strengthening economic interaction in Southeast Asia through harmonisation of their separate development plans. The interests of Asian developing countries did not necessarily converge with those of the founders of PAFTAD and PBEC whose top priorities included the promotion of regional trade.⁴⁶ These factors meant that it was premature

not seem to be any driving force in the organisation, except perhaps by the Japanese in seeking a few more markets' (East Asian Institute 1981: 23).

⁴⁶ This was an important reason why Japan's initiatives in Ministerial Conference for Southeast Asian Development and ADB in 1966, both of which aimed to contribute to economic development in developing countries, were successful, as discussed in Chapter 3.

for regional countries to participate in a government regional economic institution. Japan and Australia, which were aware of this trend, had to wait for another decade to create a regional economic institution to promote regional trade.

Nor did the United States show a strong interest in the formation of regional government economic institutions because its focus tended to be global. This was evident in a presentation made by an American participant at PAFTAD's first meeting and the fact that US representatives in PBEC did not display strong commitment at its preparatory meetings. In order to forestall the inward-looking EEC, Americans thought it best to strengthen the GATT trading system as it was committed to concluding the Kennedy Round in the 1960s. America's less-than-enthusiastic approach was a significant factor in the failure of an inter-governmental regional economic institution to emerge, given that its GNP was more than 80 per cent of the total GNP of all advanced economies in the region and Japan's economic strength was still insufficient to influence the trend of the regional economy. Furthermore, America's Asia policy at that time was focused on the Vietnam War and the containment policy towards China. This reflected the trend of Asian regionalism, and the Asia policy of its allies including Japan and Australia, as discussed in Chapters 3 and 4.

The third factor in institution-building, a shared understanding on regional economic cooperation or, more broadly, international relations, highlights the importance of developing a institutional blueprint to promote shared understanding among the potential participants in the demonstration stage. The effect of the blueprint was even more significant given the diversity of participants' interests in the regional institution. This was seen in the case of PBEC when American and Canadian business people did not initially show strong interest in joining the proposed regional institution. Japanese and Australian leaders demonstrated the value of PBEC by inviting them to attend preparatory meetings as observers and delivering the blueprint before asking them to make a final decision.

A shared understanding about the merit of regional economic cooperation at the governmental level was not instantaneously created. Economic cooperation at a government level is almost impossible when countries in the region know little of

each other and each others' economic policies. The importance of knowledge about regional economies was revealed in the establishment of PAFTAD and PBEC. Participants in PAFTAD were familiar with the US economy, but even these professional economists had little familiarity with Asian economies. There was a wide gap in mutual understanding among regional economies (Drysdale and Yamazawa 1986: 420). Japanese and Australian business leaders played a remarkable role in the establishment of PBEC, but even their interaction had only commenced five years earlier and there had been few opportunities for political leaders of either country to discuss policy-oriented agendas. This lack of familiarity with Asia Pacific economies also applied to the majority of politicians and public servants in other nations in the region. Initially, business people did not expect PBEC to bring concrete benefits. As Nagano put it: 'we can create a foundation to solve a problem by directly meeting with each other and learning about each other'.⁴⁷ Given the general tendency for business people to be interested only in profit and to seek tangible business outcomes, Nagano's focus on mutual understanding as the rationale for PBEC's establishment was exceptional in its foresight.

In this context, the first phase of an Asia Pacific economic community, the advocacy of Miki's Asia Pacific policy, PAFTAD and PBEC, helped to create a 'mood', to use Miki's words, for establishing a comprehensive regional institution. Tadashi Adachi, then chairman of JABCC, said that 'because PBEC is a private organisation, all we have to do is to arouse the mood for Pacific cooperation. Beyond that, it is the government's job' (*Asahi Shimbun*, 21 April 1967). Because people knew little about each other or about the regional economies, there was little impetus at the government level to create a regional institution for economic cooperation. While neither PBEC nor PAFTAD were in a position to determine foreign policy, they could influence the direction of foreign policy. Accordingly, PBEC, which initially 'saw no role for governments' in the development of the Pacific economic organisation, 'supported further loose integration which encouraged an evolutionary process of regionalism' (PBEC 1997: 13). In this sense, PAFTAD and PBEC, with Miki's Asia Pacific policy, played an important role in providing 'enlightenment' on Asia Pacific economic cooperation and creating a foundation for establishing PECC

⁴⁷ Personal interview with Takeo Sakurai, Secretary-General, Japan PBEC, 23 January 1967, Tokyo. Sakurai joined the Japan Chamber of Commerce and Industry in 1958 and since 1973, he has been

in 1980 and APEC in 1989. The formation of PAFTAD and PBEC was a catalyst for 'progress' in the development of an Asia Pacific economic community.

7 The Phase II: The Establishment of PECC

In September 1980, the Pacific Community Seminar was held at the ANU, an event that marked the beginning of PECC. This was significant in terms of Asia Pacific regionalism because PECC was the first substantial regional economic institution with a focus on the promotion of regional trade and investment, and it involved officials from each member government (participating in a private capacity) as well as business leaders and academics. In addition, organising the Pacific Community Seminar and establishing PECC was an important example of the partnership between the governments of Australia and Japan which was to contribute to the development of inter-governmental cooperation in the Asia Pacific region. This chapter examines the formation of PECC to explain how and why an Asia Pacific economic community progressed from the first phase of non-governmental exchange in PAFTAD and PBEC to the second phase of quasi-governmental exchange in PECC.

Chapter 6 considered the establishment of PAFTAD and PBEC. Here the institution-building model is applied to the formation of PECC. The model is based on three criteria for regime formation: leadership, common interests and shared understanding of the merit of regional economic cooperation. It consists of six stages: innovation, refinement, selection, adjustment, negotiation and demonstration. The central questions posed are: how and why Japanese and Australian leaders came to consider it desirable to formulate a fresh approach to Asia Pacific regionalism in the late 1970s (innovation); how and why those ideas were refined, allowing political leaders to select them as government policy (refinement and selection); and what approaches other countries took towards Pacific cooperation policy and how Japan and Australia adjusted their different interests in organising the Pacific Community Seminar (adjustment, negotiation and demonstration).

Yuichiro Nagatomi (1983b: 109), Ohira's chief policy assistant, attributed the success of the Seminar to three strong and long-established ties between Australian

and Japanese leaders: Ohira and Foreign Minister Saburo Okita, Okita and Seminar Chairman, John Crawford, and Crawford and Prime Minister Malcolm Fraser.¹ Their ideas and activities are the primary focus of this chapter. Another thread is the role played by scholarly supporters of ‘Pacific cooperation’ who worked towards the development of Pacific economic cooperation in both countries. They included Peter Drysdale, who had long been an advocate of the Organisation of Pacific Trade [Aid] and Development (OPTAD), and who had conducted a joint study on the issue with Hugh Patrick for the US Congress and assisted Crawford in organising the Seminar. The Pacific Basin Cooperation Study Group (*Kantaiheiyo Rentai Gurupu*, hereafter the Study Group), Ohira’s advisory group, consisted of Japanese experts on Asia Pacific affairs and issued a substantial report in line with Ohira’s philosophy in 1980. The Nomura Research Institute (NRI) contributed a report on regional cooperation, to which subsequent studies such as Drysdale–Patrick’s and the Study Group’s referred. In applying the model adopted in the thesis, this chapter examines the origins of the basic ideas of Ohira’s Pacific Basin Cooperation Concept and the refinement of the Concept, the rationale behind the advocacy of the OPTAD idea, the process of incorporation of those ideas into Ohira’s and Fraser’s political goals and Japanese and Australian activities in establishing the Pacific Community Seminar. Finally, the chapter explores the achievements of the Seminar and its contribution to ‘progress’ in the development of an Asia Pacific economic community.

Trends in Pacific cooperation in the late 1970s

A factor that promotes ‘progress’ in international relations is the growing dysfunction or irrelevance of existing policies and institutions. Japanese proponents of Pacific cooperation gradually acknowledged the need for government involvement. While PBEC and PAFTAD continued into the 1970s after their establishment in 1968, towards the end of the 1970s, a view emerged that PBEC was not performing well in transforming discussions on Pacific cooperation into a policy platform. Noboru Gotoh, International President of PBEC, proposed a Pacific Economic Community (PEC) at the General Meeting in Los Angeles in May

¹ Fraser held Crawford in high regard: ‘I always had a very good relationship with John Crawford ... Australia was gradually recognising the significance of Asia and of all officials, Crawford would have

1979, based on his belief that only convening on an annual basis was a waste of time, and that PBEC should be seeking to influence policy; PEC was designed to provide a basis for an inter-governmental organisation.² PAFTAD was also examining its organisational structure, suggesting that it 'be remodelled into a research institution ... with a permanent office and research facilities in Canberra.'³ The plan for a more institutionalised PAFTAD was to help make discussions more relevant to government policy. Members of PBEC and PAFTAD were aware of the challenge to seek fresh institutional links with governments, ten years after their establishment.

At government level, there was little momentum for Pacific cooperation. As seen in Chapters 3 and 4, Japan's policy focus centred more on its diplomatic efforts to improve relations with ASEAN throughout the Miki and Fukuda administrations; in Australia, the Whitlam government's proposal for Asia Pacific regionalism, which partly targeted economic development and regional stability in Southeast Asia, failed to gain strong support in the region. Until the end of the 1970s, the Fraser government was more interested in broader Third World issues and did not act to implement a specific policy of Pacific cooperation. Some of the previous vehicles for Asia Pacific regionalism, including SEATO, ASPAC and the Ministerial Conference for Southeast Asian Development, had been already disbanded. A senior Japanese diplomat described the situation as 'a small candle light'⁴ and Knight (1974: 273) explained the inertia:

... there is at present an apparent lack of resolve or capacity to do anything about [Pacific regionalism]. No one seems ready to take the plunge in an effort to really bring one or other of the new perceptions into some form of reality.

Japan and Australia endeavoured to incorporate a fresh approach to Pacific economic cooperation and assumed leadership in establishing a new regional institution.

been the most significant and most influential' (personal interview).

² Personal interview with Takeo Sakurai, Secretary-General of PBEC Japan, 23 January 1996.

³ Kojima 1982: 37. Also, Drysdale and Yamazawa (1984: 18) saw that the upsurge of region-wide interest in Pacific cooperation in the late 1970s had stimulated interest in PAFTAD.

Innovation of the Pacific community idea

What caused whom to conceive a fresh approach to Pacific economic cooperation? Japanese and Australian academics involved in the Australia–Japan Economic Relations Research Project headed by Crawford and Okita during 1973–76 were the major academic group maintaining a ‘small candle light’ through their research. Of primary importance in this context was their advice to create OPTAD, which Kojima and Drysdale had initially suggested at the first PAFTAD meeting in 1968. Until the late 1970s, the interests of Pacific economic cooperation were based on the OPTAD concept. Donowaki (1982: 23), a member of the Study Group, praised OPTAD’s advocates: ‘Without their efforts, today’s upsurge of interest in the idea of Pacific cooperation throughout the region certainly would not have taken place.’ In the mid-1970s, researchers at the NRI also laid the groundwork of Pacific cooperation to which Ohira referred. These activities were a driving force behind the movement that sustained the interest in regional economic institutions and became the catalyst for Ohira’s promotion of Pacific cooperation when he came to power in 1978.

The OPTAD concept

Many discussions of Pacific economic cooperation in the 1970s centred on OPTAD, which was conceived as an inter-governmental forum with task forces to deal with policy-oriented issues such as trade, investment and aid, and was functionally modelled on the OECD. Drysdale (1978) presented a paper at the ninth PAFTAD conference in San Francisco in August 1977 in which he recommended OPTAD. It was the first time OPTAD became a central issue at a major international conference and, significantly, the commentators on Drysdale’s presentation at the conference included Okita and Patrick, two influential authorities on Pacific economies in Japan and the United States, respectively, who were closely associated with government.

As seen in Chapter 5, PAFTAD and the Australia–Japan Economic Relations Project were the main forums for the discussion of the OPTAD idea and Okita, who later became chairman of the Study Group and then foreign minister in the second Ohira cabinet, was involved in both research forums. Observing that ‘it is obvious

⁴ Personal interview with Michihiko Kunihiro, as quoted in Chapter 5.

that the Asia Pacific region is the most important region for Japan', Okita (1978a: 132–33) supported OPTAD, mainly because global organisations such as UNCTAD and GATT did not deal with issues exclusive to the Asia Pacific region, so OPTAD, which could focus on the region's issues, was desirable. A regional economic organisation such as OPTAD was seen as a means of counteracting the effects of discriminatory trade policy in Europe. Okita's interest in OPTAD developed through his involvement in the Project. Okita (1978b: 649) declared: 'as I am closely associated with the work of [Kojima and Drysdale], the OPTAD ideas are very close to my heart'. Even after Okita became foreign minister, he did not abandon the possibility of OPTAD, and declared that if the Pacific Basin Cooperation Concept was to be in the form of an institution, he would expect it to be an OECD-type organisation such as OPTAD.⁵

Crawford, who co-chaired the Australia–Japan Economic Relations Project with Okita, and later chaired the 1980 Pacific Community Seminar, also supported the establishment of OPTAD. At the fourth PAFTAD meeting in Ottawa in 1971, Crawford suggested the establishment of a regional economic body. He cited factors pointing to the desirability of 'greater regional economic cooperation' such as 'the importance of the Japanese market to other Pacific countries; the need for Japan to secure growing export markets and import supplies and the concern of all countries with political stability in Asia and the Pacific' (Crawford and Board 1972: 39). His interest in regional economic cooperation was not only in trade but also in investment, tourism, economic stabilisation policies, and development aid. OPTAD was modelled after the OECD where government economic consultations were a major function. He argued that the establishment of OPTAD was highly desirable because, of the 23 members of the OECD, only four were non-European countries, those being the Pacific nations, Australia, Japan, Canada and the United States. Crawford wrote:

... thus there would appear to be considerable advantages in having a smaller scale regional organisation to deal with problems of a more regional nature that may well be frustrated in OECD, or even in GATT, in which European interests tend to frustrate world-wide progress. (Crawford and Board 1972: 39)

⁵ *Economisuto*, 29 January 1980. Okita expressed a similar view in his interview with the *Far Eastern Economic Review*, 21 December 1979.

Crawford saw merit in OPTAD, which would deal exclusively with issues concerning Asia Pacific economies, including one of his primary interests, assistance to developing nations in the region.

The OPTAD concept was an influential idea among the Japanese and Australians responsible for organising the Pacific Community Seminar. OPTAD was a new concept of regionalism, as it was intended to focus exclusively on regional economic integration. Although the establishment of OPTAD was not realised, it was an important model for Australian and Japanese leaders in considering a new form of regionalism.

Nomura Research Institute

While Australian and Japanese academics supported the OPTAD concept, researchers at NRI in Japan were also working on the development of the Pacific Concept. The National Institute for Research Advancement (NIRA), established in 1974 and sponsored by government and business in Japan, undertook a three-year project in 1975 entitled 'Toward the 21st Century Project' which aimed to identify domestic and international issues that Japan should tackle in the lead-up to the next century. NIRA, which commissioned a number of Japanese think-tanks on various issues, asked NRI to conduct research on Japan's international affairs for the project in February 1977. Yujiro Eguchi, Senior Fellow at NRI, and responsible for the research, took the initiative in establishing a research committee to identify the project's agenda and decided that one of the major focuses should be Pacific cooperation, because of NRI's general interest in Pacific economies.⁶ NRI's research committee, headed by Kiichi Saeki, president of NRI, published its research findings with a chapter devoted to Pacific cooperation.⁷ The important message NRI wanted to convey was that Japan should take a strategic approach to diplomacy and that it was particularly important to combine security and economic interests.⁸ In addition to Eguchi and Saeki, Jiro Tokuyama, vice-president of NRI,

⁶ Personal interview, 18 January 1996, Tokyo.

⁷ *Kokusai Kankyo-no Henka-to Nihon-no Taiou* (Changes in the International Environment and Japan's Responses), Chapter 8, September 1978. An English summary was also produced and delivered to major international research institutions.

⁸ Saeki (personal interview, 24 January 1995, Tokyo) explained: 'US-Japan relations are pivotal to

contributed to the development of the concept. On the basis of NRI's research, Tokuyama (1978) authorised a book, entitled *Taiheiyo-no Seiki* (Pacific Century), one of the first books on a Pacific community in Japan that argued the issue from economic and political perspectives. Tokuyama's contribution was to promote the importance of a Pacific Community in the books and articles he wrote on the issue.⁹

The most important aspect of NRI's research was its influence on Japanese Prime Minister Ohira's thinking on the Pacific Community. Saeki said 'Ohira refined his ideas on the Pacific Concept partly on the basis of NRI's research and Jun-nosuke Kishida, the Project's representative, briefed Ohira on behalf of NIRA.'¹⁰ Yet, as discussed later, when Ohira ran for the LDP presidency, he did not elaborate on the Pacific Concept. NRI's research stimulated Ohira's long-term interest in the Pacific Ocean but after he came to power, his Study Group, which Okita chaired, was chiefly responsible for refining the Concept.

Ohira's basic idea of Pacific cooperation

In international institution-building, politicians' roles are mainly confined to the 'selection stage', but Ohira took the initiative in bringing Pacific cooperation to the attention of Japan's foreign policy makers. Ohira came to power in November 1978, defeating Fukuda in the LDP presidential election.¹¹ Ohira served as foreign minister twice in the Ikeda and Tanaka administrations and he was rated as the best foreign minister in postwar Japan by *Bungei Shunju* (October 1991: 192–222).¹² Hence, it was natural for Ohira to be more involved in foreign policy issues and to launch an innovative proposal in this area. Ohira's diplomatic agenda as prime minister was probably twofold: implementation of comprehensive security

Japan's security and the Asia Pacific region is important for its economic activities. How the formation of a Pacific Community accommodated these two issues was the crucial point.'

⁹ In addition to *Taiheiyo-no Seiki*, he contributed articles on Pacific cooperation to well-known journals such as *Economisuto* (31 October 1978), *Far Eastern Economic Review* (13 June 1980) and *Toyo Keizai* (14 June 1980). Tokuyama was also an active supporter of PBEC and presented a paper on the Pacific Economic Community at PBEC's general meeting held in Sydney in January 1980.

¹⁰ Personal interview, 24 January 1995, Tokyo.

¹¹ Ohira was formerly a senior official in Ministry of Finance where he became close to Hayato Ikeda, then Finance Minister and later Prime Minister. Ohira's commitment to politics grew from his connection with Ikeda.

¹² As foreign minister, Ohira was pivotal in achieving rapprochement with Korea in 1965 and with China in 1972. As diplomatic relations with Japan's two neighbours were the most difficult bilateral relationships, it is reasonable to describe Ohira as an 'internationally-oriented politician' (Watanabe 1994) and a confident diplomat.

arrangements (*sogo anzen hosho*) and realisation of the Pacific Basin Cooperation Concept. As argued in Chapter 3, Japan's relations with Southeast Asia were finally improving and stabilising, due partly to Japan's diplomatic efforts through Miki and Fukuda's ASEAN-oriented foreign policy approaches. During the Fukuda administration, Japan and China finalised the Japan–China Friendship Treaty over which both countries had been at loggerheads about the introduction of the 'hegemony clause'. This shift signalled that Japan was overcoming its diplomatic problems in the Asia Pacific region, broadening its diplomatic scope, and becoming more confident about making a contribution to the region's economic development and stability. These changes were caused by a broader transformation in the region: the drastic shift in US–China relations and the end of the Vietnam War.

Ohira, who had not acknowledged Asia Pacific regionalism in the early 1970s, found it possible to launch the idea in the context of these regional changes. When Prime Minister Whitlam met with Ohira as foreign minister on 30 October 1973, Ohira's comment on Whitlam's Asia Pacific regionalism was that 'speaking honestly, I don't think the time is quite mature yet, in my judgement, to produce any idea now' (cited in Clark 1974: 10). The launch of the Pacific Basin Cooperation Concept indicated that Ohira judged the time was ripe to launch his own regionalism policy, partly as a result of NRI's advocacy.

While running for the LDP presidential election in November 1978, Ohira referred in broad terms to the Pacific Basin Cooperation Concept in his policy guidelines. This indicated that an interest in Pacific cooperation was one of the highlights of his policy agenda. In his policy guidelines, the phrase *Kan Taiheiyo Rentai* (the Pacific Ocean Community) first appeared:

... it is natural that Japan should give special consideration to the countries of the Pacific region ... This is because the development of the Pacific region is an integral part of world development ... There are a number of countries in the Pacific region ... [and] the approach and the way of promoting cooperative policies must give careful consideration to each country's situation, making for flexible cooperation ... It will be difficult to choose which country can be involved in the Community, and Japan alone cannot decide.¹³

¹³ Ohira's policy advisers and secretaries, Seizaburo Sato, Shunpei Kumon, Ken-ichi Koyama, Yuichiro Nagatomi and Hajime Morita, prepared the policy outline on the basis of Ohira's policy ideas.

The rationale behind Ohira's launch of the Concept was already evident in the 1977 speech he made when he was Secretary-General of the LDP in 1977:

... it was natural for Japan to give special attention to the countries of the Pacific region ... the United States gives special consideration to the countries of Central and South America ... and the EC gives special consideration to the countries of Africa.¹⁴

This may have been a reference to Ohira's awareness that Japan's responsibility as a regional leader in the Asia Pacific region would contribute to economic development in the region. In attending the first meeting of the Study Group on 6 March 1979, Ohira said that 'Japan needs to understand the roles and responsibilities which international society expects it to assume, and we should seriously respond to them' (MOFA document, 6 March 1979). Donowaki (1982: 21), a member of the Study Group who heard Ohira's statement at the Group's first meeting, wrote:

Ohira felt Japan should no longer remain a passive beneficiary of world peace and prosperity, but rather play some role in actively creating world peace and prosperity. To begin with, was there not something Japan could do in the immediate neighbouring area? This was one of Mr Ohira's specific instructions conveyed to the Study Group.

Ohira's Concept stemmed partly from his awareness of Japan's leadership role in the region and, in this way, he followed the path taken by his predecessors. A new element was that Japan's economic presence was now more clearly recognised internationally and there had also been substantial improvement in Japan's relations with Asian countries. Ohira's claims of a leadership role for Japan struck a chord which led him to judge that the time was ripe.

Another distinctive feature of Ohira's approach, compared with that of his predecessors, was reflected in his specific words 'the Pacific', as distinct from Asia

Initially, it was called 'Pacific Ocean Community' in English, but the Study Group renamed it the 'Pacific Basin Cooperation Concept' (Nagatomi 1994: 326).

¹⁴ Ohira Memorial Foundation 1990: 538. His political master, Ikeda, initially expressed this notion and it became a foundation for Ohira's launch of the Pacific Basin Cooperation Concept. Ohira stated at that time that 'In the Pacific region ... development levels are quite disparate, with some industrially advanced countries and others at the developing stage ... Because of this, it is not practical to think in

Pacific. It is true that Ohira had occasionally touched upon the importance of Asia in Japan's diplomacy through his political life (Watanabe 1994), but it appears that Ohira did not have a special empathy with Asians. This was partly because he thought that the Pacific Basin or the Pacific Ocean was more important for Japan's survival and development than Asia. A decade before he launched the Pacific Concept, Ohira had already showed that his interests lay with the 'Pacific' Ocean rather than the 'Asian' continent:

The survival and development of Japan will depend on good relations in the Pacific Basin, and the security of the Pacific Ocean. Therefore, the primary aim of Japan's diplomacy should be to maintain the peace, security, and prosperity of the Pacific ... the problem of the Asian continent should be secondary in Japanese diplomacy. I think it sufficient for Japan to try to achieve merely peaceful co-existence with countries on the Asian continent (AFR, 2 November 1970)

The expressions 'Pacific Basin' and 'Pacific Ocean' were distinct from the 'Asian continent', which consisted of China, Korea and Southeast Asia. From his youth, Ohira is said to have considered Japan a maritime country. He linked this idea with the concept of the Pacific during his term as foreign minister in the early 1960s. He saw a world map redrawn to show countries in terms of distances and economic strength where the vast Pacific Ocean appeared no bigger than an inland sea (Ohira Memorial Foundation 1990: 537). This episode illustrates his interest in regional interdependence, a basis for the launch of his Concept, as discussed later.

His bias towards the Pacific Ocean was evident in another interview:

Japan is an oceanic nation. Markets and resources she needs must be acquired from every corner of the globe, especially from the friendly countries around the Pacific Ocean – the US, Canada, your country [Australia], New Zealand. Our existence and prosperity depend on the free exchange of commodities, technologies, resources, and agricultural products across the Pacific Ocean. So peace and order of the Pacific Ocean must be maintained at any cost ... (AFR, 18 November 1971)

This propensity emerged in the draft of his first policy speech to the Diet on 26 January 1979, which originally excluded ASEAN nations as possible members of the Pacific Concept. The original text stated:

terms of an EC-like regional cooperation.'

... Japan's interdependent relations with the Pacific zone centring on the United States, Canada, Australia, and New Zealand, and its friendly relations with the Central and South American nations, are becoming increasingly deep. I am determined to intensify my efforts to consolidate these relations to create what we can call the Pacific Basin Community (MOFA document, 19 January 1979).

A MOFA official who was asked to proofread the text by the Prime Minister's Office found it unacceptable and responded that if Ohira wished to use the term 'Pacific Basin Community', MOFA would not oppose this but it would prefer him to modify it.¹⁵ The modifications the MOFA official requested of the Prime Minister's Office were to add ASEAN countries to the Pacific Basin Community and to remove the reference to deeper relations with Central and South American nations. MOFA felt that Ohira's original text might give ASEAN nations the impression that relations among the advanced nations were central to Ohira's concept, and that ASEAN's interests were being marginalised. In addition, the ideas on Pacific cooperation were designed to improve the economic gap between advanced and developing countries and the latter referred mainly to ASEAN nations rather than Central and South American countries in 'the Asia Pacific region'.¹⁶ MOFA feared Ohira's idea might damage Japan's improved relations with ASEAN, although the official did not explicitly write this in his reply to the Prime Minister's office.¹⁷

The reference to the Pacific Basin Community was eventually dropped and instead the term 'the Asia Pacific region' was used, but it only appeared twice in the speech. Moreover, Ohira did not touch upon his Concept at all. The statement concerning foreign policy focused on bilateral relations with the United States, China, Korea, ASEAN and Europe. Nagatomi (1994: 329) recalled that the Concept was so unclear that it could not be included on his agenda and the phrase, 'the Asia Pacific region' was introduced instead, as MOFA had requested. MOFA hoped to

¹⁵ Personal interview, 19 January 1996, Tokyo. The draft included instructions not to alter the original text if this could be avoided, as it involved the Prime Minister's own expression (MOFA document, 19 January 1979).

¹⁶ Personal interview above. In fact, the MOFA official also noted that major Central and South American countries faced the Atlantic rather than the Pacific (MOFA document, 19 January 1979).

¹⁷ After this episode, MOFA provided further briefings for Ohira on the necessity to pay more attention to ASEAN countries (personal interview above).

incorporate Asia or ASEAN in any framework for Pacific cooperation and the phrase Asia Pacific was probably the most appropriate in this context as it would be unlikely to give an unfavourable impression to ASEAN nations.¹⁸

It appears that Ohira was drawn to the image of the vast Pacific Ocean and thus placed more significance on overall relations with Pacific nations. The reality of Japan's foreign policy which had developed during the 1970s required Japan to maintain better relations with ASEAN, as discussed in Chapter 3, and this approach to Japanese foreign policy did not allow Ohira to pursue his philosophy easily. There was a need to formulate a framework and pursue diplomatic efforts to accommodate ASEAN's or, more broadly, Asia's viewpoints into Ohira's concept.¹⁹ Some of the ASEAN leaders regarded the Pacific Concept as an indication that Ohira accorded relations with ASEAN a lower priority than the Pacific Concept.²⁰

Another key element in Ohira's Pacific Basin Cooperation Concept was interdependence. According to Nagatomi (1983a: 32), Ohira tended to see diplomacy as interconnecting lines of bilateral relations. He said on the topic 'speaking of US-Japan relations, for instance, that there are different aspects in their relations; in terms of their relations with China, ASEAN, Latin American, the Soviet Union, the Middle East, Europe ... We have to consider our bilateral relations in the context of other relations.' This is the essence of his idea of interdependence. When he was foreign minister in the Tanaka cabinet, Ohira liked using the word 'interdependence', which he linked with international cooperation (Watanabe 1994: 126). Ohira's Concept was partly informed by his belief that interdependent relations now existed in the Pacific, as he said in his Melbourne (Ohira 1980): 'Within ... heightened interdependence, conspicuous progress has been made in the relations of friendship and cooperation among the Pacific basin countries.'

¹⁸ In his third speech in the Diet on 27 November 1979 when Okita had already become foreign minister and the Interim Report of the Study Group had been launched, Ohira was yet to touch upon the Pacific Basin Cooperation Concept and instead stated: 'I am determined to strengthen the cooperative relations with nations in the Asia Pacific region including ASEAN countries' (Nagatomi 1994: 329).

¹⁹ Ohira's visit to the UNCTAD meeting in Manila in May 1979 as the sole head of government among the G7 countries among 150 heads of government was useful in conveying his message that he was also committed to advancing Japan's relations with ASEAN countries.

The Pacific Concept was also considered part of the strategy of comprehensive national security, designed to enhance Japan's national security not only by military strength but also by increasing economic, diplomatic and cultural ties with other nations (Watanabe 1994: 130). Ohira had already referred to the idea in 1970:

I think it is inadvisable for Japan to interfere in affairs on the Asian continent as we did before [and during] the Pacific War ... It is very dangerous to overestimate the effects of military power in world politics. The relative importance of military power has declined. Countries should attempt to keep the peace by mutual understanding. (*AFR*, 2 November 1970)

From these premises, Ohira outlined his basic ideas at the first meeting of the Study Group on 6 March 1979. They can be summarised as follows:

1) The degree of interdependence is increasing and all countries are reacting with each other. The Pacific nations are developing remarkably with scientific and technological advances making it possible for the vast Pacific region to establish itself as fully-fledged;

2) Japan should assume a certain international role and responsibility. Japan, located in the Pacific region, has increased its ties with other regional nations like the United States, Australia and ASEAN countries and it must be Japan's role to further these relations and contribute to development;

3) Yet, with the different levels of economic development in the region, it is unrealistic to aim at an EC-type organisation in terms of regional association and cooperation. Thus, we need to approach the concept and cooperative policies prudently and the term 'loose association' (*yuruyaka-na rentai*) is a direction for community-building. The participants will differ according to the themes;

4) The Community must be an 'open association' (*hirakareta rentai*) which means any country can participate as long as it supports the principle of the Community. In building the Community, economics as well as politics, diplomacy and culture must be involved (cited in Nagatomi 1983b: 57).

Ohira's ideas were vague, as a policy platform, but flexible enough to accommodate a variety of interpretations. As many of Ohira's policy advisers commented (Kumon *et al.* 1994), his policy orientation was based on long-term perspectives, and Ohira believed that a nation's policies should evolve from politicians' ideas and should only later be worked out in detail by bureaucrats (Ohira Memorial Foundation 1990: 462). Ohira himself did not have a concrete vision for implementing the Pacific

²⁰ Personal interview with Mitsuro Donowaki, 16 December 1994.

Concept and left it to the Study Group to refine the concept and provide substance.²¹

Refinement of the Pacific community idea

Under the institution-building model, 'basic ideas' generated in the innovation stage need to be refined and examined empirically before decision makers can translate them into policy. In the case of the formation of PECC, the vagueness and broadness of Ohira's ideas required 'refinement' by experts to make them viable elements of the foreign policy agenda. Ohira commissioned the Study Group to refine his concept. At the same time, Australia was independently elaborating aspects of Pacific cooperation. Drysdale was invited to join Hugh Patrick, then Professor of East Asian Economics at Yale University, in preparing a report to the US Congress which served to stimulate interest inside and outside the United States. The Australian Department of Foreign Affairs (DOFA) undertook research on government approaches to the Pacific Concept in preparation for Ohira's visit to Australia in January 1980. These Australian activities were linked to the Japanese activities, laying the foundation for joint initiative by Australia and Japan in holding the Pacific Community Seminar.

Pacific Basin Study Group and the Ministry of Foreign Affairs

Immediately after Ohira came to power, he asked Nagatomi to assemble a group of academics and bureaucrats to determine Japan's new policy directions. As a result, 130 of Japan's leading intellectuals and 89 bureaucrats (many of them directors) gathered and formed nine policy consultation groups, one of which was the Pacific Basin Cooperation Study Group chaired by Okita. The Study Group consisted of 14 academics, six senior officials from each ministry and one business leader (two officials from Ministry of Finance (MOF) and MOFA were responsible for administration). The academics' fields were economics, international politics, international finance, economic development and regional studies of China, Latin

²¹ A member of the Study Group (personal interview) said that Ohira sometimes attended the meetings of the Group and modestly said he lacked the expertise to contribute ideas, leaving this to members of the Study Group. In a speech at the first meeting of the Study Group, Ohira said: 'I would like you to examine how the Pacific Basin Cooperation Concept should be implemented and how Japan can and should make a contribution through the concept from independent and long-term perspectives'.

America, Southeast Asia and Oceania. The role of senior official members was to link the opinions of the academics with government policies. This was particularly relevant to MOFA, given its area of expertise.

Five meetings were held between March and July and the two executive members, Seizaburo Sato (Professor of Political Science at Tokyo University) and Tsuneo Iida (Professor of Economics at Nagoya University), were commissioned to draft an Interim Report based on discussions at the previous meetings for the sixth meeting in September 1979. The agenda for the five meetings covered the following points: the Pacific Concept should be based on a long-term perspective; the Concept should avoid military issues and instead focus on economic cooperation and culture; membership should be open to any country except China,²² whose membership should be considered separately; a thorough explanation of the Concept to ASEAN countries was essential; and an international conference among experts and officials from relevant countries should be organised for April or May 1980 to give recommendations to governments (MOFA document, 18 July 1979).

The Study Group was an independent body, despite the participation of government officials. Even so, MOFA was involved in its deliberations. Mitsuro Donowaki, a member from MOFA, provided liaison between the Study Group and MOFA, and circulated reports within the Ministry after he attended each meeting of the Study Group. It was essential for MOFA to ensure that the Group's views did not diverge from official government policy. MOFA held its first Senior Officials' Meeting in January 1979, mainly to discuss what Prime Minister Ohira intended to do with the Pacific Concept and how MOFA would react to the Concept. Many leaned towards an approach of non-commitment because it was believed the Pacific Concept would hamper Japan's improving relations with ASEAN, which Miki and Fukuda had initiated from the mid-1970s with their pro-ASEAN foreign policy.

Donowaki then organised a meeting between senior MOFA officials and some Study Group members on 27 August 1979. MOFA officials' comments on a draft of the report are (MOFA document, 29 August 1979):

²² After heated debate, the Pacific Basin Cooperation Study Group decided to exclude China from the Concept at the third meeting. Chairman Okita said: 'China is such a big and complex consideration that

An international organisation of experts and government officials which the Study Group has discussed, should be private;

The objective of the Pacific Concept is unclear and it needs to be clarified;

The Study Group seems to focus on positive aspects of the Concept, but it should refer to difficult issues (mainly political ones) as well. This would be more plausible;

The Study Group should identify common objectives and merits, so that the Concept can be more acceptable to other countries.

The Study Group held a meeting on 1 September 1979 to discuss the points raised by MOFA officials at the meeting and in November 1979 the Study Group issued an interim report.²³

The role of the Study Group gave substance to Ohira's Concept. Katsuhisa Uchida (1980: 20), Ohira's policy assistant seconded from MOFA, was initially suspicious of Ohira's Concept and wrote that it was not suitable as a basis for policy because Ohira's vision was too broad and lacked definition, and that the Pacific area was too large for a community, but Ohira's vision evolved into an important foreign policy agenda as a result of the Study Group's work. MOFA's involvement, mainly through Donowaki, was important in making the views of the Study Group and MOFA consistent.

Although Australia took responsibility for organising the Pacific Community Seminar, the Study Group's interim report provided an initial test to check other countries' reactions to the Pacific Concept. The Study Group's interim and final reports can be regarded as one of the institutional blueprints for the formation of PECC. The interim report consisted of three sections: About the Pacific Basin Cooperation Concept, Tasks of the Concept, and Ways to realise the Concept. The third section, the most important in terms of institutionalisation of the Concept, advocated holding an international symposium to promote the Concept. Japan had no intention of imposing its Concept on other countries, and hoped to 'have full consultation with those countries concerned and to work together with them to

we should deal with it separately' (MOFA document, 26 April 1979).

²³ The English summary was simultaneously delivered to relevant governments and research

promote the Concept'. The report thus recommended:

... an international symposium to involve participation by respected individuals from private and public sectors of these countries be convened at the earliest possible opportunity ... so that participants from the interested Pacific countries can study this concept together and suggest general guidelines for its realisation on the basis of common understanding and shared awareness.²⁴

This was to merge with Australia's idea of organising a non-governmental seminar, later realised in the form of the Pacific Community Seminar.

Yet the report did not clearly indicate why the Concept was necessary and why Japan was pushing it, and its vagueness invited criticism. The following was typical:

It did not broach the nature of any specific arrangements, nor which countries should be involved in a Community. It did not evaluate existing institutions to see whether they could fulfil the aims of a community as well as a new organisation. It did not consider any case against a community.²⁵

Similar criticism had been raised when Sato and Iida met with senior MOFA officials, so the Study Group was aware of these weaknesses. Because the interim report aimed to 'serve as a stimulus to such international discussions', it avoided touching on controversial issues such as membership. Okita, Chairman of the Study Group, said: 'Until other potential members come forward, we can't say anything very definite. A more concrete idea should be a joint product rather than a proposal from a single country' (*FEER*, 21 December 1979). Okita (1979: 3) suggested the following five questions should be further explored:

Was it necessary to establish a Pacific organisation now or in the future?

If it were judged necessary, what themes would be dealt with?

institutions in Asia and the Pacific.

²⁴ Pacific Basin Cooperation Study Group 1979: 20. Donowaki (1982: 28) indicated that this view was consistent with the Japanese government's view that: '... the role of the Japanese government ... was to be limited to that of stimulating interest and encouraging joint studies on this subject among nations in the Pacific region'.

²⁵ Japan Secretariat 1980: 15. Soesastro (1983: 6) also said the concept developed in the report was 'too diffuse to represent a useful reference to the further exploration of the [Pacific Community] idea'. He pointed out that it was this vagueness that helped 'reinforce the prevailing suspicions in some quarters as to the real intentions or hidden motivations of the Japanese endorsement'.

What countries would be involved in the institution?

Would the institution be non-governmental, governmental or semi-governmental?

Who would take the initiative and who would be appropriate promoters?

These points were to be examined in the final report, and importantly, Crawford raised similar questions at the Pacific Community Seminar. Okita and Crawford shared similar views on what was necessary to promote the Pacific Concept. This shared vision formed a basis for organising the Seminar.

The OPTAD idea and the Drysdale–Patrick paper

While Ohira and the Study Group were trying to provide a framework for the Pacific Concept, serious interest in OPTAD in the United States had been growing since April 1978 when US Senator, John Glenn, requested the Congressional Research Service to undertake research on the feasibility of an Asia Regional Trade Organisation. According to Krause (1981: 10), the United States had initially responded sceptically to Japan's Concept because 'there was a belief that a Pacific organisation is unnecessary and that if one were created, it might do more harm than good',²⁶ but the United States could change its view 'if it assists our relations with ASEAN in Asia and if it helps us break out of the confrontational mode in our relations with Third World countries at the global level'.

According to Glenn, '... we in America often lose sight of how important Asia is to us and how involved we have become in that part of the world' (US Senate 1979: 3). He was searching for a way to encourage US interest in the region. Glenn's meeting with Ohira in January 1978 when the agenda included the Pacific Community issue probably contributed to Glenn's thinking that the Pacific Community was a good means of achieving the aim (*FEER*, 21 December 1979). The Research Service then commissioned Drysdale and Patrick to explore the issue. This led to the publication of 'An Asia Pacific Regional Economic Organisation: An

²⁶ This was because it was widely believed in the United States that a commitment to the Pacific Concept was inconsistent with the United States' globally oriented economic interests (*FEER*, 21 December 1979).

Exploratory Concept Paper', published in July 1979 under the auspices of the US Senate.²⁷

The paper combined the need for OPTAD based on Drysdale's paper presented at the PAFTAD meeting in 1977 and an expression of US interests in regional economies, in an appeal for US involvement in regional economic cooperation and its initiative in forming OPTAD. Drysdale and Patrick (1979: v) thought that unless the United States were prepared to join this effort and give sufficient priority to the region, the cost to the United States caused by its negative trade position in the region would be substantial. Glenn rated the paper highly: 'I find the Patrick–Drysdale thesis both thought-provoking and generally persuasive ... the authors have made a very useful initial effort at addressing most of ... the issues' (US Senate 1979: 2–3). The Drysdale–Patrick paper had two significant effects on the development of Pacific Community ideas: firstly it promoted and symbolised US interest in Pacific cooperation and secondly, US interest, which was promoted by the Drysdale–Patrick paper, helped boost the momentum of interest outside the United States in the late 1970s.

Glenn chaired the Senate Hearings before the Sub-Committee on East Asia and Pacific Affairs of the Committee on Foreign Relations on 12 July 1979. Patrick, Richard Holbrooke (Assistant Secretary of East Asian and Pacific Affairs at the State Department) and Larry Krause (Senior Fellow at the Brookings Institution) attended. Holbrooke was one of the highest ranking officials concerned with US policy in Asia and the Pacific, and Patrick and Krause were the United States' leading experts on Asia Pacific economies whom Holbrooke called 'the two people in the United States who have done the most advanced thinking in this area' (US Senate 1979: 45). The highlight of the Hearings was Holbrooke's testimony: 'I do want to express my own very strong personal enthusiasm for proceeding in this

²⁷ The paper contained three main sections as well as detailed statistics: first, it analysed the evolution and political implications of the fundamental forces at work in the Asia Pacific region from a long-term perspective and discussed US interests in the region; second, it analysed the need for a new framework for US foreign economic policy in the region, considering certain policy options and noting the inadequacy of existing regional institutions; third, it focused on the proposal for OPTAD, on the concept's relevance to the United States and on suggestions as to how OPTAD could be implemented. The arguments were supported by the conspicuous growth in the Asia Pacific economy, characterised by Japan's industrial growth, the remarkable trade and industrial expansion of North and Southeast Asia's developing economies, and the slide towards slower growth in Western Europe (Drysdale 1983: 1296).

direction' (US Senate²⁸ 1979: 45), revealing potential US official commitment to the Pacific Community.

The US House of Representatives had also been exploring the feasibility of a Pacific Community. Lester Wolff, chairman of the House Sub-Committee on Asian and Pacific Affairs of the Committee on Foreign Relations, was responsible for the Hearings on 'the Pacific Community Idea', held on 18 July, 23 and 31 October 1979.²⁸ Glenn's initiative and Wolff's efforts were instrumental in promoting the United States' commitment to a Pacific Community and they were an essential demonstration of US interest in the issue. They also helped sustain the initiatives in Japan and Australia.

Because the US Congress tabled the Drysdale–Patrick paper, the OPTAD debate attracted attention beyond academic circles. OPTAD's feasibility had been discussed mainly by academics through the PAFTAD conferences and a small number of decision makers in Australia and Japan, but now it took on political significance. Wolff said: 'We must move from academic debate and theoretical discussion toward the establishment of functioning Pacific Community institutions and mechanisms' (*Asian Wall Street Journal*, 11 January 1980). These attitudes created an impression in the region that OPTAD or some other form of regional organisation might be possible because of the US initiative, and relevant governments began to take the issue more seriously. MOFA, which had thought it better not to be deeply involved in the Pacific Concept, changed its position, because of the interest in the issue shown by the US Congress, thus stimulating heightened interest on the part of other governments, including Australia. From this point, the Study Group's work took on greater significance in Japan (Japan Secretariat 1980: 17).

US interest in the Pacific Community idea, which developed mainly in Congress in the late 1970s, cooled in 1980. Holbrooke, who had expressed his personal

²⁸ In January 1980, Wolff urged the creation of a non-government association to stimulate interest in a Pacific Community, after several months of congressional hearings and research on the subject. Because of his proposal, Wolff became 'the most active Pacific community advocate among US foreign affairs specialists' (*Asian Wall Street Journal*, 11 January 1980). Yet Australia felt that Wolff was moving too quickly and that it was inappropriate at this juncture to proceed with the establishment of any Pacific Community Association (telephone call from David O'Leary to Drysdale on Pacific Community Conference, 11 March 1980).

enthusiasm, later stated that he was now uncertain about what was meant by the idea – the purpose, the participants and the formal structure. He attended the Canberra Seminar without making a public statement and the purpose of his participation at the Seminar was ‘to learn rather than tell’.²⁹ As Krause (*FEER*, 22 August 1980) explained, ‘no one thinks it is not in the interests of the United States’ but Americans were becoming more ‘sophisticated in realising the complex problems involved in building a Pacific community building such as ASEAN countries’ scepticism and difficult membership issues.’³⁰ The change in some US leaders’ attitudes to the Pacific Community was partly the result of an unofficial mission to Southeast Asia in September 1979 led by Erland Heginbotham, Deputy Assistant Secretary at the Department of State, to ascertain the level of interest in the idea. The mission encountered caution in many countries which ‘led the government in Washington to leave the initiative of such an organisation to other nations’ as they concluded that ‘existing organisations, at national and international levels would be capable of providing the needed cooperation’.³¹

Ultimately, OPTAD, which had attracted US official interest, failed to materialise. Drysdale (1983: 1297) attributed the failure to the concept’s focus on the need for inter-governmental organisation and activity:

... this focus was probably too exclusive given the particular characteristics of the Asian–Pacific economy and polity and the need for continuing support from the business community and academic researchers in the context of specifying the next practical steps that needed to be taken.³²

Nevertheless, the importance of the OPTAD concept should not be overlooked; without it, there would have been little momentum in the region to sustain the

²⁹ Holbrooke was ‘reluctant to detail his thinking about the community idea, or about the specific proposal ... put forward’ by Drysdale and Patrick (*FEER*, 22 August 1980).

³⁰ Krause continued: ‘I think it’s counter-productive for the United States to have an initiative at this stage. We also need a time-scale for this idea that’s longer than the maximum between the election periods here of four years’.

³¹ Fourt and West-Osborne 1983: 10. Krause (1981: 12) also said: ‘To get Congress to approve anything, one has to build one’s case by exaggerating its importance and making it the next wonder of the world. It is very hard to do that for that issue without making it look like a US initiative. It therefore has been difficult to sell the idea in Washington as a Japanese, or Japanese–Australian, initiative.’

³² The Study Group did not endorse OPTAD, as it believed that the development of the Concept should proceed gradually. The Study Group thought it to better to stimulate ‘interest in this problem at all levels throughout the nations concerned by way of holding a series of seminars and discussions, and thereby creating a larger and wider consensus, which would make it easier for the governments concerned to act’

possibility of organising the Pacific Community Seminar. OPTAD was a symbolic idea that sustained the upsurge of Pacific cooperation interests in the late 1970s in a theoretical sense.

Fraser's interest and Australia's Department of Foreign Affairs

In Australia, Fraser and Foreign Minister Peacock basically supported the Pacific Concept, but it was at the Ohira–Fraser meeting in Manila in May 1979 that 'Canberra began looking at it seriously' (*FEER*, 1 February 1980). The Manila meeting gave Fraser his initial opportunity to develop his interest in the Pacific Concept. According to Fraser (personal interview), Ohira and he recognised four points at the meeting; Pacific nations should work more closely together and try to develop a sense of community among them; despite good relationships between nearly every country in the Pacific, the region was not well organised with the exception of ASEAN, and had few cooperative links; good as the idea was, it would falter if it were pushed too hard or too fast; and after the discussions, both countries would have to work out how the idea of Pacific cooperation could be advanced and decide when they would discuss it again.³³

The Manila meeting gave Fraser the incentive to examine the Concept model closely and this laid the foundation for him to select the Pacific community issue as part of his foreign policy agenda. After the meeting, Fraser swiftly pushed the Concept and reported the meeting to Parliament:

One particular point of interest in the course of our discussions was Mr Ohira's concept of a Pacific Basin Community ... The idea has considerable potential and merits further discussion and consultation. At the moment the concept is tentative and exploratory and requires a great deal of thinking and consultation, and I have asked the Foreign Minister to develop ideas and approaches to this subject. (CPD, H. of R., 22 May 1979: 2191)

The Policy Planning Unit at DOFA was responsible for this undertaking and decided on its approach to the Pacific Concept after consulting with ANU academics and Japan's MOFA.³⁴ As mentioned before, the Study Group had floated the idea of

(Donowaki 1982: 22).

³³ In this context, Fraser expressed his hope that Australia would host a visit from Ohira 'at the earliest possible time' (CPD, H. of R., 22 May 1979: 2191).

³⁴ The Pacific Concept was discussed by foreign ministers Sonoda and Peacock in July 1979. In October

organising an international symposium to promote Ohira's Pacific Concept, and during the consultations, this idea was merged with Australia's proposal to hold series of non-governmental regional seminars. Owen Harries, the Head of the Unit, was responsible for setting up the government report. The Harries report (Commonwealth of Australia 1979: 134) had referred to regional cooperation: 'if serious proposals were to emerge for a "Pacific Basin" trading group ... that would provide a sufficiently large market and have a sufficiently large membership to justify reducing trade barriers between members of the group.' Harries had discussed this with David O'Leary, who was responsible for writing the government report within the Unit, and O'Leary said that 'we had had in mind the idea of Pacific economic cooperation in the Policy Planning Unit just a couple months before Mr Fraser met with Mr Ohira in Manila.'³⁵ It is clear that Fraser's request to compile a report accelerated the momentum towards Pacific cooperation within DOFA and Harries can be seen as a driving force behind the development of the idea of Pacific economic cooperation in the Australian government.

Peacock submitted a report on 31 December 1979. It indicated that the Pacific Community idea was vague and exploratory and needed further study in both Australia and the region, but argued that Australia considered it essential to work towards a broad regional consensus on the idea. The report stated that it would be advantageous to examine the Concept during a series of non-governmental seminars held within the region and recommended a gradual approach to building regional consensus on the issue, closer examination by government officials, bilateral negotiations between governments, and a series of non-governmental seminars (*Australian*, 10 January 1980). On the basis of the report, Fraser discussed the Pacific Concept with Ohira in Canberra and both agreed on their support for a Seminar at ANU, the 'selection' stage.

Selection of the Pacific Community idea

Selection refers to the stage where political leaders adapt a certain idea that is in line with their world view or foreign policy preferences. Ohira, who conceived the basic

1979, the first substantive exchange between Japan and Australia took place, headed by Otsuka and Harries.

idea of the Pacific Concept, was responsible for bringing the Concept forward and establishing the Study Group to give it substance. Yet Ohira was unable to adopt the Concept as policy until the Study Group had provided a clear framework for it. Ohira had to wait for the Study Group's Interim Report in November 1979. He capitalised on his visit to Australia in January 1980 to announce the Concept officially (Nagatomi 1994: 331). Although Fraser did not initially take as strong an initiative as Ohira in developing Australia's policy interest in the Pacific Concept, the meeting with Ohira boosted his interest, leading to Fraser's request to DOFA for a report. A number of factors encouraged Fraser to 'select' the Pacific Concept as formal policy, leading to the Ohira–Fraser agreement on the establishment of the Pacific Community Seminar.

Fraser's support for Pacific cooperation

As discussed in Chapter 4, Fraser, like Whitlam, came to view the Asia Pacific region as offering Australia important economic opportunities. This constituted a basis for his support for the Pacific Concept and led to a commitment on the part of the Australian government to promote it. Fraser entered Parliament in 1955, serving as Minister for Defence and Education before coming to power in December 1975. Although it was said that Fraser 'carried on with many of Whitlam's initiatives' (Renouf 1986: 77), a major difference in their foreign policy approach was that the Fraser government feared growing Soviet influence in the Asia Pacific region with its intrusion into the South Pacific as in Vietnam's Soviet-backed aggression against Cambodia and the Soviet's invasion of Afghanistan.

Nevertheless, from the early 1970s, Australia had no imminent threat to its security, as discussed in Chapter 4.³⁶ Australia's ability to maintain a steady alliance with the United States, mainly through ANZUS, was especially important in this context. The Fraser Government judged that the Soviets were not so '... reckless as to invite a major confrontation with the West' (Albinski 1982: 5). Under these circumstances, Fraser could emphasise economic elements in Australia's Asia

³⁵ Personal interview, 26 August 1998, Canberra.

³⁶ For instance, the Minister for Defence, Killen, noted in April 1979: 'Australia faces no specific threat of sufficient credibility or likelihood to form an unambiguous basis for force development', and Owen Harries, an adviser to Fraser, also argued that '... the great mistake in Australian debate has been the notion of identifying the threat and where it comes from' (cited in Albinski 1982: 3).

Pacific policy and Foreign Minister, Peacock would claim that 'to the extent that economic development will promote regional stability in our corner of the world, it will be of much greater benefit to us than to most other developed countries' (*Backgrounder*, 18 August 1978: ix). This change of perception towards the Asia Pacific region on the part of Australian leaders laid the foundation for Australia to pursue regional economic cooperation, especially from the viewpoint of trade expansion.

Like Ohira, Fraser had realised the desirability of Pacific regionalism before becoming prime minister. As early as 22 April 1971, he had encouraged Japan to take a greater role in world affairs:

... the highly protective EEC could fuel isolationism in the United States, [and thus] Australia and Japan should therefore combine to see that the EEC became outward looking in trade ... [and] some form of trade partnership between the United States, Canada, Australia and New Zealand should be considered ... Australia should discuss with Japan ways to aid developing countries in East and Southeast Asia. (cited in Renouf 1986: 48)

This speech indicated two consistent elements in Fraser's views on Asia Pacific regionalism: his hope of taking the initiative in regional economic affairs with Japan and his determination to resist the EEC's protectionism and to help Asian developing countries.³⁷

Economic development in developing countries and opposition to protectionism were intertwined in Fraser's foreign policy thinking. Fraser thought that Australia should endeavour 'to heighten Western awareness of the strategic risks of neglecting Third World economic weakness and political conflicts' (Ayres 1987: 328). His diplomacy in 1977 Britain, Belgium, France, Germany and the United States was important in 'establishing his credentials as an ally of the Third World in regard to international trade' (Ayres 1987: 341). With this pro-Third World view, for which 'no Australian leader had invested so much diplomatic effort' (Renouf 1987: 190), Fraser was responsible for establishing the Committee on Australia's

³⁷ After he came to power, Fraser said: 'Japan is of fundamental importance to Australia's long-term political, economic and security interests. Few countries match Japan's economic significance in the global system and with no country do we have closer economic links than with Japan' (*AFAR*, July 1976: 307).

Relations with the Third World in April 1978 which submitted the Harries Report a year later.

His support for developing countries internationally paralleled his backing for ASEAN in the Pacific Concept: 'ASEAN should be treated carefully and its views should be respected', as Fraser (personal interview) declared. Southeast Asia 'more than anywhere else, [as part of] the Third World has become a living reality for Australia', as the Harries Report (Commonwealth of Australia 1979: 124) claimed. Fraser stressed the significance of ASEAN within the Pacific Concept at his meetings with Ohira in Manila and Canberra. The Fraser government eliminated trade preferences for British imports, and this was partly 'to increase the number of ASEAN based products eligible for preferences' (Albinski 1982: 60).

When Fraser came to power, the value of Australia's total trade accounted for approximately 27 per cent of its GDP (Albinski 1982: 2). Fraser tried to open markets in developed nations for Australia's primary product exports and his emphasis on the Third World in international affairs was related to this policy. Fraser found it 'impossible for developing countries with agricultural economies to help themselves if they were locked out of markets' (Ayres 1987: 440). Fraser's push for the Third World stemmed from his belief that 'Western strategic interests would be best served by creating the circumstances that would enable Third World economies to thrive ... [through] giving those economies access to markets in the advanced economies of the world.'³⁸

The idea of the Pacific Community Seminar attracted Fraser because it included key members of the North, such as the United States and Japan. Fraser viewed the Seminar idea as helpful in countering the effects of the inward-looking and protectionist policies of the EC on Asia Pacific economies. The Pacific groups would also 'have enormous potential for the advancement of the economies of its member-states' (Ayres 1987: 441). This view was evident in Fraser's (1980) claim: 'just as the Atlantic countries have created a range of institutions designed to serve

³⁸ Ayres 1987: 345. However, Fraser's push for the Third World was seen as contradictory because of his support for protectionism at home; as a developed nation, there was the need for Australia to reduce its tariffs.

their interests ... so the dynamic and interdependent countries of the Pacific must now make the same effort’.

Fraser’s support for the Pacific Concept also derived from his experience organising the Commonwealth Heads of Government Regional Meeting (CHOGRM), a supplementary regional forum within the Commonwealth. Here was an international organisation where Australia had common interests with other members and could also exercise influence as a ‘big country’. Fraser first proposed CHOGRM at the 1977 Commonwealth Heads of Government Meeting (CHOGM) in London by saying that ‘Australia had come to understand the benefits of close consultations with Asia and the Pacific over the years’ (*AFAR* 1978: 16). It proved useful to set common agendas and increase understanding among members in solving common problems. One of these was the North–South problem. CHOGRM, which Fraser thought ‘one of the most useful foreign policy initiatives ever taken by Australia’ (cited in Renouf 1986: 113), was an ideal venue for him to address the important issue of the North–South problem in the Asia Pacific region, reflecting his own interest in international affairs. It was through this meeting that Fraser (personal interview) came to ‘acknowledge values in a collective gathering where nations concerned discussed common problems’. Fraser (1980) noted that the existing regional institutions and arrangements could not adequately handle the issues ‘emerging from growing regional interdependence’ and that existing international economic institutions were ‘to some extent Atlantic-centred and were originally created primarily to cope with the needs of the economies of that region and not of the Pacific Basin’. Fraser suggested a Pacific Forum of Heads of Government or Ministers, based on CHOGRM, as a possible future model for a Pacific Community.

Fraser also saw that increased economic links with East Asian countries could be to Australia’s benefit. He (personal interview) said in retrospect: ‘I felt that Australia’s links and success would lie very much with a close association with Japan and other countries in the East and Southeast Asian theatre which had already developed or demonstrated a healthy capacity for economic growth’. Fraser (1980) explained at that time: ‘The value of total trade among the market economies of the West and Northeast Pacific increased from \$US 29 billion in 1965 to \$US 173 billion in 1977 – astonishing growth, even allowing for inflation.’ This demonstrated Australia’s

growing interdependence with Asian economies and encouraged high expectations of their further economic growth from which Australia could obtain benefits through trade and investment.³⁹ Fraser's interest in the Pacific Concept was to develop further. At the Manila meeting, his enthusiasm increased Ohira's chances of having the Concept accepted. Ohira and Fraser officially 'selected' the idea of the Pacific Community Seminar in Canberra when Ohira visited Australia during 15–17 January 1980 at the invitation of the Australian government.

Ohira's visit to Australia

Ohira had two major reasons for the visit to Australia in early 1980. First, Japan noted that Australia had recently become more involved in the Asia Pacific region, which it perceived as a positive move towards its acceptance of Ohira's Concept. Secondly, Ohira wanted to sound out Australian leaders on the Pacific Concept and thus gain a better grasp of its practical possibilities (Ohira Memorial Foundation, 1990: 522). What distinguished Ohira's endeavours to realise policies on Asia Pacific regionalism from those of his predecessors was that he was the first to promote the policy with Australia as co-leaders.

Before his visit to Australia, Ohira had appointed Okita as foreign minister in his second cabinet in November 1979. The appointment was regarded as unusual because Okita was not a member of the Diet despite his nomination for the highly-ranked portfolio of foreign affairs.⁴⁰ The nomination indicated a strong political intention to realise the Pacific Basin Cooperation Concept and it established a solid basis for Australia and Japan to cooperate in furthering the Concept through Okita's close ties with Crawford and academics in Australia.⁴¹ Okita's appointment as foreign minister was most warmly welcomed by Australia, which was working with Japan to promote the Pacific Concept: 'With the possible exception of British

³⁹ Dalrymple (1981) emphasised Australia's interest: 'In the case of Australia 70 per cent of its export and 60 per cent of its import trade are with the region ... these figures I think help to explain why ... in Australia ... there has developed such interest in the Pacific Community Concept.'

⁴⁰ Okita was not Ohira's first candidate for foreign minister. Ohira had first contacted Nobuhiko Ushiba, former Vice-Minister of MOFA and Minister for External Economic Relations in the Fukuda cabinet. Ushiba also had close ties with Crawford and Australia, but rejected the offer mainly because of his poor health and lack of enthusiasm. He praised Okita's acceptance and his achievements as foreign minister (Ushiba, 1984: 175).

⁴¹ Crawford said of Okita: 'From long experience of working with him, culminating in the last few years, I have a very high regard for his understanding of world affairs' (*National Times*, 17 November 1979).

Foreign Secretary, Lord Carrington, there is no foreign affairs chief in the world who knows Australia better or has had more intimate contact with Australians than Dr Okita'.⁴² Crawford expected Okita to 'put whatever weight he can behind a concerted effort for some form of Pacific development' (*National Times*, 17 November 1979). Ohira's decision to appoint Okita as foreign minister signalled Japan's willingness to promote the Pacific concept with Australia.

At the meeting on 16 January 1980, Fraser (1994: 321) confirmed that he and Ohira shared the same vision for the development of the Pacific Community and they agreed that Japan and Australia should play a central role in its development. Ohira and Fraser agreed on two points in Canberra. First, several countries in the region were preoccupied with other issues, and could not afford to allocate much energy and time to the Pacific Community issue. This was particularly the case with ASEAN countries. They reached agreement that serious institutionalisation should not occur until ASEAN was well established. Secondly, given national differences in size, history, culture and economic development, Ohira and Fraser thought it necessary to take the time and increase mutual understanding to overcome problems. Accordingly, Ohira and Fraser agreed that a non-government seminar was the proper initial step for exploring the Concept.⁴³

In Canberra on 16 January 1980, Okita and Crawford discussed ways of promoting the Pacific Concept, and Crawford suggested to Okita that the ANU host a non-government seminar.⁴⁴ Okita passed on Crawford's suggestion to Ohira and Fraser during the official meeting on 16 January 1980. 'It was then and there that the Australian prime minister promised to provide financial support to this particular seminar' (Donowaki 1982: 17). Donowaki, who accompanied Ohira to Australia, recalled that Fraser's endorsement was more than Japan had expected, because

⁴² His appointment caused 'an immediate flurry in the Government' and an official said '... a whole series of minutes have been going up to Cabinet' (*National Times*, 17 November 1979).

⁴³ Fraser (1984: 5) said later: 'we recognised the difficulty of getting governments to agree to a concept that could not be given significant and clear form. Therefore, we developed the concept of non-governmental seminars that would ... seek to define and explore the idea of the Pacific Community.'

⁴⁴ Before Ohira's visit to Australia, Crawford had visited Japan and met Okita in Tokyo on 14–15 November 1979 in preparation for Ohira's visit to Canberra and they had discussed the possibility of organising a seminar in Canberra (Hirota 1983: 85). After returning to Canberra, Crawford expressed his readiness to take the initiative in organising an international seminar when he met with Yoshio Okawara, Japanese Ambassador to Australia, on 29 November 1979 (MOFA document, 4 February 1980).

Fraser's offer to support the ANU seminar went beyond the agreed content of the Joint Communique and he thought it unusual for the government to provide full financial support for a conference organised by a university.⁴⁵ This illustrated Australia's commitment to the Pacific Concept; from that time, Australia took the leading role in developing the Pacific Concept.⁴⁶

For Ohira, the time was finally ripe to announce officially the Pacific Basin Cooperation Concept in his speech in Melbourne on 18 January 1980. The Study Group's interim report and Fraser's strong support contributed to Ohira's growing confidence that the Concept might eventuate. Ohira (1980) said: 'For the first time in history, the vast and broad Pacific basin region has come to meet the prerequisites for making possible the creation of a regional Community'. Fraser responded:

We agreed that a first step would be for Australia and Japan to consult with others of our friends in the region to ascertain their views, and to explain clearly what we have in mind. I am pleased to be able to say now that if our consultations indicate broad interest in exploring the concept further, then Australia would be happy to sponsor a seminar for this purpose which has been discussed ... between Dr Okita and Sir John Crawford. I would envisage this taking place during the year at the Australian National University. (*Age*, 19 January 1980)

Fraser's announcement signalled the start to the organisation of the ANU Seminar.

Adjustments

In the institution-building model, leader states are presumed to adjust their own interests to those of potential participants in order to produce an attractive institutional blueprint that makes reference to the institution's objective and structure. After the Ohira-Fraser meeting in Canberra, the development of Ohira's Pacific Concept was divided into two parts: the completion of the final report by the Study Group in Japan and the preparation of the Pacific Community Seminar by

⁴⁵ Personal interview, 16 December 1994. Ohira said on his return to Tokyo from his visit to Australia, New Zealand and Papua New Guinea 'I was surprised by the strong support provided by the three countries for the Pacific Concept' (*Sekai Shuhou*, 5 February 1980). This shows that Ohira had not been confident about their reaction.

⁴⁶ Fraser (personal interview) recalled that Australia was aware of Japan's caution in taking the initiative, despite its desire to promote the Concept. An Australian government report also acknowledged: 'Japan believes it is entitled to leadership in the Western Pacific, but is unsure how to

ANU academics in Australia. The focus of the Pacific Concept shifted from the development of the Concept by the Study Group to the organisation of the Seminar by ANU academics. Yet, as the Study Group had been endorsed by the Japanese Prime Minister and had been central to the development of the Concept, the region had eagerly awaited the announcement of the final report. Crawford also regarded the Report as an important background paper for the ANU Seminar. Thus, the final report and the organisation of the Seminar are discussed separately here.

The final report

As the interim report had recommended, the Study Group hoped to complete the final report with other countries by holding an international symposium among experts. Yet, as the final report was required in March 1980 and an international symposium, now the Pacific Community Seminar, was to be held in September 1980 in Canberra, the final report had to be completed before the symposium.⁴⁷ Accordingly, MOFA sounded out relevant countries' reactions through Japanese embassies to help the Study Group complete the final report. MOFA thought it especially necessary to gain support from ASEAN countries. When MOFA held its Ambassadors' Meeting on 27 September 1979 to examine how the Pacific Concept could be promoted to complete the interim report, analysis of ASEAN's reactions dominated the meeting. Japan had not explained the Concept to ASEAN countries in any detail because it had expected a cool reaction from them.⁴⁸ It concluded that some ASEAN countries misunderstood its rationale behind the Pacific Concept and the nature of the Concept needed to be explained to these countries.⁴⁹

To dispel ASEAN misunderstanding, Japan dispatched Kiyohisa Mikanagi, formerly Ambassador to the Philippines, to five ASEAN capitals during 10–17 March 1980.

lead and hesitant lest others should resist any Japanese leadership role' (Japan Secretariat 1980: 3).

⁴⁷ The Group forwarded the final report to Ohira on 19 May 1980 and, after receiving it, Ohira stated: 'this is the only good policy that I have formulated' (*Asahi Shimbun*, 7 July 1980).

⁴⁸ MOFA document, 27 September 1979. The document tabled at the meeting noted that while the United States and Australia were actively investigating the Concept with Japan through diplomatic channels, their support was anticipated.

⁴⁹ A reference to ASEAN's misunderstanding of the Concept, in MOFA's judgement, was included in the text of the speech 'Towards a Pacific Basin Community: A Malaysian Perception', by Ghazali Shafie, Malaysia's Minister for Home Affairs. The text was sent by the Malaysian Embassy in Tokyo to Okita on 20 December. MOFA then analysed the speech and realised it might reflect general ASEAN views. Yet it discovered that Ghazali's excessive focus on political and military aspects of the Pacific Concept was based on a misunderstanding and realised the interim report, which was not mentioned in

His main purpose was to explain the Concept and seek their understanding. He met with foreign ministers, senior foreign affairs officials and academics in each capital. His diplomacy was effective in changing some of negative views held by ASEAN leaders. For instance, the Malaysian Deputy Prime Minister Mahathir, who had reservations about the Pacific Community because he thought it would hamper ASEAN (Mahathir 1980), suggested in his meeting with Mikanagi that Japan and Australia were pushing ASEAN countries into a new association. Yet he was persuaded to the view that examination of the Pacific Concept would be useful and ought to continue.⁵⁰

It is noteworthy that Mikanagi met the Australian ambassador in each capital to exchange information, saying it was useful to know Australia's position on the Pacific Concept and its progress in organising the Canberra Seminar. Japan had allied itself with the Australian initiative in organising the Seminar to promote the Pacific Concept in Southeast Asia. Mikanagi recalled that while Singapore, the Philippines and Thailand were in favour of the Concept (the Thai Deputy Prime Minister, Khoman, was most supportive), Indonesia and Malaysia reserved their judgement.⁵¹

MOFA and the Study Group finally decided to incorporate ASEAN's preferences into the final report, which eventually gave due emphasis to economic and cultural aspects⁵². At the meeting between the Japanese delegation and the ANU academics on 26 March 1980 in Canberra, Otsuka, head of the Policy Planning Section at MOFA, also stressed the importance of social and cultural exchanges. In this meeting, Crawford noted that 'the stress placed on cultural and social exchanges ... was doubtless a response to the felt need to build up understanding with the ASEAN countries'. Otsuka responded that:

the speech, had not been well understood (MOFA document, 27 December 1979).

⁵⁰ Memo from Drysdale to Crawford, 'Telephone call from O'Leary, 19 March 1980.'

⁵¹ Personal interview, 23 January 1995, Tokyo. Mikanagi reported back to Ohira and Okita on 28 March.

⁵² Akio Watanabe, a member of the Study Group, explained the report: 'the first priority was to draw ASEAN's attention to the Concept and the Study Group agreed to include areas which would bring positive gains to ASEAN countries; the Pacific Concept in the final report thus stressed economic and cultural issues' (personal interview, 19 January 1995, Tokyo).

... the Study Group had come to the conclusion that the creation of understanding within the region was an important objective and should be pursued through cultural and social exchanges. This conclusion was reinforced by Ambassador Mikanagi's visit to the ASEAN countries ... the emphasis was on establishing solidarity with ASEAN and showing responsibility towards ASEAN.⁵³

Japan also understood that the United States still had a dominant interest in global affairs. The final report thus needed to emphasise the Concept's flexibility in relation to global links and the need for cooperation with existing regional institutions such as ASEAN. The report (7-8) emphasised the three points as the Concept's main characteristics, probably because they encompassed broader regional interests, especially those of the United States and ASEAN:

It is by no means an exclusive and closed regionalism *vis-à-vis* those arrangements outside the region. Due to serious concerns about what appears to be a decline in the free and open international economic system based on GATT and IMF, we hope that the Pacific countries can capitalise on their characteristic vigour and dynamism to become globalism's new supporters;

Within the region as well, the Concept aims at creating free and open interdependence. In the cultural sphere, exchanges are to be promoted with maximum respect for diversity; and in the economic sphere the free trisection of goods and capital is to be vigorously encouraged with the utmost respect for the developing countries' situations and interests; and

Our Concept in no way conflicts with the cooperative bilateral and multilateral relations already existing in the region. Rather, the Concept stands on the valuable achievement of these existing cooperative relations, having mutually complementary relations with them.

A feature of the final report was its outline of the Pacific Community Seminar in the third section entitled 'Toward Realising Pacific Basin Cooperation' (77-80). The report rated the Pacific Community Seminar at the ANU highly as an important initial step in promoting the Concept 'deliberately and steadily'. The Report indicated that the Seminar should cover three main points:

Past studies and proposals on Pacific Basin cooperation should be reviewed for articulation of specific fields of possible cooperation;

⁵³ 'Meeting between ourselves and Japanese Delegation on Pacific Community Concept, 26 March 1980.' Participants included Crawford, Drysdale, Garnaut and Harris from Australia, and Iida, Otsuka and Uchida from Japan. Crawford understood that there was Japanese sensitivity about the history of the Co-Prosperity Sphere and wondered whether it was because of an anxiety not to be misunderstood that such attention was given to cultural-social relations. Iida replied that this was very much the case.

A consensus should be reached among the concerned countries on cooperative measures that are acceptable to all parties and

Studies should be made of the possibilities of establishing an organisation for long-range promotion of Pacific Basin cooperation.

The Pacific Community Seminar aimed to achieve this. This meant that the ANU academics and members of the Study Group needed to reach consensus on how to realise the Concept. They knew that a step-by-step approach was essential and that the procedure described above to promote the Pacific Concept was one of the few choices open to them.

The report (79) made a concrete proposal about institutionalising the Concept: setting up a committee 'to manage a series of international conferences ... to review the results of past conferences and prepare for future ones'. The committee was expected to include 16 to 20 'persons of authority who have influence with their respective governments'. Also, it suggested establishing working groups separately from the private committee, in line with projects outlined in Part II of the report: 'Tasks for Pacific Basin Cooperation'. The report (79) notes:

After a number of such conferences have been held, the committee should come to assume the characteristics of a private consultation forum for promoting Pacific Basin cooperation, and in time it should emerge as an authoritative standing organisation bringing to attention items of common interest among concerned countries and working out better solutions to them. When the committee attains this status, it might be able to express joint opinions or make recommendations to the government concerned on matters where a consensus has been reached among its members.

As seen later, similar proposals were mooted during the Seminar where Crawford referred to the report, and the development of PECC was broadly consistent with these proposals.

Adjustment in the light of the Pacific Community Seminar

In response to the agreement between Fraser and Ohira, the Seminar Secretariat, comprising Crawford, Drysdale, Garnaut and Harris, started organising the Seminar from 25 January 1980. Before the ANU academics visited regional countries to explain the Seminar, they attended three important meetings in Canberra: 1) with DOFA senior officials on 29 February; 2) with ASEAN Heads of Missions on 11

March; and 3) with the Japanese delegation on 26 March. 'Adjustments' to the Seminar's agenda were made mainly as a result of these meetings.

Meetings with the Department of Foreign Affairs

A preliminary meeting between ANU academics – Drysdale, Garnaut and Harris – and Foreign Affairs officials was held on 20 February when they discussed the title, themes, participants, timing, costs, reactions of regional countries, and links between the ANU and the Department. Following this, a high level meeting, involving Crawford and the Acting Secretary of Foreign Affairs, Parsons, was held on 29 February. DOFA stressed the 'unofficial' nature of the Seminar:

The Malaysian Foreign Minister was reported to have stressed that it should be clearly designated as a non-government seminar;

The seminar should be totally organised by the ANU through its academic network and official consultations should be limited;

It would be preferable to have more non-government people than officials participating in the conference and it would be good if there could be three participants from each country to dilute official participation; and

The word 'conference' implied an official rather than a university meeting and that perhaps 'seminar' should be used to describe the meeting. (memo from Drysdale to Crawford, 3 March 1980)

The Department's attitude to the Seminar stemmed partly from the insights they gained after testing the reaction of ASEAN countries, especially Malaysia and Indonesia, which were unenthusiastic, but which accommodated the Department's views to a degree.⁵⁴

Despite DOFA's emphasis on the Seminar's unofficial nature, officials at the Policy Planning Unit of the Department, especially Owen Harries and David O'Leary, cooperated in exchanging opinions and views with the ANU academics, especially Drysdale.⁵⁵ Frequent conversations between O'Leary and Drysdale provided a

⁵⁴ Another focus was on the composition of the participants. Crawford revealed the ANU's plan: 20–30 core participants would attend, including one government and one non-government representative from 11 core countries and South Pacific nations. The 'core countries' were Australia, Canada, Japan, New Zealand, the United States, the five ASEAN countries and South Korea (memo from Drysdale to Crawford, 3 March 1980: 'Pacific Community Conference: Meeting with Parsons, Harries, Lyons, North and Ourselves, 29 February 1980).

⁵⁵ Drysdale stressed that the consultation with the Department was significant because of: the guidance

communication channel that was pivotal in adjusting opinions between the Department and the ANU and were a key to the successful organisation of the Seminar.

Adjustments to Japan's approach

It is the leaders' task to adjust different interests among the potential participants in institution-building, but a prerequisite for joint leadership is for leaders to adjust their own opinions and approaches. ANU was fully responsible for organising the Seminar, so Japan thought it necessary to exchange views with ANU academics. Japan also probably thought it useful to explain Japan's ideas in the final report to the ANU, to ensure that the Seminar would be organised in line with Japanese expectations. After Ohira's visit, ANU academics had their first meeting with officials at the Embassy of Japan on 29 February. Japan had three items on its agenda: Japan's delegation to the ANU to explain the final report, Mikanagi's mission to Southeast Asia and the possibility of co-sponsoring the Seminar. Crawford endorsed the first item, but did not support the last two. One reason Crawford did not support Mikanagi's mission to Southeast Asia before his own visit to the region was that he thought it might give ASEAN countries the impression that Japan would dominate the Pacific Seminar. This belief was relevant to his answer to the third item: the Seminar would be the ANU's responsibility, and he had no intention of agreeing to co-sponsorship with Japan, a point Crawford emphasised at the meeting.⁵⁶ The meeting revealed differences in approach on the part of Japan and the ANU. Crawford requested that Menadue, the Ambassador to Japan, talk with MOFA officials, so that Crawford could clarify Japan's approaches and positions to the Seminar.

Menadue reported after his meeting with MOFA, that Okita had left Canberra with the impression that there would be co-sponsorship with Japan, but Okita acknowledged that he and Crawford might have been talking at cross purposes. Okita did not wish to press the point. MOFA was yet to abandon the possibility of

the Department could provide on political aspects of the Seminar; the expertise that the Policy Planning Unit had to offer in this area; the need to make contacts with other governments about the Seminar; and the possible need for administrative support in relation to holding the Seminar (memo by Owen Harries entitled 'ANU, Pacific Community Seminar', 25 February 1980).

⁵⁶ Memo from Drysdale to Crawford, 29 February 1980; 'Pacific Community Conference: Meeting with

co-sponsorship, but with Crawford's determination and Okita's view that Japan should accept the ANU's independent organisation of the Seminar, the problem was solved.⁵⁷ After receiving this information from Tokyo, Crawford, Drysdale, Harris and Garnaut met with the Japanese delegation, which included Otsuka, Uchida (senior officials of MOFA) and Iida (acting chairman of the Study Group) on 26 March 1980. The Japanese initially explained the main points of the final report and discussed it with the ANU academics before discussing the Seminar. Crawford then revealed there was already general consensus about the participants, as discussed with the Department of Foreign Affairs on 29 February 1980. The Japanese, who reported that there was little enthusiasm for Chinese, Russian and Latin American participation, agreed on participation. Crawford stressed there would be no consideration of military–security issues, which he did not see as of prime interest to any country in the region. The focus was to be on trade, investment, aid and energy. Crawford added that the ANU Seminar was to be seen in the Okita–Ohira–Fraser context of a continuing series of discussions and seminars, but that he would be disappointed if it were not possible to come up with positive inter-governmental steps (memo from Drysdale to Crawford, 26 March 1980). The Japanese also recognised that this issue was important because government involvement through senior officials was thought to be a new element in the Pacific Community Seminar. A MOFA official approached by Menadue had a similar view:

[I] saw the role of the government representative as being most important if there was to be any progress. Scholars and business people had held many seminars and conferences but without much progress. The new element would be the involvement of the 'government' representative. (telex from Menadue to Crawford, 20 March 1980)

Neither side expressed many opposing views and, most importantly, they agreed that initial government involvement was necessary. At the meeting, the Japanese expressed their gratitude to Crawford for his leadership in organising the Seminar and said that 'the Japanese government is happy to leave all arrangements for the

Yoshida and Tajima (Japanese Embassy) and ourselves'.

⁵⁷ 'Memo on Pacific Community Seminar' from Menadue to Crawford, 10 March 1980. According to Menadue, MOFA suggested the following points: An OPTAD approach should be avoided since it could cause confrontation with some ASEAN countries; The Seminar should not deal with potentially divisive issues such as military–political matters, and the Seminar should recommend that governments in the

Seminar to the ANU' under Crawford's leadership as Okita has instructed MOFA several times. This shows that there was no further doubt about responsibility for organising the Seminar.⁵⁸

Adjustment with ASEAN countries

Japan and Australia understood that persuading ASEAN countries to endorse the Pacific Concept was the biggest hurdle and that surmounting it was the key to the Seminar's success. Crawford's first approach was to hold discussions on 11 March 1980 with high commissioners and ambassadors from five ASEAN countries stationed in Canberra. Crawford explained the purpose of the Seminar, and provided details of participants and his coming visit to the ASEAN capitals. Crawford stressed that governments would be free to nominate a participant and he sought advice on potential government and non-official participants from ASEAN countries. Crawford advised that a head of department or very senior official would probably be the most appropriate official representative. The missions' questions focused on the governmental stance on the Pacific Concept in Japan, Australia and the United States rather than the Pacific Community Seminar. This indicates that ASEAN countries did not yet fully understand what the Pacific Concept involved and the purpose of the Seminar. Crawford had to emphasise that ASEAN was a key element in the Pacific Concept. Everyone took ASEAN as a starting point in discussing proposals for wider economic cooperation.⁵⁹

Although this meeting was useful as an initial step in familiarising ASEAN countries with the Seminar, ANU academics needed to know more about ASEAN's views on the Seminar before Crawford's visit to the ASEAN capitals in April 1980. Crawford hoped to meet the relevant ministers and the heads of ministries and Mikanagi's visits to ASEAN, which had occurred before Crawford's visit, was useful in this context. Mikanagi met with Australian high commissioners and ambassadors during his ASEAN visit, so DOFA was able to collect information about Mikanagi's meetings with ASEAN leaders. Although Crawford was negative about Mikanagi's

region meet regularly, although this might not be for at least a year after the Seminar.

⁵⁸ 'Memo from Drysdale to Crawford: Meeting between ourselves and Japanese Delegation on Pacific Community Concept, 26 March 1980'.

⁵⁹ Memo on 'Meeting between ASEAN Heads of Missions, Sir John Crawford, Dr Ross Garnaut and Dr Peter Drysdale held on 11 March 1980 on the Pacific Community Conference'.

visit for fear it might contribute to Japan's domination of the organisation of the Seminar, the visit provided background for Crawford on who had said what on the subject of the Pacific Concept.

DOFA reported to Drysdale that at the meeting with Mikanagi, Mahathir said that his preference was for a functional rather than a structural approach to the Pacific Concept and the idea of a discussion at a non-government seminar in Canberra seemed quite acceptable. Filipino Foreign Minister Romulo had said to Mikanagi that while the Pacific Concept would be an item on the agenda for the ASEAN Foreign Ministers' meeting in June 1980, the Concept needed further study.⁶⁰ The Department also told Drysdale that Wanandi, an influential scholar in Jakarta, had voiced ASEAN's views that the Seminar should structure the agenda to attract ASEAN interest. ASEAN enthusiasm for the idea was strongest in Singapore, followed by Thailand, Indonesia and Malaysia, with the Philippines the least enthusiastic.⁶¹

With this background, Crawford wrote an aide memoire and sent it to the five ASEAN countries before his visit to the region on 10–17 April 1980. Entitled 'Aide Memoire on the Australian National University Seminar on the Pacific Community Idea', this letter had the special purpose of providing reassurance that Crawford might have promulgated proposals on behalf of the Australian or any other government. The aide memoire gave details of the participants and stressed that although officials would keep their governments informed, the ANU would not expect them to state views on behalf of their government at the Seminar.

After covering the Seminar's origins, the aide memoire went on to say:

... our role was simply to facilitate the free discussion and analysis of an issue that was attracting much attention in many countries .. [we] would not go into the seminar with any preconceived ideas about the outcome ... we hope the Seminar will prove helpful to governments in sorting out the pros and cons of the various courses of action on the Pacific Community Concept which have been expressed by a wide number of individuals.

⁶⁰ Memo from Drysdale to Crawford on 'Telephone call from O'Leary (Foreign Affairs), 19 March 1980'.

⁶¹ Memo from Drysdale to Crawford on 'Telephone conversation with O'Leary on Pacific Community Seminar 25 March 1980'.

The aide memoire concluded that the ANU was aware of ASEAN governments' concern that any broader regional arrangement should not prejudice continued progress within ASEAN, but should help the ASEAN countries' main concerns in international economic policy. Its tone was mild, and designed not to give the ASEAN governments a negative impression. The memo, along with Crawford's direct visit to ASEAN capitals, showed how highly ANU academics rated ASEAN involvement in the Seminar.

Negotiations

ANU academics undertook trips throughout the region to invite the nomination of participants in the Seminar and to accommodate opinions in countries with reservations about it. The negotiation stage preceded the demonstration stage in institution-building.

Crawford and Garnaut visited five ASEAN capitals during 7–15 April 1980. Of the five countries, Singapore was most supportive and ministers Goh (Industry) and Dhanabalan (Foreign Affairs) expressed their full support for the Seminar. They also noted that the United States, Japan and ASEAN were cautious about taking the initiative in this matter and said that the ANU Seminar was a useful way of proceeding.⁶² Crawford and Garnaut were unable to see any minister in Malaysia, despite Home Affairs Minister Ghazali's showing a strong interest in the meeting, because their visit clashed with a cabinet meeting. Crawford met with the Deputy Secretary of Foreign Affairs, who responded positively to the invitation to send an official representative from Malaysia; an adviser to the government on economic affairs promised Crawford he would use his influence to see that Malaysian government representation was adequate.⁶³

The visit was generally successful because Crawford secured ASEAN governments' assurances that they would nominate senior officials to the meeting, although

⁶² 'Pacific Community Seminar: Telephone Call from O'Leary [to Drysdale], 9 April 1980'.

⁶³ 'Telephone Call from O'Leary [to Drysdale]: Pacific Community Seminar, 10 April 1980'.

Crawford realised that some ASEAN countries were still cautious.⁶⁴ He and Drysdale had been continuously conscious of this fact all along, and decided that the matter would be appropriately reflected and discussed at the Seminar.⁶⁵

Drysdale, who had visited New Zealand in March 1980 where he obtained the support of Foreign Minister Talboys for the Seminar, also visited the United States, Canada, Japan and South Korea in May 1980. In the United States, Drysdale met with politicians, Glenn and Wolff, the academic, Krause, and senior officials, Holbrooke and Cooper, of the State Department. His meeting with Holbrooke was especially important as Holbrooke could present official American views. Holbrooke himself noted that there would be an official US presence, which, he said, would symbolise the administration's support for the Pacific Concept and told Drysdale that ASEAN should be approached carefully, so that it did not feel threatened, and observed that the cohesion of the five ASEAN countries was of the highest importance to the United States.⁶⁶

Drysdale met with Japanese officials and academics during 28–30 May 1980. His most important meeting was with Okita, whom Crawford hoped would participate in the Seminar. In handing a formal letter of invitation to Okita from Crawford, Drysdale stressed how Japanese participation was widely regarded as crucial to the Seminar.⁶⁷ Okita received Crawford's official invitation via letter much more quickly than those of the other participants; Crawford had also written a letter to Okita in March to report on the Seminar's preparation (letter from Crawford to Okita, 5 March 1980), demonstrating the importance Crawford attached to Okita's participation.

Drysdale finally went to Korea where the Korean Foreign Ministry showed strong interest in the Seminar and stressed its desire to see Korea represented. The

⁶⁴ 'Notes for Meeting with Crawford and Peacock (Minister for Foreign Affairs), 8 June 1980'.

⁶⁵ 'Pacific Community Seminar: Notes on Meeting between Drysdale, O'Leary and Seow, 8 August 1980'.

⁶⁶ 'United States: Discussions on Pacific Community Concept', Inward Message at Australian High Commission, London, 13 May 1980. Holbrooke further suggested that it would be very useful if Australia were to take an early decision on the level of its official representation, as this would provide guidance to other countries.

⁶⁷ 'Pacific Community: Visit by Dr Drysdale', Inward Message to Australian High Commission, 30 May 1980.

Australian Embassy in Seoul reported that after Drysdale's visit, Foreign Minister Park publicly spoke of Korea's interest in being involved in the Pacific Community idea: 'Korea should not only take an active part in its founding, but prepare measures to expand economic cooperation with [Pacific] countries'.⁶⁸ Drysdale's briefing seemed to stimulate Korea's official interest in the Pacific Concept and encouraged its participation at the Seminar.⁶⁹

The ANU academics' diplomacy encouraged focus on common interests for discussion at the Seminar and formed an 'institutional blueprint' which was sent to individual participants in the demonstration stage of institution-building.

Demonstration

After the adjustment and negotiation stage, Crawford sent an Agenda Memo to potential participants in early August. This represents the institutional blueprint of the Pacific Community Seminar after adjusting opinions on the basis of Crawford's assessment following a number of meetings with relevant countries.⁷⁰ The agenda note (Crawford and Seow 1981: 1-6) was the final blueprint, launched immediately before the Seminar. The note set out four questions for discussion at the Seminar: 1) What is the 'Pacific Community'? 2) What are the issues for substantive cooperation? 3) Which countries would participate? 4) What steps could be taken? Each question included contributions by the ANU academics and the questions examined the following four points:

- 1) the nature of economic interdependence in the region which was a strong factor in identifying a 'Pacific region'; how countries in the region were economically interlinked, and how this interdependence urged the need for economic cooperation in the region.

⁶⁸ 'Pacific Community Concept: ANU Seminar', Inward Message to Australian High Commission, 12 June 1980.

⁶⁹ Drysdale again visited Japan, Canada and the United States during 6-14 July for further consultation with MOFA, especially about Japanese participants at the Seminar, to invite the Canadians and talk with the State Department and Krause at the Brookings Institution. Garnaut also visited South Pacific countries to explain the Seminar and check their participation.

⁷⁰ Before delivering the Agenda Memo, Crawford (1980b) outlined his support for the Seminar in a speech at PBEC's meeting in Sydney in May 1980 and expressed his determination that the Pacific Community Seminar would have a successful conclusion: 'I am on the record as strongly favouring further developments in regional economic cooperation. I have neither the intention nor the need to forswear this position'.

2) various issues represented by different ideas on a Pacific Community such as [those of] Japan's Study Group and the Drysdale-Patrick's OPTAD; whether any new inter-governmental arrangements simply should be aimed at information generation or consultation, or whether there should be a forum for reaching agreement on policy issues with implications for action by participants.

3) which countries should join a Pacific Community on the basis of economic interdependence and why some countries could be members and others not; the level of participation; identifying Crawford's heads of government or senior ministers, who were on similar level to OPTAD and the Japanese Study Group's inter-governmental organisation consisting of 'men of authority'.⁷¹

4) the necessity of avoiding the swift development of institutionalisation. This could be done by introducing the ideas of a) Crawford who said that a formal, highly-structured organisation embracing all countries could not be expected, b) Drysdale-Patrick's OPTAD which did not provide a precise timetable for action, and c) the Study Group report which recommended the development of the Concept through a series of non-government seminars. Importantly, the report indicated that the nature and timing of the next seminar should be discussed at the Seminar. It described the Seminar as exploratory, focusing on broader and substantive issues such as the ultimate goal, the composition of the participants, the necessity of a secretariat.

The note was intended to help participants clarify points for discussion in the Seminar and prepare their own opinions on each question, so that the participants could come to Canberra with a clear vision about the agenda.

Pacific Community Seminar

Crawford chaired the Pacific Community Seminar, held between 15–17 September 1980 at the ANU. The Seminar consisted of four sessions of intensive discussions: the question in each session followed the Agenda Note.⁷² The last session was the most important because it explored steps which might be taken to establish the organisation. The participants concluded that:

⁷¹ Participants were chosen through consultations with each government and the visits of the ANU academics, but Crawford had the final say on who would be invited. For instance, Crawford set the criteria for which countries were to be invited: countries in which thinking was most advanced and where ideas had already taken root, so that discussions on the more practical aspects of cooperation could proceed more easily; less time would be needed for familiarisation and harmonising of views (inward message to London, 2 June 1980).

⁷² Crawford (1982b: 66) recalled the occasion: 'All members without exception took part. There is no record of anyone remaining silent throughout the Seminar. I had to bring every session to a close, as the speakers were anxious to continue on'.

Considerable regional exchanges have developed among the business and academic communities, but there was a need to strengthen the involvement of governments in this process, which points to a need for a new forum for consultation on major regional policy issues. Such an arrangement would be designed to promote mutual understanding and a habit of cooperation among Pacific countries;

Advance must be step by step. The first goal should be to build arrangements that are loosely structured and a special characteristic would be the involvement of academics, businessmen and government personalities. It is useful to continue to explore the merits of a formal institutional structure;

An essential element in Pacific regional cooperation is the furthering of the economic aims and interests of the ASEAN countries and the South Pacific Forum.⁷³

The 'hasten slowly' approach in the second point stemmed from the fact that ASEAN, especially the Philippines, Malaysia and Indonesia, and the South Pacific countries were not ready to establish a formal inter-governmental organisation.⁷⁴ After the Seminar, the strongest dissenting opinion came from the Philippines representative, Ambassador Luz Del Mundo, who said other members of ASEAN had agreed 'it would not be wise to hold any future meetings' in an ASEAN country (*Canberra Times*, 19 September 1980). Okita, aware of such a view, had told Crawford a day before the Seminar:

OPTAD was possibly viable as a long-term goal, but not for the immediate future. The next step needed to be more modest, perhaps another seminar to be held in an ASEAN country, but it should be held as soon as possible to maintain momentum.⁷⁵

An Indonesian representative told Kojima (1990: 251), an observer at the Seminar, that they were not 'against' the idea of establishing a Pacific organisation, but they

⁷³ 'Pacific community Seminar: Conclusions and Recommendations, September 15–17 1980'.

⁷⁴ At the first session, ASEAN's sceptical, cautious and critical views for establishing an organisation prevailed, but at the second session in which Vernon (observer from PBEC), Khoman, Okita and Holbrooke expressed their support for taking steps to promote a new Pacific organisation, the Seminar's mood changed. The mood became more optimistic on the second day, as Snoh (President of Bank of Thailand), proposed a detailed program to establish an organisation in two years and Khoman agreed to host the second seminar in Thailand. Yet a Philippines government representative (Mundo) was strongly opposed to establishing an organisation; a new organisation would help developed nations dominate ASEAN whereas ASEAN should take the first priority (Kojima 1990: 247–48).

⁷⁵ 'Meeting among Okita, Khoman, Holbrooke, Crawford, Drysdale and Garnaut at the Chancellor's Flat, 14 September 1980'. It was evident that Okita had already temporarily shelved OPTAD as inappropriate given the cautious reaction in some ASEAN countries. Significantly, his remarks on Japan's position which hinged on ASEAN, hinted at a lessening of Japan's interest in the Pacific Concept, but with increased interest in relations with ASEAN during the 1980s, as shown in Chapter 8.

needed to take time to examine and determine their position because the final report of the Study Group had come out only a few months earlier and significant materials and information had just been obtained from the Seminar. So, a 'step-by-step' approach was desirable. Yet Crawford (1982b: 72), who admitted that the approach might be 'interim only', was resolved on a formal organisation: 'these steps, no matter how long or how briefly they last, should have a value in themselves, should produce worthwhile results regardless of the ultimate outcome of the movement toward a permanent form of inter-governmental organisation'.⁷⁶

The Seminar's main recommendations and consensus were:

A standing committee of about 25 persons, the Pacific Cooperation Committee (PCC), be established to coordinate an expansion of exchanges of information within the region and to set up task forces to undertake major studies of a number of issues for regional cooperation. The Committee would advantageously have a designated contact institution in each country;

A prime responsibility of the PCC would be to establish task forces in agreed areas to explore substantive issues for regional economic cooperation, to review their reports and transmit them to governments with such comments as they may wish to make. The Committee would also usefully continue the exploration of a possible future permanent institutional structure for Pacific cooperation;

The first meeting of the Committee should take place in the next southern autumn (northern spring) and the Committee would be responsible for the organisation and timing of future seminars around its own and task force activities, the first of which would take place within two years from now;

The Committee will establish task forces to undertake studies and to report to it upon some of the following issues: trade, direct investment, energy, marine resources and international services;

The Chairman of the Seminar when he reports to governments on this Seminar should advise interested governments on arrangements necessary to establish the PCC, secretariat and funding.⁷⁷

⁷⁶ This view was consistent in Crawford's approaches to the Pacific Concept. Crawford had already indicated the possibility of an inter-governmental institution from the Pacific Community Seminar in his PBEC speech, May 1980: 'governments may prefer a loose form of occasional (e.g. yearly) meetings of senior government leaders to discuss major questions and to assign matters to task forces for advice as a basis for negotiating agreements among the members ... I believe this approach would over the decade lead to something like OECD (or OPTAD) ... By this I mean quite shortly a regular meeting of senior ministers setting assignments to a Secretariat (including specially created task forces). This implies an acceptance by Ministers that reports they receive will at times call for international negotiations among the members and quite often the acceptance of policy changes by national governments.'

⁷⁷ 'Pacific Community Seminar: Conclusions and Recommendations, September 15-17 1980'.

The PCC was 'the Seminar's major recommendation and was overwhelmingly supported' (Crawford 1982b: 74). It provided the framework for developing the Seminar into PECC. The recommendations of the PCC and task forces were identical to those made by the Study Group's final report which suggested establishing a committee of 'persons of authority' and working groups.⁷⁸ The Pacific Community Seminar had a positive outcome, helping to forge a general consensus about the future direction of Pacific cooperation as a result of blending various ideas about the Concept and adjusting the different approaches of regional countries.

Towards the establishment of the Pacific Economic Cooperation Committee

After the Seminar, governments, academics and business leaders had an opportunity to assess its outcome and exchange views.⁷⁹ Reaction from governments, whose commitment was essential for the next step, had been mixed. While countries such as Australia, Japan and Singapore had spoken positively of progress made at the Seminar, some ASEAN countries saw difficulties in establishing a new and institutionalised form of regional cooperation and were not keen to support the Concept's development.⁸⁰ For instance, the Malaysian government declined to support a second PECC meeting (Harris 1994: 5). The Indonesian Foreign Minister, Mochtar Kusumaatmadja, said his government had reservations because it saw no urgent need for the Concept, partly because the proponents themselves were not clear about their ideas and presented the ideas in a 'clumsy' way (Soesastro 1983:

⁷⁸ The establishment of a similar committee had been recommended at Jakarta in January 1980, in a conference organised by the Centre for Strategic and International Studies (CSIS: 1980). Crawford had noted this recommendation in meetings with the organisers of the conference such as Wanandi and Soesastro of CSIS. Japan became the first nation to set up a Special Committee on Pacific Cooperation within the Japan Institute of International Affairs in December 1980. Other regional countries followed in the mid-1980s and the national committees would become 'the formal mechanisms for passing PECC recommendations to government' (Harris 1994: 15).

⁷⁹ Soesastro (1983: 25–6) referred to several activities to further explore the Pacific Concept from the 1980 Canberra Seminar to the 1982 second meeting in Bangkok in 1992. The Special Committee on Pacific Cooperation was established in Tokyo in December 1980, and a study group of scholars from the five ASEAN countries recommended setting up ASEAN–PCC in early 1981. The Korean Committee for Pacific Cooperation was established in June 1981 and Canada's Foreign Minister proposed the Canada Foundation for Asia and the Pacific in February 1982.

⁸⁰ Soesastro 1983: 7. The Australian Department of Foreign Affairs reported '... the establishment of PCC seemed to threaten the role of ASEAN itself' ('conversation between Drysdale and Department of Foreign Affairs', 14 November 1980). Drysdale (1983: 1299) attributed the difficulty of accepting the recommendation to the fact that '... each government would have to recognise the activity officially and become involved in carrying it forward'.

10). Because Japan, Australia and the United States thought it essential to gain ASEAN's endorsement before establishing the PCC, as mentioned earlier, these reservations were a major obstacle to its further development.⁸¹

The ASEAN Post-Ministerial Conference (PMC), which was scheduled to be held from 19–20 June 1981, was an important venue for Japanese and Australian foreign ministers to discuss Pacific cooperation issues with their ASEAN counterparts formally.⁸² Targeting the PMC, the Australian Government sponsored Crawford's visit to the ASEAN capitals during 26 April – 2 May 1981 to explain the proposals for further developing the Concept. Crawford also wanted to gauge reaction to a second ANU-type meeting, preferably in an ASEAN country, to stimulate further interest. At the same time, Okita (1981), as Chairman of Japan's Special Committee on Pacific Cooperation dispatched a report to ASEAN as well as to other Asia Pacific countries. It aimed to persuade ASEAN countries to support the establishment of a non-governmental regional institution: 'We believe it most useful in realising the goal of the Pacific Basin Cooperation Concept to establish a non-governmental forum which would research cooperation in the Pacific area'. The report was also intended to alleviate ASEAN's concerns directly and establish that 'the Concept will not undermine ASEAN's solidarity and its non-aligned position ... ASEAN will benefit from [the Concept]'.⁸³

Despite Crawford and Okita's efforts, there was little debate on the Concept in the ASEAN PMC.⁸⁴ The indifferent reaction towards the Concept in the ASEAN PMC led MOFA to believe that no government would be willing to take the initiative or

⁸¹ Holbrooke stated the United States could not take an official position in supporting a new regional organisation without knowing what it was about and who its members were. Okita also said that Japanese attitudes were conditioned by ASEAN. ('Meeting of Okita, Khoman, Holbrooke, Crawford, Drysdale and Garnaut at the Chancellor's Flat, 14 September 1980').

⁸² Japanese Foreign Minister and Ohira's close friend, Masayoshi Ito, attempted to discuss the issue with ASEAN countries when he accompanied Prime Minister Suzuki on his visit to the region in January 1981, but Ito only obtained a pledge that they would discuss it at the ASEAN PMC in June (Hirota 1982: 88).

⁸³ Yet Okita's report was not necessarily successful. Malaysia's *Business Times* (8 June 1981) reported: '... there is a feeling of disappointment [in Japan] that official ASEAN response so far has been less than enthusiastic with the exception of the support [Japan] has received from the leaders of Singapore'.

⁸⁴ MOFA had already sent its views on the Concept to relevant countries before the PMC that the Pacific Concept should be promoted on a non-governmental basis and relevant governments should see how the development would go. Sonoda expressed this view at his bilateral meetings with the foreign ministers of five ASEAN countries, the United States, Canada, Australia and New Zealand (MOFA Document, 30 June 1981).

that they would be reluctant to be involved in developing the Concept. It confirmed MOFA's view that the private sector should develop the Concept (MOFA document, 30 June 1981). A study sponsored by Indonesia's CSIS in January (CSIS: 1981) had also aimed to stimulate discussion within ASEAN and 'approved the thrust of the Canberra proposal' (Drysdale 1983: 1299), but as Soesastro, a central figure in the study, said, 'no unified ASEAN position had yet been achieved'.⁸⁵

Khoman sought the go-ahead to serve ASEAN interests in the development of the PCC along the lines Crawford had suggested on his visit to the ASEAN capitals. Khoman became another key person in institutionalising the Pacific Concept as PECC. On the eve of the Canberra Seminar, Khoman had told Crawford that some ASEAN countries had reservations because they perceived developed countries were 'ganging up' on ASEAN, but that the PCC should start now with countries that were interested, even if ASEAN members were initially divided. He said that the next seminar should address particular issues such as investment, energy and trade liberalisation which would help lessen ASEAN's fears, and that it should set up 'task forces' in these areas.⁸⁶ After the Seminar, Khoman, who had found the Concept 'noble' and the discussions 'most fruitful', commented at a press conference at the Thai Embassy in Canberra that 'as an inveterate and incurable believer in regional cooperation, I will do everything I can to promote development of a Pacific community'. Khoman's positive stance on the Concept was based on his belief that 'a wider Pacific community would help rather than harm ASEAN' (*Canberra Times*, 18 September 1980).

Khoman's substantial support for the Pacific Concept contributed to his taking the initiative in organising the second meeting at Bangkok during 3–5 June 1982 at which Ali Murtopo, the Indonesian Minister for Information, offered to host the next non-government conference on Pacific cooperation in Indonesia in 1983. The Bangkok Seminar was significant in establishing an institutional framework for PECC through the agreement to establish a standing committee responsible for the

⁸⁵ 'Memo' from Drysdale to Crawford, 12 February 1981.

⁸⁶ 'Meeting among Okita, Khoman, Holbrooke, Crawford, Drysdale and Garnaut at the Chancellor's Flat, 14 September 1980'.

organisation of the next conference and four task forces.⁸⁷ The name of Pacific Economic Cooperation Conference was also adopted at the Bangkok Seminar; the Bangkok Seminar was the catalyst in realising the core recommendations of the Canberra Seminar. Given ASEAN's cautious views on the Pacific cooperation, it is noteworthy that ASEAN leaders such as Khoman and Murtopo worked harder to maintain the momentum of the Pacific cooperation after the Canberra Seminar.

Conclusion

This chapter adapted the six stages of the institution-building model to the development of the Pacific Concept and the organisation of the Pacific Community Seminar to examine how and why the second phase of an Asia Pacific economic community, the quasi-governmental PECC, progressed from the non-governmental first phase of cooperation and exchange. The focus was the impetus behind the growth of interest in the Pacific Basin Cooperation Concept, especially in Japan, Australia and the United States, and the chapter traced the process of setting up the Pacific Community Seminar.

As had been the case with PBEC and PAFTAD, Japan and Australia assumed leadership in developing the Pacific Concept and the two countries were both pivotal in organising the Pacific Community Seminar. This supports the validity of the first criterion of the institution-building model. Okita and members of the Study Group in Japan, and Crawford and Drysdale in Australia, as members of epistemic communities, assumed 'intellectual' and 'entrepreneurial' leadership roles in creating the basic ideas for a new regional institution and organising the Seminar. In addition to Japanese and Australian participants, Patrick, Krause and Khoman also played a significant role. Most importantly, political leaders such as Ohira and Fraser shared a belief in the necessity for regional economic cooperation with those epistemic communities and they provided political impetus for the development of Pacific cooperation. Their support was pivotal to the organisation of the Pacific Community Seminar.

⁸⁷ The four task forces were 1) trade in primary products other than minerals, 2) trade in minerals including oil and gas, 3) trade in manufactured goods and 4) investment and technology transfer.

Why did Phase II, the quasi-governmental PECC, emerge in the course of progress towards the development of an Asia Pacific economic community and why was PECC thought necessary? These questions can be answered by examining the basic ideas and activities of these individual leaders, as was argued in the discussion of the innovation, refinement and selection stages. Increasing regional economic interdependence was the major factor causing many leaders to see the necessity of creating a new forum. The Drysdale–Patrick paper was based on the notion that ‘the emergence of Pacific economic power required a new regional reference point to facilitate the pursuit of common – and the overcoming of conflicting – trade and development objectives within the Pacific economy’ (Drysdale 1983: 1296). Ohira, Fraser, Okita and Crawford shared this view. A conspicuous feature in creating a new forum was government involvement. Drysdale’s rationale for the submission of his report with Patrick to the US Congress was that ‘it [was] high time to consider the necessity of cooperation first at bureaucratic and then at political levels’ (*Asahi Shimbun*, 16 April 1980). Similarly, Fraser’s support for the Pacific Concept stemmed partly from his dissatisfaction with adequacy of existing Pacific economic institutions. Fraser (1980) said ‘the Pacific region [was] institutionally under-developed’. The same point was raised in the preparation of the Study Group’s report and the organisation of the Seminar, as analysed of the three stages in institution-building.

The development of Ohira’s and Fraser’s understanding of their countries’ interests in Asia Pacific regionalism was important in creating the new regional institution. Japan’s sound relations with ASEAN, a product of the 1977 Fukuda Doctrine, created a favourable environment for Ohira to depart from Japan’s traditional approaches to Asia Pacific regionalism, where the focus had been on the provision of aid to Southeast Asia. Ohira envisaged a broader regional framework encompassing all countries in the Pacific Ocean, rather than just Southeast Asia, and hoped a new regional association would promote regional exchanges in various fields, especially economic and cultural areas. Likewise, as discussed in Chapter 4, Australia had actively sought better relations with ASEAN during the 1970s and came to stress economic aspects its foreign policy. To Fraser, the Pacific Concept was an idea with the potential to promote these interests. Crawford, who had been long aware of the significance of these interests in Australia’s foreign policy, was

pivotal in rendering the basic objective of a new regional institution as the promotion of regional economic integration. This approach was in line with Ohira's interests in the Pacific Concept.

The second element of the institution-building model, the followers' interests in regional economic cooperation and leaders' adjustment of these different interests, was also important in the formation of PECC. This process was delineated in the demonstration, negotiation and demonstration stages. Asian developing countries had started to record high economic growth since the late 1970s and they were gradually becoming more confident in their economic ambitions. This factor, combined with growing economic interdependence, encouraged some ASEAN countries to develop their interests in regional economic cooperation.⁸⁸ Yet some ASEAN countries were not ready to establish a fully inter-governmental regional institutions as some in Japan and Australia may have wished. Malaysia was one of them. Deputy Prime Minister Mahathir (1980) stated the view that countries in Asia and the Pacific did not know each other and it was thus premature to create a government-involved institution. This had been recognised in the first phase of an Asia Pacific economic community and it was reconfirmed at the Pacific Community Seminar (Crawford and Seow 1981: 28): 'there was still a major need for Pacific countries to "get to know each other" better before steps were taken towards creation of new, formal inter-governmental institutions for regional cooperation'. This acknowledgment of the need to create a consensus for the establishment of an inter-governmental institution contributed to making PECC's status quasi-governmental.

The third strand of the institution-building model, a shared understanding of regional economic affairs and the merit of regional cooperation, was also evident in the creation of PECC. The fact that Japanese and Australian leaders had a shared understanding was important, as was the role of members of epistemic communities. The leaders believed that increasing economic interdependence was a source of further economic development as well as a source of potential friction among

⁸⁸ Iida, acting chairman of the Study Group and participant in the Seminar observed: 'if the Seminar had been held some years before, disharmony between the North and the South would have dominated the discussion. In this sense, the process of the steady economic growth in ASEAN countries is impressive' (*Nihon Keizai Shimbun*, 28 September 1980).

regional states, so some form of regional institution was necessary to capitalise on interdependence and help overcome any resultant problems. Many of the key players had interacted with each other at PAFTAD conferences and in the Australia–Japan Economic Relations Project, and shared views on regional economic cooperation. This shared understanding of Pacific cooperation among leaders in both countries assisted in creating similar approaches in refining the Pacific Concept and organising the Seminar.

This element also helps explain why PECC was not launched as an inter-governmental regional economic institution. Although increasing interdependence was a major driving force behind the support of leaders in Japan and Australia for the Pacific Community idea, ASEAN leaders were not yet ready to support it. This reflected difficulties with ASEAN countries' understanding of the necessity for the Pacific Concept and the reluctance of some of their governments to make a commitment to it. Mahathir, for example, (1980) said:

... interdependence is still very much an economic concept that has no reality for a lot of poor nations. True interdependence must mean not just being mutually dependent on each other but some degree of equality of strength to support each other.

In Mahathir's view, a main function in a regional institution like PECC was to overcome 'the paucity of knowledge among the Pacific region countries of each other' and to share their similar views on regional economics and politics. Clearly, the value of greater interdependence, a fundamental driving force behind Australian and Japanese leaders' claims about the necessity for a new economic regional institution, was not shared by some ASEAN leaders.

Fraser (1984: 5–6) was aware of this and decided to take a less ambitious approach to promoting the Concept:

I could well understand some of the earlier diffidence with which ASEAN members approached the concept. How can you ask somebody to support something that cannot be and has not been defined – and it is very clear that ASEAN would not want and Australia would not support any proposal that cut across the objectives and purposes of ASEAN, which has been one of the best examples of functional and political cooperation anywhere in the world.

Despite its status as a quasi-governmental institution, PECC was an outcome of the 'progress' from the first phase of an Asian Pacific economic community due to its involvement of government officials on the private capacity. In Australia and Japan, leaders took the position that the establishment of an inter-governmental institution would take time and should not be rushed. Further, this process would be mainly undertaken within the PECC framework in which senior officials, especially from ASEAN countries, would learn the merit of regional economic cooperation. Combined with the high economic growth in East Asian countries through the 1980s, this helped form a regional consensus on the desirability of an inter-governmental regional institution and provided the foundation for establishing in 1989, as revealed in the next chapter.

8 Phase III: The establishment of APEC

In January 1989 in Seoul, Australian Prime Minister Bob Hawke proposed an inter-governmental regional economic institution that was to be realised 10 months later as the first Asia Pacific Economic Cooperation (APEC) meeting. APEC was the first inter-governmental regional economic institution to gather foreign and trade ministers from regional countries. This chapter examines the formation of APEC to clarify why the Asia Pacific economic community developed from the second phase of PECC to the third phase of APEC.

Like Chapters 6 and 7, this chapter applies the six stages of the institution-building model: innovation, refinement, selection, adjustment, demonstration and negotiation. The model is built on the basis of three elements of regime formation: leadership, common interests and shared understandings. In this chapter a central interest in applying the model is to explore why certain people thought it desirable to establish an inter-governmental institution (innovation); how those ideas developed into policy (refinement and selection); how other countries reacted to these ideas; and how individuals in leader states acted to establish APEC (adjustment, demonstration and negotiation).

The actual creation and the circumstances of the announcement of the initiative were at the instigation of Hawke and his advisers in the Prime Minister's Office. Australia's Department of Foreign Affairs and Trade (DFAT) was also searching for ways to achieve regional economic cooperation at the governmental level and Japan's Ministry of International Trade and Industry (MITI) had floated a proposal for economic ministers' regional meetings in mid-1988. DFAT expressed strong interest in MITI's idea, which led to coordination between DFAT and MITI. PECC was also seeking a ministerial regional meeting and the Australian members were approaching senior ministers and officials to realise the proposal.

These were the central agents that produced the basic idea of APEC, and they were essential elements in the innovation, refinement and selection stages. It is especially

important to consider how those ideas were relevant to the Hawke initiative. After the Hawke announcement, DFAT came to play a major role in developing and promoting the idea. MITI visited regional countries in March 1989 to sound out reactions to its proposal and Hawke's initiative. This visit laid the groundwork for the relatively smooth acceptance of Hawke's proposal when an Australian delegation later visited regional countries in April–May 1989. The Secretary of DFAT, Richard Woolcott, launched a blueprint following his efforts to sound out regional countries. This was to be a basis of the Canberra meeting's agenda. These processes are the focus of the adjustment, demonstration and negotiations stages. The chapter finally assesses how the three elements of the institution-building model were relevant to the formation of APEC.

Pacific cooperation and the international trading system in the 1980s

It is useful to describe the development of Pacific cooperation and regional and international economic environments before analysing the actual formation of APEC. These were the external factors which prompted leaders in Australia and Japan to consider that the time was ripe to establish an inter-governmental regional institution. It is also helpful to review how Japan and Australia tackled Pacific cooperation after their initiatives in the organisation of the Pacific Community Seminar in 1980.

The development of the PECC structure

After the 1980 Seminar, PECC developed into the most comprehensive regional institution, gradually consolidating its organisational structure and activities. The third meeting, held in Bali in November 1983, saw the entrenchment of its basic organisational structure when it was agreed that the General Meeting would be organised by the Standing Committee, with task forces, coordinating groups and national committees to be set up in each member country. At the fourth Meeting in Seoul in April 1985, the Trade Policy Forum was established, so that PECC could produce recommendations that were more in line with those involved in the GATT Uruguay Round negotiations, indicating that PECC was moving towards a role as a policy-oriented institution. The 1986 Vancouver meeting adopted the Vancouver Statement, which defined PECC's purposes and activities, and clarified its organisational structure. The Osaka meeting, held in May 1988, established the

PECC Central Fund, *Pacific Economic Outlook* and new task forces such as one on Transportation, Telecommunication and Tourism. An important achievement of the Osaka PECC was the declaration based on regional consensus in support of GATT negotiations, which was 'a remarkable shift towards convergence on a major issue of collective interest', the first of its kind issued by the members, 'many of whom had initially been sceptical about GATT and multilateralism' (Harris 1989: 66). The Osaka meeting also saw the establishment of the Ad Hoc Task Force for Institutional Development, a development which members took as a starting point in their work towards the establishment of an inter-governmental institution within PECC.

While PECC was engaged in consolidating its organisational structure and gaining momentum, the governments of the member countries also began to show a more direct interest in regional economic cooperation. In this regard, 1984 was a turning point. In January and March, the US Under-Secretary of State for Political Affairs, Lawrence Eagleburger, suggested 'a shift in the center of gravity of US foreign policy interests from the trans-Atlantic relationship towards the Pacific Basin and particularly Japan' was taking place (cited in Borthwick 1987: 135). In July, Pacific cooperation issues were prominent on the agenda at the ASEAN PMC in Jakarta where an ASEAN–Pacific Dialogue was established to facilitate an exchange of views on economic and development issues in the region and the identification and development of specific areas for cooperation.¹ In September, the United States National Committee for Pacific Economic Cooperation was established, and the committee was inaugurated by US leaders including President Reagan, Vice-President Bush, and Secretary of State Shultz in a White House ceremony.² In October, Shultz declared that there was an emerging consciousness of the Pacific Community and from that time, he became a prime mover in the upsurge of US interest in Pacific cooperation.³ Along with the development of the PECC process,

¹ The dialogue 'represented the first significant pan-Pacific inter-governmental arrangement' (Woods 1993: 119), despite the fact that it did not 'get off the ground' due to a lack of support from some ASEAN countries (Wanandi 1989: 13).

² In Japan, the Special Committee on Pacific Cooperation, established in 1980, developed into the Pacific Cooperation Committee of Japan in 1984, which changed its English name to the Japan National Committee for Pacific Economic Cooperation in 1986. The Australian National Pacific Cooperation Committee was also established in September 1984.

³ Borthwick (1987: 134) wrote '... with the entry of George Shultz as secretary of state, US governmental interest in Pacific cooperation began to widen' and attributed Shultz's interest to his profession as an international economist and business leader who 'found little difficulty in understanding economic cooperation as a means of reducing the growing trade fractions that had

the growth of interest in Pacific cooperation among regional countries, especially in the United States, which had not so far shown a particular interest in the issue, led to the creation of a favourable environment for Australia and Japan to consider the possibility of an inter-governmental regional economic institution.

Japan after Ohira

In Japan, the momentum of political interest in Pacific cooperation, the hallmark of Ohira's foreign policy, was maintained through the 1980s, but the government did not become deeply involved in Pacific cooperation. Kumao Kaneko, the then head of the International Secretariat of PECC, wrote in the late 1980s: 'In Japan, the lack of a concrete agenda and the unexpected death in June 1980 of Ohira ... caused public interest to wane'.⁴ This was especially true of the Ministry of Foreign Affairs (MOFA), which had not been enthusiastic about the Pacific Concept even when Ohira was in power.⁵ MOFA regarded relations with ASEAN as more significant than Pacific cooperation, and its stance was that unless ASEAN supported it, Japan could not seriously advance it; MOFA thought it better to focus on furthering relations with ASEAN, a remark echoed by a senior MOFA official.⁶

MOFA's less-than-enthusiastic stance on Pacific cooperation had an impact on Ohira's successor, Zenko Suzuki's approach to Pacific cooperation. Ali Moertopo, Indonesian Minister of Information, wrote (1984: 70) that 'when I met Prime Minister Zenko Suzuki two months ago in Tokyo, I was surprised to hear his statement that a scheme of cooperation between ASEAN, Japan and Australia seemed to be more feasible than the Pacific Community proposal'.⁷ Yet Suzuki did comment favourably on regional cooperation in Hawaii on 1 June 1982. Suzuki's announcement was prompted by the view that ASEAN's reservations about Pacific

accompanied expansion of Pacific commerce'.

⁴ Kaneko (1988: 73). According to Kaneko (1988: 88), Japan gave the impression of losing enthusiasm for Pacific cooperation which disappointed and frustrated some of the stronger advocates of Pacific cooperation. For instance the *Far Eastern Economic Review*, (31 January 1985) noted 'in the space of five years, Japan has all but turned away from the creation of a Pacific Basin community'.

⁵ Members of Ohira's Study Group noticed that MOFA suddenly went cold on the Concept after Ohira's death; a MOFA senior official told a member that 'the era of the Concept was over' and this member was also told by a Japanese Ambassador to a European nation that 'to be frank with you, the Pacific Concept was unnecessary' (personal interview).

⁶ Personal interview, 16 December 1994, Tokyo.

⁷ Krause (East Asian Institute 1981: 25) also commented: 'Prime Minister Suzuki has turned the idea over to the bureaucracy ... If [Japan is] not going to push it, and if the United States is not going to push

cooperation were diminishing, an observation Suzuki and Fraser made during their meeting in Japan in May 1982.⁸

After Yasuhiro Nakasone took over from Suzuki as Prime Minister in February 1983, he frequently expressed interest in Pacific cooperation in his books and speeches. His interest focused on the concept of a Pacific Economic And Cultural Enclave (PEACE) which he first advocated in 1966.⁹ It appears that Nakasone intended to propose the creation of a new regional institution when he visited the United States in January 1983. He was in sympathy with Ohira's concept and regarded the realisation of the Pacific Concept as a way of fulfilling Japan's international responsibilities (*Yomiuri Shimbun*, 17 January 1983). However Japan's Special Committee of Pacific Cooperation (1983), established under MOFA, briefed Nakasone on Japan's approach to the issue in April. In essence, it concluded that the Pacific Concept is a long-term project, and hasty institutionalisation and the monopolisation of the development to seek short-term benefit should be strictly avoided. Further, it maintained that voluntary commitment to the Pacific Concept by ASEAN countries was essential to promote the Concept. This briefing might have affected Nakasone's subsequent approach and he took no concrete action towards the realisation of his proposal. Nakasone came to believe that 'to promote PECC was a better option than pushing for a new inter-government regional institution', as his policy adviser noted (personal interview). This stance dominated thinking on Pacific cooperation in Japan in the 1980s, and was substantially influenced by MOFA. MOFA's cautious view, in a sense, gave MITI an opportunity to take the initiative with Australia in establishing APEC, as will be seen later.

Australia and Pacific cooperation in the 1980s

The Fraser government provided political support for the Pacific Community Seminar, and hoped to see greater liberalisation of the economies in the Asia Pacific region. PECC might have been expected to help the region achieve the goal, as

it, progress will be slow since Australia cannot go it alone.'

⁸ Suzuki and Fraser were encouraged by the fact that the second PECC meeting was scheduled to be held in Bangkok in June under the direction of Khoman (*Asahi Shimbun*, 19 June 1982).

⁹ Nakasone 1966: 82–89. Nakasone (1985) outlined four underlying principles in his speech in Canberra: to promote economic, cultural and technological cooperation; to be open and non-exclusive; to respect the initiatives of the ASEAN countries and the other developing countries in the region; and to encourage private sector initiatives.

argued in Chapter 7. Yet after the Seminar, Australia under Fraser did not necessarily show a strong commitment to Pacific cooperation, partly because Australia's protectionist image did not impress other regional countries, especially those in ASEAN (Albinski 1982: 61). As rapid economic growth in the region continued, Australia's enthusiasm for the region was seen as 'an attempt to exploit regional growth without making the necessary domestic adjustment to permit reciprocity' (Higgott 1992: 135). After resigning as Prime Minister, Fraser (1984: 9) made an excuse for these double standards:

My friends in the media often accuse me of having two standards in relation to trade because, they claim, I preached freer trade but maintained Australia's protection. Be that as it may, Australia's protection is lower than it was, and that was difficult, as you would all know, at a time of significantly rising unemployment. But ... it is almost impossible for any one middle ranking power to move too far alone unless that can get better access to other people's markets. So multilateral action is required, and that is not always easy to achieve.

Australia's commitment to liberalising its economy, which was to be implemented under Hawke, was an important factor in its initiative in the creation of APEC, as discussed later.¹⁰

The international trading system and Asia's growth in the late 1980s

The international trade structure in the late 1980s posed threats to the GATT-based multilateral trading system. The Single European Act of 1985, which aimed at the completion of the European Union in 1992, became a source of concern because it was assumed that Europe would take a more protectionist line. The US-Canada Free Trade Agreement signed in December 1987 (enacted in January 1989) became a great source of concern among countries in the Asia Pacific region. US Trade Representative, Yeutter (1988: 98), stated during the negotiations for the Agreement:

Our preference is the multilateral route ... but if the multilateral route should prove fruitless for any one of a variety of reasons, this certainly indicates that we can achieve success bilaterally and that we are prepared to pursue these basic objectives on a bilateral basis should that become essential.

¹⁰ It was thus ironic that after leaving the government, Fraser (1984: 6-8), proposed an inter-governmental regional institution: '... it is time ... for the Pacific Nations to start taking hold of their own futures more firmly and seeking more active cooperation between like minded members of the Pacific region ... I would suggest a development towards something like OECD.'

The US inclination towards this trade policy option stemmed from a frustration felt at the 1982 GATT ministerial meeting in Geneva where it failed to gain agreement to proceed with further trade liberalisation after the Tokyo Round (Krueger 1995: 87). The United States had approached regional countries such as Australia, Singapore, Japan and Korea to establish bilateral free trade agreements. Thus, the formation of a trading blocs in Europe and North America, as well as pessimistic prospects for the GATT Uruguay Round caused by the prolonged discord about the liberalisation in the agricultural sector, strengthened fears of the collapse of the multilateral trading system among countries in the Asia Pacific region.¹¹

At the same time, East Asian economies achieved rapid economic growth in the 1980s. For instance, Korea, Hong Kong and Taiwan maintained annual rates of export growth of over 10 per cent from 1981. From 1981 to 1987 real export growth in Korea, Taiwan and Hong Kong was 10.1 per cent, 16.4 per cent and 13.9 per cent, respectively (Park 1988: 126). Thailand recorded real economic growth of 8.4 per cent in 1987 and 11.0 per cent in 1988, while Malaysia recorded 7.5 per cent in 1988 (MITI 1990: 45). Asia's economic development in the 1980s was largely the result of export-oriented development strategies, facilitated by changes in the industrial structure of Japan, caused mainly by the appreciation of the yen after the Plaza Agreement in September 1985. Japan increased its imports from NIEs and ASEAN; they rose from less than 14.2 per cent in 1985 to almost 20 per cent three years later.¹²

These changes in the structure of the international and regional economy provided the impetus in Japan and Australia for the exploration of new possibilities of regional economic cooperation.

¹¹ McGuinness (1990: 4) wrote in this regard: 'to many countries it seemed a matter of some urgency that membership in one such trading bloc be sought as insurance'.

¹² The appreciation of the yen was so steep (from 260 yen per dollar in 1985 to 140 yen by late 1989) that Japanese exporters had difficulty exporting labour-intensive products made in Japan. As a result, exporters procured more of their parts and materials from overseas suppliers, and began to establish production facilities outside Japan. This contributed to the rise of Japanese direct investment in ASEAN and NIEs, giving a strong boost to local industries that supplied materials and parts. This resulted in a flow of products from such facilities into Japanese markets, and Asian nations established closer economic relations with Japan through trade and direct investment (Watanabe 1991).

Innovation

In the innovation stage of institution-building, it is important to identify what caused whom to generate ideas about forming a new institution. Before examining the 'basic ideas' put forward by Hawke's Prime Minister's Office, DFAT, MITI and PECC, it is necessary to clarify Hawke's fundamental approach to foreign policy, since the basic idea of APEC was closely related to his foreign policy approach.

Elements of Hawke's foreign policy approaches

On coming to power on 5 March 1983, Hawke accentuated the economic aspects of foreign policy. Foreign Minister Evans (1989a) said: 'the Hawke Government, more than any previous Australian Government, has brought trade concerns into the mainstream of foreign policy and has abandoned the artificial distinction between trade policy and foreign policy'.¹³ A driving force behind this approach lay in Australia's growing economic links with the region: the Asia Pacific region accounted for approximately 66 per cent of Australia's merchandise exports and about 65 per cent of merchandise imports, more than half of total exports of primary products and two-thirds of manufactured exports (Woolcott 1992b). These conditions strengthened Australia's intention to improve trade access in the region. Three characteristics in Hawke's foreign policy were particularly relevant to his APEC initiative: the fight against protectionism; his natural aptitude for multilateral forums; and his vision of economic enmeshment with Asia.¹⁴

Firstly, like other Australian political leaders, Hawke actively campaigned against agricultural protectionism in the international arena. Hawke's criticism of protection was 'a centrepiece of his address to the US Congress in 1988 and became a high priority on his agenda in visits to the US, Europe and Japan' (Mills 1993: 189). Australia's frustration at the GATT mid-term review in December 1988, which failed

¹³ Hawke (1994: 228–29) attributed his government's focus on trade in foreign policy to the fact that there was 'no obvious immediate threat we had to peer into the future ... Our new, more self-reliant defence posture reflected Australia's geographical realities. Meanwhile our external economic policy needed to reflect the same realities – that to our north was the fastest growing economic region in the world.'

¹⁴ Mills 1993: 192. To Hawke, foreign policy was his central interest as prime minister, as he believed it was 'directed by the leaders of nations, face to face; their capacity to do so was one of the most important responsibilities of their jobs as leaders' (Mills 1993: 154).

to incorporate agricultural products among the items for liberalisation, partly prompted it to launch APEC.

Secondly, Mills (1993: 189) attributed Hawke's propensity towards multilateralism to his background as president of ACTU, his keen participation in the International Labor Organisation and to his basic faith in negotiation. During his term in office, Hawke attended all but one of the annual South Pacific Forums, and all of the Commonwealth Heads of Government meetings. Hawke's faith in the process of negotiation and patient consensus-building was also judged as appropriate for multilateralism, sustaining his calls for the establishment of APEC.

Thirdly, Hawke (1994: 230) saw the importance of linking Australia more closely with Asia and the Pacific. 'We had, as a country, to wrap our minds around the fact that [the Asia Pacific region] was where the future of Australia would lie', he wrote, and he characterised Australia's approaches to the region as 'enmeshment with Asia'. He then linked such views to his concern about Australia's future:

Enmeshment meant change, radical change. It was a case of change or be left behind, with our living standards declining, our economy and way of life stagnant, our citizens envious and, in the long term, left to become the poor white trash of Asia ... We had to develop an export culture, with Asia.

Australia's declining economic position in the regional and global economy underlined the need for economic reforms at home.¹⁵ A strategy to overcome the problem was to promote exports: 'Hawke's most important duty abroad' was 'to boost Australia's bilateral trade and investment links with the regional countries', if measured by the number of hours he spent on this matter in his overseas trip (Mills 1993: 192).

In pursuit of these goals, the appointment of Ross Garnaut, an ANU economist, as Hawke's economic policy adviser in 1983 was important. To Hawke (1994: 166), Garnaut's emphasis 'towards transforming Australian industry by tapping into the extensive industrialisation sweeping the East Asian region' and his fundamental theme

¹⁵ Australia fell from the 8th largest trading country during the 1960s to the 23rd during the 1980s and its share of world exports fell from 2.1 per cent to 1.4 per cent (Higgott 1987). Paul Keating, the then Treasurer, warned that 'Australia risked becoming a Banana Republic' unless drastic changes in

that 'export expansion needed to be supported in Australia by import liberalisation' was important. Hawke believed that Garnaut 'was an unabashed free-trader and exactly the person I was looking for as an economics adviser'.

Partly on the basis of Garnaut's advice, the Hawke government implemented important economic reforms at home; the Australian dollar was floated, the financial markets were deregulated, foreign investment policy was liberalised and the rate of company taxation was cut. Most importantly, the Hawke government reduced by a third the level of tariff protection afforded to the Australian manufacturing industry. This tariff cut distinguished the Hawke government from the Fraser government and his government's commitment to these economic reforms were an advantage when Hawke announced APEC in Seoul: 'I was able to speak from a position of strength' (Hawke 1994: 431). In the early 1980s, there had been regional scepticism over the discrepancy between the rhetoric and reality of the domestic adjustment process in Australia, so 'APEC, at its inception, was meant to contribute to the resolution of this image problem in the region ... [and thus] the APEC initiative needs to be seen as an extension into the international domain of Labor's economic reform agenda' (Higgott 1992: 135). Hawke said in this context: 'we simply wouldn't be credible if we were arguing for the creation of an international situation based on lower tariff barriers, if we were not practicing what we preached.'¹⁶

Hawke's two major foreign economic policy priorities in the late 1980s were linking Australia's economy more directly with the growing Asian economies and seeking to strengthen the open, multilateral trading system. The establishment of APEC was a means of achieving both priorities.

The 1983 Bangkok proposal

Immediately after he came to power, Hawke attempted to create a regional economic association, an idea crystallised by Garnaut, to achieve these two foreign policy goals, indicating that his approach to Asia Pacific regionalism was part of a consistent foreign policy goal. This was announced in Bangkok in November 1983, encouraged by his awareness of the 'dramatic reordering of growth patterns' in East Asia, his

economic policy and industrial attitude were made (*Bulletin*, 27 May 1986).

¹⁶ Personal interview, 25 May 1998, Sydney.

determination to participate in the process and his expectation of benefiting from the change (*AFAR*, 1983: 688–94). Like Fraser in the establishment of PECC, Hawke was aware of increasing economic interdependence and political ties in the region, which reinforced his view that ‘a sound basis exists within this region to enhance [region’s] prosperity through cooperative action and to contribute importantly to global economic welfare’. Hawke continued in the speech: ‘I see no reason why countries of the region should not join together, in a manner consistent with their shared interests and capacities, to secure generally agreed objectives.’

At that time, US trade representative Brock and Japanese Prime Minister Nakasone proposed a new round within the GATT framework due to commence in 1987, which became the Uruguay Round, with preparation to begin in late 1984 or 1985. Hawke tried to take advantage of the new round because he believed important trading areas for Australia and ASEAN countries, such as agriculture and processed minerals, had been neglected by the multilateral trading system in the past. In his view, there was scope for Western Pacific countries to take a common approach in working towards a new round of negotiations. Hawke thus declared that if the GATT round failed to address effectively the issues of central concern to Australia, Australia would be prepared to join Asia Pacific countries in exploring alternative means of expanding trade on a non-discriminatory basis. The focus of such a move would be on the commodities in which countries in the region were the most competitive suppliers.

Hawke grudgingly conceded that ‘the major established trading powers have never seemed less able to formulate policies which will improve the trading environment’, so he relied on ASEAN countries in the region in this aim. He went as to say ‘we in the region ... owe it to ourselves to fill the vacuum’. Hawke (personal interview) recalled that the proposal stemmed from his concept of enmeshment with Asia and he regarded it ‘as part of an overall concept of bringing Australia and Asia closer ... [and as] the beginning of the bringing together of a group in the region with common interests’. This can be seen as a precursor to his APEC initiative.¹⁷

¹⁷ Hawke’s proposal led to regular and informal talks to seek common purpose in the forthcoming round, and the Australian government started talking to Japanese, Korean, Southeast Asian and New Zealand trade officers about issues of the Uruguay Round, which were taken over by APEC in a sense.

The Prime Minister's Office and PECC's involvement

The Prime Minister's Office was the major bureaucratic apparatus involved in crystallising Hawke's fundamental foreign policy approaches into regional economic cooperation policy. According to Chris Conybeare, Principal Private Secretary to Hawke during 1986 to 1988, from mid-1986, Hawke and his advisers had become more and more interested 'in doing something to fill the void of Asia Pacific economic cooperation'.¹⁸ Conybeare recalled that Hawke often stressed the importance of China's integration into the Asia Pacific region, which stemmed mainly from his meetings with Chinese leaders such as Hu Yaobang, the Party Secretary. Hawke had a wide-ranging talk with Hu in 1986 in which he realised that China's economic reform would be successful and would have a major impact on the future of the Soviet Union. Hawke anticipated significant changes in the Asia Pacific region, caused by economic reforms in China and the Soviet Union, and he anticipated massive benefits from the future Chinese market. Asia Pacific economic cooperation could be a good way to ease China's economic reform and integration into the expanding Asia Pacific economies.

In the meantime, Australia's National Pacific Cooperation Committee (NPCC) was considering proposing a ministerial meeting on Pacific economic cooperation and the NPCC briefed the Prime Minister's Office about the idea. PECC members considered that PECC could be the convenor for a ministerial meeting on economic cooperation, and the participation of China, Taiwan and Hong Kong in PECC in 1986 created an atmosphere in which the idea seemed feasible. NPCC Chairman, Russel Madigan, proposed a ministerial meeting to discuss Pacific cooperation at the PECC Standing Committee in Tokyo, September 1987. His proposal addressed ways to foster government policy follow-up to PECC's policy-oriented deliberations.¹⁹ NPCC had been concerned for some time that a number of issues had gone as far as they could in PECC, but matters such as trade liberalisation, trade facilitation and the investment

¹⁸ Personal interview, 30 July 1998, Canberra.

¹⁹ AUSPECC 1990: 26. Australian members were subsequently pivotal in setting up the Task Force for Institutional Development at the Osaka meeting in May 1988, to examine 'what steps, if any, might be taken to strengthen the linkages already built up through the PECC, relating to the interaction of governments and the promotion of Pacific economic cooperation interests' (NPCC 1988: 18).

code needed ministerial consideration to get off the ground. There had thus been discussion about the need for more specific ministerial involvement.²⁰

Importantly, the Prime Minister's Office was linked with NPCC in elaborating ideas on regional economic cooperation. Kim Jones, member of NPCC and Deputy Secretary of the Department of the Prime Minister and Cabinet (PM&C), played a role by keeping the Prime Minister's Office informed of what was going on in NPCC and taking forward the Prime Ministerial review into NPCC. Until his departure from the office in June 1988, Conybeare (personal interview) was 'involved in the process of trying to have more consideration given to a serious timetable for the elevation of the PECC framework to a ministerial level meeting' and said 'PECC had a strong lodgement in the Prime Minister's Office'. According to Conybeare (personal interview), as Hawke 'did have a close personal interest in how NPCC was developing and what was happening in it', Conybeare played a role as 'a conduit or contact point' to Jones on the issue.²¹

Department of Foreign Affairs and Trade

In 1987, the Australian Department of Foreign Affairs was merged with the Department of Overseas Trade into the Department of Foreign Affairs and Trade.²² Given the fact that the two departments traditionally competed over policy turf, amalgamation was an important step in Australia's push towards the APEC initiative. In early 1988, the Economic and Trade Development Division in DFAT headed by Andrew Elek started working on a revision of Hawke's 1983 proposal for a ministerial meeting. Given the prospect that the GATT Uruguay Round would meet with difficulty, Elek thought that it seemed a good time to bring Asia Pacific governments together to address issues beyond agriculture, which was being pursued in the Cairns Group established in 1987.²³ Elek continued: 'I think [a regional

²⁰ Personal interview with Stuart Harris, 23 April 1998. Harris said he discussed the issue with Okita in the PECC Osaka meeting and Okita was of the opinion that governments had to be more directly involved.

²¹ Conybeare (personal interview) comments that 'it was the PM's area which had interest in PECC, not DOFA. I would be pretty sure that quite a lot of policy discussion went on with PM&C first rather than with DOFA.

²² The merger reflected Hawke's notion of foreign policy: 'increasingly, foreign policy *is* trade policy, and trade policy *is* foreign policy, as the strands of international political and economic relations become further intertwined ... our interests were best served by ... pulling the two formerly distinct portfolios together' (Hawke: 1994: 421).

²³ Personal interview, 7 April 1998, Canberra.

economic association] was a sensible objective, from an economic point of view, as it was clearly of interest to everyone ... [although] I was aware of the political sensitivities'. DFAT cautiously began to sound out the possibilities for inter-governmental regional economic cooperation.

MITI

In Japan, MITI was also exploring the possibility of a ministerial meeting and the origins of MITI's 'basic ideas' about a regional ministerial meeting can be found in Shigeo Muraoka's initiative in setting up the Trade Policy Planning Office to outline comprehensive trade policy within the International Trade Bureau in 1986. Muraoka, then Director-General of the Bureau, hoped that the Office would deal with interdisciplinary trade issues which no single section in the Bureau could deal with due to the inter-sectoral nature of the issues. Muraoka appointed Masakazu Toyoda as the officer responsible for research. The reasons Muraoka and Toyoda promoted regional economic cooperation at the government level were that Japan might be able to inject strategic thinking into the region, given the fact that more than four decades had passed since World War II. Asia was becoming the centre of the world economy; and inward-looking regionalism was looming elsewhere in the world. Muraoka stressed the final factor as significant for MITI's growing interest in Asia Pacific regionalism:

Should Japan follow the trend of discriminatory regionalism? No. Was Japan powerful enough to curb the trend? No. An option Japan could take was to commit itself to creating open regionalism by means of an Asia Pacific regional institution. Asia Pacific regionalism should not only be consistent with globalism, but it should also aim to promote globalism. We hoped that MITI's plan could play a bridging role between regionalism and globalism.²⁴

Toyoda also said an important message MITI hoped to carry was to advocate a new model of regionalism. The worst scenario for Japan was for the world economy to be divided, so he thought it essential for MITI to present open regionalism as a desirable model to Europe and North America.²⁵

²⁴ Personal interview, 20 January 1995, Tokyo.

²⁵ Personal interview, 15 January 1995, Tokyo. While Toyoda was carrying out his research, the then MITI Minister Hajime Tamura put forward a proposal for a Pacific Basin Industry Ministers' Meeting to Australia when he attended the Australia-Japan Ministerial Committee in Canberra in January 1987. Although this proposal failed to materialise, Tamura went on to advocate Asia Pacific Economic Development and Cooperation in Bali, in January 1988 (MITI 1994:1). These proposals were in line

To give more substance to these proposals, in February 1988, a Study Group for Asian Trade and Development was established within MITI²⁶ and the Group launched a report in June (MITI 1988). It was on the basis of this report that MITI approached regional countries to explore the possibility of a ministerial meeting on regional economic cooperation.

Refinement

An important element in the refinement stage of institution-building is to identify national interests and develop 'basic ideas' in line with national interests, so that political leaders can adopt the ideas as formal foreign policy. Thus, it is important to examine how the 'basic ideas' for an international institution were refined in line with ministerial interests in foreign policy.

DFAT

DFAT's consideration of inter-governmental regional economic cooperation was spurred by Hawke's agreement with Japanese Prime Minister Noboru Takeshita in Canberra in July 1988 that both governments should consult on the implications for both countries and the Asia Pacific region of the EC 1992 Single Market moves and the US-Canada Free Trade Agreement.²⁷ Hawke's APEC announcement in Seoul was to subsume the process into a regional dialogue and thus there was no clear causal link between the Hawke initiative and the agreement. But the agreement illustrates the level of concern at the most senior political level as to how both countries and the Asia Pacific region should approach current trends in the international economy.²⁸ The agreement contributed to DFAT's taking a more

with Muraoka's interest and Toyoda's research at that time.

²⁶ This was set up under the directorship of Yoshihiro Sakamoto, Director-General of International Economic Affairs Department. Sakamoto also acknowledged the positive implications for cooperation with Australia in floating the idea of an inter-governmental regional economic cooperation and found value in Australia's 'non-threatening nature and interest in building broader ties with Asia and North America' (Funabashi 1995: 60).

²⁷ The first meeting of officials was held in Tokyo in October 1988 to follow up the agreement, and consultations were expected to continue until around 1992, reporting back to both prime ministers.

²⁸ Hawke (1988a) said of the agreement: 'We are going to look at Europe and North America and all I can do is that in the worst case scenario, if the Uruguay Round did not work and did not produce the optimum results that we want, then we would have to look at the possibility of some association with others, including Japan.'

serious interest in how Australia could pursue regional economic cooperation, as a senior official in DFAT recalled.²⁹ Hawke (personal interview) also said 'we did not have [the APEC idea] absolutely finalised in our minds then, but the concept was there and it was important to have the support of the Japanese'.

Also, Nakasone's and Shultz's proposals in 1988 were important to Australia's thinking in DFAT, by providing a reference point and a focus for the idea that something needed to be done. In March, Nakasone proposed PEACE, as explained above, and Shultz proposed a similar idea in July in Jakarta:

It would be worth your while, I venture to suggest, to form some kind of Pacific Basin Forum where like-minded countries could compare experiences, discuss ideas and prepare analyses on subjects that are of interest to most countries in the region ... In our part of the world, the annual economic summits, the OECD, and other organisations have proved useful in these ways.³⁰

According to Elek (personal interview), DFAT had slight worries about both proposals; the Nakasone proposal was very broad, politically and economically, and it was perceived to be rather difficult to realise. On the other hand, Shultz's proposal was very cautious, restricted to transport communications, and lacking trade policy implications.³¹ DFAT aimed to create a compromise proposal. DFAT was also aware of ASEAN's concern about any proposal coming from the two biggest economies in the world, so DFAT saw an advantage in its position as a middle power formally to launch a similar proposal, taking account of ASEAN's sensitivity.

In mid-1988 DFAT had yet to be fully convinced about the idea of inter-governmental regional economic forum. In September 1988 when DFAT briefed Evans about his meeting with Shultz,³² the Department's view was as follows:

²⁹ Personal interview, 24 April 1998, Canberra.

³⁰ Cited in the *Australian*, 12 July 1988. Shultz raised the initial areas for study, including transportation, telecommunications, education, and taxation, but excluded trade issues.

³¹ Elek (personal interview) asked the Americans in the late 1988 'why not trade?', and they replied: 'trade is a bit too sensitive now, let's begin with some issues where the tensions are not so strong, where the physical need to cooperate is really clear'.

³² The Shultz-Evans meeting was an important opportunity to gauge US interest. One of two concerns DFAT had before supporting Shultz's idea was that it might not be good for Australia to simply be pushing a US-led agenda. The second was to find out how much work the Americans were putting into

Australia is generally supportive of the principle of increasing regional dialogue and economic cooperation in the Pacific, though the Government recognises that there are considerable difficulties in this area given regional disparities and special sensitivities in the region. (information from DFAT officials)

It seems that at least by November 1988, examination of the possibility of regional economic institutions in DFAT had not gained wide support in Australia.³³ At that time, Evans had just been approached by Madigan about a proposal from PECC for the establishment of an inter-government institution, Hawke had not seriously considered announcing the APEC initiative and the Prime Minister's Office was yet to produce a concrete plan for regional economic cooperation. In sum, DFAT had been cautiously testing the waters.

MITI

MITI's study group launched a report in August 1988 (MITI 1988: 2) identifying the factors promoting MITI to precipitate regional economic cooperation:

The US–Canada Free Trade Agreement, concluded in January 1988, and the EC's move towards a unified market in 1992 are illustrative of the search for desirable new forms of regional cooperation;

The Asia Pacific economies attract attention because the region is expected to act as a locomotive for the development of the world economy and the speed of its growth may cause it to disturb the current world economic order. In addition, the proposals for a US–ASEAN free trade zone, a US–Japan free trade agreement and an Asia Pacific OECD illustrate that how the region is exploring new forms of regional cooperation.

Given the two current trends in the international economy, the report stressed the necessity for a new form of regionalism in the Asia Pacific region, which indicated that Asia Pacific regionalism should not be inward-looking and discriminatory, as distinct from the models being developed in Europe and North America:

it, but this, it transpired, was not much (personal interview with DFAT official).

³³ In November, for instance, Hawke (1988b) announced two commissioned studies which 'will have a direct bearing on Australia's approach to regional economic association'. One was the Hawke–Takeshita agreement in July 1988. The other, being completed by Ross Garnaut, was on the impact of economic growth in East Asia on Australia. Hawke did not mention DFAT's examination.

In view of the great diversity among the countries of the region, for the immediate future the desirable form of Asia Pacific development cooperation would differ from that of the Europeans. In view of this, it is not possible to locate immediately any existing forms of cooperation that would act as models for Asia-Pacific development cooperation such as the EC and the OECD. Yet, in the absence of appropriate regional cooperation, the Asia Pacific economies could have a disruptive influence on the entire world economy, and thus it is necessary to make steady progress on regional cooperation. (MITI 1988: 28)

The report (MITI 1988: 36) conceded that there was a lack of inter-government regional economic cooperation and it saw the main purpose of the proposed regionalism as the promotion of communication:

Vision and cooperation are essential for the economies of the Asia Pacific region, and in the immediate future it will be essential to create a soft cooperation network that will deepen mutual understanding and awareness of interdependent relationships. The specific form of this would lead to the opening up of a variety of channels of communication among not only industrial and academics circles but also among government officials, including those at the cabinet level.

The report focused on the problems facing the Asia Pacific region and the areas in which regional countries should cooperate, but it did not specify what form an inter-governmental regional institution should take or how it could be built. Also, it was not clear what 'a soft network of communication among government officials or ministers' meant. More in-depth deliberation and specific policy recommendations were to be thus undertaken by experts outside MITI.³⁴

Australia-Japan coordination

Australia-Japan coordination was conducted at the bureaucratic level on the initiative of Hirokazu Okumura. While MOFA was responsible for the consultations concerning the Hawke-Takeshita agreement, Okumura, who was then seconded from MITI to the Sydney office of Japan External Trade Organisation (JETRO), consulted closely with DFAT about MITI's plan. Immediately after the MITI study group was established in February 1988, Okumura visited DFAT to suggest a joint study on

³⁴ MITI commissioned the Asia Pacific Cooperation Promotion Committee to launch the final report on regional economic cooperation. After holding 12 meetings, the Committee issued a report on 15 June 1989, insisting that the Asia Pacific Trade and Industry Ministers' Meeting should be held as soon as possible to sustain the continuity of economic development in the region and to hamper protectionist tendencies in the world economy.

regional economic cooperation. Okumura knew that Australia was intensely interested in the issue when he discussed Tamura's proposal with DFAT officials in January 1987 and often reported back to Tokyo on the desirability of cooperation with Australia. An unofficial MITI-DFAT meeting was held in August 1988 in Tokyo. The main focus of such unofficial bilateral meetings tended to be bilateral trade issues, but regional economic cooperation was the central theme of this meeting.³⁵ As a result of the meeting, Australia realised that MITI was very keen to bring together trade ministers in East Asia and 'what they were doing was similar to what we were doing.'³⁶ Before and after the meeting, Okumura provided most of MITI's information to DFAT, especially John Richardson in the Trade Strategy Branch. Okumura and Richardson had regular contact to exchange mutual views. Okumura used his meetings with Richardson as a sounding board for Australia's response, and so did Richardson; Australia became aware of the finer details of MITI's thinking.

At a more senior level, both countries also agreed to cooperate with each other. During 1988, DFAT got both its ministers to take advantage of the high level of discussions. Formally and informally, they sounded out at the political level the degree to which regional countries were interested in regional economic cooperation and DFAT was especially keen to study relevant countries' reactions to Nakasone and Shultz's proposals. The Minister for Trade Negotiations, Michael Duffy, played an important role by using the general discussions for the Uruguay Round to raise regional cooperation issues.³⁷

Duffy's discussion with Muraoka in Montreal in December 1988, when both attended the Uruguay Round's mid-term review, was critical. Muraoka (personal interview) said that the meeting with Duffy was 'very significant and interesting' partly because they spent most of the time on discussions about regional economic cooperation, despite the original agenda for the talk being the ways to proceed in the GATT mid-term review. As a result of this discussion with Duffy, Muraoka came to believe that it would be advantageous to forge a partnership with Australia to realise MITI's concept and he relayed this idea to Duffy. Duffy replied to Muraoka by asking why

³⁵ Personal interview with Okumura.

³⁶ Personal interview with DFAT official, 24 April 1998, Canberra.

Japan by itself did not want to assume leadership role and instead sought cooperation with Australia. Pointing out Japan's difficult position due to its wartime attempt to create the Greater East Asian Co-Prosperity Sphere, Muraoka said that 'I hope that Australia will take the initiative by itself'. The 'initiative' meant the responsibility for officially launching the proposal for inter-government regional economic cooperation.³⁸

PECC's activities

As mentioned above, NPCC was studying an inter-governmental regional economic institution in association with the Prime Minister's Office, and Nakasone's and Shultz's proposals prompted them to take concrete action. Harris, former secretary of DFAT and then member of NPCC, said: 'NPCC members thought the agendas and objectives of these proposals were not necessarily clear and argued that the issue should be addressed as a matter of urgency.'³⁹ The DFAT representatives were not enthusiastic. The PM&C representatives, including Deputy Secretary Conybeare, who was aware of NPCC's interest when he was Hawke's principal secretary, agreed that 'the need was urgent and would feed it into the system in PM&C', leading to a request for briefing and reactions from DFAT.

Then, Madigan and Drysdale, the NPCC Secretariat, met with Evans on 22 November to put the case for PECC's providing the opportunity for a ministerial-level meeting on Pacific cooperation.⁴⁰ Madigan stressed that the time was right given recent and similar proposals such as those of Nakasone and Shultz. NPCC thought that a ministerial meeting organised by PECC would avoid political complexity, but the proposal would need to be discussed with Cabinet. He requested Evans to facilitate this.⁴¹ Evans noted that DFAT was now preparing views on Pacific

³⁷ Personal interview, above.

³⁸ By late 1988 both DFAT and MITI were keen to see some initiative launched, but there was the question of who should launch it and how. Australia saw that MITI was not ready to make a decisive move. Elek (personal interview) said 'Our view was that it would be better for a small non-threatening country like Australia to launch a new regional initiative, without too many specifics about the nature of the proposed cooperation.'

³⁹ Personal interview, 23 April 1998, Canberra.

⁴⁰ There was a preliminary discussion of this idea at the PECC Standing Committee meeting held in Wellington on 4-5 October 1988 and Australia's suggestion was unanimously endorsed.

⁴¹ 'Memo, Senator Evans' Meeting with Sir Russel Madigan', 23 November 1988. Madigan emphasised that PECC could assist in overcoming some of the political sensitivities regarding

economic cooperation at the ministerial level and he would consider this advice before responding substantively to Madigan. Evans then said that much depended on the modalities and substance of the proposed meeting and that ministers would not consider it to be a worthwhile idea unless it had an adequate degree of formality in the sense of well-defined objectives and a useful agenda. Evans finally said that he would look carefully at what signals such a meeting might send in the context of multilateral trade negotiations and the Montreal meeting, and would not wish to derogate in any way from Australia's unequivocal commitment to multilateral trade arrangements ('memo', Evans meeting with Madigan on 22 November 1988).

Despite Madigan's input to Evans, the Hawke initiative was to override PECC's suggestion for a ministerial meeting, as Harris (personal interview) noted. PECC saw this as meeting much of its aim for a ministerial meeting and concentrated on trying to be associated with the establishment of APEC through providing background papers.

Selection

In the selection stage, the crux of the argument is how and why political leaders take up an idea for inter-governmental regional economic cooperation as official policy, providing political momentum for the idea. Hawke's official selection of the idea was most significant, but in Japan, Prime Minister Takeshita, not as internationally oriented a politician as Hawke, had not committed himself to MITI's proposal. Yet his support led to backing MITI's promotion of the proposal.

Incentives for the Hawke initiative

There are at least two factors that directly encouraged Hawke to propose inter-governmental regional economic cooperation that DFAT, the Prime Minister's Office and NPCC had been considering since the beginning of 1988: proposals on regionalism made by other leaders and the failure of the mid-term review of the Uruguay Round. As discussed earlier, several proposals on regional economic cooperation had been put forward by foreign leaders such as Nakasone and Shultz, and in December 1988, US Senator Bill Bradley called for consultations among eight

participation such as China, Taiwan and Hong Kong which would arise through a more formal means of organisation.

major Asia Pacific governments about economic cooperation. Bradley's speech gave DFAT an opening to brief PM&C as well as the Prime Minister's Office about this set of issues, as Elek (personal interview) noted. These constellations of proposals on regional economic cooperation in 1988 had convinced Hawke (1994: 429) that 'the circumstances were propitious to act decisively to give effect to the clear perception I had expressed' in 1983. These other proposals provided a good indication that the time was right to propose an inter-government regional economic institution.

Hawke placed the highest priority on the successful conclusion of the Uruguay Round, because it was intended to reduce tariff and non-tariff barriers to trade in agriculture for the first time, so it was in Hawke's mind in the late 1980s (Hawke 1994: 232). Yet immediately after the Round commenced in 1987, it was clear that Europe, the United States and Japan were reluctant to commit themselves to the negotiations. Australia was then working on creating a coalition of members with a strong interest in the liberalisation in agricultural products, the Cairns Group, under the initiative of its trade and foreign ministers, John Dawkins and Bill Hayden.

The origins of the Cairns Group were thus similar to those of APEC,⁴² and when Hawke saw the benefits and success of the Cairns Group, he (1994: 429) 'wanted now to bring together [the] two fundamental and interrelated themes of a freer international trading environment and Australia's greater enmeshment with the region'. Hawke anticipated that a regional economic institution would function as a supplement for the Cairns Group in Australia's overall foreign economic policy.⁴³ Both initiatives reflected the strong interest of Hawke and his government in maintaining the GATT-based international trading system by working to achieve a successful outcome to the Uruguay Round.

Hawke's concern about the possible collapse of the GATT system also stemmed from his belief that it would lead to global fragmentation into exclusive regional trading blocs. Hawke (1994: 230) viewed more seriously the emergence of inward-looking

⁴² Hawke (1994: 233) wrote that the Cairns Group was 'all part of the same conceptual thrust – that force of argument and coalition-building among countries of the region could, over time, help to bring about a freer multilateral trading environment'.

⁴³ Given the fact that seven out of 12 members of the Cairns Group were participants in the first APEC meeting, Australia's initiative in the establishment of the Cairns Group made it easier for Australia to

regionalism in North America and Europe because Australia's agricultural and resources sectors would suffer from declining commodity prices mainly caused by subsidies in the United States and the EC's Common Agricultural Policy. The failure of the Uruguay Round mid-term review held in Montreal in mid-December 1988 sounded a strong warning against Hawke's faith in the Uruguay Round. In Montreal, it was agreed that 11 out of 15 negotiating areas such as services, tropical products and dispute settlement were to be included in items for negotiation, but textiles, safeguards, intellectual property and agriculture were to be excluded. The failure of the mid-term review, especially the exclusion of agriculture, was a blow to Australia, as Evans said 'there can be no disguising the Australian Government's disappointment at that result'.⁴⁴

Under such circumstances, DFAT submitted a report to the government on regional economic cooperation in December 1988. Hawke's response was 'Yes, let's do something and let's make it a concrete proposition'.⁴⁵ Then, critically, in early 1989, Hawke commissioned DFAT to draft a speech on regional economic cooperation in preparation for his visit to Seoul in January. Central to DFAT's draft was an examination of the overall trends in regional economic cooperation, drawing it all together and providing a framework, but the draft did not include a suggestion for a new regional institution. Conybeare (personal interview) said:

... the brief had no instruction or approval or whatever, no guidance for the Prime Minister on making an announcement. The documentation that would have been cleared out of Prime Minister's Office had nothing in it to suggest that Mr Hawke would go to Seoul to make that speech.⁴⁶

undertake a similar exercise in the creation of APEC (Higgott *et al.* 1991: 20).

⁴⁴ CPD, Senate, 12 December 1988: 3922. A senior adviser to Hawke (personal interview) referred to the argument for APEC as a significant rationale. At that time there was a feeling of getting nowhere in the Uruguay Round because of a negative view of the EC, and because Australia's economic interests were hurt by US trade decisions.

⁴⁵ Personal interview with Elek. Towards the end of 1987, DFAT and the PM's Office often used round-table discussions to examine the issue of regional economic cooperation. Hawke sometimes joined them to add his input to the proposal of regional economic cooperation (personal interview with a senior DFAT official).

⁴⁶ Mills (1993: 193) described the situation: 'It was suggested Hawke also say, "I am well aware that we should not force the pace." If there was one thing Hawke was determined to do, it was to force the pace. He consistently rejected the mealy-mouthed formulations, and insisted on an initiative that clearly and explicitly called for a ministerial meeting.'

Other elements which the Prime Minister's advisers were requested to add to the draft were the concept of an 'Asian OECD' which, as Hawke (personal interview) said, 'was my assessment and my advice'. It was then believed that 'the prevailing wisdom in the Canberra bureaucracy' was that an 'Asian OECD' would be too difficult to set up, would embrace too disparate a collection of economies, and would brush up against many political sensitivities in the region (Mills 1993: 192). DFAT was not, however, totally opposed to the concept. The reasons behind DFAT's opposition were that in the late 1980s there had been a significant ongoing debate about the North-South divide and many Asian countries were still identified as part of the South. So, the very name OECD with its connotations of a Eurocentric rich man's club was an unattractive proposition. Also, the OECD has a very large infrastructure; a large secretariat, a large bureaucracy and a large budget. This was considered inappropriate for the Asia Pacific region and something that would meet with opposition from regional countries. The substance of the OECD model, which is to discuss policy direction, was 'absolutely central to all of the proposals'.⁴⁷ Also, in terms of generating a dialogue for regional countries to interact with each other in a closely interdependent situation, DFAT was positive about the concept of an Asian OECD.⁴⁸

Hawke's own rationale for proposing the OECD concept differed from DFAT's interpretation:

... the countries would be more comfortable with an OECD concept which was information and cooperation based rather than thinking of EC type things, where you were really trying to get a decision making apparatus superimposed on their economic operation, so that was the reason for talking about OECD.⁴⁹

The idea of an Asian OECD grew out of consideration for the sensitivities of ASEAN countries which would be loath to see anything which would be seen to be competing with ASEAN, so with the OECD idea 'we had to massage their feelings', according to Hawke (personal interview).

⁴⁷ Personal interview with DFAT official.

⁴⁸ One official of DFAT (personal interview) said: 'what we wanted to do was to avoid having that revealed in a highly negative way which we recognised the Asian OECD tag was likely to be'.

The announcement in Seoul, 31 January 1989

The final decision to launch the regional economic initiative and the call for a ministerial-level meeting had not been made by the time Hawke left Australia, two days before he was due to speak in Seoul.⁵⁰ Yet, Hawke himself had already considered proposing a regional ministerial meeting before his speech in Seoul. On his way to Seoul, Hawke stopped over in Perth where he consulted with Garnaut about the proposal, especially how it would be developed.⁵¹ The strong support from Korean President Roh Tae Woo, which Hawke gained in their meeting on 30 January, finally encouraged Hawke to propose a regional forum officially. As Hawke said, 'we had assessed that Korea was responsive, but it was not until I got there that I had a session with the President that we realised just how enthusiastic; he was very responsive'.⁵² This final decision required 'the concerted efforts of eight senior Hawke staff and public servants sitting around a hotel room between the hours of midnight and 4 am on the morning of 31 January' (Mills 1993: 194).

Hawke (1989a) proposed inter-governmental regional economic cooperation in Seoul, on 31 January 1989 saying: '... the time has come for us substantially to increase our efforts towards building regional cooperation and seriously to investigate what areas it might focus on and what forms it might take'. Hawke stressed that his support for a more formal vehicle for regional cooperation must not be interpreted as code for the creation of a Pacific trading bloc and that a major priority of any regional effort would be the strengthening of the GATT system. In sum, his proposal of an Asian OECD aimed to establish a regular process of regional consultation on trade and economic issues and its essence was the development of a better flow of information and analysis to enable the identification and advancement of common interests.

Although a number of previous proposals had been launched by politicians, Hawke's speech attracted the region's attention, as it carried the weight of an official statement

⁴⁹ Personal interview with Hawke.

⁵⁰ Personal interview with DFAT official.

⁵¹ Personal interview with Garnaut, 11 December 1998, Canberra. In fact, before the announcement, Australia's diplomatic missions in the region had been instructed to assess reactions to a push for greater regional cooperation, and the reactions had not been unfavourable (Hawke 1994: 430).

⁵² Personal interview with Hawke. He also emphasised the fact that, unlike Japan and the United States, Korea was not seen as threatening by ASEAN countries and it was becoming a significant economy

by an incumbent prime minister.⁵³ MITI officials welcomed the Hawke initiative,⁵⁴ because MITI did not have any expectation of taking the running by announcing the proposal through Japan's political leaders. APEC was not purely an Australian initiative as it was based on various ideas coming from many places and proposals, but it was an Australian initiative in the sense that Australia took the risk of launching it.

Takeshita's approval

Takeshita did not hold a strong stance on regional economic cooperation and thus he was not personally committed to the 'selection' of MITI's proposal. This was due partly to his cabinet members' involvement in the so-called Recruit Scandal, which had led to a massive loss of public support and was soon to lead to Takeshita's resignation. Nevertheless, he endorsed it and this prime ministerial endorsement was a strong encouragement for MITI. MITI briefed Takeshita about the MITI plan in April 1988 before his trip to ASEAN nations where Takeshita was to announce Japan's stance on regional economic cooperation.⁵⁵

Michihiko Kunihiro, then Vice-Minister for Economic Affairs in MOFA, maintained close relations with Takeshita as his former Chief Cabinet Counsellor and often explained to Takeshita that the ASEAN framework should be respected in any inter-governmental Asia Pacific economic cooperation. Yuichiro Nagatomi, formerly Prime Minister Ohira's secretary and now back at MOF, was also requested to give advice when Hawke sent a letter on the Australian proposal in March 1989. Nagatomi advised that the United States should be incorporated in any proposal, that the ASEAN framework should be respected and that the organisation should be open.

within Asia and increasingly important in the region.

⁵³ Elek (personal interview) epitomised the process: 'while everyone was just watching the ball in the middle of the field, Mr Hawke walked up to it and kicked it. It landed well down the field, and we were able to put it together within a year because the timing was right.'

⁵⁴ Funabashi (1995: 66) described the delight of MITI officials, 'beaming particularly brightly when they heard that Hawke had referred to 'constructive talks on this issue with Japanese leadership earlier this week'. Yet the talks referred to the Australia-Japan Ministerial Committee held in Tokyo immediately before the Hawke proposal, so Hawke's reference was not an indication of a leadership role on the part of MITI.

⁵⁵ Takeshita's references to MITI's proposal were that the United States and Canada should be included, but that the inclusion of China and Taiwan would be premature, that it would be appropriate to start with trade and industry issues, that it would be important to encourage and support Australia's effort and that it would be appropriate to hold a ministerial meeting in concert with PECC (MITI 1994: 4).

Nagatomi emphasised that to avoid exacerbating the current adverse US–Japan relations, a multilateral forum in the Asia Pacific region might be particularly useful.

Takeshita announced Japan's three principles for regional economic cooperation in his visit to ASEAN in May 1989, accompanied by Kunihiro. They were that ASEAN's views should be respected in Asia Pacific economic cooperation; regional economic cooperation should contribute to the reinforcement and maintenance of an open free trade system; and cooperation should include environment, transportation, telecommunication, and science and technology (*Asahi Shimbun*, 5 May 1989). Takeshita neither referred to MITI's plan nor to the Hawke proposal, but merely said to ASEAN leaders that Japan would determine its official approach after gauging the reaction of ASEAN countries to the Hawke proposal.⁵⁶ Takeshita probably intentionally made his approach to the idea of an inter-governmental regional cooperation ambiguous because of 'internal bureaucratic infighting' (Funabashi 1995: 64) and ASEAN's cautious views. In his meeting with President Suharto in Jakarta on 5 May, Takeshita supported Suharto's view that it would be difficult to establish a new forum given the different levels of economic development and cultural diversity within the region. Takeshita then mentioned that existing institutions such as ASEAN PMC and PECC could be utilised to promote regional economic cooperation (*Nihon Keizai Shimbun*, 6 May 1989). Nevertheless, Takeshita privately said to Kunihiro later (personal interview) that 'I stressed the significance of ASEAN, and I assume ASEAN will not oppose it [the plan for a ministerial meeting]'. Takeshita may have considered that if he had pushed the MITI proposal more seriously by providing his firm commitment, it would have faced opposition from ASEAN.⁵⁷

Takeshita approved MITI's idea as government policy, but unlike Hawke, he did not take concrete steps to promote it. On the other hand, Hawke's commitment led to the involvement of senior Australian bureaucrats in an intensive round of consultations with relevant countries. The different prime ministerial approaches taken by Japan

⁵⁶ Personal interview with Michihiko Kunihiro.

⁵⁷ MITI did not stress the importance of ASEAN within the framework of inter-governmental regional economic cooperation (personal interview with Okumura). The different views of MOFA and MITI served to save face both for Australia, which hoped for a more institutionalised APEC, and ASEAN, which did not, as Okita (1990: 305) observed.

and Australia in the 'selection' stage reflected both countries' distinctive positions in the Asia Pacific region.

Negotiation

As mentioned in Chapter 2, the order of the last three stages of the institution-building model depends on leaders' tactics. After the Hawke announcement, Australian and Japanese delegations visited regional countries to explain their own proposals for regional economic cooperation and to sound out reactions. Both governments appealed to the potential participants to share their belief that the proposals Japan and Australia had conceived would be beneficial to regional economies. Yet the purposes of Japan's and Australia's diplomacy were different; MITI mainly aimed to advocate the desirability and benefits of a trade and industry ministers' meeting on the basis of its report while DFAT intended to create an agenda for a ministerial meeting by determining the preferences of potential participants, which would lead to the launch of Australia's institutional blueprint.

MITI's diplomatic effort

Immediately after the Hawke proposal, Toyoda suggested that Muraoka visit ASEAN countries in concert with Australia to persuade them to participate in a ministerial meeting. Yet Muraoka (personal interview) was in no hurry to act:

I thought ASEAN countries would not accept the plan easily, so I proposed a preliminary investigation of ASEAN's reactions to the Hawke proposal. I thought it most appropriate to visit the region when the Hawke proposal was well embedded in policy makers' minds and they were deciding whether or not to join. From experience, I sensed it would take about a month, so we decided to visit ASEAN countries in March.

Prior to Muraoka's visit, Okumura was commissioned to visit ASEAN countries to sound out reactions to the Hawke proposal and explain the MITI plan. MITI saw that 'Australia alone would not be able to sway some cautious Southeast Asian policy-makers and therefore MITI could make a real difference' (Funabashi 1995: 66).

Okumura and Konno, then Director of International Economy at MITI, visited ASEAN countries in February 1989. They met mainly with senior officials in trade

ministries in each country. According to Okumura (personal interview), the meetings with Indonesians and Malaysians were impressive. In Indonesia, it appeared that Ministry of Foreign Affairs gave priority to the maintenance of the ASEAN framework, but officials in the Trade Ministry told Okumura that there was a general awareness that 'the time is right, so we should go ahead'. Malaysian officials also positively suggested that the postwar generation should not be shackled by the legacy of the war and should promote the idea. Okumura was conscious of a 'generation gap', and attributed the change to the positive influence of Japan's economic cooperation and business presence in the region. In Thailand, officials in the Prime Minister's office said that Prime Minister Chatichai had already discussed the Hawke proposal with President Suharto and that while they gave the first priority to ASEAN, they had decided not to rule out the Hawke proposal. Okumura reported to Tokyo that ASEAN nations were ready to accept a proposal for an inter-governmental regional institution.

Muraoka was delighted to read Okumura's positive report, but he continued to be cautious. Accordingly, Muraoka planned his visit carefully. His first visit was to Singapore because Singapore was expected to be the most positively disposed towards the plan, followed by Malaysia, Thailand, Indonesia and Hong Kong.⁵⁸ He also targeted senior officials and ministers in trade and industry ministries, as well as prime ministers' and presidents' offices, but not foreign ministries.

Before his visit, Muraoka (personal interview) suggested to Kunihiro that MOFA should have some of its senior officials accompany his visit. Yet Kunihiro (personal interview) declined the suggestion because he thought the MITI plan would arouse concern in Asia that Japan was trying to revive the Greater East Asian Co-Prosperty Sphere using economic power. For this reason, MOFA believed that Asia would not accept it. Kunihiro felt that the time was not yet ripe and that consensus for the establishment of an inter-governmental regional institution should be enhanced through the activities of the existing non-governmental organisations, PBEC and PECC.⁵⁹ Kunihiro's view had been in line with that of MOFA since the early 1980s

⁵⁸ According to Okumura (personal interview), MITI expected the United States would eventually support the proposal, so its first priority was to persuade Asian countries.

⁵⁹ Kunihiro instead suggested to Muraoka that he request embassies in relevant countries to give Muraoka mission facilitation, but Muraoka (personal interview) later thought of it as a means of

when the institutionalisation of PECC had been bogged down by the unenthusiastic approach of some ASEAN countries. Kunihiro believed it necessary to see how ASEAN would react to the proposal, but assumed that ASEAN would be concerned about being submerged into a larger organisation. In his belief, Japan could not assist with the development of such an organisation and Japan's contribution in the development of ASEAN was more important. Kunihiro therefore warned Muraoka to tread warily.

During 7–21 March, Muraoka visited Singapore, Malaysia, Thailand, Indonesia and Hong Kong, and then he flew to Korea on 24 March, as planned. In Singapore, Lee Hsien Loong, Minister for Trade and Industry, agreed with the MITI proposal and Lee was especially happy with Muraoka's idea that it made sense to have the United States as a founding member.⁶⁰ In Malaysia, Prime Minister Mahathir placed a greater priority on regional integration and reduction of trade barriers within ASEAN, despite the fact that he expected Japan's role in the Asia Pacific region to grow (MITI 1994: 3). Thai ministers were in general cautious, and reserved their position about the MITI plan. As one minister said to Muraoka: 'it is up to Prime Minister Chatichai to have the final say'. In Indonesia, Muraoka obtained agreement from the most ministers, but they were opposed to the inclusion of the United States.⁶¹ An Indonesian minister asked why it was important to incorporate the United States, and Muraoka's answer was: 'it would perhaps be more effective to combat and contain unilateral US actions on trade issues if we could include the United States in the forum.'⁶² Indonesia and other ASEAN countries eventually accepted this rationale. Then in South Korea, Muraoka was successful in gaining a positive reaction and was told by a minister that it was Japan's duty to remove the nightmare of the Greater East Asian Co-Prosperity Sphere, so Japan needed to make efforts on behalf of Asia. This astonished Muraoka who was so careful not to give the impression of creating a second version of the Co-Prosperity Sphere. Finally he went

monitoring their activities.

⁶⁰ Personal interview with Muraoka. In an illustration of Singapore's enthusiasm, Lee told Muraoka to fax him immediately if MITI needed any help from Singapore.

⁶¹ Personal interview with Muraoka. Muraoka tried to persuade them by using a metaphor: 'it would be scary if you let the tiger out of the cage', but an Indonesian minister replied; 'I agree, but it would be more scary if you lived in a cage with a tiger'.

⁶² Cited in Funabashi 1995: 58. According to Muraoka (personal interview), Indonesia resisted the idea of their Foreign Minister's involvement in the meeting, because Indonesia did not have diplomatic relations with China at that time.

to the United States in April where he met with ministers and officials in USTR, the Department of Commerce and the Department of State. The first two departments were unenthusiastic, but the State Department agreed with the MITI plan.⁶³ MITI tried to reassure the United States that there was no intention to form an anti-American economic group and that it supported the inclusion of the United States.

All countries, including the Philippines and Brunei, which other MITI officials visited, accepted the idea of holding a ministerial regional forum on economic cooperation. According to Okumura (personal interview), MITI thought there were at least three reasons behind ASEAN's acceptance of MITI's proposal; they were confident about their economies; ASEAN-Japan relations had improved; and they felt isolated from developing regionalism in Europe and North America. The Muraoka mission functioned as a sounding board for every nation in ASEAN. During Muraoka's visit, each of the countries had communicated its views. In turn, they were keen to know the views of other countries. It was MITI's task during the visit to inform the visiting country of other ASEAN countries' views on the idea of a ministerial meeting. MITI's diplomacy was useful in creating a receptive atmosphere in the region for the idea of a ministerial meeting and, importantly, it set the 'groundwork' for Australia's proposal and its subsequent diplomacy.⁶⁴

Australia's diplomatic strategy

While MITI officials were visiting regional countries, Australia was also preparing to visit the region. Richard Woolcott, Secretary of DFAT, was commissioned as the Prime Minister's special envoy to explain Australia's thinking and to sound out regional views as to how regional economic cooperation might be achieved. Hawke required Woolcott to 'sound out the majority to check whether there was a consensus that the United States, Canada and three Chinas (China, Hong Kong and Taiwan) should be included' (Funabashi 1995: 55). There was a core group in Australia's proposal for a regional economic institution, which consisted of ASEAN, Japan, Korea and New Zealand, but apart from those countries, Australia had no firm view

⁶³ Personal interview with Muraoka. Muraoka said to a senior official of the Department that he had tried to persuade Asian countries to agree to the United States' involvement in the initial membership and it had really been accepted despite the fact that there was still tension in the region. Muraoka suggested that the United States should directly approach Australian leaders.

⁶⁴ Personal interview with Geoff Brennan, 17 June 1998, Canberra. He was a commerce officer in the

on the composition of the membership. This was one of the key issues in the Woolcott mission. Australia tried to obtain ideas of membership on the basis of consultation and to take account of the interests of all the participants to establish an agenda for the meeting.⁶⁵

Woolcott was concerned about the abruptness of the Hawke announcement. No major countries except South Korea had been informed of the announcement. For instance, when Evans visited the United States in March 1989, James Baker, Secretary of State, castigated Evans for failing to consult the United States before the initiative was announced. Yuichiro Nagatomi was also amazed by Hawke's proposal, because it was announced while Japan and Australia were consulting on ways to promote the 1988 Hawke–Takeshita agreement.⁶⁶ MOFA was also upset by the Hawke announcement. A few days before the Hawke announcement, a Japan–Australia Ministerial Committee had been held in Tokyo during which Australia promised Japan that Australia would not be involved in inter-governmental regional economic cooperation, which MITI was then promoting, without consultation with Japan. MOFA thought Australia had broken its promise.⁶⁷ This illustrates how quickly the decision on the Hawke initiative was made. When Woolcott (1997) found enquiries from regional countries coming in thick from the media, Australian embassies in the region and diplomatic missions in Canberra, this confirmed his initial feelings that 'there were many questions to be answered and details to be clarified, if we were to get APEC off the ground'.

The questions in his mind were:

- 1) Why was Australia making such a proposal?
- 2) Why now and what was the hurry?

Australian Embassy in Tokyo in 1989.

⁶⁵ Elek (personal interview) analysed the Australian tactics: 'Mr Hawke's announcement of the initiative astutely made no reference to membership despite a couple of comments in the press conference saying "we want to consult Asia and see what they think because it is really a process centred on Asia. It is up to them at the outset to declare who is in and who is not." What was not astute was that countries in the region assumed that Australia was asking Asia if the United States was in or not because Australia did not want it in. That was a tactical mistake'.

⁶⁶ Nagatomi (personal interview) thought the Hawke proposal overlooked a prime ministerial agreement with Takeshita.

⁶⁷ Personal interview with Brennan. Brennan recalled how angry MOFA was when he was called to visit MOFA on the day following the Hawke announcement.

- 3) Should the United States be included?
- 4) Did we envisage a new inter-governmental organisation with a secretariat being set up?
- 5) How would Japan, the major economy in the region react, especially as MITI was exploring a tentative proposal of its own?
- 6) How would ASEAN countries react and would they not feel ASEAN could be marginalised in a larger grouping?
- 7) Did Hawke have in mind the creation of a new trade bloc? and
- 8) What was Australia's attitude to China's inclusion? (Woolcott 1997)

Woolcott listed all these questions and handed them into Hawke on his return to Canberra, especially emphasising that 'if the proposal was to gain support, then the Government needed to develop a strategy' (Woolcott 1997).

DFAT started gathering the reactions of relevant countries to the Hawke proposal through its embassies and Hawke also sent personal letters to his counterparts in relevant countries in March, outlining his ideas and seeking their reactions (information from DFAT officials), during which period DFAT officials took the time to consider how the Hawke initiative was to be explained. MITI went ahead with its visit to regional countries, but Australia, which hoped not to lose any momentum, was happy that MITI had gone ahead as it thought the MITI's mission could 'provide [Australia's] concept with a strong following wind' (Funabashi 1995: 66). Australia also gathered information from MITI, especially through Okumura, about regional reactions towards the Hawke proposal. Based on his and Muraoka's regional visits in February and March, Okumura provided feedback on some of the reactions to the Hawke proposal which 'in a sense was more honest because the reactions to the Australian proposal were given to the Japanese [and] this was terrifically helpful', as Richardson (personal interview) recalled.⁶⁸

In his mission, Woolcott (1997) attempted to elaborate on Hawke's proposal, to remove concerns and to respond to the many questions about it. The most important

⁶⁸ Richardson further said the 'Australia-Japan joint initiative was enormously valuable collaboration. Especially Okumura made an important contribution. Okumura could travel the region a great deal, more than I did, but [the problem was that] he sometimes called me very late at night!'. This illustrates

task was to 'gain support at the highest levels for the APEC concept [and Australia] tried to limit its role to a catalyst for the idea'.⁶⁹ There were some points that Australia had to explain to regional countries. First, Australia did not aim to create a bloc in the Asia Pacific region, and the Hawke proposal should not be 'seen as a back-door way of providing for the creation of an Asia Pacific trading bloc in response to the moves for trading blocs in Europe and North America' (*AFR*, 1 February 1989). Australian leaders strove to dispel any impression that Australia's aim was to create a bloc in the region.⁷⁰ Woolcott (1989a) emphasised in his speech in Singapore that 'the proposal is not intended to create a Pacific trading bloc, nor would we support such a development.'⁷¹

Secondly, Australia had to explain the intentions behind Hawke's proposal for an Asian OECD, because 'the term of OECD in the Pacific invited a "great scepticism" in the region' (Wanandi 1989: 6). Hawke's original idea to use the OECD model was rectified by a round of visits by Woolcott (*Monthly Record*, 1989, No. 4: 122):

[Hawke] was really drawing an analogy with the range of economic issues and the type of analysis which should underpin enhanced regional cooperation, rather than suggesting an organisation anything like the size or the cost of the current OECD. The OECD I think employs some 1700 people and has a budget of \$200 million in a year, so we certainly have nothing of that order in mind.

With those tasks, the Woolcott mission consisting of Woolcott, Elek and John Bowan, (the Prime Minister's foreign affairs adviser), visited the core group – Indonesia, Thailand, Malaysia, Brunei, Singapore, South Korea, Japan and the Philippines – in April 1989.

close collaboration between MITI and DFAT.

⁶⁹ Evans 1989. He said on 15 May in Perth: 'Australia has not sought and does not now seek, to draw a complete blueprint for regional economic cooperation ... if the [initiative] is to be successful, it must reflect the views of regional countries.'

⁷⁰ A strong and detailed denial of this was made by Minister for Trade Negotiations, Duffy (1989) when he made a speech in February. Madigan who listened to the speech wrote (letter to Elek, 17 February 1989) 'I think [Mr Duffy] should make [this speech] a few more times around the country.'

⁷¹ Even in Australia, 'so many people seemed to believe that Mr Hawke was advocating a Pacific Economic Bloc' (letter from Madigan to Elek, 17 February 1989). Madigan talked with business people about the Hawke proposal in February. Many of them believed that the Hawke initiative aimed at a trading bloc.

The first Woolcott mission

After visiting New Zealand in March where Australia got a positive response,⁷² the mission's next stop was Indonesia, which Australia viewed as one of the most important among the potential participants as 'it was the largest and ASEAN does not react to any particular proposal or policy without ascertaining Indonesia's view', as Woolcott said (cited in Funabashi 1995: 56). The mission found the discussion with Foreign Minister Alatas useful in terms of setting up some basic outlines for the Canberra meeting. Elek (personal interview) attributed Alatas's candid advice to Woolcott's more than 30-year friendship with Alatas:

I remember a long session with Alatas, maybe three quarters of an hour. His comments were that the economic ideas behind this proposal are extremely sound, and they bind the group well, but there are strict speed limits; don't push the pace ... the proposal would have sunk if we had not heeded it.

Yet Alatas only promised 'he would study it' (Funabashi 1995: 56). Woolcott interpreted Alatas's uncommitted reaction as meaning that the decision would be made by President Suharto and Alatas could not make any public commitment.⁷³ Alatas wished Australia well, but Australia knew 'that was not a commitment of support', as Elek (personal interview) recalled, and that it would have to wait for the ASEAN PMC in Brunei in July 1989 for confirmation of Indonesia's final endorsement.

Australia shared a 'virtual identity of views' with Singapore and South Korea about the desirability of regional economic cooperation at the ministerial level. According to Woolcott (1989a), Singapore was 'articulating views very similar to ours about the need for countries in the region to act together in order to exercise a collective voice in favour of the open multilateral trading system'. On the other hand, Thailand and Malaysia 'naturally [had] some differences' on what might constitute the agenda for the initial ministerial meeting, which countries and which ministerial portfolios would be involved and whether there was a necessity for ongoing arrangements to service future meetings (DFAT 1989a).

⁷² Prime Minister Lange told the press that New Zealand was the first country 'to be fully briefed', the initiative was 'welcomed' and New Zealand was 'supportive' on 3 April 1989, which made Woolcott feel (1997) 'the first hurdle had been cleared'.

⁷³ Personal interview, 20 August 1998, Canberra.

The meeting with Japan was complex in that Australia had difficulty in discerning Japan's view. To Australia, the views of MITI and MOFA were both seen as important, so Australia did not regard MITI's proposal as a Japanese government proposal. The Australian delegation first went to MOFA.⁷⁴ MOFA's opposition to MITI's proposal stemmed partly from its anxiety about MITI's intervention on its turf and its estimation that ASEAN would not support it. Bureaucratic territorialism is present in most countries in the region, but the rivalry between MITI and MOFA over regional economic cooperation issues sometimes hindered initiatives of rival ministries which sought to increase their power by gaining responsibility for international trade policy.⁷⁵ Woolcott (1992b) retrospectively regarded the rivalry between MITI and MOFA as a major obstacle to the first APEC meeting and wrote: 'there was a need to reconcile the views of MITI and the *Gaimusho*'. A former senior diplomat said that MOFA traditionally regarded MITI's initiatives in the field of international trade policy antagonistically, but no one in either ministry could adjust their different views and thus the problem was usually handled and resolved at the ministerial level.⁷⁶ In the case of APEC, it was Hiroshi Mitsuzuka, who was MITI Minister until June 1989 and subsequently became Foreign Minister, who played the role of reconciliation. Mitsuzuka supported MITI's initiative and 'was able to overcome resistance' within MOFA after he became Foreign Minister (Funabashi 1995: 61).

In the meeting between MOFA and the Australian delegation, Kunihiro (personal interview) said Australia's objective was similar to that of MOFA, but that MOFA could not promote it at the same pace as Australia because ASEAN countries were yet to accept the agenda. Further, Australia should not take MITI as the representative of Japan. The Australian delegation 'tried hard' to convince Foreign

⁷⁴ The Australian delegation should have known MOFA's cautious view before the visit, because Duffy had explained the Hawke initiative to Foreign Minister Sosuke Uno on 25 February 1989 in Tokyo, but Uno reserved his position by saying 'we should take into consideration the diversity among Asian countries, and further investigation is needed' (*Nihon Keizai Shimbun*, 25 February 1989).

⁷⁵ For details on the ways Muraoka was hampered by MOFA in his visit to ASEAN countries, see Funabashi 1995: 60–61.

⁷⁶ Personal interview with Kiyohisa Mikanagi. According to Fukui (1981: 296–97), the conflict between MITI and MOFA is longstanding; 'since prewar days they have been embroiled in international jurisdictional disputes over the control of trade policy-making power and machinery' and the dispute continues 'after the war and right up to the present time'.

Minister Uno and Kunihiro by saying that the proposal had received strong support from leaders in Thailand, Indonesia and South Korea, so Australia was confident that Southeast Asia would eventually support the objectives, as Elek (personal interview) said. This information, along with the favourable response the MITI delegation had obtained from ASEAN countries, differed from MOFA's expectations. MOFA finally confirmed its support for a regional ministerial meeting after Mitsuzuka became foreign minister and it was endorsed by ASEAN leaders at the ASEAN PMC in July 1989.

The meeting with MITI where Minister Mitsuzuka and Vice Minister Muraoka were present, was held in a warm atmosphere despite the fact that Muraoka (personal interview) stressed the importance of including the United States. Woolcott asked Muraoka 'Isn't there any unified voice in Japan? MOFA said to us that MITI's plan did not represent Japan.' Muraoka (personal interview) replied 'It is true that MOFA is yet to approve our plan and our relations can be described as hostile, but Prime Minister Takeshita endorsed the idea and MITI intends to make every effort to realise it, so the problem is not great.' Australia came to understand that MOFA was not happy with MITI's excursions into its territory and a Japanese government initiative, as such, was unlikely to take shape for quite some time, as Elek (personal interview) observed.

In the meeting, according to Muraoka (personal interview), MITI officially agreed that Canberra should be responsible for hosting the meeting, which meant the MITI proposal was subsumed into the Australian proposal. After the meeting, Woolcott thus could say in a press conference in Tokyo that he was confident that a specific proposal by MITI could be accommodated within the broad-ranging economic agenda proposed by Australia (DFAT 1989a). Australia and MITI agreed that the timing was right, but they made sure that they did not over-define it. The only point of tactical difference between MITI and Australia was that MITI thought a very detailed feasibility study should be carried out, but Australia felt that it would be a mistake. It was Australia's position that the basic shape and concepts had come through already in discussion and consultation, so it was important that ministers came to the meeting with a reasonably clean sheet. There was a feeling of 'let's keep researching and writing papers', while a formal feasibility study could wait, as Elek

(personal interview) said. Japan and Australia eventually agreed to take into account the other's stances.⁷⁷ After all, Woolcott (1989b: 5) judged that 'the Japanese government position was conditional on general support for a meeting, particularly from the ASEAN countries'.

The Woolcott mission returned to Canberra on April 1989 and reported to Hawke that Woolcott (1997) 'was encouraged by the results of my consultations so far. A consensus ... was building in support of the APEC idea.' Subsequently, the Woolcott mission visited Hong Kong, China, the United States and Canada in May 1989.

The second Woolcott mission

One of the important issues for the second mission was to confirm the participation of these four countries and areas. As for the three Chinas' participation, Hawke (personal interview) said: 'I made it clear from the beginning that [APEC] must include China and I also wanted to include Hong Kong and Taiwan.' In the course of the visit to the core countries, Australia was given to understand that ASEAN countries generally hoped to include the three Chinas (Woolcott 1997). Yet the meeting between Woolcott and Chinese Premier Li Peng made the situation difficult. Li Peng said that 'only sovereign states had ministers, and therefore by definition Hong Kong and Taiwan should be excluded'.⁷⁸ The participation of the three Chinas was to be shelved at the Senior Officials' Meeting in September 1989.

Despite Hawke's claim in his *Memoirs* that the exclusion of the United States from the initial membership of APEC was never in his mind, it might have stemmed from the view of some within DFAT that initial US participation could scare off many Asian developing countries. A senior government policy adviser said some Asian countries saw the APEC proposal as a forum for major economic powers such as the United States and Japan to engage in trade bashing: 'if you put the US and Japan at the table at the very beginning it may prevent us from getting the concept off the

⁷⁷ Another major difference between the MITI and Australian proposals was whether or not foreign ministers were to be involved. The MITI mission did not meet with ministers and officials in foreign ministries in its visits to the region. Yet Muraoka (personal interview) emphasised: 'any inter-governmental institution would inevitably involve diplomatic aspects in the end and MITI by itself could not handle the whole issue. MITI did not have any intention of 'fighting' with MOFA and MITI had no feeling of antagonism towards the subsequent involvement of MOFA into the APEC process.'

⁷⁸ Funabashi, 1995: 57. This claim forced Woolcott to suggest a change in terminology from a

ground'.⁷⁹ Australia 'probably hoped to avoid the situation where strong US commitment to the preparation of the meeting gave a threatening message to ASEAN countries that the United States would dominate the upcoming meeting.

When Woolcott arrived in Washington, the United States had been already working on its participation in the meeting in Canberra. This was because Baker had basically agreed with Australia's proposal when Evans visited the United States in March 1989. At that time, Baker was initially incensed and said to Evans that 'the United States was disappointed that Australia had not talked to the United States before proceeding as far as it had' but said 'the proposal [would be] a useful idea ... It was important that the United States should participate.'⁸⁰ It was little wonder that Baker accepted the Australian proposal easily, given the fact that Baker himself had worked to create a regional economic association in the Asia Pacific region.⁸¹ Woolcott (1989b: 5) wrote: '[the] US's official commitment for participation was expected at the time of Hawke's visit to Washington in late June through formal inter-agency consultations' and it was at this time that Baker officially confirmed the firm support of the United States in his speech.

Completing his missions to the regional countries, on 16 June, Woolcott described reactions to the proposal among regional leaders as ranging from 'enthusiastic to encouraging' and the Hawke initiative was 'gathering momentum' (DFAT 1989b).⁸²

'ministerial meeting of countries' to a 'ministerial-level meeting of major economies'.

⁷⁹ *AFR*, 27 February 1989. A tentative decision to exclude the United States was made among Hawke's senior advisers in Islamabad after Hawke's announcement in Seoul (*Weekend Australian*, 6-7 January 1996).

⁸⁰ Cited in Funabashi 1995: 62. Baker also 'accepted at face value [Australia's] explanation that they were worried that if it included the United States ASEAN would be less likely to sign on'. Baker (1995: 609) said Hawke's 'proposal did not include the United States, but we had no difficulty persuading Hawke, a good friend of US and Bush'.

⁸¹ When Baker (1995: 609) was at Treasury, Bob Zoellick and Bob Fauver 'brainstormed about a US-East Asian consultative group along the lines of the G-7'. The campaign for the presidential election in 1988 intervened and the idea remained undeveloped, but Baker kept his 'eyes trained east for an opportunity'.

⁸² The positive trend was seen by the fact that Malaysian Trade Minister Rafidah Aziz sent a memo to the other ASEAN countries setting out four points before ASEAN's final endorsement was made: the Hawke proposal must not compromise ASEAN's dialogue with its main trading partners; it must not hinder intra-ASEAN trade liberalisation; it must not send the 'wrong signals' to Europe; and ASEAN must avoid undue haste in setting up institutions such as a permanent secretariat until it was clear where the initiative was heading (*FEER*, 11 May, 1989). These points were to be discussed in the ASEAN PMC in July 1989.

Demonstration

A major task in the demonstration stage is to launch an 'institutional blueprint' which outlines the institution's goals, agendas or basic framework as a result of leaders' investigation on potential participants' interests. The blueprint is an important tool in promoting a shared understanding of the institution, so that potential participants can more easily join. In the case of APEC, after visiting the potential members of the Canberra meeting, Woolcott published and delivered his 'institutional blueprint' to relevant governments in June 1989. The title was 'Australia's Regional Economic Initiative: Status as at June 1989', which described the reactions he obtained from regional countries in his visits and outlined the nature of the Canberra meeting including venue, membership, agenda, institutional support, relationship to existing institutions and next steps.

Woolcott (1989b: 1) initially emphasised that he was impressed and encouraged by the degree of support and interest he received from the countries he visited and attributed the support to 'substantial common ground and shared interest in regional economic cooperation'. This indicated that 'the underlying principles behind Mr Hawke's proposal were endorsed at Head of Government or Ministerial and Senior official level'.⁸³ He emphasised at least two points to soothe concerns about the Hawke proposal: 1) the new proposal would be consistent with and complementary to existing institutions, particularly ASEAN and PECC; and 2) regional cooperation should not in any sense be perceived as a step towards the formation of a trading bloc. These fears had been common in the region, so Woolcott felt it necessary to clarify these two points.

Woolcott then raised the benefits regional economic cooperation would bring to the participants. It was important for leaders to be clear about the benefits so that the ministerial meeting would appear attractive. The major benefits Australia saw were:

To ensure that the positive economic trends are sustained. Given the economic inter-linkages in the region, it would be useful for each participant to know how the policy thinking of other participants is developing;

⁸³ Yet Woolcott (1989b: 1) noted that 'in two or three countries Heads of Government adopted an interested but non-committal approach at that stage'.

To strengthen individual and collective capacity for analysis and policy formulation by viewing knowledge base and facilitating a more systematic identification of common economic interests;

To help to clear the way for further trade liberalisation within the region in an open and non-discriminatory manner;

To strengthen ability to project — and protect — regional interests in wider economic forums and negotiations. In this way, more influence could be exerted than any of the countries involved could do alone;

To enhance the prospects of success in the Uruguay Round and subsequent rounds of multilateral trade negotiations;

To help alleviate any future trade problems among regional countries by providing an opportunity to anticipate and discuss possible differences sensibly and openly, leading to ensure that potential trade difficulties were resolved through dialogue, rather than by resorting to bilateral or unilateral measures.

Woolcott (1989b: 4) then concluded that 'the most effective means of beginning the process of advancing further regional economic cooperation was to convene an initial meeting at Ministerial level'.

As for membership, while Woolcott indicated China, Taiwan and Hong Kong's interests in participation as the result of his visits to these regions, he made their participation pending due to China's claim that 'if the meeting is held at a formal, inter-governmental level, then only sovereign states should participate'. Woolcott (1989b: 4) concluded that the 'PRC's participation in an initial meeting would ... depend on developments in the PRC during the coming months'.

With regard to the agenda, Woolcott stressed the focus of regional cooperation should be on economic and trade issues, not political ones, and the economic agenda should be 'comprehensive'. There was a consensus in the region that the priority of the issues should be on market access and support for the Uruguay Round, and specific forms of macroeconomic policy coordination should have lower priority.

Woolcott (1989b) was aware that 'all those consulted were concerned to avoid an excessively large bureaucracy, which would not be commensurate with the region's needs', but noted that there would need to be more than one ministerial-level meeting. Then, he stressed that Australia was seeking 'a modest but effective vehicle,

capable of coordinating research ... and bringing it together in a policy relevant way for a Ministerial-level meeting.'

Finally Woolcott got back to the ASEAN and PECC issues and wrote about ASEAN:

Mr Hawke does not see his proposal, in any sense, detracting from the important role ASEAN plays. This was because there was still a lingering concern. Rather, Australia would hope that the new body would enable ASEAN ... to project common interests more effectively in international fora.

Yet Woolcott rejected the view that the ASEAN PMC should be used as the main vehicle to advance Hawke's proposal because he thought it inappropriate due to its political focus and its membership. He also expressed his hope that PECC would continue to play the role of providing detailed information and analysis of regional issues: 'PECC's role in regional cooperation and its policy relevance to regional governments may well be strengthened as the two processes develop in parallel.'

In general, the report as an 'institutional blueprint' represented consensual views on important issues in terms of establishing APEC, on the basis of which the potential participants could know the purposes, agendas, the problems to be overcome and what other countries thought of Australia's initiatives beforehand. They thus could prepare for the meeting; they could be informed of the basic framework of APEC. At the time of writing, Australia had not formally determined the details and the final composition of participants. With help from PECC, DFAT continued to develop a potential agenda to be finalised at the Senior Officials' Meeting in September.

Adjustment

In the adjustment stage, leaders are supposed to adjust different interests, if any, among the potential participants to make the institution more attractive, and the blueprint can be utilised as a reference point for participants to decide their participation. In the case of APEC, the composition of participants and the agenda of the meeting required Australia to undertake the 'adjustment'.

US participation

The official announcement on US participation was launched by Baker in his speech at the New York Asia Society in June 1989 while Hawke was visiting the United States. Baker (1989) said:

To build that new partnership, we need continued American engagement in the region's politics, commerce and security. We need a more creative sharing of global responsibility with Japan. And we also need a new mechanism to increase economic cooperation throughout the Pacific Rim.

There were two other messages: there was more to US economic interests in the Asia Pacific region than its bilateral relationship with Japan; and the Asia Pacific region was regarded as a potential counterweight and bargaining lever for the United States in its dealings with the EC (Higgott *et al.* 1991: 22).

US commitment was based on a broader agenda, including political issues, than the Hawke initiative, which focused on economic ones. Thus, Woolcott stressed in his meeting with Baker on 25 June 1989 that Australia saw the group as primarily dedicated to trade issues, reflecting Hawke's belief that: 'the one issue that I would like to make clear is that essentially [a regional forum] must be an economically trade-oriented body' (*Australian*, 29 June 1989). This was partly because Australia thought the ASEAN countries regarded that institution as the major vehicle for regional political cooperation and did not want to see the emergence of another potentially competitive organisation in the political sense. This was based on Woolcott's early report to Hawke about ASEAN countries which had expressed their concern that ASEAN 'remain the most appropriate political forum for them'.⁸⁴ Eventually, Australia gained US support for the role of Hawke's forum as a trade-oriented regional institution.

ASEAN participation

ASEAN countries' formal joint endorsement of their participation in the Canberra meeting was made in the ASEAN PMC held from 6–8 July 1989 in Brunei where the potential participants expressed basic consensus about Australia's proposal to hold a ministerial meeting in Canberra in November 1989 (MITI 1994: 5). The ASEAN

⁸⁴ *SMH*, 26 June 1989. Indonesia and Malaysia were concerned that US encouragement to incorporate

PMC set up six preconditions for the Hawke initiative:

Pacific economic cooperation should be based on independence, mutual respect and equality;

This regional cooperation should complement ASEAN's regional activities and role in the Pacific, and should strengthen multilateral mechanisms for cooperation, especially GATT;

This cooperation should not lead to the creation of an economic bloc or an exclusive trading arrangement;

It should be developed in a gradual fashion and be properly planned;

The objective of cooperation should be to increase the welfare of the people in the Pacific region and to reduce the gaps between the developed and the developing countries in the region; and

This cooperation should contribute to the creation and maintenance of a stable and open trading system, regionally and globally, and a regional environment which is conducive to the promotion of mutual interests, including the ability to resolve regional conflicts peacefully. (*FEER*, 17 August 1989)

Elek (personal interview) said these were important principles developed through consultations, and this article helped Australia 'to crystallise the guiding principles subsequently endorsed in the Chairman's Summary in Canberra'.

Although MITI and Australia endorsed the general support for a ministerial meeting from ASEAN countries individually, it was believed that ASEAN members were concerned about the negative impact of the new institution on ASEAN. Indonesian Foreign Minister, Alatas (*AFR*, 4 July 1989) said that Indonesia preferred to 'start with and fully utilise the existing mechanisms rather than create new ones', but he conceded that 'the time may have come for us to look into the possibility of developing more effective modalities for economic cooperation ... on the basis of equality, equity and mutual benefits'. At the Brunei meeting, the six member states agreed to 'attend an exploratory meeting [SOM] to discuss the APEC proposal'.⁸⁵

political and strategic issues into a new regional form would compromise their non-aligned status.
⁸⁵ *FEER*, 20 July 89. Evans said at his press conference following the end of the plenary meeting that he would ask Hawke to issue invitations to attend the November meeting (*DFAT* 1989b). Invitations were officially dispatched on 3 August 1989 to request relevant governments to nominate ministerial representatives.

Wanandi (1989: 9) attributed ASEAN's final acceptance of the Hawke proposal to its acknowledgment that greater regional consultation and cooperation was useful:

The international division of labour in the Asia Pacific region continued to develop dramatically;

ASEAN's external economic relations are predominantly with other Pacific economies and the ASEAN economies have become highly interdependent with their main economic partners in the Pacific; and

Interdependence is not necessarily non-problematic; the region needs some kind of a consultative forum in order to manage this interdependence. From ASEAN's perspective, economic relations and economic cooperation have become matters of first priority.

ASEAN's acceptance was 'a significant change from ASEAN's previous posture which has been one of the main obstacles in pursuing previous initiatives' and this change was attributable to a 'gradual process of socialisation' to the idea of regional economic cooperation within each ASEAN nation (Wanandi 1989: 12).

Participation by the 'Three Chinas'

The issues of participation by the 'Three Chinas' was discussed at the Senior Officials' Meeting (SOM) in Sydney on 15–16 September 1989. At this meeting, senior trade and foreign affairs officials from 12 countries discussed detailed arrangements for the ministerial meeting, especially the agendas, participation and ways of proceeding with the ministerial meeting.⁸⁶ In fact, the three Chinas dominated the discussion of the issue of participation. No country supported the official membership of China and Taiwan because of the political complexities, but there were differences about Hong Kong's participation. The United States, Japan, Canada and New Zealand supported its inclusion, but ASEAN countries, which wanted to exclude countries that were not involved in the ASEAN process, did not support it. Participants eventually failed to reach a consensus on the issues and shelved them despite a common recognition of the need for closer links of the three Chinas with other regional economies (MOFA document, 18 September 1989).

⁸⁶ The SOM was held following the agreement at the ASEAN PMC, which Japanese Foreign Minister Mitsuzuka proposed. He suggested that 'if ASEAN did not oppose the Hawke initiative, we should discuss the details in a senior officials' meeting' (Kunihiro 1989: 36).

The SOM helped assure ASEAN's participation in the Canberra meeting and urged MOFA, probably one of the most negative entities on the subject of an inter-governmental regional economic institution, to recognise its inevitability. MOFA's report on the SOM admitted that the most striking feature of the meeting was ASEAN's positive approach, which was unprecedented.⁸⁷ MOFA (1989) attributed the change to a recognition within ASEAN that the establishment of an inter-governmental regional institution was inevitable. ASEAN was thus looking for ways to incorporate the institution into the ASEAN framework. This was a surprise to MOFA, and it realised inevitability of the establishment of an inter-governmental regional institution, despite its earlier opposition.⁸⁸

Agenda-setting

While Australia was working on the composition of participants, it was also engaged in setting the agenda of the Canberra meeting through cooperation with PECC. Some in PECC had initially intended to host a ministerial regional meeting, but the Hawke announcement forced a change of plans. PECC members came to understand that 'official and Ministerial thinking [did] not favour a PECC Ministerial meeting', they came to consider that it was not necessarily important 'to have the PECC sponsor the meeting' but significant that 'substantial background papers be prepared' by PECC (letter from Harris to Drysdale, 30 March 1989). PECC was now seeking involvement by playing such a supporting role, as endorsed at the PECC Standing Committee meeting in San Francisco in April 1989.⁸⁹ Evans (letter to Talboys, 27 July 1989) officially sought PECC's assistance in preparation for the Ministerial meeting, delineated a future plan as to how PECC would be linked to APEC and attached the draft agenda of the Ministerial meeting.⁹⁰

⁸⁷ As Toyoda (personal interview) noted, MOFA did not support the idea of a ministerial meeting until Takeshita's visit to ASEAN, but he thought MOFA should have gradually understood the change in ASEAN's view on Asia Pacific regionalism because Muraoka's meetings with ASEAN leaders were accompanied by embassy staff in each ASEAN capital and official telegrams were sent to the Ministry in Tokyo.

⁸⁸ MOFA sought to include cultural exchanges in the agenda at SOM, because MOFA wanted to frustrate MITI's dominant position and create a role for itself within the development of APEC (*Nihon Keizai Shimbun*, 24 October 1989). This attempt met with successful opposition from Australia and ASEAN countries.

⁸⁹ Australia's NPCC had initially contributed towards the preparations of the standing committee to discuss the possibility of a ministerial meeting under the PECC framework.

⁹⁰ Talboys replied to Evans (letter from Talboys to Evans 17 August 1989) that 'PECC has always been aware that ultimately the achievement of [PECC's] goal depends on the willingness of governments to act ... Success in [APEC] will help to enlarge PECC's constituency.'

The background information papers were intended to provide an overview of issues in relation to the agenda items, as well as some preliminary identification of the possible scope for cooperation. Yet the papers were 'not intended to have official status, but rather to be background material that countries can draw on in their own preparations for the [APEC] meeting, if they wish' (information from DFAT officials). In sum, PECC's direct relevance to APEC's formation was limited, and PECC contributed to the preparation for the Canberra meeting by preparing background papers.⁹¹

The first APEC meeting in Canberra

The APEC meeting was held on 5–6 November 1989 in Canberra where trade and foreign ministers from 12 countries met together, for the first time in history. It was the outcome of painstaking efforts over three decades to create an inter-governmental economic institution in the Asia Pacific region since the OAEC plan was first launched in 1960.⁹² Hawke (1989b) welcomed all ministers by saying that APEC 'is certainly one of the most important international settings Australia has ever hosted – important in the range and seniority of our guests and important, indeed, vital, in the issues to be discussed over the next two days'.

Two important agreements were reached at the meeting. The ministers ensured that the concept of a ministerial meeting would not lose momentum by agreeing to hold further ministerial-level meetings in Singapore in 1990 and Korea in 1991. They also identified the SOM as an appropriate support mechanism, which would meet in Singapore within the next two months to set in train the next round of preparatory work. These decisions were important in terms of APEC's institutionalisation, given

⁹¹ The agenda for the ministerial meeting was also discussed at the SOM in Sydney. The proposed issues were world and regional economic developments; global trade liberalisation – the role of the Asia Pacific region; opportunities for regional cooperation in specific areas (such as investment, technology transfer, human resource development and development of infrastructure); and future steps for Asia Pacific economic cooperation. The SOM also developed agreed 'Notes on Agenda' which described the reference points in each agenda item to promote discussions at the ministerial level.

⁹² Saburo Okita, who was involved in proposing the OAEC plan, attended the first PAFTAD meeting in 1968 and promoted Prime Minister Ohira's concept to PECC as foreign minister in 1980. Okita (1990) attended the APEC meeting and was deeply moved because of his long-term involvement in Pacific economic cooperation.

the fact that there had been no certainty that APEC might not be a one-off meeting without progress beyond the development stage.

Ministers also agreed that the work programmes would be established in the fields of economic studies, trade liberalisation, investment, technology transfer and human resource development, with sectoral cooperation in areas such as tourism, energy and infrastructure. These work programmes would later develop into working groups parallel to similar PECC working groups and were important in providing a concrete shape to the APEC process.

Yet at the Canberra meeting, ministers avoided rushing into institutionalisation in the form of establishing a secretariat or detailed negotiations on any specific items. There was still a divergence of views; Indonesian Foreign Minister Alatas, for instance, consistently insisted on retaining the ASEAN framework rather than establishing a new institution. The informal agreement that every second meeting would be held in an ASEAN country was made out of consideration for such concerns. Singapore's enthusiasm to host the second meeting partly to mark its 25 years of independence was helpful in avoiding bringing divisions between ASEAN and non-ASEAN members into the APEC process.⁹³

The Canberra meeting can be judged as a great success as it saw the consensus reached that APEC meetings would continue to be held at least until 1991. There were several proposals during 1988–89 from leaders such as Nakasone, Shultz, Bradley and Cranston, but none of these proposals was realised. In contrast, the Hawke initiative had been realised in only ten months. The success of the initiative was due to Australia's discreet and careful preparation for the meeting, given the fact that there was considerable opposition and caution in the region.

Conclusion

This chapter examined the formation of APEC, applying the institution-building model to clarify why an Asia Pacific economic community progressed from the

⁹³ Information from DFAT officials. For instance, against Alatas's insistence, Canadian Foreign Minister Crosbie said APEC does not have the same objectives as ASEAN, and not all members were from Southeast Asia. While ASEAN concerns should be reflected, the process should also reflect the views of all participants.

second phase of the quasi-governmental PECC to the third phase of the inter-governmental APEC. Like Chapters 6 and 7, this chapter concludes by reviewing the APEC's establishment from the viewpoint of the three elements of the model: leadership, common interest and shared understanding.

The establishment of APEC was also a joint enterprise between Japanese and Australian leaders, as had been the case in the establishment of the previous three regional institutions. In Australia, Hawke's political push for the initiative, his senior advisers, DFAT and Australia's PECC members' efforts to crystallise the ideas, and Woolcott and his team's skilful diplomatic undertaking were pivotal to the successful organisation of the Canberra meeting. Japan's initiatives, while not as straightforward as Australia's, were important; MITI's ideas and Muraoka's diplomatic activities played an important supportive role in Australia's leadership. Both Australia's and Japan's ideas were key factors that assisted the progress of an Asia Pacific economic community from PECC to APEC.

Australian and Japanese leaders alike recognised that an inter-governmental economic institution was necessary to capitalise on the current trend towards regional economic growth and increasing interdependence to achieve further development in the region. They were unsatisfied with existing regional institutions and considered PECC to be restricted by its quasi-governmental character. As Hawke (1989a) said in his Seoul speech, PECC's 'informality ... has ... made it difficult for it to address policy issues which are properly the responsibility of Governments.'⁹⁴ Muraoka (personal interview) stressed: 'MITI thought that PECC's influence was limited due to its unofficial nature, so PECC was little to do with MITI's initiative.'

Yet Australia and Japan did not necessarily take the same approach to the establishment of APEC.⁹⁵ DFAT placed the highest priority on the successful

⁹⁴ Conybeare (personal interview), who worked with the NPCC in floating ideas of inter-governmental regional economic cooperation, was surprised by Hawke's speech: 'I certainly did not expect myself at the time sitting in Canberra that there would be such an articulated proposal as there was put and that it would be so separate to the PECC process that it would virtually have no regard to the PECC process'.

⁹⁵ In fact, some Australian leaders did not regard the MITI proposal as ideal. For instance, in declining a suggestion from Peter Cook, Minister for Resources, to organise another regional meeting on energy cooperation in line with the Hawke initiative, Hawke (letter to Cook, 13 June 1989) referred to MITI's plan in the following terms: 'we have already had to counter some misunderstandings related to a proposal by MITI for a meeting of regional industry Ministers'. Woolcott also had to assure ASEAN

conclusion of the Uruguay Round and thus regarded the trade liberalisation issue as the most important agenda item, in line with Hawke's foreign policy priorities. Yet DFAT (information from DFAT officials) thought MITI's plan had not necessarily been linked to the trade liberalisation of the Uruguay Round. MITI, on the other hand, emphasised economic and technical cooperation as well as trade liberalisation. Toyoda (cited in Funabashi 1995: 66) said:

Australians were very eager to set specific agenda items, which clearly aimed at trade liberalisation ... we also had that in our mind, but here we believed that we had to handle it very carefully. You would scare away ASEAN countries if you talked about liberalisation from the start ... Australia did not have any viable policy instrument for [economic and technical] cooperation.

MITI was also concerned about Australia's proposal for an Asian OECD, because the OECD involves policy coordination, but it was too early for APEC to undertake this role, given ASEAN's certain opposition (*Nihon Keizai Shimbun*, 6 March 1989).

In addition, the Australians detected that there was some unease about the hidden agenda of the Muraoka mission and Elek (personal interview) said 'perhaps MITI suffers from being too powerful', while MITI thought Australia alone could not persuade ASEAN countries to participate in a ministerial meeting. Yet these statements in themselves point to the desirability and possibilities for diplomatic coordination, with each side compensating for the other's shortcomings. Toyoda (personal interview) admitted that MITI maintained a low profile and that Australia took the initiative in floating the proposal in the region. He insisted that MITI's hope that Australia would take the initiative was rational if the idea of a ministerial meeting was to be realised, given Japan's difficult position due to its history. For Australia, it was advantageous to work with Japan to realise the Hawke proposal. While Australia's reliance on Asian markets was increasing, its trade was becoming less important to regional economies; its trade shares in the Asia Pacific region accounted for only 3.6 per cent in 1987 (Hay 1994: 14). Japan's economic presence was, on the other hand, growing and it was increasing its economic links with East Asia. Australia-Japan collaboration was beneficial to both countries in realising a common objective: the establishment of an inter-governmental regional economic institution.⁹⁶

countries in his visit that 'we are not acting as a stalking horse for MITI' (cited in Funabashi 1995: 58).

⁹⁶ In fact, there was little feeling of competition at the level of officials who actually pursued close

The existence of common interest in a new regional economic institution, the second element in institution-building, was also influential in APEC's formation. In the late 1980s politicians in Japan and the United States, including, Tamura, Nakasone, Shultz and Baker, had proposed an inter-governmental regional institution and many Asian countries had expressed their interest in inter-governmental regional economic cooperation when the Muraoka and Woolcott missions visited regional countries. The continuing growth of Asian economies, which led to confidence about their economies and greater interdependence in the region, was a major factor that promoted a common regional interest. Evans (1989b) said in his Chairman's summary of the first APEC meeting that APEC 'stemmed from a recognition that the increasing interdependence of regional economies indicated a need for effective consultations among regional decision-makers'.

The existence of a common interest in the region also sustained Australia's leadership, which was not 'hegemonic leadership' that tends to impose the leaders' intentions on the followers, but leadership that required adjustment to followers' interests. In the case of APEC, for instance, Hawke made it clear that 'we do not, in any sense, see Australia laying down a blueprint for regional cooperation. Instead we see the concept being developed jointly with our regional partners' (*Monthly Record*, 1989, No. 4: 122). This was the key to Australia's successful diplomacy in the establishment of APEC.

The significance of the third element of institution-building, shared understanding about the merit of regional economic cooperation, lies in the ways that leaders encourage potential participants to share their perception of the necessity for a new institution. There are at least two methods to promote such a shared understanding: direct and short term and indirect and long term. When pursuing the first method, leaders appeal directly to participants about the merit of a new regional institution through speeches, negotiations and delivering an institutional blueprint. Hawke pointed out the benefits of a new inter-governmental regional economic

contact between the two countries. Okumura (personal interview) claimed not to feel a sense of competition with Australia and said that he worked closely with DFAT officials. Richardson (personal interview) also thought one should not exaggerate the different approaches taken by the two countries, because collaboration between the two countries was very productive in promoting APEC.

institution in his Seoul speech and Woolcott also elaborated these points in his blueprint. The Woolcott mission emphasised its merits in direct discussions with a number of ministers and senior officials of the potential participants.

The indirect and long-term method can be seen in the PECC network, which had contributed to a growing acknowledgment of the necessity for an inter-governmental regional economic institution among politicians, senior officials, academics and business leaders in the region. It is true that the Hawke announcement was a threat to the people involved in PECC, undermining PECC's *raison d'être*.⁹⁷ Yet PECC's activities in the previous decade had been invaluable in building a sense of shared interests and the mutual trust needed to launch an initiative like APEC. Elek (personal interview) revealed PECC's hidden role in the establishment of APEC:

What you will not find easily on the record is the many conversations which took place in the informal PECC/PAFTAD networks about what the Hawke initiative meant and how to make it work. Almost everywhere we went with Mr Woolcott, the PECC networks proved important. They were certainly vital in China, where the PECC precedent made it possible to bring in the three Chinese economies, without which APEC would be fairly meaningless.

PECC's contribution needs to be seen in the light of longer term preparation for APEC, not just what happened in 1989.

As was the case in Chapters 6 and 7, the three elements of institution-building were all influential in the formation of APEC in a different stage and from different angles. The argument in this chapter validates the claim of the institution-building model that the roles of leaders are pivotal in institution-building. APEC's origins were in the visions of Australian and Japanese leaders who successfully appealed to regional countries about the desirability of inter-governmental regional economic cooperation

⁹⁷ For instance, noting that at the ASEAN PMC in July 1989, 'some foreign ministers were notably hostile and misinformed about PECC's purposes and its membership', Fairbanks, Chairman of the US PECC committee, warned: 'It is absolutely crucial that participants in [the Senior Official Meeting in September] ... speak up in favour of developing the linkage with PECC, in whatever manner governments may wish such a linkage to occur. Without this explicit support from your government and others, the basis for continuation of the PECC will be seriously undermined. Please meet with your government representatives to such developing information and analysis for ministerial meetings, based on both governmental and private expertise ('Letter from Fairbanks to Madigan, 3 August 1989'). Taiwan's NPCC's Chairman, Koo Chen-fu also wrote: 'the association of PECC with the Canberra Ministerial meeting in its current format may tend to cause PECC to degenerate into a secondary position' (letter from Koo to Talboys, 28 August 1989).

by carefully absorbing the opinions of regional countries, finding common interests and incorporating them into the agenda.

9 Conclusion: Creating an Asia Pacific economic community

Three tasks remain. The first is to review the central question of this thesis: how and why 'progress' towards an Asia Pacific economic community grew out of the non-governmental PAFTAD and PBEC bodies, established in 1968 (Phase I) through the quasi-governmental PECC organisation in 1980 (Phase II) to the inter-governmental APEC process in 1989 (Phase III). The second task is to examine the role of the Australia–Japan partnership in building regional economic institutions. The third is to evaluate the theoretical and empirical implications of the institution-building model and its application to the formation of each institution.

Progress in the development of an Asian Pacific economic community

The thesis traced the three-phased process of progress towards an Asia Pacific economic community, examining the formation of each institution. At least three factors account for the almost three decades it took to create APEC after the idea was first promulgated: initially limited interaction among regional countries, the diversity of culture, history, political systems and different degrees of economic development. These three factors caused developing countries in the region, especially those in ASEAN, to hesitate in committing themselves to establishing an inter-government regional economic institution.

The Asian Relations Conference, the first international conference where Asian countries had joined together, was held at New Delhi as early as March–April 1947. Yet most of the developing countries in the region, with the exception of Thailand, had been colonised by the Western powers and occupied by the Imperial Japan, and had become independent only after World War II. The Asia Pacific region as a whole lacked a history of state interaction, a characteristic that was in contrast to the European experience. The region lacked interactions in the form of policy-oriented discussions and policy-relevant information flows. Despite geographical proximity, regional countries knew little about each other. This was crucial because 'the improvement in

communication and information flows [is] an important component of economic cooperation as well as an essential prerequisite to its substantial deepening' (Harris 1994b: 13). This lack of interaction and information meant that there were few opportunities for regional economic cooperation.

Given their recent emergence from the status of colonies occupied by powerful imperial countries, developing countries were cautious about involvement in inter-governmental regional institutions which might intrude on their sovereignty and include some of the former imperial powers, especially Japan which had resorted to war to create a regional sphere of influence for itself. Japan's militarism had occurred only a couple of decades before and Japan's image as an aggressor was still vivid. The non-aligned policy of Malaysia and Indonesia also contributed to ASEAN's negative attitude to inter-governmental regional economic cooperation. In the first phase, Miki's Asia Pacific policy was criticised by Filipino President Marcos, who opposed any attempt by advanced nations to control developing economies when it was explained in Manila in April 1967 (*Nihon Keizai Shimbun*, 26 April 1967). During the second phase, a similar view was expressed by Malaysian Deputy Prime Minister, Mahathir, when Japan proposed the Pacific Basin Cooperation Concept in the late 1970s, as discussed in Chapter 7. As Woods (1993: 124) notes, 'participation from ASEAN has been of central importance' and 'the pace of pan-Pacific cooperation [has been] largely dependent upon [ASEAN's] attitude towards the concept'. This was because of ASEAN's growing collective voice and its status as the representative of developing countries in the Asia Pacific region. ASEAN's negative perceptions of broader regional cooperation were initially a barrier to progress towards an Asia Pacific economic community.

Another feature of the Asia Pacific region is its diversity in terms of culture, ethnicity, language and institutions. This has made policy cooperation more difficult. Different degrees of economic development among regional countries are striking and this diversity is also reflected in different interests and objectives in foreign economic policy such as mutual economic development. Building regional economic institutions required finding common ground among different interests. Developed countries tend to advocate increased trade liberalisation, for instance, while developing countries tend to place priority on the promotion of economic and technical cooperation as well as trade

liberalisation. Even APEC still differentiates between developed and developing countries, as seen in the Bogor Declaration which stipulates the deadline for trade and investment liberalisation: 2010 for developed nations and 2020 for developing countries. APEC also places emphasis on development and technical cooperation for developing countries, along with trade liberalisation, which developed countries are keen to promote.¹ Divergent interests have been a consistent element in each phase of the development of an Asia Pacific economic community, especially in the engagement of the ASEAN countries. Although development requires reform and liberalisation, and development of developing countries found sufficient common cause in the Asia Pacific region.

Gradually, the promotion of mutual understanding and the articulation of a common view of the need for economic reform and trade liberalisation to promote economic development capitalised on personal acquaintances, and the exchange of policy information helped to overcome the lack of policy interaction and the diversity that characterised the Asia Pacific region. Intensified policy interaction and the socialisation of regional cooperation through PAFTAD, PBEC and later PECC, helped developing countries to acknowledge their shared interest and the gains that could be made from greater government involvement in regional economic cooperation (Harris 1993: 278). Elek (personal interview) said:

The ten years of work by PECC were indeed invaluable in building the sense of shared interests and mutual trust needed to launch an initiative like APEC. If preconditions had been right in 1980 to launch at a more institutional and government level, it would have happened, but the ten years' preparation between 1980 and 1989 was essential [for the establishment of APEC].

The importance of the process of acclimatisation was evident even in the case of Europe. Rostow (1985: 103) describes the development of the Organisation for European Economic Cooperation (OEEC) into the OECD and comments that 'the habit of cooperation or consultation in a previous institution made it easier to create another but more functional institution'. Japanese and Australian leaders were well aware of the importance of the habit of cooperation. Miki, the first advocate of Japan's Asia Pacific policy, stressed in January 1967 that:

¹ Indonesian officials clearly stated that development cooperation was necessary for 'the weaker countries' to enhance 'their capabilities that enable them to participate more fully in regional

... we should take a gradual approach to Asia Pacific policy by starting with programmes that are capable of implementation. This will help to create a 'mood' for producing solidarity among nations in the end. (MOFA document 1979: 4)

This was also the approach taken by the Australian government in promoting regional economic cooperation in 1980. This is suggestive of the evolution of a consensus in the region on the establishment an inter-governmental economic institution through a series of non-governmental regional meetings, as explained in Chapter 7.

The role of regional institutions, from the mid-1960s to the late 1970s, (Phases I and II) was crucial. The detailed discussions and the projects undertaken during this period informed government officials and decision makers about the need for a governmental institution like APEC to enhance economic benefits. The three non-governmental and quasi-governmental institutions proved helpful in terms of advocacy and as a source of ideas through networks of influential individuals in the region. These networks had value in bringing ideas into the bureaucracy, providing feedback on the ideas, making proposals to politicians and contributing to the creation of the atmosphere necessary for the establishment of APEC.

While regional diversity and the lack of a history of state interaction hampered the creation of an inter-governmental regional institution in Asia and the Pacific, growing regional interdependence fostered progress towards an Asia Pacific economic community. Greater economic interdependence encouraged cooperation to precipitate trade and investment in the region, and contributed to economic growth in developing countries. In 1965 when Kojima launched the PAFTA concept, the ratio of intra-regional trade among nations in Asia and the Pacific amounted to 46.8 and 51.9 per cent of exports and imports, respectively. These trade shares had risen to 64.6 and 62.5 per cent in 1987 when the seed of APEC was planted (cited in Garnaut 1997: 148). This provided an incentive to trade policy cooperation. Deepening interdependence also posed problems; managing the frictions associated with growing interdependence was a growing and important interest. Even if members of epistemic communities were influential in deciding the form and extent of interdependence with reference to

trade liberalisation exercises' (cited in Soesastro 1996: 26):

economic evidence, the decisions were made in the political arena. Increasing regional economic interdependence spurred Australian and Japanese leaders such as Ohira, Okita, Kojima, Fraser, Crawford, Drysdale, and Hawke to consider the creation of a new regional economic institution. Awareness of greater economic interdependence was a significant factor that promoted progress towards an Asia Pacific economic community.

Progress and institutional identity

The thesis argued that the progress from PAFTAD and PBEC to APEC via PECC led to the creation of an Asia Pacific economic community. As discussed in Chapter 1, these four institutions were linked by overlapping personal networks as well as shared principles and objectives, which contributed to sustaining their existence and to elaborating their purposes. They strengthened shared beliefs and consensus promoting regional cooperation, and consolidated the solidarity essential for increasing the understanding of cultural and social differences in the Asia Pacific region. Through these four institutions, government officials, business leaders and academics strengthened their commitment to economic cooperation by exchanging policy information and ideas, and engendering a sense of community among the individuals, organisations and states engaged in economic cooperation in Asia and the Pacific. As Ali Moertopo (1984: 71), noted:

The practice of meaningful consultation, on the basis of substantial issues of common concern, is believed to ultimately give birth to a greater sense of community. This is the ultimate objective of the present efforts. The creation of an inter-governmental body or other institutional set-ups is only of second importance. Institutions, after all, are only a means and not the ultimate goal.

The cognitive school of international relations theory argues that the emergence of a sense of community is an important component in promoting regional integration. According to this school, a sense of regional community can be partly inspired by the factor of a 'common Other' (Wendt 1994: 389) intensifying a consciousness of regional identity. Regions do not exist naturally but are subjectively constructed by human beings. Any regionalism inevitably draws lines, creating borders between members and non-members. The existence of 'others' can contribute to distinguishing 'us' from 'them' and this comparative process is instrumental in consolidating identity among the 'in group'. For instance, during the Cold War, the confrontation of the Soviet bloc

helped define the identity of the West among the allies of the United States. Similarly, protectionism against agricultural imports and declining international prices for those products were contributing factors in forging a common identity among exporters of agricultural products, and assisted in determining the membership of the Cairns Group. In the Asia Pacific region, emerging regional blocs elsewhere led to a rise in regional awareness, which helped clarify membership and subsequently encouraged the momentum to create a regional institution among countries in Asia and the Pacific. Because 'it is the nature of identification that determines how the boundaries of the self are drawn' (Wendt 1994: 386), the exclusion of certain regions or countries following the establishment of a regional institution helps fortify collective identity among member countries. It can give meaning to regional identification.

Yet as Hurrell (1995: 335) argues, regional awareness, regional identity and regional consciousness are 'inherently imprecise and fuzzy' notions. It is thus not clear to what extent collective identity is necessary for the promotion of substantial regional economic cooperation. The important question is who should perceive regional identity in terms of establishing a regional institution. The concept of regional identity tends to include ordinary citizens in countries that participate in a regional institution, but it is hardly possible to comprehend how and to what extent ordinary citizens in member countries of the regional institution share a common identity which the actual participants from their countries in the institution perceive. If the degree of integration reaches the point, for instance, where people in a region are allowed to move around with little difficulty, as is the case in the EU, participants from member countries, including the public, are able to share a common identity as members of the EU and show their willingness to support their countries' commitment to regional cooperation in that organisation. The level of integration in the Asia Pacific region is, however, only apparent in economic fields, and thus national citizens in the Asia Pacific region tend to be much less aware of any common shared identity.

Citizens' awareness of regional identity does not necessarily have a direct impact on implementation of policies agreed in formal regional economic institutions. Hence, the thesis argued that 'institutional identity' rather than 'regional identity' has been important in promoting Asia Pacific regional cooperation. I define institutional identity as the identity that comes from belonging to a particular regional institution, as

perceived by the participants in the institution – politicians, officials, business people and academics, and not citizens of participating countries. Given that the ultimate purpose of international institutions is to promote policy cooperation, ‘institutional identity’ is more significant than ‘regional identity’ in terms of promoting policies agreed by the institution and maintaining participants’ commitment to institutional activities. This process helps an institution maintain its momentum and coherence. Institutional identity may lead governments in the region to identify common interests more easily. This can result in their increasing mutually cooperative activity in the regional institution. Institutional identity is much more explicit and less abstract than regional identity. Thus, strengthening institutional identity can help solidarity among participants and sustain commitment to cooperation.

Higgott (1994: 86) argues that ‘institutional ties and networks are important promoters of solidarity’ among regional states and Wendt (1992: 397) wrote that ‘actors acquire identities ... by participating in ... collective meanings’. The ‘progress’ from PAFTAD and PBEC, to APEC via PECC helped participants in these institutions reinforce their affinity with and commitment to those institutions, consolidating the basis for regional economic cooperation. As the policy elite involved in the four institutions came to accept their institutional identity, the momentum for regional economic cooperation gathered strength. This process was at the heart of the emerging Asia Pacific economic community and an important consequence of progress made through the four regional economic institutions.

Australia–Japan partnership

The thesis shows that PAFTAD, PBEC, PECC and APEC were the products of initiatives taken jointly by Japanese and Australians. It explains how and why Japanese and Australians exercised joint leadership in institution-building in the Asia Pacific region. The history of the development of Asia Pacific economic cooperation is important in the evolution of Australia–Japan relations. Regional economic cooperation was a significant national interest for both countries and both were encouraged to cooperate in building new institutions in the region.

Chapter 4 suggested that after the Pacific War, Australia initially saw the Asia Pacific region from a security viewpoint, but gradually came to regard the region as an important market in the wake of rapid Asian economic growth. The more intensely Australia realised the significance of its economic engagement with Asia, the stronger was its commitment to regional economic cooperation. This was mainly because Australia's growing engagement with the region had been an effective means of achieving economic as well as political interests. This was an important rationale behind Australia's leadership in regional institution-building, and a driving force in progress towards an Asia Pacific economic community. During each phase, Australia's institution-building efforts were regarded highly by other regional players and became a positive signal for Australia's engagement with Asia in the minds of the region and Australians themselves.

Japan's leadership stemmed naturally from its economic role in the region, which encouraged it to make a contribution to Asia's development, an aspiration which has been prominent in the minds of Japanese leaders throughout the postwar period, as seen in Chapter 3. This became more entrenched as Japan's economic influence and presence in Asian developing countries increased through trade, investment and aid. Although Japanese economic diplomacy initially focused on the exploration of export markets in the region, Japan changed its strategy, especially towards Southeast Asia, as a result of the lessons it learnt through the 1964 UNCTAD meetings and Tanaka's 1974 visit to ASEAN countries. This culminated in Miki's ASEAN-centred diplomacy and the Fukuda Doctrine in the mid-1970s, a turning point for Japanese leadership in Asia Pacific regionalism. Japan's growing economic influence and improved relations with Southeast Asian countries were significant conditions for Japan's leadership and also had a major impact on progress towards an Asia Pacific economic community.

Although both countries' interests in promoting regional economic cooperation were distinctive, certain elements drew the two countries together in the institution-building endeavour. The most conspicuous element was diplomatic complementarity between the two countries. Japan's attempt to conquer the Asia Pacific region in World War II and its subsequent rapidly growing economic presence were obstacles to its involvement in regional economic diplomacy. Australia's traditional ties with Britain and the White Australia policy initially made it difficult for Australia to be accepted by other regional

countries. These historical and cultural disadvantages led Australia to strive all the more in its regional diplomacy while Japan's economic presence and its cultural and historical closeness to other Asian countries were useful to Australia's regional diplomacy. On the other hand, Australia's non-threatening middle-power status, underpinned by its lesser economic presence, and its active and dexterous diplomacy compensated for Japan's more muted regional diplomatic role. As highlighted in Chapter 5, this partnership wherein each compensated for the other's shortcomings, functioned well in the establishment of PECC and APEC.

A significant element assisting Japan and Australia in taking initiatives in institution-building was the existence of epistemic communities on Pacific economic cooperation in both countries. Some scholars point to the primacy of Australia's intellectual contribution to the development of regional economic institutions,² but, as the thesis reveals, Japanese intellectual leadership was also prominent in Asia Pacific economic community-building, alongside that of Australia. It was the intellectual assets of epistemic communities that sustained the leadership role of both Australia and Japan in institution-building in the Asia Pacific region.

It is true that 'Japan and Australia share none of the cultural, political or sentimental links that once supported the trading relationship between Australia and the United Kingdom' (Crawford and Okita 1976: 1). The *Australian Financial Review* (2 November 1970) observed that 'an American and an Australian can arrive at a position of empathy and instinctive mutual trust far, far more rapidly than a Japanese and an Australian can'. Yet as Australia's trade with Britain declined, it rose substantially with Japan.³ Also, between the 1950s and 1980s, while there was only one visit by an incumbent US President, Lyndon Johnson in 1966, a number of Japanese prime ministers visited Australia: Kishi (1957), Ikeda (1963), Sato (1967), Tanaka (1974), Ohira (1980), Nakasone (1985) and Takeshita (1988). Japan and Australia enjoyed

² Higgott (1994) focuses on Australian intellectual capital, especially in the development of APEC and dismisses the role of other countries like Japan. Kahler (1994: 32) goes so far as to say that 'only in Australia and Canada does a pattern resembling the epistemic community ideal-type seem to apply, which may explain the leadership of these countries in setting a new institutional agenda for the region'.

³ The percentage of Australia's exports and imports to and from Britain between 1959–60 and 1989–90 decreased from 26.4 per cent to 3.5 per cent and from 35.7 per cent to 6.5 per cent, respectively, while those with Japan during the same period rose from 14.4 per cent to 26.1 per cent and from 4.5 per cent to 19.2 per cent, respectively, (Ravenhill 1992: 107).

intensive economic and political interactions, which compensated for their lack of cultural and ethnic affinity.

After their initiative in establishing APEC in 1989, both countries continued to cooperate in the development of the APEC process. The APEC Leaders' meeting, the highest level meeting within the APEC framework, stemmed from Australian Prime Ministers Hawke's and Keating's ideas, which Japan supported.⁴ At the Osaka meeting, Japan and Australia were in conflict over the inclusion of areas like agricultural products for achieving the Bogor Declaration, but both countries reached a compromise in the course of bilateral meetings convened to resolve the problem; the meeting between Prime Minister Keating and MITI Minister Hashimoto was especially critical.⁵ This episode illustrates the maturity of the partnership. Even when both countries faced a situation of policy conflict, they were able to identify a means of settlement on the basis of mutual respect and shared interests acquired through their long-term cooperation in the field of regional economic diplomacy.

The Australia–Japan partnership is characterised in a Joint Declaration issued by Prime Ministers Murayama and Keating in 1995 that Australia was destined to be Japan's 'indispensable partner in regional affairs' and Japan expressed its wish to 'walk alongside our Australian friends as best mates'.⁶ In fact, Japan supported Australia's inclusion in EAEC and currently supports Australia's membership of ASEM, a position Prime Minister Hashimoto (1997) explicitly reiterated in his visit to Canberra in April 1997: 'We should like to do our part for that ... we are taking this task on ourselves, as we would like you to join ASEM as a member of the Asian side.' Australia acknowledges Japan's support which 'will have a decisive bearing on Australia's overall standing in East Asia and [Australia's] degree of participation in regional affairs'

⁴ Aware of 'the fact that East Asia was the only part of the world not to have a regular Summit of leaders', Hawke was encouraged to promote the meeting within APEC in mid-1991 (Mills 1993: 195). Yet Hawke's prime ministership was taken over by Keating late that year and Keating instead proposed the leaders' meeting in April 1992. Keating had canvassed the idea with major regional leaders including Japanese Prime Minister Kiichi Miyazawa, who officially supported the idea in his visit to Canberra in April 1993. This idea was later adopted by US President Clinton when the United States hosted the APEC meetings in Seattle in 1993.

⁵ Michael Costello, then secretary of DFAT, emphasised this point (personal interview, 12 September 1998, Canberra).

⁶ Prime Minister Miyazawa in his visit to Canberra also referred to Australia as an 'indispensable (*kakegaenonai*) friend' in his speech on 30 April 1993. This phrase was reiterated when Prime Ministers Hashimoto and Howard met in Tokyo, September 1996 (*AFR*, 20 January

(Commonwealth of Australia 1997: 60). The partnership has been strengthened through the activities undertaken towards the realisation of an Asia Pacific economic community and both countries should continue to work with each other in this field, capitalising on the strong foundations of three decades of close cooperation.

Implications of the institution-building model

Chapter 2 introduced the institution-building model as an analytical framework for examining the formation of each regional institution by integrating the three dominant schools in the theory of international regime formation – the power-based, interest-based and knowledge-based schools. The model consists of the six stages of institution-building: innovation, refinement, selection, adjustment, demonstration and negotiation (the order of the last three stages depends on leaders' tactics). The model is constructed on the hypothesis that the three dominant approaches to regime formation lack analytical connection but all three elements are associated with the formation of an international institution. The model provides an analytical tool to explore how the elements interact and might be applied simultaneously to explain institution-building. The integration of the three elements helps us to examine institution-building from different analytical angles and thus gain a deeper understanding of international relations.

The application of the model to the formation of the four institutions shows that the three dominant elements in regime formation were all relevant at particular stages in the formation of each institution. Firstly, the significance of leadership in institution-building is in line with the claims of the power-based school of regime formation. Japanese and Australians developed their ideas on regional economic cooperation and took diplomatic initiatives in persuading potential participants to join the all four regional economic institutions. In the first phase, Miki, Kojima, Okita and Crawford were pivotal in establishing PAFTAD, as were Nagano and Anderson in PBEC. Ohira, Fraser, Okita, Crawford, Drysdale and members of the Pacific Basin Study Group were central in the establishment of PECC. Hawke, Evans, Woolcott, Australian senior officials, Australian PECC members, Takeshita, Muraoka and senior officials in MITI were responsible for the formation of APEC. Japanese and Australians outlined the structure and the content

of the institutions, and the intention of leaders in both countries was reflected in the institutions that were fashioned.

Their leadership was not 'hegemonic leadership', which imposes leaders' intentions on followers by force, but 'directional leadership' which promotes collective goals by directing followers' behaviour. As the model claims, the crux of leadership centres on the skills of leaders in persuasion, guidance, cajolery and coaxing to produce cooperation wherein followers defer to a leader's conception of regional economic cooperation. Japanese and Australian leaders were committed to adjusting different interests of potential participants and persuading them to join new regional institutions. This was a significant element in their successful leadership in institution-building.

Yet if other countries had not found it useful to join, this persuasion on the part of the leaders would have been unlikely to succeed. The existence of a set of common interests based on the interest-based school of regime formation is the second assumption of the model. The participants were motivated to join a regional institution since they felt joint action would bring benefits to their economies. The model claims that it is the leaders' task to discover common interests and adjust opposing interests, if necessary, to create congruence with the followers' interests. 'Institutional blueprints' represented an important tool for adjusting the followers' interests. The blueprints were all delivered in building PAFTAD, PBEC, PECC and APEC and they provided the basis for the leaders to gauge the followers' interests and make consequential adjustments through diplomacy.

The Asia Pacific economic community consists of developed and developing countries, and the adjustment of their different interests was a major task for the leaders. As argued above, developing Asian countries did not favour hasty institutionalisation and their initial interest in a regional institution was mainly concerned with developing the habit of consultation on sound economic development. In the case of APEC, for instance, Woolcott's blueprint first emphasised this point in appealing to benefits of the participation: '... given the economic inter-linkages in the region, it would be useful for each participant to know how the policy thinking of other participants is developing' (Woolcott 1989b).

According to the third school of regime formation, a shared understanding of the merit of regional cooperation among its potential members promotes the creation of a regional institution. From the leaders' viewpoint, it is imperative that potential members share their perception of the need for a new regionalism. They can achieve this directly by appealing to potential members through official speeches, negotiations and the delivery of 'institutional blueprint'. From the perspective of the long-term method, the PAFTAD and PECC networks were significant in terms of socialisation of the idea of regional economic cooperation. The members of these institutions constituted epistemic communities of Pacific economic cooperation. They had long studied the subject and shared similar approaches and views and, importantly, many had direct connections with governments. They created a critical mass of ideas, floating the possibility of a ministerial-level meeting, encouraging ministers to think about the issue. Their efforts laid the basis for subsequent developments, making it easier for governments to expound similar views on regional economic cooperation and hence to prosecute the necessity for an inter-governmental institution. Also, that they shared a similar view of the benefits of inter-governmental regional economic cooperation points to the significance of the second school's claim.

The application of the institution-building model to the formation of the four regional economic institutions shows that the claims of each school from different levels of analysis, are all relevant to institution-building, and that the three elements are inter-linked. Taken together, they form the basis for a deeper understanding of international institution-building.

A major characteristic of the model is its analytical focus on the ideas and activities of individuals in leader countries. The purpose of the model is to identify where the ideas about a new regional institution are generated; whose ideas get translated into policy; and why and how the policy affects other countries. This helps us to trace the origins of the formation of institutions. A number of international events contributed to the establishment of APEC, such as the stalling of the Uruguay Round, the emergence of inward-looking regionalism in Europe and North America and high economic growth and increasing economic interdependence in the Asia Pacific region. An advantage of the model developed here is that it helps clarify how leaders interpreted these events and

how and why they translated their perceptions into practice in their attempts to create APEC.

The application of the model to the Asia Pacific regional institutions at least shows that individual ideas, their impact on government policy and the diplomatic activities that flow from them were at the core of the creation of economic institutions in Asia and the Pacific. The thesis reviewed a constellation of ideas on Asia Pacific economic cooperation over 30 years: Miki's Asia Pacific policy, Kojima's PAFTA, Okita's OAEC, Nagano's Asian version of the EEC, Whitlam's Asia Pacific association, Ohira's Pacific Basin Cooperation Concept, Drysdale's OPTAD, and Hawke's Asian OECD. The creation of an Asia Pacific economic community is a significant outcome of long-term individual deliberation and the consummation of individual efforts, especially in Japan and Australia.

The model is designed to examine the formation of 'international' institutions more generally, not only institutions which are 'regional' or 'economic', though this thesis focuses on the formation of 'regional' and 'economic' institutions. The subject of the thesis, however, is 'Asia Pacific' institutions, not 'international' institutions such as the United Nations, or institutions in other regions such as the EU. Yet the findings in the thesis suggest some clearly identifiable patterns in the formation of economic institutions in Asia and the Pacific, and thus there is no reason to think that they might not be applicable elsewhere. To enhance the general applicability of the model, it would be necessary to test it by applying it to the formation of institutions other than Asia Pacific economic institutions thereby identifying common elements behind the formation of international institutions more generally. This is a task for future research.

List of Abbreviations

AA	Australian Archives
ABAC	APEC Business Advisory Committee
ADB	Asian Development Bank
<i>AFAR</i>	<i>Australian Foreign Affairs Records</i>
<i>AFR</i>	<i>Australian Financial Review</i>
AFTA	ASEAN Free Trade Area
AJBCC	Australia–Japan Business Cooperation Committee
ANU	Australian National University
ANZAM	Australia–New Zealand–Malaya pact
ANZUS	Australia–New Zealand–USA pact
APEC	Asia Pacific Economic Cooperation
ARF	ASEAN Regional Forum
ASEAN	Association of South-East Asian Nations
ASEAN PMC	ASEAN Post-Ministerial Conference
ASEM	Asia–Europe Meeting
ASPAC	Asia Pacific Council
CCCI	Canadian Chamber of Commerce and Industry
<i>CN</i>	<i>Current Notes</i>
CNIA	Current Notes on International Affairs
CSIS	Center for Strategic and International Studies, Indonesia
DAC	Development Assistant Committee
CHOGM	Commonwealth Heads of Government Meeting
CHOGRM	Commonwealth Heads of Government Regional Meeting
CPD	Commonwealth Parliament Debate
DFAT	Department of Foreign Affairs and Trade, Australia
DOFA	Department of Foreign Affairs, Australia
EAEC	East Asian Economic Caucus
EC	European Community
ECAFE	Economic Commission of Asia and Far East
ECSC	European Coal and Steel Community
EPA	Economic Planning Agency, Japan
EU	European Union
<i>FEER</i>	<i>Far Eastern Economic Review</i>
FPDA	Five Power Defence Arrangement
GNP	gross national product
IDCJ	Inter-Departmental Committee on Japan, Australia
JABCC	Japan–Australia Business Cooperation Committee
JERC	Japan Economic Research Center
JERI	Japan Economic Research Institute
JETRO	Japan External Trade Organization
JICA	Japan International Cooperation Agency
LDP	Liberal Democratic Party, Japan
MITI	Ministry of International Trade and Industry, Japan
MOF	Ministry of Finance, Japan

MOFA	Ministry of Foreign Affairs, Japan
NAFTA	North American Free Trade Area
NARA	Nippon–Australia Relations Agreement
NATO	North Atlantic Treaty Organization
NIRA	National Institute Research Advancement, Japan
NPCC	National Pacific Cooperation Committee, Australia
OAEC	Organization of Asian Economic Cooperation
OAPEC	Organization of Arab Petroleum-Exporting Countries
ODA	Official Development Aid
OECD	Organization of Economic Cooperation and Development
OEFC	Overseas Economic Cooperation Fund, Japan
OEEC	Organization for European Economic Cooperation
OPTAD	Organisation of Pacific Trade [Aid] and Development
PAFTA	Pacific Free Trade Area
PAFTAD	Pacific Trade and Development
PBEC	Pacific Basin Economic Council
PBECC	Pacific Basin Economic Cooperation Council
PBF	Pacific Business Forum
PCC	Pacific Cooperation Committee
PEACE	Pacific Economic And Cultural Enclave
PEC	Pacific Economic Community
PECC	Pacific Economic Cooperation Council
PM&C	Department of Prime Minister and Cabinet, Australia
PNG	Papua New Guinea
RSL	Returned Services League, Australia
SADC	Southern African Development Community
SEATO	South East Asian Treaty Organization
<i>SMH</i>	<i>Sydney Morning Herald</i>
SOM	Senior Officials Meeting
UNCTAD	United Nations Conferences on Trade and Development

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