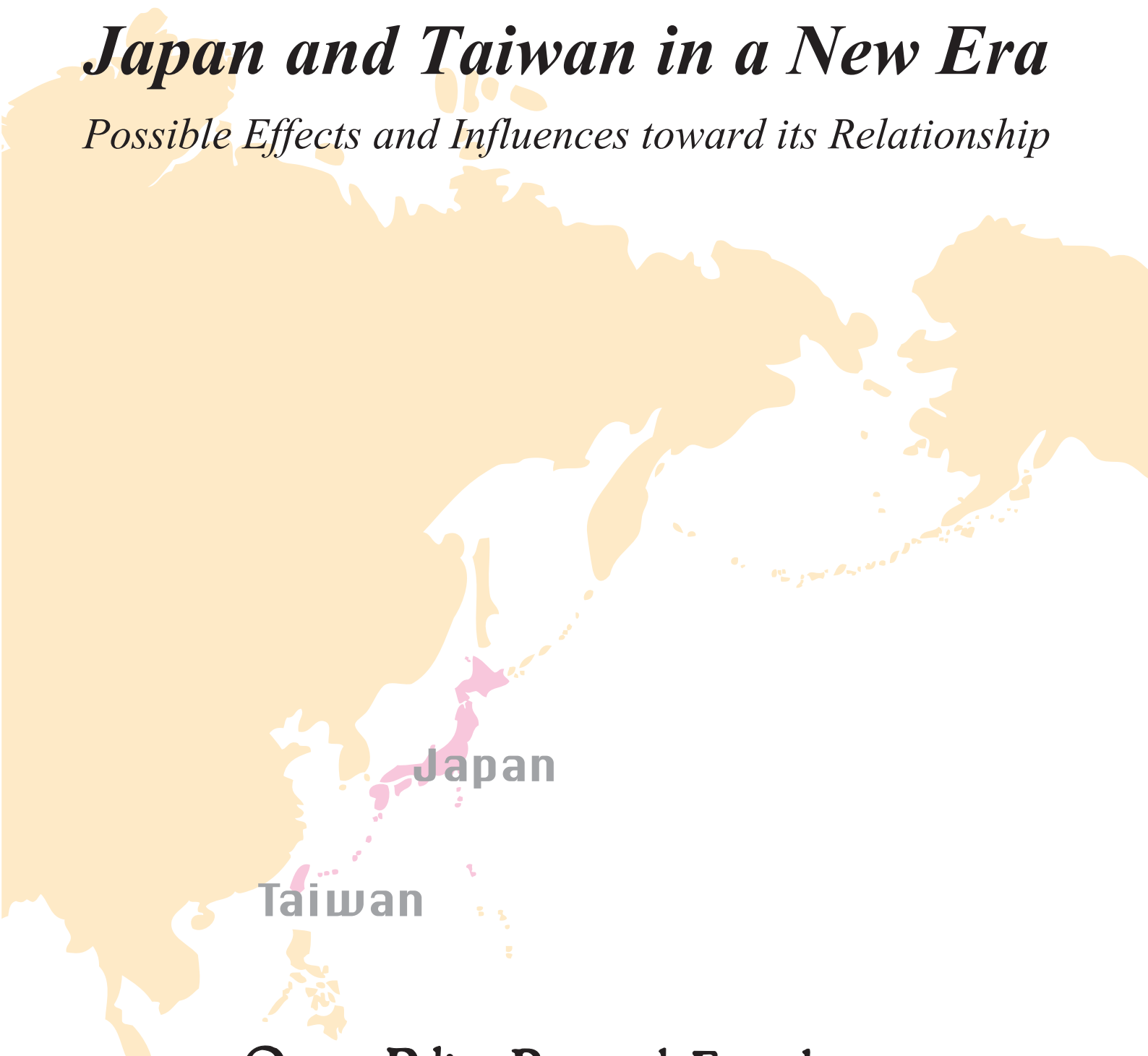


Japan and Taiwan in a New Era

Possible Effects and Influences toward its Relationship



Japan

Taiwan

Ocean Policy Research Foundation
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Japan and Taiwan in a New Era
Possible Effects and Influence toward its Relationship

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Possible Effects and Influences toward its Relationship

Preface

Shinichi Kitaoka.....	3
Louis Wen-Hua Tzen.....	5

Introduction

Masahiro Akiyama	9
Bih-Jaw Lin	12

1. Viewpoint from an Economic Perspective

A Taiwanese view: Mignonne Man-jung Chan.....	17
A Japanese view: Motoshige Itoh	38

2. Viewpoint from a Domestic Politics Perspective

A Japanese view: Shinichi Kitaoka.....	51
A Taiwanese view: Ming Lee.....	60

3. Viewpoint from an International Surroundings' Perspective

(1) A Focus on China

A Japanese view: Masayuki Masuda	81
A Taiwanese view: Chien-Min Chao	91

(2) A Focus on the United States

A Taiwanese view: Yeh-Chung Lu.....	102
A Japanese view: Yasuhiro Matsuda	118

(3) A Focus on Security Issues

A Japanese view: Noboru Yamaguchi.....	137
A Taiwanese view: Bih-Jaw Lin.....	149

Conclusion

Tuan-Yao Cheng.....	163
Yasuhiro Matsuda.....	167

Preface

The most surprising phenomenon not only in the Asia-Pacific region but also in the world today is without doubt the rapid rise of China. The economic size of China is 4 times what it was just 10 years ago. Its influence in the international economy, politics, military, and culture has expanded accordingly.

However, the most remarkable aspect about the rise of China is not its size or the rapidity of its growth, but the manner in which China asserts itself. In 2008, China responded vehemently to criticism made against it by the international community over its suppression of the Tibetan uprisings. It was completely different from its response to criticism made against it by the western powers over the Tiananmen incident in 1989.

In 2010, China defended the DPRK when an ROK naval vessel was torpedoed and sunk allegedly by a DPRK submarine in March and when the DPRK bombed the Yeonpyeong Island and killed several people of the ROK, including civilians, in November. China also blocked the United Nations Security Council from adopting a resolution to criticize the DPRK when it carried out a missile test in 2011.

There have also been aggressive efforts to expand both into the Eastern Chinese Sea and Southern Chinese Sea. In the Eastern Chinese Sea, China sent its fishing fleet to the Senkaku (Diaoyu) islands, which belong to Japan, and strongly criticized Japan when it apprehended the captain of a boat in 2010. In the second Senkaku case, in 2012, the Chinese government allowed people to attack Japanese cars, stores, and factories when the Noda government transferred the property right of one of the Senkaku islands from a Japanese citizen to the government.

No countries are more affected by these activities than Japan and Taiwan. The two countries have responded, quite naturally, both by engaging and hedging.

The Economic Cooperation Framework Agreement (ECFA), signed between China and

Taiwan in June 2010, after one year's negotiation, was a remarkable decision to cope with the rise of China. Taiwan decided to rely more on China economically, but, at the same time, to expand its cooperation with other countries in order to secure a wider diplomatic space.

In Japan, under the newly created DPJ government, a new Defense Policy Outline was adopted in December 2010. It was an effort to focus on the China threat more directly. It should be noted that it was adopted by the DPJ, which had been thought to be less committed to the US-Japan security treaty and defense policy in general. In other words, the China threat is now shared by the major parties and most of the people in Japan.

This February, Prime Minister Shinzo Abe announced that Japan would participate in the negotiation of the Transpacific Partnership (TPP). It is not only an economic framework but also a political one because it tries to strengthen the ties among those countries that are concerned about the rapid rise of China.

The Senkaku issue is a very difficult and complicated one. Taiwan claims that it belongs to Taiwan and China supports the position of Taiwan. In that sense, Taiwan and China are on the same side. However, what China is doing is challenging the status quo by force. If China succeeds in changing the status quo by force and the international community accepts it, what will be the future of Taiwan?

This dialogue between Japan and Taiwan was conducted in such a period. At the conclusion of this period, Xi Jinping was elected as the new leader of China. It is too early to predict China's foreign policy under Xi. However, it is essential to examine the past several years to understand the complicated relationship in East Asia. I hope this report might be of some use in that regard.

Shinichi Kitaoka

President, International University of Japan

Preface

In recent years, the Asia Pacific region has undergone significant changes.

First and foremost, we have witnessed the rapid rise of China as a great power. This new factor is of high strategic importance to Asia-Pacific nations as it may shape the future development of international relations in the region.

Secondly, Obama's policy of "rebalancing" signifies that the United States is determined to refocus her attention on the Asia Pacific region. It is worthwhile devoting further analysis to the strategic implications of this policy.

Thirdly, in spite of enjoying relative peace and stability, the region is still plagued by mounting tensions in certain areas, especially in the South China and East China Seas. In addition, the Korean Peninsula is far from being peaceful. North Korea's determined attempt to develop nuclear arms and ballistic missiles has become a strategic nightmare that haunts northeast Asia.

Fourthly, in recent years tension across the Taiwan Strait has relaxed considerably. We believe that such a positive development is conducive to regional peace and stability.

Fifthly, the recent leadership changes in the two Koreas, Russia, Japan and China have triggered speculation on the implications for the future development of the region.

Last but not least, non-traditional security issues such as terrorism, extreme climate change, energy shortage, and water scarcity have increasingly become matters of great concern for most countries in the region.

It is against this regional strategic panorama that the Prospect Foundation is keen to conduct track-two dialogue with leading think-tanks of the Asia Pacific region with a view to better analyzing the ever changing situation. Since 2009, the Prospect Foundation and Japan's Ocean

Policy Research Foundation have started to co-organize “The Taiwan-Japan Strategic Dialogue for the New Era” on a half-yearly basis. So far eight rounds of Dialogue have been held. Eminent scholars and experts from both countries were invited to discuss a myriad of issues, including regional security, regional economic integration, cross-strait relations, domestic affairs in Japan and Taiwan as well as bilateral relations between the two countries. We are grateful to the scholars for actively participating in the Dialogue and generously sharing with us their insights on these wide-ranging issues. We would also like to thank the participants for taking extra time to put their ideas into words and contribute to this final report. We are confident that the eight rounds of Dialogue have not only deepened our knowledge of the new dynamics of development in the Asia Pacific region, but have also helped enhance mutual understanding between the Republic of China and Japan.

Finally, we would like to express our heartfelt appreciation to Dr. Yohei Sasakawa, Chairman of The Nippon Foundation, Mr. Masahiro Akiyama, President of the Tokyo Foundation, and Dr. Shinichi Kitaoka, President of the International University of Japan for their unswerving support throughout the years. Without their consistent efforts, “The Taiwan-Japan Strategic Dialogue for the New Era” would not have been so successful.

Louis Tzen
Chairman, Prospect Foundation

Introduction

Masahiro AKIYAMA
President, Tokyo Foundation
Senior Advisor, Ocean Policy Research Foundation

The Japan-Taiwan Strategic Dialogue for the New Era was launched four years ago. In the absence of official relations, diplomatic dialogue was limited. On the other hand, Japan-Taiwan relations have become important for both sides politically as well as economically. A need was felt for a forum where experts on policy-making gathered from both sides and exchanged opinions freely.

We have had seven dialogues since then, with two meetings being held every year, each side hosting one meeting per year. Now we hold our final meeting, which discuss a plan to publish a report based on our discussions and to offer an outlook for Japan-Taiwan relations.

We have maintained more or less the same agenda for each dialogue, exchanging viewpoints from four angles, as follows: from an economic perspective in Session I, from a domestic politics perspective in Session II, from an international relations perspective, focusing on US and other regional security concerns, in Session III, and from the perspective of relations with China in Session IV.

We have discussed the possible effects and influences of these elements on Japan and Taiwan, and, of course, focused on exploring possible areas of enhanced cooperation between us.

The political economies of Japan, Taiwan, and the United States were adversely impacted by the Lehman shock of 2008. At the same time, we have also benefitted economically from a rising China. Japan has suffered through prolonged deflation, while the United States has faced severe financial problems. Even China now faces difficulties in the face of a slowdown of its economy and the many problems resulting from high growth.

Amid moves toward economic integration in the Asia region, the conclusion of the Economic Cooperation Framework Agreement between Taiwan and China has drawn much attention from the viewpoint of political economy. The ECFA reflects and is expected to promote good relations between Taiwan and China although some have pointed a concern about the possibility of political integration.

Regarding Japan-Taiwan economic relations, the ECFA should have a substantial impact on

Japan-Taiwan ties, which could also affect Japan-China economic interaction. For us, the political dimensions of ECFA have reinforced the importance of the economic relationship between Japan and Taiwan.

We have discussed the internal affairs and political situation of each country at every meeting. In Japan, the prime minister has changed every year since the Democratic Party of Japan took office in 2009. The change in government has affected not only domestic policy but also external policy. DPJ administrations mishandled the country's external policy, most notably the Japan-US relationships. And Sino-Japan relations deteriorated rapidly over the problem of the Senkaku Islands/Diaoyutai.

We also discussed the political situation in Taiwan, including President Ma Ying-jeou's re-election in 2012. Japan was initially concerned about the Ma administration's policy toward Japan, but we subsequently learned that President Ma was very much interested in promoting good relations with Japan. Conversely, we became concerned about the Japanese government's lack of interest in maintaining close ties with Taipei. Fortunately, good relations between Taiwan and Japan have not been affected by the change in government, and I am very grateful for the very generous donation from Taiwan in the wake of the Great East Japan Earthquake of March 2011. With regard to the Senkaku/Diaoyutai issue, I think it is regrettable that Japanese government has showed little interest in the East China Sea Peace Initiative advanced by President Ma.

In 2012, we followed the national elections and leadership changes in Taiwan and Japan, as well as in the United States and China. We have new leaders in Japan and China, while presidents were reelected in Taiwan and the US. We discussed whether the external policies of these countries would change and what new policies they would propose for Asia. Early this year, US President Obama was inaugurated for a second term, Japanese Prime Minister Abe launched his second cabinet with an economic revitalization policy called Abenomics. In China Xi Jinping has officially started his presidency.

When we think of Japan-Taiwan relations, we have to consider the foreign policies of both the US and China. Japan and Taiwan recognize the importance of US engagement in the East Asia region. We welcome the US pivot to Asia which means the US rebalance toward the Asia Pacific region, as China has become assertive against relevant countries over conflicts in the South China Sea. We also have to realize the rise of China in a military arena.

With regard to Cross Strait relations, we have learned of the latest developments through our discussions. I believe that we share the view that US engagement in the region is welcome for Japan, Taiwan, and ASEAN member states, who are concerned about and feel a need to stand together against the China. At the same time, the Japanese side learned of differences between Taiwan and Japan on relations with China and also realized the necessity of maintaining strong ties with each other despite our differences.

This report includes 10 papers written by core members of each side.

Professor Yasuhiro Matsuda concludes as follows: The decades-long uninterrupted interactions between Japan and Taiwan have played a key role prior to the recent constructive development. They have long cherished unofficial relations. A sound relationship across the Taiwan Strait has a noticeable impact on the advancement of pragmatic ties between Japan and Taiwan, and indirectly helps Japan and Taiwan come to build a political relations in an unofficial route.

We can see the deepened pragmatic relations between Japan and Taiwan in the new era. I appreciate it if you understand the importance of Japan-Taiwan relations and expect the future of the relations through this report.

Bih-Jaw LIN, Ph.D.

Professor and Vice-President, National Chengchi University

The policy communities between Taiwan and Japan have met quite often and discussed various kinds of issues that affect the interest of the two countries and the region as a whole. Foreign policy of the United States and the rise of China have attracted most of the attention over the recent past. As Taiwan's democratization proceeds and cross-strait relations evolve, naturally, the policy communities of both sides face a new policy agenda and so many issues both in theory and policy need to be candidly discussed. It is a typical learning process, mutually beneficial and politically relevant. We are not certain that every meeting or dialogue has achieved its initial objectives, because there is a natural limitation to any academic or policy dialogue, particularly when the issue of national interest and security is involved. This has become so common in the industrial democracies and even more so in the interactive process between the policy communities of the United States, former Soviet Union and other countries. Some of the constraints are deeply rooted in epistemology, ideology and culture, but some are purely political barriers. Taiwan and Japan do not have diplomatic ties and this unique relationship has provided both opportunities and limitations for the policy communities of the two sides to use and ponder.

In terms of opportunities, the lack of diplomatic relations has made it possible and necessary for the two countries to explore other alternate channels of communication and dialogue. As today's foreign policy issues have become more and more interdisciplinary, the regular bureaucratic process requires all kinds of professional analyses and policy recommendations. The process of agenda-setting has become long and complicated. As the media has also tries its best to shape the policy-making, the needs for transparency, communications and mutual-learning are too evident to ignore. The policy experts normally do not have the administrative burden and other constraints to limit the scope of their change of opinions. What is more, they can test the limit of policy acceptance between the two governments and, then, draw a road map more close to the expectations and realities.

In terms of limitations, we have to realize that the foreign policy issues are essentially a matter of national interests. Some of the issues require assistance from the academics, but it is the duty or the portfolio for the practitioners to handle them. It is a long process, involving the

administration, the national congress and, sometimes, the military to complete the job. There are not simply the issues of academic debate or the application of different theories, but a question of major policy-making under the constitution. No matter how good intention and special knowledge all these experts demonstrate, the policy-makers at the different levels have the power and authority to decide. As the case of foreign and defense policies of the United States demonstrated in the past, the role of the policy community has increased, but it is up to the top policy-makers to make the final decisions. In the case of Taiwan-Japan policy dialogue, the limitations are even greater, because the lack of diplomatic ties has seriously reduced the scale and scope of accessibility of information and the actual content of discussions. It is inevitable that the process of communication will become a routine round of comparing notes and repeating the official lines that are familiar to all the experts. Even so, the human contact is beneficial to the research of mutual foreign policies and the actual conduct of foreign relations. As the system of the revolving doors has become so common in most of the industrial democracies, the human connections do help any administration and these communications, networks and connections need time to foster, particular when all the experts are out of the government.

The dialogue that we started was firstly with Professor Tomoyuki Kojima of Keio University and, then, Professor Shinichi Kitaoka of the University of Tokyo in Japan. They invited other experts to attend. Chairman Louis Wen-hua Tzen, Professor Philip Yang of National Taiwan University and I served as the counterparts in Taiwan. The dialogue's agenda was jointly set by the two sides to cover global and regional trends and issues as well as national issues. Most of Japan participants master the Mandarin surprisingly and that facilitates the process of discussion. English is also used when required. It is become a shared norm and practice among the participants that attention will be placed on the policy rather than the theory. Therefore, most of discussion has considered the policy's options, implications, cost and benefit, and the likely domestic, regional and global responses. The policy's background notes were extremely useful for the participants, because the systems and Taiwan and Japan have similarities and differences. The part of differences was the key area that all the participants looked for answers.

How to maintain a stable Western Pacific was and still is the major purpose of this intellectual interaction. In order to achieve this goal, the participants need to discuss the roles of the United States, Japan, China, Korea, Russia, Taiwan and the ASEAN countries. India, Australia,

Canada and the European Union come into this political landscape. Japan-China, Cross-Strait and Japan-Taiwan relations have dominated the discussions. The pivotal role of the United States naturally serves as the linchpin, but the participants have tried to be independent, non-partisan and practical. They did not elaborate too much on international theories, although they were and still are the best in the field. Knowing their positions and the nature of “the Track II Dialogue”, they showed such a frank, candid and open attitude that combined to make every meeting intellectually rewarding. How to make all of their ideas practically relevant and operational remains to be seen.

Since all participants only represent themselves as a policy expert, there is no need to make a disclaimer that this volume does not express the official viewpoints of Taiwan and Japan. However, we do hope that the volume will stimulate further research, help clarify some of the grey areas and provide the alternate thinking for the policy-makers. Finally, this volume will pay a very special tribute to Professor Tomoyuki Kojima. We all remember his hardworking, dedication and contribution to international studies and peace. Without his initiatives and efforts, this dialogue would not have been possible.

1. Viewpoint from an Economic Perspective

Taiwan Economic Relations in the Global & Regional Landscape

Mignonne Man-Jung CHAN, Ph.D.

Adjunct Associate Professor, National Chengchi University

This paper is a collection of three presentations made during the past two years on the occasion of Japan-Taiwan Dialogue. The key contents of this paper include: (1) Recent Development in the Global and Regional Economic Dynamic: Managing Contentions in G20 and Beyond; (2) Challenges in the Asia-Pacific: “Asia-Only” vis-à-vis “Trans Pacific” Integration; (3) ECFA and the Cross-Strait Relations; and (4) Impacts on Taiwan-Japan Relations.

1. Recent Development in the Global & Regional Economic Dynamics: Managing Contentions in G20 and Beyond

Since the financial crisis triggered by the U.S. Subprime Mortgage and the bankruptcy of Lehman Brothers, the global and regional economic landscape has been marked by instability in terms of revisiting the conventional growth model, the turbulent currency war, and global governance. It is evident that IMF’s ability to monitor monetary policies and the spill-over effects on the rest of the world is in question, WTO’s impasse on negotiating the Doha Development Round lingers on, UNFCCC’s discontent over treatment of climate change remains, and resource nationalism is on the rise.

In the heated debates in G20 since the U.S. financial crisis in the 4th quarter of 2008 focuses mainly on how the world should manage “global imbalance” and “structural reform”, the concerns derived from two dimensions:

- (1) Imbalance out of financial crisis: foreign investment flows into the U.S., and the American Quantitative Easing policy and the low interest rates would further encourage speculative investment towards the newly emerging economies.
- (2) Protracted protectionism due to increasing U.S. debts and high unemployment rates.

Whereas the Europe Union has been facing the challenge of recovering from the sovereign debt crises of Portugal, Italy, Greece, Spain, and Ireland since 2009, Asia has become the key target

for “balancing” global imbalance, given Asia’s enormous foreign reserves. The key targets include trade balance and RMB appreciation. Nevertheless, China in G20 insisted that neither would RMB appreciation change the Chinese saving habit, nor would China’s 2.8 trillion foreign reserves become a target for review. The four emerging economies of BRIC stood together, and Argentina’s Central Bank also maintained that “the accumulation of foreign reserves is the best insurance for self protection.”

With Japan’s triple calamities of earthquake, tsunami, and nuclear radioactive leak in 2010, as well as the widespread unstable situations in North Africa, the world will make concerted efforts to consolidate Japan’s earlier recovery and reconstruction as well as peace and stability in North Africa. The global supply chain and resource mobilization should be sustained at their optimal functionality.

2. Challenges in the Asia-Pacific: “Asia-Only” vis-à-vis “Trans Pacific” Integration

In the Asia-Pacific region, there are basically two paralleled competing approaches to economic integration, as indicated in Figure 1. One track stems from ASEAN-centered schemes originated with “Asia Only” members, but then given the geopolitical importance of other players, especially with the recent Korea Peninsula tension, and the perceived “overly assertive” China in the region, there seems to be an inclination, though an immature consensus, to break away the originated “Asia Only” insistence. This track includes AFTA (ASEAN Free Trade Agreement), “ASEAN + 3” (ASEAN plus China, Japan, and Korea), “ASEAN + 6” (ASEAN plus 3 plus Australia, New Zealand, and India), and East Asia Summit (also known as “ASEAN + 8”; ASEAN + 6 + the United States and Russia). Later on, a more open-ended term “ASEAN ++” was summed up as “Regional Comprehensive Economic Partnership (RCEP)”.

Another track has turned to be more U.S.-led, trans-Pacific based, high-quality claimed, and yet-to-expand for significance TPP (Trans Pacific Partnership). So far, the 11 negotiating members include the original Pacific 4 (Brunei, Chile, New Zealand and Singapore) plus Australia, the U.S., Peru, Viet Nam, Malaysia, Canada, and Mexico. Japan has committed to be part of TPP, but yet to decide when to join the negotiation. TPP is geared up along with the U.S. proclaim of “rebalancing” and “pivoting” in Asia. The strategic posture of competitive liberalization is at play with these two tracks of FTA in the making, as the bicycle theory has it in that the paddles ought to

be strived forward lest the momentum of liberalization vanishes as the bicycle falls without paddling.

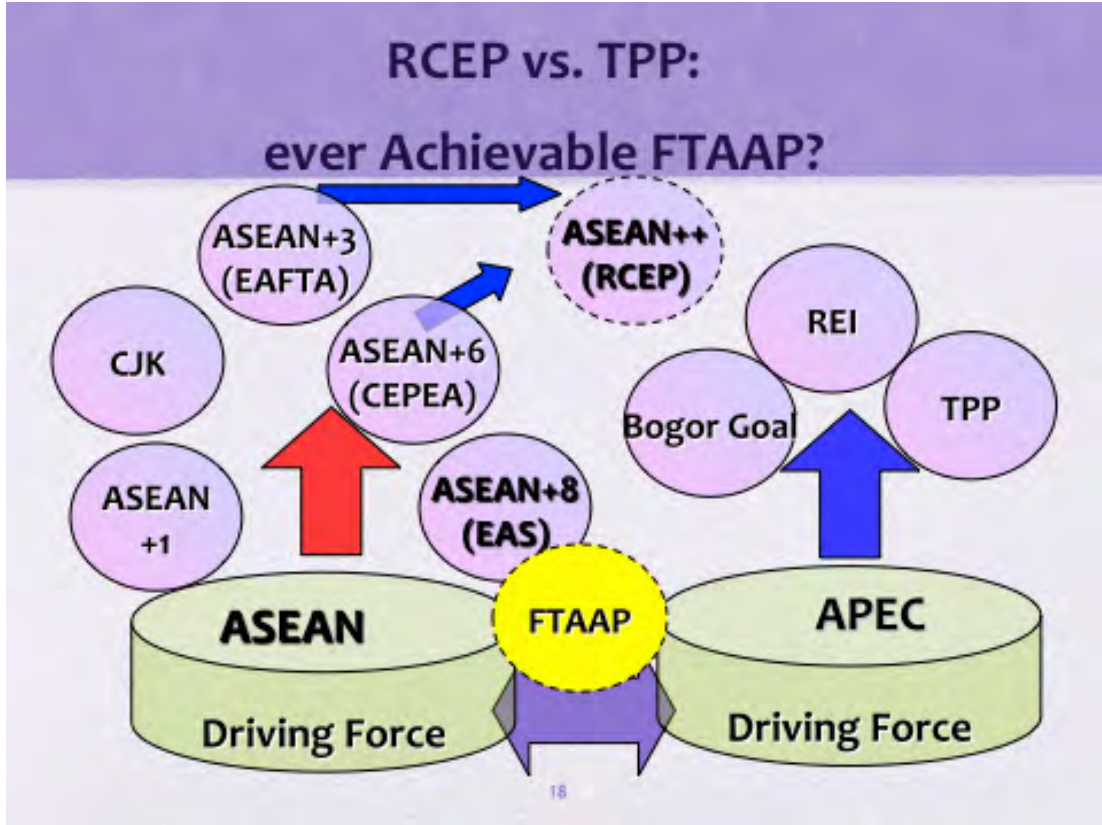


Figure 1: Asian Regional Integration: Competitive Liberalization

China’s growing economic prowess has become more evident when the U.S. and EU markets are stagnant whereas China is overtaking the U.K., Germany, and Japan sequentially and becomes the second largest global economy, and holds about a quarter of the U.S. treasury bond. Aside from some welcoming gestures for China’s growing status and some public decorum for the “equal partner”, the ambivalence attitudes towards China’s rise from all major power quarters has also been evident. News stories never fail to deliver sequels on economic spates over unfair trade, currency exchange and investment on various sovereign wealth funds, etc. Furthermore, cyber security, territorial disputes and maritime maneuvering have continued to stage the regional spotlights.

Despite the fact that no major powers seem to be happy over the term of “G2” in highlighting the importance of the U.S. and the PRC in the world stage, we are certainly witnessing

an era where the Sino-US relations take the central stage in any international negotiations and consensus-building efforts. President Obama has announced that the Sino-U.S. relationship is the world's most important bilateral relations. No doubt, the twice-a-year bilateral Strategic and Economic Dialogues (S&ED) earmarked the pre-stage for further multilateral negotiations, be it the United Nations Framework Convention on Climate Change (UNFCCC), the G20, or the IMF, etc. The issues of concern at the S&ED include, among others, energy security, climate change, global economy, the U.S. deficit and the weak dollars, the Reminbi under-valuation, and military cooperation, etc.

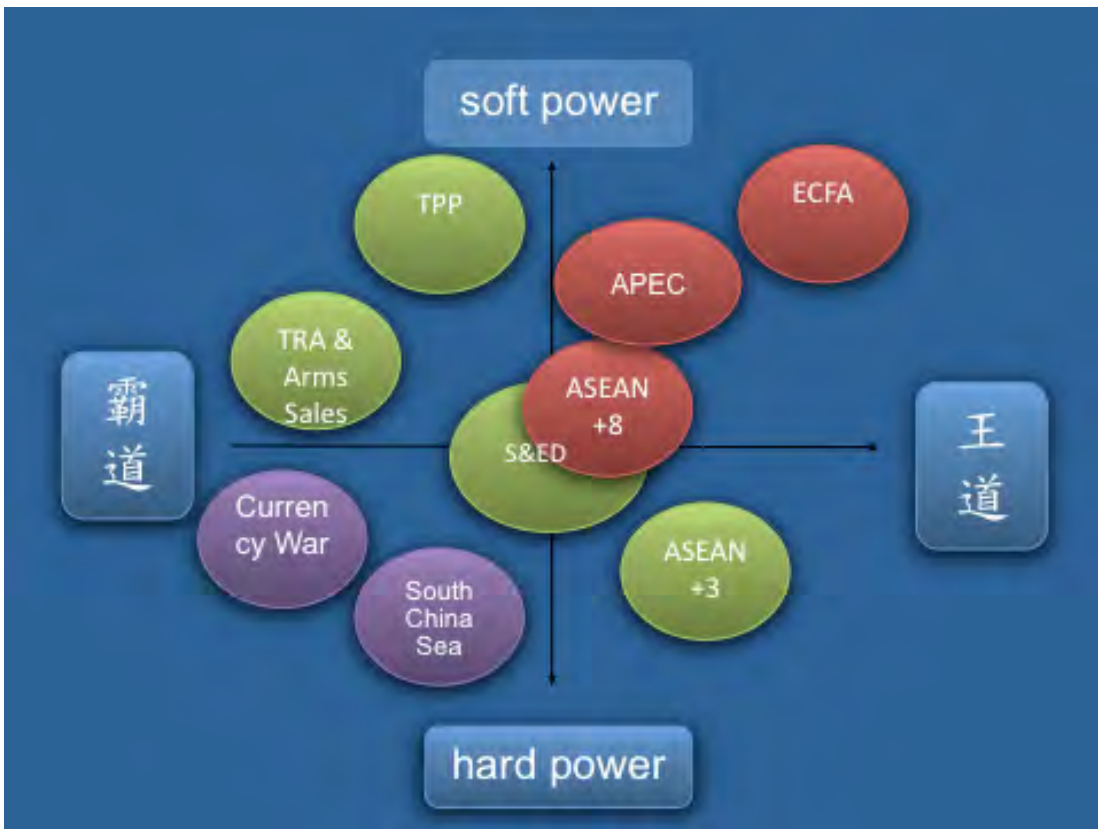


Figure 2: G2 Interplay of Hard & Soft Powers

As the arbitrary value assignments in Figure 2 indicate, the interplay of the U.S. and the PRC could have created different dimension of power play in the geopolitical fabrics in Asia. The Figure is merely to showcase the multi-faceted outcome of the dynamic G2 positioning in the region.

3. ECFA and the Cross-Strait Relations

(3.1) ECFA: Urgency, Key Timelines & Special Features:

(3.1.1) Why the Urgency

When President Ma Ying Jeou of the Republic of China carried the mandates from the Taiwanese people and took office on the 20th of May, 2008, there were mounting challenges from within and from without. In order to ensure economic security, a measured dose of liberalization in a given time is essential. On the one hand, the private sector innovative competitiveness could not be stifled; on the other hand, the public sector ought to safeguard economic growth and social equity by formulating comprehensive policies, lest the changing phenomena or the external shocks should work to our detriment.

Domestically, to reverse the economic fortune and upgrade Taiwan's competitiveness as well as to institutionalize the cross-strait economic relations was in urgent command. Additionally, the natural disasters of flood and landslides in 2009 ignited the cabinet re-shuttling, and offered a harsh lesson for us to tighten up emergency preparedness.

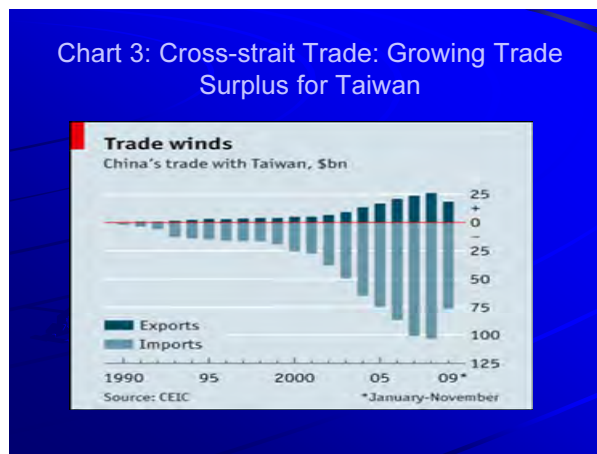
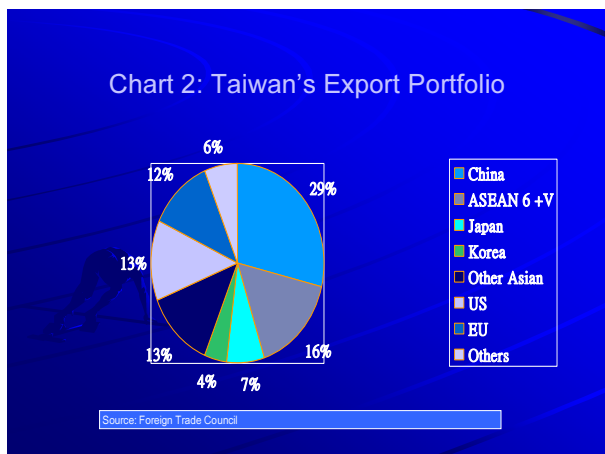
Internationally, the ripple effects created by the U.S. Subprime Mortgage crisis triggered global financial crisis, and lingered along during the first two years of President Ma's leadership. Taiwanese companies who were present at nearly every stage of the technology supply chain felt in particularly the pain of global economic downturn. As a result, Taiwan's economy shrank by 10% at the beginning of 2009. Managing the economic under stress is of particular challenge.

Starting 2010 when the "ASEAN+China" FTA took effect, there was a strong sense of alarm in Taiwan regarding the potential negative impacts on Taiwan's industries with ASEAN+China, ASEAN +3 (ASEAN + China + Japan + Korea is planned to be effective in 2012), and an envisaged "ASEAN+6" (see Chart 1).

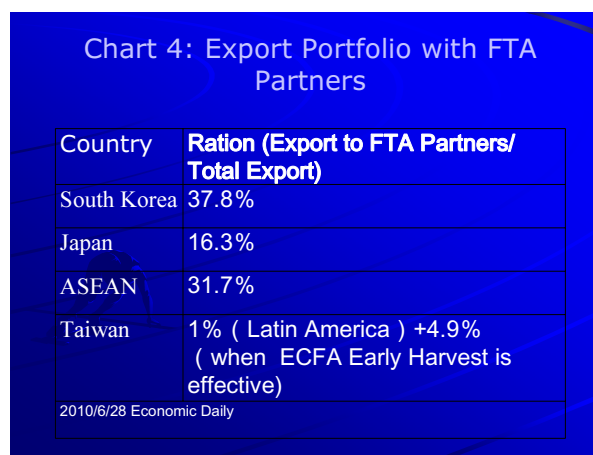
Chart 1: "ASEAN + X" and Potential Negative Impacts on Taiwan (Source: CIER)

Unit: US\$million	ASEAN + 1 (effective 2010)	ASEAN + 3 (2012?)	ASEAN + 6
Textile	- 540	- 2,380	- 2,620
Petro-chemical	- 910	- 1,610	- 1,740
Auto Parts	- 10	- 120	- 150
Others	- 670	- 3,360	- 3,380
Total	- 213	- 7,470	- 7,890

Asia constitutes 69% of Taiwan’s export portfolio (see Chart 2), and the trade surplus with the Mainland China is undoubted on the rise, only with a slight stall during the 2009 financial crisis (see Chart 3).



Furthermore, Taiwan’s current FTA partners in Latin America constitutes merely 1% of our total export, which is in sharp contrast to the other regional economies’ situations. (See Chart 4).



(3.1.2) Reversal of Fortune, Management of Crises, and Upgrade of Taiwan’s Competitiveness

It was since the 1990s that the Taiwanese companies have pursuit outward investment in China, many surpassed their foreign rivals as early movers. Before President Ma took office, the general climate of political uncertainty and the economic rollercoaster often added to business sector’s frustration and vulnerability. As the Financial Times reported, for many of the more than 60,000 Taiwanese companies in China, their growth had been constrained by Taiwan’s government policies—most notable being a cap on mainland investment at 40 per cent of a company’s net worth.

The earlier restricted rules led to corporate innovative approach to skirting such rules in order to expand their potential China market. Companies such as Hon Hai, the world’s biggest electronic manufacturing services company, and Master Kong, which stakes half of China’s instant

noodle market, to list their Chinese business in Hong Kong to skirt such rules. Uni-President, Taiwan's biggest food company, lamented at the time, that it could not expand its operation and bypass the best window of opportunity. As to the high-tech industries, Taiwan's crown exporters, there were even more stringent restrictions earlier. Three quotas were under fierce competition among Taiwan's semiconductor companies to build less-advanced 8-inch wafer fabrication plants in China.

During the disastrous typhoon on the 8th August in 2009, the casualty of 678 death and 33 wounded, agro-business loss, and infrastructure damage have added to the economic distress ignited by the global recession. Nevertheless, the government rendered financial assistance and instituted shopping coupons in order to stimulate the economy in line with the global solutions to economic stress.

Taiwan's tourism and airlines sectors have reaped benefits from the boom in cross-strait tourism. China Airlines, Taiwan's flag carrier, increased profits of 122 per cent in 2010, while hotels in leading tourism destinations were often fully booked. Mainland visitors, including tourists and business travelers, account for a quarter of all visitors to the island.

However, the economic benefits of Chinese tourism will not be maximized until this June when China allows individual travelers to go to Taiwan instead of forcing tourists into tightly-scheduled packaged tours.

Table 5 illustrates the breathtaking efforts during the past 3 years and the outcome of those efforts.

Table 1: Statistics on Taiwan's Economic Growth: 2008-2011 (Source : Executive Yuan)

Year	2008	2009	2010	Notes
GDP Growth Rate	0.73%	-1.93%	10.82%	2011(estimated) : 5.04%
GDP (NT\$ trillion)	13.1	12.8	14.2	2011 (estimated) : NT\$14.9 trillion
GDP Per Capita (US\$)	17,399	16,353	18,603	2011 (estimated) : US\$ 20,848
Unemploy-ment Rate	4.14%	5.85%	5.21%	2011.01~03: average unemployment rate is 4.60%
Foreign Reserves (US\$ billion)	2,917.07	3,481.98	3,820.05	As of March 2011: US\$392.6 billion

(3.1.3) Key Timelines

ECFA was signed on 29 June 2010 in Chongqing by Mr. Jiang Pin-kung, the chairman of Taiwan's Strait Exchange Foundation (SEF) and Mr. Chen Yunlin, President of the Association for Relations Across the Taiwan Strait (ARATS). Taiwan's Legislative Yuan is expected to complete by mid-August two statute review sessions under four principles—namely, (1) Q&A with the Premier; (2) provisional review; (3) package approval; and (4) annexed resolution. The four principles are meant to ensure transparency and accountability.

After the completion of Legislative approval, the early harvest section of ECFA is to be effective starting January 2011 (see Chart 5). There will be sequential regular negotiations by phases. As President Ma declared, the next “Golden decade” is envisaged to be one of reaping harvests by keeping “flowers-blooming on all fronts.”

Chart 5: Early Harvest: tariff/timeline

Item	Taiwan's Mainland Tariff (%)	Export to # Items for zero tariff	Mainland Profit from reduced tariff (bn NT\$)	Mainland's Export to Taiwan 2009 Tariff (%)	# Items for zero tariff	Profit from reduced tariff (bn NT\$)
2011	< 5%	72	14.1	< 2.5%	67	1.9
2012	5-15%	437	15.3	2.5-7.5%	186	1.5
2013	> 15%	30	0.16	> 7.5%	14	0.06
# items for zero tariff		539			267	
Profit from reduced tariff (bn US\$)		13.8			2.86	

Source: Economic Daily 2010/6/30

(3.1.4) Special Features of the ECFA Negotiations

A. **Wide Scope of Coverage:** There are 16 provisions in ECFA with five Annexes. The scope of coverage includes: trade in goods and services; investment protection, IPR protection, economic cooperation, early harvest, dispute settlement, and safeguard clause.

B. **Upgrading of Rank-and-File Contacts in Consultation Process:** In the course of various consultations, the official contacts have been elevated to the Vice-Ministerial level.

C. **Better Comprehension of Taiwan's Political Dynamics:** Both sides across the Taiwan Straits have had firmer grips with Taiwan's domestic political fabrics. Taiwan's government has deliberated strenuous efforts in communication drives in order to dissipate fears and oppositions. President Ma, after several turn-down attempts to conduct bipartisan discussion, boldly took up the opposition leader Madam Tsai Ying-wen's initiative for a public debate on ECFA. President Ma no doubt was on top of all details and make people see better the importance of ECFA for Taiwan.

D. **Historic Landmark for the Signing of ECFA:** Chong-qing is the venue where the CCP-KMT negotiation last broke down during the civil war period. It is therefore by definition a historic

landmark as the venue for inking ECFA, be it by design or by accident.

E. A “Quick-Easy-Few” Approach to Early Harvest: There were good-will gestures from both sides to create a favorable ambience so as to add weights in confidence building.

F. Achieving Relative Proportional Equilibrium for Concession: Given the disparity in resource endowment and potential market size, no exact proportional equilibrium is intended. Only relative proportional equilibrium is orchestrated in good faith so as to avoid potential deadlocks.

(3.1.5) ECFA: “Catalyst” but “Not a Cure-All” for Taiwan

Following 14 agreements signed with the Mainland China earlier, ECFA serves as a catalyst to normalize the cross-strait trade and investment relations. Mainland China is Taiwan’s largest source of trade surplus and biggest destination of foreign investment. ECFA reverses the past misguided policies of “No Haste, Be Patient”, and “Effective Management, Active Liberalization”-turned “Active Management, Effective Liberalization”. ECFA will recall run-away cross-strait investment by turning “one-way, indirect and societal” into “two-way, direct and institutionalized”. ECFA will be “a vitamin” to domestic economic growth. With ECFA, Taiwan will be better position in globalization without being marginalized. With ECFA, Taiwan will also live up to its name as a “responsible stakeholder” without upsetting regional stability.

However, ECFA is not a Cure-All. Some feasibility study with the G-Tap modeling points to positive impacts for Taiwan: 1.72% surge in GDP growth, creation of 260,000 jobs, and some potential winning sectors in textile, machinery, petrochemical, oil & coal, and steel industries (see Chart 6).

	Growth rate	Total Amount (bn/NT\$)
Textile	16%	93.5
Machinery	14%	280.7
Petro-Chemical	15%	290
Oil & Coal	8%	61.5
Steel	8%	68.9

Source: CIER

Competition in global market is beyond reduction of transaction costs in tariff and non-tariff items alone. One knows well that the static simulations do not guarantee volatile dynamics in the real world. The volatile dynamics will hinge upon the following:

- (1) Whether the government could perform effective industrial restructuring;
- (2) Whether industries could re-position themselves in the emerging China market and global supply value chains by creating product differentiation and desirable value;

- (3) Whether timely corporate strategic alliance could be forged with innovation and special branding in a competitive global marketplace;
- (4) Whether people in Taiwan are well prepared for adaptive and innovative ways of employment;
- (5) Whether Taiwan could also sign FTAs with other key partners; and Whether Taiwan could divert risks in terms of national security, for instance, investment oversight in vital industries.

(3.1.6) ECFA: Deepening Cross-Strait Economic Relations with Mutual Benefits

ECFA is not only a catalyst for Taiwan, but also a positive scorecard for the Mainland China. ECFA adds values to China's experimental development model of "threading through water by touching the rocks" (摸石過河). ECFA will also speed up the development pace with two-way flows of goods, capital and tourists, and enhance Taiwan's contributions to the mainland's export, such as the case of IT industry. Furthermore, the mainland's good-will gestures in ECFA's early harvest, as a starter, imply China's willingness to forsake contentions, address Taiwan's key concerns, and forge win-win for all.

ECFA will better integrate the cross-strait economic relations into the global supply chain. Mainland China and Taiwan will soon establish a Cross-Strait Economic Council so as to keep the momentum for post-ECFA elaboration. Both sides will need to ensure implementation of early harvest by amending relevant legal framework, and to enhance training of bureaucrats for realization of favorite treatments. Governments also need to help facilitate corporate strategic alliance and implement structural change.

The challenges ahead remains to be: whether and how social and cultural exchange will bring about good-will across the strait. Will people-to-people interaction add value to domestic consensus for further elaboration? Will cultural exchange switch the unpleasant condescendence of one another's seemingly extraordinary behaviors and gear towards accepting diversity and further taken the path not taken, such as renaissance of traditional Chinese culture and value system? Will the post-ECFA social interaction facilitate indispensable conditions for future political dialogue?

(3.2) Institutionalization of the Cross-Strait Relations and Incremental Approach to Further Integration in the Region

In lieu of the fact that the ASEAN-China FTA was about to become effective in early 2010, and lest that sequential more outward relocation of Taiwan's companies into ASEAN territories, ECFA was signed on 29th June, and effective as of 12 September in 2009. President Ma maintained that a deal with China will even things out by reducing tariffs on Taiwanese exports to the Mainland and clear the path for agreements with other Asian nations too scared to offer bilateral deals to Taipei. China will cut import tariffs on \$13.84bn worth of items including petrochemicals and vehicle parts, and Taiwan will cut tariffs on \$3bn worth of goods including parts for baby strollers and bicycles, and raw materials for textiles.

The Early Harvest provisions are being implemented starting January of 2010. More agreements such as investment protection and dispute settlement are in the pipeline for further negotiation. During the past three years, Ma administration has signed ECFA and 15 agreements. In recent visits, Chinese companies' shopping lists ranged from \$4.4bn for flat screen TV panels to 166 tonnes of fruit and 300 tonnes of tea. With the Early Harvest provision in place, China is removing tariffs on more than 500 products from Taiwan to the benefit of the island's bicycle, petrochemicals and machinery industries

Table 2: Taiwan's Trade Statistics: 2008-2012 (Sources: Council of Foreign Trade & the Mainland Affairs Council)

Unit: US\$ billion	2008	2009	2010	2011	2012
Taiwan's Total Global Trade	496.07	378.04	525.83	589.69	571.78
Taiwan's Total Export	255.63	203.67	274.60	308.25	301.08
Taiwan's Total Import	240.44	174.37	251.23	281.44	270.71
Cross-Strait Trade Volume	98.28	78.67	112.89	127.56	121.64
-----	-----	-----	-----	-----	-----
% to Total Global Trade	19.8%	20.8%	21.5%	21.6%	21.3%
Taiwan's Export to China	66.88	54.25	76.94	83.96	80.73
-----	-----	-----	-----	-----	-----
% to Taiwan's Total Export	26.1%	26.6%	28%	27.2%	26.8%
Taiwan's Import from Mainland China	31.39	24.42	35.95	43.60	40.91
-----	-----	-----	-----	-----	-----
% to Taiwan's Total Import	13%	14%	14.3%	15.5%	15.1%

While Taiwanese businessmen have long invested in China, Chinese investment was forbidden in Taiwan until the first-ever round of opening in 2009. Even then, the liberalization was limited to just 99 sectors, and led to only \$137m of Chinese investment into Taiwan, versus a cumulative total of more than \$200bn of Taiwanese investment into China. In the post ECFA era, Investment bankers are also looking forward to mergers and acquisition opportunities that may well be unlocked when the effects of ECFA usher in a more liberal cross-strait investment atmosphere.

However, Taiwan remains cautious in evaluating cross-strait business dealing. There have been some aborted cases, such as China Mobile's plan to taking 12% stake of the Far Eastone, and AIG's attempt to sell its Taiwan life insurance unit to Hong-Kong based consortium. Nevertheless, there are some rare examples of companies from Taiwan and China cooperating overseas, which in the past has been largely restricted to offshore oil drilling. For instance, Taiwan's China Steel and China's Baosteel are planning to invest jointly in overseas iron ore mines.

In late 2008, there was some reverse investment by some Taiwanese companies in China. However, in 2009 and 2010, the FDI to Taiwan has not improved. Policies were revised during the past three years to attract foreign investments, the highlights include the accession to the WTO's Government Procurement Agreement, and visiting campaigns by high government officials around the globe to attract foreign investment. The cross-strait direct flights and lifting restriction on Mainland tourists, income tax reform and inheritance tax reductions, China investment liberalization, and the signing of the cross-strait Economic Cooperation Framework Agreement (ECFA) are all efforts to improve foreign direct investment in Taiwan.

Table 3: Taiwan's Statistics on Investment: 2008-2012 (Source: MoFA, MoEA, and MAC)

Unit: US\$ billion	2008	2009	2010	2011	2012
Total FDI in Taiwan	8.24	4.80	3.81	4.96	5.56
Mainland China's Investment in Taiwan	--	0.037	0.094	0.043	0.32
Taiwan's Outbound FDI (excluding in China)	4.47	3.01	2.82	3.70	8.10
Taiwan's Investment in China	9.84	6.06	12.23	13.10	10.92

(3.3) Implications of ECFA for Regional Economic Integration

(3.3.1) Enhancing Regional Industrial

Competitiveness

As described earlier, starting 2010, China and ASEAN are implementing the bilateral FTA. With the exceptional favorite treatments for the ASEAN's four (Viet Nam, Lao, Cambodia, and Myanmar), average tariff is nearly zero for bilateral trade (see Chart 7).

With ECFA in place, China's import from Taiwan starting 2011 will even surge to the already competitive growth rate vis-à-vis that of ASEAN (see Chart 8). This does not have to be a zero-sum game, and it is all the more conducive for Taiwan to be linked into the regional integration efforts.

The ECFA early harvest for 2011~2013 may well serve as a springboard for regional economies to join hands with Taiwan in some competitive industries and venture into the China market. Further cross-fertilization of ECFA and ASEAN+China FTAs may well weave into a broader building block for regional integration. It is also high time for harmonizing the rules of origin, and forging strategic alliance for some niche products and services. For sure, it could be a win-win-win fanfare for all.

Taiwan's competitiveness scorecard has made a landmark impression as Table 4 indicates. President Ma's 3-year scorecard is remarkable due to unprecedented breakthrough in the cross-strait relations, prudent economic management under stress, and continuous efforts in expanding the global reach. In celebration of the third year inauguration, President Ma deserves rounds of applaud, and public support would only encourage more of government morale in launch yet another higher scores.

**Chart 7: ASEAN + China (2010):
Changing Trade Portfolio**

Average tariff Rate: ASEAN export to China	9.8% → 0.1%
Average tariff rate: China export to ASEAN	12.8% → 0.6% (ASEAN6) 12.8% → 5.6% (ASEAN4)
China's total export to ASEAN (2010/01~05)	US\$52.7 bn & 46.1% increase; (China's exports to the EU & US grow 37.4% & 24.7%)
China's total import from ASEAN (2010/01~05)	US\$59.1 bn & 70.1% increase; (China's imports from the EU & US grow 57.7% & 42.5%)

Source: Ministry of Commerce of PRC

**Chart 8: China's Imports Growth Rates:
ASEAN vis-à-vis Taiwan**

Item (2010/01~05)	ASEAN	Taiwan
Total Market Share	11.1% (70.2% growth)	8.6% (66.7% growth)
Electric machinery	61.4%	59.5%
Plastic products	47.6%	44.9%
Organic chemicals	95.7%	85.4%
steels	45.8%	5.6%
Coppers & products	72.2%	68.3%
P.E. fibers	40.9%	13.5%
Minerals fuels	120.2%	10.9%
Optical products	92.8%	122.9%
Machine tools	53.7%	120.3%
Non-organic chemicals	50.8%	58.5%

Source: Ministry of Commerce of PRC

Table 4: Taiwan’s Competitiveness Ranking in the World

International Organization	Institution/	Total countries	Tai-wan	US	Japan	Korea	Singapore	Hong Kong	China
IMD: World Competitiveness in 2012—issued in 2012		58	7 (↓1)	2 (↓1)	27 (↓1)	22 (same)	4 (↓1)	1 (same)	23 (↓4)
WEF: Global Competitiveness Index in 2012—issued in Sep., 2012		142	13 (same)	7 (↓2)	10 (↓1)	19 (↑5)	2 (same)	9 (↑2)	29 (↓3)
BERI: Investment Environment Assessment in 2012—issued in Dec., 2012		50	4 (same)	13 (↑1)	16 (↓3)	18 (same)	1 (same)	None	13 (↑1)
WEF: Network Readiness Index in 2012—issued in 2012		138	11 (↓5)	8 (↓3)	18 (↑1)	12 (↓2)	2 (same)	13 (↓1)	51 (↓15)
Heritage Foundation: Index of Economic Freedom in 2012—issued in Jan., 2012		183	18 (↑7)	10 (↓1)	22 (↓2)	31 (↑4)	2 (same)	1 (same)	138 (↓3)
World Bank: Easy of Doing Business in 2012—issued in Jun., 2012		183	16 (↑9)	4 (same)	24 (↓4)	8 (same)	1 (same)	2 (same)	91 (same)

(3.3.2) Managing Post-ECFA Three-Way Chess Game:

The challenge for Taiwan in the post-ECFA phase is to well manage a “three-way chess game”, as President Ma put it. Given this volatile juncture of ECFA dynamics, we need to manage expectations from three fronts:

- (1) Challenges from Domestic Polity: The Ma administration will have to sustain the ongoing efforts and ensure that people understand the concerted efforts via transparency and accountability. The government will also need to pave way for further cross-strait dialogues with consensus building.
- (2) Challenges from Mainland China: The Ma administration will need to ensure that the Mainland is all the more in gear to reality-reckoning, and cope with the Mainland’s expected sequential “non-economic” dialogues. Taiwan ought to exert influence on China so that China could come to grip with reality and set realistic and cohesive pace of change.
- (3) Challenges from the International Community: ECFA is a necessary but not sufficient condition for Taiwan to sign free trade agreements (FTAs) with our trade partners. We

need to convey the justification for more FTAs as “inspiring, reasonable and legal” under the framework of WTO. We are here for gaming win-win-win phenomena, but not interested in zero-sum game in the post-ECFA era.

(3.3.3) Optimizing the Rising China’s Opportunities

With Asia remains to be the engine of growth around the global platform, China’s 12th Five-Year Plan (2011-2015) highlighted her attempts to ease the double-digit growth, open more domestic market, enhance services industry. Taiwan's "golden decade" blueprint (2011-2020) has some overlapping interests and both sides seem ready to further improve economic cooperation and seek common development and prosperity. The Ma Administration has initiated 6 Newly Emerging Industries in Taiwan, namely biotech, eco-tourism, green energy, Medicare, organic farming, cultural innovation. Furthermore, 4 intelligence industries are promoted, namely, cloud computing, smart electronic automobiles, IPR commercialization, and smart green buildings. Taiwan's Ministry of Economic Affairs has proposed allowing Chinese investment of up to 10 per cent in Taiwanese technology companies, and up to 50 per cent in new technology-sector joint ventures.

Taiwan, with the leadership of President Ma Ying-Jeou, has made unilateral commitment to peace and prosperity since Ma’s declaration on “Three Nos—No Unification, No Independence, No Use of Force” policy. The bilateral cross-strait economic agreement, Economic Cooperation Framework Agreement (ECFA), has served as a catalyst to regional integration and a model for conflict resolution. KIEP, a South Korean think tank, has advised that ROK quickly negotiate with China on an FTA in its post-ECFA evaluation. ECFA will bring along more opportunities for Taiwan to be linked to regional integration schemes, including the yet-another-step of the Agreement of Singapore and Taiwan Economic Partnership (ASTEP), and a possible revitalization of U.S.-Taiwan Trade and Investment Framework Agreement (TIFA).

On the multilateral front, Taiwan cherishes Asia-Pacific Economic Cooperation (APEC) and World Trade Organization (WTO) memberships. In APEC, “Chinese Taipei” has made and promoted several initiatives, including APEC Digital Opportunity Centers, One Village One Product, SME Risk Management Center, and APEC Typhoon Center, etc. This year, Taipei will continue to collaborate with like-minded partners, and support the host, the U.S., for some initiatives.

In order to ensure economic security in a turbulent and interconnected world, a measured

dose of liberalization is essential. Taiwan, like other economies, must act quickly to keep up with emerging trends, but must also undertake prudent cost-benefit analysis. On the one hand, the innovative competitiveness of the private sector must not be stifled; on the other hand, the public sector must promote economic growth and social equity by formulating comprehensive policies, including structural reform, lest changing circumstances or external shocks work to our detriment. In a globalized world, economies will neither be spared the ripple effects of others, nor can they escape the responsibilities of being a stakeholder in the global community.

The Ma Ying-jeou administration has identified six emerging industries in Taiwan—namely biotech, eco-tourism, green energy, medical and healthcare, organic farming, and cultural innovation—for which the government and private enterprises are seeking to boost competitiveness through a variety of means such as innovation and branding. In addition, four intelligence industries are to be promoted—cloud computing, smart electronic automobiles, IPR commercialization, and smart green buildings. The government plans to develop new visions and forward-looking policies in these industries. Development in these areas will forge structural change for economic growth, which will in turn contribute to the much-needed innovative and sustainable growth.

But these efforts to strengthen certain key industries could not exist in a vacuum, and interaction with the outside world is necessary. As late as 2009, Taiwan faced at least four specific external challenges to its competitiveness: (1) a relative lack of institutionalized trading mechanisms with mainland China, which is Taiwan's neighbor, the home of more and more of its manufacturing, and a giant potential market; (2) the volatile financial situations and depressed economic climate in the United States and Europe; (3) a lack of free trade agreements with most economies; and (4) perceived political opposition from China to establishing such agreements with third parties.

In order to solve or mitigate these challenges, and to both enhance opportunities for near-term trade and boost mid-term international competitiveness, the Ma administration pursued an Economic Cooperation Framework Agreement (ECFA) with China. The ECFA was signed on June 29, 2009 and became effective as of September 12 of that year. The Early Harvest provisions are to be completed in three years starting in January 2010; China is removing tariffs on more than 500 products from Taiwan to the benefit of the island's bicycle, petrochemicals and machinery industries. China will cut import tariffs on \$13.84 billion worth of items including petrochemicals and vehicle

parts, and Taiwan will cut tariffs on \$3 billion worth of goods including parts for baby strollers and bicycles, and raw materials for textiles. This year more segments of ECFA, including goods and services, investment protection and dispute settlement are in the pipeline for further negotiation. Open sky (for air transport liberalization) and cloud valley (for high-tech information network clustering) are also identified as items of future collaboration.

Taiwan has been actively seeking bilateral economic cooperation pacts with other like-minded partners, including a revival of Trade and Investment Framework Agreement (TIFA) talks with the United States and a possible FTA with the European Union (termed as Trade Enhancement Measures by the European Chamber of Commerce). Sequentially, Singapore and Taiwan have initiated the negotiation of ASTEP (Agreement of Singapore-Taiwan Economic Partnership). Japan and Taiwan signed a landmark investment pact in September 2011. Feasibility studies on cooperation or partnership agreements with the potential partners of the Philippines, Indonesia, and India are now being undertaken. Other economies in the region, notably South Korea, are pursuing and implementing trade liberalization agreements; if Taiwan is excluded from broader regional economic integration, trade and investment will be diverted away from it.

Table 5, below, illustrate Taiwan's changing trade and investment portfolios with key partners and reflect the shifting global economic landscape.

Table 5: Taiwan's Trade Relations with Key Partners: 2008-2012

Partner	2008			2009			2010			2011			2012		
	Total	Export	Import	Total	Export	Import	Total	Export	Import	Total	Export	Import	Total	Export	Import
PRC	98.3	66.9	31.4	78.6	54.2	24.4	112.8	76.9	35.9	127.5	83.9	43.6	121.6	80.7	40.9
ASEAN	64.6	38.9	25.7	50.4	30.6	19.8	70.8	42	28.8	84.3	51.5	32.8	88.1	56.5	31.6
Japan	64	17.5	46.5	50.7	14.5	36.2	69.9	18	51.9	70.4	18.2	52.2	66.4	18.8	47.5
US	57.1	30.8	26.3	41.7	23.6	18.1	56.8	31.4	25.4	62.1	36.3	25.7	56.5	32.9	23.6
EU	47.6	28	19.6	37	21.3	15.7	48.6	27.3	21.3	52.5	28.5	24	48.7	26.2	22.5
Singapore	16.5	11.7	4.8	13.4	8.6	4.8	19.7	12.1	7.6	24.8	16.9	7.9	28.1	20	8.1
India	5.3	3	2.3	4.1	2.5	1.6	6.4	3.6	2.8	7.5	4.4	3.1	6	3.4	2.6

Source: Bureau of Trade, MoEA / Unit: US\$ billion

(3.4) Taiwan's Roles in Regional Integration: Opportunity and Challenges

Taiwan has always been in a delicate position in the U.S.-China-Taiwan triangular relations. Instead of taking side on the camp of “China as a Threat” or “China as an Opportunity”, Taiwan should serve as a catalyst for China’s evolving development. In the debate of shifting paradigm, Taiwan need not take side, and should cheer every developing country on, in its own chosen development path. Taiwan could be constructive by providing its own experience in sorting out its own development path in the fabrics of political, legal, economic, and social development. As the world’s 18th largest economy and as the guardian of Chinese traditional culture, Taiwan has a lot to offer in the wake of global re-balancing and structural reform.

President Ma’s cross-strait policy of “sideline confrontation, create win-win” has taken us as far as the implementation of the early harvest provisions in ECFA (Economic Cooperation Framework Agreement). ECFA could well serve as catalyst for deepening regional economic integration, intensify the regional supply chains, and contribute to regional peace and prosperity.

In APEC, Taiwan should and will continue to be an active participant in the process by being a collaborator of initiatives and focus on promoting economic cooperation. Taiwan will continue to collaborate with the U.S., China, Japan and all other like-minded APEC partners in projects such as SME Crisis Management Center, Emergency Preparedness, and Green Building and Low-Carbon City, etc. Taiwan should also be aspired to extend the benefits of ECFA to others by joining other regional economic integration schemes, including RCEP, TPP, and the Concerted Unilateralism of APEC.

4. Impacts on Taiwan-Japan Relations

Japan and Taiwan, under President Ma’s administration, are experiencing the best ever bilateral relations since 1972 when Japan established formal relations with the People’s Republic of China and severed official relations with Taiwan. Japan’s investment in Taiwan exceeded US\$444 million in 2011. For the first three quarters of 2012, Japan’s investment in Taiwan has climaxed the past 5 years. According to the Investment Commission of Taiwan’s Ministry of Economic Affairs, Taiwanese total investment in Japanese companies reached US\$250 million in 2011, six times more than a year earlier. This accounted for nearly 7 percent of Taiwan’s total foreign investment, which is the highest on record

Tokyo and Taipei signed an investment pact in September 2011, which paves an important foundation for a future free trade agreement. Sequentially, an aviation pact was followed, and thereby restrictions were lifted on flight numbers, destination and airlines operating these routes. Furthermore, a Memorandum of Understanding was inked to speed up patent applications. In addition, an industrial cooperation accord is on the pipeline for conclusion.

The key factors that contribute to the closer Japan-Taiwan bilateral relations include:

- (1) Taiwan as a world leader in high-tech manufacture: Taiwan's production facilities, infrastructure and a skilled workforce are all well in place.
- (2) Taiwan's proximity to Japan geographically and sentimentally: Taiwan's location is not only near to Japan, but also to China's vast market for Japanese goods. Taiwan's past history under Japan's relative benign colonial rule adapted to Japanese culture — including gourmet cuisine, trendy fashion, hot-spring resorts, management style, and top-notch services, etc.
- (3) Taiwan's improved relations with the mainland China: Economic Cooperation Framework Agreement (ECFA), signed in 2010, The trade pact contains the early harvest provisions that benefit Taiwan's export to China, and also benefit Japanese firms in Taiwan. The scope of the investment protection agreement with China, signed in August 2012, covers investments originate in Taiwan, including Japan-Taiwan joint partnership.
- (4) Japan-Taiwan Joint Collaboration in China: A survey research report by Nomura Research Institute estimates that Japanese business are 10 percent more likely to be successful in China if they collaborate with a Taiwanese firm than if they go alone; that is the probability ratio for success is 78 percent, as opposed to 68 percent.
- (5) Taiwan's Merger Fever with Japanese Companies: Taiwan ranked No. 2 in 2011, next only to the U.S., for mergers & acquisitions (M&A) with Japanese business. The driving force for the M&A is acquisition of Japanese technology, and consolidating relationship with the customers.

In addition, Japanese relations with Taiwan are marred with little of the historical animosity that exists with China. The anti-Japanese sentiments that erupted across China over the Japan-administered Senkakus, over which Beijing claims sovereignty, is just the latest expression of feelings that have remained raw following Japan's brutal wartime invasion and occupation of its giant neighbor. However, Taiwanese fishermen's demonstration of discontent has been obvious

over the restriction imposed by Japan on the fishing zone.

Furthermore, Taiwan is keen on forging industry strategic alliance with Japan. The six approaches to Japan-Taiwan industry cooperation include:

- (1) consolidating industry collaboration network schemes;
- (2) collaborating Japan's human resource network;
- (3) nurturing large-scale business cooperation;
- (4) focusing on key industries;
- (5) connecting local industry clustering; and
- (6) integrating intra-governmental resources.

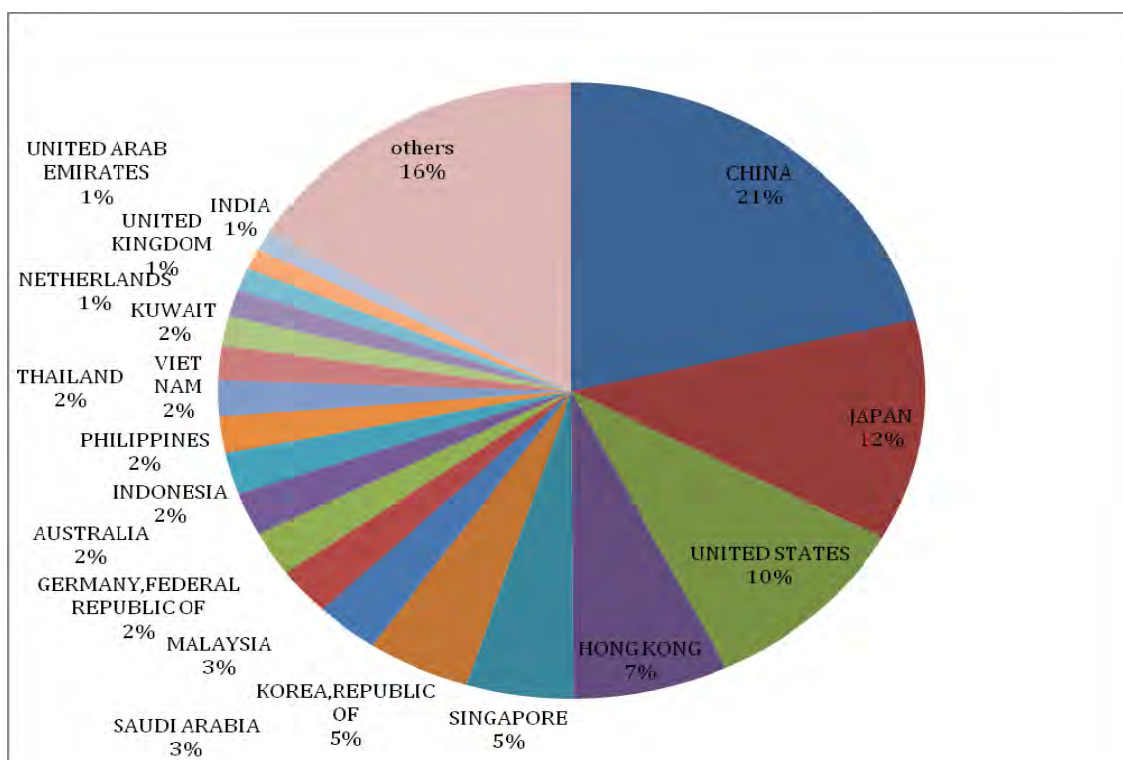


Figure 3: Trade Relations with Partners: 2011 (Source: Bureau of Trade, MoEA)

In conclusion, to understand the potential of Japan-Taiwan strengthening bilateral relations, just any other bilateral relations, one needs to revisit the current global, regional, and country-specific circumstances. The challenging questions for us in the context of global and regional geo-politics and geo-economics are: (1) how do we cope with a resurgent China under PRC? (2) how do we manage the resource competition with PRC's pursuit of industrialization just as

others before? (3) how do we forge win-win-win rather than zero-sum game in the mutually independent world? The comprehensive understanding would then put into perspective where the concerned parties stand, and where maximizing mutual benefits in the case of Taiwan-Japan relations could be further pursued in a sustainable and long-lasting fashion.

A Japanese View

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Suppose that, in the turn of the century, you listed 30 countries in the order of the size of GDP and counted the number of the countries that were not in any regional trade agreements. There were only four countries. They were Japan, Taiwan, China and Korea. This fact shows that East Asia countries were far behind the world trend of regional trade agreements.

The picture has changed drastically since there. Suddenly, these four countries started rushing for trade agreements with their trade partners. Korea is most aggressive and has already concluded agreements with both the United States and EU. Japan now has EPA (Economic Partnership Agreement) with more than ten countries. Taiwan cannot ride on this trend due to its relation with China, but ECFA between Taiwan and China changed the landscape dramatically.

Increasing number of various bilateral trade agreements has induced more attention on region wide trade agreement. ASEAN completed FTA (Free Trade Agreement) with Japan, China, Korea, Australia, New Zealand, and India, which naturally leads to the discussion of ASEAN plus 3 or plus 6 treaty. APEC has discussed the idea of APEC wide FTA for many years, although there were not any concrete steps towards the APEC wide agreement. Participation of the United States in TPP (Trans Pacific Partnership) suddenly made the comprehensive Asia-Pacific trade agreement more realistic in the near future.

Region wide FTA and FTA among large countries will have significant influences on global trade regime. If Japan participates in TPP, TPP covers more than 40 % of world GDP. Japan and EU are now in the process of working for FTA negotiation. EU changed its stance several years ago toward more positive attitude for FTA with other part of the world. Some experts even mentioned the possibility of EU-US FTA. If such FTAs as TPP, Japan-EU and EU-US are realized, their impacts on world trade order will be substantial.

It is important to consider what will be the role of WTO in this world of increasing number of regional trade agreements. It is obvious that weakening function of WTO induces many countries to be more enthusiastic with regional trade agreements. There are various reasons for

weakening functions of WTO: increasing member of WTO makes negotiation more difficult and developed and developing countries often confront with each other in major issues.

Doha round is now in stalemate and no one can have any optimistic prediction for its future negotiation. However, it does not imply that WTO becomes less important. Rather, the rules of WTO become even more important under increasing number of players and complicated relations among them in the present trading world. It is not easy for member countries to violate WTO rules, and the legal structure of WTO restrains the proliferation of protectionism.

In the present world, at least four channels must be utilized for extending trade liberalization; multilateral negotiation, regional integration framework, bilateral negotiation and unilateral actions. All four channels are necessary and interactions among the four are important. Bilateral negotiations are important steps towards regional integration. Bilateral and regional frameworks have many complementary features with multilateral arrangement.

TPP (Trans-Pacific Partnership) was a tiny FTA, in the beginning, by four small countries in the Asia Pacific, such as Singapore and New Zealand. However, the participation of the United States in TPP has changed the whole picture of regional trade agreements in this region. The United States has increased its interests in the Asia Pacific region. The emergence of China as a new regional power stimulates the regional diplomatic and economic strategy of the United States.

Japan cannot put itself away from this trend. Japan had been conducted joint study project on the trilateral FTA with China and Korea for more than ten years and had not made any progress. There had been reasons for slow progress in each part of the three countries; slow progress means that all countries understand the necessity of FTA in the long run but they do not have reasons to initiate negotiation now.

Japan's possible participation in TPP may change the process of trilateral FTA. Both ASEAN plus three and TPP are intermediate steps toward APEC wide FTA. In that sense either channel is fine for Japan as far as long-term target is concerned. However, FTA with or without the United States is crucial issue for the domestic policy debates.

Prime Minister Noda sent a strong message to participate in TPP negotiation. It should be noted that the priority of FTA issue has not been high in the Japanese government until Mr. Noda has chosen TPP as one of his cabinet's policy issues of the highest priority. Naturally, there arose high

voices against TPP in Japan by farmers, and TPP attracted heated discussion in Japan.

This is a very important point. Previously, FTA issue was not in high priority in Japan, and agricultural lobby can deter any drastic liberalization measures. This is a typical protectionist behavior; there were small number of people who opposed strongly to liberalization and majority of the population were not much interested in the issue. But now, many citizens become interested in the issue and asked which side they will take.

Political instability in Japan and the concentration on the issue of increasing tax by the Noda cabinet left TPP issues without any progress. One must wait for the next cabinet to see how the issue is treated. However, with or without progress in TPP, the FTA issue has cross over the threshold line and the issue will be always in one of the top priority policy issues in the future.

The possibility of Japan's participation in TPP triggered other trade negotiation. It is obvious that developments in TPP stimulate China for its attitude toward the trilateral negotiation. When Japan was working on the possible participation in TPP, China and Korea became more eager to go on with the negotiation, and when Japan could not move forward in the TPP participation due to domestic political difficulty, China and Korea became less enthusiastic to move forward the negotiation of the trilateral agreement. This interaction among different agreements is crucial. The developments in TPP negotiation made EPA with EU, Canada, and Australia more realistic for Japan. Farmers prefer EPA with EU or even with Canada and Australia to TPP. It is not clear which agreement Japan will be able to finish first. However, it is clear that the trade negotiation will become more and more important in Japan.

It should be noted that increasing number of regional and bilateral trade agreements is a trend all over the world. The setback in the Doha round negotiation lead many countries to move toward more active engagement in regional and bilateral trade agreements. Big countries like the United States and EU now show more interests in FTA negotiations. EU finished FTA negotiation with Korea, and now considering the possibility of FTA with the countries like Japan and Canada. The United States participation in TPP shows increasing commitments of the United States in this region. The speed and direction of the progress of trade negotiation of Japan will be affected much by these external factors.

One of the most important reasons for participating trade negotiations is to mobilize domestic reforms. Heated debate on the participation in TPP naturally highlighted the necessity of

agricultural reform in Japan. EPA agreements with the Philippines and Indonesia triggered the discussion on import of health care workers from abroad. Japan faces various structural problems and drastic reforms are necessary for activating the Japanese economy. Trade negotiation is certainly an effective vehicle for mobilizing the reforms.

Dynamics in trade and investment in Asia are changing very rapidly and it is important to examine how the change affects the industrial structure of Japan. Difficulties in electronic and electric industry in Japan give us best example of the nature of the change. It is becoming more and more difficult for them to export from Japan due mainly to two reasons; one is the emergence of neighbor countries as Taiwan and Korea as strong competitors to Japanese firms, and the other is shrinking Japanese market and expanding the market in Asia other than Japan.

Japanese electric and electronic industry can survive by expanding their operation in Asia through increasing oversea investments and by utilizing cross border division of labor in Asia rather than the division of labor in Japan. Take the case of mobile phones as an example.

The mobile phone market was expanding rapidly in Japan and telecommunication carriers adopted Japan specific standards. Thus, a sophisticated division of labor emerged in Japan. Although Japanese style mobile phone was very well developed in a sense, but it cannot compete with global models in the market outside of Japan. Eventually, global standard such as Apple's i-phone and Google phone are invading the Japanese market. It is now seem almost impossible for the Japanese manufactures to survive not only in Asia market but also in Japan. However, it is not correct to say so.

The strength of Japanese manufacturing has been supported by the competitive power of material producers, device producers and capital goods producers. These producers have been selling their products mostly to Japanese assembler (say of mobile phones) in the past. But, now these producers are expanding their sales to other Asian firms. For example, Sumitomo chemical is selling a large amount of chemical products to Samsung. Various device products produced by Japanese firms such as ceramic condenser are indispensable for the production of mobile phones and smart phones. Robots and sophisticated optical machines by Japanese firms are used widely in the factories of Taiwanese and Korean firms. Although division of labor in Japan cannot compete with the division of labor in Asia, many Japanese firms producing materials, intermediate goods and

industrial products can enjoy expanding markets in Asia.

There are many studies on gravity model in the economics literature and economists have recognized the importance of the model. According to the gravity model, the amount of trade between any two countries is larger the shorter the distance between the two and the larger the sizes of the two countries. The name “gravity”, of course, comes from the gravity theory in physics. Gravity model is very important for the Asian region, especially for Japan. Gravity was very weak for Japan 20 years ago, since neighboring countries were very small. China was only one eighth of Japan and all other countries in Asia were smaller than that 20 years ago. Since gravity was weak in Asia, Japan must rely on the United States and Europe for its market. Today, gravity from neighboring countries become very large for Japan and it will be much stronger in the future. The stronger gravity will change Japan’s trade and industrial structure.

The ratio of export to GDP is about 14% in Japan, while that in Germany is about 38%. The reason for this big difference is obvious. Germany has been surrounded by large market for many years and it can enjoy large amounts of trade with these countries; gravity has been very strong for Germany for many years. Gravity has become strong only recently for Japan, but it will become stronger in the future.

Increasing gravity in Asia triggered the change in industrial structure in Japan. The industries like automobile and electronics will make more investment abroad and expand their networks in Asia. A large portion of their production in Japan will be replaced by production in Asia outside of Japan. Exports of the assembled products such as automobile and electronic products from Japan may shrink and there will be more assembling activities outside Japan. Japanese export will shift from assembled products to intermediate goods and to capital goods.

Gravity model also suggest increasing opportunities for Japanese consumer goods. We have already observed increasing sales of Japanese consumer products such as cosmetic goods, OTC medicines, daily necessities, and processed foods. It is difficult to imagine exporting these goods to the United States or Europe; it is a long distance for the trip of the products and there are many strong competitors in these markets. Short distance from Japan and the scarcity of competitive local indigenous firms to supply consumer products in the Asian market provide various opportunities for Japanese companies.

The number of middle income is expanding rapidly in the Asian countries. According to

the study in NIRA (National Research Advancement) in Japan, the number of middle income family and wealthy family, that is, the number of people whose income is larger than 5000 US dollar, was 235 million in 2000, 1080 million in 2010, and will be 1964 million in 2020. Take the case of China, for example. Its GDP increased three times between 2000 and 2010, but the number of middle income and wealthy people increased almost eight times. We can identify that large number of people moved from the position of poor family to middle income family or wealthy family. The expansion of middle income family provides great opportunities for Japanese consumer products; exports of these goods will expand rapidly.

Increasing number of people in Japan seem to worry about hollowing out of the Japanese economy in the face of expanding overseas investment by the Japanese firms. However, hollowing out argument is doubtful. It is true that such industries as automobiles and electronic products will shift their assembling activities to neighboring countries. However, gravity provide increasing opportunities for the Japanese consumer products and it also triggers changing industry structure toward intermediate goods and capital goods. It is needless to say that FTA policies I mentioned before is vital for Japan to take advantage of the gravity factor in the Asia-Pacific region.

Japan and Taiwan are located in the midst of changing economic environments in the Asia Pacific. It is crucial for the two countries to catch up with whatever changes arise in this region. It was not possible for Taiwan to negotiate any free trade agreements in the past due to China's policy towards Taiwan. ECFA was a critical turning point for Taiwan's trade policy. It not only expands economic integration between Taiwan and China, but also will provide more flexibility for Taiwan's economic relation with other countries. It does not seem easy for Taiwan to accomplish any free trade agreements with other countries, but Taiwan should continue its effort to push forward its FTA with other countries. Dynamics of various FTAs in this region such as TPP and ASEAN plus 3 (or 6) may provide Taiwan to jump in this trend.

It is not realistic to think of FTA or EPA between Japan and Taiwan at this moment, but economic relations between the two countries can be made deeper by many other policies. The two countries have already achieved various things; easing visa restrictions, open sky agreement and increasing movement of people between the two countries. Japan's tariff barriers are very low except a few items of agricultural products. Taiwan can take advantage of Japan's low tariff

barriers without FTA. Other liberalization measures can be negotiated without FTA. The two countries should continue efforts to expand movement of people and investment between the two countries and to discuss various policy issues. Cooperation and coordination in such areas as health care, education, tourism, financial market will be meaningful for the two countries. Deeper integration can be achieved without comprehensive EPA or FTA.

Column

A brief introduction to a political economy for

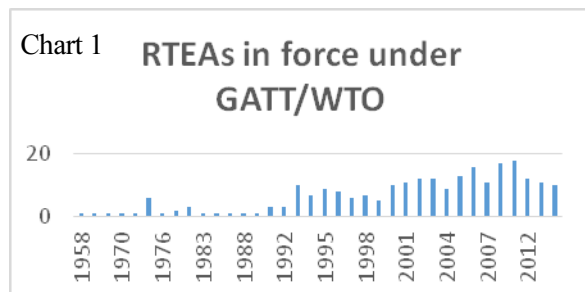
regional trade/economic arrangements

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The number of regional trade and economic arrangements throughout the world has been increasing dramatically since the early 1990s, triggered mainly by the extension of the European Union and the introduction of the North American Free Trade Agreement (NAFTA). According to a World Trade Organization (WTO)¹ report, there were 242 regional trade and economic arrangements (RTEAs) worldwide at the end of October 2012.



Currently, more than 10 RTEAs are in force every year (see Chart 1). These RTEAs cover trade in goods as well as in services and wider economic interactions (see Table 1).

Table 1

Coverage	Before 2001	After 2001
Goods & Services	14	93
Goods	74	60
Services	1	0
Total 242	89	153

In Asia, China has 12 RTEAs, Japan has 13, Korea has 8, ASEAN has 6, and Taiwan has 4. However, there are no Asian RTEAs that include the two economic giants of the region: China and Japan, although various ideas or plans have been proposed. Thus, the situation here in Asia is clearly different from that of Europe or North America.

In this column, I would like to provide some suggestions for the political and economic conditions necessary for each participating country to accept a RTEA. Countries in Asia should take into account these conditions and make efforts to satisfy them if it will take some time. I believe that, basically, the future of Asia depends on this task.

Before understanding the political and economic conditions for a RTEA, we should first consider five implications of a RTEA for participating countries: The process of the elimination of economic national borders; the elimination of discriminatory treatment against member countries'

¹ <http://rtais.wto.org/UI/PublicMaintainRTAHome.aspx>

economic activities; then, to some extent, a limitation of sovereign rights; in due course, the development of a supra-national legalistic entity; and, as common political and societal environment, the consolidation of peace by controlling narrow nationalism—although the implications may vary in their implementations.

Next, I turn to presenting a formula of regional trade/economic arrangement that will help to understand the conditions necessary for a RTEA. The formula for the dependent variable for a country *i*- RTEA_{*i*} - is defined by a function consisting of four independent variables.

$$RTEA_i = f(P_i > 0, E_i > 0, M_i, T_i)$$

Each participant's P>0 and E>0 are the basic requirements for the realization of the RTEA

P = political net benefits for a participating country

E = economic net benefits for a participating country

Depth of RTEA will be determined both by the level of M and T

M = level of mutual economic interdependence

T = level of trust for societal/economic institutions and political synthesis with partners

Then, the aggregated $\sum_{i=1}^n RTEA_i$ would shape the negotiated results of the RTEA.

Both P and E should be a plus for each participating country. However, those variables may well be based on the perceptions of politicians, the mass-media, and interest groups. Even if E is much larger than zero, P is a critical factor in moving toward a RTEA.

P=political net benefits	E=economic net benefits
P = Total and each [Gain + Loss] > 0	E = Total [Gain + Loss] > 0
International political situation ✧ Long-term > 0, Short-term > 0 ✧ Bilateral > 0, Regional > 0, Global > 0 ✧ Domino effects of surrounding RTEAs Domestic political situation ✧ Political power game (election) > 0 ✧ Reflections of international political situation > 0 ✧ Reflections of economic net benefits > 0	Short-term gain & loss -> easy to complain about loss ➤ Loss = Concentrated in specific sector, say, in agriculture, hotbed of protectionism ➤ Gain=Silent compared with Loss Long-term gain (welfare) -> difficult to identify ➤ Dispersed in various economic sectors ➤ Hopefully, recognition of mutual economic dependence

Then, both levels of M and T will determine the depth and width of the RTEA.

M=level of mutual economic interdependence	T=level of trust for societal and economic institutions and political synthesis for partners
<ul style="list-style-type: none"> •Level of de facto interdependence •Each business may know them, but... •Aggregation of each interdependence and visualization by measurement -> difficult •Furthermore, the future of mutual economic interdependence may be unpredictable because of unforeseen societal and political changes in each country. 	<ul style="list-style-type: none"> •Elements of trust for institutions <ul style="list-style-type: none"> -Common vices and virtues of economic/business trades -Common trade rules (WTO, IMF) -Trust for enforcement of laws/rules -Common political system -Common societal norms (democracy, freedom) -Perception of historical relations that could disrupt better relations -Shared views toward political synthesis

Lastly, I present an example of a P and E matrix. I hope readers will begin to think about the matrix and improve the formula of the RTEA and P&E matrix.

P&E matrix of RTEA		Political Net Benefits	
		Strong	Weak
Economic Net Benefits	S	EU (Now), NAFTA, ASEAN-Japan, TPP (for U.S.), ECFA ² ,	CJK-FTA (China, Japan, Korea) ASEAN+3 ASEAN+6 (RCEP) TPP (for Japan)? FTAAP now?
	W	EC (Initial), ASEAN, Singapore-Japan, China-ASEAN	

² ECFA=Economic Co-operation Framework Agreement (China and Taiwan)

2. Viewpoint from a Domestic Politics Perspective

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1. Introduction

This dialogue began in September 2009, just after the new DPJ government had been established in Japan. Since then three prime ministers, Yukio Hatoyama, Naoto Kan, and Yoshihiko Noda, formed cabinets and left office within a year or so, respectively. After three years and four months of DPJ governments, the LDP came back to power with Shinzo Abe as prime minister.

The aim of this chapter is to analyze the domestic politics of Japan during the period of this dialogue, thus to examine the DPJ administrations. As the aim of the report is to consider Japan-Taiwan relations from various perspectives, the relationship between domestic politics and Japan-Taiwan relations should also be discussed here. However, the hectic changes in Japanese politics had almost nothing to do with Japan-Taiwan relations, which is surprising in itself. We can interpret it as evidence of the stability of Japan-Taiwan relations, or, alternatively, as evidence of our inability to change the most fundamental factor for Japan-Taiwan relations, namely China. In any event, understanding domestic politics is indispensable to understanding foreign policy, because foreign policies are often the outputs of domestic politics. Even if domestic politics had little to do with Japan-Taiwan relations during 2009-2012, examination of domestic politics may help in understanding Japan's foreign policy in the future.

At the outset, let us take a look at the ups and downs in the approval ratings of the three cabinets mentioned above.¹ In September 2009, when Yukio Hatoyama formed his cabinet, his approval rating reached 75%, one of the highest in modern times. However, it went down quickly to 20% in May 2010.

When Naoto Kan succeeded Hatoyama, his approval rating rose sharply to 64%, but did not reach the highest for Hatoyama. It dropped sharply again to 38% at the Upper House election in

¹ Opinion polls in this chapter are all from the *Yomiuri* newspaper, but the differences with other major papers are surprisingly small.

July 2010, but rose again to 67% when Kan beat Ichiro Ozawa in the DPJ presidential election in August 2010. It dropped again below 30% in December, where it stayed for several months, and then down further to below 20% in August before he resigned.

Yoshihiko Noda also started with a high approval rating of 65%, which dropped to 30% within 5 months in February 2012; it then stayed around 30% and dropped further to below 20% in November 2012 before he declared the dissolution of the Lower House.

On the other hand, approval ratings of the DPJ remained higher than that of the LDP for most period of the period. During the Hatoyama and Kan administrations it was considerably higher than that of the LDP, and even during the Noda administration it was slightly higher than that of the LDP. As of February 2013, the approval rating for the DPJ is below 10%, trailing the Ishin party, while the rating of the LDP is higher than 40%.

This shows how high expectations were for the DPJ. It was given three chances, and betrayed the expectations of the people all three times. It revived the LDP, and the DPJ is now on the verge of collapse. I would like below to discuss how these dramatic changes took place.

2. Hatoyama cabinet

When the DPJ won the Lower House election in August 2009, its manifesto included some very difficult policies to implement.

One of those difficult policies was the child allowance: the DPJ had promised to give ¥26,000 a month per child. There were many criticisms against this: it was too generous considering the already huge budget deficit that had accumulated; some kind of ceiling should be introduced so that rich families would not receive the allowance; and building and improving nurseries and kindergartens would be more effective as support for having and raising children, etc. Though the Hatoyama government made some modifications, it basically tried to implement what they had promised in their manifesto while being unable to cut the budget by 10%, as promised, to squeeze the money to implement new policies such as the child care allowance.

The second important issue was the Okinawa base issue. After long negotiations the US and Japan had agreed in 2002 to move the Futenma base for the Marines from its current location in an urban area to Henoko. The DPJ manifesto also promised to move the base in Futenma, but Hatoyama told the public many times during the election campaign in 2009 that the Futenma base

should be moved somewhere out of Okinawa prefecture, or out of Japan.

After becoming prime minister, Hatoyama repeated the same point and changed his remarks several times regarding timing. Moreover, he was unable to control other ministers such as the defense minister and foreign minister from making different remarks in terms of timing and location. The cabinet fell into terrible confusion over this very sensitive issue.

Underlying this issue, there was a concept about the future of Asia. Hatoyama pointed out that Japan should try to establish an East Asian community. He thought that Japan had relied on the US too much—actually, he clearly said so before the leaders of China and South Korea.

While Hatoyama was stymied by troubles in his most basic policies, budget, and the alliance, he and Ozawa, secretary general of the DPJ, were attacked over possible infractions of campaign contribution laws. On June 2, Hatoyama revealed his intention to resign, asking Ozawa to resign together.

3. Kan cabinet

After Hatoyama resigned as the party leader, Naoto Kan was elected. Kan made three points that differed from his predecessor: commitments to financial discipline (Kan was finance minister before becoming prime minister), to the US-Japan security treaty, and to cleaner campaign financing.

However, the commitment to financial discipline had to include a consumption tax hike, which is a very difficult issue in almost all the democracies. Moreover, Kan was not well prepared about the details and unable to respond to some technical questions. This commitment to the consumption tax hike without preparation became a target of the opposition parties and the DPJ was unable to win the Upper House election in July 2010. However, the total number of votes cast for the DPJ was more than that of the LDP. The loss of seats was due to the distorted election system. In other words, expectations for the DPJ had not fallen so badly, which is why the support rate for Kan rose again in September when he won the party leader election against Ozawa, the man behind the scenes.

However, Kan was unable to move ahead with his policies after being re-elected in September. This was partly because of strong opposition from Ozawa, who was supported by roughly half of the diet members. Another reason was the crisis over the Senkaku islands in

September and criticism from the LDP that resulted in the resignation of Minister of Land, Infrastructure, Transport and Tourism Sumio Mabuchi and, more importantly, Chief Cabinet Secretary Yoshito Sengoku, who was the key man in the DPJ, particularly on the anti-Ozawa group.

And there was the Tohoku earthquake. Kan was not able to contain the crisis of Fukushima Daiichi and to tell the people the truth in appropriate fashion. As the top leader, he was definitely responsible for the accident. However, it would be unfair to criticize Kan alone. The fundamental reasons for the crisis were created under the LDP: the lack of an effective government control system over nuclear power plants; a fragile cooling system; mislocation of emergency electricity sources, etc. Had any LDP leader been in power, the result would not have been much different.

Though Kan proposed to form a grand coalition with the LDP, it was rejected by the LDP because the general election would be near and the LDP could expect a victory over the DPJ—a more favorable prospect than a grand coalition. On this occasion Ozawa secretly joined the LDP and tried to bring Kan down, but failed. Kan survived by promising to resign soon.

It is interesting to see that Kan's so-called lack of leadership in crisis did not cause much damage to his approval ratings. Instead, there was even a minor recovery of his approval ratings in May and June—probably because of his decision to shut down the Hamaoka power plant.

4. Noda cabinet

On August 29th, Yoshihiko Noda was elected as the DPJ president to succeed Kan. Noda was second after Banri Kaieda, backed by Ozawa, but won in the second round 215-177. The number of the votes cast for Kaieda accounted for approximately 45% of DPJ Diet members. Ozawa's power was waning some, but still formidable.

Noda had been committed to financial discipline for years. At the same time, he was a strong supporter of free trade from his early years, and naturally tried to join the Trans Pacific Partnership negotiations. On these two policies, Noda was very far from Ozawa. However, he proposed a politics of “no side”, or solidarity, among the party members, and appointed Azuma Koshiishi, an Upper House member and a veteran leader of the Japan Teachers Union, who was regarded as close to Ozawa as the secretary general of the party.

Noda patiently tried to persuade the opposition parties and opposing factions within the

party. On June 21st, the DPJ, LDP, and New Komei party agreed on tax and social security reform, and the bills for the reform passed the Lower House on June 26th and the Upper House on August 10th.

However, Noda was unable to persuade the opposing factions within the DPJ. On July 11th, 37 members of the Lower House and 12 members of the Upper House left the DPJ and formed a new party under Ozawa (People's Life First Party). It was a severe blow to Noda.

Moreover, Noda's decision to nationalize the Senkaku Islands (purchase of the islands by the government from a private citizen) in September 2012 invited a series of fierce attacks from China.

Also, Noda made several mistakes in appointing his ministers. He had to accept proposals from Koshiishi because management of the Upper House was now more difficult and he had to give ministerial posts to many members based on the number of their successful elections because there was no solidarity among party members. As a result, some ministers made inappropriate remarks and were forced to resign. It was a severe blow to the cabinet.

On November 16th, Noda suddenly revealed his intension to dissolve the Lower House to listen to the people's voice. But the voice was very different from what he had expected.

5. Conclusion

What went wrong with the DPJ? Some people claim the power struggle between Ozawa and anti-Ozawa explains everything. But it was not a power struggle absent of policies. Rather, because the basic policies of these two groups were so different, they could not stop fighting.

However, there were also many different ideas within the LDP, from left to right in foreign and defense policy, for example. Keiseikai vs. Seiwakai has been a point of conflict for many years.

Secondly, some people say that the DPJ has no platform. But the LDP did not have a platform until recently either. I may also add that when the LDP was established in 1955, the rallying point was the revising of the Constitution, which has not yet been attempted. The lack of a platform is common, therefore, and its presence not necessarily a solution.

Thirdly, some say that the DPJ's manifesto was the cause of trouble. The 2009 manifesto was prepared under Ozawa's leadership. It included some very populist policies such as the child

allowance, direct support for farmers, and the removal of the base from Okinawa. Still, it would not have been impossible to modify this manifesto. Hatoyama could have prioritized the policies, but he did not try to do so.

They were extremely naive about governmental power. They thought the prime minister's office was omnipotent, which was not the case. The LDP members knew well how difficult it is to implement policies. They also knew how sweet it is to be in power and how bitter to be out. Therefore, when they were forced to choose implementation of their policies or remaining in power, most LDP members used to choose the latter, sacrificing their own policy goals.

In other words, the DPJ members did not have party discipline. In order to implement difficult policies, they needed to make compromises, which they did not.

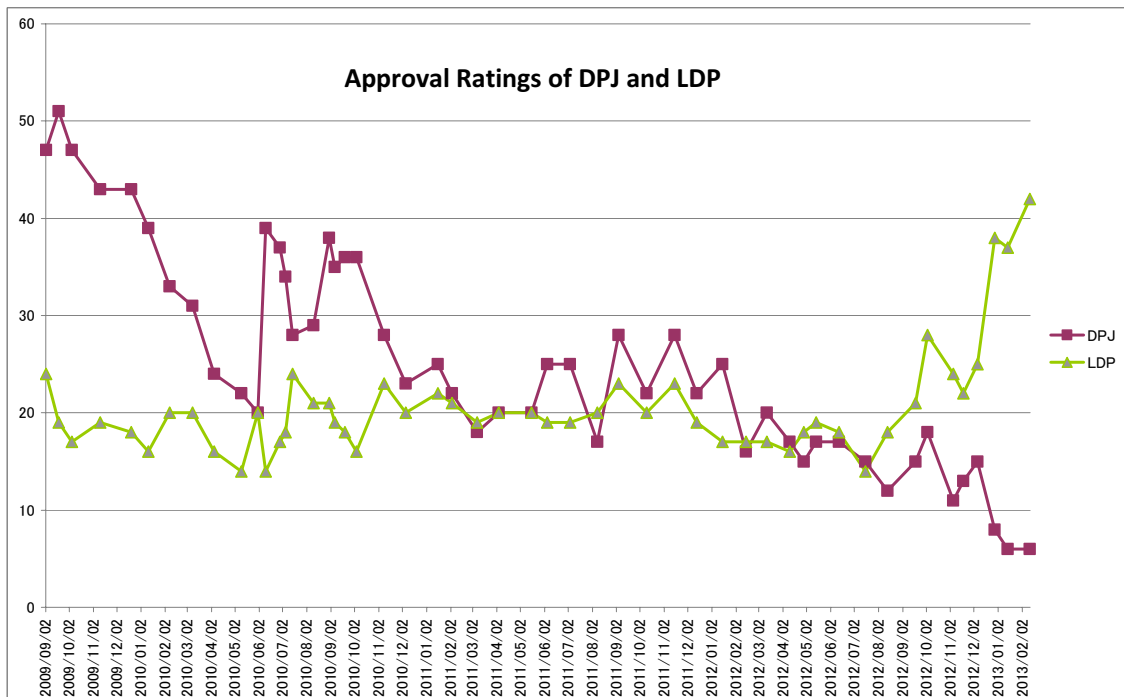
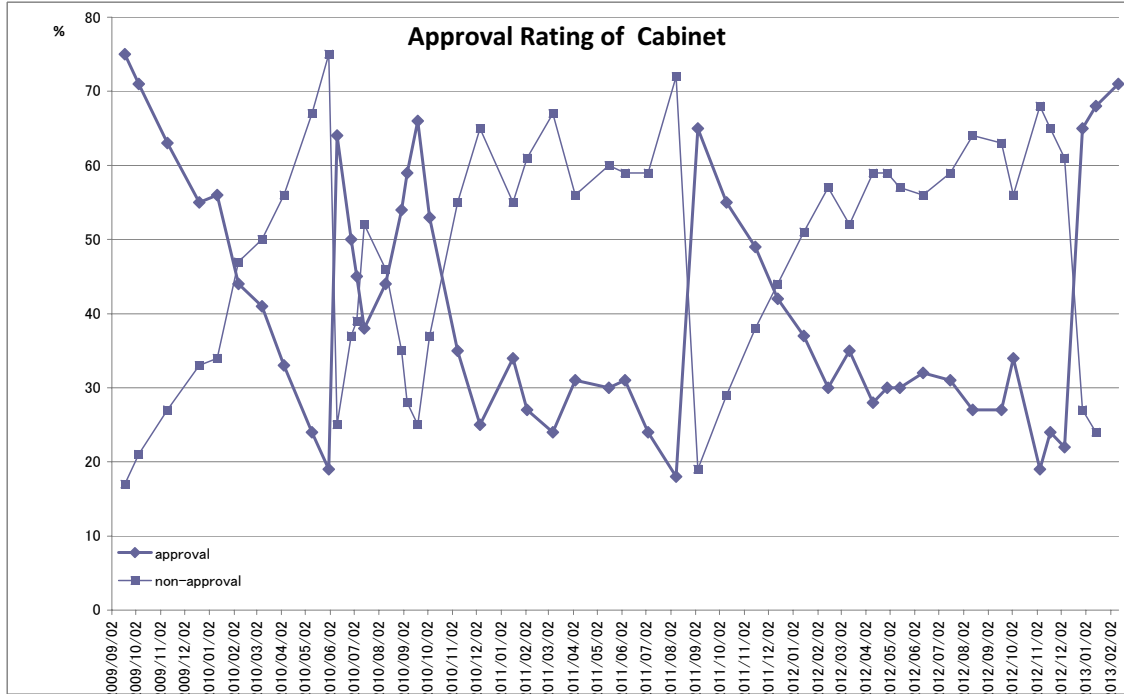
The DPJ was a party in which many groups united to compete with the LDP. There was no solidarity or identity. It was the same in the LDP. But LDP members knew how to implement policies, and how difficult it is to remain in power.

It was ironical that the man who had been most concerned about the lack of experience among DPJ members was Ozawa. That was why he tried to organize a grand coalition with Yasuo Fukuda in 2008. He is reported to have said that DPJ members were so inexperienced that they should have some experience within the government.

Ozawa once proposed to raise the consumption tax that was then 3% to 10% in his book, *A Blueprint for New Japan*, published in 1993, and won international fame for his brave idea. He also proposed in the same book that Japan should delete legal obstacles against its defense policy so that could actively participate in many activities such as UN peace-keeping operations. The past Ozawa has vanished many years ago, and the newly reborn Ozawa is also disappearing from the main scene of the Japanese politics.

Mr. Abe was supported by the right wing group within the LDP, but they know how dangerous it is to proceed as promised. They also remember how hard it was to be out of power. Therefore, to the extent they realize how difficult it is to lead the nation, the Abe cabinet may get off to a good start. But if they feel that there is no firm opposition, they may become complacent and lose their gains. Japan needs a responsible opposition to challenge the government. Whether or not the DPJ can remain as the major challenger is not yet clear.

[Appendix] The three charts blow (“Approval Rating of the Cabinet,” “Approval Ratings of DPJ and LDP,” and “Abbreviated Chronological Table of Political Change 2009-2012”) were made by the author.



Abbreviated Chronological Table of Political Change 2009-2012

Date	Event	Result				
2009/8/30	DPJ's landslide victory at Lower House election.	DPJ: 308 seats (+195)	LDP: 119 seats (-177)	Total: 480 seats		
2009/9/16	Yukio Hatoyama was nominated as the 93rd PM.					
2009/9/28	Sadakazu Tanigaki won LDP Presidential election.	S. Tanigaki : 300 votes	Taro Kono: 144 votes	Yasutoshi Nishimura: 54 votes	Total : 499 votes	
2010/6/2	Hatoyama revealed his intention to resign.					
2010/6/4	Naoto Kan won DPJ Presidential election.	N. Kan: 291 votes	Shinji Tarutoko: 129 votes	Total: 423 votes		
2010/6/4	Kan was elected as the 94th PM.					
2010/7/11	DPJ was defeated at Upper House election, creating a "twisted" parliament.	DPJ: 106 seats (-10)	LDP: 84 seats (+13)	Total: 242 seats		
2010/9/14	Kan defeated Ichiro Ozawa at DPJ bi-annual Presidential election.	N. Kan: 721 points	I. Ozawa: 491 seats	Total : 1212 points		
2011/1/14	Kan revamped his cabinet.					
2011/8/26	Kan revealed his intention to resign.					

2011/8/29	Yoshihiko Noda won DPJ Presidential election.	round 1	Banri Kaieda : 143 votes	Y. Noda: 102 votes	Seiji Maehara: 74 votes	Michihiko Kano: 52 votes	Sumio Mabuchi : 24 votes	Total: 395 votes	
		round 2	B. Kaieda: 177 votes	Y. Noda: 215 votes					
2011/8/30	Noda was nominated as the 95th PM.								
2012/9/21	Noda won DPJ bi-annual Presidential election.	Y. Noda: 818points	Hiroataka Akamatsu: 123 points	Masahiro Haraguchi: 154 points	M. Kano: 113	Total: 336 points			
2012/9/26	Shinzo Abe won LDP Presidential election.	round 1	S.A be: 141 votes	Shigeru Ishiba: 199 votes	Nobuteru Ishihara: 96 votes	Nobutaka Machimura: 34 votes	Yoshimasa Hayashi: 27 votes	Total : 498 votes	
		round 2	S. Abe: 108 votes	S. Ishiba 89 votes	Total: 198 votes				
2012/11/16	Noda dissolved lower house.								
2012/12/16	DPJ's catastrophic defeat at Lower House election.	LDP: 294 seats (+175)	DPJ: 57 seats (-251)						
2012/12/25	Shinzo Abe was nominated as the 96th PM.								
2012/12/25	Banri Kaieda won DPJ Presidential election.	B. Kaieda: 90 votes	S. Mabuchi: 54 votes						

Trend of Taiwan's Internal Politics and Implications

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1. General Trends of Taiwan's Internal Politics

(1) Taiwan's economy has a sign of revival recently

Like most the Asian export-driven economies, Taiwan's economy was severely damaged and retarded by the international financial tsunami in 2008, its trade surplus shrank due to the unstable economic situation in both United States and Europe. Therefore, Taiwan's export growth rates were 3.6% and -20.3% in years of 2008 and 2009, respectively—these were both depressive to the government and households. Besides, Taiwan's import growth rates were only 9.7% and -21.4, in those two years. Trade balance was -44.6% in 2008, jumped to 93% in 2009, but again dropped to -20.3% in 2010. Also, international trade at that particular time showed a trend of instability and uncertainty, making Taiwan under heavy pressure and frustration. Almost 70% of Taiwan's GDP has been hinged on exports, hence Taiwan's government and citizens are worried about whether the international economy can be smoothly revived. In the same period, Taiwan's economic growth rates also witnessed fluctuations in that the increasing rate dropped from 6% in 2007, 0.7% in 2008, and again -1.8% in 2009. This has been the basic retrospect of Taiwan's economic performance for the last several years. Under these circumstances, Taiwanese citizens strongly felt economic stagnation or recession, making them anxious to their economic perspective. Taiwan's economic growth rate in 2012 was only 1.25%, i.e., lagging far behind of the plan predicted by the government, therefore the Year of the Dragon (2012) in fact did not bring about better news in Taiwan's economy.

In Taiwan, major economic challenges ahead cover both public and private sectors. Taiwan's public sectors are to support the private sectors to expand trade, provide accurate information of domestic as well as international markets, and reallocate financial and human resources with higher effectiveness, improve transparency regarding public policy, and sustain a fair and friendly environment for enterprises, and invest more in infrastructure construction so as to offset the loss of people's confidence. To private sectors, they have to seriously sharpen the competitiveness of their commodities, promote the leverage of technology and know-how

renovation, invest more financial resources into R&D, more access to the overseas and international markets. The European Union (EU) is still afflicted by the sovereign debt crisis, resulting in the retarded economic recovery. Due to the EU's setbacks, it is predicted that the global economy was to a great extent influenced. The recovery of the United States has been pivotal, too. President Barack Obama presented his State of the Union after the temporary victory against the "fiscal cliff," Obama advanced a vision at the Congress of an activist government that would raise wages and incomes, boost education and skills, and improve the climate for job creation. The recovery of American economy, however, may not be achieved overnight. In fact, Taiwan can be benefited by China's continuing prosperity and America's burgeoning economic revival. The Taipei government, therefore, has decided to endorse bigger investment in public sectors, spur the tourist industry, and promote the cross-Taiwan Strait (hereafter "cross-strait") trade—with these policies, it is forecasted that economic growth rate will be lifted at least to the degree of 3.5% in 2013. The government has been much confident and optimistic that Taiwan's economy will lead to a better shape, but this vision is to be proved. In a nutshell, international economic environment may not so friendly to Taiwan, result of Taiwan's economic development, however, will be one of the major criteria judging to what extent that the government can possibly be supported.

(2) Partisan struggles in Taiwan are too severe to reach accommodation

Taiwan's partisan politics are compelling, confrontational, and notably uncompromising due to the merging of ideological commitments and fierce political intrigues. There are 136 political parties in the end of 2008, the year when the Mr. Ma Ying-jeou came to power. It is obvious that Taiwan's partisan politics have been dynamic as well as vigorous. Most of the political parties are small ones that are least feasible in winning election campaigns. After several rounds of throat-cutting presidential and legislator's elections, Taiwan has entered into a bipartisan political system, namely the incumbent ruling Kuomintang (the Chinese Nationalist Party, or KMT) Party and the Democratic Progressive Party (DPP). In previous several years, the KMT and the opposition DPP have had tug-of-wars on issues like importation of American beef, whether if the nuclear electric plants should be built and disputes over each other's mainland China policy. The KMT was blamed to adopt "mainland China (PRC) tilting policy" at the expense of Taiwan's economic prosperity and national security. The DPP insists the KMT administration's mainland

policy should be replaced by somewhat cautious, or hostile attitudes. Instead, the KMT argues that Taiwan has been the beneficiary of accommodation and closer economic cooperation with the mainland, notably due to Taiwanese businessmen's involvement in economic activities of China, booming China's exports of commodities produced by factories owned by Taiwanese businessmen, and especially the increasing mainland visitors. The DPP, instead, warns the "rapidly growing dependence of Taiwan's exports over the mainland and the PRC's potential threat."

Lately, major strife between the KMT and opposition parties (the DPP, sometimes plus with "Taiwan Solidarity Union," or TSU) is focused on price lifts of oil and electricity, and higher living expenses. Taiwan has eased the ban on U.S. beef products containing a permissible level of ractopamine residue in July 2012, but one of the partisan struggles now covers whether if the United States is going to export American pork with the same defects. The DPP strongly demands that in the new round of negotiations under the Trade and Investment Framework Agreement (TIFA), scheduled to be held March 2013 in Taipei, the KMT government will keep the promise in ensuring food safety is not sacrificed for the TIFA talks. On the issue of construction and operation of the Fourth Nuclear Power Plant (FNPP) in Gongliao District of the New Taipei City, the DPP has been extremely firm that the Plant should be abandoned. The DPP joins with the opposition forces in opposing the FNPP and forges a fierce anti-government opinion. Ma Ying-jeou's administration has tried to push for the FNPP for the purpose of Taiwan's electricity, but many Taiwanese, shocked by the disaster of nuclear plant explosion in Japan's Fukushima area in March 2011, strongly demand the reversal of the decision. They ask the central government to cease the construction of the FNPP, blockade the US\$1 billion additional budget for the project, stop adding fuel into the reactor, facilitate the retirement of the three nuclear power plants now are running. Their position helped to arouse citizens' introspection about whether if Taiwan can or should abandon nuclear plants. Citizens living in northern, central and southern Taiwan held a joint demonstration on March—it was reported that more than 200,000 citizens participated into the parades in opposing the continue construction of the FNPP. The demonstration became a thermometer of people's attitude toward the nuclear plants. The KMT government has decided to resort to a referendum in solving this tense confrontation between the pros and cons. The referendum will be the guideline about the destiny of the FNPP.

(3) Gap between government and citizens is to be narrowed

The incumbent government has been labeled as “having less transparency” when launches public policy and “considering less” about the public opinion. Ma denies these charges and insists his reform-determined mentality and firmness in carrying them out. Ma Ying-jeou has reiterated that he has to prevent what happened in Europe from occurring on Taiwan. What he mentioned include sharpening of the competitiveness of the Taiwanese products, curtailing the government spending, and cut of the pension given to the retired government employees. Ma may be a determined reformer, but his government has been criticized not communicate with those people concerned or have them consulted before the decisions were made. Especially the pension reform has been against the benefit of the retirees, they feel that they are deceived, or even betrayed, by the KMT government. Taiwan’s salary system has made Taiwanese labor income lower than most of the Asian counterparts, they therefore often complain their poor pension if compared with those of the government retirees. Ma chose to echo the appeal of the labor unions, but Ma is unable to lift the labor wages, the government instead cut the pension of the government retirees. Since this policy has been strongly “supported” by the DPP, the government retirees have felt extremely frustrated and felt displeased. Curtailing the pension of the government retirees did not make labors better off, since the minimum wages are kept static. Labors continue complain about the widening gap between the rich and the poor. Some other abrupt changes or relapse of public policies also invite suspicion and heavy criticism from people. For instance, indecisiveness on stock revenue tax again results in severe attacks from business and opposition parties, and also public.

(4) Corruption of officials damaged Ma’s pledge of clean government

President Ma pledged to build up a clean government when he ran for the presidency in 2008, and he led the KMY in winning the campaign. One of the many reasons Ma won the presidency was the his oath of establishing a clean government made a remarkable difference when compared with the numerous corruption cases found in the former Chen Shuei-bian’s administration. Even Mr. and Mrs. Chen Shuei-bian were accused by the prosecutors of “collecting illegal financial donation” via intervening into the merger of business banks. Corruption of Chen’s family alienated Taiwanese confidence upon the DPP government and provoked several rounds of anti-Chen’s

demonstrations, particularly after 2006. Mr. and Mrs. Chen were recently convicted to 20 years in prison. Ma himself has been impeccably clean. Mrs. Ma, for instance, retired from bank since Ma took over presidency. Ma's two daughters are far from political activities, or even not in public. Ma took power in 2008, it was that year that international financial tsunami hit the Wall Street and scattered to most part of the Asia and Europe.

Taiwan's economy was under severe attacks of recession caused by the shrinking exports. Further blow such as serious competition from mainland China and Southeast Asian countries made Taiwanese commodities lost their previous markets. Taiwanese people did not blame President Ma for these adverse circumstances and thought that they could pass through these ordeals. Unfortunately, corruption of high-ranking officials again found in Ma's administration, which severely tarnished Ma's pledge of building a clean government. In the year 2012, some government officials, including Secretary General of the Executive Yuan, were found guilty in acquiring bribery. Officials' involvement in bribery and power abuse caused prevailing resentment and lack of confidence of the people to Ma's administration. Multiplied by the worsened gap between the rich and poor, sky-rocketing prices of real estate, lifting cost of living expenses, fear of being lay-off or unemployed, people become gradually disappointed to the performance of Ma's government. Nowadays, Ma's approving rate, according to the mass media, has dropped to somewhere between 13% and 18%, the lowest ever since Ma became the national leader.

(5) Ma attacked by oppositions and media, the KMT may lose future elections

Since his inauguration on May 20, 2012, Ma Ying-jeou began his second term as Taiwan's national leader. In his inaugural speech, Ma stressed that his government will continue to carry out reforms he has put in place over the next four years, ensuring that Taiwan remains a nation that enjoys the benefits of peace, justice and prosperity. He said he will promote its competitiveness through enhancing the drivers of economic growth, creating employment and realizing social justice, developing an environment characterized by low carbon emissions and high reliance on green energy, building up culture as a source of national strength, and taking active steps to cultivate, recruit and retain talents. Taiwan's people may have understood Ma is well-determined to carry out reforms, there are not enough citizens appreciate these reforms since most of them are worried about their being worse-off in the process of reforms. Many of the reforms include cut of pensions of the

government retirees, cut of the government's subsidies for energy that causing price lifts of both gas and electricity, and freeze of labor's minimum wages, extra payments for health insurance, and extra taxes for people's stock revenues, among others. People would think Ma's government has been either conservative or recalcitrant in pushing for public policies. To labors, Ma's freezing minimum wages is regarded as conservative so as to be obedient to the interests of the corporation owners at labors' expense.

Ma's other reforms have been described as recalcitrant due to lacking of intensive communication with either public or legislators. Ma's policy often mobilizes the KMT legislators to support his reform plans into bills, but most of them opposed even by the ruling party legislators. Ma may have treated the KMT party as an electorate machine during local as well as presidential elections, the partisan legislators feel in contrast that they are merely asked to back up the president's policies within the parliament. The KMT legislators, therefore, often complain that they "do not feel sufficient respect from the president." The malfunction coordinating in between the legislative and executive organs shows that the government is incapable of defending its public policies, nor does it persuading or attracting citizens' support. For the last several legislative as well as county major elections, the ruling KMT lost several seats. The KMT's recent losses regarding this may have encouraged the DPP that the opposition forces will possible win more seats in the "seven-in-one local elections," i.e., councilors for 5 cosmopolitan cities (including Taipei, New Taipei City, Taichung, Tainan and Kaohsiung), and other counties, plus all mayors, in the year 2014. The 2014 election will definitely be crucial for both the KMT and the DPP, because the election will be the criteria gauging for the next presidential election in 2016. Neither the KMT nor the DPP can afford to lose such a general election in 2014.

(6) Taiwan's economic/trade dependence upon China's continue to increase

Although Taiwan benefited from large amount of surplus each year, Taiwan's economic as well as trade dependence upon China has increased into an alarming situation. Seeing from the Figure 5, one can comprehend the general trend of the cross-Taiwan Strait trade interflows. Taiwan's commodity export to China grew steadfastly from 1990 except for 1998 due to the widespread Asian financial crisis. Taiwan's export to China increased 17.2% in 2007, but dropped 0.4% in 2008, and again decreased 16.1% in 2009. China's robust economic growth accelerated

the cross-strait trade again, for the volume sharply increased 36.6% at the amount of surplus at US\$48.88 billion in 2011, and 7.4% at the surplus of US\$47.50 billion in 2011. The Taiwanese side made remarkable revenue from conducting trade with the mainland, but in the meantime one can notice that there exists an even rapid dependence of Taiwanese trade on the mainland. Taiwanese companies have continued evacuating from Taiwan due to the unfriendly enterprise environment like higher labor cost, strict regulations for environmental protection, pressure of the labor's unions, and, overseas competition, and, most of all, decreasing profits. Some economists, joined with local labors, strongly demand that domestic consumption should be increased, or technological level and competitiveness should be augmented so as to cope with the severe challenge from the mainland. The DPP instead focuses primarily on the danger or threat that caused by the rapid economic integration with the mainland China. The DPP strongly demands that the government shall help the businessmen in diverting their destinations of investment lest this trend should endanger Taiwan's national security. Therefore, the DPP's previous policy underlined by the "No Haste, Be Patient" tactics has resumed in their fierce struggles against the ruling KMT government.

(7) Ma's administration has been often criticized as "ineffective"

In his first term as president, Ma's administration encountered several natural disasters like typhoons and flood, and particularly the deadly mud-flood. In 2008, first year of Ma's first tenure, a mud-flood caused several hundred casualties in a village of Southern Taiwan. Government's ineffectiveness in evacuating people from the flood, and flaw disaster management caused widespread blame from the public. Some high-ranking officials were forced to step down. In fact, Taiwan is on the verge of the Pacific Ocean and is vulnerable to natural disasters like earthquakes and typhoons. Natural disasters in Taiwan often cause heavy loss of people's property and lives. Previously the government was easily blamed for not being able to guarantee the quality of public construction such as dams, banks or shelters. Recently the government has been instead criticized for not being able to coordinate among different levels of governments or branches for better management of natural disasters.

Public opinions are sometimes found not noticed by higher-ranking officials, and subordinators are found not so obedient to their superiors. The municipal officials often challenge

the authority of the central government. They often argue about the ratio of the financial share of the total government spending, but not focus how to improve the coordination horizontally between the higher and lower bureaucrats or to play as bridges vertically between the local and central governments. Some municipal mayors in Taiwan act like that they are “clans” that fight for their local interest, while insist the central government pay more but interfere least. Especially when natural disasters occur, the central and municipal or local governments blame one another finding way out and exempting themselves from bearing responsibility. They usually find faults with each other but less function will be carried out. Different levels of governments may blame each other, but ordinary people blame Ma, criticizing his being soft and indecisiveness.

(8) Reshuffle of the Cabinet may not solve critical problems ahead

Relations between the Pan-Blue and Pan-Green are still chill, for two camps have little consensus in major public policies, and are not willing to cooperate. Partisan struggle in Taiwan is statically very serious. Sean Chen, Ma’s first premier during his second term, stayed for only less than a year. Sean Chen resigned for health problems, but pundits in Taipei commented Chen’s replacement was primarily owing to the failure of coordination of his own governmental apparatus and naturally the fierce attacks from the opposition forces. The DPP demands the ruling government agree to convene a “national affairs conference,” in which all political parties can have dialogues on major issues of mutual interests. The government replies that the normal channels are already enough for such a function and suggested a “Jiang-Su Meeting,” i.e., the newly-sworn Premier Jiang Yi-huah and the DPP’s chairman Su Tseng-chang. Su declined Jiang’s suggestion, claiming the KMT “did not express it sincerity” since Jiang is not his counterpart from the KMT.

The Cabinet reshuffle is originally to help make a renovated image for the KMT government, Ma also tries to find some other appropriate officials to comply his own reform mentality in the future. Whether Jiang can build up a new vision with better achievement is still awaited to be seen. Commentary of the Taipei Times suggests that Jiang Yi-huah will face great challenges in 2013 seeking to revive the sluggish economy and restore public trust in President Ma Ying-jeou’s administration. Several of Jiang’s challenges will include the operation of the FNPP, TIFA talks with Washington, floating fuel price mechanism that sparked public complaints about price lift, and the public discontent over the flip-flop policy. Although Jiang, a Yale-educated

political scientist President Ma recruited from the Taiwan University, urged his cabinet members to communicate more effectively with the opposition parties and citizens, and to consider public reaction before designing policies—it seems that Jiang knows where the weaknesses of his predecessors really are. But it is still too early to predict that Jiang is fully able to cope with the rocky partisan struggle ahead.

2. Relations with Mainland China

(1) Ma's government has succeed in building up a stable cross-strait interaction

Ma Ying-jeou's government stresses stable relations with China based on "One China with different interpretations" ever since his first term as the president. He advocates the resolution that both sides of the Taiwan Strait "shall not deny the jurisdiction of the other although they may not agree to recognize the other's sovereignty." The PRC does not formally or explicitly agree with Ma's idea, but Beijing government does not bluntly challenge Ma's overtures. If compared with the former two Taiwan's presidents, i.e., Lee Teng-hui and Chen Shuei-bian, Ma has been much conciliatory vis-à-vis the mainland and less likely to adopt provocative policies to embarrass Beijing. During Lee and Chen's administrations, the cross-strait relations were down to the nadir and, worse than that, sometimes with imminent crises. Ma's government adopts the stabilization of Taiwan Strait as a key to Taiwan's security. This has made remarkable progress when Beijing decides to echo Ma's overtures and therefore paved way to the signatures of many bilateral agreements including the Economic Cooperation Framework Agreement (ECFA) in 2009. The two-way interactions between China and Taiwan are so intensive and beneficial to Taiwan's economy, including swarms of tourists from the Chinese mainland who have helped to revive the local business. Taiwanese people are generally supportive of Ma's mainland policy based on the continuous accommodation.

(2) Diplomatic confrontation between Beijing and Taipei has eased

"Diplomatic Truce" searched by Ma's government through his first term has reaped some conspicuous reward for Taiwan. There is scarcely throat-cutting diplomatic competition or warfare between Taipei and Beijing any more. Instead, Taiwan has been invited into the World Health Assembly (WHA) as an observer from 2009, the first time for many years that Taipei returned to an

international organization. Although the experience in the WHA may not be copied everywhere, it is likely that Taiwan's international participation can be broadened if the bilateral ties ameliorated. This trend can be added to be the ferment leading to better cross-strait interaction. Better Taipei-Beijing relations may also spur some unrealistic expectation of the Taiwanese people while they sometimes wishfully hope the PRC would offer more compromise or show more goodwill in allowing Taiwan join in more international organizations, or even international governmental organizations (IGOs). In fact the PRC's policy regarding Taiwan's membership in international organizations is cautious, rather than bold. Any of Beijing's policy shifts, if not pleased to the Taiwanese public, will cause a boomerang effect to Ma's government.

(3) Comments made by some China's officials often damage the bilateral ties

During the process of better interaction between Beijing and Taipei, some unfriendly comments expressed by China's high-ranking officials often caused resentment of the local Taiwanese. In a speech at the Cross Strait Economic Forum in Harbin, July 28 2012, Jia Qinglin, the head of the National People's Congress of Political Consultation, proposed the idea "Two sides of the Taiwan Strait as one country (liangan yiguo). To Jia, this comment was just his reiteration of "one China principle," but his comments caused confusion or protest of some Taiwanese citizens on China's intention. Opposition forces, especially the DPP, suspected that Ma's government failed to prevent Jia from advocating "absorbing Taiwan into China," or accused the government of "not protecting the Taiwanese interests." There are still some more cases that the Taiwanese felt that they were humiliated or taken advantage of by the Beijing side. Whenever the arguments happen, there always ignite new rounds of mutual attacks between Taiwan's ruling and opposition forces.

(4) Xi Jinping and Li Keqiang are ready to be the new leader, is Taiwan ready?

One of Taipei's major concerns on the mainland is the 18th National Congress of the Communist Party in November 2012 has reached a consensus that Xi Jinping and Li Keqiang would take over the two highest posts in March 2013, when the National People's Congress and the National Congress of Political Consultation elects them as the new President and Premier. The Xi-Li regime has come, Taipei has to concern about whether the positive outcome reached these years by the governments of both side can be maintained. It is reported that Xi himself has been

familiar to the Taiwan and cross-strait affairs. Although Xi has been firm in safeguarding the interest of the Chinese Communist Party (CCP), it is also said that Xi is unlikely to make abrupt changes onto cross-strait policy adopted by Hu Jintao. Economically China is expected to cooperate more with Taiwanese businessmen and purchase more commodities from Taiwan with which China plans to initiate friendship of Taiwanese people, especially citizens living in the south part of Taiwan—traditionally they are regarded as firm supporters of an anti-China opposition party DPP.

China under Xi and Li will possibly follow Hu's basis policy guideline like "fandu shengyu cutong" (to oppose [Taiwan] independence than to accelerate unification) so as to create an environment that prevents Taiwan from pursuing national independence. Xi is very unlikely to adopt provocative policy vis-à-vis Taiwan, either. Any sea change of China's Taiwan policy will not only influence the bilateral ties, but exert great impact onto Taiwanese internal politics. Nonetheless, it is still likely that Xi and Li government will gauge the possibility of early political dialogues between China and Taiwan, although Taiwanese side keeps a cautious or passive stance. To begin such a complicated and sometimes risky dialogue with Beijing, Ma has to resort to the firm support of the Taiwanese people but still difficult to reach consensus.

3. Taiwan's Relations with Japan

(1) Ma stresses closer relations with Japan as special partnership

Ma Ying-jeou visited Japan prior to his being the President. During his last visit, he exchanged views with many Japanese politicians in conveying his goodwill. Ma reiterated his willingness to achieve better ties with Japan is for sure. He also indicates that previous stereotype upon him as "anti-Japan" or "Japan-bashing" is incorrect. Ma's Japan policy, according to him, has been based on a framework "keeping intimate relations with the US, peaceful relations with China, and friendly relations with Japan (qinmei hezhong yourih)." Ma's government announced 2009 as the "Year of Special Partnership Relations with Japan" and pledged to strengthen Taiwan's comprehensive interactions with Japan. The reason why it is "special" is because two countries maintain close friendship although they do not diplomatic ties. Japan has therefore been highlighted as one of the most important relations Taiwan is to maintain.

In recent years, Taiwan has been Japan's fourth largest trading partner, Japan as second

largest trading partner of Taiwan. In addition, Japanese tourists visiting Taiwan often ranked as number two in Taiwan's total tourists, so is vice versa. Direct air link between Songshan Airport of Taipei and Haneda Airport and many others, since 2010, helped make their mutual visits more convenient and mutual cooperation easier. The visa-waive status that Taiwan and Japan mutually endorsed to each other shows their mutual trust and friendship. Under this amicable atmosphere, "Japan-Taiwan Investment Agreement" was also signed in 2011 facilitating cooperation of the two countries. Taiwan's better bilateral relations with Japan has been welcome by the Taiwanese people, they hailed to what President Ma has done to strengthen the Taiwan-Japan relations. Regarding the closer Taiwan-Japan ties, there exists no partisan struggle in Taiwan. The complex natural disaster happened March 11, 2011 gave tremendous damage to Japan, including more than 20,000 lives and countless property losses. Taiwanese were generous to give donation to help Japanese for recovery. Taiwanese donation exceeded 20 billion Japanese Yen, making Taiwan the largest donor in that single incident. This shows Taiwanese benevolence and generosity toward the Japanese people, which has been very much appreciated by Japanese people. When Japan commemorated the second anniversary for those people died in the March 11 complex disaster, Taiwan's Representative Shen Ssu-tsun, on behalf of his country, was invited to the ceremony and climb on the platform expressing his condolence. In contrast, diplomats from South Korea and China were both absent. Although under strong protest from Beijing, Japan kept firm regarding this invitation, which also witnessed Japan fully recognized and appreciated Taiwan's goodwill to Japan's aid.

(2) Taiwan and Japan have to rationally encounter issues of mutual interest

One of the many issues, or disputes between Taiwan and Japan rests in the overlapping maritime areas claimed by both sides. These areas cover most part of the Northern Taiwan, notably the Diaoyutai (Senkaku) islands area. The Japanese government insists it exclusive sovereign rights over the Diaoyutai islands and denies the controversy existed. What Japan has done is usually turns a deaf ear to Taiwan's requests for final solution. The maritime disputes and especially the attitude of the Japanese government have caused detrimental effect to the current Taiwan-Japan relations. Taiwan and Japan started their bilateral fishery negotiations in 1996. Seventeen years have passed, but the failure for the past 16 dialogues made Taiwanese government

and people very much frustrated. Japanese government has been rigid in exclusively dominating the Diaoyutais area. In June 2008, Taiwanese fishing boat “Lienho” collided with a Japanese patrol ship and sank. That incident caused the ROC’s recall of its representative return to Taipei for protest. Taiwanese fishing boats are either expelled or captured, making the government under fire for being “unable to protect the Taiwanese fishermen.” Taiwanese fishermen’s indignation against Japan has especially prevailed while they push the government to be firm to Japan’s position. This unhappy controversy has been really there and needs to be rationally and pragmatically dealt with by Japan. It is hopefully that a new round of fishery negotiation will be hosted in Tokyo, Taiwan side always expects the Japan-Taiwan fishery disputes can be solved rationally and effectively.

(3) Japan’s “Nationalization of Diaoyutai” gave heavy blow to bilateral relations

Nationalization of Diaoyutai by the Yoshihiko Noda government posed another big jolt on the Taiwan-Japan relations. What former Prime Minister Noda did was to respond to Mr. Shintaro Ishihara’s effort to purchase the islands by Tokyo’s government, but Noda’s policy has resulted in tremendous difficulty to Taiwanese people, not to mention the nation-wide protest happened in the Chinese mainland. Noda’s “nationalization” of Diaoyutai is unlikely to solve the dispute at all, but on the contrary has already invited intensive involvement of the PRC’s aircrafts and vessels in the particular area. Noda’s action was in fact an anti-status quo unilateral action that deprives Taiwan, Japan and China of room for compromise. It is Japan’s responsibility to make remedy or to reverse the previously provocative policy, or the situation will turn out to be worsened. President Ma announced his “East China Sea Peace Initiative” last August in response to the impact that the Diaoyutai dispute could have cast on stability in Northeast Asia. Ma urged all sides with an interest in the issue to: refrain from taking any antagonistic actions; shelve controversies and not abandon dialogue; observe international law and resolve the disputes through peaceful means; and seek consensus on a code of conduct in the East China Sea. President Ma’s proposition deserves support of the all concerned countries. Only through sincere communication and effective dialogues, can the parties concerned refrain from further confrontation. Taiwanese people will be pleased to foresee meaningful dialogues, rather unilateral activities, that conducive to peaceful solution.

4. Conclusion

The current situation in Taiwan has been dynamic, unstable, and sometimes chaotic judging from the endless power struggle among different political forces. Confrontation has ranged from disputes on pension of government retirees, unemployment issue, environmental protection, stagnated economy due to foreign trade competition, anti-nuclear issue, all the way to the mainland China policy. Participating actors cover the ruling party KMT and the opposition party DPP, accompanied by labor unions, activists in environmental protection, representatives of the retired, and some citizens think that they are discriminated or frustrated.

President Ma Ying-jeou is a well-determined reformer, with his current policy he tries to renovate Taiwan's competitiveness, deprive of the ineffectiveness of governmental apparatus at various levels, and to revive Taiwan's economy while pursue a stable and constructive mainland China policy for mutual trust and prosperity. Better bilateral relations in between the two sides of the strait have been positive and welcome credentials of Ma's administration, but some other policies may not be smooth as Ma's government previously expected. Government's insufficient communication with citizens, mass media and opposition parties regarding the reforms or newly adopted public policies have often invited serious suspicion, fear or resentment. This tendency further detracts the supportive rate of the government, or even President Ma himself.

Cabinet reshuffle tends to be a way to attract people's support, but this tactics may not be always effective, and sometimes even more counterproductive. This complicated confrontation will continue, multiplied by the partisan politics centered by the Blue-and-Green strife. It is predicted that Taiwan's economy will be improved to some extent—the increasing rate of GDP of the this first season will hit as high as 3.5%, which is much higher than the average annual rate last year. The unemployment rate will likely to drop to less than 4% this year. While accepting interview, Su Tseng-chang, the DPP Chairman, strongly demands that the new Cabinet will have to accomplish the “three-four-five” goal as the target of the new Cabinet. The “three-four-five” goal entails an annual growth rate in average wages of 3 percent, an unemployment rate of less than 4 percent and a GDP growth rate of more than 5 percent. Su said that Jiang and his Cabinet should take advantage of the global recovery, in particular the warming economic climate in some of Taiwan's major trade partners, Japan, the EU and the U.S.” It is therefore economy will still be primary concern of Taiwanese people, they really look forward very much a better economic

progress.

Taiwanese people feel easier to strike consensus on how to augment Taiwan exposure in international community. Taiwanese people and government wish to be respected worldwide, and participate more in international affairs. Taiwan has built stable relations with both United States and Japan, with the former playing a key role in safeguarding Taiwan's defense and national security and the latter in economic cooperation. Taiwan's relations with mainland China has been improved largely to the efforts of President Ma, and stable cross-strait relations are very much crucial to Taiwan's security. Nonetheless, partisan politics cast tremendous impact upon Taiwan's China policy, for one can see the severe struggle centered by different views of forming Taipei's China policy. People in Taiwan are supportive to government's policy in facilitating closer relations with the United States, Japan, European and other countries, but they differ strikingly in whether to accelerate closer economic integration for fear of the possible political "annexation."

Taiwan's foreign policy, in a nutshell, has very much reflected the local public opinions and mass participation. In other words, voice of the people can no longer be overlooked in Taipei's policy-making of foreign policy. For its prosperity, Taiwan has to rely on China's huge market for business; Taiwan has to be cautious regarding the China rise and its detrimental impacts to its national security. No matter who should be the next national leader of Taiwan, stable cross-strait relations established so far should be irreversible, and national leaders are expected not be resort to populism as to deal with any foreign affairs, thorny relations with China included.

Appendix

Note: The charts beneath are directly from “*Taiwan Statistical Data Book 2012 (pdf)*”
 Council for Economic Planning and Development, Executive Yuan
 Surfaced from <http://www.cepd.gov.tw/encontent/ml.aspx?sNo=0017349>

1-a. International Comparison of Economic Growth Rates, Foreign Exchange Rates, and External Accounts A. Economic Growth Rates

Unit: %

Year	Rep. of China	Hong Kong	Indonesia	India	Japan	Rep. of Korea	Mainland China	Malaysia	Philippines
2003	3.7	3.0	4.8	6.9	1.7	2.8	10.0	5.8	5.0
2004	6.2	8.5	5.0	7.6	2.4	4.6	10.1	6.8	6.7
2005	4.7	7.1	5.7	9.0	1.3	4.0	11.3	5.3	4.8
2006	5.4	7.0	5.5	9.5	1.7	5.2	12.7	5.8	5.2
2007	6.0	6.4	6.3	10.0	2.2	5.1	14.2	6.5	6.6
2008	0.7	2.3	6.0	6.2	-1.0	2.3	9.6	4.8	4.2
2009	-1.8	-2.6	4.6	6.6	-5.5	0.3	9.2	-1.6	1.1
2010	10.7	7.0	6.2	10.6	4.4	6.3	10.4	7.2	7.6
2011	4.0	5.0	6.5	7.2	-0.7	3.6	9.2	5.1	3.7

Year	Singapore	Thailand	Australia	France	Germany	Italy	Switzerland	United Kingdom	United States
2003	4.6	7.1	3.1	0.9	-0.4	0.0	-0.2	3.5	2.5
2004	9.2	6.3	4.1	2.3	0.7	1.7	2.5	3.0	3.5
2005	7.4	4.6	3.1	1.9	0.8	0.9	2.6	2.1	3.1
2006	8.8	5.1	2.7	2.7	3.9	2.2	3.6	2.6	2.7
2007	8.9	5.0	4.7	2.2	3.4	1.7	3.6	3.5	1.9
2008	1.7	2.6	2.5	-0.2	0.8	-1.2	2.1	-1.1	-0.3
2009	-1.0	-2.3	1.4	-2.6	-5.1	-5.5	-1.9	-4.4	-3.5
2010	14.8	7.8	2.5	1.4	3.6	1.8	2.7	2.1	3.0
2011	4.9	0.1	2.0	1.7	3.1	0.4	1.9	0.7	1.7

Sources: 1. Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan).
 2. IMF, *International Financial Statistics*, April 2012.

3-b. Taiwan's Macroeconomic Performance (Continued) B. Merchandise Exports and Imports

Period	Exports				Imports			Trade Balance	
	Major Exports			Major Imports					
	Electronic Products	Information & Communication Products	Iron & Steel and Articles Thereof	Capital Goods	Agricultural & Industrial Raw Materials	Consumer Goods			
Amount (US\$ million)									
2004	182,370	45,578	13,205	12,022	168,758	35,188	118,754	14,816	13,613
2005	198,432	51,008	10,974	13,238	182,614	33,495	132,183	16,937	15,817
2006	224,017	62,823	9,884	14,742	202,698	33,313	152,797	16,588	21,319
2007	246,677	65,551	9,552	17,387	219,252	34,358	167,769	17,126	27,425
2008	255,629	63,456	10,168	18,248	240,448	31,512	190,866	18,070	15,181
2009	203,675	56,664	9,192	12,322	174,371	24,781	132,510	17,079	29,304
2010	274,601	77,306	14,095	16,377	251,236	40,639	189,574	21,024	23,364
2011	308,257	83,909	19,808	19,292	281,438	39,351	217,291	24,795	26,820
Rate of Increase (%)									
2004	21.1	30.6	-8.7	28.2	31.8	38.4	32.4	15.2	-39.7
2005	8.8	11.9	-16.9	10.1	8.2	-4.8	11.3	14.3	16.2
2006	12.9	23.2	-9.9	11.4	11.0	-0.5	15.6	-2.1	34.8
2007	10.1	4.3	-3.4	17.9	8.2	3.1	9.8	3.2	28.6
2008	3.6	-3.2	6.4	5.0	9.7	-8.3	13.8	5.5	-44.6
2009	-20.3	-10.7	-9.6	-32.5	-27.5	-21.4	-30.6	-5.5	93.0
2010	34.8	36.4	53.3	32.9	44.1	64.0	43.1	23.1	-20.3
2011	12.3	8.5	40.5	17.8	12.0	-3.2	14.6	17.9	14.8

Source: Ministry of Finance, R.O.C.

1-1a. Indicators of the Taiwan Economy

Period	GDP				GNP			Change in Prices (%)		
	Economic Growth Rate at 2006 Prices (%)	GDP in US\$ Million at Current Prices	Per Capita GDP		GNP in US\$ Million at Current Prices	Per Capita GNP		GDP Deflator	Consumer Price Index	Wholesale Price Index
			NT\$	US\$		NT\$	US\$			
1952	11.8	1,711	2,190	213	1,711	2,190	213	24.5
1955	7.8	1,973	3,422	220	1,973	3,422	220	10.6	...	14.4
1960	6.9	1,753	5,977	164	1,752	5,975	164	12.6	18.6	14.2
1965	10.9	2,859	9,140	229	2,854	9,125	228	-0.3	-0.1	-4.6
1970	10.6	5,735	15,730	393	5,724	15,702	393	4.1	3.6	2.7
1975	5.4	15,728	37,179	978	15,640	36,971	973	1.9	5.2	-5.1
1980	7.3	42,221	85,851	2,385	42,162	85,732	2,381	16.5	19.0	21.5
1985	4.1	63,149	131,158	3,290	64,332	133,615	3,352	0.2	-0.2	-2.6
1987	10.7	103,290	167,806	5,265	105,592	171,545	5,383	1.0	0.5	-3.3
1988	5.6	121,935	175,837	6,146	125,338	180,745	6,318	0.4	1.3	-1.6
1989	10.3	151,580	199,608	7,558	155,396	204,632	7,748	4.1	4.4	-0.4
1990	6.9	164,747	218,456	8,124	169,110	224,241	8,339	3.6	4.1	-0.6
1991	7.9	184,870	241,822	9,016	189,924	248,433	9,263	3.7	3.6	0.2
1992	7.6	219,974	267,315	10,625	224,774	273,147	10,836	3.8	4.5	-3.7
1993	6.7	231,531	292,363	11,079	235,852	297,820	11,285	3.4	2.9	2.5
1994	7.6	252,665	317,049	11,982	256,728	322,148	12,175	1.7	4.1	2.2
1995	6.4	274,728	342,188	12,918	278,915	347,404	13,115	2.3	3.7	7.4
1996	5.5	287,912	368,729	13,428	291,900	373,836	13,614	2.9	3.1	-1.0
1997	5.5	298,773	396,355	13,810	301,895	400,497	13,955	2.8	0.9	-0.5
1998	3.5	275,080	421,519	12,598	277,129	424,659	12,692	3.8	1.7	0.6
1999	6.0	299,010	438,384	13,585	301,815	442,497	13,712	-1.1	0.2	-4.6
2000	5.8	326,205	459,212	14,704	330,674	465,502	14,906	-0.2	1.3	1.8
2001	-1.7	293,712	444,489	13,147	299,391	453,084	13,401	-0.9	-0.01	-1.4
2002	5.3	301,088	463,498	13,404	308,101	474,294	13,716	-0.4	-0.2	0.1
2003	3.7	310,757	474,069	13,773	320,312	488,645	14,197	-0.9	-0.3	2.5
2004	6.2	339,973	501,849	15,012	351,104	518,280	15,503	0.1	1.6	7.0
2005	4.7	364,832	516,516	16,051	373,870	529,313	16,449	-1.4	2.3	0.6
2006	5.4	376,375	536,442	16,491	385,957	550,099	16,911	-1.1	0.6	5.6
2007	6.0	393,134	563,349	17,154	403,267	577,869	17,596	-0.5	1.8	6.5
2008	0.7	400,132	548,757	17,399	410,108	562,439	17,833	-3.0	3.5	5.2
2009	-1.8	377,529	540,813	16,359	390,051	558,751	16,901	0.7	-0.9	-8.7
2010	10.7	430,149	588,317	18,588	443,725	606,885	19,175	-1.5	1.0	5.5
2011	4.0	466,483	592,846	20,122	479,667	609,590	20,690	-3.0	1.4	4.3

1-1c. Indicators of the Taiwan Economy (Continued)

Period	Merchandise Trade in US\$ Million (customs statistics)			Population and Employment				
	Exports at f.o.b. Prices	Imports at c.i.f. Prices	Balance	Population (1,000 persons at year-end)	Labor Force (1,000 persons)	Annual Rate of Change in Employment (%)	Labor Participation Rate (%)	Unemployment Rate (%)
1952	116	187	-71	8,128	3,063	1.2	66.5	4.37
1955	123	201	-78	9,078	3,231	2.7	64.3	3.81
1960	164	297	-133	10,792	3,617	1.5	62.4	3.98
1965	450	556	-106	12,628	3,891	2.9	58.2	3.29
1970	1,481	1,524	-43	14,676	4,654	4.2	57.4	1.70
1975	5,309	5,952	-643	16,223	5,656	0.6	58.2	2.40
1980	19,811	19,733	77	17,866	6,629	1.8	58.3	1.23
1985	30,726	20,102	10,624	19,314	7,651	1.6	59.5	2.91
1987	53,679	34,983	18,695	19,725	8,183	3.7	60.9	1.97
1988	60,667	49,673	10,995	19,954	8,247	1.1	60.2	1.69
1989	66,304	52,265	14,039	20,157	8,390	1.9	60.1	1.57
1990	67,214	54,716	12,498	20,401	8,423	0.3	59.2	1.67
1991	76,563	63,142	13,421	20,606	8,569	1.9	59.1	1.51
1992	82,122	72,353	9,770	20,803	8,765	2.3	59.3	1.51
1993	85,957	77,393	8,564	20,995	8,874	1.3	58.8	1.45
1994	94,300	85,698	8,602	21,178	9,081	2.2	59.0	1.56
1995	113,342	104,012	9,330	21,357	9,210	1.2	58.7	1.79
1996	117,581	102,922	14,659	21,525	9,310	0.3	58.4	2.60
1997	124,170	114,955	9,215	21,743	9,432	1.2	58.3	2.72
1998	112,595	105,230	7,366	21,929	9,546	1.2	58.0	2.69
1999	123,733	111,196	12,537	22,092	9,668	1.0	57.9	2.92
2000	151,950	140,732	11,218	22,277	9,784	1.1	57.7	2.99
2001	126,314	107,971	18,344	22,406	9,832	-1.1	57.2	4.57
2002	135,317	113,245	22,072	22,521	9,969	0.8	57.3	5.17
2003	150,600	128,010	22,590	22,605	10,076	1.3	57.3	4.99
2004	182,370	168,758	13,613	22,689	10,240	2.2	57.7	4.44
2005	198,432	182,614	15,817	22,770	10,371	1.6	57.8	4.13
2006	224,017	202,698	21,319	22,877	10,522	1.7	57.9	3.91
2007	246,677	219,252	27,425	22,958	10,713	1.8	58.2	3.91
2008	255,629	240,448	15,181	23,037	10,853	1.1	58.3	4.14
2009	203,675	174,371	29,304	23,120	10,917	-1.2	57.9	5.85
2010	274,601	251,236	23,364	23,162	11,070	2.1	58.1	5.21
2011	308,257	281,438	26,820	23,225	11,200	2.1	58.2	4.39

1-1f. Indicators of the Taiwan Economy (Continued)

Period	Trade across the Taiwan Strait					Approved Investment in Mainland China	
	Exports to Mainland China		Imports from Mainland China		Balance (US\$ million)	Number of Cases	Amount (US\$ million)
	amount (US\$ million)	% change from previous year	amount (US\$ million)	% change from previous year			
1990	4,394.6	...	765.4	...	3,629.2
1991	7,493.5	70.5	293.2	-61.7	7,200.3	237	174.2
1992	10,547.6	40.8	747.1	154.8	9,800.5	264	247.0
1993	13,993.1	32.7	1,015.5	35.9	12,977.6	9,329	3,168.4
1994	16,022.5	14.5	1,858.7	83.0	14,163.8	934	962.2
1995	19,433.8	21.3	3,091.3	66.3	16,342.5	490	1,092.7
1996	20,727.3	6.7	3,059.9	-1.0	17,667.4	383	1,229.2
1997	22,455.2	8.3	3,915.3	28.0	18,539.9	8,725	4,334.3
1998	19,840.9	-11.6	4,113.9	5.1	15,727.0	1,284	2,034.6
1999	21,312.5	7.4	4,528.9	10.1	16,783.6	488	1,252.8
2000	25,009.9	17.3	6,229.3	37.5	18,780.6	840	2,607.1
2001	25,607.4	2.4	5,903.0	-5.2	19,704.4	1,186	2,784.1
2002	31,528.8	23.1	7,968.6	35.0	23,560.2	3,116	6,723.1
2003	38,292.7	21.5	11,017.9	38.3	27,274.8	3,875	7,698.8
2004	48,930.4	27.8	16,792.3	52.4	32,138.1	2,004	6,940.7
2005	56,271.5	15.0	20,093.7	19.7	36,177.8	1,297	6,007.0
2006	63,332.4	12.5	24,783.1	23.3	38,549.3	1,090	7,642.3
2007	74,245.9	17.2	28,015.0	13.0	46,230.9	996	9,970.5
2008	73,977.8	-0.4	31,391.3	12.1	42,586.5	643	10,691.4
2009	62,090.9	-16.1	24,423.5	-22.2	37,667.4	590	7,142.6
2010	84,832.2	36.6	35,952.2	47.2	48,880.0	914	14,617.9
2011	91,105.4	7.4	43,605.4	21.3	47,500.0	887	14,376.6

3-5. National Income

Period	At Current Prices		At 2006 Prices After Adjustment of Terms of Trade	
	Amount (NT\$ million)	Nominal Growth Rate (%)	Amount (NT\$ million)	Real Growth Rate (%)
1952	17,117	39.5	231,592	12.2
1955	29,300	18.4	298,108	8.2
1960	60,300	21.0	410,008	6.7
1965	108,160	10.3	647,788	8.3
1970	215,345	15.2	1,047,698	11.1
1975	538,473	5.9	1,526,903	4.6
1980	1,370,084	24.3	2,474,537	4.9
1985	2,329,374	5.4	3,384,848	4.5
1987	3,093,077	11.8	4,406,614	12.5
1988	3,376,379	9.2	4,765,342	8.1
1989	3,778,844	11.9	5,183,392	8.8
1990	4,159,304	10.1	5,485,048	5.8
1991	4,659,322	12.0	5,945,019	8.4
1992	5,127,513	10.0	6,317,347	6.3
1993	5,649,742	10.2	6,707,476	6.2
1994	6,175,452	9.3	7,126,595	6.2
1995	6,693,956	8.4	7,493,383	5.1
1996	7,259,683	8.5	7,960,631	6.2
1997	7,855,554	8.2	8,479,995	6.5
1998	8,343,146	6.2	8,880,601	4.7
1999	8,721,516	4.5	9,219,245	3.8
2000	9,214,037	5.6	9,648,190	4.7
2001	8,928,963	-3.1	9,239,500	-4.2
2002	9,381,500	5.1	9,708,892	5.1
2003	9,745,873	3.9	10,041,385	3.4
2004	10,297,925	5.7	10,442,854	4.0
2005	10,541,566	2.4	10,619,781	1.7
2006	10,931,697	3.7	10,931,697	2.9
2007	11,433,779	4.6	11,288,156	3.3
2008	11,020,825	-3.6	10,630,499	-5.8
2009	10,875,793	-1.3	10,897,040	2.5
2010	12,063,531	10.9	11,848,230	8.7
2011	12,016,875	-0.4	11,755,096	-0.8

Source: See Table 3-1.

3. Viewpoint from an International Surroundings' Perspective

(1) A Focus on China

A Japanese View

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Introduction: China's Ocean-going Orientation

China's interest in maritime affairs is becoming more substantial. The Twelfth Five-Year Plan (2011–2015) released in March 2011 has for the first time incorporated a new chapter on “promotion of the development of marine economy” that specifies the guidelines for “drafting and implementing a maritime development strategy, improving maritime development and control capabilities, and strengthening integrated maritime management.”¹ Specifically, it defines the future direction for promoting development and use of marine resources including oil and natural gas, as well as the guidelines for strengthening maritime management systems.

Chinese strategists also propose that a national maritime strategy should be more than economic development strategy. For example, Rear Admiral Yin Zhuo, chairman of the Expert Committee on Navy Informationalization and a member of the National Committee of Chinese People's Political Consultative Conference (CPPCC), proposed in March 2010 that China must develop a maritime strategy that covers political, economic, diplomatic and military interests of the country.² In March 2011, the People's Liberation Army (PLA) delegation attending the 4th Session of the 11th National People's Congress (NPC) held a plenary meeting. Some PLA representatives called for a maritime basic law in order to conduct more efficient “right defense (*weiquan*)” activities by constructing coordinated relations between the PLA Navy (PLAN) and maritime law enforcement agencies.³

China has so far been growing comprehensive interests in the sea. The maritime domain is also a sphere of “territorial dispute” among China and its neighboring countries. China has territorial disputes with several Southeast Asian countries in the South China Sea. Furthermore, with regard to the East China Sea, China insists that a territorial dispute exists between Japan and

¹ *Xinhua*, March 16, 2011.

² *People's Political Consultative Conference News*, March 7, 2010.

³ *PLA Daily*, March 13, 2011.

China. China claims territorial sovereignty over the Senkaku Islands by stating that they belong exclusively to China. With the exception of a land-based territorial dispute with India, all the problems that China has with regard to territories and borders are centered on the oceans.

Chinese trends in its maritime strategy and policy have direct and indirect impacts on the regional security. The indirect impacts on the regional countries of China's military and foreign policy trends in the South and East China Seas are not insignificant, to say nothing of the direct impact of China's active and persistent maritime activities in Asian waters. This paper analyzes the emerging trends of China's marine policy.

1. Intensified Marine Resources Development

Maritime issues for China are closely related the country's economic development. China is becoming increasingly dependent on critical natural resources from abroad such as oil and natural gas. China's dependency on foreign oil was over 40% in 2004, and it exceeded 50%, which Chinese government considers to be the danger zone, for the first time in 2009.⁴ Chinese dependence on foreign crude oil was 56.5% in 2011, being predicted to reach 60% in 2012. In other words, these figures indicate that the Chinese economy is more vulnerable to changes in the international resources markets, and that its level of energy risk is increasing.⁵

Against this backdrop, it is increasingly important for China to promote the exploitation and development of resources, as well as to improve resource efficiency through technological development and to diversify the sources of resource imports. According to an official figure released in 2008, of its domestically produced crude oil and natural gas, respectively 23% and 30% are from offshore fields, and thus the oceans are attracting significant attention as "strategic base" of energy resources.⁶ The South China Sea is considered to be the most powerful "strategic base," however; China has yet managed to start resources development activities in this area apart from the coastal waters near the continent. Therefore, China aims to intensify its efforts to eliminate energy risk through resource development in the South China Sea.⁷ It was in this context that promoting the development and exploitation of maritime resources such as crude oil and natural gas came to be

⁴ *China Mining News*, August 2, 2005.

⁵ *China Industrial Economy News*, August 19, 2011.

⁶ *China Business News*, August 3, 2011.

⁷ *China Times*, April 17, 2011.

included in the Twelfth Five-Year Plan.

Needless to say, the leadership of China and the government sector has been demonstrating their intention to promote development and use of marine resources before the Twelfth Five-Year Plan. For example, at the National Science and Technology Congress held in January 2006, the first year of the period of the Eleventh Five-Year Plan (2006–2010), Hu Jintao, the General Secretary of the Communist Party of China (CPC), stated “it is necessary to accelerate the development of scientific technologies related to the space and ocean for the peaceful use of space and marine resources.”⁸ In addition, the National Medium and Long Term Program for Science and Technology Development released in February 2006 expressed a sense of crisis in terms of the expanding energy supply gap in China, and as the countermeasures for this issue, it specified the guidelines for improving resource exploration technologies in the ocean.⁹

Following the Congress and the Medium and Long Term Program, the State Oceanic Administration (SOA), the Ministry of Science and Technology (MST), the Commission of Science, Technology and Industry for National Defense (COSTIND), and the National Natural Science Foundation of China (NSFC) jointly invited maritime related departments of China and experts from maritime institutions in coastal areas to draft the outline of the maritime engineering program in November 2006.¹⁰ One of the important missions of this maritime engineering program is the improvement of technologies for deep-sea development and resource exploration/development. The outline of the program specifies the scope of exploration/development of marine resources as “mainly coastal waters,” but it also specifies that the scope will be expanded to “deep-sea, the ocean and the entire globe” in a longer-term. In addition, the outline of the National Maritime Development Program drafted by the National Development and Reform Commission (NDRC) and the SOA was approved by the State Council of the People’s Republic of China (PRC) in February 2008, which defined the targets and guidelines for China’s maritime development until 2010.¹¹

China has been achieving concrete results for the task of technological innovation that is specified in the outline of the National Maritime Development Program. This is partly due to the

⁸ *China Ocean News*, November 24, 2006.

⁹ The State council of the People’s Republic of China, *The National Medium and Long Term Program for Science and Technology Development (2006-2020): An Outline*. Available at <http://www.doc88.com/p-808812715563.html> (accessed September 20, 2012).

¹⁰ *China Ocean News*, November 24, 2006.

¹¹ http://www.sdpc.gov.cn/zjgx/t20080229_195306.htm (accessed September 19, 2012).

progress of the development of maritime resource exploration technology. For example, in July 2011, China's "first independently designed and assembled" manned research submersible, the *Jiaolong*, successfully reached a depth of 5,188 meters in the Pacific Ocean, and collected sea/deep-sea creatures and nodules of manganese. The Minister of Science and Technology Wan Gang praised the success of deep-sea research at a depth of 5,000 meters as "a new milestone for the development of marine science technology in China," and expressed his strong determination for resource exploration, stating that they will continue strengthening research and development of deep-sea advanced technology, as well as providing support for scientific technology in order for China to advance deeper and further into the ocean.¹²

As described earlier, resource exploration and development in the deep sea was a long-term target at the time of 2006, however, in just five years, the *Jiaolong* implemented a successful deep-sea research at a depth of more than 5,000 meters. This suggests that the development of marine technology in China has made progress much faster than the Chinese government originally estimated. In June 2012, the *Jiaolong* conducted deep-sea work at the depth of 7,000 meters, the maximum design depth of the submersible, in the Mariana Trench. In addition, the *Jiaolong* will also be deployed for marine resources research in the South China Sea in 2013, which aims to collect methane hydrate samples.¹³

China has also been investing in new equipment in the development of marine oil resources. For example, in May 2011, Marine Oil (*Haiyang Shiyou*) 981, a semi-submersible drilling platform that can operate at a depth of 3,000 meters, was completed. After completion, the Marine Oil 981 implemented a two-month-long test navigating on the sea, and then became ready for operation in December 2011. Following this, from January to February 2012, the Marine Oil 981 implemented an installation test in the East China Sea. This oil rig will be deployed in the South China Sea including the Spratly Islands where China has not managed to start development. Li Jie, a researcher at the PLAN Military Academic Research Institute, finds significance in the Marine Oil 981, as it can "drastically change" "the passive approach" of China, meaning the fact that China has not been able to start resources development in the Spratly Islands area. In addition, Li referred to the foreign policy of China. Specifically, although China has been insisting to implement joint

¹² *China Land and Resources News*, August 19, 2011.

¹³ *Oriental Outlook Weekly*, Issue 31, 2011, p. 19; "Jiaolong Pilot Recounts Journey," *China Daily*, July 20, 2012.

resources development in disputed waters, when the Marine 981 became ready for deployment, he argued that China should change its policy to "mutually combine unilateral development and joint development."¹⁴

2. Capacity Building of Maritime Agencies

In order for China to promote stable resource development, the comprehensive maritime management system needs to be strengthened. As part of the efforts to strengthen the management system, China has been trying to improve the capacity of maritime law enforcement agencies. In China, five entities are responsible for maritime law enforcement activities: (1) the China Maritime Surveillance (CMS) of the SOA; (2) the Maritime Police of the Border Control Department (BCD); (3) the Maritime Safety Administration (MSA) of the Chinese Ministry of Transportation; (4) the China Fisheries Law Enforcement Command (FLEC) of the Ministry of Agriculture; and (5) the Anti-Smuggling Bureau of the General Administration of Customs (GAC).

Law enforcement activities related to marine resources development are mainly implemented by the CMS, which is accelerating its capacity building efforts.¹⁵ Since the period of the Tenth Five-Year Plan (2001–2005), large patrol vessels with high mobility that are capable of operating in exclusive economic zone (EEZ) have built, and the long-range aircrafts have been deployed to the CMS flotillas.¹⁶ The CMS also began to conduct joint training for ships and aircraft so as to expand the area of operations in 2006.¹⁷ As of July 2012, CMS is equipped with 28 over 1,000-ton level patrol vessels and 9 long-range aircrafts. According to Liu Cigui, SOA director, a total of 36 large patrol vessels are being built and will be put into operation under CMS over the next one to two years.¹⁸

In recent years, the FLEC, responsible for enforcement of laws concerning fishing and maritime resources, has also harried to strengthen its patrol capability. Aiming to strengthen patrols in the South China Sea, in November 2006, the PLAN submarine salvage and rescue ship *Nanjiu 503* was transferred to the South China Sea component of the FLEC,¹⁹ and in March 2009, the

¹⁴ *Modern Ships*, Issue 8, 2011

¹⁵ *Ocean Development and Management*, Issue 11, 2011, p. 30.

¹⁶ *People's Daily*, January 27, 2005; *Nanfang Daily*, August 26, 2005; *China Ocean News*, November 25, 2005.

¹⁷ *China Ocean News*, October 24, 2006.

¹⁸ "China's Maritime Surveillance Agency to Gain More Ships," *Xinhua*, June 8, 2012.

¹⁹ <http://www.cnfm.gov.cn/info/display.asp?sortid=91&id=17605> (accessed October 11, 2011).

Yuzheng 311, after completing a refit, sailed to the waters off the Paracel Islands to curb illegal fishing activity and safeguard China's maritime interests and rights.²⁰ Furthermore, the *Yuzheng 310*, a fisheries patrol ship, was deployed to the South China Sea component in September 2010. The new ship can carry two Z-9A helicopters and is armed with a 14.5 mm machine gun.

However, it is believed in China that hardware and patrol capability of maritime agencies have not meet increasing demand to protect its maritime rights and demands. According to Wu Zhuang, chief of the South China Sea Fisheries Bureau, less than ten over 3,000-ton level patrol vessels and ten 1,000-ton class vessels are deployed in the South China Sea component of maritime agencies.²¹ Under this circumstance, China cannot conduct resource activities in waters far from the continent, Wu said. He further proposed to build a total of more than 30 over 3,000-ton class patrol vessels and 30 1,000-ton class patrol ships. SOA director Liu Cigui also mentioned to a Hong Kong media that China must go to "Chinese waters" to develop marine resources.²² In this context, SOA announced to enhance CMS's patrol capability and to command capability to support Chinese resource development activities.²³

The protection of economic interests is obviously not the sole objective of the capacities building of the maritime agencies. China's security environment in the maritime domain has deteriorated in recent years. Major General Fu Yi, commander of the Zhejiang Province Military District, emphasized the importance of being aware of deteriorated security situation surrounding his country so as to carry out the "coastal defense" policy.²⁴ First, situation of the safeguard of China's maritime sovereignty has been becoming tenser. Fu argues the United States deploys its armed forces in China's sea frontier, which poses military threat to China. Second, China faces confrontation with regional countries about territorial sovereignty in South and East China Sea, which harms Chinese maritime security. Major General Fu also pointed harassment activities to Chinese fishermen and resource development activities by coastal countries in the region, saying there is increasing demand for the protection of China's maritime interests.

Based on its recognition of the current strategic environment, Chinese maritime agencies

²⁰ *Farmers' Daily*, April 2, 2009.

²¹ <http://www.cnoee.com/news/html/20120910/8632.html> (accessed September 15, 2012).

²² <http://finance.ifeng.com/news/region/20120603/6554446.shtml> (accessed September 17, 2012).

²³ *Zhongguowang*, February 28, 2011. Available at http://www.china.com.cn/policy/txt/2011-02/28/content_22015294.htm (accessed September 14, 2012).

²⁴ *National Defense*, Issue 1, 2011, p. 11.

harry to build patrol capability by advanced equipment and hardware. In addition, as part of capacity building efforts, the SOA has been further strengthening cooperation with the PLAN. Historically, both parties have been closely cooperating to develop China's maritime industry. Especially since 1980s, SOA's marine research vessels have been conducting research operation under the protection of the PLAN. Since the establishment of the CMS in October 1998, the PLAN has been providing support for the CMS in terms of equipment development, capacity building, education and training especially since 2009 when the PLAN and SOA exchanged a memorandum of agreement.²⁵ In February 2012, Liu Cigui, the director of the SOA, had a meeting with Admiral Wu Shengli, commander of the PLAN, and stated that "based on the new situation and the new demand for our mission, the SOA is going to promote closer cooperation with the PLAN." In reply to this, Admiral Wu stated that "the PLAN is willing to work together with the SOA, and will continuously improve the cooperative relationship, continuously develop new fields of cooperation, and continuously strengthen exchange and communication in order to safeguard the maritime rights and interests and security of our country." Both parties agreed to strengthen their cooperation including capacity building of the CMS.

3. Toward PLA(N)-led Coastal Defense

Cooperation between the PLAN and maritime law enforcement agencies are also found in operational field. In May 2008, the Xiamen Maritime Garrison of the Navy initiated a joint search and rescue training encoded "Luhai-2008" with the Xiamen Maritime Affairs Bureau, the Xiamen Customs, the Xiamen Search and Rescue Center, and others.²⁶ In May 2012, the Xiamen Maritime Garrison conducted a military-police-civilian maritime joint search and rescue exercise "Luhai-2009" in Dongshan sea area.²⁷ The formation composed of 15 vessels and helicopters of such participating units as the East China Sea Salvage Bureau of the Ministry of Transport, the Xiamen Search and Rescue Center, the Xiamen Customs and the Xiamen Maritime Affairs Bureau carried out a maritime joint rescue action under the unified command of a naval unit. The military and civilian aircraft, submarine chaser, frigate, patrol boat, tug-boat and transportation boat carried a

²⁵ *Takungpao*, June 10, 2012 (available at http://www.takungpao.com//sy/2012-06/10/content_428406_3.htm (accessed September 18, 2012); *China Ocean News*, February 20, 2013.

²⁶ *Xiamen Daily*, October 14, 2009.

²⁷ *PLA Daily*, May 30, 2009.

three-dimensional search and rescue from the air and the sea.

In June 2012, a joint exercise between the PLA and maritime agencies was conducted in the East China Sea near Shanghai.²⁸ The Navy unit from the Shanghai Maritime Garrison, the army unit in Shanghai, the Border Control Department of Shanghai Municipal City, East China Sea Branch of SOA, Shanghai Maritime Affairs Bureau and East China Sea Fishery Branch joined this joint exercise. Operational subjects such as early warning, maritime defense, island defense, attack enemy vessels, anti-torpedo operation were all successfully drilled, according to the *Liberation Daily*. A patrol exercise also conducted under the scenario that an “enemy” ship engages in survey activities in China’s EEZ, a frigate, two tag boats, a CMS vessel and CMS aircraft carried this exercise. It is fair to say that China assumes joint “right defense” operation between the PLAN and maritime agencies in East and South China Sea.

In October same year, the PLAN East Sea Fleet, the East China Sea branch of SOA and the East China Sea component of FLEC held joint naval exercises in the East China Sea off the coast of Zhoushan City, Zhejiang Province. In one of the joint exercises, the PLAN’s frigate had a training of cooperating with the CMS and FLEC patrol ships in facing with a hypothetical foreign vessel. Another exercise required its participants to transport to the PLAN’s medical ship by helicopter those officers who were supposedly injured in a hypothetical collision between the FLEC’s patrol ship and a foreign vessel.²⁹

China is also strengthened the coordination in its maritime security policy and coastal defense in particular. The Chinese government has more than ten maritime-related departments, Ministry of Public Security, SOA, Ministry of Transportation, Ministry of Agriculture and General Administration of Customs has separately own its law enforcement agencies. Moreover, these agencies each used to have different management systems. Despite the administrative reforms in 1998 that readjusted responsibilities and rights among governmental agencies, there are still numerous overlapping roles and functions among the maritime agencies, resulting in a lack of efficiency in administrative management and law enforcement.³⁰ Although this pluralistic structure

²⁸ *Liberation Daily*, July 12, 2012.

²⁹ *Takungpaowang*, October 22, 2012 (available at http://www.takungpao.com/news/content/2012-10/22/content_1265820.htm); *CCTV (13)*, October 18m 2012 (available at <http://video.sina.com.cn/p/news/c/v/2012-10-18/165461887975.html>).

³⁰ *Xinhua*, February 19, 2011. Available at http://news.xinhuanet.com/mil/2011-02/19/c_121099732_2.htm (accessed September 20, 2012).

basically remains, the policy coordination function of the National Committee on Border and Coastal Defense has been strengthened in recent years under the directive of the State Council and Central Military Commission (CMC).³¹

Since 2008 when Chinese Defense Minister Liang Guanglie was appointed to the post of chairman of National Committee on Border and Coastal Defense (NCBCD), some activities by the NCBCD such as policy coordination, administrative guidance and field survey has come to surface.³² The members of the committee are vice-minister class senior officials and officers of the Party, the government, and the PLA. The PLA has so far acquired chairman position in the NCBCD, which hints the PLA can play a leading role in Chinese coastal defense work; the member ministries and agencies are all required to inform the Office of the committee and to get approval of the chairman about any new policies and activities.³³ Furthermore, the Office (*bangongshi*) is organized at the Operations Department of PLA General Staff Department (GSD); director and deputy director of Operation Department of GSD are also appointed to chief and deputy chief of the Office respectively. Judging from this situation, PLA's role has been increasing in coastal defense especially in terms of policy coordination.

It is not clear whether the progress of the cooperation among the PLAN and maritime agencies in recent years has gone through the policy coordination at the NCBCD. Nonetheless, it is true that the GSD initiated the policy coordination and partnership between the PLA/PLAN and the maritime agencies in order to respond and manage effectively to maritime disputes. In early February 2013, the GSD hold a conference together with maritime-related department of the State Council. Lt. General Qi Jianguo, Deputy Chief of General Staff of the PLA, pointed that the pluralistic structure of maritime management in China could not respond increasing complex situation in the maritime domain. He further requested a strengthened operational cooperation between the maritime law enforcement agencies and the military as “an urgent task.”³⁴

Conclusions

China has a growing interest in the sea and is expanding its maritime activities in both

³¹ *National Defense*, Issue 3, 2012, p. 55.

³² *Global People*, Issue 12, 2012.

³³ http://www.110.com/fagui/law_4165.html (accessed September 18, 2012).

³⁴ *Oriental Morning Post (Dongfang Zaobao)*, February 5, 2013.

militarily and economically. Due to its high dependence on foreign energy sources, China is rigorously exploring maritime resources. In order to develop maritime resources further, China's law enforcement agencies such as the China Maritime Surveillance Force and the Fisheries Law Enforcement Command have strengthened its capabilities by procuring mobile vessels and aircraft to patrol in areas that China considers its waters and beyond. Accordingly, "rights protection" activities by those agencies have increased in the South and the East China Seas. Behind these moves, there is a heightened sense of urgency in China to safeguard its territorial sovereignty and expanding interests in the maritime domain. The PLA/PLAN is also trying to strengthen its involvement in "rights protection" activities by initiating joint drill and strengthening policy coordination with Chinese maritime law enforcement agencies.

This policy trends suggests that Chinese top leaders attach greater importance to intensify its maritime activities. In terms of coastal defense, it is likely that China will strengthen its "rights protection" activities in sensitive waters. Assuming that the PLA continues to carry out joint training and exercise, "rights protection" operations by the CMS and FLEC will be more military oriented.

Under this situation, regional countries should strengthen their defense capability and posture. Furthermore, Asian maritime states should also strengthen engagement to Chinese maritime agencies as well as the PLA in order to prevent the occurrence of "unforeseen circumstances" at the sea. Future crisis management mechanism with China should be multi-tiered in this regard.

What Would an Assertive China Do to Its Neighbors?

Implications for Taiwan-Japan Relations

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As China's sixth generation of leadership is taking over the helm at the CCP's 18th Party Congress held in November, 2012, the country is poised for an unprecedented systemic transition. Domestically, after more than thirty years of rapid growth, China's economy is facing structural readjustments as the state capitalism that has characterized China's economic activities needs major overhaul and foreign capital is gradually moving out of the country searching for destinations with labor costs. Growing social instability, heightened by yawping gap between the rich and the poor and social and political injustices, is eroding the CCP's legitimacy as a ruling party. Recent disputes between China and Japan over Diaoyutai islands (known as the Senkakus in Japan) and rows between China and the Philippines over the Scarborough Shoals in South China Sea have shown that China is growing more assertive in handling disputes with its neighbors, putting the heretofore more moderate and acclaimed policy of *taoguang yanghui*, or, biding the time while strengthening oneself, in question. A new security landscape is emerging in East Asia.

In light of China's increasing assertiveness over its foreign behaviors, some pundits adopt realist point of view, believing that China's confidence vis-à-vis the United States has been boosted as a result of the global financial tsunami. Others have combed through China's nationalism in search for answers, arguing that the newly accrued wealth has given rise to a surge of nationalistic overture demanding actions from the government, and facing increasing signs of internal instability the ruling elites dare not confront this wave of patriotism. Still others argue that the ruling party's legitimacy has been thinning because of a series of events like Wenzhou high speed railway accident and the Bo Xilai scandal, and militaristic postures overseas are effective diversion of public pressure away from the downsides from inside. While not denying the validity of these explanations this paper opts for historic interpretation for China's growing heavy-handed foreign behaviors. Past memories, good and bad, and experiences out of dealing with countries in the periphery of the Chinese continent in what is known as the imperial tributary system have no doubt occupied

important part in the mindset of many Chinese.

1. *Taoguang yanghui* and the “Three Neighbors Policy”

Facing international sanctions after the crackdown of the Tiananmen Incident in 1989 and the collapse of the former Soviet Union and its affiliated countries in East Europe, Deng Xiaoping tailored what has been known as the *taoguang yanghui* policy, asking his compatriots to be patient, stay out of sight, and work their way out of the adversity. This policy is not made by Deng in one stroke but compiled by his followers from a series of speeches given by Deng in the aftermath of the Tiananmen Incident.¹

In a nutshell, the former supreme leader extorted his compatriots and followers to exercise restraint and hunker down in a time of adversity. Specifically, the policy is believed to be composed of the following elements:²

1. to resolve territorial disputes proactively;
2. to expand economic and trade cooperation with the rest of the world and to facilitate and deepen mutually dependent relationships by providing necessary measures and incentives;
3. to participate more in international regimes and institutions;
4. to improve relations with all countries and implement a policy of befriending neighbors;
5. to refrain from challenging the dominant powers in the international system; avoid being a main target of the United States; seeking cooperation with the US over various issues;
6. resisting a policy of tit-for-tat in meeting challenges from outside;
7. do not put pressure on neighbors' security; try to do away with coercion as a means of resolving problems.

This conciliatory policy was enacted at a time when China's security was under great duress. Reactive in nature, the policy had nevertheless given China room for maneuvering and hence, successfully lifted China out of its diplomatic doldrums. When former US Deputy Secretary of State Robert Zoellick suggested that China act as a “responsible stakeholder” in September, 2005, China responded by coining a “policy of reassurance” in the following couple of years in handling

¹ Guo Binyun, Zuo Xuchun, “China Should Still Insist ‘taoguang yanghui’ Foreign Policy Strategy,” *Baoji wenli xueyuan xuebao* (Journal of Baoji School of Science and Liberal Arts) (Social Science edition), (August, 2011), pp. 21-26.

² Zhou Fangyin, “Taoguang yanghui yu liangmian xiazhu – zhongguo queqi guochengzhong de zhongmei zhanlue hudong” (Taoguang yanghui and Hedging on Two Sides – Sino-US Interactions in the Midst of Rise of China), *Dangdai yatai* (Contemporary Asia Pacific), No. 5, 2011, pp. 6-26.

international issues.³ Beijing’s collaborative attitude was visibly distinguished on the Six-Party Talks on the issue of Korean peninsula. During a ministerial meeting held in Yunnan Province, China, in September, 2003, then State Councilor Tang Jiaxun raised for the first time a policy of “enriching neighbors, and making neighbors feel secure”. A month later, in a meeting held by the ASEAN over commerce and investment Premier Wen Jiabao officially inaugurated the so-called “three neighbors policy” – to enrich, secure and befriend neighbors. Since then on China has adopted a series of policy measures promoting relations with neighboring countries, especially those across the southern border in Southeast Asia. The policy has no doubt yielded significant outcome as various agreements and partnership are formed.

Table 1 China’s relations with neighboring countries under the “Three Neighbors policy”

	Endeavors	Tactics	Status
2002-2005	<ul style="list-style-type: none"> - signs the Treaty of Amity and Cooperation in Southeast Asia - signs FTA with ASEAN - signs Closer Economic Partnership Agreement with HK and Macao - involves in the Six-party Talks - participates in East Asia Summit 	<ul style="list-style-type: none"> - cultivate an image of responsible stakeholder - suggests ASEAN coordinate regional cooperation - participate in international fight against terrorism and cooperation in non-traditional security - releases a defense white paper - promotes new strategic partnership in East Asia 	Regional power
2006-2008	<ul style="list-style-type: none"> - raised the policies of harmonious world and 3 neighbors policy - pushes for Economic Partnership Agreement - pushes for Cebu Declaration on East Asian Energy Security; Sub-regionalism and Micro-regionalism - Cooperation Strategy of Border Area - Peace Dove Strategy - resumes talks with Taiwan - actively involves in the G20 activities 	<ul style="list-style-type: none"> - promotes ASEAN+3 and ASEAN+6 - signs bilateral FTAs and investment agreements - expands strategic partnership and joint military exercises with neighboring countries - builds an internationalism on harmonious world - Joins the East Asia Summit in Dec 2005 - uses Olympics to promote soft power - promotes Northern Guangxi Gulf Economic Zone and Cooperation with Southeast Asia countries - participates in the G20 summit meeting 	Regional power heading into a global power

However, as China increases in strength its policy towards its neighbors has undergone

³ See Thomas F. Christensen, “The Advantages of an Assertive China: Responding to Beijing’s Abrasive Diplomacy,” *Foreign Affairs* (March/April 2011), pp. 54-67.

perceptible changes. Since the genesis of the global financial crisis in 2008, the moderate “three neighbors’ policy” which pillars around improving economic and commercial ties has been graduated supplemented by a new element of assertiveness on issues concerning sovereignty. The rows with the Philippines and Japan over disputed islands in South China Sea and the Diaoyutai islands, known as Senkakus in Japan, are cases in point. State Councilor Dai Bingguo wrote in an article at the end of 2010 suggesting that the policy put forward by Deng in early 1990’s urging “biding the time while strengthening itself and to act proactively” are meant to “keep the head down and be cautious, refuse to be the lead sheep, do not carry the banner, no expansion, and no hegemony, and this policy is in line with the thought of peaceful development.”⁴ (韜光養晦、有所作為主要是指保持謙虛謹慎，不當頭、不扛旗、不擴張、不稱霸，與走和平發展道路思想一致) What is worth of mentioning is that Dai has evidently added a new content -- “to act proactively” -- to the previously passive *taoguang yanghui* policy. Is it possible that China’s foreign policy is gradually digressing from the more benign *taoguang yanghui* to one which is to promote “to act proactively”? Has the policy of “peaceful rise” been sidelined? These are questions that we all are hungry for answers.

The paper argues that while China may very well compromise over certain issues at some point of time at the international arena for various reasons, but memories and culture of a hegemonic past would inevitably sway beliefs and values in foreign policy-making among its leaders and ordinary people.

2. Amendments to the “Three Neighbors’ Policy”?

During the course of normalization in the early 1970’s former Chinese Premier Zhou Enlai decided, on behalf of Chinese government, that China would not contest on the issue of Diaoyutais. Two months after the Treaty of Peace and Friendship between Japan and the People's Republic of China was signed in August, 1978, Deng Xiaoping stated that “the issue can be sidelined for a while.”⁵ But the decision by Noda administration to nationalize the Diaoyutais on September 10,

⁴ Dai Bingguo, “Jianchi zhou heping fazhan daolu” (Insisting on the Path of Peaceful Development), <http://big5.cri.cn/gate/big5/gb.cri.cn/27824/2010/12/07/5187s3081282.htm>

⁵ Deng stated on October 25 that “when the two countries normalized relations it was decided that the issue of Diaoyutais not to be touched. During the negotiation of the Peace and Friendship Agreement we again agreed that it was better to avoid the issue. It is fine to sideline it for a while...the next generation should be smarter than us and a solution acceptable to all of us should be able to be found. Se *Global Times* (Beijing), October 13, 2010.

2012, by buying three islets triggered drastic responses both from Beijing authorities and the Chinese people. Beijing's responses were fast and resolute.

First, protests were lodged immediately and warnings issued. Chinese Ministry of Foreign Affairs responded by drawing territorial lines around the islands, declaring the adjacent areas as Chinese territorial waters. A statement issued by the Ministry stated that “the times that Chinese are bullied are forever gone. The Chinese government will not sit idly by watching its territories and sovereignty infringed. ...if the Japanese side insists on its course, all consequences should be borne by that country.”⁶ Premier Wen Jiabao sounded an emotional pitch in saying that “China and its people are steely stern (zhengzheng) even at its most difficult times.”⁷ Department of Defense spokesman Geng Yensheng pointed out that “Chinese government and the PLA are unswervingly determined in the defense of national territories and sovereignty.”

Second, Beijing is painstakingly building a case in preparation for possibly more forceful actions in the future. In September, 2012, Beijing announced “base points and base lines of the territorial waters of the Diaoyu Islands,” filing details with the United Nations as part of the diplomatic sparring over the issue. Few months later, Beijing again submitted to the UN information of the outer limits of its continental shelf in an effort to bolster its legal claim to the islands. According to the Law of the People's Republic of China on the Territorial Sea and the Contiguous Zone, military vessels from other countries have to get permission before entering into China's territorial waters. The move provides legal basis for China's official vessels to patrol in the waters near Diaoyutai islands.

Third, quasi-military moves are undertaken to reinforce its determination that business is not as usual. Following the declaration of territorial waters around Daiyutai islands, Beijing sent six coast guard vessels to the disputed area in a move to challenge Japan's claim of ownership. On December 13, 2012, China's National Marine Agency sent two reconnaissance planes fifteen kilometers from Diaoyutai Islands, the first such move since 1958, forcing Japan's Self-Defense Air Force to scramble fighters to counter the perceived threat. PLA Navy ships have started to make rounds to the disputed area as well.

Fourth, official Chinese media warned that the two sides are “on the verge of imminent

⁶ *Lianhe bao* (United Daily), *September 11, 2012.*

⁷ *Lianhe bao*, *September 11, 2012.*

crisis” and that the event represents “the worst blatant challenge to Chinese sovereignty by the Japanese government since World War II.”⁸

Fifth, thousands of Chinese took to the streets in nearly 100 cities protesting to the Japanese behavior, the worst such mass protests staged again Japan in China since the WWII.

Sixth, large scale military exercises have been held with Diaoyutais as potential target.

Seventh, Beijing officially named the islets in dispute.⁹ It is reported that China is to carry out a geographic survey of islands in the East China Sea at the center of a bitter dispute with Japan, a part of a program to map China’s territorial waters and reefs.¹⁰

Other evidence of China’s assertiveness since 2008 abounds. Here are but a few:

- PLA Navy harassed an unarmed US surveillance vessel Impeccable in 2009;
- In a meeting held by the ASEAN Forum in July 2010, Chinese Foreign Minister Yang Jiechi warned countries not to ally with foreign forces in handling territorial disputes;
- Beijing demanded apology from the Japanese government over the detention of a Chinese fishing trawler entering into waters near Diaoyutai islands and sanctions over rare earth was imposed by the Chinese government in 2010;
- Beijing twice warned a joint military exercise held by the US and South Korea after a South Korean navy corvette Cheonan was sunk in May 2010 and it’s Yeonpyeong island fired upon by the North five months later;
- China and the Philippines confronted each other over a dispute over Scarborough Shoals in April, 2012;
- Three PLA Navy ships passed waters 430 kilometer off Yakushima on April 29, 2012. This is the first time that the PLA Navy ships passed the Osumi Strait which is also main channel navigated by the US 7th Fleet;
- It is reported that China has deployed short-range missiles in northern Fujian province in order to deter ships of the Japan Self-Defense Forces;¹¹
- Jet-fighters from Japan’s air force scrambled 156 times, a record number since the data was released, in 2011 to intercept fighters lunched by the PLA;¹²

⁸ *Lianhe wanbao* (United Evening News), September 17, 2012.

⁹ *Lianhe wanbao*, September 22, 2012.

¹⁰ *Taipei Times*, January 16, 2013, p. 1.

¹¹ *Zhongguo shibao*, May 27, 2012.

¹² *Taipei Times*, May 10, 2012, p. 1.

- over 70 islets in the Diaoyutai island chain were named by China's State Oceanic Administration on March 3, 2012;¹³
- China and South Korea fought over Socotra Rock (or Suyan Islet by China) in March 2012.

Telltale signs like these are sufficient to suggest that China is forging a new and more assertive strategy towards its neighbors. Is there cause to be concerned? What is to be done?

3. A New Order in East Asia

A new order is evidently in the shaping in East Asia. In this new strategic landscape China no doubt plays a pivotal role. The question is: Would this emerging super power adopt a benign policy for a common good of the region as a whole? Or alternatively, would there be a predatory power rising at the expenses of its neighbors? These are legitimate concerns registered by many in the region. From historic point of view, China of course craves for an order revolving around itself. If history is any indication, what China is trying to revive is a hierarchical system where adjacent countries are treated differently according to their geographic and ethnic proximity to the Middle Kingdom. Under this system, countries with common borders such as those in Southeast Asia and Korea are treated with the utmost caution, followed by Japan and so on. As its northern neighbor Russia was not as important because the bordering areas are large swathes of land without much inhabitation. It should be noted that in light of the complexity of the current international community in the wake of globalization and changing dynamics among the countries in the region vis-à-vis those hundreds of years ago, Beijing's strategies would no doubt be more flexible and adaptable.

If Sino-centrism is the approach, then it is inevitable that the Asia-Pacific area is to become an arena of contestation between the United States, the exiting hegemon, and China, the rising power which is not necessarily trying to unseat the US as the global hegemon but to seek a "rightful place" on the global stage. Actually, the race is already on featuring the two powers seeking for alliances and countering alliances. As vital part of its new policy the US is renewing and restrengthening its alliances and partnerships in the region with countries ranging from Australia to Japan, and India to Myanmar.¹⁴ And it is a comprehensive race as President Obama has promised to add a new

¹³ *Taipei Times*, March 4, 2012, p. 3.

¹⁴ Leon Panneta, "US Remains Committed to the Security of the Asia-Pacific Region," *Taipei Times*, January 3, 2013, p. 9.

element of economy into its “pivot policy,” or the “rebalancing policy.” Whether to join the Washington-initiated Trans-Pacific Partnership, or the Regional Comprehensive Economic Partnership, heavily influenced by Beijing, is not going to be an easy choice for many in this area.

Second, China’s rise and its assertive policies have already hastened a new round of arms race in East Asia. China is already the second largest economy in the world. In the next decade under the leadership of Xi Jinping, China’s GDP might rival that of the United States. Some economists predicted that China’s GDP is likely to be twice the size of the U.S. by 2050. China is already undergoing the largest military modernization in human history. According to the IHS Global Insight, China’s defense budget might top US\$232.5 billion by 2015, exceeding the combined total of the next 12 biggest defense budgets in the region. Actually, the real figure might be two to three times the publicly announced amount. On the other hand, many believe that China is now sitting on the top of a volcano as the social order and value system are unraveling, rattling the biggest single-party dictatorship in the world.

Facing this dire situation, the new Japanese LDP administration under Premier Shinzo Abe promised to increase defense budget and new armaments have been deployed in the islands to the Southeast of Japan. A new spree of arms purchasing is also raging on throughout Southeast Asia.

Third, as China is expanding its sphere of influence tensions will continue to rise. Both Tokyo and Beijing have scrambled fighter jets to the Diaoyutai islands in a further escalation of the row. According to China’s state media, the People’s Liberation Army has been instructed to raise their fighting ability this year and “should focus closely on the objective of being able to fight and win a battle.”¹⁵ For its part, Tokyo is allegedly to send two more ships to boost its defense in the area and has conducted its first drill simulating a recapture of an isle seized by enemy forces.¹⁶ Both South China Sea and East China Sea have become new flash points with accidental conflicts prone to happen.

There are reasons to believe that a more strong-handed external policy might be in the stock.

First, in the years ahead, China is likely to be even more assertive in some areas that it deems as “core interests”, upsetting the already tenuous balance of power in the East Asia region.

¹⁵ *Taipei Times*, January 16, 2013, p. 1.

¹⁶ *Taipei Times*, January 16, 2013, p. 1.

As China rises it is not likely that the country will continue to be pliant and content with low-profile as was prescribed by the *taoguang yanghui* policy. Rules will be revised and rewritten per China's request. It is inevitable that interests of the U.S. and others in the region are to be challenged. Some would find them hard to swallow while others might even feel outright threatened. China is already filing more cases with the WTO's trade tribunals in Geneva than any other country complaining about another's trade practices. In the future, China is likely to demand more privileges in major international forums such as the IMF and World Bank.

Secondly, China's "core interests" are likely to be more diversified. As of now, China tries to define its "core interests" strictly along the line of sovereignty with issues such as Taiwan and Tibet. As China is transforming into a hegemonic power in the region its security interests are likely to be redefined. More Chinese naval activities are to be expected in the South China Sea and the East China Sea.

Third, as China catches up with the more advanced countries in the development of a sophisticated market economy and as it is climbing up on the technological ladder steadily, it realizes that there is still huge gap to close in the area of soft power. As China already claims the largest market in many commodities such as automobile, cell phone, television set and so on it is likely that it will start to export goods of more high-tech and value-added in nature. We might even feel its muscle flexed in the film production and other soft power-related industries.

Fourth, some Chinese are already convinced that the gap with the US is closing. Rather than focusing on the fragilities arising from growth, such as social unrest, corruption and skepticism over one-party rule, these people point instead to America's dependence on China, as provider of manufacturing goods and purchaser of Treasury securities, as signs of weakness. In the future, nationalism might play an even bigger role in the making of China's foreign policies.

4. Implications for Taiwan-Japan Relations

Following the announcement of the nationalization of the Diaoyutai islands by Japan President Ma Ying-jeou's administration announced a series of counter measures: First, the ROC government reiterated its undisputable rights to the ownership of the islands by showing documents that the lands were administered and registered under Yilan county when the islands were handed over to Japan by Americans in early 1970's; Second, the Foreign Ministry recalled its representative

to Tokyo Shen Ssu-tsun for consultations; Third, President Ma made public the “East China Sea Peace Initiative”, calling on the concerned parties (Taiwan, Japan and China) to avoid provocation and set aside disputes, to follow international law and establish a code of conduct, to find ways to pursue cooperative resource development, and engage in trilateral consultations.

As an inheritor of the legacy handed down by the Ching Dynasty, there is little room that the Republic of China is left to wriggle over the sovereignty of the Diaoyutai islands. Realistically, it is unlikely that the dispute is to be resolved any time soon. In the midst of increasingly tensions in the region Taiwanese people are complaining about President Ma being too soft and demanding tougher actions, and opinions supporting jointing forces between the two sides of the Taiwan Strait are also surfacing.¹⁷ The silver-lining in the dark clouds is that the recent incident has forced Japan to take Taiwan’s old complaint on fishery rights seriously. If the two countries can indeed put the prolonged dispute aside and let the more homogeneous side of relations at the societal level to take its course, added by the momentum spilled over through the thawing of relations between the two sides of the cross-Strait, there is plenty of new windows of opportunities awaiting for exploitation.

To Taiwan, a stronger and more powerful China might bring many unseen opportunities and, of course, challenges. The policies opted by the Ma administration in the past four years have been proven to suit the best interests of the country, bringing peace to the region for the first time in history and also paving for bigger international space including relations with Japan.

In the past few years, important progress such as signing of the Investment Cooperation Agreement, Open the Sky and a host of other measures have become reality despite the unpleasant event of the sinking of a Taiwanese fishing trawler Lianhe by Japanese Coast Guard vessel two weeks after President Ma was inaugurated in May, 2008. In a recent meeting at the sideline of the APEC meeting in Vladivostok, Russia, former Japanese Prime Minister Noda and Taiwanese representative former Vice President Lian Chan decided that the long-stalled talks over fishing rights between the two countries are to be reactivated. It has been proven that positive and meaningful progress of relations is indeed possible between the two countries.

The improvement of relations from across the Taiwan Strait has provided and will continue to provide room for Taiwan and Japan to maneuver their bilateral relationship in the right direction. However, a more assertive China might put the uneasy relationship on an even harder course. The

¹⁷ *Zhongguo shibao*, September 21m 2012, p. 3.

naming of offshore islands by Beijing is but one example. To where would the disputes over the Diaoyutai islands lead is everyone's guess. In a nutshell, neighboring countries such as Japan and Taiwan will have to learn to accommodate as rules and values bent more to the liking of China. However, it is time for member countries in the region to seriously consider instituting some sort of security dialogue lest small skirmishes spin out of control. Should this process be activated it is important to observe the principle of universal participation in order to get the process any realistic chance of success.

(2) A Focus on the United States

A Taiwanese View

Choice and Consequence:

The U.S. Policy and the Security Context in Asia-Pacific

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1. New Developments in the Asia-Pacific Region

Since the year 2011 to the end of 2013, several developments that have an impact on regional security evolving in the Asia-Pacific area and are worth noting for both Japan and Taiwan:

- China's President Hu Jintao visited the U.S. in January 2011, and both sides agreed to adhere to their commitment "to building a positive, cooperative, and comprehensive U.S.-China relationship for the 21st century, which serves the interests of the American and Chinese peoples and of the global community." This visit aimed to arrest the downward spiral in the U.S.-China relations due to China's relatively assertive international behavior in 2010.
- The U.S. and Japan released a joint statement titled "Toward a Deeper and Broader U.S.-Japan Alliance: Building on 50 Years of Partnership" in June 2011, in which both sides expressed concerns over China's rise and agreed to use U.S.-Japan alliance to pave the way for a regional security architecture.
- North Korea and the U.S. senior officials resumed their talk in July and October 2011, after more than two years since North Korea had decided to walk out from the Six-Party Talks in 2009.
- Yoshihiko Noda took office in September 2011 as Prime Minister in Japan and iterated that the U.S.-Japan relationship is central to his foreign policy.
- The leader of North Korea Kim Jong-Il passed away in December 2011 and his son Kim Jong-Un became the successor to the regime.
- The U.S. President Barack Obama announced an updated defense strategic guidance in January 2012 to express the view that the U.S. will gradually reduce its defense budget in

10 years. In the meantime, he also conveyed the message that the U.S. “will be strengthening its presence in the Asia Pacific, and budget reductions will not come at the expense of that critical region.”

- Taiwan’s President Ma Ying-jeou was reelected in January 2012, increasing the likelihood of peace and stability in Asia-Pacific in the years to come.
- China’s Vice President Xi Jinping visited the U.S. in February to make his debut as the heir of China to the American public. While the U.S. wanted to “rebalance” its relations with China, the latter noted that “trust deficit” between the U.S. and China needs to be dealt with.
- The U.S. and North Korea reached an agreement in late February 2012, in which North Korea agreed to suspend nuclear weapons tests and uranium enrichment, in exchange for American food aid. However, North Korea decided to launch a missile test that rendered U.S. economic aid impossible.
- Territorial disputes have become heated since mid-2012, and many actors in the Asia-Pacific are involved. Domestic political considerations and nationalism within each party are narrowing the window for cooperation and peaceful resolution.
- The elections in November and December of 2012 are politically crucial to Asia-Pacific. President Obama was re-elected in the United States and Secretary General Xi Jinping was promoted to first among equals in China's ruling circle in November. Shinzo Abe became the Prime Minister in Japan and aimed to reorganize Japan’s politics, and Park Geun-hye was elected as the president in Korea under the missile threat from North Korea.
- After re-election, U.S. President Obama made his first trip abroad to Asia-Pacific, in which he participated in the East Asia Summit in Phnom Penh and visited Myanmar.

2. Questions Central to the Stability of the Asia-Pacific Region

According to the recent developments in the Asia-Pacific, the U.S. still plays a significant and indispensable role. In addition, these developments evolve around several dyadic relations salient to this area, such as that between the U.S. and China, and between the U.S. and individual allies.

With regard to the U.S.-China relations, both countries have learnt to co-exist in recent years based upon mutual concerns as well as common interests. The next task for the U.S. and

China will be co-evolution in that they need to reach a consensus about the issue areas wherein they can cooperate with each other while remaining differences, if not frictions, over values and regime types.

The U.S. continues to portray the relations with allies as the “cornerstone” in its policy toward the Asia-Pacific region. The rise of China has been explicitly addressed between the U.S. and Japan, and values such as democracy and human rights are also pertinent to U.S. alignment with other countries in the region. As U.S. Secretary of State Hillary Clinton stated in the latest testimony to Senate Foreign Relations Committee on March 2, 2012 that “We have reengaged as a leader in the Pacific and in our own hemisphere.”

However, given the limited financial resources, it is understandable for the U.S. to gradually reduce its budget on defense. In the meantime, it is expected to exert its influence through a combination of military, economic, and political means as Hillary Clinton suggested. A rising China is certainly a concern to the U.S. and with this ongoing shift from a pure, one-dimensional to a mixed strategy, several schools of thought in the U.S. recently may shed light on future U.S. policy toward the Asia-Pacific.

The first view represents the structural realist thinking in the international relations (IR) scholarship. With the vivid impression of China’s assertive behavior in the Asia-Pacific region in 2010, including its unswerving support to North Korea in the Cheonan and Yeonpyeong Island incidents against the United States and others, and rigidity on the South China Sea issue, many analysts as Aaron Friedberg tend to conclude that China would inevitably be involved in a contest for supremacy with the United States in the future.¹ Certain radical views in China seeing the United States as giving way to rising China seem to fuel this school of thought. Nevertheless, to those who are sanguine about U.S. preponderance such as Michael Beckley, it is believed that the U.S. still enjoys a lead for several decades over China and that the latter is simply “rising” but not “catching up.”²

The second view is more accommodating and aims to further incorporate China into the current liberal international order. As Rosemary Foot and Andrew Walter and others suggest, the

¹ Aaron L. Friedberg, *A Contest for Supremacy: China, America, and the Struggle for Mastery in Asia* (NY: W. W. Norton & Company, 2011).

² Michael Beckley, "China's Century? Why America's Edge Will Endure," *International Security*, Vol. 36, No. 3 (Winter 2011/12), pp. 41-78.

contest between the U.S. and China is not preordained and can be ameliorated if the two decide to work closely to iron their differences.³ Michael Swaine, who holds a somewhat pessimistic view about U.S. strength vis-à-vis China, even suggests that with the decrease of China's military threat against Taiwan, the United States can consider to negotiate with China over the arms sales issues while consulting Taiwan on what Taiwan really wants if further reconciliation across the Taiwan Strait occurs.⁴ All in all, this "shaping" view has a better ground in the States than the "confronting" view, along with the fact that the Strategic and Economic Dialogue (S&ED) and Security Dialogue (SD) seem to begin to take roots in overall U.S.-China relations.

The third view can be labeled as "disengagement" with global affairs. Isolationism is nothing new to U.S. policy circles, and this school of thought seems to re-emerge when the U.S. is perceived as declining lately. However, whether and how the democratic U.S. would welcome the rise of an authoritarian China is still worth noting. Nuno Monteiro contends that it is getting more and more costly for the U.S. to maintain its unipolar status and therefore the U.S. should delegate global and regional responsibilities to second-tier powers. In line with this logic, Monteiro maintains that the U.S. should consider the rise of China a positive factor to world order and therefore to accept it.⁵

3. The Obama Administration and China's Rise⁶

At the time President Obama took office in 2009, there were four priority issues in foreign policy which required China's cooperation. The most crucial one was to spur global economic recovery. Second, President Obama aimed to halt or curtail the Iranian and North Korea nuclear weapons programs. China was believed to have leverage to potentially affect these two countries with its being Iran's largest trading partner as well as a major investor in energy sector, and the only country with a significant relationship with North Korea. Third, he wanted to end the genocide in Darfur and China's large oil investments in Sudan gave it a voice in Khartoum, which so far had not

³ Rosemary Foot and Andrew Walter, *China, The United States, and Global Order* (NY: Cambridge University Press, 2011).

⁴ Michael Swaine, *America's Challenge: Engaging a Rising China in the Twenty-First Century* (Washington, DC: Carnegie Endowment for International Peace, 2011).

⁵ Nuno Monteiro, "Unrest Assured: Why Unipolarity is Not Peaceful," *International Security*, Vol. 36, No. 3 (Winter 2011/12), pp. 9-40.

⁶ Part of this section is adapted from the author's previous work. Please refer to Yeh-chung Lu and Szu-hua Chen, "The Ties That Bind: The Emerging Asia-Pacific Regional Order and Taiwan-Korea Relations," *New Asia*, Vol.19, No.2 (June 2012), pp. 54-70.

been raised against the Darfur massacres but could be. Last, he also wanted to begin to cope with climate change with China's being the world's largest emitter of greenhouse gases since 2009.⁷

In addition, what is more apparent to the Obama administration is that a unidimensional approach to China would generate unsatisfactory results. The foreign policy team thus proposed a resolutely pragmatic and non-ideological policy labeled as "strategic reassurance".⁸

According to Jeffrey Bader, then senior director for East Asian affairs on the National Security Council, the U.S. was aware that its bilateral relationship with China had to be developed from symbolically diplomatic interactions first. To serve the U.S. purpose, the label for the relationship could be a safety net to avoid the down-turns occurred in 1981, 1989, 1993, and 2001, which were the years characterized by shifting U.S. administrations. In September 2009, U.S. Deputy Secretary of State, James Steinberg, brought up the idea of "strategic reassurance."⁹ It was said that the U.S. and its allies would acknowledge China's economic strength and military modernization, and reassure that the U.S. would not suppress China's rising in Asia on the condition that China shall ensure in return that its "peaceful rise" would not jeopardize other countries' security and well-beings.

This concept was materialized in the U.S.-China Joint Statement during President Obama's visit to China in November 2009, characterized by mentioning the phrase of "core interest" and by indicating both countries' intention to strengthen coordination and cooperation on major global issues. The proposal of the concept of "strategic reassurance" laid a good foundation for the U.S.-China relationship.

In early 2010, the U.S. handle on issues of arms sales to Taiwan and of Tibet upset the Chinese leadership, and put the concept of "strategic reassurance" to the test. The Chinese leadership expected the U.S. to adopt certain steps to arrest the downward spirals between the two nations, including a visit by high-level U.S. officials to China, authoritative assurances from President Obama to indicate his attitude to this bilateral relationship, and last, some sort of statement

⁷ Jeffrey A. Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, (Washington, D.C.: Brookings Institution Press, 2012), pp. 2-21.

⁸ Jeffrey A. Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, (Washington, D.C.: Brookings Institution Press, 2012), pp. 3-5.

⁹ James B. Steinberg, Deputy Secretary of State, Keynote Address at the Center for a New American Security, Washington, DC, September 24, 2009.

by the U.S. on its arms sale policy to Taiwan.¹⁰

In the hope that China can be cooperative on Iran and on bilateral trading issues, Steinberg and Bader visited Beijing in early March 2010 to assure the Chinese that the U.S. was deeply committed to the relationship with China in spite of U.S. domestic criticism and divergent views from both sides over renminbi, Iran, and core interest, etc.

After the Beijing visit came with the President Obama's meeting with the incoming Chinese ambassador, Zhang Yesui. As expected, the White House issued a press release accenting the president was committed to further develop a positive relationship with China and the administration's "one China" policy.¹¹ Steinberg also reiterated the core precepts of the "one China" policy and the U.S.'s attitude toward Tibet.¹² To prove its rhetoric reassurance credible, the U.S. Treasury postponed publication of the report to Congress on the international economic and exchange rate policies of the U.S. major trading partners.¹³ Despite domestic opposition, Chinese President Hu Jintao decided to attend the Nuclear Summit meeting in Washington, D.C., on April 1, 2010, marking the achievement of the application of "strategic reassurance."¹⁴ This meeting was initiated by President Obama, and Hu's attendance symbolically showed that China was not on the opposite side to the U.S. stand over nuclear proliferation and both leaders discussed the Iran issue during their meeting.

However, this line of reasoning seemed to soon fade away with China's truculent international behavior since mid-2010, as indicated in the cases over the Cheonan Incident and over the South China Sea. U.S.-China relations were exacerbated during the annual meeting of the

¹⁰ Jeffrey A. Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, (Washington, D.C.: Brookings Institution Press, 2012), p. 74.

¹¹ Part of the statement reads, "...He reaffirmed our one China policy and our support for the efforts made by Beijing and Taipei to reduce friction across the Taiwan Strait." See White House, Office of the Press Secretary, "Statement by Press Secretary Robert Gibbs on China," March 29, 2010, <http://www.whitehouse.gov/the-press-office/statement-press-secretary-robert-gibbs-china> (accessed May 26, 2012).

¹² Part of the statement reads, "...We've made clear that we do not support independence for Taiwan and we oppose unilateral attempts by either side to change the status quo...[and] on Tibet, we reaffirmed our position that we do consider Tibet to be a part of the PRC and do not support independence for Tibet, but we strongly support continued dialogue between the Chinese government and the representatives of the Dali Lama to resolve the differences." See U.S. Department of State, "the Deputy Secretary's Trip to the Balkans and Asia," FPC Briefing, March 29, 2010, <http://fpc.state.gov/139203.htm> (accessed May 26, 2012).

¹³ Part of the statement reads, "...China's inflexible exchange rate has made it difficult for other emerging market economies to let their currencies appreciate. A move by China to a more market-oriented exchange rate will make an essential contribution to global rebalancing. Our objective is to use the opportunity presented by the G-20 and S&ED meetings with China to make material progress in the coming months." See U.S. Department of the Treasury, Press Center, "Statement of Treasury Secretary Geithner on the Report to Congress on International Economic and Exchange Rate Policies," April 3, 2010, <http://www.treasury.gov/press-center/press-releases/pages/tg627.aspx> (accessed May 26, 2012).

¹⁴ Jeffrey A. Bader, *Obama and China's Rise: An Insider's Account of America's Asia Strategy*, (Washington, D.C.: Brookings Institution Press, 2012), pp. 78-79.

ASEAN Regional Forum (ARF) in Hanoi in July 2010 due to the South China Sea. Unlike Taiwan and Tibet issues, China had not authoritatively named the South China Sea a “core interest.” What was learned by the Steinberg-Bader visit to Beijing in March 2010 concerning the South China Sea was its orientation as a “national priority.”¹⁵ Based on the knowledge, at a closed-door session of the ARF, Secretary of State Hillary Rodham Clinton delivered a formal speech reiterated the U.S. position of not taking sides on territorial claims to islands in the South China Sea asserted by China, Vietnam, Philippines, Malaysia, Taiwan, and Brunei. Simultaneously, she asserted U.S. national interests in freedom of navigation, open access to Asia’s maritime commons, and the expectation that all claims to rights in waters in the South China Sea would need to be based on land-based claims valid under the UN convention on the law of the sea and customary international law, support for a collaborative process to resolve competing territorial claims, and U.S. willingness to facilitate initiatives and confidence building measures for reaching a full code of conduct for the sea.¹⁶ Nevertheless, China’s foreign minister, Yang Jiechi, articulated strongly that there was no problem in the area and intimidated ASEAN countries not to seek outside or multilateral support with his emphasis on “a big China” rhetoric.¹⁷

As a matter of fact, the rising nationalist sentiment of China and the conflicting situation on the South China Sea issue at the ARF meeting were the venue to disclose two countries’ fundamentally strategic distrust. The Obama administration seemed to rhetorically drop the idea of “strategic reassurance” since late-2010.

¹⁵ Jeffrey A. Bader, *Obama and China’s Rise: An Insider’s Account of America’s Asia Strategy*, (Washington, D.C.: Brookings Institution Press, 2012), p. 77.

¹⁶ Part of the statement reads, “...the United States, like every nation, has a national interest in freedom of navigation, open access to Asia’s maritime commons, and respect for international law in the South China Sea...[and] while the United States does not take sides on the competing territorial disputes over land features in the South China Sea, we believe claimants should pursue their territorial claims and accompanying rights to maritime space in accordance with the UN convention on the law of the sea. Consistent with customary international law, legitimate claims to maritime space in the South China Sea should be derived solely from legitimate claims to land features. ...[and] the U.S. supports the 2002 ASEAN-China declaration on the conduct of parties in the South China Sea. We encourage the parties to reach agreement on a full code of conduct. The U.S. is prepared to facilitate initiatives and confidence building measures consistent with the declaration.” See “Remarks at Press Availability- Secretary Hillary Rodham Clinton,” Hanoi, Vietnam, July 23, 2010, <http://www.state.gov/secretary/rm/2010/07/145095.htm> (accessed May 26, 2012).

¹⁷ Jeffrey A. Bader, *Obama and China’s Rise: An Insider’s Account of America’s Asia Strategy*, (Washington, D.C.: Brookings Institution Press, 2012), p. 105.

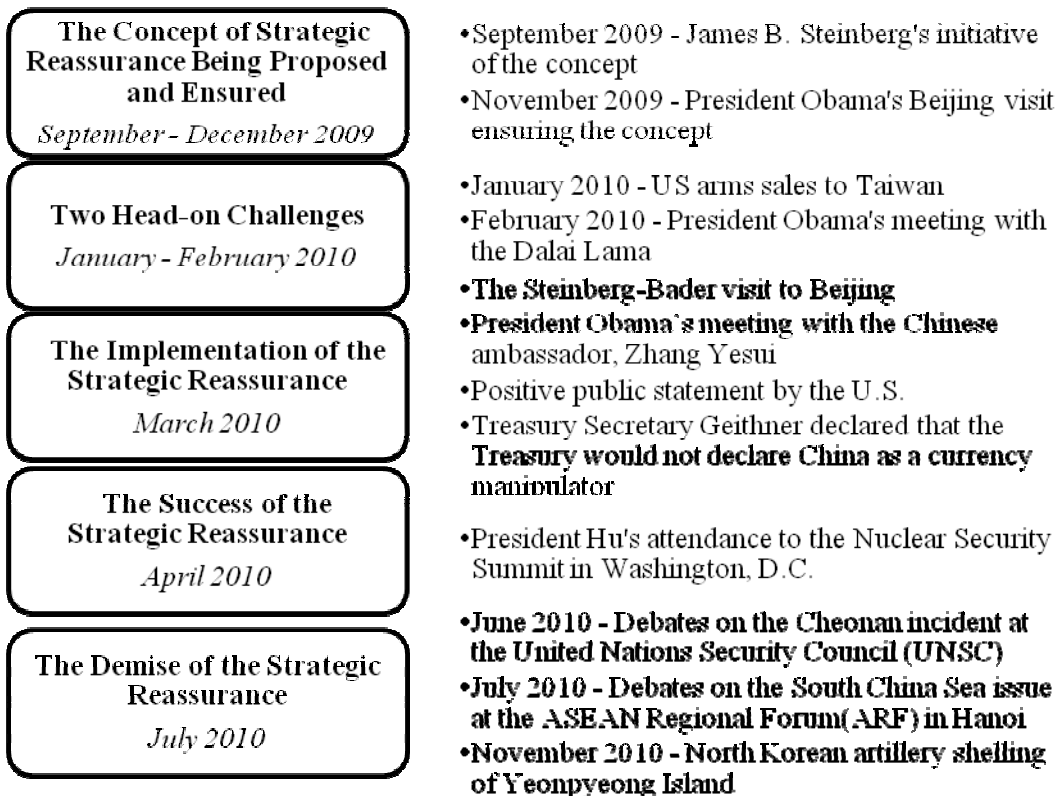


Diagram The Rise and Fall of the Concept of “Strategic Reassurance”

As James Mann noted, this development was part of the outcome of interagency struggle between and within the State Department and Obama’s close aides at the White House.¹⁸ Since late-2010, the Obama administration began to emphasize “rebalancing” in its Asia policy.

4. Highlights and Possible Side Effects of Obama's Pivot to Asia Strategy

U.S. “rebalancing” toward Asia can be understood through the talks from high-level officials in the Obama administration and from President himself. For instance, Secretary of State Hillary Clinton expressed the importance of the Asia-Pacific region to U.S. national interests on several occasions, and how U.S. would do to continually engage with Asia.¹⁹ President Obama, on his trip to Australia in November 2011, stated that his goal is to ensure that “the United States will play a larger and long-term role in shaping this region and its future.”²⁰ The ultimate goal of the U.S., according to National

¹⁸ James Mann, *The Obamians: The Struggle Inside the White House to Redefine American Power* (NY: Viking, 2012).

¹⁹ U.S. Department of State, "Secretary Hillary Clinton on America's Pacific Century," November 10, 2011.

²⁰ The White House Office of the Press Secretary, "Remarks By President Obama to the Australian Parliament," November 17, 2011.

Security Advisor Tom Donilon, is to promote U.S. interests by helping to shape the norms and rules of the Asia-Pacific region, to ensure that “international law and norms be respected, that commerce and freedom of navigation are not impeded, that emerging powers build trust with their neighbors, and that disagreements are resolved peacefully without threats or coercion.”²¹

In January 2012, President Obama issued a new strategy guideline that confirmed the rationale to emphasizing U.S. existence in Asia with the conception of rebalancing.²² In military terms, the U.S. would increase the deployment of and/or rotate its troops in Australia and Singapore, while prioritizing sea and air capabilities over land forces. As expected, the military budget for FY2013 is below the level of spending in FY2012. There will be a 5% decrease for bilateral assistance programs in the Asia-Pacific, as opposed to an 18% cut for Europe, Eurasia, and Central Asia.²³

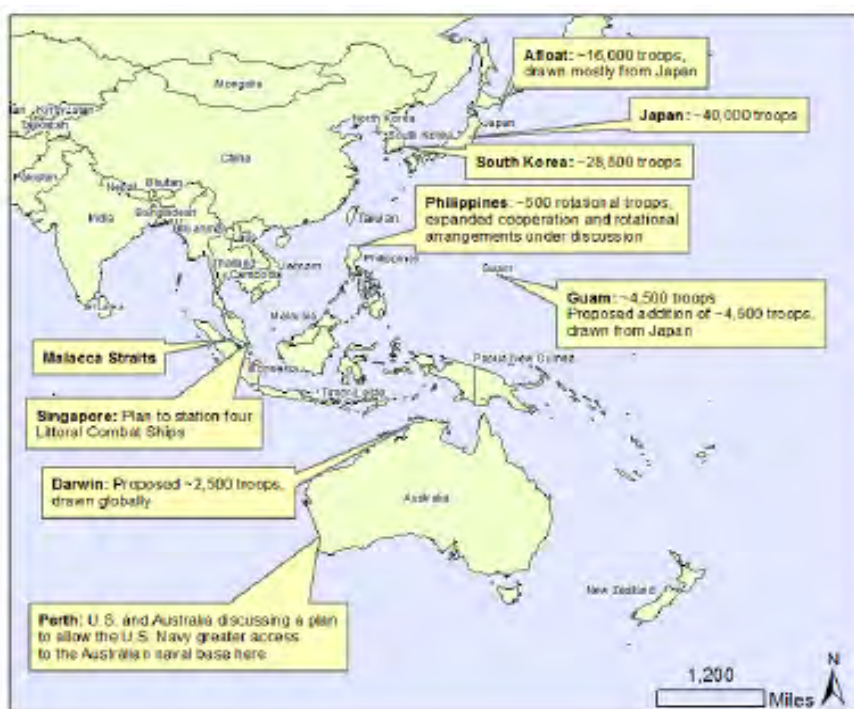


Figure 1. Map of the Asia-Pacific (including selected U.S. Troop Deployments and Plans)

Source: Mark Manyin, etc., "Pivot to the Pacific? The Obama Administration's 'Rebalancing' toward Asia," *CRS Report for Congress*, March 28, 2012, p. 3.

²¹ Tom Donilon, "America is Back in the Pacific and will Uphold the Rules," *Financial Times*, November 27, 2011.

²² U.S. Department of Defense, *Sustaining U.S. Global Leadership: Priorities for 21st Century Defense*, January 2012.

²³ Mark Manyin, etc., "Pivot to the Pacific? The Obama Administration's 'Rebalancing' toward Asia," *CRS Report for Congress*, March 28, 2012.

Given the limited financial resources, the U.S. will gradually reduce its budget on defense. In the meantime, the U.S. is expected to exert its influence through a combination of military, economic, and political means as Hillary Clinton suggested on several occasions. For instance, the U.S. attended the East Asia Summit (EAS) meeting for the first time in 2011 and emphasized its bilateral security relations with alliances in the region. The U.S. is also devoted to boost its economic relations with major trading partners across the Pacific through TPP.

These developments, illustrated as “expansion” of existing Asia policies with “transformational elements” in tactics in the CRS Report, are believed to be driven mostly by the rise of China and by the (mis)perceived decline of the U.S. The growing importance of the Asia-Pacific region to U.S. in economic terms and the closure of U.S. military deployment in Iraq and Afghanistan also contributed to this shift in gravity. In addition, the allies in this region, for their respective reasons, called the U.S. to be more responsive to the growing Chinese influence.

Though it seems logical to make this shift, there might be some side effects that the U.S. needs to take into consideration. First, an increased military emphasis on the Asia-Pacific region might lead to a significant reduction in U.S. military presence in other areas of the world due to limited financial resources. This might result in the feelings of insecurity in U.S. allies in Europe.

Second, solid domestic support is necessary to any administrations if they are to materialize this pivot to Asia strategy. However, a conflict or emergency involving vital U.S. interests, another terrorist attempt for instance, would delay as well as challenge the reasoning behind this policy shift. In other words, how long this emphasis could last is in doubt. This view is shared by U.S. allies such as Korea.²⁴

Third, many observers and pundits argue that this “rebalancing” is targeted against China, and the latter could be antagonized while feeling encircled. This can thus strengthen the influence of Chinese hardliners and make a next to zero chance for the U.S. and China to cooperate on various issues. Moreover, given China’s growing economic power, most U.S. allies in Asia do not want to be forced to choose between the two giants.²⁵

²⁴ Kang Choi, “Advice from a Good Friend: A South Korean View on the U.S. Rebalancing,” *Global Asia*, Vol. 7, No. 4 (Winter 2012), pp. 38-41.

²⁵ Malcolm Fraser, “Overbalancing: The Folly of Trying to Contain China,” *Global Asia*, Vol. 7, No. 4 (Winter 2012), pp. 28-33; Kang Choi, “Advice from a Good Friend: A South Korean View on the U.S. Rebalancing,” *Global Asia*, Vol. 7, No. 4 (Winter 2012), pp. 38-41; Donald Emmerson, “Challenging ASEAN: The U.S. Pivot Through Southeast Asia’s Eyes,” *Global Asia*, Vol. 7, No. 4 (Winter 2012), pp. 22-27.

Last but not least, U.S. pivot strategy may bolster assertiveness of its allies in the Asia-Pacific region and result in a “tail wagging the dog” problem. The recent cases surrounding the disputed areas in the Asia-Pacific are illustrative. Furthermore, as warned by an editorial piece on *The Australian*, human rights issues remain in the new candidates contributing to U.S. pivot such as Cambodia and Myanmar, and this would wear away U.S. moral ground vis-à-vis the so-called authoritarian China.²⁶

5. China’s Tentative Response to U.S. Reassertion in East Asia²⁷

Due to the U.S. claim of pivot strategy, China is aware of its limited military capabilities in relation to the U.S., but politically tries to arrest the possible downward spiral along with the re-emergence of the “China Threat” reasoning. This is a learning experience from China own assertive international behavior in 2010. This section argues that being cautious, but not pessimistic, might be the tentative response from the Chinese side.

Most Chinese analysts agree that this is a critical moment for U.S.-China relations, especially this administration was taking a relatively friendly attitude toward China as its benchmark when Obama took office. A group of scholars, such as Yan Xuetong, argue that it is inevitable for a rising power to challenge a leading power with the latter trying to delay the rise of the former.²⁸ Others, including many practitioners such as Dai Bingguo, suggest that there are tremendous common interests between the two and the overall relations can be managed to succeed. Still others, such as Wang Jisi, hold a relatively pragmatic view, indicating that strategic distrust will lead to misunderstanding and contribute to unnecessary conflicts. According to Wang, the perceived narrowing gap in capabilities, insufficient comprehension of each other’s policy making process, and different political traditions and value systems, are feeding strategic distrust between China and the U.S. Therefore, management is crucial to reconcile disagreements and to increase shared interests.²⁹

A positive development for U.S.-China relations is the two sides agree to institutionalize

²⁶ Editorial, “Obama Pivots to East Asia,” *The Australian*, November 20, 2012.

²⁷ Part of the discussion in this section comes from the author’s other work, “China, the United States, and the Future of G-2: A Preliminary Analysis,” *WTO Studies*, forthcoming.

²⁸ Yan Xuetong, “How China Can Defeat America,” *The New York Times*, November 20, 2011.

²⁹ For instance, Wang’s latest work with Kenneth Liberthal represents this view. Kenneth Liberthal and Wang Jisi, *Addressing U.S.-China Strategic Distrust* (Washington DC: The Brookings Institution, 2012).

their mid- to high-level interactions. Prior to the Obama administration, there were about 60 channels for the officials from two countries to exchange their views. Since 2009, both sides further agreed to promote the high level exchanges under the Senior Dialogue (SD) and Strategic Economic Dialogue (SED) to Strategic and Economic Dialogue (S&ED). In May 2012, both sides had the fourth round of S&ED in Beijing and reached consensus on many issues, including coordinating macroeconomic policy.

China's intention to further coordinate and cooperate with the U.S. is worth noting in this S&ED meeting. When U.S. President Obama visited China in November 2009, Chinese Premier Wen Jiabao conveyed the view that China "disagrees to the suggestion of G-2," because first, China is still a developing country with a huge population and has a long way to go before it becomes modernized. Second, China pursues the independent foreign policy of peace and will not align with any country or country blocks. Third, global issues should be decided by all nations in the world, rather than one or two countries. Meanwhile, China believes Sino-U.S. cooperation can play a unique role in advancing the establishment of the new international political and economic order, as well as promoting world peace, stability and prosperity.³⁰

China seems to adapt in the fourth round of S&ED. Chinese State Councilor Dai Bingguo indicated that though China refused to join the so-called "G-2," but there shall be a "C-2" in that "bilateral coordination" is essential for the U.S. and China to get things done and build a new relationship. To achieve this goal, Dai suggested that interactions between China and the U.S. in the Asia Pacific should uphold the following principles: first, mutual respect and mutual trust; second, equality, mutual benefit, harmonious coexistence and common development; third, promoting the development of regional cooperation mechanisms in an open, inclusive and step by step manner; and fourth, seeking common ground while reserving differences and sharing responsibilities, building security through cooperation and properly handling regional hotspot issues.³¹ In a nutshell, Deng Xiaoping's mantra of "hide our capabilities and bide our time" may still be valid, at least for the time being.

In June 2012, Hu Jintao forwarded a proposal for a "new model of great power relations"

³⁰ Xinhuanet, "Wen Jiabao Meets with U.S. President Obama," November 19, 2009, <http://www.china-un.ch/eng/xwdt/t628181.htm> (accessed 2010/12/15).

³¹ "Dai Bingguo: Promote China-U.S. Sound Interactions in Asia Pacific," <http://haiwai.people.com.cn/BIG5/n/2012/0504/c232573-17004864.html> (accessed 2012/05/06).

between the two countries: First, the two sides should continue dialogues and enhance mutual trust. Second, the two countries should deepen win-win cooperation both in such traditional fields as commerce, investment, law enforcement, education and technology and in such new sectors as energy, environment and infrastructure construction. Third, the two countries should properly manage their differences and ward off interferences, and Hu further called upon the U.S. side to prevent domestic politics from disturbing China-U.S. relations, especially in an election year. Fourth, the two nations should jointly undertake international responsibilities and meet global challenges.³²

However, the impact of the global financial crisis on U.S.-China relations is solemn. The role of economic interdependence in facilitating cooperation between the U.S. and China is in question. From 2008 onward, as we have witnessed the decline of China's trading surplus with the U.S., China seems to be less willing to accommodate to the existing international order. China has surpassed Japan and become the number one foreign holder of the U.S. Treasury securities since September 2008, making China more influential in the international financial market. As of June 2012, China holds U.S. \$1164.3 billion in U.S. securities, while Japan holds U.S. \$1119.3 billion and traditional ally United Kingdom U.S. \$139.1 billion.³³ According to one count, China surpassed Japan in economic terms during the second quarter of 2010 as measured by the size of the gross domestic product (GDP), positioning Beijing as the second largest economy in the world.³⁴ China's exports relied heavily on the U.S. market in the past, and the ratio of exports to the U.S. in China's total exports reached its peak to 21.5% in 1999, and has been essentially constant to 21.4% in 2005. However, this number decreased to 13.5% in 2009 as another victim of the financial crisis since 2008.³⁵

Admittedly, Chinese perception of the U.S. is ambivalent at this moment, especially when U.S. economy has yet to recover.³⁶ When the seemingly power transition from the U.S. to China is

³² "Hu, Obama Meet on Sideline of G20 Summit," http://www.china.org.cn/world/2012-06/20/content_25691858.htm (accessed 2012/07/09).

³³ The Department of Treasury of the United States of America, "Major Foreign Holders of U.S. Treasury Securities," released August 15, 2012, <http://www.treasury.gov/resource-center/data-chart-center/tic/Documents/mfh.txt> (accessed 2012/8/23).

³⁴ "China GDP Surpasses Japan, Capping Three-Decade Rise," *Bloomberg News*, August 16, 2010.

³⁵ Calculated from National Bureau of Statistics of China, *Zhongguo Maoyi Waijing Tongji Nianjian 2009* (Beijing: National Bureau of Statistics of China, 2010), <http://219.235.129.58/reportView.do?Url=/xmlFiles/d99c78d1eab842889da4fad8de059a5c.xml&id=5b186a5001dc4465a8e6bac30fd2f358&bgqDm=20090000> (accessed 2010/12/10).

³⁶ A latest account please refer to Andrew Nathan and Andrew Scobell, "How China Sees America," *Foreign Affairs*, Vol. 91, No. 5 (September/October 2012), pp. 32-47.

in progress, China's suspicion of an ill-intent U.S. continues to exist.³⁷

When Obama assumed the office with the hope for a smooth relationship with China, China still prefers a multipolar world and perceives Obama's plot to construct a "multi-partner" world led by the U.S.³⁸ To these Chinese analysts, interactions between China and the U.S. under the conception of "G-2" reflects cooperation in economic interdependence but also competition in security issues-areas. In other words, China and the U.S. could cooperate only on an issue-by-issue basis.

China's ambivalent view on the U.S. and world affairs can be further distinguished by its reference to "core interests" in the official mouthpiece *Renmin Ribao* (People's Daily).

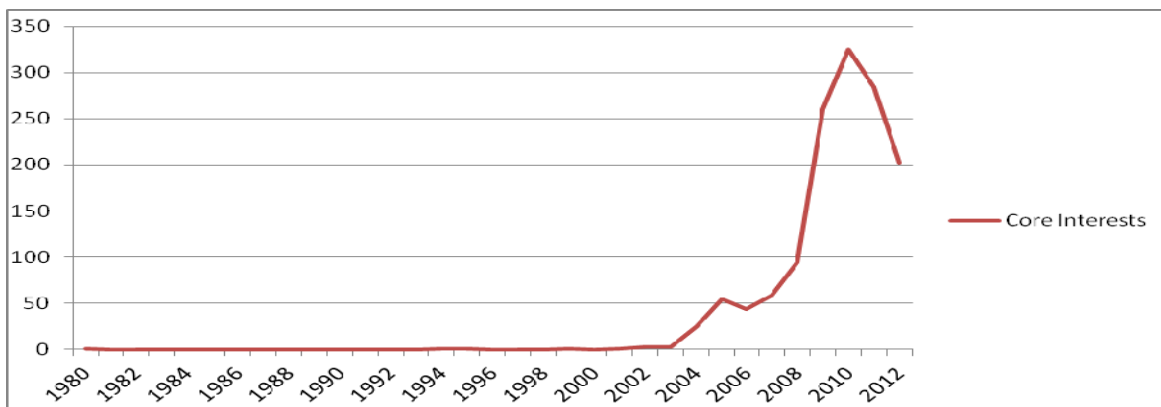


Figure 2: People's Daily Number of Articles with References to "Core Interests"

Source: Author's compilation from *Renmin Ribao* database, various years. Calculation of the Numbers for the year of 2012 stops at August 15.

As Figure 2 indicates, recently China's so-called assertiveness in foreign policy correlates to the declining trend in trading with the U.S., as reflected in the increasing usage of "core interest" since 2008. Nevertheless, the employment of "core interests" included but was not limited to the discussion on Taiwan in 2010. For instance, many Chinese scholars and practitioners steadily expanded it to other issues such as the South China Sea, causing more suspicion than necessary.

³⁷ Zhao Kejin, "Howeiji Shiqi de ZhongMei Guanxi: Huayuquan yu Guaze Jingzheng" [Sino-U.S. Relations in the Post-Crisis Era: Competition over Voice and Regulations], in Sun Zhe ed., *Howeiji Shijie yu ZhongMei Zhanlue Jingzu* (Beijing: Shishi Chubanshe, 2011), pp. 3-29.

³⁸ Hu Ruoyu, "Duobian Wutaishang de ZhongMei Guanxi: Daguozeren yu Dandang" [Sino-U.S. Relations on a Multilateral Stage: Responsibility and Burden to Great Powers], in Sun Zhe ed., *Howeiji Shijie yu ZhongMei Zhanlue Jingzu* (Beijing: Shishi Chubanshe, 2011), pp. 30-69.

It is worth noting that China begins its own reconsideration about its assertive international behavior, especially in the aftermath of U.S. reassertion of its presence in the Asia-Pacific. China's reconsideration leads to an increase of the usage of "peaceful development" in 2011 as a means of reassurance. On September 6, 2011, the Chinese government issued *the White Paper on China's Peaceful Development*, in which China clarified the core interests as: state sovereignty, national security, territorial integrity, national reunification, and for the first time to officially include China's political system and ensuring sustainable economic and social development.

For the time being, China may not downplay the term to show its assertiveness or weakness to the world, especially when Xi Jinping just assumed the office. Nevertheless, we can expect to see a more outspoken China in the years to come.³⁹

6. Implications for Japan and Taiwan

From the above discussion, it is safe to argue that unipolarity led by the U.S. would remain in the Asia-Pacific region in the short term. Since the U.S. grand strategy to Asia is to prevent the domination of any potentially hostile competitor, Friedberg further suggests that in the years to come it would be a wise option for the U.S. to adopt a Kennan-style strategy in which balancing plays a more significant role than engagement does.⁴⁰ Nevertheless, this policy choice adopted by the U.S. would lead to certain consequences that deserve our attention.

When the U.S. is facing a tight budget, it becomes a foremost task for Japan and ROC to sustain the U.S. engagement in the Asia-Pacific. To forge a mature friendship amid this changing context seems to be the first step, in which the U.S. needs to work with its allies in this region to manage their alliance relationships.⁴¹ And yet, how to manage relations with the U.S. and China simultaneously becomes the salient assignment for all others including but not limited to Japan and Taiwan, especially when the U.S. team on foreign and security policy is taking shape as of March 2013. Taiwan maintains a working relationship on a non-official basis with Japan. We can extend the people-to-people's campaigns of "Kizuna 311" between Japan and Taiwan to the

³⁹ For instance, China's latest view on Sino-U.S. relations can be found in Wu Xinbo, "Beijing's Wish List: A Wiser China Policy in President Obama's Second Term," *Brookings Northeast Asia Commentary* No. 64, December 2012, <http://www.brookings.edu/research/opinions/2012/12/11-china-obama-wu> (accessed 2012/12/14).

⁴⁰ Aaron L. Friedberg, "Bucking Beijing: An Alternative U.S. China Policy," *Foreign Affairs*, Vol. 91, No. 5 (September/October 2012), pp. 48-58.

⁴¹ Noboru Yamaguchi, "Facilitating the U.S. Pivot: A Japanese Perspective," *Global Asia*, Vol. 7, No. 4 (Winter 2012), pp. 42-45.

inter-governmental level to deal with territorial disputes over the Diaoyu/Senkaku Islands. This, of course, requires political will from top leaders of both Taiwan and Japan.

Second, it is of great importance to develop the regional security architecture that is capable of dealing with the changing security context. Now the U.S. and many democratic countries in the Asia-Pacific region enjoy their partnerships between the hub and spokes, and it will be strategically advantageous to most countries in the Pacific to include Taiwan under this framework. This security architecture should be able to meet the challenges of traditional and non-traditional security issues.

Third, with limited financial resources available for the U.S., Japan and Taiwan should work closely with each other and with the U.S. to ensure stability in the region by non-military means such as economic cooperation. This can be achieved bilaterally and/or multilaterally, but political will is a necessary condition. This is of significance especially when Japan and Taiwan are involved in a dispute for the time being. How Japan would officially respond to Taiwan's East China Sea Peace Initiative can be seen as a starting point to untie the knot.

In a nutshell, Japan and Taiwan should continue and consolidate our friendship in the near future, and how to keep the U.S. positively engaged in this area is the shared interest for both of us.

(2) A Focus on the United States of America

A Japanese View

Japan-Taiwan Relations under DPJ and KMT Administrations

in International Context

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Introduction

This paper offers an analysis of the major political trend of Japan-Taiwan relations under Ma Ying-jeou. Prior to his leadership, under Chen Shui-bian, Taiwan was in a doldrums period on many fronts: the popular identification with the Taiwan nation gained (greatly fluctuating) political salience, the cross-Strait relationship grew sour, and Taipei's relations with Washington ultimately deteriorated.¹ The continued and rapid advance of Chinese military and economic power also compounded the situation.

One of the top priorities for the Ma administration that began in 2008 was economic development, in particular the building of a solid bridge to the other side of the Strait, with a focus on the institutionalization of it. This, in turn, required even stronger bedrock in Taiwan's relations with Japan and the United States. The intention to forge a tripartite diplomatic front at the same time was unusual in the country's history of external relations. Ma had realized that a fruitful relationship with the mainland necessitated cultivating relations with *other* states – Japan and the United States – in light of security and economics.

Meanwhile, Japan's domestic politics made a similarly historic turn. Although the beginning of the Ma Ying-jeou office overlapped with the winding down of the dominant Liberal Democratic Party (LDP) led by pro-Taiwan Taro Aso, the party that dislodged the LDP from power, the Democratic Party of Japan (DPJ), never previously held executive power. Diplomacy was thus handled by relatively inexperienced politicians, such as Yukio Hatoyama, Naoto Kan, and Yoshihiko

¹ See, Yasuhiro Matsuda, "Kaizen no 'Kikai' wa Sonzai Shitaka?: Chuutai Kankei no Kouzou Henka," (Did 'Chances' for Reconciliation Exist?: Structural Changes of the Cross-Strait Relations) and "'Sairyō no Kankei' kara 'Sōgo Fushin' e: Beitai Kankei no Gekihen," (From the 'Best Relations Ever' to 'Mutual Distrust': Drastic Changes in U.S.-Taiwan Relations) in Masahiro Wakabayashi ed., *Posto Minshukaki no Taiwan Seiji: Chin Suihen Seiken no Hachinen, (Politics in Taiwan during the Post-Democratization Era: Eight Years of the Chen Shui-bian Administration)* Chiba: JETRO-IED, 2010.

Noda.

It is fair to say that unlike the U.S.-Taiwanese relationship, the Japanese-Taiwanese tie under Chen Shui-bian was, on balance, a steady one, perhaps except for those Japanese offices responsible for crisis management or business with China. Indeed, some have even noted that “it could have been most mature since formal relations were severed in 1972.”² One reason was that high-ranking politicians in the Democratic Progressive Party (DPP), born and reared in Taiwan, had affinity with Japan in comparison to those in Kuomintang (KMT) and were quick to feel pressured by the mainland—more so than by the United States. Geopolitically, Japan had historically played a minor, indirect role in Taiwan’s security. In addition, for the United States and Japan, conflicts in far-flung areas like Afghanistan and Iraq took time and attention away from the equally thorny yet dormant security issues surrounding the Taiwan Strait. Some analysts in Japan expressed concerns about what diplomatic principles and practices Ma and his senior advisers would have, although they believed them to construct a workable relationship with their counterparts in the mainland.³ In this respect, a Japan policy in retrospect was a major foreign policy challenge for Taipei.

This paper offers an analysis based on the interactions between Ma’s Japan policy and the DPJ government’s response. The main analytical interest is in seeing whether it is possible to discern an unforeseen diplomatic pattern in the Japanese-Taiwanese relationship, as in Japan as a “passive balancer,” the label I once put forward to describe its role in the Japan-China-Taiwan triangle after the Cold War.⁴

1. The Softening and Stabilizing of cross-Strait Relations

Ma Ying-jeou, the former mayor of Taipei, came to office by defeating Frank Hsieh, the former premier and the DPP candidate, in Taiwan’s fourth presidential election held on March 22, 2008. The result was a landslide victory for the KMT, the opposition party, which meant a second power shift in the executive office in Taiwan’s history. At the same time as the presidential election,

² Tadashi Ikeda, *Nihon, Taiwan, Chuugoku: Kizukeruka Aratana Kouzu, (Japan, Taiwan and China: Can They Establish New Structure?)* Tokyo: Sankei Shinbun Syuppan Co. Ltd., 2010, pp. 12-13.

³ See Yasuhiro Matsuda, “Improved Cross-Strait Relations Confusing to the Japanese,” *Asia Pacific Bulletin*, East West Center, No. 47, February 12, 2010, available at <<http://www.eastwestcenter.org/fileadmin/stored/pdfs/apb047.pdf>>, accessed on March 1, 2013.

⁴ See, Yasuhiro Matsuda, “Taiwan Mondai no Shintenkaï,” (New Changes on Taiwan Issue) Ryoko Iechika et al., <Kaiteiban> *Kiro ni Tatsu Nitchuu Kankei: Kako tonon Taiwa, Mirai eno Mosaku, (Sino-Japanese Relations at the Crossroads: Dialogue with the Past and Groping for the Future, Revised Edition)* Kyoto: Koyo Shobo, 2012.

two referenda were also held: one about whether Taiwan should seek accession to the United Nations, a proposal tabled by the DPP, and the other about whether Taiwan should “return” to the UN, a proposal made by the KMT. Neither received the sufficient turnout for passage.

Ma’s victory, along with the failure of the referenda and the arrest and jailing of former president Chen Shui-bian, signaled the end of what might be termed the “electoral politics through national identity salience,” a favorite tactic for Chen when he faced an uphill battle in elections. Given the power shift, Ma sought to revert to the status quo ante as an organizing political principle, especially with respect to the refusal to seek unification, independent statehood, or allow the use of force, to achieve or prevent these ends by China. This decision was built on his strong belief that the reason for the conflictual relations over the Taiwan Strait during the final years of Lee Teng-hui’s tenure throughout Chen’s leadership was rooted in the absence of a clearheaded policy regarding the “one China” issue with these two leaders. Ma, then, sought to rebuild a stable relationship by resuscitating the so-called “1992 consensus,” an oral agreement between Mainland China and Taiwan regarding what it meant by “one China.” It was believed that a summit meeting between the Association for Relations Across the Taiwan Straits (ARATS) and the Straits Exchange Foundation (SEF) was spurred by this consensus. Although the interpretation of the consensus differed somewhat, there was nonetheless a vague consensus over the definition of “one China.”⁵

The KMT’s win for the executive office was followed by another landslide in the January 2008 elections in the Legislative Yuan. Consequently, the incumbent KMT politicians became relatively free from institutional checks by the opposing parties. Under these circumstances, Ma grew more ambitious about undertaking a major policy shift regarding China—toward a pro-mainland one. The softening of the cross-Strait relations was seen in such new/reinstated linkages and ties in the economic and political arena, as exemplified by the resuscitation of regular talks between the ARATS and SEF, as well as the boosting of regular direct flights over the Strait, and opening tourism from Mainland China.

At the same time, Ma Ying-jeou called for a “Diplomatic Truce,” which sought to tamp down cross-Strait tensions over the struggle to win diplomatic recognition from foreign countries in

⁵ Tzong-Ho Bau, “Yige Chaoyue Lishi Juxian de Liangan Guanxi: Yingxiang ‘Gezhi Zhengyi, Zhuiqiu Shuangying’ de Xin Luxian,” (A New View on the Cross-Strait Relations which Rises above Historical Restrictions: New Policy Line of ‘Shelving Frictions and Pursuing Win-Win’) Tsao-Min Tsai ed., *Ma Zongtong Zhizheng Hou de Liangan Xinju: Lun Liangan Guanxi Xin Luxiang*, (New Dimensions of the Cross-Strait Relations after President Ma Took Office: On the New Directions of the Cross-Strait Relations) Taipei: Prospect Foundation, 2009, pp. 190-194.

regards to official membership in international organizations.⁶ Since the Communist Party in Beijing also found strategic interest in retaining the status quo, especially after the vexing “invocation” repeatedly made by Chen, the CCP gladly accepted Ma’s foreign policy course change. The policy between both sides of the Strait thus largely converged. Washington welcomed these stabilized relations as well.

Taiwan’s strategic turn yielded a substantive result. The ARATS and the SEF signed an ECFA (Economic Cooperation Framework Agreement) on June 29, 2010. Each side had high expectations for this long-negotiated agreement. China aimed at the long-term political and economic integration of Taiwan due in part to the preferential treatment over tariffs. Taiwan, on the other hand, envisioned the ECFA as an impetus for economic growth, especially in achieving enhanced trade competitiveness toward China and the rest of the world, favorable conditions for investment in Mainland China, and furthering strategic relationships with other states, such as adoption of free trade (FTA) or economic partnership agreements (EPA). The agreement of the ECFA, ironically, showed the extent to which Mainland China and Taiwan were, figuratively speaking, in the “same bed with different dreams.” In sum, however, it greatly helped steer the path toward stability in cross-Strait relations.

The United States was in general relieved to see the cross-Strait relationship stabilized in this process. In addition, U.S. concerns over the Taiwan matter softened due in part to Ma’s ability to cultivate amicable ties with the Americans. For instance, he tried not to invoke political reactions from Beijing when he visited Central and South American countries, by choosing not to transit in the east coast of the United States. This was a lesson learned during the Chen administration. In short, the U.S.-Taiwan relationship turned stable as well.⁷

2. Ma Ying-jeou’s Attempt to Overturn the “Anti-Japan” Image

Compared to the ways in which Taipei was successful at improving relations with Mainland China and the United States, it was not so smooth with regard to its relations with Japan. One of

⁶ Ming Lee, “Xin Zhengfu Liangan Waijiao Xiubing Zhengce zhi Linian yu Zuowei,” (Ideas and Actions of Diplomatic Truce Policy in the Cross-Strait Relations of the New Government in Taiwan) Bih-Jaw Lin ed., *Liangan Waijiao Xiubing Xin Siwei*, (New Thinking of the Cross-Strait Diplomatic Truce) Taipei: Prospect Foundation, 2009, pp. 26-29.

⁷ Yasuhiro Matsuda, “U.S.-Taiwan Relations under Ma Ying-jeou Administration,” Yoshiyuki Ogasawara and Yukihito Sato eds., *Ba Eikyuu Saisen: 2012 nen Taiwan Soutou Senkyo no Kekka to Sono Eikyoo*, (*Reelection of Ma Ying-jeou: Results and Influence of Taiwan’s Presidential Election in 2012*) Chiba: JETRO-IED, 2012, 97-101.

the primary obstacles was that the image of Ma Ying-jeou as an “anti-Japan figure” was entrenched in Japan’s policy circles. This should not be surprising, because he was the first mainland Taiwanese president in the past two decades since Chiang Ching-kuo; although Ma differed from Chiang in that he was a second generation. Many mainlanders who went through the war with Japan had deep ties with Japan themselves, but Ma is another type of traditional mainlander and had been known as an Americanist. He earned a doctorate in law at Harvard Law School, worked at a law firm in the United States, and was an English-Taiwanese interpreter for Chiang Ching-kuo. His interaction with Japan began when the Republic of China initiated a political movement on claiming sovereignty over the Senkaku Islands (*Tiaoyutai/Diaoyutai* Islands or *Diaoyu* Islands), the movement known as the Defending Tiaoyutai (*Paotiao/Baodiao*) Movement. Joining the rally marked a critical event for Ma. Some analysts note that Ma’s career as a politician started with participating in the criticism of Japan’s “territorial position” over the Senkaku Islands vis-à-vis China and Taiwan, respectively.⁸

The concern about Ma as an anti-Japan figure was felt in Tokyo from the very beginning of Ma’s term. Tadashi Ikeda, the representative of the Interchange Association, Japan (IAJ), and an unofficial but practical “ambassador” to Taiwan, for instance, could not help but having a “slight concern” when Ma came to power in 2008. In his 2010 book about the triangular relationship involving Japan, Taiwan, and China, Ikeda mentions Ma’s paper that argued that Taiwan would possess sovereignty over the Senkaku Islands, as well as the celebration of Ma’s KMT chairmanship in 2005 in which he upheld portraits of Taiwanese leaders of the anti-Japanese movement under the half-century-long Japanese colonial rule.⁹ Moreover, other Japanese analysts warned of his “special proximity to China.”¹⁰ In sum, many policy experts had suspicions of Ma as a hardliner in terms of his Japan policy.

The KMT government’s hawkishness became apparent soon after coming to office. On June 10, 2008, a Taiwanese boat collided with a Japan Coast Guard’s patrol ship near (8 kilometers to be precise) the Senkaku Islands before dawn, and the Taiwanese boat sank.¹¹ Although no one

⁸ Kazuo Asano, *Taiwan no Rekishi to Nittai Kankei: Kodai kara Ba Eikyuu Seiken made, (Taiwan’s History and Japan-Taiwan Relations: From Ancient Period to the Ma Ying-jeou Administration)* Tokyo: Wasedashyuppan, 2010, pp. 181-184.

⁹ Ikeda, op. cit., pp. 12-25.

¹⁰ Shiro Odamura, “Ba Eikyuu Seiken ni Taisuru Kigu to Kibou,” (Apprehensions and Hopes toward the Ma Ying-jeou Administration) *Japan Taiwan Quarterly*, Vol. 35, No. 161, autumn 2008, p. 6.

¹¹ For an overview of this incident, see Ikeda, op. cit., pp. 28-47.

died from the incident, Taipei dealt with it as a “territorial matter.” In a congressional debate at the Legislative Yuan, Liu Chao-shiuan, the premier of the Executive Yuan, replied in the affirmative when asked by an opposition party to gauge the government’s resolve to use force against Japan when necessary. Although the Japan Coast Guard officially acknowledged that the patrol ship had not acted properly in the wake of the event and expressed a “deep regret” about it, Taipei did not accept Japan’s apology. The problem was further compounded by another incident that took place six days following the original one, when private protest boats guarded by six Taiwanese government patrol ships encroached upon the territorial sea near the Senkaku Islands. The tension began to relax after the Taiwanese National Security Council (NSC), an office directly overseen by the president, took control over the domestic response and the Japanese government issued a letter of apology to the captain of the sunken Taiwanese boat under the name of the head of the 11th Regional Coast Guard Headquarters in Japan.

A casual look at Taiwan’s hardliner handling of the “collision” incident may lead one to believe that Ma was indeed an anti-Japan politician. Yet careful scrutiny over the course of political interactions suggests otherwise. Ma was, in fact, much more pragmatist and in favor of constructing stronger ties with Japan, as seen in his willingness to “own” the incident via the NSC. This was not an unusual move; rather, it is possible to discern a *pattern* of pragmatism in Ma’s diplomacy with Japan. For instance, his eagerness to make a constructive relationship between Taiwan and Japan was concretized in his January 2009 announcement of the Special Partnership between Taiwan and Japan.¹² It was understood as a “deep, special partnership of all aspects of the relationship, involving history, culture, the economy, and security” and defined 2009 as the initial year of promoting the special partnership. The initiative would advocate the cooperation and exchange on all fronts of the relationship in trade, cultural and youth exchange, tourism, and dialogue. The Taiwanese NSC was instrumental in bringing about the idea.¹³

Furthermore, the KMT government attempted to put popular Taiwanese nationalism under control. A good illustration of this is seen in a 2009 event, where two senior NSC officials, Su Chi,

¹² “Gaikoubu ga 2009 nen ‘Tai-Nichi Tokubetsu Paatonaashippu Kankei Sokushin nen’ wo Sengen,” (Ministry of Foreign Affairs Announces 2009 as the “Year of Promoting the Taiwanese-Japanese Special Partnership”) January 20, 2009, “The World and Japan” Database Project, <<http://www.ioc.u-tokyo.ac.jp/~worldjpn/documents/texts/JPTW/20090120.S1J.html>>, accessed on March 1, 2013.

¹³ Tadahiro Ishihara, “Ba Eikyuu Seiken Ka no Nittai Kankei: Keizokusei, Chousen, Jitsumu Kouryuu Wakugumi no Keisei,” (Taiwan-Japan Relations under the Ma Administration: Long-Term Relations, Challenges, and New Strategy) *Mondai to Kenkyuu, (Issues and Studies)* Vol. 41, No. 2, April-May-June, 2012, p. 81.

the secretary general, and Philip Yang, a senior adviser, persuaded Huang Hsi-lin, a chief executive director of the Chung Hwa Paotiao Alliance in Taiwan, which its protest boats should refrain from going to the Senkaku region. The officials stressed the ways in which Taipei put a lot of efforts towards improving relations with Tokyo and argued for the Taiwanese government's position not to escalate tensions. Although activists insisted on their original plan to reach the Senkakus, it sought to prevent them from departing on legal grounds. The show of navy ships outside the bay was enough to dissuade the activists from taking action.¹⁴

Japan also took some missteps in dealing with Taiwan. For instance, tensions arose in May 2009, when Masaki Saito, the then head of the IAJ Taipei office, remarked that "Taiwan's political status in accordance with international law has yet to be resolved", as if it were an official position of the Japanese government.¹⁵ Apparently, it was not a thoughtful comment, because the real official position since 1972 has been one in which "Japan is not in a position to determine (viz., Taiwan's international political status)." As a result, the Taiwanese government declined Saito to meet with its senior officials for the time being. Some Japanese scholars indicate that in comparison to the previous two predecessors, the Ma administration intended to garner respect for Taiwan as a "sovereign state" and pursue an "equal" relationship between Taiwan and Japan.¹⁶

In short, Ma Ying-jeou's diplomatic trajectory on Japan can be characterized as the intention to be seen as "a Japan expert or even a 'friend' of Japan."¹⁷ His consistent effort to replace the initial anti-Japan image with an improved one bore fruit, as he received a positive reputation from the Japanese side and the original perception appeared to be largely contained.¹⁸ The emerging reputation rightly captures Ma's diplomatic organizing principle vis-à-vis Japan, for it is critical to understand that being anti-Japan is not tantamount to insisting on Taiwan's position *in the interest of* Taiwan. This is not unusual: Tokyo governor Shintaro Ishihara, for example, has received a similar charge of being an ultranationalist from both China and Taiwan, although he has long been known for being a pro-Taiwan politician.

¹⁴ "Chougyodai (Senkaku Shotou) wo Mamorou Undou nitsuite," (On Defending Tiao-yutai Islands (Senkaku Islands) Movement) Taiwan News Web, September 17, 2010, <<http://taitsu-news.com/front/bin/ptdetail.phtml?Part=th10091701&Category=0>>, accessed on March 1, 2013.

¹⁵ Masao Nakagawa, "WHO to Nikka Heiwa Jyoyaku," (WHO and The Sino-Japanese Peace Treaty) *Toa, (East Asia)* No.504, June 2009, pp. 57-59.

¹⁶ Ishihara, op. cit., pp. 78-79.

¹⁷ Ikeda, op. cit., p. 49.

¹⁸ Ishihara, op. cit., p. 62.

3. An Improved Private Partnership between Japan and Taiwan

The pragmatism on the part of Ma Ying-jeou is quite reasonable, considering that a sour Japan-Taiwan relationship is highly unlikely to score political points for Taiwanese politicians. The same can be said of the Japanese counterparts. This is especially true because both of them have had very friendly private partnerships for quite a long time. Some numbers make this point very clear. For instance, the bilateral trade in 2011 reached 52.21 billion U.S. dollars for Japanese exports to Taiwan, and 18.24 billion dollars for Taiwanese exports to Japan, which amounted to an export surplus of 33.97 billion dollars to Japan. The figures mean that Japan ranked as the fourth largest importer for Taiwan in terms of dollar value and Taiwan the largest from Japan. For Taiwan, Japan is the second largest trade partner after China in terms of the combined dollar value of both import and export. As for tourism, the number of Taiwanese visitors to Japan reached 1.39 million in 2008, which means that Taiwan became the second highest-ranking visitor nation to Japan after South Korea. Japanese travelers to Taiwan in 2011 also increased by 19.9 percent, numbering 1.3 million people.¹⁹

In addition to deepening economic ties, public opinions buttress private partnerships. According to the 2009 poll on Taiwanese' perception of Japan conducted by the IAJ, 52 percent indicated Japan as their most favorite country, while 8 percent chose the United States as next favorite.²⁰ As Table 1 shows, Taiwanese see Japan in favorable terms by a wide margin in comparison to their perception about other important states, including China and the United States.

Likewise, Japanese views about Taiwan are, on average, quite favorable. The public opinion poll conducted by the Taipei Economic and Cultural Representative Office (TECRO) in 2009 seen in table 2 reported that 91.2 percent of the Japanese respondents viewed Japan-Taiwan relations as "good," 65 percent believed Taiwan to be "trusted," and 56 percent felt "close" to Taiwan. In general, Japanese have consistently seen the United States as a very intimate country while closeness to China has largely been in decline over the past 20 years. But table 2 clearly shows that Taiwan appears very close to many Japanese' minds.

¹⁹ "Nittai Kankei," (Japan-Taiwan Relations) Interchange Association, Japan, May 28, 2012, <http://www.koryu.or.jp/ez3_contents.nsf/12/F3CE8A140E14BA4649257737002B2217?OpenDocument>, accessed on March 1, 2013.

²⁰ *ibid.*

Table 1. The Main Result of Taiwanese Opinions about Japan.

Question	Answer Choice	2008 (%)	2009 (%)
What is your most favorite country (region)?	Japan	38	52
	Taiwan	31	N/A
	the U.S.	5	8
	China	2	5
What is the country (region) Taiwan should have the closest relations with?	China	34	33
	Japan	31	31
	the U.S.	20	16
Do you feel proximity to Japan?	Yes	69	62
	No	12	13

Source: The Public Opinion Research in Taiwan on Perceptions about Japan, Interchange Association, Japan, available at <http://www.koryu.or.jp/taipei/ez3_contents.nsf/04/4B83AF9AE8363E8D492576EF002523D4?OpenDocument>, accessed on March 1, 2013. In the 2008 poll, 31 percent mentioned Taiwan as the most favorite country (region). This is believed to be mistakenly framed in the questionnaire. Excluding the 31 percent, 54 percent of the remaining population indicated Japan.

Table 2. Summary of the Japanese Views about Taiwan.

Question	Answer Choice	2009 (%)	2011 (%)
Do you feel proximity to Taiwan?	Yes	56.1	66.9
	No	43.2	33.1
What do you think Japan's relations with Taiwan today?	Good	76.0	91.2
	Bad	11.3	8.8
Do you trust Taiwan	Yes	64.7	84.2
	No	23.0	15.8

Source: Opinion Polls on Taiwan (conducted April 27, 2009, and June 1, 2011), available at <<http://www.taiwanembassy.org/ct.asp?xItem=202392&ctNode=3591&mp=202>>, accessed on March 1, 2013.

Further, Taiwan's contribution to, and assistance for, the aftermath of the massive earthquake and the tsunami on March 11, 2011, are well worth noting: the monetary donation that amounted to an estimated 20 billion yen, a 28-member rescue crew, and a great deal of foodstuff and

other materials.²¹ Yet this does not necessarily translate into the Track I realm. For instance, when the Japanese government organized an event commemorating the first anniversary of the March 11 earthquake, TECRO representative Feng Chi-tai was neither able to sit in the group of foreign diplomats nor even to donate flowers. Voices of criticism arose from both Japan and Taiwan, and Prime Minister Noda acknowledged this arrangement by the Japanese government to be inappropriate during a Diet session.²² Meanwhile, the Emperor and Empress expressed their gratitude to Taiwan's contribution in person at the spring royal reception (*Enyukai*), when they invited Feng.²³ It was a quite unusual move by the Emperor and Empress in such an occasion. The culmination of the ongoing private partnership led to what some analysts from both sides characterize as "the most favorable" since the severing of formal diplomatic tie.²⁴

4. Fast Apace with Pragmatism

Cross-Strait stability has had a ripple effect on the progress of pragmatic relations for Japan and Taiwan. In other words, for Taiwan, Mainland China becomes less of a constraining factor when calculating how to advance Taiwan's interest. This is an auspicious condition, because if China throws a wedge between Japan and Taiwan, the Ma administration's political basis would be deeply shaken, a situation in which the DPP would take advantage.

On the part of Taiwan itself, the Ma administration has been conservative about taking new or radical steps to make a breakthrough in its relations with Japan. For instance, Ma appointed Feng Chi-tai, a close aide and a former career diplomat, the representative to Japan. Feng has remained moderate about making demands to Japanese counterparts. Thus, Taiwan had a propitious political environment to strengthen the Japanese-Taiwanese tie based on the principle of pragmatism.

There is a long list of a wide variety of events and projects achieved under Ma's watch, except for formal agreements (to be discussed later). These include the Japanese

²¹ "Nittai Kankei," (Japan-Taiwan Relations) Interchange Association, Japan, May 28, 2012, <http://www.koryu.or.jp/ez3_contents.nsf/12/F3CE8A140E14BA4649257737002B2217?OpenDocument>, accessed on March 1, 2013.

²² "Lengluo Taiwan Daibiao, Ri Daoqian yu Mang Pieqing," (Japan Apologizes for Treating Taiwan Cold-hearted) *Apple Daily*, (Taiwan) March 14, 2014.

²³ "Taiwan Zhenzai Ganen e Ri Huang xiang Wo Daibiao Zhixie," (Japanese Emperor Expresses Gratitude to Taiwan's Contribution to Support Disaster Victims) *Liberty Times*, April 20, 2012.

²⁴ "Liangguo Daibiao Buyueertong: Tai-Ri Guanxi 40 nianlai Zuihao Zhuangkuang," (Representatives from both Taiwan and Japan Say: Taiwan-Japan Relations Reaches the Best Stage in the Past 40 Years) *Liberty Times*, May 3, 2012.

government-funded research on Japan in major universities in Taiwan, the airplane opening of a Tokyo (Haneda)-Taipei (Songshan) route, and the establishing of a TECRO office in Sapporo, where Taiwanese rank first as foreign visitors. Their achievements have been readily acknowledged in public. Table 3 chronicles main events and projects between 2008 and 2012.

Table 3. Examples of Pragmatism between Japan and Taiwan (excluding formal agreements).

Year	Description
2008	- Taiwan's announcement to define the tie as a "special partnership" to move pragmatic relations to a higher level
2009	- Taiwan's announcement of 2009 as the "year of promoting the Taiwanese-Japanese special partnership"; Japan's welcoming reaction - Instituting of a working holiday visa, Japan's aid to a typhoon in Taiwan, the opening of a contemporary Japan study center in National Chengchi University and other universities, of a TECRO office in Sapporo, and an agreement to open the Tokyo (Haneda)-Taipei (Songshan) airline
2010	- Opening of the Tokyo (Haneda)-Taipei (Songshan) airline
2011	- Passage of the Act on Facilitation for Exhibiting Overseas Works of Art, etc. to the Public in Japan, allowing Taiwan's national palace exhibits to be placed in 2014 - An opening ceremony of the Yoichi Hatta Memorial Park (Yoichi, a hydraulic engineer in Taiwan under Japanese colonialism), with attendees including former Prime Minister Mori, 25 Diet members from Japan, and President Ma - A famous karaoke contest (" <i>Nodo-Jiman</i> " sponsored by NHK, the Japanese public network) held in Taiwan
2012	- The reception commemorating the reconstruction of Fukushima after the Great East Japan Earthquake, attended by President Ma who announced the relaxing of the travel restraint to Fukushima - Announcement to grant Jeffrey Koo, Sr. and Chang Yung-fa the Order of the Rising Sun (2nd Class, Gold and Silver)

Source: the IAJ website, May 28, 2012,

<http://www.koryu.or.jp/ez3_contents.nsf/12/F3CE8A140E14BA4649257737002B2217?OpenDocument>, accessed on March 1, 2013. Author corrected misspells found on the website.

What stands out among these developments are a series of de facto formal agreements at practically “embassy” levels between the IAJ and the East Asia Relations Commission, the Taipei-based headquarter of the TECROs in Japan. There was a “memorandum on the promotion of exchange and cooperation” in 2010, as well as an “investment protection protocol,” and an “Open Sky protocol,” both in 2011. Table 4 lists six important agreements.

In July 2011, these offices released a “Japan-Taiwan ‘Kizuna’ Initiative,” a bilateral plan to assist reconstruction and promote tourism in Japan in the wake of the March disaster. The following year saw a “memorandum on the mutual cooperation in the area of patent registration” and a “memorandum on the exchange of monetary information regarding money laundering and terrorism finance provision.”

Table 4. Agreements between the IAJ and the East Asia Relations Commission, 2011-2012.

Date	Name of Agreement
4/30/2010	Memorandum on the promotion of exchange and cooperation in 2010 (extended beyond 2010)
9/11/2011	Protocol to liberalize, promote, and protect investment for mutual cooperation
11/10/2011	Letter of exchange regarding the maintenance of private airliners
7/14/2011	“Kizuna” Initiative for reconstruction assistance and tourism promotion in the aftermath of the Great East Japan Earthquake
4/11/2012	Memorandum on the mutual cooperation in the area of patent registration
4/25/2012	Memorandum on the exchange of monetary information regarding money laundering and terrorism finance provision

Source: various pages from the IAJ website.²⁵

²⁵ See the following links for information:

<[http://www.koryu.or.jp/ez3_contents.nsf/15aef977a6d6761f49256de4002084ae/1c11e1537f7f22e949257715000a735c/\\$FILE/20100430.pdf](http://www.koryu.or.jp/ez3_contents.nsf/15aef977a6d6761f49256de4002084ae/1c11e1537f7f22e949257715000a735c/$FILE/20100430.pdf); http://www.koryu.or.jp/ez3_contents.nsf/0/D744E5678982A3454925791200418C8F?OpenDocument; http://www.koryu.or.jp/ez3_contents.nsf/New/715B816A750BD15049257913001BA34D?OpenDocument; [http://www.koryu.or.jp/ez3_contents.nsf/0/743a046cef14c564492578cd0006608a/\\$FILE/kizuna.pdf](http://www.koryu.or.jp/ez3_contents.nsf/0/743a046cef14c564492578cd0006608a/$FILE/kizuna.pdf); http://www.koryu.or.jp/ez3_contents.nsf/Top/9863180816113BB9492579D5001A768A?OpenDocument; http://www.koryu.or.jp/ez3_contents.nsf/Top/E57276A5BD7B7783492579EB0003C093?OpenDocument>, accessed on March 1, 2013.

While these economic and social agreements are private in nature and do not require enforcement by the states, these are nonetheless historic moves, especially from Japan's standpoint. They can be put in action immediately and are actually necessary in many ways given the implementation of the FTA between Japan and Taiwan.

As noted above, the Chinese government did not voice dissatisfaction vis-à-vis Japan in an explicit manner. Given the overall stable trajectory over the Taiwan Strait, as exemplified by a series of practical agreements and high-level governmental interactions on a regular basis, Taiwan and Japan can now assume with increased confidence that protest from China will be at best a "*pro forma demarche*." China now needs to consider, before making a decision to voice dissatisfaction officially, the potential adverse consequences of do so, especially in the extent of popular opinion in Taiwan.

Despite the development of a pragmatic relationship through these agreements, Japan's policy-making process with respect to Taiwan remains unclear, particularly when compared to Taiwanese policy on Japan. As of 2012, much of the actual processes that eventually yielded these results are difficult to examine for observers outside the government. At a minimum, it is safely assumed that these decisions did require judgment on the part of senior level politicians in the central government.

5. Rivalry over the Senkaku Issue and Its Limitation

In spite of enjoying the progress of pragmatic relations with Japan, the Ma administration in its second term began to become involved in the Senkaku conflict between Japan and China, attempting to be an "actor" in the dispute. The conflict started from controversial statements made by Tokyo Governor Shintaro Ishihara in April 2012 that called for the purchasing of the islands from a Japanese citizen. In response, then prime minister Yoshihiko Noda and his staff made a firm decision to purchase three out of five islands in September of that same year in order to prevent the Ishihara-led Tokyo government from so and reduce tension.²⁶ Although the central government insisted this move was aimed at reducing risks to the status quo inherent in an Ishihara-controlled

²⁶ "Japan Said to Have Tentative Deal to Buy 3 Disputed Islands from Private Owners," The New York Times, September 6, 2012, available at <http://www.nytimes.com/2012/09/07/world/asia/japan-agrees-to-buy-islands-at-center-of-dispute-with-china.html>, accessed on March 21, 2013.

scenario, this “nationalization” of the disputed territory ultimately resulted in damaging the Sino-Japanese relations during and after the purchasing process.

China did not accept Japan’s explanation for purchasing the islets, criticized Japan with extremely harsh language, canceled celebration ceremonies surrounding the 40th anniversary of normalization of the diplomatic relations between the two countries, virtually “organized” more than 100 anti-Japanese demonstrations/riots, underwent military exercises, and sent government owned ships into the Senkaku’s territorial water.²⁷ The fallout has resulted in a 40-year low in Sino-Japanese relations.

President Ma Ying-jeou released the “East China Sea Peace Initiative” in the beginning of August 2012, before the deterioration of the Sino-Japanese relations escalated. The initiative calls for all three parties, the Republic of China, Mainland China, and Japan; to (1) refrain from taking any antagonistic actions, (2) shelve controversies and not abandon dialogue, (3) observe international law and resolve disputes through peaceful means, (4) seek consensus on a code of conduct in the East China Sea, and (5) establish a mechanism for cooperation on exploring and developing resources in the East China Sea.²⁸

Taiwan, however, began to assert itself by using physical means in the disputed water.²⁹ Scores of fishery ships from Taiwan went into the Senkaku’s territorial water and made demonstrations with an escort of ten Taiwanese Coast Guard Administration vessels on September 25, 2012. The Taiwanese navy dispatched one Cheng Kung and two Chi Yang-class frigates in waters off the coast of northeastern Taiwan in support of the Taiwanese fishing boats. The fishermen were subsidized by the most famous pro-China businessman in Taiwan, Tsai Eng-meng, who dominates pro-China mass media on Taiwan, and thus naturally left the image in the minds of many that Taiwan tries to acquire fishery interests through utilizing deteriorated Sino-Japanese relations. An U.S. Congressional Research Service released a report suggested that U.S. Congress

²⁷ See, Ryoichi Hamamoto, “Senkaku Kokuyuka de Chuugoku ga Gekiko, Totaikai Mae no Jinjikoso mo Gekika,” (China Gets Angry with Japan’s Nationalization of the Senkaku Islands, Power Struggle over the Party Congress also Intensifies) *Toa, (East Asia)* No. 544, October 2012, pp.48-56.

²⁸ “President Ma Proposes the East China Sea Peace Initiative, Calls on All Parties Concerned to Resolve Diaoyutai Dispute Peacefully,” Ministry of Foreign Affairs, Republic of China (Taiwan), August 5, 2012, available at <<http://www.mofa.gov.tw/EnOfficial/Topics/TopicsIndex/?opno=cc7f748f-f55f-4eeb-91b4-cf4a28bbb86f>>, accessed on March 21, 2013.

²⁹ “Taiwan, Japan in High-Seas Standoff,” *Taipei Times*, September 26, 2012, available at <<http://www.taipetimes.com/News/front/archives/2012/09/26/2003543677>>, accessed on March 21, 2013. “Analysis: Local Politics, Not China, behind Sea Gambit,” *Taipei Times*, September 27, 2012, available at <<http://www.taipetimes.com/News/front/archives/2012/09/26/2003543677>>, accessed on March 21, 2013.

should examine cooperation between Beijing and Taipei in the East China Sea issue.³⁰

Taiwan gained an unprecedented position during the Senkaku conflict. Taiwanese Defending Diaoyutai activists are not under the control of either the PRC or Japan. If they decide to demonstrate near the Senkaku Islands, Taiwan's government must send coast guard vessels to escort them. This means that Taiwan can "destroy" Sino-Japanese relations anytime by sending these ships. President Ma's approval rating in opinion polls became very low, under twenty percent, and so he opted to show a tougher posture against Japan in a bit to increase domestic support.³¹

Japan, on the other hand, was in an unprecedented position in the latter half of 2012. Japan's relations with its neighboring countries quickly deteriorated in 2012, so it needed to seek ameliorating relations with Taiwan. Japanese foreign minister Koichiro Gamba released an accommodating statement toward Taiwan in the wake of Taiwanese ships' entry into territorial water of the Senkakus.³² It said that Japan seeks to resume fishery talks with Taiwan. Suddenly, a long-awaited fishery agreement between Japan and Taiwan became a possibility.

Beijing has urged cooperation over the islands to advance cross-Strait ties. U.S. policy concerns trends across the Taiwan Strait since 2008, particularly the question of whether Taiwan's moves to engage more closely with the PRC have created a greater willingness in Taipei to cooperate with China on issues in which it sees their interests as aligned, such as in the East China Sea.³³ As for the United States, Japan is the most important ally in the region, and the rivalry between Japan and China, on many fronts, was already a pressing issue for Washington. Therefore, Taiwan, also a security partner of the United States, should not complicate the conflict. In response to U.S. concerns, Taiwan's foreign ministry formally announced that there was no basis for cross-Strait action on Diaoyutais with written documents in February 2013. President Ma also made a strong statement with the same contents.³⁴ As a consequence, Taiwan chose to seek

³⁰ "US Report Raises Questions over Cross-Strait Ties," *Taipei Times*, January 10, 2013, available at <<http://www.taipetimes.com/News/front/archives/2013/01/30/2003553775>>, accessed on March 21, 2013.

³¹ "Ma Zongtong Lianren Bageyue Manyidu Mindiao," (President Ma Ying-jeou's Approval Rate for Eight Months in His Second Term) TVBS Poll Center, January 30-31, 2013, <http://www1.tvbs.com.tw/FILE_DB/PCH/201302/87myrfs62t.pdf>, accessed on March 21, 2013.

³² "Japan Agrees with 'Spirit' of Ma's Peace Initiative," *The China Post*, October 6, 2012, available at <<http://www.chinapost.com.tw/taiwan/foreign-affairs/2012/10/06/356740/Japan-agrees.htm>>, accessed on March 21, 2013.

³³ Ben Dolven, Shirley A. Kan, and Mark E. Manyin, "Maritime Territorial Disputes in East Asia: Issues for Congress," *CRS Report for Congress*, (R42930), January 30, 2013, p.25, available at <<http://www.fas.org/sgp/crs/row/R42930.pdf>>, accessed on March 21, 2013, p. 25.

³⁴ "No Basis for Cross-Strait Action on Diaoyutais: MOFA," *Taipei Times*, February 20, 2013, available at <<http://www.taipetimes.com/News/front/archives/2013/02/20/2003555230>>, accessed on March 21, 2013.

fishery talks with Japan, and not cooperate with the Mainland China for “defending Diaoyutai.” The United States played a role of stabilizer between Japan and Taiwan during the Senkaku crisis.

6. The Entrenched “Semiofficial Political Relationship”

For Japan and Taiwan, unofficial ties through economics and trade have been the primary route for exchange. Despite the absence of an internationally recognized diplomatic relationship, the two players do have an “unofficial/semiofficial political relationship.” Under Lee Teng-hui and Chen Shui-bian, for instance, Taipei made various demands to Japan, in the hope of achieving what might be called a “diplomatic breakthrough,” due to the steady relations with Tokyo and the shaky one with Beijing. These demands include Lee’s repeated request for a visit to Japan, which China consistently objected to.³⁵ Japan was put in a dilemma between Taiwan’s insistence and the pressure from China.

In other words, Japan is an easy target for China and for encirclement from Taiwan. In international relations, a balancer is assumed to play actively in cutting deals or forging an alliance with others. Since Japan does not neatly fall into this category, it is apt to call it a “passive balancer” in its relations with China and Taiwan.³⁶ This has been a typical diplomatic pattern in this triangle.

Japan has occasionally sided with Taiwan in some instances with the awareness that this would undermine China’s interest. These include (1) matters related to Japan’s security and the U.S.-Japan alliance; (2) issues regarding Japan’s sovereignty; (3) nonpolitical matters like economics and society; and (4) humanitarian matters. The underlying assumptions are “uncompromisable interests and values” and “(pro) active judgment (as a sovereign state)” when China and Taiwan have a competitive, zero-sum relationship.

This structure, it seems, has not fundamentally changed. What is new is the careful consideration, between Mainland China and Taiwan, of how the other might react. Neither wants to shake the ongoing institutionalization of cross-Strait exchange and the regularized interactions. Now an emerging “politicized pattern” is clear to see: Japan and Taiwan need to consider potential checks from China in order to move their relations forward. The initiative was made by the Ma

³⁵ See, Matsuda, “Taiwan Mondai no Shintenkaiki.”

³⁶ *ibid.*

administration but the Japanese counterpart acted in a forthcoming fashion.

This pattern is now half-a-decade in the making, beginning in 2008. On March 22, following his election, Ma Ying-jeou made his first exclusive foreign press appearance with Japanese media. It suggested his strong willingness to construct a stronger tie with Japan. Later on May 20, the IAJ sent a message from the Japanese government to congratulate him on his election victory, which had not taken place since the diplomatic tie severed. Although Washington sent a similar message, the European Union did not.³⁷ It is, of course, hard to determine whether the congratulatory message from the Japanese government should be considered part of “unofficial pragmatism.”

Japan, in turn, paid closer attention to Taiwan. In 2010, three former prime ministers from the LDP (Taro Aso, Shinzo Abe, and Yoshiro Mori) visited Taiwan. Some analysts note that they could now visit not as incumbents but as members of an opposition party.³⁸ But it is worth noting that if they had visited Taiwan when Chen Shui-bian was president, China would have reacted strongly in opposition. The scope and extent of interactions between politicians widened in 2011, especially following the earthquake and tsunami in March.³⁹ Within a week after the quake, Ma appeared on a television program, where he asked regular Taiwanese for donations of relief support. A month after the incident, the IAJ office in Taipei publicly released a letter from then Prime Minister Naoto Kan that read, “Thank you for the Kizuna.” In the following April and May, a group of visitors led by the Legislative Yuan speaker Wang Jin-pyng went to Tokyo and spoke with several former Japanese prime ministers.

Beginning in May, a number of prominent politicians paid a return visit to Taiwan to express gratitude for Taiwan’s support for the post-quake reconstruction. These included Seishiro Eto, the incumbent deputy speaker of the lower house, Shinzo Abe (then former prime minister), Yoshiro Mori (former prime minister), and Takeo Hiranuma, the president of the Japan-ROC Dietmembers Consultative Committee (*Nikka Kankei Giin Kondankai* or *Nikkakon*).⁴⁰ The culmination of the series of events took place in September, when Prime Minister Noda announced

³⁷ “Nittai Kankei,” (Japan-Taiwan Relations) Interchange Association, Japan, May 1, 2013, <http://www.koryu.or.jp/ez3_contents.nsf/12/F3CE8A140E14BA4649257737002B2217?OpenDocument>, accessed on March 1, 2013. Ikeda, op. cit., pp. 24-25.

³⁸ Ishihara, op. cit., pp. 71-72.

³⁹ See, Ishihara, op. cit., pp. 73-74.

⁴⁰ Ishihara, op. cit., pp. 74-75.

in a main Diet session that “We would like to express our deep and sincere appreciation of heartfelt and friendly support from Taiwan.”⁴¹ Finally, Mori again visited Taiwan in April 2012, making it three years in a row.⁴²

In September 2012, Noda talked to Lien Chan, the former vice president, at the annual Asia-Pacific Economic Cooperation (APEC) meeting held in Vladivostok, Russia.⁴³ This was a remarkable development, because it can be seen as the “first Japan-Taiwan summit” since the severing of the “diplomatic” ties, though it was done at a multi-lateral occasion. There has thus far no evidence of China’s opposition to this “summit.” The meeting left a clear message that the Noda administration was eager to strengthen political ties with Taiwan.

Conclusion

This paper has examined “Japan-Taiwan relations under DPJ and KMT administrations,” with a focus on the rise of minority mainlanders to office through the democratic process, the ongoing stability over the Taiwan Strait, and an historic power shift in Japan. To sum the primary finding, the following three points are of particular importance.

First, the decades-long uninterrupted interactions played a key role prior to the recent constructive developments. Japan and Taiwan have long cherished unofficial relations in such areas as trade, human exchange, and emotion. Since Japan is an ally to the United States, the most important country to Taiwan’s security, a conflictual relationship is not the interest of either side. In this respect, it is quite rational for Ma Ying-jeou to transform the “anti-Japan” image initially associated with him and to actively seek the strengthening of ties with Tokyo.

Second, a sound relationship across the Taiwan Strait has a noticeable impact on the advancement of pragmatic ties between Japan and Taiwan. This means that an incipient triangular tie between these three players has become entrenched. Rarely do analysts see Taiwan make excessive political demands to Japan, Japan assertively offer protest against China, and Japan in a plight of meting out a judgment that benefits all. Clearly, a moderate strategic environment

⁴¹ “Noda Shushou ga Taiwan ni Shyai Hyoumei, Taiwan de Ookiku Houdou,” (Widely Reported in Taiwan that Prime Minister Noda Expresses Appreciation to Taiwan) the Taipei Economic and Cultural Representative Office in Osaka, <<http://www.roc-taiwan.org/JP/OSA/ct.asp?xItem=220558&ctNode=5495&mp=247&nowPage=34&pagesize=15>>, accessed on March 1, 2013.

⁴² Ishihara, op. cit., p. 75.

⁴³ “APEC Shuangbian Huitan Da Gongshi: Tai-Ri Jiang Chongqi Yuye Tanpan,” (Bilateral Meeting Reached Consensus on Resume of Fishery Talks between Taiwan and Japan) *Liberty Times*, September 10, 2012.

between these three players is a foundation for a series of practical deals between Japan and Taiwan.

Third, a stable relationship across the Taiwan Strait indirectly helps Japan and Taiwan to build political relations at an unofficial level. Historically, key individual players have typically been prominent politicians, especially former prime ministers from the LDP. This has not changed considerably in the “new era.” The rationale here is that the Japanese government relied on these conservative politicians to preemptively deal with reactions from Beijing. At the same time, however, it is difficult to doubt that the DPJ administrations have been creative about deepening the relationship with Taiwan in an unforeseen manner.

These three factors serve as the bedrock of pragmatic relations between Japan and Taiwan in the new era. To be sure, there is no guarantee that this will last in the long-run. But it can be argued that the relationship with Taiwan is the only steady one in East Asia that Japan has had over several decades. As the foregoing strongly suggests, this is not a foregone conclusion; consistent effort and imagination are required for a stable relationship to persist.

(3) A Focus on Security Issues

A Japanese View

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Introduction

The security landscape in the Asia-Pacific region in a long run will mainly be determined by two most significant actors, the People's Republic of China and the United States. China's rise has been and will be a given and extremely prominent factor for the rest of region, while how fast and toward which direction China proceeds are open questions. The U.S. has made a significant step to keep being involved in the region's politics by declaring that it will rebalance itself towards the Asia-Pacific region. The following part of this chapter will discuss 1) how we should assess China's rise in the security arena, 2) what implications will the U.S. "Rebalance" toward the region have, and finally 3) what the rest of the region including Japan and Taiwan should do to achieve a better future regarding these circumstances.

1. Reality of the Rise of China in a Military Arena

According to *Military Balance 2012* published by the International Institute for Strategic Studies in London, China's military spending in 2010 was estimated to be 76.3 billion dollars next to U.S. spending of 693.6 billion dollars.¹ This figure exceeds any of U.S. allies such as UK's 57.8 billion dollars, Japan's 54.4 billion dollars, and Germany's 44.1 billion dollars. Supported by the rapid and continuous growth of China's economy, its military spending has enjoyed more than ten percent of its annual growth for more than two decades. As a result, China's current defense spending has become doubled in the last five years and eighteen times larger in the last twenty years.² While China's economy will likely to be slowed down at some point in the years to come, China's military spending might reach the same level as the U.S. at earliest by 2030 or at latest by 2050.

¹ The International Institute for Strategic Studies, *Military Balance 2012*, pp.467-469.

² Ministry of Defense, *Nihon-no Bouei (Defense of Japan) 2011*, p. 78

Assuming that China and the U.S. spend the same amount in 2040 for example, it should be noted that this does not necessarily mean the People's Liberation Army (PLA) and U.S. forces will become equally powerful and capable. This is because the actual capabilities of military forces cannot be measured only by their annual spending for a particular year but should rather be regarded as the result of the accumulated efforts for military buildups such as research, development and acquisition of weapons, recruiting and training of service members in the previous twenty to thirty years. Rapid growth of China's military spending in the recent decades implies at the same time that China used to spend so little in the past. In comparison with China's military expenditure in 2010 which equaled to one ninth of U.S. spending, China in 1990 spent only 11.3 billion dollars for defense: this is less than 4% of U.S. spending of 303.3 billion dollars.³ While we have to pay keen attention to China's rapid growth in military spending, we may also have to carefully assess its capability without overestimate.

In addition, it is not necessary to compare China only with the U.S. since it has a number of allies and partners who share common values. If the comparison becomes China versus the sum of U.S. and its allies and partners, there is no need to be pessimistic about the future. In other words, if the bond between the U.S. and its allies and partners is in a good shape, China may find little chance to fight against the U.S. and win: this situation may increase the possibilities of China to cooperate more with us. If China is with the rest of the region in keeping peace and stability, it is simply silly to compare China's military capability with others. If Japan and other allies of the U.S. continue modest but robust efforts for their own defense and try their best for stronger alliances with the U.S., we could avoid unwise mistakes to stand against China.

In recent years, PLA's air and naval forces have become more and more active in Japan's adjacent areas. A Han-class nuclear-powered submarine that remained submerging violated Japan's territorial water in November 2004. It was regarded as against international laws that prohibit naval vessels' entrance to territorial waters except for innocent passage, surface navigation in case of submarines. When a PLA Navy's fleet of ten vessels was passing between Okinawa and Miyako islands in April 2010, a helicopter dispatched from one of the destroyers and approached a Japan Maritime Defense Forces (JMSDF) ship, moved in an extremely close distance of a hundred yards and an altitude of a hundred feet. Since late 2012 when the Sino-Japanese relation was deteriorated because of higher tension over the disputed Senkaku (or Diaoyutai) Islands, ships and aircraft of maritime law enforcement

³ IISS Military Balance 1992, pp.18, 145.

agencies of China became more active and assertive around the islands. The Ministry of Defense in Tokyo revealed two incidents that PLA Navy frigates pointed JMSDF vessels with fire control radar as dangerous actions.

Such assertiveness can be read in two different ways. One aspect is that PLA's remarkably rapid modernization and buildup resulted in more active and assertive behavior of the naval and air forces. This is a reflection of China's military strength. Another aspect, however, may be a reflection of the immature nature of Chinese naval and air forces. As the pace of modernization has been so high in material terms, development of seamanship and airmanship may have been lagging behind, causing immaturity of respective operators. Taking the submarine fleets for example, if their locations are to be detected by their enemy, it may mean self-destruction. The situation where JMSDF ships, helicopters, and airplanes are patrolling overhead a submarine sitting in Japan's territorial water implies the boat would have been attacked and sunk if it were wartime. For helicopter pilots, destroyers with anti-air automatic weapons and missiles are the most deadly threat and it is operationally unwise to fly into the area covered by such weapons.

In the meantime, we have seen signs of growing operational capabilities including higher seamanship as a result of accumulated trainings and experience operating modern equipment. In 1989, when the PLA sent naval detachment to the U.S. for the first time, sailors who just arrived in Hawaii did not hide their exhaustion. In comparison, however, Chinese sailors and ships recently operating in the Gulf of Aden for multi-national counter-piracy missions are more than equal to other navies dispatched by most advanced countries. It is safe to say that Chinese forces have made a big progress in the last two decades in terms of mental readiness as well as material performance. In fact Chinese maritime actions that could be interpreted as assertive or aggressive have not been repeated too many times. For example, violation of territorial waters by PLAN submarine has not been observed since the incident in November 2004 described earlier. While different types of aircraft of different organizations approached close to JMSDF ships, there have been only a couple of times of similar actions in a short period of time and did not happen afterwards. In a sense Chinese sailors of PLAN and other maritime organizations might have been improving their ways to deal with navies and maritime organizations of other countries.

In short, while China's rise has been significant in military terms, the PLA may still have a way of certain length to go to catch up with the world's first class militaries. This implies that the U.S. along with its allies and partners in the region has good chance to shape the security environment under which

regional actors including China naturally incline toward cooperative rather than confrontational relations for peace and stability of the region. On the other hand, China's assertiveness in East China and South China seas while being interpreted as signs of both strength and immaturity may pose regional concerns since either case would result in unnecessary tension and uncontrollable escalation crisis.

2. U.S. Rebalance toward the Asia Pacific Region and its Implications

U.S. Department of Defense (DoD) released a new defense strategic guidance titled "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense" on 5 January, 2012. The guidance notes that the U.S. "*will of necessity rebalance toward the Asia-Pacific region.*"⁴ It explains the reason for this change as "U.S. economic and security interests are inextricably linked to developments in the arc extending from the Western Pacific and East Asia into the Indian Ocean region and South Asia."

While welcoming this emphasis on security of Asia, Japan may have to take a couple of points into account. First, increasing emphasis on the Asia-Pacific region in the current administration's foreign policy has been consistent since President Barack Obama took office in January 2009. President Obama's first foreign guest was Japan's Prime Minister Taro Aso, while Secretary of State Hillary Clinton made her first official overseas trip to Japan, Indonesia, South Korea and China.

In February 2010, the DoD released the Quadrennial Defense Review Report (QDR) 2010. Unlike the previous QDR released in 2006 which focused on the Global War on Terror with less attention on respective regions, QDR 2010 elaborated regional strategies with particular focus on Asia. The report specifically pointed out the importance of America's alliances with Japan and the Republic of Korea for deterrence and defense in Northeast Asia. It also declared to "transform Guam, the westernmost sovereign territory of the United States, into a hub for security activities in the region."⁵

U.S. Asia-Pacific policy has been further elaborated since last fall. Secretary Clinton's article "America's Pacific Century" published in the November 2011 issue of *Foreign Policy* was a comprehensive summary of the administration's policy focusing on the Asia-Pacific region. The

⁴ U.S. Department of Defense, *Sustaining Global Leadership: Priorities for 21st Century Defense*, released on January 5th, 2012.

⁵ U.S. Department of Defense, *Quadrennial Defense Review Report, February 2010*, pp. 59, 66.

article begins with the notion that “the future of politics will be decided in Asia, not Afghanistan or Iraq, and the United States will be right at the center of the action.”⁶ Her position was eloquently endorsed by President Obama’s speeches in Australia last November and followed by the new strategic guidance quoted earlier that illustrated the way how the strategy with focus on Asia-Pacific region should be implemented. In short, America’s coming back to Asia is not a mere change in policy priorities based on recent development in strategic environment. It is rather a policy reflecting the natural and immutable geo-strategic position where the United States stands.

The second point which needs serious consideration is that the shift toward the Asia-Pacific region may have fundamental aspect of demobilization from a wartime posture rather than a mere change in U.S. policy priorities. Secretary Clinton in her article quoted above notes “as the war in Iraq winds down and America begins to withdraw its forces from Afghanistan, the United States stands at a pivot point.”⁷ Disengaging from close combat in the two theaters, the U.S. seems to be ready for reestablishing a natural pose to prepare for future security challenges.

If this is true, we may have to answer the questions on what kind of normalcy we will face and how the U.S. and its allies should deal with the challenges in the future. It is obvious that we are not simply returning to the pre-9/11 world. The future world will be much more complicated with a set of unprecedented unknowns. China’s rise alone, for example, will bring tremendous opportunities and serious challenges that require strategic coordination among allies and friends in the region. In this context it is a good time for Japan to start discussions with the U.S. on mid-to-long-term security strategy based on the U.S. QDR 2010 and strategic guidance and Japan’s new Defense Program Guidelines adopted in late 2010. In fact the two countries have come to the same conclusion that they need to make their utmost efforts to engage in and hedge against China in seeking better relations while preparing for the worst. In military operational terms, there still is a big room for closer cooperation between the two countries. For example, Japan’s dynamic defense posture focusing on the Southwestern part of its territory will have significance on U.S. operations which place greater emphasis on Anti-Access/Area Denial (A2/AD) capabilities of possible opponents. If Japan establishes a modest but reliable defense posture for territorial waters and airspace as well as islands in the theater, it will work well as a reinforcement of U.S. capabilities to

⁶ Hillary Clinton, “America’s Pacific Century,” *Foreign Policy* (November 2011).
http://www.foreignpolicy.com/articles/2011/10/11/americas_pacific_century

⁷ Ibid

overcome A2/AD related challenges in the western Pacific.

The third point worth noting is that the U.S. rebalance toward the Asia-Pacific region should not be regarded as an anti-China strategy. U.S. allies and partners in this region should assume that the U.S. will try its best to aim at constructive and cooperative relationship with China when it returns to Asia. Secretary Clinton elaborated this point in her remarks at the U.S. Naval Academy on April 10, 2012 as follows:

“We are not seeking new enemies. Today’s China is not the Soviet Union. We are not on the brink of a new Cold War in Asia.... Geopolitics today cannot afford to be a zero-sum game. A thriving China is good for America and a thriving America is good for China, so long as we both thrive in a way that contributes to the regional and global good.... We will only succeed in building a peaceful, prosperous Asia Pacific if we succeed in building an effective U.S.-China relationship.”⁸

It is obvious that China and the U.S. as well as other regional countries will share common interests in various fields. When Chinese Defense Minister Liang Guanglie visited the United States in May 2012, he agreed with U.S. Secretary of Defense Leon Panetta on Sino-U.S. cooperation in the area of cyber security.⁹ In general, it is rather easy to attack in but extremely hard to defend in global commons such as outer space and cyber space, and any states including China and the U.S. are naturally vulnerable. We have witnessed various cases that governmental computer networks are attacked by small cyber criminal groups. Outer space too has the same characteristics. It is not difficult to destroy any satellites if one has technologies to launch a satellite and control it to get close to the target and eventually blow it up. That is one of the reasons why the Cold War enemies, the West and the East used to refrain from attacking each other in outer space. For sovereign states in the future, the only alternative for security in cyber and outer spaces is to cooperate with each other while respecting moratoriums on offensive actions in such spaces. In

⁸ Hillary Clinton, Forrester Lecture at the Naval Academy (April 10, 2012, Annapolis MD). <http://www.state.gov/secretary/rm/2012/04/187693.htm>

⁹ Kyodo News, “Beichu, Cyber Kougeki Taisho de Kyouryoku, Kokuboushou-kaidan de Icchi (Defense Ministerial Meeting to Agree on U.S. and China Cooperation on defense in cyber space),” May 8, 2012.

this regard, Sino-U.S. cooperation on cyber security is a matter of natural development and we should welcome such a course.

The fourth point which needs serious consideration may be slightly contrary to the first point on the consistency of America's Asia-oriented policy. It should be noted that there are wildcards which might cause another drastic change in U.S. foreign policy priorities. As discussed earlier, America's turning back to Asia is based on the assumption that wars in Iraq and Afghanistan are winding down. If situations in the two theaters become seriously worse, U.S. focus may shift away from the Pacific. Japan has to make every effort to reconstruct the post-war Iraq and Afghanistan and to revitalize the two economies so that those two countries will never become a hotbed for terrorist groups. Problems with Iranian nuclear programs too may draw America's attention back to the Middle East. This is another area where Japan has to work extremely hard to keep the precondition of U.S. emphasis on Asia's security intact. The Self-Defense Forces' counter piracy operations in the Gulf of Aden will have greater implications in a larger picture of security of the Middle East. Ironically, Japan has to pay keen attention to out-of-area security problems in order to secure peace and stability of the Asia-Pacific region with U.S. political commitment to and military presence in the region.

3. Four Tasks for Japan

(1) Engaging China through Mil-Mil Contact

The Sino-Japanese relationship in the first decade of the twenty-first century gradually developed from relations characterized as "politically cold but economically warm" towards "strategic relationship for mutual benefit." Military-to-military relations in accordance with political rapprochement have made certain progress in the last several years. China's attitude vis-à-vis Japan once looked stiffened in 2010 when a Chinese fishing boat collided into a Japanese Coast Guard ship, but has become relatively softened particularly after 3/11 when Chinese were serious about providing humanitarian assistance to Japan.

It is crucial for Japan's own defense to build reliable communication channels between the defense forces of Japan and China. Through efforts for confidence-building, the two countries could ease tension and avoid accidental confrontation which may occur between them. As modernization of Chinese naval and air forces continues and their blue-water fleet capabilities grow,

we will find more and more occasions that Chinese vessels pass straits between islands of the southwestern part of Japan. The Maritime and Air Self Defense Forces along with the U.S. Navy have been highly active vis-à-vis those Chinese activities for several decades. This situation will for sure result in more possibility of closer contacts between Chinese naval and air forces and those of Japan and the U.S. Under such situation, it is urgent for concerned parties including China, Japan, the U.S. and Taiwan to establish an effective communication channel between regional military and governmental maritime organizations. In this context, it is noteworthy that China and Japan have recently initiated a dialogue aiming at the establishment of a maritime communication mechanism.

Exchange programs between the PLA and the Japan Self Defense Force (JSDF), such as port visits of naval vessels, will play a significant role in enhancing mutual trust between and transparency of the two militaries. After receiving Chinese destroyer Shen Zhen at Tokyo Port in November 2007, Japan sent a JMSDF ship Sazanami to China in June 2008. In 2009, Chinese trainer Cheng He visited JMSDF bases at Etajima and Kure. Commanders of Regional Army of JGSDF and PLA's District Armies began mutual visit programs in 2010. It is both necessary and effective to build trustworthy relations between the two militaries and promote mutual understanding among people in uniforms in Japan and China, thus to build confidence between the two countries.

(2) Maintaining a Modest but Reliable Defense Posture

The National Defense Program Guidelines issued by the Government of Japan in late 2010 emphasizes the importance of dynamic defense posture centering on protection of the Southwestern part of Japan including remote islands. This, however, does not mean Japan sees China as a hostile entity. In the Tokugawa Shogunate era, stealing ten gold coins from a house used to cost capital punishment. This rule, however, would not apply if the door was opened. An opened door was regarded as an act of inducing crimes thus punishment was lighter than usual, and people were expected to be responsible for protection of their own property. In September 2010, a Chinese fishing boat rammed into a Japanese Coast Guard patrol ship. The skipper of the Chinese ship was reportedly drunk and this incident caused serious tension between China and Japan. To avoid such mishaps, it is crucially important that law enforcement organizations of Japan and China as well as Taiwan work hard to secure maritime orders around their territorial waters. It is also important for

the countries that may be involved to prevent further escalation of events at a lowest level of tension as possible when something wrong happens.

Defensive operations for and protection of Japanese nationals on remote islands in the Southwestern maritime theater is not an easy task. Southwestern Islands are geographically as wide as Honshu, the main island of Japan, as the distance from south of Kagoshima to Yonaguni Island is equal to that from the northern tip of Honshu, Aomori to the western tip Shimonoseki. JSDF have only a small size of forces currently deployed in the Southwestern maritime theater and only a handful of small bases on a couple of islands except for the main island of Okinawa. It is an urgent task to build bases for deployment as base points on some of the islands as well as to reinforce air and sea lift capabilities in the need for rapid deployment.

(3) Encouraging China's Active Role for International Security

China should be welcomed by others when it actively participates in international efforts for peace and stability of the world. The PLA sent military observers to the Middle East for UN peacekeeping operations for the first time in 1990. This was followed by its first ever dispatch of organized unit, an engineer battalion, for UN PKO in Cambodia in 1992 exactly when and where the JSDF also conducted its first UN PKO mission. Ever since then, the PLA has put enormous emphasis on non-traditional military missions such as peacekeeping, Humanitarian Assistance/Disaster Relief, and counter-piracy operations. According to "China's National Defense in 2010," China had some 2,000 UN peacekeepers in 2010 for nine UN missions including those in Congo, Liberia, Lebanon, and Sudan.¹⁰ China has also been active in participating in counter-piracy operations in the Gulf of Aden by sending naval vessels there to protect merchant marines in 2009. Incentives for China to be active in such operations may include a notion that China, as a prominent power in the world, has to play a positive role for peace and stability in the international community as well as urgent need to protect its own national interests spreading over the world in a borderless manner.

It should be noted that such international operations as UN PKOs can provide Japan and China with opportunities for military cooperation between them. In fact, Japanese and Chinese military

¹⁰ English.xinhuanet.com, "Full Text: China's National Defense in 2010," http://news.xinhuanet.com/english2010/china/2011-03/31/c_13806851_19.htm

engineers worked together and accomplished the task of maintaining roads in Cambodia in 1992 when the PLA engineer battalion suffered from mortar fires causing two soldiers killed and a dozen injured. Since then, the PLA has become more and more active in such operations. Even now, we may be able to find opportunities for Chinese and Japanese peacekeepers to work side by side. We should try best to utilize such precious opportunities to promote confidence between the two countries.

In addition, it is also important to encourage China for an active role to solve the problems related to North Korea. We have to give certain credits to China for its chairing role in the Six Party Talks in the past while requesting more active and constructive involvements in the process in the future. Roles played by China and the U.S. continue to be essential to achieving positive outcomes. A rising China as a responsible major power with positive attitude toward better regional security environment is most welcomed for the rest of the region, including Japan and Taiwan.

(4) Managing the Alliances with the U.S.

As stated earlier, China's military expense will become closer to that of the U.S. in around 2040. It was also noted that if U.S. alliances as well as its cooperative relations with its partners in the region remain strong, China may have better chances to come closer to the rest of the region for cooperation and less chance to win victory in a confrontational situation. Strong bonds with the U.S. for its allies and partners thus will play an important role to build constructive relations with China.

In terms of alliance management with the U.S., Japan has not been successful in the last couple of years. In the years to come too, there will be a number of factors that may deteriorate the U.S.-Japan Alliance such as the issue of realignment of U.S. Marines to include Futenma Relocation Facilities, and deployment of Osprey tilt-rotor aircraft to Okinawa. Solving these issues will depend on how well or poorly the two governments handle matters. Now it is more important for the Japanese than before to understand what lies behind particular events such as relocation of marines to Guam.

One of the important key phrases for the future forward deployment in this region after U.S. rebalance toward the Asia-Pacific region is "geographically distributed, operationally resilient, and

politically sustainable.”¹¹ All the movement of U.S. forward deployed forces to include marines in Okinawa will be conducted under this principle. In 2005 and 2006, the U.S. and Japan agreed to transfer a part of the marines currently stationed in Okinawa to Guam. Australia agreed with the U.S. last fall to accommodate up to 2,500 rotationally deployed marines and airmen at a base in Darwin. The III Marine Expeditionary Force headquartered in Okinawa has bulk of combat units in Okinawa and Hawaii that represents a rather too north-heavy posture when one looks at the whole area of the Asia-Pacific region. With new stations in Guam and northern Australia, the U.S. Marine Corps in the Western Pacific will become more distributed thus ready for rapid deployment to deal with regional contingencies. In addition, marine bases are concentrated in the southern part of Okinawa, the most densely populated area, thus pose political risks with high profile of the footprint of U.S. military presence. Departing from a posture which U.S. forces are concentrated in Okinawa to a more distributed one in the Pacific will become more operationally resilient while reducing political risks by mitigating burden on Okinawans.

Deployment of Osprey, tilt-rotor aircraft in this region will reinforce the concept explained above with its superior speed and endurance. Osprey’s operational range for a mission transporting 24 troops per aircraft extends to 600 km that covers all of Japan’s Southwestern Islands from main island of Okinawa. In addition, while some Ospreys deployed in Okinawa may have to remain on the island to support marines remain after the relocation the rest of them do not have to train in Okinawa. Because of its superior airspeed and extended range, Ospreys are able to fly further than their predecessor CH-46 helicopters, thus to conduct training in the area far from their mother base in Okinawa, for example, in Honshu or even Hokkaido. This offers an example for a “geographically distributed” training that may bring more politically sustainable stationing.

Conclusion

The rise of China and the U.S. rebalance toward the Asia-Pacific region have been the main theme of this exercise. To answer the first question, two words in short will be the key: “engagement” and “hedging.” A prominent China specialist in the U.S., former Assistant Secretary

¹¹ In a great number of remarks made by U.S. and Japanese government officials, this phrase repeatedly appears. For example the phrase can be found in the Joint Statement of the Security Consultative Committee dated April 27, 2012 by Secretary of State Clinton, Secretary of Defense Panetta, Minister for Foreign Affairs Gamba and Minister of Defense Tanaka.

of State Carl Ford once said “Chinese respect the people who respect their own national interests.” If armed forces of China and Japan show each other their readiness and determination to protect their respective national interests, both sides may be able to have mutual respect, mutual confidence and seriously engagements for constructive relations.

How we should work with the U.S. is another key question to be examined in this work. In this context, it is a good time for allies and partners of the U.S. to start serious and fundamental discussions for future security of the Asia-Pacific region. In the mid-1990s, governments of Japan and the U.S. made efforts to adjust and coordinate post-Cold War security policies of the two countries. This process later named as “Redefinition of the U.S.-Japan Alliance” was a golden opportunity for policy planners and strategists of Japan to thoroughly review its security strategy with American counterparts.¹² In June 2011, Defense and Foreign ministers of Japan as well as State and Defense Secretaries of the U.S. issued a statement mentioning common strategic objectives and area for strengthened defense cooperation. This agreement was based on U.S. QDR released in February 2010 and Japan’s National Defense Program Guidelines adopted in December 2010. The U.S. further elaborated its security strategy by the above-mentioned new Strategic Guidance announced January 2012. Japan’s response when North Korea declared to launch a missile in April 2012 suggested how the so-called “dynamic defense” stated in the NDPG of 2010 would work by demonstrating deployment capabilities of Aegis destroyers and Patriot missiles for ballistic missile defense as well as ground forces for protection of population on remote islands. This is an effective time for the governments of Japan and the U.S. to repeat what they did in the mid-1990 to redefine the alliance in order to adjust their respective security strategies and policies for the decades to come.

¹² See Noboru Yamaguchi, “Redefining the Japan-US Alliance,” #4 in the series: Reflections on Japan’s Post Cold War Foreign Policy. <http://www.nippon.com/en/features/c00204>

(3) A Focus on Security Issues

A Taiwanese View

Pax Asiana

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I must apologize for not being able to attend the previous dialogue, thus missing a good opportunity to learn from all the participants. I was assigned by the Foundation to write a short paper this time on global and regional security and discuss how Taiwan and Japan can work together to contribute to the maintenance of sub-regional order in Western Pacific.

This paper, therefore, only represents my personal views and serves as a background note for further discussion and I welcome your comments, insights and observations, as the political landscape of Asia and the Pacific is so unusually blurring and confusing at the time of writing. The main thrust of my argument is that in order to build and maintain peace in Asia and the Pacific, we need to combine economics, culture, politics and security, or international relations, domestic politics, international security and international political economy together. This is a logical extension of the conceptual framework and practical experience of comprehensive security with which you are so familiar. Any mutual neglect will create a dilemma unmanageable to both practitioners and theorists. Taiwan is willing and prepared to work with other countries in the region to enhance our knowledge, forge a consensus and construct a conceptual base for security architecture in the region. In order to put my analysis into perspective, I should begin with an overview of the global trend first.

1. Are We Safer Than Before?

For more than two decades, we have lived in an often-quoted “the post-cold war era”, but the question of “are we safer than before?” lingers on. This is really a tough question for me to answer. When the Berlin wall fell, we had a very special feeling of relief, or, more precisely, a sense of glory. After all, the democratic and capitalist system, upon which our fundamental values are based, had eventually won the competition, despite the facts that the system itself, as we all realize, was and still is, not perfect. I can not remember how many times I have read Francis

Fukuyama's article and book—"The End of History and the Last Man." Samuel Huntington's "The Clash of Civilization and the Re-making of World Order" has reached a much wider audience and the group of global policy elites. I know that not everyone in this dialogue agree with their arguments, but their publications show that we welcome this global development, although almost none of international relations experts have predicted such an unprecedented outcome.

While we were still debating on the clash of civilization, the "911" tragedy of 2001 happened. Our colleagues in this country and other parts of the world were stunned and rushed to invent a new term—"the post-post-cold war era." We do not need to debate whether this new term is correct or not and I will leave it to your discretion.

For too long, we have been reminded by many that the social scientists and policy intellectuals should be scientifically sound and socially relevant. Allow me to follow this paradigm carefully and provide you with some very brief analyses. Globally and regionally, we are certainly much better off than we were twenty years ago. Although some countries and regions are still in a bad shape, Asia and the Pacific have done relatively well in economic and other areas. The same system that has led to the downfall of the Berlin wall continues to shape our policies, although inequality, discrepancy and unfairness are inevitable. No wonder, the economic system which is so popular in China has been named "the state capitalism" by so many in the western world.

It is true that the end of the cold war has brought the risks of miscalculation to an end, but misperception, hatred, distrust and hostility remain. I guess that this is the reason why Samuel Huntington made such an effort to warn us the danger of the clash of civilization. We need to bear in mind that the cold war started with power politics, strategic miscalculations and ideological conflicts. It had nothing to do with civilization. Many factors have brought the cold war between the United States and the Soviet Union to an end, but how about other kinds of the cold war? If the term denotes any tension between states without actual declaration of war, then, the cold war as such has never ended. For this reason, the recurring theory of the democratic peace has incited more debates rather than forged an academic consensus. Democratic countries indeed have never waged war against each other for the last twenty years or so, but their use of force against other countries is an undeniable fact. They are forced to react to protect their national security, I am sure, but their preemptive actions and the basic rationale behind these actions remain problematic. It is a very conflicting picture in which the arch of crisis and the rise of eastern hemisphere coexist, while

globalism and parochialism mingles. For any frequent traveler, he or she can easily sense that our world is indeed not safer than before, as the security checks in every international airport has become so tight and annoying, depending on how the system operates.

2. The Nightmare of Nuclear Proliferation

For the policy experts, we are more concerned about the issue of nuclear proliferation. North Korea is a good case in point. In a way, it is ironical to see that the region of Asia and the Pacific has won the title of “the emerging major powers” or “the emerging economies”, and, then, the other side of the coin is more nuclear proliferation or states than other parts of the world. If we include Iran to this region, the future of nuclear non-proliferation looks even bleaker. Why nations want to go to nuclear? The conventional wisdom is that nuclear weapon will bring political status and uplift the position of all nuclear powers as the history of international relations has shown to us. Enough literature has explained this issue so well and I do not need to repeat them before this group of experts. We all know that the technology to produce nuclear weapon is not that sophisticated as before. India and Pakistan are two good examples and experts are watching North Korea, Iran and several other countries with care and anxiety.

The difficulties that we are facing are too obvious. There is really no feasible option for North Korea to gain its edge over the South, except the last resort of developing nuclear weapon. This is a typical example of the use of negative national power, reminiscent us of the German submarine warfare during the World War II. Fortunately, North Korea has not reached that stage. We do not know for how long North Korea can really possess the first nuclear bomb and the required vehicle to deliver it. There is still an opportunity for the leadership to think otherwise, such as to open its door slowly, but surely, to the outside world, so as to bring in investment, technology and ideas to improve the wellbeing of its people. This will create an impact on the political power of the authorities and we do not know how far the new leadership in North Korea is prepared to accept it.

So far, the international security regime has failed to prevent nuclear proliferation in the Korean peninsula, only succeeded in delaying the long process. The political consensus among all the major powers is so difficult to forge, because the four powers have different interests and calculations. However, they do not want to see a nucleate Korean peninsula. On this base, the

four major powers can continue their consultations, but the process will be long and delicate. We have to wait until the ballots are counted in October and November this year in China and the United States to ensure the continuity of their policy and then the forging a consensus among the four powers will be possible. The factor of Korea, both in the South and the North, needs to be considered, too. Their foreign and domestic policies are equally complicated.

The case of Iran is very different. History, ideology, power politics and the strategic importance of oil are all the factors that we need to consider. It is not just a nuclear question. If the United States and the other major powers want to build a consensus on Iran, the process will be more tortuous than the case of North Korea. Failing to prevent nuclear proliferation, then, the fundamental question to ask is: will the United States and its allies live peacefully together with the two more members of the nuclear family? If so, then, how?

The danger of this new round of nuclear proliferation is grave indeed. The other side of the coin is the possession of the weapons of massive destruction. On this very unique category of weapons, the international community still has no effective way of control and management. The possession of weapons is clearly a danger in itself, but the other real danger is that we do not know what in their minds of those leaders. We only hope that preventive diplomacy or early warning of crises can be of help. When India and Pakistan decided to go nuclear, no other countries took the preventive strike to prevent them. Will all the countries concerned take no actions this time?

As we look at the neighborhood countries, we will see enough ethnic strife, conflict and fighting. All of these have added an enormous burden on the United Nations peace-keeping and the policy community can not find out any easy solution for each of the conflicts. During the cold war period, both of the two superpowers maintained their spheres of influence with total domination and tight control, their policy had been criticized as the neo-colonialists without colonies. However, there were much less ethnic strife and fighting, then. The end of the cold war ended the imperialist outreach, to be sure, but also terminated the reach of power to maintain order. This is the irony of international politics of the 21st century that we all need to face and endure much pain.

3. How Much Security Threats Are Non-Traditional?

The study of non-traditional security is very popular nowadays. So many books, articles, reports and surveys remain to be read. The simple distinction for us to make is to separate the use

of military force from other areas of security threats. All the remaining security threats which do not require the use of military force can be classified as “non-traditional security”. This is too simple a definition and hardly can I remember which country or any particular expert invents the term. After the concept of “revolution in the military affairs”(RMA) was introduced and implemented, the concept of non-traditional security came into scene. The energy crisis might lead the policy community to consider the term first and, then, the environment pollution, the debt crisis, natural disasters, international terrorism, drug trafficking, illegal immigration, digital risks, food poison and infectious diseases have combined together to remind us that we are, after all, in a great danger.

This is not a new area of research, but we do need new knowledge and a sheer awareness of the possible risks and consequences, if we fail to deal with them. It is so different from the traditional security, that is, to go to war and win it. The targets are not discernible and the scope of the possible risks is beyond human control. The weapons come to no avail in most of these cases. The rule of engagements, if any, are totally different, compared with the traditional strategic and military training. Nor can we just muddle them through, because we do not know, or still can not gauge precisely how much they will affect international, regional and national security. Although some of the security risks may have been overestimated, such as the climate changes, it is also true conversely, because so many cases of natural disaster have been underestimated, causing tremendous damages to the countries concerned.

There is no sense of victory, if any country deals effectively with non-traditional security. All of these threats are difficult to prevent or forecast, therefore, all the countries can only deal with post-crisis management or damage control. We have to bear in mind that some of these risks are the recurring phenomena in human life. Any treatment, no matter how successful, tends to be temporary. Jared Diamond’s “Guns, Germs and Steel” and “Collapse” or William McNair’s “Plagues and Peoples” have explained these features too well. The human web is so fragile and vulnerable. It is still a very, very long way to go before we can all rest assured, if we think further about the financial tsunami, the energy shortage and the unpredictable natural disasters that can happen anytime in the future. It will be grossly wrong and totally disastrous, if we put all these non-traditional security threats at the back burner and do nothing.

4. The Rise, Emergence and Revitalization of Asia

Allow me to shift our attention to Asia and the Pacific. For the last ten years or so, we have debated intensively about the rise of China, or Asia as a whole. The wind of change has blown to Asia, and I think it does not matter very much which word or term we use to describe this trend. The rising eastern hemisphere, the emerging markets and the emerging major powers have brought the message very clear and vivid to the world. Rapid economic development, increasing purchasing power, swift urbanization and social changes are the common phenomena in China, India, Vietnam, Brazil, Indonesia and South Africa. However, we need to pay attention to the facts that the emerging economies do not follow exactly the same development model. Their economic, industrial and financial policies vary, although there is a tendency to label them as the developmental state model in contrast to the neo-classical economic model so familiar in the western world. It is not even correct to compare “Washington Consensus” and “Beijing Consensus” too much. So much literature and publication are available on a comparison of India and China, but the two potential giants in Asia probably have more differences than similarities as we read the existing materials deeply.

Every nation, big or small, tends to find its own way of development. The United States is a good example. I do not need to quote the work of Alexis de Tocqueville to tell you the differences between this great power and Britain. The real question for us, as the security and defense intellectuals, to ponder carefully is this: Does Asia intend to go its own way and strive for mastery of the world? Or does it intend to cooperate with the existing powers to form a new “Concert of Asia”? Is the soft balancing or the indirect balancing a practical strategy for Asian countries to adopt to protect their interests?

I will seek your wisdom and insight on this critical question. All over the years, after my careful observation of the region, my tentative conclusion is that no emerging major powers want or can afford to have war with the existing powers. It is even more so, if we consider how much cooperation Asia and the rest of the world need to put together to deal with non-traditional security threats. Chiang Kai-shek, Churchill, Roosevelt, Stalin and Hitler would not have faced this dilemma. Obama, Hu Jintao and Noda, however, need to consider the seriousness of non-traditional security very carefully. The future leaders of the three countries will face the same dilemma or a new policy setting, that is, in traditional security, they should prepare to fight and win

any war, but in non-traditional security, they need to cooperate and solve the common problem or crisis jointly.

The sense of belligerence as we can see so easily in Asia nowadays needs to be considered in the overall context of history, nationalism and power politics, both domestic and international. It is not easy to generalize the long-range security and defense policy of the emerging powers, because they, too, have to face a rapidly changing domestic society and so many new risks from without. They have different rationales to enhance their military power and realize the danger of a reckless arms race. But, any serious study can tell us that the arms race that is currently taking place in Asia and the Pacific has not reached the level of the cold war era. What is even important is that at least no emerging power has adopted this historic experience as its guidance.

Indeed, if we compare the arms acquisition in Asia and the Pacific with that in Europe, Africa or Latin America, this area has shown a steady increasing possession of the military hardware. No matter how the national leaders of Asian countries have stressed their peaceful intention, our memory of the World War II is too deep to be easily diluted. This memory inevitably forms a mental map for us to draw the analogy, although this analogy may not be correct. John Mearsheimer's book-"the Tragedy of the Great Powers' Politics" and David Shambaugh's "analysis of China's peaceful engagements in Asia" show such a contrast. At this time of writing, at least most of the major powers in Asia and the Pacific have all stressed their reactive and peaceful policy. There are inconsistencies and contradictions, of course. We need to wait until the process of power transition is complete at home can we be certain of their policy orientations for the next four years and more. Although many experts have pointed out the effects of "Anti-Assess and Area Denial, (A2AD)" and the need for adopting an "Air- Sea Battle" strategy, the overall strategic balance remains to be studied carefully before we jump to such a quick conclusion. It is a strategic imperative for all the major powers to think twice and stay calm, as the territorial and other disputes may disturb or mislead our policy makers and their staff.

5. Thinking About An Asia Without Pax Americana

The United States still maintains an unprecedented military prominence, the question that has been debated for so long is: can it sustain for how long? You are far more qualified than I am to answer this question. "Pax Nipponica" as invented by Ezra Vogel probably still remains as our

joint memory and, then, we have begun to hear the prediction for “Pax Sinica”, if the current trend of rapid economic development and military modernization in China continues or even uplifts. Experts are watching very patiently, but closely, when the Chinese aircraft-carrier and the fleet will officially sail the seas.

We all understand that “Pax Britanica” or “Pax Americana” denotes more than a military prominence. When Ezra Vogel referred to “Pax Nipponica”, he basically wanted to shift our attention to what Joseph Nye later rightly described as “soft power” or “smart power”. There is no doubt that Great Britain and the United States both have a very special exemplary power for the rest of the world to adopt or learn. What I try to emphasize is that the international order that has maintained or enhanced by the leading power will transform itself as the international system and the international society are very different now. National security and national survival remain the fundamental priority for any state. The burden, expectation and public goods that “Pax Americana” is required to bear and deliver, however, differs from the days of the British empire, needless to mention the Roman empire. Apart from the military prominence, there are so many other areas of power that constitute to sustain a new type of “Pax Americana”.

If the worst scenario happens in the future, that is, the long “Pax Americana” is replaced by “Pax” ?, then it is almost inconceivable what will happen to Asia and the Pacific. What I would like to share with you is that all the previous major powers, Portugal, Holland, Spain, France, Germany, Russia in Europe and China and Japan in Asia all have one thing in common: long history, heritage and civilization. The United States is young, receptive and adaptable. In the history of international relations, she is the only great power which has a natural niche to remain competitive, innovative and pluralistic. How the future of “Pax Americana” will evolve? I leave this question to your own judgment.

6. Does Taiwan Matter?

This question has been debated for more than four years now. The core of arguments is the fact that cross-strait relations and interactions have been greatly improved, therefore, the traditional strategic value of Taiwan in the context of power politics, or, more precisely, to use Taiwan to contain and deter against China no longer exist. This is too generalized or simplified a conclusion to describe the development of sub-regional political, economic, social and security

landscape. What I wish to point out is that cross-strait relationship over the last sixty years or more has been maintained by a subtle dynamic equilibrium or a very unique balance of power, domestically, regionally and globally. Taiwan's strategic values served the American interests well during the cold war period. As cross-strait relations started in 1987, the nature of Taiwan's strategic values gradually changed. I have borrowed the term first invented by Robert Scalapino, that is "natural economic territory, NET" to describe the close relations and interactions across the strait at this moment. The term can be extended to cover "natural living territory" or "natural cultural territory" as it is so convenient for people on both side of the strait to travel. The important part that we need to pay attention to is that the government and the society in Taiwan firmly maintain its sovereignty, national security, the way of life and, what is more, they all treasure their newly developed democratic system and will do anything possible to protect it. Outside observers very often have neglected this side of the coin. The opposition, the intellectuals and the media differ among themselves when they discuss this important policy issue.

Taiwan's strategic roles need to be redefined and studied, not only because cross-strait relations have new developments. Taiwan, the region and the international society have also witnessed changes in both the structure and the process. On other occasions, I have used the concept of geopolitics, geoeconomics and geoculture to explain the new roles of Taiwan. Alternatively, we can use political, economic and culture geography to observe Taiwan, the region and the world.

For Taiwan, it is the very first time that this small island needs to deal with at least three major powers at the same time. It can only learn by doing, as both regional and global politics are so complicated. Taiwan matters strategically not in the traditional context of the cold war, but the arrival of global human and production networks plus the military transformation in the digital age. In the past, cross-strait hostility maintained the trust and support of Taiwan's major allies. It transformed into a military alliance to protect the sea lanes communication and brought in a large amount of foreign aid.

Today, cross-strait natural economic and cultural territory has become a buffer or a soft power to prevent any miscalculation and distrust that were so prevailing during the cold war period. What is more, Taiwan relies on its hard power as other countries have chosen, to maintain sub-regional stability and security. This hard power comes from itself and, naturally, the United

States and the other like-minded countries. This requires so much communications and consultations in the future in order to ensure that all the major powers concerned are duly well posted on current events. The other work which needs much more efforts is a deep study of China and a sensible awareness of the consequences of closer interactions across the strait on Taiwan's security. As China rises, Taiwan needs to face up the reality and learn to know how the other side of the strait evolves. This applies to the ruling party, the opposition and the society as a whole. Taiwan certainly would like to see a stable and smooth transition of power on the other side of the strait in the coming fall and continues to watch which way China is moving- a peaceful rise or an emerging expansionist.

7. How and What Can We Work Together?

It is very clear by now that natural economic and cultural territory across the strait overlaps sub-regional grouping or cooperation between Taiwan and Japan or the United States. On this as the conceptual base, the future cooperation between Taiwan and Japan will naturally take both economics and security into consideration. The culture factor is not a problem and I do not need to elaborate it for you.

There is a long list of what we can do together, economically, functionally and technologically. As long as we define it as a sub-regional grouping, it will be less politically sensitive and more economically feasible. This also applies to the area of non-traditional security, because many of these issues need deep research, complete data and good case studies. The areas of cooperation, therefore, may extend to include the policy experts in the United States, China and other countries, of course. Even the contentious islands and the surrounding areas, such as the South China Sea and East Sea, can be considered for maritime research. There are so many opportunities for sub-regional consultations, dialogue and research on the issues of mutual interests. The important thing is that the policy communities in Taiwan and Japan have developed a very open attitude and we are receptive to any new thinking and ideas. The immediate task is to identify the issue areas that our two sides can comfortably work together at the sub-regional and the sub-national levels.

Similar to the above-mentioned concept of the transformation of diplomacy is the newly developed concept of diplomacy as a social practice by James Der Derian and Christian Reus-Smit.

Fundamentally, they argue that the traditional international relations have transformed to become a new type of inter-society relations. Western estrangements and power politics need a new thinking of mediation. Their reflexive contributions to the study of diplomacy do not abandon the tradition of sovereignty, but analyze the symptoms of those millennium-long Western estrangements and try to search for a new formula to solve the problems. If some creative thinking and actual practices can be developed, they will certainly benefit Taiwan-Japan relations. The concepts of parallel diplomacy, localizing diplomacy and cyber diplomacy can also be heuristic for us to ponder what we can do.

It will take a much longer period of time to develop such a sub-regional cooperation among Taiwan, Okinawa and Guam, or perhaps the west coast of the United States. Essentially, cross-strait interactions and Taiwan-Japan sub-regional cooperation are not mutually exclusive or zero-sum. Therefore, the co-existence of the two tiers can be applied to other parts of Asia and the Pacific, providing that this newly developed cross-strait relations and Taiwan's sub-regional groupings move to benefit all the parties concerned. Initially, this thinking originates from a study on how modern diplomacy can and should respond to the changes in the digital society or the market society. The ground-breaking work began with a careful reading of Japan's early experience and American foreign policy with special reference to the economic diplomacy. South Korea, Singapore, Austria, Switzerland, Belgium and Holland also have useful experiences to show to us. This dialogue does not permit me to give you a detailed description of my findings.

Let me conclude by saying that in the political history of Taiwan, the first policy agenda of "return to the mainland" was too familiar to you, the second agenda of "political democratization" needs further consolidation. The third policy agenda is obviously the maintenance of normal and institutionalized cross-strait relations in the face of a rising China, a changing Japan and a re-assertive America. Linking the three policy agendas together is obviously a constant awareness of the need to take good care of economy. The immediate future will be a bumpy road to travel, as so much challenges lie ahead, but Taiwan will adopt a sensible strategy, be aware of its limitation, play its roles properly and fulfill its responsibilities and commitments duly as it has done over the last sixty years

To sum up, then, Taiwan's long time security threat has been temporarily transformed, because of a rapid improvement of cross-strait relations since 2008. Strategists are still uncertain

about the fundamental changes in the structural terms, that is, has the process of peace-making been institutionalized or will the confidence-building measures(CBM) actually buttress Taiwan's security? At the time of writing, Taiwan only accepts and allows the civilian confidence-building measures(CBM) to unravel, but hesitates and gives lukewarm support to the military CBM because of the long historical legacy of distrust.

China's security interests are related the final solution of the Taiwan issue, continuing to implement a sensible policy toward North Korea, managing Sino-Japan and Sino-American relations and cultivating relations with the ASEAN and the EU countries. Japan's security interests reveal in reinforcing the U.S.-Japan security ties, protecting economic and maritime security and managing Japan-China and Japan-South Korea discord. The U.S. has pledged to return to this part of the world and do its best to make the 21st century become the American century in the Pacific. An increasing American military presence, political commitment and economic engagement are well-expected. The sovereignty disputes concerning several contentious islands, North Korea's nuclear issue, the South China Sea and indeed the whole region will continue to involve the U.S., to be sure. Europe is preoccupied with its financial crisis and has no luxury of time to look to East Asia. The U.S.-Japan security system will remain always as the linchpin. The roles of the middle powers or the emerging major powers will become more and more relevant. This configuration of power politics and its structure and implications tend to remind me of the periods of the pre-1922 Washington Conference or the pre-1976 Conference on Security Cooperation in Europe(CSCE, later became OSCE, also known as the Helsinki Process). Will history repeat itself? I am not in a position to predict, just keep my fingers crossed for the best.

As the core states in Asia and the Pacific have so much conflicting interests and their domestic politics are in transition, the immediate future prospects of both the regional and the sub-regional levels looks uncertain, ambivalent or perhaps belligerent. This is the very first time for this region which claims to have the best record of a long peace to face such a security dilemma. The ball will eventually roll back to the court of Beijing, Tokyo and Washington. I sincerely hope that the winter of 2012 is not going to be a winter of discontent, but joy and hope.

Summary and Conclusion

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Among the five papers presented by Taiwan delegates in “The 7th Taiwan-Japan Strategic Dialogue for the New Era,” the major issues raised by them are the changing international and regional environment, the challenges of the rising China and the Sino-American relations, and the opportunities of Taiwan-Japanese relations. The international economic environment has not been positive yet. American economy has not recovered, European Union continues to be troubled by debt issue, and East Asian economic growth becomes slow because of the stagnant world economy. In East Asia, the rise of China remains the phenomenon in the region, and more countries concern about China’s assertive action and behavior. The newly American re-balancing Asian strategy is considered as a counteraction or hedging about China. It is good for Taiwan and Japan to see the United States coming back to Asia and playing a more active role. Both countries share complementary interests in economic and strategic areas and they shall further enhance cooperation in the time of changing regional environment.

Viewed from the global and regional contexts, **Dr. Man-Jung Chan** indicates that economic recovery has not arrived yet and global economic landscape is in the process of changes. The United States is in struggle of post-financial recovery, EU continues to work on the debt problem, the G-7 economic management model is no longer sustainable, global imbalance on resources distribution has become more contentious, and the growing influence of the emerging economies is seen in world economic development. With regard to Taiwan-Japan economic relations, she proposes Taiwan’s 6 approaches for bilateral industry cooperation including consolidating industry collaboration network, collaborating Japan’s human resources network, nurturing large-scale business cooperation, focusing on key industries, collecting local industry clustering and integrating intra-government resources. She also promotes Taiwan-Japan industrial park in Tainan, linking ECFA with Japan-Taiwan-China connectivity, and maritime cooperation.

In domestic politics dimension, Ma was re-elected in early 2012 but his administration soon confronted a number of economic and tax issues that led Ma’s popularity dropping to a low point. **Professor Ming Lee** points out that Taiwan public are discontent with government’s economic

performance, critical of indecisive policy on the stock revenue tax, angry at the rise of prices of oil and electricity, and complaining about freezing of the minimum wages. Hence, it is not a surprise to see the KMT's loss in the last several local by-elections, which provide the opposition party, the DPP, more confidence in winning the 2014 election. Ma's policy toward Japan does not change, based on the "framework of keeping intimate relations with the U.S., peaceful relations with China, and friendly relations with Japan." Japan is treated as special partner to Taiwan. However, the recent act of nationalization of the Diaoyutai Islands by the Noda government has upset the Taiwan-Japan relations. Ma proposes the East China Sea Peace Initiative as a way to solve the dispute and promote joint collaboration. Yet, no concrete response from Japan is seen.

Viewed from current changes of international relations, **Professor Bih-jaw Lin** consider that we are not safer today than in the cold-war era since we confront much more non-traditional security threat, such as, nuclear proliferation, energy crisis, environmental pollution, debt crisis, natural disasters, international terrorism, drug trafficking, digital risks, food poison, and many others. He suggests that comprehensive security shall be a practical concept in response to the current changes and needs. Professor Lin also tries to explore Taiwan's location and its relations with neighboring powers in the new Asian security context. He says, "Taiwan matters strategically not in the traditional context of the cold war, but the arrival of global human and production networks plus the military transformation in the digital age." Today, cross-strait natural economic and cultural relationship has become a buffer or a soft power to prevent any miscalculation and distrust between the two sides of Taiwan and China; and the United States and China.

Professor Lin proposes another concept of "a sub-regional grouping" to mark the natural relations between Taiwan and Japan. The concept is seen as less politically sensitive and more economically feasible, and easy for promoting sup-regional cooperation among Taiwan, Okinawa, Guam and others. In other words, Professor Lin emphasizes that cross-strait interactions and Taiwan-Japan sub-regional cooperation are mutually accommodative.

No doubt, American policies have always been the main concerns of the Asian countries. **Professor Yeh-chung Lu** has given a detailed analysis of the Obama administration's policies toward China and the forthcoming of the rebalancing Asian strategy. Professor Lu indicates that the Obama administration first proposed the concept of "strategic reassurance" to China with the hope to lay a good foundation for the US-China relationship. The reassurance concept was

intended to accommodate China's rising in Asia on the condition that China will rise in peace and would not jeopardize security and well-being of other Asian countries. However, the strategic reassurance soon faded away with China's assertive behavior, as indicative in the cases of the Cheonan Incident and dispute over the South China Sea. Since the debates on the South China Sea issue at the ASEAN Regional Forum on Hanoi, the Obama administration dropped the idea of strategic reassurance. In November 2011, in his trip to Australia President Obama raised American new Asian strategy. The re-balancing strategy was officially laid out by the release of the U.S. Department of Defense's new strategic guidance titled "Sustaining U.S. Global Leadership: Priorities for 21st Century Defense" on 5 January, 2012.

Professor Lu observes that China is cautious, but not pessimistic, about new American Asian strategy. Nowadays China proposes a "new model of great power relations" to manage the Sino-American relations with the hope of continuing dialogues, promoting common interests, and enhancing mutual trust. Nevertheless, Professor Lu thinks that with the rise of Chinese power and influence, a more outspoken and assertive China is expected. But Lu considers that unipolarity led by the U.S. would remain in the Asia-Pacific in the short-term. Japan and Taiwan should provide support and assistance to the United States for its engagement in the region, and help to share the burden when the U.S. is facing a tight budget at home.

The fifth paper is about the rise of China and implications for Japan-Taiwan relations. **Professor Chien-min Chao** lists four major trends as China is growing its power in the region. First, China is likely to be more assertive in external behavior, upsetting the already tenuous balance of power in the Asia-Pacific. Second, China's core interests are likely to be more diversified. Third, China will increase its soft power as many might feel now in the film production and other related industries. And fourth, nationalism might play an even bigger role in making China's foreign policies.

Under the circumstance, Professor Chao suggests that Japan and Taiwan shall learn how to manage the relations with a strong China. The improvement of relations from across the Taiwan Strait has provided and will continue to provide room for Taiwan and Japan to maneuver their bilateral relationship in the right direction. Moreover, if Japan and Taiwan can put aside the Diaoyutai Islands dispute and let the more homogeneous side of relations at the societal level to take its course, there are plenty of new opportunities that can be open between them. He also calls for

forming some sort of security dialogue in the region that all concerned parties shall be included.

In conclusion, though the five papers viewed through different angles, from international and regional to domestic and bilateral, they share some common perspectives among them. First, international political economy is in the process of quick changes, which could easily cause uncertainties and uneasiness to the world. Second, the rise of China continues to be the phenomenon of the region and will pose great challenges to its Asian neighboring countries. Many are worrying about its assertive foreign behavior. Third, Asian countries including Japan and Taiwan welcome American rebalancing Asian strategy but they are not sure about whether the United States will be able to sustain in time of tight fiscal budget. Fourth, domestic politics are the variable that might impact upon its foreign relations. The upcoming changes of Chinese and Japanese leadership could cause some uncertainties of the regional relations. Fifth, there are a great of opportunities for Japan and Taiwan to work together for coping with the rise of China, sharing burden of the United States, and promoting common economic interests. And sixth, the Diaoyutai/Senkaku Islands disputes have been a disturbance to the bilateral relations. If both countries could accept the East China Sea Peace Initiative, as proposed by President Ma Ying-jeou, putting aside the sovereignty dispute and working on joint development, the bilateral relations would make substantial progress and contribute more to regional development.

Japanese Papers

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In the “7th Japan-Taiwan Strategic Dialogue for the New Era,” Japanese experts, who are regular participants of a series of dialogues, delivered five papers. They represent Japanese viewpoints on the Japan-Taiwan relationship and its surroundings from various perspectives, such as economics, politics, and international relations. This dialogue began in September 2009, just after the new DPJ government had been established in Japan and during the second year of the Ma Ying-jeou administration’s first term. “New Era” may mean various meanings such as post-Lee Teng-hui era in Taiwan, post LDP era in Japan, globalization, China’s rise, stabilization of the cross-Strait relations, or new generations of both Japanese and Taiwanese. Experts from both sides have tackled topics of the strategic importance of Japan-Taiwan relations. Five papers fully explain the importance of the bilateral relations.

Viewed from economic contexts, **Dr. Motoshige Itoh** indicates that Japan and Taiwan are located in the midst of changing economic environments in the Asia-Pacific. It is crucial for the two countries to catch up with whatever changes arise in this region. It was not possible for Taiwan to negotiate any free trade agreements in the past due to China’s policy towards Taiwan, and the Economic Cooperation Framework Agreement (ECFA) with the mainland China was a critical turning point for Taiwan’s trade policy in this regard. It not only expands economic integration between Taiwan and China, but will also provide more flexibility for Taiwan’s economic relations with other countries. It does not appear an easy undertaking for Taiwan to accomplish any free trade agreements (FTA) with other countries, but it should nonetheless continue its efforts to push forward in efforts to expand its FTA profile. Dynamics of various FTAs in this region, such as the Trans-Pacific Strategic Economic Partnership Agreement (TPP) and ASEAN plus 3 (or 6), may provide Taiwan an avenue to pursue the development of their trade policy, and by extension, strengthen international relations with foreign countries.

Dr. Itoh also argues that it is not realistic to think of an FTA or EPA between Japan and Taiwan coming to fruition in the near-term, but economic relations between the two countries can be made deeper by many other policies. The two countries have already achieved much on this front,

including: easing visa restrictions, launching the open sky agreement, and increasing movement of people between the two countries. Japan's tariff barriers are very low, except on a few select agricultural products, and Taiwan can take advantage of these low barriers without engaging in a formal FTA: other liberalization measures can be negotiated outside the framework of an FTA. The two countries should continue efforts to expand movement of people and investment between the two nations and to discuss various mutually beneficial policy issues. Cooperation and coordination in such areas as health care, education, tourism, and financial markets will be meaningful for the two countries. Deeper integration can be achieved without comprehensive EPA or FTA agreements.

In the domestic politics dimension, **Dr. Shinichi Kitaoka** illuminates why and where the Democratic Party of Japan (DPJ) went wrong. He does not claim that the power struggle between Ichiro Ozawa and anti-Ozawa groups explains everything, although it was not a power struggle absent of policies. Indeed, because the basic policies of these two groups were so different, they could not stop fighting. Secondly, some people say that the DPJ has no platform, but it is important to recognize that the LDP did not have a platform either, until somewhat recently. Dr. Kitaoka also adds that when the LDP was established in 1955, the rallying point was the revising of the Constitution, which has not yet been attempted. The lack of a platform is common, therefore, and its presence does not necessarily constitute a solution. Thirdly, some say that the DPJ's manifesto was the cause of trouble. The 2009 manifesto was prepared under Ozawa's leadership. It included some very populist policies such as child allowance, direct support for farmers, and the removal of the US marine base from Okinawa. Still, it would not have been impossible to modify this manifesto. Hatoyama could have prioritized certain policies, but he did not try to do so.

The DPJ politicians were extremely naive about governmental power, and did not have party discipline. In order to implement difficult policies, they needed to make compromises, which they were unable to do. From an organizational viewpoint, the DPJ was a party in which many groups united to compete with the LDP. There was no solidarity or identity. It was the same in the LDP. But LDP members knew how to implement policies, and how difficult it is to remain in power. It was ironic that the man who had been most concerned about the lack of experience among DPJ members was Ozawa.

Prime Minister Shinzo Abe was supported by the right wing group within the LDP, but they

knew how dangerous it was to proceed as promised. They also remember how difficult it was to be out of power. Therefore, to the extent they realize how challenging it is to lead the nation; the Abe cabinet may get off to a good start. But if they feel that there is no firm opposition, they may become complacent and lose their gains. Japan needs a responsible opposition to challenge the government. Whether or not the DPJ can remain as a major political challenger is not yet clear.

Viewed from current changes of international surroundings, **Mr. Masayuki Masuda** concludes that China has a growing interest in the sea and is expanding its maritime activities both militarily and economically. Due to its high dependence on foreign energy sources, China is rigorously exploring maritime resources. In order to develop maritime resources further, China's law enforcement agencies such as the China Maritime Surveillance Force (CMS or *Haijian*) and the Fisheries Law Enforcement Command (FLEC or *Yuzheng*) have strengthened their capabilities by procuring mobile vessels and aircraft to patrol in areas that China considers its waters and beyond. Accordingly, "rights protection" (*weiquan*) activities by those agencies have increased in the South and the East China Seas. Behind these moves, there is a heightened sense of urgency in China to safeguard its territorial sovereignty and expanding interests in the maritime domain. The PLA/PLAN is also trying to strengthen its involvement in "rights protection" activities by initiating joint drill and strengthening policy coordination with Chinese maritime law enforcement agencies.

Mr. Masuda also argues that the above-mentioned policy trend suggests that Chinese top leaders attach greater importance to intensifying maritime activities. In terms of coastal defense, it is likely that China will strengthen its "rights protection" activities in sensitive waters. Assuming that the PLA continues to carry out joint training and exercises, "rights protection" operations by the CMS and FLEC will be more military oriented. Under this situation, regional countries should strengthen their defense capability and posture. Furthermore, Asian maritime states should also strengthen engagement to Chinese maritime agencies as well as the PLA in order to prevent the occurrence of "unforeseen circumstances" at sea. Future crisis management mechanism with China should be multi-tiered in this regard.

Yasuhiro Matsuda examines Japan-Taiwan relations in the New Era, with a focus on the rise of minority mainlanders in office through the democratic process, the ongoing stability over the Taiwan Strait, and a historic power shift in Japan. First, the decades-long uninterrupted interactions between the two nations played a key role in the realization of recent constructive developments.

Japan and Taiwan have long cherished unofficial relations in such areas as trade, human exchange, and emotion. Since Japan is an ally to the United States, the most important country to Taiwan's security, a conflictual relationship is not in the interest of either side. In this respect, it is quite rational for Ma Ying-jeou to transform the "anti-Japan" image initially associated with him and to actively seek the strengthening of ties with Tokyo.

Second, a sound relationship across the Taiwan Strait has a noticeable impact on the advancement of pragmatic ties between Japan and Taiwan. This means that an incipient triangular tie between these three players has become entrenched. Rarely do analysts see Taiwan make excessive political demands to Japan, Japan assertively offer protest against China, and Japan in a plight of meting out a judgment that benefits all. Clearly, a moderate strategic environment between these three players is a foundation for a series of practical deals between Japan and Taiwan.

Third, a stable relationship across the Taiwan Strait indirectly helps Japan and Taiwan to build political relations at an unofficial level. Historically, key individual players have typically been prominent politicians, especially former prime ministers from the LDP. This has not changed considerably in the "new era." The rationale here is that the Japanese government relied on these conservative politicians to preemptively deal with reactions from Beijing. At the same time, however, it is difficult to doubt that the DPJ administrations have been creative about deepening the relationship with Taiwan in an unforeseen manner.

Matsuda concludes that these three factors serve as the bedrock of pragmatic relations between Japan and Taiwan in the new era. To be sure, there is no guarantee that this will last in the long-run, but it can be argued that the relationship with Taiwan is the only steady one in East Asia that Japan has had over several decades. As the foregoing strongly suggests, this is not a foregone conclusion; consistent effort and imagination are required for a stable relationship to persist.

Professor Noboru Yamaguchi considers the rise of China and implications for the U.S.-Japan alliance. The rise of China and the U.S. rebalance toward the Asia-Pacific region constitute the primary axis of his examination. Two words in particular are key to understanding this relationship: "engagement" and "hedging." A prominent China specialist in the U.S., former Assistant Secretary of State Carl Ford once said, "Chinese respect the people who respect their own national interests." If armed forces of China and Japan show each other their readiness and determination to protect their respective national interests, both sides may be able to have mutual

respect, mutual confidence, and serious engagements for constructive relations.

How Japan should work with the U.S. is another key question to be examined in this work. In this context, it is a good time for allies and partners of the U.S. to start serious and fundamental discussions regarding the future security of the Asia-Pacific region. In the mid-1990s, governments of Japan and the U.S. made efforts to adjust and coordinate post-Cold War security policies of the two countries. This process, later named the “Redefinition of the U.S.-Japan Alliance,” was a golden opportunity for policy planners and strategists of Japan to thoroughly review its security strategy with American counterparts. In June 2011, Defense and Foreign ministers of Japan, as well as State and Defense Secretaries of the U.S., issued a statement mentioning common strategic objectives and areas for strengthened defense cooperation. This agreement was based on U.S. Quadrennial Defense Review (QDR) released in February 2010 and Japan’s National Defense Program Guidelines adopted in December 2010. The U.S. further elaborated its security strategy by the above-mentioned new Strategic Guidance announced in January 2012. Japan’s response when North Korea declared to launch a missile in April 2012 suggested how the so-called “dynamic defense” stated in the NDPG of 2010 would work by demonstrating deployment capabilities of Aegis destroyers and Patriot missiles for ballistic missile defense, as well as ground forces for protection of population on remote islands. This is an effective time for the governments of Japan and the U.S. to repeat what they did in the mid-1990s – to redefine the alliance in order to adjust their respective security strategies and policies for the decades to come.

In conclusion, both Japan and Taiwan need to participate in international economic frameworks in more positive ways. Turbulent domestic politics in Japan and Taiwan, however, have delayed the pace and process of the economic integration with the world economy. On the other hand, globalization has enabled progress, and China, the champion of globalization, has achieved enormous development in both its economy and military. Especially China’s military developments, with low transparency and growing aggressive maritime behavior, have increasingly become a regional and even world-wide concern. Ma Ying-jeou administration in Taiwan has successfully established stable relations with the Mainland, and has been successful in improving and strengthening relations with the United States and Japan. The DPJ administration in Japan has not been successful in maintaining stable relations with the United States and China, but very much successful in terms of improving relations with Taiwan. Even a crisis over the Senkaku islands

may boost the possibility of concluding a fishery agreement between them.

Most interestingly, no matter how the structure of international relations in East Asia changes, Japan-Taiwan relations has seen constant improvement since the resuming of Tokyo-Taipei flights in the mid 1970s, with bilateral relations rarely deteriorating for any significant timeframe. From the 1980's to 1994, cross-Strait relations gradually improved and triangle relations between Japan, U.S. and China were fundamentally stable, with Japan-Taiwan relations seeing stable and sound improvement. From 1995 to 2008, the cross-Strait relations deteriorated seriously, Sino-Japanese relations experienced cycles of deterioration and improvement, and Japan-Taiwan relations continued to improve. Finally, during the "New Era" after 2008, the cross-Strait relations became stable, Sino-Japanese relations saw the lowest fallout in the past four decades, and Japan-Taiwan relations remain quite stable. If the fishery issue in the East China Sea, the most difficult problem in bilateral relations, is resolved, Japan and Taiwan may be able to experience a great leap forward in the near future.