

***Lead article*****The Growing Asian Economy and Future Cooperation
between Japan and Taiwan**

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Until now, industrial cooperation between Japan and Taiwan has consisted chiefly of the expansion of mutual trade, Japanese investment in Taiwan, and transfer of technology from Japan to Taiwan. From now on, a cooperative relationship will grow that features the following three elements:

- (1) Companies in component and materials industries—rather than industries involved in the assembly of finished products—will build factories in Taiwan and export to mainland China (hereafter China) and various other regions of Asia;
- (2) Japanese and Taiwanese companies will jointly invest in China and various other regions of Asia;
- (3) Taiwanese companies will invest in Japan.

The backdrop to this is Asian economic growth that will continue until the mid-twenty-first century, and more sophisticated and widespread inter-process division of labor in the region. In addition, the Japanese economy has been in prolonged stagnation since 1990, and Japanese corporations—including small- and medium-sized companies—are proceeding to expand overseas in an effort to break out of this deadlock. The Economic Cooperation Framework Agreement (ECFA) accord is accelerating this trend.

Economic development in Asia has proceeded as follows: Having suffered the shock of defeat in World War Two and lacking natural resources, Japan began to achieve a high level of growth in the 1960s. This has been dubbed an “economic miracle.” Next to achieve such growth were Taiwan, South Korea, Hong Kong, and Singapore, which were termed the “newly industrialized economies” (NIEs). Countries that are currently enjoying growth include China, India, and Thailand, with future growth being predicted for Malaysia, Indonesia, the Philippines, and Vietnam. Among the newly emerging BRICs nations, economic growth in the non-Asian countries is being driven by exports of natural resources, while economic growth in the Asian countries is being driven by the “population bonus.”

The term “population bonus” refers to the fact that a rise in the working-age population (people aged from 15 to 64) as a proportion of the total population has a positive effect on economic growth in terms of both production and consumption. In Asia, the population bonus will continue in one country after another until 2045. The factors that turn the population bonus into actual economic growth are improvements in productivity brought about by effective production policies, a foundation of peace, and political stability. Asia fulfills these conditions. Economic growth based on the manufacturing industry leads to a broader middle class and higher incomes. This serves to sustain the peace, which in turn enables further economic growth, thereby creating a so-called virtuous cycle of economic growth and peace.

In Asia, inter-process division of labor is progressing in the automobile and electronics industries. By way of explanation, this article will use the example of the development of the Chinese automobile industry and the changing structure of Japanese industry.

Approximately 20 million automobiles are sold in China per annum. This exceeds the combined total for the USA and Japan, making China the largest automobile market in the world. Moreover, the penetration is still only 5 percent, compared to 80 percent in the USA and 60 percent in Japan. Although there remain issues regarding how the nation can overcome environmental and energy constraints, there can be no doubt that demand is going to skyrocket.

The automobile industry is a gigantic assembly industry that requires as many as 30,000 different components. Although economic development and rising incomes have led to the construction of automobile assembly plants in China, engines, steel plates, and numerous automobile components will initially be imported. Moreover, although China is making advances in the domestic production of these components, it is lagging in the production of items such as precision components, semiconductors, and control systems. A considerable proportion of these items will be imported from South Korea, Taiwan, and Japan—the first nations in Asia to successfully industrialize. Japan has proceeded to build assembly plants overseas, reduced its exports of finished products, and shifted to exporting intermediate products (components and materials). Many Japanese companies dealing in components and materials of high quality and with high added value transport them to their overseas assembly plants. For example, the steel industry has reduced its production of construction materials and switched to making high-grade ironwork for use in automobiles. This is true not only for large companies but also for numerous small- and medium-sized companies that are armed with unique technology and supply components for the global automobile industry. This was demonstrated by the fact that automobile factories around the world were forced to temporarily shut down production in the wake of the Great East Japan Earthquake.

Although Japan is pre-eminent in terms of the component and materials industry, this is naturally not an immutable situation. Countries that possess an assembly sector will, as a matter of course, increase their technological capability on the strength of their component and materials industry. Asian governments are currently stepping up their efforts to attract Japanese companies. Furthermore, unless Japanese companies expand into Asia, they will not be able to map out a strategy for future growth. The precipitous rise of the yen, the delay in concluding FTAs, and power shortages and rising electricity prices due to the nuclear disaster are all accelerating this trend. Although in Japan there is talk of a “hollowing out of industry”—and the voices of caution have grown louder, citing the need to safeguard domestic employment—it appears that the speed of development in Asia and the march of globalization may be overcoming the conservative voices in government. Symbolic of this is the fact that the Small and Medium Enterprise Agency has drawn up and published a document entitled, “General Principles for Supporting Overseas Expansion by Small- and Medium-Sized Companies.”

Various anxieties and issues lead small- and medium-sized companies to hesitate with regard to overseas expansion. These include concerns over lack of information, lack of personnel capable of working in an international environment, and accidental outflow of technology.

The author's belief is that herein lie the prospects for a new type of cooperation between Japan and Taiwan.

Japanese investment in Taiwan in the field of components and materials

The groundbreaking ECFA accord has accelerated the trend for Japanese companies (which have lost out in terms of tariffs) to relocate their production bases rather than pursue exports. This is particularly prevalent in the component and materials industry, which was mentioned above. In the competition between Taiwan, China, and the various ASEAN nations as destinations for investment, Taiwan has the edge. It has the same commitment to the rule of law as Japan and possesses a mature market economy. The most important factor, however, is that there is a high probability of encountering reliable pro-Japan partners in Taiwan.

The success story of a medium-sized manufacturer of highly functional chemical products is as follows: Mutual trust between the company and the Taiwanese company acting as its import agent grew as their business relationship proceeded. To deal with rising demand in Taiwan, the two companies jointly built a factory. A successful division of labor was achieved, with management principally handled by the Taiwanese and the Japanese concentrating on technical support, and the local subsidiary in Taiwan grew.

In general, Japanese companies excel in terms of their business administration ability (such as their organizational management and quality control), technical capability (research and development), and brand strength (with high levels of trust worldwide and stable service and quality). Taiwanese companies generally excel in terms of their management ability (such as their decision-making speed), their international character (language skills, negotiating skills, and access to overseas Taiwanese and ethnic Chinese networks), and their business sense (their highly developed business sensibility and willingness to take risks). Given the complementary relationship between the two, Japanese-Taiwanese joint ventures enjoy a high rate of success.

As mentioned previously, factories for assembly of automobiles and electronics are set to spread like wildfire in China and the ASEAN nations. Japan-Taiwan cooperation will greatly increase in the form of investment in Taiwan by the Japanese component and materials industry and onward export from Taiwan, to take advantage of agreements such as the ECFA.

Japan-Taiwan cooperation in China and other Asian countries

There is no great difference between the respective amounts of investment in China by Japan and Taiwan. There have been 80,000 instances of Taiwanese investment in China, compared to 40,000 instances of investment by Japan. According to a survey by the Mizuho Research Institute think tank, the success rate for investment in China by Japanese companies is higher when the investment takes the form of a joint venture with a Taiwanese company than when the Japanese company invests alone or engages in a joint venture with a Chinese company. Of the 415 Japanese-owned companies established in China between 1990 and 1999, 68.4 percent of the companies that represented a lone Japanese investment or a joint venture with a Chinese company were still in business by 2005, compared to 78 percent of the companies that represented a joint venture with a Taiwanese company. In reality, the difference is even greater than this—almost two-to-one, in the views of some.

The reason why joint ventures between Japanese and Taiwanese companies enjoy a high rate of success is that, even in a third country, the complementary relationship described in the previous section still functions effectively. In China especially, the international character of Taiwanese companies (their language capability, ability to negotiate with national and regional government, and the network embodied in the association of Taiwanese businesses abroad that is present in over 100 locations) is an attractive proposition for small- and medium-sized Japanese companies that are apprehensive about expanding overseas due to concerns over personnel and lack of information. The results of this survey and interviews with the managers of small- and medium-sized Japanese companies who had successfully invested in China in collaboration with Taiwanese companies featured in a widely viewed news program on economic affairs that was broadcast in 2010, eliciting a major reaction. In October 2011, a well-known Japanese business magazine published a 46-page feature story entitled, “Attacking China from Taiwan.”

Building on the collaborative relationship and mutual trust that they developed in Taiwan, the aforementioned medium-sized Japanese manufacturer of highly functional chemical products and its Taiwanese partner went on to jointly construct a factory in China and to enjoy success there. There is also a high rate of success in cases where cooperative relationships between Japanese and Taiwan entities have been expanded to a third country, and the number of instances of this phenomenon is likely to increase.

Taiwanese investment in Japan

An aspect of Japan-Taiwan cooperation that will deserve attention in the future is Taiwanese investment in Japan. Although there are as yet few examples of this in the manufacturing industry, a new trend is beginning to emerge. As repeatedly stated, a major issue for Japan is the question of what to do about small- and medium-sized Japanese companies that possess technological capability but lack the ability to expand overseas. That is to say, what should be done about companies that cannot even form a partnership with a Taiwanese company to invest in China or elsewhere?

The following is a good example, although it does not involve a Taiwanese company: A medium-sized company in Hiroshima Prefecture in the semiconductor field was attempting to find a way to survive through exports or expansion overseas, but abandoned the idea because they lacked staff with the necessary language skills. With a saturated Japanese market, however, its future domestic prospects were non-existent. Going out of business was also not an option, for the sake of the staff’s continued employment. In the midst of this predicament, the president took the decision to sell 65 percent of its shares to an Italian company with which he had developed a relationship at a trade show. The sale was conducted on condition that the employees be retained, that the company name remain unchanged, and that the president continue in his post. The cash received from the sale of the shares was used to repay the company’s debts.

The company retains its identity as a semiconductor-industry manufacturer and has succeeded in gaining access to US and European sales channels and markets, where it is free from any competition, while still staying put in Japan. There are also advantages for the Italian company, which wanted to establish a base of operations in booming Asia and can now enjoy the peace of mind of having a foothold in an advanced industrialized nation like Japan. It can also avail itself of the “Made in Japan” brand. Thus, it has proved a beneficial alliance for both parties.

This is not to say that there is a wealth of Italian companies available that would suit the requirements of a Japanese company in this way. However, if a company were prepared to expand its options to include Taiwan, there would likely be a great many suitable partners available. This would seem to represent the way forward for a new form of mutually beneficial industrial cooperation between Japan and Taiwan.

The three new trends in Japan-Taiwan cooperation identified by the author are not just some flight of idealism. When the author discussed the topic with managers from approximately 30 small- and medium-sized Japanese companies at a seminar, representatives from two of these companies subsequently asked to be introduced straight away to Taiwanese companies that might become potential partners. Numerous companies attend investment seminars held in Japan by the Taiwanese government, and questions are asked with enthusiasm. Industrial cooperation between Japan and Taiwan appears to be entering a new phase, which will likely mark a period of major growth.

