

Due Respect for Taiwan

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Taiwan has again become a focus of international concern. Mr. Lee Teng-hui has won a landslide victory in the first direct presidential election in Taiwan. The PRC, apparently to discourage the supporters of Lee whom the PRC regards as advocates of Taiwan's independence, waged a series of military exercises of considerable scale around the waters of the island. The United States dispatched the two aircraft carriers Independence and Nimitz to the area to demonstrate the will to defend the island in case of emergency. Whether the government of Taiwan ever asked the U.S. for such an intervention, nobody knows. It was clear, though, that the U.S. wanted to act as the police in the area. The U.S. also made it clear that if the PRC should ever attempt military invasion of Taiwan, there would be grave consequences. Taiwan is, for the U.S., something to defend. The tone of the news circulated the world over was pro Taiwan and against the PRC. Why? Because Taiwan is a democracy while the PRC is not? Needless to say, the PRC regards Taiwan part of China, a fact which seems to have been forgotten.

In 1971 the United Nations decided to reinstate the PRC as the sole representative of China and ousted Taiwan. In 1972 the U.S. and the PRC issued a joint declaration, the so-called Shanghai declaration, which says that there is only one China in the world. The PRC's claim that Taiwan is part of China is legitimate. Ever since the joint declaration in 1972, Beijing has been saying that even if the PRC resorts to military means to prevent unilateral independence of Taiwan, it is an internal affair in which no other country has the right to intervene. The PRC refuses to declare that she would not use military power to secure Taiwan as its territory. Strangely, the U.S. and its allies do not like to accept the PRC's stand. For them Taiwan is too dear to lose, because it has become a prosperous economic power. In the late 1950s when the PRC was shelling Quemoy and Matsu islands, both of them Taiwan's territory, the U.S. was right in declaring it would defend Taiwan against the PRC. There

were two Chinas then and Taiwan was the legitimate government of China for the U.S. Things have changed since then. Today there is only one China recognized by 154 countries, including countries like the U.S., Japan, etc., while less than 30 countries have diplomatic relations with Taiwan. De facto status of Taiwan, however, is not that of a renegade province of the PRC. Its exports to the U.S. and its imports from Japan stand at about 30% respectively of Taiwan's total trade. Its international balance of payments is only second to that of Japan. Its investments overseas are substantial. The generation of the Kuomintang is no longer the ruling hierarchy in the island. Taiwan has moved toward democracy and greater international recognition, while the PRC is a country of communist dictatorship. Therefore, whenever Taiwan and the PRC litigate, the world's sympathy goes to the former. Any remarks suggestive of independence by leaders of Taiwan are hailed. The U.S. intervention in favor of Taiwan is accepted matter-of-factly because of the retrograde amnesia affecting the world today. It should not be forgotten that the world has recognized the PRC as legitimate and Taiwan as part of it. The future relations between Beijing and Taiwan should be settled in principle by themselves. Taiwan should be paid due respect if it wants independence but it should not expect too much cheering from the outside.

COMING UP

When Japan decided to get along with the Western world some 130 years ago, she adopted many western values, standards and social institutions which regulated the Western society at the time and served to change the Japanese society. But those Western values and institutions became amalgamated with traditional Japanese values. Judicial system was one of them. Interesting analyses will appear in the next issue on this subject. Another piece of interest will be a comparative analysis of Japan's economic revolution and the industrial revolution in Europe.

Gov't Panel Calls For Private-Sector Approach

The Japanese government should assist private sector-led infrastructure development in developing countries through an international cooperation approach, a government panel said in an interim report on Japan's new role in international economic cooperation.

The report, titled "Towards New Trends Concerning Development of Economic Infrastructure in Asia," was released on February 5 by the Economic Cooperation Committee of the Industrial Structure Council, a consultative body for Minister of International Trade and Industry Tsukahara Shunpei.

As the circumstances surrounding Japan's Asia-oriented economic cooperation have been undergoing drastic changes with the dramatic economic growth and development of the Asian market economy, Japan is being urged to push for structural reform of its economic cooperation policy based on wider perspective, the report suggested.

It emphasized the importance of making active commitments to private sector-led infrastructure development, particularly in such areas as electric utility and communications sectors.

It noted that advanced countries are cutting down on budgets for overseas assistance due to the slowing down of their economies, a tendency referred to as "aid fatigue." Japan, too, which has been the world's top assistance donor for the last four consecutive years, now finds it difficult to continue to increase its overseas assistance budget because of the increasing financial burden caused by long-term economic stagnation and the rapid aging of its population.

On the other hand, Asia is playing the

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Economic cooperation in the Asian region desires a shift from public to private hands—dam construction site in Indonesia.

role of the world's growth center, leading sustainable growth in the global economy with some developing Asian countries having reached a sufficient stage of development. These "advanced developing" countries have begun to adopt the acceptance of foreign capital and the utilization of domestic capital as important policies for economic development to gradually replace the more conventional official development policies that focus on the receipt of official development aid.

The development of the market economy has prompted the governments of Asian countries to adopt private sec-

tor-led development policies through the utilization of domestic and foreign private capital in such economic infrastructure areas as electric utilities and communications, while limiting their roles to the upgrading of the environment for implementing projects.

Moreover, demands for economic infrastructures are rapidly increasing in Asian countries, due to such factors as 1) strong economic growth as well as rapid expansion of trade and investment, 2) population increase and rapid progress in urbanization, and 3) improvement of the standard of living. A report by the World Bank calculates

that new investments to the tune of approximately \$1.3–1.5 trillion will be required to develop the economic infrastructures of Asian countries in the 10-year period from 1995–2004.

This is an extraordinarily huge amount as it is nearly equivalent to 40–50 times that of Japan's budgetary appropriation for public works relating to economic infrastructure development in fiscal 1995.

Given such a background, there is little doubt private sector-led infrastructure development will gain importance. In this connection, the report cited two factors as advantages of private sector-led infrastructure development: 1) utilization of private funds enables further development of the economic infrastructure, and 2) private sector technology and managerial know-how improve the efficiency of project management.

There are currently more than 200 projects which are being jostled for implementation on the basis of private sector-led infrastructure development. Of this total, some 20 projects have been completed or are in progress after having secured sufficient funds.

The report also pointed out disadvantages connected with private sector-led infrastructure development. First, it noted, introduction of the private sector-led infrastructure approach without due consideration to development plans and structures could end up disregarding environment protection, regional balance and fair bids. It also noted that earnings from services rendered in domestic currency of the developing country concerned involves exchange and foreign currency risks which could lead to higher economic infrastructure service fees. For example, in the Philippines, where about 60% of utility facilities are covered by the private sector, utility charges are substantially higher than in other ASEAN member countries.

Furthermore, since economic infrastructures are public property, economic infrastructure projects are subject to various restrictions imposed by the governments of developing countries, and friction could arise between the govern-

ments and companies involved over the direction of project management and contracts.

The report thus sought the Japanese government's positive actions in addressing problems related to private sector-led infrastructure development.

Specifically, it called on the government to 1) cooperate with other advanced countries and international organizations, 2) limit its role to supplementing private projects, and 3) meet the specific needs of individual developing countries.

In regard to Japan's general economic cooperation policies and measures, the report proposed a two-pronged approach of supporting the environment for streamlining implementation of projects and providing funds for individual projects. In regard to yen loan projects, the report emphasized the need for the Japanese government to help privatize state-owned companies and to push for private sector-led projects as well as speed up procedures for the granting of loans and to meet the diversification of loan requirements.

Is Japan Becoming a Deficit-ridden Country?

Japan's balance of payments for January posted the first deficit in five years. The unfavorable balance is attributed to a decline in trade surplus and a rapid expansion of deficits in service trade.

The latest trend is in stark contrast to the perennial balance of payment surpluses Japan had long enjoyed. Gone are days when Japanese financial officials proudly talk about recycling Japan's surplus funds to financial markets of the world.

Some Japanese economists predict that at the beginning of the 21st century Japan will have become a perennial deficit-ridden country.

The Ministry of Finance introduced a new balance of payment

statistics formula in January under which a trade-service balance category was newly established so that trade in goods and services are classified into a single category. The new formula is aimed at showing in clear-cut terms that Japan's balance of payment has in fact been chronically in deficit.

As the ministry hoped, the current account for January did dip into a deficit, though by a slim \$1.9 billion, reflecting a decline in exports of automobiles and ships, and a rise in imports of automobiles and office equipment. As a result, trade surplus was almost halved and deficits in services such as tourism, transportation, finance and insurance, expanded substantially.

The Finance Ministry discounts the suggestion that red ink is taking hold in Japan, attributing the January deficit to slow exports and an increase in the number of overseas tourists during the year-end and New Year holidays.

The January figure does not necessarily reflect the general trend, but trade surplus is undoubtedly on the decline. Automobile trade is a good example. As Japanese automakers have shifted pro-

duction overseas, Japan's auto exports have sharply fallen. The yen's rise made foreign-made cars less costly and auto imports have jumped substantially, boosting the domestic share of imported cars to more than 10%. Imports of television and video recorders from other Asian countries are also sharply increasing.

Deficits in the service sector will continue to expand. Overseas tours have become less costly than domestic tours and the overseas tour boom will continue unabated. The balance of payments related to entertainment and cultural events will remain in chronic deficit.

If Japan turns into a deficit-ridden country at the beginning of the next century as some pundits predict, the yen's value will plummet. The yen could follow the path of the dollar and the pound.

Around that time, baby boomers would already be senior citizens and Japanese society will be aged. Japan then may find itself in a trilemma of aging, a cheaper yen and a perennial trade deficit.



Popularity for travel abroad will continue for the time being—New Tokyo International Airport.