

Japan at turning point: Possible Impacts and Implications to Taiwan

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I. Introduction

In this article, I try to use three current examples in terms of Japan's politics, economy, and military shifts to demonstrate the possible impacts and implications to Taiwan: the Ozawa's coup, Taiwan-Japan Mutual Investment Agreement after the 2011 March 11 earthquake, and Japan's 2010 National Defense Program Guidelines (NDPG). I argue that the current shifts of Japan, in fact, have created a best opportunity and timing for Taiwan to form a special strategic alliance with Japan in political, industrial, and possibly military cooperation. However, within that, the U.S. has an indispensable role to play in encouraging Japan to take more active stance toward Taiwan. With current highly dynamic and uncertain environment of East Asia, the best way to maintain further stability in this region requires not budgetary nor technological, but strategic and innovative arrangements, which requires strong American leadership.

I. Ozawa's Coup

On June 26, Japan's lower house passed the bills of social welfare reforms and the controversial sales tax increase with 363:96 votes. It sounded the triumph for Japanese Prime Minister Yoshihiko Noda's (野田佳彦) ambitious reform aiming at reining in the nation's public debt by doubling the 5 percent levy by October 2015, however, with a dearly price of alienating 57 lower house lawmakers of the

Democratic Party of Japan (DPJ) led by Ichiro Ozawa (小沢一郎). This controversial tax increase will proceed in two steps: from current 5 percent to 8 percent in April 2014, and to 10 percent in October 2015, it is also the first tax increase in 17 years in Japan. This tax rise will increase 13.5 trillion JPY in tax revenue for the government; however, will add 120 thousand JPY burden to average household with 5 million JPY incomes.

However, this successful passage of tax increase also led to the split of DPJ and ignited Tokyo's summer campaign. On July 2, Ozawa decided to leave DPJ with 37 lower and 12 upper house members to establish a new party. Ozawa claims that the central theme of the new party will be "people's lives first" (国民生活が第一), and the party's main policy lines are anti-nuclear, anti-tax increase, and anti-Noda. This is not the first time Ozawa has done this. He is well known as the "party terminator" (政党破壊王) and also good at catching the main thread of public opinion in Japan. He is so good at campaign so that he could boldly nominate and help 29 first time runner to win their elections in 2009 general election of Japan.

DPJ basically is a big combination of different leagues of anti-LDP politicians. The original Democratic Party was established in 1998 by Yukio Hatoyama (鳩山由紀夫) and Naoto Kan (菅直人) with lots politicians from JSP, DSP, LDP, and many other small parties. It was a coalition of anti-Ozawa and anti-LDP. However, anti-LDP became the consensus of the Liberal Party (led by Ozawa) and the Democratic Party (led by Hatoyama and Kan). Both sides signed a pact to merge the two parties into one in 2003, therefore fiction politics always plays the most important role within DPJ. In terms of 2009 general election, there are five or six main fictions within DPJ depending on different perspectives. It is commonly believed that the largest fiction is led by Ozawa with 32 lawmakers in the lower and 18 in the upper houses centered on Ozawa Politics School.

And Hatoyama follows with 25 seats in the lower and 25 in the upper house and basically are considered as right-wingers. The third largest camp is Noda's faction with 18 members in the lower and 8 seats in the upper house based on Matsushita Institute of Government and Management. Following by the faction led by Maehara Seiji (right wing hawk, ex foreign minister); Edano Yukio (minister METI), and Sengoku Yoshito with 18 member in the lower and 5 in the upper house. But it is also commonly believed that Noda and Maehara factions can be seen as one faction since their policy orientations are so similar, if not the same. Therefore, under current Ozawa's challenge to Noda's leadership in DPJ, ex Prime Minister Hatoyama plays decisive position to determine the end of the game. Although Hatoyama has publicly criticized Noda of deviating from DPJ's original party policy platform too far, but he has not decided to take a side yet.

The upper house of Japanese Diet will review the social welfare and sales tax bills around mid August. In addition to that, DPJ has also sent the supplementary budget and new public debt bills to the Diet. If all the bills can go through the legislative process successfully, then Noda could have very high possibility to win the party leader election in this coming September. However, for Noda to be able to maintain a stable majority in the upper house, again, he will need Hatoyama's cooperation in the upper house.

At the same time, Liberal Democratic Party (LDP) and Komei Party are also preparing to challenge DPJ. LDP leader Tanigaki Sadakazu (谷垣禎一) warned Noda that if DPJ cannot consolidate its upper house seats and breach the tripartite agreement due to Ozawa's influence or Hatoyama's rejection, LDP will go on to cast a confidence vote before the end of this Diet session on September 8. On the other hand, without challenging DPJ under current circumstance, Tanigaki will probably face serious criticisms within the party and lose the party leader position in the coming

September party head election.

Prime Minister Noda understands the dissolution of current Diet is just a matter of time. In the best scenario, he is able to hold the current de-Ozawa DPJ and the tripartite coalition together to early 2013 Diet session to pass the 2013 budget bill. Again, Hatoyama and Tanigaki's decisions will be the key to it. It is possible that Hatoyama might decide to reject Noda's leadership in DPJ, however, it is highly unlikely that Hatoyama will choose to stand alongside with Ozawa. Therefore, the possible development of this Summer Campaign of Tokyo might still end up with right-wing staying in power. The best scenario for Noda is a post-Ozawa or de-Ozawa DPJ still occupies stable majority of the Diet. And the worst scenarios might be the LDP takes the majority along with Komei Party and other right-wing DPJ politicians. There is still a third possibility that Noda might have to form coalition with LDP in order to maintain majority in the Diet.

However, any of the results will be still be positive and helpful for Taiwan's relationship building with Japan for LDP and right-wing DPJ traditionally hold friendly stance toward Taiwan. It is also productive for the U.S.-Japan relations with the ongoing adjustment of American strategic arrangement in this region. Therefore, in the foreseeable future, Japan will pay more of its attention to the rising threat of China, especially over the territorial dispute of Senkaku islands as well as the increasing activities of Chinese navy. In sum, either Noda or LDP or the right-wing coalition come to power in Japan, the possible development is good for the long-term establishment of U.S.-Japan relations and the stability of this region.

II. The Taiwan-Japan Mutual Investment Agreement

Although Japan started to enter Chinese market with much greater technological advantages in the 1980s, the failure rate of Japanese enterprises is

higher than other countries due to the historical memories. For example, the strikes and labor movements in China have made Toyota and Honda suffer from great losses, Komatsu and many other Japanese companies have similar experiences as well. In addition to that, under the carrot and stick strategy of China, the advanced technologies of Japan have been losing to China uncontrollably since the 1990s. Business espionage has become an often practice in the Chinese business community; the 2007 espionage of technical data of Denso is a clear example. Moreover, the incomplete legal system, lack of transparency of government regulation and policies especially at the local government level, and weak enforcement of intellectual property right protection have made the survival of Japanese firms in China even more difficult.

According to the surveys from Japan's Teikoku Databank (帝国データバンク) and Mitsui-Sumitomo Bank in 2007 and 2009 respectively, more than 80 percent of Japanese firms in China worry about the future perspective of their businesses in China and believe it is harmful to the Japanese economy and industry if the current trend maintains. Within those numbers, 65.8 percent is in transportation and storage industries, 64.8 percent in retail, and 60 percent in the manufacturing sector.

Mitsui-Sumitomo Bank is even more pessimistic. Branch President Tanaka Ryuichi points out that even though Japan still maintains a comparative advantage in terms of end products and R&D capabilities over China, but within five years, China can catch up with Japan and the status quo will change rapidly toward China's favor. Currently China is capable of indigenously manufacturing much more advanced equipments and machineries than a decade ago. And he believes this development will eventually lead to the overall hollowing of Japanese industry if the government is doing nothing.

Among all the problems, Mizuho Bank is the first company advocating the strategic alliance with Taiwan in 2009. Mizuho Bank's opinions have impacted the strategic planning of Japan's Ministry of Economy, Trade and Industry (METI) in

terms of developing overseas strategy. In June 2009, the overseas industrial strategy consultative council (審議会) of METI determines to have Taiwan and Taiwanese firms as the first priority to form alliance in order to reenter Chinese market successfully. The decision is out of four major reasons: first, the unique position that Taiwanese firms in China due to political, culture, custom, and historical reasons; second, the decades-experience and marketing networks of Taiwanese firms in China with a total population of Taiwanese businessman reaching 800 thousand in 2009; third, the complete and transparent market and social environment of Taiwan, as well as the high similarities between Taiwanese and Japanese societies. For that, Taiwan can act as a Test Market for Japanese firms to enter China. Forth, the long-term partnership and cooperation experience between Taiwanese and Japanese firms. Based on Mizuho Bank's estimation, the survival rate of Taiwan-Japan joint venture can reach 80 percent in Chinese market.

In addition to that, the Economic Cooperation Framework Agreement (ECFA) between Taiwan and China, as well as the March 11, 2011 earthquake have given opportunity to both Taiwan and Japan to rethink their future cooperative relations and strategy. The mega earthquake and tsunami not only took away Japanese people's lives and properties, it also caused the destruction of several important infrastructure and utilities. It made Japan's semi-conductor, automobile, and panel industries to decrease or terminate production, in turn, this delink the overall global industrial supply chain and caused huge loses not only to Japanese firms but to Taiwanese and many other countries.

However, this disaster opens a new door and opportunity for further industrial and economic cooperation between Taiwan and Japan. For several decades, the two nations have established close cooperative relations in terms of vertical industrial integration, especially in automobile, machinery, electronics, and IT industries.

However, most of the cooperation and interaction have gone through the forms of partial technology transfer, licensed production and OEM production traditionally. For Japan's stand point, with the experience from the quake and the purpose of risk-sharing, Japanese firms are eagerly looking for overseas second R&D base. And surely, Taiwan is the best candidate for them. This development of overall strategic arrangements in terms of industrial structure can strengthen bilateral ties and avoid overemphasis on automobiles and electronics. As current DPJ's 2009 New Growth Strategy, in the foreseeable future, Taiwan and Japan's cooperation will jump into the new fields such as green energy, next-generation automobile, cultural innovation and fashion, bio-chemistry, bio-technology, nano-technology, electric bike, solar panel, LED, smart phone, and cloud technology.

There are two plausible directions for the future cooperative relations between Taiwan and Japan's industrial development. First is the horizontal labor of division between Taiwan and Japan. This strategy includes joint venture, strategic alliance of marketing and R&D, co-production, and exchange of information. This cooperative relation will not only enlarge the sizes of industrial scale in both countries but also will reduce the risks and lower costs for both sides. The foundations for this strategic alliance in Taiwan's part include comparative advantages in mass production, commercialization, cost control, marketing and management, high quality human resources, and comprehensive marketing network in China. On Japan's side, there are long-term domination of core technologies and components in semi-conductor, panel, telecommunication, bio-technology, and medical equipments in addition to its decades-long credibility and reputation of brand names. If Taiwan and Japan can successfully form this horizontal industrial alliance, we will see a boom in exports as well as investment to third country. In addition, Taiwan and Japan should pick a critical industry such as the machinery tools industry which both sides have long-term

cooperative experience as a touchstone to promote industrial relations from customers to partnership.

Second possible direction is the Japan-Taiwan-China vertical industrial integration. Traditionally, Taiwan imports lots of intermediate goods and capital goods from Japan at the scale of 25 percent. With Japan's direct investment in Taiwan, Taiwan should shift its role as a capital goods importer to exporter to China in industries such as chemicals, general machinery, precision machinery, ceramic, earth and stone products and other non-metallic mineral products, iron and steel, non-ferrous metals, metal products, paper, wood, agriculture, forestry and fisheries products, fiber products, transport machinery. The shift of Taiwan's role from importer to exporter can further secure Japan's position as the core technology and component supplier by avoiding dog-fight competition between Taiwanese and Japanese firms in China.

In sum, there are four possible directions for Taiwan and Japan to form the economic and industrial alliance: multiply agreement from firm level to semi-government level, from bilateral agreement to multilateral agreement, from downstream to med and top stream of industries, and preferential agreement targeting at maximizing the interests for both countries.

III. Japan's 2010 National Defense Program Guidelines

The 2010 NDPG is the first non-LDP led defense policy of Japan. It mainly reflects the dramatic changes of Japan's security environment, increasing fiscal constrain, the rising threat of Chinese military, nuclear and missile threats from North Korea, and most importantly, the rearrangement of U.S. military strategy in East Asia. In fact, this new defense document largely reassembles and corresponds to three important defense reports from the U.S.: namely the Quadrennial Defense Review

Report 2010 (QDR2010), the 2010 Ballistic Missile Defense Review Report, and the 2009 China Naval Modernization: Implications for U.S. Navy Capabilities from the Congressional Research Service (CRS). Especially, Japan's current adjusting defense posture, in my opinion, aims to match the main strategic dimensions from American QDR2010, which including multifaceted war and flexible strategy, tailored approach toward multilateralism, flexible issue-oriented alliance, enhancing counter anti-access and counter area-denial, and toward a cooperative and tailored posture.

The major change of Japan's 2010 NDPG is to abandon cold-war land-based defensive defense mentality, but to adopt a more dynamic defense security concept. In addition, it officially marks the current modernization of China's People's Liberation Army (PLA) and naval expansion as the core concern in terms of East Asian region and international security. The more detailed and concrete forms of changes reflect in the restructure and redeployment on Japan's Self Defense Force (SDF) as well as to increase current number of standing submarines from 16 to 22. The restructure and redeployment aims to prepare Japan to fulfill the required function from the high labor of division in the U.S.-Japan security alliance, which includes the functions of early warning, surveillance, joint operations of land, sea and air forces, reduce and restructure land forces and to increase amphibious forces. In addition, it places Japan's main defense focal point in defending the Southwest islands in order to safeguard American carriers in this area and to achieve the U.S.' counter anti-access and counter area-denial purposes.

Moreover, this new document also resonates with QDR2010 about the necessity of multilateralism in this region and possible partial relax on the decades-long arms export ban. According to both QDR2010 and NDPG2010, the current U.S. strategic adjustment is to construct a north alliance triangle of U.S., Japan, and South Korea; a central triangle of U.S., Japan, and India; and a south triangle of

U.S., Japan, and Australia, all centered on the U.S.-Japan security treaty. In fact, this containment network is aiming to prevent China from taking unilateral actions toward any possible dispute and to encourage China to join this multilateral mechanism.

Although Japan's adjustment of its defense posture is still quite incremental-ism and reflects pretty much Yoshida-doctrine style of balanced-calculation, which aims to maximize Japan's security by as low cost as possible under current financial situation of Japan. However, Japan has shifted from a free-rider in the postwar era, follower in early post-cold war, to today's supporter of the U.S. Japan's functions in the alliance have also shift from simple provider of logistics, facilities, financial and technological supports to Japan's current assignments include peacekeeping, anti-terrorism tasks, anti-submarine, anti-ballistic missile, early warning and intelligence, and conflict buffering. North Korea's launch of satellite in this mid April is the best and clear demonstration of Japan's new roles in the alliance.

IV. Conclusions

The current environment of East Asia can be best characterized by increasing tension of both competition and cooperation in terms of politics, military, and economy, and also in terms of domestic and international perspectives. Japan's current changes in politics, economy, and military, in fact, have provided Taiwan with best opportunity and timing to fit in the dynamic environment of East Asia by forming a special strategic alliance with Japan in political, industrial, and possibly military cooperation. However, the U.S. government has an indispensable role to play in encouraging Japan to take more active and cooperative attitude toward Taiwan. On the other hand, both Taiwan and Japan should maintain positive and cooperative consensus over the territorial dispute over Senkaku islands to avoid China playing a

part in it.

In terms of strengthening Taiwan's defense, the most needed defense capabilities for Taiwan now and in near future are anti-ballistic, anti-submarine, anti-stealth warfare. Under current fiscal constrain, it is unlikely for Taiwan to take on indigenous R&D on these weapon system alone. However, there is one plausible strategy under current circumstance, that is, for Japan to partially lift the arms export ban for Taiwan in industries such as machinery tools, automation, ship building, semi-conductor, IT, long distance remote control, and space to increase Taiwan's indigenous capabilities in developing needed weapon system. At the same time, as the main industrial structure for Japan's defense industry is a few giant corporations and over two thousand small and medium size enterprises. It might be innovative for Taiwan and Japan to form SME joint ventures acting subcontractors to the main contractors such as Mitsubishi Heavy Industry under current Taiwan-Japan Mutual Investment Agreement. In addition, in the fields of disaster rescue and humanitarian missions, the U.S. should also act as an organizer to incorporate Taiwan into possible cooperation framework with Japan, South Korea, and Australia.

In sum, the current environment of East Asia is highly dynamic and uncertain. The best way to maintain stability in this region requires not budgetary nor technological, but strategic and innovative arrangements, which requires strong U.S. leadership.