

Title: The Current Situation and Development of Taiwan-Japan Industrial Cooperation: Focusing on the Tokai Region in Japan

For the 11th Eurasia Foundation International Lectures, we invite Professor Lin Kuan-Ju, who has worked at the Taiwan Institute of Economic Research for more than one decade and currently is the Chair of the Department of International Business and Trade at Aletheia University, as our guest speaker. In this speech, Professor Lin analyzes the current situation and development of Taiwan-Japan industrial cooperation. The content of speech includes five sections as the following.

I. Taiwan’s economic status in the world, the characteristics of economic development and tasks

Taiwan’s population ranks 54th, its area ranks 136th, and its population density rank 2nd in the world. In spite of being a small economy, Taiwan has produced many miracles. For example, in 2019, Taiwan became the 19th largest import and export country in the world, and its foreign exchange reserves ranked 3rd in the world. According to the World Competitiveness Yearbook 2020, announced by the Lausanne (Swiss)-based International Institute for Management Development (IMD), Taiwan's competitiveness has improved to 11, and its R&D manpower ranks second in the world.

The characteristics of Taiwan’s economic development and tasks are as the following:

1. Although Taiwan’s economic base is small, its total import and export trade volume ranks as the top 20 in the world, and its products such as IC and semiconductor rank first in the world.
2. Taiwan’s industrial structure consists of mainly by small and medium enterprises.
3. The main source of Taiwan’s GDP is from the tertiary industry (services sector of an economy). The second-tier industry focus on manufacturing.
4. Taiwan relies on foreign trade and is easily affected by the world economic boom.
5. Taiwan’s foreign trade and investment rely on Asian markets such as China, Southeast Asia and Japan. However, Taiwan is not in the world’s three major economic and trade organizations.
6. In order to reduce trade barriers, Taiwan needs to actively participate in the world economic trade organizations and signs the economic cooperation agreements with other countries.

The reason that Taiwan (should) actively participate in the world economic trade organizations

1. External factors: After 2000, multilateral and multinational trade negotiations through the World Trade Organization (WTO) has become time-consuming and difficult to achieve agreement, and thus gradually became less effective. As the result, countries became more and more active for the negotiations for signing free trade agreement (FTA) across regions.
2. Internal factors: Because Taiwan did not join the world's three major economic and trade organizations, in order to enhance Taiwan's economic and trade status and eliminate or reduce trade barriers between Taiwan and other countries, Taiwan should take an active position in signing FTA / Economic Cooperation Agreement (EPA) with foreign countries.

II. Taiwan's Operation Model under the Global Economic Integration

Taiwan joined APEC as a member with China and Hong Kong in 1991, using the name of "Chinese Taipei." In 2002, Taiwan successfully joined the WTO using the name "Taiwan, Penghu, Kinmen and Matsu Individual Tariff Areas." In addition, Taiwan has signed trade agreements with five countries in Central America. In Africa, Taiwan takes advantage of Swadini's superior geographical location to sign FTA tariff concessions with other countries and to develop third-country markets. Since 2008, Taiwan has signed industrial cooperation memorandums (MOU) with China, Japan, and the United States (the U.S.), and signed EPA with Singapore and New Zealand.

Under the above countermeasures, although Taiwan's economic growth rate declined in 2017, the unemployment rate was the lowest since 2002.

III. The background for Promoting Taiwan-Japan Industrial Cooperation and its current situation

The background in Japan are as the following:

- ① After the 3.11 earthquake, the governments of Taiwan and Japan jointly promoted the "Incentive Measures for Taiwan-Japan Industrial Cooperation."
- ② Because demands in the Japanese domestic market has declined, Japanese companies in various prefectures have actively conducted measures such as overseas investment or expansion of sales channels.
- ③ Due to Japan's lack of experience in internationalization, there is a need to learn the international strategies and international management experience from Taiwanese companies and international business in order to enhance the internationalization of Japanese companies.

- ④ Taiwan has large populations of Japanese language speakers and has a high sense of trust and affinity for Japan. Hence, Japanese companies can cooperate with Taiwanese companies without the hassle.

The background in Taiwan are as the following:

- ① Taiwan runs a largest trade deficit with Japan and its long-term technology and key components rely on Japan.
- ② Cooperating with Japan can improve Taiwan's industrial competitiveness.
- ③ There are many successful cases of industrial cooperation between Taiwan and Japan, which are more effective comparing to industrial cooperation between Taiwan and European and American companies.
- ④ After the 3.11 earthquake in Japan, the exchanges between Taiwan and Japan have made great progress.
- ⑤ It is one of the ways for Taiwan to sign regional cooperation with foreign countries, which is easier than FTA.

The policy and measure for Taiwan-Japan Industrial Cooperation is to establish a Taiwan-Japan Industrial Cooperation Promotion Office (TJPO), which is jointly promoted by the governments of both sides, then matches companies, targeting at the mainland China market or markets outside of mainland China. At present, TJPO has signed a MOU with 7 local governments, including Mie, Wakayama, Akita, Kochi, Ehime, Kagawa, and Kagoshima. On the other hand, Shizuoka, Toyama, and Okinawa prefectures already established offices in Taiwan. Currently, there are 38 counties or organizations that have exchanges with Japan.

IV. The viewpoints of companies in the Tokai region of Japan on industrial cooperation between Taiwan and Japan

In order to obtain the latest information of Japanese companies, Professor Lin conducted questionnaire surveys and on-site interviews with companies in the Tokai region of Japan. As a result, only 30% of companies already have cooperation with Taiwan. Among them, most of these Japanese companies are manufacturing and sell products, raw materials, components, and machinery to Taiwanese companies. The second group of Japanese companies request Taiwanese companies for original equipment manufacturer (OEM) and the third group request Taiwanese companies for consignment.

According to the survey results on the evaluation of Taiwan's investment environment, Taiwan's sense of trust and affinity for Japan are most highly rated, the second is political and public security stability, the third is the large population of Japanese language speakers, and the fourth is that the investment environment is more

well-developed comparing to other Asian countries. The results of the survey on the intention and forms of cooperation with Taiwanese companies demonstrate that the majority replied that they would like to cooperate with Taiwan's small and medium-sized enterprises when there are opportunities, and most of these respondents are in manufacturing.

In addition, the results of the survey on the difficulties of industrial cooperation illustrate showed that the majority think the biggest issue is the difficulties in finding cooperation partners and of the shortage of talent for internationalization. For the survey on the most anticipated assistance, most respondents would like to receive related information for the industry, followed by the replies that they would like to gain overseas investment incentive policies and measures, and to receive assistance in meeting and hiring talents with language proficiency.

Professor Lin concludes that the current issues in Taiwan are permitting imports of American pork (containing the leanness-enhancing chemical additive "Ractopamine") and lifting ban on food imports from five Japanese prefectures hit by the 2011 Fukushima nuclear disaster. In addition, mainland China insists that Taiwan is a part of China, and for this reason, insists on opposing Taiwan's entry into relevant international organizations or signing FTA/EPA with other countries, which hinders Taiwan from joining international economic organization and signing FTA/EPA with other countries. Taiwan's future direction of development should include negotiate "Taiwan-US FAT" or "Taiwan-US BAT" with the United States, and join the Trans-Pacific Partnership Comprehensive Progress Agreement (CPTPP), etc.

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