

A

An Interview with Bruce Miller, Australian Ambassador to Japan

Australian Views on the Global Economic & Geopolitical Landscape

By Japan SPOTLIGHT Editorial Section

Japan SPOTLIGHT has been following issues related to global governance for several years. Our analysis suggests that in today's world where economic and geopolitical affairs are closely intertwined, we need a competent middle-ranking power that can play the role of a neutral and fair mediator among the different interests of the major powers, and show them the path to peace and prosperity. We believe that Australia, the host country of the G20 this year, is one such middle-ranking power. We held an interview with the Australian ambassador to Japan, His Excellency Bruce Miller, about his views upon this point, as well as the current condition and future of the global economic and geopolitical climate.

Q: The G20 meeting this year should be very important in the light of world economic recovery. Developed nations like the United States, Japan, and some European countries, do seem to be emerging from critical situations, but the BRIC economies do not seem so stable. So in that sense, the world economy is still in an uncertain situation. What do you think about the possible role of the G20 meeting in overcoming the crisis and moving to a new growth stage?

Miller: The first point I'd make is that the G20, through its history so far, has demonstrated it can play a very effective role during crises — during the major economic and financial crisis from 2008 to 2010 in particular. Things have settled a little bit since that time, and now the challenge for the G20 is to demonstrate that it is also capable of dealing not just with crises, but with normal year-to-year policy coordination.

From that point of view, Australia, as chair of the G20 this year, is placing a lot of emphasis on two main things. The first is that we want to increase economic growth and therefore jobs in the world economy. But secondly we also want to strengthen global economic resilience — which is a long-term project — so that we can deal better with crises when they do emerge.

We have very much signed up to the core of the G20 ethos,



Bruce Miller, Australian Ambassador to Japan

which is that the G20 can really add value if it brings together and coordinates international economic policy responses. I think your characterization of the international economy right now is fairly accurate: while there are some bright signs, there are some uncertainties as well. So there are some continuing challenges to manage, and we don't want a crisis just to prove the value of the G20 this year, but we will continue to place a lot of effort on developing and strengthening economic resilience in our host year.

In particular I would point to the finance ministers' meeting in February this year, where we were, if I might say so, successful in persuading the G20 countries to commit to raising collective GDP by more than 2% above the trajectory implied by current policies over the coming five years. That's a sum that

doesn't mean everyone has to grow 2% — but we see that as an important goal to set, because without economic growth we can't grow jobs or have the pattern of economic development we wish to have. But on resilience we continue to work to strengthen international financial institutions, and to deal with shadow banking risks and the risks that arise from derivatives markets as well.

Q: You talk about financial issues in the context of resilience. But resilience also brings to mind a wider meaning, of structural reform. And today, everybody does seem to need structural reform.

Miller: That's an important point. We are very keen to see each country produce a growth strategy this year, which deals with what they intend to do in the realm of structural economic reform. In that sense, the work that the Japanese government has been doing on its own growth strategy is an important input, and actually quite a good template for other countries to use in reporting what they're doing. So definitely that is something which is going to attract a lot of attention. Let me emphasize though, it's not just about wishy-washy vague goals. It's about identifying concrete actions that countries will commit to take in the realm of structural economic reform, and then sharing that with all the other members.

Q: In talking about the stability or sustainability of growth, budget debt and monetary policy seem to be at the center of the discussion. So what do you assess on fiscal policy issues at the G20 meeting?

Miller: Matters like domestic fiscal policy and monetary policy are very important issues that need to be coordinated, but we would see the G20 as having a slightly broader remit in bringing them all together and talking about overall economic policy coordination.

Q: I mentioned that the BRICs are facing unstable situations. Do you think the BRICs will be moving towards a more stable process?

Miller: I think we have to look at each of the BRIC nations one by one. For example, China is a case in point: it looks to be in a reasonable state. Of course there are some issues there with reform, like in any country, which they need to deal with, but it's not too bad I suppose. Russia — there's a whole series of issues with Russia. India, South Africa — some of the emerging countries are having some issues. Brazil, another example, is also having some issues, but I would not want to overstate those. We're not in the same position we were in several years ago.

Q: Since the BRICs are very important members of the G20, the G20 cannot separate economic issues from geopolitical issues. In particular this year, Russia seems to be a problem in the light of the situation in Ukraine. What kind of geopolitical impact would that have on the G20 meeting this year?

Miller: That is a difficult question to answer at this stage. Already the G7 and G8 processes are facing some of these issues, because of decisions that have to be taken about coordination for the proposed (40th G8) Sochi summit. I think it is too early to comment though on the geopolitical consequences of what has happened in Ukraine for Russia's participation in the G20; those are decisions to be taken further down the track.

But coming back to the overall global economic situation, I think we're a bit more positive than you seem to be assuming in your question about the global economy. There are some quite good stories out there with economic growth. I also think some of the risks to the global economy have receded somewhat. Sure, we see volatility in financial markets, and continued high levels of public debt in a number of countries; I suppose it is fair to say that we haven't yet reached a situation where we can say that on a global basis we are on a path to sustained and balanced economic growth. But things are looking more positive than they were a year ago, I would say, even with those risks out there.

Q: You mentioned the debt issue, and that brings me to another question. Abenomics seems to have a very good reputation all over the world, but debt might be one concern with it. As you know, Japan's cumulative public debt is 200% of GDP.

Miller: Your private savings are very high as well.

Q: But some economists in Japan are questioning whether or not this growth is stable in the light of this government debt. And Abenomics's second arrow of fiscal stimulus would further increase this debt.

Miller: As an observation on Abenomics in general, we think it is very important that Japan's economy is put back on a growth path. It's important for Japan, it's important for Australia, and it's important for the international economy. In that sense we welcome the approach being taken by the Japanese government, and indeed the Bank of Japan, to economic, fiscal, and monetary policy. It is so important, and so understandable, that the Japanese government is trying to break the back of deflationary expectations — we all know that expectations are the most difficult to shift.

So we welcome all of that, but at the same time, as you point out, Japan does have very high levels of public debt, which is why it seems to us very sensible of the Abe government to proceed with the increase in the consumption tax to deal with that. Now of course that will have a short-term effect on consumption, particularly if there's another rise next year as well. But to our mind, it was necessary to proceed with such intensive fiscal consolidation, otherwise Japan would have lost some credibility internationally. So while it may sound contradictory to support Abenomics but also to support the increase in the consumption tax, in fact it's all about credibility, both domestic and international, and I think it is a very positive and sensible set of policy settings.

Q: Do you have any opinion about the third arrow of Abenomics, including agricultural reform?

Miller: I think that it is a bit unfair to judge the third arrow on the basis of just a few months of effort. The “third arrow” metaphor is a good metaphor, but you launch an arrow once, whereas this sort of structural reform is actually many different areas of policy reform which can take many years. This sort of structural reform in any country takes a long time to get through the political system and to get people on board. So my view is that it’s necessary, but nonetheless that it does take time in any system, particularly in a democracy like Japan.

And of course, many areas such as agricultural reform, allowing the corporate ownership of agricultural land, reforming state trading arrangements, the number of commodities, and of course simple trade liberalization — all of those sort of things would actually contribute enormously to Japanese economic growth and revitalization, and of course provide opportunities for countries like Australia as well. Energy deregulation is another example; medical instruments, all of those sorts of things, dealing with the bedrock regulation in Japan.

But the core point is that that agenda is most important above all for Japan. So my view in short on all of that is supportive, but also understanding that it takes times as well. It can’t all be done this week or next week.

Q: If all the deregulation plans in Japan were completed, the Japanese market would be an enormous business opportunity.

Miller: Of course. It would be good for Japan, but also good for everyone else.

Q: The Japan Economic Foundation is strongly supporting agricultural reform, which will perhaps be instrumental in promoting Japan-Australia trade and relations. So perhaps a Japan-Australia free trade agreement (FTA) will be signed after agriculture reform. What do you think about this?

Miller: I don’t know that it has to wait for agricultural reform; rather I think it will be concluded before agricultural reform takes place, and be part of that process. The reality is that Japanese agriculture can be competitive internationally, and can reduce its costs much more if reform takes place. It’s all about a future for Japanese agriculture, rather than just about opportunities for Australia. You can’t just protect an industry forever and not expect it to die.

Q: With regards to trade policy, business recovery is expected, but many countries are supporting trade liberalization — free trade — as a locomotive to promote growth. I think that’s good news. And so perhaps in that context Japanese agricultural reform

will be further strengthened. So what do you think about the Trans-Pacific Partnership (TPP)? I see many people saying the TPP provides good potential for worldwide trade liberalization, and for replacing the function of the World Trade Organization (WTO).

Miller: I think it’s important to separate out what we’re talking about here. The WTO will continue to have a very important role. There’s nothing better than multilateral outcomes in trade liberalization — they are the highest quality outcomes available. The WTO has actually achieved something recently with the Trade Facilitation Agreement, and also with agreement on reducing the deleterious impact of agricultural subsidies on international trade. So that’s very important universal coverage, and it is important for that to continue.

Now the TPP, and indeed the Regional Comprehensive Economic Partnership (RCEP) — I’d like to mention that as well — are both important endeavors because they, particularly the TPP, are trying to be “WTO-plus”. That is, trying to go much more into the behind-the-border measures that are currently the impediments to economic integration in this region. So it’s quite new territory in a number of areas, to try to come up with agreed standards across the region on, for example, intellectual property (IP), or on state-owned enterprises. It was always going to be difficult to come up with an agreement here, because you’re dealing with domestic regulatory frameworks, frameworks that each country has developed over many years, and trying to introduce some consistency into them.

Today, agriculture is not only a key strategic sector for the Australian economy, but the service sector seems to be increasing its weight in the Australian economy. Exports of services seem to be increasingly important for our prosperity. Assuming that our trading partners’ service sectors are largely protected by domestic regulations, it would be crucial for us that the aforementioned “WTO-plus” mega-regional FTAs address the behind-the-border measures as possible impediments to the trade of services.

So we’re very positive about the TPP, because it provides, as I say, a “WTO-plus” type of forum. We think that it should not be exclusive: that it should be open to wider membership than even currently. We want in the long term to move towards a free trade agreement in the Asia-Pacific region more generally, to try to bring together, for example, the TPP on the one hand and the RCEP on the other. As you may know, Australia’s largest trading partner now is China. China is not in the TPP, and we certainly don’t want to create any barriers in our trade with China. That’s why RCEP is important. That’s also why bilateral FTAs are still important. Our negotiations with Japan, our recently-concluded bilateral economic partnership agreement (EPA) with South Korea, and our continuing negotiations bilaterally with China on an FTA — they are all important in different ways.

We as a country will always seek to seize opportunities for trade liberalization wherever they are available, and that was the original



reason for our participation in the TPP process, why we are also enthusiastic about RCEP, and why we continue with our bilateral negotiations as well. On which, by the way, we hope to conclude with Japan soon; we have concluded with South Korea, and we hope to conclude with China soon as well. That's a very long answer, but it's a complicated web of different agreements that we have here.

Q: So concluding an Australia-Japan FTA will be helpful in promoting TPP negotiations?

Miller: We think so, yes. Because to be honest, the threshold in the bilateral will not be as high as it is in the TPP. We sort of see the bilateral as the beginning: we'll get some outcomes in the bilateral, and then keep on going with the TPP to continue to engage in liberalizing outcomes. They're mutually reinforcing.

Q: The production system today is becoming much more complicated. Interdependence among different economies does seem to be deepening. So that means, very simply speaking, if you want to achieve economic growth by exports, you have to import, because your export growth depends upon your imports — for example, in the case of Japan, rare metals from China. So I think that in that sense, free trade does now seem to be considered the most important vehicle for economic growth.

Miller: That's absolutely right. I think regional and global supply chains are now so complicated that there's no point anymore in taking a mercantilist approach to promotion of exports, because your exports are dependent on your imports. And they can go through several different countries. For example, Australia exports a lot of different products to Japanese companies that are operating in third countries such as Thailand, or Vietnam, or Indonesia. Now they don't figure in our bilateral trade statistics with Japan, but they're part of our dealings with Japan as a whole. So yes, it's very important.

Your comment too on trade supporting growth is a very important one. Indeed, in a G20 context, that's how we are seeing discussion on trade: as one of the enablers of economic growth. Of course there are other enablers, like infrastructure, like the discussion we had on strengthening resilience, but trade to the extent that it enables economic growth is something we are focusing on in the G20. Now we don't want to turn the G20 into a trade negotiation as such, but nonetheless it needs to be connected up properly, with trade seen as one of the main enablers of economic growth, both global and regional.

Q: In the light of such a complicated supply chain, the WTO might be more important than regional FTAs in achieving a good environment for business. So is the

G20 trying to promote the WTO, or to do something to contribute?

Miller: I think the important thing is to use the G20's role of international policy coordination, to coordinate policy not just on broad macroeconomic matters but on trade policy as well. Opening up trade and encouraging business to participate fully in global commerce is one of the important things that the G20 can do. Of course, though, it won't become a trade negotiation. But in the same way that over many years Asia-Pacific Economic Cooperation (APEC) has been a useful regional body to apply pressure on the wider international trading environment, G20 countries getting together and conveying messages about the WTO or about regional trading arrangements can be highly effective.

But we have to recognize that with the G20 there are differing views within the membership on this. For example, Brazil is less enthusiastic about some of the trade agenda there. Now some people point to that as a flaw or problem with the G20. I think it just derives from the fact that the G20 is a very representative body. It represents the balance of economic power in the world right now: with its bringing together all the traditional advanced economies plus the emerging economies, of course they'll disagree more, but they do represent 80% of the world's economy, not just 45% as the G8 does now. So it is more difficult to get a consensus at the G20, but when you do get it, it is more effective, and that includes on trade.

Q: Because of this difficulty in getting consensus, do you think it would be productive to think about alternatives to the G20? A G10, a G12 — something like that?

Miller: Well I think different countries may have different views on this. What is most important though is that it has to be representative, and the value of the G20 lies in the fact that 80% of the world's economy is covered by it. If you have a smaller body, you

then run the risk of losing some of that representativeness. You need countries like Brazil, like India, like China in it. So the Australian position is always to work with what we've got, because creating new organizations can often take a lot of effort, which you can actually devote to doing the best thing with what you've got, with the G20.

Q: I am curious about the US presence in global governance. Some people are talking about the situation of “G-Zero”: saying that American leadership seems to be declining, and in particular that the Obama administration does not seem to be working very well at influencing important incidents in the world, for example the situation in Ukraine. Do you have any thoughts on that?

Miller: I think that's overstated, but the reality is that the strategic and economic relativities are changing. The US is a lesser part of the world economy and the world's military strength than it was 20 years ago. Therefore, independently of gridlock in Washington, or the strength or otherwise of the US administration, the US has to work more with other countries than in the past. That's just a reality: whether we like it or not, the balance of power is changing. Our institutions have to reflect that, and countries have to adapt to that situation.

Q: The FTA is also very important in the context of geopolitics. A couple of years ago, the Japan Economic Foundation held a discussion group consisting of many academics, which concluded that APEC should be a body not only for international trade, but also for political security in the Asia-Pacific area. What do you think about this assessment?

Miller: I think it's a fair assessment. As a general point I'd say that people tend to underestimate the achievements of APEC over the 25 years or so since it first came into play. Just looking at the trade side of things, average tariffs in APEC have fallen from 16% in 1989 to 6% in 2011. There's also been a lot of work done on behind-the-border barriers as well.

Now to look at the question of whether or not APEC can play a political and security role, I suppose there are two things I could say here. First, that it happens anyway: when leaders get together they talk about what's happening in the world. Going back to 1999, leaders met in APEC, and there happened to be the East Timor crisis happening at the time and leaders talked about it. They talk about security and political issues in the leaders' retreat. What there isn't is an organized pattern of work that leads into the APEC leaders' meeting, and ministerial meeting, that deals with these things. Now of course, APEC has done some work in emergency preparedness,

and in counter-terrorism, as well as in dealing with pandemics, contamination of food supplies — all of these broadly-defined human security issues. So that's all very good.

But the second thing I'd say is that there is one constraint on APEC dealing with security, and that is its membership. China has great difficulty in dealing with any political security issues in the presence of Taiwan, so that is a constraint. Also India is not a member of APEC, but is increasingly part of the Indo-Pacific strategic system, if I can put it that way, and has to be at the table for any sensible discussion on political and security issues. Which is why, for our part, we have been relatively enthusiastic about the East Asia Summit process, because it has the right concentration of membership to deal with political and security issues. To our mind it's probably best to try and coordinate those two meetings effectively, so that they're back-to-back, and so that the common membership can move from one meeting to another: to deal with the full suite of economic, trade, political, and security issues across those meetings. In other words, to work with what we've got.

Q: Politics and economics are intertwined today, and cannot be discussed separately. And in that sense, including for Japan, the issue of China is very important. Aggressive Chinese foreign policy does seem to present a threat to the security of Asia-Pacific countries, to the extent that it is getting discussed in terms of a “Cold War mindset”. How do you think we can perhaps cool this mindset, or address the aggression in Chinese foreign policy?

Miller: Well I think there are two points to make here. First, while acknowledging it's difficult, we all have to continue to engage China in rules-based frameworks, whether it be the WTO, or RCEP, or this regional architecture we've just been talking about — APEC, the East Asia Summit. We need to have a cooperative agenda with China across the board: trade rules, non-proliferation rules, freedom of navigation rules, all these sort of things, so that China in turn can see value in being part of rules-based frameworks, rather than seeking to work outside rules-based frameworks. So we need to keep that there.

At the same time though, I think it is important that all countries in the region — whether it be the US, or Japan, or Australia, or Southeast Asian countries — make clear what the acceptable norms of behavior are. For instance, the recent difficulties over the air defense identification zone that China proclaimed in a provocative way are a good example of where China, to our mind, went too far without consultation, and then in turn brought a reaction from a number of countries that said that. So it has to be active and positive engagement on the one hand, but also a willingness to be firm when China goes too far in some areas.

Q: I think APEC might be a good body to engage China in rules-based governance.

Miller: Well overall, I think maximizing economic and trade integration but minimizing strategic risk are what we should all try to do. Maximizing economic integration involves what we just talked about: APEC, TPP, bilaterals, the WTO, and all the rest of it. Minimizing strategic risk involves working hard on major power relations — US-China, US-Japan, Japan-China, Russia-Japan, Russia-China — they don't have to be good, but should be in a stable kind of state. That's very important. At the same time, a second mechanism for minimizing strategic risk is to work on the rules in these regional fora we've been talking about, to make sure we have norms and rules in place which all countries abide by. And that in turn means having regional institutions that emphasize the value of dialogue. It's a lot of hard work, a lot of diplomacy and negotiation, but that to my mind is how as countries we should approach not just China but manage the region.

Q: Do you think that Australia could have a pivotal role in achieving peace and prosperity in APEC?

Miller: Well, we are a country of a certain size; the 13th-largest economy in the world; we have a reasonable amount of influence in the region; we have a very firm alliance with the US, and very strong bilateral relations with Japan, but also with other North Asian and Southeast Asian partners. And we have a successful economy and a stable political system, so all of those things are very positive. They mean that we can have more influence than we might. But we have to recognize that we are still a large middle power. We are not one of the big powers, and in the end it's the quality of the relationships between the big powers that will determine regional peace and prosperity. So yes, we can have influence, we can play an important role, but "pivotal" might be overstating it. We have to be realistic about the limits of our influence as well. So I suppose my answer is yes and no.

Q: But according to one quite well-known Japanese political scientist, a middle power sometimes plays a very important role. Japan for instance should be such an important middle power.

Miller: But Japan's economy is five times the size of Australia's, and your population is five times the size of Australia's, so that means that just at a basic level you have more weight. That is the difference I think. But yes, middle powers can have influence, can make a major contribution, and I'd have to say that APEC, the East Asia Summit, and the ASEAN Regional Forum, are all forums where Australia has played a pivotal role, to use your term. That's where I think we add value in the region.



Q: If I may, just one further question. You mentioned that China has now become Australia's main trading partner. In that light, how do you encourage Australian schoolchildren these days to remain interested in Japan, and in learning Japanese, at a time when perhaps Mandarin appears a sounder decision?

Miller: Well the first thing I'd say is that while China is now Australia's largest trading partner, Japan is still more important with regards to the wider economic relationship, because of investment. The stock of Japanese investment in Australia is eight to 10 times the size of the stock of Chinese investment in Australia. Now the flow is changing — there's a lot more Chinese investment lately — but even now Japan's is still higher.

Nonetheless, certainly the number of children studying Chinese has gone up in Australia. Mind you, you have to be careful with the statistics: a lot of those children are children of people who have come from Chinese backgrounds, who have migrated to Australia from a Chinese background elsewhere. The real challenge in Australia, like in any English-speaking country, is persuading children and their parents to learn any language. And I'm happy for children to learn any language as long as they learn something; that's the most important thing. I think the numbers for Japanese study in Australia have held up quite well, despite all of that.

But the key is to keep children interested in the outside world, learning foreign languages and being well-disposed towards a career in our region. The government that was elected in September last year in Australia has put in place a quite innovative new policy called the New Colombo Plan, which aims to get many more Australian students to go abroad, for six months to a year, as part of their university study. The government is funding that, to try and make sure that it's a normal part of all the choices that students make at university. So we are working hard on those sorts of things. **JS**