

## **The New Economic Relationship Between Taiwan and Japan**

Madoka Hukuda  
Kaori Iwamoto  
Kentaro Takechi  
Takahiro Tsuchiya  
Subaru Yamakage  
Tsuyoshi Yokokawa

### Introduction

Today, we are going to present the new economic relationship expected between Japan and Taiwan.

At the Third Wednesday Club foundation ceremony, the former president of the Republic of China, Lee Dong Khui stated, "the relationship between Japanese economy and Taiwanese economy has developed into the 'Horizontal Division' from the 'Vertical Division.'" "Horizontal Division," led to the establishment of several organizations, such as East Asia Businessmen's Conference, Third Wednesday Club, as well as the corporate alliance.

We are going to introduce few organizations established for more cultural interchanges between Taiwan and Japan. Also, we are going to see the influence on the relationship between Taiwan and Japan after Taiwan and China joined the WTO.

### Chapter 1 (Taiwanese Economic Development)

Taiwan has completed a great deal of economic development since the KMT came into Taiwan in 1952. From 1952 to 1995, Taiwan has achieved 9 percent of the economic development every year, which is very impressive, compared to other nations. The World Bank declared that Taiwan's GNP is 274 billion dollars, which ranked Taiwan in the 19<sup>th</sup> place in the whole world. Moreover, it is said that 40 percent of the black market economy has been left out from the statistics, therefore, actual Taiwan's GNP is considered to be 17 thousand dollars per person.

Nowadays, those who come back from the United States are playing important roles in leading new technologies in Taiwan. More than 100 thousand Taiwanese has earned Degrees in the United States. After the Martial Law was withdrawn in 1987, lots of Taiwanese who learned in the United States has come back to Taiwan and have made the great contribution to the Taiwanese economic development.

These factors are helping out Taiwan to be one of the most industrialized nations in the world.

## Chapter2 (“Vertical Division of Labor of Product” to “Horizontal Division”)

By the late 1980s, Japanese companies had considered Taiwanese companies as production bases, because Taiwanese companies could produce goods much cheaper, due to the difference of the personal expense. Therefore, the relationship between Japan and Taiwan had been called as the “Vertical Division of Labor of Product.” However, because of the increase of the personal expense in Taiwan, Japanese companies had to change their own perception towards Taiwanese economy. Now, the relationship is called the “Horizontal Division,” in which both Taiwan and Japan considered each other as more like “equal partners.”

In Japan, most semiconductor companies have their own production process within the company, which is called “Vertical Integration Type.”

In Taiwan, each semiconductor company takes their specialized parts in producing goods, which is called “Vertical Division Type.” Especially, the business model of specializing in acceptance, the “Foundry” system, is leading the whole semiconductor industry. Major “Foundry” companies are TSMC, UMC of Taiwan. TSMC and UMC own more than half of the world share of the “Foundry” market.

The “Foundry” system can be very useful also in “Vertical Integration Type” such as Japan, because it specializes only in production. Nowadays, there are more cases in Japan, in which Japanese companies accept the “Foundry” system in the production process. Therefore, “Foundry” system is now very accepted both in Japan and Taiwan. This fact is causing Taiwan and Japan to have the complex economic relationship, not only trading but also investment as well as technical support.

## Chapter 3 (Organization built up in the private-level between Taiwan and Japan)

East Asia Businessmen’s Conference was established in 1972 in order to have more economical interchanges between Taiwan and Japan in the private-level. Members for the Congress are the financial power in Taiwan and Japan. Past 30 years, East Asia Businessmen’s Conference played an important role of solving the troubles during the Taiwan-Japan trade. Those troubles are trade imbalance problem and industry division problem. There were several issues in the discussion. They are, Post Asian Financial Crisis Economy, Globalization and the alliance between

Taiwanese companies and Japanese companies, and the react to the IT Revolution. And, the last year, the year of 2001, they talked about, probable changes after Taiwan joined the WTO, the ways of strengthening economy between Japan and Taiwan. For the future, the Congress is considering following issues, Free Trade Agreement between Taiwan and Japan, and the Corporate Alliance between Japanese companies and Taiwanese companies investing in the Mainland China.

In 1999, The Third Wednesday Club was established with the Taiwanese initiative. It is a new group for economic alliance between Japan and Taiwan. Its purpose is to tie up Taiwanese companies and Japanese companies in the field of OEM or cooperate investment. Mr. Zieng, who is the Chief for the Economic Structure Conference in China, declared the Third Wednesday Club, which was created in order to progress the economic interchange between Japan and Taiwan. It is said that the Club is conscious of the Chinese companies expanding cooperation with the foreign capital. The companies must have income more than ten billion Taiwanese Yuan in order to join in the Third Wednesday Club. They have meetings in order to have communications with the Japanese political power as well as the financial power. In April of 2002, 50 representatives from the Taiwanese companies visited Japan. Today, there are 47 groups in the Third Wednesday Club, including the major conglomerate plastic group, Information Technology group, distribution and packaging , infrastructure, and the stock companies.

#### Chapter 4 (China and Taiwan joined in the WTO and its influence)

Taiwan and the Mainland China joined in the WTO in 2001. China has to open their market much more than it is right now, due to the WTO rules. On March 5<sup>th</sup> of 2002, Prime Minister for China, Zhu Roanji clearly stated that Chinese government is going to strictly follow the WTO rules and is going to open the Chinese market. In order to realize those statements and to strengthen international competitive ability, Chinese government has to their economic structure and has to change their government function. There are four Macro economic activities by the government as well as Micro economic activities by corporations, which were suggested.

Chinese government changed the Agricultural Act and pulled down the custom in order to adjust the Chinese government to the international market. The government also decided to take 8 steps that will introduce the Chinese market to the foreign capital.

Therefore, the foreign companies have more chances to invest in the Mainland China. Lately, Japanese companies are increasing the investment to China, which is called as “the third boom of the investment in China.” On the other hand, the investment from Taiwan to China is also increasing rapidly. As a result, more companies in Japan and Taiwan are cooperating together in order to invest in the Mainland China.

In the field of the electronics, for example, this trend is remarkably seemed. In China, most Japanese companies try to go into Hua Dong and Hua Xi Area of China, which is right next to the Taiwanese companies are located. Japanese companies can easily find the benefit to cooperate with Taiwanese ones in this location.

China's joining in the WTO promotes Japanese companies to invest more in the Mainland China. However, there have been several problems that the Japanese companies have. They do not have enough information of the local culture, language, and the system. Therefore, they cannot spread their business or their productions as they hope it to be. Then, many Japanese companies do not have enough manuals when they start investing in China. This problem causes the fail of the employment, production management, control and so on. Furthermore, it is very hard for the Japanese to get used to Chinese law of business.

In order to solve the problems in investing in China, Japanese companies decided to have more alliance with the Taiwanese companies, because they have much more experience in the Mainland China. In addition, because of being the same Chinese race, Taiwanese people understand the Chinese culture of business better. Therefore, Japanese companies can earn various advantages, such as, getting Taiwanese connection in the Mainland, doing the business together, and uprooting the talented from the Taiwanese companies.

On the other hand, for Taiwanese companies, it is said that they can have an easier time to get used to the systems in China than Japanese companies do. In addition, for Taiwanese companies, they would have the merit in the OEM Foundry, and technology transfer.

Therefore, Japanese companies and Taiwanese companies would both have merits by establishing the corporate alliance.

### Conclusion

While East Asian countries developed their economy as “Gone Side by Side” Taiwan by following the Japanese economy, Taiwan has developed its economy by following the Japanese economy. The relationship between Taiwan and Japan had

been “Vertical” because of Japanese investment in Taiwan. After the personal expense in Taiwan went up rapidly, the relationship changed into the “Horizontal” one.

Here is Vernon’s “Product Cycle.” If a company earns the constant production techniques, it tries to move factories in a different country where a company can produce goods with lower costs. After a while, the country, which was entered by a foreign company, starts exporting the same goods to other countries. Eventually, the company tries to make its way into other countries for cheaper personal expenses. When the production transmits to other countries, one by one, they call it as “Gone Side by Side Form.” If the “Gone Side by Side Form” progresses, countries entered by richer countries will eventually become as industrialized as the developed countries. Therefore, there will be more competition among those countries within the “Gone Side by Side Form.” The first country that starts “Gone Side by Side Form” needs to come up with new technology or new production in order to keep their profits.

Therefore, the “Horizontal” relationship does not bring out a good situation in the same field, because it leads to a tougher competition. In order to keep the national interest, it has to create new technology. Vernon’s “Product Cycle” can be used in the relationship between Taiwan and Japan. Japanese companies are losing their merits of entering Taiwan, because personal expense has gone up. There is no more disparity of technology between Taiwan and Japan, as you can see that Taiwan does technical assistant in China, and ASEAN.

Nowadays, Taiwan is not only progressing the mutual complement with Japan by the corporate alliance, but also importing parts from Japan and exporting high-tech equipments to the third country, which might cause economic friction between Taiwan and Japan. However, if you consider the tight economic relationship between Taiwan and Japan since 1973, you can see that there exists a framework of economical interchange. In East Asia Businessmen’s Conference, they used to discuss about trade and direct investment from Japan, however, they now mainly discuss about Free Trade Agreement and Corporate Alliance between Taiwan and Japan. There is also Third Wednesday Club where companies from both Taiwan and Japan can have communications.

After Taiwan and China joined the WTO, there expected a big change in East Asian industry structure. Other countries are expected to invest much more in China than before. Taiwanese companies progresses their investment in China, especially in high-tech industry.

Because Japanese companies need to have experienced partners in China, they try to have more alliance with Taiwanese companies. Taiwanese companies also

seek the alliance with Japanese companies, because of the importance of OEM Foundry, and technology transfer.

When we discuss about economic relationship among Taiwan, China, and Japan, we cannot leave out the political issues. Relationships between China and Taiwan as well as China and Japan have the excessive influence on the relationship between Taiwan and Japan. These political issues might prevent Taiwan and Japan from having more economic interchange.

Because Taiwan completed joining in the WTO, it can be said that, only as economic subject, China admitted Taiwan's independence. It might influence Japan's political relationship with Taiwan, China, and other countries around. For Japan, Taiwan and China's enjoyment in the WTO might change the bilateral relationship to the multilateral relationship in the future.