An interest in Japan: The political economy of Australia-Japan investment linkages

Christopher Pokarier

Waseda University

pokarier@waseda.jp

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Abstract

While the history of the domestic determinants of Australian trade policy has been thoroughly studied, surprisingly little academic attention has been afforded to the drivers of foreign investment policy outcomes. This is at odds with Australia's historical reliance upon imported capital, generally high levels of foreign ownership and control across the Australian economy – with several notable sectoral exceptions – and major policy changes over the forty year period from the mid-1960s. Moreover, at certain historical junctures, inbound FDI has both been associated with significant developments in Australia's pattern of international trade and was sometimes politically contentious. In keeping with the APEBH 2009 conference being hosted in Tokyo, this paper explores the historical political economy of Australian regulation of inbound FDI through a specific focus on Australia-Japan investment linkages. The paper first sketches a conceptual approach to the analysis of domestic constituencies for particular FDI policy outcomes, which has been more fully explored elsewhere (Pokarier, EBHA 2007). This informs the subsequent discussion, and attempted conceptualisation, of the structures of business interests, evolving over five decades or more, that have disciplined successive Australian governments as well as their Japanese counterparts. This discipline was most clearly evidenced in the late 1980s and early 1990s when Japanese FDI was politically contentious for a time. It has also been witnessed in the subsequent public management of the bilateral relationship, and in the contemporary breadth and depth of business and other constituencies for closer economic engagement with Japan.

Introduction

The longevity and growing importance of the bilateral economic relationship to both Australia and Japan has been well explored. National interests have been served mutually through the expansion in the volume and diversity of bilateral trade and related investment flows (CEDA & Keizai Doyukai, 1990). Economic complementarity as a theme in the analysis and official conduct of the bilateral relationship has been well-established for 40 years or more (Drysdale, 1973; Myer Report, 1978; Drysdale & Kitaoji, 1981; Harris & Ikuta, 1982). Yet there have been negative sectoral impacts, as the two nation's complementary competitive strengths were a further impetus to domestic adjustment. Political resistance by affected constituencies, such as in manufacturing in Australia and agriculture in Japan, was expected and has had considerable scholarly attention. At certain junctures Japan has also been a significant source of foreign direct investment for Australia, although not without controversy.

Australia historically maintained a very liberal regime in relation to foreign investment until the late 1960s, with the exception of broadcasting, airlines and banking[1] (Arndt, 1957, 1977). Pressures built for more restrictive policy during the 1960s, and from 1972 a general regulatory regime subjected foreign takeovers, and later all FDI above a certain threshold to regulatory scrutiny, was put in place. This shift to more restrictive policy happened to coincide with a diversification in Australia's sources of foreign investment away from the United Kingdom to both the USA and Japan *and* the growing importance of the resources sector as an investment destination. The first resources investment boom was, primarily, in response to the rapid growth in the minerals and energy trade with Japan. The rise of economic nationalism in Australia in relation to foreign investment, and the emerging structures of business interests that either opposed such attitudes or sought to harness them for their own ends, is inseparable from the growth of the Australia-Japan trading relationship from the early 1960s. As it was widely recognised that such trade had the potential to make an enormous contribution to Australia's economic prosperity, concerns grew that foreign investors (American, Japanese or indeed even British for some critics) might cost Australia a 'fair share' of the returns on its national resources wealth. Similar concerns subsequently arose about Japanese investment in the growing export-oriented beef and tourism industries in the 1980s, and in the real estate sector in general. These fears became rather widespread and hence politically salient, yet so too were complex domestic constituencies both for and against liberal policy towards foreign direct investment in each of the sectors.

Behind the outstanding growth in the scale and scope of the Australia-Japan economic relationship lay both pro-trade public policy settings dynamic and complex networks of private business linkages between the two nations, which are yet to attract much scholarly attention. Notable exceptions include Kamada's work on the Australia-Japan Business Cooperation Committee and private economy diplomacy between the two

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[1] A much earlier paper by this author (Pokarier, 2001) initially explored the historical political economy of Australia's inward FDI regulation, and the analytical framework that underpinned that discussion has been extended in a 2007 paper. Controversies over Japanese investment in Australia in the late 1980s are explored in detail in a 2004 article by the author, and recent contention over FDI in Japan, in its particular corporate governance context, is explored in a 2008 book chapter.

nations (Kamada, 1988) and Edgington (1990) on the economic geography of Japanese firms in Australia. Much more scholarly work has given attention to particular disputes and controversies in the Australia-Japan economic relationship, exemplified by scholars such as Rix (1986, 1999). In particular, political controversy over Japanese investment in Australia, witnessed off and on from the late 1970s to the early 1990s, has attracted a great deal of scholarly attention (eg. Morris, 2003). This is understandable, and yet that literature gives little attention to why the public contention over Japanese investment, and a discernable decline in popular goodwill towards Japan as measured by opinion polls (Goot, 1990), ultimately had little impact on the bilateral economic relationship. That is the central concern of this paper, which seeks both to sketch the historical political economy of bilateral investment linkages (though primarily at the Australian end, reflecting the asymmetry FDI flows) and to posit some means of conceptualising those specific dynamics.

In short, why did political contention over Japanese investment in Australia not result in significant policy change and a weakening of the economic partnership between Australia and Japan? Such controversy was first witnessed in relation to the resources trade, then the Iwasaki resort controversy in the late 1970s, and then, more intensely, in the late 1980s and early 1990s in relation to real estate, tourism and agricultural investments (Morris, 2003; Pokarier, 2004). There were antecedents though to that contention in growing concern about the broader roles of foreign investment and trade in Australia's economic development since the mid-1960s. In seeking answers to this question, both a long historical perspective on Australia-Japan business linkages and general theoretical conception of their relevant political economy are required. The paper proceeds from a general analysis of the political economy of foreign direct investment, drawing upon insights from a diverse international business, economics, and public policy literatures.

Conceptualising national and private interests

Much earlier scholarship in the fields of international relations, international economics and – at their interface – international political economy assume a certain unity of 'national interests', sometimes understood as structurally determined, which are, in turn, pursued by unitary state actors interacting with the leaderships of other nations (Gilpin, 1987; Krasner, 1985). In the last two decades there has been greater recognition of the domestic conflicts of economic interests and how domestic political processes in term shape national economic policy preferences, such as towards foreign trade and investment (Haggard, 1991, Simmons, 1994). This recognition was neatly encapsulated in Putnam's (1988) terminology of 'two level games'. Yet scholars from diverse theoretical, and indeed ideological, standpoints have revealed how cross-border coalitions of similar or complementary interests can pattern policy-making in even more complex ways. Such international coalitions of interests are most likely amongst corporate entities. They have the opportunity, means, and interests, to both pursue such cross-border business synergies and to influence both home and host government policymaking.

In relation to policymaking towards foreign direct investment (FDI), it has also been recognised that a 'two level games' conception is not sufficient given the important role that sub-national governments may play in the location decisions of foreign firms making cross-border location decisions. Some of this literature looks at specific investment-attraction measures pursued by sub-national governments, such as states in the USA (Kotabe, 1993). Jensen's (2006) recent work, involving a large sample of nations, reveals that countries with federal systems are systematically more likely to attract foreign direct investment. Jensen's posited rationale for such a pattern is that states are more likely to provide additional 'veto points' against the adoption of policies unfriendly to foreign firms wishing to make substantial direct investments. While Jensen's work lacks a full model of domestic political markets for FDI regulation, especially the demand for restrictive policy, it is a timely reminder of the potential significance of domestic institutional complexity in shaping national policy outcomes towards foreign trade and investment.

Jensen finds sub-national governments to be generally welcoming of foreign direct investment because of the stimulus it can provide to local economies. This accords with earlier scholarly work on the American experience; which highlights that addressing unemployment and/or boosting state revenues are significant motivations for states becoming proactive in attracting foreign investment (Eisenger 1988; Ventriss 1994, Bacchetta and Espinosa 1995; Kotabe 1993:135–38). Underlying all these works is the reasonable assumption that state politicians see electoral pay-offs in delivering such economic outcomes. In this paper, this is made a general working hypothesis: governments are inclined to promote FDI and other foreign capital inflow in the absence of counter-veiling pressures for restrictive policies given the boost to their electoral fortunes that robust economic growth may provide. Yet, as shall be developed at length below, *a priori*, one can readily conceptualise domestic structures of private economic interests that make generate political imperatives for illiberal foreign investment policy.

These are ultimately *private interest* accounts of a political market for foreign investment policy outcomes that are consistent with a rational choice or public choice explanation. Such an approach has been quite common in the study national trade policy preferences in recent decades (see, for instance, Anderson & Garnaut, 1987 on Australia). Given that the concern of this paper is a conceptualisation of the broad historical sweep of Australia-Japan business linkages it is worthwhile briefly reiterating the fundamentals of that theoretical approach. Simply, corporate end users (and consumers, if fully informed) of imports should favour open markets to foreign suppliers; as should those business constituencies, such as trading companies, directly involved in the conduct of such cross-border trade. Uncompetitive domestic producers, on that other hand, will oppose such free trade and have incentives to invest resources in domestic political action to secure protection via tariffs or other barriers to market entry faced by foreign providers. State actors, independently of such political calculus, may have a preference for tariffs as a source of revenue whilst non-tariff barriers often entail enforcement costs without generating offsetting state revenues. Yet as the relationship between trade protectionism and economic under-performance is now widely recognised, states may see revenue loss from tariff reductions as at least offset by the revenues (and perhaps political capital) generated by higher economic growth in more efficient sectors. The preferences of sub-national governments in relation to trade protection are entirely case specific; being patterned by particular regional structures of producer and consumer (including corporate users of imports) interests.

Public interest rationales for restrictive policy?

Prior to exploring, conceptually and empirically, the historical structures of private business interests in relation to Japanese foreign investment in Australia, it is important to note that there are conceptually valid *public interest* explanations of why governments might choose to regulate foreign direct investment. National security imperatives in sensitive sectors, such as defence-related industries and some critical infrastructure, can be readily envisaged. Indeed, these concerns have recently become more politically salient in the United States, for instance, in relation to port security.

Foreign investments entailing controlling stakes in culturally and politically sensitive sectors such the broadcasting media are still prohibited by otherwise rather liberal contemporary economies, such as the USA, Japan and, until recently, Australia. Whether such restrictions are well-founded or not can certainly be contested, although there can be little doubt (based on a range of opinion poll data) that substantial majorities of citizens in many countries hold concerns about such foreign investments.

Relevant to understanding Australia's more restrictive foreign investment policy regime from the early 1970s are several public interest rationales that are effectively a theory of 'the second best'. If domestic policy settings give rise to substantial private rents and/or moral hazard problems at the expense of the community, and there is little scope for policy reform, then a public interest argument for a restrictive FDI policy may arise. If foreign firms are able to secure a share of consumer surplus owing to market-distorting regulations, and then repatriate it abroad, then there will be a welfare loss to the host economy (Corden 1974:221). The positive externalities that FDI can entail may be large enough to more than offset this loss, making a liberal FDI regime still desirable. If the rents lost are larger than the spillovers, and they cannot be clawed back through taxation, then restrictions on FDI, or at least profit repatriation, would become attractive. It must be stressed that this would only be a second best solution and that domestic reform would be the first best. The most common scenario is of foreign firms earning large profits by 'tariff-hopping' into very protected and oligopolistic markets, at least until the high rates of profitability attract more firms into the market (Corden 1974:330–50). This scenario accords with critiques of the profitability of Australian subsidiaries of American firms such as General Motors in the early and mid-1960s (Johns, 1967). It is striking, given the concerns of this paper, that such profits were a drawcard to the Japanese auto manufacturers Toyota, Nissan, and Mitsubishi; the latter entering manufacturing in Australia through a takeover of Chrysler's troubled South Australia-based operations.

Another 'second best' public interest argument for restrictive FDI policy may arise in relation to national resource rent regimes, especially in the context of federalist (or weak) political systems. When citizens see themselves as residual claimants to the nation's resources, and when there is a question mark over whether governments are adequately managing the process of selling property rights to public resources, such as in minerals, forestry, fishing or even the right to pollute, foreign investment policy is likely to become even more contentious.

This scenario is central to an understanding of the intense politicisation of foreign direct investment, and its regulation, in the late 1960s. By 1972, when a politically weakened McMahon Coalition government was facing a serious electoral threat from the Whitlam-led Labor opposition, political pressures to create a foreign investment review mechanism were intense. The McMahon government only enacted a mechanism for review and controls over foreign takeovers; measures which, incidentally, some of the Liberal Party's own business and managerial constituencies were also advocating. During the 1972 federal election, and subsequently, opinion polls suggested Labor's commitment to extending regulation to new foreign investments, with the resources sector as its key objective, were popular.

Throughout the 1960s there was a growing chorus of criticism, popular and sometimes academic, of supposedly excessively generous state-level concessions to mining consortiums (Fitzpatrick, B & E. L. Wheelwright, 1965). Foreign investors – British, American, Japanese, and sometimes Canadian, South African, French etc – were significant stakeholders in this projects; which had in common their orientation towards serving rapidly growing Japanese demand for coal and minerals. Queensland, in particular, was singled out for criticism (see Fitzgerald, 1984: 305-87; Galligan, 1982). There was an element of domestic political economy to this as the new open cut coal mines of central Queensland were significantly lower cost than the underground operations of both New South Wales and in Southeast Queensland, around Ipswich. This patterned the politics of foreign investment and the Japan energy resources trade within the labour movement, culminating in the policy adventurism of the Whitlam government under the influence of minerals and energy minister Rex Connor (Fitzgerald, 1974). This initially took the form of interventions in price negotiations, new investment review processes (in practice, delays and uncertainty), and the ultimately politically devastating 'loans affair' where foreign loans raised through unorthodox channels were to be used to displace foreign equity from controlling stakes in resources projects.

Yet despite the 'loans affair' having played a central role in the untimely fall of the Whitlam Government, the subsequent Fraser Government retained the key foreign investment policy principles of its predecessor such as equal partnership provisions for 50% local equity, while jettisoning Labor's state developmentalism. The Fraser Government ultimately introduced a resource rent tax (Flint, 1977), partly owing to the personal conviction of Prime Minister Fraser, but also due to the continuing political saliency of popular concerns about the returns to Australia from the resources trade (Harris & Ikuta, 1982).

The political failure of the Whitlam government did little to dampen left wing critiques of Australia's reliance on foreign direct investment and the ostensibly exploitative nature of the Australia-Japan resources trade (McQueen, 1982). With rising levels of Japanese investment in real estate and agricultural industries in the 1980s such accounts of exploitation and structural dependency became more general and, somewhat more shrill (Crough and Wheelwright, 1982; David & Wheelwright, 1989). Viewed in 2007, after fifteen consecutive years of economic growth in Australia, a renewed resources boom and simultaneous concerns in Japan about resource security, and official embrace of FDI's contribution to the economy (DFAT, 1999), such fears seem very quaint. Yet their popular attitudinal, and hence political, salience at the time should not be under-estimated.

Japanese investment and Australian interests – public & private

The domestic political economy of inbound FDI policy preferences have attracted surprisingly little academic attention despite global FDI flows have increased at a faster rate over the last two decades than global trade flows. The political economy of FDI policy centres on the fact that, in general, FDI will lift the returns to factors of production it utilises in the host economy while entailing complex distributional aspects (Caves 1996). Those distributional aspects will be explored below, both theoretically and empirically in the case of Australia's investment linkages with Japan.

Foreign direct investment will generally increase the financial return to labour and/or the overall employment level. Within the international business literature the presence of high levels of unemployment has been identified as a political driver of liberal FDI policy (Kotabe 1993; Globerman 1988). Historically in open frontier economies rising returns to labour from capital inflow would attract migrants, resulting in the possibility of real wages being constrained below the level they would otherwise reach. However, a larger labour force would be supported (Parry 1978:194–97). Consequently, political representatives of labouring interests historically had strong incentives to support higher levels of foreign capital inflow while opposing any policy settings that might result in labour inflow.

As FDI entails issues of control by foreign managers it raises distinct issues that other forms of capital inflow do not. Foreign firms might bring certain human resource management practices that conflict with established local practice but which are an important part of the firm's ownership advantages. This was clearly evidenced with Japanese investment abroad in industries such as automobile manufacturing. Consequently there might be resistance to foreign takeovers of existing enterprises by unionised workers in the target firm if they believe that job levels and entitlements can be roughly maintained in the absence of new foreign ownership (Rugman and Verbeke 1998:126). Trade unions also tend to favour the interests of existing employees rather than the creation of greater employment overall (Hirsch and Addison 1986:155–79). On the other hand, unions may also perceive that they can extract greater rents from a profitable MNE than a domestic firm (Caves 1996:123). However, foreign firms might make more credible threats during wages negotiations to relocate business operations to another country (Huizinga 1990). Again, Japanese business representatives have frequently communicated to the Australian public-at-large and, one imagines, to union representatives directly at times of dispute, that they have alternative location options.

That a liberal FDI policy will be in the interests of labour as a whole suggests other domestic suppliers of business inputs should also have such a strong preference for it. Whether oriented towards the domestic or export markets, a wide array of suppliers of physical inputs and ancillary business service providers, such as lawyers, merchant bankers and accountants, will be utilised by foreign firms. They will not only favour a liberal policy but also stability in other policy settings so as not to jeopardise such contracting with foreign firms. Indeed, since the mid-1960s Australian providers of professional business services have been prominent in Japan-related organisations and have often been articulate public defenders of the contribution that Japanese businesses – as customers, investors, and suppliers – made to Australian national welfare. This was strikingly evident during controversy over Japanese investment in the late 1980s. It may be posited too that as representatives of orthodox, high status professions such as the law, banking and accounting, such 'Japan hands' brought domestic stature and legitimacy to new corporate linkages. At the same time, their standing was symmetrical with the prestige in Japan of leading corporate players in the resources trade such as the largest general trading companies (with the Marunouchi pedigree, for instance, of Mitsubishi Shoji and its Iwasaki zaibatsu origins) and large utilities firms.

Any local business facing liquidity constraints, or wishing to share risk, will welcome the opportunity to enter into joint ventures with foreign firms. This is essentially the experience of Australian resources pioneers in the early 1960s such as Sir Leslie Thiess. They sought both Japanese and American capital and expertise, as well as access to Japanese markets and long term contracts in order to exploit the opportunities presented by large resource endowments they won claim to (Fitzgerald, 1984: 324). This leads to the broader but important observation that sellers of assets have an interest in an open investment regime because it can increase the pool of bidders.

The clear corollary of this is that local buyers of assets, in relatively fixed supply, would have an interest in a restrictive investment policy. In the absence of foreign buyers, local bidders might pay less for an asset, especially in a context of rather inefficient financial markets. Such logic extends to local equity requirements, one of the popular objects of foreign investment policy adopted by many governments. These can provide local firms with involvement in enterprises at below free market prices and therefore may create political constituencies for the establishment and perpetuation of such a regulatory requirement. It is notable that during the late 1960s and 1970s Australian domestic business representatives were frequent supporters of local equity requirements; policy preferences realised through the years of the Fraser Coalition government with its policy of equal partnerships between foreign and local equity in the key resources and manufacturing sectors. Some domestic business constituencies, such as the firm CSR, benefited from its local status under such a policy and lobbied for its maintenance. The Fraser Coalition government's maintenance of historically strict local equity requirements for the resources sector in particular is striking; especially in light of subsequent liberalisation in the next decade by the Hawke and Keating governments. It may be posited that Labor's lack of links to such domestic business constituencies actually made liberalisation of local equity requirements politically much easier than for a Coalition government – especially one as politically cautious as the Fraser's.

Not only domestic buyers of assets, but any domestic firm foreseeing competition with a foreign investor for either customers or inputs would have an incentive to favour a restrictive FDI policy. When a foreign firm directly invests to secure market share in a host economy, taking advantage of its competitive advantages, local competitors (perhaps of foreign origin) will have the same incentives to lobby for protection, through barriers to investment that they would have if faced with competition from the rival firm's imported product (Parry 1978: 178–191). Indeed, the decision of the rival to invest directly in productive capacity might be a strategic response to the local firms' successful lobbying for protective barriers against its goods. The investments by Japanese automakers in Australian production facilities in the late 1960s and 1970s are consistent with this logic.

It is often stated in the international business literature that export-oriented foreign investment is likely to beget far less opposition and empirical studies of MNC-host government bargaining do offer some evidence to support this (Poynter 1986:57; Encarnation and Vachani 1985). Nonetheless, there will be domestic constituencies opposed to the entry of export-oriented firms. While export orientation implies there is not an immediate threat to the customer base of local domestically oriented firms, the latter may still fear product might be later directed to the domestic market. This has been seen, for instance, with the Japan Tobacco-controlled Hans Small Goods firm come to serve primarily the domestic Australian market, despite earlier Japanese control being ostensibly oriented towards serving the Japanese market. Furthermore, solely export-oriented FDI will still be in competition for inputs and, possibly, the established export markets of local firms in the host country. The latter will be particularly the case if the FDI is driven by recognition of the clear locational advantages the host country's firms have in a competition with the investor in international markets. This was the case with the direct investments by Japanese beef processors in Australia in the late 1980s and early 1990s as they confronted the prospect of direct competition from Australia after the liberalisation of the domestic Japanese market. Similarly, Japanese travel and tourism enterprises responded strategically to the growing popularity of international travel in the 1980s – at the expense of domestic travel – by investing in hotel and other travel businesses in Australia and other popular destinations.

The corollary of the local suppliers of business inputs being prima facie supporters of a liberal FDI policy regime is that local end users of those inputs would prefer new competitors were not able to enter the economy (unless the additional demand generated scale economies that benefited all users). The ultimate FDI policy preference of the local firms having to compete with direct investors for inputs will depend upon their calculus of the costs associated with that competition versus the other benefits FDI might bring them. Foreign direct investment, like other forms of capital inflow, can help raise the limits on economic growth and so raises the possibility for any business to also grow at a faster rate. A larger economy may allow firms to capture more economies of scale and scope (Caves 1996:251; Sinclair 1976:188). As FDI also entails spillover effects, such as a raising of the skills base of an economy, other businesses standing to benefit from such positive externalities, and not bearing counter-veiling direct costs from its presence, should favour a liberal policy (Caves 1996:251; Drysdale, 1993).

The political logic of a discretionary FDI policy regime

Governments caught between recognition of the contribution to FDI can make to economic growth and the popular economic nationalist sensitivities in the electorate at large may be attracted to the discretionary investment review mechanism as a means for managing these tensions. The history of the foreign investment review board, and its predecessors created by the McMahon and Whitlam governments, certainly seems to accord with this. Moreover, contending interests and demands from *within* domestic business constituencies may also make such a foreign investment regime the preferred regulatory mechanism for the business community at large.

Domestic firms might argue for a discretionary FDI policy rather than blanket restrictions because this would provide them with the opportunity to lobby for the specific restrictions they desire; while remaining passive when foreign investments are seen as benign. Such diffused benefits of FDI, and concentrated costs, would tend to drive policy in a restrictive direction if it were not for the countervailing constituencies of input providers and domestic businesses facing liquidity and/or know how constraints. Unlike tariff politics, governments can resort to a highly discretionary regulatory regime that allows it to weight the significance of each constituency on an individual investment basis. Domestic businesses might favour such a regime for another reason. A degree of agency slack in corporate governance might see managements of firms supporting restrictions on foreign takeovers. As potential sellers, company shareholders have an interest in the pool of buyers being as large as possible. Management, on the other hand, will fear a change of owners because they may lose their positions. Management may then be tempted to utilise some of the firm's resources, including reputation, to lobby for a restrictive FDI policy that will be contrary to the interests of the owners of the firm. Such logic also leads to the hypothesis that managements facing a hostile foreign takeover bid will endeavour to empower government with discretionary authority over takeovers to block bids.

As just seen, domestic divisions of interest on FDI policy tend to cut across those of other major issues. The FDI policy interests of firms may change fairly rapidly; depending upon whether they are currently a buyer or seller of assets, considering expansion but face capital or technological constraints, or fending off new competitors. The inflow of FDI is also much 'lumpier' than traded goods so there are likely to be times of intense debates and other times when FDI policy is not a political issue at all. All these considerations make the development of FDI policy-specific interest groups rather unlikely. This means the private interest politics of FDI will be complicated by the institutionalised pattern of interest groups. In such circumstances, direct lobbying of governments by individual firms and entrepreneurs is posited to be more likely than in many other areas of business regulation. Although business associations as a whole may agree that national economic welfare, and hence their own, is generally enhanced by liberal FDI policy, firms may cheat on any 'rent-seeking moratorium' by seeking specific regulatory interventions that would entail significant benefits to the particular firm.

The broader implication of this analysis is that the Foreign Investment Review Board mechanism, for all the criticism over three decades of its lack of transparency and the uncertainty it may give rise to, may have been a potent mechanism for retaining a relatively liberal foreign investment policy regime *in practice*. More transparent regulation of FDI may have been less liberal, especially during the 1970s and early 1980s when political contention over returns from the resources trade, and then over Japanese investment in the beef industry and real estate in the late 1980s, were at their height.

Conclusions

It is clear from studies by international business scholars that FDI in land and natural resources are more prone to political contention than many other forms of FDI. This suggests that central to national identities is a common territory that citizens share and which bestows resources upon them. Breton (1964: 377) argued that the territorial fixation of economic nationalists was evidenced by the fact that that they seldom consider capital owned abroad by nationals as part of the national capital. Smith (1990:9–10) summarises the popular nationalist conception where

> The homeland becomes a repository of historic memories and associations... The land's resources also become exclusive to the people; they are not for 'alien' use and exploitation. The national territory must become self-sufficient. Autarchy is as much defence of sacred homelands as of economic interests.

It is unsurprising then, in hindsight, that the sharp increase in Japanese investment in both real estate and agricultural properties in the late 1980s became more contentious that investments in other sectors had been (quite aside from the equally important point that previous investment had been on a joint venture or minority stake basis in general). Furthermore, given the politically potent territorial dimension to nationalism identified by Smith and others, Japan's historical status as the only nation to have attacked Australian territory militarily was fuel to nationalist critiques of Japanese FDI.

Historical proximity

Vachani (1995:164–65), in seeking the determinants of MNC-host government bargaining outcomes, found evidence to support his hypothesis that: 'multinationals with positive historical or cultural ties with the host country will enjoy a higher proportion of foreign ownership retained than those without such ties.' That is, firms face less pressure from host governments and societies to 'indigenize' the firm through involving local equity partners. The concomitant of this is an anticipated correlation between the proportion of total inward FDI being from culturally proximate countries and the openness of the FDI policy regime. This certainly accords with the historical openness of Australia to 'overseas capital' when it was predominately British; that is, up until the late 1950s. Yet it does not fit with the significant liberalisation of FDI policy by the Hawke and Keating governments at a time when Japanese investment was domestically contentious. Yet Vachani's hypothesis and findings are, a priori, logical and suggest in fact both the magnitude of the economic governance imperative faced by the Labor government owing to the balance-of-payments problem Australia faced, and the significance of its defence of the benefits of Japanese FDI to a sceptical public constituency.

The liberalization imperative

Times of policy crisis may decisively shift the 'feasibility frontier', to borrow Dunleavy's

(1992: 109-10) term, of policy action, privileging new ideas and their proponents. This was certain true in the Hawke Government's response to Australia's severe balance-of-payments problems in the mid-to-late 1980s. Foreign investment policy liberalisation measures were the immediate means by which the Labor Government signalled its, historically improbable, commitment to substantial economic reform. A substantial agenda of macro-economic fiscal rectitude and micro-economic reform followed. With the Coalition opposition proposing an even faster past of economic liberalisation, including the abolition of the Foreign Investment Review Board at one stage, and 'elite opinion' very much in favour of reform, the Hawke Government could take the political risk of ignoring popular critiques of Japanese investment.

Economic nationalism

Finally, 'economic nationalism', as an ideological and political phenomenon needs to be dealt with briefly. A leading scholar of the economics of foreign investment, Richard Caves, has provided a model for giving serious analytical attention to the possible preferences of citizens for national economic self-determination, or a simple xenophobic preference for minimising dealings with foreigners (Caves, 1996:250–51). In Caves' conception, voter support for control of FDI on nationalist grounds would be '…subject to the condition that real-income costs of the restriction do not outweigh the utility of the gain in perceived independence.' Both substantial opinion poll data and secondary academic sources attest to the historical influence of economic nationalist ideas in Australia (Bryan and Rafferty 1999:34-60; Goot, 1990) Either increasing promise of high-yielding FDI and/or declining domestic economic performance, may change perceptions of the opportunity costs of FDI regulation. Breton (1964: 379) saw economic nationalist ideas as primarily serving the interests of protectionist constituencies; making restrictive policy that was not in the interests of the society as a whole (and the working class in particular) more palatable politically. There have been clear instances where criticisms of Japanese foreign investment in Australia served instrumental ends in compounding for sectoral (or sub-sectoral) resistance to industry restructuring that Japanese FDI could be an impetus to. This was particularly so amongst beef producers in Queensland in the late 1980s and early 1990s. Yet those periods of controversy also showed that, in time, a combination of liberal business constituencies, media and academic commentators, and good independent data sources on the nature and extent of Japanese foreign investment (coupled with recession though!) helped to diminish controversy. It can never be assumed though that countervailing political pressures will arise to offset the combined political pressures of popular nationalist sentiment and private rent-seeking.

Need for further research

Historical case studies of the Japanese corporate experience in Australia, especially in English, are very much in need. The older extant Australian literature is generally tinged with economic nationalism, or was normatively liberal and directed to a policymaking audience and therefore did not provide detailed corporate-level case study analysis. The opportunity to tap the recollections, knowledge, and resources of the Japanese business pioneers in the 1960s and 1970s is diminishing. Case studies and memoirs might help to throw some light on aspects of historical Australia-Japan business relations that remained little explored. Interesting questions to explore include how open were Australian business communities, including formal associations, and Australian state and federal policymakers to representation and dialogue with Japanese business interests. To what extent was 'foreign-ness', and 'Japanese-ness' in particular, a handicap? Caves (1996:250), theorising the political market for FDI policy, suggested that 'because foreigners do not vote in national elections, pure redistributions away from foreign equity holders cause no negative equity votes and thus should proceed further than redistributions adverse to the interests of enfranchised minorities.' However, the domestic partners, suppliers and employees of foreign firms can constitute a domestic political constituency against the imposition of excessive rent-extracting regulations. How effectively did Japanese firms utilise their potential Australian constituencies and, more generally, how effective were their efforts at 'local responsiveness'? The positive aspect of being 'foreign' is that such firms sometimes can also turn to the home government and its official agencies in the host for assistance in dealing with the host government (Krasner 1985:170–76). How extensive, and effective, were such Japanese diplomatic and other official efforts? To date, academic studies have understandably focused upon the negotiation of the landmark agreements between the two nations; reflecting not just their importance as providing a bilateral policy architecture for the economic relationship but also, more practically, because the archived material at hand. It is hoped that future studies may throw more light on the nature and effectiveness of private diplomacy, as well as providing more expansive accounts of public diplomacy throughout a half century of Australia's pre-eminent bilateral economic relationship. Further study is needed of the historical and contemporary sociology – the backgrounds, networks, and roles of Australian 'Japan hands' and their Japanese counterparts. How these significant, fluid, and growing networks have evolved may provide insights into the micro-dynamics of contemporary Australia-Japan relations, in the business and broader fields.

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