

# 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*.<sup>1</sup> 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.

<sup>1</sup> 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.