

AUSTRALIA TO JAPAN
22-28 February 2004

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Introduction

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All of the members of this delegation were visiting Japan for the first time and I think it is fair to say that we were not sure what to expect. I am sure we anticipated a fascinating and informative tour. We certainly experienced this and we were also, overwhelmingly, charmed by this extraordinary country.

We arrived in Japan during an interesting time in its political history and the state of its relations with the rest of the world.

Key current issues were;

- Public worries about the safety of food (including mad cow disease), which led to a ban on imported US beef. This has had a serious impact on some restaurants, but presents an opportunity for Australia to improve its access for beef into the Japanese market.
- Japan's current account surplus soared to record levels, leading to calls for the government to stimulate domestic demand through structural reform. This comes at the same time as the economy recorded its strongest growth in the October December quarter since the bubble economy burst 13 years previously.
- The Diet's approval of the deployment of Self Defense Forces to Iraq and the dramatic shift this creates in the history of Japan's security policy.

- It was clear to the delegation that this issue polarised Japanese opinion. We passed one demonstration focussing on Article 9 of the Constitution (which prevents the Japanese nation from going to war). However the decision was described by Prime Minister Koizumi as being for humanitarian reasons and to provide reconstruction assistance to the people of Iraq.
- There were some developments in the ongoing abduction issue with North Korea. Government to government talks were held for the first time in 16 months between Pyongyang and Tokyo. Future negotiations on the return of the abductees' families to Japan is now looking more likely.
- Discussions about revising the Constitution were underway between the political parties. These centred around removing the Upper House. It is considered by some that a one chamber system would better reflect public opinion. Others believe the Upper House, which often operates as a carbon copy of the Lower House, should be reformed to give it sufficient power to check, balance and complement the Lower House.

Day One – Monday, February 23

9.00 am Briefing: "The prospect of Japanese diplomacy and its future challenges
Koji Watanabe, Senior Fellow, Japan Center for International Exchange,
Executive Adviser Japan Business Federation, Former Japanese
Ambassador to Russia

We were extremely fortunate to have Mr Watanabe speak to the delegation. As a former Deputy Minister for Foreign Affairs with diplomatic postings in Saigon, Beijing, Saudi Arabia, Italy and Russia, Mr Watanabe was well placed to brief us on the historical and present Japanese approach to diplomacy and raise some pointers to the future.

The delegation was indeed fortunate to be in Japan at a time when Japan may be transforming its diplomatic posture from a unique to normal position. The legacy of the past sets Japan's basic security policy framework. Mr Watanabe emphasised the US Alliance as being the primary international relationship for Japan and its provision of military bases to the US as ensuring peace and stability in the Far East.

While Japan now has a light but substantial military capability the framework for its actions remain the renunciation of war contained in Article 9 of the Japanese Constitution.

Mr Watanabe made the salient point however that Japan, as the world's second largest economy is the largest donor of development assistance to the developing world. Japanese financial assistance has contributed greatly to the Asian economic miracle and its' role as a major donor to African countries should not be understated.

The landscape of East Asia historically and today was also discussed. Mr Watanabe observed that "*one can hardly exaggerate the significance of dealing with this emerging great power [China]*". Reconciling the relationship between the US Alliance and an emerging China represents a huge challenge for Japan. Never before has the Asian region experienced both a strong Japan and China.

As a response to the impact of the 1998 East Asian financial crisis Japan has emphasised East Asian community building with an emphasis on intra-regional interdependence rather than formal agreements.

Our presenter also provided his view on the changes to the attitude of the United States following from 9/11. In his view the unilateralist tendencies of the US would not have emerged without 9/11.

The emerging role of China in the region and its commendable behaviour was discussed. There is a recognition within the Chinese Communist Party that without economic development the government will lose power. Also the Chinese desperately need foreign investment. As a consequence China is moving towards being a pluralist society.

The issues involving the relationship between North Korea and Japan are complex. Maintaining the balance of power in the Asian region is crucial. Reconciling those relationships and supporting Asian democracy represents an important component of Japanese foreign affairs. The emergence of a more nationalistic South Korea is a threat to Asian security. How US-China relations develop will have an important impact as well.

11.30 NTT DCOMO visit

At 11.30 we visited the NTT DCOMO Head Office in Tokyo followed by a luncheon with DCOMO Executives. Our tour involved an audio visual presentation postulating on the future of IT and communication. The implementation of 3G and 4G technology in Japan is an important component of the company's business plan. It is clear that the implications for the future of all developed countries will change the way governments respond to its citizens.

14.30 BRIEFING: "The Current State and future prospects of Japanese economy and its implications in Asia Pacific"

The delegation was honoured to be briefed by Takashi Kiuchi, Statutory Auditor, Shinsei Trust & Banking Co., Ltd.

The briefing focussed on the so called 'lost decade' in Japanese economic and financial history, where negative growth rates were experienced.

Reasons for the 'lost decade' include;

- Bursting of the property market bubble, together with bad loans;
- An incorrect government response to the bubble burst, which was a fiscal stimulus of some 60 trillion yen. This simply delayed the inevitable restructure;
- The government failed to foster the growth of new industries;
- The rise of industrial might in China created a hollowing out of industry in Japan;
- Institutional fatigue – businesses created after the war no longer fit the needs of the time.

The current recovery is likely to continue, its driving force being exports and investment.

The bad loan program is still creating a drag on the economy but it is showing signs of improving. Sales are increasing and consumption pessimism is decreasing.

However the economy is still vulnerable to external shocks. Prime Minister Koizumi has held the view that big government causes problems by its inefficiencies and by its tendency to 'crowd out' private investment. Prime Minister Koizumi is to be commended for a program of privatisation and lean government.

Most savings are held in the postal savings system which funds government public spending. This contrasts with Australian savers and investors who prefer highly geared and higher interest investments.

Upper House elections to be held this year need to demonstrate a capacity for reform. There is an indication that the current government may lack knowledge of industry and relies too heavily on bureaucrats.

Health and pension schemes do need revision to cater for the ageing baby boomers retirement issue. This is absolutely critical as 30% of the working population in Japan are baby boomers. The current pension is 200 000 yen a month and is a defined benefit, defined contribution system.

The delegation was amused to see that the gender gap is alive and well in Japan, just as it is in Australia, with Mr Kiuchi making the observation that some of the younger generation were "pleasure seeking, noise making drop outs"!

Overseas debt is currently twice GDP; however there is no savings shortage. The fiscal imbalance is huge and of concern. One response to this may be to change Immigration policy and allow more younger people to immigrate, thus increasing the workforce necessary to fund the retirement of the baby boomers. However there appears to be a strong cultural bias against this.

All in all we appreciated receiving this considered and frank assessment of the Japanese economy. We understood better the reasons for the decade of stagnation and gained a real insight into the challenges that lie ahead.

16.30 BRIEFING: "The Current State of the Australia – Japan Relationship and its Future"

The delegation travelled to the Ministry of Foreign Affairs for this briefing and met with various senior officials.

Japan is Australia's largest trading partner and the countries enjoy a close and warm relationship. We export a great deal of food to Japan, a country highly reliant on imports of primary produce and raw materials. It is also highly reliant on importing energy – from the Middle East and it now has the prospect of Russian oil imports.

Japan probably sees us as a farm and a mine, a somewhat old fashioned view, although reflective of the character of the products they purchase from us. Interestingly, we are viewed in the same light as Russia – large, resource rich and with European and Asian elements. Japanese politics is most influenced by China, no longer by the USA.

Australia would like to increase its high tech exports to Japan, although it recognises Japan's significant competitive advantage in much of that sector.

An Australian perception that Japan is in economic decline has meant that there has possibly been less energy and focus, particularly with the rise of China. However, we should be aware that the Japanese economy is four times as big as China's (and second only in world terms to the US).

Any tension in the relationship between our two countries is related to agriculture. Australian farmers are among the most unsubsidised in the world and Japanese farmers among the most protected.

The farm lobby in Japan is very powerful and the structure of Japanese politics (in particular the power base of the individual politicians) is highly rural; in fact rural electors have more power than urban ones.

We were able to appreciate the issues from the Japanese perspective ie they are a country with little food resources and a strong memory of the war and lack of food. Their reluctance to reduce the size of an already small agricultural sector can be understood, particularly when their dependence on imported energy is considered. (Europe probably has similar reasons for agricultural protection.)

The people to people links between the Australian and Japanese people are very strong – examples of this are the schools and sister cities exchange programs.

We all agreed that legislators and potential legislators need to talk to each other and great benefit is obtained when we do!

Day Two - Tuesday, February 24

A prominent theme in our visit was the role of both Australia and Japan in the Asia-Pacific region. On this subject, the delegation benefited from a briefing by Mr Tasuku Takagaki, a senior advisor to the Board of the Bank of Tokyo-Mitsubishi with a wealth of experience advising on regional economic policy, including as part of APEC's Business Advisory Committee.

Mr Takagaki emphasised the value Japan places on Australia's participation in regional economic forums such as APEC, noting Japan's support for Australia's involvement in some form of ASEAN + 5 arrangement. Mr Takagaki also expanded on the challenges of building an East Asian Community with a meaningful role for Australia.

The delegation asked Mr Takagaki about the perceptions of the Japanese business community towards recent developments in Japan's security policy. Mr Takagaki noted that members of his generation born in the interwar period and raised under a pacifist Constitution seemed more likely to be uncomfortable with the shift in policy, but that the business community in general was taking an active interest and closely monitoring the changes.

The delegation received a first-hand account of the economic challenges facing the Japanese Government from the Parliamentary Secretary for the Ministry of Economy, Trade and Industry, Mr Yoshihide Suga.

Mr Suga noted that wage competition with China had led to a 'hollowing out' of manufacturing industries in Japan. The challenge was pursue growth policies in areas where Japan retains a competitive advantage through its innovation and value-adding capacity, such as cars, robotics, nanotechnology, and high-end consumer technology such as LCD television screens.

In this endeavour, Mr Suga noted that Japan would continue to place great value on its relationship with Australia as a reliable supplier of materials and resources. Mr Suga reflected a view expressed by many others to the delegation that the Japanese economy had 'bottomed out' and now faces positive prospects.

The afternoon saw the delegation meet with executives from the Liberal Democratic Party (the ruling coalition) as well as members of one of the Opposition Parties, the New Komeito Party.

This was an excellent opportunity, not so much to discuss policy, but to speak, face to face with parliamentarians from another country and share common experiences.

Some members were open and frank, even unflattering in their remarks about the political system within which they operate while others were far more circumspect.

The general impression of the ruling party was that they were experienced, pragmatic and mature in their outlook. By contrast the New Komeito party was energized, enthusiastic and, as befits minor party opposition, idealistic!

In spite of the language barrier, we were able to connect extremely well with the politicians that we met and we really enjoyed exchanging views.

We were left with the strong impression that we have so much more in common than we ever could have imagined!

Day Three – Wednesday, February 25

In the morning we continued the interaction with members of the Japanese Diet when we met with executives of the Democratic Party of Japan, the largest Opposition party, including Kenji Kitahashi, Deputy Secretary General of the DPJ.

We enjoyed a frank and open dialogue on the joys - and perils - of opposition. This was followed by a tour of the Diet itself – which was absolutely fascinating.

The Building is steeped in history and tradition and this was apparent as our guide showed us around. We were disappointed that the Diet was not in session as it would have been interesting to view members in their places in the Parliament. Nevertheless, we sat in the viewing galleries and were able to get a good 'feel' for the place.

After enjoying a traditional Japanese lunch at Hotel Okura (by Wednesday most people could handle the chopsticks with dexterity but were struggling with some of the so-called delicacies) we were back on the bus to the Ministry of Agriculture.

The delegation was looking forward to this briefing; with Agricultural trade a very important issue in Japan at the time because of the ban of US beef due to the BSE (Mad Cow) and the effects of suspension of poultry imports from Thailand and China. Delegation Leader Sussan Ley was particularly interested in beef exports and the snap-back tariff issue as many of the feedlots that supply the Japanese market were loaded in her electorate and Brendon's electorate also included major beef production.

We were met by Shiqezane Saneshige, Director of International Economic Affairs Division of the Ministry of Agriculture, and he was assisted by colleagues from his department, one of whom had recently been in Australia negotiating beef volumes and tariff levels. It was interesting to note that they were prepared for our visit and had several junior staffers taking copious notes of the meeting.

We were given an overview of Agriculture in Japan with the key points being that Japan had 3.7 million agricultural households compared to Australia's 120,000 with very small land holdings 1.5ha/farming household and Japan relied very strongly on agricultural imports. Because of this strong reliance on imports the Government was determined to support existing farmers to maximise the levels of Japanese agricultural production. While it was recognised that much of this domestic agricultural production was inefficient and reliant on subsidies it was still considered very important by the Agriculture Ministry. They commented that it would be difficult for Australians to understand their position give our vast amount of agricultural land and strong export trade surplus. Agricultural Minister Kanei had made an important statement in late 2003 directing the Agricultural Ministry to start to review the current basic plan for agriculture and implement a new basic plan for 2005 including:

- 1) Shift from product-specific price and income stabilisation programme to non-product specific support to professional farmers.
- 2) Reform of agricultural land-use policy.

- 3) Reinforcement of agri-environmental policy and introduction of support measures to conserve rural resources such as agricultural land and water.

With tariff protection a major issue between Australia and Japan, the representatives of the Agriculture Minister were quick to point out how they believe they are progressing the issue of tariff reductions in regard to WTO negotiations at a faster rate than either the US or the EU and provided data to back this up.

Talks quickly moved to beef and opportunities for Australia in the Japanese Market. The Japanese consume 930,000 tonnes of beef each year, with over 260,000 tonnes imported from Australia and, until the BSE health scare, 240,000 imported from the US. The import ban on US beef has led to greater opportunities for Australian beef to meet demand, but currently Australia does not have the surplus production to meet this demand. The BSE scare has slashed beef availability in Japan and even restaurants that specialise in beef have had to withdraw beef from their menu.

Of some concern to the delegation was Japan's tariff policy with regard to Australian beef. A snap back tariff exists where once beef import volumes reach x% the tariff increases from 38.5% to 50%. It was difficult to understand why the tariff would be increased like this when Japanese restaurants are taking beef off their menus because of supply problems, but we will have to defer to our Australian trade negotiators to look to reduce these tariff impositions on Australian beef imports.

My reading of the situation in Japan was that Australia's ability to supply the Japanese demand was the real issue – plus problems of Australian producers increasing production to meet Japanese demand with the possibility of the US beef ban being relaxed and then dealing with the possibility of over-production. There has been no time line put on the ban of US beef so Australian producers will have opportunities in the short term, but you would expect the US to negotiate a return to trade in the future. Australia can capitalise though by focusing on the clean, green and safe aspects of our food to extract premiums from the market and wrestle market share from the US producers.

After Michael, Nicole and Brendon braved the early morning Tokyo chill to visit the Tokyo Fish Markets, famous for the huge tuna and even larger prices paid, it was interesting to receive a briefing on fisheries. Of major concern to the Japanese was the increased fish take from the Pacific Ocean and the effect that would have on sustainability of supply and the huge increase in catch by the Purse Seine (net fishing) over the last 10 years (refer Table D), especially by boats registered out of Taiwan. With tuna such a vital part of Japanese diet (didn't we know after 3 days of tuna for every meal, something the Embassy must have known as they ingratiated themselves with the delegation by supplying beef, lamb and potatoes for Tuesday's dinner) the Ministry of Agriculture was obviously very concerned about future supply of this very important part of the Japanese diet.

The visit to the Ministry of Agriculture was valued by the delegation as it highlighted the opportunities for Australian Agriculture and made it clear we have to do all we can to ensure our clean green and safe agriculture produce image.

PANEL DISCUSSION

After 3 days of briefings from ministers and ministries the delegation had developed a strong feel for the Japanese political system. Our final meeting to be held before we departed for Kyoto in the bullet train was a panel discussion, hosted by Tadashi Yamamoto, titled

"the current state and future prospect of Australian Political and Economic Situations and the Implications for Australian-Japan relationship"

Testimony to the high regard toward Mr Yamamoto and the JCIE program was the fact that four members of the Japanese House of Representatives attended, including Kenji Kosaka, a very senior member of the LDP and Foreign Affairs Ministry, even though budget meetings were taking place at the same time. Ambassador McCarthy was also in attendance.

Talks quickly focused on the Japanese SDF and their deployment to Iraq. MP's from the various Japanese parties put their positions to the delegation but were highly interested in our opinions and how the Australian Political scene had dealt with the involvement in Iraq. With the delegation's diverse political background a wide range of views were put forward in frank and open discussion that led to constructive dialogue between the participants, Jonathon with his position as advisor to the Shadow Homeland Security Minister McClelland came to the fore in this discussion with his in-depth knowledge of the issue but we were all encouraged to put forward our view on the situation in Iraq.

The Japanese are entering a very interesting time in their nation's history as the SDF force moves to become more involved in world issues. As the world second largest economy, the Japanese feel they should be prominent on the world stage but their involvement in the 2nd World War and consequences are still at the forefront of Japanese minds and thus, any move away from non-military interventionist strategy is an issue that will be hotly debated.

From our briefings, I believe that the resolve of the Japanese people to amend article 9 of the 1947 Constitution

Article 9 (1) Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and that threat or use of force as means of settling international disputes.

(2) In order to accomplish the aim of the preceding paragraph, land, sea and air forces, as well as other war potential, will never be maintained. The right of the belligerency of the state will not be recognized.

is strong and we will see this happen over the next five years. As events unfold with the SDF (Self Defence Force) in Iraq though the politics could quickly change and any casualties will put enormous pressure on Prime Minister Koizumi and the Liberal Democratic Parties push for normalisation of the Japanese defence force.

After the panel discussion, we all joined together for a cocktail function where delegates had the opportunity to discuss further Japanese Foreign Policy and the Japanese-Australian relationship.

Day Four – Thursday, February 26

The group visited the Toyota Head Office outside Nagoya on Thursday 26th February 2004 and initially met with Mr Takaaki Matsumoto, Project General Manager Corporate Public Relations Division and Mr Ron Haigh, Assistant Manager.

They invited us to join them for an overview presentation about the worldwide activities and plans of the Toyota Motor Corporation but first we were shown through a display of the current models produced by Toyota.

The display was a useful introduction as it gave a practical meaning to the concepts we would later discuss including the new technologies being introduced by Toyota including

hybrid engines and highlighted the large range of vehicles manufactured by the company.

Mr Matsumoto formally welcomed us to the corporate headquarters and indicated that there were some 10 production facilities located in the general area also known as "Toyota City". He gave a general introduction to Toyota as a company and their broad goals of being a responsible corporate citizen, responding to the needs of the environment and providing for the transportation needs of society.

Mr Haigh then proceeded with a more detailed briefing on the specific activities of the company starting with the history of the company which dates back to the early 1920's when Mr Sakichi Toyoda invented an automatic loom which he used as the basis of a company which he then evolved into an automobile company having produced an original Model AA Sedan in 1936. In 1937, the Toyota car company was born.

By 1957, cars were being exported to the USA and Toyota is now the third largest car manufacturer in the world.

Interestingly, overseas production has been a significant feature of Toyota policy, with overseas production rising steeply from 1984 to the point where it now exceeds Japanese either domestic sales or export shipments individually. Plants are located in 45 countries at present.

Toyota has been a leader in new technologies designed to address issues associated with fuel economy, pollution and global warming through reduced greenhouse gas emission.

They have produced a fuel cell based vehicle which at this stage is very expensive but is being used to test the technology. The basic problem of how one obtains the hydrogen to power the fuel cell remains a serious issue. Hydrogen can only be obtained by using energy to say split water or reform a fossil fuel like methane and that energy will have to come from either nuclear power or the burning of a fossil fuel at this stage given that other alternatives like the widespread use of renewables are not especially viable as yet.

However by developing the concepts in a "real life" vehicle, Toyota is able to prove the technologies against the day when the hydrogen fuel is available and the hydrogen economy is a reality.

The more realistic option, in terms of the more readily usable technology, is the hybrid engine technology. This is demonstrated in the Prius model which is the first mass produced hybrid car – a petrol & electric hybrid powered engine - sales of which continue to increase (albeit from a low base) in the US market.

Members of the delegation asked numerous questions of Mr Matsumoto and Mr Haigh concerning the motor vehicle market, the significance of environmental issues and the relative importance of tariff barriers in the Australian market. A discussion flowed around most of these issues.

The group were then invited to tour the Takaoka Plant, one of the 10 production facilities located in the nearby area.

The tour highlighted the way in which Toyota combines human production and robotic systems to ensure the highest levels of quality control and working conditions.

Robots are used where humans would find the work difficult, too strenuous or tedious. Humans are used where high levels of quality are required and where robots would not be able to detect faults in the finished work.

The plant produces approximately 650,000 vehicles per year with about 6,000 workers - a very high level of productivity.

One consequence of this high productivity level is that the higher wage levels of the Japanese workers compared with those overseas in some less developed countries becomes somewhat irrelevant given their higher output and the low wage cost per unit of output.

The plant places a high level of importance on quality control and on the delivery of parts from suppliers "just in time" with some inventory being kept to levels of just a few hours.

While the visit to Toyota Headquarters was necessarily of limited duration, it did give the delegation an opportunity to see the massive scale of the production facilities based in Toyota City and the way in which this combined operation is able to use these economies of scale to produce nearly 3.5 million units a year, half of which are for export.

Of course, while some plants are located elsewhere in Japan, it is clear that this is the focus of operations and it serves as an exemplar for the other operations.

The attention to detail, the focus on quality, automation and productivity is intense but so is the clear understanding that it is the human element which makes all of that possible. It is obvious from a factory tour that it is the people around whom the operation revolves not the robots.

The production line is there to deliver the cars to the workers and while they are under considerable pressure to perform on time and budget, the line is focused on them not the other way around. A subtle but vital difference which surely contributes to the higher quality and higher productivity of the plant.

CONCLUDING REMARKS

APEC and the JCIE are to be commended for the quality of the program they provide. This included an excellent briefing day prior to our departure and, during our days away, a constant stream of interesting and challenging meetings and experiences.

Tadashi Yamamoto and Hyoma Ito deserve the highest praise for all that they do on behalf of Australia Japan relations.

Our accommodation throughout the tour was superb, the organisation faultless and the food magnificent!

The delegation wishes to thank all of the officers of the JCIE and APEC for all that they do in support of the program and for all their efforts to make this particular trip such a success.

No matter how grand the vision for strategic alliances between nations, or how bold the intergovernmental agenda, what matters most and what endures most are the relationships between people. Delegations such as this one are invaluable in promoting such friendships. The members of this delegation look forward to building lifelong friendships with the people of Japan.

APPENDIX**A. JAPAN'S FOREIGN POLICY****I Fundamentals**

- ◆ Advanced market economy based on democracy and freedom Archipelago surrounded by US, Russia, China, Korean Peninsula.
- ◆ Size: 370,000km²
- ◆ Population: 120 million
- ◆ No.2 Economy: FRG, UK, FR combined, China (growing rapidly)
- ◆ Scarce resource (100% of Oil 90 % from Middle East)
- ◆ Peace and stability of the world and Asia Pacific is indispensable
- ◆ Security: Security Treaty with US, Self Defence Forces
 - Regional Confidence Building
- ◆ WTO complemented by regional and bilateral arrangements
 - Sustainable development (No1-2 donor of ODA)

II Key Issues

- ◆ Terrorism
- ◆ WMD (Sensitive People)
- ◆ North Korea
 - A. Nuclear Weapons/missiles
 - B. Abduction
- ◆ Iraq
 - A. Reconstruction
 - B. Self Defence Forces – ground forces
- ◆ Asia-Pacific
 - A. China, Korea, ASEAN, FTA/EPA, east Asian Community

III Japan and Australia

- ◆ Common basic values, North and South of the Pacific
- ◆ Complementary economic ties, political and security co-operation
- ◆ Friendship: Y2006= 30th anniversary of NARA treaty, 1976

IV Basic Security Policy Framework

- ◆ Alliance with the US:
 - US defends Japan, when attacked
 - Japan provides military bases to US for the peace and stability of Far East
 - US military presence including those in Okinawa
 - Light military capability

Within this security framework, Japan has achieved unprecedented economic development.

- ◆ Largest donor of development assistance to developing world:
 - Contributing Asian miracle: Korea, Taiwan, ASEAN, China
 - Major donor for many African countries

V Legacy of the Past

- ◆ Aggression and colonisation of 30s and 40s

- Korea, China and some in SE Asia
- Atrocities committed in China and elsewhere
- ◆ Devastation by the War including Hiroshima and Nagasaki
- ◆ Renunciation of war – symbolised and prescribed in Article 9 of Constitution of 1947

Article 9 (1) *Aspiring sincerely to an international peace based on justice and order, the Japanese people forever renounce war as a sovereign right of the nation and the threat or use of force as means of settling international disputes.*

(2) *In order to accomplish the aim of the preceding paragraph, land, sea and air forces, as well as other war potential, will never be maintained. The right of belligerency of the state will not be recognised.*

B. POLITICAL LANDSCAPE

Post Cold War

- ◆ Russia – no longer a threat, neither a major party in Asia at the moment.
- ◆ China – Reform and open policy, a 'socialist market economy'
 - Remarkable economic growth
 - WTO accession
 - Communist regime, acceleration of military capability
 - Middle Kingdom concept
- ◆ Gulf War implications
 - Predominant US military capability
 - Reflection on Japan's inability to contribute

Post Asian Financial Crisis

- ◆ Ability to recover
- ◆ Renewed search for intra-regional interdependence – moves for East-Asian regional cooperation
- ◆ Terrorism and Proliferation of Weapons of Mass destruction

Underlying Conceptual Issues

- ◆ Interdependence – open-market economy – most effective path for sustained growth in China, Korea, North Korea
- ◆ Balance of Power – military and political dimension; Taiwan, Korean Peninsula
- ◆ Democracy – Problem of democratic divide – China, North Korea, Vietnam, Malaysia
- ◆ Nationalism – Forces for domestic unity, identity and stability for regime – Russia, China and US
- ◆ Terrorism – post September 11 development – Afghanistan War
 - Denunciation of terrorism,
 - Strongly support counter-terrorists military actions
 - Reaffirmation of Japan-US alliance
 - Anti-Terrorism Bill enabling JSDF to assist US Forces medical services, transportation, supply us of light arms
- ◆ Reform of UN

Tasks Ahead

- ◆ How to manage Japan-US relations
 - Security ties
 - Interdependence

- American Predominance - Unilateralism
- ◆ How to shape Japan-China relations
- ◆ How to enhance East Asia Regional community building

- Importance of ASEAN
- ASEAN plus 3 (Japan, China, Korea)
- Place of Australia
- ◆ How to establish peace and stability in Korean Peninsula
 - South Korea – de-facto allies
 - Benign posture towards the form of unification
- ◆ How to normalise and enhance relations with Russia