Neoliberalism and Australia's Economic Relationship with Japan:
Policy Paradigms in a Global Political Economy

This thesis is presented for the degree of
Doctor of Philosophy
of Murdoch University

1996

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B.A Honours (Murdoch)
I declare that this thesis is my own account of my research. It contains as its main content work which has not previously been submitted for a degree at any university.
Abstract

The increasing internationalisation and integration of global economic activity has meant that the way nations seek to manage and accommodate such external imperatives is a critical determinant of national economic welfare. There has, however, been a notable variety of responses to these ubiquitous forces. In Australia, neoliberal ideas came to exert a powerful ideational influence over policy-makers during the 1980s as they attempted to reposition 'Australia' in response to the exigencies of external competition.

This thesis will argue that Australian policy makers' commitment to neoliberal ideas meant that policy was constructed within a limited set of theoretical parameters, which were unable to take account of the specific corporate and governmental practices of major trading partners. The thesis analyses the utility and effect of neoliberal ideas on the conduct of Australia's international economic relations, with particular reference to Japan. Japan is Australia's principal trading partner, an important potential source of investment capital, and the dominant economic actor in a region with which Australian policy-makers seek greater 'integration'. This important economic relationship provides an appropriate case study with which to test the efficacy of the neoliberal model and the assumptions that inform it.

It will be demonstrated that some of the central concepts and assumptions of neo-classical theory, which are central to the discourse of neoliberalism, bear little resemblance to commercial practices in the region of which Australia is a part. In the course of this study, it will be argued that the dominance of neoliberal ideas may be best understood by considering their discursive influence, particularly as this was reinforced by an influential group of academics and government officials. The theoretical assumptions of these ideas will be examined, and the preconditions that rendered them attractive at a specific historical juncture detailed. It will be suggested that neoliberal ideas informed a specific political rationality which had discernible effects on a range of policy issues in Australia, but which was especially evident in the area of external economic policy.
Acknowledgments

While it may be obligatory to acknowledge help and assistance in an undertaking such as this, my gratitude and thanks are, nevertheless, genuine if inadequate acknowledgment of much generous assistance.

I would like to express my alphabetical appreciation to the following colleagues and friends who made especially helpful contributions to the completion of this thesis: Bruce Campbell, Mark Cloney, Richard Higgott, Jane Hutchison, Dick Robison, Illan Warchiver, and Gary Wickham.

In addition I would like to acknowledge the support given by the staff of the Politics Department, the Asia Research Centre, and the participants in the Centre's post-graduate seminar series.

Two people merit particular thanks. As the thesis progressed, it became increasingly apparent just how critical is the role of a supervisor. In this regard I was especially fortunate in having someone who not only gave generously of his time and energy, but was a crucial source of both intellectual and motivational support. Thanks indeed to Garry Rodan.

Finally I would like to acknowledge the invaluable contribution Ann Firth, who not only provided incisive commentary on earlier drafts of this work but, perhaps equally as important, the emotional support and encouragement that helped me get to the end of it. Again, many thanks.
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<thead>
<tr>
<th>Abbreviation</th>
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<tr>
<td>ABS</td>
<td>Australian Bureau of Statistics</td>
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<tr>
<td>ACA</td>
<td>Australian Coal Association</td>
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<tr>
<td>ACTU</td>
<td>Australian Council of Trade Unions</td>
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<td>AJRS</td>
<td>Australia-Japan Research Centre</td>
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<td>ALP</td>
<td>Australian Labor Party</td>
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<td>AMC</td>
<td>Australia Manufacturing Council</td>
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<td>AMWSU</td>
<td>Amalgamated Metal Workers' Union</td>
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<tr>
<td>APEC</td>
<td>Asia Pacific Economic Cooperation</td>
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<td>ASEAN</td>
<td>Association of Southeast Asian Nations</td>
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<tr>
<td>AUSPECC</td>
<td>Australian Pacific Economic Cooperation Committee</td>
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<tr>
<td>BIE</td>
<td>Bureau of Industry Economics</td>
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<td>BoJ</td>
<td>Bank of Japan</td>
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<td>CFMEU</td>
<td>Construction, Forestry, Mining &amp; Energy Union</td>
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<tr>
<td>DFAT</td>
<td>Department of Foreign Affairs and Trade</td>
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<tr>
<td>DITAC</td>
<td>Department of Industry, Technology and Commerce</td>
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<tr>
<td>EFIC</td>
<td>Export Finance and Insurance Corporation</td>
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<tr>
<td>ETMs</td>
<td>elaborately transformed manufactures</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>FDI</td>
<td>foreign direct investment</td>
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<td>FIRB</td>
<td>Foreign Investment Review Board</td>
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<td>GPE</td>
<td>global political economy</td>
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<td>IC</td>
<td>Industry Commission</td>
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<td>IAC</td>
<td>Industry Assistance Commission</td>
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<td>JETRO</td>
<td>Japan External Trade Representative Organization</td>
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<td>LDC</td>
<td>less developed countries</td>
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<td>LDP</td>
<td>Liberal Democratic Party</td>
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<td>LNG</td>
<td>liquefied natural gas</td>
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<tr>
<td>MITI</td>
<td>Ministry of International Trade and Industry</td>
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<td>MoF</td>
<td>Ministry of Finance</td>
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<tr>
<td>MFP</td>
<td>Multifunction Polis</td>
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<tr>
<td>MTIA</td>
<td>Metal Trades Industry Association</td>
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<tr>
<td>NEDO</td>
<td>New Energy and Industrial Technology Development Organisation</td>
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<tr>
<td>NIE</td>
<td>newly industrialising economy</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OPTAD</td>
<td>Organisation for Pacific Trade and Development</td>
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<tr>
<td>PAFTAD</td>
<td>Pacific Trade and Development Conference</td>
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<tr>
<td>PBEC</td>
<td>Pacific Basin Economic Council</td>
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<td>PECC</td>
<td>Pacific Economic Cooperation Council</td>
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<tr>
<td>PM&amp;C</td>
<td>Department of Prime Minister and Cabinet</td>
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<td>SES</td>
<td>Senior Executive Service</td>
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<tr>
<td>STMs</td>
<td>simply transformed manufactures</td>
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Introduction

Capitalism, it might be supposed, is everywhere and at all times much the same. By definition, of course, this observation must be at least partially accurate. The qualities that distinguish the capitalist system - market-oriented commodity production, private ownership of the means of production, the selling of labour power, and individualistic, acquisitive behaviour - are necessarily present in any set of economic arrangements and relationships dubbed capitalist. Yet what is noteworthy and surprising about capitalism in the contemporary global political economy\(^1\) (GPE) is the continuing degree of variation within nations on these central themes. Ironically, the apparent demise of capitalism’s only serious modern rival, central planning, has served to highlight rather than erase the ways different nations have approached the problem of national economic management. Moreover, there are, as we shall see, substantial grounds for thinking that different forms of capitalist organization may confer particular advantages on economic actors located within particular nations.

The potentially crucial role of national governments in determining the basis upon which national economic spaces\(^2\) are integrated into the wider GPE has spawned a voluminous literature. The state of ‘the state’ and the impact of transnational economic forces on national governments have become major objects of scholarly interest and debate, much of which will be drawn upon in subsequent chapters. In what follows, however, I will not be principally concerned with mapping and measuring the decline of the nation state or governmental authority. Rather, a central intention of this thesis will be to consider the differences in policy responses to what are the seemingly ubiquitous imperatives of global competition. Why is it that some countries have adopted market-conforming policies, for example, while others have favoured initiatives that are more akin to neo-mercantilism? Specifically, how did a

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\(^1\) I have employed this term in preference to the possibly more customary ‘international political economy’ because, as we shall see, the status of the nation state and the inter-national system of states are becoming increasingly contested. Moreover, as Gill observes, financial systems and production processes are increasingly planetary in scope. See: Gill, S (1992) ‘Economic Globalization and the Internationalization of Authority: Limits and Contradictions’, Geoforum, 23 (3): 276.

\(^2\) This rather clumsy formulation is preferred to the more customary and euphonious ‘national economy’ because this latter term is itself increasingly problematic in the wake of the internationalisation of economic activity. Quite simply, it is no longer clear what the ‘national economy’ is any longer, or where its boundaries may be drawn.
particular set of ideas - known as 'economic rationalism' in Australia, but more generally as neoliberalism - come to exert such a powerful influence on the conduct of economic policy in Australia? Moreover, what has been their impact on the content and direction of government policy?

This latter question informs the second major concern of this thesis: what has been the effect of a neoliberal policy framework on the conduct of Australia's international economic relations? Rather than attempting to deal with all of Australia's manifold relationships I shall focus principally on the bilateral relationship with Japan. There are several reasons for focusing on the bilateral relationship with Japan in particular. Firstly, Japan is Australia's largest trading partner and a significant source of foreign investment. Secondly, Japan is the dominant regional actor in an increasingly 'tri-polar' economic world. Thirdly, Japan provides a useful 'counterfactual' for the Australian experience: not only is there nothing inevitable or 'natural' about a preference for neo-liberal policies, but Japan demonstrates the potential for different economic trajectories and outcomes under state-led capitalist development.

The central argument of this thesis, which emerges from a consideration of the Australia-Japan relationship, is this: Australian policy-makers' commitment to neoliberal ideas meant that policy itself was constructed within a limited set of theoretical parameters; policy was consequently unable to take account of the specific corporate and governmental practices of major trading partners. This theoretical difficulty was particularly evident in relationships like that with Japan, where market mechanisms were not necessarily predominant determinants of economic activity. One of the major intentions of this thesis will be to draw attention to the manner in which neoliberal ideas discursively defined and delimited the problematic of international economic policy. Moreover, in what follows it will be demonstrated that the central concepts and assumptions of neo-classical economics, which were an integral part of the overall neoliberal approach, bore little resemblance to commercial practices in the region of which Australia is a part. Yet such ideas have been, as we shall see, instrumental in redefining the style and objects of government in Australia since the 1980s.

Initially, however, consideration will be given to the state of the contemporary GPE, and some of the more important theoretical contributions that have attempted to make sense of it. For the sake of convenience, discussion is divided between broadly defined political and economic areas. While this is an inherently artificial distinction, it helps to structure what otherwise threatens to
Chapter 1, therefore, pays particular attention to changes in the production process, the increasing mobility and power of financial capital, and the critical role of the transnational corporation (TNC) as an organiser of global production - in fact, the more overtly economic aspects of the GPE. Subsequently, the relationship of these structures and processes to political entities like national governments and increasingly important transnational organisations is reviewed. The overall intention of this chapter is to delineate the ubiquitous forces and structures that constrain all governments to some degree in an increasingly integrated international economic system.

One might intuitively expect that such powerful and apparently irresistible international forces would mean that individual governments had little scope for policy autonomy. There is, indeed, a good deal of evidence to suggest that national sovereignty has been diminished and that the purview of governments is increasingly circumscribed. But what is most remarkable in the contemporary GPE is the continuing variations in the policy rationales of different nations. Chapter 2 begins the process of attempting to account for some of these differences. The intention here is to consider the impact of particular ideas and their influence on the scope and content of subsequent policy. It will be suggested that at different times within different nations distinct 'political rationalities' exert a powerful ideational influence within policy-making elites, which may come to determine the content and direction of subsequent policy. The political rationality that has been most influential in Australia since the 1980s has been one that drew much of its theoretical inspiration from neoliberal political rationality came to exert an ideational dominance, its epistemological predicates, and its subsequent development as a distinctive mode of governance.

Chapter 3 pays more attention to the specific causes that underpinned neoliberalism's rise in Australia. While part of neoliberalism's influence was discursively achieved, as the previous chapter argued, there were also important contingent political and economic circumstances - especially the manner in which many economic entities in Australia were integrated into the wider GPE - which made neoliberal ideas increasingly attractive. These are given extensive consideration as they not only help explain the alignment of political forces sympathetic to more deregulatory policies, but they largely determine and circumscribe the manner in which Australian based enterprises might interact with international economic partners like Japan. This chapter will
also illustrate the impact of the neoliberal political rationality outlined earlier on Labor's economic and social policies. It will be suggested that a combination of political practices designed to achieve the specific goals of international economic reorientation and national reconstruction intersected with expert discourses that claimed to have the technical solutions to Australia's perceived problems, a process that reflected and reinforced the influence of neoliberal ideas. One of the keys to explaining the influence of neoliberal policies in Australia during the 1980s, I shall suggest, is the productive intersection of a reform-minded government bent on re-structuring and revitalising the 'Australian economy' with a bureaucracy steeped in an increasingly technocratically defined competence.

The perceived need for change and dissatisfaction with 'traditional' tools of macro-economic intervention provided the preconditions in which neoliberal ideas were able to gain ground amongst elite policy-makers. Chapter 4, therefore, takes a closer look at some of the more important individuals that championed neoliberal ideas in Australia. It will be suggested that an influential 'epistemic community' played an important role in promoting a specific set of policy initiatives designed to provide a rationale and framework for the conduct of Australia's external economic policies. Close attention will be paid to the work of two academics in particular - Peter Drysdale and Ross Garnaut - as they have played a large part in determining the direction of Australia's overall foreign economic policy in general, and that with Japan in particular. As part of this process, the theoretical assumptions and propositions evident in their work will be subjected to rigorous scrutiny and compared with other interpretations of the Asian economies about which they claim authoritative knowledge.

In this regard, Japan provides an important measure against which to judge the theoretical utility of the neo-classical paradigm that informs Drysdale and Garnaut's work. Chapter 5 is, therefore, dedicated to a detailed analysis of the Japanese political economy. Initially, Japan's post-war development is examined, especially the distinctive government-business relations that promoted its remarkable growth, before moving on to consider the equally noteworthy corporate structures which have been integral to economic expansion in Japan. Not only does this provide a case study with which to test the explanatory efficacy of the neo-classical model, it gives a detailed picture of the Japanese economic entities and actors with which Australian-based firms and policy-makers must deal. It will be suggested that the neo-classical model's lack of historical and national specificity provides an inadequate basis on which
to comprehend the highly distinctive practices that characterise the Japanese political economy.

The potential efficacy of a more expansive theoretical approach than that provided by the neo-classical paradigm is also apparent in a regional context. It is a major contention of this thesis that the production strategies of the Japanese TNCs, which are the most tangible manifestation of the bilateral relationship from an Australian perspective, can only be understood within a regional or even a global framework. Attempting to account for the behaviour of such firms and their position within individual nations is not possible without a wider frame of reference. For this reason chapter 6 is taken up with a detailed examination of regional production networks and strategies. The intention here is to situate the investment and production strategies of Japanese TNCs within the overall context of the region of which Australia is a part. It will be suggested that only this level of complexity and specificity - something conspicuously neglected by more orthodox neo-classical accounts - can account for the way economic entities based in Australia are integrated into such strategies. Furthermore, it will be demonstrated that - in contradistinction to the claims of the neoliberal model - Japanese capital may be encouraged to invest precisely where market forces are either constrained, or where contingent 'distortions' make such locations more attractive.

In chapter 7 attention is given to the specific Australia-Japan bilateral relationship in the light of the above. The historical linkages between Japan and Australia are considered, and a close examination of the nature of Japanese involvement in the areas of manufacturing, real estate, resources and banking is undertaken. The intention here will be to measure the effectiveness of the neoliberal policy paradigm in transforming the bilateral relationship with Japan. It will be suggested that despite deregulatory initiatives and the opening up of the 'Australian economy' to market forces, there has not been a significant increase in general manufacturing investment of the sort anticipated by the architects of neoliberal reform. On the contrary, the pattern of Japanese involvement in Australia has followed, not surprisingly perhaps, a Japanese logic that has seen little noteworthy change from an established pattern of using Australia as predominantly a commodity supplier. Where there has been a significant change it has been in areas like real estate, where deregulation in both countries has facilitated the movement of potentially destabilising and speculative flows of financial capital. Despite the restructuring and relocation of large sections of Japan's manufacturing base, it is generally moving to
consolidate the tightly integrated production networks to Australia's north, rather than Australia itself.

Finally, chapter 8 presents four case studies which in their different ways illustrate the specifics of the Australia-Japan economic relationship, and raise doubts about the adequacy and utility of the neoliberal paradigm both theoretically, and by implication as a basis for policy. Chapter 9 is the conclusion which draws together the implications of the above. In this regard, attention will be drawn to the discursive authority of the neoliberal model and its impact on the conduct of Australia's external economic relations. It will be suggested that there are substantial grounds for questioning the efficacy of the neoliberal model both theoretically and as a basis for policy. However, whatever the relative merits of neoliberal ideas, thinking of them as part of a specific political rationality can, I will argue, help explain both the content and style of government in Australia since the 1980s.

Overall, therefore, this thesis will argue that the neoliberal assumptions inherent in Australian policy-making contain serious theoretical - and by implication - pragmatic shortcomings. While the scope for autonomous policy construction may be increasingly circumscribed by developments in the global political economy, national policy-making elites still play a crucially important role in determining the form and content of economic activity that occurs within national borders. This thesis will demonstrate that adherence to a predominantly neoliberal policy paradigm in Australia meant that policymakers and advisers were often unable to comprehend either the activities of important regional economic actors like Japanese multinationals, or the strategies of their political counterparts in institutions like the Japanese bureaucracy, much less produce policies that might transform the broader bilateral relationship of which such actors were a crucial part. Consequently, the bilateral relationship with Japan has not been transformed by the Hawke-Keating governments' policies of economic opening and domestic reform. If the desiderata of economic policy in Australia is a more 'balanced' relationship with countries like Japan, in which Australia is not just a source of commodity exports and a target for speculative capital flows, then this thesis clearly reveals that only a paradigm that recognises the specificities of individual bilateral relations, and which develops policies accordingly is likely to deliver the sort of outcomes policy-makers desire.
Chapter 1 - The Global Political Economy

Paradoxically, change has been one of the few constant features of the post-war global political economy (GPE). While politicians, in conjunction with administrative agencies, have attempted to respond to change in ways that may seem familiar - particularly where such responses are couched in a discourse predicated upon a calculus of national economic advantage - the ability of national political actors to act, and the tools with which they seek to implement policy, are greatly altered. The increased integration of international economic activity has circumscribed and constrained the possible modes of intervention available to policy makers: intervention has become both more complex practically, and distinctly less fashionable politically. However, it is important to situate the process of national economic policy construction within a global context. The internationalisation of production means that national governments are involved in direct competition to attract increasingly mobile, wealth-creating investment capital and the jobs which it can generate. The interaction between national and international spheres is a significant determinant of both domestic and external political-economic modes of governance.

This first chapter will highlight some of the more important developments in the GPE and address some of the questions such changes raise. In particular: what are the implications for national economic management of changes in the way financial and productive capital circulate within the GPE? What role and impact have transnational corporations (TNC) played in the inter-nationalisation of economic activities? How have such changes affected individual nation states? Moreover, what effect has the increasingly important trans-nationalisation of political issues and the possible erosion of national sovereignty had on national governments, especially their ability to manage 'national' economies? Indeed, is the idea of a national economy any longer a useful one? Answers to such questions - albeit provisional ones - drawn from current theoretical debates provide an important backdrop against which to comprehend the activities of national policy-makers as they attempt to adjust to international economic change and the particular challenges presented by individual bilateral relations.

The relationship between political activity and economic change is obviously complex and it is possible to approach it from a number of perspectives. Indeed, one of the central contentions of this thesis is that only by drawing on different paradigms and bodies of knowledge is it possible to develop some
understanding of these linkages. Consequently, this chapter will begin by attempting to describe the most important changes that have emerged in the contemporary GPE.\(^1\) Crucial here is an understanding of developments in the production process itself and the critical role TNCs have played. Although much of the literature that seeks to explicate TNC development is theoretically rather narrow and ‘managerial’ it is, nevertheless, an important foundation upon which subsequent layers of socio-political complexity can be overlayed and comprehended. Following this discussion of the largely economic dimensions of the GPE, more overtly political changes will be considered. This division is obviously somewhat artificial and arbitrary as by definition no simple distinction exists in a political-economy perspective. However, such a conceptualisation may help to highlight and disentangle some of the more salient aspects of the GPE.

Before attempting a detailed description of the changing GPE a few preliminary observations may help orientate subsequent discussion. At the risk of striking a slightly portentous note, it is necessary to say something about space and time. Capitalism has been characterised by not only the short-term vicissitudes of ‘business cycles’ but also, it is contended, by more fundamental historical ‘waves’ of rapid expansion followed by stagnation.\(^2\) While it may not be possible or helpful to attempt an extrapolation directly from apparent past economic regularities, it is useful to distinguish the current epoch from its predecessors. Following Mandel, therefore, it is helpful to refer to the current era as ‘late’ capitalism.\(^3\) Although Mandel was clearly wrong about some aspects of contemporary development (the inevitable strengthening of states and the role of ‘permanent arms economies’ being two examples), he did draw attention to other factors - the centralisation and concentration of capital, the growth of the service sector, and especially the role of TNCs as the determinant and dominant organisational form of capital - that distinguish contemporary capitalism from earlier forms. TNCs have been responsible for the reorganisation of production on an increasingly global scale, a process which

\(^1\) Constraints of space mean that no attempt will be made to systematically detail all of the important changes in the post-World War 2 period. However, for a useful overview of the changes that have underpinned the shift from Keynesianism to more market-oriented policies and the economic crises that promoted such a shift, see: Glyn, A et al (1990) ‘The Rise and fall of the Golden Age’, in Marglin, S & Schor, J (eds) The Golden Age of Capitalism: Reinterpreting the Postwar Experience, Clarendon Press, Oxford: 39-119.


\(^3\) Mandel, E (1978) Late Capitalism, Verso, London.
has had profound effects on the 'spatio-temporal construction of social life', producing specific contemporary modes of spatial restructuring and integration into the GPE.

Many of these issues may be subsumed under the rubric of 'globalisation'. Although imprecise, it draws attention to a range of factors associated with the internationalisation of economic and political relationships; it is with the former that this section principally deals. Even at this stage, however, it is important to recognise the dialectical interplay at work between the political and economic spheres. Clearly some of the major contemporary issues with which national economic managers have attempted to deal - the implications of massively increased movements of financial capital, for example - have had their genesis in developments that have been as much technological as political. Certainly an international movement toward neoliberal, deregulatory policies may have facilitated this process, but it was not an exclusively political process. Cox's observations are helpful here:

Global perestroika, more euphemistically called 'globalization', is not the consequence of a conscious decision of political leadership. It is the result of structural changes in capitalism, in the actions of many people, corporate bodies, and states, that cumulatively produce new relationships and patterns of behaviour. The project of global perestroika is less the conscious will of an identifiable group than the latent consequence of these structural changes.

It is obviously important, then, to distinguish some of the 'structural changes' that both enable and delimit particular economic and political possibilities. For the sake of convenience it is useful to distinguish between developments in the areas of capital and the production process itself.

**International Economics**

One of the most significant developments in the contemporary GPE has been the increased scale, mobility and significance of 'financial' capital. Although this term is often used rather loosely, it is important to be clear about its form. In this context, Marxian-derived models of international economic integration are particularly useful. Bryan reminds us of the importance of recognising the dialectical relation that exists between money and the production of

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commodities: money is the mobile expression of value that permits and promotes the international restructuring of productive activities.6 'Financial capital', then, refers to the social process by which money is transformed into productive capital. Where money is concentrated in large agglomerations (institutional investors, for example) its controllers are able to exert a dominance over productive capital and determine and facilitate its (possibly global) location. Profitability is, of course, the sine qua non of this process and the major determinant of where productive activity in the GPE will be located.

Non-Marxist commentators have also tried to comprehend these changes. Drucker, for example, suggests that one of the defining characteristics of the new GPE is the increasing dichotomy between the 'real' economy of goods and services and, what he called the 'symbol' economy of money, credit and capital.7 Not only has finance capital ceased to be intimately linked to the production of commodities, it has become a commodity itself. The volume of transactions on global capital markets dwarf those associated with trade. Foreign exchange transactions, for example, now exceed $900 billion per day.8 More significantly for the purposes of this essay, the sheer volume of capital available to financial markets means they are able to exercise enormous power over national governments, to the extent that completely autonomous national monetary policy becomes unsustainable.9 As a consequence, mutual fund managers, controlling the collective assets of individual pensioners and investors may become the most significant actors in international finance. If the trend toward exerting their potential influence over corporate boards continues it may have large implications for the organisation and operation of individual capitalist enterprises - especially in the West - and raise important questions about how best to theorise such developments.10

It should be stressed, however, that there is a technological as well as a political basis to many of these developments. Cheap, powerful computers were an essential part of both increased capital mobility, and the development of increasingly exotic and complex financial instruments - derivatives, for example.11 Capital markets throughout the world are becoming more deeply

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integrated through mechanisms like ‘swap markets’, which have the effect of equalising global interest rates. The emergence of institutions like the Euromarket, and the shift from national stock exchange floor to computer screen trading, are bringing about an ‘end of geography’, claims O’Brien, and posing enormous challenges to would-be regulators. Whether such mechanisms increase or decrease volatility and risk is less important, at this juncture, than is the possibility that discrete technocratic discourses have emerged in concert with this type of infrastructural change. As we shall see in subsequent chapters, much of the discursive power of what may be termed a neoliberal and increasingly technocratic discourse, stems from the often explicit suggestion that it most accurately reflects irresistible market-enhancing forces that are fuelled, in part, by ideologically neutral technological change.

One of the most notable expressions of the growth and increased mobility of finance capital has been the emergence of global banking, to a point where some observers suggest it is ‘the most pervasive force in the international economy’. This process has been assisted by a general international trend toward the deregulation of national economic spaces, something that has even extended, as we shall see, to Japan. However, it is important to remember that it is not the institutions that create international financial mobility, they simply administer it. Quite why governments choose to enhance money mobility will be one of the recurring concerns of this thesis. Suffice to note at present that governments which pursue deregulatory policies are not so much de-regulating as re-regulating: that is, a different set of market-promoting regulations that favour particular interests replace previous modes of regulation; government supervision and legitimation is indispensable for either.

For the purposes of this essay the rapid emergence and increasing power of global finance is a crucially important constraint on national policy-making autonomy. Indeed, financial capital has become such a powerful, market-
conforming influence on national governments that Andrews suggests that it should be considered as a distinctive 'structure' of the contemporary GPE.\textsuperscript{18} Certainly, as we shall see in later chapters, it is possible for actors within the bureaucracy, government, as well as national and international economic interests to further the liberalisation process by actively promoting and lobbying for increased deregulation. However, the point to recognise here is that, as Cerny observes, deregulation is essentially 'a response to the inadequacy of . . . nationally based regulatory systems to deal with the new Internationalization of finance'.\textsuperscript{19} Faced with an apparent inability - or unwillingness - to control or regulate international financial movements, governments are, Cerny suggests, increasingly subscribing to an 'embedded financial orthodoxy',\textsuperscript{20} which defines the 'appropriate' role of government. Failure to adhere to this implicit consensus may lead to a concomitant failure to attract footloose financial capital. States, therefore, have been the willing instruments in their own relative decline, constructing structures of financial governance that enhanced the power and freedom of market actors through increased liberalisation and a rejection of possible enhanced control.\textsuperscript{21}

An important effect of the trend toward increasingly deregulatory policies, however, was that it induced a greater degree of systemic instability and volatility. A series of crucial decisions - or, as Strange argues, non-decisions - from the early 1970s onwards, reduced the regulatory influence of governments and gave greater power to financial markets and institutions.\textsuperscript{22} The floating of exchange rates, the move from a gold standard, and the rapid growth of the Euromarkets all made the construction of predictable, autonomous national economic policy more problematic. An entire industry emerged centred on huge

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\textsuperscript{21} Helleiner, E (1995) 'Explaining the globalization of financial markets: bring states back in', \textit{Review of International Political Economy}, 2 (2): 316. It should be noted, however, that some observers have argued that financial authorities were not enthusiastic about abolishing the capital-control regime of the post-war period - regulatory change was forced on them by explicit political pressure from the TNCs and international financial intermediaries that benefited from such changes and from the latter's increased capacity to circumvent such controls in any case. See: Goodman, J & Pauly, L (1993) 'The Obsolescence of Capital Controls? Economic management in an Age of Global markets', \textit{World Politics}, 46 (1): 52-82.
\end{quote}
international flows of money, an industry which, as even the pro-market 

*Economist* conceded, 'thrives upon volatility and risk . . . markets are most profitable when they are most volatile'.\(^{23}\) Unsettling change was not confined to finance, however. The production process, and the role played by labour have been similarly transformed.

Production and Labour

The particular paradigmatic prism through which the GPE is considered determines the importance production is accorded. For Marxists, of course, the form of production will define the economic system and the social relations associated with it.\(^{24}\) The intention at this stage is merely to describe some of the most important changes without drawing any definitive conclusions about their possible implications. The underlying assumption, however, will be that while production is a critically important determinant of a range of social and political outcomes it is not possible to unproblematically 'read off' specific social relations, class forms or cultural manifestations simply on the basis of underpinning economic structures. The subsequent discussion will, therefore, primarily consider changes to both the production process itself and the growing importance and influence of the TNCs that direct it, without devoting great attention to wider social effects of these processes.

Frobel, Heinrichs, and Kreye's seminal contribution drew attention to the internationalisation of the production process which, they argue, permitted the development of a New International Division of Labour (NIDL), and represented a 'qualitatively new set of preconditions for the expansion and accumulation of capital'.\(^{25}\) They suggested three essential preconditions underpinned this development: firstly, the development of a global labour pool that successfully competed with workers in the developed, core countries. Secondly, technological advances in transport and communications that overcame the 'tyranny of distance'. Thirdly, the production process itself was transformed through developments in technology and labour organisation, allowing it to be disaggregated into elementary units that might be performed by relatively unskilled labour. However, the suggestion that new areas of industrial development occur solely in response to the 'needs' or 'logic' of the 'capitalist

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world economy' is excessively reductionist and neglects important social and economic differences. As Jenkins points out, it is not possible to identify any single pattern of incorporation into international production processes that has characterised industrial development in the peripheral nations. Despite these shortcomings Frobel et al highlighted the increasingly global and qualitatively different nature of production, as well as the importance of developing theoretical models that might explain it.

Theorisation and description are, however, complicated by what Sassen calls the 'complex duality' of the simultaneous spatial dispersion of production in combination with enhanced global integration. The two are linked, however; territorial dispersal of production necessitates increasingly effective methods of control and coordination. Sassen argues that 'global cities' have come to occupy crucial roles in the provision of key services, especially in the finance industry, which she considers to have replaced the manufacturing sector in importance: as long as global manufacturing flourishes, national service sectors can also prosper. Certainly, as Cohen and Zysman argued, 'manufacturing matters', but perhaps not in the same way for all nations. Hong Kong's dominant service sector indicates that manufacturing may not be essential within national borders - control over or integration with neighbouring or even dispersed production locations may sustain living standards.

Manufacturing is still significantly different and critically important for one reason above all others, however: it is possible to raise productivity, and therefore living standards, more easily in manufacturing than in any other economic sector. Raising the productivity of the service sector will be the crucial issue in the next century, Drucker argues, and the key to relative national prosperity.

In *The Work of Nations* Robert Reich argues that three major forms of work are emerging: routine production work (repetitive, low skill production line work); 'in person' work (low skill, face-to-face service jobs); and symbolic-analytic

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26 Jenkins, Rhys (1984) "Divisions Over the International Division of labour", *Capital and Class*, 22, Spring, 28-55.
29 Hong Kong may be atypical but 75% of its labour force is engaged in service sector jobs, making it necessary to qualify overly simplistic claims about clear links between manufacturing and living standards. See: 'It's Already 1997 in Hong Kong', *The Economist*, Dec 18th, 1993: 26-8.
services. The latter are intellectual, problem solving jobs which have no limit to their potential earning capacity as they add value and are connected to the global, rather than the 'national' economy. Both production and 'in person' jobs may be threatened by low-wage immigrant labour, while production jobs can be exported. The net effect of these latter trends is to drive wage levels down. The most conspicuous trend within labour markets across the globe has been the polarisation of incomes between those with scarce, high value-adding skills and those in low-skill occupations, a phenomenon that is not confined to the service or manufacturing sectors, and which has appeared not only within national borders, but within individual cities. One of the most crucial issues for policy-makers in the future will be devising strategies that promote highly paid jobs within national borders, a major focus of debate between interventionist and market-based models.

Fordism and Flexible Production

A great deal of recent discussion has focused on the macro implications of technical and organisational changes in the production process. In short, does the contemporary era represent an historical transformation of production processes akin to the emergence of mass production or 'Fordism'? Piore and Sabel, for example, argue that human economic development represented a 'gigantic, centuries old collective experiment in productive organisation', in which the choices people made in the past determine the present mode of production. Occasional moments in history exist when it is possible to choose a particular path of development - once a path is chosen it assumes a retrospective 'naturalness' which obscures the importance of the actual decisions people made. In support of this thesis they cite the historical development of Fordism, from its slightly fortuitous origin as the chosen solution to problems of production, to its subsequent adoption as the interventionist state rationale that underpinned the development of mass markets and the resolution of over-production problems. Now they suggest, human society is poised on the brink of a 'second industrial divide'.

32 In the US, for example, wages in a whole range of traditional blue collar occupations have declined, a situation exacerbated by 25% of jobs being part-time, and the increasing feminisation of the labour force with its associated lower pay rates. See: Hammonds, K (1994) 'The New World of Work', Business Week, Oct 17th: 42-9.
Fordism became the dominant mode of production, it is suggested, because it succeed in solving the problem of organising economic life, particularly the imbalance between supply and demand, through the development of mass consumption.\textsuperscript{35} There is a large assumption implicit here about the capacity of 'the state' or a 'ruling class' to control and determine such large-scale economic forces and outcomes.\textsuperscript{36} Even if it is accepted that western governments were able to engineer an 'historic compromise' over production and distribution questions, the breakdown or decline of Fordism threatens to undermine the foundations of that social consensus. Fordism has become untenable, it is argued, because: productivity growth declined; wage rises became de-linked from productivity; markets became saturated; Keynesian-based policies seemed ineffective; structural overcapacity became apparent; quality control and organisation amongst firms was poor; wage competition from Asia increased; state bureaucracies became sclerotic and subject to fiscal crises.\textsuperscript{37} This list could usefully be extended by noting the importance of declining US 'hegemony', an issue considered below.

More immediately pertinent here, however, is the possible social and economic implications that changes in the basis of production may have. Roobeek, for example, contends that the new technologies - microelectronics, biotechnology and new materials - that characterise 'post-Fordist' or 'flexible production' regimes, will accelerate Fordism's demise as they undermine both the technological and the social basis of Fordism.\textsuperscript{38} Lash and Urry suggest that we are witnessing the 'end of organised capitalism', which entails a diminution of state regulation,\textsuperscript{39} a decline of class-based politics and a decentralisation of both capital and social relations. Certainly they are right to stress the evolving nature of social relations, but the disorganising effects of change on capitalist enterprise are less clear - many corporations are distinguished by an intensification of organisational power that internationalisation necessitates. What Lash and Urry do usefully emphasise is the way in which the spatial

\textsuperscript{36} This assumption underpins the approach of Marxist-inspired 'regulation theorists'. For a comprehensive overview of regulation theory see: Jessop, Bob (1990) "Regulation Theories in Retrospect and Prospect", *Economy and Society*, 19, 153-216.
\textsuperscript{38} Roobeek, A (1987) 'The Crisis in Fordism': 142.
\textsuperscript{39} Cerny's suggestion, noted above, that 'deregulation' is, in fact, a form of re-regulation, - ie, not necessarily less, but different regulation - seems a more useful one, however.
division of labour is becoming a process internal to the dominant non-state actors in the GPE: transnational corporations.\textsuperscript{40}

Transnational Corporations

TNCs are both the principal motor driving global economic restructuring as well as a catalyst for major social change. It is essential, therefore, to indicate the scope and nature of their activities as it is often in its dealings with TNCs that state economic policy succeeds or founders. An examination of the contemporary organisation of TNCs provides the basis for testing not only the efficacy of individual government policy, but also for assessing the credibility of some of the grander claims about epochal change in production systems.

Dunning's definition of a TNC - although he prefers the term 'multinational enterprise' (MNE) - is a useful place to start this discussion, as it draws attention to recent developments in its operational logic:

\begin{quote}
From behaving largely as a confederation of loosely knit foreign affiliates, designed primarily to serve the parent company with natural resources or local markets with manufactured products and services, to its maturation over the past 15 years as a controller of a group of integrated value adding activities in several countries, the MNE is now increasingly assuming the role of an orchestrator of production and transactions within a cluster or network, of cross border internal and external relationships, which may or may not involve equity investment, but which are intended to serve its global interests.\textsuperscript{41}
\end{quote}

The simplest way in which to demonstrate the power and significance of TNCs is to quote some pertinent statistics: TNCs control about one third of the world's private sector assets; the accumulated stock of foreign direct investment (FDI) had reached $2 trillion by 1992; the largest 100 TNCs accounted for $280 billion of FDI in 1990.\textsuperscript{42} Clearly, TNCs are extremely significant actors in the GPE, far more so than many individual nations. Crucially, it is FDI, rather than trade that is the major force behind international economic integration, a process that has been facilitated by open financial markets and cross-border equity investments.\textsuperscript{43} It is important to realise, however, that this is not a simple

\textsuperscript{43} It is, however, important to recognise the dialectical relationship between the internationalisation of economic activity and the sorts of domestic policies it generates. The shift toward trade liberalization was promoted and entrenched by the increasingly transnational
process of 'globalisation' - investment patterns reveal home country influences and regional concentrations; most TNCs are regional rather than 'global'. Only specific inter-national or even bilateral studies can reveal the complexity of these linkages and strategies.

Given the weight of capital controlled by TNCs, their investment patterns have large effects within the GPE. One of the most conspicuous and, particularly from the perspective of orthodox economics, unexpected investment trends has been the intensification of economic links between mature industrial economies. A distinctive tri-polar investment pattern has emerged, incorporating the US, the European Community (EC) and Japan, which accounts for 80 per cent of world investment stocks and flows, as well as half of global trade. Significantly, during the 1980s Japan became the largest source of global FDI, thanks largely to domestic deregulation and a desire to circumvent rising US protectionism. Although intra-'Triad' investment represented about 40 per cent of global inward investment stock in 1980, this may prove to be its high-water mark, particularly as Japanese industry restructures and relocates into its immediate region, a process considered in more detail in chapter 6.

The sudden emergence of industrial centres outside the Triad has shifted trade and investment patterns and cast doubt on the utility of core-periphery models of GPE structure. Other developments have equally discomforted both Marxist and neo-classical economists. Firstly, and observations about the dominance of the Triad in global investment flows notwithstanding, within East

production strategies of TNCs, a situation which meant that even during periods of economic crisis there was less possibility that national governments would revert to protectionist policies in the face of powerful lobby groups with international interests and commitments. Milner, H (1988) Resisting Protectionism: Global Industries and the Politics of International Trade, Princeton University Press, Princeton: Chapter 2.

44 The Economist (1993) 'A Survey of Multinationals', 27th March: 12. Some observers have suggested that regions will become progressively more important, ultimately supplanting the nation state. While this may be somewhat fanciful, it does draw attention to the complexity of the International production process and its potential local impact. As we shall see in chapter 6, Australia's regional situation is an important determinant of its general international integration. See: Ohmae, K (1995) The End of the Nation State: The Rise of Regional Economies, The Free Press, New York.

45 According to economic models the utilise notions of 'comparative advantage', nations might be expected to trade and invest more with countries that have dissimilar endowments. The epistemological foundations of neo-classical/neo-liberal economics are considered in more detail in Chapter 2.


Asia it is important to recognise the importance of the newly industrialising economies (NIEs) as sources of intra-regional investment, something which presents particular theoretical challenges for dependency and world systems theorists. Moreover, much of the current economic development, especially in the Japan-Australia region, is being led by small and medium sized TNCs, rather than the oligopolistic giants that much Marxist theory predicted. Similarly, the penchant for intra-industry, to say nothing of intra-firm 'trade' that characterises contemporary trade patterns is incommensurable with notions of comparative advantage. It is also important to realise that it is not simply manufacturing that is the focus for increased investment flows. The global trend toward financial deregulation has led to an enormous increase in service-oriented investment, particularly by the Japanese. The non-tradability of many service industries coupled with mobility-enhancing technological developments have fuelled this change.

The nature of contemporary products has imposed specific constraints on firms, and by extension, governments. Some forms of product development have become so expensive and/or risky that it is difficult for individual companies to undertake them alone - the aerospace industry is an extreme example of this, but it is equally applicable to automotive and other capital-intensive products. Consequently, one of the most important factors fuelling international economic integration has been the rapid increase of strategic partnerships between companies either through a networking process or an alliance. Either way, it represents an important alternative and supplement to more conventional forms of FDI, and makes the idea of easily identifiable 'national champions' increasingly dubious. Constructing policies designed to advantage 'national' companies will become increasingly problematic as companies merge; control may become spatially dispersed, and the ownership of individual companies becomes increasingly international through the activities of huge pension and insurance funds.

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One danger that must be avoided when considering TNCs is the tendency to discuss them in essentialist terms. There is no single pattern of organising transnational production processes. As Dicken notes, there are simultaneous trends toward increased specialisation/fragmentation and routinization/standardization on the one hand, coupled with increased flexibility and niche production on the other.\(^{53}\) The strategy adopted by TNCs will be largely constrained by the nature of the product. A focus on production can provide an important corrective to some of the more improbable claims about the impact of any post-Fordist mode of production.\(^{54}\) For example, the emerging markets in areas outside the Triad that TNCs are keen to capture are likely to be initially based on mass production and consumption. Even in mature industrial economies, the degree to which production shifts from mass to more flexible or small scale systems of production needs to be assessed on a national and sectoral basis, rather than subsumed under generalised models. This is not to deny the possibility of important social and political effects flowing from TNC restructuring, rather it is to emphasise the need for greater specificity in delineating national-international links.

The Circuits of Capital

One particularly useful model which allows the operations of TNCs to be more specifically grounded and differentiated has emerged from within Marxist-oriented scholarship. The circuits of capital model provides a method of mapping and comprehending crucial national-international economic connections and the implicit constraints they may place on policy-makers.

One of the model’s key insights - developed by Bryan in particular - and the basis of much that follows, is that capital does not move as production; that is, it is money (in the form of loans and investment) that moves from one location to another.\(^{55}\) Although Bryan has a tendency to reify capital as the embodiment of an ‘underlying logic’ and to minimise the activities of human actors as a consequence, his extension of Marx’s original circuits of capital model provides an important conceptual tool with which to consider national-international


\(^{54}\) The flexible specialisation paradigm has spawned a distinctive and often Utopian literature, generally predicated on too generalised an application of the concept, and an unwarranted optimism about the possible distribution of potential benefits. See: Hirst, P & Zeitlin, J (1991) ‘Flexible specialization versus post-Fordism: theory, evidence and policy implications’, *Economy and Society*, 20 (1):1-56.

articulation and indicate the potential constraints within which policy-makers must operate. Bryan identifies four circuits of capital: national; global; investment-constrained; market-constrained.\textsuperscript{56}

Bryan's model has been adapted and elaborated by Fagan and Webber, whose diagrammatic representation is reproduced below. The model provides a way of comprehending the manner in which Marx's original circuits of capital operate in a global process. In the original Marxian conception capital is initially involved in a circuit of production, which results in commodity production for sale to realise profit. The process of turning commodities into profits is the trade circuit, which in turn permits the redeployment of the profits in an investment circuit. Bryan's model and its subsequent adaptations allow Marx's original conception to be integrated into the contemporary GPE, and illustrates the manner in which individual enterprises are articulated with the international economy.

Table 1

<table>
<thead>
<tr>
<th>DIVISION</th>
<th>INTERNATIONAL CIRCUIT OF CAPITAL</th>
<th>LINKS WITH GLOBAL ECONOMY</th>
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<tbody>
<tr>
<td></td>
<td>Production</td>
<td>Trade</td>
</tr>
<tr>
<td>National</td>
<td>N</td>
<td>N</td>
</tr>
<tr>
<td>Investment-constrained</td>
<td>N</td>
<td>G</td>
</tr>
<tr>
<td>Market-constrained</td>
<td>N (G)</td>
<td>N</td>
</tr>
<tr>
<td>Global</td>
<td>N (G)</td>
<td>G</td>
</tr>
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</table>

\textsuperscript{N} = National \textsuperscript{G} = Global

Source: Fagan & Webber\textsuperscript{57}

\textsuperscript{56} Bryan, R (1987) 'The State and the Internationalisation of Capital': 263.
In Table 1 individual companies operating in the 'national' circuit raise capital, invest and trade mainly within the space delimited by their 'home' nation state. Global companies, however, are constrained only by the necessity that some part of production must occur within a national space - the realisation of profit and the reinvestment of capital will be determined by the prevailing conditions of *international* profitability. Money capital produced via commodity production within a particular nation is internationally mobile and not bound to national economic spaces. The role played by individual TNC subsidiaries within global production networks will be determined by their role in and mode of integration with the global economy, rather than on the basis of their nationality. Government policy frameworks within national economic spaces, particularly in relation to labour laws, interest and taxation rates, plus the size of the domestic market and quality of infrastructure will be, therefore, important determinants of TNC operations.

Bryan suggests that the 'investment constrained' circuit of capital is a 'hybrid' of the global and national circuits, in that the companies mainly produce and reinvest locally, but sell their output in international markets. Government assistance may make continued production within a home base attractive, despite having otherwise achieved the conditions for international expansion. 'Market constrained' companies, by contrast, raise capital and reinvest profits internationally, but generally sell their products into the markets where production occurs. Subsidiaries of TNCs attempting to circumvent tariff barriers are examples of market constrained operations.58

What Bryan's analysis provides is a way of comprehending the manner in which individual companies are integrated into the GPE. As he suggests, this schema is an advance over the previous capital fractions model predicated on a distinction between industrial, commercial and bank capital, given that such discrete categorisations are less sustainable as a result of the concentration and centralisation of capital.59 Despite this, the distinction between financial and industrial capital retains some theoretical utility at the macro level as it is broadly indicative of what may be mutually incompatible attitudes toward deregulation, for instance. Certainly, individual enterprises may embody elements of both spheres, but it is also possible that a company predominantly

58 At this stage no attempt will be made to map the overtly political dimensions of this process - especially the bargaining between TNCs and host governments - which have a significant impact on outcomes. The intention here is merely to provide a basic model upon which subsequent layers of political complexity may be overlayed in later chapters.

involved in long-term manufacturing for export may be less enthusiastic about
deregulated and volatile foreign exchange markets, for example, than a
financial institution that might profit from such a situation.

Similarly, Bryan is right to argue that the distinction between 'national' and
'foreign' capital is increasingly a meaningless and arbitrary category, and that
the mode of integration into the international economy is the most telling guide
to economic interest. However, it does not follow from this that 'capital' is either
homogenous or that it is impossible to discern different forms of economic
integration and development within nations. As we shall see in the case of
Japan, it is possible to suggest that a distinctly different operational logic
influences the activities of 'Japanese' companies. To gain a fuller picture of the
manner in which national economic spaces are integrated with the global
economy it is necessary to consider the wider political context in which such
economic outcomes are mediated. States may be less powerful, but they
remain important. Indeed, the state may be have a potentially more important
role to play in determining the overall attractiveness of that national economic
space as a potential investment location.

International Politics

The artificiality in, and difficulty of, attempts to maintain the political and
economic realms as discrete entities is especially apparent in relations between
TNCs and host governments. Not only does this relationship have a large
possible impact on the fiscal position of individual states, but it has the potential
to effect their relative autonomy, power, and domestic political relations.
Similarly, domestic political actors - especially from powerful nations - have the
potential to shape the international structures of governance that are
increasingly important determinants of the behaviour both states and firms.
These are issues, especially at the theoretical level, that are taken up in
subsequent chapters, but a few preliminary observations are in order here to
further comprehension of what follows.

It has already been observed that national policy-making autonomy has been
constrained by the increased power of financial markets, especially the
increased mobility of financial capital itself. Not only does this enhance the
relative power of capital over labour within national economic spaces, but it has
the potential to produce new political divisions between producers of tradeable
and non-tradeable goods, and between capitalists with mobile assets and those with fixed investments.\textsuperscript{60} The integrity and utility of ‘the state’ as both a conceptual tool and as an instrument of political action is being undermined, raising profound questions about democratic representation and the continuing congruence of sovereign states and discretely delimited areas of national political power; populations of individual nations are subject to international decisions over which they have no control and which are decided in power centres external to individual states.\textsuperscript{61} New cooperative configurations are being fostered by the transformation of production and communication, permitting the emergence of ‘new global players’ representing new centres of power, sometimes, but not necessarily involving nation states.\textsuperscript{62} As we shall see, state sovereignty is being eroded by force of circumstance.

Since its emergence and consolidation during the eighteenth and nineteenth centuries in its distinctively modern form, the nation state has been considered as a political organisation that has the capacity, within a delimited territory or territories, to make laws and effectively sanction their upkeep; exert a monopoly over the disposal of the means of violence; control basic policies relating to the internal political or administrative form of government; and dispose of the fruits of a national economy that are the basis of its revenue.\textsuperscript{63}

There is much in Giddens’ formulation that remains useful. However, the accelerating globalisation of economic - and increasingly political - activity, means that our conception of the state needs elaboration. Giddens certainly captures important aspects of the state apparatus, but gives little indication of the type of government - be it liberal democratic, corporatist, fascist etc - that may exist at any given time.\textsuperscript{64} More fundamentally, such a depiction gives little indication of the impact of the globalisation process on state capacities.

Theories of the State

There is now a vast literature - particularly within Marxist-oriented scholarship - that attempts to illuminate the relationship between 'capital' and 'the state'. This is too large a subject to review here, but it is worth noting that some of the more sophisticated attempts to map this relationship have moved toward more discursively conceived conceptual categories. Bob Jessop, for example, has suggested that state theory must include considerations of the 'discourses' which unify political systems and which make the practice of government possible. The organisation of discrete bureaucratic and governmental structures into a relatively coherent institutional ensemble is dependent upon the emergence of the concept of the sovereign state, the extent of the state's influence being determined by and reproduced through specific discourses and projects. Attempting to theorise abstractly without reference to the specificity of governmental practices 'is bound to lead to formalism and essentialism'. He cautions that:

Rather than trying to define the core of the state in a priori terms, we need to explore how its boundaries are established through specific practices within and outside the state... as an institutional ensemble the state does not (and cannot) exercise power: it is not a real subject... its powers (in the plural) are activated through the agency of definite political forces in specific conjunctures. It is not the state that acts: it is always specific sets of politicians and state officials located in specific parts of the state system.

Jessop provides a useful corrective to some of the more totalising varieties of Marxist thought. Moreover, he points the way forward to a possible synthesis between more sophisticated Marxist thinkers and other models which offer more elaborated conceptions of the process of government and the application of power.

At a more concrete level, a good deal of recent Marxist-derived debate has revolved around the changing relationship between national governments and the representatives of international capital, particularly regarding the relative distribution of power. Radice, for example, contends that 'the capitalist world economy is now so thoroughly integrated across national boundaries that an autonomous national capitalist strategy is no longer possible'. Like many generalisations, this assertion has a certain intuitive appeal; clearly national

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65 The importance of discourse will be considered in the next chapter.
governments were forced to take account of a range of international factors that impinged upon policy with an immediacy previously unknown. Yet the nation state continues to be the politically delimited space within which capital accumulation occurs, and which provides a crucial socio-political arena within which TNCs might locate and operate. A more balanced account suggests that relations between TNCs and the state varied from the 'collusive' to the 'rivalrous', depending on specific circumstances and the degree of mutual dependence or need.

Although much of the above provides a useful indication of some of the more salient features of the developing state-capital relationship, they are of less value when trying to understand the global basis of the capital accumulation process. While the idea of 'the state' retains a good deal of theoretical utility as a shorthand way of indicating persistent agglomerations of institutional forms intersecting with particular social relationships, it can also lead to misleading reifications that obscure the international nature of contemporary capital accumulation. The increased mobility of capital means that an individual 'national' economic spatial analysis must be supplemented with and formulated in relation to a global one. Such a perspective allows us to grasp the importance of Hirst and Thompson's point: a more integrated, internationalised economy is producing new and distinctive forms of governance. Consequently:

Goverance - that is, the control of an activity by some means such that a range of desired outcomes is attained - is . . . not just the province of the state. Rather, it is a function that can be performed by a wide variety of public and private, state and non-state, national and international, institutions and practices.

As we shall see, national governments are increasingly bound up in extra-territorial agreements, overseen by influential, state-less institutions like the World Bank, all of which play an important role in determining the political framework within which capitalism evolves.

The contemporary, and increasingly internationalised global political system is one in which the orthodox realist conception of discrete and sovereign states seems both problematic and anachronistic: intense patterns of inter-national

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interaction and the pursuit of common goals, combined with the growing
influence of transnational non-government mechanisms mean that the process
of governing is one that is more reliant on 'a system of rule that is as dependent
on inter-subjective meanings as on formally sanctioned constitutions and
charters'. The manner in which particular discourses come to occupy a
dominant position in these processes will be taken up in more detail in the next
chapter. The point to note here is that while the state has become more
'permeable' and its authority compromised and rendered more contingent at the
international level, it has not become either impotent or irrelevant. On the
contrary, the mobility of capital and the internationalisation of social relations
has meant that the state has become a potentially crucial variable in
determining the relative attractiveness of potential national investment locations
for transnational corporations. Indeed, 'competition' - often defined by
powerful private sector actors - has become central to the discourse of national
economic adjustment and a critical determinant of the 'appropriate' role and
form of both the state and the type of economic regime it underpins.

As such the state remains the critical mediating structure between internal and
external economic spaces, and the author of the specific policies by which
individual states attempt to adjust to global contingencies, the success of which
are dependent upon a combination of structural constraints and policy
choices.

TNC-Government Relations

One of the increasingly important determinants of national integration with the
wider GPE and crucial sites of state intermediation is the relationship between
individual governments and TNCs. Much of the literature dealing with TNC
strategy and evolution has been confined to factors internal to the TNC itself:
the importance of market power, the internalisation of markets, and the

73 Rosenau, J (1992) 'Governance, Order, and Change in World Politics', in Rosenau, J &
Czempiel, E (eds) Governance without Government: Order and Change in World Politics,
75 Drache, D & Gertler, M (1991) 'The World Economy and the Nation State: The New
International Order', in Drache, D & Gertler, M (eds) The New Era in Global Competition: State
76 Ikenberry, G J (1986) 'The State and Strategies of International Adjustment', World Politics,
No 1, October:53-77.
exploitation of ownership advantages. While all these considerations are important and have been usefully synthesised, they neglect a critically important external dimension that may exert a crucial influence on TNC strategy: the role of host governments. The potential importance of TNCs in determining national living standards, the type and availability of jobs within nations, and the pattern of domestic investment, has been increasingly recognised by host governments, as has the need to provide 'attractive investment climates'. In an era when international production is more important than international trade, individual governments that fail to attract productive TNC investment risk presiding over declining living standards and the export of highly paid jobs. The result has been, according to Stopford and Strange, the emergence of a new process of bargaining between governments and companies, in which global competition means that 'events are conditioned more by an emerging managerial technocracy than by traditional means of state power'.

There has been a growing recognition of a crucial link between national and TNC competitive advantage. It is suggested that specific policies - the provision by government of education/training and infrastructure, as well the development of competitive industrial 'clusters', for example - may simultaneously advantage nations and TNCs. This process has culminated, Cerny suggests, in the emergence of the 'competition state' which attempts to use specific forms of government intervention to 'marketize' the state itself in an increasingly open international system in order to provide a competitive advantage for nationally based industrial and financial entities. Similarly, Dunning argues that individual government policies affect the potential profitability of firms, resulting in international competition between firms and governments; a situation in which, despite deregulation and liberalisation, 'the

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78 Dunning's 'eclectic paradigm' is the most sophisticated attempt to do this. Significantly, Dunning suggests that much modern theory assumes 'market failure'. See: Dunning, J H (1988) Explaining International Production, Unwin Hyman: 42-59.


role of national Governments is becoming more, rather than less, critical'. Dunning concluded that:

the question of whether or not, in a global economy, Governments should play a role in affecting organization of the resources and capabilities within their jurisdictions is no longer an appropriate one to ask. The relevant questions now are how much and what kind of government involvement there should be.

The important point to emerge from this discussion and from much of the contemporary TNC literature is that theoretical explanations of contemporary economic activity that fail to consider the interaction between governments and TNCs are seriously inadequate. Not only do a range of government policies - particularly the provision of education and infrastructure, but also the more subtle effects of 'harmonious' industrial relations environments - impinge on the potential competitiveness of firms, but the existence of a conducive policy environment is a much more critical influence on TNC investment policy than are laissez faire economic policies. None of this should be taken as necessarily advocating particular policies; the intention here is merely to indicate the environment in which the major force - TNC capital - for global restructuring operates. It is important to keep some of these operational constraints and influences in mind when considering the efficacy of government policies and the developmental trajectories of individual nations.

Inter-state Relations

To complete the description of the environment in which national economic policy is constructed, it is important to consider some of the more significant international political developments in the post-war period. The impact of many of these changes is not confined to the international system within which states are situated, but dialectically interacts with domestic politics and effects the activities of TNCs within the national economic space. There are important epistemological difficulties associated with much of the international relations theory, particularly its 'realist' variant, which addresses inter-state and systemic

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developments within the GPE. However, no outline of the post-war period can
neglect the crucial post-war role of the US and the accompanying debate over
‘hegemony’.

The US was central in establishing the institutional and normative environment
that subsequently exerted a powerful influence on the economic policies of
individual nations. While there is no doubt that the US was militarily and
economically the pre-eminent nation after World War 2, Ikenberry suggests that
the Bretton Woods meeting which effectively defined the post-war international
order was a ‘fluid moment in history’ in which ‘economic experts’ influenced the
nascent political structures by mobilising supporting coalitions. The
international ‘Keynesian consensus’ was initially a response to technical
questions of effective economic management, around which political coalitions
formed. While this consensus has broken down it is significant that some of
the institutional innovations it spawned - the International Monetary Fund (IMF),
the General Agreement on Trade and Tariffs (GATT) and the World Bank (WB)
- not only endure, but have become an increasingly influential generators and
enforcers of particular international norms and practices. As we shall see, this
is an important and often neglected part of any explanation of the adoption of
particular policy paradigms within nations.

What Ruggie calls ‘embedded liberalism’ helpfully encapsulates the
culmination of these developments. Ruggie suggests that political authority
derived from the fusing of power and ‘legitimate social purpose’ was projected
into the international system in support of specific purposes. In the postwar
period this process resulted in a specific policy approach combining
multilateralism and domestic interventionism. Ruggie argues that while
particular international economic regimes do not determine economic
transactions, they do play a ‘mediating role’, encouraging economic relations
congruent with dominant liberal norms. Importantly, ‘regime makers’ are able to

86 See, for example: George, Jim (1994) Discourses of Global Politics: A Critical (Re)
Introduction to International Relations, Lynne Rienner Publishers, Boulder.
89 Pauly, L W (1994) “Promoting a Global Economy: The Normative Role of the IMF”, in
Stubbs, R & Underhill, G (eds) Political Economy and the Changing Global Order, Macmillan,
externalise the costs of economic adjustment onto 'regime takers'. The limits of such a policy were revealed by the US policy of 'benign neglect' toward its own currency during the late 1960s. The collapse of the Bretton Woods system of managed exchange rates was triggered, in part, by US attempts to exploit the advantage offered by its role as reserve currency. Gilpin attributes the resultant decline of international economic cooperation during the '70s to an absence of American political leadership. To see why this is important it is necessary to say something about hegemonic stability theory.

Hegemonic Stability and Structural Power

If hegemonic stability theory amounted to little more than the observation that some countries are more powerful than others, and that they will attempt to use this power to pursue national interests, there would be little reason to explore it. (Although, it might be observed in passing, even this relatively trite claim is not, as we shall see, one that is generally incorporated into the idealised abstractions that constitute neo-classical economics). While the appropriation of 'hegemony' by international relations theorists from Marxist writers is not without its problems, it does draw attention to important aspects of inter-state relations that impinge on domestic policy-making.

Kindleberger’s pioneering study of the Great Depression argued that:

... the international economic and monetary system needs leadership, a country which is prepared, consciously or unconsciously, under some system of rules that it has internalised, to set standards of conduct for other countries; and to seek to get others to follow them. ...

It was the failure of the US to pick up Britain's leadership mantle between the First and Second World Wars, Kindleberger suggested, that led to economic collapse. Between 1873-1913 Britain had played a decisive role in underwriting the open international trading system, crucially providing counter-cyclical lending and countering recessionary tendencies. The United States was the only country that might have replaced Britain, but its isolationist stance made it reluctant to do so until 1936. Since 1945 US economic and military power, coupled with the inculcation of 'standards of conduct' underpinned the

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development of a liberal international economic order. As Higgott notes, despite
the different normative positions taken by competing radical and liberal
paradigms, there is general agreement that hegemonic periods foster more
open trading regimes, although as we saw earlier, this may have as much to
do with the internationalisation of production and subsequent political pressure
from TNCs, as it does with a desire by a powerful nation to provide an
international public good.

An important contemporary debate revolves around estimations of US decline.
Influential here has been Kennedy’s suggestion that the US is suffering from
‘imperial overstretch’, and will be increasingly unable to maintain its hegemonic
commitments. In contrast, Nye continues a tradition of uncritical
triumphalism and normative certainty that considers the US position as not only
still paramount, but replete with an historical moral obligation to further liberal-
democracy and economics. More measured and helpful for the purposes of
this essay, are Strange’s attempts to quantify and elaborate the basis of
hegemonic power, allowing not only its possible diminution to be gauged, but
also providing a map with which to chart the possible impact of hegemons on
their satellites.

Strange elaborates the bases and forms of power between nations. Firstly, she
separates ‘relational’ and ‘structural’ power. Relational power is associated
more with the ‘high politics’ of international state systems and diplomacy, and is
the power to get another nation to do what it would not do otherwise. Structural
power

is the power to shape and determine the structures of the global political economy within
which other states, their political institutions, their economic enterprises and (not least)
their scientists and other professional people have to operate... [it] confers the power to
decide how things shall be done, the power to shape frameworks within which states
relate to each other, relate to people, or relate to corporate enterprises.

Strange distinguishes four sources of structural power: security, production,
finance, and knowledge. Using this fourfold schema Strange argues that the
US is still the preponderant world power and that its supposed decline has been

Canberra Papers on Strategy and Defence, No 51, ANU, Canberra: 31.
York,
greatly overstated.\textsuperscript{98} Certainly, there can be little doubt that the US is unrivalled militarily, but Strange draws attention to other less obvious sources of international leverage. We have already seen the influence of TNCs on patterns of production in the world economy; American multi-nationals remain the largest single national TNC presence, accounting for 27 of the largest 100, as well as one third of global foreign assets.\textsuperscript{99} A common interaction between state policies and market trends accounts for the growth of TNCs and international production, but US domestic policies are able to exert a disproportionate influence on the GPE, Strange argues, as a result of its combination of structural advantages.

Crucial here is the financial structure, which refers to credit arrangements and the determinants of foreign currency relativities. The power to create credit (principally enjoyed by governments and banks) and the ability to determine currency values (the prerogative of governments and markets) are critical determinants of national economic well-being.\textsuperscript{100} The endemic financial instability of the post 1970s period has resulted from the 'misuse' of American hegemonic power, rather than its decline, argues Strange.\textsuperscript{101} When the US decided to deregulate its domestic banking sector, this not only heightened market volatility, but obliged other - less powerful - nations to follow suit, or risk 'their' banks being competitively disadvantaged. It was financial power, argues Cerny, and the concomitant ability to shape the global financial system, that was at the heart of US hegemony in the post-war period.\textsuperscript{102} Furthermore, the recognition by US officials that they could finance budget deficits by exploiting America's position as a safe haven for footloose international capital not only made neoliberal policies more attractive, but means they may be structurally embedded and therefore more difficult to supplant.\textsuperscript{103}

What Strange calls the 'knowledge structure' is an underrated aspect of national power. The knowledge structure 'determines what knowledge is discovered, how it is stored, and who communicates it by what means to whom and on what

\textsuperscript{100} Strange, S (1994) States and Markets.: 90.
\textsuperscript{101} Strange, S (1994) States and Markets:104.
terms'. 104 Technological changes have had the effect of further concentrating power in one state; Strange argues large TNCs headquartered in the US reinforce its position as a research centre. Additionally, its critical importance as a market mean that TNCs based in other nations are compelled to establish a presence in the US. Certainly, it seems clear that there is an important link between what Hilpert calls 'techno-scientific progress' and more general 'socio-economic development'. 105 While some of these terms are contestable, what is more certain is the potential economic importance of a national presence in key emerging technologies. Strange's analysis, however, overemphasises the importance of the US here, and understates what Hilpert and others are keen to stress: the potentially crucial role of an interventionist state in enhancing national technological capacities. Hart, for example, argues that state-societal arrangements determine the way in which technological innovations are diffused within national economies, and cites the rise of Japanese industry as a successful example of this. 106 What is certain is that, if Drucker is right in suggesting that knowledge will be the crucial factor of production in the next century, 107 then economic well-being will be dependent upon policies that ensure a national presence in key technologies and forms of knowledge. Japanese and Australian policy-makers' attitudes to industrial development - taken up in subsequent chapters - provide an instructive comparative case study.

What Strange's model provides is a useful adjunct to and basis for hegemonic stability theory. It provides some way of grounding what may otherwise become an overly abstract and epistemologically dubious discussion. Some idea of the policy constraints that effect smaller nations may be gleaned by examining the larger international structures in which they are conducted. Importantly, Strange draws attention to a range of factors that are often neglected by analyses of both liberal and radical persuasions. The idea of hegemonic power may also be useful as a corrective to excessive idealisation. For example, the willingness on the part of the US to shift the burden of economic adjustment onto other nations and exploit its hegemonic position, rather than selflessly providing international 'public goods', has introduced a major element of uncertainty and volatility into the GPE. This is especially problematic for economic policies that

pay little attention to such inconvenient ‘externalities’, despite convincing evidence and argument to suggest that hegemons have an incentive to exploit their positions.\textsuperscript{108}

Even if US power is diminished and its ability to impose its will on other nations is constrained, it remains critical in defining and maintaining the international regime within which smaller states must operate and construct policy. Importantly, international cooperation may provide not only a broad framework of rules, institutions and agreements within which international economic interaction may be conducted, but provide a crucial venue in which ‘learning’ may occur; specific norms are inculcated and particular modes of economic regulation collectively adopted.\textsuperscript{109} Even if individual nations are not directly involved in such processes, the parameters within which they must operate are defined by such cooperation and learning by the major powers. The institutions which oversee and regulate international economic activity promote a ‘set of normative preferences for market solutions to economic problems, national economic openness, non-discrimination between nationals and foreigners, and multinational approaches to common economic challenges.’\textsuperscript{110} These issues will be taken up in subsequent chapters with particular reference to Australia and Japan, as well as to consideration of the specifically theoretical questions they raise. For now, consideration should be given to a final school of thought that will help complete an overall framework in which the international political economy - especially the ideational framework within which it operates - may be considered.

The Neo-Gramscians

Gramsci’s ideas provide an important basis for innovative contemporary theorisation which attempts to link the political with the economic, and the structural with the discursive. One of Gramsci’s important innovations was the ‘historical bloc’, especially as a source of potential ‘counter-hegemonic’ ideas. Gill and Law suggest that historic blocs involve:

\textsuperscript{108} Conybeare, John (1987) \textit{Trade Wars: The Theory and Practice of International Commercial Rivalry}, New York: Columbia University Press: 200. As we shall see in subsequent chapters, his has particularly serious implications for nations like Australia that have placed great reliance on the possibility of encouraging the development of free trade regimes.


a unity between objective and subjective forces in a given historical situation... a congruence or fit between prevailing ideas and conceptions of the society and the forces of production embodied in political parties, trade unions and associations. The historic bloc is given cohesion by hegemonic ideology, or a framework of thought which gives it identity and consciousness... [it] is the product of conscious political activity, and is not simply accidental, since it implies the resolution of potential or actual conflicts between the forces of production and the relations of production.111

This conception, although continuing to emphasise the importance of the material conditions, acknowledges the contested nature of political and economic discourse. True, Law and Gill are keen to retain the idea that 'hegemonic ideology' is intended to resolve structural contradictions, but the form hegemonic discourse takes is unpredictable and contested.

Robert Cox's Production, Power and World Order: Social Forces in the Making of History is perhaps the most ambitious and sophisticated attempt to integrate many important insights derived from broadly radical scholarship and relate them to the contemporary GPE.112 Although working in an essentially Marxist tradition the forms taken by classes or the state are neither inevitable nor necessary. While the relationship may be dialectical, however, the paramount direction of causality is from state to mode of production, as the latter has been more 'shaped by the state than shaping of it'.113

It is in the area of inter-state relations, and the manner in which states mediate between domestic and international spheres that Cox has made what is arguably his most significant contribution. Utilising Gramsci's notion of the historic bloc, Cox attempts to demonstrate how class forces coalesced and emerged historically in order to secure the basis for successive modes of accumulation and production. Yet the form taken by the state is not determined solely by internal class pressures, but simultaneously by the 'permissiveness of the world order'.114 The hegemonic position of the dominant power of a specific era will constrain the political and economic options open to less powerful states, allowing the hegemon to impose a particular form of international economic order, as van der Pijl suggests the US did in the post-war era.115 Ultimately this process leads to what Cox describes as the 'internationalizing of the state', in which the nation state 'becomes part of a larger and more complex

political structure that is the counterpart to international production'. The net effect of these developments is to transform the state into a 'transmission belt from the global to the national economy', in a process which involves the regulation of the world economy by transnational bodies and the inculcation of specific norms which further the process of international governance without government.

International regimes, suggests Cox, are defined by the norms or rules accepted by states to manage common concerns. Cox sees the formation of specific regimes as reflecting the interests and ideology of elites, which are becoming increasingly global in nature. Other scholars have attempted to give more substance to and extend this idea. Gill, for example, has argued that the activities of the Trilateral Commission foster shared norms, concepts, and elite networks that exert a powerful influence on national economic policymakers and, in fact, mirror the development of an embryonic civil society. In this manner, it has been suggested, it is possible to account for neoliberalism as the dominant ideology of the 1980s, especially as it reflected changes in the US's domestic and international agenda. More generally, it is contended that neoliberalism reflects the interests of 'transnational circulating capital' in general.

While the neo-Gramscian formulation is an important attempt to map the transnational forces and structures that constrain individual national policymakers, it is not without difficulties. Panitch rightly draws attention to the 'top-
down' nature of the Coxian model, which fails to resolve the 'antimony' between a centralised supranational management structure on the one hand and the anarchic effects of unregulated financial capital on the other. What the neo-Gramscian model does provide, however, is some way of linking large scale international regime change to developments in the organisation of production processes and their concomitant social relations at the international and national levels. Importantly, Cox draws attention to the specifically Gramscian usage of hegemony, which is not simple dominance, but the inculcation of specific values and ways of 'doing and thinking' which reflect the interests of a dominant state or states. Such theorisation provides a useful basis with which to consider the role of dominant discourses within the GPE.

These issues will be explored more closely in subsequent chapters. What is important to note here is that there was an international climate of opinion - and a hegemonic power, albeit a diminished one - that were generally supportive of and actively pursuing specific deregulatory economic policies, a situation that left smaller nations with little option but to follow suit or risk handing US financial institutions a significant competitive advantage and see a further concentration of financial activity in Northern American centres.

Reinforcing the external pressures for conformity in some states were historical patterns that predisposed them toward particular economic regimes. Thurow suggests that there are two distinct forms of capitalism emerging: the Anglo-American, market-based variety versus a communitarian Japanese-German type. Cox prefers to label them as 'hyper-liberal' and 'state-capitalist', but whatever they are called it is possible to distinguish between two distinctive approaches to economic policy-making and the appropriate role of the state.

Clearly Australia and Japan fall into different camps. While this has fortuitous implications as far as theoretical explication is concerned, as we shall see, it has generated a good deal of misunderstanding in Australian policy-making circles. What is also of great significance for our purposes is the manner in which, especially in the Anglo-American economies, policies associated with free markets appear to becoming the uncontested basis of national policy-making. This process is being entrenched by what Gill calls a discourse of the 'new constitutionalism', in which a legal or constitutional framework which 'insulate[s] substantially the new economic institutions from popular scrutiny or democratic accountability'.

As we shall see in the next chapter, however, the discursive effects of new political and economic discourses render the sorts of overt political interventions Gill alludes to less necessary. The authoritative nature of contemporary economic discourse renders alternative positions and paradigms increasingly implausible, if not unthinkable. This is where a focus on discourse can provide an especially useful adjunct to perspectives like the above.

**Conclusion**

The most significant implication of the 'globalisation process' for this preliminary discussion is just that: it is *global*. The external circumstances that confront national policy-makers are increasingly similar and ubiquitous. The problems confronting domestic governments, predictably enough, reveal common characteristics. The most immediate and powerful of these are the increased scale and mobility of financial capital and the reorganisation of production on a transnational basis. The enhanced power and mobility of financial capital, especially in tandem with a trend toward deregulatory international regimes, has meant that autonomous government policy that is significantly out of step with prevailing norms is difficult to implement and liable to be undermined by the power of financial markets. Similarly, the autonomy of individual nation states has been eroded by the necessity of attracting international TNC investment - or risk being left out of wealth-creating international production networks. Finally, cooperation between states has attempted to impose specific forms of international modes of governance - the current global trend toward trade and investment liberalisation is perhaps the most outstanding example of

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this - within which individual states must operate, and which smaller states have little option but to accept.

However, this is not to suggest that either nation states are redundant or that national economic policy is simply reactive and undifferentiated. Clearly, the two nations at the centre of this study - Australia and Japan - demonstrate that decidedly different approaches to economic management and development are possible. True, there has been some convergence of late, but whether this is inevitable, or the result of the (possibly transitory) dominance of a hegemon inclined toward neoliberalism is something that needs to be explored in more detail later. What is important to recognise, however, is that although economic forces have become increasingly internationalised, and have unleashed broadly similar effects and potentials, the economic policy responses of individual nations have shown a good deal of variation: there is no single inevitable response to the globalisation process. Explaining the divergence of approach and the effects that flow from specific policy choices will be the major task of subsequent chapters.
Chapter 2: Neoliberal Governance

Many of the qualities that defined the nascent GPE were, by definition, international and increasingly ubiquitous. National governments were confronted by new and pressing challenges of national economic adjustment as they attempted to integrate national economic spaces into the emerging international economic order on the most favourable terms possible. The most appropriate outcomes may have been relatively uncontroversial - ensuring that the most valuable forms of economic activity occurred within national borders, for example - but the methods that might have most efficaciously achieved this were less so. As subsequent chapters on the specific developmental and adjustment experiences of Australia and Japan will demonstrate, there was no simple and uncontested 'correct' policy prescription available to policy-makers. The suitability of potential policy paradigms owed a good deal to contingent national circumstance, especially the traditions of government and the relative influence of key domestic actors. These are important factors that will be delineated in subsequent chapters.

And yet what is most striking about the Australian experience, especially in the area of policy-making that impinged on the conduct of its international economic relations, is the influence a particular discourse or set of ideas that was subsumed under the rubric of 'economic rationalism' in Australia, or neoliberalism more generally. Indeed, such was the enthusiasm for and influence of neoliberal ideas in determining Australia's trade and investment policies that such ideas were often depicted as if they were somehow the unchallengeable, 'correct' response to the problem of Australia's adjustment to the unfolding imperatives of regional and global economic development. This chapter, therefore, will consider some of the more important theoretical assumptions of the neoliberal model. In this regard, attention will be paid to the neo-classical economic ideas that are central to the larger discourse of economic rationalism.

The overarching intention of this chapter, however, will be to provide a theoretical framework with which to understand how neoliberal ideas came to exert an ideational hegemony in Australia, an influence which eventually came
to inform a distinctive and novel mode of neoliberal governance.\(^1\) In the next chapter I shall detail some of the policy initiatives that flowed from this emergent ideational paradigm and style of government, as well as some of the specific political pressures that made it appear increasingly attractive to policy-makers. What I want to suggest in this chapter is that the style and content of government that emerged under successive Labor governments in Australia since the 1980s may most usefully be understood as flowing from a specific neoliberal 'political rationality'. As we shall see, such a formulation draws attention to the nexus of ideas and assumptions about the nature of economic 'reality' that underpinned government policies. The erosion of state authority and the adjurations of small government advocates notwithstanding, national governments are still critical determinants of the manner in which national economic spaces are incorporated into the wider GPE. This makes the particular ideas that provide the theoretical rationale and inspiration for such interventions worthy of detailed attention.

In this context particular attention will be paid to the economic theory that informed the neoliberal political rationality. Central in this regard are the assumptions and methodology of neo-classical economics. These will be explicated and analysed. The intention here will be twofold: Firstly, the links between neo-classical theory and its implications for policy will be made clearer. Secondly, the important discursive effects of the neoliberal paradigm will be emphasised. It will be suggested that an increasingly technocratic, expertly articulated discourse predicated upon neo-classical economics achieved an ideational hegemony amongst key policy-making elites, which effectively marginalised alternatives and helped insulate political leaders from potential criticism by presenting such ideas as neutral responses to technical questions. The detail of this process will be supplied in other chapters; this chapter will concentrate on theoretical issues, and attempt to develop a

\(^1\) To help illuminate the particular implications of the term 'neoliberal' intended here, Cox usefully distinguishes between nineteenth century liberal states and contemporary neo-liberal states. The distinction hinges on the greater role of government in the contemporary era, which not only involves an expanded ambit of operation, but which perforce obliges more extensive forms of 'intervention'. As we shall see, it is not so much a lack of intervention that characterises neoliberalism, as a specific, market-oriented regulatory regime, underpinned by government authority. [Cox, Robert W (1987) *Production, Power and World Order: Social Forces in the Making of History*, Columbia University Press, New York: 220] Similarly, the idea of 'governance' is, as Rosenau suggests, 'a more encompassing phenomenon than government'. Crucially, it is dependent on the maintenance of order and legitimation as much through inter-subjective meanings as it is through formally sanctioned constitutions. See, Rosenau, J (1992) 'Governance, Order, and Change in World Politics', in Rosenau, J & Czempiel, E (eds) *Governance without Government: Order and Change in World Politics*, Cambridge University Press: 4.
framework within which the influence of specific ideas and the discursive power of a particular political rationality can be more fully appreciated.

But let me be clear at the outset what this chapter intends. I shall not argue that such novel theoretical innovations alone can explain either the influence of neoliberalism or the conduct of government policy in Australia since the early 1980s. What I will suggest is that when combined with more conventional and detailed analyses of the economic and political constraints that influence policy-making (such as the Marxist variants drawn on in chapter 1), considering the ideational framework within which policy is produced as a specific political rationality can provide an important adjunct to more established political-economy explanations. Such a theoretical orientation can help illuminate a relatively neglected aspect of policy-construction: the discursive influence of ideational paradigms. What such an approach illustrates is the manner in which particular discourses effectively demarcate the sorts of objects that are deemed appropriate for government intervention and attention. Moreover, such discourses delineate the manner in which this may be most 'efficiently' achieved.

**Neoliberalism as a Political Rationality**

The main intention of this chapter, then, is to introduce concepts that can help illuminate the process whereby a specific intellectual framework or ideational paradigm exerts an influence on the style and objects of government. Ultimately, as we shall see, the logic of particular ideas can mean that they not only delimit what are deemed to be appropriate arenas of government activity in the macro areas of principal concern to this thesis - economic relations, policy and the like - but such ideas may also be applied to micro areas, revolving around the conduct of individual life. The influence of neoliberal ideas has meant that there has been a notable shift in the focus of government activity from increasingly proscribed Keynesian-style macro interventions,\(^2\) to a micro focus directed toward the encouragement of a more 'competitive' or 'enterprising' labour force, especially where this can be achieved at the level of

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\(^2\) In this context the contemporary dominance of the neoliberal political rationality may be usefully contrasted with the Keynesian orthodoxy it supplanted. In the Foucauldian-derived schema, Keynesian ideas may be thought of as another, distinctive political rationality which effectively demarcated a different role and methodology for governments - a role that flowed from and was predicated upon a specific discourse that assumed an ideational dominance at a particular historical juncture. See: Ikenberry, G J (1992) 'A world economy restored: expert consensus and the Anglo-American postwar settlement', *International Organization*, 46 (1):289-321.
the individual. These are issues that will be explored at an empirical level in subsequent chapters.

This shift of emphasis on the part of government from the macro to the micro, and from the overtly 'interventionist' to more subtle attempts to inculcate specific attitudes in the population, I shall suggest, reflects the logic of neoclassical ideas and raises important theoretical questions, particularly about 'the state'. Among the more useful theoretical innovations that have attempted to theorise apparent changes in the practices of governments has been a tradition that draws directly or indirectly on the work of Michel Foucault.

For Foucault government is an 'art' which relies on a range of tactics and techniques, institutions and knowledges to achieve particular ends. Foucault's notion of 'governmentality' draws our attention to the manner in which government practices attempt to shape social and economic activity. That is, it provides a way of thinking about the intersection that occurs between what Dean calls the 'practices of the self' and the 'practices of government'. Importantly, however, the 'happiness' of the people is not so much a rhetorical token, but major instrument of governmental control and state strength, and central to the 'political arithmetic' with which the state calculates the effectiveness of its strategies and tactics. The micro-physics of power and its constituting impact on the self are linked to the macro strategies of the state, providing a theoretical space in which to consider the problematic of

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3 The role, form and activity of 'the state' has, of course, been one of the staples of political theory. Recent Marxist-derived theorisation especially has generated important insights about the way national governments operate, especially in the contemporary GPE. Some of this literature was explicitly drawn on in chapter 1, and it is an important underpinning to the analysis of subsequent chapters. Similarly, there is much to be gleaned from 'post-modern' conceptions of political and social formations. At this stage, however, constraints of space mean that it is impossible to do little other than acknowledge its significance without treating such ideas exhaustively. From the Marxist tradition, see: Clarke, Simon (1991) *The State Debate*, MacMillan, London; Giddens, Anthony (1985) *The Nation State and Violence*, Polity Press, Cambridge; Jessop, B (1990) *State Theory: Putting the Capitalist State in its Place*, Polity, Cambridge. Although the term 'post-modern' is not a terribly useful one, it is a helpful shorthand indication of a range of important theorisation. See, for example: Bertens, H (1995) *The Idea of the Postmodern: A History*, Routledge, London; Best, S & Kellner, D (1991) *Postmodern Theory: Critical Interrogations*, Macmillan; Smart, B (1992) *Modern Conditions, Postmodern Controversies*, Routledge, London. For a useful discussion of the distinctive qualities of a possible Foucauldian approach to 'the state', see: Mitchell, T (1991) 'The Limits of the State: Beyond Statist Approaches and Their Critics', *American Political Science Review*, 85 (1): 77-96.


government and its relation to the social. Rather than a theory of the state, however, Foucault analyses the operation of governmental power as varieties of techniques, strategies and practices, imbued with specific ‘rationalities’. Considering neoliberalism as a specific political rationality provides a way comprehending both its content and operationalisation.

Political Rationality

A political rationality, Rose and Miller argue, has ‘discernible regularities’ allowing us to distinguish one from another, and to meaningfully identify important and distinctive qualities. Firstly, they suggest, a political rationality has a moral form, which demarcates the appropriate realms and tasks for different authorities in areas like politics, religion or education. Secondly, political rationalities have an epistemological character, drawing on a specific conception of the objects to be governed. Thirdly, they are articulated in a particular idiom; language provides ‘a kind of intellectual machinery or apparatus for rendering reality thinkable in such a way that it is amenable to political deliberations’. It is the latter two aspects of Rose and Miller's schema that are especially pertinent for this discussion: the implicit epistemological assumptions of the neoliberal model - especially as they are derived from neoclassical economics - and their articulation as a distinctive discourse are important adjuncts to any explanation of the content and style of government in Australia in the 1980s and beyond.

It is the discursive aspects of a political rationality that are especially important here: particular discourses provide the epistemological and normative premises upon which subsequent government initiatives and policies are predicated. It is in this context that neoliberalism assumes its most important discursive aspect. Although there are, as we shall see, grounds to question both the neoliberal paradigm's claims to political and epistemological neutrality, it is important to recognise at this juncture that many of its assumptions continue to implicitly inform approaches to policy formulation. As subsequent chapters will demonstrate, such an orientation on the part of the Australian government has produced an increasingly distinctive style of governance, one which favours particular forms of ‘intervention’, often at a micro rather than at a macro level.

The idea of a political rationality is, then, a useful way of thinking about the nexus between specific ideational frameworks and the epistemological assumptions that are implicit within them. Furthermore, it offers a way of comprehending the manner in which these ideas are discursively manifested. Before considering the specific theoretical paradigm that is central to the discourse of neoliberalism - neo-classical economics - it is important to consider the nature of discourses in general and the way they are distinguished and operate. For particular discourses are central components of an overarching political rationality: such discourses effectively delimit the operationalised problematic of a particular rationality. As Rose and Miller note: "In a very real sense, 'the economy' is brought into being by economic theories themselves, which define and individuate a set of characteristics, laws and processes..."  

Foucault is again useful in understanding the operation of specific discourses, although his self-conscious rejection of a systematised theoretical position and a willingness to abandon or modify previously articulated positions makes this process problematic. However, it is possible to trace the evolution of his thought and extract elements that may illuminate issues with which we are concerned.

The *episteme*, for example, refers to the 'condition of possibility' of discourse in a specific period, and in particular to those specific *a priori* rules of formation that permit a discourse to function at any time; it allows some issues to be spoken of at particular junctures but not others. There is a notable resonance with Kuhn's notion of a paradigm here. However, the Foucauldian approach seems more useful, especially when considering a discipline like economics; whereas there is greater consensus about core concepts and the possibility of empirical verification in scientific disciplines, in economics ideational dominance is reliant on discourse to a much greater extent. Indeed, economic ideas have - protestations to the contrary notwithstanding - inescapable political effects when operationalised, which makes their universal adoption and acceptance more problematic than is the case with the less political ideas of the harder sciences. Moreover, as a subsequent consideration of the Japanese case will demonstrate, economic ideas have had less success gaining universal acceptance than has 'western' science, demonstrating the importance of contingent political and even cultural factors.

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8 Rose, N & Miller, P (1992) 'Political power beyond the state': 182.
As we shall see, Foucault's conception of an episteme has been an important, although generally unacknowledged, influence on the subsequent development of theorisation revolving around the notion of 'epistemic communities'. Epistemic communities have been, I shall suggest, instrumental in championing specific ideas and policy orientations amongst policy-makers at both a national and a regional level - a phenomena explored in greater detail in chapter 4. What is important to acknowledge at this stage is that at both the national and transnational levels, as Higgott observes, it is the manifestation of specific ideas at a discursive level, imbued with 'the vocabulary of positivism, methodological individualism, and free trade economics' that is increasingly defining the ideational framework within which appropriate government activities are delimited. Developing a clearer idea of the manner in which the ideas that inform a specific political rationality come to exercise such a discursive authority, even hegemony, is clearly important. Foucault is again helpful in this regard.

Discourse Theory

Foucault is not just concerned with linguistics or questions of semantics, but with the way in which institutional and material circumstances determine the content and form of discourses. Crucially, it is the celebrated nexus between power and knowledge - embodied in discourse - that Foucault wants to expose:

in every society the production of discourse is at once controlled, selected, organised and redistributed by a certain number of procedures whose role is to ward off its powers and dangers, to gain mastery over its chance events, to evade its ponderous, formidable materiality. . . discourse is not simply that which translates struggles or systems of domination, but it is the thing for which and by which there is struggle, discourse is the power which is to be seized.12

In this important passage Foucault draws attention to the importance that the dominant discourses of an historical period have in determining what can be said or even thought, and the manner in which alternative discourses can be marginalised as unbelievable or unknown. Validation as 'truth' occurs through the aegis of a dominant 'discipline' - economics or medicine, for example - which sanctions and approves specific propositions by inscribing them within a 'certain type of theoretical horizon'.13

Discourse remains a central focus of analysis as a manifestation of the crucial link between power and knowledge. Foucault wants to draw attention to the mechanisms of power which are inseparable from and dialectically related to knowledge:

the exercise of power creates and causes to emerge new objects of knowledge and accumulates new bodies of information. One can understand nothing about economic science if one does not know how power and economic power are exercised in everyday life. . . It is not possible for power to be exercised without knowledge, it is impossible for knowledge not to engender power.14

Foucault suggests that power should be analysed as something that circulates and ‘functions in the form of a chain’.15 Rather than being solely negative and repressive, Foucault contends that ‘power produces; it produces reality; it produces domains and rituals of truth’.16 Foucault is suggesting a malleable and undetermined model of human consciousness, and one that might be shaped by specific ‘technologies’ or practices. To comprehend this process, analysis of the application of power must start from the micro level and ascend, rather than focusing on macro-structures.

Specific discourses, then, have the potential to define and delimit objects of concern and interest upon which governmental policy, practices and power may be brought to bear.17 Individual disciplines like economics play a crucial role in legitimating and articulating the manner in which the objects of policy are approached and subjected to particular forms of management. Exclusion from the dominant discourse effectively marginalises and renders impotent alternative or competing positions. For our purposes, however, what is most pertinent in the Foucauldian approach is captured in the ideational framework Hall calls a ‘policy paradigm’:

policymakers customarily work within a framework of ideas and standards that specifies not only the goals of policy and the kind of instruments that can be used to attain them, but also the very nature of the problems they are meant to be addressing. Like a Gestalt, this framework is embedded in the very terminology through which policymakers

communicate about their work, and it is influential precisely because so much of it is taken for granted and unamenable to scrutiny as a whole.\textsuperscript{18}

It is precisely the 'taken for granted' aspects of contemporary economic discourse, or what Bourdieu referred to as our socially determined 'common sense' understandings of 'reality' that are so powerful in determining that reality, and which require unpacking if we are to understand their influence.\textsuperscript{19} It is appropriate, therefore, to consider some of the more important claims and assumptions that underpin neoliberalism, many of which have their foundation in neo-classical economics.

**Neoliberal Theory**

What is often called 'economic rationalism' in Australia is more generally known as neoliberalism in North America and Europe. Here the two terms will be used interchangeably as a shorthand way of indicating a relatively distinct and coherent set of assumptions and ideas about the way economic life does and, indeed, ought to operate, a perspective that owes a large and discernible theoretical debt to neo-classical economics. In this section some of the major theoretical and epistemological assumptions of the neoliberal model will be outlined. Initially, it is important to acknowledge that there are a variety of positions and thinkers subsumed under the rhetoric of neoliberalism, and that much of the criticism of such positions has verged on caricature.\textsuperscript{20} There is enough common ground in orthodox, mainstream economic thought, however, to allow us to talk meaningfully and interchangeably of a dominant economically rational or neoliberal model, which draws its theoretical inspiration form neo-classical economics. But what is significant here is not the minutiae of the neo-classical model or the claims it makes - although these are important and worth separate consideration - rather, what is equally important is the methodological approach that imbues what Heilbroner characterises as mainstream economics; an approach shot-through with the implicit and explicit

suppositions of neo-classicism, which culminates in a ‘formalist analysis’ that is both ahistorical and determinant of a limited range of problematics.\textsuperscript{21}

The neo-classical paradigm’s neglect of historical specificity is a significant weakness, the implications of which will be drawn out in subsequent empirical chapters. For now, the importance of the mainstream methodological approach merits emphasis. Central here, as McCloskey observes, is an inherent commitment on the part of economists to the tenets of modernism: there is a continuing faith in the ability of the scientific method to provide the researcher with access to objective ‘reality’.\textsuperscript{22} Importantly, there is little recognition or acknowledgment of the long-standing and widely accepted view that knowledge and human understanding are socially constructed.\textsuperscript{23} This notion is concisely captured by Rorty’s claim that:

\begin{quote}
Truth cannot be out there - cannot exist independently of the human mind - because sentences cannot so exist, or be out there. The world is out there, but descriptions of the world are not. Only descriptions of the world can be true or false. The world on its own - unaided by the describing activities of human beings - cannot.\textsuperscript{24}
\end{quote}

Yet it is significant that far from suffering the epistemological uncertainty that has been one of the defining characteristics of contemporary intellectual endeavour in both the 'soft' and 'hard' sciences, a good deal of economics has been devoted to revealing what Ross Garnaut - a leading figure in determining the direction and content of Australia's international economic policy - calls 'the simple truths' that come from the study of economics and history.\textsuperscript{25} This is not simply a regrettable methodological shortcoming. Rather, it is a position which generates distinctive ‘ideological’ effects.\textsuperscript{26}

For Heilbroner, such effects are ideological because they depict economic activities in ‘terms that ignore or conceal the sociopolitical structure whence

\textsuperscript{26} I have generally employed the term ‘discourse’ in preference to ‘ideology’ as the former carries less implicit baggage than the latter and captures some of the less overtly political, contingent effects of discursive practices. For a useful discussion on the differences see: Purvis, T & Hunt, A (1993) ‘Discourse, ideology, discourse, ideology, discourse, ideology . . .’, British Journal of Sociology, 44 (3).
they spring and which they serve'. Moreover, Heilbroner contends, the satisfactoriness of the market mechanism - the central and preferred organisational principle in mainstream economics - 'is determined mainly from the vantage point of the regime that depends on it'. In other words, the discursive power of the dominant paradigm confers a retrospective legitimacy through a tendentious definition of 'efficiency'. To see how this process works, it is necessary to look more closely at the mainstream model and its neo-classical foundations.

The Neo-Classical Influence

Let me begin with a caveat: It is not being suggested here that neo-classical economic ideas were the sole influence on policy-making in Australia during the 1980s. What I am suggesting is that neo-classical assumptions were the - albeit often unacknowledged or unarticulated - theoretical underpinning that informed the dominant approach to the problem of national economic management, and which were central to the neoliberal political rationality. Although it should be stressed such ideas were also, in fact, (as we shall see in chapters 4 and 5), often explicitly spelled out by influential academic government advisers and consequently played an important role in delimiting and defining the objects and style of government economic policy. Generally, neo-classical ideas formed the theoretical bedrock that underpinned the dominant world view in Australia's 'official family', or the key bureaucratic departments which were instrumental in setting policy direction under Labor. It is important, therefore, to examine the specifics of this highly influential neo-classical model and some of its critical methodological and theoretical assumptions.

One of the most significant effects of neo-classical ideas is derived from the model's initial theoretical orientation. As De Vroey reminds us, one of the critical differences between paradigms is not so much that they provide different answers to the same puzzles, but that they ask fundamentally different questions. The transition from classical to neo-classical economics is illustrative of the importance of this insight. The different methodological and
theoretical assumptions of the neo-classical paradigm meant that many of the issues that had been central to the classical model were marginalised or ignored. This was not simply a question of intellectual preference or the superiority of one model over another. The 'marginalist revolution' that was central to the neo-classical paradigm effectively eliminated the highly political and potentially contentious issues of class and the source of value as theoretical issues. The focus of theoretical attention was shifted from production to exchange and from capital to prices. This meant that the inherently antagonistic relationship between capital and labour - and the comfort given to an active socialist movement in Europe in the nineteenth century by a Ricardian analysis - was effectively neutralised.

From its inception, therefore, the neo-classical model has had crucial, though generally unacknowledged political effects. This potential is reinforced by two key methodological assumptions: firstly, it is assumed that 'the economy' is an analytically distinct unit, separable from political or cultural considerations, and understandable with reference to its own internal mechanisms; secondly, it is assumed that individuals act 'rationally' in order to maximise personal utility. From this initial position, neo-classical economics posits a larger self-regulating market-based model, which efficiently coordinates the organisation and distribution of commodities, including capital and labour, according to the inexorable logic of supply and demand. Unless 'externalities' obstruct the smooth operation of market forces this system will naturally move toward economic equilibrium and the optimal utilisation of resources. The cumulative effect and intention of this essentialist, ahistorical and abstracted rationalist model is, as Block suggests, to "naturalize" the economy - that is, 'to treat economic arrangements that have a specific history and content as timeless products of the need to economize scarce resources'. In this manner, economic policy-making becomes a form of dispassionate technical discussion and, as we shall see, amenable to the remedial interventions of appropriately qualified 'experts'.

Significantly, the attempt to render the theoretical claims and assumptions of neo-classicism as objective or neutral renditions of reality has characterised the paradigm from its inception. As Hunt observed, the founding fathers (they were all men) of the neo-classical school - Jevons, Menger and Walras -
despite being caught up in the nineteenth century's revolutionary reconstruction of capitalism, followed the individualistic, utilitarian perspective of Say, Senior and Bastiat, and developed the central concepts of the utility theory of value and general equilibrium theory. Elaborating the notion of declining marginal utility may have been an ingenious extension of earlier positions but did little to explain the monumental economic change of which they were a part. Certainly Walras' theory of general equilibrium was a novel innovation, but it was achieved by virtually ignoring the manner in which commodities were actually produced, focusing instead on the less contentious sphere of circulation or exchange. This not only allowed the construction of a self-regulating model of economic activity based on rational utility maximisation, but allowed Walras (and subsequent followers) to ignore the inconvenient fact of unequally distributed resources and life-chances when the model was activated. The Walrasian approach was, moreover, important in reinforcing the 'scientific' pretensions of neo-classical economics and the claims that its advocates could detect or propound economic laws that transcended political or moral questions.

Walras suggested that it was possible to distinguish a realm of 'pure' economics as opposed to applied or social economics. Given such distinctions, Walras used mathematics to demonstrate the conditions necessary for general equilibrium in a market economy. The significance of the neo-classical model's approach for our purposes is the central role marginal analysis attributes to the market in determining the most 'efficient' allocation of scarce resources. This in turn makes even larger claims and assumptions about the behaviour of human beings: it was assumed that producers and consumers 'naturally' behave in ways designed to maximise satisfaction or profits. As we shall see in chapter 5, it is simply not possible to assume that profitability is the sole or even over-riding criterion of corporate behaviour, especially in countries like Japan. For the moment, however, it is the assumption about individual acquisitive behaviour that is of significance here.

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Neo-classical Assumptions

The neo-classical model's theoretical premises effectively removed the collective nature of human social and productive activities from its frame of reference. The concept that underpins this approach - methodological individualism - is predicated upon the assumption that all statements about groups or larger social collectivities are ultimately reducible to statements about the individuals that compose those groups. A focus on individuals, be they citizens or firms, has had important consequences at a theoretical and policy level. On the one hand, the individual has become the focus of more specifically targeted government interventions designed to encourage greater productivity and an increased congruence with the 'logic' of market mechanisms and demands. Simultaneously, the theoretical assumptions of neo-classical economists continue to inform basic suppositions about important economic actors like firms. Marshall, for example, extended Walras' equilibrium analysis by positing a 'representative firm' that was central to an industry-wide equilibrium model of production. As we shall see in subsequent chapters, however, such abstractions bear little resemblance to the specific historical experiences of firms - and not just in Japan.

What is important to recognise about the neo-classical conception and the neoliberal policies it informs are not simply the assumptions its advocates make about the necessity and appropriateness of market mechanisms as the central organisational principle of economic life, but the conceptions of government that flow from it:

For economic rationalists greater efficiency is a sacred goal. Increased competition and the unlocking of market forces are the key means to obtain it. Economic rationalists are highly suspicious of government intervention. They believe the central aim of policy should be the establishment of a framework in which the efficacy of market forces is maximised and hence where resources can be allocated as efficiently as possible. Policies should therefore concentrate on improving the dissemination of information, improving the mobility of labour and other resources, discouraging restrictive practices and ... trying to encourage as competitive a system as possible. ...To the extent that the private sector operates less than optimally, a major reason is the plethora of government regulations that hamper its efficiency.

The neo-classical model, then, is predicated upon the assumption that market forces are inherently efficient and that governments should not interfere with their operation but should, on the contrary, construct policies that enhance their

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influence and allow the inherent dynamism of capitalism to be unleashed. In short, the economically rationalist or neoliberal model suggests that ‘in settling matters of resource allocation, imperfect markets are better than imperfect states’. The form of governmental action sanctioned by such logic is, therefore market conforming rather than ‘distorting’, and predicated upon the assumption this will allow the inherent rationality of the market mechanism to achieve an optimal allocation of resources. There is, however, little recognition in the neo-classical model that either the rationality it assumes and champions is a discursive social construct rather than ‘natural’, or that ‘markets’ are the product of and reliant on specific configurations of social relations, and legal and political structures. More fundamentally, there is little acknowledgment of the inherent irrationality of markets themselves.

Yet, despite these shortcomings, the epistemological assumptions and normative assertions that inform such market-oriented policies for individual nations are extended to the realm of international trade and investment. The implications of a policy position predicated on notions of ‘comparative advantage’ and idealised versions of international economic activity will be considered in greater detail in subsequent chapters, where the general position of Australia in the GPE and the specifics of theoretical orientations toward Japan are considered. At present, it is worth re-emphasising that there is nothing ‘natural’ or inevitable about privileging market mechanisms within policy paradigms. This will become more apparent when we consider the distinctive organisational rationale of corporate capital based in Japan and the specific policy framework that has encouraged its development and expansion in chapter 5. Certainly, the ability of a comparatively small economic and political actor like Australia to resist various international pressures or autonomously affect its external trading environment may have been limited. But what needs to be stressed here is the socially determined and contingent nature of the neoliberal paradigm; its application is not somehow an inevitable or technically correct response to the problems of contemporary structural adjustment. It is, in

fact, an inherently political exercise, and the result of consciously pursued policy options, albeit constrained ones.

I shall suggest below that the inherently political nature of the neoliberal project is partly disguised by its depiction as a technical response to the demands of economic management and, as such, the legitimate concern of particular forms of expertise. Before this, however, it is important to subject the neoliberal model to a more thoroughgoing critique.

Neoliberalism: A Critique

There are, then, key assumptions that distinguish the neo-classical model and the sort of neoliberal political rationality it informs. This is most immediately apparent in the assumptions neo-classical economists make about 'human nature' - that individuals are acquisitive, utility maximising agents possessed of the ability to make informed decisions and choices in pursuit of individual happiness. Marxist scholars have, of course, drawn attention to the inherent implausibility of a model that assumes equality of life chances. What is most worthy of note here, however, is the normative assumption that markets produce both economic and social harmony in a self-regulating system that tends toward equilibrium. Historical change is not only inexplicable in such a model, it is generally not even considered. This is nowhere clearer than in the historical evolution of 'the market' itself.

The contingent nature of the market is demonstrated most forcefully in the work of Karl Polanyi. Polanyi's seminal genealogy of the rise of *laissez faire* economics in the nineteenth century, provides both an exemplar of the art of historical investigation and an important counterfactual with which to consider neoliberalism's contemporary renaissance. Not only does the rise and fall of market-oriented, deregulatory economic policies indicate the contingent nature of economic discourse, it also raises significant doubts about claims as to the 'naturalness' or 'inevitability' of neoliberal solutions to the problem of economic organisation. Part of the power and influence of rationalist discourse is derived from the assertion that some forms of economic policy more closely reflect and harmonise with the inherent 'nature' of capitalism; the latter's latent dynamism will be most effectively realised by policies that allow its unencumbered expression. What Polanyi's historiography reveals, however, is that

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the emergence of national markets was in no way the result of the gradual and spontaneous emancipation of the economic sphere from governmental control. On the contrary, the market has been the outcome of a conscious and often violent intervention on the part of government which imposed the market organisation on society for noneconomic ends.42 [Emphasis added]

Ironically, then, the rise of *laissez faire* economics in Britain coincided with great increases in planning and intervention by the state in pursuit of Benthamite utility and happiness. Similarly, the contemporary fashion for ‘deregulation’ is, in fact, a misnomer, in that such policies amount to forms of *re*-regulation, rather than *de*-regulation: government intervenes to change the structures within which capitalism operates, inevitably advantaging some sectors over others.43 Yet the discursive power of economic rationalism can render such effects less obvious, if not invisible. This naturalisation of what is essentially a political process is achieved in part methodologically. This is why an analysis of the discursive power of the neoliberal discourse merits attention: not only has this discourse formed an integral and crucial part of the political rationality that has informed the practices of government in Australia, it has been instrumental in legitimising processes that are congruent with such a methodology while simultaneously marginalising others.

As a final element of the critique of neoliberalism or economic rationalism, something needs to be said about an implicit, yet discursively powerful aspect of this discourse: the notion of rationality itself. Max Weber is, of course, the principal source of western notions of rationality. His distinction between formal (a quantitative calculation of the technically possible) and substantive (calculation linked to social values or norms) remains important.44 Clearly this provides one possible way of considering the normative neutrality claimed by some advocates economic rationalism, as opposed to the political application of policies derived from such a discourse. But it is necessary to recognise the artificiality of this process, however useful. It is not possible to separate the substantive and the formal as if they were distinct spheres: once theory is applied it inevitably confronts social contingency, which recursively delimits and defines the realm of the technically possible. More fundamentally, as Hindess points out, it is important to avoid relapsing into *a priori* assumptions about

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intrinsic human rationality which neglect the discursive constitution of rationality itself as an abstract possibility.\(^{45}\)

One of the distinctive qualities of industrial capitalism, for Weber, is rationality; one of the fundamental characteristics of rationality is its calculability.\(^{46}\) This calculability is fundamental to both the organisation of modern production processes, as well as to the legal and administrative/bureaucratic environment in which economic activity occurs. Bureaucratic structures are rational partly because of their impersonal formalism, but also because they are reliant on knowledge in the form of specialised technical expertise: ‘bureaucracy, in short, invites technocracy’.\(^{47}\) However, while a degree of rationality may be an inevitable concomitant of and prerequisite for complex organisational structures and practices, this is not necessarily the unqualified boon its advocates claim. Weber recognised that formal rationality in no way guaranteed its substantive counterpart. As Brubaker observed:

Choosing what means to employ, given a fixed and unambiguous end, is a technical problem; choosing what ends to pursue and what means to employ, given a stock of resources, is an economic problem.\(^{48}\)

This antagonism between formal and substantive rationality places a fundamental tension and conflict at the heart of modernity: the demands of an economic system with the market as its central organising principle necessarily excludes and marginalises counter-discourses based on interventionist, collectivist or egalitarian principles; discourses which may, in fact, have potentially plausible alternatives to the problem of economic management over which neoliberalism exercises authoritative suzerainty.

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\(^{46}\) Sayer, D (1991) *Capitalism & Modernity: An Excursus on Marx and Weber*, Routledge, London: 96. Sayer draws attention to the resonance between the rationality inherent in capitalism and the institutional preconditions posited by neo-classical economics, something that helps explain the air of inevitability and certainty that accompanies some of the more technocratic, apolitical discourses emerging from mainstream economics - *ibid*: 97/8. The way in which such apparently politically neutral, technocratic discourses can serve to create a powerful, normative ideational framework can be seen in the World Bank's 'structural adjustment' policies for developing economies. See: Williams, D & Young, T (1994) 'Governance, the World Bank and Liberal Theory', *Political Studies*, XLII: 84-100; Leftwhich, A (1994) 'Governance, the State and the Politics of Development', *Development and Change*, Vol 25: 363-86.


At one level, then, the discourse of economic rationalism seeks to overcome this tension by marginalising alternative or oppositional positions and presenting itself as the most technically competent response to a series of calculable problems subsumed under the rubric of 'the economy'. At another level, however, this discourse seeks to resonate with and act upon contemporary social formations and identities and render them more amenable to the type of rationality it embodies. *Homo economicus* is not just an ideal type or convenient theoretical abstraction upon which to base regimes of calculation, but a social desiderata toward which specific technologies and discourses attempt to guide an objectified populous. At the intersection of economic discourse and political practice lies the possibility of producing a more enterprising and 'efficient' population capable of playing a specific role in the economic and social restructuring of the nation - something that, as we shall see below, plays an increasingly important part in contemporary governmental practices in Australia. However, this is a more opaque process as a result of the expertly articulated and 'naturalising' quality of neoliberal discourse. This process is more discernible, however, when the intersection between economic theory and political practice is considered.

**The Political Effects of Neoliberalism**

One of the most important sources of the power of neoliberal discourse resides in its ability to neutralise what might otherwise might be taken as overtly political. This is achieved, in part, by rendering every aspect of human activity as potential objects of calculation and consequently expert management. In this context the contribution of Gary Becker is an important and useful example of the manner in which the epistemological premises of the neo-classical model may be applied to any area of human existence. Whether such an approach provides useful insights or is readily applicable is less important here, than is the realisation that there is an assumption that such a methodology is both appropriate and may ultimately form the basis policy. This possibility is rendered more plausible by Becker's status as a Nobel Prize-winning economist, something that enhances the discursive ideational legitimation of the particular forms of economic discourse he champions.

Becker first achieved recognition for his work on 'human capital' which suggested that individuals 'invested' in their own education after making rational calculations about the likely benefits to be derived from such effort and
expense. Women, for example, invest less as they spend less time in the workforce preferring to be 'housewives' instead. It hardly needs to be said that a complex array of other social variables might explain women's non-participation and/or subordinate position in the workforce. Yet Becker has subsequently managed to apply these highly dubious, neo-classically-derived, theoretical assumptions to the family and marriage. While many Marxists might agree that 'the market' has had some effect in shaping social relations and encouraging the development of nuclear families, Becker's position is that the familial division of labour is the result of rationally calculating utility maximisers coming together to co-operatively maximise household output. Becker attempts to extend this argument to the institution of marriage, where he suggests individuals will maximise utility via the development of 'an efficient marriage market [that] develops "shadow" prices to guide participants to marriages that will maximise their expected well-being'. 

Efficiency' is maintained in the marriage market via 'assortative mating':

an efficient marriage market usually has positive assortative mating, where high-quality men are matched with high-quality women and low-quality men with low-quality women . . . An efficient market also tends to maximise the aggregate output of household commodities, so that no person can improve his marriage without making others worse off.

Now the connection between marriage markets, 'assortative mating' and the construction of economic policy may not be immediately clear. The significance of Becker's work here is that it illustrates the manner in which the neo-classical approach can be extended and applied to all areas of social life. The significance of this for the purposes of this essay is twofold. Firstly, the assumptions of the neo-classical model and its ability to explain complex social reality are clearly limited as the examples above demonstrate. Central to the neo-classical model is the conception of the utility maximising, rationally calculating and sovereign individual. Even as a convenient heuristic device, however, this depiction has serious shortcomings. Clearly individuals do not have perfect information with which to arrive at rational decisions, even supposing that such decisions were arrived at in this manner. Secondly, the seriousness with which such analyses are greeted suggest that they are part of a mutually-reinforcing process of ideational legitimation. This is the most important implication of Becker's work: that is, the systematic attempt to render every aspect of human life the object of specific modes of calculation. As Rajan

notes, an analysis of Becker's sort 'meshes with and interpenetrates other
discursive formations such as psychiatry to produce and reproduce "rational"
individuals who are fit/unfit to occupy subject positions in contemporary
society'. 52

Furthermore, the pages of mathematical calculations that fill Becker's books
attempt to give a mantle of scientific epistemological certainty and authority to
what are little more than untestable assertions and thinly disguised normative
prescriptions. It should also be noted that the mathematical modelling with
which Becker seeks to invest his work with a patina of scientism is also
seriously misleading on two grounds: not only has mainstream scientific
discourse moved on from the certainties of Newtonian physics to the
uncertainty of quantum mechanics, but the latter may also be a more
appropriate methodology for economics as well as physics. 53 As we shall see in
chapter 4, the equilibrium models that dominate neo-classical models simply do
not reflect the historical, empirical experience of contemporary economic reality.

The connection between the economic and political spheres which neo­
classical economics attempts to keep separate is, however, more overtly
revealed in the emergence of public choice theory, which is the political
expression of the market-centred economic paradigm. *Homo economicus*, the
egoistic rational utility maximiser, remains the central figure in public choice
theory, a conception that has inevitable policy implications: The market, rather
than the state or other constraining, collectivist social constructions, is the best
determinant of questions of distribution. Despite an obvious intellectual debt
here to the writing of conservative economic and political theorists like Hayek
and Nozick, advocates of public choice theory are often at pains to stress the
'scientific' and objective nature of their analysis and prescriptions. 54 Injunctions
as to the necessity of 'slimming the state', reducing welfare payments,
encouraging the privatisation of publicly-owned assets, and generally
enhancing the influence and power of 'market forces' are presented as value­
free technical responses to the imperatives of economic efficiency and well­
being. But, as Self reminds us, the market system is *not* 'a spontaneous

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system of voluntary exchanges governed by objective economic laws, but . . . a political system.55

Yet in their different ways, Becker and public choice theorists suggest that economic life is governed by objective market forces both at the macro level and at the level of the individual. This is not simply a heuristic conceit, but central to the formation of self-identity. To obtain the most efficient return on investment it is crucial that these beneficent forces are allowed to operate in an untrammelled manner. This is not a political issue, but simply a question of developing the most technically efficient policy settings with which to facilitate the expression of the capitalist dynamic. It is central to the logic of economic rationalism, therefore, that the general population can be brought to understand this logic and play its part in ensuring optimal outcomes, which will benefit both themselves and the nation. It is in this context that the idea of neoliberalism as a specific political rationality is especially useful in helping to comprehend the origins and forms of governmental practices under Labor since the 1980s.

There is one final aspect of contemporary modes of neoliberal governance in Australia that merits particular attention; one which forms an important part of an understanding of both the ideational hegemony of the neoliberal political rationality and in its operationalisation as policy: the increasing importance of and reliance on expertise.

Expertise

Expertise is an important aspect of the emergent style and content of government in Australia for two principal reasons. Firstly, particular forms of expertise provide the technical capacity and competence for new and specific forms of 'intervention' by governments, particularly at the micro level. Secondly, the depiction of potentially contentious issues as technical problems, susceptible to expert forms of resolution and management, helps insulate the instigators of such policies from potential sources of opposition. Where specific economic initiatives can be presented by an influential academic elite, a unified media and key policy-makers as the only 'rational' responses to the imperatives of relentless international competition, for example, it is increasingly difficult for opponents to object, let alone have such objections articulated as part of mainstream debate. It is in this latter context that expertise is especially

germane to the concerns of this thesis. As we shall see, the particular difficulties associated with national economic management in Australia (detailed in chapter 3), meant that at a time of perceived crisis Australian policy-makers, paid greater attention to authoritative economic advisers and commentators claiming expert understanding of such problems.

However, it needs to be acknowledged that the idea of an evermore elaborate division of labour leading to a greater reliance on specialisation is not, of course, as Weber and Durkheim amongst others demonstrate, a new one. The potential effects of the pervasive and subtle influence of increasing complexity and rationality in contemporary societies have been further developed by contemporary theorists. Habermas has drawn attention to the important connection between the 'purposive-rational logic' that underpinned technological development and the emergence of new social values: 'technical progress . . . is largely determined by social interests that arise spontaneously from the compulsion to reproduce social life'. Simply sustaining complex industrial societies, it seemed, involved an ever greater reliance on specific forms of expertise. As a consequence, government itself seemed to revolve around 'technical' questions accessible to expert resolution. The result was to further de-politicise aspects of government activities which were increasingly measured against and legitimated by a calculus of technical, managerial competence. Ultimately, for Habermas, the 'reified models of the sciences' become part of individual consciousness in the 'life-world', a situation which, he suggests, inevitably collapses the distinction between the motivation for action and its technical accomplishment.

There are large questions here about the relationship between social development, especially its economic and technological aspects, and consequent forms of human consciousness. Plainly, these lie outside the ambit of this thesis. Of more particular interest here is the manner in which an increasingly technocratic, expert-based approach to governing, especially in broadly defined economic areas, intersects with specific policy objectives. Two aspects of this process are especially pertinent here: the discursively marginalising impact of 'expert' discourse; and the greater possibilities opened up for specific forms of intervention at the macro and micro levels conferred by


increased levels of technical competence. Such developments help to explain, I am suggesting, both the increased authority and seeming inevitability of contemporary forms of macro economic management, as well as the development of programs intended to encourage greater 'enterprise' and 'flexibility' in the population as a whole. Both of these developments reflected and entrenched the dominance of a neoliberal political rationality in Australia since the 1980s. While a reliance on expertise in complex societies is, therefore, ubiquitous and inescapable - clearly, Keynesian economists, for example, are also experts - there is a particular resonance between neoliberalism, its epistemological and normative assumptions, and the potential of associated technocratic discourses to both insulate policy-makers from political fall-out and legitimate consequent policy initiatives as technically necessary.

The Political Implications of Expertise

A greater reliance on expertise may be, therefore, as Fischer suggests, a central component of a 'deep-seated transformation of the very form and content of advanced industrial society itself' in which technocrats play a crucial role in providing specialist knowledge, but it is the potential of such experts to shield policy-making elites from the possible political consequences of their actions that is of particular interest here. Unpalatable reforms may be presented as the inescapable, 'correct' responses to particular problems. Practical policy-making may gain a good deal of discursive legitimation where the 'solutions' to the problem of economic management are seen as essentially technical; this is especially so where the prevailing economic discourse sanctions such an approach. Indeed, such a situation may reinforce both the position of government and the authority of specific forms of economic discourse, for it is here that a technocratic methodology premised on 'scientific' knowledge may present itself as the non-ideological application of instrumentally rational techniques. Where the measure of successful government is predominantly its ability to manage the economy and thus national living standards, economic experts - or specialist discourses with claims to influence such outcomes - are central to the strategic calculations of political elites. Privileging specific discourses or ideas as the central organising

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principles of economic life inevitably increases the autonomy and influence of those experts that are associated with or actively champion such ideas. Indeed, as Haggard and Kaufman point out, particular ideas may form the focal point around which new coalitions of interests coalesce.\footnote{Haggard, S & Kaufman, R (1992) 'Introduction: Institutions and Economic Adjustment', in Haggard, S & Kaufman, R (eds) The Politics of Economic Adjustment: International Constraints, Distributive Conflicts, and the State, Princeton University Press, Princeton: 37.}

As chapters 3 and 4 will demonstrate, this is a suggestion with a good deal of relevance to the situation in Australian since the 1980s: there was an important intersection between a reform-minded government, influential members of the academic community, and elements of the bureaucracy. The common denominator around which these interests coalesced was a shared belief in the potential efficacy of neoliberal policies in addressing Australia's perceived economic problems. Although the adoption of neoliberal policies was not inevitable, once such a policy framework was taken up it was nurtured and legitimated by a specific, expertly articulated discourse which in turn gained greater authority following its adoption by political elites.\footnote{Once neoliberal polices were implemented this made any return to Keynesian-style polices increasingly problematic. Reforms enhanced the power of financial markets which in turn made the tools of macro-economic management less reliable and policies themselves subject to the veto of the markets.} Economic policy in particular became the subject of an evermore specialised and technocratic debate, in which policy-makers increasingly found themselves dependent on specific forms of expertise, something which worked to entrench the position of an influential group of advisers oriented toward neoliberal policies. These are issues that are detailed in subsequent chapters. The point to emphasise here is that the increasing dominance of neoliberal experts within the policy-making process had two important effects: on the one hand it 'naturalised' policy by marginalising alternatives; on the other it changed the manner of government intervention in keeping with its market-conforming logic.

The role played by specific forms of expertise is not confined to acting as a source of legitimation or policy innovation. Increasingly neoliberal-oriented expertise is being brought to bear on the population at large, as individuals are encouraged to optimise their productive potential. In part this reflects a general contemporary reliance on a range of specialist knowledges that play an important role in what Giddens has called 'the reflexive project of the self';\footnote{Giddens, A (1990) The Consequences of Modernity, Polity Press, Cambridge.} individuals have greater recourse to a range of expert advice (psycho-therapy, 'self-help', and the like), in the self-conscious construction of identity and
'lifestyle'. New forms of professional expertise and 'life-style engineering' can transmit 'modern functional rationality' throughout every part of the life-world. More specifically, a range of expertly-guided practices may be directed toward the general population in order to constitute a more 'enterprising' population, a strategy that flows directly from the neoliberal emphasis on the individual as the cornerstone of economic development.

Rose argues that this process is especially evident in Britain as a result of the systematic inculcation of new social values and the attempt to create an 'enterprise culture' of which an 'enterprising self' is the cornerstone:

> the forms of political reason that yearn for an enterprise culture accord a vital political value to a certain image of the self. And this image of the 'enterprising self' is so potent because it is not the idiosyncratic obsession of the right of the political spectrum. On the contrary, it resonates with basic presuppositions concerning the contemporary self that are widely distributed in our present, presuppositions that are embodied in the very language that we use to make persons thinkable... the presupposition of the autonomous, choosing, free self as the value, ideal and objective underpinning and legitimating political activity imbues the political mentalities of the modern West...

Whether the enterprising self is actually 'free' is an interesting question, but one that is both impossible and unnecessary to answer. The important point is, as Rose suggests, that the idea of informed autonomy is the underpinning assumption upon which a particular economic discourse is predicated; it seeks to act upon objects on that basis. As we shall see in the next chapter, it is an idea that is beginning to exert a discernible influence on the content of public policy in Australia.

The increasing uses of expertise at the macro and micro level can be thought of as particular techniques of government in which the notions of individual freedom and happiness, in combination with a calculating rationality exemplify and inform a specific style of governing. The congruence between this style of governmental practice and the logic of economic rationalism, Rose argues, culminates in a new formula of 'advanced liberal' rule, in which governance occurs through the regulated choices of individuals. In this context, experts...
are ‘detached’ from the immediate process of political rule and their authority is bound-up with the rationality of market mechanisms. Expertise serves to distance the political and economic spheres, insulating the former and rendering the latter the object of apolitical ‘technical’ discourses. The process of governance is, therefore, indirect and mediated by expertise; and yet it is an attempt to find ‘a way of linking the values of economic productivity, political democracy and personal contentment into a single theoretico-practical matrix.’

The appeal and influence of the discourse of economic rationalism, therefore, can be explained in large part by the intersection of the important trends delineated above. It as a discourse dependent on and, to an increasing extent, legitimated by a specific and currently dominant form of expertise. As such, it is a discourse which seeks to depict its object of management - the economy - as amenable to neutral, technical solutions that are produced by specific forms of knowledge. Economic rationalism itself is presented as a discrete, self-referential body of knowledge which encompasses particular techniques that may be applied to the problem of economic governance. Its supposed rationality may absolve governments from the potentially negative implications of individual policies which are presented as the only ‘rational’ solutions to problems with potentially negative social impacts. Or, to paraphrase one of neoliberalism’s most ardent champions, Margaret Thatcher, ‘there is no alternative’. More specifically, as Block observes, ‘the special potency of economic theory is that it gives business arguments that appear to lie outside of politics and that preclude, in advance, political responses’.

Moreover, at a more fundamental level, the increased focus on a policy paradigm that limits the range of possible ‘legitimate’ government interventions resonates with shifts in the structure of the GPE outlined in the previous chapter. Where government control of the nominally national economy has been rendered more problematic at the level of macro management and less attractive as a result of the dominance of neoliberal ideas in the Anglo-American economies, then policy-makers may devote more attention to other objects. As Cerny notes, one of the most significant and widespread results of

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the 'globalisation' process has been the priority given to education and training over more conventional economic policy initiatives. In the schemata outlined here, the macro interventionism associated with the increasingly discredited political rationality of Keynesianism has been supplanted by a more market-driven neoliberal one. Contemporary neoliberal policy is bent on ‘getting the fundamentals right’. In other words, putting into place the sort of technical policy requirements about which there is consensus amongst the influential coterie of experts steeped in the theoretical assumptions of neoclassical economics.

**Conclusion**

This chapter has attempted to suggest how a particular set of ideas came to exert a powerful influence on the conduct of economic life in Australia over the last decade or so. In this context, the neoclassical economic ideas which are so central to economic rationalism may most usefully be thought of as part of a specific, neoliberal political rationality. When articulated as a distinctive discourse, these ideas largely demarcated both the legitimate role and approach of governments to the problem of governing in Australia since the 1980s. This is not to suggest that there have been not important deviations from the neoliberal ideal. Clearly, as we shall see in the next chapter, there have. Nevertheless, the discursive influence of neoliberal ideas goes some way to explaining the, somewhat surprising, embrace and application of market-conforming policies by a Labor party that had previously been associated more with Keynesian style interventionism and insular nationalism. Moreover, it provides a useful way of comprehending the uniformity of opinion that characterises contemporary Australian politics, especially in the area of economic policy.

There are, of course, a range of other important political and economic forces which made a neoliberal political rationality both more attractive and powerful. This sort of contingency and historical specificity, which much neo-classical theory lacks, is detailed in subsequent chapters. But a discursive focus centred

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70 At one level the convergence of the Right and Left in politics is a widespread phenomena, seemingly driven by both the end of Cold War ideological rivalries and the globalisation process itself. In the absence of systemic crisis this seems likely to entrench orthodox interpretations of economic activity and the general political rationality of which it is a part. See: Giddens, A (1994) *Beyond Left and Right: The Future of Politics,* Polity Press, Cambridge: chapter 10. It might be noted that for Marxists liberal-democratic politics have always been something of a sham, in that the essential nature of the system remains unaltered. See, for example: Miliband, R *Socialism for a Sceptical Age,* Polity Press, Cambridge: 26.
on a specific political rationality can provide an important adjunct to such explanations and help illuminate the influence of particular ideas on the policymaking environment. As we shall see, this ideational influence helps explain the subsequent course of many government initiatives, especially in the areas in which government might still - by the precepts of the neoliberal model - claim a legitimate role for intervention. The bureaucratic reforms and increasingly important attempts to influence individual productivity detailed in the next chapter may be understood as flowing from such ideas.

At a more fundamental and pervasive level, thinking of the economic initiatives of successive Labor governments as flowing from a neoliberal political rationality provides us with a way of comprehending an increasingly important and common task of government: enhancing the 'competitiveness' of national labour forces and thus their potential attractiveness to footloose international capital. One of the distinctive qualities of the late-capitalist period is the emergence of the individual as something to be shaped and developed according to the precepts of a range of social influences, advertising and the promotion of desirable 'lifestyles' being the most obvious. At a more general level the role of the expert has assumed an increasing importance in guiding the construction of self. It is in this context that *homo economicus* assumes a particular significance. The sovereign, rational, utility maximising individual of neo-classical economics may not be an accurate representation of the 'postmodern condition', but it has sufficient resonance to provide a mediating link between the self and the state and, moreover, a template upon which to construct policies for shaping individuals along more economically productive lines.

Deciding whether the sorts of governmental or expert discourses that flow from and inform such predicates are 'ideological' is contentious. Is Becker's depiction of the family 'ideological', or simply the unpersuasive application of an implausible methodology to an inappropriate subject? The dominance of neo-classical economics certainly provides opportunities for ideological effects - claims to theoretical neutrality notwithstanding. One way around this potential impasse is to consider economic models as specific technical discourses, before attempting to map any political effects that their implementation as policy may have. Clearly, even the establishment of some form of socialism, for
example, requires solving some 'technical' issues revolving around questions of distribution, ownership, incentive and the like.\textsuperscript{71}

It is important, however, as this chapter has attempted to demonstrate, to remember that this is an inherently artificial process: there is no privileged 'objective' position from which to judge the correctness or even truthfulness of competing policy initiatives. The absence of epistemological certainty is compounded by inevitable contingency: the implementation of any policy will have inescapable political effects and implications, rendering claims to neutrality highly dubious if not self-serving. Suggesting, as Krugman does, that it is possible to distinguish between expert academic practitioners of technical economic discourses and what he rather dismissively labels as 'policy entrepreneurs', who are actively involved in the policy-making process, serves to perpetuate a wholly artificial distinction.\textsuperscript{72} In this context, Keynes' celebrated observation about the influence of economic ideas on subsequent policymakers is an apposite one.\textsuperscript{73} Clearly 'academic' ideas have often influenced the shape of policy; it is not necessary for academics to actively champion their ideas for them to have an impact. Although, as we shall see, what is noteworthy about the Australian experience has been the activism of academic economists in promoting their ideas and the receptiveness and accessibility of policymakers.

This serves to remind us again that the discourse of neoliberalism and the policy prescriptions that flow from it are not politically neutral. On the contrary, privileging market mechanisms and policies of deregulation or non-intervention inevitably advantages some interests over others. The implications and specifics of this process will be drawn out in subsequent chapters. The point to note here is the manner in which a neoliberal political rationality, with its inherent, expertly conferred authority has helped shape what Grinspun and Kreklewich call the 'conditioning framework' within which policy formulation

\textsuperscript{71} For a discussion of the sort of 'technical' problems establishing socialism entails see: Roemer, J (1992) 'Can There Be Socialism after Communism?' Politics & Society, 20 (3): 261-76.


\textsuperscript{73} Keynes suggested that: 'the ideas of economists and philosophers, both when they are right and when they are wrong, are more powerful that is commonly understood. Indeed, the world is ruled by little else. Practical men, who believe themselves to be quite exempt from intellectual influences, are usually the slaves of some defunct economist'. Keynes, J M (1989) The Collected Writings of John Maynard Keynes: Volume VII, Macmillan, London:383.
occurs.\textsuperscript{74} Moreover, the dominance of a neoliberal ideas in Australia since the 1980s has not only marginalised alternative discourses, it has made major deviations form the market-based ideal less plausible. Indeed, the critical insight conferred by a Foucauldian-derived approach is that dominant discourses effectively render aspects of existence ‘thinkable and calculable’.\textsuperscript{75} In a word, alternatives become if not literally ‘unthinkable’, then so implausible as not to influence the politics of national economic life.

In subsequent chapters it will be demonstrated that in Australia an important nexus developed between advocates of specific economic ideas and a newly-installed Labor government; a government that was keen to establish its economic bona fides and orthodoxy, while simultaneously restructuring and reorienting the entire economy. The neoliberal agenda appeared to offer a way in which to both accomplish the macro internationalisation of the economy while simultaneously encouraging the development of a more enterprising workforce through a discourse increasingly predicated on notions of ‘efficiency’ and ‘competitiveness’.

For our purposes what is important to recognise is that an approach to the conduct of national economic life that increasingly emphasised micro rather than macro interventions created a climate in which external economic relations could be largely left to themselves and the supposedly benign influence of market forces. ‘Sound’ economic policy involved getting the market-conforming ‘fundamentals’ right. Where government activism occurred, it would be directed toward encouraging Australia’s trading partners to follow its example through the attempted export of a political rationality predicated upon the nostrums of neo-classical economics. The overall impact of this policy and its appropriateness in the case of Australia-Japan relations in particular will be the focus of subsequent chapters. First, however, a more detailed examination of the structure and dynamics of the Australian political economy is merited, as it was the perceived shortcomings of Australia’s economic position that the neoliberal model was intended to address.


\textsuperscript{75} Miller, P & Rose, N (1993) ‘Governing Economic Life’:77.
Chapter 3: The Rise of Neoliberalism in Australia

The various theoretical positions considered in the preceding chapters have, in different ways, provided some important conceptual tools with which to consider the influences and constraints that impinge on policy-making. While there is a good deal in these models that may be supposed to be universal, it is crucial not to lose a sense of the contingency of national circumstances. The two nations that are the principle concern of this thesis demonstrate that widely divergent policy responses and developmental trajectories are possible, even amongst developed industrial economies. Clearly, the idea of 'industrialised' or 'developed' economies only conveys the most general outlines of economic structures, practices and discourses within nations. It will be the task of this chapter to provide a detailed analysis of the particular circumstances that pertained in Australia.

Although the major focus in this chapter will be development under Labor governments during the 1980s, it is difficult to make sense of this period and the policies it gave rise to without considering the broader historical milieu. A range of specific social, political and geographic factors were significant determinants of and constraints on policy options within Australia. In a similar fashion, it is important to indicate the nature of Australia’s domestic economy and its articulation with the external GPE: the nature of Australia’s historical integration into the global economy established structural pre-conditions within which subsequent policy operated. The type of industries that dominate national economic spaces and the nature of the enterprises that pursue them may be building blocks or millstones - either way, they can define and constrain the options for policy-makers. The dialectic between political forces and economic structures clearly defines the contours within which specific patterns of national adjustment occur, patterns which are more distinctive at moments of crisis or radical change.\(^1\)

Having established the circumstances with which Labor governments had to deal, consideration will be given to the nature of their response. A crucial factor here, it will be argued, was the ALP leadership, and its desire to establish itself

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as economically competent. While there were specific international and domestic influences which served to define the limits to policy, it will be demonstrated how Labor’s policy program assumed an ever greater technocratic and managerial tenor. Policy was increasingly informed by particular forms of expert discourses which sought to redefine national goals along economically rational lines. This process has been manifest in the restructuring of the bureaucracy, the professionalisation of the Labor Party, and a general attempt to link other major objects of government policy - the economy, education, the unions and social policy - to a calculus of economic rationality. Indeed, the productive intersection between reformist Labor governments and a bureaucracy imbued with a technocratically defined competence is an important part of any explanation of neoliberalism’s rise. It is against this background that Australia’s integration with Asia in general and its relationship with Japan in particular must be seen.

The Historical Backdrop

The contemporary nature of Australia’s economic structures cannot be adequately understood without some reference to its singular developmental trajectory. Certainly, the experience of British colonisation is not unique, but Australia’s ‘peripheral’ role assumed a particular form that distinguished it from other outposts of Empire; one that continues to exert an important influence, albeit a declining one. It is not possible to canvass all of these issues adequately here, but some of the more salient aspects of this legacy may be briefly noted.

Importantly, Australia’s early history established a pattern of dependency on foreign capital that persists. Not only did this place constraints on the type and amount of development that occurred, but the development that did occur followed the predictable imperial formulae of reflecting the interests of the ‘core’ rather than the colony. Clearly, world systems theory is still useful for understanding the macro structures within which the colonial relationship unfolded. As a consequence of this developmental pattern the mining and

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3 Wallerstein’s structural reading of world economic development is especially strong in its depiction of colonial economic development. It is far less convincing, however, in attempting to explain contemporary international economic relations where a national focus is no longer so useful or unproblematic, and where ‘peripheral’ development is clearly occurring and not entirely dependent on the ‘core’. See: Wallerstein, Immanuel (1982) “The Rise and Future
pastoral sectors rapidly became important sectors of the economy, and increasingly important centres of political power. Another important pattern was also established early: Australia has been and remains extremely vulnerable to rapid changes in the value of its primary produce exports. Nineteenth century Australia was, therefore, dependent on Britain for capital, labour and markets.

Federation may have been instrumental in overcoming internal trade barriers and establishing a single domestic market, but it also bequeathed an awkward two-tier system of government that continues to present particular problems for policy makers. Despite these important internal political realignments and developments, the central fact of Australian economic life remained: Australian prosperity over the last 150 years has been determined by international economic conditions. This is a situation that has remained essentially unaltered despite an historical decline in the importance of the agricultural and mining sectors. Agriculture declined from over 19% of GDP in 1900 to 5.4% in 1980; mining fell from 10.3% to 6.5% in the same period. Manufacturing, on the other hand, increased from 12.1% in 1900 to 20.6% in 1980, after peaking at 28% in 1955/6. These bald figures conceal an important story - especially the fluctuating fortunes and significance of manufacturing - that will be developed more fully in what follows.

The development of a manufacturing capacity in Australia was given a significant boost by the two World Wars. Australia’s geographic isolation induced a degree of self-reliance which led to the establishment of a protectionist regime in the post World War I period. To draw on our earlier taxonomy outlined in chapter 1, a good deal of emerging Australian industry operated exclusively in a national circuit of capital, and was therefore more reliant on government sponsored tariff protection and labour policies to ensure the preconditions of profitability, especially where the possibility of enjoying economies of scale was limited. A pattern of government intervention and ‘protection all round’ was established, which in addition to tariff-protected manufacturing fostered a regulated agriculture sector, and labour markets

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controlled by an arbitration system. A complex and inter-locking system of 'domestic defence' was established, which provided a mechanism with which to absorb the sort of external shocks to which the small Australian political-economy was especially susceptible.\footnote{Castles, F (1988) \textit{Australian Public Policy and Economic Vulnerability: A Comparative and Historical Perspective}, Allen & Unwin, Sydney: 93.}

The reconstruction period after World War II provides an instructive comparison with contemporary policy positions. It is important to stress that the operational rationale that determined the activities of government and its bureaucratic apparatus was predicated upon an explicit concern with social as well as economic issues: full employment and the 'improvement of the physical and social environment' were the guiding lights of post-war policy.\footnote{Coombs, H C (1981) \textit{Trial Balance: Issues of My Working Life}, Sun Papermac, Melbourne: 27.} The transnational influence of Keynesian ideas and the desire to actively create a more equitable and prosperous social order helped create the preconditions for the 'long boom'. The ability of government to plan and implement policy was facilitated by the centralisation of Federal authority. However, the success of post-war reconstruction and the emergence of new and potentially lucrative consumer markets led to an influx of foreign capital and the acquisition of Australian domiciled companies by transnationals.\footnote{Butlin, N., Barnard, A & Pincus, J (1982) \textit{Government and Capitalism}, Allen & Unwin Sydney: 112.} Additionally, what Bell calls a 'pattern of benign neglect' was established by government towards manufacturing: although the macro settings of protected markets encouraged the development of an indigenous industrial capacity predicated upon an import substitution strategy, at the micro level there was no government assistance, guidance or encouragement of international competitiveness, resulting in an insular and inefficient manufacturing sector ill-prepared to compete with increasing international competition.\footnote{Bell, S (1993) \textit{Australian Manufacturing and the State: The Politics of Industry Policy in the Post-War Era}, Cambridge University Press, Cambridge: 15/16.}

\section*{Australian Economic Structures}

Before considering the course of the debate over protectionism in particular and economic policy in general within the bureaucracy, it is important to note the effects of post-World War II policy on the structure of the Australian economy and industry. The higher levels of foreign ownership noted above became an increasing source of concern, especially amongst observers on the Left, as
fears were expressed about the possible diminution of Australia's autonomy and ability to determine its own economic destiny. Less nationalistic, more sophisticated contemporary analyses emerging from the Marxist paradigm have stressed the difficulty of attempting to establish national economic identity given the often opportunistic nature of company location and central control, especially when combined with the footloose, transnational nature of capital flows. These are important suggestions that require empirical verification. An examination of Australia's contemporary industrial structure may illuminate some of these issues.

Certainly the development of the car industry, for example, would suggest that 'foreign' transnationals were able to exert a good deal of pressure on the Australian government to secure favourable terms for investment. The lack of a coherent long-term strategy on the part of government - other than encouraging investment behind tariff walls - led to an industry designed to service the burgeoning domestic market rather than external ones. Car production became small-scale and inefficient, with an excess of models and manufacturers. The specifics of the automotive industry as part of the bilateral Australia-Japan relationship are considered in greater detail as a case study in chapter 8. Suffice to say here that the vehicle industry's fragmented character - exacerbated by inter-state rivalries and competing subsidies - is indicative of a broader structural malaise within Australia. Australia was initially cushioned from the effects of a moribund manufacturing sector by the 'mineral boom' of the 1960s, which had the effect of encouraging import penetration, but which eventually revealed the inadequacy of Australian competitiveness, particularly when compared to that of the NIEs of East Asia.

The speculative boom in the resource sector graphically demonstrated how Australia's economic destiny was increasingly bound up with and determined by the wider GPE. The massive inflow of money into the Australian mining industry was triggered by an international restructuring of capital seeking to overcome declining rates of profit in Europe and North America. While this movement

was initially led by productive capital investment, it was quickly dominated by footloose, speculative capital in search of short-term profitability. Australian-based capital was, however, slow to restructure and consequently failed to secure optimum positions in the mining industry. Moreover, when 'Australian' capital did belatedly join the global process of internationalisation, they did so from the mining, rather than the manufacturing sector, consequently only producing simply transformed mineral products and exacerbating Australia's elaborately transformed manufactures (ETM) deficit. All of which left the manufacturing sector starved of investment, in an apparent confirmation of the 'Gregory effect', which suggested that mineral discovery and exploitation could significantly distort economic development in Australia.  

The importance of the mineral sector meant that the subsequent decline in Australia's terms of trade exerted further fiscal pressure and circumscribed the options available to policymakers.

The mineral boom was encouraged, in part, by an expectation of ever-rising demand from Australia's northern neighbours. The nascent dynamism of Australia's neighbours also fuelled one of the most important developments of the postwar era: the intensification and expansion of trade interactions, especially in manufactured goods. Australia, by contrast, experienced an actual decline in its share of world exports from 2.92% in 1950, to 1.14% in 1986. Additionally, and contrary to global trends, manufactures' share of Australian exports from 1970 to 1989 remained static (after dipping notably in the middle of this period). The rural sector declined in significance in line with global trends, but this was offset by increases in mining and services exports rather than manufacturing. So rather than taking part in the phenomenal growth of global intra-industry trade, Australia became, in fact, increasingly marginalised in the GPE - other than as an attractive potential market or as the supplier of primary produce. Although a shift occurred in the direction of Australia's trade - especially away from Britain - towards East Asia, it is noteworthy that the new markets were not based on the export of ETMs (New Zealand and the US remained the largest markets for these) but of resource products and simply transformed manufactures (STMs).

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Australia's failure to take part in the expansion of global trade is, in large part, attributable to the structure of domestic industry. Australia's major manufacturing companies are generally located in less-traded sectors of the economy - they are low volume exporters not because of a lack of competitiveness, but because there are few large scale Australian-based companies in industries that generate exports. Australia is unusual in that its predominant indigenous company form is the 'multi-domestic'. Rather than being involved in the production of highly tradeable and valuable goods such as consumer electronics, Australian manufacturers are concentrated in areas of lower value and/or durability, such as building products or food. Consequently, overseas expansion generally takes the form of establishing a foreign subsidiary to service local markets, rather than exporting from Australia. Australia's key structural weakness, then, is a lack of strong 'strategic' exporting firms competing internationally in complex factor goods production, something attributed to: a lack of demand for innovative products within Australia; a lack of 'clusters' of mutually supportive manufacturers; restrictions imposed by foreign parent companies; small neighbouring markets; and a tendency for the few firms that do succeed in exporting ETMs to migrate to major markets.

The significance of the ownership question becomes more apparent here. Australia has some of the highest levels of foreign ownership in the world. As we saw in chapter 1, the TN Cs that determine the spatial distribution of productive activities are driven by an increasingly global logic. There is the distinct possibility that Australian operations will be simply distribution networks or not fully integrated into the more complex, high value-added aspects of production. As we shall see in the Japanese case, nationality is still an important influence on company behaviour in some countries. Yet the situation in Australia demonstrates just how complex this question is: even those companies that might be considered to be unproblematically 'Australian' are increasingly driven by and respond to international rather than domestic considerations. Elders IXL, for example, used its base in the food industry to

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provide a cash flow to launch internationalisation strategies and relocate into northern hemisphere markets. Increasingly, profits have been generated by financial transactions and services rather than the sale of actual goods onto world markets. The move toward financial rather than productive activities has been encouraged by the ease with which funds may be raised internationally. More subtly, as we have seen, such a restructuring has been facilitated and encouraged by the sort of ubiquitous regulatory changes that financial interests have promoted. Moreover, Elders involvement in the defence of BHP from a hostile takeover in the 1980s illustrates how integration into global circuits of capital can determine corporate strategies - BHP was forced to rationalise its Australian operations to fund its own internationalisation and fend off corporate predators with access to international capital.

While the difficulties BHP faced were, in part, attributable to policy initiatives of the current administration, they are also indicative of the specific historically-generated economic preconditions that confronted Labor when it assumed office in 1983. The internationalisation of economic activity was, by definition, something that affected nations around the world. Australia, however, faced particular adjustment problems which were determined by its inherited economic structure, especially the way companies operating within Australia were articulated with the external GPE. Market-constrained subsidiaries of 'foreign' TNCs and indigenous multi-domestics were constraints on the development of truly global enterprises operating out of Australia. Other problems Labor faced were to some extent perennial Australian ones - how to broaden the nation's economic profile, reduce resource dependency, address increasing debt levels, encourage macro-economic stability and reduce

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23 Fagan, R & Rich, D (1990) 'Industrial Restructuring in the Australian Food Industry: Corporate Strategy and the Global Economy', in Hayter, R & Wilde, P (eds) Industrial Transformation and Challenge in Australia and Canada, Carleton University Press, Ottawa: 175-194. It is also important to recognise that global corporate strategies are critical in determining the role of Australian-based economic activities in the eyes of 'foreign' TNCs. The food industry has been widely touted as a potential high growth export from Australia but it is significant that the recent failure of Pacific Dunlop's internationally oriented food division was caused by a combination of poor management and the global strategy of overseas-based TNCs keen to acquire local brand names and increase market power, rather than use Australia as an export base. Again, only a global focus allows recognition of this logic. See: Pritchard, B (1995) 'Foreign Ownership in Australian Food Processing: The 1995 Sale of the Pacific Dunlop Food Division', Journal of Australian Political Economy, No 36: 26-47.

24 The growth of mergers and acquisitions that characterised much corporate activity during the 1980s and which underpinned the restructuring and rationalisation of companies in Australia was driven by easily available financial capital. One consequence of this expansion of lending was to leave many companies burdened with unsustainable debt levels, leaving them open to possible collapse or takeover. See: Pritchard, B (1994) Finance Capital as an Engine of Restructuring: The 1980's Merger Wave, Journal of Australian Political Economy, No 33: 1-20.

unemployment. What was novel in the 1980s was the new political discourse that accompanied policy-making. To see how this developed it is necessary to examine both the apparatus of government and some of the political figures that dominated it.

The Politics of Structural Adjustment

When Labor won office in 1983, therefore, it was confronted by long-term problems specific to Australia: the broad legacy of colonialism, which had ‘distorted’ development and skewed trade and investment patterns away from the immediate region; a resultant economic structure that was highly dependent on natural resources and primary products - the value of which was continually undermined by deteriorations in Australia's terms of trade; and an uncompetitive, insular manufacturing sector that was increasingly marginalised within the GPE. The Fraser government (1976-83) bequeathed a more immediate legacy of rising unemployment, inflation hovering around 10%, and - possibly most significant in the long run - a radical shift in Australia's external accounts: the 'resources boom' of 1979-81 encouraged huge capital inflows and a concomitant currency appreciation, which further undermined the competitiveness of Australia's manufacturing sector. The consequence was the entrenchment of Australia's dependency on foreign capital, large current account deficits and the beginnings of a huge foreign debt.

These difficulties were compounded by broader problems, some specific to Australia, some more widespread. A generalised fiscal crisis of the state and a perception of governmental overload created an international climate antithetical to large government. Growing unemployment during the 1970s and a series of financial shocks, most conspicuously in the shape of successive oil crises conspired to make the process of governing (especially its financial aspects) increasingly problematic. Australia's discomfort was made increasingly acute by the dawning realisation that not only were its traditional ties to Europe unravelling but that its immediate neighbours to the north were both an emerging centre of competition and an increasingly unflattering source of economic comparison. Much later ‘Asia’ would become the central motif of Labor's pervasive agenda of economic reconstruction and reform. Initially,

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Labor's focus was essentially national; it could never be accused, however, of being entirely immodest in its ambitions.

Labor's response to the challenge of economic reform and management cannot be understood, however, without reference to its own history and the rise of a new generation of party leaders. Perhaps the most abiding influence on the newly-elected government was its concern to distance itself from the problematic legacy of the Whitlam era. The Dismissal and the subsequent depiction by many in the media of the Whitlam government as economically irresponsible, not to say naive, meant that Hawke and his new Treasurer, Keating, were at pains to depict themselves as 'responsible' economic managers. Maddox argues that the 1975 constitutional crisis transformed the ALP and marked a radical departure from party traditions, so that:

> Whatever social reforms it now promotes take shape in quite a different context. They are no longer part of a vision of an integral, mutually supportive and culturally enriched society. Reforms must now be 'targeted' to electorally responsive groups laid out on the map of political pragmatism; reforms must be entirely subordinated to the imperatives of economic management.\(^{28}\)

Significantly, it would be the increasingly influential financial markets,\(^{29}\) rather than 'traditional Labor voters' that would be the arbiters of Labor's policies. The structural power of global financial capital encouraged the creation of policies that enhanced the position of that sector at the expense of the declining manufacturing sector.\(^{30}\)

Yet it was not inevitable that the centrepiece of the early Hawke administration - financial deregulation - needed to be pursued as early or with as much enthusiasm as it was. Although the conventional wisdom has it that deregulation of the financial markets was ultimately inevitable,\(^{31}\) (especially, as we saw in chapter 1, in the wake of increasing US liberalisation), Hawke and Keating were notable and early champions of this development. Simply suggesting that 'Australia' was responding to widespread structural

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\(^{29}\) Stuchbury argues that at various times following the float of the dollar government economic policy was 'held hostage' by the foreign exchange markets as currency volatility undermined Labor's plans: Stuchbury, M (1990) *Macroeconomic Policy*, in Jennet, C & Stewart, R (eds) *Hawke and Australian Public Policy*, Macmillan, Melbourne: 60.


developments within the GPE neglects the uniquely parochial aspects of this process, and begs the question of why other nations (Japan, for example) did not respond with similar policies.

Important in this regard was the recognition by influential sections of the Australian trade union movement that the exercise of industrial strength might generate short term gains, but that in an increasingly internationalised economy it might also initiate capital flight. The Amalgamated Metal Workers' Union (AMWSU) in a series of influential pamphlets paved the way for the sorts of collaborative approaches to national economic management that would ultimately find expression in the Accord. The steady loss of jobs in the manufacturing sector from the 1970s onward was a critical constraint on potential sources of opposition within the union movement. Moreover, the decline in manufacturing jobs appeared to confirm the need for a radical re-thinking of economic strategies - a re-think that would make for an easier acceptance of the new Labor policy paradigm.

While the historical traumas endured by the political and industrial wings of the labour movement may have prepared the ground for the subsequent embrace of 'pragmatism', it is also important to recognise Hawke and Keating's personal affinity with the new approach to policy. At one level Hawke's move to Thatcherite deregulatory policies is readily explicable. Hawke's principal economic adviser, Ross Garnaut, was an influential advocate of floating the dollar in particular and of the salutary effects of market forces in general. Although Hawke claims to have been a convert to the supposed benefits of deregulation prior to Garnaut's appointment, Kelly's suggestion that Garnaut's influence on Hawke was 'never remotely matched by any subsequent economic adviser' is a telling one that sheds light on the direction of subsequent Labor policy. Significantly, Hawke was anointed leader not for his visionary qualities (there had been quite enough of that under Whitlam), but for his pragmatism and electoral appeal - the ALP was interested primarily in

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33 While the decline of manufacturing employment was a global phenomenon, it has been particularly acute in Australia, with an estimated 70,000 jobs being lost in the manufacturing sector between 1976-1990. Many of the jobs which replaced them were in the service sector and/or part time - something which further eroded union influence and thus a potential source of opposition to the neoliberal policy framework. See: Gregory, R G (1993) 'Aspects of Australian and US living Standards: the Disappointing Decades 1970-1990', *Economic Record*, March: 61-76.

34 Personal interview.

winning power and was prepared to sacrifice its incumbent leader to do so.\textsuperscript{36} Hawke's major contribution to government - 'consensus' - would serve an important ideational function and reflected his government's pragmatic approach to the management of Australian economic life: the national economic space and the actors within it might be organised to work cooperatively and efficiently in the interests of the nation.\textsuperscript{37}

Some commentators have suggested that Hawke's consensus politics and the establishment of various tri-partite bodies within the Australian political economy amounts to a form of corporatism.\textsuperscript{38} However, this was never an accurate assessment given the continuing autonomy of capital within the relationship, and the ineffectual and cosmetic role played by the tri-partite forums.\textsuperscript{39} However, the Accord process became a template for subsequent Labor approaches to the reform process: the position of private capital and 'management's right to manage' remained unchallenged; instead, attention was directed toward the discursive constitution of more appropriate social and economic structures. The themes of 'competitiveness', 'efficiency' and 'flexibility' rapidly became part of the market-derived lexicon of national restructuring.\textsuperscript{40}

Hawke's background in union politics provided crucial skills and contacts which were subsequently applied in the practice and technique of government. Keating's background in ALP politics provided him with a similarly comprehensive understanding of and ability to manipulate the structures of political power. Keating's description of himself as 'the type for public life, a public policy person'\textsuperscript{41} is revealing: part of the attraction of office is undoubtedly the process of governing, or the formal over the substantive. Keating's incumbency as Treasurer in particular is marked by a technocratic approach to policy-making and a belief in his ability to move the right 'economic levers' in the pursuit of optimum outcomes. The Treasury under the conservative

\textsuperscript{36} Kelly, P (1985) \textit{The Hawke Ascendancy}, Angus & Robertson, Sydney: Chapter 12.
\textsuperscript{40} Campbell, I (1993) 'Labour market flexibility in Australia: Enhancing management prerogative?', \textit{Labour & Industry}, 5 (3): 1-32. What is most notable here, as Campbell notes, is organised labour's acquiescence in this process - the lack of a 'natural' opposition facilitating the ALP leadership's deregulatory agenda.
stewardship of John Stone was a place in which the inexperienced Keating felt surprisingly at ease:

For Keating the Stone treasury was magic. Here were experts, true experts, people who knew the economy like the NSW right knew politics and spoke with the same conviction. These advisers were technicians and believers, and Keating learned the jargon and he moved into their world. 42

The discourse of economics was the lingua franca of this new world, which conferred authority on its users, and effectively demarcated the contours of the possible. The management of the economy for Keating was and is essentially a problem of technique, and as such susceptible to specific forms of expert management. 'Practical' industry policies, according to Keating, are 'not based on ideology', but are simply politically neutral technical solutions to the problem of generating economic growth - the panacea for all economic ills. 43 Of course, in the event that the economically orthodox, technocratic policy paradigm delivered what was expected of it there would be a clear political pay-off - an important consideration for a consummate political operator like Keating. It was the expectation that such gains were only achievable by overhauling the machinery of government that led to the simultaneous reconstruction of the ALP itself.

The ALP leadership's technocratic approach to policy-making was, therefore, mirrored in the transformation of its political base. Jaensch argues that the ALP has been transformed from an 'expressive' party that reflects the interests of a particular sector of society to a 'responsive' party with no clear sectoral support or allegiance. 44 The ALP has become less 'ideological' and concerned to develop a 'catch-all' appeal, argues Jaensch, with little acknowledgment or articulation of the importance of traditional 'class' concerns in the party's history or contemporary platform; maintaining political power is the raison d'être of the Party and its leadership. The transformation of the ALP was mirrored in the bureaucracy, which was to be similarly re-cast in the interests of greater efficiency and the more effective application of political power.

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Bureaucratic Structures and Expertise

One of the keys to explaining the influence of neoliberal policies in Australia during the 1980s, I shall suggest, is the productive intersection of a reform-minded government bent on re-structuring and revitalising the 'Australian economy' with a bureaucracy steeped in an increasingly technocratically defined competence. While the Labor government undoubtedly exerted a powerful reformist pressure on the public sector, there was also an important contrary vector of influence running from bureaucracy to government. Gruen and Grattan, for example, argue that Treasury saw the opportunity of moulding the inexperienced Keating to its own views and therefore expanding the influence of the entire department.45 It is important, therefore, to identify some of the more important changes and debates that occurred within the bureaucracy both before and after the Labor government's accession.

One of the most important initial factors to recognise, as Jones reminds us, is that bureaucratic structures vary across countries - far from being the neutral and impartial instruments of government policy depicted in abstract economic theory, they have institutional memories and rationales that distinguish one nation, and even one department from another.46 In Australia, Jones argues, the 'British tradition' has bequeathed a pervasive set of 'liberalist values' which have been particularly influential on Treasury, despite Australia not possessing an indigenous financial sector of comparable scale to benefit from such values. This kind of specificity is an important corrective to both undifferentiated notions of 'the state' and 'the bureaucracy', and to suggestions that policies simply reflect the internationalisation of 'class forces' or structures of production. Certainly, these factors are important, but they need to be complemented by a more differentiated and detailed depiction of the elements involved. The necessity of such an approach is clearly revealed in the internal machinations of bureaucratic politics.

The dominance of economic rationalism within the bureaucracy in Australia has been neither complete nor inevitable. The contested and contingent nature of bureaucratic attitudes to major policy initiatives is illustrated in the debates surrounding tariff policy. The Industry Assistance Commission (IAC) became an

important critic of protectionism and an influential advocate of market mechanisms, undermining the rationale for tariffs, which had been the central pillar of McEwenite 'protection all round' in the 60s. The IAC played a critical role in changing the ruling ideational orthodoxy: markets were the best determinants of investment; government intervention produced only inefficiencies, distorted incentives and thus outcomes, and undermined the entrepreneurial spirit central to the capitalist dynamic.\textsuperscript{47} The IAC's position within the bureaucracy was not unchallenged by other departments jealous of its influence on policy-makers, but the authority of its judgements and recommendations was reinforced by the systematic recruitment from the burgeoning ranks of professional economic expertise. Importantly, the complexity of economic policy-making meant that it was increasingly only discussed and formulated by 'those with the ability to understand and converse about economic principles in a professional way'.\textsuperscript{48}

The structure of the bureaucracy itself tended to marginalise those departments that favoured a more interventionist line. During the 1970s those departments concerned with industry were less organisationally coherent, and therefore exerted a diminished influence on government, a situation that was exacerbated by the manufacturing sector's own lack of unity and political effectiveness.\textsuperscript{49} Australia's international economic integration was gaining momentum, favouring financial and mining interests at the expense of manufacturers, something government policy did little to change. The neglect of manufacturing is more comprehensible, however, given the emergence of the new economic orthodoxy within the most influential state departments.

The rise to prominence of the Department of Treasury has mirrored and driven the increased reliance on market mechanisms in government policy. During the 1950s and '60s the interventionist Department of Trade had been a significant influence on government, but its power waned under Gorton, leaving the Department of Prime Minister and Cabinet (PM&C) as Treasury's only serious rivals. Again, it is important to stress that a good deal of Treasury's authority is derived from its perceived professional expertise through the assiduous recruitment of economics graduates.\textsuperscript{50} The generational shift from the

\textsuperscript{49} Bell, S (1993) \textit{Australian Manufacturing and the State}: 116-26.
\textsuperscript{50} Whitwell, G (1986) \textit{The Treasury Line}, Allen & Unwin, Sydney: Chapter 1.
Keynesian-inspired policies of the post-war period to the neo-classically-derived policies of the 1970s and on, meant that there was a concomitant shift in the theoretical position of government: government intervention in the economy was undesirable *a priori*. While the move from Keynesian policies was part of an international trend, and the difficulties of the Whitlam era further undermined confidence in the wisdom of the state, what distinguishes the Australian Treasury is the fervent and combative way in which it approached its role: convinced of the rectitude of its own position Treasury has played a crucial proselytising role in shaping not only government policy, but also the wider discourse within Australian society.51

Bureaucratic Reform

The most celebrated (and/or reviled) examination of the influence of economic rationalism on the bureaucracy in Australia has been by Michael Pusey.52 Although Pusey's work has been subjected to some often well-merited criticism,53 it remains an important attempt to explain and gauge what is a significant development in both the structure and operation of government. What is important to recognise is the increasing trend from substantive to formal rationality within the bureaucracy, from what Pusey calls the 'nation-building state' to one concerned with narrower questions of managerial efficiency and economic rationality. Pusey attributes much of the attraction of economic rationalism within the bureaucracy to the social backgrounds and political affiliation of its members. But given that elite bureaucratic decision-makers have always tended to be drawn from such backgrounds this would not seem to be such a crucial consideration. What is of greater significance is the ideational change within both the bureaucracy and government: the management of the economy by both the PM&C and Treasury, and within key factions of the Labor Party was increasingly seen as a technical problem that

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53 Blandy, R (1992) 'Multiple Schizophrenia: Economic Rationalism and Its Critics', *Australian Quarterly*, Autumn: 101-6. One of the most glaring shortcomings of the Pusey thesis is the lack of consideration of national and international structural pressures, particularly those interests that encouraged pro-market reform. Even more pertinent for the purposes of this essay is Burchell’s critique, which suggests that Pusey is guilty of privileging ‘society’ in the same manner in which he vilifies economists and their narrow interpretation of the economic. It is more useful, Burchell contends, to think of neo-liberalism as a particular mode of government reflecting a specific ‘hybridisation’ of the social and economic spheres. See: Burchell, D (1994) *Economic Government & Social Science: The Economic Rationalism Debate*, Cultural Paper No 1, Griffith University, Queensland.
might be most effectively addressed by applying the techniques and the logic of
the private, rather than the public sector.\textsuperscript{54}

In this regard particular recognition should be given to the role of the powerful
Right-wing faction in the New South Wales Labor Party branch. 'The Wran
Model' became the exemplar of political pragmatism in pursuit of electoral
success, with policy-making concentrated in a small leadership group of
technocrats.\textsuperscript{55} The electoral success of the Wran government reinforced the
influence of the New South Wales Right, of which Paul Keating was the most
conspicuous product. The triumph of this more instrumentalist and technocratic
approach to government made the Federal adoption of neoliberal policies less
problematic than it might otherwise have been. Indeed, the experience of the
Wran government seemed to indicate that the abandonment of 'traditional'
Labor practices in favour of an increasingly professional approach was a pre­
requisite of both electoral success and efficient management. Crucially, the
more orthodox and 'pragmatic' policy paradigm pursued by Hawke and Keating
was given support and impetus by the tightly organised Right wing faction
within the Party.\textsuperscript{56}

This reformist zeal was also applied to the public sector and manifest in the
desire to place the state apparatus on a more 'efficient' and quasi-commercial
basis was evident in the Hawke-Keating governments' public service reforms.
An important effect of what Yeatman calls the 'cultural revolution' in the
bureaucracy that the shift to managerialism entailed, was the increased focus
on leadership and technique at the expense of content.\textsuperscript{57} 'Scientific
management' techniques were applied by 'technical experts'; the departmental
reforms and reorganisations undertaken by Labor were intended to concentrate
bureaucratic power and allow its application to specific objects or 'problems'.
Central to Labor's approach, according to Keating, was the 'philosophic belief'
that 'the expertise of the public service needs to be explicitly and deliberately
brought to bear on policy matters'.\textsuperscript{58} The Industry Commission was an
important influence on government policy, Keating was suggesting, because it
was perceived to have expert knowledge of micro-economic reform.

\textsuperscript{54} Pusey, M (1991) \textit{Economic Rationalism in Canberra}: 153-5.
\textsuperscript{55} Maddox, G (1989) \textit{The Hawke Government and Labor Tradition} : 72/3.
\textsuperscript{56} Jaensch, D (1989) \textit{The Hawke-Keating Hijack} : chapters 7 & 8.
\textsuperscript{57} Yeatman, A (1990) \textit{Bureaucrats, Technocrats, Femocrats: Essays on the Contemporary
Administration}, No 65: 18.
But it is important to recognise that once a solution has been ‘discovered’ by acknowledged experts ‘it becomes increasingly difficult for other actors either to challenge such a proposal, or to generate alternatives’.\(^{59}\) Once a particular policy line is in place and legitimated with the authority of expertise, it becomes increasingly difficult to alter course or even perceive the necessity for such a change of direction. Networks of experts reinforce specific ideational agendas to form technocratic ‘power blocs’, suggests Considine, which in turn become important mechanisms for the propagation of what are perceived to be appropriate forms of knowledge and technique.\(^{60}\) In the Australian case, this helped entrench the market-conforming discourse emanating from Labor's right wing. As Yeatman points out, this technocratic approach to economic questions reinforced a general government emphasis on problem solving and formal rationality that fosters technically-minded public servants who are ‘likely to accept the appearance of “the” economic order as a natural order, that is, one that must take the form it does because they [sic] reflect the nature of things’.\(^{61}\) When this is reinforced by an ideational orthodoxy actively promoted by elite policy-makers, not only within the bureaucracy but also in government and academia, then the dominance of economic rationalism becomes easier to comprehend. More immediately, as Coleman and Skogstad note, ‘Australia’s corporatist reconstruction of policy networks played an important role in building a consensus for its neoliberalist strategy’.\(^{62}\)

Central to Labor’s reform of the public service was an intention to judge the bureaucracy on ‘results, outcomes and performance’,\(^{63}\) and to make it a more effective instrument in the implementation of economic structural adjustment.\(^{64}\) The new emphasis on managerialism was structurally embedded in the bureaucracy with the establishment of the Senior Executive Service (SES), a senior administrative elite whose primary merit and attraction to government resided in its managerial capacity and technical expertise, skills that might be applied to any problem or area regardless of the values and issues specific to a

portfolio. Pusey stresses that one of the intentions of the reforms was to avoid the possibility that managers might be 'captured' by the interests they were intended to serve - mobility in the service lessened this possibility and also enhanced the influence of the increasingly powerful central agencies (PM&C, Treasury and Finance), whose members experienced rapid promotion through the ranks. The reforms reinforced the importance of the central agencies by giving them a coordinating budgetary and review function over other agencies; to maintain their diminished positions the latter had to adopt the language and guise of economic rationality and conform to the normative precepts and framework of neoclassical economics.

Although the increased authority and influence of the central agencies (and the consequent dominance of the discourse of economic rationalism) was perhaps the most significant consequence of Labor's reforms, other aspects of bureaucratic reorganisation are especially germane to questions of trade and investment. The creation of 'mega departments' in pursuit of efficiency gains had a lasting impact on the conduct of economic policy. A conspicuous casualty of the reforms was the Department of Trade, which in 1987 was merged with Foreign Affairs to form the Department of Foreign Affairs and Trade (DFAT). As Jones observes, Trade's demise was due largely to the primacy given to market mechanisms in economic policy; its decline also enhanced the authority of Treasury by removing an alternative source and form of policy advice. Consequently, the multilateral approach to trade favoured by the non-interventionist central agencies and Foreign Affairs replaced Trade's preference for bilateralism. More fundamentally, Higgott and Nossal suggest, this 'external manifestation of the economic rationalist impulse' represented a process of 'learning', self-consciously copying a European exemplar in an attempt to concentrate governmental resources on increasingly critical economic issues. The diminution of a bilateral capacity and understanding within the bureaucracy generally was exacerbated by the allocation of trade policy within DFAT to the Economic and Trade Development Division, whose approach was largely indistinguishable from Treasury's. When combined with a general lack of interest in trade matters within DFAT, and an lack of

coordination of trade policies within the various divisions, policy became 'fragmented and lacking in focus'.

The Labor administration, then, left an indelible impression on the public service. The bureaucracy became a more responsive instrument of political will and a crucial part of the government's attempt to implement its reformist agenda. But the bureaucracy also exerted an important influence on its political masters. Treasury, for example, undoubtedly had a significant impact on Keating, and thus the general tenor and direction of Labor's reformist impulse. It might be more appropriate to describe the relationship between government and bureaucracy as one characterised by a good deal of mutual reinforcement: values were discursively (re-)constituted through ideational feed-back loops which gained much of their legitimacy and authority from their perceived expert basis. Government was not so much about ideology (although this might still be harnessed to the promotion of efficiency and the creation of more enterprising subjects) as about the application of supposedly neutral technical solutions to specific objects, sites and problems.

The actual implementation of policy, however, required accommodating the sort of 'rent-seekers' and 'distortions' that were such an anathema to advocates of economic orthodoxy. It is necessary to say something about significant aspects of Labor policies in the 1980s to see how such difficulties were negotiated and how the overall integrity of the structural adjustment process was maintained.

Policy Implementation

Labor, then, was influenced both by its own history and the ambitions of a new generation of leaders, and by the apparent expertise and ideational hegemony of the bureaucracy's central agencies. The move toward neoliberal policies was not, as we have seen, confined to Australia, but part of a wider international trend. Certainly the loss of confidence in the ability of Keynesian policies to respond to and cope with large scale social and economic change was widespread, but it took specific forms within different countries. The policies

70 In this context Leaver makes the important observation that Keating's 'Banana Republic' speech in which he suggested that 'Australia' faced economic crisis, was a decisive turning point in the conduct of Labor's economic reforms, shifting the emphasis back to the conduct international relations and the attempt to promote international trade liberalization. This greatly enhanced the influence of a pro-market Australian 'epistemic community' - something that is
that emerged within national boundaries also showed a possibly surprising degree of variation. This was certainly true of Australia, where the Hawke government produced a novel array of policies which, while owing their inspiration and impetus to international factors, reflected and accommodated parochial concerns.

A major constraint on the Labor leadership's ability to implement wholesale market-based reform was (and to a lesser extent, still is), its relationship with the union movement. Part of Hawke's initial attraction as leader was his ability to unify Labor's industrial and political wings. Hawke's novel contribution - consensus - would be the leitmotif of the incoming administration and the philosophical inspiration of the Accord. But as Stilwell points out, the Accord was initially a bi-partite agreement between the ALP and the Australian Council of Trade Unions (ACTU), conceived in opposition, free of the constraints of office and with no guarantee of business support.71 The ACTU expected to benefit from rising employment levels, the maintenance of living standards and the possibility of influencing the conduct and shape of government policy. It might be observed in passing that none of these has been effectively achieved - living standards for ordinary wage earners have generally fallen,72 unemployment has fluctuated but 'ratcheted up',73 while the bodies established to enable ACTU participation in policy-making have had little impact.74 But what is of most significance here is that the ACTU leadership has accepted the rationale (and even the language) of Labor's reformist structural adjustment package: not only must the nation be awoken from its insular complacency by the invigorating winds of international competition, but the workforce must play its part in ensuring that 'Australia' becomes 'internationally competitive'.75

The entire raison d'être of the union movement has been effectively called into question by Labor's economic agenda. Having accepted the discourse of

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75 It is important to recognise, however, that it is not nations but firms that are 'internationally competitive'. As Bryan notes, the discourse of 'competitiveness' tends to act as a disciplinary force over labour, instituting 'a global contest between national working classes'. Bryan, D (1995) 'International Competitiveness: national and Class Agendas', Journal of Australian Political Economy, No 35: 21.
economic pragmatism, restructuring and the necessity of acting 'responsibly' in a competitive international economic environment, the union movement finds itself conspiring to undermine its own collective organisational basis. The acceptance of enterprise bargaining by the union movement is indicative of the manner in which the neoliberal discourse of deregulation in the interests of possible productivity and/or competitiveness gains has been accepted as legitimate by the ACTU - despite the fact that there have been few tangible benefits of this process. True, the steady decline of union membership makes organised labour less powerful, but what is most striking is the way in which the ACTU has embraced the rationale and discourse of a structural adjustment process predicated upon economic growth. Suggesting, as Singleton does, that this amounts to the 'professionalisation' of the union movement tells us little, other than how widespread is the acceptance and influence of the dominant economic discourse and its implicit values. What is more pertinent here is the political space ACTU cooperation allowed the government, permitting it to 'continually stretch the limits of the Accord relationship with what appears to be growing impunity'.

This is not to suggest that the union movement was without influence, or that Labor policies had an exclusively neoliberal tenor. Industry policy is a conspicuous example of a strategy that does not rely on market mechanisms alone (its specific rationale will be examined and contrasted with the neoliberal model in light of the Asian developmental experience in the next chapter). Yet industry policy under Labor is illustrative of the ambivalence that characterised its approach to economic management and indicative of the difficulty it had in reconciling competing interests. A commitment to implement some form of

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industry policy had been an important incentive to ensure union cooperation in the original Accord, however, its application was inherently compromised by the general dominance of the deregulatory imperative. Indeed, without the political influence of organised labour - however compromised and muted - it is possible that neoliberal policies would have been implemented with even greater vigour that they were.

One problem facing any government attempt to instigate state-sponsored development in Australia - even where that has appeared a desirable option - was the structural power of private capital and its implicit threat of non-investment, especially when compounded by a reluctance on the part of Labor to alienate business in the post-Whitlam era. In addition, the historical political influence of manufacturing capital - the immediate potential beneficiary of industry policy - had declined significantly. Therefore, the conditions for government intervention were not propitious: inter-departmental conflict within the bureaucracy militated against the development of a coherent policy position; 'capital' was similarly divided - small and large, as well as the more customary divisions between agricultural, mining and industrial. This not only undermines the theoretical utility of the notion of a monolithic, undifferentiated 'capitalist class', but illustrates the competitive and disunited nature of indigenous capitalism in Australia.

The implementation of industry policy was, therefore, often half-hearted and sectoral rather than wholesale. As Bell points out, the application of what he calls the 'new interventionism' was dependent upon the strength and influence of supporting coalitions of state and societal groups; in an important corrective to the often monolithic depictions of statist theory, Bell stresses the contingent and unpredictable impact of shifting alliances between state and non-state

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80 Stilwell, F (1986) *The Accord and Beyond: Chapter 7.*
81 Garrett makes the point that countries with stronger, more cohesive labour organisations are more likely to maintain things like cross border capital controls and a commitment to social democracy - the embrace of neoliberalism is, he argues contingent and anything but inevitable. See: Garrett, G (1995) 'Capital mobility, trade, and the domestic politics of economic policy', *International Organization,* 49 (4): 657-87.
actors.\footnote{Bell, S (1995) 'The Politics of Economic Adjustment: Explaining the Transformation of Industry-State Relationships in Australia', Political Studies, XLIII:22-47.} True, the structural power of manufacturing was reflected in its being accorded a central place in government thinking, but the precise contours of policy reflected the strategies of political and bureaucratic elites, rather than the demands of the manufacturers themselves.\footnote{Bell, S (1992) 'Structural Power in the manufacturing Sector: The Political Economy of Competitiveness and Investment', in Bell, S & Wanna, J (eds) Business-Government Relations in Australia, Harcourt Brace Janovich, Sydney:193/4.} However, despite the fluctuating shape of and support for industry policy, it is important to note that such policies have been successful in promoting Australian exports. Areas that benefited from the development of sectorally specific plans significantly improved their export performances and have been at the forefront of increased levels of Australian ETM exports;\footnote{Sheehan, P., Pappas, N & Cheng, E (1994) The Rebirth of Australian Industry: Australian Trade in Elaborately Transformed Manufactures 1979-1993, Centre for Strategic Economic Studies, Victoria University: Chapters 1 & 4.} the effectiveness of these policies in the Australian case confirms the importance of state-business cooperation in determining national economic performance adumbrated in chapter 1.

Political Pressures

Despite industry policy's apparent success, its implementation was problematic and at odds with much of Labor's economic platform. Why was it, then, that Labor rejected policies that appeared likely to alleviate the nation's manufactures deficit, ensure continued employment in the electorally-crucial industrial heartland, and provide the critical mass of manufacturers necessary to sustain future economic development? Certainly, as we have seen, a coherent, market-conforming (and pleasing) policy package greatly influenced important actors within both government and key areas of the bureaucracy; such policies were especially attractive when, as we shall see, further articulated and supported by an influential academic community. But it is important not to neglect specific political pressures that attempted to influence and direct the shape of government's policy response.

One crucial influence was the international fashion for reduced government spending. As we observed in chapter 1, Australia has been a staunch member of the market-oriented Anglo-American economies, with an inherent disposition toward a liberal tradition of small government, low taxes, minimal intervention, and reduced government spending. In the wake of stagflation, oil crises, and a burgeoning social welfare budgets such ideas gained added lustre in the eyes
of many western economic policy-makers. However, there are two important points that should be made: firstly, as Yeatman points out, 'there is no escape from the principle that modern organisational complexity demands that the steering, regulating and directive powers of the state enter into how the relationships between all parts of society are articulated'. Quite simply, comparatively large states are here to stay; it is not so much a question of what size the state should be, but of what role it should play. Secondly, Australia's public sector is, in any case, much smaller than the OECD average (mainly attributable to Accord-induced public sector wage restraint) and not responsible for Australia's growing external indebtedness. Despite this, Keating was at pains to stress Labor's commitment to 'budgetary restraint', and confirm the primacy of the market and the private sector in determining economic outcomes.

Explaining how state intervention and spending became so unpalatable helps to illustrate both the contingent nature of policy-making and the distinction between the neutral sense of discourse and more explicit ideological forms. At one level the discourse of orthodox economics suggests that government spending is inherently bad from a 'technical' point of view in that it 'crowds out' private investment, raises taxes and generally creates 'distortions' that interfere with market signals. More fundamentally, the argument goes, government is no good at 'picking winners'. These arguments will be considered more fully in subsequent chapters, where it will be suggested that some of Australia's regional neighbours have been successful precisely because they ignored such nostrums. What is important to recognise here, however, is the manner in which these economic arguments, which claimed a degree of neutrality and even 'truth', were taken up and employed for specifically political purposes.

An important influence of both the tenor of political discourse during the 1980s and the direction of subsequent policy was the rise of the 'New Right'. Although neither an exclusively Australian phenomenon, nor a homogenous or coherent political force, it is a convenient label for a variety of groups disenchanted with and disillusioned about the continuing efficacy of the post-war 'historic compromise' between capital and labour, typified by social welfarism and a

90 EPAC (1990) The Size and Efficiency of the Public Sector, Council Paper No 44, AGPS.
Keynesian orthodoxy.92 What is most pertinent here, however, is recognising the specific interests that were often subsumed under convenient but unspecific labels. Small business, Australia’s rising ‘entrepreneurial’ class, and the mining sector in particular, were enthusiastic advocates of many of the neoliberal initiatives associated with the rise of the New Right in Australia.93

Additionally, it is important to recognise both Australia’s peripheral position in the global scheme of things, and the historical proclivity of its dominant elites to import ideas from outside, especially Britain and the US.94 Coghill argues that ‘the Australian New Right’ was able to borrow the monetarist orthodoxy that had emerged under Thatcher and Reagan to exploit specifically Australian circumstances: resistance to the new ideology (for such it was) was lessened by its ‘natural’ opponents being in government and therefore less able to create a counter hegemonic discourse.95 Coghill reminds us of the explicit political intentions of the discourse associated with neoliberal economic policies. Clearly, there was an intention to exploit the historic opportunity provided by a defensive trade union movement and a ‘pragmatic’ Labor government to decisively shift the balance of power in favour of the owners and/or controllers of capital. Indeed, Australian labour relations during the 1980s were characterised by a surprising reversal of the stereotypes: labour was a docile and co-operative Accord partner, while management became increasingly militant.96

The discursive influence of neoliberal ideas will be considered in greater detail in subsequent chapters. At present, it is important to re-affirm the importance of powerful interest groups in attempting to influence the direction and substance of policy - something that is acknowledged by observers from both Marxist and pluralist perspectives. Charles Lindblom, for example, writing from a pluralist

94 In this context what Marsh call a ‘neo-liberal’ group of think tanks have had a ‘very substantial’ impact in establishing ‘the frame of discourse for key public servants and media commentators’, publicising and popularising ideas that had their initial success in Britain and the US. See: Marsh, I (1991) Globalisation and Australian Think Tanks: An Evaluation of Their Role, and Contribution to Governance, Information Paper No 34, CEDA, Sydney: 30.
perspective, acknowledged the disproportionate power of business in
influencing governments.97 More specifically, Kaptein illustrates the capacity
and desire of economic sectoral lobby groups to systematically influence
government policy during the 1980s.98 Other commentators have also
concluded that the influence of neoliberalism or economic rationalism 'derives
from the historic balance of producer power in the Australian state: the strength
of farming and mining interests and the comparative weakness of the collective
organisations of manufacturers'.99 As we have seen, Australia's specific
development trajectory has, indeed, made particular sectors of the economy
more influential at different times, mitigating against the emergence of a unified
or coherent 'business position'. What is noteworthy now, however, is that the
sweeping reforms undertaken by the Labor government have effectively
removed many divisive public policy issues - protectionism and arbitration, for
example - from the national political agenda.100

A definitive judgement as to the significance of this potentially more unified
business position is clearly premature. However, it seems likely that there will
be less sectoral opposition to continuing the reform process, especially as the
burden of adjustment is likely to fall increasingly upon the employees rather
than the employers.101 This seems likely to further the process of neoliberal-
inspired reform as other potential sources of resistance - nationally oriented
manufacturers, for example - become either less influential or fall in line with the
dominant market-oriented discourse. The role of the media in entrenching the
hegemonic position of neoliberal ideas cannot be underestimated. As Gittins
observes, not only do many influential economic commentators lack 'objectivity',
but their similar educational experiences, reliance on Treasury contacts, and
'symbiotic' relationship with financial markets mean that they have consistently

Books, New York. For a contemporary empirical explication of similar ideas, see: Vogel, D
York.
98 Kaptein details the mining sector's attempts to promote greater deregulation of the
'Australian economy', mainly at the expense of the relatively protected manufacturing sector.
100 Bell, S (1995) 'Between the Market and the State: the Role of Australian Business
Associations in Public Policy', Comparative Politics, 28 (1): 41.
101 In this context the acceptance by the Metal Trades Industry Association's Bert Evans of the
apparent inevitability of tariff reductions and the supposed benefits of free trade is significant.
For many years the MTIA has been an important source of resistance to the dominance of
neoliberal ideas in Australian debates. See: Carney, S (1994) 'Compromise, but not an official
surrender', The Age, June 27: 11.
championed a pro-deregulatory line.102 Barring systemic crisis, therefore, a major shift from the prevailing, expertly sanctioned orthodoxy seems unlikely.

Neoliberalism and the ‘Big Picture’

One of the distinguishing characteristics of the Labor administration of the 1980s and '90s has been its willingness - even enthusiasm - for articulating its ideas and vision. Keating in particular has stressed the importance of 'educating' the public and 'bringing them along' in the process of change. It is important to recognise the extent of the Labor leadership’s ambition here: what has been attempted is the systematic reconstruction and reorientation of the Australian political-economy, a transformation of social and cultural values that will produce a more competitive, efficient workforce and national economy. Competitiveness and efficiency are the watchwords of the new regime, the essential prerequisites that will allow Australia and its population to flexibly respond to the imperatives of relentless international competition.

While it is possible to question many of the assumptions that underpin this vision, its impact on the conduct of government policy cannot be doubted. Not only has the government attempted to transform the bureaucratic apparatus that delivers policy, but it has also sought to change the recipient population itself. In the area of education, for example, Keating has stressed the importance of linking education to the needs of the labour market and industry.103 There has been a notable shift from earlier reforms intended to increase access and remove inequities, to a new emphasis on 'education as an element of the economy'.104 Such reforms are premised on the assumption that industry will be able to employ usefully such a skilled workforce, an unlikely prospect given the structure of Australian industry noted above. At one level, as Robison and Rodan observe, the government's education policy reveals the inadequacy of a strategy reliant on 'supply-side' improvements to which private

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102 Gittins, R (1995) 'The Role of the Media in the Formulation of Economic Policy', The Australian Economic Review, 4th Quarter: 5-14. It is also worth noting that Keating was particularly adept at manipulating a generally compliant media (especially in his years as Treasurer) to promote his views, threatening to cut off uncooperative journalists from the 'high grade drip' of information upon which their careers depended. See: Toohey, B (1994) Tumbling Dice: The Story of Modern Economic Policy, William Heinemann, Melbourne: 222.


business is under no obligation to respond. Yet at another level, government policy - even if it is unlikely to succeed - reveals the extent of the change being attempted and possibly effected.

Contemporary government policy - particularly in the area of education, where it retains the authority and the will to 'intervene' - needs to be understood, in part at least, as an attempt to produce a new type of citizenry. Here the implications of the overarching neoliberal political rationality are especially apparent: the intention is not merely to confine the process of structural adjustment to narrow economic concerns - although policy is always ultimately predicated upon such issues - but to recast the population itself in the role of skilled, competitive and especially flexible workers. Indeed, the promotion of 'competitiveness' has been one of the defining motifs of recent Labor government policy, principally expressed in the Hilmer Report. However, this process has its culmination in the recent publication of the Karpin Report, *Enterprising Nation*. The managerial values and techniques that informed the transformation of the public sector should, the Report suggests, be applied to the population at large. Government should take the initiative in further gearing the education system to the needs of industry and the necessity of producing a more productive and 'entrepreneurial' population. Appropriate role models should be promoted through the electronic media, and the young should be particularly targeted so that appropriate values may be inculcated. In fact, in an optimal situation, the Report argues: 'The culture of enterprise would be threaded through the entire socialisation process'.

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107 This is where a political rationality informed by neoliberal ideas is so crucial. As the next chapter will demonstrate in more detail, the education process has been instrumental in promoting a narrow range of economic ideas as appropriate to manage Australia's economic transformation.


Of course it remains to be seen how assiduously any government attempts to implement the Report's recommendations. Of significance here is the extent to which its major assumptions are in keeping with the wider economic discourse or political rationality of the type outlined in chapter 2. It has become the uncontested conventional wisdom that Australia's economic destiny lies in 'Asia' - the only hope of surviving in competition with the region is by placing the nation's economic, political and social relationships on a more competitive footing. Expert economic discourse has effectively defined and delimited the realm of the possible and the plausible in this regard. Analysis or policy input that fails to acknowledge the primacy (and often, the desirability) of market mechanisms in making the necessary adjustment is becoming quite literally unthinkable.\textsuperscript{111} Clearly, this places important constraints on possible policy initiatives. Not only is government intervention deemed inappropriate and inefficient, but the reconstructed individual is increasingly seen as the key to a more competitive nation and thus the focus of attention and reform.

\section*{Conclusion}

Economic policy under Labor has been informed by a range of factors. The historical legacy of colonialism was an important determinant of the structure of the Australian economy as well as the nature and direction of its trade. Industrial development in Australia has been shaped by both domestic factors and the articulation of the national economy with the wider GPE. Domestic policy, especially protectionism, has also been a crucial determinant of the character of Australian industry: marginalisation, insularity and uncompetitiveness have been the unfortunate legacy of Australia's post-war economic development. The decline of Australia's terms of trade has meant that it can no longer rely on its primary industries to underwrite an inadequate and moribund manufacturing sector.

Labor's task, then, was to initiate and guide the process of structural adjustment necessitated by perceived national decline. Reviving the manufacturing sector was a crucial aspect of ameliorating the ballooning trade deficit. That market mechanisms in particular and neoliberalism in general came to be the dominant influence on the government's policy response can only be explained by examining a complex array of social, political, economic and ideational

forces. The international popularity of monetarism, a general fiscal crisis of the state, and the hegemonic influence of the US in promoting particular forms of policy response were all important influences on the Australian polity. More immediately influential, however, was the desire of a new breed of pragmatic Labor leaders to establish their economic bona fides with the new arbiters of sound policy - the international money markets. The legacy of the Whitlam era effectively debarred interventionism in the interests of shoring-up electoral - and financial centres' - support.

While policy was dominated by the principles of economic rationalism, Labor also instituted sectoral industry policies. Given that commitment was ambivalent, and that ultimately decision-making and implementation remained exclusively in the hands of the private sector, policy was surprisingly effective. But in the more general areas of trade and investment, neoliberalism held sway. Economic rationalism exerted a powerful influence amongst both the increasingly professionalised, managerial and economically-literate bureaucracy, as well as on a reform-minded administration determined to reconstruct and reorient the national economic space and social infrastructure. Policy was less to do with traditional Laborist ideology, than with applying the appropriate economic techniques and strategies from which all would ultimately benefit. This was less a conspiracy of the ruling class or the minions of international financial capital than the enthusiastic proselytising and application of the converted.

Plainly, domestic and international social and economic forces were important influences on government and helped define the parameters within which policy might be constructed. But Labor was intent on transcending narrow sectional concerns in the national interest - economic rationalism was taken to be a neutral, technical prescription for the most efficient organisation of economic life. What distinguished the Hawke and Keating administrations was their ability and desire to project the vision of economic structural adjustment into a wider social arena. From the expansive social rhetoric of 'consensus' to the personal reconstruction implicit in *Enterprising Nation*, Labor - generally with the assistance of reformed bureaucracy and the support of influential elements of the business class - has attempted to engineer appropriate social relations with which to underwrite and reinforce its program of economic reconstruction. Indeed, social policy predicated on a political rationality springing from the discourse of neoliberalism often seems to have been a substitute for more explicit economic interventions; an unsurprising outcome given that
intervention was made difficult by adherence to an ideational hegemony that rendered illegitimate such a role for government.

The effects of a reliance on market mechanisms and a predilection for non-intervention in Australia's international economic relations will be considered in subsequent chapters. What is important to acknowledge here is the importance of specific forms of discourse within the history of Labor administrations. At one level Labor has systematically attempted to constitute discursively appropriate forms of social relations though the rhetoric of consensus, competitiveness, flexibility and efficiency. On another level, Labor itself has been deeply interpellated by the discourse of economic rationalism. Despite the conspicuous failures of many of the policies associated with economic rationalism the associated discourse is now so entrenched, powerful and pervasive that alternatives are not so much marginalised as un-thought.

The implications and assumptions of the discourse of neoliberalism may be more easily examining its emergence and effect in a more tightly defined context. It is to such an examination that we now turn.
Chapter 4. Understanding 'Asia': The Theoretical Debate

Since the 1980s, Australian policy-makers have confronted both unique and universal constraints. On the one hand, the structure of the Australian economy in combination with contingent national political and social circumstances placed parochial limitations on potential policies. On the other, the transnational and ubiquitous economic pressures that swept over the GPE during the last several decades meant that Australian policy had to accommodate the same adjustment imperatives that impinged on other nations. What distinguishes the Australian response is the degree to which neoliberal policies - particularly in the area of trade and foreign investment - informed policy initiatives. As we shall see in the Japanese case, despite the advanced industrialised nations experiencing broadly similar international economic pressures, there was nothing inevitable about the discursive dominance of pro-liberalisation policies. What this chapter will attempt to demonstrate is the way in which a particular set of ideas drawn from the neoliberal model acted as 'road maps' for Australia's international economic policies.¹

In Australia, as we have seen, there was a significant degree of ideational consensus - indeed, hegemony - about the most appropriate forms of economic policy with which to deal with Australia's changing economic position, especially as this affected the international sphere. Elements of both the political and bureaucratic elites were supportive of a broadly neoliberal agenda derived substantially from the tenets of neo-classical economics. It is time to consider in greater detail the substance of that model, especially as it applies to the areas with which this thesis seeks to deal: regional economic development and integration in general, and the Australia-Japan relationship in particular. The focus of this chapter, therefore, will be on some of the principal voices that articulated this model, its plausibility, and alternative depictions of both possible policy responses, as well as the 'Asian' nations themselves with which such policies were intended to deal.

Rather than attempting to exhaustively detail the extensive literature on the Australia-Japan relationship and the regional economies, I shall concentrate on the output of two individuals that have been key figures in articulating and

promoting neo-classically derived policy prescriptions for and analyses of regional economic relations. Ross Garnaut and Peter Drysdale have both written extensively on these topics and have been especially influential in determining the shape of Australia's contemporary trade relations. I shall suggest that because of their influential roles as expert advisers and commentators with privileged access to policymakers (especially in Garnaut's case) and an authoritative voice in delineating the Australia-Japan relationship (in Drysdale's case) they are central figures in an Australian 'epistemic community' of key politicians, bureaucrats, business figures, but especially academics; a community which has been instrumental in promoting a range of policies predicated upon the primacy of market forces - policies which derived their theoretical legitimacy and inspiration from the supposed benefits of trade liberalisation.

Consequently, I shall initially review the epistemic community concept, and detail some of the more influential members of the Australian variant. Next, I shall consider the work of Drysdale and Garnaut, their analysis and policy prescriptions. These will then be contrasted with other interpretations, both of the regional developmental experience itself, and of alternative policy responses with which to deal with such contingencies. Finally, I shall explore alternative contemporary economic theorisation that casts significant doubt on the epistemological validity of the neo-classical model, its continuing relevance, and its ability to explain contemporary economic development or practice.

**Epistemic Communities**

The theoretical application of the epistemic community concept has been pioneered in international relations theory by Peter Haas, who has suggested that it can help explain the process of international policy coordination. In essence, an epistemic community is 'a network of professionals with recognised expertise and competence in a particular domain and an authoritative claim to policy-relevant knowledge within that domain or issue area'. In addition members have: shared normative and principled beliefs; shared causal beliefs which delimit problems and inform solutions; a shared notion of validity with which to confirm area expertise; and a common policy agenda to which that expertise is directed. Haas suggests that epistemic

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communities are becoming transnational which, he contends, helps to explain the way in which particular ideas come to dominate the policy-making processes of international institutions. In conditions of economic uncertainty or increasing complexity epistemic communities may be especially influential as policy-makers defer to and have greater reliance on expertise. It will be apparent how well this concept fits with positions outlined in previous chapters: Australia had a perceived economic crisis; contingent circumstances fostered a climate conducive to neoliberal ideas both internationally and within Australia's policy-making elites; a specific expert discourse predicated upon neoliberal ideas enhanced the authority of this model and effectively marginalised alternatives.

In an Australian context Richard Higgott has employed the notion of an epistemic community to explain the dominance of a trade strategy that is predicated upon neo-liberal foundations. Higgott argues that a significant ideational change has occurred in Australia, in which an influential nexus has emerged between academic and policy making elites in support of trade and deregulation. The potential influence of the academic community has been enhanced by what Higgott considers a 'possibly unique global phenomenon' in which scholars and policy-makers are concentrated in Canberra. This proximity has allowed key academic supporters of the free trade agenda - Andrew Elek, Stuart Harris, Drysdale and Garnaut - to more easily promote their ideas.

Plainly, it is no easy task to demonstrate the existence a discourse supportive of a particular set of ideas and their direct application as policy - although as we

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4 Higgott, R (1992) 'Pacific Economic Cooperation and Australia'.
5 Chapter 6 will demonstrate how crucial and influential an increasingly regional community of like-minded academics has been in promoting specific forms of economic integration and institutional development - initiatives which have further entrenched a particular set of ideas within Australia. At this stage, however, we might note that Stuart Harris is an example of an orthodox, pro-market economist recruited by Hawke for his particular expertise. Harris' position as secretary to the Department of Foreign Affairs allowed him to put into practice his ideas about the need combine economic and foreign policy issues into a more coherent whole - something symbolised by the merger of Foreign Affairs and Trade. See, Cooper, A et al (1993) *Relocating Middle Powers: Australia and Canada in a Changing World Order*, Melbourne University Press, Melbourne: 46. Similarly, Elek is credited with giving coherence and substance to Hawke's initial APEC initiative while head of the economic and trade division of Foreign Affairs. See, Gordon, M (1994) 'APEC’s great leap forward?', *The Weekend Australian*, November 12-13: 21. This is not to suggest that any of these figures single-handedly transformed the ideational framework within which Australia's economic and foreign policies were constructed. Rather, they are the most conspicuous and influential representatives and advocates of an increasingly influential policy paradigm.
shall see below, there are important examples of key reports which have exerted a clear and acknowledged influence on the construction of government policies.\(^6\) What is apparent, however, is that at an historical juncture where there existed a desire to arrest Australia's perceived economic decline, an attractive and readily comprehended discursive package that promised to solve Australia's problems via market enhanced competitiveness attained a greater lustre.\(^7\) It should also be noted that such a problem solving approach implicitly assumes that increasingly rational solutions to specific problems are available to policy-makers,\(^8\) something critical theorists rightly contest.\(^9\) For our purposes, however, what is important is that the 'claim to truth' being advanced by an epistemic community - whether or not the policy prescriptions that flow from it are likely to lead to satisfactory outcomes - is more likely to gain acceptance if it is 'more persuasive to the dominant political decision makers that some other claim'.\(^10\) In Australia's case, as the neoliberal model become increasingly authoritative, the sorts of governmental reforms undertaken by Labor during the 1980s meant that the transmission of such ideas throughout networks of bureaucratic officials and policymakers was facilitated.\(^11\)

At a more general level, an important aspect of the creation, coherence and influence of any putative epistemic community is its ability to transmit its worldview and marginalise alternatives. This may be most effectively achieved by dominance of the 'education industry', in which the common sense, conventional wisdom with its requisite techniques and norms is established. As we saw in the last chapter, the Labor government attempted to harness the

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\(^6\) The 'Garnaut Report' report, considered in more detail below, is the most obvious example of this. More generally, the rise of 'Thatcherism' in Britain demonstrates how a small group of political activists and academics can substantially transform the entire direction of economic policy-making. See: Cockett, R (1994) *Thinking the Unthinkable: Think Tanks and the Economic Counter Revolution, 1931-1983*, Harper Collins, London.

\(^7\) Woods makes the point that the attractiveness of economic ideas will depend partly on their ability to be translated into 'simple, intuitively appealing metaphors, analogies or propositions' - something the neoliberal model's constant recourse to the key themes of competitiveness and flexibility has clearly had. See: Woods, N (1995) 'Economic Ideas and International Relations: Beyond Rational Neglect', *International Studies Quarterly*, 39: 173.


education sector to the demands of economic restructuring. It was suggested that this process was fraught with difficulty given that merely producing larger numbers of graduates alone was not likely to address deep-seated structural problems or overcome insufficient investment. The likelihood of this failing being redressed is lessened when it is recognised that the actual teaching process in the areas that predominantly determine the course of economic policy - the discipline of economics itself - reflects the dominance of a narrow, American-inspired orthodoxy that does little to encourage indigenous responses to specifically Australian circumstances.\(^\text{12}\)

However, the significant point to note here is that the education system in general and the production of economists in particular has worked to entrench a particular set of values and theoretical perspectives that have effectively excluded alternatives from mainstream debate.\(^\text{13}\) Jones argues that the ideational hegemony of neo-liberalism is maintained by a systematic training in mainstream economics, without which access to particular forms of expert positions is made more difficult.\(^\text{14}\) It is precisely the narrowness of university economics curricula which, Pusey argues, is responsible for the dominance of a specific, narrow, economically-rational policy paradigm in Canberra.\(^\text{15}\) In sum, Langmore and Quiggin claim that:

Students in many Australian economics faculties are trained in the narrowest forms of the [economic] fundamentalist ideology. They are taught to have a strong faith in the supremacy of market solutions, and in the centrality of the narrow, neo-classical economic approach to solving policy dilemmas. The result is a naive and simplistic faith in the capacity of market solutions to achieve the efficient allocation of resources, and a consequent lack of attention to the role of public policy instruments in improving economic outcomes, let alone other goals such as equity, social cohesion and environmental security. The effects of this training are often intellectually and morally crippling.\(^\text{16}\)

While there may be a polemical tone to the above, it reinforces the importance and impact of neoliberal discourse and illustrates how specific economic ideas may inform broader agendas of economic and social change.

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This ideational influence was further promoted by expert practitioners located in influential positions within educational and policy-making structures. We have already seen that Garnaut had an especially powerful influence on the direction of economic policy, first as Hawke's principal economic adviser and subsequently as the author of the Garnaut Report which became the cornerstone of Australia's international economic relations. However, Peter Drysdale has also occupied positions which have permitted a good deal of influence over the direction of trade policy, particularly in the area of Australia-Japan relations. Drysdale was Garnaut's PhD supervisor and, as the director of the Australia-Japan Research Centre (AJRS), was in a uniquely authoritative position to speak not only on Japan-specific questions, but on a wider international reform agenda. The AJRS is, therefore, an important source of expert advice, and thus instrumental in reinforcing the institutional and ideational hegemony that dominates not only Australia's trade policies, but increasingly through elite policy-makers, those of the region. The attempted transnationalisation of the free trade agenda within the region will be considered in greater detail in chapter 6. It is important to note here, however, that the AJRS housed the secretariats of the Pacific Trade and Development Conference (PAFTAD) series, the Australian Pacific Economic Cooperation Committee (AUSPECC), and the Pacific Economic Cooperation Council's (PECC) Minerals and Energy Forum. As Marsh notes, these centres based at the Australian National University played a similar role to Washington think tanks, fostering the development of an 'elite cadre of public policy specialists' who were instrumental in promoting neoliberal ideas.

In addition to having a central role in defining the contours of the Japan-Australia relationship for over twenty years, Drysdale has also had an important impact on shaping the wider policy questions revolving around Australia's position in the Asia-Pacific. Although the first moves in the 1960s toward greater regional economic cooperation were instigated by the Japanese in response to the creation of the European Community (EC), Drysdale's co-authored report to the US Congress in 1979 was instrumental in suggesting the development of an organisation in the Pacific area along the lines of the

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OECD. The rise of Japan and the newly industrialising economies of the region were seen as critical determinants of regional integration and definition. Significantly, the authors - writing before the emergence of the US trade deficit problem - considered the US trade balance with the region to be unimportant; in any event, Drysdale and Patrick were convinced that the proposed body - the Organisation for Pacific Trade and Development (OPTAD) - would be able to manage disputes, 'raise regional consciousness', and work toward realising 'common interests'. These were themes that would culminate in the establishment of the Asia Pacific Economic Cooperation (APEC) forum, the centre-piece of Australian trade diplomacy. This will be considered in greater detail below, in the context of Australia's regional trade position. At present, a closer examination of the theoretical basis of the Drysdale (and Garnaut) position is merited.

The Drysdale Line

Although Drysdale merits attention for the purposes of this thesis as arguably Australia's most authoritative expert commentator on Australia's relationship with Japan, it is impossible to consider such views in isolation from the theoretical and normative assumptions that inform them. The most significant consequence of these underpinning assumptions, as we shall see in the case of Drysdale in particular and neo-classical economics in general, is that all relationships between nations are implicitly measured against and referred to an idealised conceptual backdrop. What generally distinguishes economists who draw their theoretical inspiration and premises from neo-classical economics is not just this reliance on idealised abstractions to describe the way the world is, but a concomitant willingness to suggest how the world ought to be as a consequence. Multilateral, 'free' and 'open' trade is central to this conception, something that is not taken to be a value judgement, but as flowing naturally from fundamental precepts. There are two immediate consequences of such an approach that are relevant here. Firstly, bilateralism is inherently a second-best option in such a view. Secondly, analysis of relationships between nations is informed by concepts that exert a normative bias, something that


22 The contingent nature of 'multilateralism' and its potential as a discursive determinant of international relations has been illuminated by Cox. See: Cox, R W (1992) Multilateralism and the world order, Review of International Studies, 18: 161-80.
both marginalises other interpretations and confines possible policy responses to those congruent with neo-classical maxims.

There are several crucial concepts that inform Drysdale's view of both the Australia-Japan relationship and the international economic relations of which they are a part. 'Complementarity' refers to the degree of trade intensity between nations, or 'the extent to which one country's commodity export pattern matches another country's import pattern more closely than it matches the pattern of world imports'. While this intensity may be exaggerated by 'country bias' (institutional or historical ties) it is a fundamental determinant of the extent of trade between nations. The assumption is, therefore, that countries will trade more with countries that produce different products, rather than with competitor countries that produce similar goods. As we saw in chapter 1, however, the greatest growth in trade in the post war period has been in intra-industry trade, or precisely those areas of trade where 'complementarity' is lowest.

Recognition and explanation of this awkward development within the neo-classical paradigm has been rendered more problematic by another key theoretical principle: comparative advantage. Initially developed by David Ricardo and subsequently elaborated within the neo-classical framework with the addition of factor endowment theory, comparative advantage is predicated upon the idea that nations should specialise in that which they have a 'natural' abundance. For example, labour-rich nations specialise in labour-intensive production, while nations with large amounts of capital pursue capital-intensive production. However, contemporary developments in the organisation of trade and production - discussed below - have unequivocally demonstrated that comparative advantage is neither natural, nor specialisation in a particular product inevitable.

The impact of assumed comparative advantage is apparent in Drysdale's depiction of the Australia-Japan relationship. In a relatively recent overview, The Australia-Japan Relationship: Toward the Year 2000, which Drysdale co-authored, the different economic roles played by Australia and Japan are

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attributed to an inherent regional specialisation in which Australia's 'underlying strength' is as a raw materials supplier, a position that underwrites the competitiveness of East Asia in the world economy.\textsuperscript{26} Australia's principal role in the relationship is, therefore, to produce bulk commodities which the resource-poor Japanese economy will transform into manufactured goods. However, the report acknowledges that in practice the conduct of the relationship deviates significantly from the idealised pattern: not only are the authors forced to concede that Japanese agriculture is 'highly protected', but they admit that Australia is 'under-represented' as an overseas base for Japanese manufacturing.\textsuperscript{27} So, not only are there tangible 'distortions' preventing the operation of market forces, but the historical fall of commodity prices relative to manufactures exacerbates Australia's relative decline. Despite this, the report specifically warns against 'misdirected intervention' by government in an effort to address this problem.

The implication of the Drysdale line is clear: even though economic reality may not coincide with the idealised neo-classical, market-based model, policy ought to be constructed as if it did. Liberalisation and deregulation have become the dominant motifs of Australian trade diplomacy, culminating in the institutional consolidation and international promotion of such policies. Although it is should be observed that the promotion of regional free trade was initially a Japanese idea.\textsuperscript{28} Japan's championing of this position never involved the unilateral advocacy of reduced protection to achieve it. Japan - or to be more precise, influential Japanese economists - may have thought regional free trade a good idea, but it was not about to lead the way by unilaterally dismantling its own complex forms of protection. To put it in Ikenberry's terms, Japan had an 'offensive' strategy of encouraging international trade liberalisation while simultaneously maintaining a 'defensive' strategy of domestic protection.\textsuperscript{29} Australian policy, on the other hand, increasingly reflected the influence of the dominant neoliberal discourse, predicated upon neo-classical economics, a process that culminated in Garnaut's seminal report.

The Garnaut Report was and is the theoretical inspiration for and centrepiece of Australia's economic (and by implication political) relations with its regional neighbours. Indeed, it is possible to suggest that the report's logic has also informed a good deal of domestic reform and led to a redefinition of more overtly political-strategic international relations. However, even at the more modest level of national structural adjustment, it is significant that Hawke specifically cited the Garnaut Report as the inspiration for the proposed further dismantling of tariffs outlined in *Building a Competitive Australia*.  

Garnaut's analysis and prescriptive advice to government draws on the same theoretical inspiration as his mentor Drysdale. Central to the logic that underpins the report is the notion of a complementarity between Australia and its Asian neighbours. There is an assumption that Australia has a natural comparative advantage in resource production. But as Webber points out, Garnaut's analysis ignores the hidden subsidies that Australian agriculture, for example, enjoys. The same logic causes Garnaut, Webber argues, to fail to consider the role played by the governments of many Asian states in actively developing a comparative advantage in manufacturing industries. It is, as we shall see, precisely this sort of intervention, however - which Garnaut only perfunctorily concedes - that has been central to Japan's postwar transformation. Significantly, Garnaut explicitly rejects government intervention of this sort, claiming that 'the level playing field has not been tried', and that dismantling protective barriers are a prerequisite of increased competitiveness.

Garnaut attributes the high growth rates of Northeast Asia to high savings and investment ratios and 'cultural values'. Alternative explanations, considered below, suggest that the rapid development of regional economies is a more complex phenomenon than Garnaut suggests, owing a good deal to historical imperatives and specific forms of government intervention. What is important to recognise, however, is that while a market-oriented policy approach might

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achieve a degree of what Ravenhill calls ‘parsimonious elegance’, in that ‘there is a simple universal rule for all situations’, this is achieved, he suggests, at some cost:

The negative side of a single undifferentiated strategy is that there is no room for contingent responses dependent on the circumstances in which Australia might find itself at any particular time. . . there is little recognition in the Garnaut Report of the unusual structure of Australian manufacturing, namely the predominance of subsidiaries of transnational corporations. Without the inducements of protective tariffs or of partnership agreements, will TNCs have an incentive to manufacture in Australia or will they rather service the Australian market from an overseas plant (especially if they are being coerced/seduced by a foreign government to locate their manufacturing activities there). 36

One of the most striking qualities of the Garnaut Report is its failure to incorporate the insights of contemporary economic theory, or to adequately explain the basis of recent trade relations. The growth, noted above, of intra-industry trade and the strategic nature of particular forms of economic activity that rebut the neo-classical nostrums of diminishing returns appear not to have been incorporated into the report. Garnaut’s call for an international free trade regime based on a notion of comparative advantage seems somewhat anachronistic, and something which leaves, as Leaver notes, ‘all the eggs of Australian commercial diplomacy . . . in the one basket of continued liberalisation and internationally-oriented growth’. 37 As Matthews and Ravenhill point out, by failing to recognise the importance of reciprocity in achieving trade outcomes, Garnaut’s advocacy of unqualified cooperation risks condemning Australia to what is known in game theory as the ‘suckers payoff’. 38 Unilateral advocacy of free trade and the unforced concession of trade advantages to competing nations invites those nations to exploit the advantage offered without the necessity of reciprocal concessions.

At a theoretical level there are important shortcomings implicit in the report. Leaver draws attention to Garnaut’s perpetuation of the realist theme that has dominated Australian international relations theory: the report’s analysis is concentrated on the nation as an actor in an international system of states.

Garnaut, Leaver argues, retains a 'state centric' focus, which allows him to neglect internal, national processes which ultimately determine the shape of international policy. Instead of a detailed examination of the domestic structures and the competing forces that determine outcomes, the notion of comparative advantage substitutes a 'rough and ready calculus of "national strengths and weaknesses"'. This is the logic which helped undermine Australia's bilateral capacity: where nations are considered as largely undifferentiated, discrete entities responding to neutral market forces there is little necessity to maintain a sophisticated understanding of individual trading partners.

Keeping the Faith

The adoption of a neoliberal orthodoxy within Australia's policy-making elites is not confined to a few high profile economists. As we have already seen, such ideas permeated the most influential arms of the bureaucracy and exerted a pervasive ideational hegemony. This is clearly reflected in other reports to government, which maintain the Drysdale-Garnaut line and merit brief consideration.

Given the Industry Commission's enthusiasm for neoliberal policies its examination of the high growth economies of East Asia drew fairly predictable conclusions. While conceding the role played by the state in overseeing regional economic development, the report, Strategic Trade Theory: The East Asian Experience, suggested that intervention was 'market conforming' and 'normally withdrawn within a relatively short period of time'. Subsequent chapters will, however, demonstrate the important role protection played - and still plays - in the economic development of Japan. It is difficult to see, therefore, how the report's suggestion that Japan had a 'liberal trading environment' can be anything other than wishful thinking or a serious and possibly deliberate misreading of historical experience for tendentious purposes.

The consistency of the deregulatory, free-market thrust is apparent in the more recent Regional Trade Arrangements,\(^\text{43}\) which attempts to articulate more fully the logic that informs Australia's trade position. Again there is an explicit rejection of both industry policy based on strategic government assistance, and an advocacy of unilateral tariff reduction:

\[\ldots\text{while the formation of free and other preferential trading areas abroad may tend to move some production processes with large economies of scale away from Australia, the reduction of Australia's own trade barriers will tend to offset this.}\ldots\text{the lowering of trade barriers in Australia in itself will make Australia a more attractive base than it has been for some of the global activities of multinational companies.}\(^\text{44}\)

The assumption here seems to be that trade barriers are a disincentive to the establishment (or retention) of production, a conclusion that cannot be sustained with reference to the Australian experience as far as more desirable forms of inward investment are concerned. As we shall see, Japanese investment in Australia (and the US, for that matter) was initially motivated by a desire to circumvent protective tariff walls. Similarly, as the report itself concedes, without support local industry may find relocation an increasingly attractive option. More pertinent, as far as the trade question is concerned, there is an explicit suggestion that 'Australian' industries will benefit from the 'highly competitive' import prices zero protection will produce. But such an analysis neglects the complexity of both the production process and the strategic basis of international production: Australian-based production may become dependent on foreign suppliers and difficult to sustain without mutually supportive manufacturing networks; foreign producers may prefer to service the Australian market from other locations in the absence of incentives to do otherwise. Adherence to abstract conceptions of trading relations that neglect the specific historical experiences and practices of both nations and firms cannot be expected to produce policies that reflect commercial reality.

Despite an obvious normative commitment to neoliberal ideas, the difficulty of maintaining an unqualified free-market stance became more apparent in Australia and North-east Asia in the 1990s, designed as a follow-up report to Garnaut and intended to map the latter's progress.\(^\text{45}\) Again the report is at pains to suggest that Japan is essentially an open market and,\(^\text{46}\) furthermore, a

\(^{43}\) Snape, R H ., Adams, J., & Morgan, D (1993) Regional Trade Arrangements: Implications and Options for Australia, Canberra, AGPS.


\(^{46}\) East Asia Analytical Unit (1992) Australia and North-east Asia in the 1990s: Accelerating Change, Dept of Foreign Affairs and Trade, AGPS:71 &178
potential champion of liberalisation.47 Ravenhill attributes this position to the influence of the 'Japan lobby' in Canberra that stifles criticism of Japan's trading practices, with the notable exception of agriculture.48 Also noteworthy in the report, however, is that while it predictably understates the role of state intervention in regional development, it concedes that there may be benefits in close Australian government-business cooperation when dealing with North-east Asia and Japan in particular.49 Although this should not be taken as indicating support for some form of industry policy - this is dismissed as inappropriate for Australia on cultural, political and institutional grounds50 - it does represent a significant recognition of not only the manner in which other regional nations conduct economic relationships, but also of the possible benefits to be derived from them.

These potential gains have been elaborated in alternative analyses of the historical experience of regional development, which have often been informed by important insights drawn from contemporary economic and trade theory. The second half of this chapter will explore these models in more detail as they not only refute the neo-classical model but suggest alternative models upon which economic relations might be predicated.

Re-interpreting 'Asian' Development

The comparatively sudden and somewhat unexpected emergence of widespread economic growth and development amongst Australia's northern neighbours has engendered distinctly different theoretical explanations. This is not simply an introspective or arcane academic debate with little relevance in the 'real world'. On the contrary, promoting economic integration an interaction with Asian economies has become a dominant theme in Labor policy, determining the course not just of international economic policy, but spilling over into domestic political, economic, and even social issues.51 Therefore, the

47 East Asia Analytical Unit (1992) Australia and North-east Asia in the 1990s: 36.
49 East Asia Analytical Unit (1992) Australia and North-east Asia in the 1990s:71.
50 East Asia Analytical Unit (1992) Australia and North-east Asia in the 1990s:84.
51 The trade and investment implications of Labor's pursuit of Asian integration will be considered in more detail in subsequent chapters. There are, however, several other important aspects of this process which might be briefly indicated here. One of the most significant is the posting of an undifferentiated notion of 'Asian' competition as the unforgiving benchmark against which domestic adjustment strategies must be measured, something which Australian-based employers have been quick to exploit by threatening to shift there if Australian unions fail to become more 'flexible', for example. See, respectively, Lafitte, G (1994) 'Re-
theoretical assumptions that inform the Asian engagement project and the general conduct of bilateral relations have the potential to produce wide-ranging tangible and immediate effects. However, where policy-makers appear not to recognise the historic trajectories of regional development and the distinctive relationships that sustained it, there is little likelihood of policy either effectively addressing the specificity of contingent national circumstances, or of adopting the similar policies in the expectation or hope of achieving comparable outcomes.

Drysdale and Garnaut are again illustrative of the neoliberal interpretation of regional development. East Asia’s growth is, they suggest, attributable to a ‘certain style of relations with the international economy’, principally a specialisation in labour intensive activity based on the notion of comparative advantage, and export-oriented production for world markets. While there is little disagreement about the importance of external markets, especially that of the US, for the newly industrialising economies (NIEs), there is significant debate about the role of ‘the state’ in this process. In the idealised neoliberal abstraction the state is inherently inefficient and therefore something that should have a minimal role. However, as we shall see, the state has quite clearly played a significant part in the developmental trajectories of Australia’s neighbours, something that appears to contradict and refute some fundamental assumptions of neo-classical theory.

Garnaut, however, employs what has become one of the dominant and most innovative responses by neoliberal theorists to this apparent difficulty: he suggests that while the state might have intervened, it did so in a market-conforming manner. However, this type of analysis fails to take account of the actual historical pattern of state intervention in the region, especially in Northeast Asia:

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In all the late-industrializing countries - Japan, Korea, and Taiwan included - not only have governments failed to get prices right, they have deliberately got them 'wrong', in order to stimulate investment and trade. They have subsidised the price of capital and exports. The faster growth of the East Asian countries is therefore attributable less to freer markets than to institutions that have allowed subsidies to be allocated more effectively than elsewhere. [Emphasis added.]

Subsequent chapters will demonstrate the extent of state intervention in the Japanese case - the regional developmental exemplar - and the subsequent impact of this mode of capitalist organisation on production and trade networks within North and Southeast Asia. What is important to note here, however, is the nature of policy frameworks amongst Australia's regional neighbours, where the idealised market model was simply not the principal instrument of economic organisation. In the cases of Singapore, Taiwan, Korea, and even Hong Kong there is an extensive and compelling literature that suggests that state intervention in 'governing the market' was pervasive and central to the rapid development of the regional economies. Significantly, even an economically orthodox and pro-market body like the World Bank has been forced to concede in its extensive investigation of the 'Asian miracles' that state guidance made a significant contribution to the course and pace of their development.

Despite the accumulation of evidence that apparently refutes both the analyses and prescriptions derived from the discursively dominant neoliberal model, Australian advocates of market-based policies predicated upon neo-classical economics have resolutely maintained their position. Drysdale and Garnaut, 55 Amsden, A (1990) 'Third World Industrialization: "Global Fordism" or a New Model?', New Left Review, No 182: 67.


Gold, T (1986) State and Society in the Taiwan Miracle, M E Sharpe, Armonk.


Orthodox, high-profile economists like Kasper, for example, posit an implicit developmental teleology in which Australia's neighbours move inevitably toward greater democratisation and liberalisation, a process Australia can promote by demonstrating the supposed benefits of non-governmental involvement and deregulation. [See, Kasper, W (1994) The East Asian Challenge: What Can Australians Offer Their East Asian Neighbours?, in Hughes, H et al (eds)
for example, suggest that regional economic expansion has been predicated upon trade liberalisation, producing a 'prisoner's delight' in which nations enjoy reciprocal and mutually beneficial gains in welfare through the reduction of trade barriers. Such an interpretation of regional development is doubly unfortunate: firstly, it introduces a normative bias that ignores or minimises the continuation of extensive forms of protection - particularly the non-tariff barriers that have been so important in Japan's case. Secondly, it virtually bars a more detailed consideration of the specific policy innovations that have been central to the developmental strategies pursued in the region. Both of these failings can be partly explained by the failure of the neo-classical model to embrace contemporary innovations in economic theory, the more important of which we shall now consider.

Strategic Trade and Industry Policy.

Ironically, it was the sudden emergence of the NIE's and Japan, which Drysdale and Garnaut continue to attribute to the efficacy of market forces, that was instrumental in revealing the limitations of existent orthodox theory. 'Strategic trade theory' emerged within mainstream American economic discourse as older, static economic models based upon notions of comparative advantage seemed increasingly less able to comprehend contemporary notions of 'competitive advantage'. Rather than being a 'natural' endowment, it is increasingly recognised that comparative advantage can be and is created through the strategic intervention of governments on behalf of nationally-based firms. Strategic trade theory stresses the importance of various 'externalities', such as key technologies, 'spillovers', increasing returns to scale and the crucial role played by research and development - factors that confer particular advantages upon individual firms, and by extension upon the countries where such activities occur; markets are increasingly seen as neither

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Australia's Asian Challenge, The Centre for Independent Studies, Sydney: 19-34.] Such ideas appear to have had an effect on government policy to judge by Gareth Evans's suggestion that their is a 'cultural convergence' occurring in the Asia Pacific. [Evans, G (1995) Australia in East Asia and the Asia Pacific: beyond the Looking Glass', Fourteenth Asia Lecture, Asia-Australia Institute, Sydney March 20: 9.] Sceptics suggest that Evans may be right, but only because Australia is becoming more 'Asian' and less democratic. See, for example, Wrigley, A (1995) 'Stealth: the price we pay for Asia', The Australian, December 21: 11.

perfect, nor necessarily the best way to encourage the development of specific forms of productive activity.\textsuperscript{64}

Paul Krugman has been at the forefront of this new theorisation, attempting to address issues that fall outside the traditional concerns of orthodox economics.\textsuperscript{65} Krugman explicitly acknowledged that traditional economic analysis had been forced to change by the altered patterns of US and international trade, as well as by the challenge of advocates of industrial policy. There has been a growing realisation that some areas of economic activity are more strategically important than others, not only because they generate greater returns on investment, but also because they produce 'external economies', or, less jargonistically, the wider benefits that accrue to other actors not directly involved in particular forms of productive activities.\textsuperscript{66} A commonly cited example of these 'spillover' effects are sophisticated technological processes which by their very existence tend to generate other techniques and technologies, and, more importantly, the skills and knowledge that are associated with them.

It is necessary to distinguish between two distinct but often conflated aspects of strategic trade policy.\textsuperscript{67} On the one there is the idea that some industries are 'strategic' in that they confer specific benefits on the national economic spaces within which they occur, and therefore may merit specific policies to either encourage or retain their presence. On the other hand, strategic trade may refer to the tactical manner in which trade relations are conducted with other countries. Japan, for example, has been held up as the exemplar of non market-based trade strategies, practicing instead what Drucker calls 'adversarial trade', or the systematic attempt to eliminate rival companies combined with an unwillingness to participate in reciprocal trade.\textsuperscript{68} These policies and their effects will be explored in greater detail in subsequent chapters. It is important to recognise, however, that there is a widespread


\textsuperscript{66} Krugman, Paul (1989) \textit{Strategic Trade Policy :12/3}.


perception amongst critics of the free trade orthodoxy that if strategic trade policy is practiced by competitors based in other nations then to not do so is "an invitation to exploitation".\(^{69}\)

There have been several major studies which have tended to confirm the idea that competitive advantage itself can be manufactured and improved. Michael Porter, for example, while not necessarily an advocate of activist industrial policy, suggests important explanations that go some way to explaining differing levels of economic competitiveness. Within national boundaries, Porter argued that competitiveness is determined by a 'diamond' of factors: factor conditions (ie the availability of skilled labour, the quality of infrastructure etc); demand conditions (domestic demand for industrial production); the existence of related and supporting industries; and the strategies, structure and rivalry between domestic firms.\(^{70}\) One especially valuable insight of Porter's study was his elaboration of the key notion of 'clustering', that is, the tendency for industries to agglomerate and form mutually supportive links and interdependencies. Where clusters exist, virtuous circles develop of increasing innovation and productivity gain; where they do not, there is a danger of a downward spiral toward de-industrialisation.\(^{71}\) The importance of many of these ideas - and the manner in which empirical evidence refutes the abstract idealisations of the neo-classical paradigm - will be demonstrated in an Australian context through a specific case study in chapter 8.

The logic of comparative advantage theory suggests that for countries to develop particular productive specialities is inherently beneficial. However, as we saw in chapter 1, there has been an historical decline in the value of resource commodities in relation to manufactures. Moreover, Cohen and Zysman have persuasively argued that manufacturing has a greater strategic importance than other forms of production.\(^{72}\) They base their argument on an analysis of the different contributions various sectors of the economy make to the overall wealth producing potential of the economy. Their analysis shares some of Porter's observations, in particular regarding what they term the 'linkages' that develop within an economy. Some productive processes


generate 'tight' linkages (for example, the link between food production and processing), whereas other sections of the economy - agriculture or banking, for example - are more weakly integrated. Cohen and Zysman argue that 50-75 per cent of service jobs are tightly linked to the manufacturing sector, without which they might either cease to exist, or, at the least, wage levels within the service sector would decrease, as the manufacturing sector has the effect of propping them up. Manufacturing is capable of directly generating wealth, while the service sector can only 'complement' it and remains dependent.

Three distinct 'market imperfections' have been identified that strategic trade policy can exploit: large economies of scale; steep learning curves; large R&D requirements. The classic, and oft cited example of the importance of economies of scale is the aircraft industry which, it is argued, has such prohibitive costs that it is dependent on state assistance to ensure a stable trading environment. The emergence of the European aircraft industry is a notable example of an enterprise that would not have developed under the logic of conventional economic theory in which the Europeans should have been deterred from entering an industry which already had sufficient producers.73

Industry Policy in Australia

The emergence of strategic trade theory and the possible benefits to be derived from industry policy have fuelled an important debate in Australia, which has not been confined to academic theoretical discussions, but which has been manifest in government policy. This is too large a topic to treat adequately here, but it is worthwhile making a few observations that help to illustrate both the contested nature of policy formulation and the dominant position of neoliberal policies within those debates, especially in the areas of trade and investment. This debate is especially pertinent given (as chapter 5 illustrates) the historic importance of industry policy in Japan.

Although the previous chapter suggested that the Labor Party in Australia moved toward a more market-oriented policy position during the 1980s, this was neither a wholesale shift nor uncontested by elements of the indigenous business class and 'traditionally-minded' Party stalwarts. It is significant, however, that the bureaucracy, once again played a significant role in

73 Milner, Helen V., & Yoffe, David B., "Between Free Trade and Protectionism: Strategic Trade Policy and a Theory of Corporate Trade Demands", International Organization, 43 (2) 239-272.
determining the direction and tenor of policy. Indeed, as the history of the Tariff Board demonstrates, the bureaucracy provided a way of containing the possible costs of political decisions: the conflicting positions of various interest groups could be mediated under the auspices of an 'independent' body, allowing government to distance itself from unpopular policy.74 Governments are able to justify controversial or possibly unpopular initiatives by referring to supposedly independent and expert sources of advice. It is significant that one of Keating's first acts when Labor assumed office was to establish the Martin Committee with the intention of resurrecting the overtly pro-deregulatory Campbell Report, which had previously been rejected by Labor.75

The bureaucracy itself was, of course, neither a seamless whole nor an apolitical instrument for the unproblematic application of power. Warhurst's detailed study of Industries Assistance Commission's (IAC) activities illustrates not only the manner in which the department 'jockeyed for position' with other departments in competition for influence over government policy, but also indicates the increasingly dominant role played by professional economists in determining that advice.76 The Whitlam administration was the prime mover in actively recruiting mainstream economists to provide a more coherent basis for policy, an influence the subsequent Fraser administration was unable to resist, despite rhetorical flourishes to the contrary. The long-term effects were, argues Warhurst, profound:

The IAC... influenced the conduct and style of the making of policy... The issues not only became increasingly complex but the discussion of them was increasingly carried out by those with the ability to understand and converse about economic principles in a professional way... the changes that took place [in general bureaucratic thinking]... many of them instigated by the IAC, sank deep into the fabric of policy making.77

It was the ideational dominance of the neoliberal, IAC and PMC, and the expertly articulated consensus that flowed from it which effectively marginalised alternative sources of policy advice. Despite John Button's advocating a more interventionist government policy stance, and less reliance on 'a simple faith in the so-called free market' to make structural adjustments and increase competitiveness,78 the Department of Industry, Technology and Commerce

(DITAC) over which he presided illustrates the nature of inter-departmental rivalry and the implicit conformist pressure exerted by adherents of the dominant paradigm. It is significant, therefore, that Keating chose to remove the IAC from under the possibly pernicious purview of DITAC and relocate it in Treasury, for as Wanna et al note, such moves may serve political purposes, and indicate a change of policy direction. Clearly, such overtly political interventions help to entrench dominant ideas which are themselves further reinforced as potential oppositional voices are effectively silenced.

These bureaucratic and Party machinations help to explain Labor's slightly schizophrenic approach to policy-making. Despite an obvious predilection for neo-liberal policies within the Labor leadership, it was necessary to accommodate pragmatically important domestic lobbies, particularly those sections of the domestic economy most threatened by the process of deregulation and their allies in the union movement. As a consequence, a series of 'industry plans' were instituted in various sectors of the economy. Surprisingly, given the less than fulsome support and a lack of an integrated, overarching policy framework within which to situate such policies, they have been remarkably successful. Sheehan et al's neglected, but important study demonstrates clearly the link between Australia's much discussed growth in elaborately transformed manufactures (ETMs) exports and industry policy: those areas in which exports have expanded have generally been the sectors that experienced some sort of government assistance. The point to recognise in this context, however, is that such interventions were largely piecemeal responses to specific interest groups - the overall and dominant commitment toward neoliberalism, especially in the all-important area of international economic relations, remained in place.

Plainly, there is substantial empirical evidence to suggest that government intervention in the economy has been an important influence on the rate and direction of economic expansion not only in Australia's Asian neighbours, but also within Australia itself. Moreover, there have also been sophisticated

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80 See Capling & Galligan for a useful overview of this process, although it should be noted that their accounts attributes too great a competence and influence to 'the state' in the Australian political economy: Capling, A & Galligan, B (1992) Beyond the protective State: The Political Economy of Australia's Manufacturing Industry Policy, Cambridge University Press, Cambridge.
blueprints both for more integrated and comprehensive forms of industry policy,\textsuperscript{82} as well as analyses which stress the importance of industry policies in the region and their possible applicability for Australia.\textsuperscript{83} The unwillingness of an influential epistemic community and key policy-making elites to accept or incorporate these ideas would seem to owe more to the dominant influence of the ideas themselves, rather than to their potential efficacy as the basis of alternative economic strategies.\textsuperscript{84} To understand this reluctance to embrace theoretical innovation it is necessary to say something about the neo-classical model's lack of an historical dimension, and the intrinsically subversive nature - especially for the epistemic orthodoxy - of contemporary economic thought.

The Neglect of History

As far as orthodox economics is concerned, history is not so much coming to an end in the manner suggested in Fukuyama's implausible thesis,\textsuperscript{85} as it is systematically neglected. We have already seen in chapter one that large corporations, especially as they have become transnational, have been the primary vehicle for restructuring the GPE. It is significant, therefore, that Drysdale's book-length analysis of economic development and integration in East Asia and the Pacific contains only two references to multinational corporations in its entirety.\textsuperscript{86} Certainly, it is perfectly legitimate to privilege the political over the economic, but it is less credible to virtually ignore the principal imperative encouraging closer regional cooperation when the latter is the substantive concern of the text. The suspicion must be that a closer examination of the contingent historical specificity might reveal a complexity that neo-classical theory could not easily accommodate.\textsuperscript{87} Contrary to what the


\textsuperscript{84} Also noteworthy here from a neoliberal perspective is the potential for domestic 'interventions' to undermine international initiatives designed to promote more general trade liberalization. This is the sort of broader 'strategic' view that Garnaut invokes to justify rejecting activist industry policies. See: Garnaut, R (1991) 'Trade and Industry policy', \textit{Economic Papers}, 10 (2): 29.


\textsuperscript{87} Many of the assumptions upon which the neo-classical depiction of the firm is predicated are simply untenable under late capitalism. Imperfect competition and oligopolisation are integral parts of the contemporary GPE. Furthermore, Samuelson & Nordhaus' [(1989) \textit{Economics : 472}] bland assertions about the end 'fabulously wealthy captains of industry' not only may be a surprising suggestion to the likes of Rupert Murdoch, but they represent a misleading generalisation about Japanese capitalism as well. [See, \textit{Tokyo Business Today} (1992) 'All in the Family: Nepotism in Japanese Corporate Management', 60 (11 November). Similarly, the sort of abstract idealisations that characterises neo-classical depictions of firms leave policy-
neo-classical model might imply, historical contingency and the accretion of
local influences are crucial determinants of national developmental and
adaptive variation. As Cornwall observes:

As the economy grows and transforms itself, institutional changes also occur - some
induced by macroeconomic events (including policies) and others largely exogenous to
the economic transformation process. It is a recursive process . . . But whatever the
relative importance of economic or non-economic causes, at any point in time the
institutional framework will act as a constraint on current and future policy options open to
authorities. Macroperformance is always "path or history dependent" in this important
sense.88

We saw in chapter 2 that orthodox economics is predicated upon particular
assumptions about 'human nature', where individuals are considered to be fully-
informed, utility-maximising and capable of making rational choices. Nowhere,
however, is the discursively constructed quality of these essentialist concepts
acknowledged or considered. Yet this logic is unproblematically extended to
nation states, the sovereignty of which is threatened less, according to
Drysdale, by the type of inter-state agreements outlined in chapter 1, than by
the potential for 'bribery and corruption'.89 On the one hand such a conclusion
reveals an epistemological naivety in the light of contemporary international
relations theory,90 but at a more fundamental level, as far as this essay is
concerned, it reveals the fixation orthodox economists have about the
potential dangers of 'rent seeking'. This heightened sensitivity about lobby
groups and the potential power of private capital may help to account for the
dominant paradigm's most serious omission: its neglect of the role of the
corporation in particular and of historical development in general. Such a
neglect becomes more comprehensible, however, given the somewhat
inconvenient emergence of oligopolistic businesses and the popularity of
mercantilist economic practices - factors which simply cannot be incorporated
into the abstract and idealised neo-classical theory.

There is a presumed link in neo-classical economics between perfectly
competitive market forces and 'efficiency', the latter being defined in terms of

makers poorly equipped to comprehend the unpleasant reality of graft and corruption that
characterises Japan's construction industry, for example. See, McGregor, R (1994) 'Bid-rigging
90 George, J (1994) Discourses of Global Politics: A Critical (Re)Introduction to International
Relations, Lynne Rienner, Boulder; Walker, R (1993) Inside/Outside: International Relations as
the maximisation of private want satisfaction. A major - and inherently implausible - assumption is made about the circumstances in which 'market forces' operate. It is assumed that in a perfectly competitive market there will be large numbers of both buyers and sellers, eliminating the possibility that either will be able to influence prices. Welfare will be maximised through individual and subjective choices, delivering a 'Pareto optimum' in which prices are determined by an agglomeration of individual preferences. There is, therefore, an inherent normative bias toward a pluralist conception of power and economic relations. However, even pluralist theoreticians have been forced to concede the uneven distribution of power within the political economy and the consequent power of the business sector. Indeed, careful historical analysis can reveal the circumstances that enhance or diminish the influence of the business class at specific historical conjunctures. Of greater concern here, however, is the historical trajectory of corporate organisational development itself, a subject about which the neo-classical tradition has little to say.

Rather than the broadly similar abstractions orthodox economics implies, individual corporations display significant differences in both organisation and modes of operation; differences that significantly affect not only economic relations within nations, but which increasingly determine relations between nations. We have already seen how Australia's industrial structure has constrained the options available to policy-makers. Subsequent chapters will reveal different structural constraints in the Japanese case. What is important to recognise - which the neo-classical tradition conspicuously fails to do - is the evolutionary and historically contingent nature of those national structures.

Alfred Chandler's monumental investigations into the emergence of large corporations clearly demonstrate the importance of an historical perspective. Rather than being either a fiction or a source of inefficiency, Chandler persuasively argues that the shift toward oligopolistic forms of production was an essential step in the emergence of the modern corporation, providing competitive advantages of scope and scale that permitted economic expansion. Certain technologies and capital-intensive industries, of which the car industry

is the most prominent example, necessitated the development of extremely large-scale forms of production. Furthermore, the increasing scale, complexity and expense of production conferred important ‘first-mover’ advantages; would-be competitors were often unable to break into established industries - unless they had government assistance.

Similarly, Lazonick illustrates the manner in which an historical perspective can illuminate the developmental trajectory of not only of firms but also nations. Drawing on Chandler’s work, Lazonick distinguishes between three major historical forms of capitalist corporate development: the era of market coordination (entrepreneurial capitalism epitomised by nineteenth century laissez faire Britain); managerial capitalism (developed in the US and predicated upon greater organisational coordination and the more effective utilisation of productive resources); collective capitalism (planned coordination extended horizontally across groups of legally distinct firms, and vertically to include the shop floor). The implications of some of these points will be elaborated in subsequent discussion of the Japanese case. The point to emphasise here, however, is that in neo-classical analysis significant national differences, which help determine the structure of national economies and their subsequent articulation with the GPE, are submerged in the pursuit of theoretical elegance and parsimony. Moreover:

In defining the economic problem as the allocation of scarce resources, neoclassical economics ignores the analysis of how individuals, firms and economies create more value with the same resources, and thereby overcome scarcity. In short, neoclassical economics has a theory of value allocation but it lacks a theory of value creation. [Emphasis in original]

It is, as we shall see, precisely such a theory which an analysis of regional economic development in general and Japan in particular can provide.

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Conclusion

Neoclassical economics has provided the theoretical basis upon which Australia’s ‘integration with Asia’ in general and bi-lateral relationships, such as that with Japan in particular, have been conducted. The work of Drysdale and Garnaut has been especially influential in this regard. There are, however, two major shortcomings in the dominant economic discourse that should be emphasised.

Firstly, the neo-classical model systematically misinterprets, or at least seriously underestimates the importance of government intervention in the developmental trajectories of Australia’s regional neighbours. The idealised assumptions that advocates of the neo-classical model make about the way the economic activity is and should be organised mean that it is especially difficult to accommodate instances of behaviours that violate the model’s fundamental principles. As a consequence, conclusions are drawn about the nature of other economies which either neglect or misrepresent important organisational principles and features. For example, Drysdale and Garnaut’s claim that Japan has the ‘cleanest import system for manufactured goods amongst OECD countries; official tariff barriers have almost no effect on trade’,97 is completely rejected by ‘revisionist’ critics. It is precisely the non-official barriers to trade that Drysdale and Garnaut ignore that are the source of contemporary trade frictions, and which have played a crucial role in Japan’s comprehensive and integrated industrial development strategies. Where the principal sources of advice to the Australian government on possible trade policies are predicated on such restricted interpretations of neighbouring economies and articulated by an influential coterie of orthodox economists, unrealistic and narrowly constructed policy outcomes are the likely result.

There are, furthermore, important theoretical limitations to the neo-classical model which have been further highlighted by contemporary developments within the economics discipline itself. Clearly, there is an important causal link here: ‘real world’ innovations and developments in economic activity are simply incapable of being incorporated into the restricted, static and idealised theoretical principles of neo-classical economics. As we have seen, the model cannot explain the creation of ‘comparative advantage’, the advantages of size

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and first-mover status, the ability of industry and trade policies to enhance the competitive advantage of nationally-based firms, the importance of increasing returns, or the general panoply of strategies associated with neo-mercantilism. It is worth emphasising that some of the most important innovations in contemporary economic theory have abandoned the static and essentially Newtonian predicates of the neo-classical model for theories that embrace the intrinsic uncertainty of quantum mechanics and dynamic models based on chaos and complexity.\(^\text{98}\)

Whether national governments choose to embrace and encourage the new trade and productions strategies at pragmatic level, is a distinct question from whether such policies should at least be acknowledged in the construction of policy. It is obviously possible for individual governments to eschew trade and industry policies on substantive or normative grounds. It is, however, advisable that policy-makers are at least presented with a sufficiently detailed and nuanced picture of potential bilateral relationships that they are at least able to make decisions whilst in possession of all the relevant 'facts'. This attention to detail is particularly crucial in the case of Japan.

Chapter 5: The Political Economy of Japan

Describing as 'miraculous' Japan's rise from the devastation of World War II to its contemporary status as an economic super-power is at best a cliché. At worst, it is indicative of an approach to analysis that systematically neglects the specific historical circumstances that underpinned Japan's remarkable transformation. What the Japanese case demonstrates is that capitalism is not simply a universal essence or abstraction that manifests itself in the same way at all times. Rather, Japan's experience clearly shows that important variations on the general theme of market-oriented production are possible; the relationships between government, private enterprise and labour are critically important and variable determinants of the trajectory of development. This is an interesting enough story in itself. For Australian policy-makers, however, understanding the manner in which Australia's major trading partner has transformed itself in the space of 50 years from an irradiated wasteland to the dominant economic actor within its region is of critical importance.

While this metamorphosis has by now been described many times, it merits brief review here for two reasons: Firstly, the Japanese case provides an important counterfactual for the Australian experience and a rebuttal of neo-liberal theoretical models that neglect historical specificity and variation. Secondly, it is critical to distinguish those characteristics which continue to set Japanese capitalism apart: while they may be regarded as unfortunate deviations from idealised theoretical abstractions, they are clearly the reality with which the policy-makers and business people of other nations must deal.

This chapter, therefore, will initially consider Japan's post-war development, and the political and economic relations that were critical to its success. Subsequently, a more detailed consideration of the structure of Japanese capitalism will be undertaken. As we have seen in previous chapters, the manner in which capital is organised within national economies, and its subsequent integration with the global economy exert crucial influences on national economic development and structures. It will be argued that not only has the distinctive organisation of corporate Japan conferred specific economic advantages upon the Japanese national economic space, but that this mode of organisation determines the manner in which external economic relations are conducted. Unless the distinctive organisational logic of Japanese capitalism is
comprehended it is unlikely that policies able to accommodate such practices will be successfully crafted by other nations.

The Developmental State

No adequate account of contemporary Japanese economic relations can neglect the legacy of the past. An historical perspective is an important aspect of attempts to explain any nation's policy initiatives and business practices; in the case of Japan it is indispensable. There are important qualities that distinguish Japan from the Anglo-American economies with which Australia is closely identified. While there is, as we shall see, a good deal of debate about the extent to which these distinctive practices continue in Japan and their ability to withstand the competitive pressures of increasing international economic interaction, there is greater agreement about their historical importance.¹

How, then, did Japan manage to transform itself from a virtual wasteland in 1945 to the contemporary economic colossus that is variously regarded with awe, apprehension and incredulity? Plainly, it had no obvious 'comparative advantages' (the basis of the neo-classical explanation, it will be recalled) with which to begin the reconstruction process. A popular contention has it that distinctive Japanese 'cultural' qualities may help to account for its renaissance.² Certainly, a predilection for group identity and consensus may have made the establishment of a national project based around a 'pro-growth policy' easier, especially if it both addressed the immediate concerns of reconstruction and survival, and helped expunge the humiliation of defeat from the national consciousness.³ There were, however, more prosaic and readily comprehended structures which were central to the re-construction of Japan's political economy.

¹ It should be noted, however, that this generalisation is not unproblematically extendable to observers operating in the neo-classical tradition: as the Japanese developmental experience amounts to a refutation of some of the central contentions of the paradigm, many of its adherents either understate or ignore those aspects of Japanese history and behaviour that are especially troubling. Yet without a recognition of the historically specific factors that determined Japanese development, no satisfactory explanation can be given of either the past or the present.


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The zaibatsu, or large, privately owned industrial empires, had been the backbone of Japan’s pre-war industrialisation. Despite US attempts during the occupation to ‘democratise the economy’, principally by land reform and the dissolution of the industrial groups, the reforms did not greatly affect financial institutions associated with the zaibatsu, creating the basis for their subsequent revival.4 Similarly, and equally importantly, the assumption informing US policy that the Japanese bureaucracy was apolitical and non-interventionist actually abetted the process of increased bureaucratic control over the economy by attempting to reduce the influence of the powerful families associated with the zaibatsu groups.5 What US policy failed to recognise was that state involvement in the economy had been part of the Japanese political economy since the inception of the industrialisation process itself. The state developed institutions and mechanisms to facilitate its ability to implement policy which, while contested, led many Japanese to ‘share a remarkably common view on the legitimacy of national government as guide and mentor’.6

Recognising that the political-economy of Japan operates in a manner significantly different to many western, and especially Anglo-Saxon economies is crucial, not only in comprehending its different development strategies, but also in formulating appropriate policy responses. In this regard, Chalmers Johnson’s seminal contribution was important in drawing the attention of non-Japanese to the manner in which the state-capital relationship was managed and development achieved. What Johnson called the ‘developmental state’ relied not upon the market mechanisms to allocate resources, but was ‘plan rational’:

In the plan-rational state, the government will give greatest precedence to industrial policy, that is, to a concern with the structure of domestic industry and with promoting the structure that enhances the nation’s international competitiveness. The very existence of an industrial policy implies a strategic, or goal-oriented approach to the economy.7

The idea of state-business cooperation in pursuit of national goals has existed since the Meiji Restoration, but it has had a political, rather than an economic basis, Johnson contends.8 Economic development underpinned and legitimated

the existent political order; contestation for power occurred within the ramified apparatuses of government. In retrospect, Johnson's analysis has had both positive and negative effects. On the one hand it demonstrated that Japan's post-war development owed a good deal more to state planning than it did to simple market forces. On the other, it has resulted in a continuing over-emphasis on the role and importance of the Ministry of International Trade and Industry (MITI), particularly in non-Japanese scholarship.

Making a Miracle

While there is no intention here to exhaustively detail the reconstruction process in Japan, indicating some of the more important innovations that were associated with it is helpful for two reasons. Firstly, the Japanese experience emphatically demonstrates that the course of economic development may be determined by specific forms of political and economic intervention which owe little to 'neutral' market mechanisms. Secondly, many of the distinctive qualities that distinguish Japanese capitalism continue to influence the conduct of business both within Japan itself and with Japan's economic partners.

Not all the factors that fuelled Japan's resurgence can be attributed to the prescient expertise of interventionist bureaucrats, however. The outbreak of the Korean war was, from a Japanese point of view at least, rather fortunate, as it led to increased US investment and a general expansion of economic activity. As we shall see, Japan's initial role in US 'grand strategy' as an anti-communist bulwark continues to have important long-term repercussions on Asia-Pacific trade relations. In the short-term Cold War context, traditional textile industries benefited and, more significantly, heavy and chemical industries received an important boost, producing the circumstances in which 'the basic structure of the postwar Japanese industrial policies . . . took definitive shape'.\(^9\) While Japan might not have created these fortuitous circumstances its leadership was able to take advantage of them through important strategic initiatives.\(^10\)

While MITI was neither the only, nor necessarily the most important of Japan's bureaucratic arms it, nevertheless, played a crucial role in Japan's development. MITI was central in controlling and directing the flow of capital

\(^10\) The practice of *amakudari*, in which prominent bureaucrats 'retire' to positions in politics or industry enhances the relative influence of the bureaucracy and facilitates the implementation of policy.
through 'temporary' foreign exchange and trade laws. Moreover, MITI had the power to allocate foreign exchange to would-be importers of essential capital equipment, giving it crucial leverage in its desire to promote particular forms of industrialisation. Yamamura argues that the industrial policy of this period combined a policy of protecting the domestic market while promoting the 'oligopolisation' of major industries, ensuring favoured companies a captive and potentially lucrative market, the latter being a crucial domestic development incentive. Firms were encouraged to expand in proportion with existing market share. This ensured growth prior to internationalisation, as well as generating domestic competition without destabilisation, giving rise to what has been described as the 'compartmentalisation' of the Japanese economy. The problems of economic vulnerability and technological dependence experienced by the Japanese after the war meant that both the state's interventionist role and the powers the bureaucracy acquired were less contested in a period of national reconstruction.

The point to stress here is that, as Okimoto notes, the boundaries of 'market failure' were and are much wider in Japan. Consequently, unlike the reactive, ad hoc approach to economic policy-making that has characterised Anglo-American economies, Japan's approach has been 'anticipatory, preventative, and aimed at positively structuring the market in ways that improve the likelihood that industry-specific goals will be achieved'. [Emphasis added.]

Bureaucratic Politics

It should also be recognised, however, that MITI's star has waned considerably. While it exercised enormous influence in Japan's high growth period, which

14 A cautionary note is in order here. Morris-Suzuki provides an important corrective to some of the more undifferentiated, historically un-specific accounts of Japan's rapid post-war development by pointing out that the emergence of its important technological capacity in particular was not simply state-led nor confined to the post-war period. Small scale centre of local government and private research and development were critical in allowing Japan to both adopt foreign technology and develop its own, both in the post-war period and before the Second World War. Japan's economic rise appears slightly the less 'miraculous' in the light of such considerations. See: Morris-Suzuki, T (1994) The Technological Transformation of Japan: From the Seventeenth to the Twenty-first Century, Cambridge University Press.
lasted from 1955 to 1973,\(^\text{16}\) in the contemporary era where the Japanese government is under relentless pressure to deregulate its economy further, MITI is no longer the force it was. The same cannot, however, be said of the Ministry of Finance (MoF), which was and remains arguably the single most important force within the Japanese political economy. Fingleton, for example, argues that the MoF amounts to a de facto government as it controls taxation, spending and defence.\(^\text{17}\) Other government agencies - including MITI - are dependent on the MoF for funding, reinforcing the latter’s influence. Additionally, the MoF has virtual carte blanche from Japan’s parliament, the Diet, to regulate and control Japan’s financial sector as it sees fit. It is the MoF’s role in drawing up the annual state budget that is the principle source of the MoF’s power, allowing it to build ‘an empire that is nearly unassailable’.\(^\text{18}\)

Like MITI, the MoF prefers to rely on ‘guidance’ rather than legal sanctions when attempting to implement policy. The Bank of Japan (BoJ) as the central bank is a major instrument of policy implementation, conducting monetary policy, intervening on the foreign exchange markets, and acting as a lender of last resort for the commercial banks. The ‘window guidance’ policy of the capital-scarce years up to the 1970s was effective in ensuring city bank compliance with MoF and industry policies: cooperation was ensured via the provision of cheap loans.\(^\text{19}\) The BoJ’s power has diminished, however, as firms have either raised capital internally as profits expanded, or sought finance in the evermore powerful and accessible international markets. Despite this, the MoF’s policies have fostered the development of ‘national champions’ (Nomura, Daiwa and the like) in the financial sector.\(^\text{20}\)

This draws attention to one of the most fundamental challenges to the distinctive ways in which the Japanese political economy is organised: deregulation. Even though there would seem to be irrefutable evidence as to the efficacy of the Japanese developmental state and the benefits of ‘intervention’, there is growing pressure for the influence of the bureaucracy to be lessened in the interests of purported efficiency gains and/or equity in

international trade. There are international and domestic aspects to these
deregulatory pressures. As Japan has become a more powerful and significant
economic actor it has been increasingly drawn into attempts to manage
international economic relations, particularly as they impact on currency
relativities.21 There has been an inevitable diminution of the autonomy of
Japan's policy-making elite as national policies are partly circumscribed and
determined by international obligations. Furthermore, Japan's relationship with
the US - which is considered in more detail below - helps explain and may
exaggerate the 'reactive' nature of Japanese foreign policy in general.22 As we
shall see, the US has enthusiastically tried to take advantage of Japanese
equivocation to encourage deregulation in Japan - often at the direct urging of
US-based multi-nationals that consider themselves unfairly locked out of the
Japanese market.23

Even within Japan there is a growing domestic reform lobby.24 To a large extent
this appears to be an inevitable consequence of even limited deregulatory
initiatives: as the MoF relaxed its control over capital flows Japanese-based
companies were able to access global financial centres and raise capital more
cheaply outside Japan.25 Similarly, Japan's rapidly expanding financial and
banking sector was keen to follow its clients overseas and establish a global
presence to compete with US and European rivals.26 Significantly, it was

21 Funabashi, Y (1988) Managing the Dollar: From the Plaza to the Louvre, Institute for
22 Calder argues that Japan's external policy is characterised by 'hesitancy' and a 'deferential'
attitude to the US in particular. Calder attributes this deference to a perception of economic
vulnerability exacerbated by a fragmented state structure. Different branches of the state
remain in 'perpetual domestic conflict', with the result that policy making is a site of intense
contention between the representatives of various domestic interests. The possibility exists,
Calder argues, for 'crosscutting communities of interests' to be established between groups
within Japan and external parties, where outside pressure is utilised to pursue a domestic
Explaining the Reactive State", World Politics, 40 (4): 522. Furthermore, it has been argued, for
example, that domestic pressure was more influential in ensuring the continued liberalisation of
the Japanese financial sector, as indigenous oligopolists moved to protect overseas market
access; foreign pressures were mediated by Japanese capitalists: Encarnation, Dennis J., &
Mason, Mark (1990) "Neither MITI nor America: The Political Economy of Capital Liberalization
17th: 16-8.
25 As Helleiner notes, members of 'Tokyo's financial community' have acquired significant
external assets which they are keen to protect, and have therefore attempted to encourage a
more 'internationalist' attitude on the part of government officials. Helleiner, E (1992) 'States
26 In Japan domestic banks were able to harness external pressures as a catalyst for change.
Cornell University. At the same time the new financial markets meant that Japanese industry
domestic pressure from large exporters keen to protect overseas markets, rather than simply foreign pressure, that was crucial in encouraging the liberalisation process in Japan. However, as Encarnation and Mason observe, by that time Japanese oligopolies dominated the home market effectively excluding rivals and neutralising the possible negative effects of such liberalisation on the Japanese economic space. 27

The deregulation process in Japan is an issue of critical importance not just for Japan itself, but also for those nations that wish to draw on Japan's huge capital surpluses. 28 While deregulation may be seen as part of a global trend, its effects in Japan have been particularly marked given its interventionist heritage. Although deregulation in Japan has been 'cautiously incremental' and predicated upon a desire to 'maintain balance' between institutions effected positively and adversely by change, 29 it has been persuasively argued that the liberalisation process was an inevitable, if unanticipated, corollary of government policy: the government deficits that appeared in the wake of the 'oil shocks' were financed by bond issues that could not be absorbed within the local market, thus setting the stage for the latter's internationalisation. 30 The first oil crisis caused an expansion of government fiscal policy as increased public debt was used to offset private spending caution, representing what Suzuki considers to be a major structural change in the economy. 31

Despite attention rightly having been drawn to the reactive nature of much Japanese policy-making, the domestic basis for change indicated above needs to be acknowledged. The Japanese experience has an important comparative function for the Australian case: clearly, if a larger, more structurally powerful economy like Japan's was unable to resist the pressures exerted by the

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internationalisation process, Australia could hardly have expected to maintain an autonomous economic posture. In this regard the Japanese government or, more accurately, the MoF faced a similar dilemma to Australian policy makers: ensuring Tokyo’s place as a global financial centre without relinquishing control of the economy. Unlike Australia, however, in Japan there was less consensus - especially amongst Japan’s still powerful bureaucratic elite - about the wisdom of full scale deregulation. Indeed, Argy’s comparative analysis suggests that Japanese capital controls were relatively successful in stemming the volatility increased exposure to global financial markets brings until the beginning of the ‘bubble economy’.

Managing International Structural Adjustment

Japan’s efforts to accommodate the inevitable shocks increased exposure to and integration with the wider GPE merit examination for two major reasons: firstly, they provide an important insight into the operation of the contemporary Japanese political economy; secondly, they give some indication of the possible course of Japanese economic and political development with which economic partners, like Australia, will have to deal. The manner in which Japanese industry adjusted to new economic imperatives, especially its relocation to other countries, will be a major concern of the next chapter. At present, greater attention will be given to assessing the impact of the high Yen (endaka) and the bubble economy on the distinctive relationships that have distinguished the Japanese political economy. The intention here is not to present a detailed account of Japan’s structural adjustment process - although the implications of this will be considered more fully in the next chapter - but to

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33 Argy, V (1987) International Financial Liberalisation - The Australian and Japanese Experience Compared, Centre for Studies in Money, Banking and Finance, Macquarie University. Despite the MoF’s attempts to manage the liberalisation of Japan’s financial sector deregulation of interest rates has potentially serious implications for the MoF’s ability to manage the macro-economic environment. Allowing banks more autonomy in setting interest rate levels may not only increase the cost of capital for Japanese business, but also threaten the competitive position of the postal savings system. The significance of the postal savings system in Japan should not be underestimated: in 1987 it was estimated to hold $US 2,300 billion deposited at minimal rates of interest. Its attraction for depositors lies in its security, convenience and potential for tax evasion. These deposits have been re-routed through institutions like the ‘Fiscal Investment and Loans Program’ and into government instrumentalities like the Japan Development Bank, the Export-Import Bank, the Small Business Finance Corporation and many others, providing a critical source of cheap capital with which the government could influence the development process. See: Reading, Brian (1992) Japan: The Coming Collapse, London, Weidefeld & Nicolson: 126/7
assess the impact of economic change on the theory and practice of Japanese economic management.

That Japan currently has serious economic problems is not in doubt. Japan's banking sector is faced with the possibility of systemic collapse,\(^{34}\) or the necessity of providing an estimated ¥30 trillion ($A500 billion) to forestall it.\(^{35}\) In the event of the often volatile Nikkei stock average falling below 12,000 points there are concerns that even Japan's large 'city banks' may have trouble meeting their capital adequacy ratios.\(^{36}\) The possibility of banks dramatically improving their short term positions has been lessened by a general collapse in property prices,\(^{37}\) and the potential for a period of widespread deflation.\(^{38}\) In addition, as we shall see in greater detail in the next chapter, the appreciation of the Yen threatens the competitiveness, even the viability of large areas of Japanese industry.\(^{39}\)

Critics of Japanese government-business relations have used the Japanese economy's current difficulties to promote market-oriented reforms. Reading, for example, considers the 'Japanese economic system' to be 'corrupt, paternalistic and nepotistic, a neo-feudal system operated for the benefit of powerful and wealthy political and industrial dynasties'.\(^{40}\) While Marxists might contend that these qualities, even if overstated, are not unique to Japan, their significance here is as an exemplar of one end the spectrum of analysis of Japan. At the other, is Vogel's altogether more approving review of the MoF's management of the deregulation process in Japan: not only does Vogel consider that the MoF was able to maintain control of the pace and style of deregulation, but he contends that this avoided the 'incoherence' and

\(^{36}\) Japanese banks are allowed to count 45% of their unrealised capital gains derived from long term share-holdings as part of their reserve assets. However, with the decline of real estate values and stock market prices it has become apparent that Japanese assets are generally grossly over-valued. Bremner, B (1995) 'And now for the Really Bad News . . . ', Business Week, July 10th: 16/7; Boyd, A (1993) 'Japanese Banks Under Fire for Heavy Exposure to Stocks', Australian Financial Review, Dec 20th: 20. This not only has serious implications for Japan: in the event of the banks and others being forced to sell assets to meet obligations a general global capital shortage is possible as overseas holdings are liquidated.
'disruption' that characterised deregulation in the Anglo-American economies. Clearly, in the light of Japan's current difficulties, such a depiction is overly optimistic. What these contending perspectives illustrate is the notorious polarisation of theoretical interpretations in analyses of Japan and the need for a more balanced picture.

In this context, Calder's recent study is a noteworthy re-appraisal of governmental-business relations which draws attention to the role played by Japan's business class, and stresses the importance of the 'intense' dialogue between the public and private sector that is often neglected by statist accounts. Calder suggests that much of Japan's developmental direction and initiative came from the private sector in general and the long term credit banks in particular. The government, or the policy-making elites in the bureaucracy, were plagued by 'hesitancy' and 'clientelism', he claims. Certainly, the notoriously corrupt construction sector in Japan appears to confirm that a mutually rewarding nexus can develop around the allocation of government spending and exert a major influence on subsequent policy. Assessing the relative strength and influence of the parties is, however, a complex problem, and one best determined in specific circumstances. Samuels' study of Japan's energy markets is valuable in this regard, giving a more nuanced account of what he describes as 'reciprocal consent', or the 'transactional nature' of Japan's business-government relations 'in which firms give the state jurisdiction over markets in return for their continuing control of those markets'.

What such studies indicate is that the degree of control exercised by 'the state' is contingent and liable to vary in different sectors of the economy. Moreover, undifferentiated conceptions of a monolithic state unproblematically wielding power over and directing industry are no longer useful - if they ever were. Sheridan provides an example of this school of thought which considers that 'the state's' planning is not only undiminished, but that its symbiotic relationship with private capital is necessarily beneficial and to be admired. The problem with this type of analysis is that it ignores the inevitable diminution of control

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over the economy and alterations in the relative balance of power that internationalisation brings, and makes unwarranted assumptions about economic development per se: it is one thing to recognise the effectiveness of government-business cooperation in Japan in promoting economic expansion, it is quite another to assume that this necessarily involves a component of social progress or redistribution. More usefully, however, Sheridan emphasises that government administrators and policy-makers in Japan have tended to be generalists, and that 'specialist knowledge and training of bureaucrats as economists has not been favoured as much as elsewhere in the world'.46

While it may be tempting to glibly conclude from this observation that narrowly trained economic experts may not be as effective as pragmatic generalists in developing a sense of national purpose and reacting flexibly to contingent circumstance, it is more useful to probe the wider ideational context that has produced such an approach and which is likely to influence the course of Japan’s structural adjustment process. Plainly, bureaucratic involvement in the conduct of economic management is not seen as ‘interference’ in the otherwise efficient operation of market forces - as the dominant discourse in Australia would have it - but as a legitimate function of government. Certainly, the spectacular success of the Japanese economy, at least as measured in relative GDP increases, tends to further legitimise this role. But it is important to recognise that the inspiration for the techniques and strategies of economic management that policy-makers draw on is, especially in the domestic context, strikingly different from that which obtains in the Anglo-American economies.

Although there has been little acknowledgment amongst orthodox economists about the potential impact of such ideational considerations on policy and the conduct of international economic relations, there has been greater recognition of this phenomenon amongst political-economists, especially in the US.47 As we shall see in the next chapter, many of these so-called ‘revisionist’ scholars currently occupy influential positions in the Clinton administration’s economic policy-making apparatus - a reality that threatens to further undermine the...

idealised operation of market forces posited by the dominant Australian discourse. At present, however, it is important to recognise the influence of an alternative discourse, one not predicated upon the assumptions of neo-classical economics, which informs the conduct of economic policy in Japan. Friedrich List, rather than Adam Smith, has been a more significant theoretical influence in Japanese economic discourse. For List national well-being was dependent upon what a country could make, not what it could buy; an idea which helps to account for the enthusiasm shown by government and business in Japan for controlling key technologies and privileging market share over profitability, revisionists contend.

There existed, therefore, a distinctively different political rationality and tradition of governmental involvement and intervention in the economy, one which drew its inspiration from an alternative stream of economic thought and which was legitimised by the overall success of the Japanese economy. However, this role has been subjected to increasing criticism in the recent past, as Japan's economic growth has slowed and its industry shown unaccustomed signs of vulnerability. While much orthodox commentary predictably emphasises the supposedly negative influences of bureaucratic 'interference', what is less often observed is that most of Japan's current difficulties are directly attributable to the relaxation of government controls over the economy. The excesses of the bubble economy in Japan have similar origins to those experienced in Australia. The opening up of the domestic financial sector certainly permitted greater competition amongst lenders, but this was not the unqualified boon its advocates predicted. On the contrary, left to their own devices Japanese banks demonstrated a similar incompetence and lack of caution to their Australian counterparts. The difference was, of course, that an economy the size of

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51 Mallaby provides a typical assessment of this type. He argues that not only is the Japanese bureaucracy inherently inefficient, but that a western-style 'intellectual revolution', supported by the individualising effects of technological development, will inevitably see Japan dispense with the qualities that distinguish its brand of capitalism in favour of those of the more efficient west. See: Mallaby, S (1994) 'Oriental Renaissance: A Survey of Japan', The Economist, July 9th.
52 As the liberalisation of Japan's financial markets allowed Japanese borrowers to tap into global markets, local banks increasingly chased market share and lent money recklessly, especially to real estate developers. The inevitable crash threatens not only the viability of
Japan's experiencing rapid asset inflation, currency appreciation and a general relaxation of capital flows had significant impacts on other economies as well. These will be considered in more detail in subsequent chapters.

It is Japan's sheer economic weight in the region that makes its domestic policy and its subsequent impact on capital flows of such importance to its neighbours, including Australia. We have seen that there is evidence to suggest that the ability of the bureaucracy to imprint its will unproblematically on corporate activities in Japan is diminishing. True, MITI continues to produce 'visionary' statements about its preferred developmental course but, as we shall see, it is unclear how closely business follows such injunctions in the post-growth era where the necessity for co-operatively engineered national development is less pressing. What is also of significance here is the degree to which changes in Japan's political system will effect not only the relative balance of power between the bureaucracy and the nation's political elite, but also - and more pertinently for our purposes - the manner in which policy is constructed and external economic relations are conducted.

The Political Dimension

Although the implications of Japan's model of politico-bureaucratic decision making are generally neglected by orthodox economic accounts, their possible impact has long been recognised by the revisionist camp. The primacy of the bureaucracy and the distributional coalitions that have coalesced around it place crucial constraints upon possible policies. A crucial distinguishing feature of the Japanese polity is the reduced influence of politicians in general and the prime minister in particular. Consequently, as van Wolferen suggests, despite intense competition within politics, business and the bureaucracy:

... the relationships that count do not normally involve major problems, notwithstanding the great rivalries. The bureaucrats tinker with the economy, making adjustments to facilitate its growth. The politicians and almost everyone else keep out of their way. Parliamentary representatives, largely chosen for their pork-barrelling skills, attend mainly to the business of getting re-elected. Since this depends largely on their ability to spread the national wealth politicians are perpetually indebted to the bureaucratic guardians of the budget. The industrialists continue to expand their foreign market shares, and enter new markets with the help of the bureaucrats. They are kept in line by their peers; and they pay the politicians. Nobody is boss, but everybody, in some way or other, has leverage over somebody else, which helps ensure an orderly state of affairs. ... Power in Japan is thus diffused over a number of semi-self-


contained, semi-mutually dependent bodies which are neither responsible to an electorate nor, ultimately, subservient to one another. While all these bodies share aspects of government, it is impossible to find one among them that gives the others their mandate.\textsuperscript{54}

It is not necessary to endorse all van Wolfren’s thesis about the Japanese ‘system’ and its supposedly all-embracing methods of elite directed social through enforced harmony,\textsuperscript{55} to conceded that his depiction has a good deal of credibility, especially about the pre-bubble polity.\textsuperscript{56} The important question is whether the contemporary difficulties experienced by Japan’s economy will sufficiently de-legitimise the existent model to create the preconditions for a substantial transformation. Certainly, prominent politicians like Ichiro Ozawa have received much attention for suggesting that Japan become a ‘normal’ nation, in which the political class enjoys a degree of influence and power comparable with its western counterparts, and the political system itself is subject to greater contestation, rather than the continued monopolisation by the Liberal Democratic Party (LDP).\textsuperscript{57} Even within the LDP itself, the recent election of Ryutaro Hashimoto as LDP leader and subsequently Prime Minister continues a trend toward more powerful, western-style political leaders.\textsuperscript{58} However, despite the rhetoric of reform it is possible that the LDP’s continuing reliance on a powerful agricultural lobby and links with the bureaucracy will militate against dramatic change.\textsuperscript{59}

While such sentiments may be superficially attractive, and have received optimistic endorsement by western commentators,\textsuperscript{60} it remains to be seen how significant any change will be. Ozawa’s own consummate political skills

\textsuperscript{56} It should be noted, however, that there is convincing evidence that the bureaucracy’s power in relation to their supposed political masters continues and has been demonstrated in the MoF’s refusal to allow Hosokawa’s proposed tax cuts without a corresponding increase in consumption tax and the Ministry of Foreign Affairs’ insistence that he cease making references to ‘Japan’s war of aggression’ during World War II. McGregor, R (1994) ‘Captive of Tokyo’s Counter Terrorists’, \textit{The Australian}, February 22nd: 9.
\textsuperscript{57} Ozawa, I (1994) \textit{Blueprint for a New Japan: The Rethinking of a Nation}, Kodansha International, Tokyo.
\textsuperscript{59} What may prove of greater significance is Hashimoto’s more abrasive approach to US-Japan relations generally and trade talks in particular. See: Hartcher, P (1995) ‘Japan’s emerging leader has a “US revulsion”’, \textit{Australian Financial Review}, September 18: 11.
\textsuperscript{60} Calder, for example thinks that Japanese politics is currently ‘intensely dynamic’ as the ‘economic and strategic’ circumstances that underpinned LDP rule have been transformed. But even he concedes the importance of the networks of personal contacts that permeate Japan’s political-bureaucratic establishment and which are central to decision making processes. See: Calder, K (1993) ‘Japan’s Changing Political Economy’, in Unger, D & Blackburn, P (eds) \textit{Japan’s Emerging Global Role}, Lynne Rienner, Boulder:121-129.
garnered in the LDP and his ability to manipulate factional interests do not suggest more democratic processes are imminent. Indeed, it remains to be seen how significant the proposed changes to the Japanese electoral system itself will prove in transforming Japanese money politics. Japan is clearly in a period of major adjustment to external economic forces that are having complex effects within the domestic political-economy. It is both unrealistic and unprofitable, therefore, to attempt any definitive assessment of what the likely long-term impact of such forces will be. The important point to recognise here, however, is that the adjustment process will be mediated by identifiable domestic actors who will help to determine its course and the sorts of policies and strategies that accompany it. Japan has specific, historically-constituted social and political forces that will influence policy outcomes and with which trading partners will have to deal. While it might not be possible to determine in advance precisely what form Japan's adjustment policies will take, it is possible to identify some of the more significant actors that will determine them and the likely consequences of their relative influence.

Of central importance here will be the position of corporate Japan. To reiterate a theme that has been central to this thesis: it is multi-national corporate capital that is the primary agent of global transformation and with which national policymakers must seek to deal. It is important, therefore, that the structure and operational logic of Japanese industry is clearly illustrated; as it will be corporate Japan that exerts a critical influence not only on domestic policies and adjustment but also upon the policies of its trading partners as they seek to position themselves to maximise the opportunities Japanese adjustment presents.

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61 It is noteworthy in this context that Ozawa has been accused of accepting cash ‘donations’ from the notoriously corrupt construction sector, which both confirms the continuing importance of money politics and raises doubts about the extent of any move to more transparent business practices that might be accessible to foreigners. See: McGregor, R (1993) 'Bribery Claim Hits Japan's New Kingpin', The Weekend Australian, 6-7 November: 11.

Collective Capitalism

Several key ideas have emerged from our general and comparative discussions of international economic transformation. Firstly, the course of national development, while heavily constrained and contingent, was not inevitable. Secondly, national policy-makers were and are able to exert varying degrees of influence upon the activities of domestically-based and international capital. Thirdly, the manner in which particular enterprises are organised depends not only on the industry sector and productive process with which it is engaged, but also upon the particular national and historical milieu from which it emerged. This is nowhere clearer than in the case of Japan. While it is important to acknowledge that there may have been an element of exceptionalism about Japan’s historical developmental experience and the contingent social and political circumstances that informed it, the ‘Japanese model’ is no longer of simply parochial interest. On the contrary, not only have elements of the Japanese model been self-consciously emulated and transplanted in countries like Korea, Taiwan and to a lesser extent Malaysia, but Japan is becoming less self-effacing about the merits of its particular form of capitalist organisation. Rather, Japan appears to be self-consciously attempting to export its corporate style to its neighbours, in direct competition with the ‘hegemonic’ Anglo-American, laissez faire model. 63

Therefore, as Japan is increasingly the dominant economic actor in Australia’s region, comprehension of the specific operational logic that informs the companies that have developed there is essential, not only to facilitate interaction with the Japanese political-economy, but also to gain some insight into the operation of a more generalised model of ‘Asian’ capitalism. 64 Again, an historical perspective - something generally conspicuous by its absence in neoclassical models - is an indispensable part of any explanation.

In the last chapter Lazonick’s valuable schemata, which distinguishes between three broad, historically sequential forms of capitalist enterprise...

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64 Care needs to be taken here in distinguishing between those forms of capitalism in Asia that more closely follow the Japanese model, and those which resemble Chinese-style patterns of development. While these distinctions are important, the willingness to adopt a more pragmatic and interventionist role on the part of government is something that is relatively widespread and owes a good deal to the Japanese exemplar. See: Whitley, R (1991) ‘The Social Construction of Business Systems in East Asia’, Organization Studies, 12 (1):1-26.
organisation - proprietary, managerial, and collective - was briefly introduced. Proprietary capitalism was associated with the industrial revolution in Britain and characterised by the integration of asset ownership and managerial control. The crucial evolutionary distinction of managerial capitalism was the separation of ownership from control, allowing a greater degree of managerial specialisation and complexity, which in turn permitted the organisation and coordination of much larger scale production, including the physical, human and financial resources that underpinned such expansion. The emergence of publicly owned joint stock companies conferred a greater degree of control on the new class of corporate managers and created a vastly expanded pool of capital with which to further enterprise growth. An increasingly specialised division of labour and multi-divisional structure within individual companies allowed expansion of the scale and scope of corporate activities as well as their spatial dispersion. However, by end of the 1960s the limitations of what might be broadly characterised as a Fordist mode of accumulation were becoming apparent. Simultaneously, and especially since the 1970s, it was clear that Japanese capitalism was not only outperforming its western counterparts, but appeared to be organised on distinctly different organisational foundations.

Notwithstanding the ideational dominance of a discourse predicated upon the nostrums of economic liberalism at the height of Britain and the US’s greatest economic influence, Lazonick rightly observes that the state played a crucial role in reinforcing that economic paramountcy through discriminatory trade practices. In this regard Japan’s rise has followed a similar path, although with notably less emphasis on ideological proselytisation. In the Japanese case the role of the state has been more comprehensive in attempting to coordinate the extent and direction of Japanese industrial development. This has encouraged the planned coordination of vertically related companies and more integrated forms of financial control. At the same time organisational integration extends throughout the corporate hierarchy to include the general labour force, creating a situation where:

The combination of far-reaching organizational integration with private-sector manufacturing and the activist role of the state in creating an economic and social environment conducive to the emergence of innovative business enterprises represents a qualitatively new mode of business organization in the evolution of capitalism.66 [Emphasis added.]

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Whether this means that other business organisations will be forced to emulate Japanese practices to compete, or whether Japanese capitalism is the inevitable and inescapable form of future global economic development are interesting questions, but ones that are both impossible and unnecessary to answer here. The important point to recognise is that Japanese capitalism as it currently exists - and with which outsiders must contend - operates in particular ways which need to be understood and acknowledged.

Production and the Japanese Firm

Before considering the distinctive, overarching organisational structures within which many Japanese firms are located, it is worth briefly reviewing some of the distinctive qualities, 'flexible rigidities' to borrow Dore's evocative term,\(^{67}\) that appeared to have conferred a competitive advantage on Japanese industry and to which competitor nations have attempted to respond.

The production process in Japan displays distinctive characteristics. Japan has what has been described as a 'dual economy', in which the relatively small number of large manufacturing enterprises use sub-contract suppliers to provide them with productive inputs - to such an extent that only an average of 25 per cent of the value added is generated internally by the company that sells the final product, compared with 50 per cent in the US or UK.\(^{68}\) The large companies derive numerous benefits from this arrangement: the risks inherent in specialization are diversified; a core pool of life-time employees can be retained with fluctuations in labour demand being absorbed by the sub-contractors; output levels can be adjusted easily and flexibly; parts inventories can be kept low, reducing costs and allowing just-in-time delivery and rigid quality control procedures to be practiced.\(^{69}\) Sub-contractors also have an ability to act as 'shock absorbers' in cushioning the impact of external fluctuations in demand. Suppliers are systematically squeezed by the assemblers, especially in downturns - something that has enabled Japanese industry to make remarkable adjustments to the appreciation of the Yen, and the loss of competitiveness that implies. Additionally, suppliers are expected to


provide productivity improvements and demonstrate total loyalty in what has been described as an almost feudal relationship.  

As we shall see, however, this system is under pressure; as is perhaps the most distinctive of all Japanese practices: life-time employment. There is a good deal of debate about the significance of labour's place in corporate Japan, much of which is germane to our discussion, as it is a potential source of competitive advantage and the possible template for domestic Australian labour reform, both within Japanese subsidiaries, but more broadly as a response to the imperatives of 'Asian competition'. Superficially the depiction of Japanese firms as 'coalitions of stakeholders' seems to refute the zero-sum, inherently exploitative conception of capitalist production presented by Marxists in particular. Certainly, the idea that labour is not simply dispensed with in the event of economic downturn lends weight to this idea. However, critics contend that Japanese labour processes simply amount to more efficient methods of extracting surplus value from the labour force, in which individual workers are crucial components of enhanced productivity. A more measured assessment suggests that the achievement of life-time employment is a significant victory for the third of Japan's labour force to which such benefits apply, and an integral part of Japan's 'post-Fordist' mode of accumulation.

Clearly a cooperative workforce with company-based unions makes the task of Japanese corporate management simpler. Ironically, however, when enterprise bargaining appears to be gaining ground in Australia, the basis of

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72 According to the recently appointed and potentially influential director general of the International Finance Bureau at the MoF, Japan has succeeded in 'eradicating the capitalist class as a whole'. While Marxists might regard this as an inherently implausible and fanciful claim, it is revealing example of the thinking of senior bureaucrats and that continues to inform the policy-making process. See: Sakakibara, E (1992) 'Japan: Capitalism Without Capitalists', International Economic Insight, 3 (4): 45-7.
75 Lash and Urry contend that Japanese corporate organization represents one ideal-typical variant of post-organised capitalist 'reflexive accumulation', in which knowledge and information play an increasingly important role in determining profitability. In this context, the 'collective self-monitoring' of the workforce allows the rapid transmission of information within the firm and becomes a crucial source of competitive advantage, permitting flatter production structures and more effective quality control. Lash, S & Urry, J (1994) Economies of Signs and Space, Sage Publications, London: 65-80.
this compromise between capital and labour in Japan - security of employment - is increasingly under threat. International competition and the hollowing out of Japanese manufacturing - described in more detail in the next chapter - are forcing Japanese companies to shed labour. What is of most significance here, however, is that one of the original sources of Japan's competitive advantage - stable employment relations and life-long skill acquisition with one employer - is simply not consistent with the model of a mobile labour force flexibly responding to the demands of market forces, as both orthodox theory and Australian business rhetoric might indicate. Conventional interpretations of the larger structures of Japanese corporate capital are similarly inadequate.

Japanese Industrial Groups

The shortcomings of the neo-classical model and its assumptions of ideal-typical economic actors and perfect competition are nowhere more apparent than in its conception of individual enterprises. As we have seen, the evolution of more extensive productive activities conferred specific advantages of scale and scope: oligopolisation was not necessarily a source of 'inefficiency' but the potential basis of significant competitive advantage for individual enterprises. In Japan these potential benefits were recognised and supplemented by a range of institutional and situational factors that conferred additional advantages on Japanese corporations.

77 On the other hand local industrial relations practices seem not to be a critical determinant of Japanese investment decisions, at least as far as imposing a Japanese style set of labour relations is concerned. Generally, Japan's distinctive pattern of labour relations is not transplanted overseas, following local practices instead. Levine, S & Ohtsu, M (1991) 'Transplanting Japanese Labour Relations', ANNALS, AAPSS, 513, January:102-16.
78 In neo-classical theory the activities of firms parallel those of utility maximising households. In Marshall's conception, for example, the 'law' of diminishing returns fulfilled the same purpose as marginal utility for households. Importantly, the neo-classical model rests on ideal-typical abstractions and assumptions, the most significant of which was that competition between firms would prevent any single enterprise from achieving an oligopolistic position and influencing or 'distorting' market prices. Even Clark's subsequent and more sophisticated 'marginal productivity theory of distribution' is predicated upon 'natural laws' that efficiently and fairly allocate resources when unfettered; income is equal to the value of each productive factor's marginal product. It hardly needs to be said that the distribution of the surplus created in production is a more complex process that such a model suggests. More pertinent here, however, are the untenable assumptions the neo-classical model continues to make about both the firm and the individual utility maximising entrepreneur at the centre of such conceptions. See: Hunt, E (1979) History of Economic Thought: A Critical Perspective, Wadsworth, California, Chapter 12, passim.
Mention has already been made of the zaibatsu, the privately-owned industrial empires that dominated the Japanese economy before World War II. Johnson suggests that US attempts to break-up the zaibatsu groups in the post-war period were instrumental in entrenching the influence and power of the bureaucracy and establishing the preconditions for the type of government-business cooperation that characterised Japan's high-growth period. In addition, Aoki argues that the attempted dissolution of the zaibatsu amounted to a 'managerial revolution from above' which introduced a new cadre of 'technocratic' managers who inaugurated many of the organisational innovations associated with the organisation of Japanese capitalism. While Aoki's observations draw attention to significant aspects of post-war change, it is important not to neglect the political aspects of what might otherwise appear as simply neutral and 'technical' responses to the problem of post-war reconstruction: Japan's distinctive labour relations system, for example, emerged as an attempt to control an increasingly politicised and recalcitrant labour force. Similarly, the extent of US attempts to reform Japan's corporate structures was constrained by nascent Cold War strategic imperatives.

Consequently, older zaibatsu groupings like Mitsubishi, Mitsui and Sumitomo, far from disappearing, became pillars of Japan's post-war political economy. The continued importance of the huge Japanese industrial groups is easily demonstrated: although there were over 1.5 million corporate enterprises registered in 1982, only 2,455 were classified as 'big businesses' (over ¥1 billion capitalisation), while 'very big business' (over ¥10 billion capitalisation) represented a mere 322 firms. In addition to Mitsubishi, Mitsui and Sumitomo, the Fuyo, Dai-Ichi Kangyo and Sanwa Groups make up the 'big six' industrial groups that dominate Japan's economy.

Deciding quite what to call the post-war industrial groups is itself slightly contentious. Odagiri argues that it is important to distinguish between

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hierarchically organised groups (*keiretsu*), and horizontally organised, nominally independent firms (*kigyo-shudan*).

This is an important distinction, but I shall follow Gerlach in utilising the term *keiretsu* as a general conceptual term, in which:

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

In what follows, therefore, I shall use *keiretsu* as a generic term and specify the nature of particular group structures where necessary.

**Keiretsu Networks**

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

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member of the wider Tokai Group, which includes a range of companies involved in diverse activities from finance to construction and retailing.

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

*Sogo Shosha*

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

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89 This is something that revisionist scholars have suggested is responsible for Japan's rapid takeover of large shares of the US market in the electronic and automotive industries. See: Vogel, E (1987) *Japan As No 1: Lessons for America*, Tuttle, Tokyo: 133-8.
For this reason, the table reproduced above uses the trading companies as the major organisational focus, rather than the more conventional depictions of industrial groups centred around one of the 'big six', like Mitsubishi, for example. \(^91\)

Table 2

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<tr>
<th>GTC</th>
<th>Main Bank</th>
<th>Business Group</th>
<th>Main Members</th>
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<tbody>
<tr>
<td>Mitsubishi Corporation</td>
<td>Mitsubishi Bank</td>
<td>Mitsubishi Group</td>
<td>Mitsubishi Group</td>
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<td>Mitsui Bussan</td>
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<td>Sumitomo Corporation</td>
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<td>Marubeni Corporation</td>
<td>Fuji Bank</td>
<td>Fuyo Group</td>
<td>Yasuda Group, Shoden Group, Nissan Group, Hitachi Manufac. Gro.</td>
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<td>C Itoh</td>
<td>Sumitomo Bank</td>
<td>Dai-ichi Kangin Group</td>
<td>Furukawa, Kawasaki Group, Seibu Group</td>
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<tr>
<td>Nissho-Iwai</td>
<td>Sanwa Bank</td>
<td>Sanwa Group</td>
<td>Obyashi Gumi, Hitachi Shipbuilding, Teijin, Ube Kosan, Han Kyu Group, Sekisui Chemical</td>
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<tr>
<td>Tomen</td>
<td>Tokai Bank</td>
<td>Tokai Group</td>
<td>Toyota Group, Meitetsu Group, Chiyoda Group</td>
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<td>Kanematsu Gosho</td>
<td>Tokyo Bank (Dai-ichi Kangyo Bank)</td>
<td>Kanematsu Gosho Group</td>
<td>Dai-ichi Kangin Group</td>
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The trading companies emerged largely as a result of Japan's resource dependence. The process of national industrialisation inaugurated in the early Meiji period meant that Japan was necessarily forced into greater trade with the

\(^91\) However, for particularly useful examples of this sort see: Eli, M (1990) *Japan Inc.: passim.*
rest of the world. The trading companies rapidly expanded and took over the organisation of Japan's export and imports, allowing them to play an important role in facilitating - even leading - national industrialisation and economic development. 92 Their role and operations have subsequently expanded but they continue to perform three primary functions: transaction intermediation; financial intermediation (quasi-banking); and information gathering. 93 Even though some Japanese manufacturers have established independent distribution networks, the sogo shosha continue to play a crucial role in securing the resource supplies upon which Japan's expanded manufacturing capacity depended. Less apparent, but equally significant, is the trading companies' role as a financial intermediary where they perform important credit provision and risk-sharing functions. In effect the trading companies act as 'quasi-banks and quasi-insurance agencies', providing important potential competitive advantages for clients. 94 Finally, and perhaps most importantly, the sago shosha provide an unparalleled information gathering and dissemination service for themselves and their clients. As we saw in chapter 1, information has become a crucial source of profit and competitive advantage, something which ensures the sago shosha's continuing relevance. In addition, as we shall see in an Australian context, the sago shosha's group affiliations in combination with its intelligence gathering capacity allow it to significantly advantage its favoured clients when conducting trade negotiations - a development about which neo-classical theory and policy prescriptions flowing from it have little to say.

Equally significant - and similarly neglected by more orthodox analysis - is the role played by the sogo shosha as an instrument of government policy. We have already noted the distinctive connections between Japanese business and government agencies; not only did the sogo shosha facilitate the pursuit of national resource security, but they were instrumental in furthering Japan's industry policies. For example, where large domestic producers imported new technologies to compete with overseas producers, the trading houses invariably ceased importing the foreign good and switched to the Japanese version. 95 As

we shall see, industry policy is less influential (and, arguably, less necessary) than it once was. The role of the *sogo shosha* has been similarly reassessed in the light of Japan's structural adjustment experience. Certainly, individual trading company profitability has declined.\(^96\) It is also clear that the trading companies role as an intermediary is not as crucial as it once was, as Japanese companies have access to alternative lines of credit, and establish their own global distribution networks.\(^97\) However, the *sogo shosha* are showing a striking capacity to re-invent themselves and move into new activities, dealing in their own right and moving into areas of potentially higher profitability like telecommunications.\(^98\) Importantly for countries like Australia, they are also becoming major sources of venture capital as they actively pursue new sources of profit.\(^99\) The implications of this potential increase in investment will be considered in chapter 7. For now, it is necessary to consider another seeming anomaly in Japanese organisation: accounting for Japan's low levels of imports and investment.

### Japan's 'Peculiar' Import Profile

Japan's trade surpluses are the focus of often acrimonious debate and international tension. The question arises as to whether Japan is simply so much better at producing manufactured goods that other nations cannot compete, or whether the Japanese economy has structural qualities that preclude 'fair' competition.\(^100\) Lincoln's exhaustive study of Japan's trade relations demonstrates that Japan's trade pattern is 'peculiar' and unlike other industrialised nations, especially in its low levels of manufactured imports.\(^101\) One of the most striking features of contemporary trade patterns between industrialised nations, as we saw in chapter 1, has been the surge in intra-industry trade - contrary to what comparative advantage theory might lead one to expect. However, Japan remains 'startlingly different', in that it has not

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\(^100\) It should also be noted that Japan is similarly atypical in its levels of inward investment. This is partly accounted for by the difficulty of taking over Japanese firms given their defensive cross-share holding and the consequent necessity of developing 'greenfield' sites which have become prohibitively expensive in the wake of the Yen's rise. During the '70s when merger and acquisition activity increased in the west, the keiretsu actually expanded cross shareholdings to nullify hostile foreign takeovers. See: Lawrence, R (1992) *Japan's Low Levels of Inward Investment: The Role of Inhibitions on Acquisitions*, *Transnational Corporations*, 1 (3): 47-75.
followed the trend evident in other nations and increased intra-industry trade; in fact, argues Lincoln, it is actually lower now than in 1970. Even where intra-industry trade does occur it is at the low-value end of production; a corollary of this is that where Japanese exports are highest, imports are lowest. Of particular significance for Australia is the fact that Australia-Japan intra-industry trade is especially low, even allowing for Japan's atypical trading pattern.

Even those commentators who argue that Japan's market is more open than it was concede that imports remain 'unusually small' and that 'intangible barriers' do play a role in restricting imports. Lincoln is less equivocal in his conclusions, suggesting that while official trade barriers have been reduced, informal barriers remain. Tyson also emphasises the importance of considering the substance of the Japanese trade position, rather than the rhetoric that accompanies 'change', arguing that the Japanese state preserves a 'moving band of protectionism' which restricts meaningful foreign competition to those areas of the economy where Japanese companies are so dominant as to be unthreatened. Given that Tyson is now chairwoman of President Clinton's Council of Economic Advisers her continuing assertions that Japan's different trade pattern is the result of a host of structural impediments assume greater importance. Even if her analysis were wrong the so-called 'revisionist' position is now crucial in constructing US policy responses toward Japan.

Significantly, however, the US perception of Japan as an 'outsider' that does not practice free trade is not shared in Australia, especially amongst the epistemic

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105 Lincoln, Edward J (1990) Japan's Unequal Trade : 15. Amongst the 'informal' barriers Lincoln cites are: variable product standards; difficulty obtaining certification for foreign subsidiaries; customs delays; inadequate intellectual property protection; biased government procurement practices; industry collusion to inhibit imports; informal government advice; product regulations that prohibit foreign goods.
community that helps shape policy. Rather than being seen as a ‘free rider’ Japan is seen as a maligned repository of free-trading virtue.\textsuperscript{109} Drysdale and Garnaut, for example suggest that Japan has the ‘cleanest import system for manufactured goods amongst OECD countries; official tariff barriers have almost no effect on trade’.\textsuperscript{110} The point is, of course, that for ‘revisionist' critics it is precisely the \textit{non official} barriers to trade that are the problem.\textsuperscript{111} Crucial in this regard is the structure of corporate Japan. Lawrence found that where a \textit{keiretsu} member enjoys high sales within an industry, that industry will tend to have lower levels of imports. At one level this may appear unsurprising: if a domestic company dominates a local market there will inevitably be reduced demand for imports. However, Lawrence argues that the existence of \textit{keiretsu} affiliations reduces by half the likely level of import consumption in any industry, and that vertical \textit{keiretsu} are associated with sectors where Japanese imports are ‘unusually low’.\textsuperscript{112} There is evidence, as we shall see in more detail in the next chapter, that competitive pressures and the relocation of Japanese manufacturing are threatening the basis of the \textit{keiretsu} system.\textsuperscript{113} However, it is also important to recognise that the deregulatory process is often glacial, and that there are powerful interests within the bureaucracy and elsewhere resisting

\textsuperscript{109} It should be noted that the depiction of Japan as a free trading, liberal economy is not the exclusive preserve of Australian scholarship - this view has its champions in both Japan and America as well. See, for example: Komiya, R & Itch, M (1988) “Japan’s International Trade and Trade Policy, 1955-1984”, in Inoguchi, T & Okimoto, D (eds) \textit{The Political Economy of Japan:: Volume 2, The Changing International Context}, Stanford University Press: 173-224, in which the authors argue that the free trade position is now the dominant view in policy-making circles in Japan, and has had significant support since the early ’70s. Its influence will be considered in greater detail in the next chapter.

\textsuperscript{110} Drysdale, P & Garnaut, R (1989) \textit{A Pacific Trade Area?}, Pacific Economic Paper No 171, Australia-Japan Research Centre, ANU.

\textsuperscript{111} The latest report from the body specifically charged with broadening Australia’s understanding of the region and facilitating its ‘integration’ into it shows no sign of greatly deviating from the free market orthodoxy. \textit{The Japanese Market for Manufactures Imports} is at pains to emphasise the growth in Japanese imports and the moves the Japanese government has made to liberalise and deregulate - the last point, of course, implicitly concedes the existence of prior problems - even if the Report minimises their current significance. See: Wickes, R & Graves, A (1993) \textit{The Japanese Market for Manufactures Imports: The Door Opens Wider}, Working Paper No 1, East Asia Analytical Unit. The structure of Australia-Japan trade is concerned in greater detail in the next chapter.


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the diminution of collaborative arrangements that have produced palpable benefits for Japanese business.\footnote{114 Oishi, N (1994) 'Deregulation Supporters Face Bureaucratic Foes', \textit{Nikkei Weekly}, Nov 28th: 17.}

Industry Policy

The idea of 'Japan Inc', like many essentially journalistic constructions, has strengths and weaknesses. On the one hand, in admirably short-hand fashion, it draws attention to a style of governance and distinctive relationships between government and industry that distinguish the Japanese political economy. On the other, however, it loses sight of the important differences evident within individual sectors of the economy and the bureaucracy. More importantly, it fails to convey any sense of the intense competition and rivalry that has been evident, not only within the private sector, but also within the bureaucracy and the wider political system. Before attempting to assess whether the Japanese model of economic management and development is succumbing to the demands of intensified international pressure, political pressure, and the seemingly relentless rise of the Yen, it is important to acknowledge its tangible contribution, especially in the area of industry policy.

This chapter has been principally concerned with delineating the factors that appear to distinguish the Japanese model from the idealised abstractions of the neo-classical model that informs so much of Australia's international economic policy. However, a brief review of the effectiveness and role of Japan's industry policy is in order for two reasons: firstly, the application of domestic industry policy will have potential effects on third parties, like Australia, and the conduct of bilateral relations; secondly, the Japanese experience may, once again, provide an important counterfactual to both the theoretical and pragmatic policy paradigm in Australia.

The previous chapter demonstrated that the Australian industry policy experience had been at best mixed - partly as a result of the contradictory theoretical premises policy-makers sought to incorporate. In Japan, while there has been more consistent support for and application of such policies, critics have been quick to point to some conspicuous failures. MITI's inability to persuade the Japanese car industry of the necessity for 'cartelisation' in the domestic market in the 1950s and early '60s - predicated on the assumption that a country of Japan's size could not support more than one or two
manufacturers- was clearly a misjudgment of monumental proportions.\textsuperscript{115} Similarly it is possible to cite more recent examples of policy failure in the areas of high definition television and the attempt to construct nuclear-powered merchant vessels.\textsuperscript{116} However, whether such apparent failures amount to a repudiation of the idea of government ‘intervention’ and the possibility of ‘picking winners’ is less clear.

As we saw in chapter 1, national economic welfare appears to be intimately linked to the control and presence of key technologies within national economic spaces. Without such critical technologies and the intellectual capacities that enable their utilisation, the domestic production of particular forms of wealth generating goods is constrained.\textsuperscript{117} At one level this has an immediate impact on a deteriorating balance of trade position. At a more fundamental level, the absence of a capacity to produce high value-added consumer and industrial goods threatens to undermine national living standards in the long term. The main thing to recognise here is that even if the assumptions that national control of specific technologies is important and that the encouragement of specific wealth-producing industries is possible are wrong, this has not stopped Japanese government and industry from acting as if they were correct.\textsuperscript{118} Japanese policy clearly reveals a sustained pattern of ‘intervention’ and collaboration predicated on the assumption that technology is not only a critical determinant of national welfare, but that technological change is ‘path dependent’, cumulative and therefore susceptible to encouragement via appropriate policy.\textsuperscript{119}

It is not necessary, therefore, to prove or disprove the efficacy of industry policy - although, as we have seen, in both the Japanese and Australian cases, the

\textsuperscript{117} Dosi, G., Pavitt, K., & Soete, L (1990) \textit{The Economics of Technical Change and International Trade}, Harvester Wheatsheaf, New York: 12. Dosi et al stress that export performance (and consequent national economic welfare) is reflected in international differences in ‘innovative activities’. Without national policies to encourage a continued national presence (ie the application of such techniques by domestically-based MNCs) in key areas of science and technology living standards will experience relative, if not absolute decline.
\textsuperscript{118} To judge from the increasing number of patents granted to Japanese firms there is evidence both that such policies are working and that Japanese companies are not simply reliant on copying the ideas of other more innovative societies like the US,. See: Mowery, D (1993) ‘Japanese Technology and Global Influence’, in Unger, D & Blackburn, P (eds) \textit{Japan’s Emerging Global Role}, Lynne Rienner Publishers: 171-93.
weight of evidence suggests that it has been a critical variable in determining sectoral and national economic performance. What is significant here is that industry policy has been and continues to be central not only to Japanese economic organisation, but also to those nations that have self-consciously emulated the apparently successful Japanese model. Throughout the region with which Australia seeks increasing economic integration, therefore, its policy makers must confront the reality of economic practices and policies that do not conform to the idealised abstractions of neo-classical economics.

Where nations are systematically attempting to advantage domestically-based companies or 'national champions' it is not possible to assume that the resultant trade patterns will be the 'positive sum game' orthodox economic analysis might suggest. On the contrary, what Drucker calls 'adversarial trade', or the systematic attempt to eliminate rival companies combined with an unwillingness to participate in reciprocal trade is the logical extension of policies which seek to increase national dominance in specific markets or production sectors. The manner in which Japanese companies systematically usurped the position of their American counterparts, even in the latter's home market, in products like televisions, semi-conductors and cars, is not only testimony to the effectiveness of Japanese corporate organisation but, as we shall see in the next chapter, has created the preconditions for trade regimes that bear little resemblance to the idealisations of orthodox economic theory that inform the position of policy-makers in Australia. What the strategy of Japanese multinational capital in the US reveals is that it had little to do with orthodox conceptions of the primacy of market forces; market share, certainly. Similarly, it is crucial to recognise that US protectionism was the major motivation for Japanese direct investment - Japan's 'comparative' advantage lay in Japan,

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120 Two aspects of contemporary theory are relevant here. Firstly, the level of investment in new equipment continues to be a critical determinant of economic growth levels. Secondly, technological innovation is more likely to occur in some environments than others, and will generate important systemic 'spillover' effects where present. Both areas are ones in which government intervention may play a crucial role. See, respectively: De Long, J & Summers, L (1991) 'Equipment Investment and Economic Growth', The Quarterly Journal of Economics, Vol 106: 445-502; Grossman, G M & Helpman, E (1994) 'Endogenous Innovation in the Theory of Growth', Journal of Economic Perspectives, 8 (1): 23-44.


where it had been created through the intersection of Japanese industry policies and the organisation of Japanese corporations.

**Conclusion**

The distinctive qualities that appear to have underpinned Japan's rapid economic rise are not easily explained by neo-classical economics. Market forces were not the primary driving force of Japanese development; free trade was neither practised nor especially admired.\(^{125}\) Rather, Japan pursued a neomercantilist strategy that tightly bound government, business and even labour into mutually rewarding distributional coalitions, subsumed under the convenient rubric of the national interest. Whether this amounted to the co-opting of labour, the regrettable dominance of oligopolistic capital in collusion with self-serving bureaucrats, or the general corrosion of democracy is less important, for our purposes, than is the recognition that it produced economic and social relationships that are distinctive and which bear little resemblance to the nostrums of orthodox western economic thought - with the notable exception of List. Indeed, it is noteworthy that orthodox western economic thought has had a limited impact on policy and its pragmatic application in Japan.

What effect the increasingly powerful political and economic forces within the global economy will have on the 'Japanese model' of economic development and organisation is, of course, difficult to say. The next chapter will, however, give some indication of important emerging regional patterns of economic activity which will play a large part in determining its future style. What can be said, with some degree of confidence, is the following: firstly, bureaucrats are unlikely to willingly relinquish the source of their power and reward; secondly, where *keiretsu* members can continue to enjoy the benefits of close affiliation and interaction with others in their group without compromising commercial considerations, then it is clear that they will do so. It should also be remembered that the calculus of commercial advantage in Japan is more complex and strategic than the short-term, strictly profit-oriented rationale of their Anglo-American counterparts, precisely because the structure of Japanese corporate capital outlined above has allowed a longer-term perspective to be adopted.

\(^{125}\) This remark requires some qualification for, as we shall see in the next chapter, a handful of Japanese economists did want to establish a free trade zone in the Pacific; an idea that would eventually be championed by Australia.
This latter long-term strategic focus has characterised both corporate capital and the bureaucracy in Japan. Increasingly, it is exerting a powerful influence on other economies as the regional - possibly the global - exemplar of successful economic development.\textsuperscript{126} This poses additional problems for Australia’s predominantly neo-classically derived international economic policies: on the one hand Japan’s style of economic organisation has been actively copied, multiplying the number of nations that clearly do not subscribe to free trade principles. On the other hand, Japan itself is entrenching these developmental patterns by establishing regional production networks to Australia’s north, which not only threaten to lock productive capital based in Australia out of important regional circuits of capital and production, but which threaten to undermine and render redundant Australia’s entire ‘economic engagement’ strategy. To see why this may be the case it is important to examine the interaction between Australia and Japan in its regional context. This will be the task of the next chapter, before finally turning to an examination of Japan’s actual trade and investment in Australia itself in chapter 7.

\textsuperscript{126} Here ‘success’ is taken to mean increases in GDP, the mobilisation of domestically-based factors of production and the provision of greater numbers of increasingly well-paid jobs. Clearly, other judgemental criteria will produce much less favourable interpretations of Japan’s development. What matters here, however, is that other regional political elites are more concerned with development of a fairly narrowly conceived kind.
The economic relationship between Australia and Japan occurs within an increasingly important regional context. Economic activity in general is not only becoming more internationalised, but this process has given rise to distinctive regional patterns of activity. Indeed, a regional intensification of trade and investment flows within, as well as between, the separate parts of the 'Triad' has been one of the more noteworthy developments associated with the globalisation of economic activity.¹ This intensification of regional trade and investment flows has been reinforced and propelled by the establishment of TNC production networks within regions. Less obviously, an enhanced sense of regionalism has elicited particular political responses as individual nations seek to position themselves to take advantage of these emerging patterns of economic activity. Before considering the Australia-Japan bilateral relationship in detail, therefore, it is important to place this relationship in its wider international context.

The intention of this chapter will be to consider Australia's foreign economic policy initiatives in the light of the shifting patterns of global, and especially regional economic activity. The central political and institutional focus here will be the APEC forum which, although generally considered to be an Australian-inspired initiative has, as we shall see, more complex antecedents. The central question to be considered will be the effectiveness of Australian trade diplomacy and more general economic policies - of which APEC is both the culmination and embodiment of a specific ideational trajectory - as a response to changes in the GPE, especially as these are manifest at the regional level. Consequently, this chapter will initially sketch the evolution of the APEC initiative, before considering its rationale and possible efficacy in greater detail.

APEC's potential usefulness will be more easily gauged when considered in situ. Again, Japan is especially useful in this regard. Japan is the dominant economic actor within the region and therefore a crucial litmus of the effectiveness of Australian policy. The manner in which Japanese companies have become involved in the region provides an important counterfactual for both comparable Australian integration with the region and, more importantly, an empirical template against which the economic idealisations and

abstractions upon which much Australian policy is based may be measured. Consequently, the second part of this chapter will consider Japan's historical involvement in the region, paying particular attention to the contemporary restructuring of Japanese industry in response to the appreciation of the Yen and general increased international competition.

The central contention of this chapter, which forms an important contextual backdrop for the subsequent chapter on Australia and Japan, is that current Australian policy settings are unlikely to deliver the sort of benefits their advocates hope. While there has been a significant relocation of Japanese manufacturing and concomitant investment flows, this has not necessarily been to Australia's advantage. Japan is establishing complex and integrated production networks throughout the region to Australia's north. Much of this investment is geared to servicing the emerging and potentially lucrative markets of which Australia's foreign economic policy is intended to take advantage. As we shall see, Japanese TNCs are unlikely to export from Australia to service these markets. Furthermore, the presence of tightly integrated Japanese TNCs throughout the region may make it more difficult for Australian-based companies to establish competing presences throughout the region. Not only, therefore, is there little possibility of Japan directing significant amounts of diverse manufacturing investment toward Australia as it restructures, but it is likely Australia may be effectively marginalised within the region as an important player, at least as far as the more lucrative trade in manufactures is concerned.

**Australia's Regional Economic Policy**

Rather than attempting to present a comprehensive overview of Australia's international trade diplomacy and economic policy in the region, I shall concentrate predominantly on APEC. This approach is justified for several reasons: firstly, APEC is clearly the centrepiece of Australia's contemporary economic policy agenda, particularly its external facets; it bears the burden of Australian attempts to manage the process of 'structural adjustment' and integration with the GPE, especially the regional considerations that are the

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2 The recent election of a Howard-led coalition government seems unlikely to change either the primacy of Asia in Australian policy or diminish APEC's role as the preferred instrument through which closer ties might be achieved. See, Howard, J (1995) 'Australia's Links With Asia: Realising Opportunities in our Region', Fifth Asialink Lecture, Melbourne, 12th April.
concern of this chapter.\textsuperscript{3} As such, it is an appropriate body upon which to focus when attempting to assess the efficacy and appropriateness of Labor policy. Secondly, APEC represents the culmination of the neoliberal policy agenda, which I have suggested in previous chapters has been such a crucial part of and influence on economic policy in Australia during the 1980s and '90s. APEC is, then, the principal instrument with which Labor seeks to mediate its international economic relations, including those with fellow APEC member Japan, the region's most important economic actor.

An examination of APEC's evolution illustrates, once again, the importance of ideas, especially when they are actively championed by an effective and influential epistemic community. However, it is also important to recognise that where political support is either absent or lacks coherence, particular ideas may play little part in national economic policy. Japan is again illustrative of this point. For although some Japanese economists played an important external role in developing a Pacific free trade area, their ideas had less domestic impact as they lacked support within Japan itself.

Kiyoshi Kojima has been one of the most influential advocates pushing for economic integration and the creation of a free trade area within the east Asian region. From a Japanese perspective in the early 1960s, regional integration seemed an increasingly attractive proposition as a means of both replicating the European Union's (EU) experience and as a means of overcoming Japanese concerns about its possible isolation from emerging centres of global economic activity in Europe and North America.\textsuperscript{4} There is a notable normative, even utopian aspect to these early attempts to re-think Japan's position, by Kojima and his contemporaries. Significantly, however, Akamatsu's 'flying geese' model of regional development, in which Japan leads its neighbours in an orderly progression through distinct stages of industrialisation has not only proved to be a somewhat simplistic model, but has failed to take account of the practices of the Japanese state and business which have systematically attempted to retain Japan's leading position.\textsuperscript{5}

\textsuperscript{3} Ex-Trade Minister Bob McMullan suggested that APEC is the 'cornerstone' of trade and economic relations, especially at the regional level. See: McMullan, B (1995) 'Australia's Future in the Asia-Pacific Region', Speech to the Evatt Foundation, Sydney, December 19:1.


Moreover, Japan's position as a potential regional leader, especially in a more overt political sense, is circumscribed by the legacy of the war. Many of those nations with which Japan sought to promote integration were the recent victims of Japanese colonisation and attempts to establish a co-prosperity sphere during World War II. Although Bob Hawke claims, and is generally credited with, APEC's instigation, others have suggested that MITI was the driving force behind APEC - Australia providing a more acceptable surrogate for the implementation of their plans. What is unambiguously clear, however, is the influence of Japanese economists like Kojima on some of their Australian contemporaries. At the Kojima-inspired PAFTAD conference in 1968, Peter Drysdale enthusiastically took up Kojima's proposals for the creation of a free trade area. Importantly, this conference was instrumental in solidifying the idea of an 'Asia-Pacific region'; a region in which Drysdale imagined Australia and Japan playing a 'mentor' role in guiding regional development.

### APEC's Precursors

Although the economic preconditions for some sort of regional economic organisation may have been in place, it is not at all obvious that something like APEC should have appeared either when or in the form it did. Certainly, intra-

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6 Personal interview.


8 Pacific Trade and Development (PAFTAD) conferences have been held in most years since 1968, and have, in the words of another influential Japanese economist, Saburo Okita, 'exerted considerable influence on the subsequent development of ideas about economic cooperation in the Pacific region'. Quoted in: Harris, S (1994) 'Policy networks and Economic Cooperation: policy Coordination in the Asia-pacific Region', *The Pacific Review*, 7 (4); 383.


10 Korhonen, P (1994) *Japan and the Pacific Free Trade Area*: 165. In this context it is noteworthy that one of the distinctive characteristics of Australian policy makers' international economic policy initiatives has been their ability to demonstrate what Young calls 'leadership' within regional fora, beyond what might have been expected of Australia's rather modest international status. Australia's central position in the development of the 'Cairns Group' is an important example of the potential of such initiatives. See, respectively: Young, O (1991) 'Political leadership and regime formation: on the development of institutions in international society', *International Organization*, 45 (3): 281-308; Higgott, R & Cooper, A (1990) 'Middle power leadership and coalition building: Australia, the Cairns Group, and the Uruguay Round of Trade Negotiations', *International Organization*, 44 (4): 589-632.
regional trade has expanded within East Asia, but at 38% of total trade in 1990 (up from 32.8% in 1980) it is still significantly lower than the EC (59%). What is more telling, especially given APEC's stress on trade liberalisation, is the role played by the various bodies that paved the way for APEC. Although Ravenhill may be right when he acerbically observes that Australia's economic diplomacy under Labor amounted to an attempt to 'export the Industry Commission', such a strategy would have had little chance of international acceptance had it not been for the pioneering work of an influential epistemic community in various international fora that actively championed the deregulatory agenda.

In this regard, three bodies are especially noteworthy. The aforementioned PAFTAD continued its self-appointed task which aimed to 'complement the contributions of practitioners, in government and in the business world, in dealing with the challenges of Pacific development'; critical here was the assumption that the 'intelligent consideration of economic policy issues' would render specific 'problems' capable of expert resolution. At its centre, as Woods observed, PAFTAD is 'dominated by liberal, market-oriented economists from Japan, Australia, New Zealand, Canada and the United States who claim to understand the political realities confronting economic policymakers'. At almost the same moment of PAFTAD's inauguration, the Pacific Basin Economic Council (PBEC) was initiated. Japan, Australia and New Zealand were again central to PBEC's development; but where PAFTAD was dominated by academics, PBEC had a more commercial, business orientation. Despite PBEC's image as a 'rich-man's club', it has been instrumental in facilitating the establishment of important communication networks amongst the region's business community and entrenching the place of free enterprise as the central organising principle of the region's economies.

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Perhaps the single most important precursor to APEC, however, was the Pacific Economic Cooperation Conference (PECC). What distinguishes PECC from the academically-oriented PAFTAD and the business-dominated PBEC, is its novel tripartite representation of business, state officials, and academics. PECC took its theoretical inspiration from Drysdale and Patrick's influential proposal for an Organization for Pacific Trade and Development (OPTAD), which had argued for the establishment of an institution along the lines of the OECD in the Asia-Pacific region to oversee and promote trade and development. PECC's 'consensus' style of decision making and its diverse membership (including both China and Taiwan) made it an important forerunner of APEC. More fundamentally, Crone claims, Australia's eventual active proselytising on behalf of APEC was undertaken in response to sustained PECC pressure. What these different organisations provided, then, was a context within which particular ideas could be championed and transnational support generated for a specific economic policy agenda. But, as Higgott notes:

The source of these ideas is to be found not simply in the interests identified by regional state policy making elites, but in the influences of an emerging regional community of like minded scholars and practitioners engaged in the definition of regional identities, problems and putative policy proposals for the resolution of these problems.

Certainly there were broader strategic and political concerns which were important preconditions in making APEC more readily accepted within the region, but it was not inevitable that a nascent regional economic grouping should have had the promotion of free trade as its *raison d'être*. What is most striking about the discourse that surrounds APEC is the way in which so many of its supporters consider its agenda to be above politics and concerned only with what Harris calls 'technical economic issues' that are susceptible to 'expert analyses and practical knowledge'. Given that APEC has been so conspicuously driven by ideas and the efforts of a regional epistemic

17 It is worth emphasising that in all of these pioneering bodies organised labour - the 'normal' partner in tripartite relationships with business and government - was conspicuous by its absence. Consequently, there has been little opposition to the dominant free trade agenda, particularly as it may affect national workforces throughout the region.
21 I explore the political and strategic conditions which underpinned APEC's general acceptance, as well as some of the obstacles to implementation in more detail in: Beeson, M (1995) 'Australia, APEC, and the Politics of Regional Economic Integration', *Asia Pacific Business Review* 2 (1): 1-19.
community, therefore, the rationale that underpins it must bear an even greater legitimating burden than say in the EC, where a broader range of interests has ensured support.

APEC’s Rationale

This section will briefly consider the theoretical rationale that underpins APEC’s ambitious liberalisation agenda before reviewing some of the factors that may make its implementation problematic. Australia’s role as one of APEC’s principal advocates places it in a particularly difficult position: it is incumbent upon Australia to be in the vanguard of the reform process, as an exemplar of the supposedly beneficial effects of unilateral liberalisation, with no guarantee that other nations will follow suit. As we shall see, this position is problematic enough if other nations are simply tardy in complying. More fundamentally, I shall suggest, the rationale for APEC’s deregulatory initiatives fail to take

<table>
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<tr>
<th>APEC Member Statistics, 1992</th>
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<tr>
<td>Population (millions)</td>
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<td>Chinese Taipei</td>
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Source: Dept of Foreign Affairs and Trade (Various)
*Papua New Guinea

that other nations will follow suit. As we shall see, this position is problematic enough if other nations are simply tardy in complying. More fundamentally, I shall suggest, the rationale for APEC’s deregulatory initiatives fail to take

23 One of the distinguishing characteristics of APEC is that all reform initiatives are non-binding. While this may reflect what Keating likes to call ‘a new style of trade negotiation... which fits the features of our region’, there is simply no guarantee that other nations will eventually comply with their APEC obligations. Keating, P (1995) APEC - the Outlook for Osaka, Speech to the CEDA Conference - APEC and Australian Business, Sydney, Sept 26th: 5.
account of the structure and organization of corporate activity within the region. This raises important questions for nations like Australia about the relevance of trade liberalisation policies as a means of encouraging productive economic integration with the region.

One of the central reasons for scepticism about APEC's practical application stems from its theoretical premises and concomitant interpretation of regional development. As we saw in chapter 4, the dominant neoliberal economic paradigm in Australia has systematically ignored or understated the specificity of regional development trajectories, attributing to market forces and the logic of comparative advantage what has clearly had much to do with various forms of government intervention. While this is an important theoretical oversight on the one hand, at another level it gives rise to policy prescriptions that are especially problematic. APEC is predicated on the idea that free trade is necessarily beneficial and has been the source of trade expansion and regional economic growth, culminating in what Drysdale and Garnaut call a 'prisoners delight' in which nations enjoy the advantages of unilateral trade liberalisation. There are reasons to question this analysis on both empirical and prescriptive grounds.

Firstly, there is a great deal of evidence to suggest that trade barriers remain significant obstacles to general trade, especially in those economic sectors in which Australia enjoys a 'comparative advantage'. Important as these overt tariffs are, they do not capture the range of 'invisible' barriers to trade which, as we saw in the previous chapter, are so critical in explaining the low levels of import penetration in nations like Japan. Furthermore, they fail to acknowledge the critical contribution made by various forms of industry policy that have been such important sources of national competitive advantage and catalysts for export expansion. Secondly, the policies that flow from analyses of the Drysdale/ Garnaut type seem fundamentally implausible: the suggestion that APEC members should unconditionally extend most favoured nation (MFN) status to all nations, whether APEC members or not, begs the question of

precisely what benefits membership conveys. If APEC does not impose barriers to outsiders, then non-members have an incentive to 'free-ride', taking advantage of APEC's open economies while resolutely protecting their own.

Although the market-oriented champions of Australia's free trade agenda tend to downplay the political complexities inherent in such a disparate body as APEC, as Table 3 above indicates, the variety of economic and political systems, coupled with diverse levels of development make consensus inherently problematic. This is recognised in the proposed 'two-speed' adoption of APEC's liberalisation agenda. Although there is no intention here to explore the range of possible impediments to APEC's implementation, it is necessary to say something briefly about the single most important bilateral relationship in APEC, and one which has particularly important ramifications for Australia: the US and Japan.

The US and Japan

Ultimately, APEC will stand or fall on its ability to manage the US-Japan relationship. Not only is the US-Japan trade and investment axis the most important bilateral economic relationship in the world, but it encapsulates many of the political tensions and difficulties that threaten to undermine the liberalisation process. The sanguine view of Japan's trading practices held by Drysdale and Garnaut noted in chapter 4 is not one that is shared by their counterparts in the current Clinton administration. Indeed, the trade policies of the US are increasingly coming under the influence of 'revisionist' critics like James Fallows, Chalmers Johnson and Laura Tyson. Central to the revisionists' position is that the Japanese economy operates in a manner that is distinctively different from that of the US and that it is necessary to construct policies that take this into account. In contradistinction to the Australian

approach advocated by the likes of Drysdale and Garnaut, US policy is premised on the assumption that 'traditional' approaches to trade like Australia's are increasingly irrelevant. As Tyson observes:

...we can no longer afford to ignore the efforts of Japan and Europe to promote their own high-technology producers. Nor ... can we realistically expect our trading partners to adopt international rules that reflect our own ideological preferences. Confronted with these realities, we must devise macroeconomic, trade, and industry policies that promote our own high-technology industries while continuing to lobby for a more liberal trading system.30

Whether such a pragmatic approach to trade issues is likely to deliver the results its advocates claim is less important, in the context of this discussion, than is the realisation that the attempt to implement such policies will have discernible effects on the conduct of international economic relations. The willingness of the US to pursue bilateral trade diplomacy in preference to the sort of multilateral approach that APEC is predicated upon and in which Australia continues to show such faith, has been demonstrated on numerous occasions.31 Significantly, however, there is plausible evidence to suggest that the sort of 'managed trade' arrangements that are such an anathema to advocates of liberalisation have delivered important gains for the US. Tonelson argues that the US car, steel and machine tools industries were given sufficient 'breathing space' to allow them to recover from the onslaught of Japanese competition. The Semiconductor Agreement in particular is cited by advocates of bilateral agreements as evidence of the potential benefits to be derived from specific numerical trade targets.32

While there is some persuasive evidence to suggest that the Clinton administration's efforts to open up the Japanese market and protect its own have met with some success, what is of note here is that bilateralism - whether successful or not - continues to be a significant force within APEC. There is no reason to expect this situation to change dramatically, especially where

31 See, for example, Nakamoto, M (1995) 'Defiant leaders face tit-for-tat tariff battle', The Australian, May 18: 8. What is perhaps most significant from an Australian policy-making perspective here, however, is that Australia has conspicuously sided with Japan against the US during such trade disputes, despite the convincing evidence of Japan's restrictive trade practices. See: Stuchbury, M (1994) 'Our man in Washington blames US', Australian Financial Review, February 16: 1&10.
powerful domestic lobbies are able to influence the content and direction of policy. Nor should it be supposed that compliance with the APEC rationale is a problem exclusive to a more 'pluralist' US political-economy. Powerful business lobbies have suggested that Japan might be better advised to support the proposed East Asia Economic Caucus (EAEC), particularly as a counterweight to US influence in APEC. In addition, Japan faces the perennial problem of reconciling the interests of what is still a powerful domestic agricultural lobby with its commitment toward free trade under APEC.

Clearly there are a range of international and domestic factors that threaten to undermine APEC's trade liberalisation agenda. Importantly, the long time frame in which liberalisation is expected to take place - the process is not expected to be completed until 2020 in the case of the 'developing' nations - and the lack of any mechanism for enforcing compliance, mean that the possibility individual nations failing to meet their APEC obligations must be high. However, even if there was significant progress toward liberalisation at the level of overt tariff barriers and investment facilitation, the question remains whether nations like Australia would necessarily benefit in the manner advocates of liberalisation suggest. Certainly, if deregulation were extended to the contentious agricultural sector Australia could expect to win greater market share. Yet if Australia is to achieve the sort of declaratory goals that form the bi-partisan political backbone and rationale of its pursuit of closer economic integration with Asia - maintaining living standards, increasing employment levels and redressing the balance of payments deficit - it will be necessary to boost manufacturing investment and exports. As the region's principle source of capital exports and productive investment, Japan is once again the benchmark against which Australia's policies may be usefully measured. If Australian policy-makers hope to gain the sort of productive investment needed to transform the manner in which Australian-based industries and companies are integrated into the region from that of raw material supplier to an economically-integrated source of high value-added products, then Japan is a potentially key actor in this process. The reality of Japan's regional economic role therefore merits closer scrutiny.

History, it cannot be emphasised too strongly, is once again a critically important explanatory variable in any attempt to comprehend the distinctive pattern of Japanese involvement in the region of which Australia is a part. In contrast to the abstract and contextually neutral conceptions of neo-classical economics, the specifics of politics, geography and contingent historical development are the essential backdrop against which the expansion of Japanese capitalism must be seen. This is not, however, to suggest that this development was in some way inevitable or pre-determined. Rather, it is to argue that Japan, or more particularly, the trans-national corporations that have developed there, have responded to a range of national and regional circumstances and opportunities which have helped to shape their individual developmental trajectories. While it is unwise to make blanket assertions or generalisations about this process there are, as we shall see, significant and distinctive patterns of regional involvement which reflect some of the dominant organisational characteristics of corporate Japan outlined in the previous chapter. It is the specificity of these recurring forms of regional integration - rather than idealised abstractions - with which the policy-makers of other nations, including Australia, must deal.

Unsurprisingly, the bilateral relationship between the US and Japan has been, especially in the post-World War II era, a crucial determinant of regional political and economic dynamics. Indeed, Stubbs argues that what he calls the 'distinctive dynamism of the Asia Pacific region' can only be understood by considering the manner in which Japan's economic interests have combined with the US's Cold War strategy to 'fashion an increasingly coherent region'. While it may be possible to question the degree of 'coherence' Stubbs claims, he is undoubtedly correct in stressing the importance of powerful economic and political actors in establishing the parameters within which other less potent regional nations must operate. However, to gain a more complete picture of

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36 'The Region' in question is not the larger and somewhat arbitrary 'Asia-Pacific' with which APEC seeks to deal, but the more narrowly conceived area including, Japan, China, the NIEs and the ASEAN nations. The area, in fact, that Gareth Evans likes to call the East Asian Hemisphere. See: Hiebert, M (1995) 'Wizard of Oz: Australia's Evans redraws the map of Asia', Far Eastern Economic Review, August 17: 26.

Japanese involvement, it is also necessary to consider the pattern of its involvement before the war.

In this regard Petri suggests that three crucial 'accidents' of history furthered the process of regional integration (a process in which Australia was conspicuously uninvolved): the establishment of Asian treaty ports in the nineteenth century; Japanese imperialism; and recent East Asian growth. Petri argues that, despite the disruption caused by the Second World War to Japan's imperial trade patterns, they remained strong, influencing subsequent patterns of post-War development. Japan's crucial role in both Taiwan's and Korea's pre-war development is also important, with what Cumings describes as the Japanese hegemonic system providing the basis for their later expansion, as well as the foundation of a more general regional dynamism. There were, then, important pre-existing paths along which Japanese capital might flow when it eventually re-emerged as East Asia's dominant economic force. What is also worthy of note, as the previous chapter suggested, is Japan's role as an influential role model, increasing the number of Asian nations adhering to a form of collective capitalism, rather than the idealised form upon which Australian policy is based.

In what follows, therefore, I shall detail Japan's increasing regional economic involvement since the Second World War. Initially, this will occur at the broadest level of aggregation: capital flows and sectoral investment patterns. Subsequently, I shall look in more detail at different forms of investment within industries. While Japan's outward (and inward, for that matter) investment is typically atypical, and it is consequently tempting to generalise about 'Japanese capital', there are important differences in regional organisation and integration dependent upon firm and industry specific variables. The overall intention here is to firstly establish the broad pattern of Japanese economic expansion of which Australia is a part and, secondly, give some detail to specific opportunities and constraints which are inherent in that expansion.

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40 A continuing source of friction with Japan's trading partners and a major cause of its structural trade imbalance are the atypically low levels of inward foreign investment to Japan - the precise opposite of all other comparable countries. See: Lawrence, R Z (1992) "Japan's Low Levels of Inward Investment: The Role of Inhibitions on Acquisitions", Transnational Corporations, 1 (3): 47-75.
Japanese Economic Expansion

The first, perhaps unsurprising, observation to be made about Japan's economic integration with the region is that it has reflected Japanese priorities. At one level this may be a truism, yet there have been notable characteristics of the Japanese experience - particularly the role of government, but also the organisational logic of Japanese TNCs - that distinguish it from comparable developed economies. Such an observation has validity not only in the context of FDI, but also about the increasingly large and important flows of portfolio capital that have developed in the wake of financial deregulation. However, it will be the manufacturing sector that will be the principle focus of attention in this chapter: it is the most important investment flow within the region, and precisely the sort of job-creating, productive investment that all governments, including Australia’s, are keen to attract.

Japan’s early overseas investment strategy can be seen not only as a reflection of its economic needs and capacities, but also as a manifestation of its collective insecurities. The idea that Japan is vulnerable, resource-poor and over-populated has become a firmly established part of national identity, leading some commentators to suggest that the Japanese industry policy that marked the early high growth phase was an inevitable ‘national necessity’. In any case, it rapidly became apparent that the success of Japan’s industry policies meant that some of the labour intensive, traditional light industries, like textiles, became uncompetitive as wage levels rose within Japan. Industry competitiveness might be maintained, however, by utilising the vast pool of cheap labour available in Southeast Asia in particular. Importantly, such policies fitted with a general desire on the part of the Japanese government in general and MITI in particular to upgrade continuously Japan’s industrial structure; government industry policy was integral to this adjustment process and was a significant determinant of the shape of outward expansion. As Dicken puts it:

Table 4

Japan's Overseas Direct Investment by Region and Industry, Cumulative Total, FY1951-FY1992

<table>
<thead>
<tr>
<th>Region</th>
<th>Manufacturing</th>
<th>Food</th>
<th>Textiles</th>
<th>Lumber, Pulp</th>
<th>Chemicals</th>
<th>Iron/non ferrous metals</th>
<th>Machinery</th>
<th>Electric machinery</th>
<th>Transport, Machinery</th>
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<th>Non-Manufacturing</th>
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<tr>
<td>Agriculture &amp; Forestry</td>
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'overseas direct investment came to be seen as an integral part of Japanese industrial policy; it is not something which 'just happens'. The twin desires of securing resource supplies and a concern to solve foreign exchange problems greatly influenced industry policy in the early postwar years. Japanese foreign policy during the 1950s attempted to rebuild relations with its neighbours, many of whom had suffered at Japanese hands during the War. Access to raw materials was the primary motivation of this policy. The feeling of vulnerability engendered in Japan by its perceived lack of resources led to the development of a 'comprehensive security' policy which sought to diversify sources of labour, energy, raw materials, and markets. It is particularly important to stress that the Japanese government was intimately involved in overseeing this process, both at the diplomatic level, but also more tangibly in the provision of supportive aid packages which integrated the private and public aspects of Japan's economic expansion. This policy, it is argued, attempted to reduce Japanese dependence on any one source while simultaneously attempting to make that source dependent on Japanese goods, services, capital, and technology, leading Nester to conclude that:

... Tokyo's comprehensive security policy has been enormously successful. It has entangled the world in a web of products, investments and finance spun from Tokyo to the point where retaliation for Japanese unfair trade would inevitably cost much more than it was worth.

However, it was not until the 1960s that Japanese investment overseas began to reach noteworthy proportions, laying the foundations for the sort of structural

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Chart 1: Trends of Japanese Direct Investment by Region 1986-94

Source: Ministry of Finance [http://www.jef.or.jp]
power Nester implies. In the first twenty years after World War II, accumulated foreign investment was only US$ 6.7 billion. Prior to this expansion overseas had been inhibited by a lack of domestic capital and by the relative cheapness of indigenous labour. Table 4 above gives some idea of the historical development of Japanese FDI. Several points are particularly noteworthy. Firstly, real estate investment in Oceania, of which Australia is the most significant part, is disproportionately high, while manufacturing is relatively modest compared to Europe, North America and Asia. Although the US also shows a high degree of real estate investment, this is balanced by large scale investment in manufacturing. Also significant is the scale of Japanese manufacturing investment in Asia. Table 5 gives an indication of the contemporary pattern of Japanese investment. While North America remains dominant, Asia is also important. What is especially important to note here, however, is that recent Japanese investment in Asia has been far more profitable than has similar investment by Japanese companies in either Europe or (especially) the US, something which helps explain Japan’s dominance of capital inflows to the region.

Three broad phases of post-war Japanese regional trade and investment may be distinguished, although there are variations in emphasis and timing. In the immediate post-war period Japan had an intermediate role in a three-way trade relationship between the US and the region, importing advanced industrial goods from the former and exporting simple manufactures to the latter. From approximately the mid 1960s to the mid ’70s a combination of rising Japanese labour costs and regional protectionism saw the electronics and (especially) the textile industry move off-shore, in order to reduce production costs and protect markets. As Steven points out, the lower labour costs found in the rest of Asia were the main attraction for Japanese investors and an important means of combating declining profitability.

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The first 'oil shock' at the end of 1973 inaugurated a second period of restructuring in Japanese industry. This phase, however, included the development of the comprehensive approach to resource security noted above. The scale of investment in this second phase was notably larger than the earlier one, reflecting the size of individual resource-linked projects. This enabled industries in Japan to secure not only resource supplies, but also to take advantage of lower local rates of pay to perform primary processing. In addition, it allowed the relocation of polluting industries that were becoming less acceptable in Japan itself.54

From the late 1970s Japanese industry was continually restructured, principally in response to the relentless appreciation of the Yen, in an effort to lower costs and raise productivity, frequently resulting in the export of low value-added forms of production while retaining high value-added production in Japan:

[As regional economies] moved first from agriculture to labour intensive light industry, and later to more capital- and technology-intensive forms of manufacturing, so the Japanese economy itself has shifted its own industrial and technological frontiers forward, thus maintaining its economic dominance of the region.55

Therefore, fears that Japanese FDI in manufacturing would produce a 'boomerang effect' - promoting competitors that would ultimately export to Japan undermining its trade dominance - have proved unfounded, argues Morris-Suzuki; other less adaptive industrialised economies have borne the brunt of the new competition.56 What is especially distinctive about the third phase of Japanese outward investment is the particular role played by Japan's Asian neighbours. Investment in Asia offered a way of circumventing protectionist pressure in key European and American markets while simultaneously reducing the cost of components for final production. Overall, Steven concludes, the sort of integrated strategy that has emerged as a result of continuing industrial restructuring in Japan amounts to a form of 'trade imperialism' in which Japanese capital ensures the lowest possible price raw material inputs and comparatively cheap supplies of labour intensive manufactures, something the transnational and spatially dispersed production strategies of Japanese TNCs permits. 57

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55 Morris-Suzuki, T (1991) 'Reshaping the International Division of Labour': 149.
57 Steven, R (1990) *Japan's New Imperialism*: 244-5.
Importantly for the purposes of this essay, there is evidence that as Japanese multinationals are moving into the region they are "creating de facto exclusive production networks, replicating keiretsu and other domestic structures abroad".\(^{58}\) This enables Japanese multinationals to internalise transaction costs, opening up possibilities for transfer pricing, as well as reinforcing control through a greater reliance on Japanese management. Significantly, Japanese multi-national trade within the region remains predominantly inter-industry, rather than following the general trend toward intra-industry trade.\(^{59}\) The manufactured exports to Japan that do occur are often unfinished, intermediate goods, which are insufficient to offset the increased imports of capital goods from Japan that underpin the industrialisation process in the rest of the region.\(^{60}\) The increase of manufactures imports in Japan that has occurred may be partly explained, therefore, by the exports of Japanese affiliates - at least 21% of Japanese imports in 1986 were from of this type.\(^{61}\)

A significant development in the region has been the entrenchment of the triangular trade relationship between Japan, the US and the region as a whole.\(^{62}\) The combination of foreign protection and the dramatic Yen appreciation during the 1980s in particular, not only caused Japanese industry to restructure and move elements of production offshore, but also altered the pattern of trade between the regions. While the NIE's exports gained an increasing share of the US market, Japanese capital goods exports to the NIEs also grew. Japanese multinationals are significant actors in this three way trade, with affiliated production aimed at third countries, circumventing protection barriers and taking advantage of lower labour costs.\(^{63}\) While all of the


\(^{62}\) Significantly, this triangular relationship has not only allowed Japan to increase competitiveness and overcome protective barriers, it has also enhanced Japan's significant trade surplus with Asia, as the latter becomes increasingly dependent on Japanese capital goods to underpin indigenous industrialisation. Cohen, S & Guerrieri, P (1994) "The Variable geometry of Asian Trade", in Doherty, E (ed) *Japanese Investment in Asia: International Production Strategies in a Changing World*, The Asia Foundation, San Francisco: 189. For a useful country-specific examination of these effects, see : Petri, P (1992) 'Platforms in the Pacific':173-96.

\(^{63}\) Park, Y & Park, W (1991) "Changing Japanese Trade Patterns and the East Asian NICs". The attraction of low labour costs was less significant in the US and Europe - ensuring
above may loom large in the context of regional economies, it is worth repeating that it is of less significance to Japan - it is estimated that only 5% of total Japanese manufacturing occurs outside Japan, a statistic that further highlights the region’s asymmetrical relationship with and dependence on Japan.

The Structure of Japanese Capital in the Region

Having provided a broad-brush sketch of Japan’s historical involvement in the region, it remains to give greater specificity to this picture. A consideration of the experiences of specific industries and countries can help provide a more nuanced picture of both Japan's general economic integration and the specific attractions that caused Japanese companies to locate where and when they did. This not only has obvious implications for Australia’s policies and their comparative attractiveness, but it may also indicate where Australia ‘fits’ into the region as far as Japanese corporate planners are concerned. Before any detailed consideration of Japanese operations is undertaken, however, an important and recurring theme of this thesis merits repetition: Japanese capitalism is different, although perhaps less so than it once was.

One of the distinguishing characteristics of Japanese transnational ownership patterns, and an assumption that still pervades much of the literature, was that Japanese corporations preferred to take minority ownership positions in subsidiary plants. However, this picture has changed and Japanese transnationals are now more like their American and European rivals: In 1990 85 per cent of foreign sales came from majority owned foreign subsidiaries, and 90% of Japanese affiliates in Europe and the US were majority-owned. What continues to distinguish Japanese operations, however, is a preference where possible for establishing overseas distribution, rather than production networks, continued market access was the key here. For the US, see: Chernotsky, H I (1987) "The American Connection: Motives for Japanese Foreign Direct Investment", Columbia Journal of World Business, XXII, No 4. For Europe, see: Mason, M (1994) 'Historical Perspectives on Japanese Direct Investment in Europe', Mason, M & Encarnation, D (eds) , in Does Ownership Matter? Japanese Multinationals in Europe, Clarendon Press.


with intra-industry shipments accounting for some 40% of Japanese exports worldwide. For Japanese companies FDI has 'created the principal channel for two-way trade flows with other industrialised economies, granting Japanese multinationals unrivalled control over their country's trade. . .'.

In Asia, the path of Japanese multinational expansion after the watershed liberalisation of capital controls in 1972 was smoothed by the established connections of the *sogo shosha*. Two factors in particular encouraged a rapid escalation of Japanese investment in the region: the second 'oil shock' in 1979, and the Plaza Accord, which initiated the massive appreciation of the Yen. While there may be a degree of convergence between Japanese multinational's behaviour and that of its Anglo-American rivals, important differences remain; differences that are especially noticeable in Asia. As Doherty observes, what she calls Japanese production network's 'traditional' pattern has not disappeared, but remains

organised hierarchically to ensure that Tokyo retains the lion's share of decision-making authority, technological capability, and sourcing. This hierarchical organization has resulted in tight control over foreign affiliates as well as the creation of fairly 'closed' production networks that have tended not to develop business ties with non-affiliated local and foreign suppliers.

Crucially, argues Doherty, it is the 'interplay between individual corporate strategies, and home- and host-country government regulations and polices' that determines the specific pattern of regional integration and interaction.

Japanese TNCs were amongst the first to recognise the potential savings that the global reorganisation of production processes offered, something that was particularly apparent in the electronic industry where production could be disaggregated into 3 stages (conception and development; component production; testing and assembly). It has been predominantly what Bernard

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68 The *sogo shosha* not only made the move into Asia easier for Japan's TNCs, they also allowed small and medium sized Japanese companies to move, something which Boyd argues their equivalent Anglo American rivals, including Australia rivals, were unable to do. Boyd, G (1990) 'Japan in the Environment for Strategic Planning', in Nemetz, P (ed) *The Pacific Rim: Investment, Development, and Trade*, University of British Columbia Press: 206.
and Ravenhill call the 'low-end', export-oriented aspects of production that have been shifted to Asia, however, while the more lucrative, knowledge intensive parts of the production process have tended to remain in Japan.\textsuperscript{72} Indeed, as Steven points out, the structure of Japanese corporate organisation leaves it especially well placed to maximise profits on Asia.\textsuperscript{73} Yet, as Doherty suggests above, the precise manner of this incorporation will be dependent on the specific arrangement negotiated between corporations and governments. Ernst suggests that although Japanese electronics firms predominantly used intra-firm production networks throughout Asia, since the beginning of the 1990s there have been signs of decentralisation of control, partly as a result of Yen appreciation and the increasing attraction of local sourcing but also - and most significantly from a potential public policy perspective - as a result of pressure from home governments to open up networks to local suppliers.\textsuperscript{74}

The car industry is, like electronics, one of the defining industrial processes of late capitalism; it is also illustrative of the emerging pattern of Japan's regional integration. It symbolises the transition from Japan's initial position as a 'reluctant multinational',\textsuperscript{75} to one where it presides over tightly integrated production networks that span the region. What Doner calls a 'pyramidlike structure' of production sites and processes has evolved in the less developed countries (LDCs) throughout an increasingly global industry.\textsuperscript{76} Korea is exceptional in having a nationally controlled industry, but generally the ASEAN nations are at the bottom of the pyramid, supplying less valuable, labour intensive inputs.\textsuperscript{77} Again, it is important to recognise that even this investment by Japanese TNCs and incorporation into productive networks was grudging and partly the result economic and political imperatives. Crucially, the LDCs

\textsuperscript{76} Doner, R (1991) Driving a Bargain: 70.
\textsuperscript{77} This process is being reinforced by what Morris-Suzuki calls a 'new international division of knowledge' - the Industrialization process in Southeast Asia is increasingly internationally based, producing a pattern of local, functional roles dependent on productive and technological specialization generally dictated by Japanese TNCs. The important point here is that the transfer and national utilisation of technology is not the seamless and unproblematic affair that some advocates of economic development imply. See: Morris-Suzuki, T (1992) 'Japanese technology and the new International Division of Knowledge in Asia', in Tokunaga, S (ed) Japan's Foreign Investment and Asian Economic Interdependence: Production, Trade, and Financial Systems, University of Tokyo Press: 135-52.
have been able to exploit rivalry between famously competitive Japanese TNCs to encourage investment and local production.

However, Malaysia's attempts to attract Japanese investment with which to initiate a domestic car industry is illustrative of the difficulty other nations may experience when dealing with Japanese multinationals, as well as the latter's ability to ensure that the export of manufacturing occurs on terms favourable to itself. Mitsubishi was able to manage its involvement in Malaysia in such a way as to ensure preferential access to a potentially lucrative market, while producing - despite supplying many components from Japan - a noticeably inferior car for domestic consumption. With Toyota's dominance of Indonesia, Mazda a significant player in the Philippines, and Nissan pre-eminent in Thailand, the Malaysian venture offered Mitsubishi an opportunity to extend domestic rivalry and position itself within ASEAN and any possible ASEAN free trade area. True, Malaysia has gained a manufacturing base it might not have otherwise had, but only at the cost of Mitsubishi dominating the management of the local subsidiary and accounting for 80% of the local car market. Moreover, there has been a notable reluctance on the part of Japanese TNCs like Mitsubishi and Matsushita to transfer technology and encourage potential rivals.

Overall, Japanese investment is integrating its neighbouring economies into a regional production web with its apex in Japan. Importantly, Japanese bureaucratic guidance, while possibly less important than it once was, is still providing an important supportive policy framework within which the restructuring of Japanese capital may occur. The tendency for the fierce rivalry that characterises Japanese TNC competition to spill over into the

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79 It should be noted that Japanese TNCs have become increasingly active supporters of initiatives like the brand-to-brand complementation agreement within ASEAN as their regional production networks become more extensive. This highlights both the power of Japanese TNCs to influence local political and institutional structures and the possibilities further concentration of regional productive activities that may result. [For a more detailed discussion of such initiatives see: Machado, K (1992) 'ASEAN State Industrial Policies and Japanese Regional Production Strategies: The case of Malaysia's Motor Vehicle Industry', in Clark, C & Chan, S (eds) *The Evolving Pacific Basin in the Global Political Economy: Domestic and International Linkages*, Lynne Rienner, Boulder:169-202.] Significantly, the proposed ASEAN Free Trade Area is likely to further consolidate Southeast Asia's position a preferred location for Japanese manufacturing capital as it relocates overseas and encourage the growth of intra-regional trade. [See: Earl, G (1996) 'ASEAN free trade marching on', *Australian Financial Review*, January 4.]
international arena is creating distinct investment patterns. Japanese TNCs often display similar investment patterns, as individual companies position themselves in relation to domestic rivals as much as other economic imperatives.\(^8^2\) This leads to a sudden 'rush' of investment into particular locations - as with the rapid growth of investment in China - something which eventually pulls smaller Japanese investors along in its wake.\(^8^3\) Indeed, it is noteworthy that Japan's small and medium sized companies were responsible for an average 40-50 per cent of overall Japanese manufacturing investment during the 1980s.\(^8^4\)

What recent Japanese investment has produced, then, is a complex system of connected and mutually dependent production processes and supplier networks that span the region. In the case of the automotive industry, for example, Toyota uses Thailand to supply diesel engines and electronics, the Philippines for transmissions, Malaysia for steering gears, and Indonesia for petrol engines.\(^8^5\) Toyota not only gains from emergent local economies of scope and scale but is increasingly encouraged to cement this position by host government polices. Thailand, Malaysia, the Philippines and Indonesia have signed a brand-to-brand 'complementation pact' which halves the tariffs on imports from member countries.\(^8^6\) Clearly, this fusion of economic and political imperatives locks the region into a mutually rewarding symbiosis.\(^8^7\) As Abegglen observes, these tightly integrated industries will make it increasingly difficult for even powerful competitors from the EU and US to compete,\(^8^8\) let alone Australian-based companies. Moreover, from an Australian perspective, serious doubts must be raised about existent Japanese investment in Australia if it is not closely integrated into such networks. The possibility of new investment that is not part of such a system must be even more remote. The

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\(^8^2\) I am indebted to Professor Yasutami Shimomura for bringing this phenomenon to my attention.


\(^8^4\) Takeuchi, J (1993) 'Foreign Direct Investment in ASEAN by Small and Medium-sized Japanese Companies and Its Effects on Local Supporting Industries', *RIM Pacific Business and Industries*, Vol I: 36-57. Takeuchi suggests that while established subcontracting relationships may be becoming strained as a result of increased competitive pressures, the smaller companies are developing greater self-reliance. Either way, they are likely to remain important sources of investment.


\(^8^6\) 'Automakers call for back-up', *The Nikkei Weekly*, January 1: 18. See also fn 74 above.

\(^8^7\) See fn 77 above for an elaboration of this point.

\(^8^8\) Abegglen, J (1994) *Sea Change*: 239.
specifics of these questions will be taken up in the next chapter. At present, it is important to assess Australia's multi-lateral, liberalising trade strategy in the light of the preceding discussion.

Japan as a Regional Power

I have focused on Japan's economic engagement with the region quite deliberately. Given the indecisive nature of Japan's foreign policy noted in the previous chapter, the unambiguous effects of Japanese FDI yield less equivocal outcomes upon which to focus. Moreover, it is precisely the economic aspects of regional integration with which Australia's foreign economic policy discourse seeks to deal, and about which a domestic epistemic community claims expert knowledge. It is legitimate, therefore, to concentrate the weight of any critique precisely on the areas which advocates of Australia's dominant neoliberal policy paradigm claim authority and wield greatest influence. However, notwithstanding the normative injunctions of many neo-classical economists, it is not possible to separate conveniently economic issues from a wider political context. As we have already seen in relation to APEC, economic relationships are embedded in specific social and political structures that constrain and delimit possible outcomes. While it is not possible here to canvass exhaustively the possible trajectories of future Japanese involvement in either the narrowly defined region or the wider world stage, it is helpful to make a few brief observations to provide a contextual backdrop.

The importance of introducing overtly political considerations, however briefly, can be seen with reference to the work of, arguably, Australia's most influential Japan scholar, Peter Drysdale. Drysdale is, as we have seen, a key member of the Australian epistemic community that has both promoted initiatives like APEC and helped establish the ideational framework that legitimates contemporary trade relations with Japan. We saw in chapter 4 how both Drysdale and Garnaut reject the idea that Japan's trade pattern is either notably different or that it has significant barriers to trade. Implausible and misguided as this contention has subsequently been demonstrated to be, it is in keeping with a normative position that informs subsequent and equally contestable depictions of Japan. Not only does Drysdale claim that 'mercantilist thinking is in total retreat, if not entirely routed' in what he imprecisely describes as

Japan's 'top policy councils', but he goes on to suggest Japan's interests are inherently served by and tied up with regional trade liberalisation. 90 Certainly, Japan may benefit if initiatives like APEC can discourage a move on the part of the US toward managed trade and keep markets open, but this does not mean that Japan itself will inevitably or willingly reduce trade barriers. Moreover, given that crucial barriers to trade liberalisation in Japan are structurally embodied in the organisation of Japanese corporations, it is not clear whether Japan's 'top policy councils' could do so even if they wished to; even supposing they were capable of the decisive action such initiatives imply.

However, as we have seen, Japanese policy-making is an inherently more problematic and contested process than in many comparable western nations. It is hard to escape the conclusion that many Occidental interpretations of Japanese behaviour, or more specifically, interpretations inspired by neoclassical economics, stem as much from wishful thinking as from serious analysis of the complexity of Japanese politics and corporate organisation: the abstract assumptions and idealisations that inform economic initiatives like APEC may be praiseworthy at a theoretical level, but would seem to have little connection with commercial reality. More fundamentally, they understate economic influence while exaggerating political capacity.

Even where political influence has been effective and influential it has been geared to reinforcing the structural power of Japanese capital within the region, rather than encouraging wholesale deregulation and the unleashing of market forces. MITI, for example, while something of a diminished force, nevertheless provided an important regional industrialisation plan within which the expansion and restructuring of Japanese capital might occur. 91 In this way, not only was there an intention to compensate adversely-effected domestic producers, but aid disbursements were seen as integral in the development of a coherent package that included trade and investment. While the smooth implementation of this plan has been rendered more problematic by the rapidity of economic change, especially the relentless competitive pressure on individual corporations that reduced MITI's influence, it has, nevertheless, suggests Unger, taught developing East Asian economies a good deal about the efficacy of industry policies in particular and the merits of government-business

cooperation in general. Japan, rather than the US, has become the economic exemplar within the region.

However, it is important here to acknowledge another, less obvious, aspect of Japanese capital outflows, especially since the 1980s: Japanese financial capital. Driven by deregulation, in combination with decreased domestic returns and investment opportunities, Japanese financial capital became an increasingly significant force within the global economy, most notably in the US, but also within Japan's immediate region. This gave Japan enhanced 'relational power', argues Helleiner, as it was able to influence other nations simply by lending or not lending, something he considers will have a more lasting impact than the growth of Japan's external assets. While there may be little evidence of a 'Yen bloc' emerging in the region, there is a growing structural dependence on Japan amongst the ASEAN nations in particular as measured in Yen denominated loans and aid disbursements.

What distinguishes Japan's rise to economic pre-eminence, however, is the lack of a concomitant increase in its political influence. Whether Japan will be able to translate its undoubted economic power into an equivalent political influence is a moot point, which has generated a voluminous, if somewhat inconclusive literature. There is no intention here to treat these arguments in great depth. However, it is important to observe that this sort of political complexity, which is conspicuous by its absence in much orthodox economic analysis, is likely to play a significant role in determining not only Japan's

political relationships, but also in setting the parameters for its expanding economic role. As we have seen with aid disbursements, more explicitly political concerns can be an important determinant and facilitator of economic outcomes.

Japan and the Politics of Regionalism

Initially, it is important to note, as Pyle points out, that Japan's modest international political profile compared with its increased economic power is neither 'accidental' nor inevitable:

Throughout the postwar decades, Japan's role in the world has been the product of the political order imposed on it by the victors and the shrewd and pragmatic polices of postwar Japanese leaders. While forging to the front rank of global economic power, Japan remained politically withdrawn, shunning initiatives and involvement in political-strategic issues. This role as a commercial democracy, aloof from international politics, has been supported by a remarkably durable popular consensus...the fundamental orientation toward economic growth and political passivity was also the product of carefully constructed and brilliantly implemented foreign policy.97

At first blush such a position may seem irreconcilable with the 'reactive state', mentioned in the preceding chapter, where policy outcomes are often influenced by external forces. However, the two need not be mutually exclusive: the 'Yoshida Doctrine' (named after what is often considered to be Japan's most influential post-war leader), in which economic development under the auspices of a co-operative and strategically convenient US was given priority, is not incompatible with incremental, grudging shifts in foreign policy where necessary. Indeed, the perception of difference may have usefully obscured reluctance to take unpalatable decisions.

However, Japan's rise has, as Gilpin suggests, occurred in and helped to foster an increasingly hostile environment as an 'adjustment burden' has been shifted to other advanced nations; Japan has not played a US-style hegemonic role in underpinning global development and a liberal trading order, preferring to strengthen its own financial position and power.98 The latter observation needs qualification, however: exports of Japanese capital have been crucial in financing regional development; while they may have been motivated primarily by Japanese priorities they, nevertheless, provided an important stimulus for

Given the current economic and political difficulties in Japan, it is neither possible nor profitable to attempt definitive predictions about the manner in which competing national and international imperatives will work themselves out. Japan's emergent global role is clearly contestable and embryonic.

Perhaps the most important question in the context of this discussion, however, is what Japan's role is likely to be within, what Gareth Evans likes to call, the 'East Asian hemisphere'. Revisionist critics like Chalmers Johnson suggest that Japan's bureaucrats are systematically attempting to re-establish the abortive 'Co-Prosperity Sphere' that so alienated Japan's neighbours during World War II. As we have seen, such a conception makes assumptions about Japan's governmental and bureaucratic effectiveness that are increasingly questionable and contested in practice. More fundamentally, a more overt regional leadership role for Japan - especially one involving a concomitant military status - is rendered more problematic by what Rapkin calls Japan's 'legitimacy deficit'. What seems most likely is that initiatives like MITI's New Aid Plan will simply reinforce an emerging dominance based principally on economic power rather than political influence, but one which has more scope for inter-dependence than the idea of a revivified Co-Prosperity Sphere implies.

The more general question of whether Japan's neo-mercantilist model is sustainable, an appropriate role model for other emerging economic powers, or whether it is as fundamentally damaging to the world economic order as some critics claim, is not central here. What matters is the realisation that other nations are behaving as if such claims were true. As we have seen, the US is

102 Rapkin, D (1990) 'Japan and World Leadership?', in Rapkin, D (ed) World Leadership and Hegemony, Lynne Rienner, Boulder: 195/6. Rapkin suggests that Japan suffers a legacy of militarism and colonialism; a reputation for mercantilism; and a suspicion that Japan is incapable of providing universalisable norms, values and principles, of the sort that underpinned US hegemony and the international liberal trading order.
not only the world's most influential and powerful economic actor, it is increasingly willing to use its economic leverage to secure bilateral agreements with other nations. Moreover, sections of the Japanese public and its political class are also demonstrating a new found desire to say 'no' to the US in general, but particularly in their interminable bilateral trade negotiations. The rise of more combative politicians like ex-Trade Minister and current Prime Minister Ryutaro Hashimoto is indicative of a changing mood in Japan. Moreover, the emergence of other influential political figures bent on major reform of the political, bureaucratic and electoral systems with a view to turning Japan into a 'normal' country may also presage significant change with unpredictable consequences. What is clear, however, is that in the event of any trade war with the US the amount of economic power Japan has accumulated would mean that the US may well be as, if not more, damaged than Japan.

However it is neither necessary nor useful to speculate about possible outcomes here. What is important to recognise is that political factors are crucial, contingently determined and inescapable aspects of economic outcomes. Quite simply, it is not possible unproblematically to remove or insulate economic ideas from their social and political contexts; a procedure that seems to inform much of Australia's trade policy. As I have tried to suggest in the last chapter, and more briefly here, Japan is a particularly glaring example of the impossibility of separating the political from the economic. Japan's difficulties in fulfilling its APEC obligations without alienating the politically powerful domestic agricultural lobby is only the most obvious illustration of a more generalised phenomenon. In the meantime, however, from a Japanese perspective and despite these difficulties, APEC provides a vehicle for minimising aggressive bilateralism while keeping regional markets open.

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Conclusion

What I have tried to demonstrate and stress in this chapter, then, is that international economic relations occur in a wider social and political context. Without reference to some wider frame of reference - in this case Japan's immediate region - it is impossible to comprehend the behaviour and motivations of the Japanese TNCs that are the principal conduits through which Japanese capital flows. Japanese TNCs were attracted first and foremost by the region's high rates of profitability. However, the possibility of securing access to burgeoning markets and establishing the same sort of networks that characterise corporate organisation in Japan were also major considerations. Where this process was facilitated by supportive Japanese and host government initiatives, relocation became - especially in aftermath of the Yen appreciation - even more attractive.

Japan dominates the region by sheer economic weight. Not only is Japan by far the region's dominant investor, this powerful economic position is reinforced by the nature of Japanese investment. Integrated production networks are binding the region together more tightly, making it more difficult for 'outsiders', like the US and to a lesser extent Australia, to break in. This dominance is reinforced by aid and foreign loans that grant Japan increasing relational power over its smaller neighbours. The implication for Australia of these developments is that it risks being increasingly excluded from productive regional trade and investment patterns that have their apex in Japan. Their is a growing risk that Australia will be effectively marginalised from the regional channels of manufacturing activity, reinforcing Australia's subordinate position as a supplier of resources and primary products. The effect of this on Japanese bilateral trade and investment will be considered in the next chapter.

APEC, the centrepiece of Australia's regional economic diplomacy seems highly ambitious at best, and potentially damaging at worst in the light of the sort of developments outlined above. Not only is APEC's further institutionalisation problematic given some of the political complexities touched on above, but it seems incapable of addressing the fundamental sources of trade tensions even if it were. Simply reducing or removing trade barriers - always supposing it is possible to identify them in the first place - will do nothing to address the sources of Japan's competitive advantage that are intrinsic to
and dependent upon the organisation of its corporate activities. Moreover, where these patterns of corporate organisation are being reproduced and emulated throughout the region the problem is likely to become even more intractable and unresponsive to trade negotiations alone. Predicating foreign economic policy on the supposed benefits that exposure to market forces brings and pious invocations of 'level playing fields' is, as we shall see, unlikely to deliver the sort of investment Australia desires or leave it positioned to compete effectively with less doctrinaire competitors.

Even within the narrow discursive purview of Australia's influential coterie of orthodox economists, therefore, there are substantial grounds on which to question the policy prescriptions that flow from such arbitrarily demarcated conceptions. The systematic neglect of political complexity, while a heuristic or theoretical technique of some limited utility, seems an inappropriate basis for policy formulation. As we have seen, the political and economic leadership of other nations in the region, with which 'Australia' finds itself in competition, take an altogether more pragmatic approach to the construction of economic and political policies. Where this involves systematically attempting to lure or cajole productive investment within national borders it is probable that flows of productive investment into Australia will decline as a result. The precise nature of Australia's trade and investment position in relation to the region's most powerful economic actor is the subject of the next chapter.
Chapter 7: Australia and Japan

Finally, then, it is appropriate to consider what effect the discourse of economic rationalism or neoliberalism - which, as we have seen, dominated Australia's foreign economic policy - has had on relations with Japan. This chapter, therefore, will give detailed consideration to recent patterns of economic interaction between Australia and Japan. The intention will be to compare the anticipated outcomes suggested by the neoliberal model with the actuality of Japanese trade and investment practices. Initially, consideration will be given to a number of important historical links, before giving greater attention to specific sectoral patterns of involvement. Manufacturing, banking and finance, resources and agriculture, as well as real estate will be the major foci of empirical attention. Before reviewing these sectors in detail, however, it is worth reminding ourselves of both the rationale and the expectation of the neoliberal, market conforming, deregulatory model. The government's own specialist advisory body - the East Asia Analytical Unit - provides an apposite summary. It suggests that:

Reforms already set in train by the Australian Government should increasingly influence the direction of Japanese direct investment over the next five years [1992-97]. The benefits of lower inflation, reductions in tariffs, increased labour market flexibility and lower waterfront costs will help attract investment. Further reform designed to improve the efficiency of Australia's economy will similarly be the most important means by which the Australian Government can address the underlying impediments to stronger Japanese investment in Australia's manufacturing sector. Indications are that Japanese confidence in the prospects for certain segments of the manufacturing sector have improved. ¹

This quotation usefully summarises the rationale that has underpinned not only the thinking of the government's expert advisers within the bureaucracy and academia, but that of the government itself, at least in the area of international economic policy: the 'correct' macro and micro-economic policy settings will inevitably make Australia a more attractive investment location, this logic suggests. The simple removal of impediments to the operation of market forces will ensure an inflow of productive investment into Australia's manufacturing sector. This will be most effectively achieved by implementing a range of micro-economic reforms intended to enhance the 'efficiency' and 'competitiveness' of the 'Australian economy'. ²

¹ East Asia Analytical Unit (1992) Australia and North East Asia in the 1990s: Accelerating Change, Department of Foreign Affairs and Trade, AGPS, Canberra: 63.
² It should be stressed that domestic neoliberal reform has been considered as the principal mechanism for attracting Japanese capital as it restructures since the 1980s - allowing a sustained period for its potential efficacy to be demonstrated. See, for example, Department of
This is a policy paradigm that has been in place for more than a decade, and which might be expected to have displayed unequivocal gains already. As we have seen, however, a neoliberal, market-driven idealisation that repudiates government intervention, and which relies on 'efficiency' gains alone is unlikely in itself to alter the structure of economic activity. Indeed, simply enhancing market forces would seem likely merely to reinforce pre-existing forms of 'comparative advantage' - a point Drysdale emphasises when explaining the high levels of Japanese investment in resources and real estate and the decline in manufacturing. An examination of the Australia-Japan economic relationship reinforces the need for a more wide-ranging theoretical perspective to explain some of the anomalies that characterise the bi-lateral relationship.

This is especially apparent given that, as we have seen, the idea of a 'national economy' is an increasingly problematic one, and not necessarily the most useful point of departure when attempting to comprehend international economic activity. Moreover, nations as such are no longer considered to be the source of competitive advantage by more sophisticated observers from both orthodox and radical camps. Individual firms competing in global marketplaces are more appropriate indicators of comparative competitiveness. The success of individual corporate strategies will be dependent on extracting any advantage that may be garnered at the national, regional or global level. As the earlier examination of corporate Japan suggested, the investment and production strategies of individual firms are dependent on a good deal more than simply the attractions of market-conforming, national macro policies. Indeed, as the consideration of the region indicated, Japanese capital may be encouraged to invest precisely where market forces are either constrained, or where contingent 'distortions' make such locations more attractive.

In what follows it will become apparent that international economic activity is a good deal more complex than neo-classical economic models suggest. An explication of the pattern of economic activity between economic entities in Japan and Australia will allow us to consider the efficacy of Labor's policy settings during its term of office. Equally importantly, it will allow us to assess

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the usefulness of the discourse of neoliberalism as a tool of theoretical analysis and as a prescriptive model for engendering the sort of changes envisaged by the East Asia Analytical Unit, quoted above.

The *sogo shosha* in Australia

In a manner similar to that occurring at present in the region to Australia's north, the early involvement of Japanese capital and corporate actors in Australia was pioneered by the *sogo shosha*. In the immediate postwar period the trading companies acted as 'procuring and marketing agents' for Japanese industry, linking both domestic and foreign suppliers through a complex network of agents. Initially, the *sogo shosha* were involved in the wool and wheat trade, establishing a strong and continuing presence in Sydney. During the 1960s as minerals and metals assumed a greater importance as a result of both the expansion of the Australian mining sector and the gathering pace of Japanese industrialisation, the trading companies took on a more global, less Japan-centric role, acting as intermediaries for 'Australian' exports to third countries. Individual companies' corporate links in Japan determined both the degree of involvement in particular commodities and the specialisation or diversification they subsequently developed. From 1964 direct involvement through equity purchase and joint ventures signified the desire to assure resource security; the trading companies associated with Japanese steel and chemical companies (Mitsubishi, Mitsui, and Sumitomo) were particularly prominent in this regard.

The strategic investments of the *sogo shosha* confer particular advantages and forms of structural power in the conduct of trade relations with individual companies and sectors. This is most apparent with regard to Australia's single most important export - coal - the subject of a separate case study in the next chapter. However, it is worth briefly noting the scale and extent of the investments of some of Japan's leading corporations, of which the trading houses in Australia are an integral part. For example, the Mitsubishi trading company's major exports include coal, iron ore, beef, aluminium, wool and

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6 The Japanese trading companies have built on this initial position and now are significant actors in Australia's export trade. Indeed, the second and third largest exporters from Australia - after BHP - are Mitsui and Mitsubishi. The four largest trading companies account for 1 in every 6 dollars of Australia's total national export earnings. See: Hartcher, P (1994) 'Corporate Australia misses trade boat', *Australian Financial Review*, August 22: 15.
LNG. Major imports include machinery, textiles and chemicals. The wider Mitsubishi group of which the trading company Mitsubishi Corporation is a member has extensive Australian investments in beef production, silicon sand, feedlots, tyres, automotive manufacturing, the North West shelf LNG project, coal, wool processing, manufacturing and importing electrical goods, as well as an extensive range of financial services through the Mitsubishi Bank and Mitsubishi Development. Mitsui - the second largest Japanese exporter from Australia - shows a similar pattern. In addition to coal, iron ore, LNG, aluminium and beef, they are significant exporters of gold, woodchips, grain and salt. Mitsui also has extensive investments in coal production, iron ore, property development as well as banking and financial services.

The range of Japanese investment is considered below in more detail. The point to note here is that Japanese export-oriented trade and investment patterns are dominated by primary products. The trading companies' crucial intermediary role gives them strategic leverage over Australian-based companies reliant on their services. Furthermore, as Kenichi Ohmae has argued, the inability of Australian exporters to penetrate the Japanese market stems, in part, from a dependence on Japanese trading companies to organise the export of Australian produce, a handicap he claims will be overcome only by Australia establishing its own trading company. As the examination of the sogo shosha's activities in chapter 5 indicated, there is little incentive for the trading companies to import manufactured goods of a sort that might compete with the products of fellow keiretsu members. Simply relying on market forces and enhanced competitiveness to gain market access and share will not achieve the desired outcomes.

Japanese Investment in Australia: An Overview

Japanese FDI patterns reflect a combination of influences. Paramount here have been the demands of Japan's domestic economy and the constraints associated with potential external investment locations. Table 4 in the previous

10 Furthermore, the transnational organisational structure of the sogo shosha means that they are able to minimise tax obligations through transfer pricing techniques, something that negates the potential benefits of foreign investment and undermines host government autonomy and revenues. See: Featherstone, T (1995) 'ATO shapes up to Japanese heavyweights', Australian Financial Review, October 25: 1 & 6.
chapter indicates the notable diversity of investment locations of Japanese capital - testimony to an initial desire to secure resource security through widespread and potentially competing suppliers. What is also noteworthy is the importance of investment in the manufacturing sector. In this regard, the Oceania region of which Australia is the principal part displays some distinctive characteristics.

As Charts 2 and 3 indicate, Australia is an important investment location for Japanese capital, although the flows from Japan display a good deal of volatility - something exacerbated by a disparity in the size of the two economies (see Table 3).

Chart 2  


What is not apparent from these charts, however, is the relative importance of portfolio as opposed to direct investment. Chart 4 clearly demonstrates that with the exception of 1987, Japanese portfolio capital has been by far the most significant capital inflow into Australia. The implications of this will be considered in more detail below, but it is immediately apparent that Australia’s principal significance is as a investment location for more liquid financial capital, rather than in productive investments of whatever kind.
Chart 3

JAPANESE DIRECT INVESTMENT INTO AUSTRALIA


Chart 4

JAPANESE INVESTMENT INTO AUSTRALIA

By Type of Capital

Not only has Japanese investment been overwhelmingly of an indirect sort, but it is noticeably different from its British and US counterparts. Moreover, despite the rapid build-up of Japanese investment, the cumulative totals of British and the US FDI remain significantly larger.\textsuperscript{12} FDI represents only 15-20 per cent of Japan’s total outward investment, a situation that is unlikely to change given that since 1987 Japanese insurance and pension funds have been allowed to place up to 30 per cent of their total assets in overseas securities.\textsuperscript{13} Bonds are the preferred investment vehicle for Japan’s institutional investors, something which reflects the inherent conservatism of Japanese fund managers and their comparative lack of experience in assessing foreign risk.

Before attempting any analysis of the sectoral implications and characteristics of these investment patterns, however, it is worth reinforcing the specific qualities that distinguish Japanese investment in Australia from other locations.

Table 5

<table>
<thead>
<tr>
<th>Industry</th>
<th>Australia's Share</th>
<th>World Average</th>
<th>Australia's Relative Imbalance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mining</td>
<td>20.9</td>
<td>7.5</td>
<td>+178</td>
</tr>
<tr>
<td>Real Estate</td>
<td>23.1</td>
<td>11.4</td>
<td>+103</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>17.1</td>
<td>26.7</td>
<td>-36</td>
</tr>
<tr>
<td>Financial Services</td>
<td>12.3</td>
<td>22.5</td>
<td>-45</td>
</tr>
<tr>
<td>Other Industries</td>
<td>26.6</td>
<td>31.9</td>
<td>-17</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>0</td>
</tr>
</tbody>
</table>


Table 5 clearly indicates the particular attraction of the mining and real estate sectors to Japanese investors compared to the rest of the world. Similarly, Japanese investment in the manufacturing sector - potentially the most valuable form of FDI given its job creating and import reducing potential - is conspicuously lower than the global average. This is especially noteworthy given that manufacturing investment in the region has been the most rapidly

\textsuperscript{12} Whereas US FDI was 45% and British FDI 52% of their respective totals, Japanese FDI was only 30% of its total in 1989. See Access Economics (1991) \textit{Japanese Investment in Australia}, Report Prepared for the Australia-Japan Foundation, Access Economics.

Table 6
Japanese Direct Investment in Australia by Sector: 1983-94
(% share and $US millions)

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Manufacturing</td>
<td>9.03</td>
<td>27.6</td>
<td>2.8</td>
<td>14</td>
<td>50.8</td>
<td>8.7</td>
<td>3.7</td>
<td>9.8</td>
<td>13.4</td>
<td>10.4</td>
<td>37</td>
<td>49.7</td>
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<tr>
<td></td>
<td>15</td>
<td>29</td>
<td>13</td>
<td>123</td>
<td>254</td>
<td>211</td>
<td>159</td>
<td>360</td>
<td>342</td>
<td>225</td>
<td>712</td>
<td>629</td>
</tr>
<tr>
<td>Mining and</td>
<td>31.9</td>
<td>4.8</td>
<td>5.3</td>
<td>22.1</td>
<td>9.5</td>
<td>7.7</td>
<td>12.1</td>
<td>21</td>
<td>11.4</td>
<td>10.3</td>
<td>15.7</td>
<td>9.7</td>
</tr>
<tr>
<td>Agricultural</td>
<td>53</td>
<td>5</td>
<td>25</td>
<td>195</td>
<td>116</td>
<td>186</td>
<td>516</td>
<td>769</td>
<td>291</td>
<td>223</td>
<td>302</td>
<td>123</td>
</tr>
<tr>
<td>Banking and</td>
<td>1.2</td>
<td>8.6</td>
<td>52.1</td>
<td>10.4</td>
<td>17</td>
<td>15</td>
<td>12.8</td>
<td>5.5</td>
<td>2.8</td>
<td>2.9</td>
<td>2</td>
<td>9.4</td>
</tr>
<tr>
<td>Insurance</td>
<td>2</td>
<td>9</td>
<td>244</td>
<td>92</td>
<td>208</td>
<td>363</td>
<td>545</td>
<td>200</td>
<td>72</td>
<td>63</td>
<td>38</td>
<td>120</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.2</td>
<td>5.7</td>
<td>12</td>
<td>14.4</td>
<td>33.6</td>
<td>52.6</td>
<td>38.1</td>
<td>36.4</td>
<td>49.2</td>
<td>58.6</td>
<td>28.1</td>
<td>11.3</td>
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<tr>
<td></td>
<td>2</td>
<td>6</td>
<td>56</td>
<td>127</td>
<td>411</td>
<td>1270</td>
<td>1623</td>
<td>1333</td>
<td>1255</td>
<td>1271</td>
<td>540</td>
<td>143</td>
</tr>
<tr>
<td>Commerce</td>
<td>53</td>
<td>25.7</td>
<td>12.4</td>
<td>8.7</td>
<td>8.9</td>
<td>3.8</td>
<td>7</td>
<td>8.9</td>
<td>8</td>
<td>8.6</td>
<td>9</td>
<td>4.2</td>
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<tr>
<td></td>
<td>88</td>
<td>27</td>
<td>58</td>
<td>77</td>
<td>109</td>
<td>92</td>
<td>296</td>
<td>326</td>
<td>204</td>
<td>187</td>
<td>173</td>
<td>54</td>
</tr>
<tr>
<td>Other services</td>
<td>3.6</td>
<td>29.5</td>
<td>15.6</td>
<td>30.1</td>
<td>10.3</td>
<td>12.1</td>
<td>26.2</td>
<td>18.5</td>
<td>15.1</td>
<td>9.2</td>
<td>8.2</td>
<td>15.4</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>31</td>
<td>73</td>
<td>265</td>
<td>126</td>
<td>292</td>
<td>1117</td>
<td>679</td>
<td>385</td>
<td>200</td>
<td>157</td>
<td>196*</td>
</tr>
<tr>
<td>Total</td>
<td>166</td>
<td>105</td>
<td>468</td>
<td>881</td>
<td>1224</td>
<td>2414</td>
<td>4256</td>
<td>3667</td>
<td>2549</td>
<td>2169</td>
<td>1922</td>
<td>1265</td>
</tr>
</tbody>
</table>

* Some figures unavailable
expanding form of Japanese FDI overall. The other point to note is that despite Australia's apparent relative unimportance as a location for financial service investment, it has still had a notable impact in Australia: the sheer disparity of economic weight between Australia and Japan means that what are comparatively trivial flows by Japanese standards may have substantial effects in the smaller Australian economy. Table 6 illustrates the investment 'bulge' in both the banking and finance, as well as the 'other services' sectors, reflecting the impact of Australia's liberalisation of the financial sector during the latter part of the 1980s. Japanese banks moved to take advantage of the deregulation process, although, as we shall see, this had more to do with domestic imperatives and a desire to service existing Japanese clients than it did with any supposed benefits to be derived from strictly Australian factors.

Overall, however, Japanese investment in Australia has been predominantly portfolio rather than direct and, as such, subject to possibly sudden and destabilising disinvestment should conditions in Australia or Japan make this necessary. The sudden retreat in 1992 of Japan's institutional investors in the wake of national recession and the collapse of the bubble economy are evidence of this possibility. The presence of Japanese financial institutions facilitates the flow of Japanese capital through Australia's domestic economic space, something that exacerbates the inherent volatility of the internationally exposed financial sector. Where FDI does occur, as Tables 5 and 6 indicate it appears to be driven by considerations that skew Japan's 'normal' pattern of investment toward mining and real estate. The following sections will consider in more detail why this pattern has emerged. Why is it, in fact, that Japanese investment has failed to develop in the way the government's expert advisers in particular and advocates of market forces in general had predicted?

Manufacturing

Domestic restrictions on Japanese capital outflows meant that manufacturing investment in Australia was negligible until the end of the 1960s. When it did occur the principal motivation was the same as has characterised the vast

increases of investment in both the US and the EC: circumventing protectionism. Furthermore, the primary reason for Japanese manufacturers moving parts of their operations here was the same as had motivated their British and American predecessors: the desire to protect and expand market share.\textsuperscript{16}

Table 7

<table>
<thead>
<tr>
<th>Motive</th>
<th>Manufacturing</th>
<th>Financial Services</th>
<th>Tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td>To Supply Australian Market</td>
<td>3.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Supply Japanese Market</td>
<td>2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promote exports from parent to Australia</td>
<td>2.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To supply other Japanese companies in Australia</td>
<td>1.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supply other countries</td>
<td>2.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To supply Japanese tourist market</td>
<td></td>
<td>3.7</td>
<td></td>
</tr>
<tr>
<td>To supply non-Japanese tourist market</td>
<td></td>
<td>2.9</td>
<td></td>
</tr>
<tr>
<td>To service other Japanese companies in Australia</td>
<td></td>
<td>3.1</td>
<td>2.4</td>
</tr>
<tr>
<td>To establish a market presence</td>
<td></td>
<td>3.3</td>
<td>3.5</td>
</tr>
<tr>
<td>To complete a global network</td>
<td></td>
<td>3.8</td>
<td>2.7</td>
</tr>
<tr>
<td>Service Parent's Japanese client companies in Australia</td>
<td></td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>Service Japanese customers of business group in Australia</td>
<td></td>
<td>3.4</td>
<td></td>
</tr>
<tr>
<td>Service Australian customers involved in trade with Japan</td>
<td></td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Service Australian customers without Japanese connections</td>
<td></td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Gain experience in securities markets</td>
<td></td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Trade in securities markets</td>
<td></td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>Investment in property</td>
<td></td>
<td>2.1</td>
<td></td>
</tr>
<tr>
<td>Facilitate inter-office treasury operations</td>
<td></td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>Involvement in Yen dollar trades</td>
<td></td>
<td>2.5</td>
<td></td>
</tr>
</tbody>
</table>

Note: The scores are calculated by assigning 1 to no importance, 2 to low importance, 3 to medium importance and 4 to high importance.


The pioneering Japanese companies tended to be light engineering firms, sewing machine manufacturers and the like, which required extensive customer contact for after-sales servicing and parts. During the 1970s large scale manufacturing entered Australia, either through takeovers of struggling 'local' operations (Mitsubishi's acquisition of Chrysler, for example) or through joint ventures, particularly in the resources sector. However, Japanese investments tended to be less diversified than their EC and US counterparts, reflecting particular Japanese priorities: the paramount desire for resource security and the need to ensure market access. The latter has been a ubiquitous motivation of Japanese FDI, Australia has been no exception, as Edgington notes:

> Apart from the cases where *sogo shosha* or Japanese industrial end users have been willing to invest in processing Australian raw materials, it is generally only when government barriers to exports (eg. tariffs, 'voluntary' export restraints, and industry
plans) have been enforced that the Japanese corporations have established local manufacturing plants in a few selected industries.  

As Table 7 confirms, the primary investment motivation for Japanese manufacturers in Australia has been to supply the Australian market. True there is of late an increasing interest in servicing other countries from Australia, but it is important to recognise that this sort of development would have been unlikely were it not for the fact that the Japanese were already here and forced to make the most of their sunk investments. Significantly, even where manufacturing investment does occur, this may still be intended to promote further exports from Japan. Table 8 gives an indication of the way in which Japanese firms have established themselves in Australia. Noteworthy again is the preponderance of firms in the mining and energy sector, and the increasing importance of real estate and banking/finance.

Other studies confirm these broad conclusions. A Japan External Trade Representative Organization (JETRO) report into Japanese companies' experiences in Australia found that a desire to increase market share was a critical motivation, and that this might most easily be achieved by producing behind tariff barriers. More recently, an EXIM Bank survey of the overseas investment intentions of Japanese companies revealed that more than 60 per cent of companies nominated desire to capture local markets as their primary motivation. Although Japanese FDI remained significant, its general level was expected to decline as much of the investment necessary to circumvent protectionist pressures was already in place. Significantly, interest in Oceania as an investment location was 'not strong', with ASEAN and the East Asian NIEs greater returns on investment proving more attractive. Less than 30 per cent of Japanese companies in Australia intended to increase their investment levels; most cited local economic stagnation and the limited possibilities for market expansion as reasons. Australia's relative unattractiveness as a potential investment location has been compounded by an historical Japanese caution and preference for joint ventures on the one hand, with an established proclivity on the part of Australia's business class for alliances with 'traditional' British and American rather than Asian partners on the other.

20 The Centre for Technology and Social Change, University of Wollongong, (1990) Strategic Alliances in the Internationalisation of Australian Industry, Canberra: Dept of Industry,
Japanese manufacturing investment has been distinguished historically in Australia by its comparatively small scale and specificity. Given that investment has overwhelmingly been intended to secure local markets it is unsurprising that local production perpetuated the established inward-looking pattern that characterised Australian production in general. There are, however, other qualities - apart from its relatively modest size - that tend to set Japanese investment apart. Most significant in this regard from a host country perspective is that Japanese TNCs have been less willing to transfer technology or conduct local R&D operations than their British and Australian rivals. Furthermore, the subsidiaries of Japanese TNCs in Australia remained 'tightly controlled' by their parents, leaving the operations of local managers 'highly circumscribed'. The most tangible effect of this pervasive control was to entrench preferential purchasing patterns. More than 80 per cent of subsidiaries' capital equipment purchases were sourced from Japan, something that was ensured by a lack of competitive tendering for such supplies. What Kreinin calls 'traditional loyalties', rather than market forces, explains the overwhelming reliance of Japanese sources for capital goods. Furthermore, and caveats about the declining utility of nationality as a conceptual variable notwithstanding, Emmott's research suggests that a reluctance to cede control to subsidiaries and a tendency to conduct 'relatively little research overseas' are general characteristics of Japanese multinationals.
Contemporary Japanese investment in Australian manufacturing continues the pattern of sudden surges in particular sectors that has characterised the expansion of Japanese capital globally from its earliest phases. This phenomenon helps explain the anomalous growth of manufacturing investment in 1993-94. Several critical caveats need to be noted with regard to this apparent upsurge in manufacturing investment. Firstly, it is highly concentrated: Australia captured 70 per cent of Japan's global food investment in 1993.26 In both 1993 and 1994 investment in the food industry represented an average of approximately 90 per cent of Japan's total manufacturing investment in Australia.27 Secondly, the food processing industry has the sort of 'tight linkages' that mean processing must be performed close to the point of production.28 In other words, in the food industry Japanese companies have little choice other than to invest in the country in which the raw materials are produced. Thirdly, the percentage increase in manufacturing investment's share of overall capital flows in these two years is part of a greatly reduced total. Fourthly, the food industry is unlikely to provide many of the sorts of high-wage jobs in sophisticated value-adding processes that governments might hope to attract through increased foreign manufacturing investment. Finally, the latest figures available at the time of writing indicate that this most recent, tightly targeted investment 'bulge' may already be over: real estate was, once again, by far the largest target of investment in the first half of 1995.29

Overall, then, there is little reason to suppose that in the long term future Japanese manufacturing investment will be anything other than comparatively small scale, sectorally specific, and opportunistic. Although many Japanese manufacturers are being forced to restructure and transfer parts of their operations to the region, Australia is unlikely to benefit from this or become part of the regional production networks detailed in the previous chapter. Only where sunk costs or the nature of the productive process - as in the food industry - compel such investment is it likely to be forthcoming. In any case, as we have seen, Japanese manufacturers prefer to keep the more lucrative, skill-intensive parts of the production process in Japan wherever possible. There are substantial grounds, therefore, for questioning the appropriateness of the

Australian government's policy settings in relation to attracting productive manufacturing investment. The question remains, however: what effect has a predominant reliance on market mechanisms in the area of international investment had on other sectors of the economy?

**Banking and Finance.**

One of the principal justifications for opening up Australia's economic space to external economic forces was the supposition that this would somehow engender greater competition and a concomitant increase in economic 'efficiency'. The banking and finance sector were, in many ways, the exemplars of this neoliberal rationale as the effects of deregulation and financial liberalisation were more immediately apparent. There is no intention here to revisit in detail the history of Australia's deregulatory experience. However, it is important to note in passing that the rapid growth in credit during the 1980s (in excess of 20 per cent per year) was instrumental in creating an environment in which 'the road to riches was [considered to be] via asset appreciation rather than work or investment in income producing assets'.

Increasing inflation was the unsurprising result of this process, which in turn led to higher interest rates and greater capital inflows. While this latter development might not have been unwelcome in itself, much of this inflow was highly liquid portfolio investment attracted by the possibility of short term gains - something which helped fuel asset inflation.

Even the Reserve Bank itself has retrospectively conceded that the growth of credit without concomitant 'real' economic growth had the potential to threaten the stability of the entire financial system. The effect of increased competition, of which the Japanese banks were a part, had a greater impact on the traditionally conservative banking sector than had been expected. Competition for a share of corporate sector business led banks to suspend their customary caution, developing increasingly risky loan portfolios and favouring 'entrepreneurial' customers over ordinary business. Not only was small business disadvantaged by the business culture of the 1980s, but the supposed

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benefits for customers failed to materialise, with the banks using the retail sector to cross-subsidise their corporate business.\textsuperscript{34}

The deregulation strategy, therefore, largely failed to achieve its stated goals of encouraging productive capital inflows and creating a more 'efficient' financial sector. To see why this was the case it is helpful to look more closely at the behaviour of the Japanese financial sector in Australia.

**Japanese Banks and Security Houses in Australia**

The arrival of Japanese banks in Australia was the result of a range of 'push' and 'pull' factors. The close relationships that existed between the banks and the Ministry of Finance (MOF) and the Bank of Japan described in chapter 5 provided an important framework within which the international expansion of Japan's financial sector occurred. Not until 1967 was a process of 'wary liberalisation' begun, even then it was not until the mid 1970s that Japanese banks began their overseas expansion in earnest.\textsuperscript{35} This process was encouraged by the MOF's desire to reduce Japan's growing trade surpluses in the pre-'oil shock' years; allowing Japanese banks to establish limited numbers of overseas offices provided a conduit through which to export capital. MOF enthusiasm about foreign expansion in the 1970s and early '80s waxed and waned according to economic circumstances. Although 'administrative guidance' remained important in determining the extent and nature of overseas development, the banks themselves were keen to maintain the outward push. Significantly, the desire to maintain close links with Japanese overseas-based trading and manufacturing organisations was as important as competing with international competitors for profitable lending opportunities. As Table 6 confirms, servicing existing Japanese clients was a crucially important motivation for the Japanese banks outward migration. In other words, it was domestic Japanese concerns, rather than the sudden competitiveness of the Australian economy, that encouraged investment.

Japanese banks overseas followed a typical development path: firstly conducting trade and foreign exchange transactions with Japanese customers; then extending loans initially to Japanese and subsequently foreign customers;

\textsuperscript{34} Hawtrey, K., Favotto, I., & Gilchrist, D (1991) "The Impact of Bank Deregulation on Australian manufacturers", Economic Papers, 10 (4):10-29
next they moved into non-banking financial services; finally they established a retail banking presence. The preponderance of outlets in Europe and North America reflected the attraction of proximity to international financial markets and relative ease of entry. The lack of outlets in Australia is testimony both to the difficulty of entry before deregulation and the more limited role - primarily facilitating trading and lending - that Australian subsidiaries subsequently played in the global hierarchy of Japanese banking. The three Japanese banks that were granted retail licenses - the Bank of Tokyo, Mitsubishi Bank and IBJ Bank - have shown little interest in establishing a comprehensive network or capturing a share of the retail market. Like the other banks without retail licenses - of which Dai-Ichi Kangyo, Fuji, Sanwa, Tokai, Sumitomo are the most important - merchant banking and larger scale commercial operations have been their principal interest.

The banks were followed into Australia by the 'Big Four' security houses - Nomura, Nikko, Daiwai and Yamaichi - in the early 1980s. Again, the initial motivation for establishing representative offices was their desire to secure the business of other Japanese organisations in Australia. They were to become increasingly important in facilitating Federal and state government deficit funding during the 1980s. Additionally, the security houses have been instrumental in shifting the emphasis of Japanese investment from direct investment in corporate equity or long-term loans for resource or industrial projects, to long-term fixed interest bonds. The influence of these types of capital flow, although less obvious than FDI, should not be underestimated, for as Higgins points out, 'the sheer size of Japan's capital flows means that marginal changes in them may still be large enough to have a major influence in the financial markets of small, open economies'. In the period since financial deregulation, nearly 20 per cent of Australia's foreign borrowings are Yen-denominated, a potentially problematic position given what had until recently been the seemingly inexorable rise of the Yen and the general volatility of foreign exchange markets. What is less generally recognised, however, is the preparedness of large Japanese institutional investors to sell abruptly

Australian bonds if they fail to meet performance expectations, or to use deliberately their financial leverage to engineer currency fluctuations in order to generate short-term speculative gain.

Some idea of the scale of Japanese capital flows may be gained from Chart 4 which details the manner in which the Japanese financial institutions invest their funds. Despite the significance of Japanese overseas investment, it represents a mere 13 per cent of total capital held by institutions in Japan. More than 80 per cent of total Japanese savings remains in Japan. Of the portion that is exported, 60% goes to the US, with only about 4% going to Australia.

Chart 5

Japanese Institutional Distribution of Outstanding Assets: 1992


The investment strategies - and hence the subsequent capital flows - of the major Japanese financial institutions are in what Agnew calls a ‘transitional phase’. Since 1987 Japanese life insurance companies and pension funds have been able to invest 30% of their funds overseas, up from the previous ceiling of 10%. Prior to 1975 capital outflow was restricted by government regulation.

The Japanese institutions have shown a preference for bonds rather than stock because they are a convenient substitute for the long term loans that had

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previously been their major investment vehicle. Japanese companies have increasingly tended to raise capital either through reinvested profits, share issues or borrowing in international markets, rather than exclusively utilising domestic sources of capital. The resultant decline in demand from traditional clients has forced the Japanese financial institutions to look elsewhere for income. Bonds are popular because they do not require specialist knowledge of local markets. However, as the Japanese institutional investors become more familiar with foreign markets greater investment in local equities is occurring, partly as a result of the greater returns available, but also as a way of off-setting the negative effects of currency fluctuations.

This last point has significant implications. Agnew argues that fluctuations in the Australian dollar's value 'dominate Japanese responses' to potential investment.\(^\text{44}\) The depreciation of the $A in 1985 and '86 saw significant disinvestment by the Japanese, who remain 'wary'. The resulting caution has seen a preference develop for more liquid semi-government bonds issued by individual State Treasuries. Given that Japanese institutions have - until recently at least\(^\text{45}\) - had better credit ratings than Australian state governments it is possible for them to raise cheap funds in, say, the US and on-lend to Australian borrowers at an attractive profit. Of course, the general trend toward investing in short-term, liquid assets increases the potential for volatility and instability, simultaneously increasing Australia's dependence on and susceptibility to Japanese capital and its imperatives.

Future levels of Japanese capital outflows, of which the Japanese financial institutions based in Australia are such crucial intermediaries, are unclear. Some observers suggest that Japanese portfolio investment flows may already have peaked. Kawai, for example, argues that Japan's large institutional investors may have satisfied their requirements as far as establishing a ratio of foreign securities in their portfolios is concerned.\(^\text{46}\) However, in the wake of the continuing banking crisis in Japan and the consequent minimal interest rates in that country, there is a strong likelihood that these outflows will continue.\(^\text{47}\)

\(^{44}\) Agnew, Andrew (1992) 'Japanese Investment Into Australia':102.
\(^{45}\) The massive debt accumulated by Japanese banks in particular during the years of the bubble economy mean that they are now forced to pay a premium relative to foreign rivals in order to raise money. See: The Economist (1995) 'A reflection on the state of Japan's biggest banks', October 14: 101/2.
From the perspective of Japanese fund managers Australia represents a small but useful location in which to ‘hedge’ their global position: the value of the Australian currency is still widely perceived to be commodity-driven, an ideal quality to offset potential over-exposure to inflation-sensitive assets in Japan.48

Assessment

If the intention of deregulation and a greater reliance on market forces was to increase the competitiveness and attractiveness of Australia as a potential investment location, then there are substantial grounds for questioning the liberalisation strategy’s efficacy. The primary motivation of the Japanese financial institutions’ involvement in Australia has been to service existing Japanese clients and interests, be they corporations involved in some productive activity or as a mechanism through which savings might be channelled by the huge Japanese institutional investors. The primary effect of much of this activity has been to increase the dependency of Australian borrowers on Japanese capital, something that has reinforced the latter’s structural power, giving it palpable economic leverage over the Australian economy and an implicit political influence should the Japanese government either want to or be capable of utilising it. Furthermore, increased exposure to the much larger Japanese economy and its associated capital flows has further eroded the ability of the Australian government to construct autonomous economic policy in a predictable economic framework.

As an overall consequence of the financial traumas of the 1980s that deregulation caused, banks have become more cautious in their lending, to the extent that it is difficult for small to medium sized manufacturers to obtain capital at all.49 Moreover, the idea that increased competition would reduce the power of the banks within Australia - an idea that had been promoted as an attempt to win over the Labor Party to foreign bank entry50 - proved ill founded. As Reinecke argues:

Far from having been brought to heel by the entry of foreign banks, the major Australian banks are now freer of government influence than they ever have been. In such circumstances, any expectations by the government that the banks can be steered

towards investment that serves to regenerate sectors of the economy such as manufacturing appears to be illusory.\textsuperscript{51}

As the government generally chose, as a matter of consciously pursued policy, not to intervene in the process of deciding investment priorities, capital was often employed in a speculative, short-term manner. Indeed, one of the most unambiguous effects of Labor's financial deregulation experiment has been a massive deterioration in Australia's external accounts, most obviously manifest in greatly increased levels of foreign debt.\textsuperscript{52}

As far as the Japanese banks were concerned, the possibility of obtaining a full banking licence in Australia meant they had access to the foreign exchange and general banking associated with Japanese-Australian trade; a trade that had previously been dominated by Australian banks.\textsuperscript{53} It is not necessary to subscribe to some of the more xenophobic schools of thought, which tend to see all non-'Australian' and 'Asian' investment in particular as somehow alarming, to question how the oft-invoked 'national interest' has been served by Labor's deregulatory policies. If this has been the case in the financial sector, such questions have been even more central to debates over foreign investment in real estate.

\textbf{Real Estate and Tourism}

Real estate and tourism related developments have been the most controversial of Japan's investments in Australia. On the one hand, buildings have a visibility and immediacy that other, less tangible, forms of investment lack. On the other, doubts have been raised about the impact of such large scale investment in one sector of a comparatively smaller economy. Critics claim such investment may accentuate the 'uneven' development of the 'Australian' economy, causing a growth of low-pay service jobs and exacerbating the decline of manufacturing within Australia.\textsuperscript{54} What is indisputable, however, as Table 6 illustrates, is the rapid build up and subsequent decline of real estate investment - something that mirrors the rise and fall of the bubble economy in Japan. Clearly, deregulation of the Australian

\textsuperscript{54} See, for example, Abe, David & Wheelwright, Ted (1989) \textit{The Third Wave: Australia and Asian Capitalism}, Left Book Club.
economy allowed the speculative character of real estate investment in Japan to be rapidly and easily transmitted to other economies where similar opportunities presented themselves.

Within the space of a decade, real estate has grown from virtually nothing to 50 per cent of all Japanese investment in some years (see Table 6). Farrell argues that the Japan's overseas investment boom in real estate has ended, however, the consequence of Ministry of Finance pronouncements in late 1989 and early 1990.\footnote{Farrell, Roger (1992) "Japanese Direct Investment in Overseas Property in the 1980s: Overview and Assessment", \textit{Japanese Direct Investment}: unpublished workshop paper, Canberra: Australia-Japan Research Centre, pp 40-2.} As part of a concerted move to reduce the speculation associated with the bubble economy, Japanese officials instructed the banks to reduce lending for real estate. However, by that time Farrell estimates that banks had accumulated $475 billion in real estate based loans, or 28.5\% of their total loan portfolios.\footnote{Farrell, Roger (1992) "Japanese Direct Investment in Overseas Property'.} As a result of the Japanese banks' domestic difficulties, the consequent Australian investment picture is changing rapidly. For example, Japanese investment in the construction industry has slumped from US$115 million in 1991 to 14 and 12 million in 1992 and 1993 respectively.\footnote{Australia-Japan Economic Institute (1995) \textit{Economic Bulletin}, 1 (6): 12 & 3 (6): 9.} Similarly, real estate, as Table 6 indicates, has dropped from US$ 1,255 million in 1991 to US$ 143 million in 1994.\footnote{The most recently available figures at the time of writing indicate that Japanese investment has resumed on a large scale. What is most noteworthy is that the general decline evident in real estate investment in Table 6 above, appears to have halted. More than 40\% of new investment in the first half of 1995 was in real estate. See fn 29, above.} Moreover, proposed tourism developments by Japanese companies registered with the Foreign Investment Review Board show a similar decline, falling from A$ 564 to 241 million from 1991-92 to 1992-93.\footnote{Department of Treasury (1994) \textit{Foreign Investment Review Board: Report 1992-93}, AGPS, Canberra: 24.}

The Influence of Individual Companies

Much of the volatility of investment levels can be explained by the importance of individual Japanese companies in Australia. The construction company Kumagai Gumi, for example, has been a crucial conduit for Japanese capital, its rise and subsequent impact upon Australia being determined by Japanese imperatives.\footnote{Rimmer, P.J., (1990) "The Internationalisation of the Japanese Construction Industry: The Rise and Rise of Kumagai Gumi", \textit{Environment and Planning A}, Vol 22: 345-68.} Kumagai Gumi's expansion demonstrates a correlation with Japan's changing foreign policy priorities, themselves reflecting shifts in the
factional strength of elements within the LDP. Additionally, argues Rimmer, the company was motivated by a desire to improve its position relative to Japan’s own ‘Big Five’ construction companies that dominated the tightly controlled domestic market; overseas expansion offered the possibility of achieving this goal.\textsuperscript{61} Kumagai Gumi’s ‘flatter’ organisational structure gave greater autonomy to local operators who were able to generate business by offering a total package that included ‘financial engineering' (\textit{zaiteku}).\textsuperscript{62} By offering to provide the required capital - usually through loosely affiliated Japanese banks - to underwrite its own projects, Kumagai Gumi was able to circumvent the usual tendering process. Individual state’s desire to ‘get super-projects started at almost any cost’ meant that overseas operators were able to play off one potential location against another in order to gain the most favourable terms for themselves.\textsuperscript{63}

A large part of the capital channelled into Australia via Japanese construction and real estate companies was the speculative product of the bubble economy. Japanese ‘investors' appear to have been influenced by the extraordinary rises in domestic real estate values and assumed Australia offered equally attractive possibilities. Farrell argues that the apparently inexorable rise of the Japanese stock market and land prices changed the psychology of investors.\textsuperscript{64} Consequently, even the inflated prices of Australian real estate during the 1980s appeared comparatively cheap. Access to readily available capital from Japanese banks keen to replace traditional customers meant that little regard was paid to the intrinsic worth of some of these investments; capital gain was the predominant motivation. The folly of this policy has been demonstrated in serious losses incurred by Japanese investors in the Australian market - up to half of a possible $7 billion invested since the property boom of the 1980s.\textsuperscript{65} Kumagai Gumi in particular has been particularly hard hit, recording huge losses in Australia and having to accept its major bankers appointing executives to its board as a consequence of its financial problems.\textsuperscript{66}

\textsuperscript{62}Rimmer, P.J., (1990) *Kumagai Gumi in Australia:*
The sheer scale of Japanese capital flows during the 1980s in particular meant that individual Japanese companies could exert a significant influence on the economic well-being of host countries. This is problematic enough in the case of an essentially productive operation like Kumagai Gumi. However, where such companies are primarily interested in speculative activities and the acquisition of existing assets, there is an even greater potential for destabilisation. The EIE International Corp, and its flamboyant chief executive, Harunori Takahashi, were instrumental in fuelling a speculative surge of property investment, not only in Australia, but throughout the Pacific Rim.\(^\text{67}\) EIE's credit was eventually withdrawn by its Japanese backers after it accumulated an estimated $9.8 billion in debts.\(^\text{68}\) Prior to this it had managed to acquire major assets in Australia, including the Bond University and the Sanctuary Cove resort. What is clear, however, is that individual corporations with access to seemingly unlimited credit in Japan can influence not only the value of assets within Australia, but also the type of infrastructure that is developed.

Whatever the intrinsic merits of real estate investment, Australia will clearly be seen as a riskier proposition by foreign investors generally as a result of such episodes and the increased asset volatility they engender.\(^\text{69}\) Queensland is particularly vulnerable to this sort of sudden foreign capital withdrawal. Official figures from Queensland's Foreign Ownership and Land Register suggest that Japanese land holdings in the Gold Coast area amount to $1.85 billion. However, other estimates argue that this figure is at least $4 billion, the discrepancy arising because many deals are simply not reported to either the Queensland authorities or the Foreign Investment Review Board (FIRB).\(^\text{70}\) Many projects in Queensland remain undeveloped as capital from Japan dries up. Potentially the FIRB has the power to make foreigners disinvest who fail to develop sites within two years of purchase. In reality, however, as Chenoweth suggests, they have little influence as Australia is of only peripheral interest to large portfolio investors.\(^\text{71}\)


A relevant consideration neglected by broad brush policy settings are the nationally specific or non-commercial motivations potential investors may have. Japanese corporations are particularly heavily taxed, something that makes any form of foreign investment more attractive.\textsuperscript{72} Land ownership has a traditional association in Japan with 'tax minimisation'. Investment in Australian real estate has provided an attractive avenue for Japanese companies to avoid paying tax in Japan.\textsuperscript{73} More sinisterly, it has been suggested that Japan's notorious criminal gangs - the \textit{Yakuza} - are involved in land development and 'tourism', particularly in Queensland. A suppressed Queensland Criminal Justice Commission report questions the value of Japanese investment if some of it is nothing more than a front for international money laundering.\textsuperscript{74}

Tourism

Data on tourism investment should be treated with caution. The Australian Bureau of Statistics (ABS) and the FIRB only provide information on investment in tourism occasionally, and even then there are no clear classificatory criteria. Nevertheless, the Japanese were estimated to have become by far the largest investor in the tourism industry by 1988/9, reaching a total of more than $9 billion, compared with less than $2 billion in 1985/6.\textsuperscript{75} Investment in tourism is distinguished by a degree of vertical integration amongst Japanese operations, especially in Queensland.\textsuperscript{76} Although some observers have questioned the degree of integration that exists,\textsuperscript{77} this may be because it occurs at a subtle level through 'understandings'.\textsuperscript{78} What is clearer

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{72} Iwamoto, Yasushi (1991) "Japanese Corporate Tax Policy and Direct Investment Abroad", \textit{Pacific Economic Paper}, No 196. Iwamoto argues that Japan's high rates of corporate tax need to be added to the more accepted rationales for Japanese investment - deregulation, the surplus and protection - although giving appropriate weight to this seems problematic.
\item \textsuperscript{73} Farrell, Roger (1992) 'Japanese Direct Investment in Overseas Property': 52-55.
\item \textsuperscript{74} King, Madonna (1993) 'Japan's Gangsters Here: Secret Report" \textit{The Weekend Australian}, August 7-8: 1 & 6. This is not as unlikely a development as it may sound at first blush. Part of the reason Japanese authorities are finding Japan's own banking crisis so intractable - of which real estate is such a central part - is due to the influence and involvement of the \textit{Yakuza} in property speculation. See: Shirouzu, N (1995) 'Are Gangs Key to Japan's Loan Problem?', \textit{Asian Wall Street Journal}, December 13: 1 & 10.
\item \textsuperscript{75} Dwyer, L & Forsyth, C (1991) "Foreign Investment in Australian Tourism: Rationales and Consequences", \textit{Economic Papers}, 10 (27): 44.
\item \textsuperscript{78} Forsyth, P & Dwyer, L (1990) "Japanese Investment in Australian Tourism", Unpublished paper for \textit{Japanese Investment Abroad Workshop}, ANU July: 11.
\end{itemize}
\end{footnotesize}
is the influence that major Japanese operators have in Queensland: Daikyo, for example, was able to force the Goss government to change its policy regarding future foreign ownership by freezing its existing development plans.\textsuperscript{79}

Of late, however, there is clear evidence that Japanese companies are attempting to disinvest. After having spent an estimated total of A$17 billion in the late 1980s on Australian property, Japanese investors have been attempting to cut their losses in the wake of the Japanese stock market crash and Australia’s own property market collapse.\textsuperscript{80} Significantly, Japanese capital is responsible for developing and running 50 of Australia’s premier hotels worth some A$2.5 billion.\textsuperscript{81} While the physical assets will clearly remain in Australia and provide the backbone of Australia’s largest export earner, the tourism industry remains under-financed and short of essential infrastructure.\textsuperscript{82} Given an historical reluctance on the part of Australian banks to lend to local developers for investment in tourism development, Australia remains dependent on foreign investment which otherwise seems unlikely to occur.\textsuperscript{83} Significantly, the Japanese have been replaced by Singaporean and Hong Kong interests as the most significant foreign investors in real estate, the latter accounting for 28\% of sales compared to Japan’s 4\% in 1991-2.\textsuperscript{84} Unlike the Japanese, however, other Asian investors have shown more interest in acquiring existing assets, rather than developing new projects.

The significance of tourism for Australia cannot be underestimated, having recently replaced coal as Australia’s major foreign exchange earner.\textsuperscript{85} Of the more than 3.36 million tourists visiting Australia in 1994, more than 700,000, or about 21\% were from Japan; contributing to an industry that is now worth more than A$10 billion.\textsuperscript{86} From a Japanese perspective Australia was seventh most popular destination, capturing only a 5.1\% share of the market.\textsuperscript{87} Because of tourism’s potential impact on domestic living standards and job opportunities

\textsuperscript{81} Smith, F (1995) ‘For this Japanese backer it may be check-out time’, \textit{Australian Financial Review}, June 5: 45.
there are divergent opinions on this sort of investment. Garnaut confidently asserts that there is little to be concerned about as far as vertical integration by Japanese companies operating in this sector is concerned. On the other hand critics broadly associated with the politics of the Left fret that 'Australia would become a service economy in every sense of the word, serving Asian capitalism'.

To judge from the activities of Japanese corporations in all other industries we have considered, Garnaut's assertions are clearly overly optimistic. Yet the tourism industry does provide many jobs that would otherwise not exist, not all of which are poorly paid and low skilled. The most notable point, as far as this discussion is concerned, is the lack of effective control by the Australian government of both the tourism industry in particular and real estate in general. Berry's exhaustive survey of Japanese property development in Australia concluded that:

> the current policy framework at all levels of government in Australia is weakly developed and unable to provide an exhaustive and coherent basis for the evaluation, monitoring and social control of major property development in areas like tourism, including those financed and/or managed by foreign interests. Hence, neither the policy context nor the conventional evaluative tools...are currently adequate to inform or impose an appropriate national urban policy directing foreign controlled major property developments in Australia. In the vacuum created, outcomes are mediated by piecemeal market processes and political interventions.

The other point to be made in this context is that this lack of government oversight and reliance on market forces has implications for other sectors of the economy, not just the real estate sector. Westpac not only had an $11 billion exposure to the domestic property market but has compounded its difficulties by lending a further $5.1 billion in Japan, for what is assumed to be further real estate speculation. Similarly the AMP Society's has been negatively effected by its 15% shareholding in Westpac, a problem exacerbated by its own $2.5 billion write-down of property values.

Although the AMP may be puny by Japanese standards it remains central to the well-being of the Australian economy. The volatility in Australia's real estate

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sector in the late 1980s, which government promotion of market mechanisms helped fuel, illustrates the danger that smaller economies face when they promote enhanced international economic interaction as a matter of policy. A reliance on market forces meant that the Australian economy was inevitably contaminated by the excesses that plagued the Japanese economy following its own deregulation, and which show no signs of being resolved. While a good deal of investment may have occurred in Australia's burgeoning tourism industry, it was often sporadic and volatile - something that will do little to promote future investment certainty. Moreover, the uncontrolled, speculative boom-bust mentality that has tended to characterise the industry has done little to promote job security or career development in the industry, nor done anything to underpin real estate values in the wider housing market. Clearly such inherent instability and uncertainty can hardly be claimed as helping to create a more attractive or competitive business environment.

**Resources, Mining and Agriculture**

Table 9 reveals that commodity trade between Australia and Japan is virtually a mirror-image. The dominance of commodities in Australia's exports to Japan is completely reversed in Japanese exports to Australia: sophisticated manufactures dominate Japanese goods flowing into Australia. As we shall see, coal is still Australia's largest export item, and as such the subject a separate case study in the following chapter. For now, it is important to recognise that although Australia still enjoys a trade surplus, Japanese imports from Australia remain dominated by primary products. While there has been encouraging growth in the volume of manufactured exports, they remain a relatively small part of overall trade. Given the importance of the bilateral trading relationship to both countries therefore, an examination of Japanese involvement in this area can illuminate the differing approaches of the two governments to what is a strategically important determinant of national welfare.

Early trade in raw materials between Japan and Australia was dominated by wool. The *sogo shosha* that facilitated this trade were able to act in a similar capacity when iron ore grew in importance during the 1960s and subsequently dominate the marketing process.93 State governments provided infrastructure and competed in offering inducements to attract capital and encourage the development of new mines with which to service the burgeoning Japanese

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markets. The most noticeable characteristic of Japanese involvement in the raw materials sector has been a 'surprising' lack of vertical integration.94 Australian raw material supplies for Japan have been ensured via the sogo shosha, which took small amounts of equity in various projects. Together with loans and long term contracts these investments secured long-term access to Australian resources without investing in downstream production facilities.95

Table 9
Australia’s Commodity Trade with Japan ($A millions)

<table>
<thead>
<tr>
<th></th>
<th>1983/4</th>
<th>1993/4</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Imports</td>
</tr>
<tr>
<td>Food and Live Animals</td>
<td>1156</td>
<td>36</td>
</tr>
<tr>
<td>Beverages and Tobacco</td>
<td>1.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Crude Materials Except Fuels</td>
<td>1997</td>
<td>34</td>
</tr>
<tr>
<td>Mineral Fuels, Lubricants and Related Materials</td>
<td>2074</td>
<td>3</td>
</tr>
<tr>
<td>Animal and Vegetable Oils, Fats and Waxes</td>
<td>6.5</td>
<td>0.6</td>
</tr>
<tr>
<td>Chemical and Related Products</td>
<td>27</td>
<td>217</td>
</tr>
<tr>
<td>Manufactured Goods</td>
<td>127</td>
<td>866</td>
</tr>
<tr>
<td>Machinery and Transport Equipment</td>
<td>36</td>
<td>3672</td>
</tr>
<tr>
<td>Miscellaneous Manufactured Articles</td>
<td>17</td>
<td>415</td>
</tr>
<tr>
<td>Others</td>
<td>1083</td>
<td>90</td>
</tr>
<tr>
<td>Total Trade</td>
<td>6527</td>
<td>5337</td>
</tr>
</tbody>
</table>

Source: Australian Bureau of Statistics Catalogue Nos 5422.0 & 5410.0

Japanese industrial development determined the manner in which resources were exploited and developed in Australia. Thompson identifies three distinct phases of resource activity in Australia that correspond directly to the changing demands of the Japanese steel industry.96 Following the rapid construction and development of the late 1960s and early '70s that increasing Japanese

industry demand encouraged, there was a period of growth and consolidation before the recession and rationalisation that characterised the 1980s. Again it should be emphasised that development within Australia, and the nature of the activities that were undertaken were determined by Japanese rather than Australian priorities; even the changing power relationship within domestic industrial relations was largely the result of external economic forces.

Securing Resources

After the first oil shocks resource-dependent Japanese industry sought to diversify the sources and types of energy and raw material supplies. Liquefied natural gas (LNG) imports have become an increasingly important part of this strategy, and seem certain to grow given Japanese concerns with not only resource security but also environmental considerations. Australia is well placed to service this demand following the largest single resource development in Australian history - the North West Shelf Project. After an initial investment of $2.2 billion dollars during the early 1980s to satisfy domestic needs, LNG development was begun in 1985 to satisfy the requirements of Japanese electricity and gas utilities. At this stage the original venture partners - Woodside Petroleum, BP, Chevron, BHP and Shell - were joined by Japan Australia LNG who took a one-sixth interest. The LNG development phase cost an estimated $9.8 billion. The investment by Japan Australia LNG - jointly owned by Mitsubishi Corporation and Mitsui & Co - represents a strategic stake and method of ensuring not only profitability but also security of supply.

As with so many other areas of Australia's trading relations with Japan, more than the simple operation of market forces determine economic outcomes in the LNG export market. Two considerations are important here: Firstly, there are a limited number of players in the global industry - seven importers and eight exporters. Secondly, in 1989 Japan alone accounted for 68 per cent of global LNG imports, giving it crucial leverage over other players, especially exporters. The significance of Japan's market dominance, especially when

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combined with the significant equity stake of Japan Australia LNG, was revealed when Japanese buyers suggested they would be 'most upset' if proposed LNG sales to Korea went ahead. Such sales would undermine Japanese dominance and place pressure on prices the Japanese had previously claimed were too high.\textsuperscript{101} Australia's dependency and vulnerability in this regard was acknowledged by WA Minister for Resources and Development, Colin Barnett, when he complained that North West Shelf operators were unable to pursue markets outside Japan because of the project's management structure - something that did not inhibit rival suppliers Malaysia and Brunei when they secured new markets.\textsuperscript{102}

Given the potential long-term importance of LNG exports for Australia, it is clearly highly disadvantageous if the development of the industry and potential export markets are determined by the strategic interventions of externally-based companies. Expecting market forces to achieve an optimum outcome in such a situation seems overly optimistic, if not naive. However, this is not the only primary product in which Japanese investment and buying strategies have played a crucially determinant role.

The Agricultural Sector

As far as the Australian agricultural sector is concerned Japan is significant primarily as an export destination, and is of less importance as a source of capital. As Table 9 indicates, primary products, particularly wool and beef, remain important sources of export revenue. The impact of the Japanese market and the health of its economy on primary producers in Australia has long been recognised.\textsuperscript{103} What is more pertinent in the context of this discussion is the influence and extent of Japanese investment in these areas. Despite Japan's textile industry shifting offshore as part of the industrial restructuring process outlined in Chapter 5, only a 'negligible' amount of the concomitant FDI found its way to Australia.\textsuperscript{104} Australian wool exports to Japan remain predominantly 'greasy' or unprocessed, further processing often occurring in third countries like Taiwan and Malaysia before their eventual


\textsuperscript{102} Wilson, N (1994) 'WA gas project takes beating over its Japanese export ties', \textit{Australian Financial Review}, August 11: 9.


\textsuperscript{104} Wittwer, G., & Connoly, G (1992) "Declining Competitiveness of Japan's Wool Processing Industry", \textit{Agriculture and Resources Quarterly}, 4 (1): 60.
arrival in Japan. As a result, Australia’s share of the Japanese market for wool continues to decline. Ironically, Australian wool is now being exported to third countries for scouring or conversion into tops before on-selling into Japan. In a familiar pattern, the entire trade is dominated and controlled by the *sogo shosha*.

The proposed liberalisation of Japan’s beef market has generated much optimism in Australia about expanding this already significant market. Again, however, it is important to recognise that the future pattern of trade in this industry will not be determined by market forces alone. It is particularly noteworthy that in the wake of Japan’s proposed market opening Japanese companies have moved to secure control over supply and distribution by taking up strategic equity positions in beef production and processing industries in Australia. Rural land, feed-lots, abattoirs, and meat processing works have all become increasingly attractive targets for Japanese companies keen to ensure control over all aspects of the industry. Important considerations in this regard were maintaining product quality, but also a desire to exploit the market power conferred by increased ownership levels. Also important here, according to Morison’s survey, was the potential to integrate Australian and Japanese operations and the possibilities opened up for transfer pricing.

The extent of future trade in the beef industry will, therefore, not be determined by market mechanisms alone. Although Japan takes 45% of Australia’s total beef exports and demand in that country continues to grow at approximately 4 to 5% per year, Australian export volumes are static. Continuing meat contamination scares in Australia have meant that beef produced outside of vertically integrated Japanese operations have found it more difficult to gain

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acceptance in Japan. A more serious long-term obstacle to market expansion remains the difficulty of overcoming market barriers and government interventions, such as the Japanese Ministry of Agriculture's 'request' that beef importers curb the amount of foreign beef entering Japan. This is not something that is confined to the beef industry, of course. The recent optimism generated by Japan's apparent willingness to open its sensitive rice market to foreign suppliers was dented when the initial shipment of rice under the liberalisation program was 'postponed'.

Trade and Investment with Japan: An Overview

A few final observations may help consolidate the picture of Australia's economic relationship with Japan. As we have seen, it is a relationship that is primarily determined by Japanese interests and the structure of Japan's economy and corporate organisation. The distinctive structural qualities of the Japanese economy go a long way toward explaining another striking characteristic of the Japan-Australia relationship: the lack of reciprocal investment by Australian companies in Japan. True, the size of Japan's GDP (US$ 3,662 billion) compared to Australia's (US$289 billion) would suggest that Japan's investment levels would easily outstrip Australia's, but what is noteworthy, as we saw in chapter 5, are the consistently low levels of all forms of foreign investment into Japan. In Australia's case, investment in Japan has actually fallen from a peak of A$6,089 million in 1990-1 to A$5,564 million in 1991-2. Equally noteworthy is the ratio of direct to portfolio investment - in 1990 only A$286 million was direct compared to A$4,584 of portfolio.

Such a situation gives Australian producers - or foreign investors in general, for that matter - little ability to influence domestic policy construction within Japan. Certainly, as we have seen, outside pressure has been an important determinant of policy direction in Japan, but outsiders do not enjoy the same leverage over the national political class that Japanese auto manufacturers in

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Australia potentially do, for example. The economic position of Australia relative to Japan has been further diminished by parochial factors. Significantly, by 1994 Australia’s share of the Japanese import market had fallen to its lowest point in 15 years to less than 5%. This is disturbing enough at any time for a government bent on improving export performance, but even more unfortunate at a time when Japan’s imports are unambiguously expanding.

Much of this failure can be attributed to the structural dependence of exporters from Australia on the Japanese trading companies. In effect, where Australian exporters lack the capacity to conduct their own exporting, they are entirely dependent on the sogo shosha. As chapter 5 demonstrated, the nature of Japan’s corporate linkages and obligations means that only those products that either do not compete with Japanese rivals or which are especially desirable for some other reason are likely to be promoted by the trading houses, leading noted Japan-watcher, Peter Hartcher to conclude that: ‘The combination of Australian corporate sloth and Japanese trading companies’ selectivity has lent the whole trade the flavour of a giant Japanese shopping expedition.’ The precise manner in which this structural dependence operates will be detailed in relation to the coal industry in the next chapter. However, Austrade head Ralph Evans’ complaints about the inadequacy of Australian company efforts to penetrate the Japanese market suggest that Australia’s problems may be compounded by a traditional aversion to the seeming difficulty of Asian trade in general, and a preference for the more familiar markets of Europe and North America.

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118 It is worth noting in passing, however, that Byrnes considers - in a manner similar to Ohmae, noted above - that the lack of an indigenous trade house is ‘the biggest gap in Australia’s commercial armory in Asia’, something he suggests leads to Australians consistently losing ‘the Asia Game’. See: Byrnes, M (1994) Australia and the Asia Game, Allen & Unwin, St Leonards: 211.
Conclusion

The distance between the idealised abstractions that characterise much of the discourse of neoliberalism and the actuality of commercial practices and international economic activities has been evident throughout this chapter. The discursive dominance of the neoliberal model has meant that a more complex theoretical interpretation of the Australia-Japan relationship, which might have accounted for the failure of Japanese capital to invest in more productive activities in Australia, has generally been marginalised. Furthermore, it is apparent that the sort of policy prescriptions that emanate from the neoliberal model - the need for 'efficiency' increases, a more productive workforce and the like - while possibly worthy goals in themselves, do not seem capable of transforming the structural qualities of the relationship. There is no intention at this stage of attempting to suggest an alternative to the neoliberal model. Rather, the intention here is to draw attention to the manner in which a specific political rationality has informed the positions of Australian policy makers and influential elites.

As we saw in chapter 5, there are a range of political-economic relations in Japan that underpin the particular trajectory and content of Japan's developmental history. While there may be grounds for supposing that these relationships are not as significant as they once were, they remain important determinants of Japanese structural adjustment. The opening of the rice market is but one example of the way changes in the economic order can spill-over into the political, with the potential to destabilise the latter. It is precisely this sort of complexity that is generally neglected by advocates of economic policies predicated upon market mechanisms. Clearly, the accommodation Japanese policy-makers reach when attempting to mediate between domestic interests and international obligations will be dependent on a great deal more than relative commodity prices.

Similarly, the activities of Japanese TNCs and investors in Australia have, as this chapter has demonstrated, been dependent on a range of predominantly Japanese concerns, and have generally not been influenced by the efforts of the Australian government to create a more competitive investment location. As we have seen, Japanese investment has largely occurred in areas of the economy which are unlikely to generate the sorts of highly skilled, export-oriented manufacturing activities that appear to have been central to the economic rise of Japan itself. Even investment in the tourism industry, while an
increasingly important source of foreign currency does not generate either the sort of well paid jobs that contribute to national living standards, nor establish the complex linkages with the rest of the economy that might underpin an economic renaissance. Where investment has occurred in the manufacturing sector it has generally been highly specific and opportunistic. The spurt of investment in the food industry is evidence of this. The point to emphasise here is that investment has often been motivated by either a desire to gain more effective control over integrated production chains, or to overcome the sort of tariff barriers that Australian policy-makers are now assiduously dismantling.

Financial deregulation in Australia may certainly have encouraged Japanese banks to establish operations here, but it is noteworthy that they have not fully integrated into the wider economy. That there has been little benefit to the rest of the Australian economy is unsurprising, given that the motivation of such institutions was principally to service existing Japanese clients. In retrospect the main impact of the type of increased financial interaction with Japan that deregulation promoted has been to subject the Australian economic space to large, volatile and potentially destabilising flows of Japanese capital. The negative effects of this were clearly demonstrated in the speculative real estate investment of the 1980s which, while it may have provided some important tourism infrastructure, did little to enhance Australia's reputation as a long-term investment location - the ostensible reason, it will be recalled, for deregulation.

Overall, then, the dominant free market-oriented, deregulatory framework with which Australian policymakers hoped to transform its trading position and general economic relations has yet to fulfil unambiguously its advocates' expectations. Even if the contentious question of quantifying supposed gains in competitiveness is set aside, there has clearly not been the flood of productive investment some of neoliberalism's champions hoped for. Indeed, facilitating inflows of speculative Japanese capital and portfolio investment has actually lessened the chances of long-term productive investment occurring as the general climate for this type of investment has become less attractive. Increasing financial volatility and the possibility of realising quick profits in sophisticated financial investment vehicles has made the sorts of long-term commitment other forms of productive investment require, comparatively less attractive.
Chapter 8: Case Studies

This penultimate chapter presents specific case studies in order to draw out the relevance of the more important themes that have run through this thesis. The intention here is to provide a more detailed examination of the predominantly neoliberal policy paradigm's impact on particular facets of Japanese economic activity in and with Australia.

Four case studies are presented: the coal trade, the Multifunction polis project, the automotive industry, and the experience of Australia's new generation of ship builders in trying to penetrate the Japanese market. Taken together, these examples draw attention to the most important aspects of the Australia-Japan relationship as they affect the quotidian reality of international commerce, as well as the more rarefied spheres of policy making and international relations. It will be suggested that in all three examples there are sufficient deviations from the abstracted idealisations of the neoliberal paradigm to render it inappropriate, if not irrelevant. This is not only a regrettable theoretical shortcoming, it is also, as we shall see, a major handicap in the conduct of international economic and diplomatic relations.

1 The Coal Trade

The coal trade is a crucially important determinant of economic well-being in Australia. Coal remains Australia's single largest commodity export, accounting for some A$ 7.6 billion in export earnings in 1993 - only the tourism industry is larger. The coal trade, therefore, has a major impact on Australia's overall balance of trade position and is an important benchmark of the effectiveness of contemporary policy settings. Given the scale of the coal trade between Australia and Japan, even relatively minor changes in price levels have the potential to exert powerful effects, especially on the smaller Australian economy. Despite the critical importance of this industry to Australia's overall economic position, in what follows I shall suggest that Australian policymakers' reliance on a largely neoliberal economic framework has caused coal exporters to be consistently out-maneuvered by Japanese buyers and as a result to

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1 This case study draws extensively on a previously published article. See: Beeson, M (1995) 'Australia-Japan Trade Relations: The Coal Industry as a Case in Point', Australian Quarterly, 67 (3): 67-84.
receive lower prices than might otherwise have been obtained. Much of this disadvantageous economic outcome is attributable to the nature and structure of Japanese corporate activities - something which, as we have seen, is generally neglected by mainstream economists and policymakers in Australia.

Corporate Japan and the Coal Trade

It will be recalled from the discussion of Japan's distinctive forms of corporate organisation in chapter 5 that the *keiretsu* networks bear little resemblance to the stylised idealisations of arms-length trading relationships that characterise orthodox economic theory. On the contrary, at the heart of Japanese corporate arrangements are preferential trading relations and alliances that have been built up over years, and which are not predicated on short-term economic advantage. Indeed, it is crucial to remember that short-term profitability occupies a much less central place in corporate Japan than it does in comparable western firms. The significance of this becomes readily apparent in the coal trade. Without an understanding of the distinctive organisational logic that underpins the *keiretsu* relationships it is impossible to account for the activities of the critical intermediary in the coal trade: the *sago shosha*.

The coal trade is another example of the effect that the lack of an indigenous trading house has in Australia: local companies are dependent upon the *sago shosha* to fulfil a role that Australian-based business does not have the capacity to perform. However, the crucial role played by the *sago shosha* in the coal trade is not simply motivated by or a response to market forces. The trading houses have played a crucial role in facilitating the state-guided growth and international expansion of Japanese industry. Moreover, they have been an important extension of Japan's overall economic policies, especially in furthering Japan's resource security policy. This has meant that the activities of the *sago shosha* in Australia have not been driven by commercial considerations alone. Consequently, the *sago shosha* may be prepared to sacrifice short-term (or any) profit on some of these investments in order to

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3 It is worth noting that much of this analysis is applicable to another key Australian commodity export: the woodchip industry. Japanese companies use similar tactics of buyer cartels, strategic investments, and supplier diversification. In addition Japanese ships transport the wood chips, exacerbating Australia's services trade deficit. Australia is, therefore, doubly disadvantaged: not only is the woodchip trade politically controversial and environmentally unsustainable, it is also poorly recompensed. See: Streeting, M & Imber, D (1991) *The Pricing of Australian Woodchip Exports*, Research Assessment Commission, Paper No 4, AGPS, Canberra.
cement long-term trading relationships and ensure continuing control of high volume trade for a major client.

The potential importance of these minimally profitable investments is particularly apparent and significant in the Australian coal industry. The sogo shosha’s principal profits in the coal industry are derived from commissions on coal sales, often from both buyers and sellers. From the sogo shosha’s perspective, ensuring control of the high volume trade is of greater importance than securing a profit from a small stake in an Australian mine. The trading houses' strategic investments in Australian mines are, however, important for two reasons: they provide valuable information about possible conditions amongst Australian producers which may be used in price negotiations; they permit a systematically induced over-supply that may depress coal prices, something from which the trading houses' most important clients will benefit.

In the coal industry, where the trading companies' major profits are derived from their role as high-volume suppliers to Japanese steel mills and electricity utilities, securing these lucrative relationships - which in the case of the mills may be reinforced through keiretsu ties - is obviously of critical importance. Small investments in new mines may be a relatively cheap and effective manner in which to ensure this outcome. Significantly, by 1992 Japanese companies owned more than 20% of Australia's coal export capacity.

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

From a Japanese perspective, undermining Australia’s position is a critical part of national policy, as the Australia-Japan trade is the world’s largest and sets the benchmark for international prices: achieving a satisfactory price outcome with Australia is central to controlling global prices.8

Not only do the sogo shosha take a long-term view of their trading relations, but the conception of the ‘national interest’ is not simply political rhetoric. Price is not the sole criterion by which decisions to purchase are made. Japanese resource buyers have been keen to ensure a diversity of supply, which not only increases supply security, but as Koerner suggests, allows buyers to minimise coal prices by playing off one supplier nation against another, to a point where Australian import volumes to Japan have declined as a matter of policy, despite being the lowest cost supplier.9 Contrary to what orthodox economics might predict, price has not been the sole or even the most important influence on buyer preferences. On the contrary, Japanese buying practices have been informed by a long-term perspective in which the sogo shosha have played an important foreign policy role, mediating Japan’s national resource security policies.10 A government-sponsored research body in Japan has developed a specific long-term strategy for the Japanese government and buyers designed to encourage over-supply and price suppression.11 In such a context, no amount of productivity increases or more cooperative workplace relations could be expected to improve Australia’s market share or mine profitability.

Price Determination

The coal price negotiating process is another important example of economic outcomes being determined by a more complex array of factors than simply supply and demand. The reality of the negotiation process bears little resemblance to the idealised abstraction of discrete groups of informed buyers and sellers responding to unimpeded market forces. Although there are a multitude of sellers, and theoretically no small number of potential customers, the sogo shosha’s information gathering and organisational ability allows them

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to provide a crucial intermediary function which effectively limits the number of buyers. \(^\text{12}\) Actual negotiations are led by a principal mill or power utility which sets the standard for the other Japanese buyers. In contrast, Australian sellers usually negotiate individual contracts, allowing the Japanese buyers to pressure the weakest, least profitable mines into settling first, and thus setting a low benchmark for subsequent negotiations.

The net effect of the Japanese strategy is that they 'act in a monopsonistic fashion', according to McIntosh Baring's study of the coal industry, which concluded that 'an improvement in real prices in the international coal market is unlikely while the current structure within the Australian coal industry is in place'. \(^\text{13}\) Importantly, 90% of the Australia-Japan trade is based on long-term contracts, a practice that has two noteworthy consequences. Firstly, as the 'spot' market for coal is of such minimal importance it is clear that market forces have little opportunity to influence outcomes in a manner consistent with government policy or the nostrums of orthodox economics. Secondly, long-term contracts enhance the structural dominance of the Japanese buyers: overproduction is systematically encouraged by awarding new mines long-term contracts, placing greater competitive pressure on existing suppliers. Furthermore, the establishment of new mines - and hence oversupply - is promoted by a system of concessional financing overseen by a MITI subsidiary, the New Energy and Industrial Technology Development Organisation (NEDO), which provides funding for commercially non-viable investments. This comprehensive strategy, in which Japanese buyers, traders and the state collude to minimise prices in the national interest led Colley to conclude that:

\[\text{the use of investment practices on a coordinated basis by Japanese buyers and traders has managed to achieve, in conjunction with the use of specialised trading practices, a regime that is similar in effect to that of a vertically integrated industry.}^{14}\]

However, not all of Australia's disadvantage can be attributed to Japanese neomercantilism. True, the representatives of Japanese buyers have superior negotiating tactics and skills, and the sogo shosha are often able to provide inside knowledge about the profitability of mines via their strategic investments in Australia. But, the difficulties experienced by 'Australian' companies in conducting price negotiations are exacerbated by a general lack of unity and a willingness to undercut other Australia competitors. Yet the possible efficacy of

\(^{12}\) Parker, Paul (1992) 'Information Specialisation and Trade'.
government intervention to overcome Australian disadvantage was demonstrated by Rex Connor in the 1970s, who managed to extract a dramatic price increase from the Japanese buyers without endangering the entire trade.\(^\text{15}\) In contrast, the Labor administration was keen to distance itself from the problematic legacy of the interventionist Whitlam era. In one of its few major pronouncements on policy toward the coal industry, price formation is barely mentioned, other than to state that the government does not want to become involved.\(^\text{16}\)

Overview

The current policy of non-involvement on the part of government seems likely to continue. The recent Taylor report into Australia’s coal industry endorsed the government’s preference for market mechanisms in determining coal prices - even though, as we have seen, market forces have little to do with such outcomes.\(^\text{17}\) Indeed, it is somewhat ironic that the Construction, Forestry, Mining & Energy Union’s (CFMEU) submission to the Taylor inquiry argued that Australia should develop a ‘countervailing ability’ precisely because market forces are constrained.\(^\text{18}\) By contrast, the Australian Coal Association (ACA), representing the employers, was keen to stress the importance of not jeopardising Australia’s ‘dependability premium’ through aggressive government intervention.\(^\text{19}\) Rather than the collective approach to negotiations advocated by the CFMEU, the ACA was concerned to ensure the autonomy of its members and ‘management’s ability to manage’.

Significantly, the conclusion of the Taylor Report is much closer to the ACA’s position. Taylor considers the CFMEU suggestion regarding the establishment of a countervailing marketing force to be ‘a high risk strategy and not appropriate’.\(^\text{20}\) Investment decisions and production levels should be determined by ‘market prices’, with industry viability being underwritten by a series of measures designed to enhance productivity. These latter initiatives are a familiar part of wider governmental reform strategies, namely: industrial relations reform and enterprise bargaining, ‘best practice’ implementation, and

\(^{17}\) Taylor, R M (1994) *Study of the Australian Black Coal Industry*.
infrastructure reform through increased competition in rail, ports and shipping. While such measures may have much to recommend them, they clearly fail to address the cause of Australia’s structural disadvantage. The most recent round of coal negotiations generated only modest price increases for producers, despite a general tightening of world coal supplies and the estimated ¥200 billion ($3.3 billion) windfall profit enjoyed by the Japanese electric power companies as a result of the appreciating Yen.21 While the Australian representatives appeared to adopt a more unified and coherent position in the recent negotiations it is significant that Australian-based companies were ‘punished’ for even this modest rise with reduced tonnages. Until a strategy is adopted by Australian producers that is less reliant on market forces and pays greater attention to the specificity of this important relationship, a significant improvement in their relative position seems unlikely.

2 The Car Industry

As we have seen, the car industry is an example of a late capitalist, global production system par excellence. More fundamentally, however, car manufacture is what Drucker called the ‘industry of industries’.22 Car production remains the largest global manufacturing activity, and as such a crucial influence on national economic well-being and a major determinant of the structure of national economic activity. As we saw in chapter 1, successful manufacturing sectors need to develop sufficient critical mass to sustain a range of associated activities. ‘Clusters’ of industries, of the type described by Porter,23 seem an inescapable pre-requisite for generating the varied labour skills and supplier networks that permit existent firms to flourish and new entrants to emerge.24 The other initial point that needs to be made is that given the strategic importance of car production to the overall structure of ‘national economies’, the location of car production sites has been strongly influenced

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by government trade policies. Australia is no exception. Indeed, it has been suggested in an authoritative review of Australian-based manufacturing that Australia would not have a car industry without protection. . . If an announcement were made today that automotive tariffs were to be eliminated, or even reduced drastically, by 2000, the car companies would probably stop investing and progressively close their facilities as new investment became due.26

While currency movements have reduced the significance and effectiveness of tariffs somewhat, they remain of great importance - not the least part of which is symbolic of governmental commitment - in determining the nature of 'Australia's' car manufacturing industry; an industry, it should be noted, wholly owned by a combination of Japanese and American companies. The defining characteristic of the car industry in Australia has been - and in most cases still is - that it is 'market constrained'. In other words, as the schema outlined in chapter 1 indicated, production occurs primarily to service the local market, something which has engendered specific problems, foremost of which is a lack of integration with global or regional production structures and a general lack of international competitiveness.

Toyota is both a significant and instructive example of the Japanese TNCs experience in Australia. Australia represented Toyota's first excursion into an overseas market. Initially operating through an Australian distributor in the early 1960s, local production was gradually increased to avoid tariffs and comply with local content requirements. In what has become a familiar pattern throughout the world, Toyota also encouraged one of its affiliate companies - Nippondenso - to establish a local parts manufacturing subsidiary in 1972.27 In 1974, in response to government proposals to phase-out low local content assembly plants, both Toyota and Nissan were forced to decide whether to extend their operations or withdraw completely. Toyota decided to establish its first offshore engine plant in Australia because it wanted to maintain its position in a small, but lucrative market - a possibility that government policy otherwise constrained.28

The Australian government clearly had some ability to influence the investment decisions and organisational rationale of foreign multinationals. However, even where an avowedly activist government like the Whitlam administration attempted to rationalise the car industry it had great difficulty: by the mid-1970s, following the entry of Toyota and Nissan, Australia had no less than five car manufacturers. Even though Japanese car manufacture in Australia has been of a smaller scale than those of Ford and General Motors, there were obviously too many producers and too many models for the domestic market to accommodate. The takeover of the ailing Chrysler company by Mitsubishi Motors in 1979 did little to effect the basic dynamics of the industry, other than to entrench the importance of Japanese interests.

Interventionism

The Australian car industry suffered from an insufficiency of domestic demand and a 'lack of regional outlook'. It is against this backdrop of foreign controlled over-capacity and a resolutely inward focus that the Labor administration's car industry plan emerged. A consideration of this plan is instructive for several reasons. Firstly, it reminds us that the neoliberal policy framework was not the only influence on the construction of government policy. Clearly there were important domestic influences - not the least of which were the trade union movement and the responsible minister, John Button - that were urging a more interventionist line be taken. However, this is not to say that the manner of this intervention was not broadly consistent with the overarching rationale that informed Labor's attempts to restructure the Australian economy. Indeed, even Labor's more overtly interventionist policies were predicated on the assumption that -ultimately - reduced protection and an increased exposure to market forces would achieve the sorts of industry rationalisation it desired. As Capling and Galligan observe, given the electoral importance of the car

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30 Three factors explain the small scale of Japanese operations, suggests Renwick: preference for the economies of scale generated by high volume production in Japan; Japanese investment is intended merely to safeguard market access and circumvent protective barriers; Japanese companies have been able to maintain a high level of import penetration: Renwick, N (1988) *Australia and the Multinationals: A Study of Power and Bargaining in the 1980s*, Canberra Studies in World Affairs No 24, ANU, Canberra: 94.
32 Bell suggests that Labor's industry policies were determined by the interaction of 'mildly interventionist forces' within the ALP, the bureaucracy and the manufacturing sector on the one hand and economic liberals within the major political parties, the federal bureaucracy and business on the other. See: Bell, S (1993) *Australian manufacturing and the State: The Politics of Industry Policy in the Post-war Era*, Cambridge University Press:142/3.
industry, it was also essential that the reduction in the numbers of manufacturers was achieved 'voluntarily'.

While the interventionist Button Plan is generally regarded as having been successful, what is important to note for our purposes is the interaction between TNCs and Australian government in determining the direction and form of industry activity. Through a range of measures, particularly an export facilitation scheme and a gradual reduction of tariff levels, the Labor government was able to encourage the development of a more export-oriented sector. What an examination of the Australian automotive industry reveals is that throughout its history the character and extent of production in Australia has been influenced, not by the simple operation of international market forces, but by the policy initiatives - even when misguided or neglectful - of successive Australian governments. Even where new investment by Toyota and Mitsubishi has recently occurred or been proposed, it is important to recognise that his is not simply a response to new investment opportunities in market-oriented Australia, but a decision that reflects the necessity of factoring-in sunk costs that are themselves the legacy of previous government policy frameworks. In the long-term, however, the manner in which the Australian subsidiary is integrated into a global production networks may leave them dangerously reliant on a single model and increasingly expensive parts from its Japanese parent.

Although Toyota and Mitsubishi have consolidated their positions for the immediate future, the Button plan was 'successful' in encouraging Nissan to cease Australian production in 1992. Ironically one of the main reasons cited as motivating Nissan's withdrawal from Australia - the lack of cost competitiveness of Australian-produced cars compared with those of Japan -

37 The new Toyota plant, for example will be largely dedicated to producing the Camry model for export markets. While this may be no bad thing in itself it is questionable whether such a model is likely to capture the emergent regional markets in which auto makers place such hopes. Moreover, there is little possibility of boosting local R&D when the models are developed in Japan as part of a Tokyo-based world production strategy. Furthermore, given that Australia's attraction as a potential investment location in comparison with the US and Japan is seen to be lower labour costs, local operations are therefore likely to be less capital intensive, and the resultant product less competitive as a result. (Based on personal interviews with John Hennesy, senior Toyota Australia executive.)
appears less plausible as a result of the Yen's inexorable rise.\(^{38}\) Fully-imported Japanese models cost more than locally produced models, highlighting the importance and volatility of exchange rate movements, and simultaneously undermining the rather simplistic neoclassical notion that tariff protection necessarily imposed an additional cost on local consumers.\(^{39}\) Moreover, the loss of control over the value of the Australian dollar that deregulation encouraged has made the position of the industry in Australia more uncertain. For example, where manufacturers remain dependent on high volumes of Japan-sourced components currency fluctuations may threaten local profitability.\(^{40}\) In the long term, the viability of local production sites will be dependent on their ability to develop export markets and link into the wider global strategies of their parents.\(^{41}\)

What is clear, however, is that if the Japanese manufacturers were establishing these sort of production networks now it is most unlikely that Australia would be part of their plans; especially if it were possible to service the Australian market from Japan or low-cost regional sites without fear of being penalised by the sort of protective trade barriers orthodox economists consider inherently harmful. The experience of the car industry is emblematic of the more generalised position of manufacturing in Australia. As an Australia Manufacturing Council (AMC) report concluded:

> Without special policies, Australia offers too little to the major companies, whatever their nationality, for it to be attractive for them to manufacture here, compared to manufacturing either within the giant markets of Europe, North America or Japan or in lower wage locations like Mexico, Brazil, Taiwan or Singapore.\(^{42}\)

### The Politics of Car Production

The significance of the AMC's conclusion is reinforced when consideration is given to the politics of car production - something often conspicuous by its absence in orthodox accounts, and something that makes policy-making an inherently more complex process. There are two pertinent aspects to consider

\(^{38}\) Significantly, senior Nissan executives now claim that the decision to cease Australian production might not have been taken if the Yen had achieved its current levels two or three years earlier. As it is, Japanese sourced imports are increasingly uncompetitive compared to locally manufactured ones and the increasingly important Korean rivals. Personal interview.


\(^{41}\) For example, Toyota has recently arranged to export Camrys from Australia to Saudi Arabia in order to generate greater economies of scale. See: Doak, A (1995) 'Toyota signs Middle East export deal', *The Australian*, March 30: 15.

here: the activities of other nations and domestic political pressures. The first point to recognise here is that the two areas are often interlinked. During the 1993 Federal election, for example, tariff levels were an important political issue during the campaign. What is most noteworthy here is the willingness of Japanese manufacturers to make overtly partisan statements in pursuit of their own interests. Multinationals based in Australia continue to show a desire to influence domestic policy-making. Significantly, the negative impact of Australia's APEC-inspired deregulatory initiatives is seen as especially harmful to Australian-based producers vis-a-vis their heavily protected regional rivals in places like Indonesia and Malaysia. Moreover, Australian-based Japanese manufacturers have been at the forefront of attempts to highlight what they consider to be the long-term threat to the local industry implicit in APEC's deregulatory agenda. While there may be much that is self-serving in these complaints, they also reflect Australia's marginal position in regional production strategies.

As we saw in chapter 6, Japanese manufacturers have established tightly integrated production networks throughout Southeast Asia. Importantly, they have been encouraged to do so not only by the Japanese government, but also by the policies of host governments. This may take the form of specific national initiatives or regional agreements like the brand-to-brand 'complementation pact' which halves the tariffs on specific imports from member countries. This is particularly significant when it is recognised that the same markets - potentially crucial Australian export markets for any would-be investor - are effectively foreclosed to outsiders by extensive tariff protection. Indeed, some

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44 Interestingly, Mitsubishi have tried to encourage the government to pursue its micro-economic reform agenda more resolutely, especially in the wake of reduced tariff levels. Apparently, however, there is no intention of transferring any of the distinctive work practices and benefits that characterise car production in Japan. On the contrary, Mitsubishi's attitude resonates well with the Australian government's increasing emphasis on making the Australian workforce bear the burden of adjustment to 'international competitive pressures'. See: Lynch, M (1994) 'Japanese warn on reforms', *Australian Financial Review*, February 7: 5.
46 Managing director of Mitsubishi Motors Australia, Mike Quinn, claims APEC could 'render the local industry an uncompetitive investment within five years'. [Moody, E (1995) 'APEC tariff pact threatens car industry prospects', *The Australian*, April 18: 39.] Similarly, Toyota Australia chairman, John Conomos argues that Australian-based manufacturers would be severely disadvantaged by the dismantling of tariff barriers in Australia while other APEC nations followed APEC's two speed deregulatory timetable. [Britten, T (1995) 'Warning on equal APEC trade', *The Australian*, January 12: 15.]
47 'Automakers call for back-up', *The Nikkei Weekly*, January 1, p 18. See chapter 6 for a fuller discussion of this point in a regional context.
48 Korea, for example, has local content rules that virtually preclude imports. Tariffs in Indonesia, Malaysia and Thailand range from 100-300%. See: Mellor, J (1993) 'FCAI seeks cuts to Asian tariffs', *The Australian*, November 25: 12.
observers have questioned whether, given Australia’s comparative disadvantages, further investment will occur at all in the proposed ‘negligible-tariff situation’ of 2000 and beyond - even if costs do fall significantly. 49

Plainly, where Australia cannot offer comparable attractions it is likely to be excluded further from these increasingly important and highly integrated productive networks to its north - especially where they are undergirded by political agreements. It will be remembered that Australia, rather than attempting to emulate the industry specific policies favoured by some of its neighbours, has placed a good deal of faith in the ability of institutions like APEC to reduce tariff barriers and open up these markets to foreign competition. The recent experience of the car industry suggests that this faith may be misplaced.

The recent trade dispute between the US and Japan demonstrates both the impossibility of attempting to isolate domestic production strategies from their wider regional context, and the inadequacy of theoretical models that fail to take account of such political complexities. 50 Chronic disputation has become a prominent feature of US-Japan relations. It is not necessary to prove or disprove American claims of ‘unfair’ protective practices in Japan’s car industry - although much of the evidence of this thesis tends to substantiate such claims 51 - to recognise that recourse to aggressive bilateralism on the part of the US seriously undermines the logic and potential of policy based on regional free trade, or even attempts to establish such a regime. Moreover, even if there appears to be increasing support for deregulatory policies in Japan - although it is, as we have seen, quite another matter for such forces to influence policy - there is an almost equal and opposite move away from internationalism in the US. 52 Moreover, in Japan’s case there are continuing doubts about both its willingness to submit to agreements which may disadvantage domestic

51 There is no doubt that American policy-makers hold such views, however. One of the Clinton administration’s most senior trade advisers - Laura Tyson - has established a reputation as a perceptive analyst and critic of Japan’s neo-mercantilist trade strategies and the structural basis of Japan’s trade surpluses. Multilateral trade fora like GATT are ‘largely irrelevant’ in remedying such imbalances, she claims. See: Tyson, L (1992) Who’s Bashing Whom? Trade Conflict in High-Technology Industries, Institute for International Economics, Washington: 5.
producers, or its political capacity to honour such agreements should it genuinely wish to do so.\textsuperscript{53}

The point to recognise here is that such disputes have profound implications for third parties. Although Japan has been at pains to emphasise that Australia's increasingly important component export trade will not be adversely effected by any bilateral deal with the US,\textsuperscript{54} such guarantees may be worth little if US preferences for 'managed' trade predominate. In the short term Australia may actually benefit from US trade aggression as it may eventually lead to a more generalised market opening in Japan.\textsuperscript{55} In the longer term, however, Australian policy-makers may be faced with difficult questions about the importance they attach to economic and security issues, as well as the relative importance of Japan and the US.\textsuperscript{56}

What all of these factors draw attention to is the impossibility of abstracting particular industries from a wider political and economic regional - or even global - setting. This is especially true of the car industry given its critical strategic role in undergirding national economic infrastructure. Where such an industry is wholly foreign owned, managing its development and direction in the 'national interest' is an inherently more problematic proposition. Yet the Button plan demonstrates that governments retain a capacity to influence even the largest multinationals. Certainly, the international logic of multinational production strategies means that national governments may find it difficult to influence the overall position of individual subsidiaries. However, where government policy abdicates the possibility of such influence as a matter of policy and instead places greater reliance on market mechanisms to achieve desired outcomes, it is not clear whether this will encourage further growth in the local industry.\textsuperscript{57} Indeed, where other nations are actively working to

\begin{itemize}
\item \textsuperscript{54} Taylor, L (1995) 'PM wins pledge: trade war won't hit our car parts', \textit{The Australian}, May 29: 2.
\item \textsuperscript{57} It is worth noting that even where government has the opportunity to fairly unproblematically advantage domestic producers it is reluctant to do so - for example, winding back preferential government purchasing and supporting imports instead. In a small market like Australia's this would seem likely to do little to encourage further commitment to Australian production by foreign multinationals, especially in the face of competition from other nations that are less reticent about employing such policies. [See: Corne, A (1994) 'Government policy may leave Toyota out in the cold', \textit{The Australian}, August 25: 15.] This would seem a potentially important political issue given that under the current policy of reducing tariff barriers import penetration has increased to the point where cars produced outside Australia account for more than 56% of
\end{itemize}
advantage domestically based producers through a range of interventionist strategies, Australia's attractiveness as a long-term production location must be in doubt.

3 The New Generation of Shipbuilders

One of the primary concerns of policy makers the world over has been to increase the amount of export-oriented manufacturing activity occurring within national borders. Even though the connection between manufacturing and the existence of highly paid jobs in other sectors of national economies has become increasingly contested, there are, nevertheless, immediate gains in increased employment opportunities and balance of payments contributions. Where new industries emerge that are not only export-oriented but at the leading edge of contemporary design and production techniques, such industries are potentially instructive as far as public policy issues are concerned. For this reason a more detailed examination of one of the most successful new industries in Australia is merited. Although the major interest as far as this thesis is concerned will be the question of market access to Japan - potentially the industry's most important export market - there are other important lessons to be drawn, particularly as far as the general appropriateness of the neoliberal economic model is concerned.

The Emergence of a New Industry

Over the last ten to fifteen years a new and potentially important industry has developed in Australia. Ironically, the predominantly aluminium-based shipbuilding industry has emerged at the same time as Australia's long-established steel-based industry has gone into further decline; steel shipbuilding had become almost totally reliant on government defence purchases and offsets policies. What is important to recognise, however, is that while the new ferry

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58 This case study draws on an abridged early version which appeared as: Beeson, M (1995) 'Why so many miss the boat in sales to Japan', Australian Financial Review, October 17: S 5.
and pleasure craft industry is precisely the sort of 'born global', high-tech industry that policy-makers are keen to encourage, it would probably not have developed at all were it not for a range of specific factors, uppermost amongst which were particular forms of government assistance. The point to emphasise at the outset is that the non-interventionist, neoliberal policy framework to which Australia's public policy seems increasingly aligned would not have provided the assistance which proved crucial to the industry's development.

Before considering the specifics of government assistance, it is also necessary to acknowledge the importance of the attractions of specific locations as potential sites for the new industry. In both Queensland and Western Australia a skilled labour force already existed that could be easily introduced to the particular techniques and skills required to manufacture the types of luxury craft and high-speed ferries that would form the backbone of the new industry. In Western Australia - the principal focus of this study - a skilled labour force had developed around the manufacture of rock lobster boats for the local fishing industry. Without this important attraction there would have been no obvious reason to locate the industry in the Fremantle area.

As the industry developed, however, it became necessary to train additional workers to meet the rising demand for labour. Here the local industry was able to use its increasing political influence to lobby for changes in the provision of apprentices through the local Technical and Further Education (TAFE) scheme. The peak representative body of the industry, the Australian Shipbuilders' Association, was able to pressure an initially reluctant local education system to gear its courses to the specific needs of the industry. Again, it is important to stress that market forces had little to do with this: the political leverage that a glamorous emergent industry was able to wield was responsible for putting in place long term strategies to secure future industry needs. This was true at both the Federal and State levels.

At the Federal level, the industry was fortunate in having an activist Industry Minister - John Button - sympathetic to the needs and aware of the potential of a new industry. Perhaps the single most important aspect of an industry policy specifically geared to encourage the industry was the Bounty Assistance to

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60 John Farrell, Managing Director, Oceanfast Marine Group - personal interview. Much of the following discussion of the history and marketing experience of the West Australian industry draws on a series of personal interviews, of which John Farrell's was the most important.

61 John Farrell - personal interview.
registered shipbuilders.\textsuperscript{62} In 1984, when Labor took office, the Bounty payment was 27.5% and was payable to assist with construction costs. The level of assistance has gradually reduced and is intended to be only 5% by 1996.\textsuperscript{63} Significantly, prior to 1984 the Bounty had not been available to exporters, being aimed at propping up the domestic market. Under Labor this was extended to exporters as part of the attempted general outward re-orientation of Australian industry. What the Bounty provided was the assistance necessary to allow the industry to become established and to generate sufficient critical mass to survive on its own.

Without such assistance it is highly debateable whether the industry would have developed in the manner it has. Shipbuilding is inherently capital-intensive and risky. Without government backing it would have been much more difficult to undertake large scale ferry building of the type that has come to dominate the Australian industry and provide such an important source of export revenue.\textsuperscript{64} The importance of risk sharing and the difficulties of financing larger projects was a prime motivation behind the decision to form a joint venture between two of Western Australia's most successful manufacturers: the Oceanfast Marine Group and Austal Ships. Importantly, it was Oceanfast's sophisticated financial capacity and relationships that it had built up since its inception in 1984 that made it an especially attractive alliance partner to Austal.\textsuperscript{65} Austal, on the other hand, had rapidly developed an extensive manufacturing capacity in a remarkably short space of time - demonstrating the growth potential and possible importance of this industry. From its beginning in 1988, with a workforce of 40, Austal alone had developed by 1995 to an employer of 550 people.

Again, however, it is important to note that this development would simply not have occurred as rapidly or on such a scale without government assistance. One of the most telling areas of failure in the market model has been the inadequacy of Australia's financial system - expected improvements in which, it will be remembered, was one of the principle justifications of the entire deregulatory project. Indeed, Farrell characterises Australia's banking sector as

\textsuperscript{64} Austal Ships, for example, is currently contracted by Germany's TT Line to build an 82 metre catamaran that will carry 600 passengers and 175 cars. Typically, these ferries cost in region of US$ 35 million.
\textsuperscript{65} John Farrell - personal interview.
'hopelessly incompetent and disinterested'. Certainly there may be a degree of overstatement in this assessment, but as we saw in chapter 3, there are plausible grounds for questioning the efficacy of the financial deregulation that occurred in Australia during the 1980s - especially as far as access to capital for smaller manufacturers is concerned. As a consequence, Australian interest rates are high by world standards and banks are unwilling to lend to manufacturers deemed 'risky'. Without the government established Export Finance and Insurance Corporation (EFIC), which provided finance to the shipbuilders at 'extremely attractive rates', it is unlikely large scale contracts could have been undertaken.

The emergence of the new generation of shipbuilders clearly demonstrates the importance of government assistance and 'intervention' - especially in the case of infant industries. However, it is one thing to develop a product, it is quite another sell it on international markets. As the next section demonstrates, the neoliberal economic model provides an even more inadequate basis for policy as far as capturing export markets is concerned.

The Japanese Ferry Market

Australian-based manufacturers, then, make some of the best and most competitive luxury craft and ferries in the world. This is clearly demonstrated by the range of sales made by companies like Austal, which has not only captured markets in countries like China and Hong Kong where little domestic competition exists, but also in more sophisticated markets like Germany, the UK and Singapore, where competition is intense. Plainly, this is one area in which manufacturers based in Australia are world leaders in terms of price, design and quality. Yet the experience of the Australian builders in trying to break into the Japanese market demonstrates that price and quality alone - the fundamentals of the market-oriented paradigm - are not central explanatory variables when attempting to comprehend the pattern of economic interaction between Australia and Japan.

66 John Farrell - personal interview.
Until recently, only three boats - of which only one was a commercial ferry - had been sold to Japan.\textsuperscript{69} This was not, however, something that could be attributed to lack of demand in Japan. There are well over two thousand ferries operated by 650 companies in Japan.\textsuperscript{70} Austrade estimates that there are 1,200 ferries operating in the Sea of Japan alone. Furthermore in any given year, up to 10\% of the Japanese fleet may need replacing - of this figure, a minimum of 10\% will be precisely the sort of boats with which Australian exporters could effectively compete.\textsuperscript{71} It might be expected, therefore, that \textit{ceteris paribus}, Australian exporters might have captured a significant share of the Japanese market. As we have seen, however, this has not been the case. Even the recent sale of a 43 metre catamaran to Diamond Ferry in Japan is a conspicuous exception to a more general rule.\textsuperscript{72} Indeed, John Farrell suggests that the recent sale is little more than a ‘tokenistic’ gesture, designed to convince foreign competitors in general and the US in particular that Japan is making genuine efforts to open its protected markets. Such a contention is difficult to verify and suggests a degree of seamless cooperation between business and government that is increasingly contested. Nevertheless, Japan’s imports of sophisticated manufactures remain conspicuously low and are not easily explained with reference to market forces alone.

The experience of Austal and Oceanfast tends to support a more complex explanation. Farrell suggests that despite numerous trips to Japan, Japanese buyers are simply not interested in buying foreign boats as a matter of principle. On the contrary, Japanese buyers - in what is a familiar pattern of preferential buying - are seemingly prepared to sacrifice price in the interest of cementing group ties in Japan. Ferry operators may be influenced by either \textit{keiretsu} obligations or government prodding to support an uncompetitive domestic yard rather than buying a cheaper foreign product.\textsuperscript{73} Where sales have been achieved, Farrell believes a primary motive was to examine closely pioneering Australian construction techniques and replicate them in Japan. Ironically, this process may have been furthered by Australian government subsidised promotions that have conducted Japanese visitors around Australian yards. Again, there may be a degree of aggrieved self-interest in this analysis, but

\begin{itemize}
\item \textsuperscript{70} McGregor, R (1993) ‘Stormy Waters’.
\item \textsuperscript{71} Trevor Knowles, Austrade, Perth - personal interview.
\item \textsuperscript{73} Austrade estimates that Australian boats are at least 30\% cheaper than Japanese equivalents: Knowles, Austrade.
\end{itemize}
even with some government assistance, the Japanese market remains remarkably difficult to penetrate.

The recent Austal sale in Japan demonstrates the importance of other non-market considerations. The sale was only concluded after president-to-president negotiations between Diamond and Austal. Even this, however, was not enough to overcome some of Japan's other 'invisible' trade barriers: in order to comply with extensive Japanese regulations and meet its stringent delivery deadline, Austal was forced to buy Japanese components - like life rafts, for example - or risk losing the entire sale.74 Furthermore, Austal was dependent on a Japanese trading company - Marubeni - to conduct much of the negotiation process in Japan on its behalf. The lack of an Australian trading house, once again left exporters dependent on the sago shosha.

Although both Oceanfast and Austal were generally approving of Austrade's efforts to increase exports from Australia, they expressed reservations about its actual day-to-day effectiveness. Generally, Austrade was considered to be better than nothing, but doubts were raised about the quality of its staff in Japan.75 More tellingly, Austrade tended to institute competition between potential Australian exporters by attempting to maintain an even handed, market-conforming approach to Australian clients.

Assessment

One thing emerges clearly from this brief case study: without various forms of government 'intervention', of a type that the neoliberal paradigm decries, one of the most promising export-oriented industries in Australia would possibly not exist at all or, if it did, it would be on a much smaller basis. Without government support in its initial stages it is unlikely that the industry would have developed sufficient critical mass to take on larger projects. Without the EFIC scheme to help underwrite capital provision it is almost certain this large scale manufacturing would not have occurred.

What is also apparent, with particular reference to Japan, is that competitiveness in the areas of price and quality is not sufficient to guarantee sales. The structure of corporate organisation in Japan means that price - as in the previous example of the coal industry - is simply not the principal

74 Chris Pemberton Manager, Marketing and Sales, Austal - personal interview.
75 Farrell suggested that Austrade had 'too many salespeople and not enough analysts'.
explanation for sales patterns. Japan's highly developed sense of *keiretsu* loyalty and 'national interest' mean that Japanese buyers are often prepared to sacrifice price advantage for the sake of long-term relationships.

There is no intention here of attempting to map out alternative trade policies based on a different theoretical perspective to the neoliberal orthodoxy; although there is clearly some scope for specific interventions based on a more sophisticated bilateral reading of individual relationships should policy-makers deem this desirable. The point to emphasise, once again, is that the neoliberal model, both as a theoretical framework with which to comprehend particular economic relationships and, by implication, as a basis for policy seems less than satisfactory. On the one hand, many of the business practices and structural characteristics of contemporary capitalism, especially as practiced by Japanese-based corporations, are simply not captured by the idealised abstractions of the neoliberal paradigm. On the other, it would seem that without specific forms of 'intervention' or assistance by government, such industries will find it difficult to either develop, or win particular export markets if they do. If the intention is to promote strategically important manufacturing ventures and capture lucrative foreign markets, there is clearly a role for a more activist approach on the part of national governments.

4 The Multifunction Polis Project

Perhaps more than any other single project, Japan's Multifunction Polis (MFP) proposal to construct a futuristic city in Australia illustrates many of the shortcomings and difficulties of Australia's relationship with Japan. While there are, as we shall see, good reasons to question whether some of the more fanciful versions of the project could ever have been realised, the MFP stands as mute testimony to the inadequacy of Australia's overall bilateral policy capacity with regard to Japan. A better informed policy position - including a more active role on the part of the Australian government - might have produced tangible, albeit relatively modest, benefits in the form of increased Japanese investment in Australia.

The Genesis of the MFP

The MFP concept first emerged unexpectedly at the Ninth Australia-Japan Ministerial Talks in early 1987. Less surprisingly, the MFP proposal - which Gavan McCormack considers 'the most complex and interesting single event in
the history of Australia-Japan relations was a reflection of Japanese political and economic priorities. Central in this regard was a desire on the part of Japanese policy-makers to entrench the emerging close relationship between the two countries. There is an important sub-text here: Firstly, Japan has few close friends either regionally or globally, therefore Australia offers an important potential ally with which to bolster its international position. Secondly, as far as Japan is concerned, Australia is perceived as being a relatively undeveloped, resource-based economy, the inherent 'complementarity' of which is no threat to Japan's own economic position.

However, even given this underpinning rationale, the initial proposal came as a great surprise to the Australian side, something that was not lessened by consideration of Japan's subsequent more detailed blueprint. The most noteworthy feature of the MITI's 'Basic Concept' was the language - not only vague, but excessively hyperbolic. From an Australian perspective the suggestion that the MFP could 'boost the restructuring of Australia [sic] industry' was clearly an attractive one: the MFP held out the possibility of transforming the structural basis of the Australia-Japan relationship, from one of dependent commodity supply, to one in which the MFP acted as a conduit for manufacturing investment and technology transfer. Moreover, given that the MFP was intended to be at the cutting edge of both high tech (information industries, life sciences, new materials) and 'high touch' (leisure, 'conferencing', culture and travel) industries, this might have been expected to catapult Australia to the front rank of sophisticated manufacturers. Such optimism was engendered, argues Morris-Suzuki, by a 'misreading and misapplication of the Japanese model of technological development', on the part of Australian officials. Such a failing is more comprehensible when it is recognised that 'the knowledge resources which Australia has accumulated over the years

about Japanese society and culture apparently have been dismissed as irrelevant to the project. 84

A more measured and fully informed assessment of Japan's proposal would have revealed that technological utopianism is an established part of Japanese economic discourse. Furthermore, a comprehensive understanding of institutions like MITI might have alerted Australian policy-makers to the dominance of MITI's 'Leisure' division in overseeing the project's development. 85 Such bureaucratic intricacies in Japan help explain both the imprecision of the original blueprint and its emphasis on leisure industries. The Basic Concept's suggestion that the human race was on the verge of an ill-defined 'leap' by into the 'Fifth Sphere', 86 which would be fundamental to the MFP's success, should have induced caution on the part of Australian officials. If that was not sufficient, then the report's focus on resort and convention industries ought to have given pause for thought: these were hardly the sorts of initiatives that were likely to boost Australia's manufacturing capacity. Indeed, an understanding of the extensive nature of Japanese visions regarding the development of regional 'techno-belts' might have suggested that in the event of the MFP being realised at all it would only be likely to play a modest role in promoting new 'life-styles' for Japanese business people, rather than as the sophisticated manufacturing hub of an emergent regional division of labour. 87

However, notwithstanding these caveats, there was a good deal of initial optimism about the proposal in Australia. Will Bailey, the Australian MFP group head described the initiative as 'the largest single investment opportunity this country has seen'. 88 Such enthusiasm is unsurprising: the MFP project seemed to offer the possibility of transforming Australia's largest bilateral economic relationship, from one of simple commodity supplier, to a partnership in which Japan and Australia cooperated in developing leading edge industries and technologies. Despite the inherent implausibility of this vision, policy-makers

86 MFP Planning Committee (1987) A Multifunctionpolis Scheme for the 21st Century: 8. According to the Basic Concept the human environment has evolved through four spheres so far, involving increasingly complex divisions of labour and an increased need for a leisure-oriented lifestyle in the wake of industrialisation.
were clearly keen to try and realise it. Their response is, therefore, another useful measure of the efficacy of government policy settings under Labor.

The Australian Response

The inept and inconsistent response on the part of Australian policy-makers is illustrative of the shortcomings of Australia's economic diplomacy in general and that with Japan in particular. The protracted wrangling over the MFP's possible location was indicative of both the structural constraints imposed by the Federal system and the imperatives of parochial politics. The specifics of this process need not detain us here. Suffice to say that the ultimate proposed location for the MFP - Adelaide - was very much a second-best compromise. True, it satisfied the Japanese preference for a single location, rather than the more diffuse concepts proposed by Sydney and Melbourne, but Queensland's bid was undermined by a combination of political expediency and an undercurrent of racism. Significant here was Andrew Peacock's willingness to make domestic political mileage out of a potentially significant inter-national development. The suggestion that the MFP might become a Japanese 'enclave', separate from the wider Australian community played on deep-seated, almost archetypal fears within Australia about the 'Yellow Peril'. An extraordinary and vitriolic outburst of this sort was Rex Connor's assertion that:

Of all the con jobs that have been inflicted on our nation, nothing surpasses the Japanese proposal to build a futuristic city (MFP) on Australian soil. This proposal reeks of oriental deception and treachery. . . It will be a Japanese enclave of surveillance over the domestic affairs of Australia. It will lead to the loss of our sovereignty. It will be a beachhead for the invasion and subjugation of Australia without a shot being fired.

Plainly, such xenophobic domestic opposition, feeding on the lingering suspicions of older Australians who remembered Japan's war-time role, made the government's task of promoting the MFP more difficult. However, even the complexities of inter-state rivalry, domestic political contestation and an undercurrent of racism - serious as such handicaps were - might have been overcome if the Australian government had had a clearer idea of the motivations of the Japanese; a consistent policy position and goal; and a willingness to do whatever was necessary to ensure that any possible benefits

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89 For a more detailed consideration of the history of the project and the negotiations over its location, see: Inkster, I (1991) *The Clever City* : chapter 3.


for Australia, in the form of increased investment flows and the like, were actually achieved.

It should not be imagined, however, that Australian policy-makers were totally bereft of informed advice on possible options. David Yencken's study in 1989 was a thorough and potentially important source of policy guidance. That such advice was not heeded may owe much to domestic bureaucratic rivalries. As we saw in chapter 3, interventionist departments like the Department of Industry, Technology and Commerce, which sponsored the Yencken report, were unable to break the dominance of the pro-market, neoliberal policies that emanated from Treasury and the Department of Prime Minister and Cabinet. Consequently key recommendations of the Yencken report were ignored. Perhaps Yencken's most significant conclusion was that:

The success of the polis concept will depend upon the achievement of a satisfactory public-private partnership for its planning and development. ... Government has a necessary and vital role to play in drawing up an imaginative plan for the polis site (or several sites), in assembling and allocating land, in providing infrastructure and other essential services, in promoting experiments in urban living, and in stimulating and co-ordinating shared or co-operative schemes for a wide variety of purposes.92

As Yencken noted, attracting private investment from Japan was the project's chief attraction in the eyes of many decision-makers in Australia. However, the emphasis on private investment encouraged the 'neglect or underestimation of the role that public initiatives must play if the project is to be genuinely successful'.93 The unambiguous conclusion of this broad-ranging and comprehensive report was that the MFP would not be successful 'without a high degree of political commitment by the federal government and any participating States'.94 However, the dominance of the neoliberal policy framework meant that there was an inherent predisposition toward minimising the role of government and relying on market forces to encourage private sector investment from both Australian and Japanese sources. Ironically, however, it had been the failure of 'Australian' investment in manufacturing that had rendered the prospect of increased foreign investment both more attractive and, arguably, more necessary.

As we have see throughout the course of this thesis, Japanese investment has not been motivated solely or even primarily by market forces. Furthermore,

Japanese multinationals and private investors have been accustomed to operating within a framework of cooperative business-government relations which have underpinned investment strategies and given increased confidence about the long-term investment climate. The absence of such an environment in Australia and the lack of commitment to a potentially important project on the part of the Australian government was certain to diminish Japanese enthusiasm for the project.

Not surprisingly, given Australian policy-makers reluctance to become directly involved, little progress has been made in actually developing the project. Another important government report attempted to document and account for this notable lack of progress. Again the conclusions are unambiguous. Most striking in this connection has been the

... soul-searching that has occurred in Australia over the exact nature of the MFP, and over the role of government in its development, [which] contrasts with a well-developed view in Japan of both the scope of such projects and the way they should be supported and run.95

The Japanese government and potential investors were 'exasperated' by the gap between Australian government rhetoric and actual commitment.96 The Report details a litany of 'false starts, uncertainty, and incoherence'.97 Again, the central conclusion of the Bureau of Industry Economics (BIE) Report is that:

Private investor support cannot be generated without substantial prior public-sector commitment. . . In particular it requires a substantial supply of long-term risk capital. The necessary commitment is most unlikely to be generated under the leadership of the private sector . . .98

Clearly, given the influence of the neoliberal model on Labor's attitude to government intervention, such an outcome was inherently implausible.

Assessment

Even a noted sceptic like Gavan McCormack acknowledged that the MFP - despite its initial bias in favour of Japanese interests - was capable of generating tangible economic and possibly even social benefits within Australia, given suitably sophisticated policy settings and an informed debate about its

exact nature. True, much of the initial Japanese suggestion may have been imprecise and overblown, but this need not have precluded the possibility of placing the project on a more realistic footing given a sufficiently well-informed and active policy stance on the part of the Australian government. However, the dominance of the neoliberal model amongst Australian policy-makers, especially in the area of foreign economic relations, meant that such a response was rendered less likely on theoretical, or even ideological grounds.

Consequently, the project has continued to languish and is unlikely to be realised in anything like its original form. Nearly a decade after the original proposal nothing tangible has been achieved. The only realistic plans involve a ‘high tech housing estate’, and a pipeline to re-cycle waste-water for market gardens. Gregory Clark considers that ‘Japan has lost whatever small interest it had in the MFP’, something he attributes to a Canberra policy-making establishment that ‘holds rigidly to the view that decisions about Japan are best made by people who have no real knowledge of Japan’. Despite the clearly polemical tone, Clark has a point: confronted with an ambivalent and non-committal Australian government the Japanese have withdrawn significant support for the project. While the project limps on, it is clearly nothing like the original conception and, more importantly for the purposes of this discussion, it is now a ‘multinational’ rather than a Japanese-sponsored project. Even the newly appointed chairman of the newly re-named ‘MFP Australia’ - Llew Edwards - was forced to concede that ‘there is no doubt that the MFP’s international partners, particularly the Japanese and Koreans, have been disappointed with its performance to date’.

It is hard to escape the conclusion that Australia’s policy-makers fumbled an opportunity to significantly increase the scale and nature of Japanese

100 At the time of writing it appears as though the recently elected Coalition government intends to withdraw funding for the MFP altogether, something that will further diminish whatever potential the project retains. Kerin, J (1996) ‘Cloud on smart city's future’, The Australian, April 16: 6.
105 Personal Interviews with senior MFP executives, especially: Ross Stockall (Director, International and Government) and Bill Galway (Director, Policy & Projects).
investment in Australia. While a degree of caution, even scepticism as to the exact nature of the project might have been advisable, there was clearly the possibility of taking advantage of a fortuitous combination of circumstances in the Japanese political economy to re-shape the structural basis of the relationship. That such an opportunity was not embraced is testimony to the reluctance of Australian policy-makers to take a more activist role in the conduct of bilateral relations, something that can be attributed to the dominance of the neoliberal policy paradigm in Canberra. The lack of a country-specific focus and a preference for market mechanisms means that a sophisticated capacity for recognising the constraints and opportunities that are associated with specific relationships is unlikely to develop under the current, dominant political rationality.

Conclusion

The four case studies presented here are indicative of the way in which the contemporary neoliberal paradigm in Australia has provided an inadequate basis for comprehending the interaction between economic entities in Australia and Japan. The neoliberal model is incapable of comprehending the specific content and context of Japanese business-government relations and corporate practices. These more detailed examinations of the political-economy of the Australia-Japan relationship reveal that the Australian government's preference for non-intervention and a reliance on market forces is not only of dubious value given the logic of Japanese corporate organization, but it may directly disadvantage Australian-based businesses that seek to deal with them. Japan's *keiretsu* networks are not only potentially important structural complements to Japanese business competitiveness, they may also act as *de facto* instruments of national governmental policy. Whether this is manifest as the manipulation of price structures, as in the coal trade, or the systematic exclusion of dangerous competitors, as in the case of Australia's highly efficient ship-builders, there is clearly a good deal more than the untrammelled operation of market forces determining such outcomes. The importance of such wider strategic realities is also manifest in the investment and organisational patterns that characterise the operations of Japanese car manufacturers in Australia. Again, the wider operational milieu - in this case regional production patterns and national trade policies - is clearly a significant determinant of production locations and strategies. The importance of considering the complex interactions of political and economic factors is also illustrated in the final case
study - the MFP. In this latter example, distinctively different attitudes as to the appropriate role of government in Australia and Japan produced a good deal of mutual incomprehension on the part of national policy-makers and prospective investors.

These case studies demonstrate in different ways the constraints and opportunities that face policy-makers in the contemporary GPE. Clearly, the constraints are significantly greater in smaller economic spaces like Australia's. However, governments retain a capacity to influence both the domestic conditions under which the capital accumulation process occurs and, although to a more limited extent, the manner in which external economic relationships are structured and conducted. Plainly, where the production strategies of TNCs are increasingly determined by a global logic there is greater pressure on national governments to accommodate such realities, and less scope for them to influence their overall pattern. But as we have seen in this chapter and the discussion of Japan in the region, national states can encourage the location of particular productive activities through a range of incentives and strategies designed to attract mobile international capital. Whether such attempts to curry favour with international corporate capital is considered a worthy task of governments is less important, in the context of this discussion, than is the recognition that intensified competition between national economic spaces is a factor with which policy-makers must contend.

Similarly, other nations with which 'Australia' is supposedly competing are clearly prepared to try and advantage 'national champions' by either discouraging competing imports or actively promoting their exports. In this regard Australian policy-makers may well claim to be no different. The question is, of course, whether the strategies pursued by Australia's policy-making elite are liable to generate the same sort of benefits, or be able to overcome the competing strategies of nations that adopt a more neo-mercantilist, less laissez faire-oriented approach. Again, it is apparent that there are both barriers to market entry - and possible remedies - that the neoliberal model either precludes or fails to consider.

Finally, it is worth re-emphasising that the current policy framework is not a non-interventionist one. At one level this is obvious. The government's - albeit half-hearted - attempts to instigate some sort of industry policy under the various Button Plans is evidence of this. At a more fundamental level, however, the government is unavoidably involved in determining the political framework
that determines the sorts of economic relationships and mode of governance that predominates within any country. It is, therefore, not so much a question of whether or not to 'intervene' in 'the economy', but of the particular basis on which such involvement will occur. In Australia, the dominance of a political rationality informed by neo-classical economics has meant that policy-makers have placed a greater faith in the efficacy of market forces than was perhaps warranted. As this chapter has demonstrated, there are unambiguous grounds for questioning the appropriateness of the neoliberal model itself as an explanation of contemporary economic practices.
Chapter 9: Conclusion

This thesis has explored the political-economy of Australia-Japan relations. More particularly, it has attempted to illuminate the influence and development of neoliberal ideas on Australian policy-makers’ management of this relationship. During the course of this examination it was stressed that there is a degree of inherent artificiality in this process: changes in the GPE mean that thinking of national economies as discrete and readily identifiable entities is increasingly problematic. Much of the interaction between economic entities in Australia and Japan is conducted by the TNCs that dominate global trade and production patterns. Consequently, as we have seen, deciding what constitutes an ‘import’ or an ‘export’, or quite what might be in the ‘national interest’ is an increasingly difficult task. Robert Reich’s celebrated question, ‘Who is us?’, ¹ highlighted a major dilemma for policymakers, especially those of countries like Australia that are extensively penetrated by ‘foreign’ multinationals.

Kindleberger’s equally famous observation about the future of the nation state notwithstanding,² however, national governments clearly retain the capacity to influence the conditions under which the capitalist accumulation process occurs within geographical areas over which they retain nominal authority. What is less clear is what sort of policies might be most efficacious. Even if the ambitions of government are confined to relatively uncontroversial desiderata, like the provision of well-paid jobs and general ‘economic development’, it is not obvious which policies might most effectively achieve such goals or, indeed, whether they are the unproblematic boons some of their advocates might claim. While there might be a good deal of agreement on the desirability of providing adequate job opportunities, for example, it has become clear that economic expansion is not - to borrow a fashionable, anodyne and revealing euphemism - without its ‘downside’. Indeed, it is increasingly apparent that a simple calculus of economic growth may indicate little about more substantial issues revolving around questions of ‘quality of life’, as a comparison between Japan and Australia reveals.³

More and more, however, national governments are judged by their ability to manage 'the national economy' - despite a diminution in the effectiveness of the traditional tools of macro-economic intervention and the difficulty of delimiting such an entity conceptually. As we have seen, governments do influence the conduct of economic life, even if their capacity for autonomous policy is compromised by the internationalisation of production and finance, and the simultaneous erosion of national sovereignty from above and below. While there may be a degree of convergence in the techniques and style of national economic management, a process furthered by institutions that promote economic cooperation and shared authority, there are still important differences in the approaches of individual governments. This thesis has illustrated the historically different approaches taken by Japanese and Australian policy-makers. The degree of autonomy conferred by contingent circumstance - the comparative strength and independence of the polity, for example - is less important, in the context of this discussion, than is the recognition that such differences continue.

Government policy continues to matter and remains an important determinant of broadly defined national economic well-being. Without wanting to rehearse again the states versus market debate that has occupied parts of this thesis, several points merit re-emphasis. Firstly, given that TNCs are, as we have seen, critically important actors and determinants of economic activities and outcomes in the contemporary GPE, their relationships with individual governments are increasingly important. There is a good deal of evidence to suggest that activist states can effect not only 'their' national champions, but may also influence the investment decisions of overseas multinationals.4 Moreover, if Harvey's suggestion that spatial barriers are collapsing as a result of a 'time-space compression' characteristic of contemporary capitalism is a plausible one, then the location of productive activities becomes increasingly flexible.5 Indeed, attractiveness to multinational capital may come to depend on the 'image' of a particular location and the facilities it can offer an increasingly

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mobile workforce. Thus wage levels alone, and narrowly conceived conceptions of 'economic efficiency' may not be such critical determinants of investment decisions, especially in leading edge manufacturing where cheap labour is not a significant consideration. The manner in which national economic spaces are linked to the wider GPE is clearly a potentially critical determinant of national economic welfare, and one in which governments are inescapably involved. As the developmental experiences of Japan and many of its East Asian neighbours demonstrate, comparative advantage can be created; the position of individual nations within global production hierarchies is not given or immutable.

The policy-framework with which individual nations attempt to accommodate the relentless competitive pressures unleashed by the internationalisation of economic activity are determined by contingent economic and political circumstances: the inherited pattern of economic integration with the world economy, in combination with specific national patterns of political activity greatly influences and constrains possible policy responses. What is also of crucial importance, however, as this thesis has attempted to demonstrate, is the ideational framework within which policy is developed. At times of perceived crisis and adjustment to a rapidly evolving and changing GPE, policy-makers may be willing to experiment with new paradigms, especially where the exponents of such innovatory models claim expert and authoritative understanding of and solutions for perceived national economic decline. It was in such an environment, where 'traditional' policies of defensive protectionism and Keynesian-style macro-economic management appeared unable to halt 'Australia's' marginalisation in the GPE that a new - or, to be more accurate - a different paradigm appeared attractive. In this regard, the enthusiasm of other Anglo-American economies provided not only instructive and influential exemplars, but reinforced the attraction of neoliberal ideas through international institutions and the structural power of financial and production networks.

But what was equally distinctive and noteworthy in the Australian case, was the enthusiasm with which this model was taken up by key figures within the Labor Party; a party which previously had a history of opposition to such ideas, but which was largely transformed in order to accommodate them. Certainly the likes of Hawke and Keating were of central importance in, if not popularising, at least making neoliberal ideas acceptable. Electoral success provided

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legitimacy and authority, while the necessity of winning the confidence of the increasingly powerful financial markets provided an important incentive for such changes. At this juncture, however, it is also important to stress the role of an influential coterie of academic economists, public officials and advisers who were instrumental in popularising neoliberal ideas and bringing them to the attention of policy-makers. In the case of individuals like Ross Garnaut this process is readily apparent in his role as Hawke’s principal economic adviser and as the author of the principal blueprint for Australia’s ‘integration with Asia’. Less obvious was the influence of academics and policy entrepreneurs, of whom Peter Drysdale is a significant example. Academic economists like Drysdale played an important role in promoting the neoliberal policy paradigm that largely determined the orientation of Australia’s external economic relations. It was an orientation that ultimately culminated in APEC, and which helped to define the conduct of bilateral relationships with countries like Japan.

Theoretical and Practical Implications

The intention of this thesis has not been to offer an alternative to the neoliberal model, although the outline of such a model has necessarily been implicit in much that has gone before. However, given that much of this thesis has been taken up with a rigorous critique of the dominant neoliberal model it seems only reasonable to sketch an alternative approach briefly. It might be objected that given the attention I have drawn to the socially constructed and discursively contingent nature of knowledge, and the concomitant rejection of the idea that there is an ‘objective’ position from which to judge the epistemological claims of various theoretical paradigms, this is a somewhat inconsistent, not to say vainglorious undertaking. There is some merit in this argument. Nevertheless, such an attempt is worth hazarding for several reasons: firstly, policy will, epistemological niceties notwithstanding, continue to be made. Clearly, some policy initiatives will have more chance of successfully meeting their objectives than others. What this thesis has tried to illustrate is that policy desiderata that such policies are directed toward meeting are not value free, technically correct responses to the ubiquitous challenges of economic management in a global economy. On the contrary, the contours of policy are defined by complex coalitions of economic and political interests; interests that may, however, more powerfully resonate with and be articulated by particular discourses at specific historical junctures.
This brings me to my second justification for joining the debate about the most appropriate style and content of national economic and, by extension, social policy: although it is important to recognise the socially constructed and contested nature of policy, as well as the inevitably partisan and prejudicial nature of political outcomes, this does not mean that some outcomes are not more desirable than others. In this context it is possible to judge the Labor Party's embrace of neoliberalism by its own lights: did it promote investment, increase employment, and transform the position of 'Australia's' economy; or would some other policy mix have more efficaciously have delivered such results? If increasing general economic welfare (although defining this in itself may be contentious) within a delimited economic and political space is the end point of governmental activity, then we may legitimately ask whether the neoliberal policy initiatives instituted under the Hawke-Keating governments delivered optimal outcomes. Clearly, the evidence presented in this thesis, whether it is measured by the failure to attract more productive investment or the generally disadvantageous manner in which international trading relations with countries like Japan are conducted, suggests that the neoliberal model has had significant shortcomings in the past and is unlikely to prove any more successful in the future.

Would an alternative policy paradigm have any greater chance of success? If 'success' is taken to mean the consolidation of an export-oriented manufacturing sector, a reduced national dependence on sophisticated imports, and the integration of Australian economic entities with the region on more favourable terms, then there are clearly numerous policy initiatives that might reasonably be expected to encourage such developments. The insights derived from strategic trade theory, the growing recognition of the links between technology and growth, and various forms of industry policy all suggest that a panoply of possible strategies are available to policymakers and industrialists - many of which have been successfully adopted by countries like Japan. One of the key difficulties associated with the neoliberal model, however, is that it has failed to recognise the importance of such interventionist policies. The theoretical primacy of and commitment to market mechanisms as both an organizational principle and a normative desiderata, has meant that theoreticians and policy-makers working within this framework have not only eschewed such interventions themselves, but they have failed to acknowledge or adequately take into account such measures on the part of others.
Consequently, where 'Australia's' competitors are attempting to promote national competitive advantage by assisting domestic producers, or actively trying to attract foreign multinationals, Australian policy-makers continue to place a greater reliance on market forces to achieve such results. Whether it is appropriate for taxpayers' resources to be employed by governments to underwrite the profitability of private capital is a less important question in the context of this discussion than is the potential utility of such policies. Clearly, the cooperative government-business relationship in Japan has been central to that country's rapid economic growth. It follows from such an analysis that an important component of any alternative policy framework in Australia would be a capacity for initially recognising the specific complexity of individual economic relationships. Reinvigorating a bilateral capacity and understanding within relevant bureaucratic departments would seem an essential prerequisite for changing the basis on which individual international relationships are conducted. Without a thorough understanding of the nationally-specific ways in which various countries and the transnational economic actors based in particular nations conduct their economic activities, it is unlikely that policies will be constructed that might deal with such specificities.

While there are some signs of disenchantment with the multilateral approach that has characterised Australia's economic diplomacy, the general, APEC-led policy direction has become the relatively uncontested bi-partisan political orthodoxy. Certainly if Australia's political leadership was successful in persuading its neighbours, to say nothing of the rest of the world, to abandon overt and covert trade barriers, assistance to industry and the range of other government initiatives that characterise contemporary national political-economies, it might well be of great benefit to Australian-based actors. As we have seen, however, there are substantial grounds for questioning the likelihood of this scenario. But even in the unlikely event of such a vision being realised, this would still not mean that the mythical 'level playing field' had been finally realised. The organisation of Japanese corporate capital confers specific competitive advantages that are not dependent on governments alone. Such advantages will not be easily countered, but understanding this sort of

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7 A potentially significant, and somewhat surprising example of this sort has been provided by the newly-elected Liberal-National Party coalition government, which has suggested attempting to pursue bilateral trade agreements as part of a broader multilateral approach to external relations. It remains to be seen, of course what form this will actually take or how effectively it will be pursued. See: Meeting the Challenges: The New Global Economy - Liberal and National Party Trade Strategies for the Future, Liberal and National Party, Canberra.

8 See: Howard, J (1995) Australia's Links with Asia: Realising Opportunities in Our Region, Fifth Asialink Lecture, Melbourne, April 12.
corporate logic may allow the governments of other nations to create policies that at least address the reality of such practices, rather than abstract and ahistorical idealisations.

Yet the ideational primacy of the neoliberal model has meant that Australian policy-makers have placed great reliance, not to say faith, in market mechanisms. Deregulation, it was supposed, would place 'Australia' on a more competitive international footing, opening up the 'Australian economy' to the beneficial influence of international market forces, and generally making the country a more attractive investment location. As we have seen in our central case study, limited productive Japan-based investment has been attracted as a result. Where capital inflows have increased they have often been associated with speculative and opportunistic activities or remained in a highly liquid portfolio form. A major shortcoming of the neoliberal model as a basis for explanation or policy is its lack of historical specificity and excessive recourse to idealised abstraction. A more detailed examination of the operational logic of corporations based in Japan, and the sorts of production strategies that have emerged in different regions and industry sectors reveals that a simple reliance on market forces is unlikely to render Australia a more attractive location. Moreover, the inculcation of more 'enterprising' attitudes in the populace or the promotion of 'efficiencies' through workplace reform are unlikely to alter the manner in which Australia-based economic entities are integrated into global production networks.

However, these shortcomings, serious though they are, may not be the most significant aspect of neoliberalism's ideational dominance. As this thesis has emphasised, the way in which the objects of government are discursively articulated plays a crucially important role in determining what the targets of government intervention will be, as well as the overall approach of government to the business of governance itself. The techniques, strategies and objects of government are largely determined by the political rationality which underpins and informs a particular governmental approach. Indeed, the discourse that accompanies a particular political rationality not only demarcates 'appropriate' or legitimate areas of government action, but effectively marginalises alternatives as implausible or unthinkable. This is readily apparent in the case of industry policies which advocated a more interventionist role for government. As we saw in the case of the Button Plans, government commitment was half-hearted and has been increasingly wound back as trade union opposition has diminished. Significantly, the union movement itself - or, more accurately, an
influential leadership group - has adopted the language of 'structural adjustment', embraced the necessity of improving 'efficiency', and accepted the disciplinary logic inherent in the discourse of 'globalisation' and the competitive imperative it embodies. The shift of government focus from macro-intervention strategies to an attempt to create a more enterprising citizenry becomes more comprehensible when the logic and assumptions of the neoliberal model are explicated.

This draws attention to an important insight generated by a theoretical approach informed by the notion of neoliberalism as a political rationality: as economic policy-making is increasingly depicted as the preserve of technocratic experts, equipped with a specialist knowledge and a discourse that confers an almost unchallengeable authority on its practitioners, alternatives are silenced. This process is, as I have suggested, apparent in the market versus states or neoliberalism versus industry policy debate, and the marginalisation of the latter in Australia. However, what is even more striking is the ready acceptance - even by ostensible opponents on 'the Left' - of the terrain upon which such debate will occur. Disagreement occurs not so much over the objects of policy and key issues like the desirability of growth, but over the best means to achieve it. This has led to a surprising degree of convergence as German and Japanese policy-makers and corporations embrace aspects of Anglo-American corporate structures and rationales, while American and even British policy-makers flirt with ideas of stakeholder capitalism and trumpet the merits of life-time employment and the like.⁹

It is neither possible nor desirable to test exhaustively the merits of these conceptions here, although, it should be noted, much of the discussion of Japanese corporate practices indicated that they may confer significant commercial advantages over their Anglo-American rivals, especially where these distinctions remain unrecognised. What is worthy of re-emphasis here is the discursive power and authority of mainstream economic discourse, and the associated increasing reliance on particular forms of expertise. Mainstream debate over economic policy is predicated on the idea that capitalism is essentially the world economic system, and a sustainable one at that. Neither of these propositions is uncontestable; but while they are taken to be so they entrench the role of expert authorities and reduce 'debate' to technocratic discussions about technique - or formal rather than substantive rationality.

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It is worth remembering, however, that the economists that have made the most significant contributions to the general discourse of economics, be it Marx, Keynes, Schumpeter or even Smith, were all fundamentally pessimistic about the long-term prospects for capitalism. Moreover, of late the environment has placed new, potentially profound and inescapable limits on capitalist, to say nothing of human expansion, which are generally ignored, especially within mainstream economics. This has led to some predictably gloomy prognostications about the future - and not just of capitalism. Two points are important here. Firstly, it is clear that the framework within which capitalist accumulation occurs is an infinitely more complex one than the idealisations of the neoliberal model might suggest. Plainly, there are a range of political and other potential 'distortions' that threaten to render irrelevant neoliberalism's central assumptions and thereby nullify whatever theoretical utility the model might have. Secondly, while many of the environmental scenarios tend to be unrelentingly apocalyptic, some of the more sophisticated contain important critiques of the sorts of highly technical, political rationalities that are central to neoliberal discourse. In societies increasingly characterised by systemic risk of the most profound and pervasive sorts, there is the potential for 'a chronic devaluation of political and technological rationality claims', something that threatens to undermine completely the existent ideational hegemony.

So, while the discourse of neoliberalism has exerted a powerful ideational influence that has shaped Australia's external economic relations and effectively marginalised alternatives, there is no reason to suppose that its hegemony is permanent or likely to remain unchallenged. Even if the environment proves capable of supporting continued capitalist expansion for the foreseeable future, neoliberal ideas may contain the seeds of their own demise. As we have seen, there are substantial grounds for questioning whether the neoliberal model will achieve the sorts of goals its advocates expect, even when these objectives are narrowly conceived within a calculus of national economic advantage. Where many of the nations with which Australian

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policy-makers seek increased integration are clearly following differing rationales, and where foreign based companies follow an operational logic which is not solely determined by market forces, then the utility of the neoliberal model as a basis for policy must be in doubt. The comparative economic success of Australia's limited experiments with industry policy and the relative failure of the market model may generate calls for more a greater range of policy options.

More importantly in the long term, neoliberal policies have had a profound impact on the social relations of the countries that have been most enthusiastic in applying them. The US, for example, is increasingly characterised by marked disparities of wealth, life-chances, and the emergence of a permanent 'underclass' that threatens future stability of American society and some of its cherished values. More generally, critics of neoliberal policies claim that 'opening up' national economic spaces to competitive market forces and instituting the sorts of policies that facilitate the movement of capital and productive activities, institutes a 'race to the bottom'. Policy is predicated upon a competitive cheapening of national labour forces, usually via a reduction in the influence of organised labour. Clearly, this is something of a generalisation: many individuals - even in the industrialising countries - are capable of finding lucrative niches in the increasingly global economy which will continue to improve their living standards. But for those individuals in low skilled, routine occupations the future in an open economy is indeed bleak.

For Australia - and Japan, for that matter - the implications of less regulated international economic activities are significant, and threaten to destabilise, if not overturn their respective 'historic compromises' between domestic capital and labour. What needs to be remembered, however, as Pauly reminds us, is that the move toward increased deregulation was not the inescapable, technical necessity advocates of liberalisation might imply. On the contrary, national governments and financiers 'use the language of inevitability to obscure the

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16 In this context Kurzer's research on European economies suggests that there is a clear link between 'detachment' from international capital and the ability of national governments to effectively manage and protect domestic labour from 'international disturbances'. See: Kurzer, P (1991) 'Unemployment in Open Economies: The Impact of Trade, Finance, and European Integration', Comparative Political Studies, 24 (1): 24.
notion that other choices are available; a collective move toward re-regulation - or, more accurately - a different form of regulation, remains a possibility, albeit an unlikely one. Indeed, there are a number of interesting suggestions both for placing trade on a more 'rational' basis, and for bringing global financial flows under transnational governance by limiting their volume and speed.

That such policies are unlikely to be adopted in the foreseeable future is testament to the current hegemony of the neoliberal ideational paradigm. What this thesis has attempted to draw attention to is the manner in which the discourse of neoliberalism has both depoliticised and constrained debate over important economic and social questions. What are essentially political initiatives and decisions are increasingly portrayed as the inevitable responses to the technical demands of expert economic management. Policy is, in fact, retrospectively 'naturalised' and thereby rendered less politically partisan. Indeed, the similarity of policy positions between the major political parties in Australia is confirmation of the power of this authoritative, expertly legitimated discourse.

And yet, although less economically and politically powerful nations like Australia are clearly constrained by the 'discipline' of global financial markets in a way that the US, for example, is not, this does not mean that national governments are without options. As we have seen in the case of the two

18 The rationality of the current trade regime might be questioned from an environmental perspective. How 'rational', for example, is intra-industry trade, the fastest growing part of global trade, which is predicated upon the endless and environmentally costly exchange of virtually identical products? See: Lang, T & Hines, C (1993) The New Protectionism: Protecting the Future Against Free Trade, The New Press: chapter 1.
19 One suggestion for limiting exchange rate volatility, speculation and therefore the size of overall flows is for a uniform tax on foreign exchange transaction. It would, however, require international cooperation and coordination and is probably unlikely without further systemic destabilisation given the influence of financial interests and the dominance of neoliberal ideas. See: Felix, D (1995) The Tobin Tax Proposal: Background, Issues, Prospects', Futures, 27 (2): 195-208. Furthermore, Helleiner makes the important observation that the dynamics of inter-state interaction in the financial and trade sectors are fundamentally different, requiring cooperation to maintain openness in trade and closure in finance. Clearly a significant, even paradigmatic change of thinking would be required to alter existing norms and ideational frameworks. See: Helleiner, E (1992) 'States and the Future of Global Finance', Review of International Studies, 18: 35.
20 Cerny goes so far as to suggest that financial markets, rather than states, are the nearest thing to a 'hegemonic force in the contemporary international system. While this may be something of an overstatement, it does remind us of the constraints on small states and the difficulty they face in attempting to act autonomously. See: Cerny, P (1994) 'The dynamics of financial globalization: Technology, market structure, and policy response', Policy Sciences, 27: 339.
nations that formed the principal empirical focus of this thesis, major differences in policy style and content remain possible across nations. While the parameters within which policy is constructed may be increasingly circumscribed and demonstrate a degree of convergence, there is still scope for a good deal of national variation. Much depends on the sorts of coalitions of interest illustrated earlier and their attempts to influence the direction and substance of policy. Orthodox explanations within the political-economy tradition remind us that different actors will benefit from specific policies at particular times: holders of mobile financial capital or controllers of transnational corporate activities - be they manufacturing, or resource-oriented, as is often the case in Australia - may be expected to support and gain from policies that erode national border controls and facilitate the international movement of such assets. Yet the complexity and competing interests of such shifting alliances are demonstrated by a more detailed consideration of the specific manner in which individual companies, or their Australian subsidiaries are integrated into the GPE: the experience of car manufacturers in Australia demonstrates that protectionism may sometimes suit the interests of even the most comprehensively internationalised industries.

There is, however, more to the dominance of neoliberal ideas and the subsequent direction of policy than such accounts - indispensable though they are - generally imply. What is often missing from such explanations, and what this thesis has attempted to illuminate, is the influence which particular ideas may come to exert over key policy makers as they come to be accepted as the most appropriate answers to what are taken to be the dominant questions of national economic management. At moments of perceived economic crisis or dislocation, a discourse claiming authoritative understanding about the causes of and remedies for such difficulties may hold great attractions for beleaguered policy-makers. Where this is reinforced by an expert chorus of elite academic and bureaucratic advisers such ideas may become even more compelling for a technocratically-minded political leadership eager to demonstrate its competence as economic managers. In this context, the increasingly hegemonic economic discourse associated with an overarching neoliberal political rationality offered a way of transcending and uniting diverse and potentially contending economic and political interests in response to what was portrayed as inescapable and unforgiving economic reality.

This thesis has attempted to illustrate the way in which this ideational hegemony has effectively marginalised alternative policy initiatives. The
apparent inability of alternative paradigms, like Keynesianism, to successfully cope with the exigencies of increasingly internationalised economic activity created an opportunity for advocates of neoliberal policies to influence the direction and content of public policy. Where such policies were given the imprimatur and authority of acknowledged experts in the increasingly dominant discourse of economic rationalism, this had the great merit from the Labor leadership’s point of view of effectively insulating them from potential criticism from within the Party and the trade union movement, while simultaneously winning the approval of the evermore powerful financial markets. Neoliberal ideas, then, provided an important focal point for a diverse range of interests, which were not confined to the sorts of economic actors central to more conventional political-economy accounts. True, such economic actors were important in creating the overarching conditioning framework which created a climate of opinion favourable to neoliberalism’s rise, but it is important to acknowledge that this process was given additional impetus by an influential group of politicians, bureaucrats and academic economists convinced of the rectitude of the neoliberal paradigm.

Indeed, a theoretical perspective that takes notions of discourse seriously can help to illuminate the manner in which policy frameworks maintain their authority despite the opposition of important economic interests (firms locked into nationally-oriented modes of production and accumulation, for example), or even their apparent failure to fulfil the expectations of their principal advocates. Certainly the power of global financial markets and the diminishing utility of national economic policy instruments may make market conforming policies more attractive. But what is striking about the contemporary GPE is the continuing degree of variation in policy settings across nations especially, but not only, between the Anglo-American economies and those within East and Southeast Asia. To understand this national variation, especially in the light of the comparative success of the divergent economic models that have underpinned these broadly defined but distinctive forms of capitalism, it is necessary to go beyond immediate structural factors and consider the manner in which particular policy frameworks gain their legitimacy and maintain their ideational authority.

In this context, the neoliberal political rationality and the specific policy innovations it led to at both the macro and micro levels owed a good deal of its paramountcy to the support and active proselytisation of key members of the ALP, the bureaucracy and academia. Certainly these ideas may have enjoyed a
general ascendancy in the Anglo-American economies in the wake of Keynesianism's demise and the increasing influence of international financial and productive capital, but it is important to acknowledge and recognise the critical role played by influential groups in Australia as the bearers and articulators of an increasingly powerful transnational discourse. It is equally crucial to recognise that this process was neither an inevitable nor universal international phenomenon. The Japanese case reminds us that a different political rationality is not only possible, but will produce distinctly different patterns of political and economic behaviour. This thesis has attempted to illuminate the area in which different political rationalities and forms of capitalism intersect, and to consider the efficacy of Australia's economic policy initiatives in the light of such interactions.

What an examination of the Australia-Japan relationship demonstrates is the importance of appreciating such differences in the conduct of bilateral relations. Where policy is constructed by the lights of idealised theoretical abstractions that pay little heed to the mundane realities of commercial practices and specific national developmental trajectories, then it is highly probable that such policies will be unable to accommodate such realities adequately. Highlighting the theoretical weaknesses of the dominant neoliberal ideational framework, of course, is not the same as remedying them. However, attempting to draw attention to such shortcomings and attempting to create what admirers of Gramsci like to call a 'counter hegemonic discourse' is a useful place to start. It is to such a project that this thesis hopes to make a modest contribution.
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