

## In support of a Taiwan-Japan FTA

Written by Guo Kuo-hsing 郭國興

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On Jan. 23, US President Donald Trump signed a presidential memorandum on the US' withdrawal from the Trans-Pacific Partnership (TPP). Although this decision will have an impact on the export-oriented economies of Taiwan and Japan, it is also a great opportunity to start negotiations for a free-trade agreement (FTA) between the two nations, whose economies have both become mired in "L-shaped" long-term stagnation.

Following are some mutually beneficial forms of cooperation between Taiwanese and Japanese businesses in which their advantages would complement one another and profits could be shared. The government might wish to consider these suggestions in its FTA negotiations with Japan.

First is constructing a new export model in the form of an "Asia-Pacific innovation corridor." Processing trade, in which imported products are processed and assembled before being re-exported, is shrinking around the world. Combined with the rise of China's "red supply chain," this trend caused Taiwan's exports to fall for 17 consecutive months until July last year, while Japanese exports fell for 13 consecutive months until November of that year.

To break free from China's impact on these economies, an Asia-Pacific innovation corridor has been proposed in which Japan would transfer technology to Taiwan and form a strategic alliance with it. Japan would sell raw materials to Taiwan, while Taiwan would quickly upgrade its technology, process these raw materials into high-end components and sell them to ASEAN members and India, which would assemble them into finished products and sell them on the global market.

The establishment of an Asia-Pacific innovation corridor would leverage the influence of Japan's long-term investment in and aid to ASEAN members and their infrastructure deployment, allowing Taiwan, Japan, ASEAN and India to share trade gains arising from a division of labor in production and lead to a way out of economic difficulty for Taiwan, which for the time being cannot fully participate in regional economic links.

Second is boosting consumption and investment confidence, so as to stimulate Taiwan's huge reserve of private financial assets. Taiwanese and Japanese share the same characteristic in that consumption and investment behavior can be easily swayed by a lack of confidence.

Faced with an economic slump, the two nations' central banks have adopted easy monetary policies and cut interest rates in an effort to stimulate domestic demand, but these measures have not had much effect. Consequently, both nations have sunk into L-shaped long-term stagnation and have still not escaped from a cycle of recession.

An urgent task for both nations' governments is to find ways to boost consumer confidence and encourage investment, so as to put a huge store of private capital sitting idle in banks to flow toward consumption and investment.

Third is helping a potential labor force, such as married women and older people, to return to the workplace and fill gaps in the labor market. If businesses would keep their employees on the payroll for longer periods or re-employ them, that would help keep the pension system financially viable. Alongside transformation and upgrading, this is another long-term prescription for economic revival.

Fourth is cooperating on developing energy resources to make both nations less dependent on imports. ASEAN members, whose resources were exploited under colonialism, are rapidly industrializing. Consequently, the prices of fuels, minerals, wood, water and other resources keep rising, making it impossible for resource-poor nations such as Taiwan and Japan to keep developing.

The two nations should cooperate in developing energy resources to make them more self-sufficient and reduce their dependence on imported fuels. Aside from that, innovative businesses related to longevity and health could also be included in joint industrial renewal efforts by Taiwan and Japan, as could next-generation agribusiness.

These sectors could take both nations into a high-quality social model that Japanese scientist Hiroshi Komiyama calls a "platinum society" in the 21st century.

Taiwan occupies a pivotal position in East Asia — a geostrategic position as vital as the Jingzhou (荊州) region of central China during the Three Kingdoms period. Notably, its

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surrounding waters give it a tight hold on Japan's lifeline for importing resources, so Japan has higher strategic requirements of Taiwan than other nations.

Now that Trump has abandoned the TPP, which was an important link in the US' strategy of "rebalancing to Asia," if Taipei can adopt a forward-looking mindset and formulate policies that benefit both Taiwanese and Japanese businesses, an FTA between the two nations can certainly be achieved in the near future.

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Translated by Julian Clegg

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