
Reimagining the Japan Relationship

An Agenda for Australia's Benchmark Partnership in Asia

Shiro Armstrong

Australia-Japan Research Centre

The Australian National University



The Australia–Japan Research Centre

The Australia–Japan Research Centre (AJRC) is located in the Crawford School of Public Policy in the College of Asia and the Pacific at The Australian National University. It is the centre of research, teaching and outreach on the Japanese economy in Australia. Established in 1980 with support from the governments and business communities in both Australian and Japan, AJRC’s research encompasses trade, finance, macroeconomics, as well as the Australia–Japan relationship and their place in the regional economy.

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Executive summary

Japan is of growing importance to Australia in securing its regional and global interests in security, stability and prosperity. Japan is the world's third largest economy, Australia's second largest source of foreign investment and its third largest trading partner – having been second until commodity exports fell in 2020. Australia's economic, geographic and strategic interests are overwhelmingly in Asia and no partner is more important to those interests than Japan. Japan is Australia's benchmark relationship and strategic anchor in Asia and that is an enduring strategic reality.

Australia's relationship with Japan has never been more close. The Special Strategic Partnership between the two countries is built on deep economic complementarity, shared strategic interests, and deepening trust and familiarity. They have a notable track record of effective close cooperation in regional and global affairs.

The Australian Government has worked to elevate the relationship with Japan. Prime Minister Scott Morrison's trip to Japan in November 2020 for an in-person summit with then prime minister Yoshihide Suga was his only official trip overseas that year and the only visit to another country as prime minister in close to 19 months, emblematic of the significance of the relationship.

But the Japan relationship must be reimagined if it is to deliver its full potential and cope with accelerating economic, environmental and social changes in both countries and a dramatically changing geopolitical environment. The coronavirus pandemic has further aggravated global fractures, including US–China strategic competition, the impact of new technologies, rising protectionism and environmental challenges. These fractures are correlated and feed off each other. The most important geopolitical, economic and security faultlines in the world are in Australia's and Japan's own backyard.

Reimagining the Japan relationship begins with understanding the risks of complacency. Australia cannot assume that the political and economic facts that have underpinned the relationship with Japan will sustain it in the years and decades ahead.

The economic relationship that has been the bedrock of the bilateral ties since the 1950s faces major structural upheaval. Australia supplies two thirds of Japan's key industrial materials and close to one third of its entire energy needs. The structure of this trade will have to change fundamentally as Australia and Japan decarbonise their economies.

The government-to-government, institutional and interpersonal ties that have serviced the Australia–Japan economic relationship to date are not adequate to the task of servicing the relationship that is now emerging. In addition to the transformation of the economic relationship, much about the region's direction is yet to be negotiated and is too uncertain to take the present-day congruence of strategic outlooks between Japan and Australia for granted.

The relationship with Japan will need to be at the top of the consciousness of Australia's national leadership and the Australian community if it is to match the scale of change and sustain these ambitions for it. Only a major national rethink of, investment in, and upgrading of ambitions for the relationship at all levels of government, business and the community will achieve that goal.

The strategic interest that both Australia and Japan share in a free, open, inclusive, resilient and prosperous region has driven economic, political and security cooperation. The close cooperation that characterises the relationship today cannot be sustained and elevated without substantial strategic investment from Australia in broadening and intensifying this cooperative agenda.

These challenges inform two main pillars of engagement with Japan.

The first pillar would see Australia and Japan working with partners in the region to define and commit to a common goal of *comprehensive security*.¹ Strategic cooperation between Australia and Japan is essential to the transition to a new, stable multipolar regional order.

Comprehensive security integrates national security, economic and environmental sustainability objectives. The central goals of this strategy would be: to keep the United States entrenched in Asia; to shape the behaviour of China positively, including through purposeful engagement; to strengthen ASEAN centrality and its multilateral principles; and to commit to environmental sustainability. Reaching the understandings needed to strengthen comprehensive security would begin by drawing upon the principles that underlie established regional and global arrangements to define a common basis for managing security, political and economic affairs and the issues of environmental sustainability among its signatories.

The second pillar is an agenda that focuses on the impacts of the energy and demographic transitions underway in both countries – and in doing so transforms the bilateral relationship and its regional and international roles. The established bilateral economic relationship will have to undergo fundamental change as both countries move to decarbonise their economies and as Japan manages a shrinking and ageing population.

Neither of these two pillars of active strategic cooperation with Japan can be supported without significantly increased investment in national capabilities, public understanding of, and familiarity with Japan. It is a whole-of-nation agenda – one which will have to be led by the Commonwealth Government but must engage all levels of government, the National Cabinet, business and stakeholders across the community.

An enabling agenda is needed to realise an Australia–Japan relationship built on a deep understanding of Japan’s society, economy, politics and strategic thinking. Australia needs a new institutional architecture to build its relationship with Japan, within which federal, state, and local governments work closely with business and community groups to define and achieve strategic goals.

Among the specific initiatives and institutional mechanisms essential to the closer cooperation both countries now need, priorities include:

- > A Joint Australia–Japan Study by experts to frame the agenda for *comprehensive security* in the region.
- > Australia’s designation of Japan as a *most favoured partner*, broadening the traditional definition of most-favoured nation to consider expanding to Japan equal best treatment in other relationships across all domains unilaterally.
- > Expanded Ministerial Economic Dialogues to a 2+2 process that includes the Australian Treasurer and the Japanese Finance Minister annually with trade ministers and an annual Senior Economic Officials Meeting to support the Leaders’ Summit and strengthen coordination of the economic agendas in the G20, G7+, APEC, EAS and Quad.
- > A Ministerial Policy Dialogue on Education, Culture and Sport that deepens people to people links, connecting initiatives from the states and territories and better leveraging assets in the relationship (like the record number of sister city relationships) with strategic direction and use of digital platforms.
- > Annual strategic dialogues for each Australian line department with its Japanese counterpart, including the exploration for regular exchange of staff.
- > A joint Australia–Japan Energy Initiative that brings together government, industry, experts and stakeholder groups to accelerate and facilitate the energy transition.
- > Initiating Dialogues for Change that involve business, government, academia and community leaders focused on gender diversity and the movement of people.

¹ The idea of comprehensive security has its antecedents in policy thinking in Japan around the Prime Ministership of Ōhira Masayoshi in the late 1970s.

Upgrading the relationship will require investment. New institutional frameworks need to be resourced properly; so too do the measures needed to ensure that exchange and relationship-building at people-to-people level thrives, creating the understanding essential to thickening the relationship at all levels.

To this end, significant capacity is needed in Australia's understanding of Japan, ideally as part of a broader national rehabilitation of the 'Asia literacy' agenda. Many aspects of the close relationship with Japan have been taken for granted and there is complacency about what Australia needs to do in order to equip itself with the capabilities to take advantage of opportunities with Japan, even as it becomes a more important strategic partner.

That agenda goes well beyond Japanese language and Japan studies to leverage tourism, cultural exchanges and shared interests to build capacity across the Australian community to understand Japan better. A dynamic mapping of expertise and exchanges, funding programs to avoid the depreciation of Japan-expertise and generational renewal of that expertise is needed. Lowering barriers through deploying new technologies in Japanese language education, for example, and the use of technology more broadly can help build capacity in the public service across all levels of government and in the private sector.

Introducing and rewarding qualifications in Japan-literacy and experience in the federal and state public service and industry will help drive that. Without understanding the debates in Japan, the levers of power, how decisions are made and how Japan sees itself in Asia, Australia will not be sure-footed in its relationship with Japan nor able to realise its potential.

Exchanges focused on education, the arts and sports will help close the cultural distance with Japan. Investment in the arts to promote collaboration, expanding the New Colombo Plan to postgraduate students, thickening exchanges between officials and deepening the connections through sports, are examples of initiatives Australia can take unilaterally. Australia need not wait for reciprocity in these initiatives but will find Japan a willing partner.

The constraints of understanding and language impede research collaboration and policy innovation in health, ageing and new technologies. There is potential for new partnerships like a reciprocal health arrangement. Improved understanding of Japan will help both countries work together in managing the geopolitical, economic and societal impacts of critical and emerging technologies, including 5G, 6G, AI and quantum computing.

Despite its priorities in Asia, and its increasingly multicultural society, Australia still defaults to its traditional English-speaking allies as its partners of choice on the international stage. Familiarity and shared language and cultural roots have made Australian business, government and society more comfortable engaging with American and British partners on the other side of the world than with a trusted and close strategic partner in Asia, Japan.

This strategic balance needs to change.

In proposing a reimagining of the Japan relationship, this report suggests a new way for Australia to think about Japan, and what is needed to build the institutional support and infrastructure that is necessary for a deepening relationship across government, business, academia and society. It is not a joint Australia-Japan report with a joint agenda but proposes an agenda that Australia should initiate as a clear signal to Japan of Australia's national interest and intentions.

Japan shares many of Australia's regional and global strategic interests. The hope is that this report might advance Australia's engagement with Japan towards developing a shared vision of a bilateral relationship that can deliver both countries' future national interests.

Executive summary in Japanese

オーストラリアにとって日本は、地域および世界の安全・安定・繁栄を確保する上で、益々重要な存在となっている。世界第3位の経済大国である日本は、オーストラリアの海外投資先として2番目、貿易相手国としては3番目(コロナ禍で商品輸出が減少した2020年までは2番目)の地位にある。オーストラリアの経済的、地理的、戦略的利益は圧倒的にアジアにあり、そうした利益を追求する上で日本以上に重要なパートナーはいない。日本との関係がオーストラリアの対アジア外交の基準であり、戦略的なアンカーとなっていることは、永続的な戦略的現実である。

今ほど日豪関係が強かった時代はおそらくないであろう。両国の「特別な戦略的パートナーシップ」は経済的相補性、共通する戦略的利益、そして深まる信頼と親近感に基づいている。この密接な協力関係は、これまで地域および国際情勢に対して大きな影響を与えてきた。

近年オーストラリア政府は、日本との関係を緊密化していくことに力を注いでいる。モリソン首相は2020年11月に訪日し、菅首相と直接首脳会談を行った。これが2020年における唯一の公式な海外出張であり、約19カ月間の首相としての期間における初の他国訪問であったことは、この関係の重要性を示している。

しかし、両国の社会・経済・環境情勢の変化が加速し、地政学的環境も急変する中、オーストラリアは対日関係を再考しなければならない。新型コロナウイルスの感染拡大は米中の戦略的競争、新技術の影響、保護貿易主義の高まり、環境問題などの国際社会の亀裂を悪化させ、これらの亀裂は互いに助長し合っている。地政学的・経済的・安全保障的な断層は、今や両国内に存在している。

対日関係の再考は、自己満足に陥るリスクを認識するところから始まる。これまで両国の関係を支えてきた政治的および経済的要因が、今後も継続すると思い込んではいならない。

1950年代以降、日豪関係の基盤として機能し続けた経済関係は、現在大きな構造変化に直面している。オーストラリアは、日本の主要な工業材料の3分の2、エネルギー需要の3分の1近くを供給しているが、日豪の経済が脱炭素化すると共に、この貿易構造も根本的に変化するであろう。

また、今までの日豪経済関係を支えてきた両国の政府間・組織間・個人間の関係が、これからの日豪経済関係を支えていくのに果たして十分であろうか。地域の今後の方向性が決まっておらず、まだ先が読めない限り、今のように両国の戦略的利益が一致する状態を当然視するわけには行かない。

オーストラリアには、対日関係への関心と来るべき構造変革の規模に見合うビジョンがなければならぬ。政官財民が一体となり、対日関係を再考し、再構築に投資する必要がある。

自由で開かれ、包摂的で強靱かつ繁栄した地域、これは日豪両国に共通する戦略的利益であり、今まで経済・政治・安全保障面での両国の協力を推進してきた。しかし、オーストラリアがこの協力アジェンダへの投資を拡大しない限り、現在の密接な日豪の協力関係を維持することできないであろう。

上記を鑑み、報告書は対日外交の2つの柱を提案する。

第1の柱は、日豪両国が地域のパートナーと協力し、総合安全保障という共通の目標を定め、それに専心することである。日豪の戦略的協力は、新たな安定した多極秩序への移行の前提となる。

総合安全保障とは、国家安全保障と経済および環境の持続可能な目標を統合するものである。この柱の主要な目的は、米国のアジアへのコミットメントを維持すること、中国に対して積極的に外交活動を行うこと、ASEAN 中心性とその多国間原則を強化すること、そして環境の持続可能性にコミットすることである。総合安全保障を強化するために必要となるのは、現在の地域及び国際情勢の根源的な原理を追求し、その視点から全体を考えることである。これにより、関係諸国間で安全保障、政治、経済、環境の持続可能性を管理するための共通の基盤を定めることができる。

第2の柱は、日豪両国におけるエネルギー転換および人口転換のショックに焦点を当てることである。これが日豪関係の地域的および国際的な役割を考え直すことに繋がっていく。両国が脱炭素化を進め、日本が人口の減少・高齢化対策に追われる中で、日豪の経済関係には根本的な変容が迫られている。

日豪の戦略的協力を積極的に追求するための上記2つの柱は、オーストラリアの国力と豪国民の日本への認識・親近感の拡大なしには成り立たなく、これには大幅な投資の増加が必要となる。これは挙国一致の課題であり、オーストラリア連邦政府が主導し、政官財と地方のステークホルダーをすべて引き入れなければならない。

また、日本の社会・経済・政治および戦略思考への深い理解に基づいた日豪関係を実現するためには「enabling agenda」が必要である。つまり、日本国との関係を深化するために、連邦政府、州政府、地方自治体が財界やコミュニティグループと密接に連携し、戦略的な目標を達成するような、新たな制度構造を作ることが必要とされている。

日豪の協力関係の緊密化を実現するために優先的に必要となる特定のイニシアチブや制度的メカニズムには、以下が含まれる。

- 地域の総合安全保障のアジェンダを設定するため、学者・専門家間の日豪共同研究グループを立ち上げる。
- オーストラリアは日本を最も望ましい「パートナー」とし、日本に対する最恵国待遇の範囲をあらゆる分野に拡大することを検討する。
- 日豪経済閣僚対話に両国の財務大臣も参加し、2プラス2の会議に拡張する。また、首脳会議(G20、G7+、APEC、EAS、Quad)の経済アジェンダの調整を強化するため、高級経済実務者会合を毎年開催するようにする。
- 教育・文化・スポーツの日豪閣僚対話を実施し、両国民の関係を深め、地方行政区の企画を連携する。また、姉妹都市提携などの外交資産やデジタルプラットフォームを、戦略方針に沿ってよりよく活用する。
- 両国の省庁間で戦略的対話を毎年実施し、職員の国際交換プログラムを検討する。
- エネルギー転換を加速および推進するため、政官財学とステークホルダーを結ぶ日豪エネルギー・イニシアチブを立ち上げる。
- 性的多様性と移民政策をテーマに、政官財学と地域団体の「改革のための対話」を開始する。

協力関係の向上には投資が欠かせない。新たな機関を設立し運用するには、適切な資金が必要であるからである。あらゆるレベルで両国の関係を深めるために重要とされる人と人との相互理解は、両国民の交流に依存し、この交流も十分な資金がなければ成り立たない。

また、オーストラリアの日本への認識を大幅に深める必要があり、理想的には「アジア・リテラシー」のアジェンダを回復することが望ましい。オーストラリアにとって日本は重要な戦略的パートナーであるはずだが、日豪関係の多くの側面がいまだに自明のものとされている。オーストラリアは、まず日本との機会を活用する能力を備える必要がある。

アジア・リテラシーの定義は広く、日本語および日本研究にとどまらず、観光や文化交流、あらゆる共通の関心事を活用して、オーストラリア国内で日本に関する知識を高めることが目的となる。これには、専門知識と文化交流のダイナミックなマッピングが重要で、日本に関する専門知識の劣化の防ぎ、世代継承させるための奨学金事業が必要である。また、日本語を学ぶときのハードルを下げるために、あらゆるテクノロジーを活用することで、官民両方で日本に関する知識を高めることができる。

また、官営両方で日本に関する知識を持っている者に資格を与えて評価することは、日豪関係の強化のためになるであろう。日本での議論や権力的手段、決定の方法、そしてアジアにおける日本の自画像等を理解しない限り、オーストラリアは対日関係のポテンシャルを引き出すことはできない。

日豪の文化的距離は、教育・芸術・スポーツを中心とした文化交流により縮めることが可能である。文化事業への投資による両国のコラボレーションの促進、新コロポ計画の大学院生への拡大、日豪政府関係者間の交流の活発化、スポーツによる関係の深化など、オーストラリアが実施することができる取り組みは多数ある。また、これらの取り組みは全てオーストラリアが単独で実施することが可能なので、相互協定の締結を待たず、すぐに日本の歓心を得ることができる。

言語および理解の限界がある限り、健康・高齢化・新技術の共同研究や政策革新にも制限が掛かってしまう。しかし、日本への認識が深まれば、互恵的な医療協定のような新しいパートナーシップの可能性が生み出される。また、共同研究を通して5G、6G、AI・量子コンピューティングなどの新興技術が及ぼす地政学的、経済的、社会的な影響を両国で管理することができる。

オーストラリアにとってのアジアの重要性、そして多文化社会の進展にもかかわらず、国際舞台では伝統にとらわれ、同じ英語圏の同盟国を優先してしまう傾向がある。オーストラリアの企業・政府・社会は、アジアの信頼できて密接な戦略的パートナーである日本より、地球の裏側にあるが親しみがあり、言語や文化的遺産を共有するアメリカとイギリスの方が落ち着くのだ。

このような戦略的バランスは変革されなければならない。

本報告書は、対日関係を再考し、オーストラリアが日本について考える新たな方法と、政官財学と社会を越えて両国関係を深めるために必要な組織や機関を提案する。日豪共同のアジェンダというよりは、オーストラリアの国益と意図を日本に明確に伝えるためのアジェンダを提案するものである。

日本とオーストラリアの戦略的利益は地域およびグローバルなレベル双方で共通点が多い。本報告書が、両国の将来の国益を実現する二国間関係に対する共有ビジョンの構築に向けた、オーストラリアの対日関与の進展を促すことができれば幸いである。

Key recommendations

Comprehensive regional security and strategic cooperation

Key messages

- > The open, multilateral rules-based trading system is as important as the US alliance system to Australia, Japan and the region's prosperity, security and stability. That system is under threat from China's use of raw economic power and overt strategic competition between the United States and China.
- > Open and contestable markets backed by multilateral rules diffuse and constrain economic and political power, helping protect against coercion while creating space and options for all powers in the region.
- > The transition to a stable multipolar regional order will require commitment to comprehensive regional security that integrates national security, economic and environmental sustainability objectives.
- > The central goals of Australia–Japan strategic cooperation will include: keeping the United States entrenched in Asia; shaping the behaviour of China, including through purposeful engagement; and strengthening ASEAN centrality and its guiding principles.

Key recommendations

- > A Joint Australia–Japan Study led by experts should frame the agenda for comprehensive security in the region.
- > Australia should work with Japan to elevate strategic cooperation and lead efforts to strengthen multilateral economic rules and engagement. All regional and plurilateral efforts should be directed to defending and reforming the multilateral system.
- > Australia and Japan should elevate economic cooperation with ASEAN beyond capacity building and technical cooperation towards experience sharing and high-level cooperation on a shared agenda that involves senior official and political engagement. That will help with institution-building in ASEAN and accord proper respect to ASEAN's perceptions of centrality.
- > Working with ASEAN and its Dialogue Partners, Australia and Japan should seek to multilateralise ASEAN's Treaty of Amity and Cooperation principles as core to economic, political and strategic engagement and comprehensive security in the region so that habits of cooperation, mutual respect, equal treatment and sustainability are entrenched.

The opportunity of Japan's energy transition

Key messages

- > Australia is the largest supplier of fossil fuel energy to Japan, one of the world's major energy consumers. The transition to a decarbonised economy can be made easier and cheaper for both Australia and Japan by working together drawing on the established assets in the bilateral relationship: complementarity, a track record of cooperation, and mutual trust.
- > Japanese investments in low emissions technologies, including in clean hydrogen, solar and carbon capture, use and storage and energy storage are underway but will require large investments in infrastructure supported by both governments, close cooperation between government, industry and beyond, and some of the largest investment deals that Japanese companies have ever made.

Key recommendations

- > Launch an Australia–Japan Energy Initiative that brings together government, industry, experts and stakeholders at the highest levels for dialogues with a medium- to long-term agenda that

will help reduce risks, navigate difficulties and help Australian experts, officials and industry stay close to developments in Japan.

- > Initiate a bilateral framework for the trade of carbon credits to accelerate investment in renewables, technology and development of carbon capture use and storage.
- > Lead on regional and global standards and frameworks for the trade of clean energy, starting with green finance and the accounting of natural capital.

Demography, investment and technology

Key messages

- > Japan's ageing and shrinking population presents challenges and opportunities for Australia as it deals with its own demographic challenges. Shared challenges present an opportunity to work collaboratively with Japan, enhancing mutual welfare.
- > Japan is Australia's second largest source of investment but the investment relationship is one-way. Australian companies prefer to invest mostly in English-speaking countries, and Japan is a notoriously closed market. There is potential for cooperation to realise more Australian investment in Japan.

Key recommendations

- > Make joint mental health, dementia and ageing research, including experience sharing in management of those challenges, a priority for collaboration.
- > Initiate a reciprocal health agreement.
- > Australia should designate Japan as a most favoured partner, broadening the traditional definition of the most-favoured nation (MFN) principle to unilaterally consider expanding to Japan equal best treatment in other relationships across all domains.
- > Support institutional arrangements to attract Japanese investment into Australian research given the complementarity of Japanese patient capital and the potential for commercialising world-class Australian research.

Institutional infrastructure

Key messages

- > The connection between Australia and Japan is too narrow and top-heavy and not supported by a broad and deep network of institutional links and understanding befitting the importance of the Japan relationship to Australia.
- > Australia needs to take the initiative in connecting thinking in government, business, academia and other groups for high-level engagement with Japan, better leveraging initiatives outside of government.

Key recommendations

- > The Australian Treasurer and Japanese Finance Minister should meet annually, in addition to the existing 2+2 Foreign and Defence Ministerial Consultations, in an expanded Ministerial Economic Dialogue, together with central bank governors, given the importance of economic policy issues that both countries face in their energy and demographic transitions.
- > The annual Leaders' Meeting between prime ministers and meetings of Foreign, Defence, Trade and Finance Ministers could be constituted as a 5+5 arrangement from time to time as circumstances require, with an annual Senior Economic Officials Meeting to support the Leaders' Summit and ministerial meetings, and coordinate other government meetings across the economic agendas in the G20, G7+, APEC, EAS and Quad.
- > Line departments should initiate annual senior official meetings with their Japanese counterparts to develop a workstream that supports Ministerial Dialogues, including exploring opportunities for regular secondments.

- > Government should connect with and support engagement groups for input into the Leaders' Meeting and Ministerial Dialogues as well as broaden community exchanges with Japan.
- > Initiate Dialogues for Change focused on shared national issues and priorities, such as gender diversity and people flows, through which the two countries can be brought closer together for mutual gain. These Dialogues should be led by non-governmental bodies, but relate effectively to government processes.

Exchanges and getting Australia on the education map

Key messages

- > Australia attracts a large number of Japanese students on high school visits and one-year university exchanges but few for full university degrees either in undergraduate or, importantly, in postgraduate programs.
- > Japanese public servants typically choose to go on training programs to study for masters degrees in second- or third-tier American or British universities instead of in Australia. This is an opportunity for investing in the future relationship that is being wasted.

Key recommendations

- > Elevate the senior official-level High-Level Policy Dialogue on Education with Japan to a minister-level Policy Dialogue on Education, Culture and Sport.
- > Create scholarship support to top Japanese postgraduate students to study in Australia, including internship placement.
- > Create a head-turning effect with the Australian prime minister and other ministers encouraging Japanese students and officials to consider study and training in Australia, with AJRC as a primary facilitator of targeted official exchanges. Target of five officials a year undertaking study in Australia.
- > Revamp exchanges and joint degree programs to facilitate the uptake of continuing educational and professional training in Australia.

Arts and cultural exchange at the centre of Australia–Japan relations

Key messages

- > The arts and culture are an important bridge between Australia and Japan, to build understanding and deepen the relationship.
- > Diminished core arts funding in Australia, combined with a fragmented grants landscape, have made the task of building and sustaining relationships in Japan and Asia more difficult and that must change.
- > Increased funding of cultural exchanges can help strengthen Australia's own cultural institutions.

Key recommendations

- > A significant increase in funding for cultural exchanges that supports sustainable and competitive funding to arts organisations and individuals to build long-term relationships in Japan (and Asia) through collaborative work.
- > Initiate a national review mandated to increase funding for, and to incentivise, cultural exchanges with Japan and Asia through the Australia Council for the Arts or via other institutions. The Australia–Japan Foundation should be charged to spearhead invigorating arts and cultural collaboration with Japan.

Sports diplomacy

Key messages

- > Sport plays a vital role in facilitating closer bonds between Australia and Japan and their peoples, but full complementarity will not be realised without more investment in understanding Japan.
- > Australia and Japan have a rich history of sporting ties and engagement that has continued to expand over the last decade.
- > Government plays an important role in creating and maintaining a broader framework of support for grassroots, amateur and professional or commercial exchanges to flourish.

Key recommendations

- > As part of the Department of Foreign Affairs and Trade's Sports Diplomacy 2030 vision, revisit the 2017 Memorandum of Cooperation between Australia and Japan by initiating a report to document a roadmap to support sports-related exchanges and active engagement of leading sports associations and business leaders.
- > Incentivise closer cooperation and collaboration to showcase Australian sport in Japan and Japanese sport in Australia.
- > Create initiatives to promote and facilitate sports-related exchanges between Australia and Japan at all levels.
- > Invest in cultural translation in all levels of sports on digital platforms and leverage sports diplomacy by engaging with athletes and sporting personalities.
- > Leverage existing sister city connections to promote sporting activities currently in place through the new Ministerial Policy Dialogue on Education, Culture and Sports.

Understanding Japan

Key messages

- > There is a need for generational renewal in Australia's Japan expertise as well as building up a general understanding of Japan's society, its institutions and its place in the world among public servants, businesses and in the community.
- > Australia's prosperity, security and social cohesion depends on an ability to understand and engage its neighbours. Political leadership and sustained bipartisan investment is the only way to build up Japan and Asia literacy in Australia that will endure.

Key recommendations

- > Reciprocate Japanese funding and institutions that create opportunities for Australians to study in Japan and take forward the establishment of a reverse JET program. Australia is not as invested in upskilling its next generation in Japanese language and country knowledge as Japan is, through such initiatives as the JET program and MEXT scholarships.
- > Establish a National Council for Japanese Language Education comprising experts to provide leadership and advocacy for Japanese language education from the primary to tertiary levels.
- > Introduce and reward Japan-related qualifications to build capacity in the public service and the private sector.
- > Extend the New Colombo Plan to include a Postgraduate Stream that can support high impact programs like the National Parliamentary Fellowship Program and Dual Degree Programs.
- > Launch short in-country immersion programs for public servants and political advisors.
- > Better utilise Japan specialists and expertise in various fields external to the public service to help build short-term capacity to enhance working with Japan.

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The report does not intend to cover the entire Australia-Japan relationship, nor can it do justice to the energy, ideas and generosity of all of the many people who put time into it. The hope is that it helps to reimagine the vast potential of Australia's Japan relationship – a relationship in which it is worth investing significantly more.

Shiro Armstrong
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Public submissions and other documents can be found at
<https://ajrc.crawford.anu.edu.au/reimagining-japan-relationship/>

Global fractures and the quest for a new multipolar world order

Australia's prosperity and security face their biggest tests in over three quarters of a century. The world in which Australia built its secure, prosperous and multicultural society has changed fundamentally. Climate change, China's use of its economic power, strategic and economic competition between China and the United States, the impact of new technologies and the global rise in protectionism have all exposed a significant global governance deficit that threatens stability, sustainability and prosperity. The COVID-19 pandemic has exacerbated those developments.

Japan is Australia's closest and most developed partnership in Asia. Australia and Japan have been anchors of stability, openness and prosperity in Asia and the Pacific, and both confront these challenges to the regional order. The uses to which they put their combined diplomatic efforts will be crucial to regional responses to the fractures in the global system.

Australia has made strategic choices in the past 75 years to embrace economic openness and international markets, multilateralism and cooperation built on a post-war security order underpinned by the United States and its global leadership. Australia's supply of strategic raw materials gave Japan, and later China, resource security that was crucial to the transformation of the Asia Pacific economy, and Australia's becoming the country it is today. The multilateral rules-based order has helped Australia, Japan and the wider Asia Pacific to manage the economic and power transitions of the past seven decades. That order now needs a revamp to make it fit for purpose.

The economic growth that has come with globalisation and technological advancement has fundamentally changed the regional and global balance of power. The rise of China as the world's second-largest and soon to be largest economy — already the largest if measured in purchasing power parity terms — poses a major challenge to the established global order. The adjustment pressures on global markets and political and multilateral institutions and systems is unprecedented. China's political system elevates uncertainties about the viability and sustainability of future engagement. Political and military power has followed economic power for China, and the country, to paraphrase the words of Deng Xiaoping, is no longer hiding its power and biding its time.

China is the world's largest trading nation with growing regional and global interests. It is reasonable for China to have its power reflected in international efforts to shape global rules and for it to want to secure its interests in its immediate neighbourhood. But China's assertiveness in international dealings and its use of coercion, particularly in its immediate regional neighbourhood and most blatantly against Australia, has aggravated uncertainties around the nature of its rise. There is now a growing attenuation of trust between China and other powers.

The United States' responses to the rise of China have been varied, and it is grappling for a balance between engagement, competition and containment. In recent years growing fears of the consequences of China's challenge to US economic power has led to a trade war, technological decoupling and strategic competition. Although the rise of Japan in the 1980s was also met with a similar opposing American response, Japan was under the American security umbrella and had a political system that was less unfamiliar.

The rise of protectionism in the United States, driven by an uneven recovery from the global financial crisis in 2008 and domestic socioeconomic disparities, adds to the pressure on the global economy and US allies.

New technologies and innovation in digital and cyber may have lifted productivity dramatically but

they have also led to new challenges that threaten to fragment the global economic order. The lack of agreed-upon multilateral rules have meant that these new sources of growth and productivity have not been equally distributed globally and have become a catalyst to decoupling and the growth of a potential 'digital iron curtain' between the United States and China. The pressure on US allies to decouple technologically from China is growing. Europe is setting its own standards, which are gaining wider appreciation, and the rest of the world is now trying to navigate between the three major blocs.

The multilateralism that helps to restrain and shape the great power settlements is becoming harder to sustain. The rules in the World Trade Organization (WTO) cover a smaller proportion of global commerce as trade in services, the digital economy, and cross-border investment become more important. The established powers have failed to give China and the emerging economies a genuine voice in international institutions like the International Monetary Fund (IMF). Consensus in the G20 is hard to reach, and despite the grouping's ambitions to be the 'steering committee' for the global economy, it has failed the relevance test in addressing the world's greatest health and economic crises in close to a century during the COVID-19 pandemic.

The G7 plus Australia, South Korea and India has emerged as a potential grouping, and the Quadrilateral Security Dialogue (Quad) of Australia, India, Japan and the United States has held a Leaders' Summit, signalling a new era of geopolitical management. Australia and Japan have been two key countries at the forefront of the formation of the Quad.

Global challenges require global solutions – yet the pandemic has exposed governance failures globally, and importantly, the inability of countries to effectively coordinate international responses. Enhanced levels of cooperation will be vital in tackling the big challenges facing the global community in coming decades. Failure to do so will breed instability and conflict in at-risk regions, and drive down living standards in smaller nations marginalised by great power competition. Australia and Japan are two key countries for ideas about how to manage these challenges and for mobilising coalitions for change.

Avoiding the dangers of irreversible and catastrophic climate change is one area of shared existential interest globally. The commitment of Australia, the United States, Europe, Japan, South Korea and others to a net zero greenhouse gas emissions target by 2050, and 2060 for China, make the path clearer. Achieving this goal will require far more international cooperation, management of diverging perceptions on acceptable costs and subsequent material commitments by a greater number of countries than we have so far seen.

Australia can play a pivotal role in building and leading coalitions of countries to revive multilateral cooperation to meet these global challenges. But Australia is not large enough to make the difference on its own – the economic success of Asia and the diffusion of global economic power means that no single country can. But it is influential enough to mobilise collective action. Middle powers such as Australia have a fundamental interest in promoting and enhancing multilateralism, as these platforms and mechanisms represent opportunities to wield greater influence on regional and global events. This kind of influence is something that Australia and other middle powers cannot hope to achieve in a region dominated by great power competition, where might equals right.

Japan's importance to Australia

Japan will be central to Australia's ability to achieve its regional and global ambitions while navigating great power rivalry. As the world's third largest economy, Japan will continue to be a prosperous technological power even as emerging economies overtake its aggregate economic weight in the decades to come. Japan's geostrategic location and shared values and interests with Australia mean it will be more important to Australia as global uncertainties increase.

Australia and Japan have become closer politically and strategically, their relationship built on deep and broad economic ties and dense people to people links. Australia supplies almost two thirds of Japan's key industrial materials and close to one third of its entire energy needs. The two countries share many of the same strategic interests and both are heavily invested in the multilateral rules-based order for their prosperity and security.

Their comprehensive economic and political partnership demonstrates both countries' deep interest in the achievement of an open regional and global multilateral order. This alignment was most recently reflected in Australia's reframing of the region as the Indo-Pacific alongside Japan's 'Free and Open Indo-Pacific' vision as an overarching strategic and economic framework for its foreign policy in the region.

Yet there is a need for new approaches in the Australia-Japan relationship and the foreign policies of both countries more effectively to shape the emerging regional and global order. The economic underpinning of Asian integration is under threat with significant political and security implications for the region and the world. Deeper multilayered engagement between the two countries will be required in future to achieve and sustain their shared vision for the region, and to ensure that their perceptions of this vision do not diverge.

The people-to-people ties and economic relationship cannot be taken for granted and need reinvestment. Political and security cooperation will be constrained and limited by a lack of mutual understanding and an economic relationship in transition away from fossil fuels. The economic relationship and people-to-people ties are not exclusively bilateral, but located in the context of a highly integrated region that importantly includes China and Southeast Asia. There is significant potential for greater depth in the bilateral agenda, particularly for regional rule making and economic integration, that can strengthen political cooperation.

To achieve these ambitions, Australia needs to reimagine its relationship with Japan. Business as usual will not suffice.

A reimagined relationship, in which the partnership with Japan is at the heart of Australia's strategy in Asia, will require broadening and deepening the bases of institutional, commercial and people-to-people links between Australia and Japan upon which the government-to-government relationship rests. It will be built upon a renewed level of intellectual and personal engagement with Japan and Asia on the part of Australians, driven by a reinvigorated Asia literacy agenda led by Australian governments in which knowledge of Japan is a priority focus.

Such a relationship with Japan should not be pursued merely for its own sake, but rather is instrumental for upgraded cooperation with Japan on shared national interests. The challenges to those interests mount amid the tectonic shifts in the global system and call for new approaches in areas of foreign policy collaboration between Japan and Australia.

The next section lays out an ambitious but achievable agenda for the two countries to work together to better shape a newly emerging regional and global order.

Much of the success of the agenda will be conditional upon the wholesale reimagination of the relationship called for in this report – especially through regenerating Japan expertise in Australian institutions. An Australian policy community equipped with a deep understanding of Japanese perspectives on Japan's historical and present role in the region and the interaction between its political system, its economy and its international behaviour will be the *sine qua non* of effective collaboration on the agenda for comprehensive security outlined here.

It is no exaggeration to suggest that to get its strategies in Asia right, Australia needs to get its strategies towards Japan right. Japan is Australia's benchmark relationship in Asia: adversaries in the Pacific War, the commitment to engagement after the war and far-sighted strategic leadership in both countries has led to a pivotal relationship of trust, closeness and shared destiny.

Capitalising on these intangible assets to achieve concrete outcomes from strategic cooperation will require establishing new frameworks and infrastructure to respond to new challenges – among them more intense dialogue between senior political officials, more extensive institutionalisation of ties between bureaucracies, and greater coordination of advocacy within multilateral fora.

Comprehensive regional security and strategic cooperation

Key messages

- > The open, multilateral rules-based trading system is as important as the US alliance system to Australia, Japan and the region's prosperity, security and stability. That system is under threat from China's use of raw economic power and overt strategic competition between the United States and China.
- > Open and contestable markets backed by multilateral rules diffuse and constrain economic and political power, helping protect against coercion while creating space and options for all powers in the region.
- > The transition to a stable multipolar regional order will require commitment to comprehensive regional security that integrates national security, economic and environmental sustainability objectives.
- > The central goals of Australia–Japan strategic cooperation will include: keeping the United States entrenched in Asia; shaping the behaviour of China, including through purposeful engagement; and strengthening ASEAN centrality and its guiding principles.

Key recommendations

- > A Joint Australia–Japan Study led by experts should frame the agenda for comprehensive security in the region.
- > Australia should work with Japan to elevate strategic cooperation and lead efforts to strengthen multilateral economic rules and engagement. All regional and plurilateral efforts should be directed to defending and reforming the multilateral system.
- > Australia and Japan should elevate economic cooperation with ASEAN beyond capacity building and technical cooperation towards experience sharing and high-level cooperation on a shared agenda that involves senior official and political engagement. That will help with institution-building in ASEAN and accord proper respect to ASEAN's perceptions of centrality.
- > Working with ASEAN and its Dialogue Partners, Australia and Japan should seek to multilateralise ASEAN's Treaty of Amity and Cooperation principles as core to economic, political and strategic engagement and comprehensive security in the region so that habits of cooperation, mutual respect, equal treatment and sustainability are entrenched.

The global fractures that have further opened because of the coronavirus pandemic, US–China strategic competition, the advance of new technologies, rising protectionism and environmental challenges are correlated and feed off each other. The most important global geopolitical, economic and security fault lines are in Australia and Japan's own backyard.

Australia and Japan's region encompasses East Asia, the Asia Pacific and the Indo-Pacific. The Indo-Pacific framing matters strategically; economically, East Asia and the trans-Pacific relationships are the principal theatres for action. At the centre of the region, geographically and institutionally, is ASEAN.

Australia, Japan and the region face the reality of a rising and more assertive China and an increasingly inward-looking United States that no longer commands economic or political primacy in Asia. With China and the United States locked into strategic competition, the problems of pandemic recovery, responding to climate change, developing new rules for new technologies and global governance are all much harder. Deepening US–China strategic competition will make the region less secure with the potential for conflict higher. A new Cold War between the United States and

China would bring about and entrench a poorer and less secure regional neighbourhood.

Australia and Japan have reaffirmed their Special Strategic Partnership to achieve a free, open, inclusive, resilient and prosperous Indo-Pacific which builds on decades of cooperation and regional order building. That means avoiding a new Cold War. And it means keeping a vision of an open, market-based, dynamic and cooperative region as the source of prosperity and security.

For both countries the question of China is critical. China's economy is large and important for Australian and Japanese prosperity and economic security. China is the largest bilateral trading partner of both Australia and Japan and also the largest trading partner of all countries in East Asia except Laos (where it is second behind Thailand) and Brunei. China is a major growth engine of the global economy and even if its growth suddenly stopped, it would take close to a quarter of a century, at 8 per cent annual growth for India, the next largest emerging economy, to catch up.

China's trade integration with regional partners is seen as a vulnerability by some, but open and contestable markets secured by enforceable multilateral rules constrain Chinese power. Open and contestable markets significantly blunt the effect of intervening in markets for political or economic gain by providing alternative markets and suppliers. Multilateral rules constrain the ability of governments to intervene in markets for political or rent seeking reasons, and help avoid adjustment costs.

The US alliance framework remains the bedrock of Australian, Japanese and regional security and stability. US alliances with Australia and with Japan, and its bases in Japan, its joint facilities in Australia and now the Australia-United Kingdom-United States (AUKUS) trilateral agreement lock the United States into defence of the Western Pacific. It is through economic engagement that Australia and Japan need to entrench US interests in Asia where US policies have been less supportive of the global rules-based system on which both countries and the region rely.

The US alliance system and the multilateral order have been the two key pillars of Australia's security and prosperity in the post-war era. These two pillars have been even more important for Japan given its heavier reliance on the United States for security, its proximity to China and North Korea, its 'peace constitution' and its rapid economic rise relying on open markets for economic integration with neighbouring countries with which it shares unresolved historical issues, regional rivalry and political tensions.

The multilateral economic system is now under threat. The United States led and underpinned the multilateral economic order from the end of World War II right through the early 21st century. But the 'America First' agenda under President Trump, and the 'foreign policy for the middle class' agenda under President Biden, are emblematic of structural economic challenges and shifts in political undercurrents in the United States in the long aftermath of the 2008 financial crisis. An increasingly inward-looking United States is no longer able or willing to play the role of principal guarantor for the multilateral trading system as it has in the past.

Many US and global concerns about China's trade practices and its membership in the WTO stem from the lack of rules in new areas of commerce and its learning to use the system to its advantage, rather than significant Chinese transgressions of existing rules. China has betrayed global trade norms and the spirit of multilateral trade rules with its recent politicised trade sanctions against Australia, earlier sanctions against South Korea and restrictions on rare earths exports to Japan in the early 2010s. But as the world's largest trading nation, China continues to have a large stake in the existing rules-based order. And it is this rules-based order that provides the mechanism by which Australia and others can, and have, defended themselves against unilateral politically motivated action by China.

The United States and China have not walked away from their fundamental commitment to the WTO despite its problems. Both want to shape it to their own national purposes.

Japan is the world's third largest economy, but does not have the economic, political or military power to alter the status quo in the region or globally as China or the United States each can. Although Australia and Japan are members of the G20 and Australia now looks likely to attend the G7+ alongside Japan more frequently, they are middle powers in strategic terms. They are, however, large enough to mobilise and lead coalitions of countries to shape regional and global governance. They have done so in the past, as demonstrated by the creation of APEC and in saving the Trans-Pacific Partnership (TPP) and transforming it into the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) after the US withdrawal from the deal.

No single country will dominate the region surrounding Australia and Japan given the presence of the United States, China, emerging India and Indonesia and an economically powerful Japan. US engagement in Asia will remain important. A multipolar Asia, founded on the principles of equal treatment and diffused economic and political power, is the best chance of stability and peace.

The transition towards a multipolar regional and global order requires a new diplomatic strategy from both countries. Regional structures and institutions that protect and project multilateralism provide the best and most realistic chance at achieving that. ASEAN embodies those principles of multilateralism and multipolarity.

For a free, open, inclusive, resilient and prosperous region, Australia shares a strong interest with Japan to lead coalitions to:

- > Keep the United States anchored in the Western Pacific militarily and economically.
- > Shape Chinese behaviour by pushing back against aggression, but on the premise of deep economic engagement.
- > Enmesh both the United States and China in new multilateral rules that secure open and contestable markets.
- > Lead cooperation with the United States and China on the transformation of energy markets to address the threat from man-made climate change.
- > Help strengthen ASEAN through cooperation and institution building, ensuring that it remains resilient, open, inclusive and prosperous.
- > Defend and reform the multilateral economic system and the economic and political security it provides by diffusing and constraining both economic and political power.
- > Use multilateral rules and cooperation to ensure countries retain policy options and strategic policy space.
- > Influence the development and deployment of critical and emerging technologies that support prosperity, stability and openness.

Australia can engage Japan in strategic cooperation to change the nature of US–China strategic competition and avoid harmful decoupling, malign competition and a new Cold War.

Towards comprehensive security

Strengthening the multilateral order to create space for China, the United States and other large rising countries in South and Southeast Asia is a priority for Australia and Japan as they continue to cooperate to ensure the United States remains committed to the region to help constrain Chinese assertiveness.

The economic architecture in East Asia and across the Pacific is rich and overlapping, and has been built up over decades. Habits of cooperation and consensus building have been entrenched, although they are challenged by distrust of a rising and more assertive China and US–China strategic competition. Security across the Indo-Pacific is underpinned by the US alliance framework and now new cooperation arrangements like the Quad and AUKUS. Importantly, ASEAN is still the centre of regional cooperation but the connections between the economic and security domains are under-leveraged, given the intersection between them and the uncertain international environment.

A comprehensive regional security framework is based upon economic interdependence, multilateralism and contestable markets that diffuse power, and emphasises security cooperation and the primacy of peaceful resolution of differences.² It transcends zero-sum balances of power through multipolarity in favour of positive-sum engagement, and blunts the use of economic tools for malign intentions through open, contestable markets backed up by domestic and international rules and institutions that secure them. No one country, however big, ought to dominate the Asia Pacific or Indo-Pacific and multilateral principles can set terms of engagement that help to constrain the exercise of raw political power.

The Treaty of Amity and Cooperation (TAC) in Southeast Asia, signed at the First ASEAN Summit on 24 February 1976, provides a template for principles in relations between countries beyond ASEAN and their dialogue partners. Australia and Japan have signed onto these principles in their partnerships with ASEAN and should promote the fundamental principles of the TAC with ASEAN for broader multilateral adoption in the region. They include:

- > Mutual respect for the independence, sovereignty, equality, territorial integrity, and national identity of all nations;
- > The right of every State to lead its national existence free from external interference, subversion, or coercion;
- > Non-interference in the internal affairs of one another;
- > Settlement of differences or disputes by peaceful manner;
- > Renunciation of the threat or use of force; and
- > Effective cooperation among themselves.

A comprehensive security arrangement that affirms commitment to multilateral economic rules and sign-on to TAC principles will help secure a free, open, inclusive, prosperous and politically stable region. This frames a vision for the region in which Australia and Japan must shape their future that references the principles of crucial importance to prosperity and security. The bilateral understandings between ASEAN and its dialogue partners provide one concrete starting point for delivering on that vision.

Seeking regional multilateralisation of TAC over time will entrench habits of cooperation, mutual respect, equal treatment and sustainability. Established regional and global arrangements encompass different dimensions of those principles and they need to be strengthened over time and entrenched. TAC principles are core to economic, political and strategic engagement and comprehensive security in the region. That must encompass strong undertakings on sustainability. A multilateralised TAC would be a game-changing geopolitical initiative of the same kind that the signing of the Atlantic Charter was in 1941.

To help realise that vision, a bilateral agenda on which Australia can engage with Japan would include:

- > Deepening security cooperation so that Japan becomes a default security partner, elevating intelligence sharing and expanding security networks.
- > The diversification of strategic partnerships and minilateral arrangements.
- > Leading the development and cooperation of economic security policies that maintain open economic policy options and avoid retreat to restrictions.
- > A regional initiative to lead rule making for the digital economy and standard setting.
- > Making supply chains resilient and markets contestable to maintain openness and prosperity.
- > Entrenching ASEAN centrality and unity and strengthening ASEAN through deep engagement in priority areas of recovery from COVID-19 and pandemic preparedness, infrastructure investment, building maritime capacity and strengthening regional financial safety nets.

² The idea of comprehensive security has its antecedents in policy thinking in Japan around the Prime Ministership of Ōhira Masayoshi in the late 1970s.

A Joint Australia–Japan Study led by experts would help frame and develop that agenda. It would be important to undertake the necessary Track 1.5 and Track 2 discussions across the region to develop and socialise the agenda with partners for buy-in and eventual sign-on. The Australia–Japan Research Centre is ideally placed to provide the infrastructure for this study.

Security cooperation

Australia is Japan's closest security partner after the United States. A Reciprocal Access Agreement (RAA), which will enable both countries' defence forces smoother and more timely access to operate in the other country, has been agreed in principle and is close to finalisation.

The bilateral 2+2 Foreign and Defence Ministerial Consultations undergird the Special Strategic Partnership led by both prime ministers. Tokyo and Canberra have strengthened their strategic partnerships not only bilaterally, but in the Trilateral Strategic Dialogue (TSD) with the United States and have also expanded their strategic cooperation with India and the United States by energising the Quad. The rise of China and how it is using its growing military and economic influence in the region has pushed closer security and economic ties between these regional powers. It has expanded the regional maritime strategic frame from the Asia Pacific to the Indo-Pacific.

But anxieties about China's rise capture only a part of a more complex and comprehensive strategic partnership between Australia and Japan. The two countries have a long history of cooperation to promote a free, transparent, inclusive and rules-based international order in the Asia Pacific. Australia–Japan cooperation also includes building, shaping and strengthening rules and regional architecture for managing economic interdependence and governance; enhancing international legal frameworks for nuclear non-proliferation and disarmament; and coping with non-traditional security threats like terrorism, natural disasters and piracy.

The US military presence remains important in Asia at a time when Chinese power and influence continue to grow. Australia and Japan can supplement the role of the United States, their most important security partner, by continuing to enhance interoperability between the defence forces, intelligence sharing, joint military training and exercises, regional capacity building and defence equipment cooperation. Cooperation in the cyber and space domains is increasingly important as both countries focus on multi-domain and cross-domain operations. Establishing joint contingency planning with the United States would be a next step for Australia–Japan defence and security cooperation. Such forms of cooperation between Australia and Japan have become increasingly important in ensuring the US commitment in the context of increased burden sharing expectations of security costs in the Indo-Pacific for US partners, a trend that was highlighted by the Trump administration but has been ongoing since the Obama era.

Australia has agreed to deepen its defence cooperation with the United States and United Kingdom through AUKUS, including in defence equipment cooperation with the planned acquisition of nuclear-powered submarines. Although it involves highly sensitive issues, AUKUS makes it all the more important to elevate and standardise Japan as a default security partner. Both Australia and Japan are developing capabilities in parallel and there are significant opportunities for cross-pollination. Indeed, Australia will have a greater 'radius of action' with its enhanced power projection capabilities, creating more opportunities for Japan and Australia to work together in the broader Indo-Pacific region.

Intelligence sharing is another area where the relationship needs to be elevated and normalised, including in economic intelligence. Japan does not need to join the Five Eyes intelligence sharing network (of Australia, Canada, New Zealand, the United Kingdom and the United States) in order to deepen its intelligence sharing with Australia to a level of equivalent trust and function. Australia and Japan have already concluded a bilateral Information Security Agreement, but this is in need of an update in light of rapidly evolving regional dynamics. Australia's Office of National Intelligence

(ONI) has analysts posted to London and Washington but not to Tokyo. For such a close strategic partner in the region with a deepening strategic relationship, the lack of ONI and Department of Home Affairs postings to Japan are major gaps that can be easily rectified.

Australia can work with Japan to diversify strategic partnerships across the region. Strengthening security partnerships with two growing regional powers – India and Indonesia – can share the burden of ensuring security. Strengthening ‘minilateral’ partnerships with India and Indonesia can diversify their strategic options. South Korea will also be an important partner in regional order building. Australia should avoid getting involved in the messy and complex bilateral spat between Japan and South Korea and instead seek to engage in South Korea’s ‘New Southern policy’. Broadening the regional framework for cooperation could help Japan and South Korea to work on shared strategic interests within a larger group of countries.

India, Indonesia and South Korea are all G20 members, with Indonesia assuming the presidency of the grouping in 2022, followed by India in 2023. India and South Korea now sit alongside Australia as invitees to the G7+, vastly expanding Asian representation beyond Japan at the club of rich industrialised powers. None of these three countries can afford to engage in decoupling from the Chinese economy, which will remain important for their development, prosperity and security.

At a time when great power competition looks set to intensify, regional order-building is a priority for Australia and Japan. Security cooperation is one aspect of a regional order and a crucial element in military deterrence, but it will be seen as zero-sum by China and others and can be the source of conflict if not coupled with positive-sum economic engagement.

Existing multilateral institutions, such as East Asia Summit (EAS) and the ASEAN Defence Ministers’ Meeting Plus (ADMM plus), can be revitalised and reshaped to more effectively relate to other forums, especially those that have a strong economic agenda like APEC and other ASEAN centred groupings like the Regional Comprehensive Economic Partnership (RCEP) agreement. Overlapping memberships and agendas that are better connected in these forums can promote a more inclusive regional security architecture centred on ASEAN.

Managing security risks in economic exchange

A major issue for bilateral cooperation between Australia and Japan is the entanglement of economics and national security. Trade and investment have never been separate from national security considerations but the uncertain economic environment caused by how China is using its economic power, US–China strategic competition, outdated multilateral rules and new technologies have blurred boundaries between economics and security and elevated risk in economic exchange. Economic coercion, supply chain resilience, critical minerals and critical technology are all part of the strategic and security agenda that Australia and Japan confront, which was reflected in dialogue at the summit meeting between Prime Minister Morrison and former prime minister Suga in 2020, and the 2+2 Foreign and Defence Ministerial Consultations meeting in June 2021.

Japan has been proactive in responding to the new uncertainties, establishing the new post of economic security minister in October 2021 under Prime Minister Kishida. That follows the introduction of economic security divisions within ministries and the National Security Secretariat in the *kantei* (the Prime Minister’s Office). The Japanese policy measures that have been deployed thus far include restrictions on foreign investment, export controls and subsidies to secure supply chains. They are aimed at preventing critical technologies from ending up with potential adversaries like North Korea, Russia and especially China. The fear of being collateral damage in China–US technology decoupling is another motivating factor of these Japanese initiatives, with fears of US sanctions for sharing technology with China.

Australia has also moved to a more restrictive foreign investment regime, limited research collaboration with Chinese researchers, and introduced measures to restrict foreign interference. These measures have been driven by distrust of China. Chinese trade coercion against Australia has exacerbated the issue and brought urgency to the need for stronger and enforceable trade rules.

These 'economic security' issues are a shared agenda between Australia and Japan but also represent a regional and multilateral challenge. Australia and Japan can move beyond restrictive and defensive measures against China by engaging in and building up multilateral processes. Restricting Chinese investment into Australia and Japan means it will flow elsewhere; limiting collaborative research with China, now a major source of innovation, is likely to be welfare-reducing over an increasingly wide range of industrial and commercial activities; and retreating from the Chinese market even as the United States and the rest of the world increases trade with China is not sustainable.

The main defence against security risks from economic exchange are domestic laws and institutions and multilateral rules and institutions. The current restrictions on Chinese investment, joint research, and other exchange work to mitigate the risk but do so by cutting off mutually beneficial economic, research and other engagement. Australia and Japan both have a role to play in defining the frameworks to think through policies that mitigate risks while keeping markets open for non-defence-specific technology, skills, goods and services.

The Bretton Woods multilateral order, which was set up to avoid economic blocs and great power strategic competition among those that signed onto its rules, is under threat. The principles and aims of the multilateral trading system are being undermined by efforts to manage trade outside the boundaries of that system, or to use trade as an instrument to coerce political and diplomatic outcomes. The United States and China's Phase One deal, itself an outcome of a tariff war, seeks to engineer bilateral trade balances at the expense of the competitive and rules-based markets that ought to determine such outcomes. China's trade coercion of Australia is another sign of the limits and weakness of the current system, although the effects on Australia have been blunted by the system keeping markets open elsewhere. The United States under former president Donald Trump used trade coercion against China, but also against allies, including coercing Japan into a trade deal under the threat of auto tariffs. US tariffs against China continue under President Biden. US-China strategic competition has significant negative spillover to other countries such as Australia and other competitors in international commodity markets but more importantly undermines the global multilateral trade rules.

Enforceable multilateral rules around foreign investment and digital and cyber would mitigate some of the risks both countries face. The issue of Chinese restrictions on rare earth metal exports to Japan in 2010 was resolved in Japan's favour by the WTO in 2015: stronger rules that limit restrictions on critical minerals that are enforced without long delays would bring confidence back to that market. The task of strengthening the multilateral trading system is a long-term endeavour that requires strategic action now.

Regional economic cooperation towards multilateral system reform

As core members of the CPTPP, Australia and Japan have an immediate opportunity to engage with China in testing its commitment to new multilateral rules and reforms that entrench the market and constrain non-market behaviour. CPTPP membership offers the chance to take up key issues at the centre of global trade reform with China from the driver's seat. Each of the 11 members have a veto on new membership. China's trade coercion against Australia should be resolved as part of the accession process, not used to stymie this strategic opportunity. Australia and Japan can lead on engaging China and Taiwan in the CPTPP as a step forward along the path towards a Free Trade Area of the Asia Pacific (FTAAP), which was previously championed by the United States and later by Beijing in APEC, where Taiwan is a member economy. There is a real strategic advantage

to Australia and Japan of having China commit – and be held accountable for its commitments – under the CPTPP, with new rules and disciplines on state-owned enterprises, the digital economy and intellectual property.

Strategic cooperation by Australia and Japan should direct regional and ‘minilateral’ economic efforts towards strengthening the multilateral trading system. The multilateral trading system and the WTO – however weakened it might be – is the centre of the international rules-based order, and the rules and principle of equal or most-favoured nation treatment helps to protect against the abuse of economic and political power. It is an external protector of Australia’s and Japan’s economic strength and a source of resilience. For Australia and other small and middle powers, the multilateral trading system – and the rules that underpin it – are critical to maintaining strategic policy space and sovereignty.

East Asia’s RCEP agreement, the world’s largest economic agreement except for the WTO itself, already locks China into East Asian markets and new rules. The single rule of origin provision in RCEP will facilitate the development of more efficient supply chains within the grouping. Arrangements in Southeast Asia and the Asia Pacific, such as ASEAN and APEC, have in the past involved voluntary, non-binding agreements, but RCEP now legally binds new market opening and rules. Perhaps the most prospective aspect of the agreement is the economic cooperation agenda that will include capacity building, technical cooperation and experience sharing. Australia, together with Japan, can help shape that cooperation framework to tackle reforms in member economies behind the border and deepen economic and political cooperation. That will transform RCEP into a real living agreement and help make the regional economy more resilient. It also opens a pathway to bring in other potential partners – like India, Taiwan and other economies in South Asia – into dialogue and economic cooperation around shared agendas.

Australia and Japan share a strong interest in facilitating and encouraging US economic engagement in Asia that is multilateral in character. The Chinese interest in joining the CPTPP may pressure the United States towards a more proactive trade and economic policy agenda in Asia, although that cannot be relied upon in the short term. The US preference will likely be to engage in rule making and frameworks with like-minded countries and deal with China bilaterally. Such an approach risks damaging multilateralism and is contrary to the shared interests of both Australia and Japan. Where possible, Australia and Japan should create the space in APEC, the G20 and other multilateral forums for US engagement that helps it address specific concerns it has with China. Where that is not possible, Australia and Japan should avoid creating exclusive rules or arrangements. Agreements and arrangements should be made extendable to other countries, like the CPTPP is. In another example, Japan used the MOU for an Australia–Japan–US Trilateral Partnership for Infrastructure Investment in the Indo-Pacific as a template for infrastructure cooperation with China.

The vexed issues of global governance reform – the WTO, IMF, World Bank and other institutions and rules – are fraught and progress will be slow, but they are the top strategic priority that should focus and guide all Australia’s international policy efforts, including with Japan. Japan shares that strategic interest in an open rules-based economic system and can be Australia’s most important ally in the tough diplomacy that will be needed to achieve it over time.

The WTO needs to be strengthened and its rules updated in ways that make it more relevant to the pressing issues of 21st century international commerce. Australia, China, the European Union and two dozen other countries have signed up to an interim arbitration arrangement with the Appellate Body of the WTO dispute settlement system, which has been made unworkable by the United States’ refusal to support the appointment of new judges of the Body so it can achieve a quorum and adjudicate on trade disputes. Australia should strongly lobby Japan to join the interim agreement while working with other countries to revive the WTO’s core rule enforcement mechanism.

Outdated WTO rules have not kept up with international commerce, with the most glaring gap being the lack of digital economy and data protection disciplines. An e-commerce plurilateral agreement is a start but the best progress is being made in smaller agreements like Australia's Digital Economy Agreement (DEA) with Singapore. The US–Japan Trade Agreement, the CPTPP, and RCEP have introduced a varied range of digital and data rules. What is needed is a joint effort by Australia and Japan in digital economy rule making from the bottom up with agreements like the DEA, which are guided by multilateral principles, as Japan's Data Free Flow with Trust (DFFT) from the Osaka Track of the G20 Summit provided. DFFT was a significant first step that achieved sign-on by both the United States and China.

Both Japan's 2021 Cybersecurity Strategy and Australia's 2020 Cyber Strategy stress the importance of greater international engagement in order to strengthen the rule of law and responsible state behaviour in cyberspace.

For Australia and Japan, the end goal needs to be multilateral rules where none currently exist. As with WTO rules for trade in goods, a multilateral digital economy framework that serves to mitigate risk, while promoting digital trade growth, would allow governments to set their own national policies. They could also retain sovereignty under multilateral rules that limit discrimination, promote transparency and predictability, and constrain governments from protectionist policies. Common rules and standards would be guided by multilateral principles – avoiding a lowest common denominator approach – by building trust across different sovereign systems through technical and economic cooperation.³ Regional and global forums like APEC and the G20 are useful forums for governments to work through what the issues are and solutions may look like, and to build political commitment and pragmatic steps that are a path to global action and reform.

Australia and Japan share a strong interest in rule-making and norm setting in outer space, which has been increasingly militarised due to great power competition. Japan and Australia, for example, can work together to contribute to the establishment of an International Code of Conduct for Outer Space Activities and jointly work in the United Nations Committee on the Peaceful Uses of Outer Space to promote the mitigation of space debris, space application programs, capacity building and long-term sustainability of outer space. Much of the competition in international forums and new domains is in standard setting where close cooperation between Australia and Japan has already been a powerful tool.

Global reform will likely be galvanised by the urgent need to establish green and inclusive investments and growth to address climate change and interrelated social, economic, and security risks. Australia and Japan can lead on standards for natural capital accounting and green finance that can facilitate the energy transition in both countries. An agenda for managing the transition to a low-carbon economy is explained in Box 2 Getting markets right: natural capital accounting and finance.

Risks throughout this process will be significant, both in terms of the volatility in financial systems through the energy transition, as well as human security risks as natural capital continues to deteriorate, increasing the risk of zoonotic diseases, mass migration and conflict. Global efforts to address these issues will involve competition and contestation, as well as cooperation, as is evident in global climate negotiations. These are risks and opportunities that can be managed in Australia's national interest, with Japan as a partner and starting in the region.

³ Armstrong, et al. (2021)

Supply chain and trade resilience

Japan is a driving force in international supply chains with Japanese multinational enterprises and even small and medium sized enterprises heavily invested globally. Japan is the world's largest creditor with the net balance of external assets globally of US\$3.4 trillion and total external assets of US\$10.4 trillion in 2019. A high proportion of Japanese manufacturing output is produced offshore, over 40 per cent in the case of the electronics sector. Those investments abroad bring returns to Japanese companies, individual investors and the Japanese government that cannot be found in a large but slow-growth domestic market that faces demographic headwinds.

Australia of course supplies into those networks and relies heavily on them, like the rest of the world, for imports of everything from consumer electronic goods to medicines and critical technology. The COVID-19 pandemic exposed the vulnerability of supply chains, with initial disruptions to supply of personal protective equipment and medical supplies as Chinese factories and suppliers went into lockdown. It was also a reminder of how interconnected economies are. Interruptions to semiconductor production, a shipping blockage in the Suez Canal, and other disruptions along supply chain bottlenecks have been shown to have profound effects on complex supply networks downstream. They affect access to parts, components and inputs to strategically important production, as well as health and economic outcomes.

Measures to improve supply chain resilience have included subsidies for onshoring or 'ally-shoring' production. These measures have visibility and hold nationalist political appeal. But onshoring can actually concentrate risk and raise costs. Supply chains that are concentrated onshore are more vulnerable to other kinds of shocks. A natural disaster or home-grown crisis can wipe out whole industries – as did Japan's Great Tohoku earthquake in 2011. The OECD has calculated the costs and benefits of a general global retreat from cross-border supply chains, and found that onshoring production would make Australia substantially poorer – reducing GDP by around 9 per cent – and also increase the volatility of GDP growth.⁴

The best insurance against economic shock, disaster, flood, drought or crop failure in one part of the world is openness to supply from producers all around the world. The key is to manage supply chain risk in the same way that companies diversify risk by spreading investments, procurement and production across different locations.

Supply chain resilience will mostly have to be achieved with China, not from China, except for a few select areas to do with defence technology. Extricating supply chains from China is already difficult given its complex interdependence in the international economy, but it will become increasingly so as the Chinese economy grows and the rules of origin provision in the RCEP agreement deepens regional supply chains for all of Australia's regional trade partners. Supply chain resilience is a shared interest with China that Australia and Japan can engage on through regional processes like APEC and RCEP's cooperation agenda. Having more contestable markets with China and East Asia will broaden options for companies. Developing digital infrastructure and creating international regulatory coherence in digital trade protocols will enhance visibility across supply chains beyond immediate tier one suppliers and help identify vulnerabilities. That is an agenda on which Australia and Japan can lead. Regional data privacy standards, tax and other incentives to share data will encourage the use of digital supply networks. Incentives and regulatory coherence can bring more legibility to complex supply chains and help with identifying bottlenecks, choke points and security risks.

More extensive opening up of the Indian economy to Asian and global supply chains could be a large boost to supply chains and global growth given the potential of the Indian economy. With Chinese labour costs increasing, foreign investors are searching for new low-cost production bases. Bangladesh, Vietnam and others have benefited but India is yet to grasp the opportunity by opening up to foreign investment and trade. Prime Minister Narendra Modi's last minute withdrawal

⁴ OECD (2021)

from RCEP was a major blow to the prospects of the Indian economy and the RCEP grouping, but Australia and Japan need to actively engage Delhi on the possibility of Indian participation. Japanese investment in India is significant and growing and Australia is looking to conclude a trade agreement with India in 2022. But serious commitment by India to open up to international capital and international competition is still elusive. Australia and Japan can work together with India to open up its economy bilaterally, trilaterally, through the Quad, and in courting India into RCEP.

ASEAN centrality in regional comprehensive security

ASEAN is and will remain central to an open, inclusive and prosperous region. It has convening power in the East Asia Summit and, for example, in April 2020 led by Indonesia, ASEAN convened an ASEAN+3 Special Summit which brought leaders from China, Japan, South Korea and ASEAN member states together to coordinate responses to the COVID-19 outbreak. Its principles of multilateralism and multipolarity helped define its ASEAN Outlook on the Indo-Pacific (AOIP), which emphasised an inclusive region with economic integration complementing the maritime and other security elements of conceptions of the Indo-Pacific from Canberra, Tokyo and Washington. The incorporation of AOIP into the East Asia Summit process had Australia, Japan, the United States and importantly China sign on to the idea. A similar reliance on ASEAN as a platform for member countries to engage productively with China can be seen in Indonesia's role in the conception and leadership in negotiation of RCEP.

Australia and Japan acknowledge the importance of ASEAN, its centrality and AOIP. That rhetoric needs to be translated into concrete action. Connecting and aligning Australia and Japan's bilateral priorities on economic resilience, economic security and national security to regional order building centred on ASEAN requires elevating the importance of ASEAN and working more closely with ASEAN.

The agenda for the Quad includes the provision of regional public goods and economic cooperation focused on ASEAN. The recognition of ASEAN's centrality has moved the Quad away from an agenda focused solely on regional security issues, generally dominated by China.

Australia can learn from and work with Japan in deepening its engagement with ASEAN. Japan is ASEAN's largest source of foreign investment, having had the Japanese government and private sector make significant and lasting commitments over decades. Japan has invested in Southeast Asian expertise, with networks and knowledge on the ground that far exceed that of Australia. It is not surprising, therefore, that Japan is seen as the most trusted partner for ASEAN member states: 67.1 per cent of respondents in the ISEAS-Yusof Ishak Institute's 2021 survey of Southeast Asian opinion say they trust Japan, compared to 51 per cent for the European Union, 48.3 per cent for the United States, 19.8 per cent for India and 16.5 per cent for China.⁵ Japan takes ASEAN seriously and Australia can work more closely with Japan in ASEAN.

To achieve an open, inclusive and prosperous region, Australia and Japan can engage ASEAN in reforms and international cooperation on ASEAN's terms. Such an agenda will require close economic cooperation well beyond capacity building and technical cooperation. Recognising the importance of ASEAN and its achievements requires closer cooperation built on experience sharing.

Open, contestable markets in ASEAN will help to make Southeast Asia more resilient. Markets are most vulnerable and susceptible to foreign interference when they are uncompetitive and poorly governed. Contestable markets raise the costs of intervention, dilute economic leverage and thwart the exercise of market power. More competition among telecommunication suppliers, digital platforms and supply of critical minerals all reduce risks by shifting risks from societies and governments to market actors. Contestable markets, in short, constrain economic and political power.

Australia's experience with capacity building in competition policy in Southeast Asia through the ASEAN–Australia–New Zealand Free Trade Agreement (AANZFTA) is not widely recognised but

⁵ ASEAN Studies Centre at ISEAS-Yusof Ishak Institute (2021)

makes a long-term difference. That agenda needs to be elevated in bilateral and regional processes like RCEP and involve closer cooperation. Cyber security and digital economy governance is another area of particular focus, discussed above. Other areas of close cooperation that need to go well beyond capacity building are COVID-19 recovery and health cooperation, the regional financial safety net, infrastructure investment and enhancing maritime capacity, each of which is discussed below.

Recovery from COVID-19 and preparing for the next pandemic

The COVID-19 pandemic reminded us of the importance of health security as a foundation of stability and prosperity. To enhance regional preparedness for future pandemics, and to encourage emergency response measures, Japan and Australia should improve their cooperation and coordination in health security. Beyond the Quad agenda and regional efforts, Australia and Japan can initiate bilateral initiatives that include synergy between Japan's Basic Design for Peace and Health, approved by the Headquarters for Healthcare Policy in 2015, and Australia's Health Security Initiative for the Indo-Pacific region, launched by the Department of Foreign Affairs and Trade in 2017. Australia can help ensure the effective establishment of the ASEAN Centre for Public Health Emergencies and Emerging Diseases, which is being financially supported by Japan. This should include the placement and exchange of experts and officials in both directions to promote better coordination.

Australia and Japan should further enhance their partnership for capacity-building in the South Pacific. Japan's regional capacity building efforts have now expanded beyond Southeast Asia to include Central Asia, South Asia and the South Pacific. Australian efforts in the South Pacific and Southeast Asia can be better coordinated with Japan.

The regional financial safety net

Japan plays a lead role alongside China in the multilateralised Chiang Mai Initiative (CMIM) currency swap lines in the ASEAN+3 grouping. Australia has played an important role in extending bilateral currency swaps to countries in the region and provided an A\$1.5 billion loan to Indonesia during the pandemic. The CMIM has yet to be utilised during a crisis but is an important complement to the global financial safety net anchored by the IMF. Australia should actively work with the CMIM's ASEAN+3 Macroeconomic Research Office (AMRO) that provides the region with important economic surveillance and analysis. Without having to officially join the CMIM, Australia can become a de facto partner in putting in place a stronger regional financial safety net and becoming more central to regional discussions.

China is becoming an increasingly important source of finance for currency swaps, investment and loans. The more that Australia can work with Japan to engage China in regional and multilateral processes, the more Chinese power will be diluted and the more its capital will be put to productive use for regional purposes. Deepening engagement in the CMIM is one channel. Australia's membership of the Asian Infrastructure Investment Bank and Japanese joint infrastructure with China to shape the Belt and Road Initiative from the outside are two others.

Infrastructure investment

A resilient and open ASEAN will require development and prosperity. There are large-scale infrastructure needs across developing Asia and the Pacific Islands. Australia, Japan and the United States initiated the Blue Dot Network which provides a globally recognised evaluation and certification system that helps draw attention to bankable projects for private capital, thereby mitigating economic and political risk for all parties. Australia and Japan are also part of the G7+ initiative on Build Back Better World (B3W) and strengthening the Asian Development Bank (ADB).

But the bald reality is that many governments in Southeast Asia will continue to welcome Chinese infrastructure investment as a major source even with a successful Blue Dot Network, B3W and

more capable ADB given the development imperative. Moreover, Australia's direct contribution to funding infrastructure investment in the region will be limited due to its relatively smaller economy. The Australian government, and Australian private capital, cannot outspend China. Japan is a major source of capital and has its own priorities and agenda, but it deploys government institutions and interventions that Australia can help shape. The support of the US government and private sector will remain important, but China is likely to become a more important player than it already is.

Australia's strength is in its institutions, capacity to manage large-scale projects, and ability to mobilise coalitions to strengthen governance and regulatory arrangements. The most effective strategy for Australia in shaping infrastructure outcomes in terms of both quality and structure in Southeast Asia and the South Pacific will be to contribute to strengthening regimes for the scrutiny and management in the region.

Japan will be a key partner in working with ASEAN on this program of engagement. Japan has successfully led high-quality infrastructure standards through its hosting of the G7 (Ise-shima) and later G20 (Osaka) summits, with Chinese sign-on, including by changing the language and approach used at the second Belt and Road Summit. Japan is also involved in 54 joint infrastructure projects with China in Southeast Asia and other countries that are committed to Japanese and international best practice – not necessarily always to Australia's commercial benefit. These joint infrastructure projects are a way to build Chinese capacity and elevate standards, something that is of interest to all parties involved.

Enhancing maritime domain awareness

Enhancing Maritime Domain Awareness (MDA) capabilities of maritime or island nations in Southeast Asia and the Pacific are essential for their independence and resilience. Such cooperation would help to strengthen independent capabilities to tackle illegal, unreported and unregulated fishing, drug trafficking or other maritime-related crimes. This is yet another area of significant complementarities between Australia and Japan. Japan could, for example, provide satellite images from its Advanced Land Observing Satellite-2 (ALOS-2) to the Pacific Fusion Centre established in Vanuatu with the support of the Australian government in 2020. Australia and Japan should elevate cooperation in international frameworks, such as the ARF Workshop on International Cooperation on Maritime Domain Awareness, and in enhancing connectivity between the Pacific Fusion Centre and Southeast Asia's Information Fusion Centre based in Singapore, to promote international collaboration for MDA.

Cyber security and critical technologies

Capacity building and technical cooperation in ASEAN on cyber security and the management of critical and emerging technologies could be elevated to experience sharing. Many Southeast Asian countries will be looking for ways to manage and balance the security risks and economic benefits of new technologies and avoid being caught up in US-China technology decoupling. Singapore may be the most advanced economy in managing those risks in Southeast Asia, continuing to attract investment from large Chinese tech companies and maintain close security relations with the United States.

Australia and Japan are already engaged in regional rule making and standard setting in telecommunications technologies, AI and new technologies. Deeper engagement with ASEAN as a whole and individual countries through ASEAN process will strengthen those rule-making efforts and help further cybersecurity and resilience in Southeast Asia.

Japan as a partner

An ambitious regional agenda to move towards comprehensive regional security cannot be achieved alone. Australia's best and most realistic chance of success is to work together with other countries, and none are more important in this respect than Japan. Japan is Australia's most trusted regional partner given the shared interests and accumulated cooperation over decades, and the two countries have a track record of joint leadership in regional affairs.

For Australia to continue to work effectively with Japan on this regional agenda, it needs to better understand Japan and get closer to Japan. That is the enabling agenda outlined later in this report.

Without better understanding Japan, Australia will not grasp key differences between the two countries. For example, both have different geographical priorities. Despite its Free and Open Indo-Pacific vision, Japan is highly focused on stability in Northeast Asia, especially on the Korean Peninsula and in the East China Sea. Although Australia shares a declared interest in peace in the East China Sea, South China Sea and Taiwan Strait, its immediate strategic interests are in maritime Southeast Asia, the South Pacific and the North Eastern Indian Ocean. If the regional strategic outlook deteriorates significantly, the geographic focus of each country will likely shift to their immediate neighbourhoods. It is important to acknowledge these different strategic priorities, as it will help to establish an appropriate division of labour in regional responsibilities in accordance with geographic priorities and comparative advantages.

Australia needs to protect its interests in any grand bargains between China and the United States, or even China and Japan. Realignment between China and the United States (or Japan) would have a much larger effect on Australia than the Phase One trade deal between China and the United States, which moved the two largest economies towards managed trade, diverted trade from countries like Australia, and was a step away from multilateralism. Major powers rarely consider the spillovers of their actions on smaller powers – even if they are allies.

Australia and Japan also have differences to manage in their perception of and relationships with China. Japan is increasingly concerned with China's maritime and air activities in the region surrounding Japanese territory but has managed a pragmatic relationship with China after earlier tensions in the mid 2000s and early 2010s. This was evident when former prime minister Shinzo Abe visited China in October 2018 and agreed to move Japan–China relations 'from competition to cooperation'.

There are also divergences to manage in the understanding of the 'Free and Open Indo-Pacific' (FOIP) concept between Australia, Japan and the United States. There are tensions between an approach that strengthens the rules-based order while avoiding containment and marginalisation – which is generally favoured by Australia and Japan – and one focused on military balancing that the United States pursues. The tensions are apparent in the Quad: while the inclusive and multilateral nature of FOIP is expressed in the group's provision of regional public goods, it nonetheless started as, and largely maintains, a 'minilateral' and exclusive nature.

Finally, Japan and Australia have significant differences to manage in their modern military culture and capacities. Unlike Australia, which has sent troops to almost every war or conflict led by the United States, Japan still has significant constraints on the use of force by its Self-Defense Forces (SDF). Despite the introduction of new security legislation in 2015, the SDF can exercise the right of collective self-defence only when Japan's life, liberty and happiness are jeopardised. The complexity of the legal constraints on Japanese defence policy, as well as Japan's slow decision making, has the potential to cause confusion, misunderstanding or frustration between policymakers in the two countries.

The regional comprehensive security framework should be built step by step as the first pillar of an organising framework of engagement in the future Australia–Japan relationship. A second pillar is to deepen the bilateral and multilateral cooperation in positioning for a renewable energy future, and the energy and demographic transitions that Japan now has to manage.

The bilateral transition agenda

The Australia–Japan economic relationship is deep, broad and mature. It has been developed by and is led by market forces within a framework of open, rules-based multilateral trade to which both governments are committed. Regional arrangements like APEC and bilateral treaties have over many decades strengthened that commitment to openness and helped facilitate deeper integration.

The quest for regional comprehensive security would reduce uncertainties that are on the rise. The bilateral economic relationship is nested in a deeply integrated regional economy and cannot be extricated from the complex regional supply chains of which it is a part. Yet there is a bilateral agenda that can strengthen the economic relationship, supported by the people-to-people links and close collaboration, that can continue to serve as ballast in the region and its transformation to a low carbon economy.

The bilateral economic relationship between Australia and Japan will change fundamentally in the coming decades. The two large transitions underway in both countries – energy and demographics – must frame the cooperation agenda over the next quarter-century. This defines the second pillar of engagement suggested in this report. Foreign investment and closer cooperation on R&D and technology can facilitate the joint transition agendas.

The opportunity of Japan's energy transition

Key messages

- > Australia is the largest supplier of fossil fuel energy to Japan, one of the world's major energy consumers. The transition to a decarbonised economy can be made easier and cheaper for both Australia and Japan by working together, drawing on the established assets in the bilateral relationship: complementarity, a track record of cooperation, and mutual trust.
- > Japanese investments in low emissions technologies, including in clean hydrogen, solar and carbon capture, use and storage and energy storage are underway but will require large investments in infrastructure supported by both governments, close cooperation between government, industry and beyond, and some of the largest investment deals that Japanese companies have ever made.

Key recommendations

- > Launch an Australia–Japan Energy Initiative that brings together government, industry, experts and stakeholders at the highest levels for dialogues with a medium to long-term agenda that will help reduce risks, navigate difficulties and help Australian experts, officials and industry stay close to developments in Japan.
- > Initiate a bilateral framework for the trade of carbon credits to accelerate investment in renewables, technology and development of carbon capture use and storage.
- > Lead on regional and global standards and frameworks for the trade of clean energy, starting with green finance and the accounting of natural capital.

Japan is the world's fifth largest energy user. Without endowments of natural resources, Japan has relied on the international market for its energy needs, with approximately 90 per cent of its energy imported in recent years. In 2020 Japan was the world's fifth largest oil consumer, fourth largest crude oil importer, the largest importer of liquefied natural gas (LNG) by volume and third largest importer of coal (behind China and India).⁶ Over the past decade, it has become relatively less reliant on oil and more reliant on coal and natural gas.⁷ Nuclear energy has fallen from supplying around a quarter of the country's energy needs before the Fukushima disaster in 2011, to less than 5 per cent in 2020. Nuclear power is unlikely to account for much more in Japan's energy mix going forward given public opposition and the cost of meeting new safety standards, and the falling costs of renewable energy in the years since Fukushima.⁸

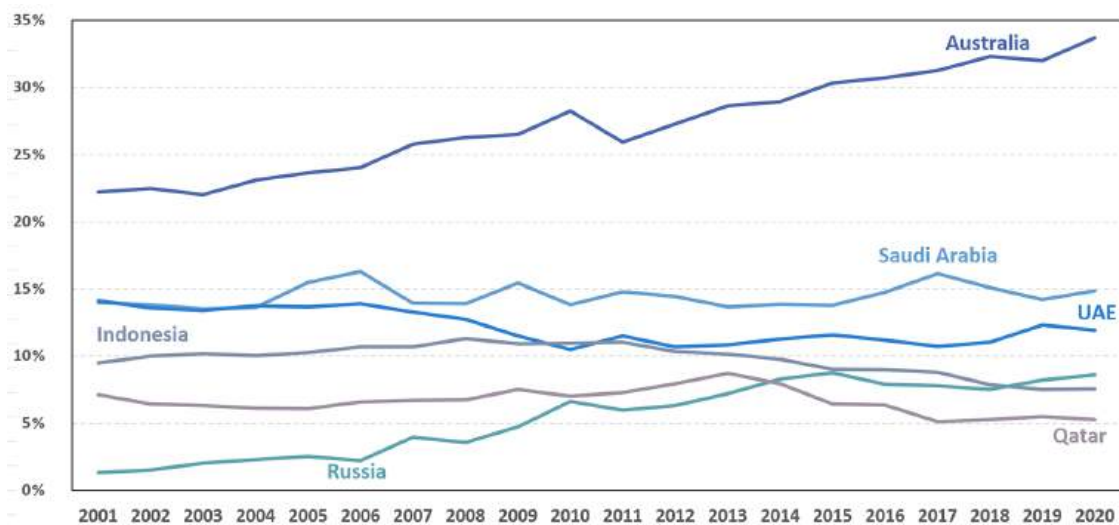
Australia has become Japan's largest energy supplier, accounting for 34 per cent of Japan's total energy imports (in gigajoules) in 2020 (see Figure 1). Australia is endowed with vast natural resources and has been a reliable, stable and secure supplier of energy and strategic raw materials for Japan for well over half a century. Australia supplies close to two thirds of Japan's resource imports such as iron ore and is by far its largest single source of strategic raw materials. The relationship has been driven by both countries' commitment to open international markets and their leadership and investment in building bilateral cooperation in the context of strong mutual trade interdependence.

Together, Australia and Japan now share the challenge of rapidly decarbonising their economies and working to benefit economically from the low carbon energy transition that is occurring globally as countries and companies accelerate work to limit the risk of catastrophic climate change.

⁶ US Energy Information Administration (2021)

⁷ International Energy Agency (2021)

⁸ Japanese government estimates have the cost of solar generation in 2030 as low as 8 yen per kWh which is lower than their estimates for nuclear power generation. METI estimates nuclear power will be costlier than solar, wind and LNG in 2030.

Figure 1 Share of Japan's total energy imports (gigajoules)

Source: Calculated based on Trade Statistics of Japan, MOF, Japan; UN Comtrade, UNSD; BP Statistical Review of World Energy, June 2020, BP.

The resource and energy complementarity between the two countries helped fuel Japanese industrialisation and gave it economic security, while contributing to prosperity in Australia. That complementarity will change dramatically, and at an accelerating rate, as Japan transitions to net zero emissions by 2050 and both Australia and Japan decarbonise their economies.

A new complementarity will not be realised through market forces alone. Large-scale national investment in infrastructure in both countries is a prerequisite. An elevation of leadership, investment in both capital and human networks by government and industry from both countries and close cooperation will be needed to transform the bilateral energy relationship. Anything short of that is likely to frustrate the energy transition in both countries and see the withering of energy as one of the main pillars of the bilateral economic relationship.

Together, the two countries helped to pioneer LNG production and trade in the Asia Pacific region, a market that has grown to the value of hundreds of billions of dollars. LNG will continue to be important during the transition to low-emissions energy and provide baseload electricity in Japan.

With major economies including the United States, Europe, United Kingdom and South Korea committing to net zero emissions by 2050 and China by 2060, the global energy transition is underway. Australia and Japan can make their own transitions easier and cheaper by working together drawing on the established assets in the bilateral relationship: complementarity, a track record of cooperation, and mutual trust.

The energy relationship between Australia and Japan needs to be completely reimagined. To decarbonise both economies and reach net zero emissions by 2050, the energy relationship will look completely different from the past where Australia overwhelmingly shipped sources of energy to Japan. Instead, it may be cheaper and cleaner to produce intermediate or final goods in Australia and export the embedded energy to Japan and beyond. The energy trade needs to be reconceptualised. The agenda below suggests some mechanisms, like a carbon credit trade, to make that happen.

Japan is the second largest source of direct foreign investment in Australia as at the end of 2020 and just over one-third of that has been directed to the energy and resources sector.

Japanese investment has been diversifying into financial services, insurance, food and beverage, infrastructure, technology and other sectors but the growth is likely to be dominated by new energy sources if the cooperative framework outlined here is achieved.

The first steps in the bilateral cooperation and investment needed for a new partnership in clean energy have been taken. Energy cooperation is a central agenda in the annual Australia–Japan Ministerial Economic Dialogue and the two countries have committed to a Memorandum of Cooperation (MoC) on carbon recycling from 2019, a Joint Statement on Cooperation on Hydrogen and Fuel Cells, and a 2021 partnership on decarbonisation through technology. The 2019 Japan–Australia Energy and Resources Dialogue (JAERD) is a building block for engagement. But much more needs to be done.

Australia and Japan need to lead on international standards and the development of regional and global frameworks for the trade in new sources of energy. For energy security, Japan will need more than one supplier and Australian industry will need more than one customer given the investment and scale that will be needed. That suggests a regional agenda for Australia and Japan.

The policy framework and accelerating change in Japan

A sense of urgency in Japan about the energy transition has given rise to new frameworks to hasten and manage it. In October 2020 then prime minister Yoshihide Suga announced that Japan would aim to achieve net zero greenhouse gas emissions by 2050, increasing and accelerating Japan's ambition substantially. In April 2021, the Suga administration announced that by 2030 Japan would reduce economy-wide emissions by 46 per cent relative to 2013. Japan's previous commitment to near-term decarbonisation was 26 per cent by 2030 relative to 2013, so the new level of ambition in a short period of time has important implications for Japan's energy mix and the types of energy resources it imports, as well as the renewable sources it is starting in earnest to create. Ambitious near-term decarbonisation implies rapid electrification of many parts of Japan's economy, along with the decarbonisation of Japan's electricity sector. Japan is also committed to deploying increasing amounts of hydrogen and its associated vectors that allow transfer of energy in space and time.

This new and ambitious agenda is set out in Japan's 2021 Basic Energy Strategy. The Japanese cabinet is required to review Japan's basic policy settings in the energy sector every three years. The government is modelling different pathways to net zero emissions by mid-century in order to understand what might be the least cost pathways to decarbonisation.

Japan has already had significant success in deploying increasing capacity in renewable energy. Electricity generated from renewable energy – centred on solar photovoltaics – has grown substantially since the introduction of a feed-in-tariff in 2012. Japan is now committed to developing 1000 MW of offshore wind power each year between now and 2030, leading to 10 GW under development by 2030 and 30 to 45 GW under development by 2040. It is likely that the pace of offshore wind power development will increase, in order to help Japan meet its new decarbonisation targets and utilising the significant wind resources Japan has along one of the world's longest national coastlines.

Crucially, Japan is also implementing a series of changes to the electricity market to enable the higher penetration of renewable electricity at scale. Central to the initiatives is the development of a national grid plan, which develops scenarios for renewable electricity deployment around the country, and considers what investments are needed. The structure of the existing electricity network in Japan is an impediment to increased renewable electricity deployment. Japan's electricity market was divided into nine vertically integrated regional monopoly utilities (excluding Okinawa) prior to liberalisation of the sector. Investments are being made to strengthen the connections between regions of the former monopoly electricity utilities, efforts are underway to enable renewable electricity capacity to be deployed to supply power to major population centres in the Kanto and Kansai regions, and regulatory changes are being introduced to encourage the

utilities to include more renewable assets in their portfolios. The government and auto companies are also increasing their ambition for decarbonisation of the transport sector.

Hydrogen and ammonia

Japan and Australia have identified hydrogen and ammonia as a potentially large opportunity for decarbonising energy use. This subject was discussed by Prime Minister Morrison and former prime minister Suga in their November 2020 meeting. Japan released a national hydrogen strategy in 2017, and has led debate on the development of a global market for hydrogen and ammonia.

Similarly, Australia released its national hydrogen strategy in 2019, which has been followed by many state governments adopting policies and strategies to encourage the growth of the hydrogen economy.

International partnerships are central to the vision outlined in both Japan's and Australia's hydrogen strategies. In particular, Japan's hydrogen strategy includes the near-term goal of the government developing hydrogen supply chains with international partners, including Australia.

However, there is uncertainty about the pace of industry growth, the competitiveness of hydrogen and ammonia relative to other clean energy sources, how quickly deployment is likely to occur within Japan, and what an increase in market share for hydrogen will mean for imports. Hydrogen may not be competitive compared to direct electrification for many end uses, but will likely be an important part of the energy mix as Japan moves towards a decarbonised economy.

Apart from uncertainty about Japanese demand, a key question is how to account properly for the embedded emissions associated with different production technologies for hydrogen and associated carrier products (including ammonia), and how to ensure that any standards and certification schemes that are developed enable differentiation between these different production technologies. Japan identifies international standards as a key strategic area in which it should lead. As an example of this, the Green Ammonia Consortium has begun the work of identifying how different levels of embedded carbon emissions in ammonia should be accounted for internationally.

Australia is potentially a hydrogen superpower and Japan potentially one of the world's largest importers. With Australia providing a major source of hydrogen to Japan and the global energy market, Australia and Japan share a strong interest in regional and international standard setting.

Japanese investment in hydrogen in Australia

Japanese investment in hydrogen development and production in Australia has started and looks to grow. From 2018, we have seen a number of projects, including:

- > The A\$500 million Hydrogen Energy Supply Chain (HESC) pilot project to produce hydrogen from brown coal in the Latrobe Valley led by Kawasaki Heavy Industries.
- > Mitsubishi Heavy Industries' investment in Hydrogen Utility Pty Ltd (H2U), which has been developing green hydrogen and ammonia projects using renewable power sources in South Australia.
- > ITOCHU Corporation's MOU with Dalrymple Bay Infrastructure, Brookfield and North Queensland Bulk Ports Corporation to develop a hydrogen export facility at the Port of Hay Point in Queensland.
- > Kawasaki Heavy Industries' partnership with Origin Energy on a 300-megawatt electrolyser in Townsville in far north Queensland.
- > Iwatani Corporation forming a consortium with the Queensland Government-owned Stanwell Corporation to progress planning on a new renewable hydrogen export facility in Gladstone, which will also enable the project to move towards a bankable feasibility study and front-end engineering design.
- > Sumitomo Corporation's front-end engineering and design contract with JGC Holdings for a

- green hydrogen project in Gladstone, Australia, with a view to starting production in 2023.
- > IHI Corporation's MOU with the Queensland Government-owned CS Energy to undertake a feasibility assessment of a renewable hydrogen plant next to CS Energy's coal-fired Kogan Creek Power Station.
- > JERA and Yara International's MOU to develop a blue ammonia production plant.
- > Inpex and FEnEx CRC's partnership agreement to support studies on new hydrogen energy and export to market.
- > ITOCHU Corporation's MOU with Australian Future Energy Pty Ltd to develop the \$1 billion Gladstone Energy and Ammonia Project.
- > Mitsui O.S.K. Lines and Origin Energy's collaboration to explore how Australian green ammonia projects could supply downstream markets.
- > Sumitomo Corporation and Rio Tinto's partnership to study the construction of a hydrogen pilot plant at Rio's Yarwun alumina refinery in Gladstone, which will explore the use of hydrogen at the refinery.
- > Eneos and Origin Energy's joint exploration project into potential green hydrogen supply from Australia to Japan.
- > Mitsui's collaboration with Japan Oils, Gas and Metals National Corporation and Wesfarmers to explore the development of a supply chain of low carbon ammonia from blue hydrogen.

But the production and transport of hydrogen from Australia to Japan at a scale able to assist Japan's energy transition will not be easy or without risk and cost. It will not be economically efficient for Australia to export small amounts of hydrogen, and there is a massive early mover disadvantage – the cost of infrastructure will mean upfront investments for companies that others can then freeride off. A constant stream of tankers shipping hydrogen and other carrier products to Japan will be necessary – and the huge fixed costs involved will mean governments on both sides will need to underwrite infrastructure at both ends of the trade.

The development of the LNG trade between Australia and Japan is a relevant precedent. The establishment of this critically important industry involved large investments in infrastructure that were supported by both governments, accompanied by close cooperation between government, industry and beyond, and involving some of the largest investment deals that Japanese companies have ever made. Complementarity, rational foresight, leadership, risk-taking and trust were necessary, as they are now for the next phase of the Australia–Japan energy relationship.

To realise the potential of the Australia–Japan hydrogen trade a government-to-government agreement will be needed to get risk sharing right between the two countries and between government and the private sector. The upfront costs and the risks involved can be mitigated by the trust and interdependence between countries. For this reason Australia's best potential partner in developing and exporting hydrogen is Japan. The Japan–Australia Energy and Resources Dialogue and other bilateral initiatives and agreements will need to be complemented and supported by purposeful Track 2 and Track 1.5 processes that involve a mix of official and other stakeholders across industry, science, education, community and government.

Renewables integration in competitive electricity markets

Australia has seen renewable electricity deployment soar. In 2020 renewable electricity represented 24 per cent of total electricity generated, up from 21 per cent the previous year. The 2020 Integrated System Plan (ISP) released by the Australian Energy Market Operator (AEMO) identified an opportunity for an additional 26GW of variable renewable energy resources by 2040, in order to replace 63 per cent of Australia's coal fired electricity generation that is planned for retirement. The ISP also notes that between 6 and 19GW of additional dispatchable resources will be needed, including technology such as battery storage, and demand response. Australia's transition to decarbonised electricity sources has been considerably more rapid than expected due not only

to the rapid growth of comparatively low cost renewable generation, but also the earlier than expected exit of major coal fired electricity generation.

Government intervention such as the federal Renewable Energy Target scheme and various state-based feed-in tariff and grant programs initially sponsored the growth of renewable generation. More recently, however, renewable generation projects have been largely able to stand on their own two feet in Australia's competitive electricity markets. The focus of government support for the electricity market has instead moved to aspects of the energy system that are needed to support renewables. These include grant funding, direct investment and enhanced regulatory regimes in relation to upgraded electricity networks, large-scale battery systems and reliable sources of generation such as pumped hydro.

In the case of Japan the government has made significant progress in developing a competitive electricity market by transforming its regulated utility model for electric power. However, it is still in the process of building key components of the electricity market, including the rules around curtailment of electricity, and how to structure markets that provide balancing and other services. Both countries also have regionalised grids that lead to capacity constraints between them, the material adverse impact of which was vividly exposed in Japan following the Fukushima disaster.

Sharing of experience, regulatory and technical capacity could help accelerate and manage renewable energy integration into electricity markets.

Box 1 Trading carbon credit units with Japan

The time is right for a long anticipated and explored bilateral agreement to facilitate the trade of carbon credit units between Australia and Japan. Net zero emissions means that some companies and industries in Japan will still have gross positive emissions that they will need to offset efficiently and cheaply. Japan is already purchasing carbon offsets in some developing countries but an agreement with Australia would be a game changer for both countries.

Sales of carbon credits to Japanese companies will accelerate investment in renewables, technology and development of carbon capture use and storage in Australia, particularly when also driven by investment from Japan. Australia's comparative advantage is driven by its endowments (land, sun and wind) and institutions (legal, regulatory and accounting capacity).

The sale of carbon offset credits to Japan will mean Australia has to do more to reach its Paris climate agreement targets and net zero emissions targets. But the revenue stream from Japan will help to incentivise the development of carbon capture use and storage (CCUS), new technologies and will facilitate and accelerate the technology driven transition. The trade will, in the context of the rapidly developing decarbonisation platforms, accelerate investment and technology adoption.

The most efficient way forward of a regional or multilateral carbon credit trading system is unlikely to be possible with difficulty in negotiating across different policy frameworks in different jurisdictions. But the multilateral framework of the Paris agreement will facilitate bilateral or subregional carbon credit trading relationships that are consistent with global cooperative efforts. Other agreements may also follow for Australia if an agreement with Japan can be reached.

A shared and complementary agenda

Cooperation on the development and trade in new energy sources and a bilateral trade in carbon credit units can be complemented with a range of measures to facilitate decarbonising the Australian and Japanese economies.

Electrification of transport

Japanese automotive companies have been pioneers in low carbon personal vehicles, and the government is developing more ambitious plans for further decarbonisation of the transport sector which will additionally incentivise industry players in the local market. Japan is behind China and the United States in electric car production, having bet on hydrogen. The electrification of transport in Australia is still nascent, although Australia has an important role to play as a supplier of critical minerals that support battery development.

Energy efficiency

Japan is a world leader in the innovation and production of energy efficiency technologies and is committed to further improving the efficiency of energy use as a key platform within its decarbonisation strategy. Australia has much to benefit from the knowledge which has accrued in Japan in order to help decarbonise its own economy as efficiently as possible.

Carbon capture use and storage (CCUS)

Japan and Australia are committed to managing existing emissions of carbon dioxide through the use of CCUS technologies. In 2019 the Australian federal government and the Japanese government signed an agreement to examine opportunities to explore what Japan calls carbon recycling, with the Japan–Australia Energy and Resources Dialogue playing a role and moving cooperation forward. This remains a highly innovative but as yet early stage area of potential growth that can contribute to the shared agenda in energy transition. Carbon waste can be a resource with commercial applications and an important part of achieving lower emissions in Australia. The potential uses include permanent storage in concrete and building materials, the production of fertilisers and in food refrigeration and transportation. The capture, transportation and use of carbon dioxide in various sectors is under study by industry, government and research bodies and will attract significant R&D. Japan should be seen as a leading partner.

Modelling decarbonisation pathways

A key capability to assist policymakers in charting a path forward for low carbon energy transition, including understanding the implications for trade and investment bilaterally, and regionally, is the use of modelling capabilities. Japan and Australia have an opportunity to develop deeper sectoral and economy-wide capabilities in the modelling of least cost decarbonisation pathways, as a way of helping to understand appropriate policy settings that might support a rapid decarbonisation of energy systems in both countries.

Global leadership in standard setting

The competition for setting new energy, infrastructure, accounting and trade standards and protocols is fierce and has commercial, economic and strategic implications. Australia and Japan already coordinate on some international standard setting bodies such as the International Telecommunication Union, International Organisation for Standardisation, and International Electrotechnical Commission, but much of that cooperation and coordination could be better institutionalised with dialogues and structures created between both countries that involve industry, academia and government. With Australia as a major supplier to regional and global energy markets and Japan one of the world's most technologically advanced and largest importers, both countries have the ability to influence the setting of regional and global standards.

The problem of Japanese nuclear waste

Japan has a nuclear waste storage problem. The waste from the Fukushima nuclear reactors is scheduled for release into the Pacific Ocean. The cost – both financially and politically – of storing nuclear waste is extremely high in Japan. Sitting on major geological fault lines, it is one of the least geologically stable regions in the world. The water management costs in Fukushima are more than 100 billion yen (A\$1.2 billion) a year and the final disposal site of Fukushima's nuclear waste will cost 3.9 trillion yen (A\$46.8 billion) to build in Japan. A reprocessing site in Aomori is estimated to cost 19 trillion yen over 40 years (A\$228 billion). Japanese policies governing the export of nuclear waste are under active consideration.⁹ The issue could become a topic of discussion between Australia and Japan over the longer term.

An Australia–Japan Energy Initiative (AJEI)

These big strategic issues that face Australia's energy future with Japan recommend lifting bilateral stakeholder and policy dialogue on them to the highest level. The Japan–Australia Energy and Resources Dialogue (JAERD) established in 2019 provides a useful building block through which to engage in Japan's energy transition. At the working level the two governments should create a bilateral body to map out the energy transition.

Such a dialogue could build on the model of the German–Japanese Energy Transition Council. That bilateral council commenced its work in 2016, drawing on government, industry and academic expertise. Since then, it has mapped out a process for developing joint strategies across a broad range of shared issues such as renewables integration, digitalisation, energy efficiency in buildings, sector coupling in transportation, and long-term scenario and review mechanisms for energy transition.

Hydrogen, whether green or blue, is promising for decarbonisation but is far from a sure bet to replace fossil fuels on the scale that is required. A process like AJEI that includes tracks for specialist dialogues will help reduce risks, navigate difficulties and help Australian experts, officials and industry stay close to developments in Japan.

AJEI would have a medium to long-term view, help institutionalise and support the existing dialogues and cooperation mechanisms, involve significant experience and information sharing and focus on issues of mutual interest.

The benefits of such an initiative are threefold.

First, there is a broad agenda that already exists between Australia and Japan in terms of the low carbon energy transition. In addition, there is already joint work occurring in some of these areas. AJEI would enable a stocktake to occur to understand the areas, and the organisations, across both the public and private sectors, that are engaged in working together to support the low carbon energy transition.

Second, the creation of AJEI would help to nurture and sustain new relationships between stakeholders in Australia and Japan that are fully reflective of the opportunities that exist in the shift to a low carbon energy economy. By creating a platform for key people-to-people connections, AJEI would help in developing these key relationships to drive further economic opportunities between the two countries. In doing so, it will also build on existing bilateral relationships to help to identify further potential areas of future mutual benefit to be explored.

Third, AJEI would provide the opportunity for joint learning. Australia for example, has longer experience with the deployment of renewable electricity within competitive electricity markets, while Japan, conversely, has deep expertise in the development and deployment of electric vehicles,

⁹ METI Agency for Natural Resources and Energy (2021)

including in vehicle-to-grid technologies. Both countries are also confronting a common set of issues, such as the deployment of demand response, digitalisation in the energy sector, and the use of large-scale battery systems and helping manage variable energy resource deployment.

The regional energy agenda

Australia and Japan should lead on regional and global standards and frameworks for the trade of clean energy. Australia will be a major future source and Japan a major future importer of clean energy. Leading the development of regional energy institutions is a priority for bilateral cooperation.

Japan will need more than one source to ensure energy security and for Australia to make the investments necessary to become a renewable energy superpower it will need more than one customer, as large as Japan is. There will be significant economies of scale and getting the standards and frameworks right will make the energy transition cheaper and more effective.

Box 2 Getting markets right: natural capital accounting and green finance

Decarbonising the Australian economy, making Australia a major renewable and low carbon energy producer, and preserving Australia's biodiversity and environment will be facilitated with market forces. Being able to measure and price natural capital will be key. Currently the markets for environmental and natural capital are missing.

Natural capital is an essential input into all economic activities. But as environmental degradation and the consequences of climate change attest, it is rarely properly valued. Natural capital is the breathable air, drinkable water, tolerable temperatures, healthy land and the complex ecosystems that maintain them.

Work is underway to map some of Australia's natural assets but it will be needed on a national and then international scale to make a fundamental difference. Natural capital accounting would add an understanding and value of the stock of environmental wealth so that its value is not only realised in national accounts when it is 'used' in production. A tree's value is currently only captured in GDP statistics when it is cut down for use. Undervaluing the role that natural capital plays in economic activities underestimates the risks from environmental damage to growth and human welfare.

The advanced economies have put natural capital accounting on the global agenda at the G7 meeting in the United Kingdom in 2021. Australia can and should lead on this work given its biodiversity and environmental assets.

Financial markets are already revealing the importance of environmental sustainability. The evidence is that borrowers that have good environmental credentials perform better with lower probability of default. What is lacking are well-functioning markets that price in broader social and economic benefits. Current financial markets do not reward sustainable practices – better land management, environmental protections and reduced carbon emissions – that have a high return to society.

Environmentally friendly loans are safer than those that are not environmentally friendly, but they are underpriced and undersupplied because of the lack of financial rules and standards. Banks are not holding or issuing enough green debt, resulting in less sustainable investment. In a well-functioning market where the broader social and economic benefits are properly

priced, environmentally friendly borrowers would get lower interest rates and those assets can be securitised and packaged in green bonds.

Australia and Japan can lead in regional and global standard setting. There is a significant interest in natural capital accounting among the advanced economies and China. The global financial market rules can shape markets and the value of assets of which Australia has an abundance. Environmental, Social and Governance (ESG) investing is entrenched in Japan.

Shaping global markets, rules and institutions where there is national strength and there are implications for the transformation of economies into the foreseeable future is where Australia and Japan should cooperate to lead global change. Measuring the stock of natural assets – through accounting for natural capital and its proper valuation – and pricing them into markets is a major priority. That will make the transition to a net zero emissions economy much cheaper and faster.

Demography, investment and technology

Key messages

- > Japan's ageing and shrinking population presents challenges and opportunities for Australia as it deals with its own demographic challenges. Shared challenges present an opportunity to work collaboratively with Japan, enhancing mutual welfare.
- > Japan is Australia's second largest source of investment but the investment relationship is one-way. Australian companies prefer to invest mostly in English-speaking countries, and Japan is a notoriously closed market. There is potential for cooperation to realise more Australian investment in Japan.

Key recommendations

- > Make joint mental health, dementia and ageing research, including experience sharing in management of those challenges, a priority for collaboration.
- > Initiate a reciprocal health agreement.
- > Australia should designate Japan as a *most favoured partner*, broadening the traditional definition of the most-favoured nation (MFN) principle to unilaterally consider expanding to Japan equal best treatment in other relationships across all domains.
- > Support institutional arrangements to attract Japanese investment into Australian research given the complementarity of Japanese patient capital and the potential for commercialising world-class Australian research.

Japan's demographic transition

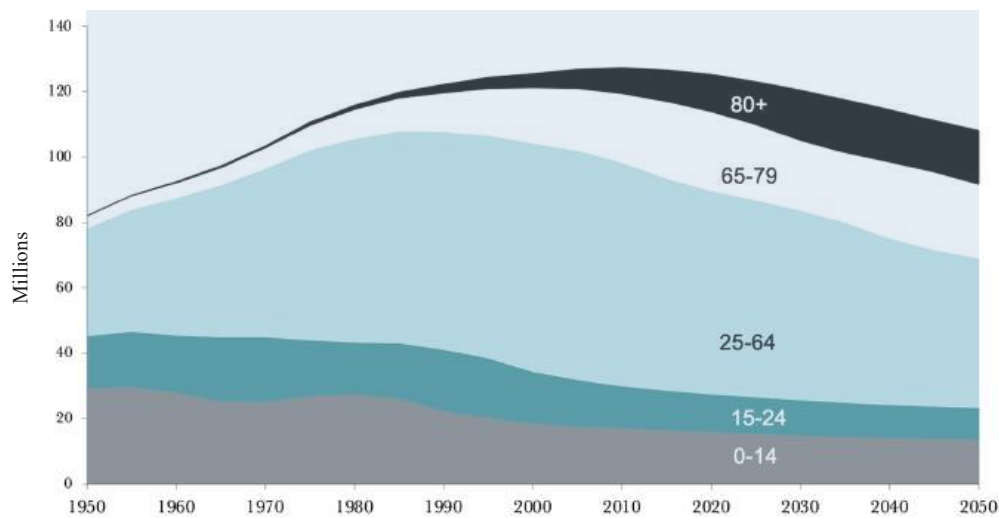
Japan is leading the world in population decline and the ageing of its society. Japan's working age population peaked in 1998 and its population peaked in 2008. The share of the population aged over 65 is now 28.7 per cent and it is expected to account for a third of the population by 2036. How Japan manages this unprecedented demographic transition will matter for Japan, other countries that are experiencing population ageing and Japan's partners like Australia.

Japan is a super-aged society. Productivity growth will be essential to maintain living standards with a declining workforce. Government budgets will have to sustainably support larger burdens from pensions, aged care and healthcare. These trends have major social, economic and political implications for intergenerational equity.

Japan has capabilities that will help it to deal with these challenges. These include a highly educated workforce with already relatively high productivity growth over the past decade, a high tech and modern society with high social capital, and healthy assets: the corporate sector is sitting on 4.4 trillion yen (A\$53.5 billion) of liquid savings as of March 2020 and household balance sheets are healthy. Gross government debt had stabilised at around 250 per cent of GDP before the pandemic but has been manageable thus far and looks much less like an outlier after huge government support expended in other countries during COVID-19. Importantly Japan is a major net asset holder abroad with vast investments globally from which there are steady returns. Australia is a major recipient of that Japanese investment.

Australia's population is expected to continue to grow with the resumption of a large immigration program as pandemic-era border restrictions are gradually lifted. But the population is ageing in Australia too.

Japan's demographic reality presents a significant social, political and economic challenge but also an opportunity in the relationship with Australia. Along with the energy transition, it will be

Figure 2 Population age structure, Japan

Source: [UN Population Projections, 2019](#)

the trend that shapes Japan the most and will have implications for Australia. The demographic transition informs the scope of commercial and policy opportunities in a variety of areas.

Aged care

Australia has much to learn from Japan in aged care, as well as opportunities to invest in the sector in Japan. There are 80,000 centenarians in Japan and that number will grow. Many elderly are healthy and working until late in their lives, for financial, social and health reasons. According to the latest United Nations Population Division estimates, Japan is ranked second and Australia eighth by life expectancy. There are indeed complementarities in the demographic relationship between Japan and Australia: the legal, institutional and welfare lessons from Japan's rapidly ageing population are of interest to Australian policy makers, while Australia's experience with immigration policy is of interest to Japanese policymakers.

The National Health and Medical Research Council (NHMRC) has identified a priority area for collaboration with Japan in dementia and ageing research. NHMRC has a track record of collaboration with the Japan Science and Technology Agency (JST), having funded 27 projects to the value of A\$22.3 million since 2010 through all NHMRC grant schemes that involve collaboration with Japanese health and medical research teams. The collaboration extends to the multilateral e-ASIA Joint Research program.

Health and medical cooperation

Both Australia and Japan have publicly funded universal healthcare. A reciprocal healthcare agreement could provide at least emergency and basic cover for Australians in Japan and Japanese visitors to Australia. As two advanced economies with world class, government-funded healthcare and medical systems, there are areas for cooperation and collaboration that will bring considerable benefits and demonstrate a new closeness in the bilateral relationship to the citizens of both countries. Such an agreement would have strong relevance in both communities given the significant rise in tourism expected between Australia and Japan after the COVID-19 pandemic. Australia has reciprocal healthcare agreements with 11 countries – all in the European Union except New Zealand – with varying levels of services that are covered.

The two countries have national pharmaceutical bodies that work alongside one another in global forums and there is potential for deeper post-pandemic collaboration between them.

The coronavirus pandemic has demonstrated the need for accelerated pre-market regulatory decisions on medicines in both Australia and Japan. Research collaboration, data sharing and close regulatory cooperation can bring efficiencies and improve outcomes. Japan's regulatory agency, the Pharmaceuticals and Medical Devices Agency (PMDA), is a Comparable Overseas Regulator to the Therapeutic Goods Administration (TGA) but there has been no collaboration that has led to a pre-market regulatory decision for a medicine in the past.

The PMDA is an active participant, as is Australia, in the international oncology cluster and the pharmacometrics cluster. The opportunity for discussion of issues in submissions to these forums where Japan's agency has actively raised issues has benefited Australia. Japan and Australia co-chair the International Coalition of Medicines Regulatory Agencies and are both part of the European Medicines Agency's OPEN initiative. PMDA is a founding member of the International Council for Harmonisation (ICH) and there have been opportunities for international collaboration on the development of guidelines through this agency.

Barriers to more active participation and collaboration include extensive differences between how each agency classifies and regulates medicines that fall under the TGA's listed medicines framework. Understandably, Japan has its own pharmacopoeia and the official language required for documents (review reports, internal documents, committee documents) is Japanese. Although English translations of the PMDA's review reports are published, these are redacted prior to translation meaning that a complete English translation would need to be produced specifically for collaboration purposes. The PMDA willingly provides additional information and clarification and the main barrier is one of language that is addressed in this report.

The Complementary and over-the-counter (OTC) Medicines Branch of the TGA is continuing to negotiate with the PMDA with regard to revising the terms of inclusion on the list of suitable Comparable Overseas Regulators.

Mental health

Australia and Japan have different systems of mental health care but similar standards of living. By examining national standards and cooperation around mental health and awareness, Australia could improve its mental health outcomes and contribute to improving outcomes in Japan.

Suicide is the leading cause of death for young people in both Japan and Australia. The strategies that Japan uses for prevention, as well as the specific risk and protective factors for young people in Japan, could help in Australia.

In the mid-2000s, Japan shifted responsibility for suicide prevention from the Ministry of Health, Labour and Welfare to the Cabinet Office to support an overarching government policy approach. This shift recognised that suicide is complex and is not solely a result of mental health issues. Through the National Mental Health and Suicide Prevention Plan, the Australian Government has committed to establishing the National Suicide Prevention office to oversee the national whole-of-government approach to suicide prevention. There are also ideas such as a regional fund for local suicide prevention activities and the introduction of the Basic Act for Suicide Prevention legislation.

Youth suicide is an area of mental health management, the study of which could have mutual benefit.

Japan reports month-by-month suicide statistics, and this approach to 'real-time' data is similar to what Australia is trying to achieve through its Suicide Prevention and Self-Harm Monitoring System. Understanding how these data are used in Japan, and how Japan responds to any observed upwards trends in suicide numbers would help Australia to implement active education and prevention strategies. Overcoming these barriers towards greater cooperation requires increased resource sharing, and addressing the gap from language difference is a key factor.

Immigration

There were close to 2.9 million foreign residents in Japan in 2020, approximately 2.3 per cent of the population. Many of those are skilled workers and there are very few pathways to permanent residency. The issue of immigration is divisive in Japan and the government has taken a gradual approach to policy change.

In response to labour shortages, especially outside of the major cities, Japan started to formally open up to 'non-skilled' foreign workers for the first time in 2019. Fourteen professional sectors suffering from labour shortages were chosen for the scheme – to save ailing but strategic industries and address the aging local economy— including aged care, construction, agriculture and tourism. The law entitles the 345,000 non-skilled workers who have spent over five years in the scheme a path to permanent residency should they pass professional testing and successfully renew their status.

Foreign workers in Japan receive generous support from the government and NGOs but find it difficult to settle in Japan permanently. The support for newly arrived and temporary foreign workers in Japan is more generous than it is in Australia.¹⁰ There are gaps in that support – for example for international students, of which there are close to 300,000 in Japan – and many of whom work in the service industry, at convenience stores, bars and restaurants. And there are 'black' companies that exploit foreign workers that need to be better regulated.

There is significant scope for experience sharing between Australia and Japan as both countries deal with changing approaches to temporary foreign workers and permanent settlement. Australia's experience at running a large-scale immigration program with a multicultural society – the successes, failures and challenges – would benefit Japan (see Box 5 Dialogues for Change).

Gender equality

Japan ranks poorly on many measures related to gender equality. In 2021 Japan ranked 120 of 155 countries in the World Economic Forum's Global Gender Gap Index and had the second worst gender wage gap in the OECD after South Korea. There is a significant 'glass ceiling' in Japan, with women in only 14.7 per cent of senior and managerial roles. That is after the progress made with the 'womenomics' agenda of former prime minister Shinzo Abe. Gender diversity in senior and managerial roles and female labour force participation improved in general, from a low base. Less than ten per cent of the 465 seats in the Japanese parliament are represented by women. Only 3 of the 20 ministers in Prime Minister Kishida's cabinet are women.

With labour shortages and a demographic crunch, getting more women into the workforce is a key economic and social challenge in Japan, recognised by government, business and society. But that requires deep institutional change and reform of labour market practices. Women dominate non-regular employment while men dominate secure, higher paying lifetime employment. There are tax incentives to avoid having two breadwinners in a household, and there is a shortage of childcare in some urban areas. In 2019, 44.2 per cent of employed women were part-time and temporary workers, compared to only 11.7 per cent for employed men. Women working in irregular, face-to-face, and rigidly scheduled jobs experienced economic losses equivalent to 9.8 per cent of their earnings due to the COVID-19 pandemic, compared to 5.2 per cent of earnings for men in these jobs. There are deeply entrenched institutions and attitudes that will take time to change.

Australia has its gender diversity and immigration challenges but is in a prime position to share experience with Japan, as equals, and led by business leaders (see Box 5 Dialogues for Change). Getting close to Japan on change in the most pressing social and economic issues related to demographic transition will have direct and large payoff. As Australia's third largest trading partner and major source of investment, intimately understanding Japan and working together on important social policy issues is a key opportunity.

¹⁰ Oishi (2020)

The consumer market

Japanese consumers are some of the most discerning in the world. It's a major market that Australia has some advantages in supplying to and buying from, with complementary seasons for agricultural produce and tourism and roughly the same time zone that helps with services delivery. The natural endowments of both countries continue to make the two countries natural complements. Japan may be located close to major markets in Asia but Australia is closer than other major English-speaking countries and is an overnight or a day flight away. For Australia, Japan is one of its closest neighbours given its relative distance from the rest of the world.

These factors are important in finding opportunities in the Japanese market from Australia. The high-end Japanese market demands high-quality products and tailored services. The resources trade has underpinned the bilateral economic relationship and if the Australia–Japan Energy Initiative helps deliver a transformed clean energy relationship, new energy will underpin trade and investment in the future. The future economic relationship will need to be driven by closer collaboration and better knowledge of each other.

Japanese strawberries are now sold in Australia and Australian avocados and oranges in Japan. More opportunities in food and agriculture will be realised, including trade, joint research and corporate partnerships. But delivery of high-value services to the Japanese market remains elusive. Taking advantage of, and being part of, Japan's digitalisation will be critical, as will significantly boosting knowledge of Japan, its society and its consumers.

The review and upgrading of the Japan–Australia Economic Partnership Agreement (JAEPA) may provide an opportunity to deepen the economic relationship. But that will require political leadership from Australia, backed up by significant investment into the enabling agenda in this report – getting close to and understanding Japan. Without the political leadership, it is unlikely that an existing bilateral agreement can be pushed in the busy policy agenda. And without investment into getting close to Japan and understanding Japan, the new opportunities of operating in and servicing the sophisticated Japanese market will not materialise.

Australia needs to future-proof the Japan relationship with the joint transition agenda for energy and demographics by elevating Japan's status to a most favoured partner, working towards the circumstance where it automatically affords Japan equal-best treatment to that which Australia has given to any other country in any domain. Doing so unilaterally is in Australia's benefit. Working with Japan to reciprocate will multiply the impact.

Box 3 Japan as a most favoured partner

The 1957 Commerce Agreement between Australia and Japan was visionary and established the framework for the bilateral economic relationship, effectively opening up Australia's resource supply to Japan in return for granting Japan most-favoured nation (MFN) status – that is, equal-best access.

In 1976 the Nara Treaty or Basic Treaty of Friendship and Cooperation was the first comprehensive treaty of its kind for both Australia and Japan and locked in principles of cooperation that further elevated the bilateral relationship. The agreement expanded MFN treatment of goods under the 1957 and 1963 agreements to equal best treatment of Japanese investment and people-to-people movement to those areas for any other country, including the United States and United Kingdom.

The 2014 Japan–Australia Economic Partnership Agreement was the first agreement Japan has signed that opened up Japanese agricultural markets and institutionalised the economic relationship.

Now is the time for a step change in how Australia relates to Japan. Australia should extend Japan most favoured partner consideration across economic, cultural, strategic and security domains. Japan's importance to Australia in Asia is such that the deepening of relations should be guided by the principle of extending to Japan equal best treatment to that is applicable in other relationships, now and as that develops over time.

This process should be at Australia's initiative, internally triggered by a Department or Agency each time a deal is done with another country, to consider its extension to Japan unilaterally. A process of reaching out to Japan for reciprocity can be considered but that Australia should go ahead independently of the appetite for concessions in Japan. This might be seen as giving away negotiating coin but it would make Australia better off and strengthen the bilateral relationship.

It is feasible to expand equal best treatment gradually across domains with Japan so that actively working to consider expanding most favoured partner treatment to Japan should become a routine policy principle. The Closer Economic Relationship (CER) with New Zealand should be an aspiration for the Japan relationship, although given the nature of sovereign concessions under the deep integration between Australia and New Zealand, achieving that aspiration in all domains would be difficult for Japan. Nevertheless, some of the features of the CER should be actively considered and inform the upgrading of JAEPA.

If Australia negotiates expanded mobility, temporary entry or worker rights for British citizens, as it seeks to do in the Australia–United Kingdom Free Trade Agreement, those provisions should be considered and offered to Japan as a matter of course. The age eligibility for the working holiday program was raised to 35 for Canadian working holiday makers in Australia but remains at 30 for Japan. Some provisions can be negotiated with Japan for reciprocal treatment but many can be extended unilaterally by Australia, in Australia's national interest.

The ANZUS alliance cannot be replicated or superimposed onto the Japan relationship but some of the security and military arrangements and practices already inform the deepening of the security relationship with Japan. Seeing Japan as a natural security partner is a goal. Intelligence sharing can be elevated step by step towards their functional equivalents in the other intelligence sharing relationships that Australia has.

This most favoured partner status is a new conception of MFN status that merits consideration even in the security domain. It should also extend to institutional arrangements with other countries that could be considered for extension to Japan. Most favoured partner consideration for Japan would signal Japan's importance to Australia and seek to operationalise it in policy terms.

Foreign investment

Japan is the second largest investor in Australia after the United States, with an estimated stock of A\$131.8 billion in 2020, up from A\$51.1 billion in 2010. It will continue to be an important source of investment with high levels of investment in the renewable energy relationship.

The foreign direct investment from Japan was traditionally in resources and mining but has diversified over the last half a decade with investments into banking, insurance, food and beverages, retail and other services. Resources and mining continue to be important. The

investment has brought a lot to the Australian economy, least of which is capital. More important has been the technology, knowhow and links to Japanese and foreign markets. An example of the links that foreign investment brings are the sales of Australian goods, whether agriculture, minerals or services, by Japanese companies into Japanese supply chains throughout Asia. Another is Australian investment into Niseko, central Honshu, Hakuba and Nozawa Onsen for winter sports that brings tens of thousands of Australian tourists each season.

Japanese trading house Mitsui & Co has invested more in Australia than it has in North and South America combined, including nearly A\$16 billion in the last ten years. It exports roughly A\$8 billion a year from Australia and has for many years exported more to China from Australia than to Japan.

The Hydrogen Energy Supply Chain project in Victoria brings together Kawasaki Heavy Industries and a number of Japanese and Australian partners including Marubeni, J-Power, Iwatani Corporation and AGL. Opportunities in infrastructure include the Western Sydney Aerotropolis and the NSW Government has signed foundation partnerships with SMBC Bank, Mitsubishi Heavy Industries, Urban Renaissance, Hitachi and NEC. Hitachi was the first to realise the MOU and set up a Kyōsō Centre (collaborative creation centre) creating high tech jobs. Investments like these will bring more Japanese R&D (see opportunities in the next section).

The investment relationship is significantly one-way, however. For Australia, Japan ranks as the 17th largest destination for direct investment, behind countries like Vietnam, Chile, Indonesia and France, and well behind the top four of the United States, United Kingdom, New Zealand and Canada that together account for half of Australian investment abroad. The stock of Australian direct investment in Japan was A\$1.65 billion in 2019, or 0.2 per cent of total Australian outward direct investment. This is partly a problem of Japan's closed market: Japan has the lowest foreign direct investment stock in the world relative to the size of its economy, at 4.3 per cent of GDP, compared to the world average of 42.7 per cent.

The potential of Japan's market for Australian companies is therefore largely untapped. On paper Japan is relatively open to foreign investment, scoring relatively well on the OECD's foreign direct investment restrictiveness index, for example. But there are many barriers to investing in and operating in the Japanese economy. Australian companies have built up a collaborative relationship with their Japanese counterparts and that trust is one advantage Australian companies have. Australian companies are also not as large as American or other multinational companies and likely seen as less threatening to Japanese competition.

Japanese companies are heavily invested globally and are major drivers of supply chains in East Asia. Australian companies have long seen Japanese companies that they have partnerships with as gateways into Asia. The complementarity between Australian and Japanese business is well recognised and the business communities have sent joint Australia–Japan trade missions to India, for example. The expansion of Australian investment into Asia has failed to materialise in a major way but the opportunity to do so in partnership with Japanese companies would reduce risk, connect to existing networks and businesses on the ground.

Getting close to Japanese business through Dialogues for Change and realising a reimagined relationship with Japan through an elevated architecture of institutional engagement across business, government and society will bring direct benefits to the investment relationship in both directions and in third country markets.

Australia can also emulate Japan's deep integration into Southeast Asia. Risk averse Australian investors would find it much easier to make significant long-term commitments to operating in Southeast Asian markets if they were more familiar with those countries. Japanese expertise in Southeast Asia and on-the-ground presence is not something that can be emulated overnight – but Australia does need to invest, and in some areas reinvest, in its assets on understanding Asia.

Innovation, R&D and technology

Japan is very much a country of contradictions when it comes to technology adoption — both leading and lagging the world. Once consensus is reached for adoption in Japan, there is usually rapid and wide-scale implementation. Japan is the third largest innovator globally behind the United States and China, measured in R&D spending or patent applications. Yet Japan has been slow to digitalise many paper-based services and although the *hanko* (seal) is on the way out, phasing out fax machines has proven slow.

The government's digitalisation agency and its carefully planned Society 5.0 that aims to create 'a human-centred society that balances economic advancement with the resolution of social problems by a system that highly integrates cyberspace and physical space'¹¹ are likely to transform Japan. Those areas where government services have been paper-based and efficiencies lagging well behind the global frontier are likely to be leapfrogged.

Australia will need to work with Japan to ensure there are Japanese 5G+ and 6G options that bring competition to the global telecommunications market, alongside Chinese, American and European options. The risks around having global markets dominated by one or two providers, as was the case with 5G, amplify security and commercial risks. In technology as in other areas, open competitive markets are the basis for prosperity and comprehensive security goals.

The trust, comfort in collaboration and closeness of governments and systems mean Japan is a natural partner for collaboration with Australia in quantum computing, artificial intelligence (AI) and cyber security. Even in those important areas, Australia as a smaller innovator globally with roughly 1 per cent of global R&D, will have to be strategic in what technologies and industries its taxpayers support. Australian collaboration with Japan should be focused on the two transitions that both are undertaking: innovation and R&D into the technologies that support the energy transition and those that help manage the demographic transition.

Research partnerships and commercialising Australian research

Last year marked the 40th anniversary of the Australia–Japan Science and Technology Treaty. There were several landmark collaborative innovations under the treaty and from what followed since: Questacon, the Australian National Beamline Facility at KEK's Photon Factory, landing of Japan's Hayabusa I asteroid probe in Woomera, South Australia in 2010 and recovery of the Hayabusa II capsule at Woomera in 2021.

It is time to consolidate and elevate the increased interest by Japanese corporations in Australian R&D over the past few years. Funding the commercialisation of early stage research is difficult and mechanisms to pool risk, facilitate information exchange and support early interactions can help make the connections between researchers and investors to build the necessary longer term relationships. The funds operating in Australia can be proactively engaged with Japanese partners to connect to Japanese venture capital, private equity and corporations.

Japanese investment into Australia has been diversifying. Less important now are commodities and primary industries, with fossil fuels rapidly diminishing in importance. Finance, banking, retail, insurance and even commercialisation of research and development (R&D) have been attracting more Japanese interest and that trend is accelerating.

Japan is a technology leader: it would surprise nobody that Japan is a major producer and consumer of innovation, ranked third globally in patents filed and having produced 25 Nobel laureates in physics, chemistry and physiology or medicine. Total Japanese R&D expenditure in 2019 was estimated to be A\$242 billion of which 73 per cent came from business enterprises,

11 Cabinet Office (2021)

19 per cent from universities and the remaining 8.4 per cent from non-profit institutions and public organisations.¹² Japanese R&D plays an important role in a global system with increased competition between the two technology leaders, the United States and China.

But keeping up at the technological frontier is not easy, and Japanese corporations are rapidly changing the way they conduct their R&D. In some areas Sony, Toyota and other majors are still leading the way, but in others, they are struggling to outpace their global competitors in innovative products and electric vehicles. Major tech giants Softbank and Rakuten face fierce competition from American and Chinese tech companies and new unicorns. R&D in Japan is no longer done almost completely in-house – although the research facilities for major companies still attract some of the top scientists and innovation is world class in these corporate ecosystems – and there is now a thriving venture capital and start-up scene in Japan, something quite new.

There has been a big push from Japan for Environmental, Social, and Governance (ESG) and sustainable investing in the past few years. Major investors like Japan's Government Pension Investment Fund (GPIF) have used Japan's stewardship code to promote ESG investing. This trend is driven by shareholders and their impact reflects some early success from corporate governance reform, suggesting an enduring trend. Japanese corporations and investors are changing their investment strategy and not all are looking to the United States and China when they look abroad. Country risk, including geopolitical risk, and management of COVID-19 are becoming more important.

In this context, Australia has become more attractive to Japanese investment. Key companies like NTT, NEC, and Hitachi have entered into the Australian market to boost innovation and broaden their investments. The presence of Japanese companies in Australia and their preference for long-term investments and partnerships opens opportunities for Australian universities in research, education, skills and commercialisation. While there is limited publicly available data, there are some significant research collaborations between Australia and Japan. There are over 100 new scientific joint publications with Japanese and Australian authors per week. Universities Australia reports 200 agreements between universities in each country, although it is difficult to assess how active these arrangements are.

Australia produces high quality research. Although Australia has been home to inventions such as ultrasound (1961), Wi-Fi (1990s) and Google Maps (2003), it has underdone selling itself as a source of innovation. Australian research and start-ups have significant potential, especially when backed by Australian federal and state governments, as outlined in the 2015 National Innovation and Science Agenda. There are now numerous funds that connect corporate investment to research. CSIRO's Main Sequence fund, IP Group ANZ, Uniseed and others are filling a market need but there is still a funding gap between research, start-ups and funds that has brought global funds like Salesforce Ventures, Microsoft Ventures and Sequoia Capital. There are many potential start-ups with global scalability and technological advantage which are complementary with Japanese corporate strategy. JETRO and Austrade have an MOU to elevate business cooperation, with a focus on start-ups and innovation.

Different from American and other global investors, Japanese investors are more patient and long-term partners with whom it takes time to build relationships. They can be risk averse and conservative but once a relationship is established, will ride out the ups and downs with research partners. That's necessary in the high risk environment of research commercialisation. Australia is seen as a reliable partner and the trust between Australia and Japan is an asset that can facilitate more investment and research relationships and subsequent commercialisation. Australia has to recognise (and rediscover) its strengths – its institutions, mature market, outward orientation and multicultural society – that make Australia attractive to Japanese and global funds.

12 Statistics Bureau of Japan (2020)

While the consumer market in Australia is mature and not small, by global standards Japan provides a much larger market with links to other markets in East Asia. Access to such markets is essential to scale up innovations and commercialise the outcomes of university and institutional research. The Daiwa Innovation Network, launched in August 2021, featured four Australian start-ups in the clean tech sector presenting to more than 100 potential Japanese investors.

Australia has lacked the capacity to put its own satellites into orbit but has built world-class skills and technologies in software and processing for space applications while relying on Japanese satellite and hardware capability. The Hayabusa II space capsule landing in outback Australia in 2021 was symbolic of the opportunities from the complementarity between the two countries.

Backing and active support by Australian federal and state governments would have the required head-turning and confidence effects in Japan. Government support focused on research related to the energy transition and all the opportunities around Japan's management of its demographic transition – including healthcare, medical equipment and aged-care – is likely to be more effective. Sectors like food and agritech, as well as AI and IoT (internet of things), will be more important than ever over the coming decades. Australian society shares those challenges with Japan but will remain behind in those transitions without the leverage of its scale and pace. Japan's transformation to Society 5.0

Box 4 From second to the third largest trading partner

Japan was Australia's largest trading partner for decades until 2007, save for two years in the late 1990s when the United States was a larger partner. Japan was Australia's second largest trading partner until 2020, when the United States attained that position. Table 1 shows that the fall in Australian trade to Japan in 2020 was led by a fall in exports of goods to Japan, leading to a 24 per cent fall in overall trade between the two countries. That fall in goods trade was led by a major decline fall in commodity exports, including a 31 per cent fall in coal exports – foreshadowing the adjustment that the trading relationship will see as Japan decarbonises its economy.

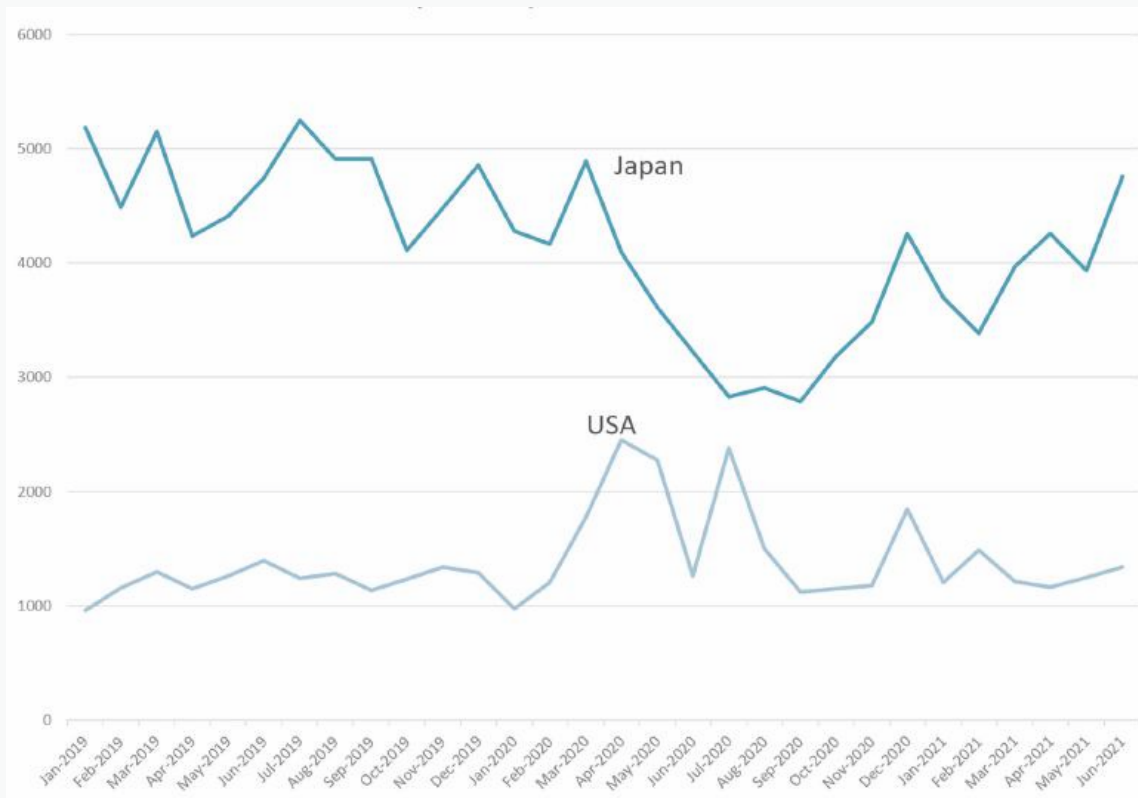
Table 1 Australia's 3 largest trading partners, A\$ billions and per cent, 2019 and 2020

	2020			2019		
	China	Japan	US	China	Japan	US
Goods exports	147,829	44,950	19,625	149,229	57,712	15,192
Services exports	12,425	1,409	7,834	19,339	2,702	10,260
Goods imports	84,578	17,805	34,822	79,490	21,633	37,196
Services imports	1,482	2,095	10,573	3,264	4,656	18,330
Total	246,314	66,259	72,854	251,322	86,703	80,978
	Growth rate			Growth rate weighted by total bilateral trade in 2019		
Goods exports	-1%	-22%	29%	-1%	-15%	5%
Services exports	-36%	-48%	-24%	-3%	-1%	-3%
Goods imports	6%	-18%	-6%	2%	-4%	-3%
Services imports	-55%	-55%	-42%	-1%	-3%	-10%
Total	-2%	-24%	-10%	-2%	-24%	-10%

Source: DFAT, Direction of Australia's goods and services trade

Nevertheless, the United States overtaking Japan as Australia's second largest trading partner after China is likely to be temporary. There was large growth in non-monetary gold exports to the United States in 2020, somewhat outweighed by a collapse in services imports from the United States. As Figure 3 shows, the dip in Australia's monthly goods exports to Japan looks to have bounced back somewhat.

Figure 3 Monthly Australian goods exports to Japan and the United States, 2019-21



Source: [Australian Bureau of Statistics, 2021](#)

Japanese exports to Australia are part of more complex supply chains, with many Japanese-branded manufactures being shipped from China and other production bases across Asia. Around 40 per cent of Australia's imports from China are from foreign companies, many of them Japanese. A large share of Japanese manufacturing is conducted offshore, predominantly in China. And some Japanese operations in Australia, like Mitsui, sell more to China than to Japan.

will open up especially big opportunities in digitalisation, cyber and service delivery.

The enabling agenda

There is more happening between Australia and Japan than ever before, with consultations between the two governments in new areas and a broadening agenda beyond the bilateral relationship. Japanese investment in Australia is reaching into new sectors and continuing to expand.

But these interactions are thin compared to Australia's and Japan's other relationships and the declared ambitions for the relationship and the challenges that it faces in the years ahead. Much more needs to be done to make the most of the available connections and to achieve these ambitions and deal with these challenges. Resources and energies targeted at the Japan relationship will deliver large payoffs given the shared regional and global interests and the energy transition in both countries.

This report has laid out an ambitious agenda for Australia and Japan to cooperate to achieve comprehensive security, and how the two countries can use imminent energy and demographic transitions as an opportunity to broaden their commercial relationship and deepen collaboration across diverse areas of technology and policy.

These political and economic agendas will involve big demands upon the stocks of Japan-related expertise and experience that exist in Australia. Broadening the interaction between government, business and civil society will be fuelled by Australian institutions' ability to draw on having the linguistic skills, country expertise, and cross-cultural competence to understand Japanese perspectives and work effectively with Japanese counterparts.

These resources are scarce in Australian institutions as a result of chronic neglect of the Asia-literacy agenda by governments. They need to be replenished if the reimagined Japan relationship envisaged here can be made into a reality.

The rest of this report sets out an enabling agenda that includes improving the institutional infrastructure of the relationship and improving understanding by getting closer to Japan through exchanges in education, sports and the arts, and a comprehensive rethink and reinvestment in understanding Japan.

Institutional infrastructure

Key messages

- > The connection between Australia and Japan is too narrow and top-heavy and not supported by a broad and deep network of institutional links and understanding befitting the importance of the Japan relationship to Australia.
- > Australia needs to take the initiative in connecting thinking in government, business, academia and other groups for high-level engagement with Japan, better leveraging initiatives outside of government.

Key recommendations

- > The Australian Treasurer and Japanese Finance Minister should meet annually, in addition to the existing 2+2 Foreign and Defence Ministerial Consultations, in an expanded Ministerial Economic Dialogue, together with central bank governors, given the importance of economic policy issues that both countries face in their energy and demographic transitions.
- > The annual Leaders' Meeting between prime ministers and meetings of Foreign, Defence, Trade and Finance Ministers could be constituted as a 5+5 arrangement from time to time as circumstances required, with an annual Senior Economic Officials Meeting to support the Leaders' Summit and ministerial meetings and coordinate other government meetings across the economic agendas in the G20, G7+, APEC, EAS and Quad.
- > Line departments should initiate annual senior official meetings with their Japanese counterparts to develop a workstream that supports Ministerial Dialogues, including exploring opportunities for regular secondments.
- > Government should connect with and support engagement groups for input into the Leaders' Meeting and Ministerial Dialogues as well as broaden community exchanges with Japan.
- > Initiate Dialogues for Change focused on shared national issues and priorities, such as gender diversity and people flows, through which the two countries can be brought closer together for mutual gain. These Dialogues should be led by non-governmental bodies, but relate effectively to government processes.

The full network of institutional links between Australia and Japan is a significant asset for both countries. Built up over decades, these links encompass the highest levels of government and business. Despite many activities not having a high public profile, these links underpin the deep and broad bilateral relationship and help sustain political, economic, people-to-people and strategic relationships.

A step change is now needed in institutional connectedness with Japan to prosecute Australia's national, regional and global interests more effectively, and address the challenges Australia faces in an increasingly complex, uncertain and contested international environment. Existing mechanisms provide a solid foundation to build on – but a more extensive, deeper and thicker set of arrangements between the two countries is now necessary.

The annual Leaders' Meeting between the Australian and Japanese prime ministers, and the annual meeting of the Australia Japan Business Co-operation Committee (AJBCC) with its counterpart JABCC that brings business leaders together, are a reflection of how both countries prioritise the bilateral relationship. Prior to 2014 it was rare to have a Japanese prime minister visit Australia, and many Australian ministers visited Japan without reciprocation. Australia has become more important to Japan.

Bilateral interaction among elected officials is significant. Key avenues at present include the annual Leaders' Meetings between the two Prime Ministers, 2+2 Foreign and Defence Ministerial Consultations and Ministerial Economic Dialogues between the Japanese Economy Minister and Australian Trade and Investment Minister. An obvious gap is institutionalised senior political meetings between the Japanese Finance Minister and the Australian Treasurer. The importance of the economic relationship, driven by domestic economic circumstances and choices, recommends an annual 2+2 Economic Ministers meeting that includes the Treasurer and Japanese Finance Minister or a 2+2 Finance Ministers and Central Bank Governors meeting that mirrors the G20 process, to bolster the prime ministerial summits and elevate economic cooperation on bilateral, regional and global interests.

Annual Leaders' Meetings between prime ministers, 2+2 Foreign and Defence Ministerial Consultations and 2+2 Ministerial Economic Dialogues would lead Australia's strategic engagement with Japan. These dialogues could be assembled as a full 5+5 engagement if occasion or circumstance demanded.

Bilateral government-to-government engagement is bolstered by interaction in minilateral meetings (such as, the Quad and the Australia–Japan–US trilateral), and multilateral forums (such as the United Nations, G20, G7+, APEC and EAS).

Prior to COVID-19, there was an active program of exchanges through the in-country visits of lawmakers in the Australia–Japan Parliamentary Group in both countries. The Australia–Japan Young Politicians Exchange has been another important vehicle for exchange since 1991. These exchanges remain a priority and represent a vital source of generational renewal in the relationship. Australian ministers can also seek more regular engagement with their Japanese counterparts bilaterally in international settings, making it the standard expectation that Australian ministers' attendance at a regional, minilateral or multilateral meeting will be accompanied by engagement with their Japanese counterpart.

Australian states and territories play an important role in the relationship with Japan in education, grassroots exchanges, attracting investment, and building collaboration. The National Cabinet provides an opportunity to improve the cooperation and coordination on matters to do with Japan among Australian governments at all levels.

Bilateral government-to-government arrangements can be strengthened by connecting them more systematically to the wide array of bilateral institutions beyond government that already exist – and where those do not exist, by building links between institutions in both countries.

Developing a consultation process for business, science, cultural and other organisations in Australia and Japan to feed into the agenda of government engagement can bring a step up in bilateral relations. That will improve government deliberations but will more importantly foster activities between organisations outside government. Rather than developing new institutions, bilateral 'engagement groups' can be constituted by existing bodies, with government funding opportunities available to facilitate gatherings where necessary. The AJBCC and the Japan Australia Business Co-operation Committee (JABCC), for instance, could serve as members of the 'engagement group' for business, with the Science Council of Japan and Australian Academy of Science the representatives for science.

In practice, this would mean that lead agencies such as Australia's Department of Foreign Affairs and Trade (DFAT) and Japan's Minister of Economy, Trade and Industry (METI), for example, would need a formal consultation process with the business and other engagement groups. Once international travel is feasible in the post pandemic world, the annual Australia–Japan Joint Business Conference could be held around the Ministerial Economic Dialogues, creating an effective connection between engagement groups and ministerial meetings.

There is also a rich set of routine meetings and exchanges between senior officials of both countries but the level of engagement through these meetings can be elevated to reflect the growing importance of Japan in Australian policy framing. Given the critical role that the bureaucracy plays in the Japanese system and the growing impact of global forces on what were once seen as purely domestic policy issues, federal departments will need to establish more systemic and regular bilateral engagements with their Japanese counterparts. The Japanese system continues to have 'lifetime' employment within a single ministry, making it easier to build long-term relationships if Australian departments can invest in institutional memory.

These are also obvious gaps in engagement between the two countries' officials. Australia launched a senior economic officials meeting with Indonesia led by the two G20 Sherpas in 2020 – this sort of development in other important relationships should be automatically considered for Japan. A SEOM between G20 sherpas or key senior officials in a central agencies like the Japanese *kantei* and Australia's Department of Prime Minister and Cabinet would help coordinate economic initiatives across government and align with the agendas for both countries in the G20, G7+, APEC, EAS and Quad by coordinating with the senior officials for the different forums. The exchanges now in place between the Australian Productivity Commission and Japan's Ministry of Finance are another important example.

The Department of Infrastructure, Transport, Regional Development and Communications (DITRDC), for instance, commenced an annual engagement with their Japanese counterpart, the Ministry of Land, Infrastructure, Transport and Tourism, in 2019. While COVID-19 has frustrated these interactions, the opportunity was created by chance, as a senior executive in DITRDC had a personal connection to Japan. These important opportunities for experience-sharing, information exchange and collaboration should not be left to chance.

The Cabinet should direct (and fund) each federal department and agency to establish an annual strategic dialogue with Japanese counterparts. The purpose of these dialogues would be to share best practice on common priorities, with the view of improving national policy approaches and to discuss ways to advance common interests in relevant international bodies. The Department of Health's strategic dialogue could, for example, focus in one year on a domestic priority area, such as dementia, followed the next year by an international priority area, such as the World Health Organization (WHO). The dialogue format should be flexible to allow the best design for each department's needs and scheduling. Meetings could vary from half-day sessions with two deep dive sessions in the margins of multilateral meetings, to a one-day engagement as part of a longer visit to the other's country.

It is important that each department should strive to hold meetings at the Secretary level where possible, dropping representation no lower than 'senior official' level. The Department of Home Affairs holds strategic dialogues with the United Kingdom, France and others, and can provide guidance to other departments in developing these dialogues. The dialogues could also tap into engagement groups as necessary, further intensifying engagement and ensuring that Japan is viewed as a default partner within the federal bureaucracy.

The AJBCC turns 60 in 2022 and the JABCC, which was established a year later in 1963, turns 59. For over half a century, business leaders in some of the largest companies in both countries have invested valuable time in annual meetings and deepening cooperation that have been an important ballast in the relationship. The political reach and clout of the business leaders have helped manage the bilateral relationship through difficult times over the decades and demonstrate the importance of institutional links beyond the vast commercial and economic contribution that business makes. In 2014 the business leaders initiated a Future Leaders program to support the development of the 'next generation' of leaders in the Australia–Japan commercial relationship. The membership reflects the strength of the relationship which had been built on natural resources. There is growing diversity in its membership but it now needs to draw in industries of the future and efforts are underway to reach out to different stakeholders and people of influence in the relationship.

Figure 4 Structure of bilateral institutional infrastructure

There will be many areas of cooperation that should not or cannot be government led, given established policy positions in both countries but more importantly the greater scope there is for entrepreneurial initiative in business, civil society and academia. In these communities there is more freedom to work through ideas and collaborate on longer term or politically sensitive issues. There is expertise outside of government that can be mobilised to lead innovation in the relationship.

Originally created as ‘backchannel diplomacy’, non-governmental or unofficial dialogues between countries have become part of the exchanges between countries that can be deployed to anticipate and solve shared challenges or to deepen relationships around shared interests. Track 2 unofficial dialogues or Track 1.5 dialogues that involve officials in an unofficial capacity had their genesis in conflict resolution between protagonists during the Cold War but also importantly in defining the way forward on Asia Pacific economic cooperation during the formation of APEC. They are now part of the routine exchanges between countries that support and facilitate more productive official dialogues. Dialogues and processes between Australia and Japan that relate to the agendas set out in this report can be targeted for support to feed into engagement groups around ministerial meetings.

The transition agenda for Australia and Japan suggests that closer cooperation between governments alone will not be enough. Track 1.5 and Track 2 dialogues can be encouraged to address specific priority issues. The exchange of information and deepening understanding is a start but the objective is to build joint agendas, including with regional partners on the path towards comprehensive security. The Track 1.5 dialogues like the Australia–Japan Dialogue at Griffith University and that between The Australian National University’s National Security College and the Japan Institute of International Affairs could have their agendas directed more closely to policy development, while allowing exploration of ideas beyond established policy positions. The Australia–Japan Energy Initiative and the Australia–Japan Study on Comprehensive Security proposed in this report will only succeed if they bring together government, business, academia and other stakeholders to help lay the groundwork for government initiative. Cooperation on aged care will need to include aged-care providers and researchers. Sharing experience and shaping Japanese policy outcomes will require high-level Dialogues for Change that are led by non-governmental bodies, but effectively relate to government processes.

Box 5 Dialogues for Change

Private sector and community-led dialogues between Australia and Japan bring the two countries closer together. Beyond enhancing government-to-government engagement on issues such as the energy transition and climate change, high-level dialogues between the two countries require the involvement of officials, experts and industry. Engaging individuals and groups in dialogue from across the breadth of the relationship creates the awareness and knowledge necessary to policy progress. There are many areas where governments can best play a supporting role rather than a leading role.

Given the importance of the bilateral political, security, economic and people-to-people relationships, Australia needs to engage Japan more actively to recognise and understand the changes that are taking place in Japanese society and be part of that change while learning from Japan through sharing experience and expertise.

There are areas in Japanese economic and social transformation where Australia has experience and a shared interest with Japan, and where collaboration would have significant payoff. Enhancing productivity and workforce participation will be crucial for improving Japan's living standards given its ageing and shrinking population. Dialogues born of the private sector or local communities are realms where such issues and their solutions can be found and shared, in ways that reinforce the bilateral relationship at all levels.

High-level dialogue on gender diversity

Achieving gender diversity in senior positions in the government and corporate world will boost productivity and lead broader change. Japan ranks poorly on gender diversity by international standards, with institutional and structural barriers limiting female participation in senior positions. The existing policy agenda and other efforts in Japan are making a difference, but there is still a way to go.

Gender diversity efforts will receive a boost by empowering women through international collaboration at higher levels of business and government. Change will be slow but progress will yield immediate demonstrable gains. It is an agenda closely linked to corporate governance reform, productivity growth and the national objective of a more diverse and modern Japan. Australia ranks better but continues to have its own problems. Both countries can learn from each other and a high-level business-led dialogue with participation from government has the potential to help shape that long-term change.

A high-level annual dialogue led by a Joint Council on Gender Diversity could establish a framework for ongoing experience-sharing, networking agents of change and opening opportunities for secondments and mentoring. It will require leaders committed to change from both sides and would need to relate to and work to effect change in established arrangements. There is a commercial but more importantly a national interest in Australia supporting emerging female leaders in Japan. This high-level dialogue needs to be led by a Joint Council of Australian and Japanese women leaders with strong support of men in senior positions. Existing initiatives in both Australia and Japan could lead and support these dialogues.

Australia's Workplace Gender Equality Agency (WGEA) could share its reporting methodology with Japanese counterparts like the Gender Equality Bureau and demonstrate how the data it gathers are used to reflect and push change in Australia. Initiatives like *Women in Action* and the annual *World Assembly for Women* or *Women in Business* conferences have significant recognition in Japan. Business leaders in both countries could mobilise for action

in the Japanese and Australian workplaces and wider society. Social media-led initiatives like *Celebrating Women in Japan* have the potential to engage in both countries given its reach and network of influential supporters in business and government. In Australia, the Minerva Network brings together like-minded business leaders to support women in sport on their pathway towards long-term career goals following sporting success. These are all areas of significant overlap between Australia and Japan and subjects for fruitful dialogue.

Influencing change in areas like gender equity requires commitment and forward thinking that allows the growth and nurturing of a diverse future senior leadership. The ability of current leadership to mentor the up-and-coming would be valuable for both gender diversity and furthering bilateral ties. Improving gender diversity will bolster the relationship far beyond visible diversity and inclusion. Such a dialogue is more likely to succeed if led by the corporate sector with support from government, experts and community leaders.

Dialogue on people flows

Another priority for a high-level dialogue is on immigration policies. Japan has taken significant steps to open up its immigration program in response to its demographic challenges and a shortage of workers. Australia is one the world's successful multicultural societies, but one that is also not without its problems. How Australia opens up again to immigration after the pandemic, while avoiding enlarging what was already a growing class of insecure temporary foreign workers, are major future social, political and economic issues. Temporary workers have fewer pathways to permanent residence in Australia, while Japan provides more support for newly-arrived foreign workers. This is an area where governments may sensibly take a backseat and encourage dialogue led by community groups, academia and the private sector. Experience sharing in this policy area will help effect long-term positive change if Australia and Japan can learn both from their successes and failures.

Australia and Japan confront many challenges to the effective control of national borders, yet this area of governance has so far not been included in the evolving bilateral discussions on security. These challenges are transnational in scope, from conventional regulation of migration and human security (people smuggling, organised crime, forging of identity documents), to rapidly changing threats at the nexus of biosecurity, health, national security, quarantine and vaccination. A new Australia-Japan dialogue on transnational flows of migration, refugee resettlement, safe travel bubbles and biosecurity provide a vector of connection for expanding cooperation across government. There are also significant opportunities for developing new markets through the commercialisation of expertise and technologies developed by Australian firms in the migration and biosecurity complex. With the challenges of COVID-19 likely to be with us for years to come, Japan and Australia have shared interests and complementarities in migration and biosecurity, and a real stake – which will grow in strategic importance in the decades ahead – in working together to update the regimes which govern flows of people and goods in the Asia Pacific.

Dialogues for Change would help reduce the gaps in knowledge and understanding of Japan in Australia. They will also provide opportunities for individuals with knowledge and expertise to contribute through the creation of networks for collaboration.

Too often Australia and Japan look to the United States, the United Kingdom or Europe for lessons in reform, best practice or how to improve institutions. But Australia and Japan, both in the same region, sharing the same time zone, have a lot to learn from each other. Both are advanced economies, healthy democracies with parliamentary institutions and commonalities in circumstances. Experience sharing in policy and social development between Australia and Japan has the potential to have productive outcomes.

Japanese Prime Minister Fumio Kishida argued for an income-contingent loan scheme for university tuition in Japan in the race to become leader of Japan's governing LDP, both in 2020 to replace Shinzo Abe and then in 2021 to replace Yoshihide Suga. That scheme was invented in Australia in the late 1980s as the Higher Education Contribution Scheme (HECS) and has since been adopted in New Zealand, the United Kingdom and a number of other countries. The Australia–Japan Research Centre's joint research with the Japan Center for Economic Research in 2017 put J-HECS on the policy radar in Japan. Many Japanese student loan recipients face repayment hardship or end up defaulting on their loans, an anathema in Australia. A revenue-neutral J-HECS scheme has been studied and modeled under this joint research to take account of labour market characteristics including the large gender differences that are unique to Japan.¹³ Japan is yet to adopt J-HECS but it continues to be on the reform agenda in Japan and is an example of an Australian institution that could be an exemplar for Japan.

Ideas like J-HECS will continue to develop through various unofficial exchanges and support should be given to such initiatives. The Australia–Japan Foundation is one obvious agency focused on the bilateral relationship. Its funding has remained the same for over a decade in nominal terms while falling in real terms because of inflation. That funding does not reflect the importance of Japan for Australia, especially alongside the funding received by the National Foundation for Australia–China Relations. A significant increase in the funding of bilateral exchanges needs to be announced in a future Leaders' Meeting between prime ministers. Increased AJF funding should be complemented by a review of other resourcing to support work with Japan.

Initiatives like J-HECS might be considered for study by senior officials and research commissioned for joint and independent analysis. Or senior officials meetings might provide a venue for talking through implementation issues, with the Treasury explaining the Australian experience of HECS to the Ministry of Finance, for example. Better connecting government, business, academia and other groups in Australia, leveraging their capacities and connections to Japan, and supporting them to invest in building the relationship will lift performance and help realise a reimagined Japan relationship.

13 Armstrong, et al. (2019)

Getting closer to Japan

Exchanges and getting Australia on the education map

Key messages

- > Australia attracts a large number of Japanese students on high school visits and one-year university exchanges but few for full university degrees either in undergraduate or importantly in postgraduate programs.
- > Japanese public servants choose typically to go on training programs to study for masters degrees in second- or third-tier American or British universities instead of in Australia. This is an opportunity for investing in the future relationship that is being wasted.

Key recommendations

- > Elevate the senior official-level High-Level Policy Dialogue on Education with Japan to a Ministerial Policy Dialogue on Education, Culture and Sport.
- > Create scholarship support to top Japanese postgraduate students to study in Australia, including internship placement.
- > Create a head-turning effect with the Australian prime minister and other ministers encouraging Japanese students and officials to consider study and training in Australia, with AJRC as a primary facilitator of targeted official exchanges. Target five officials a year undertaking study in Australia.
- > Revamp exchanges and joint degree programs to facilitate the uptake of continuing educational and professional training in Australia.

A concerted effort is needed to revive and energise old relationships between Australia and Japan, and to put Australia on the map in Japan for training and human capital development.

With 553 Australia–Japan sister school arrangements at the senior high school level as of 2018, Japan has more such arrangements with Australia than with any other country. Japanese school trips to Australia leave lasting impressions on the children who take part, but more could be done to maintain the interest in Australia beyond merely a tourist destination.

Australia is ranked second behind the United States in attracting Japanese students to study in its universities, with 9,594 Japanese students enrolled in Australia in 2019. 90 per cent, however, stay less than one year, with many of them being undergraduate exchange students. These exchanges are a valuable introduction to longer term educational and professional association with Australia, but they are not being actively mobilised for that purpose. Australia needs to do a better job of attracting Japanese students for further undergraduate study and full postgraduate and professional degrees. For postgraduate study, Japanese students mostly look to the United States and the United Kingdom to undertake programs in which Australian universities are highly competitive.

The Japanese government sends officials abroad for two-year postgraduate degrees each year and in 2018, 114 went to the United States, 71 to the United Kingdom, 5 to France, 4 to Germany, and 2 each to Canada, Australia and Singapore. In the last four years the Japan Student Services Organisation overseas scholarship program for postgraduate students supported an average of only two students out of an average 96 a year to study in Australia. Australia's universities rank highly globally and have strong comparative advantages. Australian universities, and because of its proximity to the national government, The Australian National University in particular, need to drastically reorient their strategies for recruitment of Japanese public servants who still choose to go to second or third tier American or British universities, even in the aftermath of Brexit and

during the Trump presidency. This is an opportunity for investing in the future relationship that is being wasted.

To get Australia on the education map, it will be important to plant the seed early and develop avenues that showcase Australia as a future destination for study during high school and undergraduate studies. Programs like the Japan–America Student Conference, the KAKEHASHI Project and the TOMODACHI Initiative are ways that Japanese students see the United States as a destination for study. Australia should develop similar initiatives. The Australian Olympic Connect Tomodachi 2021 created online exchanges between 20 Australian and 20 Japanese schools leading up to the Olympics. That grew into 600 school classes in both countries applying to participate in ‘Tomodachi 2021’.

Getting Australia on the map will also mean that universities should play to their strengths by providing information about graduate degree programs that will be important for the bilateral relationship and Japan’s regional engagement, including programs in Pacific development and dedicated regional institutes for countries in the Asia Pacific. Getting Australia on the education map is also about sharing the stories of graduates from Australian universities who are working in major companies and ministries in Japan, and beyond. Sharing their stories in Japanese on social media, such as the 外務省(学生向け) ([Ministry of Foreign Affairs [For Students]]) Facebook page, can create a head-turning effect towards studying and training in Australia for the next generation of students contemplating a career in the Japanese government.

The importance of Australia to Japan in the energy and natural resources trade alone should mean that the Ministry of Economy, Trade and Industry (METI) sends their staff to train in Australia. The Australia–Japan Research Centre had a program for close to two decades that brought officials from the Ministry of Finance and others to the ANU for graduate study and training and Tokyo Electric Power Company (TEPCO) employees to the ANU for a masters program that included placement in an Australian utilities company or government agency. Programs of this sort need to be restituted and directed towards serving the policy priorities outlined in this report.

Australia has a High-Level Policy Dialogue on Education with Japan between senior officials but that needs to be upgraded to a ministerial-level process, just like the EU–Japan Policy Dialogue on Education, Culture and Sport. The European Dialogue brings education, sports and culture together in a ministerial process that promotes experience exchanges at all levels and deeper research and policy cooperation.

The Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT) funds scholarships for Australians to undertake postgraduate study in Japan but there are no federally-funded programs to support Japanese students to undertake postgraduate study since the Endeavour scholarship program ceased in 2019. There are some university scholarships available for higher degree research (PhD) but those are exceptional and do not target Japanese students. Australia Awards scholarships target developing country recipients and a new program should be considered to attract top graduate students from Japan and other developed countries in Asia.

The Japan Society for the Promotion of Science (JSPS) supports research in humanities, social sciences and natural sciences but the JSPS’s Australian partnership is limited to the Australian Academy of Science and currently only supports STEM projects, through the JSPS Postdoctoral Fellowship Program for Foreign Researchers. Opening fields of research to Australian scholars in the humanities and social sciences can be another avenue for strengthening research collaboration and institutional partnerships between Australia and Japan.

The EU Commission has taken concrete steps to target and upgrade research exchanges between the EU 28 and Japan. EURAXESS Japan, established in 2008 and operating now for over a decade, serves as a key initiative to foster research mobility, and cooperation between Japan and EU states. EURAXESS Japan connects researchers in Europe and Japan with access to major EU grants

(such as ERC, Horizon 2020, Erasmus+) as well as national awards from across the EU 28 member states with major Japanese grants (such as JAXA, NICT, JST, NIMS, RIKEN, and Nichibunken). EURAXESS serves as a central portal for Japanese and EU citizens to access doctoral programs, PhD scholarships and early career research fellowships. Additionally, EURAXESS serves as the key digital infrastructure for EU–Japan research relations, providing databases to connect research collaborators in Europe and Japan, as well as providing links for hundreds of support schemes for research cooperation and to facilitate mobility. EURAXESS Japan serves as a model for what is possible for a long-term research framework with Japan. Equally, it serves as a reminder of the need to invest in and build the digital research infrastructure to facilitate and drive R&D and research mobility between Australia and Japan.

Australia needs to sell its unique strengths as a destination for postgraduate study better in Japan. Australia has world class universities in major cities, has a safe, inclusive and multicultural society, pays high wages for international students seeking to work and study, has laws that protect exchange students (ESOS), and there is a small time difference with Japan, meaning ease of communication back home. Many Australian universities have postgraduate degrees under two years of full-time study and some Australian university programs do not require applicants to take the GRE. The Australian university experience is a highly international experience, allowing students to develop a regional and global network.

There are 107 sister city or sister state relationships between Australia and Japan, making Australia Japan's largest partner for such arrangements. Some of these sister city relationships play an important role in promoting school trips, sporting and other cultural exchanges and facilitate commercial and policy links outside of major cities. Some of these relationships are idle and could be re-energised around initiatives in sports, the arts or language education in line with initiatives in this report. Those that are active and successful could be used as models for others of similar size or circumstance with an effort to document and compare these relationships. Competitive funding with the specific purpose of activating these sister city relationships could be made available. A new Ministerial Policy Dialogue on Education, Culture and Sport should include consideration of how sister city relationships can be revived for better connecting Australia and Japan in education, sports and culture. State and territory initiatives can be replicated, supported and coordinated by the Ministerial Policy Dialogue on Education, Culture and Sport and National Cabinet. The use of digital platforms can be leveraged to strengthen education, arts, cultural and sporting connections.

A reciprocal health agreement between Australia and Japan will remove a small but costly barrier to people movement between the two countries. And Australia should consider reciprocating some of the visa waiver arrangements that Japan affords Australian tourists, for example, and negotiate visa arrangements towards a freer flow of people with Japan.

Generational renewal is integral to getting closer to Japan. This means building the relationship at the level of educational exchange and taking steps to ensure that future leaders in the relationship possess the kind of cultural and institutional expertise that will be required to sustain the relationship in coming years across a variety of sectors. Investing in the relationship means investing in those who will shape its future.

Arts and cultural exchange at the centre of Australia–Japan relations

Key messages

- > The arts and culture are an important bridge between Australia and Japan, to build understanding and deepen the relationship.
- > Diminished core arts funding in Australia, combined with a fragmented grants landscape, have made the task of building and sustaining relationships in Japan and Asia more difficult and that must change.
- > Increased funding of cultural exchanges can help strengthen Australia's own cultural institutions and enhance Australia's soft power.

Key recommendations

- > A significant increase in funding for cultural exchanges that supports sustainable and competitive funding to arts organisations and individuals to build long-term relationships in Japan (and Asia) through collaborative work.
- > Initiate a national review mandated to increase funding for, and to incentivise, cultural exchanges with Japan and Asia through the Australia Council for the Arts or via other institutions. The Australia–Japan Foundation should be charged to spearhead invigorating arts and cultural collaboration with Japan.

Japan is a key cultural partner for Australia in Asia. In the more than four decades since the broadening of the Australia–Japan relationship, arts have come to serve as key drivers of the intimacy of ties at both the elite and grassroots level.

Arts and culture are a touchstone for Australia–Japan relations, playing a pivotal role in building Asian literacy. Alongside scientific and technological innovation, arts have shaped the popular image of Japan across the arc of bilateral relations as postwar economic cooperation broadened to embrace a multidimensional partnership.

Arts and creative industries capture imaginations, and Japan excels as a powerhouse of culture and design in East Asia and globally excel. Celebrity chef Adam Liaw's culinary trip across Japan did more than any advertising campaign to introduce hundreds of thousands of Australians to Japan. *Terrace House* and other television shows give Australians a glimpse into Japanese culture. Likewise, campaigns by Jetstar headed by young Japanese talents have proven incredibly successful in shaping the image of Australia in Japan and East Asia. Online, the surging popularity of travel documentaries and 'vlogs' posted by international travellers, available on online platforms that amass global online audiences of millions have the potential of redefining cultural relations with astonishing speed.

How can Australia better capture the Japanese imagination beyond beaches, school trips and honeymoons on the Gold Coast? Australian soft power is underdone.

The arts and creative industries serve as a key medium to reconceive the Australia–Japan relationship by highlighting the intimacy of connections through a new visual and auditory register. A focus on art can enhance Australia's underdeveloped soft power and people-to-people diplomacy, giving further ballast to the Australia–Japan relationship.

How does the Australia–Japan relationship look when we integrate the arts as a core part of the strategic partnership? The cultural landscape of the relationship presents a contradictory story. There is innovation at the grassroots level, where arts partnerships share Australian and Japanese experiences of natural disaster and the consequence of environmental change. Asialink Arts, the Australia–Japan Foundation and the Japan Foundation have provided opportunities for artists,

institutions and creative industries to build grassroots engagement in the relationship, in the process helping to shape the imagination of Australians and Japanese about each other's countries. Recent successes include Ainu–Aboriginal collaborations, region-to-region arts projects and making connections between hyper localised crafts, cuisines and art.

The contemporary landscape of arts funding is nonetheless challenging. Instead of a robust infrastructure of funding there is an ad hoc series of programs that are usually short-term and characterised by rapid shifts in funding priorities dependent on political discretion. The consequence of creeping structural short-termism is a difficulty in sustaining important institutional and personal connections between Australia and Japan and building them over decades. Japan values long-term relationships, so the mismatch is compounded by a failure to invest in people and programs capable of sustaining the relationship.

Upgraded ambitions for cultural exchange require new investment, matched by a funding architecture that prioritises grassroots initiatives at the local level in new national programs. It is difficult to invest in people, programs and relationships with scarce core funding.

One-way bridges cannot effectively narrow cultural distance between countries. Australia needs to better connect to Japanese efforts to project its cultural industries internationally and identity in Japan and Asia. Given the changed resource and funding landscape, what might a new infrastructure for cultural relations look like going forward? How might the Australia–Japan cultural relationship become a model for cultural diplomacy that could be deployed across Asia?

Box 6 Connecting through art

Covering collaboration in art and culture between Australia and Japan requires a report of its own. The history of Australia–Japan artistic exchange has been marked by creative influences flowing in both directions, and the popularity of Japanese art, design and culture in Australia is an enduring source of Japanese soft power. The flow and exchange of knowledge between ceramicists in Japan and Australia is just one example of the depth of the relationship. Some of Australia's significant ceramicists were influenced by the late Japanese master potter Hamada Shōji (1894–1978). Selected work of Peter Rushforth (1920–2015) took on a different style after a visit to Japan in 1963, which placed him in direct contact with Japanese potters and traditions.

The influence has gone in the other direction, too, with the distinguished Japanese potter Shigeo Shiga having drawn on inspirations from the Australian light and landscape in his work. Australian institutions continue to showcase Japanese ceramics for Australian audiences. The Queensland Art Gallery and Gallery of Modern Art (QAGOMA) has a collection of important Japanese ceramics dating back to the prehistoric Jōmon Period while the Newcastle Art Gallery in New South Wales holds the largest collection of modern Japanese ceramics in the southern hemisphere.

Media such as film, literature, sculpture, ceramics, painting and digital illustration, multimedia, music, dance, fashion and architecture are important bridges between Australia and Japan to build understanding and deepen the relationship. Yayoi Kusama's specially-commissioned participatory work *Flower Obsession* anchored the inaugural National Gallery of Victoria (NGV) Triennial in 2017, which drew almost 1.3 million visitors during its season, making it one of the most attended exhibitions in the NGV's history.

The Australian Ballet School brought two dancers from Japan to Australia in 2014. Bangarra, an acclaimed Aboriginal and Torres Strait Islander contemporary dance company, presented *'I.B.I.S. and Spirit 2018* in a series of masterclasses, performances and workshops in Japan. The World Crafts Council – Australia published a bilingual issue of *Garland* magazine in Japanese and English to bridge Japan and Australia's craft scenes and the issue was launched at Kyoto Design Week in 2019.

Arts linkages at the community-to-community level have been an important part of cultural exchanges between Australia and Japan. As part of reconstruction initiatives after the March 2011 earthquake and tsunami disasters, community music and performance groups from Australia have developed partnerships with communities in Minamisanriku and Iwate Prefecture.

Works by Japanese artists, as well as Australian artists drawing upon traditional and contemporary Japanese artistic practices, have been front and centre in major Asia-focused arts events in Australia including the Asia Pacific Triennial of Performing Arts (Asia TOPA) in Melbourne and the Asia Pacific Triennial of Contemporary Art hosted by QAGOMA.

Tapping into the longstanding appreciation for Japanese cinema in Australia, the Japan Foundation in Sydney runs an annual Japanese Film Festival that has a satellite program to regional cities in Australia, as well as selected capital cities around the country.

A new cultural infrastructure

Australia has stories to tell that are essential to realising ambitions for relations with Japan as well as elsewhere in Asia. The benefits of cultural infrastructure to underpin a reimagined Australia–Japan relationship touch on fundamental questions of how Australia conceives of its place in the world and the nature of engagement with the region.

Australia does not have a clear message about itself and its people beyond the first easy stages of identity, which are often trite or inaccurate. And oft-times that misleads. Easy messages are useful, but beyond that there is a richer Australian experience to introduce. The historical fact of the White Australia Policy casts a faint but nevertheless perceptible shadow over Australia's present-day status as an open and highly multicultural society. The history of racially discriminatory policies in Australia, together with the harmful legacies of colonisation on the present-day status of Indigenous communities, continues at the elite and intellectual level to shape perceptions across much of the region. To the extent that Australia's engagement with the region occurs through the prism of managing threats, and is undertaken in overt concert with other Anglophone countries, it lends some credence to largely outdated yet nevertheless widespread perceptions in the region that Australia considers itself alien from Asia and its peoples.

Without denying its history, Australia is foregoing opportunities to tell the story of modern Australian society to its region through an upgrade in its cultural diplomacy. Almost all advanced economies and many emerging economies see it in their interest for their governments to support an agency to promote cultural diplomacy. Many of Australia's peers and neighbours support cultural centres across the region: the United Kingdom, France, Germany, the Netherlands, Japan, India and others support cultural centres in Jakarta, Indonesia, but Australia has none. A visit to the major capitals and educational centres throughout Japan, Korea, and China yield cultural houses and programs dedicated to Germany, France, Japan, United States and the United Kingdom – but nothing comparable has been attempted by Australia.

The one exception is the evident success of Australia House in Tokamachi City, Niigata, which since its rebuilding has served as a 'symbol of recovery from the Great East Japan earthquake and tsunami'.¹⁴ Since 2011, Australia House, funded by the local government in Japan, stands as a model for what can be achieved in soft power diplomacy in Asia. Communicating who we are, and the story we tell about ourselves, are key to transforming relationships from being merely an alignment of interests to enduring partnerships.

14 Australian Embassy Tokyo (2020)

Australia has a gap in its toolkit for engaging Japan and the rest of the world. Knowledge that helps introduce Australian culture and encourages collaborations to understand Asia will help sustain a new era of engagement. With diminished core arts funding in Australia, and a fragmented grants landscape, it is difficult to build and sustain relationships with partners in Japan.

Existing funding is inadequate to this task. A new architecture is needed to bring together fragmented funding initiatives to provide long-term stability to artists and creative industries as they seek to build new grassroots initiatives. Increased funding for international collaborative work can help to leverage more philanthropic and foundational funding.

New institutional agency is needed to promote and sustain cultural exchanges with Japan and Asia. Options might include reform of existing institutions such as the Australia Council of the Arts, extending to it specific support for exchanges focused on Asia. Another option is the creation of a new Australian cultural agency. Asialink Arts continues to connect Australian arts to Japan and Asia and should be a central part of any new arts architecture. The Australia–Japan Foundation’s resources might be expanded to support a larger program of cultural exchange. In the past seven years one third of the Foundation’s funding has gone to grants in the arts, the largest category of grant recipients. The next largest categories to receive grants were 26 per cent to research, 11 per cent to higher education exchange and 7 per cent to sports.

What regional models might Australia look to as it seeks to build anew the institutions and structure for culture? Two models of cultural engagement represented by the Korea Foundation and Japan Foundation are illustrative of the different possibilities open to Australia. The Korea Foundation has invested in the Busan-based ASEAN Culture House as a bricks and mortar resource for interdisciplinary culture and art education programs and professional training for artists from Korea and abroad.

By contrast, the Japan Foundation provides a model of ‘aid through culture’ – its Asia Center has pioneered far-reaching and decentralised projects to sustain artists and cultural productions across Southeast Asia. These programs have had a powerful influence on the artistic landscape of Asia in recent decades. One of the strengths of this program has been the willingness of the Japan Foundation not only to fund Japanese artists but also artists from across the region. This model of soft power through arts and culture has proven successful in influencing and shaping broader cultural discussions across the region.

There may be an inclination to build a physical presence in Japan or Asia, following on the success of Australia House in Tokamachi City. But the funding deployed would need to be more nimble and responsive to Australia’s strategic priorities, while retaining a high degree of independence. A go-to point for cultural collaborations will still be needed for building bridges between the two societies. Australia needs to develop a model of cultural support that suits its own temperament and circumstance.

A national review should be initiated to consult artists, practitioners and stakeholders on the mandate for a new or restructured Australian agency for cultural exchanges which has dedicated funding for Australia’s cultural exchanges and collaboration with Asia. The Australia–Japan Foundation can be charged with instigating this review.

Reimagining the Australia–Japan relationship opens conceptual space for thinking about the future of Australia’s cultural engagement with East Asia. Cultural knowledge mediated through art gives Australia – and Australia’s Japanese partners – access to, and familiarity with, broader shifts in societal relations in both countries. In many ways, the arts express where a nation is at and where it is going. The strength and durability of Australia–Japan relations rests on enabling each society to tell its stories about how it sees itself and its place in Asia and the world.

Sports diplomacy

Key messages

- > Sport plays a vital role in facilitating closer bonds between Australia and Japan and their peoples but full complementarity will not be realised without more investment in *understanding* Japan.
- > Australia and Japan have a rich history of sporting ties and engagement that has continued to expand over the last decade.
- > Government plays an important role in creating and maintaining a broader framework of support for grassroots, amateur and professional or commercial exchanges to flourish.

Key recommendations

- > As part of the Department of Foreign Affairs and Trade's Sports Diplomacy 2030 vision, revisit the 2017 Memorandum of Cooperation between Australia and Japan by initiating a report to document a roadmap to support sports related exchanges and active engagement of leading sports associations and business leaders.
- > Incentivise closer cooperation and collaboration to showcase Australian sport in Japan and Japanese sport in Australia.
- > Create initiatives to promote and facilitate sports related exchanges between Australia and Japan at all levels.
- > Invest in cultural translation in all levels of sports on digital platforms and leverage sports diplomacy by engaging with athletes and sporting personalities.
- > Leverage existing sister city connections to promote sporting activities currently in place through the new Ministerial Policy Dialogue on Education, Culture and Sports.

It is not in the nature of governments to hide their light under a bushel. Hence, even for knowledgeable onlookers, it comes as a considerable surprise to learn that in January 2017, the Australian government signed a Memorandum of Cooperation with Japan to use sport to further strengthen ties between the two nations. It was a ground-breaking achievement, with the two countries signing off on one of the first official bilateral arrangements in the world to use sport in this fashion.

Yet the ambition of the agreement and its potential was undermined by a lack of consultation and outreach with the Australian sporting organisations most active in engaging with Japan, who had little or no knowledge of the deal. What should have been a starting point for negotiations between the two nations' sporting organisations became, at best, an addendum. It is essential that future planning and implementation of efforts to build frameworks for sports cooperation should involve key stakeholders as sports officials and corporations who are doing the work on the ground to build sporting ties.

The bilateral sports relationship nonetheless continues on impressively, flourishing at a relatively unsophisticated level — knowledge-sharing, on-field competition, player and coaching exchanges and the like. The sporting relationship with Japan is already well established and productive, despite the need to periodically reinvent it. Through Australia–Japan Foundation grants, Australia introduced lifesaving and touch football to Japan in the 1970s and 1980s. As an instrument of Australia's soft diplomacy, the Australia–Japan sporting relationship is binding together the two countries that already have much in common. High profile professional sports stand out the most. Japan's hosting of the Rugby World Cup in 2019 and the Japanese rugby team Brave Blossoms now being consistently in the top ten of world rankings have made the relationship much more equal. Japan is having an effect on the game in Australia, with the decisions of high-profile Wallabies Michael

Hooper, David Pocock, Bernard Foley, Quade Cooper and Samu Kerevi to broaden their horizons by playing with Japanese clubs in recent times.

Other sports provide their own examples. The move by Japanese Football World Cup hero Keisuke Honda to the Melbourne Victory A-League team for the closing period of his fabled career was seen as broadening the bilateral partnership; so too was the call by Japanese basketballer Yudai Baba to link up with Melbourne United in the National Basketball League. It was a transfer that excited only modest publicity in Australia but the media attention in Japan was huge. Netball Australia has begun working at grassroots level with Japan, partnering with the Australia–Japan Foundation and the Australian Government in a one-year pilot program to increase the knowledge, popularity and reach of netball, specifically in the Gunma Prefecture. It may be that it is at the local level that the relationships between Australian and Japanese sporting organisations have worked best, with Prefectural governments making a lot of decisions around sporting budgets in Japan.

Grassroots or local level successes in the sporting relationship suggest much more can be achieved. A review that documents all the sporting exchanges between the two countries at grassroots, amateur and professional levels could highlight their successes and detail the support, incentives and key information that is relevant to those groups and what pathways could be taken by other sporting organisations to engage with Japan. Leveraging off and growing the many sister city connections and sporting activities will be important in this context. The current lack of visibility of existing success stories indicates significant untapped potential, given the wide variety of sports exchanges and relationships that already exist between the two countries.

Deepening the sports relationship will mean thinking and planning at a far more nuanced level and it is in this regard that major sports are leading the way. Baseball provides a rare perspective because it is a sport where the imbalance favours Japan. Japan's national team, Samurai Japan, is ranked No.1 in the world, whereas Australia is ranked sixth – though its two wins over Japan in the pool round and semi-finals of the 2004 Athens Olympic tournament have earned it ongoing respect. Baseball Australia hopes to entice a Japanese-centric team to play in the Australian Baseball League, mirroring the participation of Geelong-Korea, made up of South Korean players based in Geelong for the season, in last year's competition. With a significant number of Japanese players competing in the ABL, the potential for broadcasting back to a Japanese audience would be significant.

Since joining the Asian Football Confederation in 2006, Australia and Japan have been pitted against each other in virtually every football (soccer) World Cup qualifying cycle, as they were again for the final round of Asian qualifying for the 2022 tournament in Qatar. Indeed, the Memorandum of Understanding signed between the A-League and the J-League four years ago has helped develop the relationship remarkably with weekly interactions between team officials.

Rugby perhaps best demonstrates an aspect of the relationship that has reached a new level. How Australia can best bring Japan 'in from the cold' is a constant topic of conversation in the Australian rugby media, with the coach of the Queensland Reds Rugby Union, Brad Thorn, and Queensland Rugby Union recently circulating a discussion paper recommending that no fewer than five top-tier Japanese clubs be brought into Australia's Super Rugby competition in 2022 alongside the existing five Australian and New Zealand clubs.

Given the fact that Japan has beaten the Tier One nations of South Africa, Ireland and Scotland at the past two World Cups and is now consistently ranked in the top ten of the World Rugby rankings, the pressing question is whether Australia will take the lead in having Japan admitted to the prestigious Rugby Championship, the southern hemisphere equivalent of the Six Nations competition. Broadcast and digital sports media will be a key factor in maintaining the current momentum in the sporting relationship, and continuing initiatives such as Stan Sport's recent showcasing of Japanese Rugby in Australia will promote visibility of Japanese sport in Australia and vice versa.

Box 7 Building from Super Rugby

Accompanying Australia's efforts to elevate Japan's role in international rugby is the important work being done one level down by the five Australian Super Rugby clubs. All have aligned themselves to various degrees with major Japanese company-based teams, but none as effectively as the Melbourne Rebels with the Osaka-based Kintetsu Liners. What began as an exchange of information between the two head coaches – it helped that a former Rebels assistant coach, Nick Stiles, was on the Kintetsu staff – escalated over time into regular connections between the two sets of executives.

The real benefit of the initiative surfaced when it became apparent during those conversations that the relationship offered so much more than a coaching exchange. The Victorian Government, which operates some of the largest public transport infrastructure in Australia, identified the commercial benefits of the link, expediting meetings with executives of Kintetsu, which is one of the largest train manufacturers in Japan. In turn, one of the Rebels' major sponsors began exploring whether to tender for a train cleaning contract in Japan.

Despite initial cultural barriers and a lack of familiarity with how both countries do business, the Rebels–Liners collaboration is a great example of how growth in people-to-people ties, established in this case via sport, has the potential to spill over into commercial opportunities – a pattern that is replicable across other key dimensions of bilateral engagement, including in the arts, culture and education.

A review of the sporting relationship between Australia and Japan should include the opportunities and connections that can be made between sponsors, supporters, governments and organisations. For example, the Australian energy company Santos, which sponsors both the Queensland Reds rugby union team (who have an MOU with the Panasonic Wild Knights) and the Australian Wallabies, exports LNG to Japan and maintains deep commercial ties to Japanese companies. Many such connections between sponsors who often share common interests are underexplored. Avoiding compartmentalisation of the sports relationship, and thinking laterally about new opportunities, will be key to leveraging these.

A new approach could help elevate the Australia–Japan sporting relationship. There are some outdated commercial intuitions about how to approach Asia and sport, driven by the tradition that all money in sport is decided by rigid five year TV broadcast deal bundles priced by audience size and associated ad and sponsorship revenue. Digital and social media are shifting that dynamic completely. Athletes, armed with Twitter and Instagram, now have more power relative to leagues, and commercial value in sport becomes more about narratives crafted around the game by the athletes and fans as much as the broadcast of the matches themselves. An average Instagram follower in Australia or Japan is just as likely to relate to an amateur or low-level pro athlete who has a good story around their craft as much as a high-level athlete who is all craft and no story. The investment in the relationship now needs to involve investment in cultural translation and storytelling around the engagements themselves.

Ultimately, any relationship – good or bad – hinges on the personalities involved. Australia's understanding of Japan has come a long way from the days when, for instance, Wallabies winger Ian Williams joined Kobe Steel fresh out of Oxford in 1989 and found himself living in a company dormitory and eating curry and rice for weeks on end, while scarcely understanding a word of Japanese. He went on to become the first player from a Tier One nation to also play Test rugby

for the Brave Blossoms, and his love of Japan has deepened over the years to the point where he is now vice-president of the Australia–Japan Business Co-operation Committee. In a very real sense, he has become a leader in sports diplomacy – yet that avenue is open to any Australian sporting official wanting to develop the Japan relationship. Williams’ journey would have looked very different today with the ability to reach a broader Japanese audience directly via social media, taking his Australian fans along for the ride.

The Australian women’s softball team was in the spotlight as the first foreign team to arrive for the Tokyo Olympics. With public sentiment sceptical of holding the Olympics during the pandemic, the *Spirit* softball team played an important role in calming public nerves in their host city of Ota, helped by the fact that their captain Stacey Porter plays professionally in Japan and could use social media to give the public a window into their world. Promoting individual personalities like that of Porter or others in the relationship can go a long way to bridge the cultural and language gap between the two countries and deepening understanding.

A deeper level of understanding of Japan helps realise the complementarity in the sporting relationship, with a greater ability for both sides to showcase the cultures, institutions and personalities involved in their respective sports while leveraging pre-existing connections.

The Department of Foreign Affairs and Trade (DFAT) could facilitate and coordinate bilateral exchanges, but professional clubs prefer to operate as the Rebels have done, organisation to organisation, supplemented in this case by the government contacts of identities such as Melbourne board member, Gary Gray. Unarguably, that has worked. And as the Rebels–Liners alliance demonstrates (see Box 7), the business of sport can lead readily into the business of commerce. DFAT’s future role could be in making exchanges and engagements easier between sports people and organisations through incentives aimed also at deepening the wider relationship, as well as promoting the success and visibility of the many important existing engagements.

Major sporting events help connect and strengthen business relationships. With corporations from all over the world gathering at international events, networking and public relations opportunities at major sporting events are significant. Sport can play a major role in bringing businesses and clients together and sports hospitality is fast becoming a vital strategy towards increasing revenue for many companies.

The success of the Tokyo 2020 Olympics and the forthcoming Brisbane 2032 Olympics give a window of opportunity to leverage sport, business and diplomacy to broaden and deepen the links between the two peoples.

Understanding Japan

Key messages

- > There is a need for generational renewal in Australia's Japan expertise as well as building up a general understanding of Japan's society, its institutions and its place in the world among public servants, businesses and in the community.
- > Australia's prosperity, security and social cohesion depends on an ability to understand and engage its neighbours. Political leadership and sustained bipartisan investment is the only way to build up Japan and Asia literacy in Australia that will endure.

Key recommendations

- > Reciprocate Japanese funding and institutions that create opportunities for Australians to study in Japan and take forward the establishment of a reverse JET program. Australia is not as invested in upskilling its next generation in Japanese language and country knowledge as Japan is, through such initiatives as the JET program and MEXT scholarships.
- > Establish a National Council for Japanese Language Education comprising experts to provide leadership and advocacy for Japanese language education from the primary to tertiary levels.
- > Introduce and reward Japan-related qualifications to build capacity in the public service and the private sector.
- > Extend the New Colombo Plan to include a Postgraduate Stream that can support high impact programs like the National Parliamentary Fellowship Program and Dual Degree Programs.
- > Launch short in-country immersion programs for public servants and political advisors.
- > Better utilise Japan specialists and expertise in various fields external to the public service to help build short-term capacity to enhance working with Japan.

Despite the pressing national priorities and shared interests driving the deepening of the Australia–Japan relationship, in practice the economic, social and political underpinning of the large-scale transformation that needs to take place remains inadequate to the task. How the relationship is reimagined, and how narratives are constructed to explain and justify a new and deeper relationship will depend crucially on the capacity that is invested in Australians to become closer to and more familiar with Japan.

The Australian public service and much of the business sector is not sufficiently invested in that capacity and this will not be fixed quickly. Australia's Asia literacy is inadequate across the range of national organisations that need to be at the frontline of engagement, and this is no different for Japan.

At the heart of building new institutions, networks and relations to underpin the Australia–Japan relationship in the decades to come is the question of the understanding and knowledge in Australia of contemporary Japan.

A series of questions confront Australia. Will Australian and Japanese perspectives on major diplomatic and defence questions, prominently now in respect of China and the role of the United States in Asia, continue in accord? Is there a limit to cooperation conditioned by geography, national interest and interstate competition? What is being done to ensure that Australian decision makers keep abreast of the contemporary strategic imperatives and history that drive Japan's political, military and intellectual worlds? What are the geopolitical perspectives which govern Japan's approach to China?

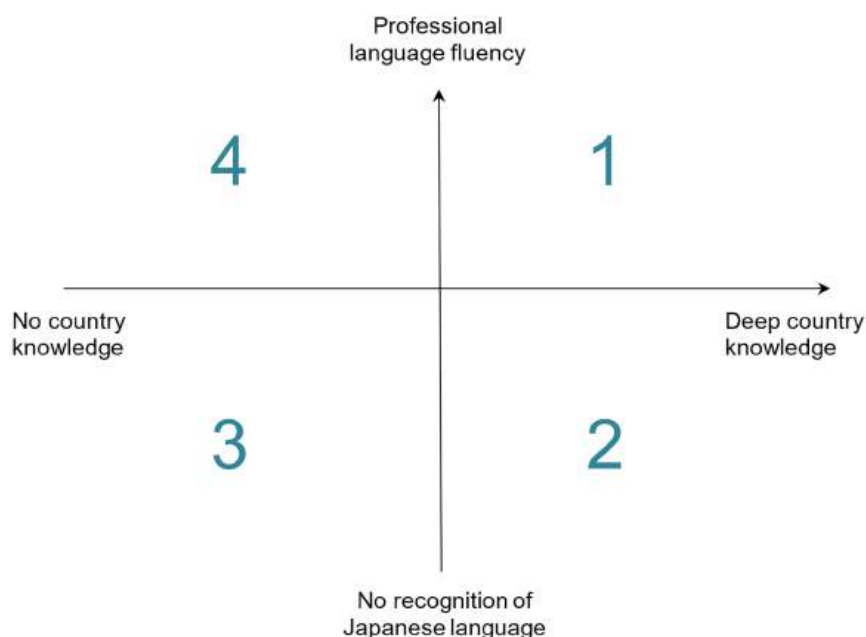
As this report has emphasised, significant shared security and economic interests are an important adhesive in the Australia–Japan relationship. But this present-day congruence of interests between Tokyo and Canberra and the ability to cooperate closely should not be assumed to be natural, permanent nor self-sustaining. Institutional and diplomatic mechanisms that keep both sides abreast with how the other imagines the relationship and their own positions within the global system are vital to not only enhancing mutual understanding but also to anticipate changes and manage differences.

Despite past achievements in bilateral cooperation between Australia and Japan, there is no room for complacency about its success in future. There is a growing mismatch between what is needed for Australia to effectively work with Japan in an increasingly uncertain region and the infrastructure and institutions that are currently relied upon to manage the relationship. More than ever, it is vital that the capabilities necessary to manage the rapidly changing circumstances in Australia's region are expanded. The relationship with Japan has intensified, yet Australia's understanding of the country and its society is diminishing and the depth of that understanding is less and less fit for purpose in today's world and for the future.

An essential part of achieving the reimagined relationship this report calls for will be a re-envisioning the circuits of expertise and knowledge. Equally, building the knowledge which will sustain the relationship also provides opportunities to develop a broader understanding of Australia in Asia and the kind of regional economic and political order that Australia and its neighbours seek. Reimagining the relationship with Japan demands reimagining Australia's own understanding and knowledge of its interests in the world.

There are different elements that contribute to an understanding of Japan that's relevant and useful. The language barrier is widely acknowledged as one. Figure 5 below sets out quadrants that help understand where people are in language ability and country knowledge, and what the priorities might be. A large majority of Australians are in quadrant 3 with very little knowledge of Japan and no Japanese language. There are a small minority who invest time and energy in learning about Japan, its culture, society, people, history, economy, politics and its position in the world and how it sees itself and learn the language. Those are in quadrant 1.

Figure 5 Quadrants of expertise: country knowledge and language ability



The two axes are related. A shared language is clearly a major advantage in understanding another country. Most Australians would be in quadrant 1 with respect to the United States and United Kingdom given the common language, shared cultural heritage for many Australians and institutional similarities combined with the media coverage of American and British news (where there is an oversized share of Australian journalists) and popular culture. With respect to Australia's important Asian partners Japan, China, Korea, Indonesia and others, most Australians are in quadrant 3.

Exposure to Japanese language at school can encourage further interest and study and move people who have entered quadrant 4 towards quadrant 1; those who travel to Japan for the first time or discover Japanese popular culture may develop an interest in the country and move towards quadrant 2. Some of them may choose to learn some Japanese language and move towards quadrant 1.

It is not a realistic ambition to move the majority of Australians in quadrant 3 to quadrant 1. Realistic ambitions are to:

- > To support, maintain and increase those who are in quadrant 1
- > Move significant numbers of public servants towards quadrant 2 through training programs and qualification requirements
- > Create pathways and openings for those Australians interested in learning some language to move towards quadrant 4 and 1
- > Create opportunities for those in quadrants 2 and 4 to move towards quadrant 1

This section sets out strategies to achieve these objectives.

Generational renewal of expertise on Japan

The future relationship with Japan requires a generational renewal of Japan expertise and knowledge held by those in quadrant 1, who have high levels of country knowledge and language ability. Australia is running down the expertise that built the foundations of the relationship. One alarming indicator of this is the cuts to Asian studies research in the higher education sector. The University of Western Australia (UWA), Swinburne University and La Trobe University have made significant cuts to Asia expertise in 2021 due to the financial crisis in higher education during the pandemic. UWA, for example, has maintained language programs while cutting area studies, anthropology, and sociology research and scaling back language teaching – in other words, failing to train the future generation of experts in quadrant 1 while moving students to quadrant 4.

These cuts exacerbate a trend in the sector before the coronavirus. The ANU's School of Culture, History and Language suffered deep cuts in 2016 that reverberated globally. One of the reasons for the national university's founding was to understand Australia's own region, and it had built an envied reputation for Asian studies expertise globally. Institutions, reputations and capacities take much time to build up, but can be devastated overnight.

There are too few Australians with the expertise required to deepen and sustain the relationship with Japan. Building a Japan-literate and Asia-literate workforce cannot be done overnight. It has to be a realistic, whole-of-society ambition and effort will take generations. For this paradigm shift to actually happen, there is a need for advocates and leaders in all spheres where policy is made and put into practice. That will require strategic use of current expertise and skills while capacity is built to strengthen the bilateral relationship with Japan and the region at large. As Ross Garnaut noted in the landmark 1989 report *Australia and the Northeast Asian Ascendancy*, '...we have to do the best we can building on the skills we already have'.¹⁵

Hidden networks, grassroots organisations and underutilised individuals and groups provide Australia with a foundation to close gaps and effect necessary cultural change. How these networks

15 Garnaut (1989)

might be strengthened and how they can be effective in deepening people-to-people relationships between Australia and Japan will be more important in the coming decades.

This agenda needs to be entrenched sufficiently across Australian governments so that its elements are not vulnerable to shifts in political leadership. The Australian Government's 2013 *Australia in the Asian Century White Paper*, for instance, proposed significant investment in Asia capacities, but it and its recommendations were discarded after a change of government. This pattern cannot be repeated: any investment in Asia capacities needs to be sustained and initiatives be bipartisan.

Generational renewal takes place through a large investment in strengthening the educational base, creating opportunities for those at all levels of language proficiency and interest in Japan and using Japan as the gateway to better connect in Asia. There are too few academic or other specialised job openings for those who have invested in their Japan expertise and where those abilities can be utilised and built upon. There are many young professionals whose Japan literacy is depreciating and who are trying to move to jobs where their expertise will not be used or sustained. With very little Australian investment in Japan capacity and failure to define that as the necessary requirement for a closer partnership, those opportunities will continue to attenuate.

Australian foreign policy and diplomacy is pursuing the national interest in a networked world. Australian academics, business people and others have extensive networks and have built up associations in Japan that can enrich interaction with Japan and help make the connections outside official channels. These networks are major assets in the relationship.

The role that associations, especially of young professionals, play in connecting to future leaders in the bilateral relationship is important. The value of youth organisations does not always derive from their advocacy and their contributions to debates on pressing issues within the bilateral relationship. Their influence lies in their ability to foster deep connections, networks and friendships between individuals who have demonstrated a shared passion for building the relationship and think creatively about its future. These relationships are part of the asset base on which the relationship will rely in the future. Examples include the Australian Network for Japanese Law (ANJeL), the AJBCC–JABCC Future Leaders Group, and the Australia–Japan Youth Dialogue (AJYD).

Strengthening the educational base: Japanese language and studies

The need for Australians to develop a greater understanding of Japan and the region is not a new idea. What has been missing is sustained investment in this mission and a sustained national vision to achieve it.

Education is the main anchor underpinning the people-to-people relations between Australia and Japan. Policy choices over the past fifty years have seen Japanese identified as a 'language of wider teaching' in the 1987 National Policy on Languages. In the 1990s, the National Asian Languages and Studies in Australian Schools (NALSAS) Strategy, a cooperative initiative of the Commonwealth, State and Territory Governments, promoted Asian languages education to 'improve Australia's capacity and preparedness to interact internationally'.¹⁶ Today, Japanese is one of the most widely taught foreign languages in Australia. The Japan Foundation's 2018 *Survey Report on Japanese Language Abroad* estimates that over 400,000 students study Japanese at some level in Australia.¹⁷ By global standards, the Japan Foundation's report places Australia within the top five. This is the result of the combined efforts of associations, groups, educators and researchers advocating the importance of people becoming Japanese learners and 'users'.

A number of reports have advocated stronger continuity of Japanese language learning between primary, secondary, tertiary and vocational levels. They have also urged deeper teacher training

¹⁶ Department of Education, Science and Training (DEST) (2003)

¹⁷ Japan Foundation (2020)

and professional development, highlighted the need to develop detailed curricula and materials to enable schools to create common benchmarks, and the increased use of technology to facilitate authentic interaction. Reports assessing the state of language education in Australian schools have emphasised that there is a failure to develop policies and practices that value and support languages. For example, in Victorian secondary schools in 2019, there was a large gap between the percentage of students studying a foreign language in Year 7 at 89.6 per cent compared to 7.2 per cent of students in Year 12, demonstrating the dramatic collapse of continued language learning by secondary school students.¹⁸

In Victoria, schools must provide a language program for students from Foundation to Year 10.¹⁹ In contrast, New South Wales does not mandate any study of languages in the primary years.²⁰ NSW is the only Australian state or territory without a mandated program at the primary level. These policy inconsistencies are cracks in strengthening the educational base. Greater consistency, sustained investment and a prolonged national vision are needed to develop a reasonable level of language proficiency and intercultural understanding. Time and time again, the need for a new vision for language learning is voiced in language education. For that vision to be put into practice, national leadership is required.

Federal and state funding are essential for regular reviews that assess the state of language education in Australian schools and universities. The Australian Government Department of Education, Skills and Employment (DESE) has engaged the Australian Federation of Modern Language Teachers Associations (AFMLTA) to undertake a nationwide project that aims to inform a National Languages Plan and Strategy for languages education in Australia.²¹ The AFMLTA's report will be submitted to DESE in May 2022. This report should be publicly available, with additional federal government funding allocated to several follow-up studies. Including updated reports that reassess the health of language learning in Australia.²²

Even within the current Japanese language learning architecture in Australia, there is untapped potential. One prominent example is the widespread existence of Saturday Japanese *Hoshūko* schools across Australia, currently used by parents of children with Japanese background who seek to maintain their Japanese language ability. *Hosūhko* schools are primarily run by local Japanese expatriates on a volunteer basis, with the majority of funding coming from the Japanese government. Although the current demographic for students is that at primary or middle school, increased levels of funding and a more standardised staffing system could broaden the intake of students into these programs to those who do not necessarily have Japanese background but are interested in the country and its language and are seeking to immerse themselves in an environment with its native speakers. These schools are an asset in the relationship that is under-utilised due to a lack of funding and support. They are an unrealised opportunity for building capabilities for understanding in the community.

There is growing recognition that 'Asia-literacy should be an expectation of our education system', according to Hamish Curry, the Director of The Asia Education Foundation.²³ But there is a need for serious discussions to be had about what needs to happen. It is essential to listen to those who have dedicated their lives to doing the research, and those who are on the ground in classrooms. As Cathy Harper and Professor Joseph Lo Bianco have observed,

*If educators have more prominence in policy design and argument, the logic would be more grounded on the cultural and intellectual benefits of learning the languages of our regional neighbours and the practical constraints of ordinary schools, with their competing demands, the identities and experiences of students.*²⁴

18 Victorian Government Department of Education and Training (2020)

19 Victorian Government Department of Education and Training (2021)

20 Education NSW (2021)

21 Australian Federation of Modern Language Teachers Associations (AFMLTA) (2021)

22 Building on from those funded by DEEWR (now DESE) in 2010, Asia Education Foundation (2010)

23 Curry (2021)

24 Harper and Lo Bianco (2021)

Learning a language is about developing new critical ways of thinking as well as communication skills, honing natural curiosity and deepening connections. It is also about exploring shared histories and emerging contemporary realities. More diverse voices can help shape language policy and advocate for learners and ‘users’.

A national body of experts is needed to provide leadership and advocacy for Japanese language education from the primary to tertiary levels. The establishment of a National Council for Japanese Language Education might serve this purpose. The Council could create opportunities for the sharing of expertise and information, professional development and in-country experience, collate advocacy materials on Japanese culture and language, provide representation in consultations with key stakeholders, and promote grants, scholarships and fellowships related to Japan. It would sensibly bring together the many organisations that are already active in the space and act as a steering committee.

The National Cabinet will be instrumental in delivering many of the initiatives in the education sector and across the arts and sports given the extensive cooperation necessary between federal and state authorities.

University and research

The story of Japanese studies at Australian universities is one of robust enrolments. There is an infrastructure to support teaching and research that includes the Japanese studies Association of Australia (JSAA) and the Japan Foundation in Australia. The community of Japanese studies scholars, working at the intersection of history, language, linguistics, film studies, gender studies, literature, and translation is important to deepening Australians’ understanding of Japan.

Language continues to be the bedrock of Japanese studies in Australia and has experienced steady growth in enrolments at the university level, proving to be more recession-proof than contextual humanities or social sciences courses, partly because language is perceived to be an applied skill and equipping graduates for a global job market.²⁵

The apparent good health of language-based programs across the country, however, hides significant structural problems. The disciplines important for Japan studies in Australia have seen a winnowing of curricula in related area studies, including history, anthropology, gender studies, political science, economics, international relations, linguistics, literature and film studies. These programs have been the subject of sweeping cuts across the sector, that were accelerated by the general cutbacks during the COVID-19 pandemic.

A large proportion of the students of Japanese language at Australian universities are now international students from Asia. Those students have helped underwrite the financial sustainability of Japanese studies programs but have made the programs vulnerable to loss of enrolments during the COVID-19 crisis. Cuts to researchers and courses leave significant gaps that will take a long time and sustained investment to rebuild. While the cuts may be justifiable in the short term, they reflect a lack of future vision. They erode the health of important educational relationships that are critical to building the human capital that Australia now needs. Notwithstanding robust numbers of Japanese language learners at secondary and tertiary levels, Australian universities lack programs to train the next generation of Japanese studies scholars and practitioners, future historians, anthropologists, literary scholars, economists or political scientists.

These challenges within universities are compounded by an attenuation of capacity to support Asian studies within Australia’s key national institutions such as the National Archives of Australia and National Library of Australia (NLA). Their collections, alongside those held by universities, are invaluable repositories of material not only on Japan itself but also on the history of Australia–Japan integration that scholars can draw upon to help us better understand the story of the relationship.

25 Barraclough (2020)

But these resources are under pressure: the National Library of Australia, for example, stopped adding to its Japan collection in 2015 and has wound down Asia-focused facilities and redeployed expert staff. One of the key repositories of the memory of Australia's relationship with Japan has been severely degraded, and reinvestment in it, ideally as part of a broader rebuilding of national cultural institutions' Asia capacities, should be an important goal. A new digital partnership with Japan's National Diet Library (NDL) would allow the NLA to extend its impressive digitalisation agenda in Asia source materials, while at the same time ensuring the archives of Australia–Japan relations continued to be at the centre of the library's Asia-focused mission.

The challenges of adapting Japanese studies in Australia to the new reality are formidable. Building the understanding and knowledge required to deepen Australia's relations with Japan in the coming decades requires a new approach. The case needs to be made for the role of language in HDR (higher degree by research, or commonly PhD) and, at the same time, for refocusing and reinforcing Japanese studies, not only as a university elective, but as a comprehensive area studies discipline with language as its foundation. Research by the University of Melbourne's Ikuko Nakane and ANU's Carol Hayes on advanced Japanese language across Australia, New Zealand and Singapore reveals that amongst the institutions they surveyed, the most widely offered option within Japanese language programs was as an 'elective'.²⁶ A key consequence is that even if university Japanese programs offer attractive subjects to students who have studied Japanese at school, it is not always possible for them to reach an advanced level.

Advanced Japanese programs in Australia, New Zealand and Singapore generally have much lower enrolment numbers than beginner and intermediate-level subjects and are most at risk of being merged, cut back or dropped altogether in staffing and curricula rationalisations.²⁷ The Nakane and Hayes Report was instrumental in the birth of the Australian Network for Teaching Advanced Japanese (上級日本語 Network) community.

The report sends a chilling warning about the future of Japanese studies and Japanese Programs, particularly those at the 'advanced' and 'upper advanced' levels. This, coupled with dwindling investment into higher language education and language education, sends the signal that our government and institutions lack foresight into the importance of knowing and understanding our closest regional partners. Of the 70 respondents in the study, around 57 per cent of 'advanced Japanese language teachers' had twenty or more years of experience teaching advanced Japanese. With only just above a third of these teachers being emerging scholars, these results paint an alarming trajectory for the future of teaching advanced Japanese in the three surveyed countries.

It is imperative to address the obvious challenges to the sustainability of these programs, and also at how to train and support emerging researchers and teachers who will be the linchpins in the quest for the generational renewal in Japanese language and Japan-expertise that Australia badly needs.

The task of completing this report provides a reminder, through the written submissions and roundtables of the small groups, associations and non-profit organisations, of the ongoing grassroots commitment to the bilateral relationship. These people-to-people connections span music groups, dance troupes, choirs, community sporting clubs, alumni networks, craft and *ikebana* schools, and collectives of go and shogi aficionados, to name a few. These 'hidden networks' of people at the heart of the relationship that come together – in-person or online – because of shared interests or experiences are often unnoticed or unknown. Clusters of hidden networks, including past recipients of JSPS Grants and the alumni of Japanese universities in Australia, have immense potential capabilities and insights that can be leveraged. Despite their modest size, these groups are a powerful pillar in the enabling agenda and demonstrate the value of a whole-of-society approach to understanding Japan.

26 Nakane Hayes (2021)

27 Hayes, et al. (2021)

Mobility and in-country initiatives

Tourism

As a major contributor to people-to-people interaction, tourism plays a vital part in the ongoing development of the Australia–Japan relationship. Tourism has been crucial for building strong bilateral ties for more than 50 years, with the Tourism Australia office in Japan having been established in 1968. While the COVID-19 pandemic caused a cessation of international tourism, the rebound is expected to be strong and sustained, with potential travellers and key industry stakeholders having rethought tourism experiences between two countries that have managed the health and economic fallout from COVID-19 relatively well.

In July 2021, the Australian Minister for Trade, Tourism and Investment, Dan Tehan, led a Tourism Australia roundtable meeting with the major industry players in Japan. This culminated in the signing of a Memorandum of Understanding to commit to working as quickly as possible towards the strong recovery of the Japan–Australia tourism market, including air services. To make the most of the growing tourism relationship, investment in people is needed – training and skill development – to meet market needs and increasing demand.

Understanding of the Japanese market is crucial to success in expanding Japanese tourism opportunities. Programs such as the joint Australian Tourism Export Council and Tourism Australia’s Japan Host Program provide targeted market information, cultural context and product and service development advice to the industry. Language is both an opportunity and a challenge in tourism. Many Japanese travellers see visiting other countries, including Australia, as a good way to practice their English language while enjoying a holiday, yet still wish to have access to marketing and product information in Japanese, and Japanese-speaking staff in hotels, stores, medical facilities, attractions and with ground operators.

Japanese-speaking tour guides and support staff are, however, in short supply in many areas of Australia, especially as many who were in Australia on working holiday visas before the pandemic have returned to Japan. Investing in the development and provision of suitable language services in Australia is necessary to underpin long-term growth. This includes not only native speakers but skills development for non-native Japanese speakers as well. Better language services will enhance the people-to-people elements of tourism.

As travel with Japan increases with the opening of Australia and Japan’s international borders, Australia should leverage pre-existing strengths in the tourism relationship. One is the perception of Japan as a premier ski destination by many Australians, which has resulted in a boom in tourism at skiing hotspots such as Hakuba and Niseko. Many Australians, however, are unaware of the diversity of ski-oriented travel destinations in Japan away from these hotspots. A whole new demographic of prospective Australian travellers to Japan might be opened up by marketing the benefits of travel to these alternative destinations, with a greater focus on experiencing Japanese culture. This strategy is of particular relevance for regional communities in proximity to ski facilities that are facing pandemic and ageing related economic downturn.

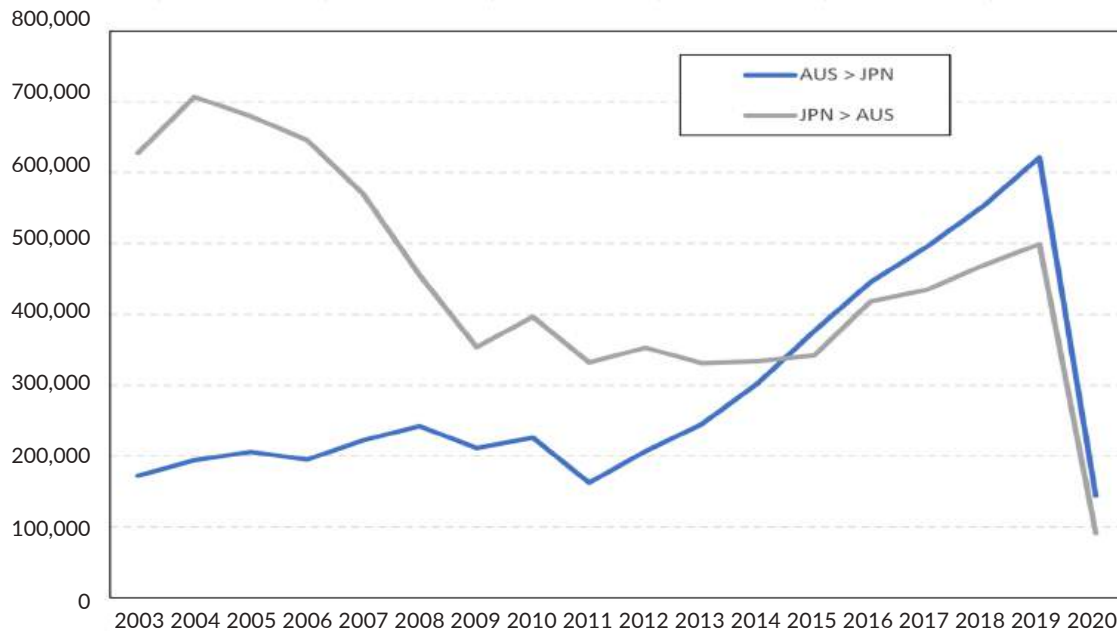
The future of Australians’ Asia literacy will be significantly impacted by the content creators and influencers on emerging digital platforms such as YouTube. Such content creators showcasing Japan form many ‘first perceptions’ of Japan for young Australians interested in the country.²⁸ Japan has been quick to adopt ‘influencer’ marketing, with prefectural governments and tourism agencies hiring foreign content creators – including Australians – to promote local cuisine, landmarks and tourism opportunities. Leveraging these platforms and the power that influencers wield as sources of information and inspiration will be invaluable in shaping perceptions for the next generation. In the past, cultural products such as *anime* and *manga* had immense soft power in attracting people to

28 See ‘Currently Hannah’, Australian Youtube content creator showcasing aspects of both metropolitan and regional Japan to a following of 325,000 digital subscribers.

Japan. While this still holds true, Australia has an opening to mirror Japan's use of content creators to promote Japan and Australia to audiences across the bilateral relationship.

Australian tourists to Japan overtook Japanese tourists to Australia last decade and before COVID-19 saw over 600,000 Australian tourists visit Japan in 2019 (Figure 6).

Figure 6 Visitors from Australia to Japan, and Japan to Australia (2003-2020)

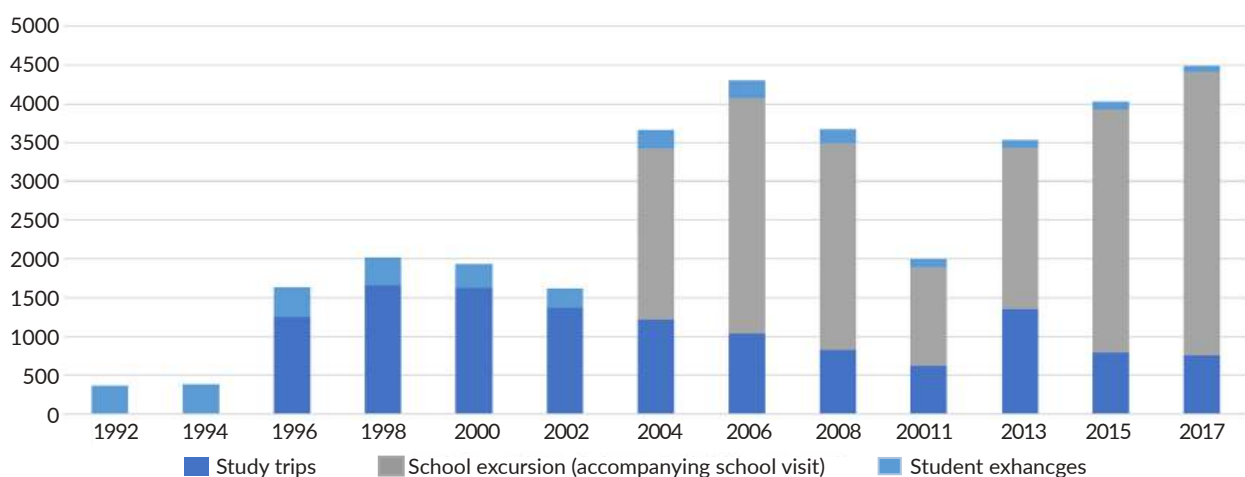


Source: [JNTO, 2021](#)

Student exchange and study abroad

For some primary and secondary students, their first experience in Japan is through an overseas school excursion or study trip. This might be organised through their school or groups such as Rotary Clubs, Australia Japan Societies or the Asian-Pacific Children's Convention (APCC) in Fukuoka. While the number of Australian overseas school excursions or study trips has remained strong over the last few years, there has been a decline in long high school exchanges to Japan (Figure 7).

Figure 7 Australian High School Student Trips to Japan by Category (1992-2017)



Source: [MEXT, 2019](#)

There are a number of factors that may explain this decline, but the sheer cost of going abroad to Japan for a year-long program is well over A\$10,000. The loss of AFS in Australia, a well-known and reputable youth exchange organisation, after 61 years left a void in the high school exchange landscape. AFS Australia was one of the key organisations helping to finance longer-term exchange programs to Japan with financial assistance from donors, such as Anglo Coal Australia, J-Power Australia, Mitsui and the Sony Foundation Australia. This gap must be bridged for future generations of young people in Australia studying and living in Japan for a longer period of time.

With 553 Australia–Japan sister school arrangements at the senior high school level as of 2018, Japan has more such arrangements with Australia than with any other country in the world. Australia also has more sister city and sister state arrangements with Japan than Japan has with any other country. Sister city relationships continue to be important as they allow for cultural and language exchange beyond the major cities. While COVID-19 may have prevented in-person overseas programs in Japan, the pandemic presented an opportunity to institutionalise virtual programs between sister schools and sister cities.

In 2021, METI announced its five-year Learning Innovation project, designed to foster educational innovation with a focus on primary and secondary levels. The project encourages elementary schools, and junior and senior high schools to utilise educational technology (EdTech) in the classroom to become a ‘Future Classroom’.²⁹ This presents an ideal opportunity for Australian EdTech companies, but also the Department of Education, Skills and Employment (DESE) to work with the Ministry of Education, Culture, Sports, Science and Technology (MEXT) to link schools without a sister school in Australia and Japan. This would be in line with supporting Framework 3 of the ongoing Memorandum of Cooperation in Education, last renewed in 2018, between Australia and Japan³⁰. A new minister-level Policy Dialogue on Education, Culture and Sport, that upgrades the existing dialogue between DESE and MEXT officials, would help coordinate such initiatives.

University mobility

The New Colombo Plan (NCP) has provided 70,000 undergraduate students scholarships and mobility grants for up to 19 months of study, internships, mentorships and language training in Asia and the Pacific since its launch in 2014. Japan has been in the top 5 of the 40 destinations chosen by students. The internship opportunities and the industry-relevant experience they offer provide insights into Japanese business culture. These opportunities should be extended to postgraduate students in an NCP Postgraduate Stream.

Postgraduate students commit heavily to invest in their human capital and explore their chosen fields in greater depth. The ‘return on investment’ for the taxpayer would generally be higher from an NCP Postgraduate Stream than for the undergraduate stream, given the personal investment and professional specialisation of postgraduates. Currently the main opportunity for Australians to undertake postgraduate study in Japan is through Japanese funded scholarships from MEXT and JASSO for full degree programs, with the Japan Foundation providing a small number of scholarships for Australian PhD level students to conduct research in Japan for up to 12 months. Australian postgraduates have very limited support for undertaking part of their study in Japan.

The NCP should avoid broadening its geographic coverage and remain focused on Asia and the Pacific, for Australians to learn about their own region.

The NCP Postgraduate Stream should be amended to support PhD students, specialised programs for postgraduate students like the National Parliamentary Fellowship Program (see below) and Dual Degree Programs.

²⁹ METI (2021)

³⁰ ‘Both sides will endeavour to encourage and facilitate, as appropriate, the development of contacts and cooperation in the field of education between the interested educational organisations and institutions of both countries’ Department of Education, Skills & Employment (2018)

MEXT and JASSO scholarships

The Japanese Ministry of Education, Culture, Sports, Science and Technology (MEXT) scholarships have for decades been an anchor for Australian students to study in Japanese elite academic and research institutions, providing full tuition, a monthly stipend, and return plane tickets to Japan. Japan Student Services Association (JASSO) Student Exchange Support Program is a scholarship that provides financial support for undergraduate and graduate study in Japan. These institutions have served a key role in mediating Australian knowledge of Japan and the broader Asian region. MEXT scholarships are key conduits for Australian students to rethink the country's place in Asia, to interrogate Australia's place in Asia from Asia, and forge intimate connections with future Japanese political, business and intellectual leaders. Seen not only as scholarships, but also as networks of personnel, knowledge and experience, the MEXT scholarships are an important point of departure for Australians in understanding not only Japan, but the broader East Asian world.

There is no reciprocation of these Japanese programs for young Australians in the way of Australian programs for young Japanese to study in Australia. The Australian Government has initiatives like the Australia Awards, but Japan is not included. Past initiatives like the Endeavour Leadership Program were defunded in the 2019–20 Budget, with the Australian Government announcing that there will be no further rounds of the Endeavour Leadership Program. In previous rounds, master's and PhD students from Japan were eligible for funding under the scheme. This is an imbalance that needs correction.

For more Australians to be able to pursue study in Japan, the Australian government could explore partnering with existing high profile scholarship programs like the Westpac Scholars Program, which includes an Asian Exchange Scholarship for students and a Research Fellowship Program for early career researchers, to create a stream for Japan. A model of public–private funding of scholarships could be developed for Japan and taken up for other countries, with industry partners invested in those countries. Such an initiative would link scholarship recipients to their potential future employers and fill a gap in Australian government support for developing Asia literacy.

Year Abroad Programs

The Year in Asia Program at ANU is an additional year of in-country study for students with intermediate-level language proficiency. As part of the program, undergraduate students take courses in the host country's language and a combination of other language or disciplinary courses. Similar undergraduate degree programs that have up to a year of overseas study embedded into the degree structure, include the Bachelor of Global Studies at Monash University, the Bachelor of Commerce (International) at UNSW and the Bachelor of International Studies at UTS. More programs like these should be established, especially in coursework and research master's degree programs, with appropriate streams of funding made available to universities to make such programs financially viable.

Dual Degree Programs

There are very few Australian students enrolled in Japanese tertiary education institutions. Drawing on JASSO data, Ben Ascione notes that there have not been more than 150 Australians enrolled in a tertiary degree or award program in Japan since 2001.³¹ Instead, university exchange programs, which are defined as being for one year or less, have been a more popular option for Australian students. Dual Degree Programs – undergraduate and postgraduate programs between Australian and Japanese universities – provide students with the possibility of in-depth exploration of various academic fields while drawing on the strengths of studying and living in-country. Students graduate with two different learning experiences, and these programs can be bolstered by internship programs, teaching or research experience and part-time employment opportunities.

31 Ascione (2020)

Currently, at the undergraduate level, the ANU–Ritsumeikan University Dual Degree Program, where students work towards a Bachelor of Asia Pacific Affairs and Bachelor of Global Liberal Arts, offers one example. Other examples at the postgraduate level include the ANU–University of Tokyo Double Masters in Public Policy Program (where students receive degrees from both the ANU and the University of Tokyo) and the University of South Australia–Keio University Joint PhD in Human Resources. These three programs use English as the primary language of instruction. The Monash University–Kobe University Double Masters in Interpreting and Translation is one of the very few examples of an existing Dual Degree Program that emphasises Japanese as the language of instruction at both institutions. Successful Dual Degree Programs take into account a cross-crediting arrangement, offer pre-departure sessions and post-program sessions for sharing areas for improvement, and secure funding arrangements.

Nihon University's first overseas campus, due for completion in 2021 in Newcastle, New South Wales, begins a new chapter in educational exchange between Australia and Japan.

The replication of Dual Degree Programs across more of the Australian university sector is strongly recommended. If integrated with undergraduate in-country language training within Year Abroad Programs they will provide opportunities for strong Japan-linked professional development. Australia is lagging behind other countries when it comes to training and equipping the next generation with the skills they need. Successful joint education initiatives like the CAMPUS Asia Program between Japan, China and South Korea – as well as university-level double degree programs between the US, UK or European institutions with universities in Asia – are potential avenues that Australia might well emulate. Australian universities have the advantage of proximity, being in roughly the same time zone and being highly ranked globally.

JET Program

Established in 1987, the Japan Exchange and Teaching Program (JET) Program is a Japanese government initiative that places university graduates, regardless of their field, in kindergartens, elementary, junior high, high schools and local governments in Japan. Successful applicants work as Assistant Language Teachers (ALTs), Coordinators of International Relations (CIRs) or Sports Exchange Advisors (SEAs). There are approximately 340 Australian JET participants currently in Japan, which is very small compared to almost 3,000 from the United States.³²

Of all JETs participants, 90 per cent are assistant language teachers (ALTs), working as classroom assistants for anywhere between one to four years and are encouraged to participate in extracurricular activities with students, such as sports or music.

The idea that Australia might introduce a 'reverse JET Program' has been suggested in the past. While there are many institutional roadblocks to its implementation, the idea has much merit in terms of building support for language training and cultural literacy and is an initiative that should be taken to the National Cabinet, given that getting such a scheme off the ground will require extensive interface between federal and state authorities. Returned JET ALTs from Australia could also be allowed to use their teaching Japanese experience for course credit in Australian teaching degrees.

National Parliamentary Fellows Program (NPPF)

The Australia–Japan Research Centre at the ANU has run the National Parliamentary Fellowships Program (NPPF) since its initiation in 2016, with the Japan Center for International Exchange as the partner on the ground in Japan. The three-month program places two Australian postgraduate students or young professionals selected through a national competition to work in the office of a Japanese politician in the Diet. Two Japanese graduates spend time at the ANU engaging with parliamentarians. Foreign internships within Australia's Federal Parliament were banned in late 2017.

³² JET Programme (2019)

NPPF is a small program but one with high impact. It has strong support from both the Australian and Japanese governments and helps to identify and foster the development of a new generation of leaders, deepens mutual understanding of both parliaments and systems, and promotes investment in Australia–Japan relationship through the networks which fellowship holders create.

The two Australian fellows in Japan assist Japanese Diet member in developing policy advice and have the opportunity to attend policy hearings and briefings. Fellows are also affiliated with a faculty mentor at one of the ANU's partner universities in Tokyo, pertinent to their primary research interest, and attend relevant events offered through leading Japanese research institutes partnered with the ANU in Tokyo.

NPPF funding has been supported by the AJF in some years and the ANU but should be funded by the NCP Postgraduate Stream for longer-term sustainability.

Exchange and Degree Programs for Mid-Career Professionals

The Victorian Government's Hamer Scholarship Program targets individuals working in Victorian businesses that are seeking and pursuing market development and export opportunities with China, Korea, Indonesia or Japan. Hamer Scholarship recipients undertake 5 to 6 months of intensive language study in China, Japan, Korea or Indonesia while delivering a business project that progresses the market development or export objectives of their employer in the chosen market. The Scholarship supports recipients in developing their Asian language skills, cultural competency, professional networks and market knowledge – assisting businesses to build the people-to-people contacts and market insights needed for doing business with Asia. The Japanese Government 's Young Leaders' Program MEXT Scholarship is another avenue for young professionals with at least three years' experience, wanting to pursue a graduate degree in Japan. The YLP Scholarship is available to study governance or business administration at GRIPS or Hitotsubashi University, respectively.³³

Deepening country knowledge

There are only two journalists from Australian media outlets in Japan, with the ABC maintaining a correspondent in Tokyo and the *Australian Financial Review* returning to Japan in 2021 after a 15-year absence. The AFR is only returning to Japan because of the perceived risks involved in placing a journalist back in China but will increase the reporting from Japan for an Australian audience, complementing Melanie Brock's *Postcard from Japan* column that gives a window into life on the ground in Japan.

Lack of media reporting on Japan perpetuates lack of Australian knowledge and low interest in Japan, and provides no basis on which to found a close political and strategic relationship. Government programs aimed at building knowledge and understanding can help to fill the gap, but only if they lift demand for information on Japan in the longer term.

Short in-country immersion courses are one way to give public servants and the policy community dives into Japan. These may be limited to senior public servants and sensibly expanded beyond Japan, as was the Leading Australia's Future in Asia (LAFIA) program in the past. The ANU's National Security College takes public servants to Japan on intensive study trips. But more broadly based and widely accessible programs are now needed.

Japan will become even more important for Australia in regional and global affairs. As Australia manages its energy and demographic transitions, study programs that ramp up Japan capabilities in these and other areas of national priority will bring immediate payoff. Asialink and other organisations play an important role and their programs can be better connected to other initiatives.

33 MEXT (2021)

Japan-related qualifications need to be introduced with incentive-inducing rewards to build capacity in the private sector and the public service. Such qualifications should be internationally benchmarked and their pursuit supported by government and businesses.

Experience sharing, cooperation and collaboration will be enhanced and made easier if many more Australian public servants acquire a better understanding of Japan. The cost of such programs is small relative to the payoff.

Maintaining and using expertise on Japan in the public service

Australian diplomats are some of the best trained globally with extensive language skills a routine part of preparation for posting. Those who return from posting in Japan only maintain their language and country knowledge through private effort. The public cost involved in maintaining language and country skills is small. Programs that encourage and reward retention of language and country skills are important to maintaining and building national Japan capabilities.

Australia has much to learn from other countries when it comes to developing philanthropic partnerships to nurture future generations of people who are both able to understand and use levers of power and influence and advocate the interest in Japan. The Maureen and Mike Mansfield Foundation's programs, such as the US-Japan Network for the Future and the Mansfield Fellowship Program, are exemplary models of how Australia might train professionals with Japan-specific and region-specific expertise.

In addition to building and maintaining Japan literacy in the Australian public service, external expertise on Japan in various fields can fill short-term gaps and generally bolster the capacities and capabilities. Much larger countries with larger public sectors like the United States utilise country-specific expertise on Asia external to the public service. Australia should better activate and work with the assets available for more effective and efficient prosecution of the national interest. With a large and growing agenda between Australia and Japan, this is an area where the public service could lead on the engagement of external expertise, as argued in the 2019 Thodey Review into the public service.³⁴

The role of the Australia–Japan Research Centre

At the intersection of government, business, and academia, the Australia–Japan Research Centre (AJRC) occupies a unique position in the relationship between the two countries. Its history is interwoven with the deepening cooperation over the past 40 years. Today, from the annual Japan Update conference it hosts with the ANU Japan Institute to the work of the East Asia Forum and initiatives like the National Parliamentary Fellowship Program, the AJRC serves as a networked hub for the dissemination of scholarship, ideas and networks necessary to enhance political, strategic, economic and cultural connection with Japan.

As one of the top centres of research and engagement on the Japanese economy and public policy globally, it was established with equal joint funding from the Australian and Japanese Governments and business. In recent years its main source of support is grant funding from the Japanese government, beyond smaller project funds secured competitively.

This report will guide the work of the AJRC based on its strengths and comparative advantages, including its location in Canberra. Initiatives will include:

- > Creation of new courses at the ANU, including exploring executive education opportunities to deepen understanding of Japan.
- > The reactivation of, and innovation in, professional graduate programs for Japanese officials and other professionals

³⁴ Thodey (2019)

- > National data collection and publication, as well as a regular 'stocktake' report on the health of the bilateral relationship, following the Ascione (2020) stocktake report.
- > Initiating, supporting and coordinating Track 2 and Track 1.5 dialogues between Australia and Japan such as those proposed in this report. They will also include policy research projects like J-HECS and supporting the Dialogues for Change.
- > Expand collaborative work with business, government and universities, around key initiatives on Japan as a true national centre.

Conclusion

Japan's importance to Australia will only grow as the centre of global economic gravity continues to shift to Australia and Japan's region, and geopolitical tensions demand new efforts to secure core national interests on the international stage.

The closeness in the relationship achieved between the two countries is a product of political leadership, deep investment in it by both governments and of significant economic complementarity. Japan has become Australia's strategic anchor in Asia, all the more remarkable an achievement given where it came from at the end of the Second World War.

But the Japan relationship needs to be reimagined if it is to deliver its full potential and cope with accelerating economic, environmental and social changes in both countries and a dramatically changing geopolitical environment.

This report suggests a new way for Australia to think about Japan, to take the relationship more seriously and to invest in it. Japan is and will be Australia's benchmark relationship with Asia going forward, both a test and a demonstration of Australia's commitment to its political, economic and cultural integration in Asia. Given such a strong base of institutional and people-to-people ties to build on, and a deep reservoir of goodwill towards Japan in Australia, now is the time for Australian governments to take the relationship to a higher level.

Two main pillars of engagement with Japan help guide the priorities for high-level policy initiatives outlined in this report. The strategic interest that both Australia and Japan share in a free, open, inclusive, resilient and prosperous region will require both countries to work with partners in the region to define and commit to a common goal of comprehensive security. The bilateral economic relationship will necessarily undergo the largest transformation since it took off in the 1950s as both countries decarbonise their economies and Japan leads the world in demographic transition towards a super aged society with a shrinking population.

The infrastructure of the bilateral relationship needs elevating and significant upgrading, increasing the breadth and intensity of inter-institutional contact and collaboration. The capacity of the Australian community to understand and work with Japan needs reinvestment, through a rededication of resources to Japanese language learning and Japanese studies in schools and higher education and facilitating the ability of Australians to spend time in Japan on educational or professional exchanges. Arts and sport will be important channels of building people-to-people links.

A reimagined relationship is one built to weather the uncertainties of the future, one which generates its own momentum towards its deepening. It will be a relationship in which a diverse set of institutions and individuals – not just government, but business, civil society and the general public – play their part in sustaining a close Australia–Japan relationship.

Political leadership will be crucial to this reimagining – but given the assets that already exist in the relationship and in Australia, leadership from industry, academia and the community will follow.

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