



# IAAPS

INTERNATIONAL ASSOCIATION FOR ASIA PACIFIC STUDIES

## 5th IAAPS Annual Conference

# Regional Integration in the Asia Pacific Region

Nov. 27 - 28, 2014

Hosted by: The United Nations Economic and Social Commission  
for Asia and the Pacific: Subregional Office for East and  
North-East Asia (ESCAP-ENEA)



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Ritsumeikan  
Asia Pacific University

## Greeting for the 5th IAAPS Annual Conference

**Kazuichi Sakamoto, President of IAAPS**

Good morning, Ladies and Gentlemen. I am Kazuichi Sakamoto, the President of The International Association of Asia Pacific Studies, or “IAAPS”. I was the first President of Ritsumeikan Asia Pacific University (APU) in Japan. APU was founded in April 2000 and now has roughly 2,700 foreign students from about 80 countries and regions. These foreign students compose 47% of the student body.

It was in 2010, four years ago, that IAAPS was launched. Its objective is to establish a new type of research on the Asia-Pacific. We believe that it should be developed with the participation of a wide range of researchers interested in the Asia-Pacific; researchers not only from the Asia-Pacific itself, but also from all over the world. I am very grateful today to witness the 5th Annual Conference of IAAPS.

This year’s conference is cosponsored with the United Nations Economic and Social Commission for Asia and the Pacific: UNESCAP and financially sponsored by the Ministry of Foreign Affairs, Republic of Korea: MOFA and the Incheon Development and Tourism Corporation: IDTC. This support is very valuable and encouraging for this young academic society. I would like to extend my heartfelt gratitude to the people of these organizations for helping to make this conference a reality.

This year, around 60 participants from 17 countries and regions will present their research. I would like to welcome you all and express my deepest gratitude to those who came all the way here to participate in the conference.

This year, we welcome two very important persons who represent the Republic of Korea and Japan, who will make keynote-speeches at the conference.

One is His Excellency Mr. Shin Bong-Kil, president of the Institute on Foreign Affairs and National Security at Ministry of Foreign Affairs of the Republic of Korea.

The other is Professor Hoshino Toshiya, the Vice President of Osaka University in Japan and a specialist in modern international politics.

I am deeply appreciative that they took time from their very busy schedules to accept our offer to play leading roles in this conference.

As you know, from the 1980s onward, the Asia Pacific region has seen remarkable development, especially economically. Against that backdrop, the 21st century is becoming known as the Age of the Asia Pacific. Today, companies all over the world are increasingly strengthening their concentration of production, marketing, R & D and financial activities in the Asia-Pacific, and the trend of the 21st century being the Age of the Asia Pacific is becoming more and more obvious.

However, I do not think that the coming of the Age of the Asia Pacific simply means that the Asia Pacific region will rise in status in the world due to its economic advancement. Rather, I think that the Age of the Asia Pacific has a greater historical significance. It is the possibility that a new Asia Pacific civilization will mark an important stage in the history of human civilization.

The creation of such a new Asia Pacific civilization will not be realized if we sit idly by. In order for future generations to look back and consider that the people of the 21st century Asia Pacific region successfully created a new Asia Pacific civilization, it will be necessary for us to overcome the various difficulties facing humanity today, and to proactively build a new human society the way it should be, beyond the interests of any one country or area.

Currently, the Asia Pacific region is searching for solutions to various complex problems in all of the following fields: society, economy, politics, science, technology, the natural environment and regional peace security.

But the Asia Pacific region is also leading the world in all types of social change and progress. We can say that the Asia Pacific region is at the center of the whirlpool of social change and progress on the earth. So, considering the various complicated issues that human society is now being pressed to solve in order to bring about a bright future for global society, it would not be an overstatement to say that these issues have been converging in the Asia Pacific region. I am of the opinion that the efforts to find solutions to these problems are the historical responsibility of the Asia Pacific region, as it leads the future of world civilization.

The new Asia Pacific research work that can address such pressing challenges is certainly not something that can be fully tackled by only a handful of researchers or specialized researchers from one part of the Asia Pacific. Rather, this research requires contributions from researchers from all countries and regions of the Asia Pacific and furthermore all over the world. It must be

built on top of the extensive base of prior research in Asia Pacific studies in these various countries and regions. I am confident that IAAPS will fulfill a prominent, significant role in accomplishing this.

I look forward to lively discussions during these two days.

Thank you for your attention.



**INTERNATIONAL ASSOCIATION FOR ASIA PACIFIC STUDIES (IAAPS)  
5<sup>TH</sup> ANNUAL CONFERENCE**

**“Regional Integration in the Asia Pacific Region”**

**UNESCAP EAST AND NORTH-EAST ASIA OFFICE  
INCHEON, REPUBLIC OF KOREA  
27 – 28 November 2014**

**EVENT PROGRAMME**

**Day 1, November 27, 2014 (Thursday)**

<b>Time</b>	<b>Programme</b>
<b>9:30 – 10:00</b>	<b>Registration</b> <i>Venue: 8th floor</i>
<b>10:00 – 10:50</b>	<b>Opening Ceremony</b> <i>Venue: 8th floor meeting room</i> Moderator: Professor Davar Pishva Secretary General, IAAPS
10:00 – 10:10	Welcome Address by Dr. Kilaparti Ramakrishna Director of East and North-East Asia (ENE) Office of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP)
10:10 – 10:20	Welcome Speech by Professor Kazuichi Sakamoto President of International Association for Asia Pacific Studies (IAAPS)
10:20 – 10:35	Group Photo
10:35 – 10:50	Coffee Break
<b>10:50 – 11:20</b>	<b>Keynote Speech 1</b> Speaker: H.E. Shin Bong-Kil President of the Institute on Foreign Affairs and National Security Ministry of Foreign Affairs, Republic of Korea “Trilateral Cooperation of the ROK, China, and Japan and the Future of Northeast Asia”
<b>11:20 – 12:00</b>	<b>Keynote Speech 2</b> Speaker: Professor Toshiya Hoshino Vice President of Osaka University, Japan "Building a Common Home in the Asia Pacific"

12:00 – 13:30	<p><b>Lunch</b>  <i>Venue: 3rd floor - Chiko Salad Buffet</i></p>	
13:30 – 15:00	<p><b>Panel Session 1: Interactive Linkages of Integration Within and Outside Asia Pacific and South Asia</b>  <i>Venue: 8th floor meeting room</i>  Group A  Moderator: Professor Munim Kumar Barai  Ritsumeikan Asia Pacific University, Japan</p> <ol style="list-style-type: none"> <li>1. Leveraging Regional Integration as a Means of Trade Expansion: An Evaluation of TPP Choice of Japan  - Munim Kumar Barai and Yasushi Suzuki</li> <li>2. Cross-Cultural Issues in Cross Border M&amp;As: Agenda Based Research from Asia Pacific Deals  - Rabi Narayan Kar, Minakshi and Anil Kumar Swain</li> <li>3. The Growing Importance of Indo-Japan Economic Relationship in the Asia Pacific Century  - Munim Kumar Barai, Rabi Narayan Kar and Niti Suri</li> </ol> <p><b>Panel Session 1: Socio-Historical Reflections</b>  <i>Venue: 8th floor seminar room</i>  Group B  Moderator: Professor A. Mani  Ritsumeikan Asia Pacific University, Japan</p> <ol style="list-style-type: none"> <li>1. Social Transition and Integration in a Transnational Ethnic Chinese Community in Yokohama Chinatown: A Case Study of Yokohama Overseas Chinese Women’s Association (YOCWA)  - Yee Lam Elim Wong</li> <li>2. Use of Force – Offensive and Defensive: Korean War of 1950  - Jen-Hsin Yu (Peter)</li> <li>3. The Geopolitical Role of Hong Kong in the Sino-Japanese Relationship: From the Origination and Development of <i>Honkon Nippo</i> (1909-1945)  - Wai Shing Lee</li> </ol> <p><b>Panel Session 1: Tourism Perspectives</b>  <i>Venue: 6th floor meeting room</i>  Group C  Moderator: Professor Hirohisa Yukawa  Shikoku Gakuin University, Japan</p> <ol style="list-style-type: none"> <li>1. Overcoming Negative Impacts of Volunteer Study Tour: A Case Study of Food for the Hungry Philippines  - Hirohisa Yukawa</li> </ol>	<p>P.1</p> <p>P.27</p>

	<p>2. Participants' Satisfaction Determinants for a Physically Challenged Convention Host City - Shinyu Kise</p>	P.36
<b>15:00 – 15:15</b>	<p><b>Coffee Break</b> <i>Venue: 6th floor atrium</i></p>	
<b>15:15 – 16:45</b>	<p><b>Panel Session 2: Mediating Poverty &amp; Depravation</b> <i>Venue: 8th floor meeting room</i> Group A Moderator: Professor Akichika Mikami Chubu Gakuin University, Japan</p> <p>1. The Terminal Care of Elderly People in East Asia - Akichika Mikami</p> <p>2. Nexus between Education and Poverty in Africa: Evidence from Sierra Leone - Sangho Kim</p> <p>3. The Impact of Security and Regional Integration on Poverty Reduction in Afghanistan - Farid Ahmad Farzam Rahimi</p> <p><b>Panel Session 2: Challenges &amp; Strategies</b> <i>Venue: 8th floor seminar room</i> Group B Moderator: Professor Munim Kumar Barai Ritsumeikan Asia Pacific University, Japan</p> <p>1. A Framework for Developing Ubiquitous Services - Lailani Alcantara</p> <p>2. Project Management of Oil and Gas Project in Malaysia - Harris Bin Abd Rahman Sabri</p> <p>3. The Development of Global Logistics in East Asia - Baixun Wang</p> <p><b>Panel Session 2: Competing Perspectives</b> <i>Venue: 6th floor meeting room</i> Group C Moderator: Dr. Shintaro Hamanaka Asian Development Bank, Philippines</p> <p>1. TPP, RCEP and FTAAP - Shintaro Hamanaka</p> <p>2. Limits in Northeast Asian Regionalism and Conflicts in Master Primary Institutions: The Role of the United States - Maël van Beek</p>	<p>P.38</p> <p>P.51</p> <p>P.58</p> <p>P.67</p> <p>P.80</p> <p>P.91</p> <p>P.119</p> <p>P.128</p>

	<p>3. Northeast Asia Regional Integration: A Taiwanese Perspective - Yi-Huan Wu</p> <p><b>Panel Session 2: Law &amp; Development</b> <i>Venue: 7th floor meeting room</i> Group D Moderator: Professor Malcolm Cooper Ritsumeikan Asia Pacific University, Japan</p> <p>1. Research and Development (R&amp;D) Tax Incentives for The Small and Medium-sized Enterprises (SMEs): Urgency and Its Implications - Maria Tambunan</p> <p>2. Climate Change and Urban Poor: Water-related Behaviors in Jakarta - Lisman Manurung and Arthur Simon Runturambi</p>	<p>P.139</p> <p>P.150</p>
<b>16:45 – 17:15</b>	<p><b>Briefing on the United Nations</b> <i>Venue: 8th floor meeting room</i></p>	
<b>17:15 – 17:45</b>	<p><b>IAAPS 5<sup>th</sup> Annual General Meeting</b> <i>Venue: 8th floor meeting room</i></p>	
<b>18:00 -19:20</b>	<p><b>Welcome Dinner</b> Moderator: Professor Davar Pishva Secretary General, IAAPS <i>Venue: 19th floor Orakai hotel - 5 minutes by bus. Free transportation would be provided by hotel.</i></p>	
<b>19:30</b>	<p><i>Excursion in Incheon</i></p>	



**Day 2, November 28, 2014 (Friday)**

Time	Programme	
8:30-9:00	<b>Registration</b> <i>Venue: 8th floor</i>	
9:00-10:30	<p><b>Panel Session 3: Fiscal Integration</b>  <i>Venue: 8th floor meeting room</i>            Group A            Moderator: Professor Haula Rosdiana            Universitas Indonesia, Indonesia</p> <p>1. How Should Indonesia Enhance R&amp;D Capacity by (Re) Constructing Tax Incentives Policy?            - Haula Rosdiana P.159</p> <p>2. Fiscal Policy to Promote Food Sovereignty            - Muhammad Nugroho Kresna Saputra P.173</p> <p>3. Institutional Design of Local Tax Authorities within the Framework of Rural and Urban Sector Property Tax Devolution            - Debie Puspasari P.185</p> <p><b>Panel Session 3: Economic Regionalism</b>  <i>Venue: 8th floor seminar room</i>            Group B            Moderator: Professor Ivaylo Gatev            University of Nottingham Ningbo China, China</p> <p>1. The Role of Regional Organisations in the Development of the Eurasian Overland Transport Corridor            - Ivaylo Gatev P.197</p> <p>2. The Coordination among National Governance Systems in Achieving Sustainable Development in Asia and the Pacific            - Sayanaa Lkhagvasuren</p> <p>3. Hedging or Sidelined? The Case of Taiwan            - Tony Tai-Ting Liu and Hsin-chi Lu P.205</p> <p><b>Panel Session 3: Future Perspectives of Regionalism</b>  <i>Venue: 6th floor meeting room</i>            Group C            Moderator: Professor Masato Kamikubo            Ritsumeikan University, Japan</p> <p>1. The Possibility of Sharing Democratic Values between South Korea, Japan and Overseas Chinese Network for Overcoming Clash of Nationalism            - Masato Kamikubo P.219</p>	

	<ol style="list-style-type: none"> <li>2. Comparative Studies on Immigration Policies in the East Asia Societies - Pei-Chun Han</li> <li>3. Turning Battle Fields into Markets: The Impact of Economic Integration on Refugees and Asylum Seekers in Thailand - Jera Lego</li> </ol>	P.226
10:30-10:45	<p><b>Coffee Break</b> <i>Venue: 6th floor atrium</i></p>	
10:45-12:15	<p><b>Panel Session 4: East Asian Perspectives: Energy, Trade &amp; Environment</b> <i>Venue: 8th floor meeting room</i> Group A &amp; B Moderator: Professor Stephen Robert Nagy International Christian University, Japan</p> <ol style="list-style-type: none"> <li>1. Japan-China Bilateral Relations, Territorial Disputes and Shifting Business Sentiments on China: A Case Study of Japanese Business - Stephen Robert Nagy</li> <li>2. The Strategies and Challenges of Global Niche Top Companies in Asia Pacific Region - Geunhee Lee</li> <li>3. China's Economic Diplomacy in Southeast Asia: An Assessment of Regional Integration - Xue Gong</li> </ol> <p><b>Panel Session 4: Adaptations</b> <i>Venue: 6th floor meeting room</i> Group C Moderator: Professor Sangho Kim Ritsumeikan Asia Pacific University, Japan</p> <ol style="list-style-type: none"> <li>1. Socio-Economic Impact and the Adaptation of Boten People under Chinese Transnationality - Sivarin Lertpusit</li> <li>2. Long Memory Volatility Modeling in Agricultural Commodities with Risk Management Application - Kun Ou (Sherlock)</li> <li>3. An Analysis of Perceived Destination Images of Taiwan - Dietermar Say</li> <li>4. George W Bush Administration's Policy toward North Korea's Nuclear Development – the Attitude of South Korea - Chieh Chang (Jack)</li> </ol>	<p>P.236</p> <p>P.247</p> <p>P.270</p>

12:15-13:45	<p><b>Lunch Time</b>  <i>Venue: 3rd floor - Chiko Salad Buffet</i></p>	
14:00-15:30	<p><b>Panel Session 5: Financial Integration</b>  <i>Venue: 8th floor meeting room</i>  Group A  Moderator: Professor Jae-Kwang Hwang  Virginia State University, USA</p> <ol style="list-style-type: none"> <li>1. Spillover Effects of the 2008 Financial Crisis on Asian Equity Markets  - Jae-Kwang Hwang</li> <li>2. Prohibition of Non-Audit Services and its Impact on the Profitability of the Big 4 Auditing Firms in Bangladesh  - Md. Jahidur Rahman</li> <li>3. Why VAT Policy Does Not Promote Indonesia's Food Resilience : Comparative Study with Thailand (A Quintuple Helix Perspective)  - Jati Wisamodro</li> </ol> <p><b>Panel Session 5: Social values &amp; Integration</b>  <i>Venue: 8th floor seminar room</i>  Group B  Moderator: Professor I Kadek Dian Sutrisna Artha  Universitas Indonesia, Indonesia</p> <ol style="list-style-type: none"> <li>1. Study of Success Factors of Suicide Measures in Local Government  - Natsuko Komaki</li> <li>2. Sociocultural Integration and its Effects  - Michel May</li> <li>3. China's Ageing Population: Challenges and Implications  - Xiaolong Zou (Edison) and Dietermar Say</li> </ol> <p><b>Panel Session 5 : Sustainable management</b>  <i>Venue: 6th floor meeting room</i>  Group C  Moderator: Professor Malcolm Cooper  Ritsumeikan Asia Pacific University, Japan</p> <ol style="list-style-type: none"> <li>1. R &amp; D, Resource Use and Climate Change  - Di Yin</li> <li>2. Basis for the Organization of Natural Resource Management of the Kyrgyz Republic: On the Example of Nuciferous Forests of South Kyrgyzstan  - Zalkarbek Karybekov</li> <li>3. Indonesia as Living and Resort Destination for the Elderly</li> </ol>	<p>P.274</p> <p>P.279</p> <p>P.289</p> <p>P.298</p> <p>P.310</p>

	- Ririen Fina Richdayanti	
<b>15:30-15:45</b>	<b>Coffee Break</b> <i>Venue: 6th floor atrium</i>	
<b>15:45-17:15</b>	<p><b>Panel Session 6: Converging Paths</b> <i>Venue: 8th floor meeting room</i> Group A Moderator: Professor David Haines George Mason University, Korea</p> <ol style="list-style-type: none"> <li>1. Converging Paths of Integration?: Migrant Fates and Effects in National, Regional, and Global Contexts - David Haines</li> <li>2. Energy Security, Regionalism and Geopolitics in a Changing Myanmar - Maxwell Campbell Caughron</li> <li>3. Strengthening Political Taxation Through Broadening Tax Authority of Local Tax Institutions - Inayati</li> </ol> <p><b>Panel Session 6: Challenges &amp; Opportunities in Regional Integration</b> <i>Venue: 8th floor seminar room</i> Group B Moderator: Professor Chi Ming Victor Chan Hang Seng Management College, Hong Kong</p> <ol style="list-style-type: none"> <li>1. Sino-Japanese Relationship in the Context of Regional Integration in the Asia Pacific: Challenges and Opportunities - Chi Ming Victor Chan</li> <li>2. Chinese Economic Activities in North Korea on the Sector of Border Security: Motivation and Implication - Bo Gao</li> <li>3. The Role of Culture Industry Contents in the Inter-Integration of Asia-Pacific Region - En-Ho Yoon</li> </ol> <p><b>Panel Session 6: Balance of Powers</b> <i>Venue: 6th floor meeting room</i> Group C Moderator: Professor Ka Po Ng University of Niigata Prefecture, Japan</p> <ol style="list-style-type: none"> <li>1. Is US Rebalancing towards Asia-Pacific a Self-Defeating Strategy? - Ka Po Ng</li> </ol>	<p>P.319</p> <p>P.329</p> <p>P.338</p> <p>P.345</p> <p>P.355</p> <p>P.361</p>

	<p>2. The Island Nation, the Mainland Power, and the Continental Power Balance- The Story of Yesterday's Europe and Today's Asia - Csaba Barnabas Horvath</p> <p>3. India and ASEAN: How Strategic is the Partnership? Case of Vietnam - Barbara Kratiuk</p>	P.368
<b>17:15-17:30</b>	<p><b>Closing Remarks</b> <i>Venue: 6th floor meeting room</i></p>	
<b>18:00-19:30</b>	<p><b>Dinner</b> <i>Venue: Surache Dining (19th floor of Holiday Inn Incheon Songdo)</i> <i>[5-10 minutes on foot]</i></p>	
<b>19:30</b>	<p><i>Excursion in Incheon</i></p>	

## Understanding the Indo-Japan Economic Relations in the Asia Pacific Century

Munim K Barai<sup>1</sup>, Rabi Narayan Kar<sup>2</sup>, Niti Bhasin<sup>3</sup>

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<sup>2</sup>Associate Professor, Shahed Bhagat Singh College, University of Delhi, India; <sup>3</sup>Assistant Professor, Delhi School of Economics, University of Delhi, India.

**Abstract:** A period when the world's economic gravity is shifting to the Asia Pacific region with the promise of an Asia Pacific 21st Century, Japan is increasingly facing pressure to maintain its economic and political position vis-a-vis China. To minimize any adverse impact, Japan needs to expand its economic horizon crossing the hereto established boundary, importantly focusing on one or more countries to increase its strategic depth in international economic relationship. India seems to be uniquely placed to get Japanese attention for such engagement for a number of advantageous factors it holds. With a vast population, diverse demography, increasing economic promise, democratic governance, soft power and physical location at the core of South Asia, India makes a *bona fide* contender to play an important role in the emerging global order. This paper argues that deeper economic cooperation between them can, on the one hand, benefit Japan Inc. through the expansion of economic space and accelerate India's rise in the global order on the other. Moreover, it is natural that a strong economic commitment will automatically deepen the political understanding between them that may work as a counterweight to any future Chinese posture. But to cooperate to gain mutual betterment, both the countries need to position themselves for becoming complementary to each other. This will face a number of barriers at both ends.

### 1. Introduction

The dream run of the Japanese economy during the second part of the 20th century made it the second largest economy in the world by 1968, exactly a hundred years after Japan initiated the push for industrialization and modernization through the Meiji Restoration. But the Japanese economic history of the last quarter of a century (1991-2014) is dominated by low growth and missed opportunities. Ironically, during the same period a definite shift in world's economic gravity has taken place to move to the Asia Pacific region with the promise of an Asia Pacific 21st Century.

In the background, Japanese economic woes began with the bursting of the asset price bubble in the 1990s and were aggravated by the gradual appreciation of yen. Those adverse economic conditions at home forced many Japanese companies to offshore bases, particularly in the East and South East Asian countries, for trade and investment. In this context, Japanese investors followed the policy of "China Plus One"<sup>1</sup> and lately "China Plus More" policy for their investment and production. But Japan is now facing increasing competition in its internal and external markets, mainly from China. Though China is still receiving a large amount of Japanese investments, the clouding of the political environment since the nationalization of Senkaku Islands in the East China Sea by Japan (known as Diaoyu Islands in China) in September 2012 has strained the economic ties between the two countries as well. Thailand, another priority country of Japanese investment, is making Japanese investors nervous because of its cycle of political instability and natural problem.<sup>2</sup>

To reinvigorate Japan's sluggish economy, the Japanese Prime Minister Shinzo Abe introduced a set of economic measures, now known as Abenomics, soon after the December 2012 reelection. The core of measures in Abenomics include 'three arrows': more aggressive monetary easing from the Bank of Japan (BoJ), a massive fiscal stimulus, and structural reforms. These all are mostly domestic prescriptions to attain the economic growth goal. But to sustain the growth, if it is attained through a domestic push, Japanese businesses also need to explore and integrate with economies that have enough space to host and absorb expanding Japanese economic activities. A number of countries may be included in the list of potential contenders for such an economic relationship. However, Japan needs to expand its economic horizon crossing the hereto established boundary, importantly focusing on one or more to increase its strategic depth through international economic relationships. In this context, India seems to be uniquely placed to get Japanese attention for a number of advantageous factors it holds over others. In fact, the importance of strategic economic and political relationship between India and Japan is growing with the passage of time.

This stems from the fact that India is rising as a powerful economy on the global rank, and it has remained relatively unexplored by Japanese businesses until now.<sup>3</sup> So, India can

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<sup>1</sup> "Japanese firms hedged their China risk with a 'China-plus-one' strategy, implying that they would find an extra Asian supply hub, such as Thailand. Now, that has grown into a wider 'China-plus' strategy, because their options these days have widened to include Indonesia, Myanmar, Vietnam, Cambodia, the Philippines and India" (The Economist, 2012).

<sup>2</sup> In 2011 Thailand had severe flood that disrupted the Japanese supply chain world over and the military coup in 2014 may not be that favorable to the Japanese investors.

<sup>3</sup> India alone, as the eleventh largest economy by nominal gross domestic product (GDP) and third largest by purchasing power parity (PPP), is a country of about 1240 million population, which is again the 2<sup>nd</sup> largest in

become a huge market for Japanese high-tech products and services. Not only that, it can also work as a base for entering the markets of the neighboring markets including Bangladesh, Sri Lanka and Pakistan. Unfortunately, the mutual goodwill between Japan and India has not yet been translated into serious economic engagement. For example, the bilateral trade between Japan and India is only about \$17.6 billion (against Japanese total of \$ 1,689 billion versus India's \$791 billion), much lower than of \$26 billion between Japan and Vietnam (Table 1). Japanese FDI stock in India is also negligible. Though Japan has remained an ODA provider to India for a long time, their business relations may be considered as trivial. Thus, courting India in a new Japanese model of economic cooperation may give a natural extension of its markets in South Asia.

Despite stagnant relations between the two countries for a long period of time, Japan is now looking up to India as a favorable trade and investment destination. This is largely attributable to India's resilience to the global economic downturn, its growing domestic demand, and India's strategic position as a gateway to the growing markets of Middle East and Africa. In the direction of improving bilateral economic relations, Japan and India signed the Comprehensive Economic Partnership Agreement (CEPA) in February 2011 in Tokyo, which came into force on 1st August 2011. This Comprehensive Economic Partnership Agreement is important for India and Japan in terms of its coverage and the size of trade and investment involved. (India's earlier CEPAs are with Singapore and South Korea). While for India, Japan can turn out to be its biggest GDP partner (with a GDP of about US\$ 5 trillion); for Japan, India can open tremendous business opportunities, given its size and the fact that it is a growing and emerging market. In the narrative of Chellaney, "Tokyo sees India as important to its own economic-revival strategy, while India looks at Japan as a critical source of capital and commercial technology and a key partner to help upgrade its manufacturing and infrastructure" (Chellaney 2014).

Importantly, the present paper is not devoted to detail the scope and potentials of CEPA, rather it wants to understand the critical nature of strategic economic engagements between Japan and India. Moreover, the new economic paradigm of Japan-India relationship in the 21st century should not merely discussed in the realm of exploring mutual trade and investment. The paradigm should be inclusive and much more strategic in nature in the backdrop of the emergence of a powerful and overbearing China. However, it is natural that a strong economic commitment will automatically deepen the political understanding between the countries that could work as a counterweight to any future Chinese posture. So,

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the world. Since 1980, its economy has been growing steadily on an average of 6 percent annually and presently the GDP growth is hovering around 5 percent. It also has the highest private domestic consumption as a share of GDP (57 percent in 2008) in the Asia Pacific region (Dewan, 2010).

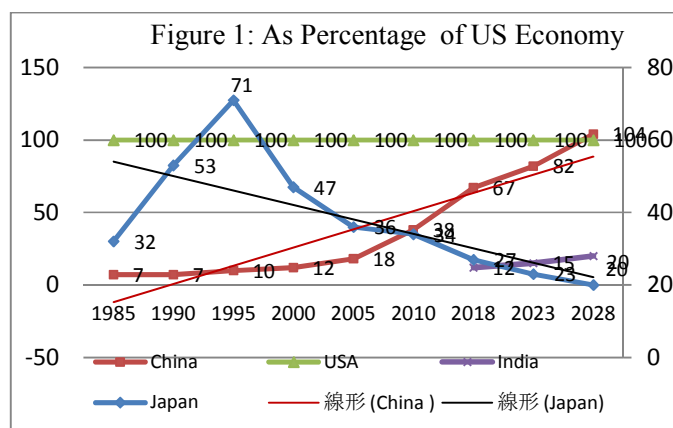


we would like to confine the focus of the paper on mostly on economic issues that are likely to dominate any future relationship between India and Japan.

This paper has four more parts. Part two has been devoted to developing an understanding on the urgency of a strategic partnership between Japan and India. Part three identifies some qualitative and quantitative variables of India that hold promise for a better future in the regional and global context. Part four looks at the existing trade and investment relations between them that, unfortunately, remains low at depth and breadth. Part five examines the promises, potential hurdles and tentative steps for positioning both the sides to form a true strategic partnership for the benefit of Asia. Part six concludes the paper.

## 2. Developing Perspective on the Need for Strategic Economic Partners

What is the future of Japanese economy in the 21st century, projected to be an Asia Pacific Century? How about India? These questions cannot be answered without bringing China into the frame of discussion and comparison. Though this is a futuristic proposition, the debate has gained momentum because of the speed at which China is world statistics of growth and trade. We will, however, try to understand a probable picture by identifying and analyzing some relevant developments. They do not form an exclusive list, though.



Source: Constructed. Data from Data from the Economist (2009) for 1985-2010 and Centre for Economics and Business Research for 2018-2028.

We can begin with Figure 1 that shows the past economic weight of three countries, viz. USA, Japan and China, say from 1985 to 2010. Case of India has been added in that future context. The whole scenario has been drawn keeping the US as the base economy for

comparison. Though Japan achieved the 2<sup>nd</sup> economic power status in 1968, in GDP terms it reached the highest level in 1995 when its economy equaled 71 percent of the US economy. However, by then Japan was thrown into economic turmoil by the price bubble burst. China lagged far behind with only 10 percent equivalent weight of the US at that time. But the situation rapidly changed in the first decade of the twenty-first century as China rode very fast in the economic ladder to surpass Japan on GDP terms in 2010. Since then, the gap between the economies is widening fast while the gap between China and the US is getting narrowed very fast. Based on the Centre for Economics and Business Research's (CEBR) economic projection, their respective future economic positions have been plotted in the same figure. The CEBR projects that, with the present trend of economic growth, China will leave the US behind in 2028 to be the largest economy in the world at real GDP value. By then, if the prediction holds, Japan will be the fourth largest economy behind India at the third place.

Table 1: Leading Producers in the 5-Fastest Growing Industry  
(Percent, 2000 and 2009)

Sectors	Average Annual Growth Rate	World Five Leading Economies (Share in World MVA)			
		Economy	2000	Economy	2009
Office, Accounting & Computing Machinery (ISIC 30)	9.8	US	53	US	53
		Japan	15	China	11
		UK	6	Japan	9
		China	4	Germany	7
		Germany	4	S Korea	6
Radio, television and communication equipment (ISIC 32)	9.4	US	61	US	62
		Japan	15	China	12
		China	5	Japan	10
		Taiwan, China	3	S Korea	5
		S Korea	3	Taiwan, China	4
Electrical machinery and apparatus (ISIC 31)	7.9	Japan	23	China	33
		US	21	Japan	20
		Germany	13	Germany	10
		China	8	US	10
		Italy	4	India	5

Other transport equipment (ISIC 35)	7.3	US	31	US	22
		Japan	9	China	15
		UK	8	Brazil	14
		Brazil	6	Japan	7
		France	5	S Korea	6
Basic metals (ISIC 27)	5.7	Japan	23	China	48
		US	14	Japan	14
		China	12	US	5
		Germany	6	Germany	4
		S Korea	4	India	3

Source: UNIDO, Industrial Development Report 2011.

Some additional areas are evolving fast. Until now, China has been criticized for the quality and reliability of its various products. But when it comes to the growth of some of the major industries that will still remain the importantly relevant for growth and development, China seems to be showing the future. Table 1 includes the leading producers of 5-fastest growing industry in 2000 and 2009, ranked by the Industrial Development Report 2011 of UNIDO. The industries are 'Office, accounting & computing machinery,' 'Radio, television and communication equipment,' 'Electrical machinery and apparatus,' 'Other transport equipment' and 'Basic metals.' Between 2000 and 2009, the changes in positions of the world five leading economies in the manufacturing value add (MVA) are quite apparent, and China's rising share in those industries cannot be missed. "Developed countries still account for around 60% of global medium- and high-technology exports, yet here China made inroads with share of medium- and high technology products of its total exports increasing from 45.5% in 2000 to almost 60% in 2009" (The China Analyst, 2012: p. 3).

Additionally, it would be interesting to look at another fact as an indication for the technological future to come. Table 2 lists the top five vendors of tablets, their shipment figures and market share in the 3<sup>rd</sup> quarter of 2012 and 3<sup>rd</sup> quarter of 2013. Interestingly there is no Japanese vendor in the top list. Though the first and second ranks are occupied by two companies - one each from the US and South Korean - the next three originate in China. Not only that, their market share is poised to increase in the future.

Table 2: Top Five Tablet Vendors, Shipments, and Market Share, Third Quarter 2013  
(Shipments in millions)

Vendor	3Q13 Unit Shipments	3Q13 Market Share (%)	3Q12 Unit Shipments	3Q12 Market Share (%)	Year-over-year Growth (%)
Apple	14.1	29.6	14.0	40.2	0.6
Samsung	9.7	20.4	4.3	12.4	123.0
Asus	3.5	7.4	2.3	6.6	53.9
Lenovo	2.3	4.8	0.4	1.1	420.7
Acer	1.2	2.5	0.3	0.9	346.3
Others	16.8	35.3	13.5	38.8	25.0
Total	47.6	100	34.8	100	36.7

Source: International Data Corporation (IDC), 2013.

<http://www.idc.com/getdoc.jsp?containerId=prUS24420613>

These apart, in the World Bank’s ‘Economy Rankings’ for 2013 ranked Japan at 27<sup>th</sup> place even behind Saudi Arabia for ease of doing business.<sup>4</sup> From Table A2, we see that in terms of easiness of starting a business, Japan was at 124<sup>th</sup> position, while it held 140<sup>th</sup> position when it came to the issue of paying taxes. Interestingly, Japan holds rank one for resolving insolvency. Without this, Japan’s overall position in the ranking could have been much lower. Though the Abe Government is trying to simplify some of the regulations for the foreigners to do business in Japan under its structural reform initiative, it remains to be seen how the bureaucracy cooperates in the process by leaning the regulatory labyrinth created for a long period. Both China and India are, however, ranked long way down from Japan, having 96 and 134 ranks respectively.

However, the Global Competitiveness Report 2013-14 has ranked Japan as the 9<sup>th</sup> most competitive nation in the world. The GCR highlights that, ‘‘The country continues to enjoy a major competitive edge in business sophistication (1st for the fifth consecutive year) and innovation (5th). High R&D spending (2nd), availability of talent (4th), world-class research institutions (9th), and capacity to innovate (6th) are among Japan’s strengths. Indeed, in terms of innovation output, this pays off: the country has the fourth-highest

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<sup>4</sup>Economies are ranked on their ease of doing business, from 1 – 189. A high ranking on the ease of doing business index means the regulatory environment is more conducive to the starting and operation of a local firm. This index averages the country's percentile rankings on 10 topics, made up of a variety of indicators, giving equal weight to each topic. The topics are – Starting a Business, Dealing with Construction Permits, Getting Electricity, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Resolving Insolvency. The rankings for all economies are benchmarked to June 2013.

number of patent applications per capita in the world. Further, companies operate at the highest end of the value chain, producing high-value-added goods and services” (p. 24).

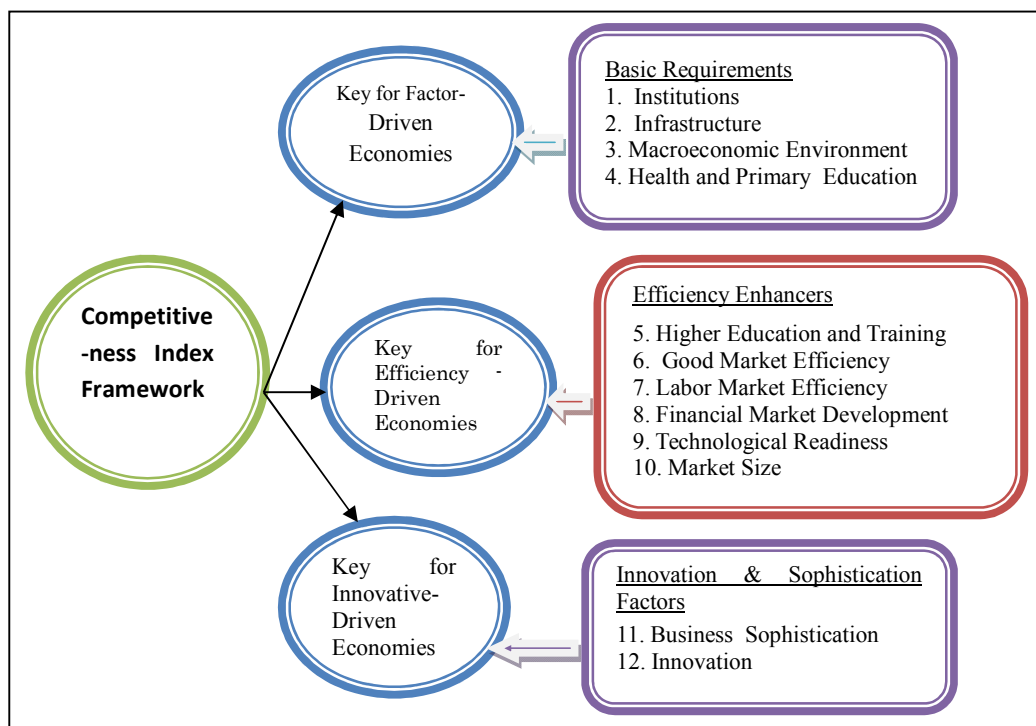


Figure 1: The Global Competitiveness Index framework

Source: Adopted. World Economic Forum, GCR 2013-14

But it identifies many persisting problems that drag down Japan’s overall competitive performance. The macroeconomic factor is the biggest concern. “In addition, the labor market (23rd, down three) is characterized by persisting rigidities and inefficiencies, including the lack of female participation in the labor force (90th overall). Burdensome regulation, notably for business creation; high taxation; various trade barriers (111th); and a relative isolation, resulting in low foreign investment and ownership and a weak capacity to attract talent (80th), represent Japan’s major competitive weaknesses” (p. 24). Interestingly, some of them are the postwar historical baggage which Japan seems to be happy to carry on for an indefinite period ignoring the realities of the present world or future possibilities.

Japan could begin its development at a more leisurely pace than could China. However, the Japanese model of trade strategy dominated by "government-sanctioned cartels, price-

fixing, forced savings, import barriers, cheap loans to targeted industries, and cross shareholding--forged the world's preeminent exporter of manufactured goods in the postwar period" (Terry, 1995). Also in the heydays, Japanese economic and international trade management controlled or obstructed four important factors to the benefit of domestic businesses. We can identify them as "Four Is", viz. imports, inward investment (of foreign origin), integration through free trade agreement (FTA), and immigration.

There are no doubt these blocking factors served the short to medium term objectives of the policy makers. But in the long term these are proving to have reduced its international competitiveness. Imports, foreign investment and FTA could have infused competition in the domestic market that ultimately could have helped the international competitive advantages in the long run. Japan seemed to have maintained even a more rigid approach to immigration. For long, Japan has successfully blocked the absorption of a meaningful number of foreign skilled and unskilled forces through effective cultural, language and legal barriers. In this way, it has denied itself the infusion of new blood and diversity. Japan overlooked the importance of social diversity in the creative advancement of the country for its quest for maintaining the characteristics of a homogenous society. Indeed, "Japan is even less open to foreign workers than to rice imports, finishing at the bottom of the migration rankings. With 2.2 immigrants per 1,000 of the population entering from poor countries, Japan actually scores better than five other countries, including Britain and France. But Japan prefers immigrants who come and go to those who stick around, so its net migration figures are much worse"(The Economist, 2004). This has effectively minimized any possibility of replacing the labor force which is depleting very quickly in Japan. The implications of such a development should be felt on a number of social and economic issues, including production and trade.

The condition of China in the Economy Ranking 2013 and GCR 2013-14 is not that rosy or happier either. The GCR 2013-14 ranks China at 29<sup>th</sup> position. It has been termed as an economy in transition from efficiency-driven competitiveness to innovative-driven competitiveness. The report highlights, "The Chinese institutional framework is improving slightly (47th), but weaknesses—including corruption (68th), security issues (75th), and low levels of accountability (82nd) and ethical standards (54th) among businesses—remain. On a more positive note, China's macroeconomic situation remains favorable (10th). -- China's public debt-to-GDP ratio at 22.9 percent is among the lowest in the world, and the gross savings rate represents a staggering 50 percent of GDP. However, this rate is probably too high in light of the need for China to rebalance its economy away from investment and toward more consumption. Finally, China's innovation capacity has been improving recently, but much remains done for it to become an innovation powerhouse" (GCR 2013-

14, 2013: p. 34).

But China seems to have a more adaptive approach toward its economy and trade. Implementation of decision is much quick and easier than Japan. For example, facing with signs of ageing population and emerging labor crisis that are threatening its future, China has announced its departure from the one child policy. However, there are analysts who want to downplay the rise China as “Sputnik Syndrome”.<sup>5</sup> But that may not be the case for China if we take into consideration of all developments and their possible converging impacts on its trade and development.

Interestingly, Japanese Inc. has played a vital role for the present economic alleviation of China after it initiated economic liberalization in 1978. China is now the number one trading partner of Japan, and about 22 percent of Japanese international trade is done with it. So the emergence of a strong China could have been a welcome development in this part of the world. But for some historical legacies, the emerging economic order in the Asia Pacific region has been compelling Japan to look for an external partner which not only can offer Japanese businesses economies of scale for their production and market for sales but also in itself got enough weight to balance the shift in economic power in the world. In this regard, we advocate the case of India as be an ideal and natural choice for such a Japanese economic engagement. Although the US still remains the most important strategic partner for Japan, it cannot offer enough economic space to Japanese industries for rapid expansion as the US market seems to have saturated for Japan. China, on the other hand, has traditionally absorbed bulk of Japanese emerging-market investments and still has the house the efficiency-driven industry base for Japanese industries. But the cash-rich Japanese companies are now worried about economic and political changes in China. In the regional and global theatre, instead of becoming cooperating partners, they are turning out to be more of political rivals. And in that rivalry Japan lacks one principal factor, the strategic depth. At the moment, India stands out to be more important than other countries particularly in the South East Asia to complement this factor for Japan. For India, in its favor, has a number of qualitative and quantitative variables to affirm this position.

### **3. What Are India's Attractions?**

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<sup>5</sup>The lunch of Sputnik was missed by the Americans as one of the pioneering events, not a consistent rise of technologically rich Soviet Union.

Despite some internal difficulties, India is poised to be an important player of the emerging global order that is experiencing a shift in the locus of power in Asia. With a vast population, increasing economic promise and a physical location between South East Asia and Middle East and Africa, India makes a *bona fide* contender for a much better place in the future. Presence of some other important elements that may form the basis for building a brighter future makes us more hopeful about the promise India beholds for Japan.

***Demography, Dynamism, Diaspora and Diversity:*** Four Ds - Demography, Dynamism, Diversity and Diaspora - are of paramount importance for the development of a country or region. India is heavily blessed with all these D-elements at the moment. When Japan has aged, and Western Europe and China are aging, then India promises to have an impressive demographic composition for a long foreseeable future. "With a median age of 23 and 600 million people under the age of 25, India's consumer class is expected to double to 575 million by 2025. If India can help nurture the talents of its people, provide them with productive outlets, then India will benefit greatly from that youth boom. And we're betting that by 2030 India can and will grow to be the third largest economy in the world in terms of nominal GDP and not just PPP" (Biswal, 2014).

Again, the fittest survives because of "Dynamism", the ability to adjust with the changing context. As Ajiht Cabraal puts it, "the people's intense thirst for knowledge and education, their ability to adapt to changing situations, their resilience in the face of great hardships, their relatively high intellectual ability, their somewhat easy going nature, their inherent respect for elders and authority, and their deep sense of patriotism, could all be considered as strengths that the people of the (South Asian) region possess." Ad hocism is a big problem and cause for limping back in many areas. But that can't cloud the dynamism people have in India (Cabraal, 2002).

Another important D-factor for India is the Diaspora. The Indians are now vibrant and booming in many parts of the world. An estimated 25 million people of Indian origin are now living around the world, and many more are joining the diaspora each year. They are becoming politically powerful in the countries they have made their new home. People of Indian origin are not only becoming important in the places they are living in but also sending remittances to the countries of their origin. From its diaspora, India earns most remittances in the world. At the point of need, this diaspora can add human capital to their countries by a reverse brain drain. Suba Chandran has summarized the whole idea in the following manner, "While it may not act as a "demographic dividend" at this moment given the lack of economic opportunities, the growing South Asian diaspora and its economic muscle will also prove the other side of the story. If federalism, democracy and inclusive



governance get established in South Asia, the youth bugles then will become the greatest asset for the region. More importantly, the youth does not carry the historical baggage of partition and the horrors of social and political differences. With a positive approach, this generation can be easily molded to ensure South Asia aspires to become another European Union." India remains the center of such a dream.

For creativity and development, Diversity is considered to be vital. India has a diverse religious, linguistic, ethnic and geographic kaleidoscope. Diversity in people in the region has brought diversity to their cultures too. Moreover, a diverse geography spreading from the great Himalaya to the Indian Ocean, from rugged land of Rajasthan to Kanya Kumari in the Bay of Bengal brings a big landscape for making life colorful and beautiful. On the other side, diversity has its share of problems too. But in India, the movement and interaction of people and the flow of culture from one part to another from the beginning of Indus civilization have threaded them together.

***Economic Prospect and Geo-economic Importance:*** There is no way to miss the point. India holds the key of growth in Asia too. Some predict that India could be the largest economy in the world by 2050. Presently, India is an economy of about US\$ 2.0 trillion. The aftermath of the 2008 financial crisis has dampened Indian growth a bit. However, the Forbes says, "India is developing into an open-market economy ... the outlook for India's medium-term growth is positive due to a young population and corresponding low dependency ratio, healthy savings and investment rates, and increasing integration into the global economy" (The Economic Times, 2013). With its growing economy and rising purchasing power of an expanding middle class, India becomes a big market for business and hence investment destination. Its physical closeness to South East Asia, China and Middle East makes it geo-economically important. The rising military power of India adds weight to any future context.

***Democracy:*** With some limitations, the democratic process is going on uninterruptedly in India since its Independence in 1947 and India now the largest democracy in the world. Many may argue that what is the democratic dividend for India? To me, democracy has given it a much-needed space or elasticity to absorb the various difficulties it is facing from diverse causes and sources. I would love to describe it as the ballooning effect of democracy that has been to keep India intact, while many autocratic states have dismembered. Strengthening of democracy too has been happening from reduction in the intra-state conflicts within India.

Gurcharan Das in his book *India Grows at Night* discusses the notion of a strong state for India. In contrast to the authoritarian regimes of Stalin, Mao and Hitler, he opted for the

views of the 18th-century thinkers of the US, who gave the idea of strong, yet liberal democratic state. Such a state needed to have three key qualities: decisive and determined in its action, governed by the rule of law and accountable to the people (Das, 2012). This form of government and governance if accepted and practiced, then progress and prosperity could be rapid for India.

***Soft Power and IT Power:*** India's great power is inclusiveness. Although it could be a tall claim that India stands high with many soft powers, claiming them, not at all, however, is not a good option either. As we know, Joseph Nye of Harvard University has developed the concept of Soft power to describe the ability to attract and co-opt rather than coerce, use force or give money as a means of persuasion. "Nye coined the term in a 1990 book, *Bound to Lead: The Changing Nature of American Power*. A country's soft power, according to Nye, rests on three resources: "its culture (in places where it is attractive to others), its political values (when it lives up to them at home and abroad), and its foreign policies (when others see them as legitimate and having moral authority)" (Wikipedia, 2014).

Can IT be treated as a soft power of Indian dominance? To me, yes. Information technology seems to have become a cultural element through which the Indian brains have brought "WOW" from others - their attention and admiration. IT knowledge is such a power that has changed the perception of the world on India. It is a power, a weapon to win and not to kill. Moreover, it is highly probable that the ideological power is going to be replaced by soft powers as democracy and capitalism have outclassed other comparable challenging ideologies, and they are supposed to shape the future order in the 21st century.

On these, India stands much ahead of many countries in the world. The common axiom is - a rising tide lifts all boats in the river. Any Indian rise should benefit all counties in the South Asian region, not just through the trickle down effects but by willful cooperation. That promises an extended market for foreign investors including Japan in South Asia.

***Indo-centric Physiology of South Asia:*** The giant presence of India at the heart of South Asia is sometimes perceived to be a problem. Extension of the Cold War in the region had made the problem bigger. Now look at some of the statistics. India constitutes 65 percent of the total physical area of present SAARC, sharing the border with all the countries in the region except Afghanistan and the Maldives. It makes 75 percent of the region's population or around three times the combined population of seven other countries of SAARC. Its economy is 80 percent of the regional total followed by Pakistan (10 percent) and Bangladesh (7 percent). Thus the size of the population, geographic area and economy makes India the formidable power at the heart of the region. India is also the most populous democracy in the world. Its military power is bigger than the total of others (except

probably the Pakistan's stockpile of nuclear weapons). There are some historical events of the recent past that make a section of people uncomfortable with India. The physical contiguousness of India with most of the countries has made it prone to get involved in frictions of economic, social and political nature. So sometimes instead of being a solution, India becomes part of the problem. But in economic terms this may be a plus point to its growing strength and status as this offers strategic depth to India.

#### **4. Japanese Trade and Investment Relations with India**

Let us now have a snap picture on the existing trade and investment relations between Japan and India. To give a comparative view of trade and investment relations that Japan have, we have included a number of countries in the picture. Unfortunately, on both counts, the existing level falls far below than the potentials Japan and India possess for each other.

Table A1 in the Appendix has been prepared to show Japanese exports and imports of goods with major Asian and the North American countries for 2013. As a sharp contrast from the position of 1990s, Asian economies (and not the developed) west now constitute about 49 percent of total trade of Japan. They indeed absorb the higher share of Japanese exports. But it is dismally low between India and Japan. In contrast, most of the East and South East Asian economies have higher trading relation with Japan. Even tiny Vietnam (when compared with India) had a total trade of about \$25 billion with Japan in 2013. China is by far the single largest trading partner of Japan, leaving even US behind at the second spot.

A similar kind of relation exists between them in investment, and there is not much to cheer about. Table 4 depicts the Japanese investment from 2000 to 2013 in selected countries of the world. In 2013, India received 2.16 billion of FDI from the Japan down from \$2.80 billion in 2012. For India, 2008 seems to have remained the special year as the Japanese investment peaked to \$5.55 billion. Since then the Indian attraction seems to have diminished among the Japanese investors as investment declined in every subsequent year. At the end of 2012, Japan had a total of \$15.11 billion FDI stock in India, just 1.45 percent of its world total of \$1,040.46 billion.

Table 3: Japanese Outward Flow of Investment for Selected Countries, 2000-2013  
(US\$ Million)

	2000	2005	2006	2007	2008	2009	2010	2011	2012	2013
Asia	2,132	16,188	17,167	19,388	23,348	20,636	22,131	39,492	33,477	40,470
China	934	6,575	6,169	6,218	6,496	6,899	7,252	12,649	13,479	9,104
Asia NIES	-686	4,902	3,893	6,039	5,842	5,907	6,902	9,302	8,043	8,955
H K	-132	1,782	1,509	1,131	1,301	1,610	2,085	1,509	2,362	1,785
Taiwan	-107	828	491	1,373	1,082	339	-113	862	119	330
R. Korea	1,074	1,736	1,517	1,302	2,369	1,077	1,085	2,439	3,996	3,296
Singapore	-1,521	557	375	2,233	1,089	2,881	3,845	4,492	1,566	3,545
ASEAN4	1,684	4,276	6,038	5,007	4,043	3,540	4,310	13,204	6,397	16,587
Thailand	593	2,125	1,984	2,608	2,016	1,632	2,248	7,133	547	10,174
Indonesia	585	1,185	744	1,030	731	483	490	3,611	3,810	3,907
Malaysia	-4	524	2,941	325	591	616	1,058	1,441	1,308	1,265
Philippines	510	442	369	1,045	705	809	514	1,019	731	1,242
Vietnam	39	153	467	475	1,098	563	748	1,859	2,570	3,266
India	175	266	512	1,506	5,551	3,664	2,864	2,326	2,802	2,155
N. America	14,176	13,168	10,188	17,385	46,046	10,889	9,016	15,166	35,768	46,505
U.S.A.	14,121	12,126	9,297	15,672	44,674	10,660	9,193	14,730	31,974	43,703
Canada	59	1,042	892	1,713	1,372	229	-177	436	3,796	2,800
C&S America	3,982	6,402	2,547	9,482	29,623	17,393	5,346	11,287	10,454	10,197
World	31,534	38,495	32,039	28,767	30,962	45,461	50,165	73,483	130,801	74,650

Source: JETRO

India's inconsequential positioning as a destination for Japanese investment or in the direction of Japanese trade seems quite surprising when they are compared with those of most of the East and South East Asian countries. Just to make the picture clearer, in 2013 Japanese investors invested a total of \$40.47 billion in Asia. That included \$9.10 billion in China, \$8.96 billion in Taiwan, \$10.17 billion in Thailand, \$3.91 billion in Indonesia and \$3.27 billion in Vietnam. South Korea and Singapore also received more investment than India. Bringing history in perspective, Japan emerged as a major source of foreign investors in the world during 1980-90. The depreciation of yen in 1985 is considered as a major factor for the massive outflow of investment from Japan. By observing the pattern of Japanese outward investments Urata (1993: p.285) argues, "The main motive behind Japanese FDI in Asia is to set up an export base, while the main motive of Japanese FDI in the United States and the EC is to maintain or capture the local market." Ideally, India could have been a serious contender for Japanese investment since it started liberalization program way back in 1991. But the Japanese investors mostly ignored it.

That raises a serious question why has Japan so far failed to understand and exploit the economic expansion possibility offered by India? Or why has India failed to be a hub for Japanese investment and trade? It is common to see many argue that though the Japanese are buoyed by the “Indian growth story”, their reticent approach to trade and investment is due to the tough business environment prevailing in India. But that may not be the only cause that explains the less than normal Japanese investment flows to India. That also raises the question what the other countries in East and South East Asia have that India does not possess? India is the second largest populous country in the world after China. Its economy is the third largest in Asia. Moreover, the political and social goodwill between Japan and India is high. So the low level of trade and investment relation between them appears to be quite surprising.

As shown in Table 3, Japanese FDI to India has been quite less as compared to other Asian economies till 2007. While the Japanese have always been aware of India as a market with growing demand and a strategic location to access other markets, the reasons for not undertaking substantial investment in India primarily include inadequate infrastructure and institutional factors like bureaucratic delays and procedural bottlenecks. However, after 2007, there was a sharp rise in Japanese FDI flows to India. This is attributable, in some part, to India’s resilience to the global economic recession of 2008. The CEPA has again given a boost to Japanese investment after 2011. However, a lot still needs to be done on the front of increasing bilateral investment.

## **5. Indo-Japan Economic Partnership - Promises, Hurdles and Positioning**

The 21st century is perceived to be an Asia Pacific Century as the center of economic gravity is rapidly shifting to this region. But the position of India in the emerging global order will be determined by the fact that how quickly it can bring changes in economic and social conditions of its people. Going by the economic trend, however, India in particular and South Asia in general will be much richer economy by 2030. So the spectrum of relationship between Japan and India should be thought in a broader long-term perspective. That brings to us a number of promises the partnership possess for both the countries and the obstacles the endeavor has to overcome. But again, both the countries may have to position themselves for a strategic partnership to reap the possible benefits arising out in the future.

- India and Japan are Asia’s two largest democracies. So a vibrant economic link

between them can create a new “arc of freedom and prosperity”<sup>6</sup>. The political goodwill between the two countries offers the economic cooperation a potentially smooth take off. The cash-rich Japanese companies which are now worried about economic and political changes in China. Japan can follow a growth strategy of "India plus more" in South Asia. Moreover, Japanese companies need to take a “more regionally balanced” approach after years of focusing on China. The outstanding stock of Japanese investments can easily indicate the imbalance.

- To Japan, India offers a huge production base and market that is governed by rule of law. Indian growth potential in the manufacturing sector is yet largely untapped, least to talk about the level China has already achieved. The scale of its internal market alongside its vast, youthful and cheap labor force provide selling points that rival destinations such as Vietnam, Myanmar or Indonesia will struggle to match in the longer term. Indian demographic dividends will remain unmatched till 2050 as various projections are indicating. On the other hand, Japan is very fast aging and the labor force joining the job market is declining in every successive year. That makes India another complementing ground for the Japanese Inc. to benefit from a relatively educated working class in India.
- China is facing of rising labor costs and an appreciating currency. Aggregate wage growth in China has remained about 15 percent during the past decade (2001-10). Rising labor costs have been affecting prices, incomes, and corporate profits in China. On the other hand, this has implications for trade, foreign investment, employment, and price developments in key trading and investing partners including Japan. The comparative wage situation in India suggests that professionals in China earn average of about 18 percent of their New York based counterparts while in India the ratio is just above 8 percent.<sup>7</sup> Appreciation of Yuan has added further pressure on the competitive edge that China enjoys in international trade. From January 1994 to May 2014, Yuan has increased its exchange rate against 8.723 Yuan per US dollar to 6.10 Yuan. On the contrary, Indian rupee has depreciate against US dollar by about 20 percent in 2013 alone. That makes India more attractive for investment for both the counts. So when Japan indeed needs a partner that can offer low-cost manufacturing, where China is waning, and a significant domestic market then India should be first in line.
- It now seems that anti-Chinese feeling is driving a pivot in Japanese investment. India and Southeast Asia are the two regions that should see the greatest uptick in Japanese investment. But looking at the strategic concerns, India should weigh more than others

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<sup>6</sup> Shinzo Abe, Japan’s prime minister, is an admirer of India and talked about this arc.

<sup>7</sup> UBS, a global financial services company, has recently published its exhaustive global summary of prices and earnings as part of a report released once every three years. Please see more at:  
<http://www.asiabriefing.com/news/2013/05/china-india-wage-comparison/#sthash.BleYIF41.dpuf>

in that rebalancing act. A number of Japanese investment initiatives in India may be a pointer to this. For example, carmaker Honda is planning for a \$460 million plant in the northwestern state of Rajasthan, investment announcements from the likes of Nissan and Toyota Motor, investments by electronics groups, including Sony and Panasonic etc. are important. All Nippon Airways is examining investments in India's recently liberalized airline sector. Some of the Japanese companies may be willing to make India the "centerpiece" of their future growth plans.

However, Japanese groups still face the same problems of the erratic regulation, bureaucracy and corruption that hamper other investors in India. Those looking to establish Chinese-style large manufacturing facilities will also face various problems, not least over land acquisition and poor infrastructure. Nonetheless, many analysts feel those barriers are surmountable, in particular because political forces are also driving Japanese investment in new directions. However, some of the other factors also need attention.

- *Manual vs. Mental Labor*: Japanese corporate needs more of manufacturing labor than office workers in their external bases of production. But the Indians prefer to be more office workers than factory workers. This is a cultural milieu that seems to have dominated the work environment in the subcontinent. But identifying India's shortcomings for reasoning Japanese reluctance to come to India may only mask some of the inherent deficiencies, lack of foresightedness and psychological barriers the Japanese Inc. suffer from. Taking the cover under the illusion that "industry needs a certain culture to flourish, and that culture does not prevail in either Africa or India" may not be sufficient to explain Japanese failure in creating an economic space in India and beyond.
- *External Competition*: Challenges from Indonesia, Myanmar and Vietnam for Japanese investment are large, and India may have to compete with them on a regular basis. A recent survey among the Japanese investors put Indonesia far ahead of others as the most favored destination for their investment. Competition from China can't be entirely written off as the attractions may still remain high.
- *Japanese Mental Makeup*: An analysis of post-war Japanese economic engagement in Asia highlights that Japan seems have drawn a mental boundary for Asia that ends in Myanmar. One of the explanations for this is that they are not that easy to go outside their cultural ambit that lasts up to Myanmar. So the India centric Subcontinent, which is now a potential centre of economic growth, did not fit so far with their cultural domain. The Middle East does not draw a better picture either. Being an energy deficit country, Japan has remained dependent on middle-east oil. Striking out oil-related transactions with the Middle East leaves Japanese trade with those countries to

minimal. Again, the whole of Africa is nearly out of Japanese businesses radar till now. To substantiate, in 2013, Japanese bilateral trade with all African countries was about one-half of that with Thailand. Table A2 in the Appendix and Table 3 give us some idea of the existing trade and investment scenarios that may indicate this barrier.

- *Flocking Tendency of the Investors*: The conservative Japanese companies have a flocking in tendency, and they follow the guide of the government to go out for doing business. In developing South East Asia the government promotion, protection and help were sometimes done through the use of official development assistance (ODA). As we know, Japan started becoming a sizable aid donor in the late 70s to mid-1980s when its foreign aid policy got changed dramatically. By 1978, Japan appeared as a major bilateral donor in Asia and by the year 1989; Japan emerged as the number one donor in the world surpassing the United States. Noticeably, Japan's foreign aid policy in the 1980s was directed towards building economic and political relation mainly among east and South East Asian countries. The Ministry of International Trade and Industry (MITI) wanted to use development assistance as a key strategy to restructure Japan's FDI and trade relations with Southeast Asia, mainly bailing out the Japanese industry from the effects of the high yen. Terry in 1995 wrote Aid for that matter was used "as seed money to attract Japanese manufacturers or other industrial concerns with an attractive investment environment." In the late 1970s and 1980s, the ASEAN-4 countries, namely Malaysia, Thailand, Indonesia and Philippines were among the top recipients of Japan's foreign aid. Unsurprisingly, Japanese FDI and trade with these countries grew in tandem from that period. China is no exception in this regard.
- *Business Failures*: The path to higher investment is unlikely to be smooth, of course. Japanese companies remain cautious abroad, along with their legendary flocking together approach to foreign investment. In India, along with other factors, the performance of some high-profile Indian forays provides ample cause for concern. Some business signals emanating from India with business investment like NTT DoCoMo with Tata, drug maker Daiichi Sankyo's taking control of generics manufacturer Ranbaxy Laboratories and \$3.9 billion write down just months after and Maruti-Suzuki plant riot in its factories outside New Delhi etc. are not that promising (Crabtree, 2013).

However, the biggest challenge for India will be to attain and position itself at a level with relative competitiveness with its economy. In Figure 3, GCR 2013-14 of the World economic Forum identifies three broad areas from where the competitiveness of an economy is generated:



- Factor-driven: Based on the factor endowments, for example, unskilled labor and natural resources. India’s capacity and competitiveness are still mostly based on factors in abundance.
- Efficiency-driven: Based on developing more efficient production processes and increasing the quality of products to account for rising wages. This seems to be the logical push from the first stage of competitiveness development. India is pushing to reach this level.
- Innovative-driven: Based on the capacity to invent, innovate and develop new and unique products. This blunts the impact of high wages of labor for the businesses. India has developed some of the pockets where its products are innovative based. On the other hand, Japanese has reached this level and their international competitiveness is largely driven by sharp-edged technology and innovation in the production process.

As we have pointed out, India’s industrial competitiveness is still arising from factor-driven manufacturing base. Few industries have graduated to efficiency driven level. The innovation-driven competitiveness is far for them as it shows the maturity of a particular economy. However, there are some pockets of developments that promise India’s climb on the ladder of competitiveness as qualitative and quantitative developments continue to take place side by side. The strategic depth of India emerges from the size of the economy, market and huge diverse geographic area. Nevertheless, we must not be blind to the domestic obstacles India has in doing business. India is placed at 134th position in the World Bank’s “ease of doing business rankings.

Table 4: Business Climate across Select Developed and EMEs, 2013

Country	Procedures (number)	Time (days)	Ease of Establishment Index (0-100)
Brazil	17	166	62.5
China	18	65	63.7
India	16	46	76.3
Indonesia	12	86	52.6
Japan	10	25	81.6
Malaysia	11	14	60.5
Russian Federation	10	3	68.4
Singapore	4	9	78.9
South Africa	8	65	78.9

Source: *Investing across Borders*, World Bank.

Even in the comparative business climate index of the World Bank, India is not ranked as a very attractive destination. But the single most important bottleneck the businesses are facing is the insufficiency or inadequate infrastructure. In order to push and sustain the growth, physical infrastructure will need to be prioritized.

However, an all round development of a country also depends on 4Ds - Democracy, Demography, Diversity and Discipline. India has ample of the demography and diversity; its overall record on democracy is improving. But its people in general suffer from a common cultural lacuna - lack of discipline. On a comparative note, China has diversity and its people to a large extent obey the dictates of the government and employers. But its demography is deteriorating, and democracy as a method of governance and change of power is not practiced at all. So if China can do an economic miracle without democracy, can India do that without discipline? Possibly, not. That's because at the initial stages of development, or at pre-take-off and take-off stages of Rostow Model<sup>8</sup>, a country seems to require more of the discipline than democracy. But when it matures, and age of mass consumption begins, democracy becomes a paramount requirement. India's present edge in democracy and institutions should be supported and complemented by a disciplined work force and more democratic governance quickly to address many of its existing problems.

In contrast to the present India, which is often associated with poverty and backwardness, there are promises that the pendulum will be swinging to the opposite with its image of improving prosperity and success. Besides, global developments such as China's rise and the American rebalancing in the Asia Pacific and its implications for Southeast Asia should provide India an opportunity to prosper horizontally and vertically.

## **6. Conclusions**

Looking at some of the prevailing and emerging tensions in Asia, we find they are mostly geopolitical in nature. This is basically for the fact that Asia is coming together economically but not politically. Indeed, Asia is becoming more divided politically.

Emergence of China as a global economic, political and military power has regional implications as well. Both Japan and China has benefited from the peace dividend that has

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<sup>8</sup> In 1960 American economist Walt Whitman Rostow postulated the Rostovian structuralist model of growth. The model argues that economic growth occurs in five basic stages, viz. traditional society, preconditions for take-off, take-off, drive to maturity and age of high mass consumption, of varying length.

largely prevailed in East Asia. Now, even as the region's economic horse seeks to take it toward greater prosperity, its political horse is attempting to steer it in a dangerous direction. This is mainly due to their historical legacy and baggage, which have become a stronger tool for creating patriotic sentiment across the table. However, a reshaping of the global order is taking place and it remains to be seen how long it will take to get a stable shape. It is plausible to think the transitional period be peaceful, but it can be turbulent, particularly for Asia.

In the new emerging order, the economic growth pole will no longer remain limited to one country or two, rather showing diverse pockets of gravitation. In Asia, India is showing all signs of such gravitation. So a wider and deeper kind of economic and political relation between Japan and India could be a win-win proposition for both the countries and at the same time can play as a stabilizing factor in Asia's emerging political uncertainty or equation. A promise of growth on the base of \$2.0 trillion economy, 1240 million population on a space of 3.29 million square kilometers can't be ignored. So they should forge ahead to become united for their common betterment as well as for a peaceful Asia.

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**Appendix**

Table A1: Japan's Trade of Goods with Some of the countries for 2013 (US\$ Million)

Country/Area	Trade		Share		Total	
	Exports	Imports	Exports	Imports	Trade	Share
Total	719,205	838,889	100.0	100.0	1,558,094	100.0
Asia	390,141	371,353	54.3	44.3	761,494	48.9
East Asia	377,871	362,464	52.5	43.2	740,336	47.5
ASEAN	111,671	118,644	15.5	14.1	230,315	14.8
P.R. China	129,851	182,192	18.1	21.7	312,043	20.0
Hong Kong	37,582	1,618	5.2	0.2	39,201	2.5
Taiwan	41,884	23,878	5.8	2.9	65,762	4.2
Republic of Korea	56,883	36,132	7.9	4.3	93,014	6.0
Singapore	21,101	7,518	2.9	0.9	28,619	1.8
Thailand	36,220	22,190	5.0	2.7	58,409	3.7
Malaysia	15,331	30,006	2.1	3.6	45,337	2.9
Indonesia	17,138	29,078	2.4	3.5	46,216	3.0
Philippines	9,7451	9,279	1.4	1.1	19,023	1.2
Brunei	152	4,804	0.0	0.6	4,957	0.3
Viet Nam	10,589	14,312	1.5	1.7	24,901	1.6
Myanmar	1,063	762	0.2	0.1	1,825	0.1
Cambodia	211	586	0.0	0.1	797	0.1
India	8,667	7,137	1.2	0.9	15,804	1.0
Pakistan	1,428	476	0.2	0.1	1,905	0.1
Bangladesh	878	895	0.1	0.1	1,774	0.1
Sri Lanka	583	299	0.1	0.0	882	0.1
Mongolia	301	19	0.0	0.0	320	0.0
Oceania	20,920	55,469	2.9	6.6	76,389	4.9
Australia	17,059	51,357	2.4	6.1	68,416	4.4
North America	141,952	82,482	19.7	9.8	224,434	14.4
U.S.A.	133,199	70,322	18.5	8.4	203,521	13.1
Canada	8,753	12,069	1.2	1.4	20,822	1.3

Source: JETRO

Table A2: Economy Rankings for Doing Business in Overall Regulatory Framework , 2013

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Getting Electricity	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Resolving Insolvency
Singapore	1	3	3	6	28	3	2	5	1	12	4
Hong Kong, China	2	5	1	5	89	3	3	4	2	9	19
New Zealand	3	1	12	45	2	3	1	23	21	18	12
United States	4	20	34	13	25	3	6	64	22	11	17
Denmark	5	40	8	18	7	28	34	12	8	32	10
Malaysia	6	16	43	21	35	1	4	36	5	30	42
Korea, Rep.	7	34	18	2	75	13	52	25	3	2	15
Taiwan, China	16	17	7	7	31	73	34	58	18	84	16
Thailand	18	91	14	12	29	73	12	70	24	22	58
Saudi Arabia	26	84	17	15	14	55	22	3	69	127	106
Japan	27	120	91	26	66	28	16	140	23	36	1
Sri Lanka	85	54	108	91	145	73	52	171	51	135	59
China	96	158	185	119	48	73	98	120	74	19	78
Bangladesh	130	74	93	189	177	86	22	100	130	185	119
<b>India</b>	134	179	182	111	92	28	34	158	132	186	121

Source: Compiled. Data from World Bank (2013).

## **A New Wave of International Student Volunteer Program: Volunteer Tour by NGOs or Tour Agencies : A Case Study: Food for the Hungry Philippines**

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### **Abstract**

In order to immerse into a different culture and to experience volunteer work overseas, international student volunteer work-camp programs (volunteer programs) by universities that utilize study tour programs operated by NGOs or tour agencies is getting popular in Japan as a new education method. Here, “study tour” means a program planned and operated by an NGO or a travel agency, where a university makes the students participate in the program.

Although there are lots of benefits of study tours, some negative impacts are observed. I am going to discuss these problems on study tour programs by introducing a case highlighting an international NGO, Food for the Hungry Philippines (FHP), and discuss how the NGO overcomes these issues. The issues are: (1) A neglect of locals’ desires, (2) A hindering of work progress and the completion of unsatisfactory work, (3) A decreased labor demanded and a promotion of dependency, (4) Conceptualizations of the ‘other’ and poverty rationalizations, and (5) Cultural change: the demonstration effect, based on Guttentag (2009)’s categorization.

In conclusion, carefully designed community development programs and study tours to educate both community members and volunteers contribute to the success of the study tour.

### **Introduction**

In order to immerse into a different culture and to experience volunteer work overseas, international student volunteer work-camp programs (volunteer tour=VT) by universities is getting popular in Japan as a new education method (Here, the definition of “Volunteer Tour (VT)” is a short term volunteer program planned and operated by an NGO or a travel agency, and a university makes the students participate in the program, not as an individual but as a member of a university course, usually as a credited course of the university).

However, due to heavy troublesome procedures and burdens of putting staff to the program, utilizing volunteer study tour programs conducted by NGOs or tour agencies is on discussion recently.



The purpose of this paper is to analyze the impact of VT and to suggest how we can utilize the VT fully for both participants of it and hosting community.

### **Methods**

I worked as a leader of international student volunteer work camp at Seinan Gakuin University from the summer of 2010 to 2012, taking the university students to Food for the Hungry Philippines sites in Paliparan, in Cavite province (summer 2010, summer 2011) and Towerville in Bulacan province (summer 2012). Thanks to the position, I was able to collect reports, had in-depth interviews and made observations to students.

For this research, I collected reports of participated students and their interviews. First, each student was required to submit a report on how they felt about the work camp right after they came back from the Philippines. This is so that the lecture coordinator can grade the students as well as allowing the students to reflect their voices for the next year's work camp. Second, I asked them to answer the survey questionnaires in August and September 2013 to participants to whom the author was able to access then. Third, during the work camp and after, some informal interviews were conducted to students as well as host community members and host NGO staff through emails. Also, I received some insights from my observations to students during the work camp and after students came back to Japan.

I collected work camp reports of the spring of 2008, 2010, 2011, 2012, and 2013, and of the summer of 2010 and 2011 (Reports were not made in the summer of 2012 due to the work camp program requirement change. 2009 report is missing). I also collected survey answers.

The number of reports I collected during each time is; 1) 2010 summer participants 12, 2) 2011 summer participants 10, 3) 2008 spring participants 16, 4) 2010 spring participants 16, 5) 2011 spring participants 16, 6) 2012 spring participants 16, and 7) 2013 spring participants 16. These consist of all the participants of each work camp.

The number of surveys I was able to collect is 15.

The reports and survey questionnaires are mainly descriptive, thus, here in this paper, I conducted a qualitative analysis.

**Volunteer Sites : Food for the Hungry Philippines (FHP)**

FHP is a Christian (protestant) faith-based international relief and development organization in response to God's call to meet the physical and spiritual needs of the poor. Food for the Hungry was founded in 1971 by Dr. Larry Ward. FHP was founded in 1978.

FHP's vision is to transform communities to impact the children in reaching their God-given potentials. FHP's Mission is to equip, link, and mobilize churches, leaders, and families in order to meet the needs of the children.

FHP is implementing a child development program (hereafter CDP) to communities to achieve community transformation and help them become sustainable.

As a part of FHP's mission, FHP invites university students including international students to do volunteer work, such as construction work of CDP member's families to make aware of the situation of people in poverty.

(1) Paliparan

Paliparan is located in the south eastern part of Dasmariñas. Dasmariñas is around 1 to 2 hour's drive to the south from Manila International Airport. The population in this area is around 60,000. The number of families is 15,000. Ethnicity is mixed groups of Tagalogs and Visayans. Religion is Mostly Roman Catholic. Language people speak there is Tagalog, however, they understand and speak basic English. Source of income is rag making, pedicab, jeepney or tricycle driving, carpentry, ironing and laundry, food vending, etc., thus, income level of this area is poor. (FHP, Paliparan project proposal, 2010)

(2) Towerville

Towerville is located in City of San Jose Del Monte, Bulacan. Towerville is located approximately 2 - 1/2 hours north of Manila in Bulacan province. The population is around 24,000. They speak Tagalog, however, they can understand and speak basic English. Source of Income is tricycle driving, carpentry, ironing and laundry, food vending, etc., thus, income level of this area is poor. (FHP, Towerville project proposal, 2011)

**Discussion**

(1) Literature survey-positive aspects

Guttentag (2009) claims that much of existing literature on the volunteer tourism focuses on positive aspects while giving little attention to its negative aspects. Wearing (2001) focuses on the personal growth at a project in Costa Rica. Lepp (2008) discusses that many volunteers 'developed a new perspective on life at home. They discovered an intrinsic need for meaning and purpose in their lives'. Broad and Jenkins (2008) state that volunteering on conservation of wildlife is an intense type of experience during which people can interact with wildlife authentically and meaningfully. Brown and Morrison (2003) claim that volunteer vacations create a potential scenario in which 'every volunteer traveler can be an ambassador of peace'. McIntosh and Zahra (2008)

state that volunteer tourism can foster a reciprocal and mutually beneficial relationship between the host and guest.

(2) Literature survey-some concerns

Gray and Campbell (2007) note ‘Academic interest in volunteer tourism remains scant, focused primarily on the identities, behaviors, values, motives and personal development of the volunteers’. Even though a small number of studies focused on host communities and found that volunteer tourism can be beneficial to them (e.g. Clifton and Benson 2006, McIntosh and Zahra, 2008), further research is needed.

Only ‘a small number of studies have critically analyzed volunteer tourism and sometimes even considered its possible negative impacts’ (Guttentag 2009). McGehee and Andereck (2008) studied how volunteer tourism can create dependency in host communities and how the communities may resent the religious components of some sending organizations. Simpson (2004) and Raymond and Hall (2008) question that personal growth that volunteer tourists supposedly experience and the value of the cross-cultural interaction that occurs. Callanan and Thomas (2005) argue that the volunteers are primarily interested in personal gain and the project benefits are questionable. Wearing (2001) recognizes if the volunteer tourism sector becomes too commercialized, it could end up endangering associated communities and environments.

Here, I want to discuss some issues that are associated with negative impacts on VTs. Issues to discuss here are; (1) A neglect of locals’ desires, (2) A hindering of work progress and the completion of unsatisfactory work, (3) A decreased labor demanded and a promotion of dependency, (4) Conceptualizations of the ‘other’ and poverty rationalizations, and (5) Cultural change: the demonstration effect, based on Guttentag (2009)’s categorization.

(3) Issue 1: A neglect of locals’ desires

Guttentag (2009) addresses the issue of volunteers coming with personal motivation, which may not bring the best result for the community. NGOs know the reality that students do not come to volunteer with genuine altruism. ‘Although volunteer tourists are not solely driven by altruism, this situation has not generally been viewed as reason for concern.’ ‘Many VT organizations undoubtedly understand this reality and it has certainly influenced how some projects have been developed (Guttentag, 2009)’.

In FHP case, because the program VT participates is FHP’s community development program based on local’s needs and VT follows FHP’s instruction, there are not so many problems. However, there was a case of claiming volunteers’ desire too much while I was a leader at the program. When the roads of the community had garbage, students claimed that the road was dirty and they eagerly wanted to clean it up. Due to program priority and time-limit, the leaders of Seinan Gakuin University and FHP had

to force them not to do it. One of the leaders had to make the volunteers be aware of the danger of indulging in self-satisfaction. We have to instruct the potential consequence of volunteer work that do not follow the leaders' instruction, such as non-lasting cleanliness, or a possibility of getting into worse situation with community leaders or community governors.

(4) Issue 2: A hindering of work progress and the completion of unsatisfactory work

Guttentag (2009) claims that 'because unskilled volunteers actually have the potential to impede work progress', and 'volunteer are often burdensome and the program only utilizes them as a way to generate awareness.'

In the FHP case, the content of volunteer work is construction work that does not require high skills. It is not very difficult to do the job even for unskilled college students. Also, as is stated in Guttentag (2009), 'the project is long-term, even if individual volunteers only stay for a short period, and every bit helps'.

Guttentag (2009) claims that in VT promotional material, there are 'few direct references to "development"' As for the FHP case, the main purpose of the VT program is to generate awareness of poverty, not getting completion of the work by the VT. The work is sometimes completed by the community members.

(5) Issue 3: A decreased labor demanded and a promotion of dependency

Guttentag (2009) expresses a concern that there may be a possibility of community people's losing jobs. In FHP case, I believe this is not the case. The construction sites are for the church community members who cannot afford to pay for the construction. Also, a potential house owner has to pass through a strict screening process, such as being an active member of a church, and spiritually matured, etc. Thus these will not make trouble of decreasing demand of existing workers.

(6) Issue 4: Conceptualizations of the 'other' and poverty rationalizations

Guttentag (2009) includes personal growth issue here, so I am discussing the issue here, too. As stated above, there are many literatures that claim the benefits of personal growth and/or cross-cultural understanding in VT. For example, Wearing (2001) uses the word, "personal development"; Lepp (2008) uses the word, "new understandings of themselves and others". In FHP case, same are reported. There were some former participants who had transformative experience in their lives in the VT, and started to have positive attitudes, such as starting to challenge to go cycling all over Kyushu island, or to go to Cambodia. Some gained a good and deep affection toward the Philippines. One came back to Philippines as an intern volunteer worker for one year. One came back as a student of University of Philippines to study social work. One even started working in the Philippines. Also, through VT, the students started to appreciate

how blessed they are, because they could eat food three times every day, could study, or could meet their own parents every day, which they thought were a “given”.

However, some literature questions the impacts of personal growth and cross-cultural understanding. Raymond and Hall (2008) argue, “it cannot be assumed that by merely facilitating contact with the ‘other’, this will lead to long-term international understanding and respect.” (pp.533) Sherraden, Lough and Moore McBride (2008) claims, “other forms (of international volunteer service) lead to superficial and stereotypical views of the other” (pp.412) Raymond and Hall (2008) also argue, “In many cases, volunteer tourists’ previously formulated perceptions of poverty may be reinforced by their experiences if they are not encouraged to question the broader processes behind such issues. This can then lead to assumptions that host communities accept their poverty.”(pp.533)

Raymond and Hall (2008) suggests the importance of sending organizations in facilitating the achievement of such an objective (pp.538). FHP’s VT also faced such problems. In order to resolve the problem, Seinan Gakuin University VT had reflection and discussion meeting called ‘Seinan Time’ almost every night after volunteer work, and had discussion on what students thought about the day’s work and interaction with community people. At the meeting, students share their thoughts on international development issues and deepen them by the leader’s facilitation. Usually, at first, as stated in Raymond and Hall (2008), some students shared “poor but happy” (Simpson 2004) typological image to the people living the site.

In such a case, the leader needed to challenge such view and leads them to find the reality and come to the conclusion, “There is no such “just-right-level poverty” to enjoy “poor but happy” situation.

At the same time, however, the leader was supposed to lead discussion towards students’ personal growth. If the leader rushes to challenge the participants’ “poor but happy” image, they would feel offended. Careful lead is necessary.

Raymond and Hall (2008) argues, “Volunteer tourists .... did not claim to have developed close relationships with local people.” (pp.537) At the same time, they also argue, “several volunteer tourists stated that they had formed lasting friendships with members of the host communities or that their volunteering experience might affect the development of future friendships back home”(pp.536, R&H 2008).

As for the FHP case, every night after Seinan Time, community people, particularly youth and children, came to the lodge where student volunteers were staying and developed friendships with VT participants. From my observation, I found out that finding opportunities to make friends with the community people (as many as possible) was very effective in making good emotional attachments to the community.

(7) Cultural change: the demonstration effect

Guttentag (2009) states that by the appearance of volunteers who are from developed countries, there is a ‘demonstration effect’, which is a term ‘denoting the process by which a host culture is impacted when tourists draw attention to their lifestyles and items of wealth’ (Wall and Mathieson 2006). Wall and Mathieson (2006) concerns that ‘Locals may respond to the presence of wealthy tourists by trying to imitate the tourists’ consumption patterns, and discontent can emerge when these items of wealth are beyond the reach of a host community’. In FHP’s case, education programs to community members is essential to overcome such struggle. As a faith-based organization, FHP emphasizes the joy of ‘not having many, but to accept the way as it is’ through youth education in church community. Many of the youth at the church express their joy of not comparing her/him with others, unlike before she/he was a protestant Christian. Youth might be struggling with the emotion of envy, but through the interviews to the youth, I found that compared to before when they were struggling too much with secular greed, they seem to realize the importance of joy of ‘not having many’.

**Conclusion**

Through an investigation of FHP to discuss the possible negative impacts of VT, I found that carefully designed programs are the key to success. Such as: having reflection time, creating opportunities to make friends with community people in informal settings as much as possible, and careful teaching/instruction by the leaders throughout the VT.

**Further issues to be discussed**

Since VT is a new trend, it is still not easy to find out the long term impacts of VT. It is necessary to trace former participants for a long period so that one can assess the impacts of VT as having transformational experience in participants’ lives, especially in terms of personal/internal/spiritual growth, job field choice, and so on.

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## **Participants' satisfaction determinants for a physically challenged convention host city**

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### **Abstract**

We have conducted a survey to measure the level of satisfaction of participants in sports competitions and academic meetings held at the regional level for the physically challenged (hereinafter referred to as “physically challenged conventions”). From the results, we can confirm that in physically challenged conventions, “a desirable host city is one in which the convention participants experience a high level of satisfaction”. However, if you categorize convention participants into the participating “physically disabled” and the “unimpaired” accompanying them, a significant direct correlation between the two groups’ levels of satisfaction can be recognized. It was indicated that “increasing the accompanying members’ levels of satisfaction” is important in increasing the convention participants’ levels of satisfaction toward the host city.

### **Introduction**

In October of 2014, the Asian Para Games were held in Incheon, South Korea. As holding a convention in a region attracts various people, materials, money, information, and knowledge from the outside, it is said that the host city benefits from an economic and social ripple effect. In order to be selected by the organizer as the host city, it is essential to increase the “level of desirability of the city itself”, since it is said that a desirable host city makes for higher levels of satisfaction amongst participants.

This time, we have conducted a survey to measure the level of satisfaction of participants in a physically challenged convention, and will elucidate the determining factors in their satisfaction with the host city.

### **Methods**

Our survey targets convention participants (actual participants as well as accompanying persons) who traveled from outside of Okinawa prefecture and stayed for more than one night. The survey sheets were distributed at the conference venue at check-in time, and were collected at the venue. The survey items were measured variables that are hypothesized to have an influence on participant satisfaction, as determined in a previous study (i.e. transportation, lodging, venues, meals, tourist facilities, souvenirs).

Results were analyzed through simple tabulation and cross analysis, and multivariable logistic regression analysis was carried out in order to ascertain whether variables are related, and how strongly. The statistics software used was SPSS Statistics18.

## **Discussion**

First, we saw from the survey results that overall satisfaction with the host city Okinawa was 88.2%. 78% of respondents also answered that they would recommend Okinawa as a “competition/meeting host city”. From this, we can confirm the previously published idea that “a desirable host city is one in which the convention participants experience a high level of satisfaction”. Next, we separated the data from the participating “physically challenged” and the accompanying “unimpaired” to look at the differences in their levels of satisfaction. The majority of respondents in both groups answered that they were “satisfied” with the venue’s barrier free facilities (70.6%), tourist resources (nature, history, etc.) (90.8%), and Okinawa’s exclusive “cuisine” and “flavor” (75.6%). Our multivariable logistic regression analysis results confirmed that there was a significant positive correlation between the two groups’ levels of satisfaction. The survey results indicated that “increasing the accompanying members’ levels of satisfaction” is important in increasing the convention participants’ levels of satisfaction toward the host city.

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## **The Terminal Care of Elderly People in East Asia**

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### **Abstract**

In East Asia, population of elderly people is increasing rapidly. Elderly people in this area spend their end of life at elderly welfare facilities or elderly care facilities as well as hospitals. In those cases, the role of care staffs during the period near the end of life is becoming increasingly important. We surveyed the attitudes of care staffs including nurses, care workers, social workers and medical doctors about terminal care and death in East Asia. The surveys were performed in Busan, Korea, in Shanghai and Suzhou, China, in Taipei and Taichung, Taiwan and in Aichi and Gifu, Japan. A total of 1,147 staffs (221 in Korea, 318 in China, 289 in Taiwan and 319 in Japan) who are working at elderly care facilities participated. In these countries, people tended to accept intensive care or tube feeding at the end of life. This tendency was stronger in China (48% for intensive care and 43% for tube feeding) and Taiwan (47% and 38%). These tendencies may be related to the cultural background of East Asia. The positive stance towards death correlated with the years of experiences of terminal care and death. The results must be useful to improve the education of care staff. The results will also help to design the future plan of the team care of the elderly people during the terminal period of their lives. (supported by the Grant in Aid for Exploratory Research #2465314 from Japan Society for the Promotion of Science)

## **Introduction**

Japan, Korea, Taiwan and China are located adjacently together in East Asia and have similar cultural background. All of these countries were under the influence of Buddhism and Confucianism at least for a certain period of time in their history.

In these countries, the population of elderly people is increasing rapidly. In Japan, elderly people over 65 years old reached 31.86 million and accounted for 25.0 percent of the total population in 2013. Population aging rate of Japan may account for 39.4 percent in 2055. In Korea, population aging rate accounted for 17.0 percent in 2012, and in the future, it may account for 35.0 percent in 2055. In Taiwan, population aging rate accounted for 10.6 percent in 2009, and in the future, it may account for 37.6 percent in 2056. In China, population aging rate accounted for 9.0 percent in 2012, and in the future, it may account for 23.0 percent in 2055<sup>1)</sup>. Thus, Korea, Taiwan and China are catching up to Japan within 30-50 years.

Elderly people in this area spend their end of life at elderly welfare facilities or elderly care facilities as well as hospitals. In those cases, the role of care staffs during the period near the end of life is important. In order to clarify the present status and future assignment of elderly care in these countries, we surveyed the attitudes of care staffs including nurses, care workers, social workers and medical doctors about views on terminal care, life and death. A part of the results of individual countries had been published elsewhere<sup>1,2,3,4)</sup>.

## **Methods**

The surveys were performed in Busan, Korea, in Taipei and Taichung, Taiwan, in Shanghai and Suzhou, China and in Aichi and Gifu, Japan. A total of 1,147 staffs (221 in Korea, 289 in Taiwan, 318 in China and 319 in Japan) who are working at elderly care facilities participated in our survey. The details of participants in each country for the type of job and numbers are shown in Table 1. The percentage of medical doctors was high only in China. In China, medical doctors were participating as one of major staffs in the elderly care facilities. In contrast, in Korea, Taiwan and Japan, only a few medical doctors were participating as staffs in the elderly care facilities.

	No-reply	MD	Nurse	CW	SW	etc	Total
Korea	5 2.3%	2 .9%	66 29.9%	77 34.8%	10 4.5%	61 27.6%	221 100.0%
Taiwan	0 0.0%	5 1.7%	79 27.3%	106 36.7%	42 14.5%	57 19.7%	289 100.0%
China	0 0.0%	65 20.4%	84 26.4%	96 30.2%	56 17.6%	17 5.3%	318 100.0%
Japan	0 0.0%	3 .9%	57 17.9%	240 75.2%	8 2.5%	11 3.4%	319 100.0%
Total	5 .4%	75 6.5%	286 24.9%	519 45.2%	116 10.1%	146 12.7%	1147 100.0%

**Table 1 The type of job for participants in each country. (MD:Medical Doctor, CW:Care Worker, SW:Social Worker)**

We did two steps of surveys; qualitative and quantitative surveys. At first, qualitative information was collected using a semi-structured questionnaire by interviewing a chair-person or a coordinator of each facility. Then we ask care staffs of those facilities to fill questionnaires. The questionnaires covered views on care, life and death. The questionnaires used for the quantitative survey contained three parts. The first part had general questions. The questionnaire for general points contained 21 questions such as age, sex, family size, job type, period of experience, religion, experience of terminal care, wish for intensive care or tubing etc. The second part had questions for an attitude toward the terminal care. The questionnaire was based on a Japanese version of FATCOD-Form B (FATCOD-Form B-J)<sup>5,7)</sup>. It contained 30 questions with 3 categories (Positive attitude to the terminal care, Understanding of care for patients and their family, and possibility to help dying persons to prepare for death). The third part had questions for an attitude toward life and death. The questionnaire was based on the questionnaire developed at Hakujikai Institute of Gerontology in Japan<sup>6)</sup>. It contained 27 questions with 7 categories (view of the world after death, Anxiety for death, Freedom from death, Avoidance of death, Purpose of life, Concern for death, and Supernatural belief). English translation of this questionnaire is shown in the appendix

at the end of this manuscript.

The results were analyzed using t-test and the Spearman's rank correlation coefficient. The research was approved by the Ethics Committee of Chubu Gakuin University (# E12-0004).

## **Results**

### 1. General comparison of the elderly care in four countries

Korea, Taiwan, China and Japan share the same problem to support large number of elderly people. The situation will get worse and worse in the future in all of these countries. We need to prepare for that. Establishment of the elderly people care facilities is one possible solution. However, financial and personnel resources are limited and percentage of younger generation to support elderly people will decrease continuously. The problem might be most serious in Japan. People are considering seriously the possibility to take care elderly people in the community, outside of hospital or care facilities. People are also discussing the possibility that the intensive care near the end of life might be rather painful and far from the peaceful time at the end of life. We may need to develop a system to support elderly people at home in their own community.

In order to solve the problem of personnel resources to take care elderly people, Taiwan is accepting care staffs from outside of the country, mostly from Indonesia. In China, workers came from a rural area are participating as care staffs. In Korea and Japan, the governments are considering the possibility to accept support personnel from outside of country.

For taking care of elderly people, each country has also unique problems to be solved.

In Korea, the visiting clinics are not acceptable since 1977 and the death certificate must be signed by a medical doctor. Since the elderly care facilities usually do not have any medical doctors as a staff, patients tend to be transferred to the hospital near the end of their life. Some of the bigger hospitals in Korea prepare the place for funeral ceremonies within the hospital.

In Taiwan, The governmental support to the long term care is limited to severe cases or low-income cases. Then most of users of the elderly people care facilities need to pay

the high percentage of their own expenses. Accordingly, family members prefer to care elderly people at home rather than an elderly people care facilities.

In China, the number of people who wish to enter the elderly people care facilities is increasing. However, the number of elderly people care facilities is still limited and also quality of service has not been fully controlled yet. The availability of those facilities is also limited in the city area.

In Japan, the number and the percentage of elderly people are increasing rapidly and the elderly people care facilities cannot accept all of them. The number of death cases is also increasing. It is necessary to prepare the system to accept elderly people at home or in the local community. It is also necessary to facilitate the education of care staffs.

To prepare regulation of the terminal care, in Korea, Guideline of stopping the medical care for life extension had been prepared in 2010, but the guideline has no legal binding force. In Japan, the Ministry of Health, Labor and Welfare prepared the guideline for the terminal care in 2007. This guideline also has no legal binding force. In China, guideline has not been made. On the other hand, in Taiwan, Hospice Palliative Care Regulation had been legislated in 2000 and enforced in 2001. This law had been amended three times in 2002, 2011 and 2013. For preparing the system to accept decision of individual patients or family members at the end of life, Taiwan seems to be most advanced.

	No-reply	Strongly	Fairly	Rather not	Not at all	Undecided	Total
Korea	0 0.0%	12 5.4%	50 22.6%	87 39.4%	45 20.4%	27 12.2%	221 100.0%
Taiwan	6 2.1%	52 18.0%	100 34.6%	84 29.1%	27 9.3%	20 6.9%	289 100.0%
China	4 1.3%	118 37.1%	84 26.4%	72 22.6%	24 7.5%	16 5.0%	318 100.0%
Japan	7 2.2%	27 8.5%	70 21.9%	111 34.8%	31 9.7%	73 22.9%	319 100.0%
Total	17 1.5%	209 18.2%	304 26.5%	354 30.9%	127 11.1%	136 11.9%	1147 100.0%

**Table 2 Do you wish intensive medical treatment for your family members?**

2. Wish for the intensive care

In East Asia, people tend to wish intensive care or tube feeding at the end of life. This tendency was stronger in China (48% for intensive care and 43% for tube feeding) and Taiwan (47% and 38%) for the family members. The trend to accept the intensive care was stronger for the family members as seen in Table 2 but weaker for oneself as seen in Table 3. These tendencies may be related to the cultural background of East Asia. Table 4 also shows that the decision of the family is important in China to select a plan of treatment. In contrast, the decision of each patient was most important, especially in Japan. In Korea and Taiwan, the decision of a medical doctor was also important.

	No-reply	Strongly	Fairly	Rather not	Not at all	Undecided	Total
Korea	0 0.0%	8 3.6%	14 6.3%	74 33.5%	103 46.6%	22 10.0%	221 100.0%
Taiwan	1 .3%	43 14.9%	93 32.2%	76 26.3%	57 19.7%	19 6.6%	289 100.0%
China	3 .9%	95 29.9%	58 18.2%	97 30.5%	50 15.7%	15 4.7%	318 100.0%
Japan	2 .6%	8 2.5%	38 11.9%	115 36.1%	101 31.7%	55 17.2%	319 100.0%
Total	6 .5%	154 13.4%	203 17.7%	362 31.6%	311 27.1%	111 9.7%	1147 100.0%

**Table 3 Do you wish intensive medical treatment for yourself?**



	No-reply	Patient	Fairly	MD	Undecided	Total
Korea	3 1.4%	90 40.7%	39 17.6%	83 37.6%	6 2.7%	221 100.0%
Taiwan	3 1.0%	119 41.2%	44 15.2%	113 39.1%	10 3.5%	289 100.0%
China	2 .6%	98 30.8%	121 38.1%	83 26.1%	14 4.4%	318 100.0%
Japan	7 2.2%	221 69.3%	47 14.7%	16 5.0%	28 8.8%	319 100.0%
Total	15 1.3%	528 46.0%	251 21.9%	295 25.7%	58 5.1%	1147 100.0%

**Table 4 Who’s decision is most important to select a plan of treatment?**

### 3. Attitude toward the death

In China, Taiwan and Japan, the positive stance to the death correlated with the years of experiences of terminal care and death. In Japan, compared with nurses, care workers tend to avoid the death or do not wish to face the death. This difference may be related to the age difference between nurses’ group and care workers’ group, since the nurses’ group was older in Japan.

Religious background was different between countries as seen in Table 5. The percentage of Christian was higher in Korea and the percentage of Taoism was higher in Taiwan. Although the percentage of Non religious people was not really high in Japan, As seen in Table 6, Japanese people were not religious compared to other countries even if they said that they are Buddhist (62.7% were Buddhist in Table 5, but for 81.1% of people, the religion was not important in Table 6). Independent to these differences, in all countries, the view to the death correlated with the religious background. The view to the death correlated also with age.

	No-reply	Buddh-ism	Primi-tive	Taois-m	Christ-ianity	Mosli-m	Hindu	etc	No Religio-n
Korea	3 1.4%	82 37.1%	2 .9%	1 .5%	74 33.5%	0 0.0%	0 0.0%	2 .9%	57 25.8%
Taiwa-n	1 .3%	93 32.2%	40 13.8%	66 22.8%	34 11.8%	0 0.0%	0 0.0%	10 3.5%	45 15.6%
China	6 1.9%	74 23.3%	13 4.1%	4 1.3%	62 19.5%	9 2.8%	3 .9%	15 4.7%	132 41.5%
Japan	6 1.9%	200 62.7%	3 .9%	0 0.0%	3 .9%	2 .6%	1 .3%	3 .9%	101 31.7%
Total	16 1.4%	449 39.1%	58 5.1%	71 6.2%	173 15.1%	11 1.0%	4 .3%	30 2.6%	335 29.2%

**Table 5 Religious background of participants**

	No-reply	Strongly	Fairly	Not really	Not at all	Undecided	Total
Korea	2 .9%	54 24.4%	82 37.1%	60 27.1%	23 10.4%	0 0.0%	221 100.0%
Taiwan	1 .3%	48 16.6%	129 44.6%	102 35.3%	9 3.1%	0 0.0%	289 100.0%
China	5 1.6%	53 16.7%	50 15.7%	118 37.1%	92 28.9%	0 0.0%	318 100.0%
Japan	3 .9%	6 1.9%	50 15.7%	137 42.9%	122 38.2%	1 .3%	319 100.0%
Total	11 1.0%	161 14.0%	311 27.1%	417 36.4%	246 21.4%	1 .1%	1147 100.0%

**Table 6 Importance of the religion**

## **Discussion**

We surveyed the attitudes toward the terminal care and death in Korea, Taiwan, China and Japan. In these 4 countries, people tend to accept intensive care or tube feeding at the end of life. This trend to accept the intensive care was stronger for the family members but weaker for oneself. These tendencies may be related to the cultural background of East Asia. Confucianism may be one of the common backgrounds.

Confucianism originated as an "ethical- sociopolitical teaching" during the Spring and Autumn Period developed from the teachings of the Chinese philosopher Confucius (Kǒng Fūzǐ, 551–479 BC), and later became the official state ideology of the Han Dynasty (206 BC – 220 AD). Since then, most Chinese emperors have used a mix of Legalism and Confucianism as their ruling doctrine. Although the disintegration of the Han in the second century opened the way for the doctrines of Buddhism and Taoism to dominate intellectual life, Confucianism remained in people's mind. Historically, cultures of countries in East Asia, including mainland China, Taiwan, Korea, Japan and Vietnam were strongly influenced by Confucianism. In the 20th century, Confucianism's influence has been greatly reduced. However, the ideology is still controlling the people's behavior in these countries. One of the core rules of Confucianism is the respect to the higher order person of the family or the society. Based on this idea, respect to ones father and/or mother is very important in East Asia. People may feel guilty if they could not do the best possible treatment to ones father or mother. They try to give the best treatment as possible to their parents, even if parents do not want to do so.

In Taiwan, Hospice Palliative Care Regulation had been legislated in 2000 and enforced in 2001. This law had been amended three times in 2002, 2011 and 2013. In Korea and Japan, although both countries have guide lines for the regulation of the terminal care, the guidelines have no legal binding force. In China, guidelines has not been made. We need to learn from Taiwan the system to accept decision of individual patients or family members at the end of life while they were healthy or conscious.

All of four countries are suffering a shortage of care staffs, especially in Korea and Japan. Taiwan is introducing care staffs from outside of Taiwan, mainly from Indonesia. Japan is also trying to introduce care staffs or nurses from outside of the country. Japan

is accepting staffs only who had passed the national examination which was given in Japanese. Because of this strict rule, the number of foreign staffs is limited in Japan. On the other hand, Taiwan is accepting staffs who cannot speak Chinese. They are supporting the life of elderly people who need care in Taiwan. The condition of acceptance in Japan might be too strict. China is accepting staffs from a rural area in their own country, so that they do not have language problems.

The role of religion was stronger in Taiwan and Korea. In Taiwan, each hospital was preparing special rooms for religious events and Buddhist monks were working as the official staffs of the hospital. Importance of religion was intermediate in China, and weaker in Japan. For the spiritual peace at the end of life, we may need to reconsider the role of religion..

The positive stance to the death was correlated with the years of experience in our survey. Experience of terminal care and death must be important in the education of care staffs. The results must be useful to improve the education of care staffs.

This research was performed in the restricted areas and the restricted facilities of each country. The conclusion from this research may be limited to these restricted areas. Although the survey was not nationwide, we believe that the results reflect the characteristics of the terminal care in each country. The results will help to design the future plan of the team care of the elderly people during the terminal period of their lives.

### **Acknowledgement**

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**Appendix:**

A questionnaire about life and death developed by Hakujikai Institute of Gerontology in Japan

◆ **This survey will ask you about some of your current thoughts and feelings. Please look at the items below and circle the one that most closely matches them in each section.**

<Outlook on Life and Death>

- 1) I believe there is a life after death.-----1-2-3-4-5-6-7
- 2) I believe in the supernatural, for example things like ghosts and curses.-----1-2-3-4-5-6-7
- 3) I believe that a person's soul remains after their death. -----1-2-3-4-5-6-7
- 4) I believe that after a person dies, they will be reborn again. -----1-2-3-4-5-6-7

<Fear and Anxiety about Death>

- 5) Dying is frightening to me. -----1-2-3-4-5-6-7
- 6) When I think about my own death, I feel anxious. -----1-2-3-4-5-6-7
- 7) I think that death is a frightening thing. -----1-2-3-4-5-6-7
- 8) I am terrified of death. -----1-2-3-4-5-6-7

<Death as Liberation>

- 9) I think of death as a release from the suffering of this world. -----1-2-3-4-5-6-7
- 10) I think of death as a release from the burdens of this life. -----1-2-3-4-5-6-7
- 11) Death is a release from pain and suffering. -----1-2-3-4-5-6-7
- 12) Death brings freedom to your soul. -----1-2-3-4-5-6-7

<Avoiding Death>

- 13) I avoid thinking about death. -----1-2-3-4-5-6-7
- 14) I'd like to avoid thinking about death, no matter what I'm doing. -----1-2-3-4-5-6-7
- 15) Whenever thoughts of death come to mind, I try to set them aside and forget about it. -----1-2-3-4-5-6-7
- 16) Death is a frightening thing, so I try not to think about it. -----1-2-3-4-5-6-7

<Sense of Purpose in Life>

- 17) I have found a clear sense of duty and purpose in my life. -----1-2-3-4-5-6-7
- 18) I can find sufficient meaning, purpose, and duty in my life. -----1-2-3-4-5-6-7
- 19) When I think about my life, there's a clear reason for where I am and how I'm living today. -----1-2-3-4-5-6-7
- 20) The future is bright. -----1-2-3-4-5-6-7

<Interest in Death>

- 21) I often think "what is death?" -----1-2-3-4-5-6-7
- 22) I often think about my own death. -----1-2-3-4-5-6-7

Panel Session 2 – Group A – Number 1

23) I often think about the deaths of people close to me. -----1-2-3-4-5-6-7

24) I often talk to my friends and family about death. -----1-2-3-4-5-6-7

<Thoughts on Life Span>

25) I think the length of a person's life is decided in advance. -----1-2-3-4-5-6-7

26) I think the length of a person's life is set from birth. -----1-2-3-4-5-6-7

27) People's lives and deaths are decided by unseen forces (fate, god, etc.). -----1-2-3-4-5-6-7

## **Nexus of Education and Poverty in Sub-Saharan Africa: Evidence from Sierra Leone**

Sheka Bangura and Sangho Kim\*

### **Abstract**

We have discovered education as a lead predictor of poverty in Sub-Saharan Africa with evidence from Sierra Leone based on the country's integrated household survey 2011. Noticeably, education expenditure could have negative direct impact on welfare in the short run even though it delivers long run positive effect through indirect effect of covariates. This explains an inevitability of policy trade-offs with the simultaneous decision making problems a poor household faces, which would sometimes have to reduce health spending in favour of child education. Thus, careful policy is critical to ensuring optimal balance of effects on household welfare decision making problems.

### **1 Introduction**

There is vast scholarly literature suggesting that education is the most essential correlate of poverty and human developments at various standpoints (Becker 1960; Collier 2007; Grossman 2000; Mackinnon 1995; Romer 1993; Sen 1993; Solow 1956). Some societies have increased the wellbeing of their populations with increased levels of schooling at relatively low income, thus placing literacy atop in pursuing welfare objectives (Grossman 2000; Mackinnon 1995; UNDP 2010).

Literacy is a lead yardstick in the UN's assessment and comparison of development performance across countries. The UN Millennium Development Goals and Poverty Reduction Strategy Papers of the IMF and the World Bank are popular amongst the international development policy frameworks that prioritise literacy for poor countries. Unfortunately, nations have continued to witness high rates of illiteracy and endemic poverty. This is most phenomenal in Sub-Saharan Africa (SSA) where about 50% of the region's population is still rated poor at an expenditure benchmark of US\$ 1.25 a day, which increases to 70% if a benchmark of US\$ 2 per day is used; and 32 out of the 48 poorest countries in the world are located in SSA. Sub-Saharan Africa has not made much progress on the Millennium Development Goals, and poverty has doubled since 1981.

The fact that a great number of African countries are endowed with abundant natural resources yet many of them have lagged behind natural resource-barren regions, suggests a great need for improvement in the knowledge base of the continent. Improving the knowledge system of Africa is all the more critical to resolving the arguments over the relevance of foreign direct investment in growth-constrained nations. From the perspective of many development scholars, trade is still alive as inevitable instrument for countries to break out of poverty, but gaining effective foothold in this instrument would require massive investment in education.

This study analyses the relevance of education to poverty reduction in SSA with evidence from one of the least developed countries, Sierra Leone, based on its integrated household survey 2011. The analysis is carried out within the human capital investment models with the employment of structural simultaneous equation estimations. We conduct a three-stage least squares (3SLS)

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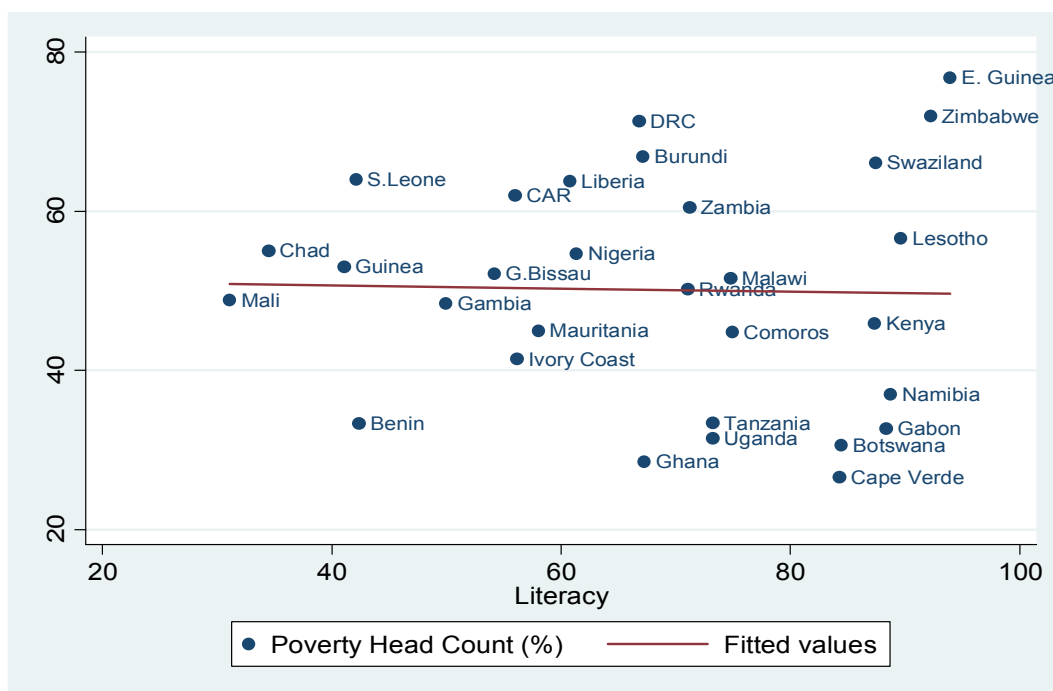
where we look at the interaction of income poverty not only with education as a crucial component of human capital for poverty reduction, but also health investment as another key human capital component. Precisely, we recursively run three-equation 3SLS functions on this level: household income consumption; investment in child education; and investment in household health.

## 2 Education and Poverty in Sierra Leone

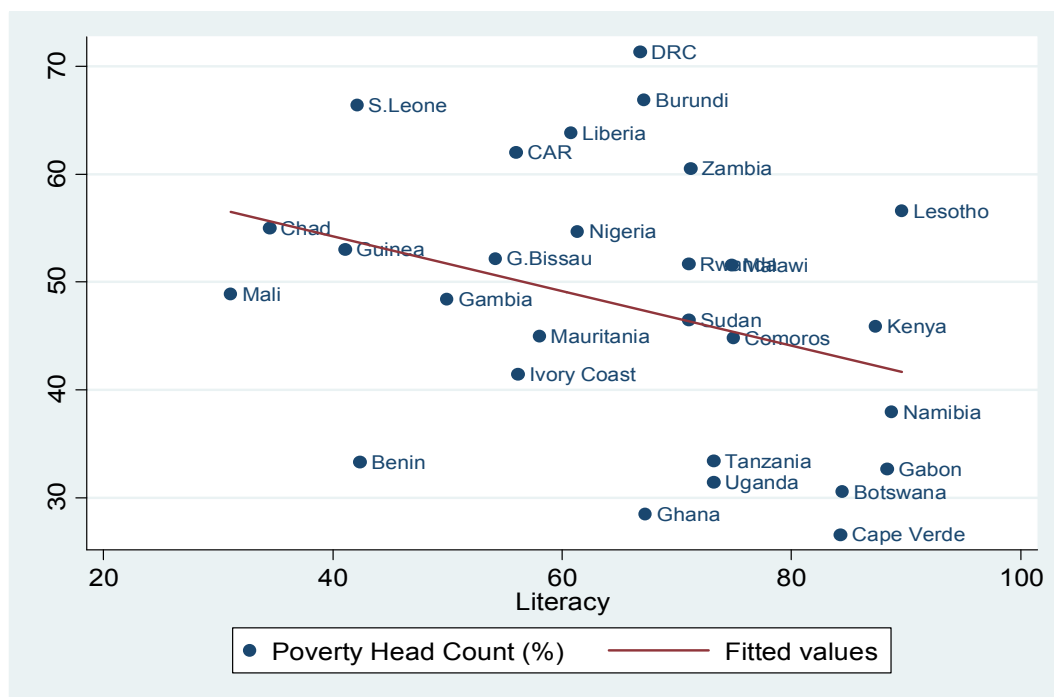
It is somewhat peculiar for large segments of SSA to remain swamped with illiteracy inasmuch as the role of education for poverty reduction in the developing world has long been emphasised. This becomes especially true when we find a strong correlation between the two variables in SSA.

Based on the World Bank Development Indicators, Figure 1 provides some impression of cross-country correlation between poverty and literacy in SSA. Panel (a) in the Figure presents correlation for 31 countries including outlying nations of Swaziland, Zimbabwe and Equatorial Guinea; and panel (b) presents correlation for 28 countries dropping these outliers. The poverty is measured by headcount index, which is the ratio of those below the national poverty line compared to the total population, while literacy is measured by those 15 years and above that can read and write. These figures are averaged for the period 2000-12. Panel (a) shows very mild inverse relationship between poverty headcount index and literacy; the downward slope is suppressed by the outliers, in which high literacy is unexpectedly accompanied by high poverty. The downward slope becomes distinct as expected after dropping the outliers in panel (b), strongly suggesting that education has a substantial poverty reducing effect. Indeed, some growth performing countries such as Botswana, Namibia and Cape Verde have seen their relatively high literacy levels accompanied by lower poverty headcount ratios in the sample. Low income countries such as Sierra Leone, Guinea, Guinea-Bissau, Central African Republic (CAR) and Chad with relatively low literacy rates are associated with higher poverty headcount ratios. This dichotomy suggests a need for increased investment in education for poverty reduction.

**Figure 1: Literacy and Poverty in Sub-Saharan Africa 2000-2012**



### Panel (a): Thirty-one Countries



### Panel (b): Twenty-eight Countries without Outliers

Sources: The World Bank Development Indicators.

Notes: As national literacy estimates which are mostly obtained from national census normally conducted every ten years and at different times for countries, the poverty headcount and literacy estimates are averaged for the period 2000-2012 for countries in the sample.

The scenario presented by the outlying countries of Zimbabwe, Equatorial Guinea and Swaziland where high literacy is accompanied by high poverty headcount ratio suggests a need to prioritise governance reforms in those countries. This unexpected outlook is witnessed in Equatorial Guinea and Swaziland even though these nations are among the relatively high income countries on the continent. The literacy-poverty irony in the three countries could not be surprising, however, considering that these countries are globally notorious for their bad socio-economic and political governance.<sup>1</sup> Meanwhile, there are rare cases in the sample, such as depicted for Benin (a low income country) where literacy is low but poverty headcount is substantially contained. Such cases have huge potential to rapidly grow and develop if massive investment in education is undertaken.

As can be seen from Figure 1, Benin and Sierra Leone virtually have the same literacy rate but very wide disparity in poverty headcount ratio; the latter's ratio is far higher than the former's. Although the literacy rate is relatively low, Benin is highly rated for good governance and human rights records.<sup>2</sup> On the other hand, a long period of bad governance and political instability until 2002 has left Sierra Leone with enormous challenges over the years that require continued and

<sup>1</sup>Zimbabwe's current president is serving more than three decades in office while it experiences frequent political and economic crisis and plunging of major development indicators; Equatorial Guinea has been equally inflicted with bad governance, corruption and appalling human rights records in Africa (Puddington 2010), while the biggest challenge faced by Swaziland is controlling HIV epidemic with the world highest infection rate (Whiteside et al. 2006).

<sup>2</sup>In 2009, Benin scored highly on the Ibrahim Index of African Governance, ranked 15<sup>th</sup> out of 53 African Countries with special reference to promoting Safety, Security, Participation and Human Rights. It is also rated high on the Worldwide Press Freedom Index, ranked 53<sup>rd</sup> out of 169 countries.

substantial investments not only in education but in other critical development areas including institutional reforms to ensure meaningful reduction of poverty.

This backdrop corroborates the continued documentation of Sierra Leone as an extremely poverty wracked nation. It has been repeatedly scored least and near the bottom in the UNDP's human development index of which literacy is a key measure. The poverty headcount had recorded more than 80 percent at the outbreak of the war in 1991. It came down to 67 percent in 2003/04, and about 54 percent in 2011. Rural poverty has been most alarming at 79 percent in 2003/04, sliding down to not less than 67 percent in 2011; its poverty size increased by about 63,000 persons during 2003-2011 reflecting the SSA trend.

### 3 Empirical Model

#### *Empirical Model*

We employ a simultaneous equations approach to reveal the transmission mechanism through which education interrelates with other variables in explaining poverty. We utilise three-stage least squares (3SLS) methods with three equations system consisting of education (proxied by level of expenditure on child schooling in the household), level of spending on health and household income consumption.

In matrix terms, our 3SLS system can be written as:

$$Y_i' \Gamma + X_i' B = \varepsilon_i', \text{ for } i = 1, 2, 3, \dots, N, \quad (8)$$

where  $Y' = [Y_C \ Y_E \ Y_H]$  is a matrix of endogenous variables, in which  $Y_C$ ,  $Y_E$  and  $Y_H$  denote total consumption income of household head, annual education expenditure of the household and health expenditure, respectively.

$$X' = [1; \underbrace{X_F, X_{SP}, X_F Y_H, X_M Y_H}_{A}; \underbrace{X_S, X_A, X_A^2}_{B}; \underbrace{X_O, X_L, X_R, X_L X_R}_{C}; \underbrace{X_G, X_P, X_G X_R, X_G X_P, X_C}_{D}] \quad (9)$$

is a matrix of exogenous variables, where block A represents human capital variables, in which  $X_F$  is years of schooling completed by household head,  $X_{SP}$  years of schooling by spouse,  $X_F Y_H$  is multiplicative variable for years of schooling of head and household spending on health, and  $X_{SP} Y_H$  is multiplicative variable for years of schooling by spouses and spending on health; block B represents socio-economic status of household, in which  $X_S$  is sex of the household head,  $X_A$  is age of the head, and  $X_A^2$  is square of age of household head; block C represents regional characteristics, in which  $X_O$  is a factor variable denoting off-farm employment,  $X_L$  is size of land owned,  $X_R$  geographic location of household,  $X_L X_R$  multiplicative variable for location of household and size of land owned; block D represents policy variables, in which  $X_G$  is macroeconomic support in terms of central transfers (or allocations) to local councils,  $X_P$  is public service delivery factor variable,  $X_G X_R$  is multiplicative variable for macroeconomic support and location of household/local council,  $X_G X_P$  is multiplicative variable for macroeconomic support and public service delivery, and  $X_C$  is credit to the household.

In the above system,  $\Gamma$  is a (3x3) matrix of unknown structural parameters of endogenous variables as follows:

$$\Gamma = \begin{bmatrix} 1 & -\gamma_{EC} & -\gamma_{HC} \\ -\gamma_{CE} & 1 & 0 \\ -\gamma_{CH} & -\gamma_{EH} & 1 \end{bmatrix}. \quad (10)$$

$B$  is a (17x3) matrix of unknown structural parameters of exogenous variables written as follows:

$$B = \begin{bmatrix} \beta_{C1} & \beta_{CF} & 0 & 0 & \beta_{CS} & \beta_{CA} & \beta_{CAA} & \beta_{CO} & 0 & \beta_{CL} & \beta_{CR} & \beta_{CLR} & \beta_{CG} & 0 & 0 & 0 & \beta_{CGR} & 0 \\ \beta_{E1} & \beta_{EF} & \beta_{EM} & \beta_{EMH} & 0 & 0 & 0 & 0 & 0 & \beta_{EL} & \beta_{ER} & \beta_{ELR} & \beta_{EG} & \beta_{ET} & 0 & 0 & \beta_{CGR} & \beta_{EC} \\ \beta_{H1} & \beta_{HF} & 0 & 0 & \beta_{HS} & 0 & 0 & \beta_{HO} & \beta_{HH} & 0 & 0 & 0 & \beta_{HG} & 0 & \beta_{HP} & \beta_{CGP} & \beta_{CGR} & 0 \end{bmatrix}, \quad (11)$$

Constant parameter
Human capital parameter
Socio-economic parameters
Regional characteristics
Policy variables parameters

and  $\varepsilon'$  is an  $(N \times 3)$  vector of structural errors written as  $\varepsilon' = [\varepsilon_1, \varepsilon_2, \varepsilon_3]$ .

## 4 Data and Empirical Results

### Data and Variables

The data for the analysis are obtained from the Sierra Leone Integrated Household Survey 2011. These surveys provide the most comprehensive sources of information for the analysis of poverty situation of the country. We have analysed 2,955 households from the rural areas, and 2,268 from the urban areas in both the 3SLS model.

### Empirical Results

Table 1 shows the coefficient estimates obtained for both rural and urban areas based on the three-stage least squares model. Years of schooling completed by the household head is found to be directly significant in affecting rural income consumption but unexpectedly has negative sign. However, tracing its effect through health spending suggests years of schooling has a positive and significant indirect impact on income. But, notwithstanding, at a coefficient of 0.039, its positive indirect effect is outstripped by the negative direct effect of -0.076, leaving a net negative effect of -0.037.<sup>3</sup> But the evidence that years of schooling has positive indirect effect through health investment may suggest its direct negative impact on income could only prevail in the short run when trade-offs and income substitution effects are unavoidable among the competing investment needs of a low income household. This suggests, under the current circumstances surrounding rural households, increased spending on education with the current low level of income of households may not see them grow out of poverty in the short run significantly since there are other necessities to meet. None of these effects are significant in urban areas.

## 5 Concluding Remarks

This study has discovered education as a lead predictor of poverty at all levels, suggesting that the state should devote a substantial share of national budget towards education investment in Sierra Leone in particular, and Africa in general. Reversibly, poverty itself is found to have a substantial impact on education with enormous feedback effect—spiral and self-reinforcing effect. Health is a critical component of human capital within which framework the nexus of education and poverty has been analysed; it is a key dimension of poverty as education and income consumption variables analysed, the three of which have been discovered in this paper to affect each other. Evidence suggests that even if policies were currently perceived effective, they could have negative direct impact on welfare in the immediate or short run; but could have the desired long run effect such as discovered by the indirect effect of the covariates traced through intermediary factors, coming out positive in a number of estimation instances. This lends credence to the estimation

<sup>3</sup>The direct effect of the "years of schooling" on "health spending" is 0.017, and that of "health spending" on "rural income consumption" is 2.269 for rural area. Therefore, the indirect effect of years of schooling on income is:  $0.017 \times 2.269 = 0.039$  for the rural area.

approach adopted for this analysis — a system framework — than sector by sector or equation by equation framework to reveal direct and indirect interaction of variables.

**Table 1: Three-Stage Least Squares Empirical Results**

	Log Income Consumption ( $Y_C$ )		Log Investment in Child Education ( $Y_E$ )		Log Investment in Health ( $Y_H$ )	
	Rural	Urban	Rural	Urban	Rural	Urban
Years schooling completed by household head ( $X_F$ )	-0.076** (0.016)	-0.012 (0.029)	0.096* (0.015)	1.821 (0.049)	0.017* (0.006)	0.014 (0.016)
Log Health expenditure by the Household ( $Y_H$ )	2.269** (0.167)	1.398* (0.150)	0.752** (0.399)	4.389** (0.607)	-	-
Log household spending ( $Y_C$ )	-	-	8.899** (1.927)	3.650* (1.821)	0.437** (0.015)	0.713* (0.064)
Years completed by mothers ( $X_M$ )	-	-	35.455* (7.516)	14.751* (4.135)	-	-
Mothers education times household income ( $X_M*Y_C$ )	-	-	-2.471** (0.522)	-1.009* (0.283)	-	-
Health expenditure time years of Education ( $Y_H*X_F$ )	0.003** (0.001)	-0.001 (0.002)	-	-	-	-
Household size ( $X_S$ )	-0.045** (0.025)	-0.051 (0.030)	-	-	0.022* (0.011)	0.038** (0.021)
Housing ( $X_H$ )	-	-	-	-	0.003 (0.012)	-0.007 (0.039)
Off-farm employment opportunity( $X_O$ )	0.173* (0.106)	0.092 (0.099)	-	-	-0.073* 0.114	-0.065 (0.070)
Geographic Location of the household ( $X_R$ )	0.003 (0.021)	0.001 (0.044)	-	-	-	-
Macroeconomic support (central transfers) ( $X_G$ )	0.240* (0.068)	-0.138 (0.122)	-0.030* (0.087)	-0.441** (0.264)	-0.106* (0.030)	0.098 (0.087)
Macroeconomic support times Location ( $X_G*X_R$ )	0.110** (0.073)	0.300** 0.131	-0.210* (0.076)	0.654** (0.309)	0.009** (0.033)	-0.218* (0.092)
Public service delivery effectiveness by local councils ( $X_P$ )	-	-	-	-	0.003 (0.008)	-0.001 (0.024)
Macroeconomic support times council effectiveness ( $X_G*X_P$ )	-	-	-	-	0.001** (0.009)	0.004 (0.029)
The size of land owned by head ( $X_L$ )	-0.001 (0.001)	0.000* (0.002)	0.000* (0.004)	0.008 (0.008)	-	-
Land size times location ( $X_L*X_R$ )	0.000	0.001 (0.003)	0.000 (0.003)	0.002 (0.017)	-	-
age of household head ( $X_A$ )	0.001 (0.065)	0.001* (0.009)	-	-	-	-
square of age of household head ( $X_{AA}$ )	0.000 (0.012)	0.000 (0.000)	-	-	-	-
Log of credit to households ( $X_C$ )	-	-	0.005 (0.030)	-0.080 (0.088)	-	-
Constant	-5.332** (1.513)	2.118 (1.456)	-123.99* (27.588)	-80.90* (25.208)	2.396** (0.238)	-1.521* (0.968)
N	2955	2268	2955	2,268	2955	2,268
Chi-Square	1793 (0.00)	244.16 (0.00)	96.35 (0.00)	135.31 (0.00)	1054 (0.00)	219.19 (0.00)

Notes: \*\* denotes significant estimates at 1 and 5%; \* denotes significance at 10%; standard errors are in parentheses.

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## **The Impact of Security and Regional Integration on Poverty Reduction in Afghanistan**

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### **Abstract**

The three decades of civil war within Afghanistan have deeply affected the people of Afghanistan in terms of social activities and economic growth. Long time civil war in Afghanistan has brought many social and economic problems such as poverty, inequality, banditry, and kidnapping. For example, social and economic infrastructures have been destroyed. Most of the population suffer from poverty and remain illiterate. Moreover, the rural communities have endured years of suffering and privation in terms of access to roads and other basic human needs.

Afghanistan has 6 neighbors which are Tajikistan, Turkmenistan, and Uzbekistan (to the north), Iran (to the West), Pakistan (to the South-East), and China (to the remote East). Intervention and continuous war as well as insecurity are the main thematic areas of poverty in Afghanistan. Moreover, in many cases, poverty in Afghanistan is mainly affected by economical and political policies of neighbor countries. Therefore, lack of economic and politics integration at the region increased the poverty in Afghanistan.

By any measure such as per capita income, life expectancy and other social indicators such as health, education, welfare, and freedom, Afghanistan is a very poor country. Before the civil war Afghanistan was also poor, but the result of three decades of war caused the Afghanistan to be remained poor comparing to other countries. In the past three decades, many of Afghans due to long time of war in Afghanistan immigrated abroad. This paper demonstrates the poverty situation as well as dimensions of poverty in Afghanistan. Moreover, this paper presents ways to reducing poverty through providing security and regional integration with neighboring countries.

**Key words:** Poverty, Poverty Reduction, Security, Regional Integration.

### **1. Introduction**

The concepts of poverty have developed rapidly over the last thirty years, and international attention is now focused more sharply on poverty reduction than it was twenty years ago (Agola & Awange, 2014, p. 41). Poverty is a big challenge all around the world, especially, in non-developed and developing countries. Poverty is not just

about money and it is not easy to define it because poverty affects different people in different ways. For example, in many communities it is about access to basic needs such as food, health, and education.

Moreover, poverty differs from country to country, region to region, and community to community. In order to better illustrate the issue of poverty this paper addresses the situation of poverty in Afghanistan. It is noteworthy that three decades of continued war within Afghanistan has caused and widespread the poverty in the country. All the country's infrastructure destroyed by war and has caused the poverty in the country. Poverty has spread to such an extent that even people did not access to basic needs.

War has caused insecurity in the country and has left a detrimental impact on poverty. Moreover, almost 6 million Afghans fled the country and immigrated to other countries and about one million Afghans were displaced within the country. In addition, in some areas even the public and private assets were looted and expanded the poverty day by day across the county. Therefore, the purpose of this research paper is to describe the key indicators of poverty in Afghanistan. This paper is addressing the question of “*Why poverty in Afghanistan?*”

### **1-1. Overall Poverty in Afghanistan**

Why poverty in Afghanistan? More than two decades of conflict, interspersed with a number of serious earthquakes, and culminating in a severe nationwide drought in 1999 – 2001, had dramatic impacts on the Afghan population and particularly its poorest segments (World Bank, 2005, p. 16). Approximately 9 million Afghans are not able to meet their basic needs. On average, the poor are only able to consume at a level equal to 78 percent of the estimated cost of basic needs. While 36 percent of the population cannot meet basic consumption needs, there are many more people who are highly susceptible to becoming poor (Ministry of Economic MoE, 2010). Poverty in Afghanistan exists in accordance to different dimensions such as low income, unemployment, illiteracy, disabilities, lack of basic public services, and so forth.

Table 1 describes that the high percent of poverty at the national level is mainly related to the people which are living in *remote areas* including *rural* and *Kuchi*<sup>1</sup>. It is estimated that about 80 percent of population lives in remote areas. Therefore, the poverty in the remote areas is definitely closed to the national average. As a result, the poverty rate in the Kuchi population is very high (54 percent), in the rural area is (36 percent), and in urban area comparing to the rural and Kuchi areas is lower (29 percent). The analysis of the survey of National Risk and Vulnerability Assessment NRVA 2011-12 indicates that “poverty has not changed over time, with about 36 percent of the

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<sup>1</sup> Kuchi means migration and refers to a specific tribe in Afghanistan.



population still consuming below the poverty line. Poverty remains higher in rural areas and amongst the Kuchi population (CSO, 2014, p. 50)”.

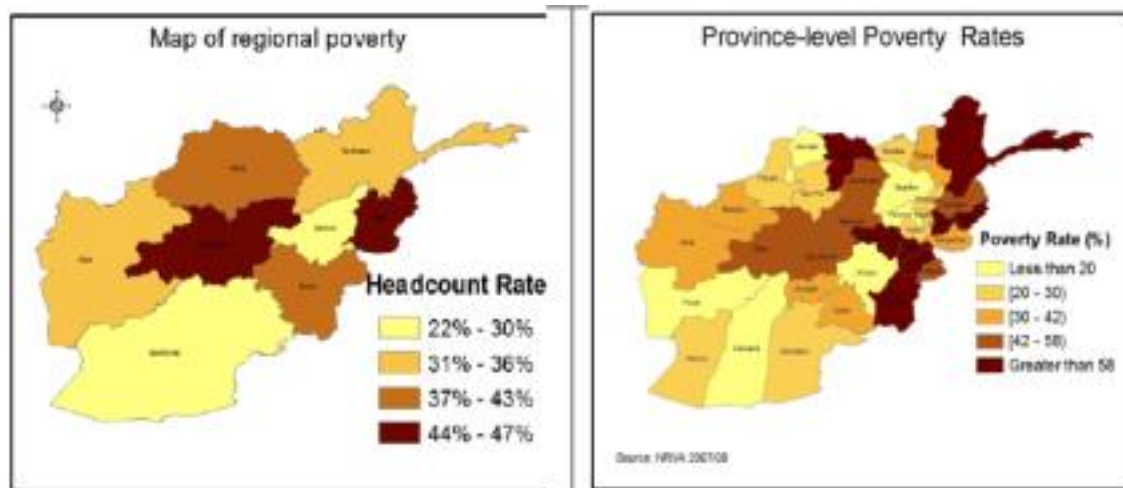
**Table 1. Poverty in Afghanistan**

Poverty by residence	Poverty rate (%)	Poverty by region	Poverty rate (%)
Urban	29	Central	30.1
		South	43.7
		East	45.0
Rural	36	Northeast	36.8
		North	39.5
		West	35.4
Kuchi	54	Southwest	22.7
		West Central	44.9
		<b>National</b>	<b>36</b>

Source: Data adopted from (MoE, 2010).

Furthermore, poverty in Afghanistan varies in terms of the regions across the country. Table 1 demonstrates poverty situation according to the NRVA 2007/08. Poverty rate is lower in the Central and South Western regions but poverty rate is high at the West Central region because of its climate and remoteness.

**Figure 1. Poverty by Region and Province**



Source: NRVA 2007/08 cited in (MoE, 2010).

## 2. Methods

In the past 10 years, the Government of Afghanistan has conducted two important nation surveys covering main key issues across the country. Therefore, this research paper is a descriptive study and discussion is in according to secondary data. The

research paper is mainly described and analyzed based on information of National Risk and Vulnerability Assessment of Afghanistan (NRVA 2007/08), NRVA 2011/12, Central Statistic Organization (CSO 2014), and poverty status in 2010 based on report of Ministry of Economy of Afghanistan. Poverty in Afghanistan is a big challenge for Government and all communities across the country. The key dimensions of poverty in Afghanistan have been described which the long time insecurity and conflict are the main key issues.

Relevant data has been analyzed with using both qualitative and quantitative methods. Quantitative data is described based on descriptive statistic and some charts, tables, and figures are drawn for better description. It is notable that the data of this research paper is up to date and shows the reality on the ground.

### **3. Discussion**

#### **3-1. Key Indicators of Poverty in Afghanistan**

Hasan Khan (2001) argued that “to understand poverty, it is essential to examine the economic and social context, including institutions of the state, markets, communities, and households. Poverty differences cut across gender, ethnicity, age, location (rural versus urban), and income source. In households, children and women often suffer more than men. In the community, minority ethnic or religious groups suffer more than majority groups and the rural poor more than the urban poor; among the rural poor, landless wage workers suffer more than small landowners or tenants. These differences among the poor reflect highly complex interactions of cultures, markets, and public policies”. There are many indicators to overall of poverty in Afghanistan. Widespread poverty that has always plagued the people of Afghanistan is a product of several factors over the years that will require comprehensive assessment and research. Poverty is when people do not have a good standard of living. A poor standard of living may include not having access to clean drinking water, a house that is in a bad condition or, not being able to make enough money.

Poverty may also mean that people are in poor health and cannot afford to see a doctor or buy medicine (Purves, 2008, p. 5). The housing conditions of the Afghan population can be defined as poor, with large differences between urban and rural communities (CSO, 2014, p. 95). Therefore, lack of foods, clothes, and housing mean low standard of living. Poverty in society is dependent on several factors, but mainly related to the problems of poverty in Afghanistan can be seen as follows:

- War and Insecurity
- Low Standard of Living
- Education
- Unemployment

- Economic Dependence
- Absence and Lack of Investment
- Lack of Strategic Planning
- Drought and Natural Disasters
- Lack of Population Control
- Income Generation Sources
- Disability
- Access to Basic Services

The mentioned indicators show that the level of poverty in Afghanistan is very high. These indicators are interrelated to each other and negatively impacted on well-being and pushed the overall community to live in poverty. First, conflict generated insecurity, with numerous adverse effects on the poor. The collapse of the state and rule of law resulted in local power-holders taking control in regions and localities, often with no check on their authority. An estimated 5.9 million Afghans left the country and one million Internally Displaced Persons (IDPs) were displaced within Afghanistan, making one in every three Afghans a refugee or an IDP. Second, the conflict destroyed physical capital, including the small-scale traditional infrastructure which the rural poor relied on for livelihoods as well as personal assets. Third, the lack of an effective state led to collapse of public service delivery and took a heavy toll on human capital. Under the Taliban, school attendance was low and girls were almost completely barred from attending schools. Infant and under-five mortality as well as maternal mortality were estimated to be among the highest in the world, and malnutrition affected about 50 percent of children under age five. The average life expectancy was little more than 40 years, similar to the pre-conflict level (World Bank, 2005, p. 16). How can poverty be reduced in such a situation? It is not easy to answer the question but there are many alternatives such as regional economic integration and peace across the country.

Integrating Afghanistan into its neighbors' countries will change the situation for all the countries in the region as well as for the international community. Integration and regional cooperation provide security for all the countries in the region. For example, controlling the borders will prevent the transferring of terrorisms. Provision of security will be encouraging all sectors furthering its activities and lead the rural communities to be busy with their agriculture and livestock activities as well. Soon Afghanistan will experience the transfer of security control from international to Afghan security forces. In this regard, the integration and regional cooperation will be an important opportunity for Afghanistan in order to increase the level of security in the region.

With the assistance of its neighbors and through the creation of a peaceful environment, Afghanistan can overcome its historical isolation and take its rightful place in the "Heart of Asia". For instance, supporting the development of transportation links to facilitate trade within the region will be impacted on economic growth in

Afghanistan. Therefore, the creation of the “New Silk Road” will be benefiting Afghanistan by bringing together Eurasia and South Asia via new road, rail and energy corridors. As a whole, the neighbor countries will also be benefited from such assistance. For example, Kazakhstan as the largest landlocked country in the world will have this possibility to access to the global market, especially to the South Asia.

The important part of integration and regional cooperation is the stabilization of Afghanistan. Working together for finding the political solutions for the Afghan people is essential. The problems of Afghanistan cannot be solved magically and it must be acceptable that only Afghans can decide the country’s way forward. It is quite better that the social and economic rehabilitation of Afghanistan be relied on their own efforts not relying on international community for all the time. Integration and regional cooperation towards developing agriculture, education and infrastructure impact on live of people in Afghanistan. About 70-80% of Afghanistan’s population lives in rural areas, security and stabilization encourage Afghans back into their productive activities on the land which have important economic impact.

In recent years with the increasing crisis in Afghanistan, most experts and even some foreign countries including United States of America and France have been emphasized on the region’s role in resolving the Afghan crisis. Many regional and Western analysts realized that the main reason for the lack of control over the situation in Afghanistan by foreign forces is the region's lack of understanding and lack of cooperation with neighboring Afghanistan. But there is a consensus on the necessity of regional cooperation on Afghanistan crisis, regardless of America's policy to integrate the issues of Afghanistan and Pakistan, so far no regional and international action have been taken in this regard.

Contexts and challenges in international cooperation influential actors in Afghanistan can be divided into two categories. The main triangle influential actors in Afghanistan are Iran, Pakistan, and United State of America (USA). Actors such as Russia, China, India, Saudi Arabia and the Central Asian states, are actors who have their own impact on the Afghan issue, but this does not affect the significance of the impact of the original cast. The cast is usually due to the influence of other actors in Afghanistan. Saudi Arabia, United Arab Emirates (UAE), and China play role in Afghanistan through Pakistan. European countries follow the Afghan issue through USA. In fact, for peace and stability in Afghanistan, we must believe on regional cooperation solutions, the cooperation between influential actors in Afghanistan. But the main problem is that the goals and interests of these three actors are not coinciding.

### **3-2. The importance of resolving the Afghan crisis**

Afghanistan is a place where foreign troops come into the country from other continents

to portray their ascendancy. Therefore, in the second decade of the 21<sup>st</sup> century that the fourth wave of security dialogue based on military security, political, economic, social, environmental and cultural flows, Afghanistan's problems cannot be studied by traditional security perspective. Afghanistan has been at war for 30 years. Afghanistan and its implications on autopsy not are said that the country, is threatening international security and international actors threat to the security of Afghanistan. Afghan border are combined ethnicity, ethnography and ethnology and is in crisis.

But there is a contradiction on the role of international actors in Afghanistan for bringing peace and security or insecurity crisis. Afghanistan is now the center of controversy in other countries. While the military strategy in Afghanistan and competition lost its use. The military cooperation in terms of fighting against al Qaeda and the Taliban had positive achievements in the country. In the past 10 years, democratization had also positive achievements in the country. That is why the strategy of economic cooperation, solve the problem of the country. Human and financial statistics of the last ten years shows that, when regional and international cooperation in Afghanistan is realized, spending is reduced. In 2004, a total of 60 people were killed by NATO in Afghanistan, this number in 2010, has more than 700 people. America has been paying over \$ 2 billion a week in Afghanistan war. This demonstrates that the only way of solution in Afghanistan is possible with the regional and international cooperation.

### **3-3. Security of neighbouring Afghanistan**

**A) South Asia:** one of security complex which adjacent to the continuing crisis in Afghanistan is that the country is located in the South Asia. The rivalry of India and Pakistan in Afghanistan can be justified in the framework of this theory. These two countries due to religious and geographical reasons have had competition for long time. The two sides are not equal in strength. India in recent years, because of various factors, there has been a growth in the country to be considered a developed country, but it seems to compete with Pakistan, India's power is diminished. New Delhi is interested to introduce India as a regional and international power, but because of security issues with Pakistan, cannot.

As an international power must have hegemony in the region. In fact, despite the India and Pakistan are not equal in terms of power, but their competition merged them together and even reflects their relations with countries outside the region, such as China, Iran, USA and their relationship with Afghanistan as well. In recent years, USA has begun to compete with this particular game. USA tries to be close to Pakistan. Washington plays the game through competition of China and India, too. China tries to be closed to Pakistan in order to compete with India. In fact, relationship between India and Pakistan with countries outside the region is based on the competition between the

two countries. According to this theory, if we look at the relationship between Pakistan and Afghanistan, Pakistan is interested in Afghanistan, where the country is in a strategic depth against India to Pakistan. Pakistan's relationship with Afghanistan is for two reasons: first, it prevents the Pashtun independence. Second stop the close of Afghanistan to India. India has also pursued two main objectives through its relationship with Afghanistan: first, to show its strength internationally, and that there is a regional power, and observe the behaviour and actions of Pakistan.

**B) Central Asia:** security complex can be considered in Central Asia. Central Asian countries have a common geography and a common cultural heritage, and security issues. The problem that the Central Asian countries have is the most threatening to the stability of their own security. Threats such as terrorism, narcotics, weak institutions, identity crises and economic problems can be caused by internal threats and external threats existed. The issue of drugs in Central Asia is also threatened the security of the region.

The countries with the common security also have competitions on many issues such as water. Another issue is boundaries. There is a competition on terrorism. For example, the Islamic Party of Uzbekistan, which causes tension in the region, works in Afghanistan. Central Asian security complex has three categories of actor. Kazakhstan and Uzbekistan are stronger countries in terms of economic, politics, and security. Two countries, Tajikistan and Kyrgyzstan, are the poorest countries in the region. Turkmenistan is placed between the two groups. Competition in this region is between stronger countries and countries outside the region of Central Asia play role based on their competition. About Central Asia and Afghanistan, there is less cooperation. Central Asia due to prevent of entry of the drugs and terrorism in the region is far from Afghanistan. In such an environment, on the other hand, Russia and China introduce them as the godfather and the USA, Europe and NATO are trying to enter the Central Asian region as a defender.

**C) The Persian Gulf:** the third security complex is the Persian Gulf region. The security complex of the Persian Gulf between Iran and Saudi Arabia can be considered. The Islamic Revolution in Iran, Saudi Arabia's role in the context of USA policies in the region is unique. Sectarianism is one of the fundamental challenges of Iran that affect the benefits of the country. USA with the support of Saudi Arabia has created the sectarianism as strategic tool.

During the Soviet occupation in Afghanistan, Saudi Arabia was the only country that religiously and wealthy had strong opposition against influence of Soviet Union. With communist coup in Afghanistan and the Soviet occupation, the Saudi Arabia activities were expanded more than previous. Saudi Arabia entered to Pakistan to fight against communism. Saudi Islamic organizations have tried to build mosques and

religious schools in Pakistan, especially the border region of Pakistan that Pashtun are living. Afghan youths who during war did not have school, were attracted to the religious schools in Afghanistan and Pakistan, therefore the influence of Saudi Arabia has increased in these countries, that most of the Taliban leaders, studied several years in Saudi Arabia and trained in Pakistan or Arab island.

In general, the security dynamics between India and Pakistan, between Central Asia and Russia, Iran and Saudi Arabia do not allow regional solution for Afghanistan. The solution is to accept the security dynamics, but the players must not use Afghanistan for their dynamics. Solution is drawn through economic cooperation programs. Through the economy, the regions can make relationship and organization such as Shanghai can have the capacity to do it.

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## **Features and Challenges of Diffusing Ubiquitous Services**

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### **Abstract**

With the aim of building new sources of economic growth and competitiveness, governments are putting efforts and initiatives to develop ubiquitous cities (u-city). In u-cities, services can be accessed anywhere at any time (i.e., ubiquitous services). This study classifies u-services into public u-services, commercial u-services, and integrated u-services; and identifies the main features of u-services as the use of u-infrastructure, public-private partnership, value proposition, access to private information, revenue generation, and user information and revenue sharing. Each of these features is discussed along with the challenges facing the development of u-services, particularly in New Songdo, the largest u-city developed in Korea. This study provides insights and recommendations for diffusing u-services.

### **Introduction**

There are a growing number of governments and companies focusing on the development of smart cities. A new form of smart cities that embraces the concept of ubiquitous computing in integrating information systems and social systems is called a ubiquitous city (u-city). With the aim of building new sources of economic growth and competitiveness, governments are putting efforts and initiatives into developing u-cities. Information and communication technology (ICT)-related companies are also tapping into new business opportunities arising from the development of u-cities. In u-cities, services can be accessed anywhere at any time (i.e., ubiquitous services) (J. Lee, Baik, & Lee, 2011; Leem & Kim, 2013). For example, residents may access medical services from home or at a distance through the use of ICT devices.

South Korea is the frontrunner in developing u-cities. As of 2013, there are 64 u-city projects of which 21 are partially completed, 12 under construction, and 31 in the design stage (Yigitcanlar & Lee, 2013). Nonetheless, concerns on the viability and sustainability of u-city projects have been reported. In fact, no u-city projects have been completed yet and the progress of developing u-services is rather slow (J. Lee &



Lee, 2014; Yigitcanlar & Lee, 2013). Moreover, while most u-services designed at the planning stage are public u-services that are yet to be fully realized, commercial u-services have received little attention and are insufficient (Leem & Kim, 2013). This is problematic because commercial u-services could provide more incentives for further development of u-cities.

In light of this issue, this paper identifies the main features and challenges of diffusing u-services by taking the case of New Songdo as an example. New Songdo is so far the largest u-city project initiated by the Korean government. While New Songdo has the potential of further advancing the ICT industry and strengthening the competitiveness of Korea as a global business hub, its progress and sustainability are being questioned. It is the aim of this paper to draw attention to the key characteristics of u-services where some of the challenges related to the development of u-services are revolving. Taking these characteristics into consideration will lead to a better understanding of how the development of u-services should be addressed. In the next section, we offer a description of ubiquitous computing, which is the main method used for developing u-cities and u-services. This is followed by a discussion on the main features and challenges of diffusing u-services. The last section offers concluding remarks.

### **Ubiquitous computing**

Mark Weiser, who was the head of the Computer Science Laboratory at Xerox Palo Alto Research Center (PARC) in 1988, popularized ubiquitous computing (Begole, 2011). He defined ubiquitous computing as “the method of enhancing computer use by making many computers available throughout the physical environment, but making them effectively invisible to the user” (Weiser, 1993). These ubiquitous computers will come in different sizes and will be seamlessly integrated to the environment to accomplish everyday personal and business tasks (Weiser, 1991). Early works on ubiquitous computing include PARC Tab, a handheld computer with a touch-screen display invented at Xerox PARC in 1993; The Real-time Operating System Nucleus (TRON), a project aimed to creating a unified operating system for multiple devices at University of Tokyo in 1984; and Active Badge Location System, a small device (badge) that automatically detects the individual wearing it created by researchers at Olivetti in the United Kingdom in 1990 (Begole, 2011). While Weiser’s idea of ubiquitous computing was then considered as somewhat futuristic, advancements in ICTs such as the radio-frequency identity (RFID) chip, Bluetooth, 3G, Wi-fi, and smart devices have made ubiquitous computing a part of reality. Its commercialization continues to grow worldwide, and investments in bringing ubiquitous computing to its highest potential are proliferating.

### **Ubiquitous cities: The case of New Songdo**

Embracing the concept of ubiquitous computing, the Korean government has invested in u-city projects at a large scale. U-city is a city where services can be accessed anywhere at any time (i.e., u-services) using embedded information and communication technology infrastructure and devices (J. Lee et al., 2011). The government has set the goal for u-cities as to ultimately improve the quality of life and competitiveness of cities in South Korea. As reported by the National Information Society Agency in 2007, the South Korea's Ministry of Information and Communication launched the u-City Testbed projects that included u-Songdo International Business City (underground facilities management), u-Cheongyecheon (ecology and culture related services), u-Sejong-Yeongi (construction and waste management), u-Haeundae (tourism and safety services), Gwangju u-Convention Center (state-of-the-art convention services), and u-Taehwa River (industrial area contamination management). The u-city agenda has recently evolved to u-eco-city agenda that aims to provide u-services that improve the quality of life while minimizing environmental impacts, resulting to 64 projects throughout South Korea as of 2013 (Yigitcanlar & Lee, 2013).

The largest u-city project so far is the Songdo International Business District, also called as New Songdo, located in the Incheon Free Economic Zone. It is the largest private real estate project in history and the first US-South Korean real estate joint venture, building a city from scratch. With its strategic location—just a 20 minute drive from Incheon International Airport—and state-of-the-art infrastructures, the Korean government aims for the New Songdo City to become a source of new engines of growth in ICT-related industries and a platform for new business clusters that will enhance the competitiveness of the country. In this city, foreign investors receive exemption from taxation and reduction in corporate tax and earned income tax. As illustrated in Figure 1, New Songdo City is a public-private partnership. The private developers behind this project are Gale International and POSCO Engineering & Construction, holding 70% and 30% stake in the project, respectively (Steiner, 2007). Gale International, a New-York based real estate developer, was approached by the Korean government in 2001 to take control of the development of the project. It partnered with POSCO, Korea's largest steel manufacturing company to construct both residential and commercial spaces in New Songdo. To build the city's ubiquitous infrastructure, which is the key to New Songdo's development, Gale International chose Cisco to be its exclusive supplier in 2009. As a part of its Smart+Connected Communities strategic initiative, Cisco aims to make New Songdo as the most wired city in the world. As reported by (Strickland, 2011), Cisco plans to install more than 10,000 TelePresence units in New Songdo by 2018. TelePresence will connect residents to various public and commercial u-services. New Songdo residents can purchase an unlimited plan for \$10 per month or pay more money to other providers of

u-services. With TelePresence, Cisco will develop an IP-based platform that will be open for u-service or application developers, functioning like iTunes for a city (Strickland, 2011). Cisco will then be able to link several u-services into a common network city-wide (Woyke, 2009). The company estimates its Smart+Connected Communities initiatives in New Songdo and other cities to create a \$30 billion market opportunity (Lindsay, 2010).

### **Ubiquitous services**

Ubiquitous services signify the realization of ubiquitous computing and ubiquitous cities. Ubiquitous services can be defined as services that can be accessed automatically and remotely through the use of ICT infrastructures and devices. Unlike electronic services, u-services take full advantage of automatic location detection, unique identity verification and context awareness of the physical environment, allowing a timely delivery of personalized services (Wang & Wu, 2014). U-services can be further classified as public u-services and commercial u-services (Leem & Kim, 2013). Public u-services are u-services made readily available by governments to residents at no cost, while commercial u-services are u-services provided to consumers for a fee. Examples of public u-services are u-traffic (automated traffic control, traffic signal control, bus service information), u-facilities (road lamp management, water pipe leak management), and u-security (crime prevention, child protection, disaster management); commercial u-services are u-home (home automation), u-education (remote learning, intelligent classroom) and u-port (real-time location systems of containers) (Leem & Kim, 2013).

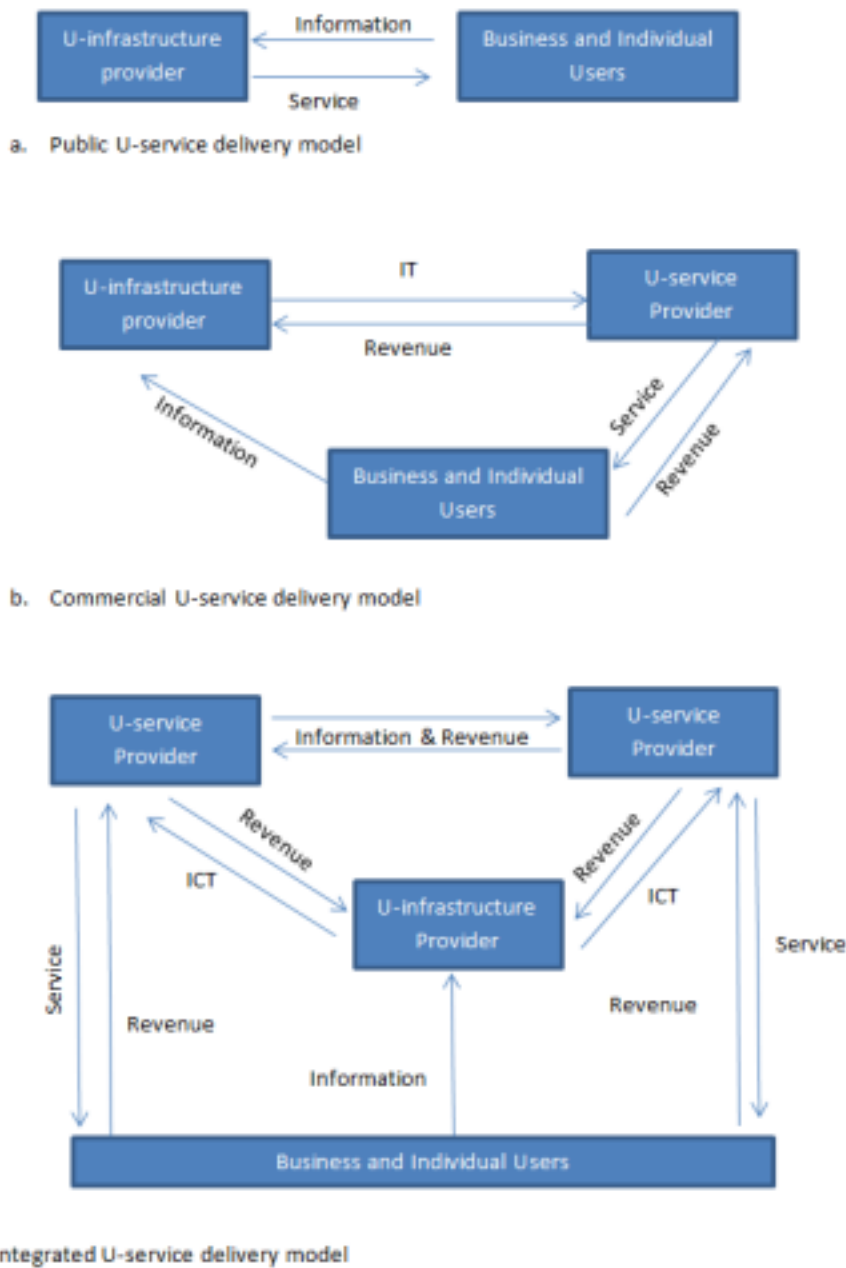


Figure 1. U-service delivery models

Figure 1 illustrates a delivery model for public u-services, commercial u-services and integrated u-services. In order to maximize the benefits of u-services and allow consumers to receive u-services anywhere in real time, various u-services should be integrated as shown in Figure 1c. For example, in case of car accidents, hospitals can be automatically notified with the location of the accident and medical records of the patient, insurance companies can instantly process medical support, and families can be immediately notified (J. Lee & Lee, 2014). Table 1 lists the important characteristics of public and commercial U-services that we discuss below.

Table 1. Main Features of U-services

	Public	Commercial	Integrated
Use of u-infrastructure	Yes	Yes	Yes
Public-private partnership	Yes	Yes	Yes
Access to private/personal information	Yes	Yes	Yes
Value proposition	Yes	Yes	Yes
Revenue generation	No	Yes	Yes
User information and revenue sharing among providers	No	No	Yes

The U-city Department of the Incheon Free Economic Zone (IFEZ) conducts a three-year review of u-city projects. According to its latest review in 2011, the following services are now made available in New Songdo: u-crime prevention (unmanned security service and unmanned traffic control), u-home (home network service for sharing weather, traffic and IFEZ information), u-transportation (car parking linkage service, KIOSK at stations for sharing weather, traffic and IFEZ information, and public transit information service), u-school (school zone service), and u-disaster prevention (fire detecting service). This means that most available u-services are public and single-service.

### **Main Features and Challenges of U-services**

#### ***Use of ubiquitous infrastructures and devices***

Installation of ubiquitous infrastructures is crucial for the delivery of u-services. U-infrastructure are composed of advanced ICTs that tap on ubiquitous computing, using sensors and networks for wireless and continuous person-to-person communication, person-to-object communication, and object-to-object communication (Yigitcanlar & Lee, 2013). The most common advanced ICTs installed in u-infrastructure are presented in Table 2 (S.-H. Lee, Yigitcanlar, Han, & Leem, 2008; S. H. H. Lee, Jung Hoon; Leem, Youn Taik; Yigitcanlar, Tan, 2008; Leem & Kim, 2013).

As presented in Table 2, different types of technologies need to be combined to deliver u-services. The complexity of these technologies could hamper the development and implementation of services. In general, it is crucial for ICT-related organizations to design flexible IT frameworks on the ubiquitous infrastructure. As suggested by Piro, Cianci, Grieco, Boggia, and Camarda (2014), a complete platform that efficiently supports several kind of services and simplifies routing operations is required to expand smart (ubiquitous) services. In this regard, J. H. Lee, Phaal, and Lee (2013) highlight the need for a systematic and standardized roadmapping process that aims to forecast

the development of future service-oriented smart devices and technologies , and establish interconnections between services and devices.

Table 2. Technologies for delivering u-services

Broadband Convergence Network (BcN)	The backbone of ubiquitous computing services that allows media convergence and ubiquitous connectivity.
High Speed Downlink Packet Access (HSDPA) and Wireless Broadband (WiBro)	Wireless internet technologies that allow users to access online contents through personal devices.
Ubiquitous Sensor Network	It provides ubiquitous environment for small devices with sensing capabilities that are mobile or embedded in the environment.
Radio Frequency Identification (RFID)	It is a sensing technology that automatically identifies and tracks people, animals, or objects using radio waves.
Context Awareness Computing	It is a computing technology that captures environmental and situational information about people, animals, or objects to deliver customized services
Geographic Information System (GIS)	It is a computer system that integrates, stores, edits, analyzes, shares, and displays geographic information
Global Positioning System (GPS)	It is a satellite-based navigation system provided by the United States Department of Defense that enables a GPS receiver to identify its location, speed, direction, and distance to destination.
Integrated operation center	It collects, manages, and integrates information

**Public-private Partnership**

Public-private partnership (PPP) is defined as a long-term contract between a government agency and a private entity , sharing risk and management responsibility in order to provide services to the public (World Bank Institute, 2012).” Roehrich, Lewis, and George (2014) define PPP as a business model for linked infrastructure and services. This definition applies to the development of u-cities, where both the public sector and private sector take part in designing and building u-infrastructures in order to deliver u-services. Figure 2 lists the contribution of each sector to the development of New Songdo as discussed in the earlier section.

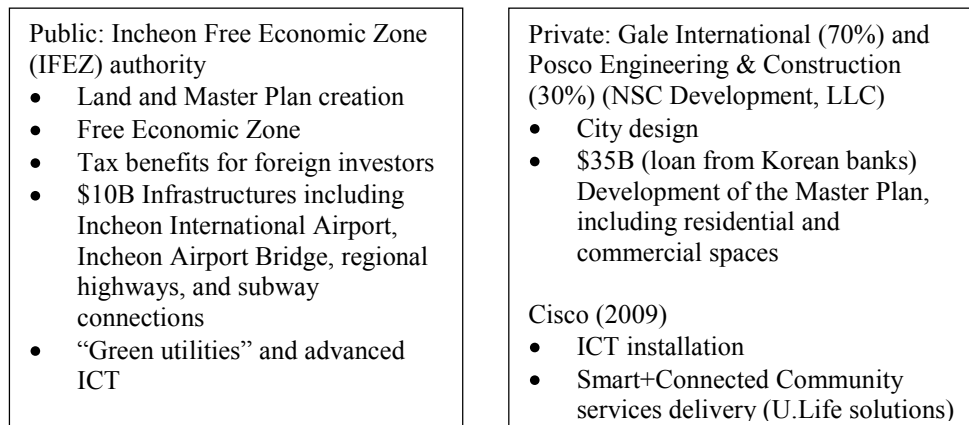


Figure 2. New Songdo’s Public-Private Partnership

While the number of PPPs has grown over the years and their importance is recognized worldwide, there is still a lack of understanding how the effectiveness of PPPs as a tool to diffuse new, different types of services can be improved. Not only that they are associated with high risk and complexity, PPPs raise several capability, governance, and accountability concerns (Hodge & Greve, 2007). As noted by Roehrich et al. (2014, p. 115), “While public actors were found to have limited abilities to engage in strategic planning with private actors, private actors have been criticized for their purely commercially driven outlook of public-private partnership.” This leads to conflicts that may undermine the viability of PPPs. It is therefore not surprising for the Korean government and Gale International to have disagreements over a number of issues from design to incentive provision (Kshetri, Alcantara, & Park, Forthcoming). In fact, an ex-chief executive of Gale International noted that he stepped down from the company in 2010 due to the environment of “turbulence” between Gale and the Korean government (Nam, 2013). Another concern about PPPs that may hinder both the public and private sectors in realizing the benefits of New Songdo is the difficulty of passing on the incentives from public-private relationship to subsequent contractors and integrating SMEs in supply chains (Roehrich et al., 2014).

***Access to private/personal information***

In order to provide efficient, customized, and immediate services to users anywhere at any time, u-service providers need access to private or personal information of users. It is therefore crucial for users to disclose their information that will be transmitted through ICT devices and technologies described above such as context awareness computing, RFID, and GPS. For example, u-transportation needs the location of a mobile device that contains personal information to provide traffic information. However, users may be reluctant to use or purchase u-services due to privacy concerns. As noted by Wang and Wu (2014), “The threat of the accidental or deliberate

dissemination and use/reuse of personal information for unauthorized purposes is a critical impediment to u-service development and adoption (p.93).”

### ***Value proposition***

Value proposition is a statement of how value is to be delivered to customers by managing the costs of value-producing activities and the means of positioning the firm in the minds of customers (Olla & Patel, 2002; Walters & Lancaster, 1999). It is important for users to easily identify u-services and understand what benefit each u-service has (J. Lee & Lee, 2014). They need to be convinced of the value of u-services and be willing to replace the traditional services they use. Otherwise, the complexity of technologies involved and privacy concerns may discourage them from using or purchasing u-services.

### **Revenue generation**

Unlike public u-services, commercial u-services can generate revenues. Thus, this type of u-services will provide incentives for service providers to invest and develop u-services that users in u-cities may find valuable. While public u-services have received enormous attention, the rollout of commercial u-services has been more limited. The study of Leem and Kim (2013) indicated that out of 125 u-services initially planned for u-city projects in Korea, only 18 belong to commercial u-services; while out of 199 u-services that are being developed, 58 belong to commercial u-services.

### ***User Information and revenue sharing among providers***

In an integrated model of u-services, users can immediately and simultaneously access different u-services, suggesting the following three cases: multiple u-services provided by a single u-service provider, multiple services provided by multiple u-service providers, and multiple u-services provided by a u-service provider(s) and traditional service provider(s). Nonetheless, sharing of information and revenues will be crucial in each case. Users need to allow the usage of their information for each type of u-service and pay for fees accordingly. In addition, several types of organizations will be involved in delivering value to users due to the newness and differing technology requirements of u-services. For example, u-health providers will rely on u-home providers to monitor the health condition of users at home daily; u-home will rely on u-safety to patrol houses and protect residents' safety; u-shopping providers will rely on u-wallet providers to manage and secure payments of their shoppers. As announced by Cisco's chief globalization officer, Wim Elfrink, Cisco will integrate six or seven out of 20 services that it has identified in Songdo through a city-wide video networking technology and energy management software tools, linking education, health care, transportation and hospitality into a common network (Woyke, 2009).

Accordingly, companies must derive new business models to share in the value delivered and captured through u-services. A critical issue is the distribution of revenues.



Two revenue sharing business models that have emerged in the telecommunications industry are known as the walled garden model and open access model (Chakravarty & Werner, 2011). In the walled garden model, an operator owns the portal and controls all purchase transactions, where the service provider pays a fee to the operator and customers pay to the service providers for the service purchased; or the operator shares a part of all customer payments with the service providers. Portals run by Apple, Telia, and Vodafone are examples of the walled garden model. On the other hand, an open access model allows subscribers of mobile phone services to purchase services from independently owned portals such as Amazon and ViaMichelin. Whether and how these models can be adopted for delivering integrated u-services need to be examined. Indeed, how citizens should pay for new smart, ubiquitous services is still an ongoing issue that is yet to be resolved (J. Lee & Lee, 2014).

## **Conclusion**

This paper aims to identify the features and challenges of developing u-services. Both public and commercial u-services share the features such as the use of u-infrastructures, public-private partnerships, access to private/personal information and value proposition, while the features such as revenue generation and user information and revenue sharing are specific to commercial u-services. Commercial u-services can therefore attract more service providers to share the risk and cost of developing u-infrastructure with the public sector. The increased complexity of commercial u-services should not be underestimated. The development of both public and commercial u-services requires new business models and regulatory systems that will foster business relationships between the public and private sectors. In further developing and diffusing u-services, we suggest the following:

1. There is a need for creating a flexible u-infrastructure or u-service platform to attract more service providers and participation from the private sector, particularly SMEs.
2. Both policy makers and managers should actively consider the resources and processes needed for relationship management from partner selection to incentive provision.
3. There is a need to for city brand management in order to develop an understanding of the value of u-cities and u-services, and to align efforts to a more effective communication of this value to other stakeholders.
4. There is a need to shift from a public, single-service mind-set to a portfolio of integrated public and commercial u-services, which requires a new business model.

5. Sharing user information is important to leverage the value of integrated u-services. There is a need for policies that responsibly manage private information while maintaining openness for u-service deployment.

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## **Project Management of Oil and Gas Project in Malaysia**

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### **Abstract**

The oil and gas (O&G) industry contributes to the Malaysian economy as one of the most important sectors by taking advantage of having the most demanding, challenging, and exciting engineering and technological advances that interests engineers at large. Hence, the adoption of project management skill and knowledge in an O&G project is essential in preventing various high-profile problems of cost and time overruns, huge numbers of variation order, poor workmanship and quality and delay, which will eventually lead to an additional cost incurred and loss of business opportunity to the client, as well as failed the O&G facilities project as a whole. Through literature review, this paper aims to appraise the project management practices implemented in O&G projects in Malaysia. The objective is to identify the current state of the O&G industry in Malaysia and determine the fundamentals of O&G facilities. This paper finds that a good project management practice in O&G projects consist of eight phases blending all the ten knowledge areas of project management: conceptual design, front end engineering design, procurement of long lead equipment, detailed design, construction/fabrication, onshore pre-commissioning, transportation/installation as well as hook up and commissioning prior to handover to the end user.

### **Introduction**

Due to its unique requirement, the oil and gas (O&G) industry in Malaysia has developed project management standards and practices almost on par with the high standard of requirements of developed countries such as the United States of America (USA) and the United Kingdom (UK). With the existence of various project management standards and practices within the O&G industry, as well as a larger demand for gas and new technologies which has make the O&G industry become financially attractive, the O&G project industry has become the focus of many studies around the globe, for instance Yahaya *et. al* (2014) who investigated the relational study of supply chain agility, competitiveness and business performance in the oil and gas industry; Patricia (2011) who identified the economics, execution and management of complex offshore projects; and Martin (1998) who determined the list of criteria for success in O&G industry.

Therefore, there is a significant need to appraise the necessary factors that are required in the management of O&G projects in Malaysia, while at the same time are capable of driving an O&G project toward success. These critical factors, integrating with the project management of various stakeholders throughout the multi-disciplinary project cycle will be able to properly manage projects in the O&G industry.

### **Methods**

In achieving the aforementioned aim and objectives, this paper adopts two research methods of quantitative non-experimental study: (1) problem formulation; and (2) theoretical review for secondary data collection purposes. The study problem identified entails the project management in the oil and gas industry in Malaysia in terms of its current application. Before the problem is formulated, relevant literature review is carried out in identifying the research gap to ensure the originality of this paper. Subsequently, area of studies and scope of research are determined via the availability of resources and information.

On the other hand, the review of project management in the O&G industry in Malaysia is performed to gain insight on the matter, where a better understanding of problems obstructing the management of O&G projects is obtained via detailed literature surveys. This review significantly covers the area of critical success factors of O&G project management as a mode of improving the O&G project as a whole. This provides significant foundation for primary data collection as well as for research validity and internal validity.

### **Discussion**

Oil in Malaysia was first discovered in 1909 in Sarawak, where the first production was undertaken in 1910 (Razmahwata, 2005) by Royal Dutch Shell (Wikipedia, 2012). The evolution of Malaysian oil and gas (O&G) industry initiated during the uprising by the minority peoples of Chinese and Indian descent in 1969 (Mohammed *et. al*, 2000). This uprising has embarked the set-up of the New Economic Policy (NEP) in the 1970s where the countries natural resources, especially the O&G were grabbed up by the government through its public company: Petroliam Nasional Berhad (PETRONAS). Since its initial set up in 1974, PETRONAS has managed to build up assets worth RM 339 Billion, obtained a total profit of RM 677 Billion, and at the same time returning back the investment to the government totalling RM 403 Billion (PETRONAS, 2008).

Since then, petroleum has been an important energy to Malaysia's economic growth (Peter Chin, 2011) via the active exploitation of oil and gas (O&G). Hence, the government has initiated many plans to increase the O&G resources by stepping up O&G exploration and enhancing production from known reserves (Malaysia Prime Minister Office, 2011). Despite having the Renewable Energy Act on practice, the government has also targeted O&G industry as one of the National Key Economic

Areas (NKEA) with the aims of creating business opportunities, delivering higher Gross National Income (GNI) and creating highly-skilled and qualified professionals. All of these endeavours are perceived by this paper as a part of Malaysian Vision 2020 achievement of being a world-class industry acknowledged by all the industrial players around the globe.

Therefore, it is important that the industry players also take part in the effort in ensuring the success implementation of the outlined government's plans since any failure of just one mega project can potentially wipe out the annual profit of an O&G conglomerate (Eweje, 2012). The adoption of the ten knowledge areas of project management is seen by this paper as one of the many effective actions that shall be undertaken by the O&G industry players towards achieving this agenda.

Before discussion on the project management of O&G project in Malaysia is taken place, it is essential to shed on light behind the fundamental facilities used within the O&G industry. Hence, it is noteworthy to highlight that O&G industry is separated into upstream and downstream, which eventually stood as the specific categories for the fundamental O&G facilities.

For upstream O&G facilities, Pinder (2001) claims that upstream exploration started with mobile drilling rigs used to develop exploration and production wells in various locations. Another option is to utilize Floating, Production, Storage and Offloading (FPSO) that is potentially to be utilized with various options for O&G production located at remote area, namely Liquid Natural Gas, Compressed Natural Gas, Gas to Liquid and Gas to Wire (Alvarado and Wagner, 2002). As for the downstream application, the O&G facilities can be classified into five categories: (1) Onshore Gas Processing Plant; (2) Onshore Gas Compressor Station; (3) Onshore Oil Refinery; (4) Onshore Liquid Natural Gas (LNG) Plant; and (5) Utilities Plant.

The general fundamental facilities used in O&G industry are essential to be known before deliberation on the project management parts of O&G project is carried out in ensuring that the effective and efficient adoption of project management in the O&G projects in Malaysia could be materialised. Project management is defined by Eduardo and Sergio (2010) as a combination between science which follows a systematized process and art which requires creativity to convert human ideas into actual realities. On the other hand, as defined by Project Management Institute (2013), project management is the application of knowledge, skills, tools and techniques to project activities to meet project requirement.

Hence, by focusing on the project management of O&G industry that is generally synonymous with the megaprojects, the discussion of the project management process in O&G project with particular reference to Project Management Book of Knowledge

(PMBOK) 5<sup>th</sup> Edition of Project Management Institute (2013) is apparently paramount to establish the project management practices in the O&G projects in Malaysia.

According to Oeystein and Dagfinn (1998), a complicated and complex offshore platform design needs to be fit for purpose. Project Management Institute (2013) has also described the typical example of Predictive Life Cycle for a project which proceeds through a sequence or overlapping phases that focuses on a subset of project activities, as shown in Figure 1.

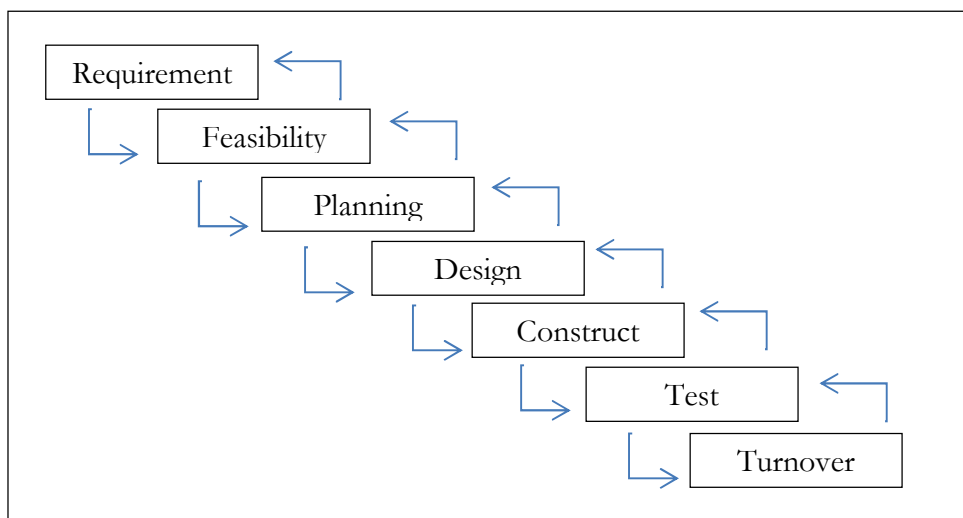


Figure 1: Predictive life cycle  
Source: Project Management Institute (2013)

In the O&G project execution, a systematic for project management is also developed with the aim to improve the decision making process and overall project execution. According to Asrilhant (2005), the systematic consists of sets of guideline and requirement such as (1) focus on value adding opportunity; (2) integration of multi-functional; (3) promote alignment and communication among decision makers, stakeholders and project management team; as well as (4) consistently utilize best practices, tools and procedures.

Figure 2 shows the systematic project management phases as adopted by O&G projects. It consists of five main phases, mainly (1) appraisal; (2) selection and definition, which are both associated with (3) planning phase; as well as (4) execution and first year operation which are associated with (5) control phase (Asrilhant, 2005 and Ibsen *et.al*, 2007).



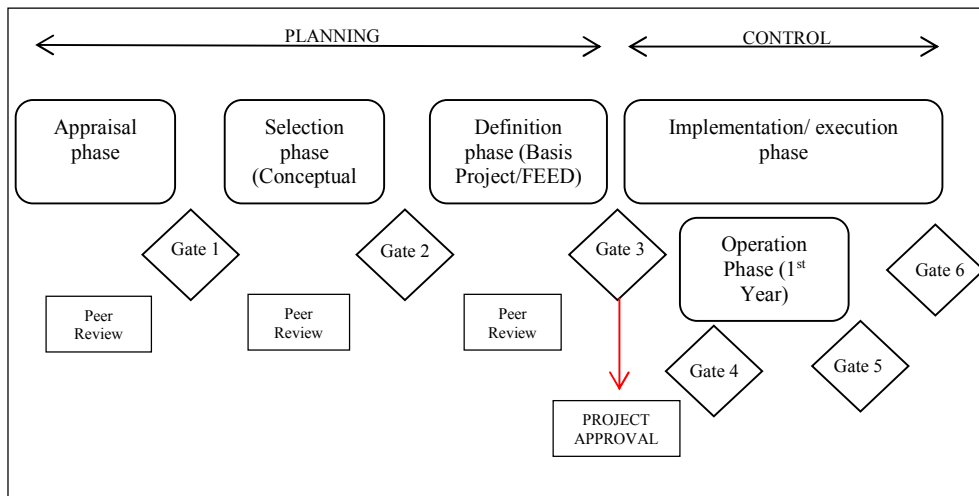


Figure 2: Oil and gas systematic project management phases

Source: Asrilhant (2005) and Ibsen *et.al* (2007)

Gordon (2013) also recognizes that insufficient effort at the beginning of the project, especially during Front End Loading (FEL), will result in unclear project goals and lack of project definition, which might lead to a project failure. For instance, the application of Stage Gate Project Management Process (SGPMP), which was originally introduced in North America in the 1980's is a respond towards improving the project development time and introduction of new products into the market (Cooper *et.al*, 1998). Nowadays, the methodology has been adapted by many oil and gas (O&G) companies worldwide, with the aim to improvise the decision making process in Project and Portfolio Management by increasing the project deliverables quality and assisting to manage the level of uncertainties (Eduardo *et.al*, 2010).

According to Eduardo and Sergio (2010), Walkup and Ligon (2006) and Mishar (2012), similar methodologies to SGPMP are embraced by most of the world class O&G companies to manage and control their projects. The SGPMP in O&G industries is generally divided into four or five successive stages, where the first three stages are grouped into the Front End Loading (FEL) (Eduardo and Sergio, 2010). Figure 3 shows the General Project Life Cycle, Front End Loading and the Milestone Gate function.

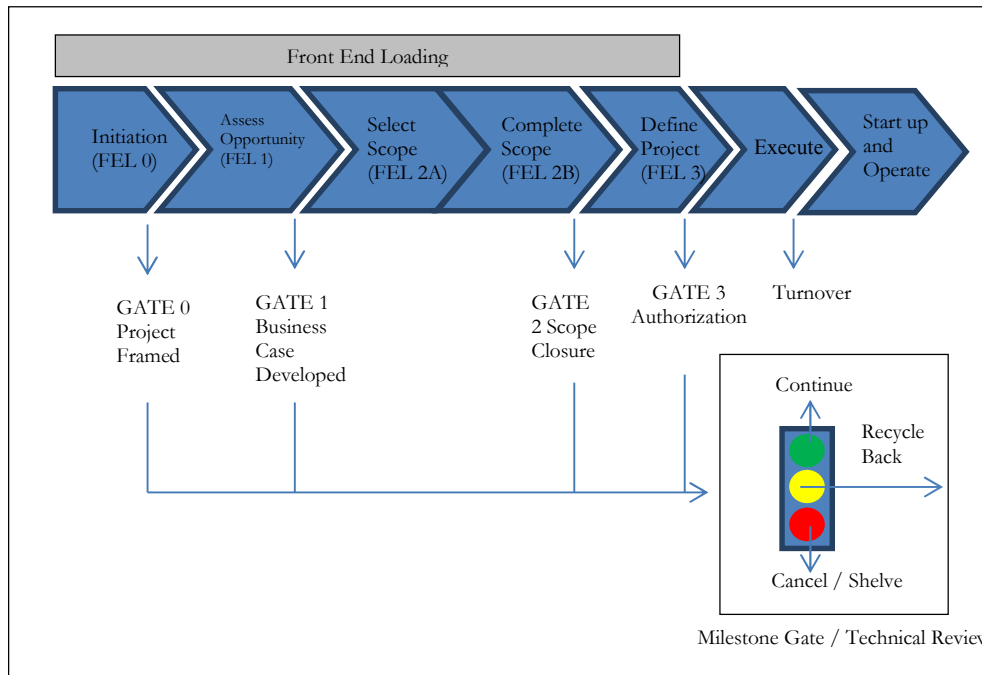


Figure 3: General project life cycle, front end loading and the milestone gate function

Source: Mishar (2012)

In exploring the varieties of O&G project execution, Will and Stewart (1991) state that the process might vary between organizations, but the actual process are quite similar in nature. Five phases has been identified, namely (1) conceptual; (2) feasibility; (3) detailed design; (4) material procurement; and (5) construction/start up. While in terms of project execution approach, Alvarado and Wagner (2002) also identify the project stages as (1) engineering; (2) material management/logistics; (3) fabrication, integration; (4) installation and hook up; (5) transportation; (6) commissioning and start up; and finally (7) operation and maintenance. Besides, as described by Eweje *et. al* (2012), most O&G corporations are also following the typical project realization process as described in Figure 4.

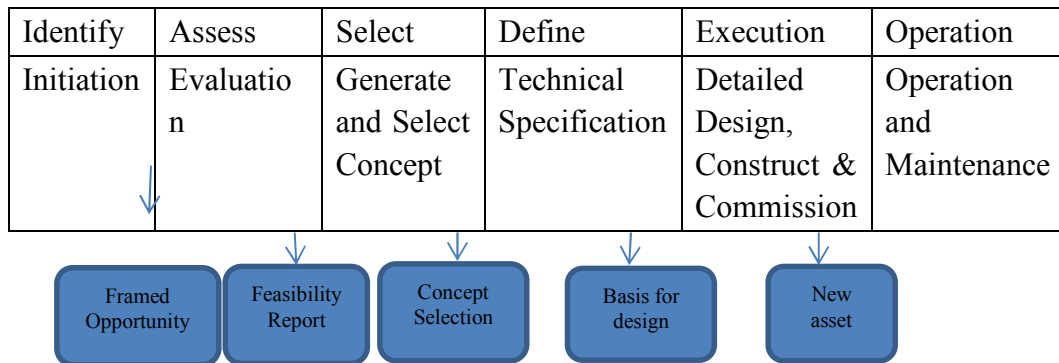


Figure 4: Typical project realization process in the oil and gas industry

Source: Eweje *et. al* (2012)

In order to execute an O&G project, a Project Management Team (PMT) will be set up in managing each stage of the development. As explained by Harris and Abd Rahman (2014), the typical development stages are indicated as: (1) conceptual design; (2) Front End Engineering Design (FEED); (3) procurement of long lead equipment; (4) detailed design; (5) construction/fabrication; (6) onshore pre-commissioning; (7) transportation/installation (applicable for offshore platforms); and (8) hook up and commissioning prior to handover to end user, which are deliberately explained in the following sub-sections.

### 1. Conceptual Design

According to Prates *et. al* (2013), the conceptual design or feasibility study is the initial but critical step to evaluate the project potential whether it can be a success or not. Since the feasibility study is a very important to support the decision making process, especially in front end loading (FEL), it is very critical to ensure that the objectivity and credibility are supported by sound facts and research (Prates *et. al*, 2013).

### 2. Front End Engineering Design (FEED)

The next step is to proceed with Front End Engineering Design (FEED). The main purpose of FEED is to develop more detailed scope of the chosen development concept, strategize the overall project execution plan and provide a more refined cost estimation for the selected development concept.

### 3. Procurement of Long Lead Equipment

Long lead equipment is referring to the critical equipment which requires long delivery (usually more than one year), and falls under critical path in the overall project schedule. As suggested by Phalen and Scotti (2008), early procurement strategy can be one of the key strategic functions in addressing the market constraint that supports the overall

project execution by identifying the long lead materials and equipment during the design phase. It is also noted by Harris and Abd. Rahman (2014) that the utilization of Long Term Frame Agreement to supply critical equipment is identified as a characteristic of successful projects.

#### **4. Detailed Design**

Detailed design phase is carried out once the project has been sanctioned to proceed for actual development, where the deliverables from conceptual and Front End Engineering Design (FEED) phases will be expanded further for detailed engineering. Oeystein and Dagfinn (1998) also highlight the important of conducting the Material Handling Review. Material handling report will be utilized as the basis for the Material Handling Review, and it will also be assisted by drawings and 3D review model.

#### **5. Construction/Fabrication**

Once the drawings have reached the Approved For Construction (AFC) level, it is now a suitable time to proceed with the platform construction phase, where the actual platform is being built and fabricated at a suitable onshore fabrication yard.

#### **6. Onshore Pre-Commissioning**

For onshore pre-commissioning works, the critical activities involved are: (1) lube oil flushing; (2) hook up of shiploosed instruments; (3) Unit Control Panel (UCP) power up; (4) motor start up test from Motor Control Centre (MCC); and (5) Gas Turbine Dry Crank test.

#### **7. Transportation/Installation (Applicable for Offshore Platforms)**

Once the platform fabrication has been completed at the fabrication yard, the platform needs to be transported to the offshore location by using a barge or installation barge. Once it has reached the site, the platform installation will be conducted accordingly via an installation barge.

#### **8. Hook Up and Commissioning prior to Handover to End User**

The hook up activities is referring to the shiploosed items which could not be installed due to safety reason and to avoid damages during the transportation of the platform from the fabrication yard to offshore. Due to the ever increasing growth in the industry, Phalen and Scotti (2008) have identified few common problems during the hook up and commissioning stage, namely: (1) acute shortage in the human resources in engineering and managing the oil and gas facilities; (2) rising cost for the base material and essential materials; (3) capacity constraint in equipment and material manufacturing; as well as (4) declining pool of skilled construction labour.

## **Conclusion**

Oil and gas (O&G) industry in Malaysia plays a very important part as the nation building, especially due to contribution of RM 655 Billion to the country as of 2008. In the O&G project execution, a systematic project management is also developed with the aim to improve the decision making process and overall project execution. Typical systematic development stages are indicated as: (1) conceptual design; (2) Front End Engineering Design (FEED); (3) procurement of long lead equipment; (4) detailed design; (5) construction/fabrication; (6) onshore pre-commissioning; (7) transportation/installation (applicable for offshore platforms); and (8) hook up and commissioning prior to handover to end user.

Hence, this paper has successfully achieved its aim of appraising the project management practices implemented in O&G project in Malaysia via its objectives of identifying the current state of O&G industry in Malaysia and determining the fundamental O&G facilities. The findings of this paper are expected to assist the O&G industry player to effectively and efficiently play their roles in ensuring the better performance of the O&G industry via successfully proven project management practices implemented by O&G projects in Malaysia.

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## **The Development of Global Logistics in East Asia**

### **A Case Study on Maritime Transportation**

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#### **Abstract**

Benefiting from a peaceful environment and economic assistance from Japan, East Asia has enjoyed a dynamic economic evolution at a continuously high speed compared with the other regions of the world since the 1980s. More than ever before, the rapid economic growth brought the increasing demand of international trade in East Asia. Blessed by the geographical advantages of the region, international shipping in terms of container volumes and amount, of five countries and regions in East Asia, including Japan, China, Taiwan, Hong Kong and Korea (herein after referred to as FEA) has ever been soaring and the ocean shipping has become the main stream of transportation in the region.

Under these circumstances, the container ports in East Asia have been playing pivotal roles in accommodating the ever increasing export/import cargoes in the region in terms of new ports development and expansion, especially focusing on port infrastructures and facilities in order to enhance the port competitiveness during the same period.

On the other hand, the increasing of container transportation brought the reform of global shipping market, as the international shipping conferences collapsed and the rise of global alliances since the middle of the 1990s, the shipping lines in the region have been aggressive in forming the shipping alliances with other overseas shipping lines in order to gain a slice of the big pie that is the shipping market as well as remapping the world shipping industries.

#### **Introduction**

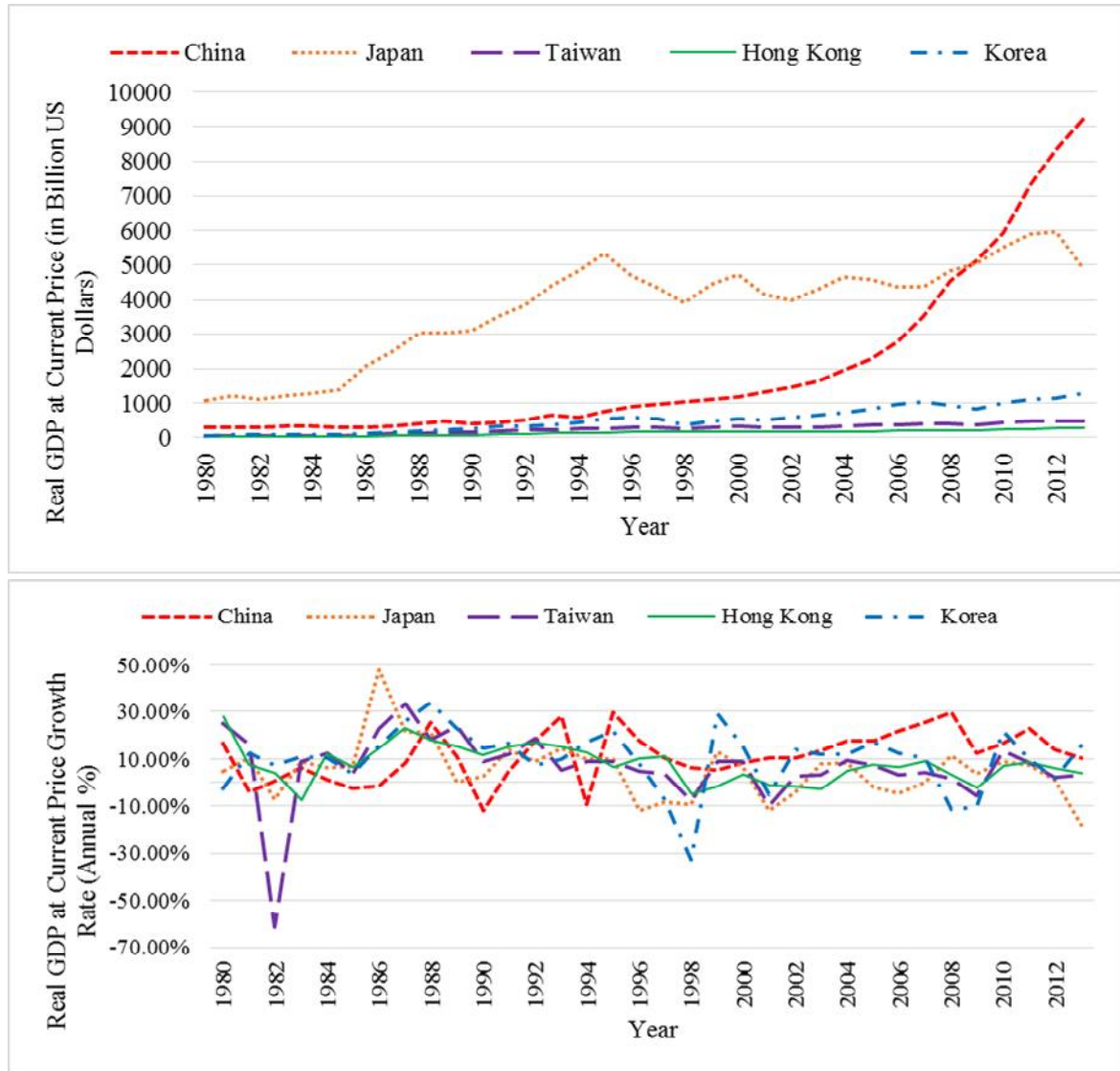
Academically, the study on global logistics of East Asia focuses on Japan, China, Asian NIEs (Taiwan, Korea, Hong Kong and Singapore) and ASEAN4 (Philippines, Malaysia, Thailand and Indonesia) (Wang, 2001).

Benefiting from a stable political situation since the end of the 1970s, five main countries and regions in East Asia (hereinafter referred to as FEA, which includes Japan, China, Hong Kong, Taiwan and Korea) have enjoyed dynamic economic growth with a continuously high speed compared with other areas of the world since the 1980s. The real GDP growth rates reflect the economic development of FEA members from 1980 to 2013. As can be realized from Figure 1 that the average annual



real GDP growth rates of Japan, China, Taiwan, Hong Kong and Korea demonstrated 5.30%, 11.54%, 6.72%, 7.91% and 9.99% respectively.

**Figure 1 Real GDP and Growth Rate of FEA (1980-2013)**



Source: Created by the author based on the data of Real GDP growth rates, total and per capita, annual, 1970-2013, *United Nations Conference on Trade and Development*.

The new development era since 1980 in East Asia offers more opportunities to the rise of international shipping in the region. Based on such a background, it is necessary to study the factors that may influence international shipping in the past 30 years in order to make a better understanding on the international shipping development in the region.

**The Rise of Container Tonnage in East Asia**

**The Background of Drastic Economic Development in East Asia**

The economic prosperity in FEA can be seen from three specific issues. First, China was granted the Official Development Assistance (ODA) from Japan to support its Open and Reform Policy in 1979. Japan offered 330.9 billion Japanese Yen (approximately 1.5 billion US dollars) with low interest loans for the first stage (1979-1984). By the end of 2011, the gross loans reached to 3,316 billion Yen (approximately 30 billion US dollars). The loans supported almost all Chinese large-scale development plans from 1979, especially in the soaring period of Chinese economic development in the 1980s and the 1990s.

Secondly, as the result of the “Plaza Accord” held in September 1985 among Japan, United States, United Kingdom, Federal Republic of Germany and France, Japanese Yen appreciated drastically against US dollar since then, which largely reduced the cost in production overseas and became an opportunity for the overseas expansion of Japanese enterprises.

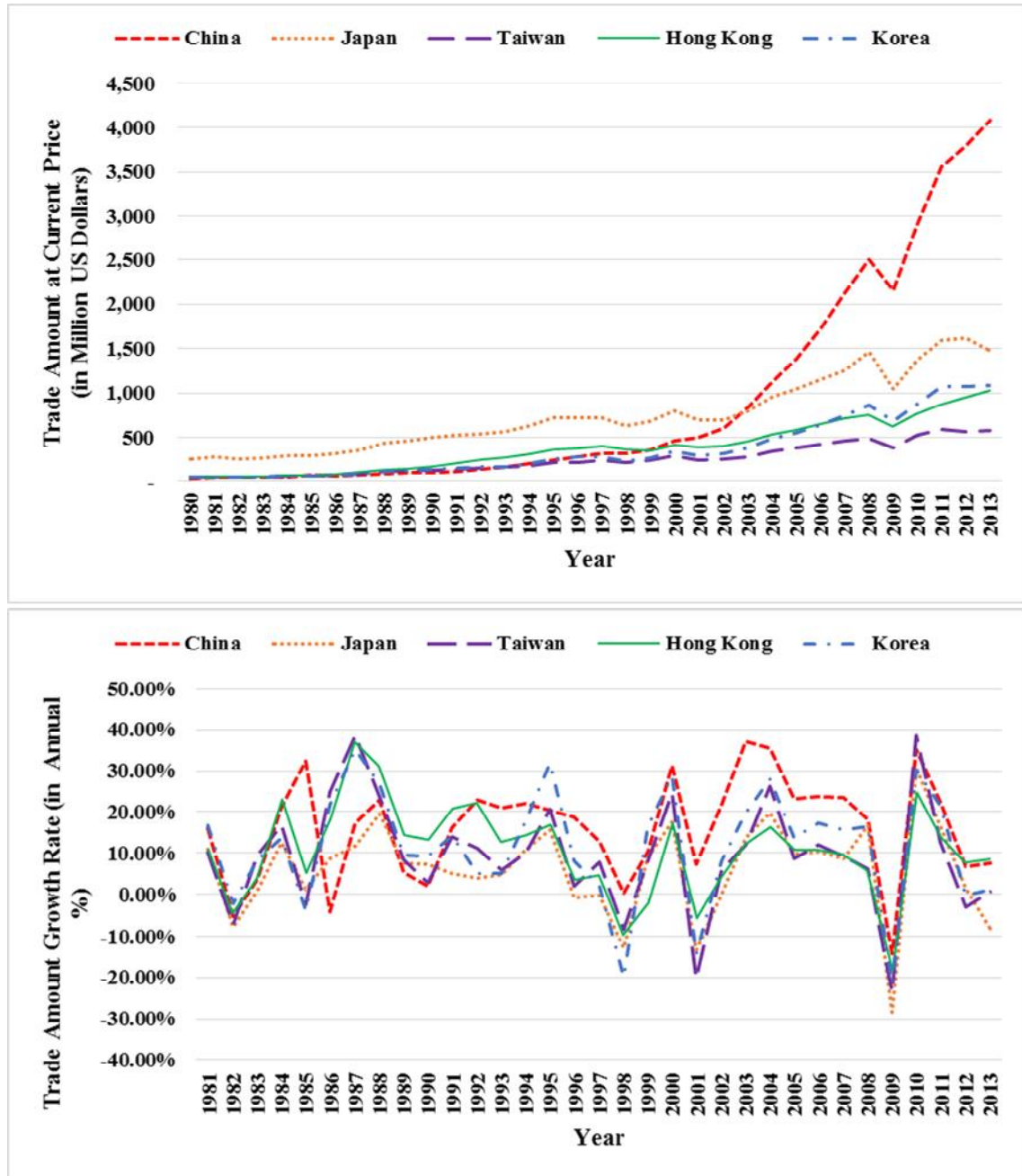
The third causation of economic development in East Asia was the Foreign Direct Investment (FDI) from Japan into the region, which has brought “Win-Win” benefits for both sides since the end of the 1970s. By the end of 2004, the FDI in China and Asian NIEs has totaled US\$ 31,847 and 56,332 million. Because of the success of FDI, Japanese corporations have been able to reduce the production cost largely. Blessed by the FDI, the manufacturing industries and shipping market have been developed in the region as well, which generates a huge opportunity for the labor force.

### **1.1 The Surge of International Trade in East Asia**

The drastic economic development of FEA brought an unprecedented expansion and prosperity to the international trade. On the other hand, because of the increasing demand of both the horizontal and vertical division of labor in the region, it has driven the move of container tonnages drastically during the past three decades. Consequently, the international trade in East Asia grew enormously, thereby generating a remarkable record of high and sustained growth. In the period between 1981 and 2012, the annual average trade growth rate of Japan, China, Taiwan, Hong Kong and Korea demonstrated 6.61%, 16.50%, 9.57%, 10.77% and 7.14% respectively. The average of the annual trade growth rate of FEA in the period was 10.32% compared with 7.15% in United States and 7.47% in the world (see Figure 2). During the past 30 years (1980-2012), the weight of FEA in the world trade amount rose from 10.46% to 22.31%, accounting for more than one fifth of the world’s trade amount in 2012. The weight of China in the world’s trade amount rose from 0.92% to 10.48%, accounting for one tenth of the world’s container tonnage in 2012. In comparison, Hong Kong rose from 1.05% to 2.83% (3.55% in 1995), Korea rose from 0.96% to 2.89% and Taiwan rose from 0.96% to 1.55% (2.33% in 2000), meanwhile, Japan declined from 6.57% to 4.56% (7.71% in 1985) in the same period (see Table 1). Obviously, the international trade in China contributed largely to the substantial growth of trade amount in FEA. From the phenomenal change, it is clear that the

center of international trade in FEA has been shifting from Japan to China from 2005 and the international trade amount of China was catching up with that of United States during the recent years, meanwhile, East Asia became the new international trade center in the world.

**Figure 2 Annual Trade and Growth Rate of FEA (1981-2012)**



Source: Created by the author based on the data of Exports and imports of goods and services, annual, 1980-2012, *United Nations Conference on Trade and Development*.

**Table 1 The Weight of FEA compared with United States in the World Trade Amount (1980-2012) (in Million US Dollars)**

Country/Region	1980	1990	2000	2010	2012	2012/1980
Japan	271,737	522,948	858,806	1,463,899	1,684,411	6.20
% of the world	6.57%	7.36%	6.55%	4.77%	4.56%	0.69
China	38,041	115,436	474,227	2,974,001	3,867,119	101.66
% of the world	0.92%	1.63%	3.62%	9.69%	10.48%	11.39
Taiwan	39,596	122,027	291,999	525,837	571,654	14.44
% of the world	0.96%	1.72%	2.23%	1.71%	1.55%	1.62
Hong Kong	43,317	167,115	416,725	842,061	1,046,394	24.16
% of the world	1.05%	2.35%	3.18%	2.74%	2.83%	2.71
Korea	39,804	134,860	332,749	891,596	1,067,454	26.82
% of the world	0.96%	1.90%	2.54%	2.90%	2.89%	3.00
FEA	432,495	1,062,386	2,374,506	6,697,394	8,237,032	19.05
% of the world	10.46%	14.96%	18.12%	21.82%	22.31%	2.13
United States	482,551	910,579	2,041,218	3,247,679	3,881,245	8.04
% of the world	11.67%	12.82%	15.57%	10.58%	10.51%	0.90
world	4,135,346	7,103,015	13,105,789	30,697,785	36,914,679	8.93

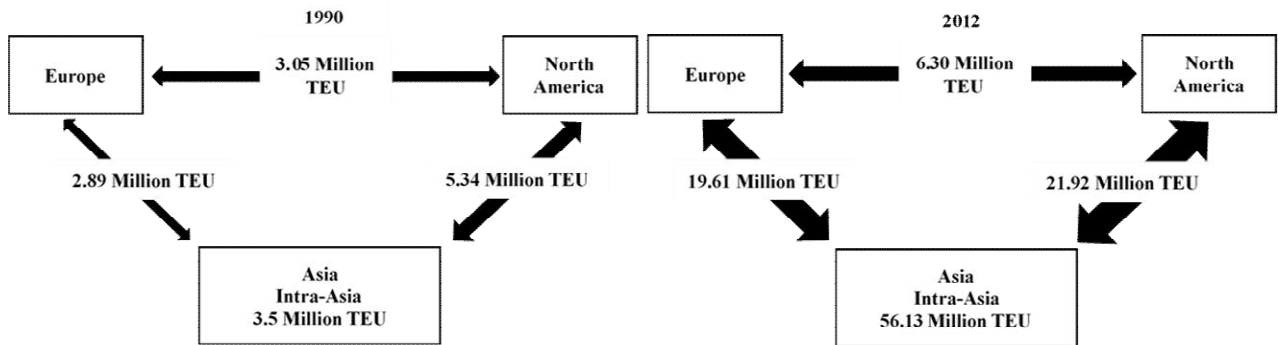
Source: Created by the author based on the data of Exports and imports of goods and services, annual, 1980-2012, *United Nations Conference on Trade and Development*.

### The Weight of FEA in Global Container Tonnage

With the booming international trade in East Asia, the container tonnage calculated by 20-foot-equivalent units (TEU) has been increasing since the 1980s. The global container transportation focuses on three international trade lanes: Transpacific trade lane (between Asia to East and West Coast of North America), Asia-Europe Trade Lane and Intra-Asia trade lane.

The container tonnage of Transpacific trade lane was up to 21.92 million TEU in 2011, which increased by 3.10 folds compared with 5.34 million TEU in 1990. Asia-Europe Trade Lane demonstrated 19.61 million TEU in 2012, which increased by 5.79 folds compared with that of in 1990. Intra-Asia trade lane recorded 3.5 million TEU in 1990 and 56.13 million TEU in 2012; the volume increased by 15.04 folds in 22 years. Compare with the trade volume between North America and Europe, which was from 3.05 million TEU in 1990 to 6.30 million TEU in 2012 (107% increase), the container tonnage between Asia and both of Europe and North America, and Intra-Asia Lane enjoyed a remarkable growth in the same period (see Figure 3).

**Figure 3 Growth of Asian Trade Lanes in the World Container Transportation (1990-2012)**



Source: Created by the author based on the data of *Report of Japan Maritime (1997)* and *Maritime Report (2014)*.

Table 2 shows the container throughput of FEA members and their weight in comparison with the United States and world's total container traffic from 1980 to 2010. As is evident from the table, during the past three decades (1980-2010), the weight of FEA in the world's container throughput rose from 19.52% to 39.31%, accounting for almost two fifth of the world's container throughput in 2010. It is surprising to find that during the 30 years, the weight of China in the world's container throughput rose from 0.15% to 24.85%, accounting for one fifth of the world's container tonnage in 2010. In comparison, Hong Kong rose from 3.94% to 4.70% (9.14% in 1995) and Korea rose from 1.81% to 3.76% (3.90% in 2000), meanwhile, Japan declined from 9.19% to 3.52% (9.87% in 1985) and Taiwan declined from 4.42% to 2.48% (6.37% in 1990) in the same period. Evidently, the hub ports in China contributed largely to the substantial growth of container traffic tonnage in FEA. From the phenomenal change, it is clear that the center of global container traffic has been shifting from Japan and Taiwan to China and the center of container transportation moved from United States to China in 2005 (see Table 2).

From the analysis of economy and international trade development in East Asia, it is clear that the trade amount is an important factor to the container throughput during the past 30 years for each FEA member except Taiwan. Though the container throughput of Taiwan in the world rank was between 3 and 10 from 1980-2010, the trade amount of Taiwan is much less than that of the other FEA members.

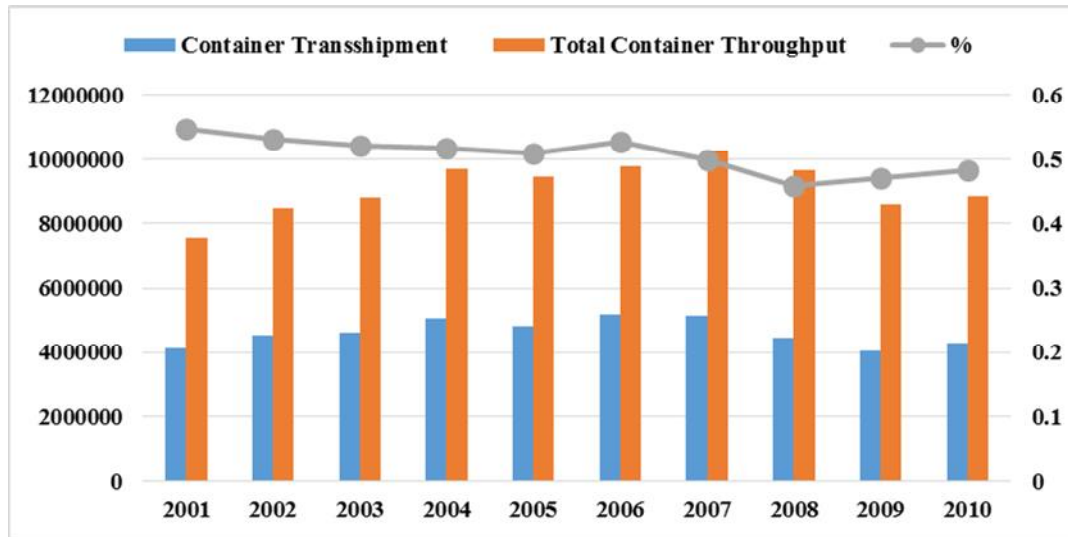
The reason is that Taiwan has been playing a crucial role as a container entrepôt for transhipped cargoes from Southeast Asia and North America which account for high weight of the total container throughput. For example, the average transhipped cargoes account for 50.67 % of the total container throughput of Kaohsiung Port from 2001 to 2010 (see Figure 4). However, as these transhipped containerized cargoes don't originate from Taiwan, so statistically, those cargoes are not listed as export/import cargoes from/to Kaohsiung Port in terms of international trade.

**Table 2 The Weight of FEA compared with United States in the World Total Container Throughput (1980-2010) (Unit: TEU)**

Country/Region	1980	1990	2000	2010	2010/1980
Japan	3,417,118	7,955,705	13,129,864	17,726,645	5.19
% of the world	9.19%	9.29%	5.67%	3.52%	0.38
China	54,038	1,203,851	22,884,361	125,103,189	2,315.10
% of the world	0.15%	1.41%	9.88%	24.85%	165.67
Taiwan	1,644,322	5,450,913	10,510,762	12,501,059	7.60
% of the world	4.42%	6.37%	4.54%	2.48%	0.56
Hong Kong	1,464,961	5,100,537	18,100,000	23,669,442	16.16
% of the world	3.94%	5.96%	7.81%	4.70%	1.19
Korea	672,380	2,348,475	9,030,174	18,947,427	28.18
% of the world	1.81%	2.74%	3.90%	3.76%	2.08
FEA	7,252,819	22,059,481	73,655,161	197,947,762	27.29
% of the world	19.52%	25.77%	31.79%	39.31%	2.01
United States	8,566,838	15,244,585	27,315,136	35,601,582	4.16
% of the world	23.05%	17.81%	11.79%	7.07%	0.31
world	37,163,242	85,596,903	231,689,448	503,512,074	13.55

Source: Created by the author based on the data of Port Traffic League, *Containerisation International Yearbook (1982-2012)*, Container Port Ranking 1970-2000, *China Port Yearbook (2001)*.

**Figure 4 The Weight of Transshipped Cargoes in the Total Container Throughput of Kaohsiung Port(2001-2010)**



Source: Created by the author based on the data of Port of Kaohsiung, Taiwan International Ports Corporation, Ltd.

**The Development of Container Hub Ports in FEA**

**The Importance of Container Hub Ports in FEA**

Ports, the nodes of global logistics, are defined as an important component of global value chains (Robinson, 2002). The hub ports in East Asia have been recast since the mid-the 1980s as major global trading centers (Rimmer, 1999). Hub ports facilitate the cargos from global shipping centers to smaller regional hubs and distribution networks. The railways, roads and pipelines function as arteries to the ports where ocean cargoes are loaded and unloaded. Nowadays, the representative hub ports are Shanghai, Hong Kong and Shenzhen in East Asia.

In the early 1970s, Japan consolidated its economic and trade position, spurning the shipping services to expand substantially. By contrast, it has been the emergence of East Asia, particularly Hong Kong and Korea from the 1980s and China from 2000 to the present and the rapid economic growth in the region that underlie containerization and the development of container handling capacity in the regional ports. As mentioned above, the rapid and sustained growth of international trade and cargo tonnage in East Asia can be attributed to the boom of the investments from Japan of as well as the global shipping alliances in East Asia emerged as exceptional generators of container traffic over the past two decades.

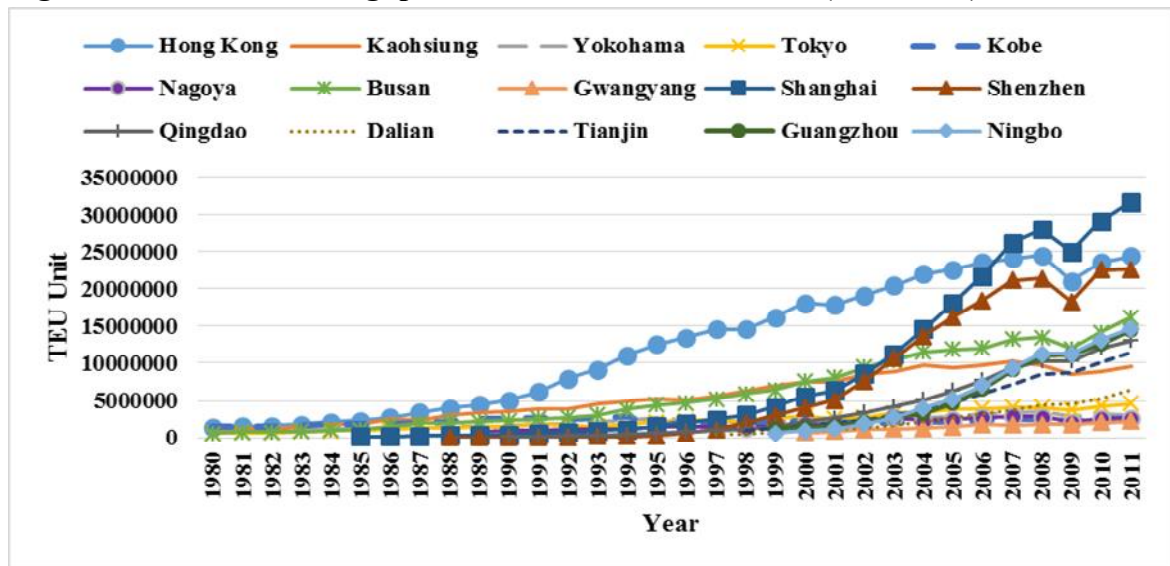
The centers of container shipping in East Asia were mainly concentrated on Japan, Hong Kong Taiwan and Korea before 2000. Triggered by the rapid economic growth after 2000, the cargo tonnage has risen steeply, generating a large concentration of container tonnage in China. Consequently, some ports in China have become the main hub ports for the region. At the same time, though affected by the rise of main ports in

China, the container throughput of the main ports in Taiwan and Korea are still keeping a steady increase (see Figure 5).

As a consequence, the main ports in the region, such as Port of Shanghai, Hong Kong, Busan, Tokyo and Kaohsiung become the shipping hubs in terms of marine transportation. Nowadays, the container throughput of those hub ports is still keeping a steady increase. By the end of 2011, twenty seven container hub ports in FEA were listed in the World Top 100 Ranking while seven of them were ranked in top 10. The total throughput of the twenty seven hub ports reached to 195.13 million TEU in 2010, accounting for 38.75% out of the world’s container throughput. In 1994 Hong Kong Port became the first 10-million TEU throughput hub port all over the world, and, of the eight 10-million TEU throughput hub ports in the region in the year of 2011, six were Chinese hub ports.

Special attention should be paid to the rise of container hub ports in China. In 1995 there were only four Chinese ports, Shanghai, Tianjin, Qingdao and Xiamen, were listed in World Top 100 Container Port. By the end of 2011, 15 Chinese ports were listed in the ranking and 8 out of them were at top 20. The ports distribute from North-eastern to Southern China, from Dalian to Shenzhen. The development of Chinese container hub ports is largely due to their excellent geographic location, natural deep-water advantages and the rapid economic growth of economy in East China.

**Figure 5 Container Throughput of Main Ports in East Asia (1980-2011)**



Source: Created by the author based on the data of Port Traffic League, *Containerisation International Yearbook (1982-2012)*, *Container Port Ranking 1970-2000*, *China Port Yearbook (2001)*.



### **Port of Shanghai**

Among Chinese hub ports, Shanghai Port obtains the maximum benefit from Chinese exports that have moved into high gear to supply the needs of swelling world trade as well as the huge expansion in trade to the East and West Coast of North America.

Container throughput at Port of Shanghai was up to 26.15 million TEUs in 2006, placing Shanghai Port the first in the world ranking. Despite growing concerns that operational capacity is being squeezed, with the development of the new deep-water port area—Yangshan Port, Shanghai continues to occupy the lofty perch way at the head of the hub ports all over the world.

### **Port of Hong Kong**

The port of Hong Kong, as a key node in global logistics network, dominates the central cluster and its continuing high growth reflects the rapid economic development in southern China as well as its central position and significance.

Given its friendly environment and excellent infrastructures, the port is not only blessed with its unique geographical location bearing mainland China as its hinterland, but also plays a vital role as the entrepôt for container transshipment for both Asia-North America and Asia-Europe lanes. Additionally, the port provides the feeder services for the export and import cargos between inland of China and the adjacent Pearl River Delta. For those reasons, the port has been one of the leading container ports in the world for many years.

### **Port of Busan**

The Port of Busan is located at the south-eastern Korean peninsula facing the Korea Strait, plays a pivotal role as a transshipment hub port for Northeast Asia.

Busan won a big piece of Japan's transshipment cargo since Kobe earthquake in 1995. The container throughput of Busan had an increase of 18.42% by its highest margin in 2010. The container throughput of Busan Port is increasing with an annual average growth 8.3% (-11.14% in 2009 due to Lehman Shock) from 2000-2011 because of its geographical advantage in the region.

### **Port of Tokyo**

The Port of Tokyo, comprising 15 container berths, handles 20% of Japan's total overseas container traffic and has been ranked the number one container hub port in Japan since 1998.

As a part of a super-hub port scheme driven by the state government, Tokyo Port has been selected as a "Super Hub Port" qualifying for future prioritization of Japanese national investment. The port intends to become a model port capable of competing with the best major ports in northeast Asia for 21<sup>st</sup> century. A 10-year development plan (2006-2016) devised by the Tokyo Metropolitan Government (TMG) is implementing by Tokyo Port. The 7<sup>th</sup> Revised Port and Harbor Plan involved a large-

scale container terminal development that comprises three container berths and terminal facilities capable of handling the vessels of 100,000-tonne capacity.

### **Port of Kaohsiung**

Kaohsiung Port, with its geographical advantage locating along the south-western coast of Taiwan on the key trade lanes running through the Taiwan Strait, is the largest international hub port in Taiwan handling an average 72.76% (2000-2010) of its container throughput.

The port is ideally located as the transshipment hub for the export cargoes between the west coast of North America to Southeast Asian countries. Furthermore, owing to the opening of direct sailing between Kaohsiung Port and port of Xiamen and Fuzhou (Fujian Province, China) in China in 1997, it provides Kaohsiung Port more opportunities for securing the transshipment cargoes from North America and China.

The historic agreement that was signed in November 2008, to resume completely direct transportation between Taiwan and China in December 2008, after the interruption of nearly 60 years due to the political reasons. This means that freight now can be shipped directly across the Taiwan Strait from 63 Chinese ports to 11 ports in Taiwan, without having to make a detour via the port of Ishigaki (Okinawa, Japan) or Port of Hong Kong. This saves 16 to 27 hours of shipping for Taiwanese vessels, as well as around 15-30% on cost.

### **The Formation of Shipping Alliance in FEA**

The rise of container tonnage in East Asia provided a development opportunity for international shipping in the region. It is because of the steep rise in cargoes that are suitable for container transportation over the past three decades. Consequently, the container transportation in the region needs improved shipping systems and strategies for promoting transportation efficiency, reducing freight cost and advancing rationalization of the operation. Under these circumstances, the shipping alliances in East Asia have enjoyed a remarkable development era since the mid-1990s.

### **The Emergence of Global Shipping Alliance**

After its opening in 1869, the Suez Canal provides a corridor that shortens the sailing time between Europe and South Asia. Consequently, the amount of ships suddenly increased in the new route. After slashing the ocean freight to increase the cargo share soon, the ship owners realized that this was benefiting no one. Thus, in order to adjust the freight, 7 liner owners formed the United Kingdom-Calcutta Conference (then its name was changed to India Pakistan Bangladesh Conference) in 1875 which eventually became the first liner conference in the world. This liner conference thrived around the world for more than a century.

For over a hundred years, the international liner shipping has been characterized by the presence of the conference system, whereby ocean carriers get together to set freight rates collectively. Partially in response to a more aggressive stance against the cartel

market power, including efforts to constrain conferences by the U.S. Department of Justice, the Shipping Act of 1984 was passed to clarify the boundaries of antitrust immunity. That legislation reaffirmed the ability of conferences to file agreements covering rates and service conditions, subject to oversight from the Federal Maritime Commission (FMC) as to the agreement's conformity with the public interest. In 1998, the regulatory landscape changed dramatically with the passage of the Ocean Shipping Reform Act (OSRA). On its face, OSRA reduced transparency in freight rates, removed the FMC's cartel enforcement role and encouraged the offering of customer-specific shipping services that are different in terms of quality and price. All of these effects could inhibit the maintenance of effective cartels (Reitzes and Sheran, 2002).

### **Development of Shipping Alliance**

East Asian shipping lines play pivotal roles in the new era of global alliances under the circumstance of the surge of container tonnage in the region. There are five main development phases of global alliances from their initiation in 1994.

In the Initial Stage (1994-1995), in 1994, OOCL (Orient Overseas Container Line, Hong Kong), MOL (Mitsui O.S.K. Lines, Japan), APL (American President Lines, United States), Nedlloyd (Netherlands) and MISC (Malaysia International Shipping Corporation) formed the Global Alliance. Maersk (Denmark) and Sea Land Service (United States) formed the Maersk-Sea Land alliance. NOL (Neptune Orient Lines, Singapore), NYK (Nippon Yusen Kaisha, Japan), Hapag-Lloyd (Germany) and P&OCL (Peninsular and Oriental Steam Navigation Co., UK) formed the Grand Alliance. Hanjin (Korea), DSR-Senator (Germany), Cho Yang Shipping (Korea) made the United Alliance. COSCO (China Ocean Shipping Company, China), K Line (Kawasaki Kisen Kaisha, Ltd., Japan) and Yang Ming (Taiwan) formed the "CKY Consortium".

For the First Integration Period (1998-1999), in 1998 Nedlloyd merged P&OCL as Royal P&O Nedlloyd (short for P&ONL). In the meantime, NOL bought APL and put the container transportation to the business of APL. In addition, Hanjin purchased 80% shares of DSR-Senator. Moreover, Hapag-Lloyd, NYK, OOCL, P&OCL and MISC formed the new Grand Alliance. APL, MOL and Hyundai set up the "The New World Alliance (TNWA)". The biggest shipping line was birth of the acquisition between Maersk and Sea Land Service in November 1999.

There was a reformation among the alliances in the Second Integration Period (2002). After the negotiation with Hanjin, CKY Consortium expanded as a new alliance named "CKYH Alliance" Hanjin began to exchange the slot space of container for Asia-North and West Coast Lanes with K Line.

East Asian shipping alliance started to strengthen the cooperation during the Third Integration Period (2006). Evergreen and CKYH Alliance established a new cooperative relationship with NYK and NOL in Asia-South Africa-East Coast of

South America, Asia-Mediterranean and Intra-Asia lanes. In addition, Maersk purchased P&ONL and took 15% of total shipping capacity of the world.

During the Forth Integration Period (2011-2012), The Grand Alliance and New World Alliance formed the G6 Alliance. In 2012, a new alliance named CMA-MSC set up by MSC (Mediterranean Shipping Company, Switzerland) and CMA CGM (France) in order to join the competition of global shipping market. Evergreen and CKYH Alliance formed the CKYH-Green Alliance in the same year.

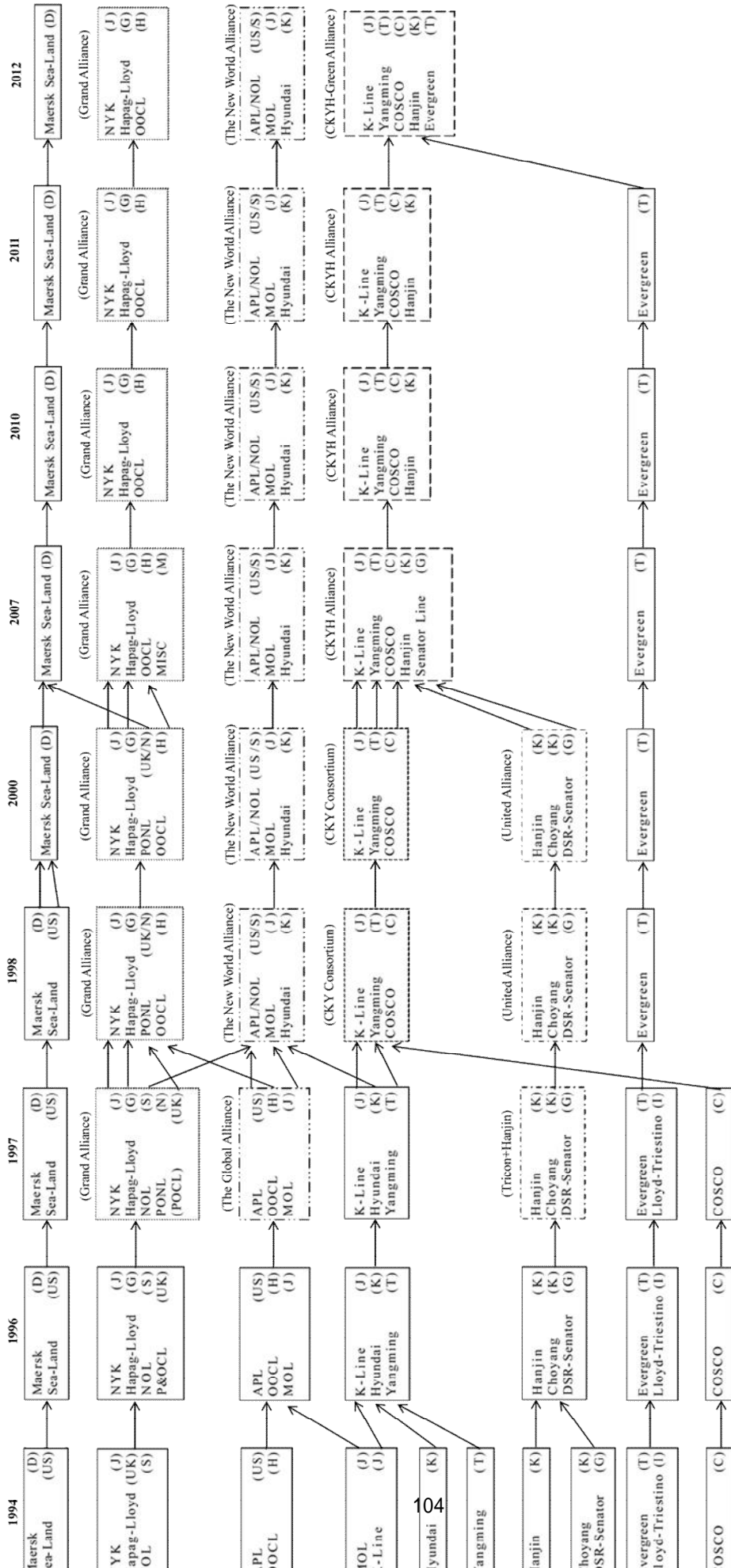
In 2012, four shipping line/alliances took 51.43% of the number of ships (11.63% by Maersk Line, 12.24% by G6, 15.47% by CMA-MSC and 12.08% by CKYH-Green) and 71.75% of container shipping capacity (15.35% by Maersk Line, 17.92% by G6, 21.65% by CMA-MSC and 16.82% by CKYH-Green). In comparison, other alliances took 48.57% of the vessels but 28.25% of container transportation. The phenomenon indicates that the transportation, marketing strategies and management of the main shipping alliances are better than that of other alliances. Moreover, the share of TEU shows that compared with other alliances that composed by both western and oriental shipping lines, the alliance formed by East Asian lines (CKYH-Green) is at a relative disadvantage.

In 2013, MSC announced that a new shipping alliance named P3 Network formed by the three largest container carriers, Maersk Line, MSC and CMA CGM, will operate a fleet of 255 ships with total capacity of 2.6 million TEU on 27 service loops in Asia-Europe, Trans-Pacific and Trans-Atlantic lanes. According to the statistical data in 2012, the forecasting TEU share of P3 Network might be over 37% of the total amount in the world.

In 1997, the member of the shipping lines of Trans-Pacific, Trans-Atlantic and Asia-Europe trade lanes were 19, 20 and 27 respectively; meanwhile, the alliances were 6, 6 and 7 respectively. After mergers and acquisitions within nearly 20 years, the lines of the three trade lanes became 12 of both Trans-Pacific and Trans-Atlantic lanes while the alliances were both 4 correspondingly in 2012. And there 15 shipping lines and 5 alliances were operating in Asia-Europe Lane (see Figure 5-7).

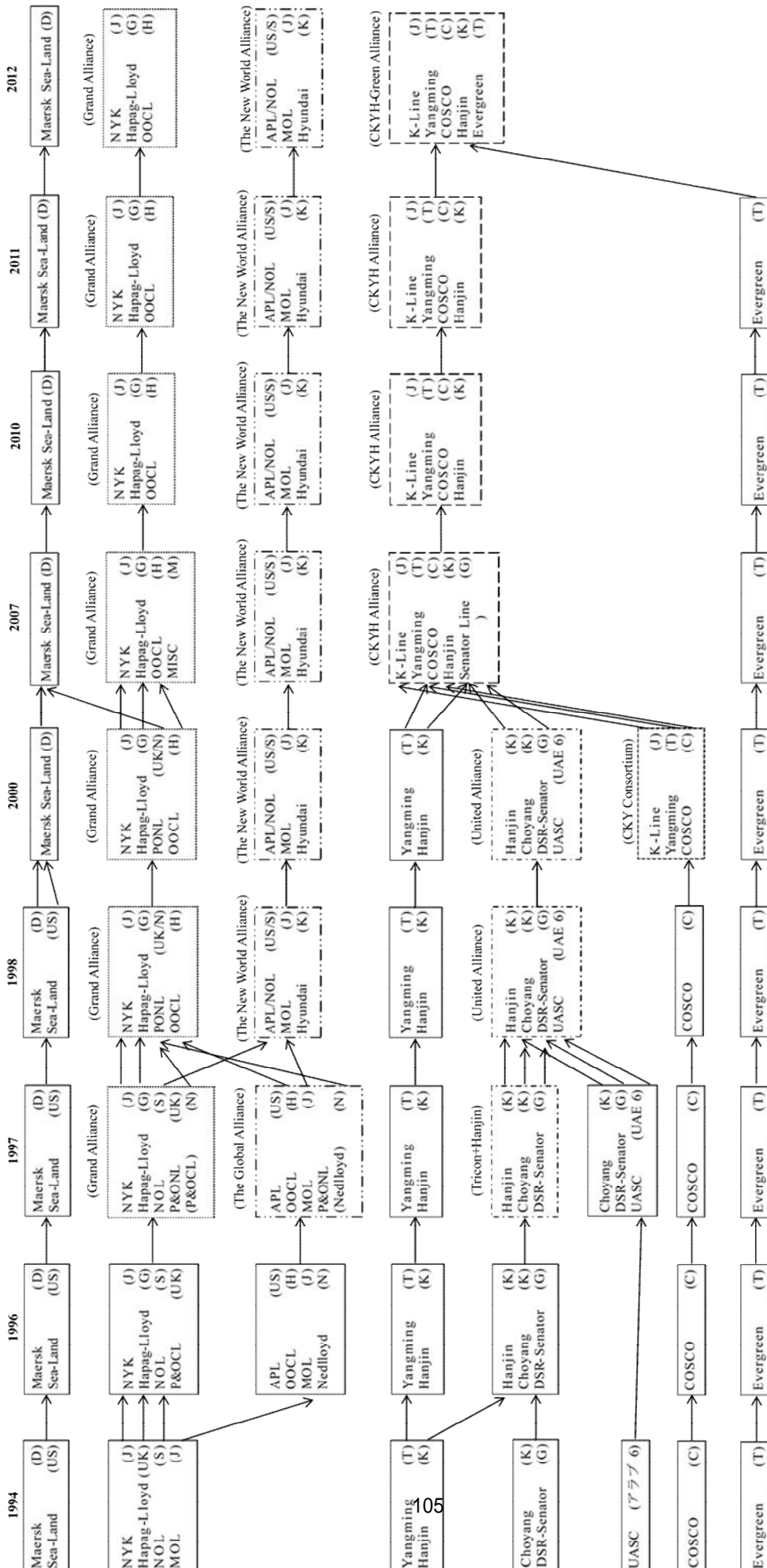
The tendency indicates that the mergers and acquisitions among the shipping lines started from the mid-1990s, the phenomenon also means that the shipping lines are making their business strategies in order to accommodate the change of economic development.

Figure 7 Shipping Alliances of Asia – North America West Coast Trade Lane (1994-2012)

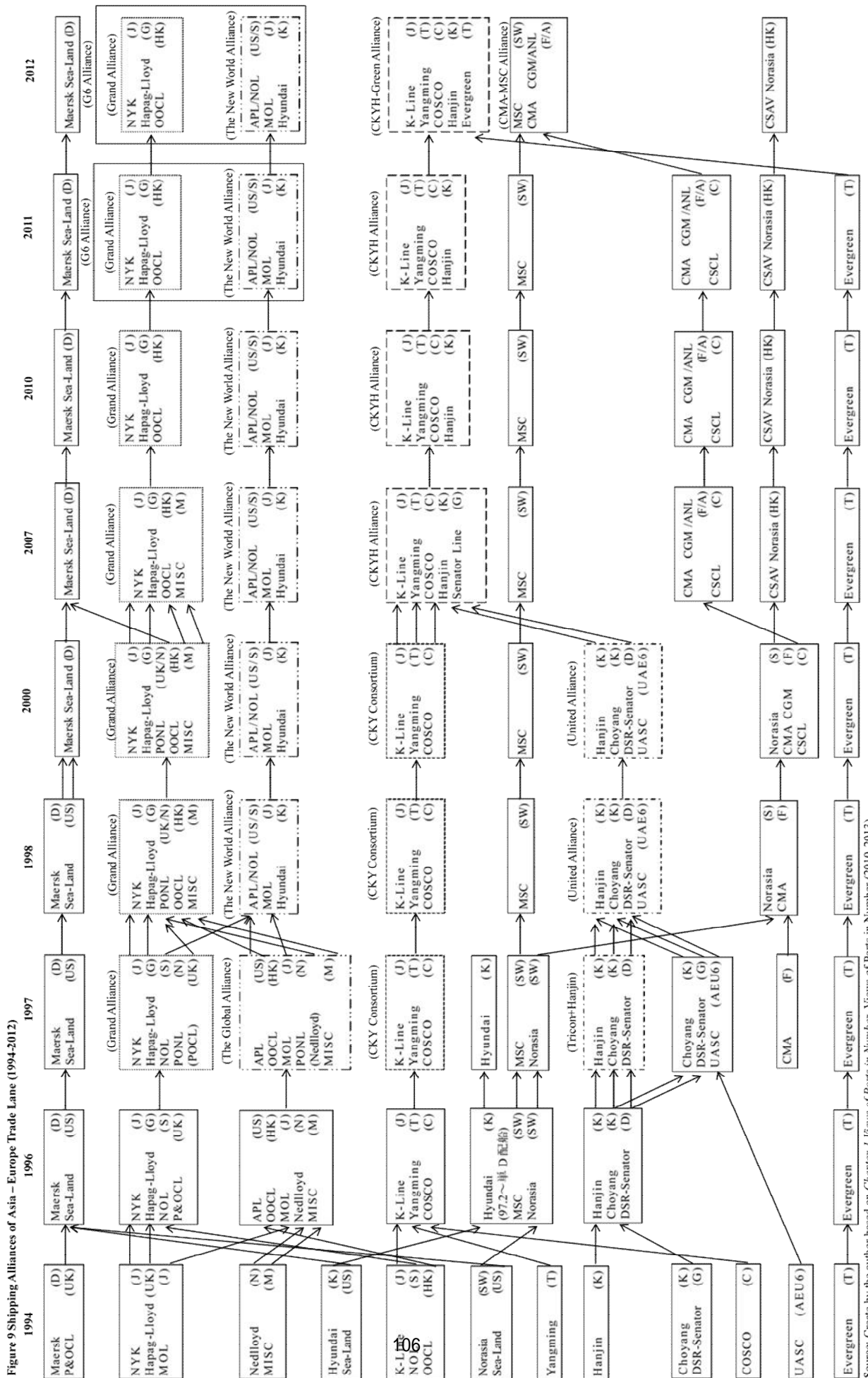


Source: Created by the author based on Chapter 1 Views of Ports in Number (2010-2013)  
 Note: D, Denmark; US, United States; J, Japan; S, Singapore; G, Germany; H, Hong Kong; C, China; T, Taiwan; N, Netherlands; K, Korea; UK, United Kingdom; I, Italy

Figure 8 Shipping Alliances of Asia – North America East Coast Trade Lane (1994-2012)



Source: Created by the author Based on Chapter 1 Views of Ports in Number (2010-2013)  
 Note: UAE, United Arab Emirates



Source: Create by the author based on Chapter 1 Views of Ports in Number (2010-2013) Note: F, France; A, Australia; SW, Switzerland

### The Status of FEA Shipping Lines in Marine Transportation

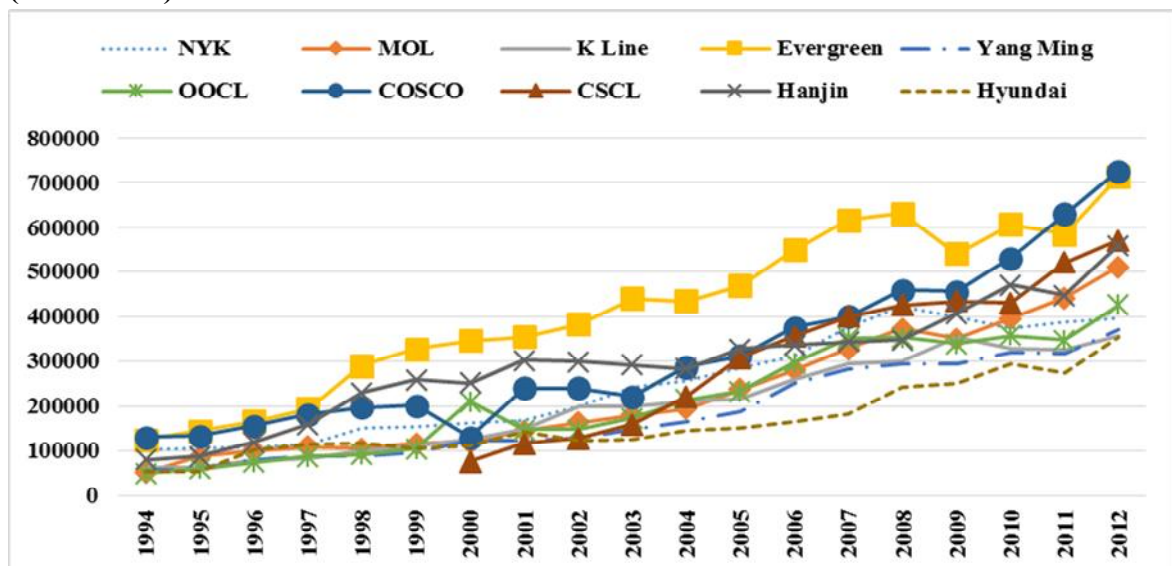
The trade volume has been increasing between East and West because of the drastic economic development in East Asia. The low cost of both of labor force and material stocking in the region have been attracting a lot of foreign investment from not only Japanese companies but also western companies. Consequently, the “Made in China”, “Made in Taiwan” and such products made in the other eastern countries are spreading all over the world.

Under the excellent circumstance, shipping lines, particularly those from FEA, in order to share the regions slice of the pie that is the market, have formed the shipping alliances in terms of transporting more cargoes from Asia destined for East/West Coast of U.S., and Europe.

The surge of trade offers an excellent opportunity to FEA shipping lines to expand their business to all over the world. It can be found that the total container volume of ten shipping lines in FEA rose from 984,136 TEUs to 4,979,258 TEUs, accounting for 27.45% in 1996 and 30.75% in 2012 (35.25% in 2001) out of the world’s container transportation (see Figure 10).

Blessed by the drastic economic development and international trade in East Asia, the shipping lines have enjoyed a sustained and high growth from the mid-1990s, particularly COSCO and CSCL (China Shipping Container Lines, China), benefited from the rapid economic development in China, both of the lines have obtained more TEU over the past 8 years.

**Figure 10 Container Vessel Tonnage of Main FEA Shipping Lines (1994-2012) (Unit: TEU)**



Source: Created by the author based on the data of *Report of Japan Maritime (1996-2000)*, *Maritime Report (2001-2013)*.

The scale of FEA shipping lines developed rapidly over the past 17 years. By October 28<sup>th</sup>, 2013, the 10 FEA shipping lines that owned 1,147 vessels with shipping capacity



of 5,374,587 TEUs were listed in the world top 20 ranking, which accounted for 30.50% of the world container tonnage. Compared with the data in 2012, the 10 lines owned 1,105 vessels with the capacity of 4,979,258 TEUs, accounting for 30.75% of that of the world.

Though the share of Chinese lines is a little higher than that of Japanese lines in the past two years, the previous part indicates that the shipping market of Japanese lines is larger than that of Chinese lines. The strong activities of Japanese lines in the main trade lanes shows that Japanese international shipping service is at the top level in FEA. The new P3 Network that took 36.90% share of TEU in the first 10 months of 2013 will challenge all the other alliances in global shipping market.

In East Asia, a new cooperative relationship has been formed under the intense shipping market competition. Evergreen became a partner with CKYH in 2006 and a member of CKYH-Green in 2012 in the shipping lanes of Trans-Atlantic, Asia-Europe and Transpacific (North America East Coast line).

The expansion of FEA shipping lines in marine transportation can be attributed to two aspects, including outside and inside cooperation. Confronting the challenges from the powerful shipping lines from western countries, some Japanese and Korean shipping lines, such as MOL and Hyundai, started to develop the cooperative relationship with the western shipping lines in order to gain the business opportunity and absorb the management experience from the other lines to enhance their marketing competitiveness. Some other FEA shipping lines formed the alliance for strengthening and expanding their business in the competitive shipping market. The new marketing strategies of Evergreen are a noteworthy case for the study on the field.

In light of the trend of CMA CGM and MSC joining forces in Asia/Northern Europe trade lane and the Grand Alliance teaming up with the New World Alliance on the same service in 2013, Evergreen swiftly joined forces beforehand with CKYH to share their services on Asia/Europe trade lane in 2nd quarter, 2012.

The reason why Evergreen changed its marketing strategy with CKYH is the need to improve frequency in order to get a better competition against Maersk's daily westbound service on Asia/Europe trade lane which was introduced to the market in 2011, as cost cutting does not yet appear to be an obvious objective.

Evergreen gained access to the CKYH's four remaining weekly services between Asia and Northern Europe, plus the alliance's recently withdrawn NE4<sup>1</sup> loop, which was returned in 2012, in exchange for giving the same amount of slots to the alliance on its three weekly loops (CEM, CES and AEX7). The CES and AEX7 services are already shared with CSCL, CMA CGM, UASC (United Arab Shipping Company, established in 1976, jointly by six shareholding Arab States: Bahrain, Iraq, Kuwait, Qatar, Saudi Arabia and U.A.E) and ZIM Line (Zim Integrated Shipping Services Ltd., Israel).

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<sup>1</sup> NE4, CEM, CES, AEX7, MD1, MD2, MD3 and FEM denote the code of the loops of the shipping lines.

The CKYH currently operates around 16% of all westbound capacity to Northern Europe and Evergreen's CES service provides another 2.3%.

In the Mediterranean, Evergreen gained access to the CKYH's three weekly loops from Asia (MD1, MD2 and MD3) in exchange for providing the CKYH access to its FEM service. These four loops currently provide approximately 17% of all westbound vessel capacity from Asia to the Mediterranean. In addition, more slots are available on carriers' vessels sailing from Asia to Northern Europe 'way porting' in the Mediterranean.

Evergreen has already chartered slots on MD2, and has a variety of different slot charter arrangements with other shipping lines. The practice is common amongst most major carriers in the Mediterranean due to its fragmented nature. Another benefit of the new consortia will be to share to burden of filling the extra space offered by the large number of Super Post Panamax vessels over 10,000 TEU.

## **Methods**

The method of the study focuses on data collection and data analysis. The data analysis is based on the combination method of Gray Theory and simple regression.

The fast growth in container tonnage in FEA makes shipping lines to deploy the trunk routes and select the hub ports more complicatedly than North America and Europe. In container transportation, shipping lines make decisions in choosing ports. However, there exist many factors that may influence the choices. They are cargo source (Slack, 1993; Murphy & Daley, 1994; Song, 2002, 2003), port facilities (Chen, 1997; Cullinane et al., 2002; Fung, 2001), delivery distance (Malchow and Kanafani, 2001; Zohil and Prijon, 1999), port location (Ha, 2003; Malchow and Kanafani, 2001), operating cost (Tai and Hwang, 2001; Tai, 2000; Wu, 2000), etc.

Based on the need to make a decision to select the hub port for heightening the container handling efficiency of the shipping lines, this part focuses on the port facility evaluation of the hub ports focusing on port infrastructures according to the Gray Theory due to the constraint of other types of data. Then the evaluation results will be used to examine the relationship between container throughput and port facility situation by the application of simple regression analysis.

The facility evaluation is helpful to find the handling advantages among the different ports. However, there are variable factors could influence the development of a port. Moreover, the information is uncertain and limited. As defined, the situation of no information is black while the perfect information is white; both of the conditions are idealizing in reality. The common situation between the two extremes is described as "gray". Thus, the Gray Theory, which focuses on the evaluation of uncertain or imperfect information conditions, is suitable for the uncertain condition.

The Gray Theory could provide better solutions rather than find the best answers. The theory sets up a non-functional model with less data in order to avoid the need of large number of samples for statistics in the uncertain circumstances (Deng, 1982). The

application of the theory also offers a logical view to analyze the strengths and weakness among different variables that could disclose the relative competitiveness of handling capacity of the hub ports.

For the analysis, if the information is uncertain or imperfect, the Gray Theory is a proper tool to describe the situation, and then makes out the clear and definite analysis (Tai and Hwang, 2005). For this study, if the analysis of port infrastructures of hub ports is defined as an event, the individual port will become a different alternative ( $B_i$ ), the collected information ( $A_j$ ) can be transferred to definite the value that comparisons of all alternatives that can be made (see Table 3).

**Table 3 Analysis Model for an Event on Multi-alternatives**

$B_i \setminus A_j$	$A_1$	$A_2$	...	$A_n$
$B_1$	$U_{11}$	$U_{12}$	...	$U_{1n}$
$B_2$	$U_{21}$	$U_{22}$	...	$U_{2n}$
...	...	...	...	...
$B_m$	$U_{m1}$	$U_{m2}$	...	$U_{mn}$

Source: Originated by Tai and Hwang based on Foundation of Theory of Gray System (2000).

Tai and Hwang identified several functions on transferring  $U_{ij}$  to  $R_{ij}$  according to the theory.  $U_{ij}$  means the measure of some information ( $A_j$ ) against alternative ( $B_i$ ), if the function  $M$  existed and could be mapping from  $U_{ij}$  to  $R_{ij}$ , if and only if:

$$M(U_{ij}) = R_{ij}, R_{ij} \in [0, 1], R_{ij} \in X^+; X^+ \text{ belong to positive space:}$$

Upper effect measure: the effect derived from the measure  $U_{ij}$ , such as profit, revenue, throughput, etc., is positive. It could use the following formula to transfer the  $U_{ij}$ :

$$R_{ij} = U_{ij} / \text{Max } (i) U_{ij}$$

Lower effect measure: the effect derived from the measure  $U_{ij}$ , such as cost, time, etc., is negative. It could use the following formula to transfer the  $U_{ij}$ :

$$R_{ij} = \text{Min } (i) U_{ij} / U_{ij}$$

Medium effect measure: if  $U_{ij}$  is belong to neutrality effect, it could use the following formula to transfer the  $U_{ij}$ :

$$R_{ij} = \text{Min } (i) (U_{ij} U_{i0}) / \text{Max } (i) (U_{ij} U_{i0}); U_{i0} = (1/m) \sum_{j=1}^m U_{ij}$$

After the transference, an overall index for each alternative  $R_i^E$  is calculated by summing up the new measures ( $R_{ij}$ ) using the following equation. The evaluation is made by comparing the overall index  $R_i^E$  of each alternative then.

$$R_i^E = (1/n) \sum_{j=1}^n R_{ij}, i=1, 2, 3, \dots, m$$

Tai and Hwang's model could be developed for more comprehensive evaluation for the hub ports. Their research adopted the container throughput in the same year and average container throughput growth rate of several years as the evaluating variables. Indeed, that data reflect the development of hub ports and cannot be used to explain the competitiveness of the ports for a particular year. In addition, the answers to the questionnaire which were not the exact data issued by the authority and not objective,

were also used for the model as the variables. Thus, the two aspects are deleted in the study in order to offer the more objective evaluation results. The new evaluation focuses on infrastructures and facilities, which are not only the crucial variables for the development but also the benchmarks of TEU handling capability of the hub ports.

The study of port facilities in East Asia focuses on some of the representative ports in FEA. The methodologies that apply to the study are the methods mentioned above and the data for the study have been selected according to the actual situation. The results demonstrate the facilities situations of the hub ports in 2010 (see Table 1).

**Table 1 Facility Evaluation of Hub Ports in East Asia**

		A	B	C	D	E	F	G
<b>Shanghai (SH)</b>	Uij	30	8,956	16	8,569,837	350,084	113	372
	Rij	<b>0.462</b>	<b>0.706</b>	<b>0.889</b>	<b>1.000</b>	<b>1.000</b>	<b>0.507</b>	<b>1.000</b>
<b>Hong Kong (HK)</b>	Uij	65	10804	15.5	3,438,500	300,238	127	335
	Rij	<b>1.000</b>	<b>0.851</b>	<b>0.861</b>	<b>0.401</b>	<b>0.858</b>	<b>0.570</b>	<b>0.901</b>
<b>Shenzhen (SZ)</b>	Uij	30	12686	18	3,491,999	285,247	223	172
	Rij	<b>0.462</b>	<b>1.000</b>	<b>1.000</b>	<b>0.407</b>	<b>0.815</b>	<b>1.000</b>	<b>0.462</b>
<b>Busan (BS)</b>	Uij	30	9473	17	4,063,585	325,155	76	240
	Rij	<b>0.462</b>	<b>0.746</b>	<b>0.944</b>	<b>0.474</b>	<b>0.929</b>	<b>0.341</b>	<b>0.645</b>
<b>Guangzhou (GZ)</b>	Uij	17	4950	15.5	4,604,600	281,871	69	134
	Rij	<b>0.262</b>	<b>0.390</b>	<b>0.861</b>	<b>0.537</b>	<b>0.805</b>	<b>0.309</b>	<b>0.360</b>
<b>Kaohsiung (KS)</b>	Uij	27	12692	16	2,935,000	142,488	69	31
	Rij	<b>0.415</b>	<b>1.000</b>	<b>0.889</b>	<b>0.342</b>	<b>0.407</b>	<b>0.309</b>	<b>0.083</b>
<b>Dalian (DL)</b>	Uij	17	4253	17.8	2,048,579	126,468	26	105
	Rij	<b>0.262</b>	<b>0.335</b>	<b>0.989</b>	<b>0.239</b>	<b>0.361</b>	<b>0.117</b>	<b>0.282</b>
<b>Tokyo (TK)</b>	Uij	15	4479	15	1,332,641	201,958	41	72
	Rij	<b>0.231</b>	<b>0.353</b>	<b>0.833</b>	<b>0.156</b>	<b>0.577</b>	<b>0.184</b>	<b>0.194</b>
<b>Yokohama (YH)</b>	Uij	20	5390	15	2,004,922	107,186	35	83
	Rij	<b>0.308</b>	<b>0.425</b>	<b>0.833</b>	<b>0.234</b>	<b>0.306</b>	<b>0.157</b>	<b>0.223</b>
<b>Kobe (KB)</b>	Uij	22	6320	16.5	1,541,487	76,840	36	63
	Rij	<b>0.338</b>	<b>0.498</b>	<b>0.917</b>	<b>0.180</b>	<b>0.219</b>	<b>0.161</b>	<b>0.169</b>
<b>Nagoya (NG)</b>	Uij	12	3320	16	1,405,549	77,430	27	41
	Rij	<b>0.185</b>	<b>0.262</b>	<b>0.889</b>	<b>0.164</b>	<b>0.221</b>	<b>0.121</b>	<b>0.110</b>
<b>Osaka (OS)</b>	Uij	15	4435	15	1,303,767	55,675	26	30
	Rij	<b>0.231</b>	<b>0.349</b>	<b>0.833</b>	<b>0.152</b>	<b>0.159</b>	<b>0.117</b>	<b>0.081</b>

Note: A: Number of Container Berth; B: Gross Quay Length (m); C: Max Depth of Water of Container Berth (m); D: Square of Container Terminal (m<sup>2</sup>); E: Storage Capacity (TEU); F: Ship-shore Container Gantry Crane; G: Other Gantry Crane.

Source: Created by the author based on the data of Outline of Main Hub Port 2010, *The Ports And Harbours Association of Japan*.

According to the theory and calculation mentioned above, all of the measures (U<sub>ij</sub>) could be transferred to R<sub>ij</sub> with using upper effect mode. Table 4 lists all the information (U<sub>ij</sub>) and the result of transferred measure (R<sub>ij</sub>)

$$R_i^E = (1/n) \sum_{j=1}^n R_{ij}^E, \quad i=SH, HK, SZ, BS, GZ, KS, DL, TK, YH, KB, NG, OS, \quad j=1, 2, 3, \dots, 12, \quad n=7$$

The evaluation result is shown below:

$$[R_{SH}^E, R_{HK}^E, R_{SZ}^E, R_{BS}^E, R_{GZ}^E, R_{KS}^E, R_{DL}^E, R_{TK}^E, R_{YH}^E, R_{KB}^E, R_{NG}^E, R_{OS}^E] \\ = [0.795, 0.777, 0.735, 0.649, 0.504, 0.492, 0.369, 0.361, 0.355, 0.355, 0.279, 0.275]$$

$$\text{MAX (i)} \quad R_i^E = 0.795 = R_{SH}^E$$

Based on the results, the facilities evaluation index of Shanghai Port is at the top ranking with the highest score, followed by Hong Kong and Shenzhen Port in 2010.

The evaluation shows the relative advantages and commonness of the facilities of the 12 hub ports. In addition, the results also indicate that all the water depths of the container terminals are more than 15 meters. Taking the rapid growth of container throughput of the ports as well as the tonnage of container vessels into account, the deep-water berths have been the commonness of the hub ports in FEA.

The analysis is used to test whether the port facilities evaluation index in current year is significant to the container throughput of the main hub ports of FEA for the next year. The port facilities evaluation index in 2010 mentioned above and the container throughput of the main hub ports of FEA of 2011 are adopted.

**Figure 1 Scatter Plot of Port Facilities Index and Container Throughput of the Hub Ports**

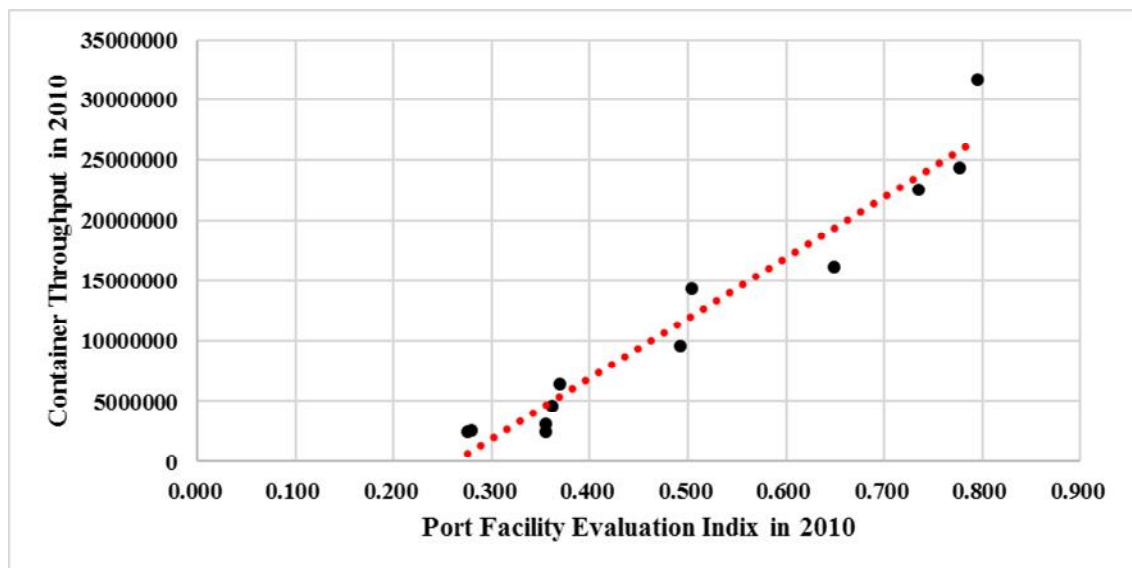


Figure 1 demonstrates that the correlation is positive when the values increase together and the scatters accord with the law of liner relationship, thus, the simple regression is suitable for the analysis. The formula for the regression line is:

$$Y = \beta_0 + \beta_1 X$$

Where the evaluation index in 2010 (x) is the independent variable while the container throughput of each selected hub port in 2011 (y) is the dependent variable.

Assumption of the analysis:

On a 95% confidence interval ( $\alpha=0.05$ ), the null hypothesis and alternative hypothesis are:

Null hypothesis ( $H_0$ ): the port facilities evaluation index in the current year is irrelative to the container throughput of the main hub ports of FEA in the next year;

Alternative hypothesis ( $H_1$ ): the port facilities evaluation index in the current year is significant to the container throughput of the main hub ports of FEA in the next year.

The result is shown in Table 5, the outputs indicates that x and y are highly correlative ( $R=0.9717$ ), 93.86% of the container throughput of the main hub ports of FEA in the next year can be explained by the port facilities evaluation index in the current year, only 6.14% of the container throughput of the next year should be explained by other factors (Adjusted  $R^2= 0.9386$ ) and  $\beta_0=-13125018.4758553$ ,  $\beta_1=50131441.4245313$ .

It is found that the null hypothesis is rejected and the alternative hypothesis is accepted for  $P\text{-Value}<\alpha$ , thus, the port facilities evaluation index in current year is significant to the container throughput of the main hub ports of FEA in the next year ( $P\text{-Value}=1.3628E-07$ ).

The correlative formula is shown as below according to the output:

$$y=-13125018.4758553+50131441.4245313x$$

**Table 2 Simple Regression Analysis Output of the Relationship between Container Throughput and Port Facilities Evaluation Index of Main Hub Ports in FEA**

SUMMARY OUTPUT		ANOVA						
Regression Statistics		df	SS	MS	F	Significance F		
Multiple R	0.971701983	Regression	1	1.05305E+15	1.05305E+15	169.226707	1.36281E-07	
R Square	0.944204744	Residual	10	6.22273E+13	6.22273E+12			
Adjusted R Square	0.938625218	Total	11	1.11528E+15				
Standard Error	2494540.304							
Observations	12							
	Coefficients	Standard Error	t Stat	P-value	Lower 95%	Upper 95%	Lower 95%	Upper 95%
Intercept	-13125018.5	2040771.12	-6.43140152	7.5242E-05	-17672139.9	-8577897.05	-17672140	-8577897.055
Port Facility Evaluation Index of 2010	50131441.42	3853680.808	13.00871658	1.3628E-07	41544905.49	58717977.36	41544905.5	58717977.36

Source: Created by the author based on the data of Port Traffic League, *Containerisation International Yearbook 2012*.

### Discussion

This paper discusses the development of international shipping in East Asia from the 1980s to the 2010s. Descriptive analysis is adopted to study the rise of container tonnage, the development of main hub ports and the status of the shipping lines as well as the global alliances in the region.

The research results show that the booming international trade in East Asia that attributed to the large amount ODA and FDI from Japan into other countries in the region since the 1980s is one of the main factors of the rise of container throughput in

FEA. Additionally, the study on the case of Taiwan indicates that the geographical advantage is another factor for the increase of container throughput. Benefiting from the surge of international trade and container transportation, the main hub ports in the region are not only confining to Hong Kong, Kaohsiung, Tokyo and Busan but also extended to the ports that locating from northern to southern coastal areas of China since the mid-1990s because of the drastic economic development of the country since then. In addition, the rise of the container tonnage in the region also brought prosperity to the East Asian shipping lines that participated the competition of the global alliances from 1994. By enhancing the cooperative relationships with the other western and oriental shipping lines, they have been active in each trade lane of the global shipping market since 2000.

The paper also proposed a combined method that consists of Gray Theory and simple regression to test the correlation between the facilities and container throughput of the main hub ports in the region. The result suggests that the conditions of the port facilities in the current year are significant to the container throughput of the ports for the next year. In the future research, more detailed information about the hub ports will be collected to conduct more accurate analysis.

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4

## **The Road to FTAAP: TPP versus RCEP**

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### **Abstract**

This paper argues that the formation of regional integration frameworks can be best understood as a dominant state's attempt to create its own regional framework where it can exercise some exclusive influence. In this context, it is important to observe which countries are excluded from a proposed framework. Because there are many competing proposals, a regional cooperation framework proposed by a potential leader needs to win support from other countries. Two types of policy are effective in winning support: (i) benevolent leader policy; and (ii) counter-proposal to kill rival proposals.

### **Introduction**

Some may consider that the logic behind the formation of regional security groupings is similar to that in the formation of regional economic groupings. The so-called balance-of-power usually takes the form of competition between one alliance and another or one nation, rather than the equilibrium of two isolated nations. "Alliance vs. counteralliance" (Morgenthau 1973, 196) is the most spectacular of the configurations of a balance-of-power. For them, the creation of regional cooperation frameworks can be explained by the logic of alliance formation. For example, the formation of Soviet Union-led Council for Mutual Economic Assistance (COMECON) should be interpreted as counteralliance against the US-led North Atlantic Treaty Organization (NATO).

However, traditional balance-of-power entails several inherent weaknesses in explaining *economic* cooperation frameworks. First, an importation of security-centric theory – which implicitly assumes wars as the ultimate tool of external policy – into the economic field is problematic, given the low probability of wars. Unlike in a security alliance where the coalition automatically gives security to member countries, it is not easy to foresee the impact of economic cooperation on partner economies. Moreover, overlapped membership in economic groupings implies that the economic cooperation and security alliances are two different things (it is unusual if a country signs a security alliance with two countries competing with each other).

## **Method: Two analytical angles**

### ***Control of membership<sup>1</sup>***

What is important to note is that there is no definitive definition of “region”. Each country, especially who wants to assume some leadership in a region can define it freely. Thus, the question is not, for example, which country, the PRC or the US, will become the leader in *the* region. The two countries may insist upon regional cooperation in different geographical areas so that they can assume leadership and increase influence in it.

However, the above argument that the exclusion of rival is important does not necessarily mean that the excluded parties perpetually remain outsiders. It is likely that incumbent leaders try to “invite” rivals as late comers and put them in a relatively disadvantageous situation vis-à-vis incumbents. Late comers would be in a disadvantageous situation in two ways. First, late comers should accept the agenda and rules set by incumbents. Even if the agenda and rules are equally applied to all parties, they are not always neutral (*de facto* discrimination). Second, late comers should satisfy additional requirements that were not required to incumbents. They should endure disadvantageous conditions to be accepted (*de jure* discrimination).

### ***Competition between groups***

The policy of “exclude and invite as a late comer” may not be always successful. This is because rival countries simply do not want to be tamed as a later comer. There is no compelling reason for joining a group formed by a competitor. Then, what is the form of competition between the groups set by two competing states?

- **Benevolent leader.** A potential leader who proposes a regional group needs the support from other countries. Thus, they need to be a benevolent, rather than coercive leader. In some sense, the “boss” is chosen by others. The logical inference is that a potential leader who is unlikely to be chosen as a boss tends to behave even more benevolently to win support.
- **Counter proposal.** When one of competing proposals becomes dominant, then the sponsor of the other (less popular) project may propose a new “counter proposal”. A counter proposal is usually made to “kill” the competing proposal.

## **Discussion**

### ***Analysis of TPP and RCEP in terms of control of membership***

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<sup>1</sup> In reality, both control of membership and agenda are important. For the interaction between the two, see Hamanaka (2014).

**TPP.** The agreement concluded among the P4 (New Zealand, Singapore, Chile and Brunei Darussalam), called the Trans-Pacific Strategic Economic Partnership (TPSEP), entered into force in 2006. In September 2008, President Bush notified that the administration's intention to start the negotiation with P4 and the negotiation process of the US participation was launched thereafter.

The US wants the current negotiations to lead to a new agreement, rather than a situation where TPSEP accepts the US as a late comer. In fact, a United States Trade Representative (USTR) official made it clear in the remarks at the American Society of International Laws Annual Meeting that the US was not acceding to the P4 agreement and rather, a new agreement was being negotiated (Lewis 2011, 34). Ron Kirk, the USTR official, also pointed out that the Congress is more receptive to creating a new agreement from scratch (James 2010, 2-3). For the US to assume leadership, negotiation should not be treated as a late comer.

Shortly after the US participated in the TPP negotiations late 2008, Australia and Peru announced their interests in joining the negotiations, which was followed by Viet Nam's. The negotiation among eight parties (P4 plus the US, Australia, Peru and Viet Nam) started at the Melbourne meeting in March 2010.

Since then, several other countries expressed their interests in TPP membership. However, it is important to note that there are some distinctions between incumbents and new comers. While it is not written, it is said that countries who want to participate in TPP negotiations should be "approved" by existing members. Malaysia decided to join the TPP in July 2010, but its participation was subject to approval by the other eight members. However, Malaysia joined the second round of negotiations in October 2010 without prolonged pre-approval procedures.

At the APEC Leaders Meeting in 11-12 November 2011, Canada, Mexico and Japan expressed interests in TPP participation. In fact, while the three countries expressed their interests in TPP membership at the same time, Japan's participation negotiation was most prolonged.<sup>2</sup> The involvement of Canada was also controversial (but not as much as that of Japan) because the country is capable enough to complicate the TPP negotiation agenda (Stephens 2013)<sup>3</sup>.

While TPSEP has an accession, it is unclear what type of accession clause to be included in the final TPP text. It is likely that participation is subject to the approval of all countries, which can be called "semi-closed" agreement rather than open. While the current negotiating parties seem to have the option of not undertaking all agreements (e.g. it seems

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<sup>2</sup> Mexico's and Canada's application was "approved" by incumbents in June 2012 and they participated in 15th meeting in Auckland (December 2012). Japan's application was approved only in March 2013 and participated in 18th meeting in Kota Kinabaru (July 2013).

<sup>3</sup> It is said that Canada's first application for TPP membership was rejected in October, 2009 (Elms 2013, 379). Note that this is an incident before the first round of TPP negotiation in March, 2010.

that Australia will not undertake investor-state dispute section), it is likely that future applicants (after the conclusion of the TPP) will be required to accept everything in the agreement (otherwise, incumbent may “block” their application).

The distinctive institutional feature of the TPP that seems to have huge implication to the terms of accession by future applicants is that the TPP is *not* a real regional agreement. The TPP is likely to become a bundle of bilateral deals, not a true region wide FTA. The bundle of bilateral deals means that tariff concession/schedule is bilateral basis, without having common single tariff schedules.

If the TPP will be a bundle of bilateral agreements, the important implication to accession is that new applicants need to negotiate not only their concession but also existing members’ concession on the bilateral basis. If there were a unified single concession among members, then the negotiation of a new participant would be able to focus on its concession to be exchanged with existing members’ concession stipulated in the unified schedule. Without unified concessions, it is unclear what type of concession a new member can obtain from existing members. Thus, while the TPP has an accession clause, it is reasonable to assume that the accession is not easy. Rather, the US intention is to tame future participants through accession negotiations.

In short, the US strategy is to establish ambitious regional framework, reflecting its interests, which has an accession clause. The TPP is likely to become such a device. It is reasonable to consider that the US attempts to tame late comers, especially PRC, through the accession process. As Financial Times editorial (22 May 2013) suggests, from the US perspective, “TPP is a club for anyone but PRC” and “PRC will feel obliged to mend its errant” to be a member. However, whether PRC decides to join the TPP is a separate issue.

**RCEP.** In November 2004, PRC proposed to conduct a study on East Asia Free Trade Agreement (EAFTA) and the study was started in April 2005. The study result of the Phase I on EAFTA was reported to ASEAN+3 Economic Ministers Meeting (EMM) in August 2006 and the members agreed to conduct the Phase II. Meanwhile, Japan proposed the study on Comprehensive Economic Partnership in East Asia (CEPEA) at the ASEAN+6 EMM held back-to-back with ASEAN+3 EMM (August 2006). PRC thought a narrow membership that excludes Australia, which is US’s ally, and India so it would be convenient for it to assume leadership. Japan considered that adding Australia and India is necessary to dilute the Chinese influence, the necessary condition for its leadership.

PRC and Japan suddenly made a joint proposal on East Asian economic cooperation in August, 2011. They suggested that Working Groups where both EAFTA and CEPEA can be discussed should be established before the end of 2011 and the study result should be submitted to ministers and leaders in 2012. The proposal clearly states that the participants will be limited to ASEAN and ASEAN’s dialogue partners that have FTAs with ASEAN, and that ASEAN is the chair of this initiative.

In August, 2012, the first ASEAN Economic Ministers Plus ASEAN FTA Partners consultations were held. It is a first ministerial meeting that included only ASEAN and its FTA partners, hence the US was not included. Before this, substantial discussion on the RCEP was conducted at ASEAN fora and EAS (that includes the US) simply took note of the progress made on the ASEAN side. The newly created forum among ASEAN and its FTA partners are used to discuss the RCEP, thereafter, instead of ASEAN.

In November, 2012, leaders of ASEAN and its FTA partners formally agreed to launch the RCEP negotiation. At the same time, ASEAN and its FTA partners decided the Guiding Principles and Objectives for Negotiating RCEP. It is important to note that countries without an FTA with ASEAN (such as the US) cannot participate in RCEP negotiations. In other words, having signed an FTA with ASEAN is the precondition for participation in RCEP negotiations. Thus, the participation to RCEP negotiation is not open. The Guiding Principle and Objectives states: “Any ASEAN FTA Partner that did not participate in the RCEP negotiations at the outset would be allowed to join the negotiations, subject to terms and conditions that would be agreed with all other participating countries (Principle 6).”

What type of accession rule will be employed in the final RCEP text remains to be seen. While the “Guiding Principles and Objectives” for the RCEP state that the RCEP will have an accession clause, it is too naive if one considers that the RCEP will follow open accession rules. As aforementioned, even participation in the ongoing RCEP negotiation is fairly exclusive (unless countries have FTA with ASEAN, they are not allowed to participate in the negotiations).

In short, PRC’s strategy is to establish a regional framework without the US, where it can hold a dominant position. Since the PRC wants the RCEP to materialize as soon as possible to compete with the US-led TPP and the Japanese participation is the key to the success of the RCEP, it agreed to include issues that Japan has strong interests in such as investment and intellectual property. It is unknown if PRC will invite the US to the RCEP, but it is likely that it would insist that RCEP is open to any country, including the US, only after the details of the RCEP are determined.

#### ***Analysis of TPP, RCEP and FTAAP in terms of completion between groups***

**Chinese benevolence.** Of particular importance is that the TPP will have little development considerations. While capacity building is included in the TPP, all parties, including both developed and developing countries, are expected to offer more or less similar level of commitments. In other words, it is wrong to consider that terms of accession for developing countries is differentiated from that for developed countries.

In contrast, the RCEP places its emphasis on developmental issues. It attempts to establish an alternative trade forum to the TPP, which emphasizes the flexibility for developing countries, and one that is less ambitious than the TPP. For developing countries,



the participation in the RCEP may be easier than in the TPP. The Guiding Principles states that: “Taking into consideration the different levels of development of the participating countries, the RCEP will include appropriate forms of flexibility including provision for special and differential treatment, plus additional flexibility to the least-developed ASEAN Member States”. This implies that developing late comers will receive some favorable treatment upon accession, but not developed late comers.

**Japan’s position to choose “boss”.** Japan’s strategy regarding the TPP and the RCEP is interesting. Both TPP and RCEP need Japanese support. It seems that Japan is using the “PRC” card to make its negotiation position better vis-à-vis the US with regards to the TPP. In August 2011, when Japan’s participation to the TPP was at stake, Japan and PRC jointly proposed the modality of East Asian cooperation, which paved the way for the proposal of the RCEP. Japan formally expressed its interest in the TPP at the APEC Leaders Meeting in Honolulu on 13 November 2011. Four days later, the RCEP was proposed at the ASEAN Summit, and such a progress was noted at the East Asia Summit (that includes the US) on 19 November 2011. This implies that PRC and Japan shared the value of launching the RCEP at a critical negotiation stage of the TPP, despite their past disagreement. Moreover, on 20 November 2012, the RCEP negotiation was formally launched. On exactly the same day, Japanese Prime Minister Noda met President Obama and asked the US’s support to Japan’s TPP participation. Those are the examples of Japan’s effective use of “PRC card” to the US. The unspoken message is “if you make Japan’s participation in the TPP difficult, we resort to the option of hanging around with PRC”.

After Japan secured a seat at the TPP negotiation table, it seemed to have resumed the agenda-setting game vis-à-vis PRC at the RCEP negotiations. In fact, at the third RCEP meeting in January 2014, it was decided that the new working groups on competition, intellectual property, economic and technical cooperation, and dispute settlement will be established. Those are the issues that Japan has been insisting upon for inclusion in the RCEP, not PRC. Japan wants strong discipline in investment and intellectual property where the violation is subject to dispute settlement, not case-by-case political bargaining. In short, Japan is using “TPP card” to make its negotiation position better vis-à-vis PRC with regards to RCEP.

**FTAAP and PRC.** Both the TPP and the RCEP (ASEAN+3/6) are recognized as the steps toward FTAAP. The APEC Leader’s Declaration in 2010 states: “*We will take concrete steps toward realization of a Free Trade Area of the Asia-Pacific (FTAAP), which is a major instrument to further APEC's regional economic integration agenda. An FTAAP should be pursued as a comprehensive free trade agreement by developing and building on ongoing regional undertakings, such as ASEAN+3, ASEAN+6, and the Trans-Pacific Partnership, among others.*”

At this stage, the relationship between the TPP and the RCEP in the context of FTAAP is unclear. There are, at least, four possibilities (Hamanaka 2012; Petri 2013).

- Expansion: Either the TPP or the RCEP evolves into FTAAP that covers all APEC members through accession, which dominates the other integration project.
- Co-existence: Both the TPP and the RCEP continue to exist and become a “component” of FTAAP. Neither dominates the other.
- Consolidation with suspension: A new FTAAP is eventually created and existing agreements signed by the subset of FTAAP members (including the TPP and the RCEP) will eventually be suspended.
- Consolidation without suspension: A new FTAAP is created irrespective of the progress of TPP and RCEP. Neither TPP nor RCEP will become FTAAP.

Expansion through an accession clause is what both the US and the PRC attempt to achieve through the TPP and the RCEP. However, whether others want to join and apply for membership is beyond the control of the two countries. In particular, while the participation in it may accelerate domestic economic reforms, it is unlikely that big developing countries like the PRC decide to be “socialized” through TPP accession. Since other countries have the chance to choose their “boss”, the two candidates are expected to behave benevolently so that they are chosen. If there is no boss unanimously supported by the majority of countries in the region, then, the TPP and the RCEP continue to co-exist. In this case, both the US and PRC will become the boss in a small group, not the leader in FTAAP.

The consolidation with suspension is simply not a realistic idea, at this stage. In particular, the suspension of existing agreements which is the final stage of consolidation process seems to be problematic (Hamanaka 2012). It is unclear if the suspension of old agreements is WTO consistent. Moreover, In Asia, agreements tend to be “accumulated” and this does not seem to confuse business (ibid).

The consolidation without suspension seems to be PRC’s second best option. In this case, neither TPP nor RCEP becomes FTAAP. Given that TPP seems to be more popular than RCEP, PRC may pursue a new FTAAP, which is unrelated to TPP in order to prevent the situation wherein TPP grows as FTAAP. For PRC, making FTAAP from a scratch is better than FTAAP developed based on TPP. By initiating the negotiation of new FTAAP, PRC may be able to hold the initiative in the negotiation of new FTAAP.

The two likely scenarios for the future are (i) the co-existence of between the TPP and the RCEP; and (ii) creation of new FTAAP (consolidation without suspension). The co-existence happens when neither can dominate the other. First, they do not seem to give up the chance of taming late comers through accession. Thus, developing countries that feel uncomfortable to the socialization are unlikely to apply for membership. This is especially true for the TPP, which is a devise of the US to tame late comers. Second, the country

whose initiative wins less support than the other is likely to behave more benevolently to win more support. The RCEP sponsored by the PRC is likely to treat late comer developing countries better than the TPP.

Another likely scenario is a new FTAAP, which is PRC's second best. There is a possibility that PRC's proposal win a support from other countries only if it successfully convinces others that all concerned parties in APEC should be involved in the designing stage of FTAAP, rather than being treated as a later comer in TPP. Such claim is in fact similar to Scollay (2004)'s pathfinder agreement. However, the US will continue to make effort to develop TPP as FTAAP. It should be recalled that the US decided not to pursue FTAAP and started to negotiate TPP membership instead during the Bush administration. The difficulty that the US will face is that while it wants to treat PRC as a late comer, the US proposal cannot win support not only by PRC but also by other developing countries that are likely to be a later comer. Possibly the US will introduce "double standards" for PRC and others to overcome this problem.

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## **Limits in Northeast Asian Regionalism and Conflicts in Master Primary Institutions: The Role of the United States**

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### **Abstract**

Over the past decades, much has been written on Northeast Asian regionalism or the lack thereof. This research attempts to shed light on the reasons why such regionalism has remained so scant. Assuming that problems such as historical or territorial disputes are merely the symptoms of deeper issues, this investigation attempts to uncover the underlying structural causes of this situation by using the framework developed by the English School. This article contends that it is the intrinsic nature of the Northeast Asian interstate society that is hindering the prospects for further regional integration, and that the United States is the key to understanding how this situation was created. First, it argues that the United States played an instrumental role in the socialization of Northeast Asian states into the global interstate society, as well as in the creation of the Northeast Asian interstate society. Then, it argues that as a result of Cold War strategic calculations, the United States let the ‘master primary institution’ of the global interstate society be conceptualized and adapted at the regional level in a conflictual pluralist fashion. This led to the creation of a barren regional interstate society unable to accommodate more than a superficial regionalization. The argument is developed through a historical examination of the evolution of the Northeast Asian interstate society since the end of the Second World War. This study suggests that only drastic change in institutions may lead to further integration.

### **Introduction**

‘Regional integration’ has become, during the past few decades, one of the holy grails of international relations, bestowing upon those who can reach it abundant benefits, both political and economic. So far, however, only Europe within the framework of the European Union has been able to reach strong levels of political and economic integrations. As a result, it has often been used as the standard against which all other regional international societies are compared.

In stark contrast with the European experience, East Asia, and more specifically Northeast Asia has remained drastically underdeveloped in this domain. Grounded in the intellectual tradition of the English School of international relations, this research attempts to shed light on the reasons why Northeast Asia has not followed the European path and why regionalism has remained so scant.

This essay will first offer an overview of the main concepts in use for this discussion. Then, it demonstrate the determining role the United States has played in the socialization of Japan, the Republic of Korea, the People's Republic of China (PRC), and the Democratic People's Republic of Korea (DPRK) into the global international society ever since the end of the Second World War. In doing so, it will pay specific attentions to the master primary institution that have been adopted – or rejected – by those states. After determining that the Northeast Asian nations do share similar master primary institutions, it will use the analytical framework of pluralism and solidarism to classify those institutions. Ascertaining that the primary institutions which have come to dominate the region are essentially understood by Northeast Asian states in a conflictual pluralist fashion, it will attempt to answer why this is the case. This essay will then advance that Cold War strategic calculations have led the United States to ignore solidarist institutions in favor of pragmatic considerations, as well as favor the development of a pluralist hub-and-spokes architecture in Northeast Asian over a more European-like multilateral construct. As a result, the international society now left in the region is barren and unable to accommodate more than a superficial form of regionalization.

## **Methods**

Before going any further, it is crucial to define a few key concepts: international system, international society, state socialization, and institutions. While there exists a general understanding of what those four terms describe, they have frequently been ascribed specific characteristics which may result in confusion if not defined for the purpose at hand.

For the purpose of this essay, the definitions of international system and international society offered by Hedley Bull in his seminal *Anarchical Society* will be adopted. While much work has been conducted refining these definitions, their original form still provides the analytical clarity needed for this current endeavor without focusing on details falling beyond the scope of this argument.

For Bull (2002, 9), an international system: 'is formed when two or more states have sufficient contact between them, and have sufficient impact on one another's decisions, to cause them to behave - at least in some measure - as parts of a whole.'

In contrast, an international society: 'exists when a group of states, conscious of certain common interests and common values, form a society in the sense that they conceive themselves to be bound by a common set of rules in their relations with one another, and share in the working of common institutions.'<sup>1</sup>

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<sup>1</sup> Buzan (2004) uses the term 'interstate society' to refer to this grouping of state, while potentially more accurate it has been relatively unused within the English School. Instead, he uses 'international society' to describe, situations in which transnational actors and individuals

This is of course a semantic division, which may be untenable in practice. Indeed, it seems implausible that two states could have ‘sufficient contact’ with each other to ‘cause them to behave [...] as part of a whole’, without seeing the development of some institutions (e.g. diplomacy, or territoriality) and consequently of an international (Buzan 2004; Watson 1992). As Neumann (2011) puts it, it is not a digital question of being ‘in’ or ‘out’, but rather the extent to one is ‘in’ or ‘out’ in an analogous fashion. Thus, it may be more suitable to represent international system and international society not as mutually exclusive, but rather as two positions along a spectrum.

Further, a state’s position on that spectrum is not fixed, and states may frequently change position along it. This has been a favorite subject of the English School, with numerous projects (this one included) studying the entrance of states within the current international society - the moment when a state has been sufficiently socialized (i.a. moved towards the international society side of the spectrum) to be considered ‘one of us’.

State socialization occurs when states move away from ‘international system’ and towards the ‘international society’ end of the spectrum.<sup>2</sup> This concept, however, is not uncontroversial and has been used in a variety of ways.<sup>3</sup> Nonetheless, at the core of those definitions is the idea that state socialization corresponds to the transfer of norms from a party to another. A general definition is offered by Kai Alderson, who describes it as ‘the process by which states internalize norms originating elsewhere in the international system.’ (2001, 417) As states adopt increasingly more norms of a given international society, they become gradually socialized within it, and shift towards the international society end of the spectrum. Those norms, however, are never random but are determined by the international society’s primary institutions.

‘Primary institutions’, Buzan (2004, 181) describes, ‘are durable and recognized patterns of shared practices [...] embodying a mix of norms, rules and principles.’<sup>4</sup> Those institutions are both constitutive and regulatory in the sense that they determine both who is eligible to participate and what rules are to be followed. It is the extent to which a state adopts the international society’s institutions that determines its inclusion within it. For example, Shogo Suzuki (2005) puts forth the cogent argument that it is only after Japan adopted the institution of colonialism at beginning of the twentieth

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being granted rights by the states within the framework of the interstate society. However, since this analytical distinction does not pertain to this discussion, the term ‘international society’ as defined by Bull (2002) will be favoured.

<sup>2</sup> It is to be noted that state socialization does require a state to move from international system to international society. Rather, much of the socialization that occurred during the past two hundred years occurred between two mutually exclusive international societies.

<sup>3</sup> For more, see (Alderson 2001), for a constructivist approach to socialization see (Finnemore and Sikkink 1998)

<sup>4</sup> The qualifier ‘primary’ is used to avoid confusion with ‘secondary institutions’, such as the World Trade Organization, the World Bank which are the products of primary institutions. For a more thorough discussion on the subject see Buzan 2004, ch. 6

century that it overcame the epoch's standard of civilization and was acknowledged by the European international society as a civilized state.

However, not all primary institutions carry the same weight and some can be understood as being 'deeper' than others. Such institutions can be described as 'master primary institutions' from which the other primary institutions of an international society are derived.<sup>5</sup> Sharing this characteristic with all institutions, master primary institutions are not static but dynamic, and may evolve or be replaced over time. The master primary institution of Inequality of People was dominant for thousands of years under different shapes (i.a. Colonialism, Dynasticism) only to be practically eradicated during the course of the twentieth century, with only a few rogue or pariah countries still subscribing to it.

Currently, the current global international society appears to have eight master primary institution: Sovereignty, Territoriality, Diplomacy, Great Power Management, Equality of People, Market, Nationalism, and Environmental Stewardship (Buzan 2004, 187) . All have been adopted by most countries and are generally used to legitimate a state's behavior. Furthermore, from those institutions have been produced further derivative, and secondary institutions. To name but a few, the derivative institution of International Law and the secondary institution of the UN General Assembly both stem from the master primary institution of Sovereignty. (Buzan 2004, 187)

## **Discussion**

*Northeast Asian States and their Socialization in the Global international society.*

Over the past sixty years, each country in Northeast Asia has been introduced into, and is now a member of, the global international society. Among them, Japan and South Korea have clearly been the most successful.

Japan's socialization in the global international society was the swiftest among Northeast Asian states. Unlike the other countries of the region, the Empire of Japan had already been socialized in the western international society and had even passed the epoch's standard of civilization by the turn of the century. However, by the end of the Second World War, the global international society had changed quite drastically thereby leaving a defeated Japan at its periphery. Thus Japan's post-WWII socialization was not so much a matter of adopting a complete set of new institutions, but rather an update on preexisting foundations.

Japan's re-socialization was achieved by means of what Ikenberry and Kupchan described as 'internal reconstruction', that is when a country 'directly intervenes in the secondary state and transforms its domestic political institutions.' (1990, 292) For Japan,

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<sup>5</sup> Buzan (*ibid*) discusses this phenomenon to some length



this internal reconstruction occurred between August 1945 and September 1952, during the Occupation of Japan by the United States.

Far from superficial, the reforms promoted during this period were aimed at drastically altering the fabric of the Japanese society. In the words of Edwin Reischauer (1977, 107), those were done with the hope to ‘create conditions which were thought to be more conducive to the successful functioning of democratic institutions than the old social and economic order had been.’

By 1952, Japan was once again suitably socialized within international society and shared its core master primary institution. Dynasticism and Inequality of People had been replaced by Equality of People and more specifically its derivative, the institution of Democracy. Furthermore, the master primary institution of market had also been installed although in a somewhat earlier form than the one that exists today.

Although just as effective, the socialization of the South Korean state in the international society was much slower. This process occurred in two stages, first a swift but superficial introduction into international society at the end of the Second World War, then another much deeper socialization which coincided with the end of the Cold War.

Once independent from the Japanese occupation, South Korea underwent a short phase of internal reconstruction under American supervision between 1945 and 1948 during which many of the foundations for the South Korean systems were laid. Unlike with Japan, however, the United States were drastically unprepared and quickly enough let exogenous factor determine the political system of the new government. It is during this period that South Korea adopted most of the master primary institution of the global international society, and was recognized by the United Nations General Assembly and participated in the General Assembly as Observer.

It is the end of the Cold War that would lead to the full integration of the South Korean state at the core of the international society. In 1987, the autocratic government led by successive dictators was replaced by a democracy. Further, in 1991, with the end of the Cold War, South Korea was granted full-membership to the U.N.<sup>6</sup> Thus putting South Korea within the core of international society.

Unlike Japan and South Korea, the socialization of China and North Korea has been more limited leaving them respectively closer to the periphery and at the periphery itself.

China’s introduction within international society, while far better than that of North Korea, remains an ongoing process.

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<sup>6</sup> Recently, South Korea was also the first former aid recipient to join the OECD Development Assistance Committee.

This is due, in many ways, to the comparatively more recent introduction of China into the international society and the less direct method of socialization. Indeed, rather than direct internal reconstruction by American hands, China was socialization by means of 'External Inducement', that is through the non-coercive use of 'economic and economic incentives to induce smaller states to change their policies'. (Ikenberry and Kupchan 1990, 290) Also, while much has been written on the introduction of 'China' into international society, those writings have focused on the Republic of China, not on the People's Republic of China.<sup>7</sup>

Nonetheless, it can be traced quite easily to 1971 and its admission to the United Nations in replacement of the Republic of China. This marked the beginning of the Chinese socialization into the international society as it has ever since then adopted increasingly more institutions. Most successfully was that of Great Power Management with the People's Republic of China holding a permanent seat in the United Nations Security Council.

This is still a work in progress however. China's adoption of the master primary institution of the market has remained somewhat shallow so far, the state still having a strong control on the economy. It is to be noted that its recent admission within the WTO and its general willingness to accommodate it is a great improvement in this regard. Furthermore, it has remained reticent to adopt the primary institutions of Human Rights and Democracy, as was clearly visible in the Tienanmen Square incident in 1989 and currently in its refusal to grant Hong Kong the right to hold democratic elections.

At the edge of the international society, North Korea has maintained a tumultuous relationship with the core of international society.

North Korea's first introduction was the result of the PRC's inclusion into international society. Indeed, the opening of China radically shattered the world's previous view of a monolithic Communist block, and forced Pyongyang to reconsider its position. Although North Korea had already established diplomatic relations with countries outside the Soviet block during the 1960s, those had remained states at the periphery of the international society. It is only during the 1970s that North Korea was able to establish diplomatic relations with core members of the western international society. First was Sweden (April 1973); followed closely by Finland and Norway (June 1973); then Denmark (July 1973); Austria, Switzerland, and Australia (December 1974); and finally Portugal (April 1975). Yet, North Korea's most important incursion was its admission as an observer to the United Nations in 1974 following the change in recognition of the China seat. While this event formalized North Korea's inclusion into the European international society it remained a shallow one as numerous 'core' countries — and all the most influential — remained out of diplomatic reach, such as

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<sup>7</sup> See (Zhang 1991) for a discussion more in depth on the introduction of the Republic of China into the international society

the United States, France, and the United Kingdom. This phase of rapprochement came to an abrupt end in October 1983, when a terrorist bombing attributed to North Korea killed parts of the South Korean cabinet — missing closely President Chun Doo-hwan — in Rangoon, Burma.

What followed was a tilt towards the Soviet Union and period of distancing from the international society with North Korea attempting to find ways of ensuring its survival.

Similarly to South Korea, North Korea eventually entered the UNGA as a full member in 1991, but it was very quickly clear that it had not the same status as South Korea. Indeed, the end of the Cold War had resulted in the disappearance of alternatives to the Western international society and made it de facto the only global international society. As a result, states which had not been previously fully socialized in the international society became understood as ‘rogue’ or ‘pariah’ states at the edge of international society. Nonetheless, the nineties still saw a rapprochement of North Korea to the core of international society. The Hermit state was able to establish relations with a great number of core states -- with the exceptions of France and the United States; and despite some difficulties, the US-DPRK relations were also improving under the Clinton Administration.

The last, and current phase, which started with the new millennial is one of distancing. North Korea’s withdrawal from the Non-Proliferation Treaty in 2003, the subsequent nuclear trials, the Human Right violations, the absence of the Market and the authoritarian regime all contribute to leaving North Korea in a very shallow state of socialization. Despite all that, it still ascribes to many some of the master primary institutions of international society: Sovereignty, Territoriality, Diplomacy, and Nationalism.

Thus, while all Northeast Asian countries are part of the global international society and generally share the same master primary institution, the region has been unable to achieve any significant level of integration and regionalization.

*Primary institutions characteristics and Regionalization: The Role of the United States*

Regionalism and regional political integration are the result of the creation and adoption of secondary institutions. As we have seen, Northeast Asian countries share many institutions both with the global international society and among each other, why then has it not led to the creation of new secondary institutions?

I posit that it is the inherent nature of the institutions most present in East Asia that are preventing the political integration of the region, and that the overwhelming presence of those institutions is the direct result of the US strategic calculations in the region.

In the Anarchical Society, Bull (2002, 65–67) delineates three types of purposes for institutions. Those are ‘constitutive’, the rules of ‘coexistence’, and finally the rules of

‘cooperation’. While the two first purposes are simple features required for the maintenance of an international society, the third one goes beyond survival of the established order. Indeed, rules of cooperation ‘prescribe behavior that is appropriate to those more advanced or secondary goals that are a feature of an international society in which a consensus has been reached about a wider range of objectives than mere coexistence.’ (Bull 2002, 67)

In this we see the difference between two favorite terms of the English School: Pluralism and Solidarism. Buzan describes those two terms in the following fashion: Pluralism refers to international societies which focus ‘on creating a framework for orderly coexistence and competition, or possibly also the management of collective problems of common fate’; while Solidarism refers to international societies ‘where the focus is not only on ordering coexistence and competition, but also on cooperation over a wider range of issues, whether in pursuit of joint gains (e.g. trade), or realization of shared values (e.g. human rights)’ (Buzan 2004, xvii)

From those definitions, it is clear that both constitutive principles and rules of coexistence aim to fulfill pluralist ends, while rules of cooperation aim for solidarist ends. To which categories, then belong the different master primary institutions most dominant in East Asia?

From the discussion above, we can see that the dominant Northeast Asian primary institutions are very clearly Sovereignty, Territoriality, and Nationalism. Those three are very predominantly present in each of the four countries. Those clearly fulfill the pluralist purpose of coexistence by determining the participants -- states -- and principles to follow -- non-intervention, respect of the territory, self-determination, etc.. Nationalism furthers this position even more by precluding foreign influences.

The master primary institution of Diplomacy while unanimously adopted at a global scale, is not actually used among the four countries. Indeed, only China actually maintains active diplomatic relations with every other country in the region. South Korea and Japan both recognize each other and China, but do not grant recognition to North Korea. Lastly, North Korea while recognizing both Japan and China only maintains relations with the later. As a result, diplomacy has little potential for further development in the near future.

Environmental Stewardship, which can serve both pluralist coexistence purposes and solidarist cooperation may well be the most likely option for further regional integration in Northeast Asia.

This is especially the case since Great Power Management, Market, and Equality of People, the main solidarist primary institutions from which have stemmed some of the strongest secondary institutions, while readily accepted by Japan and South Korea are all to some extent actively opposed by China and North Korea. As a result, it is hardly

possible to imagine a Northeast Asian Court of Human Rights, or Northeast Asian Treaty Organization.

How then, did this extreme focus on coexistence and pluralism come to exist?

Looking back at United States interactions with East Asian states since the end of the Second World War provides us with the answer that conditioned by its Cold War pursuit of strategic maximization, the United States let Northeast Asian primary institution develop in a pluralist fashion. First, by ignoring the due process warranted by solidarist institutions; and second, by promoting a pluralist political architecture in the region.

During the Cold War, the United States frequently ignored solidarist institutions in favor of pragmatic advantages. To name but a few: after the end of the Japanese Colonization of Korea, the American government essentially maintained the Japanese colonial system in place by offering advisory positions to the those who had until then been part of the administration and police, it also turned a blind eye during forty years of authoritarian -- but anti-Communist-- regime; in Japan, the United States decided to not only exonerate the emperor of war responsibility but also to release and soon afterward openly embrace accused war criminals such as Kishi Nobusuke -- who would later become prime minister<sup>8</sup>; it also avoided confronting China on the issue of Human Rights or Democracy. In essence, by favoring pragmatism over solidarist institutions, the United States has created a precedent in the region where solidarist endeavor became mostly limited to the realm of non-state actors.

Further, the United States' alliance system of hub-and-spoke has resulted in an East Asian pluralist political architecture ill-suited to solidarist endeavors. When discussing why the United States preferred a hub-and-spoke architecture of bilateral relations, Ikenberry (2004, 358) explains that 'the United States was both more dominant in East Asia and wanted less out of the region.' As such, the tradeoff between policy autonomy and institutional cooperation that offers multilateral agreements was less interesting to the United States. Consequently, they promoted an hub-and-spoke architecture with strong bilateral relations between themselves and South Korea, as well as Japan. As such, unlike in Europe, not infrastructure was promoted between the regional power during the past sixty years, leaving the secondary institutions landscape practically bare.

Worse even for the prospects of further political integration is the fact that those alliances have survived the end of the Cold War, thus begging the question of 'Who are they meant contain?' Whether the answer is North Korea or China, those alliances, because of their inherent adversarial nature, are worsening the odds of further integration.

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<sup>8</sup> For an account of this period, see Bruce Cummings (2005)

As a result of this American political maneuvering, the Northeast Asian sub-global international society has become barren and unable to accommodate more than a superficial regionalization

### **Conclusion**

It appears then that as long as the current institutional configuration of Northeast Asia remains the same, prospects for further integration will remain bleak. Indeed, the region's preference of pluralist interpretations of the master primary institutions of international society prevents the development of secondary institutions

This article has put forth the argument that it is this intrinsic nature of the Northeast Asian international society that is hindering its prospects for further regional integration, and that the United States is the key to understanding how this situation was created. After a short theoretical review of the terms in use, this essay has attempted to show the role of the United States in the socialization process of the different states of the region. Then, using the analytical framework of pluralism and solidarism, it has delineated how Cold War strategic calculations have led the United States to ignore solidarist institutions in favor of pragmatic considerations, as well as favor the construction of a pluralist Northeast Asian political structure via a hub-and-spoke architecture.

However, while it is clear that the United States has played an instrumental role in the shaping of the Northeast Asian sub-global international society to this day, it would be misguided to assume that they are the only solution to this situation. Because of its current status, it is unlikely the United States would be willing to support -- or even accept -- the existence of a strong Northeast Asian international society. This responsibility, thus, becomes that of East Asian nations. Among the possible venues for such endeavors, Environmental Stewardship could well be one of the most effective way of engaging Northeast Asian states in a constructive cooperative process. Indeed, while it may first serve to address the rules of coexistence, it also has the potential to develop much further.

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## Northeast Asia Regional Integration: A Taiwanese Perspective\*

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### Introduction

Northeast Asia regional integration is a sub-region in Asia. China, Japan and the Republic of Korea (ROK) are main actors under this Region. Tracing back to history, China-Japan-ROK integration was under ASEAN in the beginning. One of the representative institutions is Trilateral Summit which is held by China, Japan, R.O.K and ASEAN. In 2008, there was a turning point that emerged between them. Leaders from the three countries attended the first independent Trilateral Summit in Fukuoka, Japan. The descent of exportation and the unstable of exchange rate because of financial tsunami made these three countries realize how important regional integration toward Northeast Asia was, and how it can't be prolonged anymore. Therefore, the new negotiations of CJK FTA were held in 2011, the goal is to make further progress of the agreement. Meanwhile, China-Japan-R.O.K set up a "Trilateral Secretariat" in Seoul, R.O.K. That would be a new year of Northeast Asia integration. However, Trilateral Summit hasn't been operated in Beijing after 2012. Everyone regards the case as a crisis of three countries. This paper seeks to offer analysis from a standpoint outside the region and brood on the implications of Northeast Asia integration on Taiwan.

### Regionalism and Sub-regionalism

"Region" can be one or more regions within a country, can also be a single country, even extended to the region consisting of a number of countries, in international politics that area has proximity, similarity, inclusiveness, overlapping and interdependent, so the area becomes a unit or even an "actor" of international politics.<sup>1</sup> Regionalism started from the 1940s, nationalism became a vital trend after the Second World War. It is called "first wave of Regionalism"<sup>2</sup> international society is in "bipolar system" at that time, European countries present a single political, economic and security community by mutual cooperation. Other new countries in order to protect and maintain their political independence, national economy. This wave has continued into the late 1960s and early 1970s.<sup>3</sup>

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<sup>1</sup> 張亞中，〈國際關係總論—第三版〉(新北市：揚智文化，2012年)，頁444-445。

<sup>2</sup> Fredrik Soderbaum and Timothy Shaw, eds., *Theories of New Regionalism* (New York: Palgrave Macmillan, 2003), pp.22-30.

<sup>3</sup> Soderbaum and Shaw eds., *op. cit.*, p.30.



In 1980s, Neo-Regionalism has come up to the stage, Neo-Regionalism is symbolic of universality, complexity and liquidity, <sup>4</sup>the most important in the approach of integration is “bottom-up”, we also can call “spill over.”<sup>5</sup>Countries take advantage of cross-border cooperation and extend to higher political sectors cooperation. Neo-Regionalism represents an integration which countries have multiple ways to cooperate.<sup>6</sup> After the collapse of bipolar system, there occur a lot of regional trade agreements, North American Free Trade Agreement (NAFTA), Mercosur, and Asia Pacific Economic Cooperation (APEC).<sup>7</sup>In addition to these regional cooperation organizations, a lot of scholars put emphasis on Sub-Regionalism and Micro-Regionalism. Lots of countries located in Asia use this approach to achieve their cooperation and development in different fields.

The difference between Regionalism and Sub-Regionalism is the actor. In terms of regional integration, main actors are always powerful countries. On the other hand, middle power countries are main actors in sub-regional integration.<sup>8</sup> These countries take advantage of productivity, technology and human resource from different levels of economic development to reach their goals. This paper uses sub-regionalism to analyze integration in Asia. China, Japan and R.O.K are located in Northeast Asia and their movements affect this region deeply.

### **The Development of China-Japan-Korea Trilateralism**

In 1997, China, Japan and R.O.K were invited to join a multilateral summit after ASEAN Summit. On December, the 1<sup>st</sup> “ASEAN+3” Summit was held in Kuala Lumpur. Members discuss a lot of issues in this region and make a foundation of mutual belief for further cooperation.<sup>9</sup>“ASEAN+3” Summit is in the form of breakfast meeting. In November 1999, the premier of China, Zhu Rong-Ji, the prime minister of Japan, Keizo Obuchi and the president of R.O.K, Kim Dae-Jung,<sup>10</sup> they agree to launch a “Joint Statement on East Asia Cooperation” to cooperate in many fields, including trade and investment, financial and monetary, political security, sustainable development and other issues. In the following year in the ASEAN+3 Summit, they decide to hold a summit each year.

In November 2002, Zhu Rong-Ji launched a concept of China-Japan-ROK FTA and the three leaders supported the ideas. Therefore, in 2003, the premier of China, Wen

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<sup>4</sup> Ibid.,p.1.

<sup>5</sup> 蔡東杰，〈東亞區域發展的政治經濟學〉(台北市：五南圖書，2013)，頁 172。

<sup>6</sup> Paul Bowles, “ASEAN, AFTA, and the New Regionalism,” *Pacific Affairs*, Vol.70, No.2(1997), pp.219-233.

<sup>7</sup> 劉泰廷，〈從新自由主義觀點探討東北亞區域合作發展〉(台中：國立中興大學國際政治研究所，2010)，頁 28-29。

<sup>8</sup> Glenn Hook and Ian Kearns, eds. *Sub-regionalism and World Order* (London: MacMillan Press, 1999), p.6.

<sup>9</sup> 黃奎博，〈「東協加三」與區域合作：東北亞與東南亞的連結〉，《國際關係學報》第 20 期(2005)，頁 98-99。

<sup>10</sup> 廖舜右，〈中日韓峰會機制之演變〉，《台灣經濟研究月刊》第 35 卷第 6 期(2012)，頁 21-22

Jia-Bao attended the Fifth Trilateral Summit under ASEAN and the three leaders launched “Joint Declaration on the Promotion of Tripartite Cooperation” after the summit. The three leaders think they need an institutional dialogue because of the countries’ highly complementary economics and close cooperation in trade investment. By dialogue, they are able to strengthen their cooperation in various levels and enhance the prosperous development in East Asia. In 2005, the Seventh Trilateral Summit under ASEAN was postponed because the prime minister of Japan, Junichiro Koizumi went to Yasukuni Shrine. In 2007, after almost two years, the three leaders reached a consensus: (1) China, Japan and ROK shoulder great responsibilities in maintaining peace, stability and prosperity in Asia. (2) The leaders expressed satisfaction with the significant progress made in various areas, especially in the five priority areas of economy and trade, ICT industry, environmental protection, human resources development and culture. (3) The leaders expressed their concern about the situation caused by the DPRK’s recent missile launches and the nuclear test. (4) Starting a cultural festival among China, Japan and ROK in this year.

On November 13<sup>th</sup> 2008, the Inaugural Trilateral Summit was held in Fukuoka, Japan. Participants are the premier of China, Wen Jia-Bao, the prime minister of Japan, Taro Aso, and the president of ROK, Lee Myung-Bark. The most important reason that Trilateral Summit was held in that year is Financial Tsunami. Despite the fact that China hasn’t had big influences from the financial tsunami, its amount of exportation fell because of a shortage of demand from Europe and the U.S. Because of the impact of the financial tsunami, China’s government realized that can no longer rely on export-oriented to support the whole China. In the past, the main economic strategy is “Let some people get rich first” but the policy makes economic structure disorder in china. Wealth gap is the severe problem in China’s society. China’s government have to make a policy which can use their market to reach the biggest utility.<sup>11</sup> As far as Japan is concerned, this depression makes a big influence to Japan. What is the most serious is the rate of unemployment, All Japan needs is a way to recover their vibrant economy. It is also a big bit toward ROK’s economy by Financial Tsunami. In the stock market, in the whole year in 2008, the stock market falls by more than 39% and it also affect exchange rate. The performance of ROK is bottom three countries facing the Financial Tsunami in Asia.<sup>12</sup>

In 2009, the Second Trilateral Summit was held in Thailand, they launched the “Joint Statement on the Tenth Anniversary of Trilateral Cooperation”, the main ideas are as follows (1) Build up mutual trust in the political field (2) Deepen mutually beneficial cooperation (3) Expand people-to-people exchanges (4) Promote peace,

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<sup>11</sup>高順德，〈從「兩會」看中共的政經轉型戰略〉，《財團法人國家政策研究基金會》，(2014/9/5 瀏覽) <http://www.npf.org.tw/post/1/8887>。

<sup>12</sup>謝德宗、劉明德、吳孟道，《金融海嘯各國財政政策之比較研究(計畫編號:98mof005)》，(台北:財團法人國家政策研究基金會，2009)，頁 73。

stability and prosperity of Asia.<sup>13</sup>In March 2011, Japan had a big earthquake and it led to Tsunami, out of electric power and damage of nuclear station toward Japan. In the Fourth Summit in May, they mentioned that they needed to cooperate in disaster management and nuclear safety and accelerated trilateral FTA. Therefore, “Trilateral Secretariat” was come out and located at Seoul, ROK. The Secretariat is symbolic of further cooperation between three countries. In 2012, the Fifth Trilateral Summit was held in Beijing. Based on the conclusion and recommendations contained in the Report of the Joint Study for an FTA among the three countries, the leaders decided to launch the trilateral FTA negotiation within this year. The leaders witnessed the signing of the Trilateral Agreement for the Promotion, Facilitation and Protection of Investment.<sup>14</sup>In addition to economic cooperation, they also wanted to enhance agricultural cooperation in the future and look forward to have a meeting next year.

	Time	Location	Contents
1 <sup>ST</sup> Summit	2008.12.13	Fukuoka, Japan	1. Review of the trilateral cooperation and measures for further progress 2. Plans to cope with international finance and economy situation
2 <sup>nd</sup> Summit	2009.10.10	Beijing	1. Strengthen cooperative measures in environment, circular economy, science and technology. 2. Agree to launch a Trilateral Cooperation Cyber Secretariat.
3 <sup>rd</sup> Summit	2010.5.29-30.	Jeju, ROK	1. Evaluation and future direction of the Trilateral Cooperation. 2. Discuss the Investment Agreement
4 <sup>th</sup> Summit	2011.5.29	Tokyo	1. Share the view to an early realization of substantial agreement on Investment Agreement 2. Agree on expanding the scale of people-to-people exchange.
5 <sup>th</sup> Summit	2012.5.13	Beijing	1. The three leaders also welcomed the establishment of the TCS in September 2011 in Seoul. 2. Strengthen communication and coordination with regard to regional and international issues.

<sup>13</sup> 〈中日韓合作〉,《中華人民共和國外交部》,(2014/8/28 瀏覽)

[http://www.fmprc.gov.cn/mfa\\_chn/](http://www.fmprc.gov.cn/mfa_chn/)。

<sup>14</sup> “The 5<sup>TH</sup> Trilateral Summit,” *Trilateral Cooperation Secretariat*,(2014/09/20)

[http://www.tcsasia.org/dnb/board/view.php?board\\_name=3\\_1\\_1\\_politics&view\\_id=31&search\\_cate=Trilateral+Summit](http://www.tcsasia.org/dnb/board/view.php?board_name=3_1_1_politics&view_id=31&search_cate=Trilateral+Summit).

Source: Trilateral Cooperation Secretariat

[http://www.tcsasia.org/dnb/board/list.php?board\\_name=3\\_1\\_1\\_politics&search\\_cate=Trilateral+Summit](http://www.tcsasia.org/dnb/board/list.php?board_name=3_1_1_politics&search_cate=Trilateral+Summit).

After 2012, the Trilateral Summit and Trilateral Foreign Minister Meeting has stopped until now. Facing the dilemma, they need to figure out a way to resolve it. However, in different levels, they are still in operation. In May 2014, “Trilateral Investment Agreement” entered into force. The Agreement was signed at the Trilateral Summit in Beijing in May 2012 as the first binding legal framework among the three countries in the field of trade and investment.<sup>15</sup> In September 2014, the Fifth Round of CJK FTA Negotiations was held in Beijing. The three delegations headed by ministers from China, Japan and ROK. Investment, Service and goods are under negotiation and Electronic Commerce and Environmental issues would be involved next round. Besides, air pollution became more serious than before. To reduce emissions of CO2 and sulfur is priority to the three countries. Therefore, in March 2014, “the First Tripartite Dialogue on Air Pollution” was held in Beijing and a lot of experts attended this dialogue to discuss what policies were good for China, Japan and ROK.

## **Obstacles and Barriers to Progress**

### *Tensions between China and Japan*

If tracing back to 19-20 century, there were a lot of disputes between China and Japan. The First Sino-Japan war was over, Qing dynasty was defeat by Japan. According to tribute system, Japan is just a middle country; however, Japan not only wins the war but asks for ceding territory and paying indemnities. What Japan does is a shame for Qing dynasty. On the other hand, it is a proof that “Meiji Ishin” does work in Japan. After almost three decades, “Mukden Incident” was break out and the Japanese troops occupied main railway in northeast of China. China regarded the movement as an invasion, on the contrary Japan clarified that “we need to protect our interest in China” in League of Nations. Until 1972, People Republic of China and Japan signed the first “Joint Communiqué of PRC and Japan”. Japanese government admitted what they did to Chinese citizens and felt sorry about it.<sup>16</sup>

Another controversial issue is “Yasukuni Shrine.” It was originally called “Tokyo Shokonsha” It was founded by Empire Meiji and commemorates anyone who had died in service of Japan. In 1879, the name had changed into “Yasukuni Shrine” because of the need of expansion in Asia, the Empire Meiji needed a place to let people respect the soldiers who was died in war.<sup>17</sup> The following wars, such as 1<sup>st</sup> Sino-Japan war, Russo-Japanese war and Pacific war which lead to a lot of people dead were included in

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<sup>15</sup> “Trilateral Investment Agreement” *Trilateral Cooperation Secretariat*, (2014/09/20)

[http://www.tcs-asia.org/dnb/board/view.php?board\\_name=2\\_1\\_news&view\\_id=208&page=5](http://www.tcs-asia.org/dnb/board/view.php?board_name=2_1_news&view_id=208&page=5).

<sup>16</sup> 黃金湯，〈後冷戰時期中日外交關係〉（台北：淡江大學國際事務與戰略研究所碩士論文，2009年），頁91。

<sup>17</sup> 黃金湯，前揭書，頁97。

Yasukuni Shrine. Started from 1951, the prime minister of Japan, Yoshida Shigeru went to Yasukuni Shrine to show his respect; afterwards, almost every prime minister went to Yasukuni Shrine every year.<sup>18</sup> Both Chinese and Korean government disagreed the behavior. In 2001, the prime minister of Japan, Koizumi Junichiro went to Yasukuni Shrine when he just got the position. Therefore, the minister of Foreign Affairs of China displeased the behavior immediately, he said “Chinese government and people felt angry about the behavior and it harmed the relationship between China and Japan.”

### *Tensions between Japan and ROK*

The most controversial issue toward ROK is the women who were forced to provide sex services, it is also called “Comfort Women.” 1990s, the rise of Feminism, a lot of Korean women sued the Kyoto Court for forcing them to be Comfort Women. They wanted Japanese government to apologize for compensation; however, Japanese government couldn’t meet these women’s expectation. Even that these women made Japanese government face the issue and let international organization aware of what Japanese government did in the past.<sup>19</sup> About the Comfort Women, One of the most representative of the conversation is by Cabinet Secretariat of Japan, Kono Yohei. He is on behalf the Japanese government issued a conversation about Comfort Women. In his talks, he admitted the Japanese army in the Korean Peninsula, China and other places to set up a brothel and apologized to these women for what Japanese military had done to them. In the future, we will educate our children to remember the history.<sup>20</sup> In 2012, Abe Shinzo was the prime minister of Japan elect and the power of right-wing had risen in Japan. In February 2014, Cabinet Secretariat of Japan, Suga Yoshihide in the congress said Abe government will set up an organization to re-investigate the Comfort Women case. These words were seen as denying Kono Yohei’s conversation and made Korean government displeased.<sup>21</sup> The president of ROK, Park Geun-Hye refuses to have a meeting with the prime minister of Japan because of the historical problems. Until now, we can’t see the solutions to the problems.

### **Conclusion: Considering ASEAN in Northeast Asia Regional Integration**

The Trilateral Summit started from ASEAN+3 and operated individually in 2008. Facing Trilateral Cooperation, ASEAN not only cooperates with China, Japan and ROK but also brings other countries into the ASEAN framework; thus ASEAN tries to make a balance in the region. The more countries that are involved the harder it is for the

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<sup>18</sup> 菱古 靖裕，〈中日關係與歷史認識問題〉（台北：淡江大學國際事務與戰略研究所碩士論文，2005年），頁 37-38。

<sup>19</sup> 羅志平，〈歷史修正主義與新民族主義：日本修改教科書爭議的政治效應〉，〈問題與研究〉第 45 卷第 1 期（2006），頁 94。

<sup>20</sup> 〈日官房長官：安倍政府無意改變河野談話〉，《BBC》（2014/9/7 瀏覽）

[http://www.bbc.co.uk/zhongwen/trad/world/2014/03/140311\\_japan\\_slavewomen.shtml](http://www.bbc.co.uk/zhongwen/trad/world/2014/03/140311_japan_slavewomen.shtml).

<sup>21</sup> 〈安倍政府決定重新調查慰安婦問題〉，《BBC》（2014/9/7 瀏覽）

[http://www.bbc.co.uk/zhongwen/trad/world/2014/02/140228\\_japan\\_history\\_sex\\_slave.shtml](http://www.bbc.co.uk/zhongwen/trad/world/2014/02/140228_japan_history_sex_slave.shtml).

region to be integrated. We also call the method of ASEAN's enlargement, "ASEAN Way." The way takes influence on Northeast Asia integration.

Principles of ASEAN Way are as followed, "unofficial", "tolerant", "common consensus", "negotiation", "non-interference." By the method, ASEAN can enlarge partners, therefore there are "ASEAN+3" then "ASEAN+6". Apart from China, Japan and ROK, Australia, New Zealand and India are also ASEAN'S partners. Generally speaking, the ASEAN Way only provides a platform for countries to discuss issues more than an organization to restrain members' behaviours. Nevertheless, there are some strategies to maintain its leading status; (1) involving strong countries in ASEAN framework to make balance in the region. Recently, the Regional Comprehensive Economic Partnership (RCEP) is under operation. It is regarded as a FTA against the China, Japan and ROK FTA which is led by China (2) establishment of new multilateral institutions advanced (3) deepen integration of ASEAN and maintain its leader status under regional integration. In addition to hold an international summit, ASEAN also deepen their integration by modifying ASEAN Charter or establishing new acts toward members of ASEAN.<sup>22</sup>

To sum up, compared to other countries in this region, ASEAN countries only have middle power status, thus ASEAN established institutions to restrain other powerful countries. Focusing on the Northeast Asia, trilateral cooperation is operated out of ASEAN. China, Japan and ROK are much stronger than ASEAN therefore RCEP is a kind of policy to restrain the Northeast Asia regional integration. Trilateral cooperation will definitely be affected by ASEAN and can't ignore ASEAN's influence in East Asia.

From the viewpoint of ASEAN, they need powerful countries to invest in them and provide technology techniques to upgrade their industries. On the other hand, ASEAN doesn't want to lose its leading role. Thus, regional integration is so slow that even haven't made specific institutions in East Asia. From the viewpoint of Trilateral countries, ASEAN is just a bargaining chip that they can use in different ways to detain other countries' action. There is one ASEAN+3, three groups of ASEAN+1, with the operational models, China not only cooperate with ASEAN but also lead ASEAN+3 integration because of their powerful rights in Northeast Asia. However, Japan is afraid of the enlarging power from China thus, Japan likes to use ASEAN+6 to reduce the impact from China.<sup>23</sup>

Besides, ASEAN is kind of buffer zone under China-Japan-ROK framework. They can discuss insensitive issues under ASEAN. In 2014, in ASEAN Ministerial Meeting, the minister of foreign affairs of China, Wang Yi and minister of foreign affairs of Japan, Fumio Kishida had a meeting at that time. It has been two years since last meeting in higher level between China and Japan.<sup>24</sup> In conclusion, the main factors

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<sup>22</sup> 宇都宮溪，〈東協在大國參與區域整合後之多邊主義策略〉，《全球政治評論》第47期（2014）頁134

<sup>23</sup> Matsuo Wantanbe, "Issues in Regional Integration of East Asia: Conflicting Priorities and Perceptions," *Asia Pacific Review*, Vol. 11, No.2(2004), pp.11-13.

<sup>24</sup> 蔡增家，〈中日破冰 習強硬外交轉向?〉，《聯合報》（2014/9/9 瀏覽）

affect the progress of East Asia integration is lack of mutual trust and balance in those countries. The competition between ASEAN and China-Japan- ROK delay the schedule of further integration in each region.

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## Climate Change and Urban Poor: Water-related Behavior in Jakarta<sup>1</sup>

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### Abstract

*Jakarta is a growing urban centre that is facing two problems: climate change and urban poverty. City authority of Jakarta has yet to prepare comprehensive public policies to address the two challenges of the city that has over 9 million population. As a coastal city, Jakarta has a coastline up to 25 km long. The average elevation of land surface is 7 meters above sea level.*

*Around 40 percent of land surface are below the sea level. There are thirteen rivers flowing rainwater from high land of West Java through the city running into Jakarta Bay. Therefore the threat of climate change is not only due to rising sea levels but also flooding and drought. It is estimated that around 1 million of the urban poor experiencing the vulnerability since most of them are illegally occupying the low land surrounding riversides.*

*The extreme weather is now happen frequently both in urban and rural area. Since poor farmers and farm workers have no saving, some of them have trying to get the job in cities such as Jakarta. Their daily income is around USD 6 to USD 11.*

*This article discusses how the urban poor act toward the impact of climate change. Since the urban poor have only subsistence income, they choose to live at the riversides in the all part of the city. They utilize the water resources for many purposes, utilize the short underground water table and also dump the waste into the river. This study discusses what the poor urban know and do regarding the water resources and its relationship with any evidence of climate change impact and vice versa. As an attempt to explore the possibility of linkages with climate change as an anthropogenic behaviour, this study tries to develop how the current water governance effectively address the problem.*

**Keywords:** climate change; adaptation, urban poor, vulnerability, water governance

### Introduction

With the exceedingly rapid process of urbanization, the low-income squatter settlements are on the rise in developing countries. In 2012, more than 863 million urban residents in the developing world were living in slum conditions—up from 650 million people in 1990 and 760 million people in 2000 (MDGs and Beyond 2015 Fact Sheet). At present, more than 53 % of 253,2 million of Indonesia's population live in

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<sup>1</sup>This article is one of the parts of the Research Report titled Wellbeing and Climate Change: A Study of Perception and Interactions across Stakeholders on Mitigation, Governance and Accountability to Address Water Governance. This article is the result of specific research on climate change and a series of behaviors urban poor who inhabit the river banks.

urban areas (BPS, 2013). Some of those are living in Jakarta, the biggest city and the capital city of Indonesia.

Like most of the world's developing cities, Jakarta is a coastal city. Coastal cities face climatic problems which can be seen by the rising sea levels and storm surges. Extreme weather evokes unprecedented risks to the livelihoods of many people, property, and urban infrastructure. Coastal cities, with its ports, are most vulnerable to flooding both in the most developed and rapidly developing countries (OECD, 2013).

The Government of Jakarta faces two big problems: how to address the many problems related to the urban poverty and how to deal with the more frequent floods and droughts. Floods and droughts closely related to climate change. Some scientists suspect a link between the increases in the number of urban poor with the widespread impacts of climate change. In this regards, an integrated and rigorous study should be develop and focuses on to study the behaviour of most vulnerable inhabitant in Jakarta. Meanwhile, no doubt that most of the urban poor, particularly in coastal cities inhabit the area around water resources. Though both floods and drought is related to water resources. So the question is whether the behaviour of the urban poor who inhabit the related area of water resources related to various risks arising by floods and drought? Furthermore, is it true the common belief that the urban poor is not victims, but rather some of the causes of flooding and drought. Or, indeed as anthropogenic climate change has a connectedness with the growing number of urban poor in developing countries?

As a coastal city, Jakarta has approximately 25 kilometres of coastline. With an average elevation of seven metres above sea level, 40 percent of the city areas are below the average elevation. There are 13 rivers that run water from high land at the outside of Jakarta region to the Jakarta bay. Fairly low of average land surface elevation can be associated with the number of rivers and the floodplains in Jakarta. The area surrounding the thirteen rivers are prone to flooding. Therefore river basins were prohibited to be inhabited since the colonial era. However, lax governing tracing back nearly four decades have left squatters to freely occupy land area. Most of the floodplains has been turned to be illegal housing. An estimation said that 1 million people live illegally in the riversides and the floodplain.

Squatters occupying the area surrounding the river basin are likely to have migrated from rural areas. They need jobs for living. They left their country side to

get the opportunities in urban areas since currently they are facing hardship in their agricultural activities. With the increasing threat of extreme weather, farmers in many areas surrounding Jakarta are facing the impact of extreme weather. They have lost their income because of the failures of harvesting. Many farmers and farm workers need alternative jobs to live. Not so many of them suspect that extreme weather is related to climatic change and carbon gas emissions.

Considering the vast array of these workers' geographical origins, informal employment in its diverse forms is much different from formal employment. Informal workers are diverse in the sense that they cut across many sectors; from rubbish scavengers to fruit vendors. Moreover, these informal workers face unsafe and poor working conditions. Not unlikely do they end up living in an unoccupied or abandoned area of land and floodplains. Nowadays, illegal settlements are found along the thirteen riverbanks in Jakarta. Riverbanks are increasingly morphing into run-down slums, both dangerous and illegal.

Most of the low-income families living at unhealthy conditions are along the riverbank/riverbasin. They also have no legal permission to stay there. Their incomes are very low, at about USD 5 to USD 9 per day.

The necessary measures to fulfill the people's need for drinking water are addressed as a public service obligation (PSO) under the Law of Public Service Provision No 25/2009. However, the riverbank falls under the category of a floodplain. Uses of any property of floodplains are restricted or prohibited. Stemming from this fact, it goes without saying that any development of public service facilities in floodplain areas is not permitted.

Government efforts to provide clean water have taken many forms over the years, including the use of tank trucks to bring water supply. This step has been proven to be ineffective (Manurung, 2007). Piped water supplies have been established and developed since the colonial period in the 1920s, and then nationalized by the government in the 1960s. In 1998, clean water supplies were privatized and handed over to international corporations with a public-private partnership scheme. Nevertheless, even to this very day, stakeholders involved in bringing adequate water supplies to homes have yet to achieve their full intent.

Theoretically, climate change may intensify competition for water. Cities generally rely on their immediate surroundings for water. While the effect of climate

change on the water resources of a particular city cannot be predicted at present, the competition for water can be expected to intensify in the areas that become dryer than they are now. Since current water management systems are designed for historical weather patterns, some adjustment will probably be required in most places (Hitz and Smith, 2004).

As much as 50% of the urban population in Asia and Africa already lacks adequate provision of water and sanitary services (Ruth and Coelho, 2007). Drinking or recreational water can be contaminated by sewage backup, and microbial/chemical agents and biotoxins can be introduced into the water supply.

At the rate we are going, we can no longer trivialize the fact that climate change will only come to intensify the competition for water. Cities generally rely on their immediate surroundings for water. While the effect of climate change on the water resources of a particular city cannot be predicted at present, the competition for water can be expected to intensify in the areas that become dryer than they are now.

The urban poor are dependent on water found in rivers, for various usages. Water obtained from the river are used for day-to-day activities—drinking, showering, laundry, even as a necessity in operating small businesses. Consequently, many of the urban poor utilize either groundwater or water obtained from rivers as a water supply for domestic use (Manurung, 2007).

This research, in essence, is an attempt to discuss the behavioural aspect of the urban poor inhabiting river basin, as well as how their attitudes and behaviours along with their vulnerability affects the impacts of climate change. Floodplains are not intended to accommodate inhabitants, the areas along the river are unfit for living settlements, thus the main focus of this article is to address the limitations of the urban poor who are faced with difficult policy-related choices by which is similarly difficult to conduct by the government. Moreover, with the increased risks that extreme weather poses, policy decision-making is even less on steady ground. The government is left to make do with the only remaining policies that are relatively standard in city planning. The government is left to make do with the only remaining policies that are relatively standard in city planning. (Bicknell, 2009: 324)

## **Data and Method**

This study utilizes data from reports of studies and public policies as primary sources for literature review. To better understand the context of the problem, researchers conducted continuous in-depth interviews (via fax, e-mail, and phone call) with several speakers, including the head of *Kelurahan office*. *Kelurahan* is the smallest administrative unit responsible for providing most government services. Jakarta comprises 265 unites. For this research, a *kelurahan* was to be made an object of observation. *Kelurahan Gambir* is located in Central Jakarta and it is where a series of in-depth research on the subject of informal sector workers took place.

The area of *Kelurahan Gambir* are 258,28 acres. This particular area was chosen for its prime location, being the site of the presidential and vice presidential palace along with a scatter of prominent government offices, foreign embassies as well as the business district. Due to the strategic location of government offices and business compounds, the majority of residents in this prominent district works in the formal sector. A total of 1,376 people (42,51%) works in various governmental divisions. In the very same area, there is also a military residential complex. A total of 229 people (7,07%) are retired government employees. In terms of age, approximately 46,37% of the population were aged 0 to 29 years. Residents over the age of 29 to 65 years of age comprised 52,55% of the population, while around 6,18% of the population were aged 65 years and above.

The Ciliwung River runs its course through *Kelurahan Gambir*. According to database, the total population of *Kelurahan Gambir* reaches 3,996 people. The riverbanks of Ciliwung River are unfit to accommodate families yet as many as 140 households are currently occupying the area. Around 90 households fall under the category of urban poor because they are recipient to government aid in the form of rice. From 140 households occupying illegal land area, around 40% of them are government employee. The rest of the population are involved in informal sector jobs.

## **Discussion**

Climate change plays a key role in flooding and prolonged drought. An entire city may become paralyzed in the event of a flooding. Each year, it is not uncommon for severe flooding to cause casualties and destruction. On the other hand, droughts are known to last for extended periods of time, and persist long enough to cause a

deficiency in the water supply. During droughts, the water table (upper level of an underground surface) of groundwater falls further below the surface. This is due to the drastic change in the climate.

With the increasingly high rate of urbanization, agricultural workers have faced crop failures in the the last decade. Prolonged droughts and irregular rainfall causes inevitable damage to crops.

The numbers of the poor living in urban areas has increased significantly, although it is prudent to acknowledge the various definition of 'poor'. Official government agencies proposed using a single standard of daily calorie intake to define the category of people who were not in poverty. Therefore The Central Bureau of Statistics identify the number of urban poor inhabiting Jakarta 362.000 persons. However, if residential eligibility is measured from the state of sanitation facilities and clean water sources then the number of the urban poor living in Jakarta will be 3 million people of the 9,7 million population.

Meanwhile, from the legality aspect of occupancy, according to city planning analyst Nirwono Yoga, around 5 million people in Jakarta inhabit riverbanks, the bank-side reservoirs, the green belt, floodplains, railwaysides and underbridges.

If the dual or dichotomous nature of jobs were to be used, it is estimated that approximately 2 million people in Jakarta work in the informal sector. Employment in the informal sector spans many categories, ranging from domestic workers (live-in servants), street food vendors, mini bus drivers along with their conductors, temporary workers, the independent drivers, motorcycle taxi driver (*ojek*) and so forth.

Inhabitants working for the informal sector occupy river basins. Their income fluctuates. According to a series of interviews, informal workers earn from USD 6 to USD 11 per day.

Public service in the forms of piped water services or roads and streets are not accessible in illegal housing compounds. Nevertheless, electricity provided by the state are provided even in said areas due to safety reasons. Under the circumstances, people depend on groundwater and bottled water to meet their need of water.

Suppose the government attempts to provide water to meet their needs, the quality and adequacy of clean water supply is not sufficient. Although water service has been privatized and converted in the form of public-private partnership since 1998, the scope of services is still too low. (Manurung, 2007).



To meet the need on water the urban poor combine groundwater mining with utilizing the river water. They use river water for washing clothes, showering, and other sanitary facilities.

The urban poor choose to live in the riverbanks and surrounding area because it proves to give easier access to obtain river water for free. To meet the needs of drinking water, they buy bottled water that can be purchased and refilled by paying as little as USD 0,7 per water gallons (20 litres).

Groundwater, which is below the surface, along with water obtained above the surface are relatively cheap, easy-to-access source of water supply. Inhabitants of informal settlements on the outskirts of the area of the river is essentially utilizing groundwater not too far from the ground. An electric water pump is needed to obtain the water. The low price water pump is about USD 35 per unit. The pump can suck groundwater from 5 to 10 meters deep below the land surface.

One of the impacts of climate change is the alarming rise of plagues. Outbreaks of diseases such as cholera and typhus are easily spread in any illegal river side settlement. The illegal settlement, due to their low income, adding to that the collective use of unhygienic sanitary facilities that inevitably causes disease transmission. Many continue to dispose human of waste into the river, both groundwater and surface water are then prone to be polluted with other contaminants.

Squatters in the area are actually being threatened by the construction of high-rise buildings in Jakarta. With the increasing development of tall buildings; the more construction work done, the more it disturbs the water table. The water table gradually shifts and falls, making it difficult to obtain groundwater. Squatters are then in danger of water deficiency. Due to the low supply of piped water, building owners opt to drill groundwater, and in this case the government give their consent/permission but require owners to pay taxes.

The water reservoir in the water table depletes and low-powered water pump is unable to obtain significant amount of water, therefore inhabitants become increasingly dependent on surface water sources and from buying water from suppliers. In a dissimilar fashion, *Kelurahan Gambir* is witness to building a high-powered water extraction. With the held of grant funding in from society, high-powered drilling, as well as water distribution, was built and possible to supply water to a number of homes in the area. The owners of buildings surrounding the illegal settlements use deep pump water to get the underground water they want with their

own internal drilling installations. Most of the office buildings and hotels in Jakarta drill water after obtaining licence and also paying obligatory taxes (Manurung, 2007).

In the next few years the urban poor occupying riverbanks will not be able to obtain the water they need. In the long-run, the water table continues to deplete, causing groundwater drilling to become expensive. However, the most negative outcome from this situation is competition among people in the event of drilling water for their own needs. This may turn into a serious conflict, whether among inhabitants of urban slum or between inhabitants versus building owners.

The unfortunate situation faced by the urban poor in developing countries has been studied by a number of researchers. Hill (2003), quoting Ruth and Coelho (2007), said that as much as 50% of the urban population in Asia and Africa already lacks adequate provision of water and sanitary services.

With respect to the behaviour of the poor communities that inhabit the river basin, the government is faced with difficult choices, forcing them to take immediate action in relocating inhabitants from the riverbanks. This effort will be the comprehensive public policy that can address the city's adaptation to climate change, especially since it would potentially suppress incidents resulting in deaths due to flooding and infectious diseases. It could be the way to ensure the wellbeing of the people of Jakarta and surrounded cities.

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## **How Should Indonesia Enhance R&D Capacity by (Re) Constructing Tax Incentives Policy?**

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**Presenter: Haula Rosdiana**

### **Abstract**

Historically, Indonesia has not provided lucrative tax incentives for research and development (R&D) although the government builds the image that Indonesia is on the way to continuous competitiveness improvements. Tax regulation related to R&D, effective since 1990, tends to be a disincentive. R&D costs that can be reduced have been counted like regular calculations.

Through literature study, documentation research, in-depth interviews, and Focused Group Discussion (FGD) to collect data, this study shows that the Government of Indonesia (GoI) has not paid serious attention to R&D. National budget allocated to R&D is only 0,1% of GDP, thus no surprise that Indonesia produces only 23 patents/year. Compared to neighbor developing countries, Malaysia and Thailand, the allocated national budget for R&D is approximately 319% and 200% higher than Indonesia where they produce 1.312 and 986 respectively. Besides using spending policy instruments, the Governments of Thailand and Malaysia also offers tax incentives such as super/double deduction for R&D.

This study concludes that GoI has not had specific designs of R&D tax incentives, whereas industries need serious attention to empower the role of R&D in creating innovation and promoting competitiveness. This is one of the reasons why government should encourage R&D in order to minimize market failure. (Re) constructing the role of tax incentives by creating new space for other taxation facilities treatment such as super deduction and/or tax credit as other countries do will be a better catalyst to enhance R&D activities. Besides, positive externalities will be gained through R&D, tax potential loss can be recaptured from tax revenue (e.g. Value Added Tax and other withholding taxes levied on spending for R&D activities and employment income).

Keywords: tax policy, tax incentives, research and development, innovation, national competitiveness

### **Introduction**

Paradoxically, when GoI has intended to improve its competitiveness in which energy and food security become the main attention through enhancing massive innovation, the national budget for R&D has remained low or insignificant. Unfortunately, a similar pattern has happened in the private sectors. Ideally, massive and high quality research should be encouraged since it is the utmost path toward national competitiveness and positive externalities, even though R&D is a high cost investment with uncertain and unpredicted fruitful results. In fact, GoI has not had a grand design or systematic framework for research to be conducted for the long future. The new elected president in 2014 proclaims the initiation of special attention to be given to R&D by designing an Indonesia research framework, restructuring R&D public institutions, and providing lucrative incentives through the Ministry of Research and Technology and subsequently is proclaimed by Ministry of Finance (Kemenkeu, 2014).

Currently, Indonesia records only little improvement as a result of insufficient R&D. Lack of a national fund for R&D should not discourage current and future targeted improvements and indeed government should seek schemes other than direct expenditure (for example through tax instruments).

Reflecting from developed countries, such as US, Japan and Germany, the approximate national budget allocated to R&D is up to 3%. Then, in neighboring developing countries such as Malaysia and Thailand, the percentage of R&D budget is up to 1,1% and 0,8% of GDP until 2011. In addition, kinds of concession are provided to encourage R&D through super deduction, tax credit and other tax facilities. By 2011, over a third of all public support for business R&D in OECD countries came through tax incentives. Non OECD countries, such as Brazil, China, India, and South Africa also offer a generous tax environment for investment in R&D (OECD, 2013).

Unfortunately, since the initiation of Indonesia tax reform in 1983, there has no specific R&D incentives and R&D cost tended to be disincentives. The provision of allowable deduction for R&D activities was commenced in 2000 as a general deduction like other expenses. At present, there is no R&D based tax incentive scheme in Indonesia. Tax incentives may be available to Indonesian companies that are categorized as new investment or expansion in specific industries and/or provinces in Indonesia. This study will examine tax incentives policies throughout the periods and how should Indonesia enhance R&D capacity by reconstructing tax incentives policy.

## Research Methodology

This research utilizes constructivism paradigm with mixed approach to understand the situation of current R&D policy. Data analysis was conducted with an inductive method to obtain meaning and understanding from social phenomena. The information was collected through literature study and field research. A series of in depth interviews with relevant informant and Focus Group Discussion (FGD) were conducted to enrich the information. FGD involved stakeholders consisting of Ministry of Research and Technology, Firms as targeted group, Ministry of Finance, National Agency Development Plan, and Researcher/Academician whose concerns are in R&D issues.

## Result and Discussion

### 1. Current Situation, Factual Problems of Tax Incentives for R&D in Indonesia and the Comparison to Other Countries

The concession of tax incentives for R&D accommodated in Indonesia Income Tax Law (ITL) have not changed considerably. The excerpt of regulation related to tax treatment of R&D cost/expenditure is as follow:

Tabel 1. Income Tax Regulation Related to R&D

769/KMK.04/1990	Law No. 10/1994	Law No. 17/2000	Law No. 36/2008
Cost incurred for R&D shall be calculated though depreciation/amortization based on general provision.  Routine expenses incurred for R&D shall be calculated based on general provision	R&D conducted in Indonesia is able to be <b>declared as deduction</b>	R&D expenditure incurred by a company which is carried out in Indonesia in reasonably sizeable amounts to <b>discover new technology or new system</b> for the development of the company may be expensed.	R&D expenditure incurred by a company which is carried out in Indonesia in reasonably sizeable amounts to <b>discover new technology or new system</b> for the development of the company may be expensed.
SE-22/PJ.31/1990	Cost incurred for R&D shall be calculated though depreciation/amortization based on general provision. Routine expenses incurred for R&D such as wages, consumable goods and other items shall be calculated based on general provision.		

Before stipulation Law No. 1994, the GoI regulated provision of R&D cost through the Circular Letter from the Directorate General of Taxation in 1990 existed without any connection to higher hierarchy regulation and without a clear framework (ref table). This policy seemed an accidental act as a result of stakeholder request for government responses based on the situation in that era. However, this provision could not be treated as incentives since it treated R&D cost as general expenses. R&D cost was specifically regulated through ITL since 1994. However, since 2000, fiscal space for R&D activities has become tight. Explanation of ITL emphasizing the term “discover new technology or new system” tends

to push the R&D activities to have a fruitful result whereas R&D is high risk investment, uncertain successful result with high cost. This treatment may discourage R&D activities.

The government provides inconsiderable fiscal facilities to promote the use of renewable energy resources through the stipulation of Regulations of the Minister of Finance in 2010; compensation of losses; additional 1 year of loss recognition for new investment using domestic raw materials and/or components at least 70% of the total needs since the 4<sup>th</sup> year of operation process. This treatment is similarly applied to the establishment of business/business in specific area (LIPI, 2012). Contributions of the private sectors for R&D are relatively inconsiderable; it was only about 0.02% of GDP in 2009 and 95% of total was conducted as self R&D in those private firms. Lastly, in 2007 the GoI stipulated through Government Regulation No.35/2007 regarding profit allocation for technology development, innovation, and diffusion however this policy seem ineffective and could not bear attention from business actors.

In contrast, the government of Malaysia pays serious attention to R&D. It offers investment tax allowance (ITA), super deduction and enhanced benefit for pioneer industries, company with self R&D, R&D service providers (Deloitte, 2013). Uncalculated benefit can be claimed by related companies. Super deduction 200% is applicable for specific criteria (Taxand, 2012, 141-142. Annual R&D national budget is approximately 0,5% of its GDP or about 400 billion USD with 1.313 patents. (Ristek, 2012).

A special authority was established to increase R&D in Thailand and introduce tax incentives specifically on important sectors like biotechnology. Since 1996, Thailand has provided deductions for the recruitment of expertise working on R&D and special treatment in the commencement of acquisition of machinery including all related equipment used in R&D (Taxand, 2012, 213-215). Information of R&D activities in several ASEAN countries can be summarized as follow:

Table 2. World Development Indicator 2014 - Science and technology of ASEAN Countries

Countries	R&D		Scientific & technical journal article	Expenditure for R&D % GDP	High-technology exports		Charges for the use of intellectual property		Patent applications filed		Trademark applications field  Total
	Researchers fulltime equivalent/ million people	Technicians fulltime equivalent/ million people			USD million	% of manufactured exports	Receipts USD million	Payment USD million	Resident	Non Resident	
	2005-2011	2005-2011			2011	2005-2011	2012	2012	2012	2012	
Indonesia	90	N/A	270	0.08	4,962	7.3	38	1,800	541	5,297	53,196
Malaysia	1,643	158	2,092	1.07	61,223	43.7	135	1,532	1,114	5,826	28,883
Thailand	332	227	2,304	0.25	33,768	20.5	241	3,610	1,020	5,726	44,963
Singapore	6,037	461	4,543	2.09	128,239	45.3	1,649	16,511	1,081	8,604	19,774
Philippine	78	11	241	0.11	20,795	48.9	8	504	162	2,832	20,202
Vietnam	N/A	N/A	432	N/A	9,118	14.5	N/A	N/A	382	3,423	34,341

Source: World Development Indicator 2014

Reemphasizing the reasons government supports business R&D are (i) Long run economic growth shall be supported by R&D (ii) national competitiveness is a result of R&D (iii) Investment in R&D is risky (iv) Public goods improvement shall be generated by R&D (OECD, 2010, 1). The available schemes for R&D incentive are; grants as direct support, tax incentives as part of fiscal instrument. The difference between them; direct fund like grants/subsidies shall be directed to specific target with high potential social returns, whereas tax credits reduce the marginal cost of R&D spending thus allow private firms to choose which projects to fund (Tanamaya, 2009, 187). Tanayama (2009) summarized kinds of R&D tax incentives applied in the countries around the world as follow:



Table 3. Summary of R&D Tax Incentives in Selected Countries

	Type of incentives	
	Tax credit	Tax allowance
<b>Applied to</b>		
Level of R&D investment	AT,AU,BE,CA,FR,IT,NL,NO	CN,CZ,DK,HU,IN,PL,UK
Increase in R&D investment	US	
Combination of level and increase	ES,IR,PT	BR, TR
<b>Expenses base</b>		
Current R&D expenditure	AU,AT,CA,ES,FR,IR,IS,IT,JP	BR,CN,CZ,DK,HU,IN,TR,
Capital expenditure	AU,AT,CA,ES,FR,IR,IT,JP,PT	BE,PL,HU
R&D wages and social charges only	BE,ES,NL	HU,TR
<b>Special treatment</b>		
Small Medium Enterprises	AU,CA,JP,NO,PT	HU,UK
Collaboration	ES,IT,JP,NL,NO	HU
<b>Non profit-making firms</b>		
Carry forward	AU,ES,HU,IR,JP,PT,US	BE,CN,CZ,FR,HU,TR,UK
Carry backward	IR,US	UK
Subsidy/restricted subsidy	AU,AT,CA,FR,IR,IS,NO	BE,UK
<b>Sub-contracted R&amp;D aboard (restrictions)</b>	AU,AT,BE,CA,ES,FR,IS,JP,NO,PT	BR,CH,HU,TR,UK
<b>Limits</b>		
Upper limit	ES,IT,IS,JP,NL,NO,PT,US	DK,HU
Lower limit	AU,UK	

Sources: TanjaTanayama, Overview of R&D Tax Incentives, 2009

The general corporate income tax rate may affect the favor of allowance (OECD, 2013). Allowance rates go up to 200% in Denmark, Hungary and Czech Republic whereas; tax credit rates vary between 8% in Japan for large firms and 45% for smaller firms in Australia (Tanayama, 2009, 187).

In Indonesia, R&D expense is accrued as deduction which is treated as general expenses. The actual burden each fiscal year for each ITL regulation period can be simulated as follow:

Law No. 10/1994	Law No. 17/2000	Law No. 36/2008
<b>R&amp;D activities with successful discovery (Sizeable)</b> Sales 10.000 Operating cost (7.000) R&D cost (1.000) Allowed to be deducted without limitation Net Income 2.000 Income tax 30% (600)	<b>R&amp;D activities with successful discovery (Sizeable)</b> Sales 10.000 Operating cost (7.000) R&D cost (1.000) Allowed to be deducted without limitation Net Income 2.000 Income Tax 30% (600)  The example above may apply if all of the R&D expenses are deductible and the corporation was successfully discover innovation  Sales 10.000 Operating cost (7.000) R&D Cost ( 500) Deduction is partial only for allowed expenses Net Income 2.500 Income Tax 30% ( 750)	<b>R&amp;D activities with successful discovery (Sizeable)</b> Sales 10.000 Operating cost (7.000) R&D cost (1.000) Allowed to be deducted without limitation Net Income 2.000 Income Tax 30% (600)  The example above may apply if all of the R&D expenses are deductible and the corporation was successfully discover innovation  Sales 10.000 Operating cost (7.000) R&D Cost ( 500) Deduction is partial only for allowed expenses Net Income 2.500 Income Tax 30% ( 750)
<b>R&amp;D activities on process</b> Sales 10.000 Operating cost (7.000) R&D cost (1.000) Allowed to be deducted without limitation Net Income 2.000 Income tax 30% (600)	<b>R&amp;D activities on process</b> Sales 10.000 Operating cost (7.000) R&D cost - Not allowed to be deducted since R&D is on process Net Income 3.000 Income tax 30% (900)	<b>R&amp;D activities on process</b> Sales 10.000 Operating cost (7.000) R&D cost - Not allowed to be deducted since R&D is on process Net Income 3.000 Income tax 30% (900)

Basically, eligible costs are determined by the term of R&D used, type of accepted cost and eligibility of R&D location. Adapting the definition of R&D investment proposed by Frascati Manual (OECD, 2002), there are three main categories of acceptable cost of R&D expenditure (i) cost consisting of wages and other consumables goods in the R&D process (ii) capital purchase; machinery, equipment, intangible capital and (iii) only wages costs.

The main provision of allowance for R&D in Indonesia is that the research activity should be conducted in Indonesia. This provision had been firm since the stipulation of Income Tax Law in 1994 with unclear definition, condition or scope of R&D investment. People might interpret that all R&D expenses were deductible. A slight change came since the stipulation of ITL in 2000 until now that R&D expenditure incurred by a company carrying out in Indonesia in reasonably sizeable amounts to discover new technology/system for the development of the company may be expensed. Emphasizing the term “reasonably sizeable amounts to discovery new technology/system for the development of company” may bear multi interpretation since the legislator and the governments have not determined the criteria or items legally applicable as deduction. In

other part, the taxpayers will be reluctant to accrue their R&D expenses as deducted item to prevent tax penalty since each exposed “abuse” has serious consequences. In addition, it will take effort to arrange administrative aspect in high uncertain policy thus will end up with least effective.

Besides the general regulation of deductible allowance for R&D activities, the GoI in 2012 confirmed that tax facilities will be provided for investment in specific area/specific business. R&D cost in Indonesia for business development including toward productive efficiency can be claimed as additional one year loss and should be treated as loss for business invested minimum of 5 years.

In practice, most of private sectors do not rely their innovation on government’s R&D program. This phenomenon might be caused by different perception between government and private sector regarding acquisition of knowledge and R&D incentives, particularly regarding R&D facilities (Government Regulation No. 35/2007) in the following table:

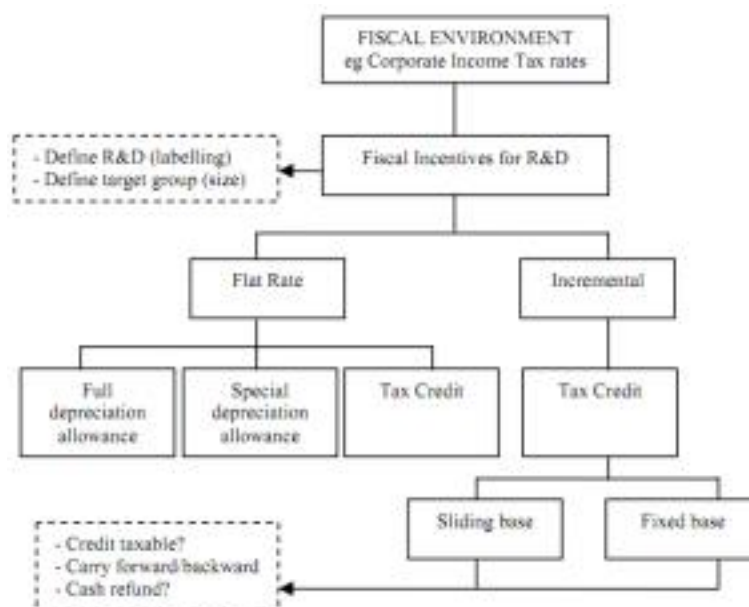
Government's View		Business' view	
GR No. 35/2007	Explanation from authorities (MoF)	GR No. 35/2007	Business entities opinion
Business entities allocate their profit for R&D to enhance their capacity for innovation, productivity, competitiveness based on <b>their financial capacity</b>	The government has provided kinds of fiscal facilities; taxation and customs duty for R&D activities	Business entity may be granted: 1. Tax incentives 2. Customs duty And/or 3. Technical assistance to conduct R&D activities	R&D Expenses = Tax deductible It is not facilities but a common provision as taxpayer rights.
Business entities is allowed to be granted concession/ incentives; <b>taxation, customs duty and/or other technical assistance</b>			R&D importation = duty exemption  Application for this incentives is cumbersome administrative process
The amount of incentives shall be applied based on tax and customs regulation approved by Ministry of Research and Technology	To have grant of fiscal incentives business entities had not to have recommendation from Ministry of Research of Technology		R&D assistances = subsidy/grants?  It will not be effective especially for the purpose of royalty and non tax revenue

Besides R&D for self-development, the government gives concession for industries donation for R&D activity; they may deduct the specific amount of their donation as expenses based on term and condition regulated by the government. However, the detail provision how business entities should declare their donation has not regulated.

## 2. Reconstructing Tax Incentives Scheme for R&D Expenses

The design/scheme of tax incentives for R&D may vary among countries. Adrian Sawyer (2005) reported that tax incentives tend to be more beneficial compared to subsidies or grants assistance programs. The main objective for R&D tax incentives is probably the same across countries (OMC Crest Working Group, 2008). However, tax incentives reveal less interference in the marketplace, and thus allow private-sector policy makers to hold autonomy. The study also concluded that tax incentives have the psychological advantage of achieving a favorable industry reaction and have a high degree of political feasibility. Sawyer summarized the possible model of tax incentives scheme for R&D Expenses as had been applied in OECD members. This model should be adopted in order to enhance the friendly tax incentives scheme in Indonesia.

Figure 1. Framework for the Design of Fiscal Policies to Business R&D



Source: Adrian Sawyer, 2005

Before running to the choose the tax incentives scheme, the policy maker should clearly define the scope of expenses counted as R&D then the target group. The main choice of fiscal incentives are through flat rate or incremental. Flat rate allows formulating various applicable systems such as full depreciation, special depreciation allowance or tax credit, whereas, incremental scheme only derives tax credit. In short, the ultimate possibilities of fiscal incentives for R&D based on this frame work are depreciation or tax credit.

Recalling the possible method of accrued R&D investment, it can be divided into general deduction method, super deduction method and credit method. The application of tax

allowance gives the opportunity for the firms to accrue their R&D cost more than actual cost thus it will lessen taxable income. Whereas, tax credit is treated as the number of percentage reduction caused by R&D to be calculated counter payable income tax. Therefore, an allowance will reduce taxable income; while a credit will reduce final tax liability (STI OECD, p.14).The simulation of actual tax burden for each scheme is as follow:

Table 4. Tax Incentives for R&D Expenses through Deduction Method

Deduction Method			
Fiscal Accounting		Commercial Accounting	
Sales	10.000	Sales	10.000
Operating cost	(7.000)	Operating cost	(7.000)
R&D cost	<u>(1.000)</u>	R&D cost	<u>(1.000)</u>
<b>Allowed to be deducted without limitation</b>		<b>Allowed to be deducted without limitation</b>	
Net Income	2.000	Net Income	2.000
Income tax 30%	(600)	Income tax 30%	(600)

Provision of income tax law which allows general deduction for R&D cost seems cannot be treated as “incentives”. General deduction for R&D shows that it is not in the main concern of government in reality. The government has to offer more generous incentive that can reduce actual burden. The simulation shows that the actual tax burden between fiscal accounting and commercial accounting is similar. It means the “incentives” is not financially effective. Others are super deduction method and tax credit. The following is the scheme of super deduction method.

Table 5. Tax Incentives for R&D Expenses through and Super Deduction Method

Super Deduction			
Fiscal Accounting		Commercial Accounting	
Sales	10.000	Sales	10.000
Operating cost	(7.000)	Operating cost	(7.000)
R&D cost	<u>(2.000)</u>	R&D cost	<u>(1.000)</u>
<b>Allowed to be deducted as super deduction</b>		<b>Allowed to be deducted as super deduction</b>	
Net Income	1.000	Net Income	2.000
Income tax 30%	(300)	Income tax 30%	(600)

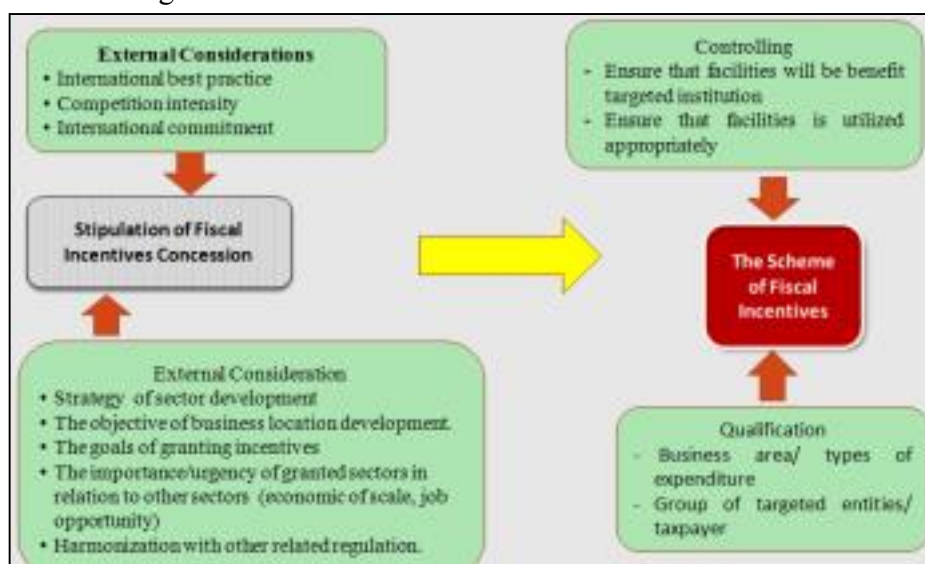
Super deduction is indicated by the deductible allowance more than the actual cost. Super deduction will reduce actual tax burden. The simulation shows that under super deduction method the tax burden reduce up to half of the actual burden. The other scheme is tax credit.

Table 6. Tax Incentives for R&D Expenses through Tax Credit

Credit Method			
Fiscal Accounting		Commercial Accounting	
Sales	10.000	Sales	10.000
Operating cost	(7.000)	Operating cost	(7.000)
R&D cost	(1.000)	R&D cost	(1.000)
Allowed to be deducted without limitation		Allowed to be deducted as super deduction	
Net Income	2.000	Net Income	2.000
Income tax 30%	(600)	Income tax 30%	(600)
R&D Credit 30%	30		
Net Income tax	(570)		

For the purpose of practical implementation in Indonesia, the following scheme may become alternatives consideration or framework for the procedure of fiscal incentives concession in Indonesia.

Figure 2. Framework of R&D Tax Incentives



Governance system lead by new elected president 2014 should be more serious in (re)designing R&D tax incentives. The announced proclamation of the establishment of the Ministry of Research by the new President, thus new design of R&D tax incentives will boost government effort in increasing quantity and quality of research. In addition, several studies show that tax incentives positively affected research activities. Similarly, following the study of Köhler (2012) and literature review he carried out, it is found that R&D tax incentives with kinds of model affect positively additional input in short run and long run although the magnitude of this policy different throughout the countries, period and applied econometric method. This magnitude also may be different caused types of R&D tax incentives. Other main finding also shows that R&D tax incentives have the advantage of

being neutral, less costly to administer, and more acceptable for the general block exemption regulation in state aid than R&D subsidies.

### **Conclusion**

In general, Indonesia has not provided tax incentives in a specific design for R&D as other countries do although the government continuously promotes the image that it pays attention to innovation. In contrast, industries need serious attention from government to empower the role of R&D in creating innovation and promoting competitiveness although the government initiates to establish collaborated institutions for R&D activities. Then, the government also should seriously build research framework as premises to gain particular competitiveness through continuous innovation as proclaimed by new elected president 2014. These are the reasons why government should encourage R&D in order to minimize market failure. Re (constructing) the role of tax incentives by creating new space for other taxation facilities treatment for instance, tax credit as other countries do will be a better catalyst to enhance R&D activities. Tax potential loss as a result of tax incentives concession will be recaptured by levied value added tax through tax on consumption of goods and services, tax on employment income, and other withholding taxes.

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## "Fiscal Policy to Promote Food Sovereignty"

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### Abstract

Food sovereignty has become an important issue to guarantee national sustainability. In fact, it occurs paradox of Indonesia as agricultural country which only has been put in the 72nd rank of The Global Food Security Index 2013. Thus, it is significant to evaluate how fiscal policies (spending policy and tax policy) can become instruments of social, political, and economic engineering to promote food sovereignty.

Compared to Thailand as the kitchen of the world, this research shall be conducted to evaluate why fiscal policy for the agricultural sector is not able to boost food sovereignty in Indonesia. In addition, the result of policy mapping will become a recommendation for government to provide fiscal policy to the agricultural sector accordingly.

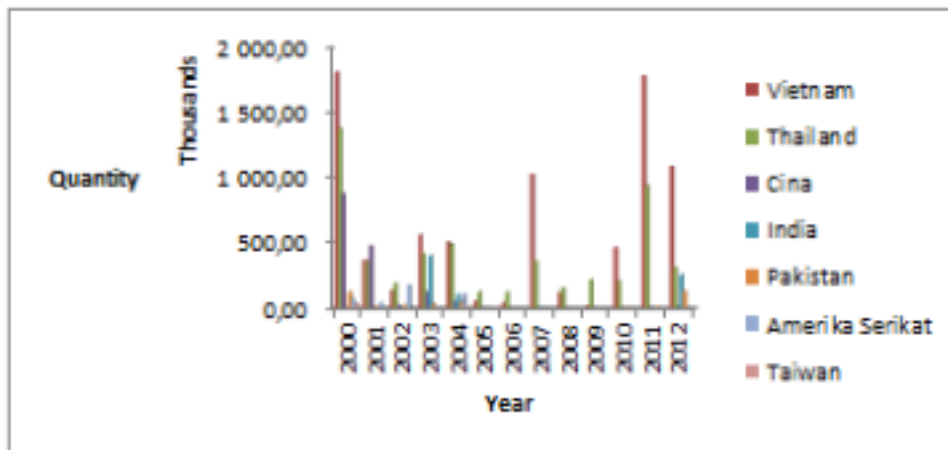
**Keywords:** *Agriculture, Food Security, Spending Policy*

### 1. Introduction

It is ironic that Indonesia, who once successfully reached self-sufficiency in rice after previously being known as the largest importer of the most essential grain in the country, has returned to its former status as a rice importer. Under President Soeharto's leadership, the state achieved *From Rice to Self-Sufficiency* award from the Food and Agriculture Organization (FAO). Indonesia was recognized for its 100,150 tons of rice aid for African people who were hit by food crisis at the time, which were given in the form of US\$ 17.5 billion (kepuustakaan-presiden.pnri.go.id, 2006).

It is a setback to see that not only did Indonesia become a rice importer once again, Southeast Asia's biggest economy is, in fact, currently an importer of other key food items. Whereas Indonesia's situation is, size-wise, the largest in the region, the country instead imports rice from several ASEAN countries (figure 1.1).

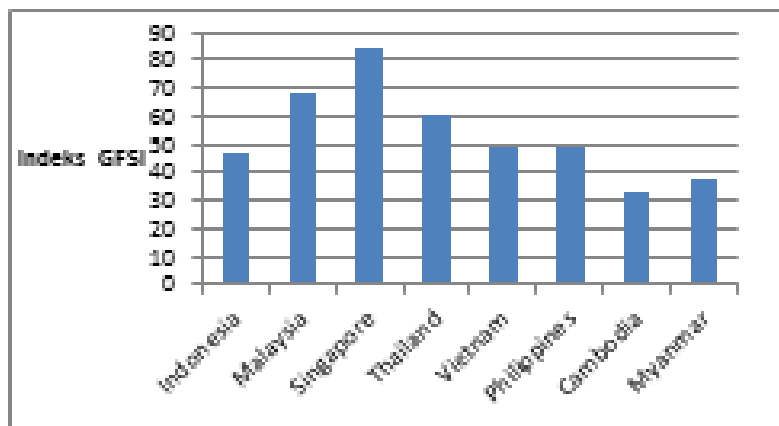
Dubbed "*gemahripahlohjinawi*," which is a Javanese saying meaning "peaceful, abundant and rich soil," Indonesia has an enormous potential in the agricultural sector. However, in reality, the country saw its trade balance posted a deficit of US\$ 9.2 billion in the food sector. This amount did not include the trade deficit for fruits and vegetables of US\$ 37 billion (Ministry of Industry, 2014).



**Figure 1.1 Rice Imports by Country of Origin, 2000 – 2012**

Source : Central Statistics Agency (BPS)

Food security become a major problem for Indonesia. In addition to its trade deficit in the food sector, according to a survey from Global Food Security Index (GFSI), Indonesia is ranked 72 out of 120 countries in 2014, down by three spots from a year earlier. Below is the graphic for food security index among ASEAN countries, according to GFSI.



**Figure 1.2 ASEAN Food Security Index in 2014**

Source : Global Food Security Index

In fact, the government has made serious efforts to tackle the matter through its spending policy, which saw the country arranging its agricultural sector. However, Indonesia's achievements in food security become even more ironic when viewed in terms of the soaring spending in the agricultural sector within the State Budget. The country saw its spending increased by 100 percent from 2009 to 2013 alone. The graphic below shows the allocations for agriculture, forestry, fishery, and marine sectors respectively, along with subsidies for each sector.

**Tabel 1.1 State Budget Allocation for Agricultural, Forestry, Fishery, and Marine Sector**

Tahun	Jumlah (miliar rupiah)
2009	8.716,8
2010	9.004,7
2011	13.492
2012	19.739
2013	19.923,3

Source : compiled by Author

In a bid to cope with food security problems, the government did not only increase its spending in the agricultural sector, it also created agencies or institutions that manage food and food security. One of the newly-formed agencies that were specifically tasked to return Indonesia to its former glory in the food sector was Food Security Agency. The agency was formed in 1999 under the name Food Security Bureau. However, even after the agency was created by the government, it was felt by many parties that it had not yet stimulated food security in Indonesia. With that, under the Presidential Regulation No. 86/2006, Indonesia formed the Food Security Council, which is directly under President's command.

Indonesia was far behind its Southeast Asian neighbors when it comes to achievements in the food security sector. Based on trade statistics, Indonesia still imported a large amount of rice from its neighbor, Thailand. As shown in figure 1.1., Thailand has exported 5,296,846.80 tons of rice to Indonesia from 2000 to 2012 (BPS, 2014). Thailand is ranked 49 in the Global Food Security Index's survey. Thailand, which has envisioned itself as “the Kitchen of the World,” practically holds similar programs with Indonesia. For instance, Thailand designed its *One Tambon One Product* (OTOP) as well as introducing agropolitan and minapolitan development policy.

The newly elected President and Vice President rated the country's achievements in food security as being still far from expected. Under Jokowi's plan, the upcoming government would form a new ministry that will especially deal with food security, while the Ministry of Fishery will be combined with the Ministry of Agriculture. The plan will also transform the Ministry of Marine into the Ministry of Maritime Affairs. Based on the explanation above, the subject matter that was raised in this research is why the fiscal policy in Indonesia is yet to encourage food security.

## 2. Methods

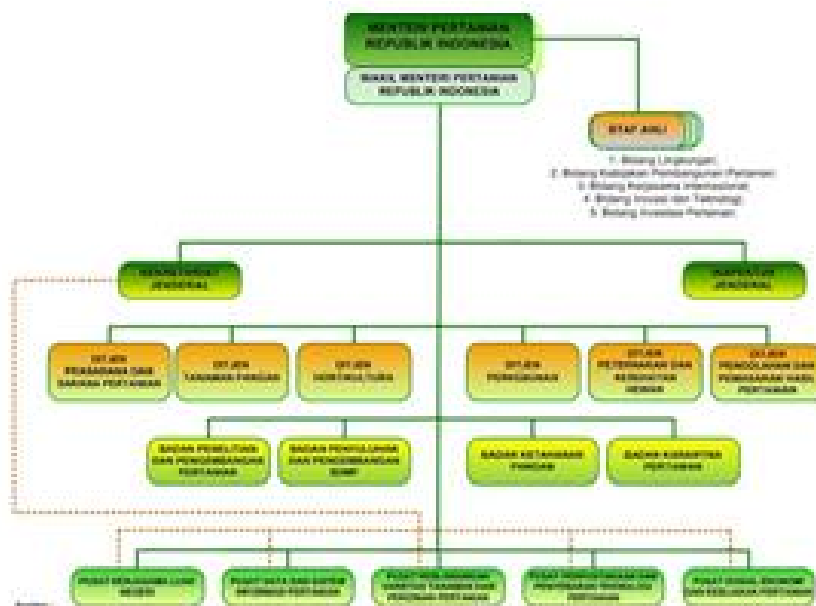
Both the qualitative approach and methods of observation were used in this research, including Focus Group Discussion (FGD), in-depth interviews, library research, and study documentation. Research sites include relevant institutions in Indonesia and Thailand. The Thai institutions include the Revenue Department, Fiscal Policy Office, Ministry of Industry, Department of Agriculture, Chipattana Foundation, Office of Agricultural Research and Development Region I- Chiang Mai. Indonesian agencies include the Ministry of Agriculture, the Directorate General of Taxes and other relevant agencies.

### 3. Discussion

The food security problems and its relevance to fiscal policy, especially spending policy, may be divided into several points as follows,

- **Institutional and Coordination**

Food security matter is rising in each levels of institutions in Indonesia. A lot of agencies, bodies, or institutions that conclude this issue as their focus or upcoming programs. When addressing to food security, naturally the Ministry of Agriculture will become the main actor. The Food Security Agency (or in Indonesia known as BKP) was formed by the Ministry of Agricultural with an assignment to conduct assessment, development, and coordination within the food security stabilization area. The Food Security Agency seeks to present food security through research, food security development to the regional levels, as well as coordinating the formulation of food security policies (bkp.go.id, 2013). Below is the format of the Food Security Agency.



**Figure 3.1 The Format of the Food Security Agency**  
Source : The Ministry of Agriculture

The predecessor of this agency has been emerged since 1999, but food security has not been realized to this date. Hence, in 2001, under the Presidential Regulation No. 132/2001, it was decided that a new format, far more powerful than agencies such as BKP, need to created. Under this regulation, the government created the Food Security Council (or in Indonesia known as DKP), directly under the leadership of the President. The chairman for the council was the Minister of Agriculture. The council's secretary as well as its member is the head of Agricultural Quarantine (BBKP). Other members include several ministers from other sectors. This council's duty is similar with the Food

Security Agency. This council seeks a one-door coordination for revamping food security problems with one commando that is directly under President's commando.

In addition to the Ministry of Agriculture, the Ministry of Public Works is also involved in an attempt to construct food security. The Ministry of Public Works is the coordinator for the National Team for Agropolitan Development, with members include: Public Works Department, Interior Departments, Agricultural Departments, and Regional Administrations (the Ministry of Agriculture's strategic plan, 2011). Both task and authority delegation are under the service in the provincial and municipal levels. Furthermore, the development also involves agropolitan working groups.

The Ministry of Fishery and Marine Affairs also takes part within the food security development under the minapolitan development program. The ministry is the direct coordinator of the minapolitan development similar with the Ministry of Public Works. The minapolitan development program does not involve other institutions. Instead, the Ministry of Fishery and Marine Affaris, along with agencies under its command, develops the program.

The multitude of institutions that are involved in the food security matter, without one single, autonomous institution that hold the commando in the improvement of Indonesia's food security breeds miscoordination between among the institutions. Each institutions has its own concern about its sector's focus and targets respectively. This situation is illustrated by the food inflation Indonesia as follows,

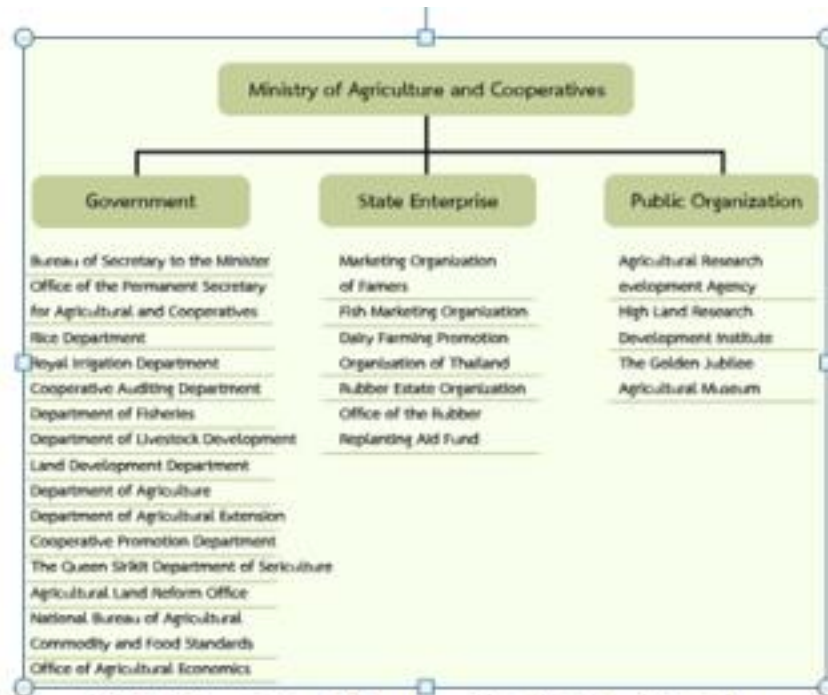


**Figure 3.2 Indonesia's Food Inflation Comparison 2000-2014**  
Source : Global Food Security Index

The Food Security Council, by means of the Food Security Agency, is supposed to coordinate with the Ministry of Trade and the Ministry of the Economic Coordination in order to stabilize price and inflation rate. In reality, Indonesia sees its food inflation continue to rise. The soaring inflation may decrease the people's purchasing power in real terms, especially those who are below or on the poverty line (Pasha and Palanivel, 2003. p. 322). Even more, the decreasing purchasing power toward basic needs may further complicate the conditions among the poor.

The Law No. 18/2012 on Food Security, Article 1, number 4, implies that food security not only stop at food availability, but also at high-quality, safe, nutritious, and affordable food. One of the tasks that is supposed to be carried out by the Council through the Agency is to stabilize the food price with the involvement of relevant ministries. Or else, the Agency itself may form a working group consisting of expert staffs.

Unlike Indonesia, Thailand holds a far better orderly and structured format when addressing food affairs. The Thai's Ministry of Agriculture and Cooperative (MoAC), for instance, consists of the government, state enterprises, and public organizations. With the three elements of development is currently under one roof, the country may find it convenient to coordinate food security matter. The MoAC is the coordinator when it comes to food affairs, where agricultural, fishery, irrigation infrastructure, marketing, and standardization are all integrated. This may be seen in the MoAC's organization structure as follows:



**Figure 3.3 The Organizational Structure of the Ministry of Agriculture and Cooperatives**  
Source : MoAC

Thailand's bureaucratic elite who deal with food affairs and farmers are not as complicated as we see in Indonesia. The political system, especially Thailand's elite, is fairly simple with only a king, court, and bureaucrats who directly regulate the farmers (Jansen, 2001, p. 354).

The Thai administration is the type of government that does not fully intervene the market, but this is not the case for the rice commodity (Jansen, 2001, p. 366). According to Dixon, the Thai government controls the rice price with the result that it will not harm its people through taxation and market price intervention (Jansen, 2001, p. 363). As we can see in figure 3.2., Thailand's inflation rate is lower compared to Indonesia's. This is the result of Thai's protectionism toward their domestic interests, especially food security. In 2012, the Thai government applied export limitation in a bid to increase its domestic supply. (Global Food Policy Report, 2012).

- **Pro-Food Security Agricultural Programs**

The quantity of overlapping programs designed to overcome food security problems in Indonesia is a logical consequence from the amount of institutions involved within the matter and lack of coordination. The Food Security Agency has several programs, which include Food Self-Sufficient Villages (Demapans), Community Barns

(LPMs), and the Acceleration of the Diversification of Food Consumption (P2KP). The Ministry of Agriculture also has the Sustainable Home Food Regions (KRPLs) program. Both Demapan and KRPL has a similar concept, which is to build food security from the smallest scope.

Further, the Ministry of Public Works develops agropolitan areas. The agropolitan development came from the geoeconomy concept of Ryerson and Aronoff, which said that economy activities is also determined by the geospatial condition or geographic information (2009, p. 1). One way that may be utilized to suppress the urbanization is by developing cities within the “agropolis” rural areas, investing in the rural areas, encouraging the productivity of the villagers on their domicile (Friedman and Douglass, 1975, p. 40).

Meanwhile, the Ministry of the Fishery and Marine Affairs has the minapolitan development program, in which correspond with the agropolitan development program. Both the agropolitan and minapolitan program have this concept to present cities in rural areas, where agropolitan development program focuses on agricultural sector and the minapolitan development program focuses on fishery. The agropolitan development program under the Ministry of Public Works lack regulation and even neglected to some extend. The lack of coordination between agropolitan areas become the major obstacle in the program.

Thailand does not possess superb farming techniques. Thailand's success story is a result from the integration of all relevant sectors in the food security matter, not only in terms of institutional but also programs. Thailand has programs that resemble agropolitan and minapolitan development program. However, the development is conducted in one region in one particular period. (Trangkathumkul, 2014). The MoAC has also divided its structure each with its own focus to tackle the agriculture industry from upstream to downstream, see figure 3.3.

In addition to agropolitan and minapolitan development programs, both Indonesia and Thailand also have other similar programs: One Village One Product (OVOP) and One Tambon One Product (OTOP). Both OVOP and OTOP provide comparative advantage in terms of the food product of each areas. OVOP only focuses on output that distinguishes the food product of one area to another, while OTOP notices all the process from upstream to downstream.

- **Pro Food Security Institutional Budget along with Agricultural Programs**

Indonesia embraces the *money follow function* principle, in which the budget allocation follows the function of each institutions. Based on this principle, the budget allocation will follow the programs designed by each institutions. The Food Security Council, through the Food Security Agency, does not have budget flexibility as structure-wise it belonds under the Ministry of Agriculture. The Food Security Agency is one level with directorates or unit. Moreover, the Presidential Regulation No. 83/2006 also mentioned that the budget required by the Food Security Council or the Food Security Agency is allocated from the Ministry of Agriculture.

Budget allocation for the Food Security Agency or Food Security Council is a form of intervention from the government through fiscal policy in terms of constructing food security. If it refers to Mansury, the meaning of fiscal policy is divided into two scopes, broad and narrow scope. Under the broad scope, fiscal policy seeks to influence the amount of people's spending, the amount of employment opportunities and



unemployment, general price level, and inflation (1999, p.1). The Food Security Agency's budget in the past three years is as follows,

**Table 3.1. The Food Security Agency's Budget Allocation 2011 - 2013**

No	Description	2011	2012	2013 Allocation
1	Central	72.200	83.570,5	75.290
2	Regionals	356.763,5	611.679,4	571.870
	a. Provincial	374.993,6	257.513,9	392.730
	b. Municipal	181.773,9	354.160,4	179.140
	<b>TOTAL</b>	<b>628.970</b>	<b>695.250</b>	<b>647.160</b>

Source : LAKIP BKP

As we can refer to the table 3.1., the budget for the Food Security Agency from 2011 to 2012 saw increases, but it declines in the 2013 allocation.

The agropolitan development program also has its own budget during the implementation, with the biggest allocation for the infrastructure development. (Rosdiana, Inayati, Murwendah, 2014, p. 567). The budget that was spent for the minapolitan development program amounting to Rp 139.7 billion for 24 locations. The allocated budget for the Food Security Agency is far less than the minapolitan development program's budget. The total spending for the Food Security Agency is allocated for 435 provinces and municipalities, where the budget for the minapolitan development program merely covers 24 pilot locations. Furthermore, regions that have already been targeted for agropolitan development program, such as Bogor Municipality, Kuningan, and Bangli, also received allocation from the Food Security Agency.

In terms of spending policy, the funding support that was given to the minapolitan development program is larger because it received significant attention in the the mid-term development plan (RPJMN) 2010-2014. In addition, the main actor of the minapolitan development program is the Ministry of Fishery and Marine Affairs (Gunadi, Haula, Inayati, Murwendah, 2013). Besides the fact that the minapolitan development program is included among the targets within RPJMN, the money follow function principle is also immensely visible within the development of the agropolitan program and the programs of the Food Security Agency. The minapolitan development program, which is under the direct command of the Ministry of Fishery and Marine Affairs, received bigger allocation compared to the agropolitan development program under the Ministry of Public Works. The budget priority of the Ministry of Public Works for the agropolitan development program is deficient as the program itself is not the main function nor main program of the institution. Furthermore, the overlapping budget allocation may breeds jealousy from regions as there will be one city or municipality that received several assistance programs while other cities/municipalities did not obtain any program whatsoever.

The agricultural investment or budget allocation should not only be the amount of required to implement the designed program, but also in the investment for research and development. Investment on research and development will have a remarkable impact on the agricultural productivity and food system (Global Food Policy Report, 2012). The allocation for research and development in Indonesia so far only in the amount of 0.97 percent of the GDP ((metrotvnews.com, 2014), whereas Thailand has allocated four times of Indonesia's budget on research and development (nasional.kompas.com,

2014). As many as nine agricultural research and development centers existed, in which each focusing on a particular agricultural product (Noppakoonwong, 2014). Each centers devotes to produce new, superior varieties. In addition, these research centers also conduct the standardization of agricultural products produced by farmers. These research centers are under the coordination of the MoAC.

- **Leadership**

Based on observations and in-depth interviews, the success of a program is also determined by the leader. The leadership factor has also turned to be the deciding factors in the progress of the agropolitan development program. Leadership is a process that is conduct by a certain person in a bid to influence a group of people aimed at a same goal. (Northouse, 2007).

The ability of a local leader to form a partnership with various parties will advance the agropolitan region even more (Gunadi, Haula, Inayati, Murwendah, 2013). Based on the study’s documentation and field research, it is found that ability, creativity, and desire from the Gorontalo Leader, for example, may target and open trade with South Korea to market its major products.

The Thai King has shown a transformational leadership style in the context of food security building in Thailand. The transformational leadership is characterized by empowering his followers as well as paying attention toward personal needs and development (Bass, 1985). One of the characteristics of the transformational leadership is paying attention to personal needs. With agricultural crops may not be felt every month, every farmer in Thailand is provided with income as many as 300 Baht to purchase their daily needs (Pumklom, 2014).

- **Land degradation**

Land conversion in Indonesia is an alarming phenomenon. This issue has become the main obstacle within the agricultural sector in any plan policy, for example the Mid-Term Development Plan (RPJMN). The scale of land ownership by farm households from 2003 to 2013 is as follows,

**Table 3.2 Agricultural Households Land Area 2003-2013**

Land Area Group (m <sup>2</sup> )	2003	2013	Percentage
<=1000	9 330 300	4 338 347	-54%
1000-1999	3 602 348	3 350 185	-1,40%
2000-4999	6 816 948	6 733 364	-1,22%
5000-9999	4 782 812	4 555 075	-4,76%
10000-19999	3 681 529	3 725 868	1,75%
20000-29999	1 678 336	1 625 434	3,27%
≥30000	1 309 896	1 605 699	23%

Source : BPS

The table above shows a declining trend of land ownership. Based on observations and in-depth interviews, farmers prefer to sell their rice cultivation areas than planting with uncertain yields due to pests and so on.

This is not the case of the land ownership in Thailand. The process of land conversion may be slowed down as the land itself belonged to the King and therefore the King may control the land areas to establish them for agricultural sector. As already mentioned, the farmers receive fixed income every month so there is a sense of security, and indirectly it can minimize land conversion.

#### **4. Conclusion**

Indonesian fiscal policy is yet to encourage the establishment of food security. The lack of coordination between institutions has resulted in overlapping programs implemented by each institution. Inefficiency in terms of budget allocation has occurred due to the overlapping and the positioning of these institutions. We have yet to see a leadership that is capable to coordinate all of these institutions in order to reach a common goal. In addition, the Indonesian government has not been able to overcome the rapid-fire land degradation. Thailand excels in coordinating each element so that its food security become even better compared to Indonesia. This coordination is conducted by the elite and the highest leadership where every institution is arranged modestly.

Joko Widodo and Jusuf Kalla's roles will be urgent in determining the development of agriculture. The newly elected President must be able to suppress the self-interests of each sector for mutual benefits, which are to realize food security in Indonesia. All of the promises made during the presidential campaigns, including vision and mission, should be directed to creating food security in this country.

#### **Acknowledgement**

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- Depth interview with Mr. Uthai Noppakoochwong, Thursday 14 August 2014, Office of Agricultural Research and Development

## **Institutional Design of Local Tax Authorities within the Framework of Rural and Urban Sector Property Tax Devolution**

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### **Abstract**

Decentralization policy (devolution) of property tax on urban and rural sectors (*Pajak Bumi dan Bangunan sektor Perkotaan dan Pedesaan/PBB P2*) is essentially an instrument to strengthen local autonomy. Unfortunately, this policy was not initialized by strengthening the institutional and administrative capacities of the institutions of the local tax collector (local tax agency), so that by the end of the transfer deadline only a few local government authorities were ready to implement it. In fact, the institutional forms had not been well designed beforehand. Indonesia has two local tax collection agencies that manage the local tax: the Department of Local Finance, Revenue and Asset Management (DPPKAD) and the Local Revenue Department (Dispenda).

This research analyzes a) the form of local tax agency and its authorities based on the concept of eight types of authority, termed by OECD as the typical powers of autonomous revenue bodies. This research also analyzes whether there are a difference between the levels of authority of both forms of local tax agencies in Indonesia. By using a qualitative approach in data collection, through observation, in-depth interview, and document and literary studies, this research found that the authority possessed by both local tax agencies (DPPKAD and Dispenda) is notably restricted and limited. Therefore, the implementation of the PBB P2 decentralization process cannot be implemented optimally. In addition to the specific case studies in this study, it was found that both in Depok (with DPPKAD form) and Bogor (with Dispenda form) that have two different forms of local tax agencies, they have almost identical and similar conditions in terms of the problems and limitations of authority. In order to implement PBB P2 well and become a strengthening instrument of fiscal legitimacy of local government, the new government needs to design a more autonomous local tax agency.

*Keywords: authority, Devolution, institutional design, property tax, local tax agency.*

## Introduction

In line with the development in the era of regional autonomy, the central government perceives decentralization policy as an effective and efficient instrument to achieve a better welfare at the local level (Directorate General of Fiscal Balance, 2013). Fiscal decentralization gives greater authority to local governments to manage local financing in order to fund public services (Lutfi *et. al.*, 2013; Ismail, 2011). Such form of authority is contained in Law No. 28 of 2009 on Local Taxes and Charges. The Law regulates a greater role of fiscal decentralization, i.e. to secure political equality, accountability, and responsiveness (Smith, 1985).

These regulations decentralized the policy (devolution) for the collection of property tax in rural and urban areas (PBB P2) which has given an opportunity for local governments to acquire the entire revenues from PBB P2 in the region. According to Law No. 33 of 2004 concerning the revenue sharing between the central government and local governments, the PBB sharing for district/municipal governments is only about 64.7% of the total revenue from PBB, whereas with the decentralization policy, local government can obtain 100% revenue from PBB. This presents a great opportunity for the region to increase local revenues.

However, the PBB P2 devolution policy is not preceded by the readiness of the local tax agencies. This is shown by our data, showing that as many as 369 districts/cities are considered not to have the ability of levying PBB P2 (Mohamad, 2013). In addition, the inaptness of local regulations to accommodate the management of PBB P2 by local tax agencies increasingly weaken their authority. Until December 27, 2013, or a year prior to the implementation deadline of PBB P2 devolution, some data were obtained, showing that 75 regions (15.24%) had not published any PBB P2 regulations with potential revenues of IDR 88.7 billion or 1.07% of total 2011 revenues from PBB P2 (Satyagraha, 2013). It, thus, shows the tendency of local governments to doubt the ability of local tax agencies to manage PBB P2 effectively and efficiently. The issue of efficiency arises since the management of PBB P2 requires a high collection cost, while the potential tax revenue in various districts/municipality varies.

In addition, the collection of PBB P2 also requires local tax agency that has a good capacity for tax collection administration, since this is the key to the success of tax policy (Cnossen, 1997). For the holder of fiscal authorities, in this case the local tax agency, ordered institutional administration is crucial for tax revenues. The study conducted by Kristiaji and Poesoro (2013) states that the factors affecting tax revenues are, among others: institutional administration (36%), economic capacity (29%), and economic structure and activities (19%), as well as socio-demography (16%). Thus, the urgency of granting institutional support to the local tax agency is increasingly seen in the regions with notably low fiscal capacity such as West Java<sup>1</sup>.

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<sup>1</sup> Based on the Ministry of Finance Regulation (PMK) No. 54 of 2014, dated March 17, 2014, concerning the Regional Fiscal Capacity, West Java Province has the lowest index, equal to 0.2742 (Do considered that a high fiscal capacity is  $\geq 2$ ).

PBB P2 devolution policy is expected to generate enthusiasm in the areas of West Java province to increase their fiscal capacity through tax revenues. In this study, Depok and Bogor are chosen as the cities where the research was conducted. There are three underlying reasons for that: First, both municipalities (Depok and Bogor) are located in the province of West Java, which has a relatively-low fiscal capacity index (Director General of Fiscal Balance, 2012). Second, both municipalities are DKI Jakarta Province's buffer zones with a potential of considerable revenues from PBB P2. Third, both municipalities have different forms of local tax collection agencies.

Basically, Indonesia has two forms of local tax agency: Dispenda and DPPKAD. Dispenda is the agency that manages the administration of all types of local taxes under one roof. Meanwhile, if the fiscal administration in a particular region is divided into several sub-units, the form of the local tax agency is DPPKAD (Ministry of Finance, 2014). In our research locations, the form of the local tax agency in Depok is DPPKAD, while in Bogor is Dispenda.

This research analyzes the institutional administration of the fiscal authorities by using the perspective of the Organization for Economic Co-operation and Development (OECD)—who develops the concept of typical powers of autonomous revenue bodies—the result of which is a comparative study of Bogor's Dispenda and Depok's DPPKAD, identifying which is the ideal form of fiscal authority. The OECD concept offers eight characteristics, namely; 1) Budget Expenditure Management, 2) Organization and Planning; 3) Performance Standards; 4) Personnel Recruitment, Development and Remuneration; 5) Information Technology; 6) Tax Law Interpretation; 7) Enforcement; 8) Penalties and Interest (OECD, 2013).

In addition, to analyze the differences in the level of authority between the two forms of local tax agencies, the research also uses the perspective of the general guidelines for the management of poverty tax on rural and urban areas stipulated by the Ministry of Finance. The perspective emphasizes the comparison of the urban and rural areas seen from the aspects of: 1) regulation; 2) institutional administration; 3) human resources; 4) facilities and supporting infrastructure (Ministry of Finance, 2014). The use of the concept offered by the OECD and the Ministry of Finance is expected to provide new perspectives on the problems arising in the implementation of PBB P2 levy, and recommendations to address them.

## **Methods**

The approach in this study is qualitative, aiming to describe the institutional administration of local tax agency in Depok and Bogor in implementing the PBB P2 devolution policy. This study was conducted from November 2013 to June 2014. The primary data in this study were obtained through in-depth interviews and observation. Meanwhile, the secondary data were obtained from document and literature studies. A qualitative research is useful to describe the process of occurring social phenomena, since it profoundly elaborates on the data (Cresswell, 1994).



**Discussion**

The restructuring of governmental organs has been continuously developed in the last three decades. This is done to expand the autonomy in order to promote the self-sufficiency of governmental agencies and to provide more effective service with lower costs (Kidd and Crandall, 2006). The granting of greater institutional authority can help organizations overcome the barriers they face. Institutional support for local tax agency in the context of PBB-P2 devolution is a mandatory requirement in the management of fiscal administration. Local tax agency is an institution that needs to be given more authority in order to run the system of tax administration more efficiently and effectively (Mansury, 1999). Reflections on the authority of local tax agency in this study can be seen in the following analysis.

**The Authority of Local Tax Agency in Depok and Bogor Viewed from the Concept of Typical Powers of Autonomous Revenue Bodies**

The discussion in this subsection will be presented by using a comparison table, as follows:

**Table 1. Reflection of Local Tax Agency’s Authority Map in Indonesia (a Case Study in Depok and Bogor) within the OECD concept.**

<b>Criteria of Authority</b>	<b>Dispenda (Bogor)</b>	<b>DPPKAD (Depok)</b>
Budget Expenditure Management	Does not have the discretion; the central government is still in large control. So the local tax agency in the preparation of Regional Budget should refer to and subject to the policies controlled by the government.	Does not have the discretion, the central government is still in large control. So the local tax agency in the preparation of Regional Budget should refer to and subject to the policies controlled by the government.
Organization and Planning	Has a limited authority to design the internal structure of the organization.	Has a limited authority to design the internal structure of the organization.
Performance Standards	No discretion in Assessing the performance of employees.	No discretion in Assessing the performance of employees.
Personnel Recruitment, Development, and Remuneration	Does not have the authority, the central government who sets up.	Does not have the authority, the central government who sets up.
Information Technology	Does not have more	Does not have more

	discretion. The procurement of information systems technology is adjusted to the local budget.	discretion. The procurement of information systems technology is adjusted to the local budget.
Tax Law Interpretation	Does not have a formal legal basis in the PBB-P2 collection in particular and PDRD in general.	Does not have a formal legal basis in the PBB P2 collection in particular and PDRD in general.
Enforcement	Does not have the legal authority to force the provision of third party information.	Does not have the legal authority to force the provision of third party information.
Penalties and Interest	Does not have the discretion of deciding—decision is appropriated to the regulations of the central government.	Does not have the discretion of deciding—decision is appropriated to the regulations of the central government.

Source: the Data processed by researchers, 2014

1. Management of the budget expenditure; It is understood that there were no differences in the budgeting system in every local tax agency, so both of DPPKAD of Depok and Dispenda of Bogor equally have full authority, because they have to follow the budgeting system of the central government.
2. Organization and Planning; Based on the findings in the field, it is known that both DPPKAD of Depok and Dispenda of Bogor have limitations for designing the organizational structure, thus cannot be adjusted to the needs of the agency and tends to have a weak discretion.
3. Performance Standards; the flexibility of Dispenda of Bogor and DPPKAD of Depok in setting standards of tax service is not balanced with the discretion for assessing the performance of employees. This opens up potentials for problems related to employees' working passion and motivation.
4. Personnel Recruitment, Development, and Remuneration; DPPKAD of Depok faces the problem of limited human resources, and Dispenda of Bogor is in the shortage of experts such as appraisers and bailiff. This is due to the recruitment system that is still managed by the central government. The central government's intervention is considered too much, interfering the flexibility of local tax agency.
5. Information Technology; Based on the findings in the field, Dispenda of Bogor and DPPKAD of Depok do not have the discretion to determine the procurement of information technology systems, since the decision of the procurement process is highly dependent on the approval of the Regional House of Representatives.

6. Tax Law Interpretation; the clarity of tax laws should cover issues, ranging from the central to the local level, to accommodate the dynamics of business in the community. Based on the findings in the field, both Dispenda of Bogor and DPPKAD of Depok have no formal legal basis to collect PBB P2 in particular and PDRD in general. Whereas a local tax agency should be responsive to the taxpayers' doubt in order to prevent the misuse of legal regulation from its objectives and goals.
7. Enforcement; the discretion to implement the principles of law enforcement by the local tax agency can create optimum PAD (Regionally Generated Revenue) from local taxes. It is based on the fact that not all taxpayers adhere to the applicable local tax laws. Law enforcement in the context of PBB P2 is often used to gain required information from a third party in order to determine the tax payable. However, the law enforcement in Dispenda and DPPKAD does not have the imposing authority (legal power) to get that information.
8. Penalties and Interest; the alternative solution for the problem of PBB P2 receivable interest is by applying populist policies such as granting a reduction or elimination of administrative sanctions. Such an approach was taken by Dispenda of Bogor and DPPKAD of Depok. However, the alternative solution is basically the mandate of the Law concerning Local Taxes and Charges, to uphold justice, not on the basis of the discretion, solely owned by the local tax agency.

Based on the data obtained, both local tax agencies do not have the eight types of authority offered by OECD perspectives—the typical power of autonomous revenue bodies. Therefore, it is understood that the limited authority of local tax agency in Indonesia may affect the optimization of the fiscal administration of the PBB P2.

### **The Institutional Administration Analysis of the Local Tax Agency in Indonesia**

The discussion on the institutional administration of local tax agency in Indonesia is viewed from the perspective of PBB P2 general guidelines set in 2014. The comparative characteristics of institutional administration are viewed from three aspects: organizational structure, human resource functions (PBB P2 management), human resource development, which is presented in the following table.

**Table 2. The Reflections of Institutional Administration of Local Tax Agency in Indonesia, a Case Study in Depok and Bogor**

<b>General Guidelines for PBB P2 Management</b>	<b>Conditions in Depok</b>	<b>Conditions in Bogor</b>
<p><b>Organizational Structure;</b></p> <ul style="list-style-type: none"> <li>• In the form of Dispenda or DPPKAD</li> <li>• The structure consists of:               <ol style="list-style-type: none"> <li>1) policy makers</li> <li>2) data entry, assessment, and determination</li> <li>3) management of data and information</li> <li>4) services</li> <li>5) billing</li> <li>6) monitoring and dispute resolution</li> <li>7) reporting and accountability of the duties and functions.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• In the form of DPPKAD</li> <li>• PBB P2 Management becomes the main duty of Division II (a sub-unit of DPPKAD)</li> <li>• Division II consists of:               <ol style="list-style-type: none"> <li>1) sub-division of billing</li> <li>2) sub-division of data and information management</li> <li>3) sub-division of intensification and extension.</li> </ol> </li> </ul>	<ul style="list-style-type: none"> <li>• In the form of Dispenda</li> <li>• PBB P2 management becomes the main duty of Dispenda itself</li> </ul> <p>Dispenda consists of:</p> <ol style="list-style-type: none"> <li>1) Division of Registration and Data Processing; consisting of three sub-divisions</li> <li>2) Division of income determination; consisting of three sub-divisions</li> <li>3) Division of Control; consisting of three sub-divisions</li> </ol>
<p><b>Human Resources functions (PBB P2 management),</b> seen from six functions:</p> <ol style="list-style-type: none"> <li>1) Function of Service</li> <li>2) Function of Data Processing</li> <li>3) Function of Revenue</li> <li>4) Function of IT Management</li> <li>5) Function of Billing</li> </ol>	<ul style="list-style-type: none"> <li>• Function of Service is performed by the sub-division of billing</li> <li>• Function of Data Processing is performed by sub-division of data and information management.</li> <li>• Function of Revenue</li> </ul>	<ul style="list-style-type: none"> <li>• Function of service is performed by the Division of Registration</li> <li>• Function of Data Processing is performed by the division of Income Determination</li> <li>• Functions of Revenue is performed by the division of income</li> </ul>

<p>6) Function of Monitoring</p>	<p>is performed by sub-division of billing</p> <ul style="list-style-type: none"> <li>• IT Management Function is performed by sub-division of data and information management (with the help of a third party)</li> <li>• Function of Billing is performed by unidentified</li> <li>• Monitoring Function is performed by sub-division of intensification and extension</li> </ul>	<p>Determination</p> <ul style="list-style-type: none"> <li>• IT Management Functions is performed by the Division of Registration (with the help of a third party)</li> <li>• Function of billing is performed by the general secretariat office tasks</li> <li>• Monitoring Function is performed by the division of Control.</li> </ul>
<p><b>Human resource development</b>, carried out through cooperation;</p> <ol style="list-style-type: none"> <li>1) Directorate General of Fiscal Balance</li> <li>2) Finance Education and Training Agency</li> <li>3) Directorate General of Tax</li> <li>4) Education and Training by the Local Government.</li> </ol>	<p>The human resource development is done through cooperation with:</p> <ol style="list-style-type: none"> <li>1) Directorate General of Fiscal Balance</li> <li>2) Finance Education and Training Agency</li> <li>3) the Directorate General of Tax.</li> </ol> <p>However, the Education and Training by the Local Government was never conducted.</p>	<p>The human resource development is done through cooperation with:</p> <ol style="list-style-type: none"> <li>1) Directorate General of Fiscal Balance</li> <li>2) Finance Education and Training Agency</li> <li>3) the Directorate General of Tax.</li> </ol> <p>However, the Education and Training by the Local Government was never conducted.</p>

Source: The data processed by researchers, 2014

Associated with two tables, it is understood that neither the local tax agency in Depok nor Bogor has fully organized PBB P2 in accordance with the general guidelines of PBB P2 management. This is due to the limited authority possessed and the delay of determination information of the general guidelines, thus the fiscal administration of

PBB P2 in Depok and Bogor has not been implemented optimally. Nonetheless the concept of fiscal decentralization should be accompanied by a shift of fiscal authority (subject, object, type and rate) from the central government to local governments (Hyman, 2002).

In addition, an analysis of the institutional administration of the local tax agency can be seen from the comparison between the number of human resources, tax area, and revenue from PBB P2. The data is described as follows

**Table 3. Comparison between the PBB P2 of Depok and Bogor**

<b>Comparative Indicators</b>	<b>Depok</b>	<b>Bogor</b>
Human Resources (local tax agency –PBB P2)	20 <sup>(a)</sup>	116 <sup>(b)</sup>
Tax Area	200.29 km <sup>2</sup> <sup>(c)</sup>	118.5 km <sup>2</sup> <sup>(d)</sup>
Tax Revenue (from PBB P2)	103.6 (trillion IDR) <sup>(e)</sup>	69.130 (trillion IDR) <sup>(f)</sup>

Source: (a) The Directorate General of Tax, 2011; (b and f) Dispenda of Bogor, 2013; (c) Bappeda of Depok, 2013; (d) Bogor Municipal Government, 2013 (e) DPPKAD of Depok, 2014.

Table 3 shows a comparison of the fiscal capacity of PBB P2 management in Depok and Bogor. The data shows that the fiscal administration of PBB P2 in Depok tends to be more efficient than in Bogor. The smaller number of human resources and the larger tax area do not reduce the enthusiasm of Depok local tax agency to optimize PBB P2 levy. Meanwhile, Bogor shows contradictory inclination. The PBB P2 revenue is less optimum, with relatively large number of human resources. Thus, based on the case study in Depok and Bogor, it can be inferred that the more efficient form of local tax agency for managing PBB P2 levy is DPPKAD.

### **Conclusion**

Based on the results of field and literature study, it is concluded that DPPKAD of Depok and Dispenda of Bogor do not possess the eight types of authority, termed by OECD as the typical powers of autonomous revenue bodies. This absence of authorities shows that the fiscal authority of both agencies has not been autonomous. In the meanwhile, considering the duties of local tax agency as a collector of funds for the provision of local public services, the agency should be granted more flexibility to manage his own household. Finally, the reliant position of DPPKAD of Depok and Dispenda of Bogor can lead to a lesser tax revenue and accumulation of PBB P2 receivable. However, these findings may differ, should the research be conducted in

other regions, whose PBB P2 main duties and functions were carried out by particular sub-units or divisions.

In addition, both local tax agencies, in terms of institutional administration, have not been organized in accordance to the general guidelines of PBB P2 management. This is due to the lack of authority possessed and postponement of determination of PBB P2 management general guidelines. Thus, the central government and the legislature need to consider granting more authorities to the local tax agency, so the agency can take on a more autonomous as well as semi-autonomous form.

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## **The Role of Regional Organisations in Integrating the Transport Networks of the New Silk Road States**

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### **Abstract**

Under what conditions is interregionalism, i.e. sustained interactions between regional organisations, possible? While this question has been approached from the perspective of international trade, involving debates about FTAs, the merits of open and closed regionalism, core-periphery relations, etc., there have been few attempts to tackle it from the point of view of infrastructure. This paper aims to address this gap by examining the transport infrastructure-building activities of the European Union (EU) and the Shanghai Cooperation Organisation (SCO) in Central Eurasia. The paper studies the development and expansion of networked industries in the region undertaken as part of European Commission-funded programme TRACECA, on the one hand, and a multiplicity of transport infrastructure interconnection projects carried out under the aegis of the SCO, on the other. It analyses the similarities and differences of approach taken by the EU and the SCO in this area. These include the prominence of political and economic considerations in decisions about infrastructure development, the level of involvement of actors below the state, and the tendency to bilateralise and multilateralise cooperation around infrastructure. The paper offers some conclusions about what EU and SCO infrastructure-building activity in Central Eurasia tells us about the two organisations as international actors, and what prospects it holds for interregional cooperation in this area.

### **Introduction**

On 19 July 2013 an international freight train left Zhengzhou railway container centre in China's Henan province and began a 10,200 km journey to the west. The train crossed China's western border at the Alataw pass in Xinjiang province and made its way through Kazakhstan, Russia, Belarus, and Poland, before arriving at its final destination in the German city of Hamburg. It took the train eighteen days to deliver its container cargo of 655 tons of tyres, shoes and textiles worth an estimated \$1.5 million, a reduction of fifteen days in the time it takes to reach Western Europe from China by sea (South China Morning Post, 19 July 2013).

The new rail route opened in the summer of 2013 is the latest in a series of proliferating rail links between China and Western Europe. Whereas in the past all rail traffic between Europe and China relied on the mother of all cross-continental rail lines, the Trans-Siberian Railway, in the last few years as many as five Chinese cities have established direct rail freight services to Europe passing through Central Eurasia. The Zhengzhou-Hamburg rail link opened yet another overland corridor for the transport of goods and commodities across Eurasia and was hailed as the modern version of the ancient Silk Road that once connected imperial China with the West (China Daily, 9 June 2012).

Unlike the Silk Road of yesteryear, however, the new East-West rail route negotiates six national technological and administrative spaces. These spaces present obstacles in the form of different railway track gauges, electric current frequencies, accounting procedures, and systems of customs clearance and control that can be as formidable as the harsh climatic conditions prevailing in the Eurasian heartland. Building a land bridge across Eurasia thus speaks of concerted political will and coordination of activity necessary to overcome the challenges associated with establishing a freight train service through varying environmental, cultural, legal, administrative, and technological landscapes. In this sense, the new East-West rail route represents not only an engineering but also a political feat and serves to highlight the inter-regional cooperation around infrastructure that has been taking place in Central Eurasia. It embodies the encounter of two regional organisations working from opposite ends as it were to establish connectivity between the European, former Soviet and East Asian transport systems.

This paper examines the infrastructure-building activities of the European Union (EU) and the Shanghai Cooperation Organisation (SCO) in Central Eurasia. The paper studies the development and expansion of networked industries in the region undertaken as part of European Commission-funded programme TRACECA, on the one hand, and a multiplicity of infrastructure interconnection projects carried out under the aegis of the SCO, on the other. It focuses on the routing of motorways, the laying of railway tracks, the standardisation of equipment and operating procedures, and the establishment of a legal and regulatory framework for the management of trans-boundary flows of goods, people and information across Eurasia.

The paper analyses the similarities and differences of approach taken by the EU and the SCO in this area. These include the prominence of political and economic considerations in decisions about infrastructure development, the level of involvement of actors below the state, and the tendency to bilateralise and multilateralise cooperation around infrastructure. The paper offers some conclusions about what EU and SCO infrastructure-building activity in Central Eurasia tells us about the two organisations as

international actors, and what prospects it holds for interregional cooperation in this area.

## **Methods**

The phenomenon of interregionalism is closely associated with the ‘new wave’ of regionalism that has swept through the disciplines of IR and Area Studies in the past decade or so (Hurrell, 1995; Mansfield and Milner, 1999; Hettne, 2005; Warleigh-Lack and Rosamond, 2010). The proliferation of regionalist projects worldwide since the end of the Cold War reflects an increasing concentration and coordination of activity at the regional level among “clusters of states sharing a common space on the globe” (Fawcett, 2004: 432). The ensuing complex interactions among these regional clusters have attracted increasing interest from scholars who approach the study of interregionalism from a variety of social science perspectives. There is a growing literature around interregionalism that can be reduced to three active strands of research.

One strand of research falls into what could be termed the ‘economistic’ tradition in the study of interregionalism. This approach privileges the economic dimension of region-to-region relations, focusing in particular on issues of interregional trade and investment, including free trade areas, currency zones, the spaghetti bowl effect produced by overlapping trade agreements (Vinokurov and Libman, 2012), open and closed regionalism (Rössler, 2009; Wei, 2012), economic core-periphery relations, market v state-led interregionalism, and other forms of cross-regional exchange where the driver of interaction is trade.

Another strand of research on interregionalism is the institutionalist one. Here interregionalism is conceptualised as formal relations among regions as juridical or quasi-juridical entities (Hettne, 2005: 558). Scholars who work in this tradition focus on interactions between diplomats and envoys in the context of formal institutionalised meetings around the negotiating table. Institutional encounters between regional blocs can give rise to a complex web of interregional relationships that lead to coordination of activities, formulation of common policies, and the conclusion of economic and political agreements. Seen from this perspective, interregionalism speaks of a certain desire on the part of regional organisations to relate to one another as natural counterparts in an international system traditionally dominated by states (Hettne, 2005: 558; Söderbaum et al, 2006: 124).

The third strand of analysis found in the literature on interregionalism draws on the insights of the constructivist school. Here region-to-region relations are seen to be driven above all by intersubjective forces (Acharya, 2012; Kavalski, 2013). Interregional encounters play a constitutive role in the consolidation of regional identities. Through their mutual interaction, regions can come to recognise and accept

each other as preferred partners for cooperation and thereby enhance each other's identity and legitimacy as global actors. Interregionalism is thus governed by a certain self-perpetuating logic that seeks to establish regionalism as one of the main organising principles of world politics alongside those of globalisation and the state.

The approach to the study of interregionalism taken in this paper differs from the foregoing analyses in that it focuses primarily on how interregional relations are constituted not commercially, institutionally, or inter-subjectively, but materially. If regionalism is about flows (of goods, commodities, energy, information and people) and interconnections (between systems, markets and industries), as well as the management of these flows and interconnections, then an obvious point of departure would be to study the physical infrastructure where these exchanges and transactions take place. Transport routes, as well as energy pipelines and communication networks, are increasingly developed and managed on a regional basis. They are an important part of what regional organisations now do. Would these networks remain fragmented along regional lines or would they outgrow their home regions? Would regional organisations relate to one another not only as trading partners, institutional or juridical entities, and normative actors, but also reach out towards one another in a much more literal way? Studying initiatives such as the New Silk Road could provide answers to these and other questions.

Despite the steady growth in the literature on Eurasian networked industries, the field remains intellectually underexplored. While there are studies that explore infrastructural developments in Eurasia (Vinokurov and Libman, 2012; Garver, 2006; Linn and Tiomkin, 2006, 2007; Emerson and Vinokurov, 2009), these are either wedded to the economic tradition outlined above or tend to focus on the more formal and declaratory aspects of cooperation in the region. By contrast, this study interests itself in the technocratic rationality guiding interregional exchanges. It recognises that these exchanges have an important technical or technological dimension that needs to be studied alongside the more formal and headline-grabbing aspects of interregional diplomacy.

The paper combines documentary analysis with elite interview techniques to analyse how interregional relations in Central Eurasia are instituted and rendered functional. Sources include official statements and press releases by diplomatic missions in the region, annual reports and corporate websites of private companies operating there, as well as news articles in the Chinese and international media. These are complemented by a series of confidential interviews carried out in China and Western Europe in the summer of 2014. Interview respondents include officials from regional and international organisations, such as the European Commission, the International Road Transport Union, and the European Bank for Reconstruction and Development. They also include

representatives of state-owned enterprises, such as DB Schenker, Sinohydro, and China Road and Bridge Corporation.

### **Discussion**

When examined from the point of view of infrastructure, EU and SCO activities in Central Eurasia exhibit a number of similarities and differences. The SCO works primarily with state actors. The data presented in this paper is not sufficiently fine grained to establish whether the subcontractors are public or private entities. But the general contractors are big state-owned national champions. In terms of funding, the SCO relies on a variety of funding sources ranging from the Asian Development Bank, the World Bank, the International Bank for Reconstruction and Development, OPEC Fund of International Development, China National Development Bank, and Chinese government concessional loans. SCO cooperation around infrastructure is often bilateral, involving primarily China and one or more of the Central Asian states (Wang, 2008). The rampant bilateralism promoted by the organisation, together with the multiplicity of micro-agendas pursued by its members, have prompted some to argue that the SCO is not an international organisation at all (Crosston, 2013). While this argument may be a little overblown, it does highlight the loose institutional framework within which cooperation in the SCO takes place.

By contrast, the EU exhibits a much more centralised and coordinated approach to the development and management of transport and energy infrastructure in the region. EU infrastructure-building activities are about much more than building infrastructure. For Brussels these projects appear to be more of a means to advance its notions of good governance and best practice in the region than to be an end in themselves. This amounts to an attempt at external governance (Lavenex, 2004) that complements the internal governance of networked industries in the Union. To achieve its objectives, the EU seeks to build wide coalitions of funding bodies that span the public-private divide and that pool together funds from the EU's own budget, the European Bank of Reconstruction and Development, and the World Bank.

As an international actor the SCO can be described as open and inclusive. It does not seem wedded to a particular geopolitical and ideological position. Quite the contrary, it seeks cooperation with diverse actors and institutions, insofar as they contribute to the meeting of its pragmatic objectives. In this sense, the SCO can be said to advance a type of pragmatic interregionalism focused on achieving concrete results. At the same time, the organisation exhibits a predisposition to working with statist actors or entities that bear the imprint of a statist identity. This sits in well with Stephen Aris' description of the SCO as a sovereignty enhancing organisation (2011).

Seen from the perspective of its infrastructure-building activities in Central Eurasia, the EU displays different tendencies. It shows itself to be quite exclusionary when developing partnerships with the objective of diversifying economic activity away from Russia and, to a lesser extent, China. Its approach of creating a hub-and-spoke system with its partners to the detriment of their relations with other regional powers chimes in with Hettne and Soderbaum's description of EU interregionalism as hegemonic (2005). The Union is often assumed to be pro-regionalist in its outlook, seeking to export its experience of integration to the rest of the world. Yet the EU seems to be quite selective in its partnerships, choosing to cooperate with some regional actors and not with others.

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## **China's Geoeconomic Turn: The Case of Taiwan and Strategic Implications for Others \***

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**FIRST DRAFT. PLEASE DO NOT CITE.**

### **Introduction**

Since Deng Xiaoping's adoption of open reforms in 1979, the international community has witnessed the growth and development of China into an economic power. Based on rapid growth, China has not only become an economic power over the past decade, it has also come to exert more influence on both the global and regional levels. However, China remains humble and asserts itself as a developing country, a country that continues to await its "strategic opportunity" for breaking out onto the world stage. En route the path towards great power status, China's leadership has repeatedly emphasized the need for China to secure a surrounding environment that is favorable for the country's continued development.

Despite China's lucrative market, in recent years, many neighboring states have come to recognize Beijing's other ambitions besides economics. For example, some observers have raised concern regarding China's intention to transform Southeast Asia into its own backyard. Similar claims have caused many observers to eye China's good will with suspicion, especially towards concepts such as harmonious worldview and good neighbor policy. It is clear that China may have more at stake other than economics.

Following the strategic logic of China, this author examines China-Taiwan relations (Cross-strait relations) and argues that since 2008, Beijing has effectively pushed Taipei towards reunification through various economic means. However inadvertently, through active participation in regional integration efforts in East Asia and support for initiatives such as the Regional Comprehensive Economic Partnership (RCEP), Beijing has successfully isolated Taiwan from East Asia. To a certain extent,

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the China factor forced Taiwan to pursue active engagement with China since 2008, with an eye on the potential benefits that may be reaped through free trade agreements with the East Asia region.

This study will be carried out in four main parts. Part 1 is a general review of the development of East Asia regional integration in recent years. Part 2 elaborates on China's rise and turn towards geoeconomics in strategic planning in the new century. Part 3 examines the case of China-Taiwan relations and argues how Beijing has used economic leverage for political gains over Taiwan, or so called *yishangweizheng*. Part 4 examines the political implications of China's geoeconomic turn for Taiwan. This study concludes with some reflections on China's rise and its strategic implications for Asia.

### **East Asia Regional Integration: A Bridge over Troubled Water?**

It is clear that since the Asian Financial Crisis, Asian countries have moved rather quickly in terms of regional integration. Partly stimulated by the region's economic weakness as demonstrated by the "domino effect" that saw the successive collapse of Asian economies and the formation of the ASEAN plus one and plus three mechanisms which were agreed to not too long in the aftermath of the crisis. However, despite the initial will and idealism that surrounded ASEAN, problems began to surface in terms of integration. What is the East Asia region? Who, if any, should lead the region? What are the goals of integration? How should integration be achieved? These questions continue to be highly relevant for the East Asia integration process today.

In the new century, following developments in East Asia, some answers have begun to come about as well. With the expansion of the ASEAN plus mechanism to include six countries outside Southeast Asia, a growing consensus seems to agree on the scope of East Asia to include the ten countries of Southeast Asia, China, Japan, Korea, India, Australia and New Zealand. Moreover, in general, Asian states seem to agree on the overarching objective of integration to be the pursuit of common economic well being. Yet rhetoric aside, East Asia regional integration is stuck in a quagmire beyond the simple answers above. International politics and other strategic factors have successfully challenged and stalled the development of integration in Asia.

First, China's rise in the new century has greatly shifted the balance of power in

Asia. As China joined the ranks of the U.S. and Japan in Asia, the question of regional leadership became increasingly complicated and entails important consequences for regional integration. With China's increased confidence and capabilities, Beijing has come to seek a greater voice in defining the regional agenda and shaping regional affairs. Beijing's aspiration and ambition to become a great power can be seen in its active participation in regional interfaces such as the East Asia Summit, APEC, Boao Forum and most recently, the Conference on Interaction and Confidence Building Measures in Asia (CICA). While Washington and Tokyo are not isolated from the listed interfaces,<sup>1</sup> domestic problems in the U.S. and Japan have enabled China to stand out as the spotlight of attention in recent meetings --- a phenomenon that adds to China's leadership status.<sup>2</sup>

Second, following from China's rise, East Asian countries face an increasingly bipolar choice in terms of regional integration. While China favors an East Asian approach to integration, the U.S. favors an Asia Pacific approach that expands the geographic scope of integration to countries on both coasts of the Pacific Ocean. Currently, Beijing supports the Regional Comprehensive Economic Partnership (RCEP), an integration scheme centered on ASEAN plus six and excludes the U.S., while Washington prefers the Transpacific Partnership (TPP), an alternative scheme based on the Asia Pacific concept and ironically, eludes China. Even though in theory, countries could join both partnerships and expand the scope of free trade, it remains unclear how different standards can become compatible,<sup>3</sup> a consequence that hints at the competition between Beijing and Washington. In the face of a choice between China and the U.S., many states have resolved to a hedging strategy, which ironically, undermines rather than pushes integration further.

In short, politics play a major role in shaping the path of regional integration in Asia and the China factor is at the center of developments. While the region is not oblivious to China's expanding market and economic growth, many countries are also aware of the implications of Beijing's new found confidence. For example, with

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<sup>1</sup> Both the U.S. and Japan participate under observer status in CICA.

<sup>2</sup> The subprime mortgage crisis in 2008 dealt a heavy blow to the U.S. economy and sent the country (and the world) into several years of depression. In 2013, U.S. President Barack Obama cancelled a scheduled trip to attend the annual APEC summit due to U.S. government shutdown at the time. Some observers noted Obama's absence as a diplomatic disaster. On the other hand, the Japanese economy has remained almost stagnant since the late 1980s. In 2011, the Tohoku earthquake further damaged the Japanese economy. In addition, since 2006, domestic politics in Japan was unstable, with cabinet overturn occurring nearly once every year.

<sup>3</sup> The TPP sets out higher standards than the RCEP on various issues.

China's increased economic capability, many observers began to scrutinize China's annual military spending and speculate whether the rising state is becoming more ambitious. On the other hand, since 2008, China has aroused more suspicion than assurance in terms of its assertiveness on territorial issues such as the South China Sea and the Diaoyudao (Senkaku Islands). In this case, different strategic interests work together to undermine the integration process in Asia, tearing down the bridge-in-progress over Asia's waters. As the Chinese market continues to grow, an increasing number of states begin to find themselves trapped in the enigma of a desire to increase economic cooperation with China while fearing challenges that stem from Beijing's political and strategic ambitions.

### **China's Rise and Beijing's Goeconomic Turn in Strategy**

The previous discussion suggests that China's rise plays an important role in shaping the development of regional integration in Asia. In terms of China, for many scholars of international relations at least, its rise brings about geopolitical concerns. Based on the theory so called "offensive realism," John Mearsheimer paints a grim picture of China's rise eventually leading to war among the great powers, a point echoed by Munro and Bernstein and other observers in the realist camp. For A.F.K. Organski and other theorists of power transition, the concern is when the balance of power in the system will shift and when conflicts will emerge. However, to the neglect of many observers, China may be subtly exploiting its new economic strengths in ways that warrant consideration from other perspectives.

While China continues to rise and expand its influence across different fields besides economics, many analyses speak of potential developments in the near future and by referring to a shift in the balance of power in recent years, analysts base their claim around China's economic growth. Of course, China's increased economic capability has spilled over into other influences in recent years, but much of the change in the global balance of power continues to center around economics. After all, amidst the European debt crisis and U.S. recovery from financial crisis, China replaced Japan as the second largest economy in the world while the gap in military capability between China and former superpowers such as the U.S. and Russia continues to be wide. Such reality encourages us to adopt alternative perspectives when thinking about Beijing's strategic considerations --- perhaps *Zhongnanhai* may

have concerns other than geopolitics when looking at a globe.

Indeed, as some observers noted, China possess the capability to potentially challenge (and hurt) the U.S. through economic instrument. As China is currently the top possessor of American securities, at least theoretically, China may depress the U.S. economy by selling securities and calling back capital from the other side of the Pacific. Such instrument may provide Beijing with some leverage over Washington. Yet the irony of Sino-U.S. relations is that the U.S. is the biggest importer of Chinese products, which implies that Beijing would lose out as well if Washington could no longer finance its consumption needs. In addition, if the U.S. economy plummets as a result of China's decreased confidence, the value of Chinese possession of U.S. securities may decline further. The intricate balance of threat at work between China and the U.S. to a certain extent prevents the two countries from going toe to toe in an economic struggle.

However, perhaps the same may not be said for other states not in the position of the U.S, or in other words, share the economic prosperity or scale of the U.S. For many states, especially developing states, imbalance may be the norm, as China has grown to have the economic power to provide while other states receive. Although to what extent Beijing can use or has used its economic leverage towards policy goals remains little researched, what may be gauged from recent events provide clues for further thought. For example, in the aftermath of the recent (May 2014) anti-Chinese demonstrations in Vietnam, China's state owned enterprises (SOE) were reportedly ordered by Beijing to stop bidding for fresh contracts in Vietnam.<sup>4</sup> According to Xu Liping, an expert from the Chinese Academy of Social Sciences, the move is "a sign that China is playing the economic card."<sup>5</sup> The fact that Vietnam is heavily dependent on China economically hints at Hanoi's vulnerability in the face of economic pressure from Beijing. Imports from China swelled nine fold over the past decade and currently account for approximately 24% of the Vietnamese economy, a figure that stands ahead of Vietnam's purchase of goods from ASEAN (19%), Korea (11%) and Japan (10%).<sup>6</sup> Many observers agree that the riots may prove costly for Vietnam, as

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<sup>4</sup> Keira Lu Huang, "State firms barred from Vietnam contract bids," South China Morning Post, <http://www.scmp.com/news/china/article/1528221/state-firms-barred-vietnam-contract-bids>

<sup>5</sup> Ibid.

<sup>6</sup> Jenn-jaw Soong, "yuenan paihua fanzhong baodong de zhengjing fenxi" (A Political-Economic Analysis of Vietnam's Anti-Chinese and Anti-China Riot), *Haixia Pinglun* (Strait Review), No.282 (June 2014), <http://www.haixiainfo.com.tw/282-9158.html> ; Manabu Ito, "Anti-Chinese riots flare up in Vietnam," *Nikkei Asian Review*,

foreign investment from Taiwan, Japan and Korea may also be “scared away” as a result of the riots.<sup>7</sup>

While the story of Vietnam, sadly, may be an omen to more similar events in the future, in terms of China, a pattern seems to emerge from the sequence of developments. Following the growth of the Chinese economy in the new century, many states, particularly in Southeast Asia, began to seek more cooperation in trade and investment with China. As economic relations deepened, including the expansion of trade and investment, and in the case of ASEAN, the realization of a free trade area, China spoke of more cooperation (such as the RCEP) and leaned back on concepts such as community, harmony and peace, captured in phrases such as the “harmonious worldview” and “peaceful rise.” While China strengthened its economic relations with other states, Beijing also became more assertive and aggressive in terms of political goals, which makes its claims to community, harmony and peace seem ambiguous if not rhetorical at times. Despite the fact that China remains a developing state on the rise and expresses a lasting desire to establish secure borders for the sake of domestic economic development, its new found confidence seems to stand out, to the unease of other states.

### **China’s Economic Offensive: from Vietnam to Taiwan**

Although Vietnam and Taiwan may seem like two separate cases in terms of relations with China, both countries share many characteristics in common upon a closer look. In terms of geography, both Vietnam and Taiwan are literally located right beside China, with the former directly connected with the Mainland and the latter lying merely a few kilometers away from the Mainland at its closest point to China’s eastern shore. Historically, though for different reasons, both Vietnam and Taiwan engaged in conflict with China. Border dispute pushed Vietnam and China into a bitter war while sovereign rule ushered China into a civil war that eventually led to the division of the country and birth of a separate entity called “Taiwan.” Strangely enough, territorial disputes remain between Vietnam and China and Taiwan and China in the South China Sea while both Vietnam and Taiwan are deeply connected with China economically, especially in recent years.

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*<http://asia.nikkei.com/Politics-Economy/International-Relations/Anti-Chinese-riots-flare-up-in-Vietnam>*

<sup>7</sup> This point is particularly poignant in terms of Taiwan, which serves as one of Vietnam’s biggest sources of foreign direct investment and a major receiver of Vietnamese labor and so called “foreign brides.”

However, perhaps in part due to the cultural and historic ties between Taiwan and China --- a problem not shared by Vietnam and China --- political implications and challenges that stem from economic issues across the Strait may be much more complicated and daunting when placed beside a comparable case. Besides the common points described above, Vietnam and Taiwan also share the similar enigma of growing economic dependence on China while Beijing becomes ever more aggressive and assertive on the political front.

Yet for Taiwan, the issue is extremely difficult. While Taiwan's economic performance stagnated in recent years, Beijing continues to push for political negotiations with Taipei, an ominous combination when considered in the light of trade liberalization across the Strait and Taiwan's increasing economic dependence on China. Furthermore, the fact that Taiwan remains outside the regional integration process in East Asia and needs to go through China to participate endows Beijing with considerable economic leverage over Taipei. Centered on Cross-strait relations, the following traces the development of Taiwan's growing economic dependence on China and Beijing's growing economic leverage over Taipei.

*Pre-Ma Ying-jeou era (1996 – 2008)*

In contrast with advancements in Cross-strait relations since 2008, relations between Taipei and Beijing once walked on a tight string as well. In 1996, Cross-strait relations retreated to a trough reminiscent of the Cold War when China fired missiles across the Strait in an attempt to influence Taiwan's first democratic presidential election. Since then, relations between Taiwan and China fell into a dark spell marked by a severance of official communication and fierce diplomatic competition. In the realm of foreign policy, a zero sum outlook dominated Cross-strait relations, as Taipei and Beijing engaged in an intense game of competing for diplomatic recognition. Meanwhile, Washington lingered in the background of competition between Taipei and Beijing, as the Taiwan Relations Act and other security interests in Asia committed the U.S. to the region. In short, before the Nationalist Party or KMT came to power again in 2008, geopolitics dominated the vision of political elites across the Strait.

However, economic interactions continued across the Strait despite political tensions. It is interesting to note that while Cross-strait relations degenerated under the Democratic Progressive Party (DPP), the Chinese economy recorded its highest



economic growth in recent memory (see figure 1).

Figure 1: China Real GDP Growth 2000 – 2008 (%)

Year	GDP growth
2000	8.4
2001	8.3
2002	9.1
2003	10.0
2004	10.1
2005	11.3
2006	12.7
2007	14.2
2008	9.6

Source: National Bureau of Statistics of China, “GDP Growth,” <http://data.stats.gov.cn/>

In other words, China rising or the beginning of China’s transformation into an economic powerhouse coincided with the low point of Cross-strait relations. While Taipei made an effort to stop the current of investments “moving west” (*xijin*) in this period through subsequent policies such as “no haste, be patient” (*jiejiyongren*) under Lee Teng-hui and “proactive liberalization with effective management” and “proactive management with effective liberalization” under Chen Shui-bian, government attempts were of no avail. As early as the 1980s, so called “Taiwanese merchants” (*taishang*) found ways to bypass political obstacles across the Strait and move capital westward in search of market opportunities on the continent. Therefore, despite political complications, in many ways, the economy on both sides of the Taiwan Strait have established an interdependent relationship, with Taiwanese merchants bringing capital, skill and technology to the Mainland while China provided land and labor.

Meanwhile, China began to take on a more significant regional role after the Asian Financial Crisis in 1997. Beijing’s decision to maintain its currency during the crisis not only provided states hard hit by the crisis with some breathing space but also won the support of many Southeast Asian states. Acclaim for Beijing would set

the stage for the establishment of the ASEAN plus one framework. Later, ASEAN expanded to include Japan, Korea, India, Australia and New Zealand (so called “ASEAN plus N”), becoming a dominant concept for regional integration in Asia after the Cold War. In addition, China became the first state among ASEAN plus members to initiate a free trade area with ASEAN in 2002.

Coupled with China’s double digit economic growth after 2002, it would not take long for Taiwan to begin realizing the difficult situation it has stumbled into. In order for the country to remain economically competitive or “stay in the game,” Taiwan must find ways to join the integration process in Asia or “enter the game.” Yet the problem remains that China is a dominant player in the game and Taiwan has little options but to confront its counterpart across the Strait. Under Chen Shui-bian, Taiwan made efforts to enter the game by pursuing FTAs with Singapore and New Zealand but to no avail. In the case of Singapore, despite smooth negotiations, agreement failed to materialize between Taiwan and Singapore at the last moment, a development generally believed to be caused by Beijing’s backstage pressure against Singapore. Although Beijing’s tactic against Taipei remained largely political in this period, as the Chinese economy continued to grow and Asia’s integration process moved forward, Taiwan would begin to feel the compound pressure of both politics and economics and notice China’s potential to link the two areas.

*First Ma Ying-jeou administration (2008 - 2012)*

With the election of presidential candidate Ma Ying-jeou in 2008, Taiwan underwent a party turnover that brought the KMT back in power after eight years in opposition. Cross-strait relations began a new chapter under Ma, as Taipei and Beijing recommenced dialogue that had been terminated since the suspension of the Koo-Wang summit in 1999. The political atmosphere across the Strait changed significantly under the new KMT administration, as Ma called for “diplomatic truce” (*waijiao xiubing*) between Taipei and Beijing, or a halt to race to the bottom “checkbook diplomacy” between the two countries. Furthermore, Ma endorsed “flexible diplomacy” (*tanxing waijiao*), a pragmatic strategy that aims to increase Taiwan’s international recognition and foreign policy space with an understanding of the unique status of the country in the world.

China echoed favorably to Taiwan’s good will. Since 2008, Taiwan has not lost a

single diplomatic relation due to competition with China. Indeed, as the political atmosphere shifted across the Strait, “economics” became the dominant keyword as both Taipei and Beijing agreed to leave politics aside in search of progress or win-win between the two countries. Besides completion of the Three Linkages (*Santong*), in the fifth round of Jiang-Chan Talks in 2010, Taiwan and China signed the Economic Cooperation Framework Agreement (ECFA), a trade liberalization agreement that takes into account the special situation of Cross-strait relations. For many observers, ECFA seemed to be the break Taiwan needs for it to re-connect with Asia and fulfill the role of a trading hub in the region.

Meanwhile, regional integration continued to move ahead with haste in Asia, with China playing an ever larger political and economic role in the region. In 2010, the ASEAN-China free trade area (ACFTA) became officially effective, becoming the largest regional integration initiative to be realized in East Asia to date. In terms of population, the ACFTA is the largest FTA in the world while trailing only NAFTA and the EU in terms of GDP. On the other hand, in Northeast Asia, China, Japan and Korea (CJK) began conducting joint studies into the possibility of a sub-regional free trade area in the same period. With Beijing participating in both FTAs, it is plain to see China’s central role in regional integration. Furthermore, with the expansion of ASEAN plus Three to plus Six, region wide integration seemed like an ambitious but not necessarily far fetched possibility.

Although Taipei was neither aloof nor ignorant of the quick pace of economic change in the region, the nightmare scenario of Taiwan losing most of its bargaining power to China was becoming an ever clear reality. Once China gains both political and economic capabilities that exceed Taiwan by more than a margin, as many observers have noted, the rest is indeed only a matter of time --- either Taipei directly confront and engage Beijing or face gradual marginalization as East Asia integrates. Either way, realities would catch up. As the implication of marginalization was clear, under the new KMT administration, Taipei and Beijing negotiated the ECFA with haste. By turning to the pursuit of pragmatic or “viable diplomacy” (*huolu waijiao*), not only was Taiwan able to strengthen economic relations across the Strait, by leaving political sensitivities aside and demonstrating itself as a window into the Chinese market, the island was also able to begin negotiations or joint studies for FTA with other countries such as Singapore and India.

Yet the paradox is that in the case of Cross-strait relations today, it is clear that China's economic leverage over Taiwan is increasing by the day as the latter becomes more dependent on the Mainland to plug into regional integration. Through ECFA, Taiwan demonstrates to other countries that FTA is achievable despite its unique political status in the world. However, one should not forget that ECFA would not have come about if China refused to enter into negotiations with Taiwan. As the economic gap between Taiwan and China closes, in its better position, the latter would not be have much burden to approach Taiwan voluntarily. Therefore, only time would show whether "viable diplomacy" is the lifeline Taiwan needs or a simple dead end in itself as well.

*Second Ma Ying-jeou administration (2012 - )*

In 2012, Ma defeated DPP presidential candidate Tsai Ing-wen and remained in office as the President of Taiwan. Across the Strait, Xi Jinping replaced Hu Jintao as China's new president. While Cross-strait relations do not show signs of retreat under Ma and Xi, strong undercurrents have developed as problems begin to emerge in completed agreements while Beijing hints at the "final solution" in Cross-strait relations. As Xi expressed at the 2013 APEC Summit in Bali, Indonesia, "in the long term, the political division across the Strait should be gradually resolved; we cannot leave these problems for generations without end."<sup>8</sup> Although Xi has yet to set a schedule for unification across the Strait,<sup>9</sup> increasing imbalance that stems from China's rise and Taiwan's economic stagnation has many observers already speculating the date of unification.<sup>10</sup> Indeed, as figure 2 shows, since the initiation of ECFA, Taiwan seems to have become even more dependent on the Chinese market.

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<sup>8</sup> "Xi Jinping: liangan zhengzhi fenqi wenti zhonggui yao jieju" (Xi Jinping: Political Problems in Cross-strait Relations should be resolved in the end), <http://news.sina.com.hk/news/20131006/-9-3083454/1.html>

<sup>9</sup> "Xi Jinping queli lianganguanxi luxiantu" (Xi Jinping confirms the path ahead for Cross-strait relations), <http://hkmag.crntt.com/crn-webapp/mag/docDetail.jsp?coluid=81&docid=102842572>

<sup>10</sup> The most forceful of these claims, of course, comes from realist scholar John Mearsheimer. See: John Mearsheimer, "Say Goodbye to Taiwan," *The National Interest* (March/April, 2014), <http://nationalinterest.org/article/say-goodbye-taiwan-9931>

Figure 2: Cross-strait Trade and Investment (2009 – 2013)

Year	Exports to China	Imports from China	Approved Investment in China
2009	837.0	256.3	7, 142.59
2010	1,147.4	375.8	12, 230.15
2011	1,240.5	452.8	13, 100.87
2012	1,186.7	435.7	10, 924.41
2013	1,212.3	442.5	8, 684.90

\* exports and imports calculated in billion USD

\*\* investment calculated in thousands USD

Source: Adopted from “Cross-strait Economic Statistics,” *Straits Business Monthly*, No.272 (August 2014), p.61.

In terms of “entering the game” or making up lost ground in the integration process, since 2012, Taiwan subsequently completed an economic partnership agreement with Singapore (ASTEP) and an economic cooperation agreement with New Zealand (ANZTEC).<sup>11</sup> However, Taiwan’s gains seem negligible compared to advancements by China since 2012. Besides the realization of FTAs with extra regional partners such as Iceland and Switzerland, China is currently engaged in negotiations over the RCEP and the CJK FTA. Completion of either initiative in the near future entails severe challenges for Taiwan, as both the RCEP and the CJK FTA could be expected to form large trading blocs that exclude the island. Furthermore, at the moment, China is also engaged in FTA negotiations with Korea, an economic competitor of Taiwan in the global market.

In short, the future of Taiwan looks bleak. In spite of DPP presidential candidate Tsai Ing-wen’s proposal that “Taiwan should walk towards China with the world,”<sup>12</sup> hard realities in Asia challenge such suggestion. Although one cannot be sure whether the CCP has tapped into the economic card against Taiwan, developments suggest that the strategy is within easy grasp for Beijing and time seems to be on the side of a

<sup>11</sup> Office of President, ROC, “huolu wajijiao” (Viable Diplomacy), <http://www.president.gov.tw/Default.aspx?tabid=1077>

<sup>12</sup> In an open debate with President Ma Ying-jeou over the merits of the Economic Cooperation Framework Agreement, DPP party leader and eventual presidential candidate Tsai Ing-wen was quoted saying that “the difference between the KMT and the DPP is that the DPP walks towards the world and follows the world towards China while the KMT walks towards China first, then walks towards the world with China.” Tsai’s words have since served as a statement that captures the general economic position of the DPP towards China. See: “shuangying bianlun ECFA wenzi jilu” (Documentation of the ECFA Debate between Ma Ying-jeou and Tsai Ing-wen), <http://blog.roodo.com/aboutfish/archives/12258201.html>

rising China. Once regional integration is complete, whether or not Beijing adopts an ostensible economic offensive against Taipei may become irrelevant, as by then, Taiwan may be coerced by economic realities to come to terms with China.

### **Conclusion: China's Economic Card and Its Strategic Implications**

The foregoing development of Cross-strait relations since the mid-90s indeed paints a bleak picture for the future of Taiwan. However, from an international political economy perspective, it is interesting to note the turn from a largely geopolitical focus in the relationship between Taipei and Beijing before 2008 to a focus on economic concerns or geoeconomics under the Ma Ying-jeou administration. This is not to say that politics no longer matters, but economics is gaining increasing importance in Asia, particularly in a situation like the current relationship between Taiwan and China, where elites on both sides of the Strait have expressed a greater will to set aside politics for a moment and concentrate on cooperation on other issues that may be as important in the new century. Liberalists are likely to be delighted by Cross-strait relations today, as developments are evidences to the fact that there is more to international relations than just politics.

Yet Beijing's constant reminder that the political question should not drag on indefinitely implies that politics is never out of the question in Cross-strait relations. As the relationship between Taiwan and China is inherently political, leaving aside political considerations altogether may demand one to become Little Red Riding Hood first. Even though politics is not on the negotiating table at the moment, Beijing's ambition over Taiwan has never wavered as well. As the Chinese economy continues to expand and regional integration continues to move apace, Taipei may be forced to get back to the negotiating table with more desperation and anxiety over its economic future and less control of what is put before it. In other words, if China maintains its central role in the Asian economy, economic realities would eventually sink in and force Taiwan to grab at whatever is offered as the alternative to the dark prospect of further marginalization. If the supreme art of war is to subdue the enemy without arms, Beijing has learnt it well.

Although Taiwan may be a unique case of geoeconomic realism at play due to the island's special international status, geographic proximity and cultural affinity with China, the implications that may be taken away by other (Asian) states be similar.

As the development of Cross-strait relations demonstrates, the issue of size would eventually catch up as interdependence increases between two economies. Unless the smaller state could divert away from its larger partner, interdependence may become over dependence and entail a decrease in bargaining power. In a situation where multiple issues are under negotiation or at stake, issue linkage may occur to the benefit of the greater power. Unfortunately, in the case of Taiwan, its very survival is on the line. In the case of other Asian states, though sovereignty may not be immediately challenged, if China continues to grow and deepen its economic relationship with neighboring countries, it may not be impossible for Beijing to discover other creative ways of employing its economic prowess. Just how far China would turn towards geoeconomics remains to be observed.

**Title: The Possibility of Sharing Democratic value between South Korea, Japan, and overseas Chinese Network for Overcoming Crush of Nationalism**

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**Abstract**

The objective of this paper is to examine how to overcome the crush of nationalism between China, South Korea, and Japan. This paper will use “democratic peace theory” and argue that sharing democratic values between USA, Japan, and overseas Chinese networks becomes one possibility to avoid conflicts in the Northeast Asia region.

In International relations theory, it is argued that regional identity is necessary in order to avoid conflicts between countries within a region, and “nationalism” is regarded as impediments to peace-building in the region. In the northeast Asia region, it seems to be difficult to form a regional identity. Japan, China, and South Korea have rising nationalism. The Northeast Asian region is one of the most dangerous regions arising armed conflict between nations.

However, this paper indicates the possibility of forming regional identity between northeast Asian countries. The key player is the “overseas Chinese society”. South Korea and Japan can share values of free market and democracy with overseas Chinese. In addition, overseas Chinese do not share interests with People Republic of China (PRC) geopolitically. If PRC dominates Senkaku islands, Taiwan would be separated from US-Japan security alliance. Also, CCP’s dominance of the Senkaku and moving into Pacific Ocean would result in constraint of economic activities of overseas Chinese in Hong Kong, Singapore, and Malaysia.

South Korea and Japan should try to strengthen network with overseas Chinese society. Historically, overseas Chinese contributed on economic development of PRC, so that overseas Chinese will be able to have strong influence on CCP to overcome conflicts within Northeast Asia region.



## **Introduction**

This paper is divided into 4 parts. Firstly, rising nationalism in Japan, China, and South Korea will be explained. Secondly, International relation theory related to nationalism will be reviewed. Thirdly, the possibility to form regional identity for avoiding conflicts between states will be examined. The argument of this paper is that overseas Chinese network can share value of free market and democracy with Japan, and the USA, and regional identity to avoid conflicts in Northeast Asia will be able to be formed.

## **Rising Nationalism in Japan, China, and South Korea**

Currently, China and Korea severely criticize Japan's perception of history from Japan's invasion of Asian countries. For example, Japan's Prime Minister Shinzo Abe visited Yasukuni Shrine. Territorial dispute such as the Senkaku islands and Takeshima is heated. However, Japan reacts sharply against criticism from China and Korea. As a result, in Japan, China, and Korea, nationalism is rising.

## **International Relation Theory and Nationalism**

In international relation theories, nationalism is considered as an impediment to peace-building in the region. On the other hand, it is argued that regional identity is necessary in order to avoid conflicts between countries within the region. One of the examples of this is the Association of South East Asian Nations (ASEAN). In order to form a regional identity, the countries in the South East Asian Region established a code of conduct known as the "ASEAN WAY," which was based on the ideals of non-interference, informality, minimal institutionalization, consultation and consensus, non-use of force and non-confrontation.

In addition, ASEAN enacted the "ASEAN Charter" in 2007. The ASEAN Charter is a constitution of ASEAN, which is promoting regional peace and identity, peaceful settlements of disputes through dialogue and consultation, and renunciation of aggression.

In international relations theories, nationalism is regarded as impediments to peace-building in the region. Nationalism is regarded as extreme opposite to regional

identity because nationalism puts top priority to state and race. In northeast Asia region, it seems to be difficult to form regional identity. In Japan, China, and Korea, nationalism is rising. Therefore, northeast Asia region is concerned one of the most dangerous region arising armed conflict between nations.

### **Theories of Avoiding Regional Conflicts and their Limitation**

First theory is “balance of power”. It is a realist theory. According to balance of power theory, in northeast Asia the USA’s engagement in security in the region strengthens deterrence capacity. During the Cold War, in order to counter the military threat posed by the “communist bloc” the USA formed security frameworks with Asian countries: US-Philippine Mutual Defense Treaty in 1951; US-Japan Security Treaty in 1951; ANZUS Mutual Defense Treaty in 1951; US-Korea Mutual Defense Treaty in 1953 after the Korean War; US-China (Taiwan) Mutual Defense Treaty in 1965, and Southeast Asia Treaty Organisation (SEATO=Asian version “NATO”). These security frameworks could strengthen deterrence over enemy countries. However, it can be pointed out that there are problems of balance of power theory. It tends to neglect the importance of the thought, value, and identity. Nevertheless, there are the cases that the conflicts of them cause the war, even though security framework between the states is effective to maintain deterrence. “Balance of power” cannot explain these cases.

An example of this is Japan’s militarisation. The process that “Empire of Japan” entered the Second World War will be explored. Japan’s young military officials attempted two *coup d’etat* as “May 15<sup>th</sup> Incident” in 1932 and “February 26<sup>th</sup> Incident” in 1936. They assassinated Prime Minister, Finance Minister, party politicians, and executives of conglomerates. As a result, party politics was actually collapsed. As a result, the military increased power in decision making of Japanese government.

The background of *coup d’etat* was that the people complained to the party politics and conglomerates which could not solve the bankruptcy of small and medium sized companies, increasing the number of unemployment, non-payment of salary, and impoverishment in farming village. The young military officers tried to exclude party politicians and executives in the big companies.

Within the military, there were counterarguments against the war with the USA.

For instance, Yamamoto Isoroku, Allied Fleet Commander Admiral, had experience of study in Harvard University. He was shocked to see the gap of national power between the USA and Japan. He could understand the balance of power theory. Therefore, he tried to avoid the War with the USA. However, Yamamoto's objection was excluded by nationalistic atmosphere in the Japanese society at that time.

Consequently, the case of Empire of Japan will be summarised. People had complaint to political party and conglomerate which could not solve the depression. People celebrated nationalism which the military pursued. Nationalism eliminated political opposition who could understand balance of power theory. Japan went to war with the USA. In short, the balance of power is powerless to nationalism.

Second theory is "economic interdependence" theory. It is liberalist theory. Economic interdependence theory claims that conflicts can be avoided among the states which have interdependence of economy. Japan, China, and South Korea have economic interdependence very closely. They have tried to avoid serious conflicts carefully. However, it can be indicated that "economic interdependence" destabilises domestic economy in each countries. Japan faces hollowing out of industry, unemployment, and deflation. In China, the gap between city and rural areas is widened. In Korea, wealth is concentrated in the conglomerate. Thus, it is difficult for the governments to treat these problems. People are displeased with partner country.

### **Beyond Nationalism: Can regional identity be formed in northeast Asia?**

In this section, the possibility to overcome nationalism through forming regional identity in northeast Asia will be examined. Firstly, the risks of conflict in the region will be investigated. Currently, Chinese government claims "matter of life and death for Chinese government" which means the most important national interests. Concretely, China declares the matter of life and death, such as "Taiwan issue," "independent for Tibet from China," "Independent for East Turkistan," "territorial issues in South East Sea," and "Senkaku islands".

The reason why "Senkaku islands" is a matter of life and death for China is that basically sufficient natural resources seem to exist around the islands. In fact, China and Taiwan started to claim sovereignty over Senkaku islands when oil and gas were found

around Senkaku in 1968. However, it can be pointed out that natural resources around the islands are not matter of life and death now. China needs so much oil and gas, but natural resources around the islands are small amount for China's need. Instead, Senkaku islands are geopolitically important for China. If China controls Senkaku islands, China can break the defense line from Japan, Taiwan to Philippine. As a result, Chinese navy can move in to the Pacific Ocean. China can dominate Japan, Korea, Taiwan, Hong Kong, Philippine, and ASEAN militarily, politically, and economically.

What can Japan do for China's expansion? It is not enough to ask the USA to protect Japanese territory on the basis of the US-Japan Security Treaty. It is unclear that the USA would fight against China for Japan. President Obama's comment is ambiguous and there seems to be many pro-china politicians in the USA. Can Japan embark on its own defense policy? It is not realistic that only Japan's SDF can protect territory from Chinese invasion. Japan's military expansion would raise the hackles of China, and will not be able to get support from the USA.

Instead, it is better to develop alternative strategy. This paper would like to study making network with overseas Chinese society. Overseas Chinese society is spread to Taiwan, Hong Kong, Singapore, Malaysia, Thailand, and so on. Overseas Chinese enterprises build strong position in Asian society. Their business fields are diversified from agriculture to manufacturing industry, real estate, distributor, finance, and so on. Overseas Chinese enterprises contributed on the economic development of Asian countries. It is notable that from the colonial period, overseas Chinese engaged business in the economic system based on free market economy and democracy.

The relationship between Chinese Communist Party and overseas Chinese will be explored. When Xi Jinping, Chinese President, was a secretariat in Fuzhou city, he was successful to promote foreign investment with the help of Indonesian Chinese conglomerate. As a result, Fuzhou city could achieve highest economic growth in China. In addition, with regard to President Xi Jinping's economic reform, he is using his close relationship with Lee Kuan Yew, the former Prime Minister of Singapore, to cooperate with the Singaporean Chinese conglomerates. Moreover, it can be indicated the historical relationship between Chinese government and overseas Chinese conglomerates. For example, overseas Chinese conglomerate in Thailand supported Den

Xiaoping's economic reform.

Next the way of thinking of overseas Chinese will be investigated. Younger generations of overseas Chinese have experiences of studying in universities in the USA, the UK, Canada, and so on. They get MBA and acquire a cosmopolitan way of thinking. In addition, "Taizi Dang (Crown Prince Party)" will be examined. "Taizi Dang" is the descendants of prominent and influential senior communist officials. Many of its members hold not only high-level political positions, but also business positions. Young generation of Many Taizi Dang have experiences of studying in boarding schools in the UK and Swiss.

Overseas Chinese do not share interests with Chinese Communist Party (CCP) in Senkaku issue. Taiwan claims sovereignty of Senkaku islands with CCP. However, Taiwan cannot admit CCP's control of Senkaku. The reason for this is that if CCP dominates Senkaku, Taiwan would be separated from the US-Japan security alliance and be isolated. Taiwan would be under control of CCP. Hong Kong, Singapore, Malaysia, and Indonesia are very afraid that economic activities of overseas Chinese would be restricted by CCP, if CCP moves into the Pacific Ocean.

Therefore, Japan should strategically try to strengthen network with overseas Chinese society and persuade them to protect free market and democracy in Asian region. Japan should try to ask overseas Chinese and "Taizi Dang" to put pressure on CCP in order to control military.

## **Conclusion**

In short, Northeast Asia region nationalism is rising. Northeast Asia is considered one of the most dangerous regions arising armed conflict. This paper firstly reviews the theories of avoiding regional conflicts as "balance of power," "Economic interdependence". Then, this paper understands there are limitations in these theories. There are the cases that the conflicts of the thought, value, and identity cause the war, even though balance of power was formed between the states. Also, economic interdependence often destabilizes domestic economy in each country.

This paper tries to examine the possibility of forming regional identity between northeast Asian countries. This paper argues that networking with the overseas Chinese

society is one of the possibilities to avoid conflicts in Northeast Asia. Overseas Chinese society can share value of free market and democracy with Japan and the USA. Overseas Chinese had developed close relationship with CCP through cooperating CCP's economic reform. Therefore, Overseas Chinese can be expected to give strong influence on CCP's decision-making.

## **Comparative Studies on Immigration Policies in the East Asia Societies of Japan and South Korea**

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### **Abstract**

Migration is one of the conspicuous features of globalization. A number of empirical and theoretical studies have revealed various aspects of globalization and its impact on economy, politics, culture, and education. This paper will be looking into the social transformations and immigration policies in two contexts of East Asian countries, Japan and South Korea. It examines how the governments have responded to the increasing influx of foreign immigrants in the global era. It is intriguing to compare immigrants and the related policies between these two social contexts that parallel with certain demographic similarities and social challenges, such as low fertility rates, aging population, societies of relatively ethnic homogeneity, labor shortage in 3D (dirty, dangerous, and difficult) jobs, skewed sex ratio with son preference and bride deficit, etc.

It looks into Japan and South Korea's immigration policies and social environments through J. W. Berry's theoretical model of multiculturalism, which was first proposed in the context of Canada. Employing Berry's model, this project attempts to manifest the varied meanings of "assimilation" in the two different contexts of Japan and South Korea. It further aims to elucidate whether the policies of these two countries are essentially embedded "cultural assimilation" or "blending/integrating education" in these societies? And how does it differentiate "assimilation" from a "multicultural" context. This paper concludes that, contrary to Japan's bottom-up dynamics involving active grassroots campaigns with the responding policies and programs implemented by local governments and communities, South Korea's top-down policies mainly originate at the official level far away from ordinary people's daily life.

Keywords: Immigration Policy, Multiculturalism, Homogeneity, Cultural Assimilation, East Asian Societies

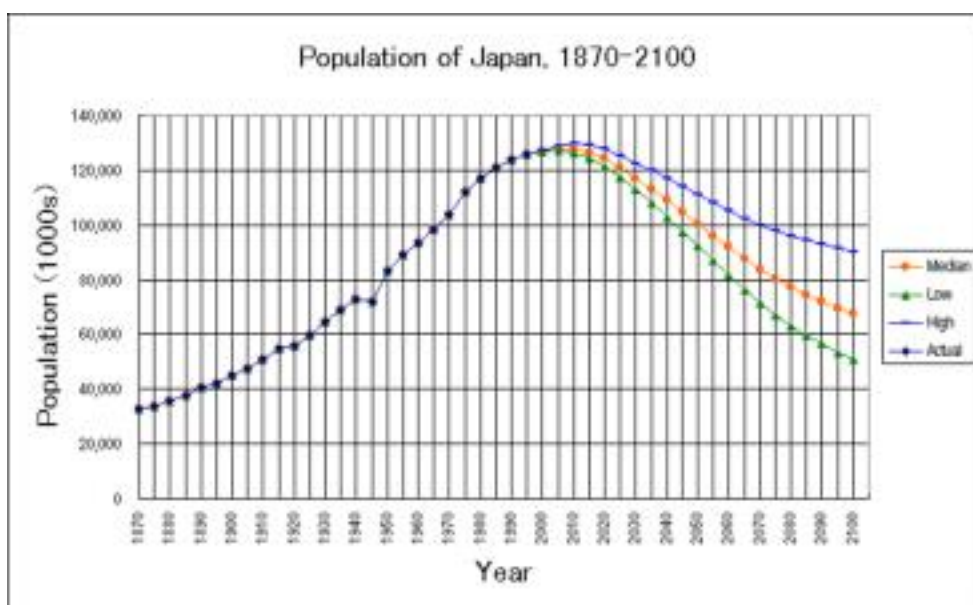
### **Introduction**

#### **Policy Initiatives for Multicultural Coexistence in Japan**

Japan is facing a vital challenge driven by problematic demographic changes in an aging society. It is predicted that without large-scale immigration, Japan's population will shrink from the present 127 million to 100 million by 2050, and even to 64 million

by 2100 if the birthrate remains low. The number of those considered to be of working age (15-64) is also expected to decline rapidly at a time when the number of elderly is already expected to skyrocket. By 2050, more than a third of the population is expected to be over 65 years old, making Japan one of, if not the oldest, countries in the world (Sakanaka 2005; 2007). The following graph reflects the historical and projected statistics of population levels from 1870 to 2100, reflecting the trend in the population of Japan.

**FIGURE 1: Population of Japan 1870-2100: Historical and Projected Statistics**



Source: National Social Security and Population Problem Research Institute (NSSPPRI), 国立社会保障人口問題研究所

Bureaucrats, economists, politicians and scholars have become aware of the imminent population decline, which has opened up a debate on how Japan could and should deal with the situation. The debate is centered on whether Japan should accept immigration or not. The alternative solutions are divided into two primary orientations, either a ‘Small Japan’ or a ‘Big Japan.’ More specifically, should the country maintain the status quo and allow natural population decline, leading to the emergence of a ‘Small Japan’, or should Japan solve its demographic problem by embracing immigrants to sustain its status as the world’s second largest economic power and promote a ‘Big Japan?’

Before the adoption of trainee system in 1993, Japan accepted only skilled workers and professional entertainers, mainly from Western countries and the Philippines,



respectively. The introduction of trainee system to Japan increasingly invited different groups of immigrants, most from China and Southeast Asia. In addition, Japan began to recruit foreign care-workers based on the Economic Partnership Agreements (EPA) signed with the Philippines, Indonesia, Thailand, and Vietnam since 2006. Subsequently, the campaign of “Multicultural Coexistence” (多文化共生) programs in local communities dynamically responded to the grassroots activism empowered by the vigorous foreign spouses and workers in Japan. The top-down policy measures were particularly driven by the forceful local voices of those marriage migrants who have robust prospect of giving birth to Japanese citizens in the near future.

### **Schemes for Immigrant Workers in South Korea**

Similar to Japan, South Korea also suffered from its low unemployment rate that has been accompanied by negative effects on the economy. By the early 1990s South Korea needed temporary labor to fill the unskilled jobs that natives were becoming less willing to do. The unemployment rate jumped from 2.1 percent in October 1997 to 8.6 percent in 1999, leaving two million people jobless. However, few native workers paradoxically wanted to take up the so-called “three-D” jobs - difficult, dangerous, and demanding. In fact, without foreign labor, it would have been nearly impossible to keep the “tiger” economy growing.<sup>1</sup> Strict migration controls made it increasingly difficult for South Korean businesses to fill low-level jobs with legal and temporary workers. By the mid-1990s, an increasing influx of laborers from other Asian countries, including China, the Philippines, Indonesia, Thailand, Vietnam, and Mongolia, kept their status with overstay tourist visas and joined the workforce. Undocumented workers thus embodied more than 70 percent of the total foreign labor force of South Korea by 2002. (Park, 2004)

In 2004, South Korea began to initiate three kinds of programs, the industrial trainee scheme, the employment management scheme (EMS), and the employment permit system (EPS), to cope with the accumulative need for unskilled foreign workers. The industrial trainee scheme originally aimed to upgrade the skills of foreign workers employed by overseas South Korean firms. It was modified again to ease labor shortages for small firms, particularly in the manufacturing sector in 1993. This trainee

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<sup>1</sup> “Tiger economy” refers to the economy of a country which undergoes rapid economic growth, usually accompanied by an increase in the standard of living. The term was initially used for South Korea, Singapore, Hong Kong, and Taiwan (the Four Asian Tigers) as tigers are important in Asian symbolism, and in the 1990s it was applied to the Republic of Ireland (the “Celtic Tiger”). Later on Dubai, Romania, Slovakia and the Baltic countries developed a tiger economy as well. (Cited from the Free Encyclopedia of the Wikipedia, [http://en.wikipedia.org/wiki/Economic\\_Tigers](http://en.wikipedia.org/wiki/Economic_Tigers), accessed on 09/19/2014)

scheme was considered to be temporary since the trainees were to return to their home countries after one year. However, the number of trainees had increased for two reasons. First, the trainee working period was extended to three years (one year of training and two years of employment). Second, the sectors eligible for using trainees expanded to embrace professionals of other areas, such as fishery and construction. (Park, 2004.) The other program implemented to is employment management scheme (EMS). Unfortunately, this ethnically orientated program could not effectively decrease the number of undocumented workers because the qualification was limited to Korean descendants in the service sector only. Thus those who were eligible to the EMS are predominated by Chinese Koreans based upon this regulation.

Under the third scheme, employment permit system (EPS), qualified Korean employers, those who own relatively small-sized enterprises (less than 300 employees in the areas) of manufacturing, construction or service business, are given priority to stipulate employment contracts with foreign workers. Those foreigner workers, under the conditions that they be of good health and below the age of 40, come to South Korea through government-to-government agreements. The government has signed Memorandums of Understanding (MOUs) with the governments of fifteen countries, including Indonesia, Sri Lanka, Thailand, China, the Philippines, Bangladesh, Cambodia, Pakistan, Mongolia, Myanmar, Nepal, Timor-Leste, Kyrgyzstan, Uzbekistan and Vietnam. The Korean government also helps those sending countries improve their capacity in managing recruitment system through a series of workshops for pre-arrival officials and trainees. The Korean EPS has facilitated to training curriculum and guideline publications in 9 languages.

When the EPS system was introduced, it gave many undocumented foreign workers an opportunity to apply for a permit, depending on how long they had been in the country illegally. At the same time, undocumented workers who did not qualify for a permit were given a chance to leave the country without paying any fines. This amnesty boosted the registered foreign population 73.4 percent between 2002 and 2003. (Park, 2004)

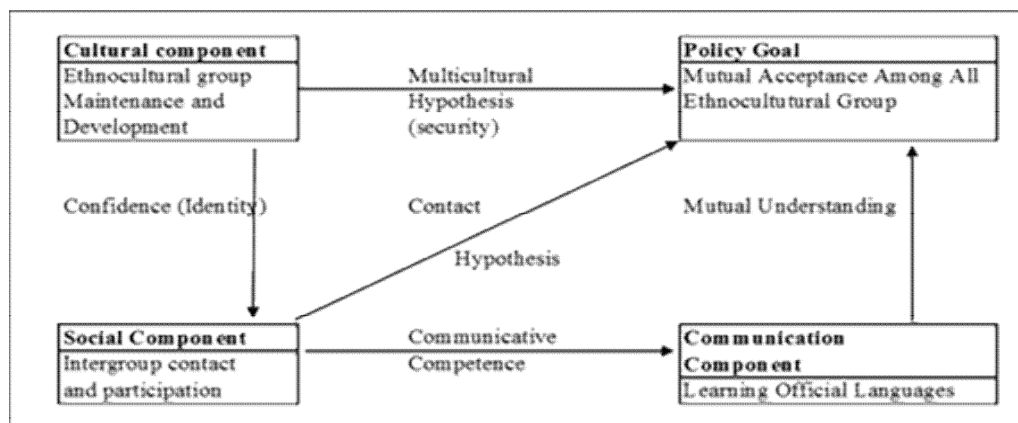
## **Methods**

This paper first introduces J. W. Berry's Model for Canadian Multiculturalism which leads up to the following discussions. National unity within the borders of a multi-ethnic Canada is promoted through the forging of a collective identity founded on official bilingualism and multiculturalism. J. W. Berry, a prolific scholar specialized in

acculturation and migration applied theories, conceptualizes a social psychological model for the Canadian multiculturalism policy. In order to achieve the fundamental goal of mutual acceptance among all ethno-cultural groups in Canada, he proposes a mechanism as a policy recommendation for the government. According to Berry, this ultimate objective is approached through three program components: (1) a cultural component aims to provide support and encouragement for cultural maintenance and development among ethno-cultural groups; (2) a social component seeks the sharing of cultural expressions by providing opportunities for inter-group contact, and the removal of barriers to full participation in larger society; and (3) a communication component aims to promote the learning of one of Canada's official two languages (See Figure).

The fundamental attempt of this mechanism of multiculturalism revolves around the acceptance of and support for a culturally heterogeneous composition of the population of a society (Berry and Kalin 1995). In essence, for the sake of national unity within Canada, the Canadian government initiated a multiculturalism guideline based on a firm commitment to what Kymlicka defines as 'civil liberties,' particularly for the freedom of individuals to live the life that they wish to have, as well as gender and racial equality (Kymlicka 2007).

### A Social Psychological Analysis of the Canadian Multiculturalism Policy



Source: Berry, J.W. "Mutual Acceptance among immigrants and ethno-cultural groups in Canada" *International Journal of Intercultural Relations*, 30, (2006), 719-734

The cultural component of Berry's model of the Canadian multiculturalism policy comprises of the prerequisite of support and encouragement for cultural maintenance and development among ethno-cultural groups. In order to achieve the aim and ideal that no ethnic group is excluded from Canadian society, Berry's cultural component translates Canada's multiculturalism strategy to public support, encouragement and recognition for development as well as maintenance of heritage cultures. An important

objective of the cultural component of Berry's model is the inculcation of respect for an individual's self as well as ethno-cultural and religious background. Moreover, this component seeks to alleviate the notion that minority or immigrant groups are of an inferior status and to prevent these groups from being marginalized or segregated from mainstream Canadian society, by making their ethnic identity and cultural stances legally equal to all other groups in Canada. Anchored on a strong sense of confidence in one's ethno-cultural roots, the cultural component of the Canadian multiculturalism policy emphasizes on the idea of mutual respect for each ethnic group within the society. Through mutual understandings and accommodating behaviors towards a collective sense of Canadian as one, mutual respect and tolerance are essential elements to bring about eventual equality in a multicultural context. (Nagy, 2009)

The social component as identified by Berry is also a crucial provision of opportunities for inter-group contact and the removal of barriers for social or political participation in a multi-ethnic society. Through various approaches such as promoting festival events, learning opportunities, and multiculturalism classes, different ethno-cultural heritages can come together, interact with each other and share languages, cultures, and heritage customs. The social component aims to foster mutual understanding and respect toward different cultures.

The third component of Berry's model is referred to as a communication component. A shared language for universal communication within a country assumedly helps to bridge gaps and eliminate associated misunderstandings among different ethnic groups. Notably, the learning and mastering of an official language facilitates the social acceptance of immigrants and minority groups by the host society. Without language proficiency, immigrants are incapable of communicating and interacting with other ethnic groups, stunting their integration into the host society. Through a process of language training and education, acculturation and integration can proceed much smoothly toward the ultimate goal of multiculturalism. In the context of Canada, a shared language of either English or French, serves as the means of communication among different ethnic groups.

## **Discussion**

In 2007, government-associated scholars led by Sakanaka<sup>2</sup> drafted a new framework for a picture of what Japan might look like in 2050 if the country significantly changed

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<sup>2</sup> Sakanaka, Hidenori (坂中英徳) has spent more than 35 years of his career urging Japan to bring in more immigrants. He is the former Director of the Tokyo Immigration Bureau and the current Executive Director of the Japan

direction by accepting 20 million immigrants and moving toward the ideal of a multi-ethnic society. The concept of a multicultural society coincides with the spirit of 'Big Japan.' Though driven by a different force of demographic needs, the contemporary idea of 'Big Japan' parallels that of Sakamoto, Ryoma's<sup>3</sup> 'open door' to the West proposal after the arrival of Commodore Matthew Perry's black ships. It is expected and inevitable that, similar to Sakamoto, Ryoma's 'open door' policy, 'Big Japan' would lead to the breaking and destruction of Japan's rigid social structures and the opportunity for a renewal of Japan in various aspects.

It is predictable that 'Big Japan' scheme will eventually expedite Japan to achieve a multicultural society. However, as Sakanaka suggested, the people and state's basic attitude and treatment toward foreigners show that Japan is not yet prepared to become a multicultural society with its current policies, which generally treat foreigners as a target for control and regulation. If the situation remains unchanged, Japan will not be able to make the leap and develop into a tolerant multi-ethnic society. In contrast, if Japan is determined to accept a significant number of immigrants, native Japanese people must then be prepared to live in a society where native Japanese people and other ethnic groups live together with mutual respect, in other words a society of "multi-ethnic coexistence."

Before accepting such an unprecedented number of immigrants, Japan would first need to develop a national consensus that those immigrants should be welcomed as 'friends,' 'colleagues' and/or 'partners.' Japan would then have to transform itself into a land of opportunity, just as the U.S. used to offer the American dream to immigrants in order to attract people from across the globe to come and make contribution on the island. In other words, Japan needs to build an 'open, fair society' which guarantees an equal opportunity to live and work for all people, values people for their merits and performance, and allows everyone to improve their social status regardless of their roots or ethnicity. In addition to a prepared mindset, Japan also needs to ensure adequate approaches are undertaken, in particular the strategy of coping with foreign laborers, in

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Immigration Policy Institute. Soon after his retirement in 2005, he published the *Immigration Battle Diary* discussing in detail the future of Japanese immigration policy and the role of immigrants in the world's second largest economy.

<sup>3</sup> Ryoma Sakamoto (坂本龍馬 1836-1867), a former merchant samurai and later political visionary who was one of the leader fighting against feudal Japan. During the Edo period, John Manjiro (1827-1898) was shipwrecked and saved by an American whaling boat. Thereafter, he became the first Japanese to settle in America and return to Japan to promote opening up Japan to foreign trade. Ryoma had heard about this fantastic tale, and was surprised to learn of the equality of citizens and rapid modernization in America. He had decided then that rather than being just subservient to the emperor it was far more important for Japan to be focusing on production and trade as the foreigners were doing. After the arrival of Commodore Matthew Perry's black ships. (Cited from "Ryoma Sakamoto: hero at the dawn of a new era" *Tosa Wave* Vol.33 2009 <http://www.kochi-kia.or.jp/info/tosawave/tosawavevol33.pdf>, accessed on 09/26/2014)

order to become a multi-ethnic society in which a variety of different values and cultures are respected.

Sakanaka's immigration proposals can be regarded as a long-term plan that envisions Japanese-style immigration as a measured process that should be based on pragmatic and realistic needs of the Japanese nation. Stressing that immigrants will rescue Japan, Sakanaka argues for the reinvigoration of the Japanese civilization and nation by what he refers to as 'spicing it up' and 'the mixing of different ethnic groups that will create new cultures, power and energy,' which will function and act as a nexus for intercultural exchange that would generate innovative ideas with multi-cultural vigor and vitality in Japan. In sum, Sakanaka's proposal can be metaphorically understood as a 'soup-based' model for immigration and multicultural society. Japanese language and cultural training programs act as the dominant ingredient in the multiculturalism policy 'soup.' The other approaches would propel new immigrants to gradually deepen and change the original flavor of Japanese preexisting 'soup' in a way that still remains a dominant essence of the ethno-cultural Japanese group.

Although Sakanaka's proposal aptly stresses the maintenance of ethnic identity and culture, he only focuses on Japanese citizens who are supposed to develop pride and awareness in their ethnic identity. This approach stresses the centrality of Japanese culture and language awareness merely among Japanese citizens. He overlooks the reality of a multi-ethnic nation in which people, cultures and languages are mixed in a cauldron that creates a blended cultural soup with different ingredients and flavors. While asserting that this new ethno-cultural soup would be based on the Japanese culture as the central ingredient, and taking in the essence of incoming cultures, his proposal does not provide a feasible outlook for supporting and preserving the cultural backgrounds of new arrivals as well. While the proposal might decrease the degree of marginalization and discrimination against minority groups, another foreseeable problem of cultural hierarchy might arise. I would suggest a more comprehensive mindset which claims pride not only in the Japanese ethno-cultural background, but also in every other group's ethno-cultural background. It can facilitate breaking down of the traditional border between *uchi* and *soto*, and further realize a multi-cultural society that advocates equality, and form a hyphenated identity, similar to the U.S. way of ethnic-citizenship identification, in the context of Japan.

Sakanaka immigration proposals strongly advocate expansion and reform of Japanese language as well as cultural training opportunities with the clear purpose of inviting educated, bilingual workers into the Japanese labor force. His proposals resonate well with Berry's multicultural model which focuses on language education in the cultural,

social and communication components. If these initiatives can be further solidified by governmental bureaus and the affiliated social organizations, it would facilitate new immigrants not only the integration into the local labor force and employment market, but also into Japanese mainstream society, circumventing discrimination. I argue, if the proposals are institutionalized, new immigrants in Japan can live, work and even prosper in Japanese society. Meanwhile, their cognitive and emotive identification towards being a brand new type of Japanese in the form of hyphenated identities, such as Korean-Japanese, Chinese-Japanese or Taiwanese-Japanese, may further the feasibility of a multi-cultural Japan.

In contrast to Japan's bottom-up dynamics involving active grassroots campaigns with the responding policies and programs implemented by local governments and communities, South Korea's top-down policies are mainly engaged in the official level far away from ordinary people's daily life. Since most of immigrants in South Korea keep their status as temporary guest workers based on centralized regulations and state-to-state recruitment, those people are less potential candidate to become permanent residents or citizens and thus have few motives to interact with local people or acquire familiarity with Korean culture and custom. Likewise, even marriage-matching programs are led or enforced by the government-affiliated agency, instead of broker agent. The private sector in South Korea is less involved with and/or influenced by multicultural integration, which results in a solidified wall of social segregation between foreigners as outsiders and locals as insiders. Therefore, unless more migrant workers gratifyingly immerse themselves in Korean cultures and seek for permanent residency in South Korea, grassroots campaigns for promoting social integration and the responding policies for a multicultural society may merely end in pretentious rhetoric.

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## **The strategies and challenges of Global Niche Top companies in Japan**

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### **Abstract**

Recently, Global Niche Top (GNT) companies that possess the top share product in the particular fields of the world market have gradually gathered high attention. The characteristics of GNT companies are their customer value creation and ongoing customer value occupation. In order to promote exports and to develop the Japanese economy, "Global Niche Top Companies Selection 100" was published in March 17<sup>th</sup>, 2014 by the Ministry of Economy, Trade and Industry (METI) in Japan as proactive cases of Japanese companies in the world market. The “Manufacturing White Paper”, published in June, 2014, also sheds light on the process of becoming GNT companies with the high oversea sales rates and high number of trade countries.

The important role of GNT companies is also emphasized in Germany and other Asian countries such as Korea. Based on the popular concept of Hidden Champions by Simon, the research and practices of "Hidden Champion" are also thriving in those countries. Therefore, the goal of this study is to examine the strategies and challenges of GNT companies in Japan based on the understanding of similar examples in other countries such as Germany and Korea, in order to indicate the key factors to maintain the world top share in the long term.

**Keywords:** Global Niche Top (GNT), Innovation, Marketing, Personal training, Internationalization

### **Introduction**

In recent years, Global Niche Top (hereafter, GNT) companies have attracted growing attention in Japan. A so called GNT company is a company with a strong presence of particular products and services with powerful competitiveness in the world market. Ministry of Economy, Trade and Industry (2014) published the "Global Niche Top Companies Selection 100" in March 17<sup>th</sup>, 2014, by selecting precedent cases of Japanese companies that are active in the global market. Generally, it is often mentioned

that large companies with long history are easy to expand internationally. However, in "Global Niche Top Companies Selection 100", companies with more than 10% of global market share were selected that possess the capital of only 300 million yen (approximately 3 million dollars) or less even with less than 300 employees.

"Global Niche Top Companies Selection 100" is elected on the basis of "Japan Revival Strategy" of Cabinet decision in June, 2013 by the Abe Cabinet. The companies selected are particularly featured in their internationalization, showing exemplary cases for other companies aiming to improve their own management strategies.

Companies active in the international market are not necessarily well-known companies that are often exposed in various advertisements. The selected companies are mostly B-to-B companies that primarily expand their businesses to corporate customers. Their corporate images have not been established and are almost close to anonymous from the general consumer. Since the market share of GNT companies is high in the areas of particular product and service, there are also small family-run businesses with long history diversifying business management types.

Recapturing the management of GNT companies means understanding how to pursue the innovation and marketing successfully in limited conditions. However, the studies on the management of these hidden global and top companies are still scarce. Therefore, in order to indicate the key factors of maintaining the world top share in the long term, this study aims to understand the strategies and challenges of Japanese GNT companies in possession of world class products and services investigating the situations in other countries such as Germany and Korea.

## **Methods**

Since the existing study on GNT is scarce, this paper mostly utilized the exploratory approach to understand the current situation of Japanese GNT companies. It employs the secondary data that are published by government sectors and also primary data that are collected by the authors throughout the interviews with multiple GNT companies that are selected in "Global Niche Top Companies Selection 100". Literature reviews and data published by German and Korean governments will be also utilized to understand the situations in both countries.

## **Discussion**

### **1. Global Niche Top companies in Japan**

In the past, many organizations in Japan had responded to the needs of large companies. Overseas expansion of large companies has been supported by many small and medium-sized businesses. However, in recent years, small and medium-sized companies whose major customers were the large companies have been forced to be independent by the poor performance of those large companies. In the meantime, many GNT companies in Japan have tried to meet the overseas demand and have shown its strong presence abroad. By doing that, compared to the domestic companies continuing businesses mainly for large domestic customers, GNT companies could go one step ahead in the process of narrowing down customers' inconveniences from their requests and needs and stimulating domestic market. Therefore, GNT companies display high levels of the awareness for the need to develop domestic and international human resources, market anticipation in the future, and globalization. According to Namba and Fukutani (2011) and Namba, Fukutani, and Suzuki (2013), there are many GNT companies in local areas that have survived in the long term, with a strong family-run business style and the abandonment of subcontracts with large companies; all clues of the strength of the local, while conveying innovation by deploying the technology and know-how, and by eliciting the need from the international market.

The Small-size and financial profitability are the same characteristics that GNT companies and business ventures share in common. On the other hand, comparing to business ventures, the GNT companies with long history and relatively small size aim to be leaders in the global market in terms of innovation and marketing. They have supported the large companies for a long time deploying particular products and services to the world, repeating the innovation and its commercialization. Some of them are family-run businesses that passed a hundred years from its foundation.

If aiming for international expansion, large companies may choose M&A. However, since GNT companies lack management resources to do that, they commercialize innovations at the large company level towards the multinational regions and countries for their international expansions. For example, company A, headquartered in Fukuoka Prefecture, produces, sells, and deals with after-sales service of industrial pumps to China, Taiwan, Korea, Singapore, America, EU, Middle East, as well as to within Japan. With less than 200 employees, the company still has the internationalization progressing within the company by having a network for special industrial pumps around the world.

The scale of GNT companies is small, but they acquire the number one status for a product and technologies in a particular business and establish a strong

international distribution network in foreign markets. General consumers do not know the existence of many GNT companies because they are hidden in the shadow of famous large companies. However, these small and hidden companies lead specific areas by particular technologies and commercialization. This type of management casts many points to learn not for large companies but for many other small and medium-sized companies. In other words, since they lack the management resources, GNT companies narrow the field and focus on the management to create and lead the market even without requiring enough management resources.

Unlike large companies, GNT companies commercialize where the market is expected to expand worldwide on a global scale in the long-term perspective, even though the market is not in the major field. Even in the most immature field that large companies often tend to ignore, GNT companies explore the sustainable model by aiming the world class business development, where excellent knowledge and human resources enter and operational and management modernization occurs. GNT companies also contribute society by providing economically added value playing a leading role by fostering the clue of development in limited areas in which any one cannot rely on large companies.

“Market creation by GNT companies” means the high dimensional development rather than mere economic scale expansion. It can be explained as the development of managerial sophistication that allows abandoned technologies and immature market that are determined as no economic value to revive. Compared to the technology and market development mainly delivered by large companies, GNT companies recognize the left-behind fields that are abandoned due to the shortage of human resources and lack of technology development as the “markets that should be created”. They make innovation happen in the field where the large companies cannot launch by employing high level of expertise and highly qualifying human resources, which eventually become the only service that satisfies customers’ needs in the long term. For that reason, the management of GNT companies could reach to the creation of the growth opportunity after leading the market by creating the added-value with sophistication and diversification in the untouched field of economy of scale, large company bias, and price competition.

## **2. Hidden Champions in Germany**

When considering how Japan GNT companies can contribute to Japanese economy, the examples of core German companies will be helpful. In Germany, small and medium-sized companies that are internationally competitive have been attracting attention as “Hidden Champion (hereafter HC)”. The term was coined by Simon (1996),

meaning the family-run companies in local area with long history that export on a global scale even without going public. He (1996) mentions that if a company is considered a hidden champion, it needs to meet three criteria: 1) Number one, two, or three in the global market, or number one on the company's continent, determined by market share, 2) Revenue below 4 billion dollars, and 3) Low level of public awareness.

Simon (2012) states that companies that are hidden largely affect the competitive advantage of the country and that 47% of world HCs is German accounting for about a quarter of German exports. He (2012) also suggests that Japan can learn many lessons from the fact that Germany was the world's largest exporter from 2003 to 2008 and HC was responsible for the job creation of 1 million people. NRW.INVEST GERMANY (2014) reports that 90 percent of the total number of firms in North Rhine-Westphalia state, a state in Germany, is small and medium-sized enterprises and 20 percent out of them is HCs contributing to exports.

The proportion of exports in German GDP is almost 50%, where small and medium-sized enterprises are responsible for the almost all of it. In other words, it is a structure where the nation does not rely solely on large companies for their ability to earn foreign currency, which is significantly different from Japanese corporate culture and companies, when doing the external environment analysis of the company. Therefore, the pricing also has the competitiveness of the level of global price without having the prejudice of "Overseas sales are from large companies".

The continuity of human resources is also high in German HCs; many foreign subsidiaries CEOs stay more than 10 years (Simon, 1996). Since CEO-led innovations requires normally from six to ten years to succeed, the emphasis on short-term plans disrupt the corporate value. Western type of financial pressure does not promote innovations in German, rather family-owned companies and non-listed companies are more keen and acute for the decision-making. The long-term investment conception of CEO motivates technical staffs to become market-oriented. The German strength of innovation can be found from the points where researchers visit the market and listen to the requests of their customers and technological development researchers practice in market-oriented manners.

In result, Germany has strongly overcome the economic hardships and become independent in terms of economic development in the EU, mainly by the activities of the Mittelstand (German medium-sized companies of 500 employees or less). Germany could also become financially independent during the Lehman Brothers Shock in the autumn of 2008 and the slump in the debt crisis of European countries in 2011. Due to the integration of Germany in 1990, economic situation of Germany in the past was under the heavy burden. However, with Mittelstand and HCs as its center, Germany has

built a strong model of entrepreneurship that has strengthened the nation (Kondo, 2000; Kondo & Maeda, 2003).

In many cases of German examples, the rural economy has been revived by the local companies that politically created many business opportunities targeting international communities abroad, which proposes a solution that is also adequate to the revitalization of Japanese local economy.

### **3. Hidden Champions in Korea**

In the series of economic crisis, the interests in developing small and medium-sized companies as HCs have become higher in Korea as well. The definition of Korean HCs is borrowed from Simon (1996; 2009) but the criteria to measure and judge HCs are slightly corrected following the Korean circumstances: Korean HCs are called global GangSoGioup (strong but small company) exporting more than 100 million dollars with sustainable world market share.

However, the difference of figures between German HCs and Korean HCs is considerably extreme. There exist only 114 Korean HCs, while the number of German HCs is more than 1000. The average history of German HCs (61 years) is twice more than Korean HCs have (30 years) (The Export-Import Bank of Korea, 2014). The average of Korean HCs' number of employees (468) is a quarter of German HCs' (2,037), while the average of Korean HCs' number of overseas subsidiaries (4.4) is one sixth of German HCs' (27).

The fundamental problems in the Korean economy are also hidden behind the situation. First, the export structure is too large company biased. Only 0.1% of the total numbers of businesses in Korea are large companies, but they accounted for 65.1% of total exports in 2010. On the other hand, accounting for 99.9% of total number of businesses, small and medium companies take charge only in 34.5% of exports. Secondly, due to the large company-led export growth, the contribution rate of export has been worsened. While the employment rate per one billion won was 26.2 in 1995, it has been declined to 7.9 people in 2010. The added-value inducement rate also decreased from 0.7 to 0.563, meaning the added-value of 7 billion won was created in 1995 was declined to 5.3 billion won in 2010 by the same 100 billion won exports. Lastly, after entering the 2% of world market share of exports in 1988, Korean world market share stays stagnant at 2% for the last 20 years. The rapid increase in world market share in 2009 is also due to the large exports such as semiconductors, ships, cars, displays, and mobile phones by large companies. It is clear that export-led economic growth in Korea now suffers from the growth retardation by the large company bias.

Understanding the needs of developing HCs in Korea to ease the bias, the Export-Import Bank of Korea (henceforth, Korea Eximbank) as a national bank had started Korean Hidden Champion Development Project in 2009 to develop 300 Korean Hidden Champion companies by investing 20 trillion won (approximately 20 billion dollars) up to 2019, in order to accomplish the sustainable and balanced growth. Starting from seven companies that were selected as Hidden Champion initially in 2012, eight companies in 2013 and nine others in 2014 have been also selected making the total number of Hidden Champion 24. The recent nine companies either export 300 million dollars nominating world top five and above or achieve the sales of one trillion won (approximately one billion dollars) and 50% or more of exports rate.

However, Korea Eximbank is not the only institution to select Korean HCs. Even before Eximbank, Korean HCs were first selected and reported by Korean Exchange (hereafter, KRX) in 2009. Along with the criteria of Korea Eximbank, the criteria of KRX also emphasize that the company needs to be listed on Korean Securities Dealers Automated Quotations (KOSDAQ) within the world top three market share. The comprehensive evaluation is adapted in complex manner to measure the world market share, profitability, growth rate, technology, and financial stability. In addition to enhance the value of companies, KRX also aims to vitalize KOSDAQ. 32 companies were selected as KOSDAQ HCs in 2009, followed by 29 (in 2010), 37 (in 2011), 26 (in 2012), 26 (in 2013), and 27 (in 2014).

Although it does not use the word ‘Hidden Champion’ in the title, there is one other similar award for small and medium companies with world market share, called ‘World Class 300 Project’. Starting from 2011 organized by Small and Medium Business Administration (henceforth, SMBA), the project aims to select 300 small and medium companies with great potential and commitment to professional development so that SMBA can support them to be nurtured as world class level companies. So far, the total number of 156 companies has been selected (i.e., 30 in 2011, 37 in 2012, 33 in 2013, and 56 in 2014). Since it does not borrow the concept from Hidden Champion of Simon (1996), globalization, independency, innovation and sustainability, and employment impact are used for its criteria to judge in the overall manner. According to the sales revenue, not the exports, of World Class 300 companies, there are 28 companies with less than 100 million dollars out of total 56 in 2014.

Unlike Korean Hidden Champion Development Project by Eximbank, KOSDAQ Hidden Champion and World Class 300 allow the companies to be selected multiple times over the years. It is also noteworthy that only five HCs by Eximbank out of 24 are overlapped with other HCs by KRX and SMBA, since the three organizations have different criteria to select the same ideal companies, that is, the companies with

high potential to lead Korean exports and economy as small and medium sized companies.

#### **4. The strategies and challenges of Global Niche Top companies in Japan**

In recent Japan, due to the declining economy along with the falling population caused by low birth rate, it is not possible to rely solely on the employment of conventional large companies anymore. It has currently become a serious issue in Japan that the trade deficit is uncontrollable while Japanese large companies relocate internationally. Additionally, after Lehman Shock, the Japanese economy has lost in the price competition with Asian countries in the many fields of general-purpose products. Japanese companies continue to introduce more specialized products and services in higher quality, but the strong role of core companies rather than large companies is needed for the export capacity of the country and for industrial development in the future. It becomes more important to reinforce the power of technology development and to increase the export capacity, especially in the time of recent deficit in the trade balance and painful national financial issues.

Therefore, to reassess the position of GNT companies contributing to exports as an important part of Japanese industry bears considerably important meaning. Because of the lack of local young people and the exhaustion of the local economy, the old policy of “headquarters in the center of city and factories in the local area” does not seem to be effective any longer. In that sense, for the development of the local economy, Iwamoto (2013) suggests an effective way of building a cluster after a research of Germany where they expanded the world business from the local headquarters and helped the revitalization of the local economy. He (2013) emphasizes the importance of producing white-collars in local area who can aggressively activate the economy at the local region and abroad.

In Japan, the number of small and medium-sized companies is 4.2 million (99.7% of total), where 66% (28.27 million) of total employees produce more than half of added value (manufacturing) up to 40 trillion yen, forming the basis of the Japanese economy. Since it is necessary to analyze the management of GNT companies as a model for the revitalization of the local economy, the training and education for human resources should be considered as a political issue at the government level. Japanese companies require the marketing designed for each region around the world to plan and produce the competitive products and services in the global level. Iwamoto (2013) also mentions that the development of human resources should be supported by the political integration, not leaving it to the private sectors or large companies.



In order to pursue the independence and defense from the declining economy in Japan, the roles of subcontracts and the trading companies that worked during the economic growth stage must be reviewed. The questions are: 1) what must be done to be independent from the things that are gradually not functioning these days (e.g., subcontract)?, 2) What are the reasons why the role of trading companies does not function and what are the alternatives?, & 3) What is the inter-organizational relationship that facilitates high dimensional economic effect? The existing GNT companies in Japan and other countries can cast the answer by aiming for the high world share with their own technologies and products.

Companies need to lead and stimulate each other within the existing world market to show its presence by modernizing the technologies and marketing. Building partnerships is more important than holding subcontracts. In the global market, the competition should be led by innovation and marketing. The supports or grouping based on the scale of "small and medium" would also not be suitable at present anymore.

As Takahashi (2013) proposes, the perspective for GNT companies, totally different from current conditions of small and medium-sized enterprises, should seek not the extension of the past policies but the different solution from another dimension in the long term. For that reason, the governmental economic support and public assistance to companies need to be one that measures the motivation of the company as the next leader of the Japanese economy and the innovation that dares to repeat failure and success to the appropriate direction, rather than the support for the weak organizations in its scale and size as it were in the past. In other words, the issue should move on from the way of past support to the new direction of developing competitiveness and creativity by motivating small and medium-sized companies.

Most of GNT companies have also survived not only in the potentially growing market, but also even in the mature market. There are many lessons to be learned from the hidden power of GNT companies that revives the technologies that had entered into price competition in the mature existing market, the abandoned technologies, and the technologies not made in anticipation of success. The market value of these technologies is often considered low, but GNT companies have enabled those traditional techniques and local economy to revive by focusing on a specific field and object. That also explains the existence of many GNT companies in local areas.

On the basis of GNT companies, Japan can contribute to the world in the field of advanced and delicate technologies that are widely recognized in the world: 1) marketing and innovation to create unique products and markets rather than general-purpose products and existing markets, 2) the role as the core industrial organization rather than subcontractors of large companies, and 3) the presence of global imagination capability that leads the world from the local areas.

Therefore, it is possible to foster the export industry for the next generation and contribute both nationally and internationally, if companies like GNT can be cultivated and bundled strategically in the long term. In result, it will also lead to the industry creation of the country, the rise of export capacity, and contribute to the sophistication and diversification of corporate management.

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## **China's Economic Diplomacy in Southeast Asia: An Assessment of Regional Integration<sup>1</sup>**

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### **Abstract**

Economic development has become a prominent theme in China's foreign policy since opening up. Regional integration in East Asia is considered driven by China's rapid economic growth. It is seen that the progress of regional integration is very much in line with China's economic diplomacy, especially in the case of China-ASEAN Free Trade Agreement. Considered as 'Charm Offensive', economic diplomacy is promoted through thriving trade relations: creating peaceful neighbourhood relations, securing raw materials and resources, and maintaining regional stability. It is also used as a tool to compete for influence and power with the United States and Japan. However, the aggressive stance on the South China Sea dispute has complicated China's economic policy in Southeast Asia. Constant conflicts between China, Vietnam and the Philippines over maritime territory have occurred and tensions over the potentially abundant natural resources only seem to increase. As economic cooperation and interdependence deepens in the region, this paper asks: Why China's economic diplomacy has backfired, despite deep-level economic integration? It will argue based on the hypothesis that regional integration in line with China's economic diplomacy is wielded for security concerns, in pursuit of bringing Southeast Asia into its supportive circuit. By studying neoclassical realism, this paper will find China has changed its course of diplomacy from serving its economic development to wielding economic power for geopolitical purpose. It will shed light on the degree of elite cohesion and cognition of relative power as key dominant causal determinants that define China's position in maximizing influence over its southern neighbours. Thus, in competition for influence with the United States and Japan, the scenario of regional integration has become more complicated.

**Key Words:** Neoclassical realism, China's economic diplomacy, the South China Sea disputes, leadership consensus, new actors in foreign policy

### **Introduction-Expanding diplomacy toolkit**

Diplomacy was traditionally considered as the key component to achieving foreign policy

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<sup>1</sup> This paper is partly based on the author's published paper, "Asymmetric Economic Interdependence and the South China Sea " *Harvard Asia Quarterly* XVI, no. 1 (Spring 2014).

goals. However, diplomacy is not the only tool in China's arsenal. Economic policy is now an integral part of China's strategy in addressing regional as well as international issues. Trade, investment and financial policies have been formulated with the primary purpose of supporting the imperatives of China's transition from export led to domestic led growth. Using a combination of diplomacy and economic assistance to advance its overseas interest is not novel to China. Between the 1950s and 1970s when China's international trade relation was still in its infancy, China already played the critical role as aid provider to the communist insurgency movements within Southeast Asia. This had caused severe damage to China's image abroad and relationship with its Southeast Asian states. Nevertheless, with the rapid economic development accompanied by the opening up of its economy in 1979, relations with its Southeast Asian neighbours have now entered a new phase.

After opening up, for a long time, China repeatedly used foreign policy to advance its domestic economic development, whereas nowadays China is using its economic influence to wield its power.<sup>2</sup> From the 1980s or even earlier, China has begun to use its economic prowess strategically as it has achieved robust economic growth largely through trade expansion. During this growth process, China has been integrated into the world market, and expanded economic ties with advanced economies and neighbouring countries.

There are mainly three ways to promote its economic diplomacy.<sup>3</sup> The very common but prominent one is through trade promotions and free trade agreements (FTAs) to expand China's market, overseas investment, and acquire access to the natural resources overseas for its domestic demand. Foreign assistance also constitutes a critical aspect of China's economic diplomacy. China is characterized as a foreign assistance provider with a package aid program containing financial loans, state-subsidized infrastructure projects and investments, technical assistance as well as the foreign aid.<sup>4</sup> The final dimension of China's expanding diplomatic toolkit is China's financial diplomacy. The prominent case is China's generosity in the 1997-1998 Asia financial crisis where China denied the devaluation of the Chinese Renminbi in order to maintain regional stability. In contrast to the US and Japan's rejection to help, China generously participated in the International Monetary Fund (IMF)-initiated aid projects for some Asian countries. After the crisis, the Chinese government continued supporting the economic stability by providing Thailand and other Asian countries

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<sup>2</sup> James Reilly, China's unilateral Sanctions, *The Washington Quarterly*, Vol 35: 4, pp. Fall 2012, p. 121. Reilly, James. "China's Economic Statecraft: Turning Wealth into Power." Lowy Institute For International Policy <http://lowyinstitute.org/publications/chinas-economic-statecraft-0#.UqU8KSQbxDA>.email.

<sup>3</sup> Medeiros, Evan S. *China's Expanding Diplomatic Toolkit*. China's International Behavior: Activism, Opportunism and Diversification RAND Corporation, 2009, p. 62.

<sup>4</sup> These assistance and aid are often provided through the China Export-Import Bank (CEIB) or China Development Bank (CDB). China's foreign assistance is often accompanied by its foreign direct investment (FDI). According to statistics from China's Ministry of Commerce, the FDI in ASEAN jumped from \$ 0.12 billion to \$5.9 billion between 2003-2011. It was seen a rapid increased by 34.1% of FDI in 2011 compared to the year of 2000.

with over 4 billion US dollars in non-strings attached financial assistance, through the IMF or bilaterally.<sup>5</sup> China showed to this region that it is committed to its development and stability under huge pressure with risks. Thereby, it gained credibility and appreciation as a responsible country from the regional states, which strengthened closer political ties with its southern neighbours and paved the way for subsequent economic integration and trade cooperation. China's move seemed to convince ASEAN countries that China's economic growth can bring about enormous benefits and opportunities for ASEAN.<sup>6</sup>

After the Asian financial crisis and 2008 global financial recession, China has also focused on its attention to regional financial stability by establishing the China-ASEAN Investment Cooperation Fund.<sup>7</sup> More than that, China further promoted its financial diplomacy by initiating currency swap agreements to improve the access to Chinese currency for other countries as an alternative way to transact trade during financial crisis when the U.S. dollars are not sufficient.<sup>8</sup> In addition to the development assistance, the new element known as humanitarian aid grows in its provision. In response to the Southeast tsunami in 2004, China donated USD\$ 83 million and dispatched disaster relief troops overseas. Although humanitarian assistance has less economic dimension, it complements the economic diplomacy and creates potentials for the future.

All in all, China's economic diplomacy, not only aims to gain overseas markets for its own economic development, but also it signals China's contribution to the economic development of other countries, especially as a means to reassure its Southeast neighbours of its good will. As economic cooperation and integration deepens, it is believed among some Chinese leaders and scholars that the strengthening relationship may not solve China's security concerns, but it will still help cultivate relations due to common economic interests.

In tandem with the active economic diplomacy, China has embraced multilateralism as well. It can be seen from China's active participation in selective multilateral political, economic and other organizations.<sup>9</sup> China was suspicious of the multilateral regional organizations until it believed such mechanism would be more beneficial to exercise its influence than

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<sup>5</sup> "Pro-Active Policies by China in Response to Asian Financial Crisis." edited by Ministry of Foreign Affairs of the People's Republic of China, Nov 17 2000. See at <http://www.fmprc.gov.cn/eng/ziliao/3602/3604/t18037.htm>.

<sup>6</sup> Alice D. Ba, China and ASEAN : renavigating relators for a 21<sup>st</sup> century Asia, Asian Survey, Vol. 43(2003), pp. 622-647.

<sup>7</sup> The prominent example is the 'Chiang Mai Initiative' multilateralization agreement has increased to \$240 billion USD. See "News Analysis: Deepened China-Asean Cooperation to Safeguard Financial Stability." *Xinhua*, 2013-09-05 Sep 05 2013. See at: [http://news.xinhuanet.com/english/indepth/2013-09/05/c\\_132693859.htm](http://news.xinhuanet.com/english/indepth/2013-09/05/c_132693859.htm).

<sup>8</sup> Similarly, at the financial forum of the 10<sup>th</sup> China-ASEAN Expo (CAEXPO), the deputy governor Yi Gang announced the bilateral local-currency swap agreements with Asian countries, valuing 1.4 trillion yuan (around 226 billion USD).

<sup>9</sup> Such as : China initiated and held several Six-Party talks over North Korea's nuclear program. China, together with Russia, has been promoting economic, political, and military cooperation with Central Asia which is known as Shanghai Cooperation Organization; China also actively helped end conflicts in Darfur after facing the criticism from the West; China can be seen involved in helping resolve controversial issues in the Middle East and Southeast Asia.

keeping a distance. Shanghai Cooperation Organizations (SCO) was a very obvious example where China was convinced multilateral and regional organizations could be a very important platform for securing its interests and projecting its leadership and influence.<sup>10</sup> Its support and embrace for ASEAN being the leader in many regional issues<sup>11</sup> are based on the concerns over the competition with the United States and Japan. Supporting the regional organization would enable China to keep a low profile while seeking opportunities to project its influence and reducing containment from the US and its allies. In the similar vein, China's economic diplomacy is in line with the strategic approach partly because of sending good will and creating a benign neighborhood environment. Most people assume that China's diplomacy in Southeast Asia is simply driven by securing economic interests and exploiting natural resources. This paper suggests that there are other motivations in addition to the energy extraction consideration.<sup>12</sup>

Following China's commitment to foster relations with its neighboring countries, cooperation and engagement intensified. Southeast Asian countries were undergoing the industrialization and urbanization processes, which placed their desire for economic development at high level and also created abundant common interests. Indeed, they shared a considerable number of concerns: the need to attract investments and improve their technological innovation and the common demand for fairer market vis-à-vis protectionism from developed countries. However, the common interests in economics are also accompanied by conventional politics. According to Amitav Acharya, the traditional relations between China and Southeast Asian countries were dominated by geographic proximity, political dynamics within each country, and ideology and geopolitics with US strategic involvement in the Asia-Pacific.<sup>13</sup> These evolutions of relationship lead to a more

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<sup>10</sup> The fact that China has become proactive in multilateral institutions such as ARF (ASEAN Regional Forum) in the 2000s, offered to enter into free trade agreements with ASEAN, and favoured direct investment in regional economics all has not only economic but also strategic intents. Other than that, China has sacrificed some economic benefits in exchange for the trust from ASEAN countries, aiming to advance its economic and political objectives in the long run. For example, the agreement on China-ASEAN FTA Early Harvest Programmes, in the Chinese eyes, portrayed many favourable treatments to the ASEAN states in terms of the partial lifting of trade barriers on certain goods, which is considered as China "giving more and taking less" by the Chinese side.

<sup>11</sup> See Dai Bingguo, Embrace New Opportunities for China-ASEAN Cooperation, address by Dai Bingguo, State Councillor of the People's Republic of China at ASEAN Secretariat in Jakarta on 22 Jan 2010.

<sup>12</sup> Mr. Lian, the officially assumed the role of UOB (China) President and Chief Executive Officer said Chinese companies played a central role in trade activities in Southeast Asia, particular from the oil and gas, real estate, food and beverage and telecommunications sectors. "Chinese companies are increasingly looking to Southeast Asia to fuel their next stage of growth. Initially, the 'Going Out' strategy of Chinese companies focused on securing natural resources. We are now seeing a new phase of growth arising from the opportunities that Southeast Asia offers. The focus has since shifted to catering to the region's rising middle class through offering goods and services or building and infrastructure projects." See at Increasing Trade between China and Southeast Asia a Key Driver of UOB China's Growth Strategy News Release, Shanghai, China, 15 Nov 2013.

<sup>13</sup> Acharya, Amitav, ed. *Seeking Security in the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order*. edited by Geoff Wade. Vol. VI, China and Southeast Asia Vol. VI : The People's Republic of China and Southeast Asia. New York Routledge 2009. 273; Also see Richard L. Grant, *China and Southeast Asia: Into the Twenty-first Century* (Honolulu: Pacific Forum/CSIS; Washinton, D.C. Center for Strategic and international Studies 1993.

complex set of situations: competition and cooperation for trade and investment opportunities with other countries, territorial disputes over South China Sea, and power projection versus “counter-dominance”<sup>14</sup> among the trilateral relations among the US, China and ASEAN. The situation of ASEAN’s great power predicament that they have to balance their relations with China and the United States and Japan is evolving since the US re-commitment in East Asia has been strengthening after the ‘pivot to Asia’ policy was announced.

As economic cooperation and interdependence deepens in the region, this paper asks: is regional economic integration in East Asia providing a platform for peace or promoting competition. The purpose of this paper is to examine how domestic factors intensifying China’s pursuit of economic diplomacy that may be transforming key aspects of its security strategies. Considered as an authoritative country that only one Party rules, the foreign policy making is not always consistent and unitary due to factional politics. It will find the cognition of relative power among the leadership level and national consensus over external environment plays critical role in China’s foreign policy selection. It will also suggest a number of possible pathways through which China’s increasingly active economic foreign policy could lead the country toward either conflict or cooperation with its neighbours and United States.

## **Methodology**

In order to accomplish this, this paper is located in the area of qualitative research methodology. It is anchored in understanding and testing the theory and what aspects of the theory testing will be left for future work. Owing to time and space constraints, the analysis is mostly rooted in private interviews, official documents, relevant governmental and non-governmental information, think tanks, and media. Primary sources include official documents and cooperation agreement regarding China’s economic diplomacy. The primary sources collected enable the researcher not only to uncover relevant information, but also to access the process the views of all contributions involved. Secondary sources include books, journal articles, conference papers and documents, supplemented by the assessments of journalists and scholars. It will refer to influential books and articles for a comprehensive literature review. The nature of economic diplomacy requires data of trade flows, oversea investment volumes and financial loans in the bilateral economic relations will be collected. Statistical data are drawn from official publications made by the Chinese, ASEAN and other international organizations.

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<sup>14</sup> Acharya, Amitav, ed. *Containment, Engagement, or Counter-Dominance? Malaysia’s Response to the Rise of Chinese Power*. edited by Robert Ross and Iain Johnston, *Engaging China: The Management of a Rising Power*: Routledge, 1999:129-151.



This study will offer contributions to the international relations by offering comparative and theoretical analyses on paths that China have chosen for its economic diplomacy. This paper will not be able to test how well the theory holds in cases of China's economic diplomacy towards all Southeast Asian countries due to time and space constraints. Therefore, it will apply a comparative studies inspired by the existing neoclassical realism theory and then apply to the case of ASEAN.

### **Theoretical Approaches to Chinese foreign policy**

Theories of international relations often refer to the meta-theoretical issues as origins for explanations to the international behaviour and foreign policy. Fundamentally, the meta-theoretical issue is about relationship between actor and structure. In IR, the focus has been on argument between domestic actors and external factors as a source of foreign policy.<sup>15</sup> The globalization trend has highlighted the importance of external factors in making and implementing foreign policy, but does it apply to China's case? Or is there any alternative explanation to understand China's ambiguous demarche?

Most of the neorealism in IR and political science assumes the structure shapes and determine the behaviour of actors. The Realpolitik argues that the foreign policy of a country is determined by its geopolitical circumstances and by its place in the international structure.<sup>16</sup> The behaviour and strategies of a state are defined by material power such as its military size and economic volumes. According to Kenneth Waltz, there are three levels of images to explain international relations, the 'first image'-human nature, the 'second image'-unit and the 'third image'-international systemic structure.<sup>17</sup> In the anarchical and self-help international system, the first image has been replaced with the third image. The systemic structure is more superior to the unit-state. Accordingly, material factors are more important to non-material dimensions of power. Waltz contends that systemic structure determines the behaviour of states. Therefore, only changes in the structure are able to produce the distribution of power in world politics.<sup>18</sup> Hence, there is very little space for actors and even if actors attempts to engage and act, and balancing behaviour usually takes place. United States and Soviet Union in the 1970s offers the most obvious instance.

Because the states are assumed rational, they will behave accordingly in response to their

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<sup>15</sup> Refer to Waltz, Kenneth. *Theory of International Politics* Reading, Mass: Addison-Wesley 1979; Kim, Samuel S., ed. *China and the World: Chinese Foreign Policy Faces the New Millennium* Boulder, Colo: Westview Press, 1998; Rose, Gideon. "Neoclassical Realism and Theories of Foreign Policy." *World Politics* 51, no. 1 (Oct. 1998).

<sup>16</sup> See Waltz, Kenneth. *Man, the State, and War*. New York: Columbia University Press, 1959; Jervis, Robert. "Cooperation under the Security Dilemma". *World Politics* 30, no. 2 (1978); Kennedy, Paul. *The Rise and Fall of the Great Powers*. Random House, 1987; Christensen, Thomas. *Useful Adversaries: Grand Strategy, Domestic Mobilization, and Sino-American Conflict, 1947-1958*. Princeton University Press, 1996; Rose, Gideon. "Neoclassical Realism and Theories of Foreign Policy." *World Politics* 51, no. 1 (Oct. 1998); Mearsheimer, John. J. *The Tragedy of Great Power Politics*. New York: W.W.Norton 2003.

<sup>17</sup> Waltz, Kenneth. *Man, the State, and War*. New York: Columbia University Press, 1959.

<sup>18</sup> Waltz, Kenneth. *Theory of International Politics* Reading, Mass: Addison-Wesley 1979, P. 108

resources and strategies. Since there is no global government to seek for protection, states struggling for power by following the dictates of the international system in order to survive. This anarchic system inevitably leads to the self-help situation and power politics. Waltz prioritizes the systemic level to avoid the ‘reductionism’ that focuses on the unit-level analysis. To achieve this, Waltz continues his argument by assuming states pursuing for survival. However, as pointed out by different scholars, international system will be unable to make states struggle for power if states do not understand survival level, nor do they have the desire for power competition. The mere motivation for survival cannot account for the struggle for power because it may be in conflict with the original goal of survival.

Gideon Rose perfectly lists four schools of theories that explain the behaviour of the state. Two of them are offensive realism and defensive realism sharing the assumption that most of the structural realists agree that international structure constrains states on behaviours and foreign policies. Thus, they act in the power hierarchy (power line) where they are positioned.<sup>19</sup> However, they disagree over the degree of how the power line constrains the states. The offensive realists deny the defiance of unit-level actors in the structure while Waltz thinks the possibilities that states have to challenge the constraints, although the state behaviour will be confined ultimately. According to Mearsheimer, states often act to maximize material power and even attempt to over-expand with great ambitions for scarce security reasons. Because international structure is considered to systemize states to behave alike, domestic characteristics of states with their internal differences appear less important. The behaviour of a state is positioned in a given systemic structure. Therefore, the foreign policy is shaped in accordance with the systemic structured position. In contrast, defensive realism holds the anarchy situation is embedded with benign characteristic because of ‘plentiful’ security’.<sup>20</sup> In such security environment, states only balance against each other when external threats approach.

Most of the international politics have placed emphasis on the nature of international system but ignored the domestic dynamics because the domestic politics is considered as a different subject of comparative politics. While international relation theory is more about the state-to-state relations, foreign policy is usually made by political leaders within the state. Therefore, the analysis reaching to the unit-level such as domestic politics and even influence of individual political leaders is necessary in order to explain the power competition.<sup>21</sup> Some

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<sup>19</sup> Colin Elman, "Horses for Courses: Why Not Realist Theories of Foreign Policy? *Security Studies* 6 (1996), 7-53. Dale Copeland, *The Origins of Major War*, (Ithaca: Cornell University Press) 2000; Mearsheimer, John. J. *The Tragedy of Great Power Politics*. New York: W.W.Norton 2003; John M. Owen, Domestically Driven Deviations: Internal Regimes, Leaders, and Realism's Power Line, in *History and Neorealism*, ed. Ernest R. May, Richard Rosecrane, Zara Steiner, Oxford University Press, 2010, p. 29.

<sup>20</sup> Gideon Rose, Neoclassical Realism and Theories of Foreign Policy, *World Politics*, 51 (Oct 1998), 144-72.

<sup>21</sup> Guzzini, S. *Realism in International Relations and International Political Economy: The Continuing Story of a Death Foretold*. London: Taylor & Francis. 1998, 129; Randall Schweller. (1996) 'Neorealism's Status-Quo Bias: What Security Dilemma?'. *Security Studies*, 5, pp. 91-92;

argue that the domestic politics of a state is the key to understanding international affairs. The most dominant theory is Innenpolitik, which stresses the influence of domestic factors on foreign policy. This domestic politics approach premises that the domestic interests such as business interest groups, nationalism constrain the foreign policy. And the leadership is supposed to respond to the domestic needs and prioritize foreign policy in international affairs. In the book of *Myths of Empire*, Jack Snyder begins with explaining the overexpansion among the states. The origins of overexpansion lie in the ‘myth of security’ that was created by pro-expansionist.<sup>22</sup> These expansionist such as the military, merchants and politicians benefit from military, imperial or autarkic policies although they may have less intention of demanding a system. In order to validate their interest gains, they coin a belief of myths of empire where wealth can be gained through conquest, force, and offensive strategies. He assumes whether the international system is able to provide substantial reasons for states’ overexpansion. Rather than believing the pursuit of power explains the overexpansion, Snyder differs himself by referring to the insecurity of the states. Because of industrialization, the intention of overexpansion lies in the economic demands and the weak political institutions that opens the door for special interest groups to push the leadership into corresponding foreign policies. Although there is abundant literature addressing domestic variables affecting foreign policy,<sup>23</sup> Snyder provides a new insight into bridging the gap between domestic and international affairs. Fareed Zakaria gave a review essay on Snyder’s work by questioning the missing link between systemic outcome and domestic policies. He further cited examples of the expansion of the United States and Soviet Union to cast doubts on the two different regimes act alike. He then referred to international context-structure level, where relative power play a key systemic variable.<sup>24</sup> In the same vein, the major issue of Innenpolitik lies in its inability of explaining why states with similar domestic systems often act differently and why sometimes countries with different regime types but in similar international environment can behave alike.

Gideon Rose further sets out the fourth branch-‘neoclassical realism’ which is based on classical realism but includes internal factors in understanding a country’s foreign policy. Such theory assumes states respond to international anarchy that produces anarchy by seeking to control and shape the external environment. A country’s foreign policy is driven primarily by its position in the international system as well as its power capacity. But, due to the reason that ‘systemic pressures must be translated through intervening variables at the

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<sup>22</sup> Snyder, Jack. *Myths of Empire: Domestic Politics and International Ambition* Ithaca: N.Y.: Cornell University Press 1991, pp. 31-33.

<sup>23</sup> For example, Peter Gourevitch. *Politics in Hard Times: Comparative Responses To International Economic Crises*, 1986. *The Domestic Bases of Grand Strategy* edited by Richard Rosecrance and Arthur A. Stein Ithaca: Cornell University Press, 1993; Steven E. Lobell. *The Challenge of Hegemony: Grand Strategy, Trade, and Domestic Politics*, Ann Arbor: University of Michigan Press, 2003; Lai, Hongyi. *The Domestic Sources of China’s Foreign Policy*. London and New York: Routledge, 2010.

<sup>24</sup> Zakaria, Fareed. "Realism and Domestic Politics: A Review Essay." *International Security* 17, no. 177-198 (1992).

unit level',<sup>25</sup> it is necessary to examine the domestic societies that might influence the sources for foreign policy. And foreign policy has to be made by the political leaders, but their perceptions and assessments of the international environment matter in the outcomes of the policy making. In terms of the nature of international anarchy, it is neither plentiful nor scarce but 'murky'. Thus, the state leaders need to interpret the situation based on 'subjective rules of thumb'. Obviously, understanding the linkage between the external and internal variables is important in international relations analysis.

This paper echoes with the 'neoclassical realism' that the entanglement of domestic politics and relative power determine the foreign policy. The idea that external and internal factors both affect foreign policy making is not novel.<sup>26</sup> Katzenstein points out foreign economic policy can be understood only if domestic factors are systematically included in the analysis. He offers a comparative study on the state-centered policy work in France and the United States, and concluded the financial, commercial and energy policies are the result of the interaction of international and domestic structures.<sup>27</sup> Robert Putnam provides the 'two-level games' analysis by focusing on the role of statesman. He illustrated his points by using Bonn Summit conference of 1978 to explain the political agreement was achieved due to 'a powerful minority within each government concerned favoured on domestic grounds the policy being demanded internationally.'<sup>28</sup> He points out at the national level, domestic

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<sup>25</sup> Gideon Rose, Neoclassical Realism and Theories of Foreign Policy, *World Politics*, 51 (Oct 1998), 144-72.

<sup>26</sup> See Rosenau contributes that the international system shapes and also determines the structure of political system, while the political system in turn 'produce the essential ingredients for an international system.' This approach combining the comparative politics and international relations is ,therefore, called 'linkage politics', see at James. N. Rosenau, *Linkage Politics*, New York: The Free Press, 1969; Ernst B. Haas, *The Uniting of Europe: Political, Social, and Economic Forces, 1950-1957*, Stanford, Calif.: Stanford University Press, 1958; Papayounou and Kastner look at economic statecraft by looking at two influential political groups in the target country, both democratic and nondemocratic and suggest in the long run, if internationalists have more domestic political power and international stakes, even the non-democracy can become more cooperative and accommodating; Papayounou, Paul A., and Scott L. Kastner. "Sleeping with the (Potential) Enemy: Assessing the U.S. Policy of Engagement with China." *Security Studies* 9, no. 1-2 (1999): 157-87; Rawi and Jonathan consider the effects of economic statecraft derived from the interplay of international economic relations and domestic politics which are most obvious when larger states foster economic engagement with smaller counterparts. Abdelal, Rawi, and Jonathan Kirshner. "Strategy, Economic Relations, and the Definition of National Interests." *Security Studies* 9, no. 1-2 (1999): 119-56.

<sup>27</sup> Katzenstein, Peter J. "International Relations and Domestic Structure: Foreign Economic Policies of Advanced Industrial States." *International Organization* 30, no. 1 (Winter 1976): 1-45.

<sup>28</sup> In the mid-1970s, after the first oil shock, the United States, Germany and Japan led Bonn summit, for the purpose of economic policies coordination. The initial stage of the coordination witnessed divergent fiscal policies that seemed impossible to settle the deal. The United States was blamed by Japan and Germany for its depreciation of US Dollar and more demands for imported oil while Germany and Japan were complained of their tight-fisted fiscal policies. To the surprise of the participating countries, at the Bonn Summit, the three important economies loosened their stance. The US agreed to decontrol domestic oil price because the congressional opponents as well as key economic officials favoured oil price decontrol. Without domestic push resonance, the agreement would be impossible. In the same vein, Germany committed itself to more fiscal stimulus while Japan also agreed on efforts to increase its growth rate all because of both strong domestic demands and external pressure. Robert D. Putnam explained how domestic coalition of business and political interests influence the foreign policy making level in face of international pressure. See at Robert Putnam, *Diplomacy and domestic politics: the logic of two-level games, Theory and Structure in International Political Economy: An International Organization Reader*, ed. Charles Lipson and Benjamin J. Cohen, The MIT Press, 1999, pp. 348.

interest groups press the government for favourable policy support during which, the government seeks for power by coalitions among these groups. On the other hand, pushed by the domestic pressure, the government negotiates with other countries at the international level to maximize the interests and power. He designed a win-set consisting of two levels. At Level I, negotiators bargain and lead to tentative agreement based on Level II where each group of constituents discuss about the ratification of the agreement. The outcome of the ‘win-set’ depends on the strategies and tactics of the negotiators as well as the distribution of power and preferences at the international level.<sup>29</sup>

**Power** by early realists like Hans Morgenthau and advanced by later realists like Kenneth Waltz and John Mearsheimer is envisioned as military, wealth, and geography. Power consists of and influence structural factors because power refers to the capacity or resources of actor A to get actor B to do what it would otherwise not do.<sup>30</sup> Different from security-based approach, in neoclassical realism, states pursue more external influence as a consequence of material resources. Power is not ends but means as an independent variable while the role of domestic level is intervening variable. The ability of mobilization the resources within the society represents a powerful step matters in neoclassical realism.

What this paper attempt to do is to build further on neoclassical realism in three ways: Firstly, neoclassical explanation does not include the specific study on the domestic interest groups that might be competitive for different interests. The divergence in the definition of interests is assumed to bring about conflict, which might affect the foreign policy objectives identification. To understand China’s foreign policy, it cannot simply rule the actor out of the system in analysis due to its complexity. As authoritarian system is opaque, it is often presumed as a unitary actor. However, the leadership within the system can differ sharply over foreign policy because of different factions. The pluralization of the Chinese society and the growing interdependence with the international community has made foreign policy making more complex. The domestic interests have been expanded globally, which plays crucial roles in China's ambition. The traditional foreign policy makers in China consisting of the Party and Central Government are not sufficient to understand its changing courses in rent-seeking and power pursuit. The new actors including the SOEs, local/provincial governments, financial institutions, military and the public have emerged to provide another angle for understanding China's foreign policy and evaluate the outcome of its most prominent economic diplomacy. These are called “foreign policy actors on the margin”.<sup>31</sup>

Secondly, neoclassical realism assumes international system shapes the national interests of

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<sup>29</sup> Putnam, Robert D. "Diplomacy and Domestic Politics: The Logic of Two-Level Games ". *International Organization* 42, no. 3 (Summer 1988).

<sup>30</sup> Baldwin D. 2000. Power and International Relations. P. 177-91 in Handbook of International Relations, ed. W. Carlsnaes, T. Risse, and B. Simmons, Thousands Oaks, Calif.: Sage.

<sup>31</sup> Jakobson, Linda, and Dean Knox. "New Foreign Policy Actors in China." *SIPRI Policy Paper* 26 (Sep 2010).

a state. As pointed out, the ‘third image’ explanation cannot deepen the analysis into the unit-level. This paper holds that foreign policy is driven by both internal and external actors and then influenced by the dynamic nature from balancing of the two factors. And finally implemented by the perceptions and cognitions in understanding the predominant factor out the two. The conception of security is usually based on how the leadership understands its interests and relative power. But sometimes it is difficult to identify as the ways of internal domestic politics and external environment interact result in different security concerns. This can be applied to China, starting from the late 1970s, the Chinese leadership began to modify their approach of foreign affairs. Beijing began to use foreign policy to advance economic development and enhance its power as the primary task for developing domestic economy and creating stable and a peaceful strategic environment. Nowadays, it is using its significant economic wealth to serve its foreign policy goals.

Thirdly, although echoing with neoclassical realism, states pursue influence maximization, this paper contends, the pursuit of micro-level (legitimacy and power) remains the priority for China’s case. According to Nathan and Scobell, vulnerabilities of China drive its foreign policy. Such vulnerabilities include: “to blunt destabilizing influences from abroad, to avoid territorial losses, to moderate surrounding states’ suspicions, and to create international conditions that will sustain economic growth”.<sup>32</sup> These vulnerabilities are critical in testing the Party’s capacity and even survival. In China’s case, the Party has allocated resources to maintain its legitimacy and power, among which, the economic diplomacy serves at its best for domestic and overseas needs.

## **Understanding China’s Economic Diplomacy**

### ***Leadership consensus***

In China, foreign policy is predominantly characterized by economics.<sup>33</sup> Reviews of scholarly work can help capture economic diplomacy is made based on leadership consensus: economics can help consolidate the rule of the Communist Party, secure the peaceful international environment for its growth and the increase of China’s power and prestige on the international stage.<sup>34</sup> Two phases can be identified in China’s foreign relations after Communist Party took power: the Maoist period, marked by a strong political

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<sup>32</sup> Nathan, Andrew J., and Andrew Scobell. *China's Search for Security*. New York: Columbia University, 2012.

<sup>33</sup> See for instance, 王缉思 [Wang Jisi] “中国的国际战略研究：范式的反思与构建” [trans: “Studying China’s International Strategy: Model Reconsideration and Construction,”] 国际政治研究 2007 年第 4 期总第 106 期 1–8 页.

<sup>34</sup> For example, Christensen, Thomas J., ed. *China*. edited by Richard J. Ellings and Aaron L. Freidberg, Strategic Asia 2001-2002: Power and Purpose. Seattle: National Bureau of Asian Research, 2001.p. 28; Zhengyi, Wang. "Conceptualizing Economic Security and Governance: China Confronts Globalization." *The Pacific Review* 17, no. 4 (2004): 523-45; Goldstein, Avery. *Rising to the Challenge: China's Grand Strategy and International Security*. Stanford: Stanford University Press, 2005; 阎学通. 中国国家利益分析 [Analysis of China's National Interests ]. 天津人民出版社, 1997; Nathan, Andrew J., and Andrew Scobell. *China's Search for Security*. New York: Columbia University, 2012; Ong, Russell. *China's Strategy Interests in the 21st Century* New York: Routledge, 2007; Wang, Jisi. "China's Search for a Grand Strategy." *Foreign Affairs* 90, no. 2 (Mar/Apr 2011): 68-79; Sutter, Robert. *Chinese Foreign Relations: Power and Policy since the Cold War*. Lanham, MD: Rowman& Littlefield Publishers, 2008.

ideology; and the economic opening up and reform period by pragmatic political-economic aspirations under Deng Xiaoping. The reason of the dramatic shift is because the party carried out their foreign policy based on the need for enhancing ruling legitimacy, in the context of termination of political turmoil and uncertain external threat from Soviet Union and the United States. Economic reforms began after Deng and his supporters ousted the Gang of Four (四人帮). Although faced with resistance from the party conservatives, the widespread support from the political elites has changed China's course of both domestic and foreign policy. Based on Deng's interpretation of the international environment, that an open China would be welcome and accepted by its neighbours and even the United States, the leadership has changed objectives of its foreign policy, from the ideational revolutions to the promotion of nation's economic growth. Economic reformed turned out to be a huge success. China has achieved tremendous progress in its economic development. China's gross domestic product (GDP) rapidly increased from US \$ 216.462 million<sup>35</sup> in 1978 to US \$8.227 trillion<sup>36</sup> in 2012, which makes China the second largest economy in the world. Continued economic growth plays a key role in ensuring the Communist Party's legitimacy and power.<sup>37</sup>

As the leadership has recognized economic growth requires a peaceful and stable international environment, it has actively seeking for forging relationships in different arsenal. As noted by Robert Sutter that through its prominent involvement in international and regional organizations, China attempts to assure its neighbours and the United States of its "peaceful rise".<sup>38</sup> Some attribute China's behavior to its encounters with the outside, combining with the analysis of history. Ever since after the Opium War, China has been through the 100 years' humiliation in history. The collective memory on the history of defeat, poverty and humiliation has embedded in the Chinese's mindset, especially in the ruling party, for it can be used as a nationalist weapon when necessary. Desiring for international recognition, Kang, finds China is happy to see more countries accommodate with China's rise rather than downplay its role.<sup>39</sup> Following by this, Deng also finds China's foreign

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<sup>35</sup> The preliminary revisional Data of GDP in 2012 is according to China NBS *Bulletin on the Preliminary Verification Data of GDP in 2012 (September 2, 2013)*; the Final revisional Data of GDP in 2011 is according to China NBS *Bulletin on the Final revisional Data of GDP in 2011 (January 7, 2013)*; Data of GDP 1952-2010 is according to *China Statistical Database*, also see *China Statistical Yearbook 2012* (ISBN 978-7-5037-6693-0/C•2752). Purchasing power parity (PPP) is estimate according to IMF *WEO DATA* (Apr. 16, 2013). the exchange rate of CN¥ to US\$ is according to State Administration of Foreign Exchange, official DATA for the historical annual average exchange rates of CN¥ to US\$ 1981-2011 published on *China Statistical Yearbook 2012*, and the exchange rate for 2012 is CN¥ 6.3125 per US dollar.

<sup>36</sup> Date up to 2012 when this thesis is beginning from 2012. The World Bank, <http://data.worldbank.org/country/china>

<sup>37</sup> Wang Zhengyi, *Conceptualizing Economic Security and Governance: China Confronts Globalization*, *The Pacific Review*, vol. 17, no.4, p. 523-545; Wang, Jisi. "China's Search for a Grand Strategy." *Foreign Affairs* 90, no. 2 (Mar/Apr 2011): 12.

<sup>38</sup> Sutter, Robert. *Chinese Foreign Relations: Power and Policy since the Cold War*. Lanham, MD: Rowman& Littlefield Publishers, 2008.

<sup>39</sup> Kang is different from the mainstream ideas of China's rise may pose a threat to the stability of East Asia, see at : Kang, David C. *China Rising: Peace, Power, and Order in East Asia*. New York: Columbia University Press, 2007.

policy is driven by its quest for international status. The sensitivity to the international image and reputation has been an integral part in its policy-making.

### *New actors influencing foreign policy*

In tandem with economic development, societal pluralization and abundant exposure to international environment has placed enormous pressure on China's foreign policy making. To ensure the steady rise of the status, China needs a peaceful and stable international environment to further its own domestic development at home and international image building outside.<sup>40</sup> As the leadership continues to lead China's economy to grow, the benefited, especially among the elite group will continue to support economic integration and opening up where they are able to gain personal or group interests. These benefited usually come to control key industries such as SOEs and telecom where the leadership is usually party leaders or princelings. The extensive overseas activities of Chinese companies especially SOEs have consisted of important consideration in the formulation of China's foreign policy. The central government relies on these commercial actors to advance its economic interests as well projecting China's influence. At the provincial level, the local governments, especially those sharing borders with foreign countries, have tended to cultivate economic relations for increased integration. It is because not only the provincial government can reap the benefits of more trade and investment opportunities so that their local GDP can grow, but also based on the GDP growth, the local political leadership is able to get promoted to higher level. Netizens, academic scholars and other marginal foreign policy actors are also influencing China's foreign policy making, although the influence is rather limited.

At the same time, the military no longer shies away from displaying its power. Its presence in exchange visits, workshops, talks are seen more frequently than before. As a benefit receiver from China's tremendous economic growth, military has been able to increase its spending and technological upgrading. However, military is concerned over China's extensive engagement with the outside, which may lead to compromising on territorial disputes and sovereignty. Hence, China's PLAN has been witnessed active in repeated territorial disputes with Japan, and several Southeast Asian claimants in both East and South China Sea, which inevitably, gets the United States involved.

Yet, as states have become increasingly integrated and interdependent, military resort can be very costly. And economic statecraft is a reliable alternative to military force. Huntington pointed out economics can be used for foreign policy objectives since "in a world which

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<sup>40</sup> Deng, Yong. *China's Struggle for Status: The Realignment of International Relations*. Cambridge: Cambridge University Press 2008. Mingjiang, Li, ed. *International Status: China's Pursuit of a Comprehensive Superpower Status*. edited by Emilian Kavalski, The Ashgate Research Companion to Chinese Foreign Policy. Surrey: Ashgate Publishing Limited 2012.



military conflict between major states is unlikely, economic power will be increasingly important in determining primacy or subordination of states".<sup>41</sup> To achieve continued economic growth at home, the Chinese leadership is keen on securing peaceful relations with the rest of the world.<sup>42</sup> Southeast Asia is a gateway for China's peaceful rise. Establishing a good term with these countries can help China send goodwill signals abroad and also gain access to external markets, natural resources and sources of FDI. In turn, this movement can help boost China's rapid economic growth and help the ruling party to claim political legitimacy. Within this framework, the quest for economic diplomacy has naturally surfaced as a major driver in Chinese foreign policy.

### ***Economic Diplomacy backfires China's Geopolitical Considerations?***

Neoclassical realists argue the scope and ambition of a state's foreign policy is driven first by its place in international system and particularly by the relative power capacity. Because the impact of relative power on foreign policy is indirect, and the leadership is the actor making policy, so their perceptions of relative power matter most in selecting foreign policy. This is what neoclassical realism labelled as intervening variable. The relative power also lies in the capability of mobilizing the strength of the society where national resources can be allocated to foreign policy. As party consensus on economic diplomacy has been established, the perceptions of its relative power in international environment direct the course of foreign policy. Robert Gilpin contended states "try to expand its economic, political, and territorial control; it will try to change the international system in accordance with its own interests."<sup>43</sup> Thus, China will seek to challenge the prevailing rules and order that the Western defines and governs.<sup>44</sup> For instance, China is currently pushing for a greater role for the Chinese Renminbi in global trade and investment so that it can reduce the reliance on the US dollar.<sup>45</sup>

The focus on promoting economic growth has been accompanied by its desire for influences. Increased economic growth as well as material resources has given rise to China's greater ambition. According to Gilpin, States are not only interested in gaining economic interests but they also attempt to exert political influence through their economic power.<sup>46</sup> Economic diplomacy has been designed to project influence into Southeast Asia region, in terms of

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<sup>41</sup> Samuel, Huntington. "Why International Primacy Matters." *International Security* 17, no. 4 (1993): 72.

<sup>42</sup> "Promoting World Peace and Development with China's Growth," Government White Papers.  
<http://www.china.org.cn/english/features/book/152766.htm>

<sup>43</sup> Gilpin, Robert. 1984. *War and Change in World Politics* Cambridge Cambridge University Press. P. 94-95.

<sup>44</sup> Mearsheimer, J.J. "The Gathering Storm: Chinese Challenge to the Us Power in Asia." *Chinese Journal of International Politics* 3, no. 3 (2010): 381-96.

<sup>45</sup> Singapore has already become the largest and first overseas hub in trading in RMB.

<sup>46</sup> Gilpin, Robert, ed. *The Nature of Political Economy*. edited by Paise-Smith John & Conklin John Goddard C., International Political Economy: Lynne Rienner, 1996: 22.

economic interests, strategic interests of sending good will and improving the neighbourhood relations. While China's active economic diplomacy can also possibly advance the business and commercial interests for itself and its partnering countries as the typical developmental state does in East Asia,<sup>47</sup> it is also used as a tool to boost its image and expand its soft power. In the past, China has sacrificed some economic benefits in order to build trust with ASEAN countries. For example, the agreement on China-ASEAN FTA Early Harvest Programmes, extended China's good will by offering favourable treatments to the ASEAN states in the partial lifting of trade barriers on specific goods.<sup>48</sup>

To some extent, China has been successful in reducing the 'China Threat' perception. Some Chinese scholars suggest forging close relationships with Southeast Asia might influence these countries in neutralizing their strategy when facing the Sino-US competition and containment. After decades' of economic engagement with China, Southeast Asian countries have developed strategies to hedge the risks associated with a rising China. Most have chosen a neutral ground of distancing themselves from United States' effort to contain China in order to benefit from China's charm offensive.<sup>49</sup> According to Alice Ba, among all major powers involved in Southeast Asia, China seemed to have been the most successful player in developing closer ties and achieving its several core national interests (such as One China recognition).<sup>50</sup>

However, the influence has been limited and even has produced negative effects in political security goals seeking. Despite the common interests in economics, conventional geopolitical concerns still exist. Relations between China and Southeast Asian countries have always been marked by historical confrontations, nationalism as well as disagreements over the level of US involvement in Asia Pacific.<sup>51</sup> These differences form the backdrop to a complex environment within Southeast Asia: competition for trade and investment opportunities, territorial disputes over South China Sea, and power projection versus "counter-dominance"<sup>52</sup> among the US, China and ASEAN.

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<sup>47</sup> Deborah Bräutigam, and Tang Xiaoyang, "Economic Statecraft in China's New Overseas Special Zones: Soft Power, Business, or Resource Security?" *International Affairs* 88, No. 4 (2012): 799–816.

<sup>48</sup> Evelyn Goh, "Limits of Chinese Power in Southeast Asia," *East Asia Forum* May 10, 2011, <http://www.eastasiaforum.org/2011/05/10/the-limits-of-chinese-power-in-southeast-asia/>.

<sup>49</sup> Evelyn Goh, "Understanding 'Hedging' in Asia-Pacific Security," *PacNet Newsletter* 43 (Aug 31, 2006); Alice Ba, "Between China and America: Asean's Great Power Dilemmas," in *China, the United States and Southeast Asia: Contending Perspectives on Politics, Security and Economics*, ed. Evelyn Goh and Sheldon W. Simon London. (Routledge, 2008); Ian Storey, *Southeast Asia and the Rise of China: The Search for Security*, (London Routledge, 2010), 221.

<sup>50</sup> Ba, Alice D. "China and Asean: Renavigating Relations for a 21st Century Asia." *Asian Survey* 43, no. 4 (2003): 646.

<sup>51</sup> Amitav Acharya, "Seeking Security in the Dragon's Shadow: China and Southeast Asia in the Emerging Asian Order," in *China and Southeast Asia*, ed. Geoff Wade, Vol. Vi of *The People's Republic of China and Southeast Asia* (New York: Routledge, 2009), 273; Also see Richard L. Grant, *China and Southeast Asia: Into the Twenty-first Century* (Honolulu: Pacific Forum/CSIS; Washinton, D.C. Center for Strategic and international Studies 1993.

<sup>52</sup> Amitav Acharya, "Containment, Engagement, or Counter-Dominance? Malaysia's Response to the Rise of Chinese Power," in *Engaging China: The Management of a Rising Power*, ed. Robert Ross and Iain Johnston (Routledge, 1999), 129-151.

The competition from the United States and Japan has weakened the influence of China, especially in the context of strategic interests. The aggressiveness arisen from the domestic political demands in areas such as the South China Sea and fierce competition for support in Southeast Asia have put its neighbours into a dilemma. The power game among the big countries has also constrained the interests of Southeast Asian states. Trade and investments are playing positive factors in China-ASEAN relations. However, China's activities in Southeast Asia have attracted considerable attention from the major power players in the region. In recent years, where China goes to expand its economic clout, Japan also follows suit consequently. Rather than transforming Southeast Asia into its backyard, China needs a supportive Southeast Asia to check the power of United States and Japan. To reduce the influences from the United States and Japan in their competition for power and status, China's good neighbour policy was aimed at strengthening regional relations so as to surround itself with friendly states while alienating them from the US.<sup>53</sup>

The relationship between China and Southeast Asian states was marred by perceptions of China being a threat and destabilizer to the region during Cold War period. The isolation enforced by the West after the 1989 Tiananmen Incident forced China to look "south" for support. There is an old Chinese proverb- "Close neighbours are better than distant relatives". That's how a "good neighbour policy" was then born in the international context during that time.<sup>54</sup> There is also another reason for economic integration with ASEAN. The Chinese leadership is concerned over China's overdependence on western countries like the US and Japan for exporting its consumer goods as it has been embroiled in series of trade disputes with these countries. Therefore, China attempts to reduce the reliance on the US. Therefore, the deep integration with ASEAN will help strengthen China's standing.

Possible geopolitical dividends from cultivation of vigorous economic relations may not be an easy task, especially regarding the conventional security concern. China's economic activities have been reckoned as exploitative and energy oriented. And the potentially abundant resources in the South China Sea are considered as China's motivation to seek control over the territory. According to the International Energy Agency, China's use of oil, coal, natural gas and other sources of energy more than doubled in the past few decades, jumping from 7.9% in 1973 to 17.5 % in 2010.<sup>55</sup>

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<sup>53</sup> Alice Ba, "Between China and America: Asean's Great Power Dilemmas," in *China, the United States and Southeast Asia: Contending Perspectives on Politics, Security and Economics*, ed. Evelyn Goh and Sheldon W. Simon London. (Routledge, 2008).

<sup>54</sup> Known as Mu Lin Wai Jiao 睦邻外交, China had this concept since the 1950s, but only after the opening up, China attempts to build a responsible image by establishing good relations with neighbours.

<sup>55</sup> 2012 Key World Energy Statistics, International Energy Agency, <http://www.iea.org/publications/freepublications/publication/name,31287,en.html>

However, according to neoclassical realism, states are considered as influence maximizers rather than resource-maximizers.<sup>56</sup> China's foreign policy is reckoned as seeking for influence based on the perspective of the leadership that China has the capacity to position itself as powerful state. Other than economic motivation, the desire to exert its influence and secure strategic points to expand the influence so as to break off encirclement by the United States and its allies is growing. Accordingly, the perspective of China's huge demands for energy and natural resources as its security goal is unable to account for its assertiveness in the South China Sea. The strategic importance of the South China Sea has been well recognized to Asia-Pacific countries and is especially vital to China's maritime-dependent economy as well.

The rising tensions between China and Japan have spill-over impacts in Southeast Asia. The 2010 detention of Chinese fishing boat and the captain caused uproar in both countries. The territorial dispute over Diaoyu/Senkaku Island iced the Sino-Japan relations after Japan officially purchased the disputed island from a private citizen. China's failure of controlling the East China Sea territory has spread to the situation in the South China Sea as the leadership is facing strong nationalism at home. The potentially strategic influence in the maritime disputes complicate the influence of China's economic policy. China's assertive tone of foreign policy has much to do with the military pressure and nationalism onto the leadership. After more conservative leadership was formed in 2013, President Xi has strongly supported PLAN's growing 'blue water' capabilities. PLAN's advocate for acquiring the capabilities of breaking off the first island chain to gain free access and project its military power as well as political influence involving Japan, Taiwan and even the Philippines.<sup>57</sup>

China's more assertive behaviour has aroused concerns in the region and this would impact the outcome of China's wielding economic power in establishing security ties with Southeast Asia. Research on Southeast Asian state responses to China's expanding economic integration in the region suggests a mixture of optimism and worries. States are eager to hike with the Chinese economic growth, but also concerned with China's rising power and intentions. In the win-win outcome scenario, Sino-Southeast Asian trade expanded intra-regional trade, bolstered exports for some countries and enhanced integration with Chinese component assembly industries. Yet, China's economic potentials reflect China's capacity of wielding significant political leverage over the regional smaller states. The territorial disputes demonstrate that there has been a new tilt of Vietnam's diplomacy and closer relationship of the Philippines towards the USA. China's increasing assertiveness in the South China Sea has provoked demonstrations in China's Embassy in Vietnam. And the

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<sup>56</sup> Zakaria, Fareed. "Realism and Domestic Politics a Review Essay".

<sup>57</sup> Sutter, Robert, and Chin-hao Huang. "China-Southeast Asia Relations: China's Toughness on the South China Sea-Year li." *Comparative Connections A Triannual E-Journal on East Asian Bilateral Relations CSIS* (Sep 2013).

anti-China protest escalated to its peak as in the chaos where the Chinese and Taiwanese invested companies and factories had been robbed, burned and damaged in part of Vietnam cities.

At the societal level, there are already growing complaints among the Southeast Asian communities about the negative influences brought by China's investment. For example, China's hydro-electronic power projects were considered as to have damaged Cambodia's water system. The Myanmar government even suspended the planned dam project with Chinese companies. These economic activities have misguided the goodwill from the central government level. The Chinese leadership has realized the negative impact that some Chinese companies have produced.<sup>58</sup> Hence, implementation of corporate social responsibility into its companies has been endeavoured to improve its image.

## Conclusion

The study of China's theoretical and practical economic diplomacy can contribute to the understanding of how China will behave in the international system.<sup>59</sup> The rationale for China to adopt economic diplomacy is primarily due to causal chain of relative power and the domestic factors that are critical to China's strategy in Southeast Asia. As China continues to liberalize and reform its economy, it will bring more countries to its economic orbit. This has and will enhance the influence of using economics for foreign policy purposes. Although China enjoys being the dominant power in the region, the extent of influence is rather limited. This is because the outcome is subjected to the internal politics and the international environment: the ability of mobilizing domestic resources and relative power calculation of itself and other stake-holders. It is therefore likely that China will continue to use economic incentives to reduce containment from its competitors and maritime dispute claimants, like it did before in isolating the international status of Taiwan. It is also likely that China will expand its diplomatic toolkit, using politics and military as the last resort to secure its interests. Whether China changes its course of economic diplomacy also hinges on the response from the United States and its alliance as well. With

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<sup>58</sup> [http://www.zadek.net/wp-content/uploads/2011/04/Harvard\\_Responsible-Business-in-Africa\\_November2009.pdf](http://www.zadek.net/wp-content/uploads/2011/04/Harvard_Responsible-Business-in-Africa_November2009.pdf); <https://www.chinadialogue.net/article/show/single/en/1407-China-s-opportunity-to-embrace-responsible-competitiveness>

<sup>59</sup> For the heated discussion of China's reaction and behavior in international system, see, Johnston, Alastair Iain, and Robert S. Ross. *New Directions in the Study of China's Foreign Policy*. Calif: Stanford University Press, 2006; Goldstein, Avery. "Power Transitions, Institutions, and China's Rise in East Asia: Theoretical Expectations and Evidence." *Journal of Strategic Studies* 30, no. 4-5 (Aug-Oct 2007): 639-82; Ross, Robert S., and Feng Zhu. *China's Ascent: Power, Security, and the Future of International Politics*. Ithaca: Cornell University Press, 2008; Shambaugh, David. "China Engages Asia: Reshaping the Regional Order." *International Security* 29, no. 3 (Winter 2004/5): 64-99; Zhu, Zhiqun. *China's New Diplomacy : Rationale, Strategies and Significance*. Burlington, VT Ashgate Publishing Co, 2010; Mingjiang, Li, ed. *China and the Changing Strategic Dynamics in Asia*. Four vols. Vol. I, China's International Relations in Asia New York: Routledge, 2010

so many factors in play, economic diplomacy is not a straightforward approach for states to realize their foreign policy goals, but China will continue to utilize it as long as the policy fits its strategy.

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## **Bilateral Tourism of Taiwan and China**

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### **Abstract**

Before 2008, due to conflicting history, Chinese citizens were restricted to enter Taiwan, yet Taiwanese tourist on the other hand could visit China without hardship. But ever since the Cross-Strait Relationship Agreement of 2008 between Mainland China and Taiwan, Chinese tourists have flooded into the island, many for their first time. To Chinese citizens, Taiwan is a mysterious place, which is perceived as a beautiful and developed sacred island with preserved traditions that are long lost in modern China. However a large portion of local Taiwanese have a strong feeling against Chinese citizens, that include over carrying capacity, political beliefs, culture, and social ethics. Chinese tourists have contributed to Taiwan's economy through trade and infrastructure, yet they have negatively causes damage to Taiwan's social aspect and its environment. With countries having similar appearance and language it will ultimately worsen the destination image of Taiwan in the eyes of potential international tourists. Therefore this paper will explore the perspectives of both nations upon each other. Tourism in nature can improve the relations among countries and it is through tourism that the author hopes to find a solution to ease tensions, improve Taiwan's destination image, and possibly balance policies that would create a win-win for both parties.

### **Introduction**

The politics and history of the relationship between the People's Republic of China (PRC, Mainland China) and Republic of China (ROC, Taiwan) have been a sensitive subject for decades, to some seniors the subject remain a taboo. To local Chinese residents, they had little knowledge of Taiwan. To the seniors, the ROC is only mentioned during the textbooks during their student years. However in the new generation of technology, more information could be learnt which ignited the interest and curiosity of people from both nations. The turning point of history started since 2008, the election of Taiwan's President Ma Ying-Jeou, of the Kuomintang (KMT) political party. Unlike the previous presidency of the Democratic Progressive Party (DPP), which insisted on the ideology of Taiwan's independence, the KMT acknowledge the 'One China Policy'. The KMT's election caused panic to the DPP supporters, as they knew 2008 would be the first time for Mainland Chinese to walk on Taiwan's ground.

The 'Cross-Strait Relation Agreement' established in 2008 between Taiwan and Mainland China certifies Mainland tourist to enter Taiwan. The tourists are limited upon the number of population available, days of staying, and targets only specific airports in

China to travel to ROC. The agreement continues to undergo changes, but specifically allows the increase number of tourists and the availability of airports of particular regions to fly to Taiwan. Flight routes were changed too, both nations have agreed to initiate direct flight routes, whereas before 2012 Mainlanders must fly to Hong Kong or a third country and transfer flight to Taiwan.

As of March 2012, mainland tourist replaced Japan as the number one customer, with a record high of 2.6 million trips, up 45 percent from 2011. Mainland Chinese, together with tourist from other nations, added up to 7.31 million people traveling to Taiwan in 2012. As of August 8, 2014, the cross-strait agreement have allowed maximum of 5000 groups and 4000 individual tourists to enter Taiwan per day compare to the initial limitation of no more than 4000 groups and 500 individual tourists back in 2008. To Mainland Chinese, traveling to Taiwan used to be just fantasy.

Though Mainlanders couldn't be more pleased to have this opportunity to travel, Taiwanese residents suffer from the over capacity caused by mass tourism. Indeed, the opening of a new tourist market had sprouted economic growth, forcing the Taiwanese government to continuously improve its infrastructure, but at the expense of environment and social aspects. It became harder to satisfy other foreigners and disputes among Mainland tourists and local residents are not uncommon.

The media on the other hand magnifies the unpleasant actions done by the minority of Mainland tourists instead of displaying the positive contributions Mainland tourists have made. The media have triggered the frustration of a portion of DPP supporters, which in turn created discrimination towards Mainland Chinese, and leading to more misunderstanding between the two borders.

- This research project will explore and investigate:
- The contribution of mainland tourist upon Taiwan's economy
  - The demand for urban tourism in Taiwan
  - If the supply meets the demand for urban tourism in Taiwan

### **Methodology**

The researcher used both primary and secondary resources from interviews, surveys, tourism bureau's statistic data, journals, and the media.

To understand the bilateral relationship between two countries, the researcher starts out by conducting a survey of 200 university students in Ritsumeikan Asian Pacific University as a test. The purpose is to seek improvements to the questions being asked and see if the survey questionnaire would work if the researcher would travel to both Taiwan and China.

Meanwhile open-ended interviews will be conducted with local residents of both nations through face-to-face or telephone interviews. The researcher will target participants who

are in their 30s and over and who are employed or retired. This group of interviewees may have direct contact in the new open tourism related markets, while those who are seniors brings curiosity of the in depths of how people use to think in the past generation, thus capable to make a comparison of the mind of the traditional past and the modern present.

The statistics provided from the tourism bureau agency measures the numbers of visitors and travel purposes, per months. The bureau also explained the updates of the cross-strait relationship agreement, complaints, feedbacks, and possible strategy for improvising for the next month.

### **Discussion**

Based on media reports and journals the researcher has observed and collected, Mainland Chinese are rather satisfied with their stay in Taiwan. To China, there is a mixed feeling regarding the democracy in Taiwan, others held the ideology of ‘One-China’, where Taiwan has always been a part of China. Taiwan on the other hand, is comprised of mixed reviews, it is uncertain if people filed complaints and felt unease of Mainland because they are already convinced from the negative image the media provided. While the KMT political party held their beliefs that Taiwan need to work with China to improve their economic position for global competition. Therefore the outcome of the researcher’s methodology will hope to prove that people think for themselves, or is it the media that is manipulating people’s mind. Hopefully this paper may bring the two nations to collaborate with one another, while improving their own destination images.

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## **Prohibition of Non-Audit Services and its Impact on the Profitability of the Big 4 Auditing Firms in Bangladesh**

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### **Abstract**

**Purpose:** This paper attempts to investigate the impact of the prohibition of certain non-audit services by the SEC of Bangladesh on the profitability of the auditing firms who are affiliated with the Big 4.

**Design/methodology/approach:** This paper is based on personal in-depth interviews with the Big Four auditing firms that are affiliated with local accounting firms in Bangladesh. The approach selected for this research is a qualitative one and has a descriptive and explanatory nature.

**Findings:** From this research it becomes evident that the audit part of the revenues to be more important than the non-audit part. All respondents agree that audit services serve as the platform on which the survival of the auditing firm depends.

**Practical Implications:** The findings of this paper present an apparent picture of the field of auditing in Bangladesh. The findings of this paper will be of use to financial reporting regulatory authorities in Bangladesh such as ICAB. It will also guide the researchers for future investigations.

**Originality/value:** The present study is one of the first to provide evidence about the impact of Corporate Governance Order by SEC of Bangladesh on the profitability of the Big 4 auditing firms. This study contributes to the literature on the division between audit and non-audit services.

**Key words:** *Audit Services, Non-audit services, Big 4, Profitability.*

## 1. Introduction

Since 2001, the market for audit services has changed dramatically, both in the USA and abroad. Scandals involving large public companies such as Enron and WorldCom highlighted the need for more intensive audits (Asthanna, Balsam, & Kim, 2009). Scandals in the field of auditing around the world have forced the United States to take precautionary measures. In order to prevent accounting scandals, the United States passed Sarbanes-Oxley Act on July 30, 2002. Being a developing country, Bangladesh faces the threat of similar scandals like United States. So, separation of audit services and non-audit services and prohibition of some specific non-audit services by Sarbanes-Oxley Act has significant relevance for Bangladesh.

Though the audit market in Bangladesh is not as developed as it is in the USA, similar restrictions are already in place in Bangladesh by prohibiting non-auditing services of an audit firm. Securities and Exchange Commission (SEC) of Bangladesh issued a Corporate Governance Order in 2006, which prohibited an audit firm from giving both audit, and non-audit services to the same clients. Some of the restricted non-audit services include designing of financial information systems, bookkeeping services, appraisal or valuation services, actuarial services, internal audit services etc. The Corporate Governance Order of the SEC also demands that listed companies must rotate their audit firms every three years (Siddiqui, February 4, 2012).

In order to understand the problem of this study it is important to get a picture of the division between audit and non-audit services in Bangladeshi audit firms. Apart from traditional auditing, most Bangladeshi audit firms offer services to their clients that are not immediately connected to auditing. Because of the Corporate Governance Order 2006 by the SEC of Bangladesh, auditing firms are no longer allowed to offer their clients both audit and non-audit services. The effect of the prohibition of certain non-audit services on the profitability of the auditing firms working in Bangladesh has not yet been investigated extensively in Bangladesh. So, the present study aims at investigating the impact of the prohibition of certain non-audit services on the profitability of the auditing firms in the case of Bangladesh. The main research question of this paper is concerned with the impact of the prohibition of certain non-audit services by the SEC of Bangladesh on the profitability of the auditing firms working in Bangladesh. This paper is based on personal in-depth interviews with the Big Four auditing firms that are affiliated with local accounting firms in Bangladesh. A qualitative approach is chosen for this paper, which is descriptive and explanatory in nature.

From this research various interpretations about the impact of the prohibition of non-audit services by the Corporate Governance Order 2006 of SEC of Bangladesh



have been found. Different respondents see the profitability of the division between audit services and non-audit services differently. The findings of this paper will be of use to financial reporting regulatory authorities in Bangladesh, such as Securities and Exchange Commission of Bangladesh as well as the Institute of Chartered Accountants of Bangladesh, regarding the corporate governance role played by the auditors in Bangladesh. The present study covers the scenario of Prohibition of non-audit services and its impact on the profitability of the auditing firms in Bangladesh. In fact, the present research adds flesh to the existing knowledge in the areas of prohibition of non-audit services and profitability of the auditing firms. It attempts to see whether Bangladeshi scenario matches with the worldwide scenario or there is something different.

## **2. Methodology**

This paper is both descriptive and explanatory in nature. To identify the impact of the division of audit and non-audit services by the Corporate Governance Order 2006 of SEC of Bangladesh on the profitability of Bangladeshi auditing firms, personal in-depth interviews with representatives of the accounting firms have been conducted.

Persons having sound knowledge of and regular exposure to the Corporate Governance Order 2006 of SEC of Bangladesh have been selected for in-depth interviews. To get a holistic picture of the effects of the division between audit and non-audit services by Corporate Governance Order 2006 of SEC of Bangladesh on the profitability of the auditing firms, representatives of all of the Big Four auditing firms have been chosen. All the interviewees have been selected from the Manager level. The in-depth interviews of the auditors were conducted in June 2013. However, all the interviewees intended to remain anonymous. This is why their names and identities have not been exposed in this research. Top listed companies are frequently audited by one of the Big Four auditing firms. Because of this, no representatives of any smaller auditing firms were interviewed considering that four main interviews would be sufficient for the purpose of this paper.

It is important to note here that the information I have received from the interviews is the opinion of the persons asked, and not the opinion of their represented firms. As the intentions of the interviewee's have been to be anonymous, the identities of the interviewees remain anonymous. The interviews were conducted in English by the author and each of the interviews lasted approximately for an hour. Notes were taken and questions were asked. All the interviews were conducted in the respective offices of the interviewees. This paper has used both primary and secondary data. The primary data of this research consists of interviews with knowledgeable persons on the

subject. Secondary data has been collected from different databases, the Internet and literature.

### **3. Interviews with the representatives of the Big 4**

#### ***3.1 Effects on Profitability***

The revenue distribution between audit and non-audit services gives important clues to see the effects of the regulation on the auditing firms. Most of the interviewees are of the view that the audit part of the revenues is more important than the non-audit part. All agrees that audit services serve as the platform on which the survival of the auditing firm depends. The auditor is generally assigned to a firm for three years and the service fee is determined in a contract, which ensures it to be a secure source of income. The problem the audit services are facing now, according to some of the interviewees, is the downward pressure on prices for audit services. The explanation is that, before Corporate Governance Order 2006 of the SEC of Bangladesh was passed, most firms hired the same auditing firm for both auditing service and non-audit services and as the auditing firms could earn more from non-audit services, they could offer a lower price for their audit services. The auditing firms now have to offer a low price to get the contract of audit service but they are not getting the non-audit service, which was more profitable.

All the interviewees consider non-audit service to be more profitable. At the same time they consider the audit contracts to be very valuable as they often remain for a long period of time. This happens because the clients usually depend on the same auditor. As the audit contracts last for a long time, the audit firms can plan the audit work and keep low prices. The non-audit services contracts are usually shorter but more profitable. Two interviewees are of the view that the consultants must be competent to perform a better audit. From this point of view, both audit and non-audit services are equally important for the auditing firm.

### **4. Analysis**

#### ***4.1 Effect on Profitability***

The representatives of the Big Four consider the audit part of the revenues to be more important than the non-audit part. Non-audit services are no doubt, more profitable. On the contrary, audit services are more secure because usually audit contracts last for several years. While the demand for audit services is not dependent on economic conditions because the firms must need this service, the non-audit service depends on the economic situation. Because of the introduction of the Corporate

Governance Order 2006 of SEC of Bangladesh, an audited firm is expected to keep its auditing firm for audit services and find another firm for non-audit services. The audit services continue to be a more stable source of income than the non-audit services. However, the respondents also argued that prohibitions on non-audit services might increase the cost of performing audits, which will potentially increase the cost of doing business.

Corporate Governance Order 2006 of SEC of Bangladesh may change both audit and non-audit fees. According to some of the representatives of the Big Four, the prices of audits have fallen a lot in the past. As the auditing firms lowered the prices of audit services in the past thinking that they could cover that up with the revenue from non-audit services, it is possible that audit fees will increase in future.

## **5. Conclusion**

Corporate Governance Order 2006 of SEC of Bangladesh will not ultimately change the revenue distribution between audit and non-audit services of an auditing firm. Auditing has been the most significant and steady source of income for the auditing firms. It will hopefully retain its position in future. However, there may be some changes in the prices of both kinds of services. The auditing firms may raise their audit fees if they find it impractical to render the non-audit services with a low audit fee. On the other hand, competition among audit firms for non-audit services may reduce the prices of non-audit services. As a result, Corporate Governance Order 2006 of SEC of Bangladesh may have some impact on the pattern of profitability of the auditing firms.

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## **Why VAT Policy Does Not Promote Indonesia’s Food Resiliency: Learning from Thailand (Quintuple Helix Perspectives)**

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Presenter: Wisamodro Jati

### **1. Background**

Value Added Tax (VAT) law in Indonesia that exempts food products indicates government concerns to establish food resilience, which is a major incomplete homework of government regimes after end of Soeharto.<sup>1</sup> VAT plays two-side functions: generating state revenue and instrument of social, economic and political engineering that is directly impact on product price. As indirect tax, VAT mechanism that allows tax burden shifting also makes it effective to for tax subsidy program. However, the VAT exemption policy is not effective in Indonesia case. Indonesia imports agriculture product to fulfill domestic demands. Indonesia for particular products, such as rice, becomes the main importer in the world.

**Table 1: Import of Agriculture Products for 2010 – 2012**

**Source: Departemen Kesehatan Republik Indonesia, Statistik Pertanian 2013, page 255**

Description	2010 (in tons)	2011 (in tons)	2012 (in tons)
Rice	687,582	2,750,620	1,927,563
Maize	1,527,476	2,889,173	1,889,431
Soybean	1,876,855	1,911,987	2,128,763
Sugar	1,913,271	2,655,650	494,131
Daging Sapi	190,429	118,302	58,752

Thailand is the main agriculture product supplier to Indonesia, and also as second largest rice exporter to Indonesia, (Direktorat Pangan dan Pertanian Kementerian Perencanaan Pembangunan Nasional / Badan Perencanaan Pembangunan Nasional, Jakarta,

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<sup>1</sup>Soeharto administration was success in develop agriculture to fulfill aggregate domestic demand. Soeharto, even had donated 100.500 ton rice to Africa and received “From Rice To Self Sufficiency” medal from Food Agriculture Organization (kepuustakaan-presiden.pnri.go.id, 2006). Government regimes after Soeharto do not success to create food self-sufficiency and rely on importation.

2013, 26). Thailand government successfully develop agriculture sector. The contribution of export of goods and services for Gross Domestic Product of Thailand is almost 70%. One of the main exported goods from Thailand is agriculture products. Thailand is the 12nd largest food exporter in the world for the year 2012. Thailand also places 6<sup>th</sup> largest rice and sugar exporter in the world for the year 2012.<sup>2</sup> Thailand food products have been distributed across major geographic region.

The success story of food resilience in Thailand is a good reference to analyze Indonesia government on food resiliency. Comparative study between Indonesia and Thailand is relevant as both states adopt VAT. Further, both states have similarities on factors that are relevant for agriculture sector, such as geography and demography. In this respect, this research focuses on comparative analysis on (i) VAT policy on agriculture industry in Indonesia and Thailand and (ii) the other factors that differentiate the development of agriculture industry in Indonesia and Thailand from Quintuple Helix perspective.

## **2. Research Methodology**

This research uses qualitative approach. The objective of this research is to describe Indonesia and Thailand government policy to increase food production under comparative study approach. Data and information was collected through literature study and field research on Bangkok (the Revenue Department, Fiscal Policy Office, Ministry of Industry, Department of Agriculture, Chaipattana Foundation) and Chiang Mai (Royal Agricultural Research Center).

## **3. Result and Discussion**

### **3.1. VAT Policy on Agriculture in Indonesia and Thailand**

#### *Supply of Taxable Goods*

VAT law in Indonesia and Thailand adopts similar rules. VAT is imposed on supply of taxable goods or services provided by taxable entrepreneur within customs area and import of goods. The export of goods is subject to zero percent. Thailand law does not clearly mention VAT on the utilization of intangible taxable assets. Indonesia VAT law clearly defines the usage of intangible assets from inside or outside Indonesia custom area within Indonesia custom area is subject to VAT. Meanwhile, the usage of intangible assets outside Indonesia customs area belong to Indonesia taxpayer is subject to zero percent.

#### *VAT Exemption*

VAT law in Indonesia and Thailand exempts foods product. Both VAT law also limit the exemption on manufacture-packaged foods to avoid erosion VAT base (Tait, 1988, 56). It is noted that Thailand VAT law includes goods and services that are used to support

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<sup>2</sup>Presented by Indonesia ambassador, Selayang Pandang Persiapan Thailand Memasuki Komunitas ASEAN 2015, Embassy of Republik Indonesia, Bangkok: 13 August 2014

agriculture sector, i.e. (i) pharmaceutical or chemical products used on plants or animal; (ii) provision of research or academic services as prescribed by the Director-General with the Minister's approval; and (iii) fertilizers.

#### *Criteria of Taxable Entrepreneur*

VAT shall be only imposed by taxable entrepreneur. Referring to Indonesia VAT Law, an entrepreneur that has gross turnover in excess of IDR 4.8 billion / year is obliged to register for taxable entrepreneur. However, the entrepreneur that has gross turnover up to IDR 4.8 billion / year does not qualify as taxable entrepreneur, but it has option register for tax entrepreneur. The reason for register taxable entrepreneur is to claim input VAT.

Thailand also adopts threshold for taxable entrepreneur based on gross turnover. Entrepreneur that has gross turn offer in excess of Baht 1,800,000 / year are obliged to register for taxable entrepreneur.

Threshold for taxable entrepreneur in Indonesia is higher than Thailand. Using exchange rate as of 28 September 2014, threshold for taxable entrepreneur in Indonesia is USD 396,523, while threshold for taxable entrepreneur for Thailand is USD 55,632. This indicates from the perspective of obligation to register for taxable entrepreneur, the VAT obligation in Indonesia is more relax than in Thailand.

#### *VAT tariff*

VAT tariff in Indonesia is 10 percent for supply of taxable goods and utilization of service within Indonesia custom area, import of taxable goods, utilization of taxable service and intangible taxable goods from outside Indonesia customs area. Tariff zero percent is applied for export of taxable goods, service and intangible taxable goods. Thailand imposes seven percent VAT for supply of taxable goods and utilization of service within Thailand custom area, or import taxable goods. Thailand imposes zero percent for export goods or services. The difference of VAT tariff in Indonesia and Thailand is not an issue as VAT is exempted.

The above explanation on VAT regulation shows there are only slight different on VAT law in respect to agriculture. VAT exemption in Thailand is wider that covers (i) fertilizer and (ii) research and development. However, threshold for tax entrepreneur in Indonesia is five times higher than in Thailand. Those differences do not affect significantly the development of food resilience. The following is discussion on factors that significantly affects food resilience from perspective of quintuple helix innovation model.

### *3.2. Quintuple Helix Innovation Model*

The quintuple helix innovation model is multi aspect development model that is developed based on triple helix and quadruple helix model. The objective of quintuple helix innovation model is sustainable development (Carayannis, 2012, 1). The following discussion will be based on five sub systems within quintuple helix innovation.

**Table 2: Summary of Quintuple Helix Analysis on Food Resilience, Comparative Study Indonesia and Thailand**

<b>Quintuple Helix Aspects</b>	<b>Indonesia</b>	<b>Thailand</b>
Education system; human capital	<ul style="list-style-type: none"> <li>• Lack of coordination between education, industry and government.</li> <li>• Ineffective structure of authorized body and organization in agriculture sectors. For example, research on higher education on education is under Ministry of National Education is designed separately with program under Ministry of Agriculture, while Ministry of Agriculture runs its research &amp; development agency.</li> </ul>	<ul style="list-style-type: none"> <li>• Effective coordination between education, industry and government. Ministry of Agriculture and Cooperatives is authorized body to coordinate agriculture development. The structure consists of government, state enterprise, and public organization.</li> <li>• Research and Development agency is well designed to support farming activities.</li> </ul>
Economic system; economic capital	<ul style="list-style-type: none"> <li>• Determination of price, quality shall be carried out by Food Resilience Agency. However, this institution fail to run their responsibility</li> </ul>	<ul style="list-style-type: none"> <li>• Thailand development has been generally based on agricultural production, which is mainly supported by smallholder. One third of population employed in agricultural industry and contributed to 25% of total exports. Up to 30% of country land area has been used for agricultural activities.</li> <li>• Main products of agriculture sector are rice, rubber and fisheries which accounts for 15%.</li> <li>• Almost 75% of agricultural added value comes from crop sector, livestock sector since the mid of 1960</li> </ul>
Natural environment; natural capital	<ul style="list-style-type: none"> <li>• Development of farming area less considers geography factors. Java as the most fertile area become manufacturing</li> </ul>	<ul style="list-style-type: none"> <li>• Development of farming area takes into account geography factors, such as climate, people density, and rain</li> </ul>

	and residence area, while development in outside Java faces infrastructure problem	density. Infrastructure is developed to support each type of farming.
Media based and cultural based public	<ul style="list-style-type: none"> <li>• Industrialization and globalization that is supported with media drives young generation to work on manufactures or service area.</li> <li>• Consumerism replaces traditional value that drives young generation to focus on more profitable work. In the future, agriculture will be lack of skilled labor.</li> </ul>	<ul style="list-style-type: none"> <li>• Industrialization and globalization that is supported with media drives young generation to work on manufactures or service area.</li> <li>• Consumerism replaces traditional value that drives young generation to focus on more profitable work. In the future, agriculture will be lack of skilled labor.</li> </ul>
Political system; political will from nation state	<ul style="list-style-type: none"> <li>• Multi party democratic system depends on the political party that wins the general election.</li> <li>• Government policy and national budget allocation is not consistent, depends political party priority.</li> </ul>	<ul style="list-style-type: none"> <li>• King plays significant role in agriculture sector. Through Chaipattana Foundation, King directly lead agriculture development.</li> <li>• Government through Ministry of Agriculture and Cooperatives provide effective support through regulatory function.</li> </ul>

(i) Education system

Triple helix model put education system as one of key element together with industry and government. Synergy of education, industry and government will drive knowledge based economy (Leydesdorff, 1). The education in this context is defined in a broad meaning, i.e. research and development agency that is running by educational institution or any other body that will creates innovation. The research and development activities should be driven by needs of agriculture industry, while government can support through funding and regulation.

In this respect, Indonesia has higher education on agriculture, i.e. Institut Pertanian Bogor (Institute of Bogor Agriculture) and other universities are Ministry of National Education. The Ministry of Agriculture also conducts research and development function through its Agency for Agriculture Research and Development that is consists of four sub structures: (i) Secretariat of Agriculture Research and Development Agency, (ii) Centre for Food Crops Research and Development, (iii) Centre for Horticulture Research and Development, (iv) Center for Estate Crops Research and Development; and (v) Center of Livestock Research and Development (Departemen Pertanian Republik Indonesia, 2013 page xi). However, the coordination between research and development conducted by those institutions and agriculture sector has not reached optimum coordination. Research conducted by Agency for Agriculture Research and Development is not optimum. Based on release from



Ministry of Agriculture, research result on new variety tends to decrease in 2012 (Ministry of Agriculture Republic of Indonesia, 2013 page 298). Many skilled graduates from higher education on agriculture chose to work on more profitable sector, such as banking, insurance or food manufacture. Therefore, innovation in agriculture sector is weak.

**Table 3: Released Varieties or Research Result (2008-2012)**

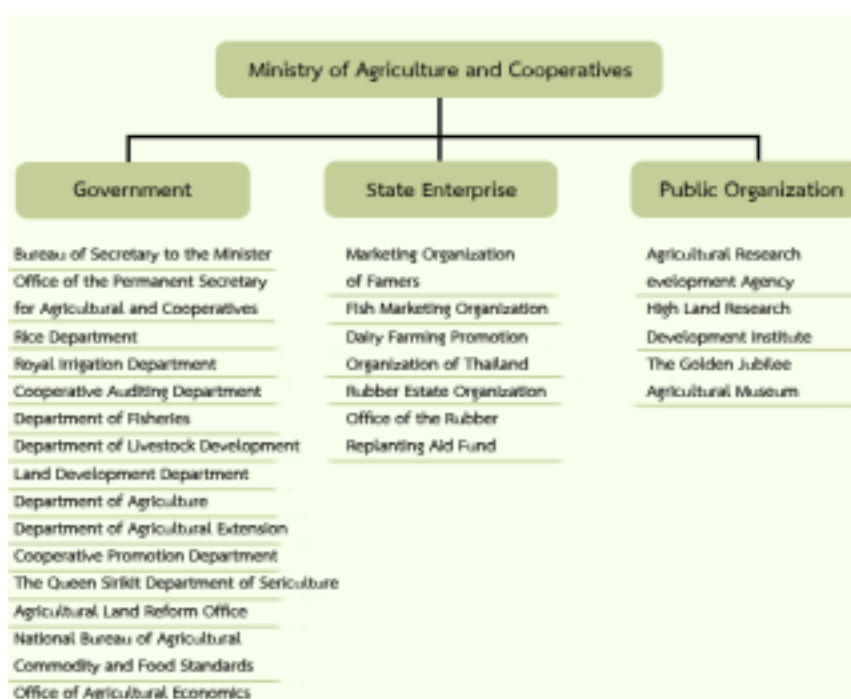
**Source: Departemen Kesehatan Republik Indonesia, Statistik Pertanian 2013, page 298**

Description	2008	2009	2010	2011	2012
Paddy	11	23	10	19	12
Secondary Crops (maize, mungbean, peanut, soybean, cassava)	11	16	6	7	7
Vegetables	2	3	2	2	0
Fruits	2	6	1	2	0
Estate Crops	7	11	5	4	4

Thailand has compact coordination structure between research and development agency, agriculture sector and government. Ministry of Agriculture and Cooperatives (MoAC) conducts coordination function better as it is support with its structure that consists of representative from government, state enterprise and public organization. As result, quality of government policy in Thailand is more comprehensive. Government policy is designed based on potential of each region, types of products and required processing or manufacturing, and marketing of the products. With such comprehensive policy, Thailand has successfully developed its agriculture sector.

**Figure 1: Structure of Ministry of Agriculture and Cooperatives**

**Source: Ministry of Agriculture and Cooperatives, Thailand**

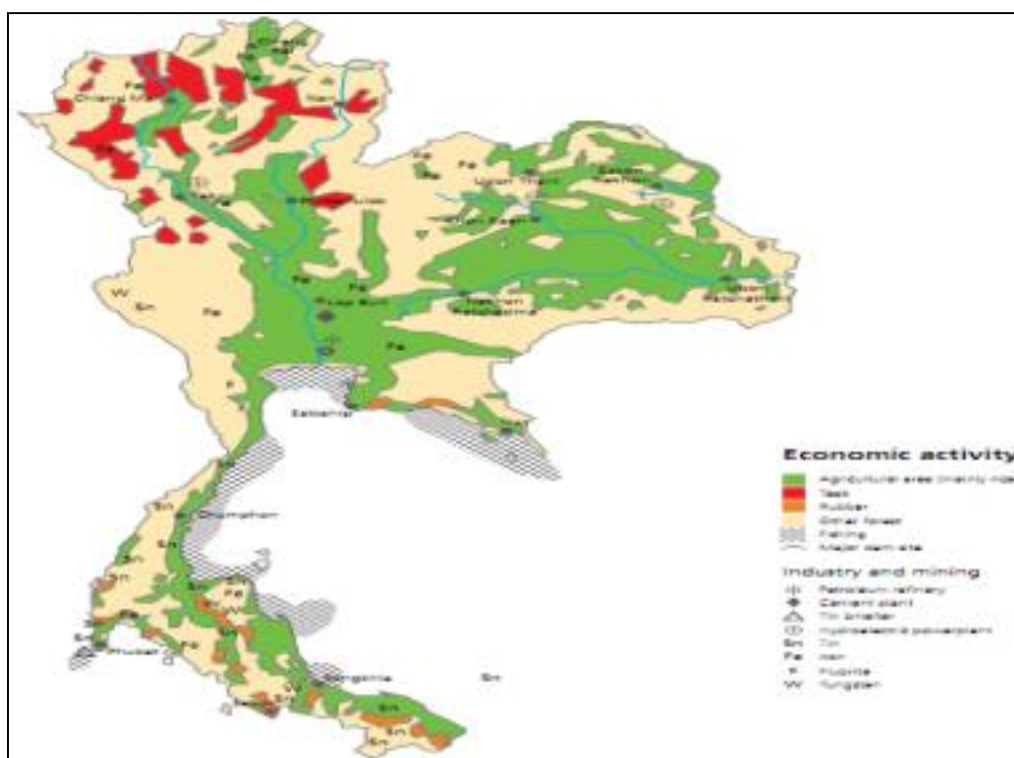


(ii) Economic system

The second subsystem of Quintuple Helix covers economic system. It consists of industry (ies), firms, service and bank. Agricultural sector in Thailand is supported by small holder. One third of population employed in agricultural industry and contributed to 25% of total exports. Up to 30% of country land area has been used for agricultural activities. The main products of agriculture sector are rice, rubber and fisheries which account for 15%. Then, 75% of agricultural added value comes from crop sector, livestock sector since the mid of 1960. The economic activities throughout Thailand can be described in the following map:

**Figure 2: Economic Activity in Thailand 2003**

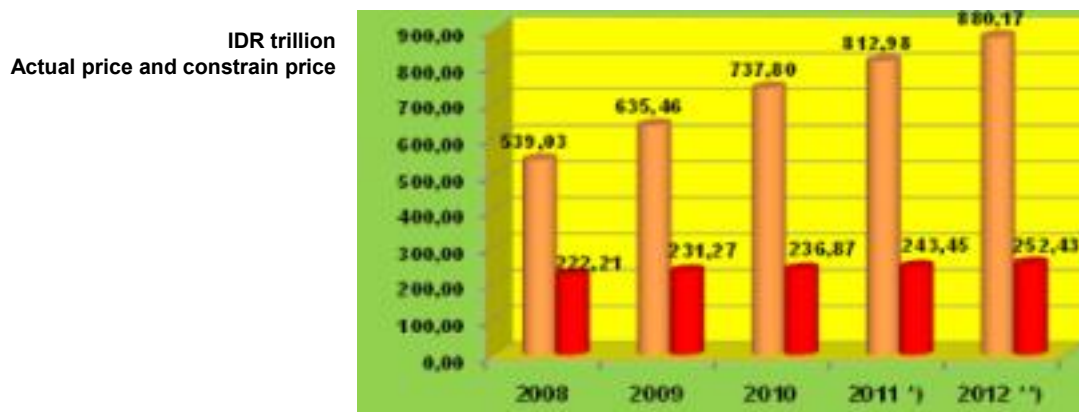
**Source:** Overseas Development Institute, (2011), *Thailand's Progress in Agriculture: Transition and Sustained Productivity Growth*, page 5



Since 1960 until 2007, the number of population who worked as farmer reduced up to 50% whereas the existing farmers went ageing without replacement. Indonesia has been recorded as 10<sup>th</sup> agriculture producers although farming land is not wide enough to be a agricultural countries. Contribution of agricultural sector to PDB since 1990 until now is about 15-16% and absorbs about 56% in 1990s decreased to 36% in 2013. In Indonesia, contribution of agricultural sector to PDB from 2008 to 2012 is as followed:

**Figure 3: Contribution Agricultural Sector 2008-2012**

Source: Departemen Pertanian, 2013



From total contribution of agriculture sector, food product contributed 65% and was followed by plantation and livestock. Most of agriculture industry in Indonesia has been carried out by small enterprises and small proportion of medium enterprises. Commercial farmer tend to play in plantation such as palm oil and timber for exportation purpose. Trading index of agricultural sector continuously increases since 1995 until 2011 from less than, that is 5 billion USD until more than 30 billion USD (OECD, 2013).

In order to achieve self-sufficient food target in 2014, Indonesia government strives to diversify food products and organize food distribution to prevent high gap price from particular region to others. In addition, fertilizer price also becomes the main concern of government specifically for those who has agriculture land less than 2 ha. The seeds price of paddy, corn, sweet potato and sugar cane are the main target of budget allocation though subsidy since 2010 until 2012. Up to one fifth of agriculture budget or about USD 135 million went to these subsidies. Input subsidy also is granted to the farmer who failed to corps their harvest. Further, the farmer is offered concession of favorable interest rate, lower than general rate after having approval from authority organization. The problem rise when they must bring guarantee to the creditor although since 2012 a friendly scheme was established to address farmer's financial problem<sup>3</sup>.

### (iii) Natural environment

Natural environment means environment factors that support sustainable development in agriculture sector. Indonesia is supported with natural soil fertility. The most fertile soil is located in Java. However, farming in Java is 'over utilization' as the total farming area in Java decrease and to be replaced for another function, such as manufacturing or residence area. The soil ownership for each farmer in Java cannot fulfill economic scale, which creates inefficiency in agriculture sector. On the other hand, land in outside Java is still not utilized optimally. Sumatera, Kalimantan and Papua is suitable for seasonal food plant and plantation. The problem of utilization of Sumatera, Kalimantan and Papua is lack of infrastructure, such

<sup>3</sup> OECD (2013) Kebijakan-kebijakan dalam Bidang Pertanian: Pemantauan dan Evaluasi 2013 Negara-negara OECD dan Negara-negara Berkembang

as irrigation, electricity and access road. Homework for the next Indonesia government is to conserve farming area within Java island and to improve infrastructure outside Java. In the long term, farming area should be centralized in Java island as its soil fertility, while manufactures are located outside Java (Badan Penelitian dan Pengembangan Pertanian, Departemen Pertanian, 2005, 2).<sup>4</sup>

Different with Indonesia with thousands island, it is easier to organize farming area in Thailand. Central region is developed for central of rice and supported with rivers and irrigation system. Northern region is mountainous area and low density population area. High value crops such as fruits and vegetable is developed in this area, such as coffee. While southern part area is developed for rubber production as the southern area is low density area with rainfall spread all over the year (Overseas Development Institute, 2011, 4). Infrastructure is developed based on characterization of each farming area. These policies result effective agriculture performance in Thailand.

(iv) Media-based and cultural-based public

Cultural-based public means value that lives in the society shapes development of agriculture sector. While media-based public means mass media that influence value on that society. In this respect, industrialization has shape people value to work in manufacture and services area. Manufacturing is considered bring more added value compares to agriculture industry. In addition, rapid development on telecommunication brings more intensive contact between people all over the world. People in Indonesia and Thailand tend to be more consumptive from western value as they learn from western media. Young people both in Indonesia and Thailand tends to leave their homeland and to work on manufacture and service. In this respect, agriculture sector in both Indonesia and Thailand will lack of skilled labor.

(v) Political system

Indonesia has multi-party democratic government. Government priority, including decision of national budget allocation, is product of negotiation between political parties. In this respect, government policy and national budget allocated to agriculture is not sustainable, depending on dominant political power that win the general election (Bloomberg TV Indonesia, 2014).

Thailand has more consistent government policy on agriculture, thanks to the King support. Under constitutional monarchy system, people respect to the king who focuses on the development of agriculture in Thailand. Through Chaipattana Foundation, the King directly develop agriculture sector. People give their land voluntarily to the King for agriculture. In return, the Chaipattana Foundation develop infrastructure, seeds and market the agriculture products. Government through MoAC also supports the agriculture through and regulatory function, including innovation made through its research and development agency.

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<sup>4</sup>Former Minister of Agriculture, Anton Apriyanto, concerns on the relocation of manufacturers to the source of energy, such as Kalimantan that has high coal deposit. Java as the most fertile area in Indonesia should become central of agriculture industry. (Bloomberg TV Indonesia: Bursa Kabinet, 28 September 2014)

#### 4. Conclusion

This research has revealed that the VAT policy alone is not effective to support development on agriculture sector. Thailand has successfully conduct coordination between education, industry and government that results an effective policy. Consistency of government policy is also important as food resilience requires sustainable development. King involvement in Thailand agriculture ensures sustainable government policy. Sustainable development on agriculture also depends on availability of skilled labor. Both Indonesia and Thailand faces the same problem. In the future labor issue will endanger sustainable agriculture sector.

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## **Study of success factors of suicide measures in local government**

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### **Abstract**

Since 1998, suicide has become a major social problem in Japan. Suicide countermeasures are defined as a national project where various actors are involved. Among them, the local governments are called main actors of the countermeasures in particular.

It is said that the key for the success of the countermeasures is in the understanding of the staff of local governments to the need of the countermeasures. The prejudices against suicide and lack of knowledge about suicide are seen between the staff of local governments, and it has become the wall that prevents the fulfillment of the measures. However, because of various problem (for example; indifference to this problem, lack of time and money and human resources for business operations, etc.), it is too difficult to remove their prejudice against suicide.

In this study, I attempt an analysis of the measures in the case of Adachi City, Tokyo, Japan. Adachi City is a municipality has been known by its progressive approach on the countermeasures. And the number of suicides in there has been declining steadily over the years. By analysis of the research or interviews to stakeholders, it clarifies the factors that promoted the understanding of the staff and changing their actions and measures against suicide. By attempting to summarize the success factors of Adachi City, this study will provide useful implications not only for other municipalities but also the national policy.

### **Introduction**

Since 1998 that the number of suicides in Japan surpassed 30,000 people, suicide has come to be regarded as a serious social problem in Japan. By the enactment of the Basic Act for Suicide Prevention in 2006, suicide countermeasures came to be regarded as a national project.

The involvement of various actors is essential to the promotion of countermeasures, and it has been discussed on the role of them. In the present study, it especially focused on the role of local governments and discussed about it. In Article 4 of the Basic Law, it is defined that the implementation of suicide measures is the duties of local governments. In recent years, it is considered that "Strengthening of suicide measures in the local area" is important. Importance of the role of local government at suicide measures is rising year by year.

However, the suicide measures in local government are accompanied by many difficulties. An example of these difficulties is the problem of awareness of staff for suicide and suicide measures. Even in Akita Prefecture, who has made advanced efforts for suicide prevention, there was this difficulty in promoting suicide measures. Most of the officials of municipal government regarded suicide as a personal issue, and they didn't recognize it as an issue which the local government should deal with.

This is not a problem that is limited to Akita Prefecture. Most of the officials of municipal governments are holding a negative opinion against local governments coping with the problem of suicide. Such opinion has become a major barrier on local governments for taking the suicide measures. Thus, in order to success of the measure at the local governments, the transformation of Consciousness and Behavior to the suicide and the suicide measures is important, and it is required to the officials of a local government. However, the method for this transformation has hardly been examined thus far.

## **Methods**

In this study, it was analyzed for the suicide countermeasures of Adachi City, Tokyo, which is doing a progressive approach. Through the analysis of existing data as well as interviews with the people involved, it was tried to examine the factors that prompted the transformation of Consciousness and Behavior toward the suicide measures of the officials.

The analysis of this study is divided into the following two stages. They are an (1) Examination of the precedents case, and (2) Study of Adachi City. Firstly, it took a general view of the efforts of Niigata Prefecture and Akita Prefecture who have made pioneering efforts from the previous enactment of the Basic Law. By analyzing the factors that contributed to the development of suicide measures of both prefectures

based on previous research, it discussed the factors of the transformation of Consciousness and Behavior toward the suicide measures of the officials. On the basis of this result, this study focused on the project of Adachi City and examined about it. By the interviews with stakeholders, or the analysis of the documents of gatekeeper training and meetings, the project at Adachi City was discussed.

## **Discussion**

### 1. Examination of the precedents case

In previous studies, the prefectural governor has been pointed out as one of the major factors that made the suicide measures progress at Niigata and Akita Prefecture. The prefectural governors understood the need of the measures, and they played a leading and active role in order to make the suicide measures advance. It seems that the attitude of governors has a significant impact on the consciousness of the suicide measures of the officials in the local government. Dr. Motohashi, the public health scholars that have led the suicide measures in Akita Prefecture, has mentioned the role of governor as follows. By the governor acknowledging publicly of the need for suicide measures, the suicide measures in Akita were accompanied by budgets started in earnest.

The importance of the role of the governor has been pointed out on the report of suicide measures in Niigata Prefecture as well. In this report, it is discussed about the importance of the role of the governor, the member of assembly, the officials of suicide measures, and then is mentioned that must make them recognize the need of suicide measures firstly. In Niigata, the suicide measures was regarded a major policy challenge by the decision of the governor. In Niigata, the suicide measures were designated as an important project by the governor. This became an opportunity for all officials to address the measures. Given the circumstances of the both prefectures, the decision of governors is essential in order to begin the suicide measures in local government, and this seems to have become prerequisite.

The decision of and leadership of the governor plays an essential role on introducing of the new policies in municipality. This is applicable not only to suicide measures, but also to all of policies. This has been noted in previous studies in the past. But the main actors of the effort are actually each officials of municipality. In order to increase the effect of the measures, all officials have to revise their awareness of suicide, as well as to understand the importance and the need of the measures, and then finally to change



their attitudes toward the suicide measures. The awareness or behavior of the officials is an important factor that defines the quality of administrative activities. By reconsidering about the success factor of suicide measures based on these discussions, it would be able to point out as follows. The important elements which involved in the success or failure of the measures are not only the decision of the governor but also the behavior of the officials.

However, it is hard to make the officials change the attitudes toward the suicide measures. Even in Akita, which has carried out the measures in advance of the other municipalities, it could not be obtained of the understanding of the officials toward the measures. And if so, why and how the attitude of the officials in Niigata and Akita Prefecture has changed? Previous studies have hardly revealed about the process of transformation of the attitude of the officials toward the measures.

## 2. Study of Adachi City

### 1) Review of previous research about the suicide measure in Adachi City

Based on the result of the examination of previous researches, in this study, it was focused on the efforts of Adachi City, and then it was discussed about the efforts. Adachi City is well known as a local government who signed an agreement with famous NPO of promoting suicide measures and has taken the advanced measures. Because the number of suicides in Adachi City in 2006 became the largest number among 23 cities in Tokyo, suicide was a serious problem in this region. However, Adachi City was promoted the measures in earnest from 2008. As a result of that, the number of suicides in Adachi City in 2011 showed a significant decrease. (22% decrease compared to the previous year) The suicide measures in Adachi have now been paid attention from many of the whole local governments of the country.

In Adachi as well as in Niigata or Akita Prefecture, mayor has played a major role at the start of the measures. However, the previous studies have hardly clarified other elements (e.g.: the reaction of the officials toward the suicide measures, the problems in execution of the measures, the process of resolution of these problems).

### 2) Reaction of the officials to the suicide measures

In this study, on the basis of the interviews with stakeholders and of the analysis of the primary materials, it was tried to clarify the factors which has transformed the attitudes of the officials against the suicide measures. In Adachi City, it has regarded suicide not only as a mental health problem but also as a problem which related to a variety of

fields from the beginning of the measures, and has taken the measures together in all departments. But there were many difficulties to realize such a system.

According to Ms. Baba, who is a public health nurse and has directed the course of the suicide measures from the beginning in Adachi, the majority of the officials showed a negative reaction to the suicide measures initially. Because they had regarded suicide as an issue which related to the field of mental health, they had thought that the responsibility of this issue must be on the public health center. In this way, most of the officials showed negative reaction against the suicide measures because they couldn't find any relationship between the suicide measures and their business.

Ms. Baba felt a sense of danger for this situation. So she tried to conduct the gatekeeper training to make the officials understand the need of this measure. In this training, it is taught about various knowledge of the suicide. (e.g.; it is essential that the departments from various fields must collaborate on the measures and take the cooperation in order to prevent the suicide, because the factors of suicide are influenced from diverse fields.) For the development of the countermeasures, it is necessary to change the perception of the officials toward the suicide measures. And for this development, it seemed to be essential to make all the officials understand that the suicide measures is a business involved in all departments, not only in the public health center. The officials began to recognize by receiving the training that the suicide measures are a business which involved in all departments.

Why did the recognition of the officials change by attending the training? It is because that the awareness as a party against the suicide problem came to appear between the officials by the training.

This change in awareness can be divided into the following two types.

The first is the change in the awareness as individual against the suicide. It had been considered as a result of individual choice because suicide was regarded as a result of people who wished to die. Therefore it was typically considered that there was no necessity to prevent the suicide. In addition, people who have never experienced the suicide of someone close had just felt the suicide as "other person's affairs". Because of these problems, the need of and the importance of the suicide measures had not been recognized in the community for a long while.

The result of the questionnaire to the officials in Adachi also supports this problem. Before receiving the training, the majority of the officials thought the suicide as "other

person's affairs" or "the happening in the distant world", and didn't have the awareness of this problem. But by listening to the story directly from the bereaved families who lost a family by suicide, many of the officials were varied their awareness against the suicide. After the training, the following comments/ impressions were received from many of the officials.

“I realized that the suicide could occur also in my family or my own.”

“I felt the necessity to pay attention to the behavior of or to the talk of the people around us.”

From these responses after the training, it can be seen that the majority of staff came to get a sense of a party against the suicide.

The second is the change in the awareness as the officials against the suicide. According to Mr. Shimizu who is the representative of NPO Life Link, it is common that the officials of local governments have the skeptical or negative idea against the necessity of the suicide measures. They have doubts as follows. "First of all, suicide prevention is beyond our control to do.", "There is nothing that national and local governments can do for people who are saying to want to die." This is also applicable to the staff of Adachi. They had taken a negative attitude against the suicide measures. However, in the questionnaire after the training, they answered as following. "I want to take advantage in my work what I learned in training.", "I came to think that I want to play the role as gatekeeper." From these answers, it can be seen that the changes on the attitude of the officials occurred after the training.

These changes occurred because the officials understood that the suicide measures were the business for all departments. The suicide came to be regarded as a social problem as well as a mental health problem. In the training, it is explained about the things as followings: "72% of the suicide had visited some consulting service before they commit suicide", "They didn't commit suicide with their own wants", "It is possible for local governments to take the suicide measures as a public business". The officials became more conscious of their roles in the suicide measures by obtaining the information of these. Because all the officials came to get the recognition as a person in charge of suicide measures, then their attitudes changed positively.

3) The factors that prompted the changes in the consciousness of the staff

However, there are various difficulties for combining the changes in the recognition against the suicide measures with the changes in the behavior. According to the staffs

who are the persons in charge of the suicide measures, the significance of the suicide measures business came to be shared by majority of the officials. But there is not enough time or human resources for the officials who could devote to the measures. In order to proceed with the measures even in such a difficult situation as this, Ms. Baba points out that the important thing is that the officials get the self - efficacy against preventing suicide.

However, if the suicide measures needed a new burden, it is supposed that the officials could not take the positive attitudes against the measures in severe circumstances financially. One of the reasons of the negative attitudes between the officials was on the anxiety about the increase in new burden according to this measure. Why the change in attitude against the measures happened in spite of it. It would be natural to think that there would be some incentive to make the officials participate in the measures.

The incentive for the officials would be considered to be two types.

The first, it seemed that taking the measures would produce good results of solving the issues of the department of themselves. There are a lot of administrative problems from the past in Adachi City. They are For example: "the increase of low-income earners", "the rise in social security costs", "the stagnation of employment industry and economy". The administration of Adachi was aware of these issues from the past. However, because it was difficult to solve these problems due to the government's vertical administrative structure, then these adverse effects had made the problems worse and become a breeding ground for the occurrence of suicide. Therefore the administration determined that the establishment of a system for cooperation beyond the departments and divisions is essential for suicide prevention. Adachi City was able to take a new step for overcoming the negative effects of the vertically integrated administration by advancing the suicide measures.

Another point is that implementation of the measures did not necessarily bring about new costs. Through the training, the officials regarded the suicide measures as assistance toward the lives of residents within the framework of the current business. This is that by performing the normal business along with understanding of the problem of suicide and with the awareness of suicide prevention may contribute to the prevention of suicide. The thing which newly is required is not the burden of additional expenses but the change of attitude / awareness of their own against the measures. Because of such a background, the officials were able to take positive attitudes against the measures.

It seems that the action of the suicide measures at the local level plays a central role in the future, as stated in the General Principles of Suicide Prevention (revised in 2012). In this situation, it examined the process of policy making of the suicide measures in Adachi City in this study, and clarified the factors that promoted transformation of the consciousness of the officials. It seems that this information would give a useful suggestion to the other local governments when they try to take these measures in the future.

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## **Identity in Integration and Institutionalization**

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### **From Communication to Integration**

Formation of Common Narratives in Sino-Japanese Relations

#### **ABSTRACT**

The relationship between Japan and China is probably one of the most important bilateral relations in our time. Cooperation could foster prosperity for billions, far outside the East Asian region, while a war between those would through the whole world into a dark abyss.

Belying the fact that there is an increasingly friendly exchange of people, it is usually concluded that the relationship one of animosity. It is well known, that their economies are heavily dependent and built to complement each other. Other facts are less well known. For instance is mainland China the main tourist destination for Japanese and both countries rank top on attractiveness for student exchange for each other. Moreover, recent disaster cooperation has shown an eagerness to cooperate with each other that has no precedent in recent history.

How can we understand this paradoxical relation? What does applied political science tell us about this case? International Relations integration theory would predict that with economic integration and social cooperation, soon political integration follows. Yet, as there are no political institutions, it is unclear, if we can speak of integration at all, or if the cooperation is just a form of social communication, possibly with little meaning to political integration in the future. The situation really, poses a paradox to IR theorists.

This paper takes one assumption, which has recently been brought back to attention of political scientist by primate biologists and by computer simulation of cooperative strategies: Humans have innate desire to cooperate with each other as they are social beings. From the communication that comes along with “cooperative dispositions”, what does it take to from institutionalized integration?

Because the Sino-Japanese case is so special - two massive economic power that cooperate on a broad space, yet, in defiance to integration theory, cooperation has not spilled over into formalized integration - this case offers a lot of lesson why humans cooperate and “choose” to have or not have formalized integration.

The study looks at three outlets of such cooperation and proceeds with a qualitative analysis, when cooperating individuals are able to build institutionalized cooperation. It does this by studying a private, a public and a para-public institutions and the individuals within. Through interviews and text analysis of it determines when values, motivations, and identities are formed and when they can be used to provide social meaning for the cooperating individuals.

*As the research is ongoing, only preliminary results from the case studies can be shared at this point.*

## **0. Keywords**

China, Japan, Integration, communication, narratives, identities, cooperation, para-public

## **1. Research Goal**

The tensions between Japan and China are not only worrisome, but also pose an academic paradox: how can two countries that are so interdependent on each other forgo the chance of building stable relations with each other? A worsening or an escalation of the tensions could have disastrous consequences for themselves, the region, and potentially to the whole world.

Integration theory predicts that with deepening economic ties institutionalization of bilateral relations happens automatically, per spill-over effect, as can be seen in European cases. However, this prediction has not yet been fulfilled in East Asia although the economies of Japan and China have become increasingly tied together through trade, social integration and communication.

Humans have innate disposition towards cooperating with each other. That this is a fundamental human trait has become clear through extensive studies of other primates, but also through advances in computer simulations techniques. In the social science of international relations however, we forgo this characteristic by believing that human action should in principle abide to economic logic and incentives. Their language ability, their communication, is the tool that helps them to coordinate their cooperation.

The goal of this study is therefore to advance the understanding of integration and what integration means to human beings and their societies. This research will analyze how in communication decisions of cooperation and integration are made on a personal level. Moreover it will track how this narratives in the course of increased interaction, allows identities to develop that fosters the institutionalization of integration. It aims to contribute towards the search of a universal understanding of integration, rather than to further the divide between the so called “Western” and “non-Western” theories.



## **2. Reason for this Study**

The paradoxical situation of increasing cooperation and increasing rivalry between Japan and China poses an academic quagmire that has led to questioning of the general validity of integration theory. Increasing interdependence and a seemingly immunity towards institution building the spill-over effects of economic integration runs counter to the logic of valid integration theories. Moreover, the tension between Japan and China is worrying to international observers because the seemingly imminent breakdown would have devastating effects for the international system and the world economy.

### **1.) Theme of increased cooperation and communication within the last 25 years**

Data clearly proves that there has developed deep economic cooperation, a steep increase in physical border transgression and exchange of people, and increase in mutual cultural attractiveness between China and Japan.

#### a) Economic and social cooperation

- increased trade volume (World Trade Organization International Trade Statistics 2013)
- New trade agreements on several levels
- Unprecedented level of mutual cooperation after 2008 Sichuan and 2011 Tohoku earthquake (Nagy 2011)

#### b) Rising cultural attractiveness

- Soft Power strong feature between Japan and China (Vyas 2012, Nye 2006). Media consumption. Especially Japanese soft-power in China (see for example The Economist, 2012, September 22).
- Number of celebrities and TV persona from Japan/China in China/Japan (Amako, Chapter VII)
- Steep increase in language learners on both sides (Data of the Confucius institute)

#### c) Physical border transgressions and other exchange

- Mainland China most attractive holiday destination for Japanese. 3.5 million trips were made by Japanese to the Mainland alone in 2012 (Japan Tourism Marketing Co. Statistics)
- Japan together with Malaysia second most popular tourist destination for Chinese with 2,2 million trips made in 2011. (China Tourism Academy 2011)
- Second largest overseas community of Japanese is in Mainland China (Source: Japan Statistical Yearbook 2012, Chapter 2-15)

- Close to one million Chinese are residents in Japan forming Japan's biggest minority (Japan Statistical Yearbook 2012, Chapter 2-14)
  - Continuous relative increase in Japanese students studying in China and Taiwan compared to the UK, US, and Australia. Around 17.000 students from Japan studied in China and Taiwan in 2012 (The Nippon Foundation 2012)
  - 60% of all foreign students in Japan are Chinese, second to Korean who make up 14,2 %. Around 80.000 Chinese students studied in Japan in 2011 (Japan Student Service Organization)
- ⇒ This mutual increase started in 1990 which a steep rise in 2000, the year of Chinese accession to the WTO and 2005. Dented in 2008, when tensions rose and the financial crisis became global, it continues to increase mostly relative stronger than with other countries.

## 2.) Theme of Rivalry

China and Japan are seen as inevitable rivals (Terada 2006)

- Recent territorial disputes around the Diaoyu or Senkaku island
  - Disputes regarding interpretations of the recent history (He 2009), Qiu 2006, Rose 2005)
  - China reemergence as a political superpower coinciding with America's decline
  - China fast economic rise as a threat to Japan's economic dominance
  - Different political systems
  - Perception of different values (Konishi 2003, p. 14)
  - Opposing regional alliance towards ASEAN, North Korea and the United States (Terada 2006)
  - China's new assertive foreign policy
  - Japan's imminent reinterpretation of their pacifist constitution
  - Perceived danger of imminent war (See for example The Economist 2012 Sept 2)
- ⇒ As tension is rising, there is no move towards the creation of any political institution or even just institutionalized communication channels that could help mediate conflict that could potentially escalate. Analysts describe this as a major danger (see for example Amako in Asahi Shimbun)

## 3. What is the meaning of these numbers in this paradoxical relations?

Data proves that there is increased communication between China and Japan (without any judgment of semantic quality all of the above is just communication). The main mystery is why there has not been any institutionalization of integration despite such active communication and exchange.

### **3. Background: Study of Integration**

#### **1.) Etymology**

Integration is the process of unifying of two discrete units. In IR this process unifying of two or more from each other independent parochial economic, social and political systems into a new one.

#### **2.) Research Background**

##### **a.) Common Studies**

Integration studies started with the works of Ernst B. Haas who wanted to explain the European integration process (Haas 1958). Most commonly, his work is associated with the spillover effect, which is a functionalist description of how economic integration will eventually led to political integration, visibility in supranational institution (see also Harrison p. 139-151). This association is unfortunate since Haas himself criticized this over-emphasis of the economic aspect in later years. Karl Deutsch argued the region where people share common values beyond national boundary is able to form a pluralistic or amalgamated security community - no war community based on "we" feeling (Deutsch 1957). However, this primarily explained North or Western European or North American cases, where people enjoys liberal values such as democracy or human rights. In a sense, this is very much similar as Bruce Russett's democratic peace theory (Russett 1993). However, Deutschian theory is much richer than simplifying integration with democracy, just as Haas's is with economic incentives. He drew on what was the idea that norms or rationalism is needed to hold individuals as group together, as outlined of by functionalist Emile Durkheim and respectively Max Weber, forefather of social theory. Durkheim describes as anomie is a reversal of integration, which would deprive individuals of meaning and would even lead some to suicide (Durkheim 1897). What It is interesting that Deutsch conditioned this finding of a we-feeling to "social communication". (Deutsch 1953). Benedict Anderson, described the origin of a nation a common language. Colin Williams and Anthony Smith widened that and reintroduced the communicative aspect that Deutsch had in mind and made what Anderson called language or the "vernacular divide" into social space by saying nationalism is the mode of construction social space. Williams and Smith 1983).

##### **b.) Studies in non-Western context**

The inherent problem IR theory has with so called "non-Western" theories is, that they are almost build to miss them as Amitav Acharya points out. (Acharya and Buzan 2010). There are several explanations why non-Western theories are less known: Western IR theory has an advantage of the dominance of Western culture and its influence on other

culture. However, Acharya points out, that discourse in other languages do exist, but are hidden, and “(t)hose engaged in the English language debates have more than enough to read within that, and often lack the language skills to investigate beyond it.” (Acharya and Buzan 2010, p. 18). There have been attempts made, for example by the English School, to find so called non-Western theories of integration, see Barry Buzan. Notably is the GIARI model of integration by Satoshi Amako (2013) as well as the theory of Yoshinobu Yamamoto (2013), describing integration through regional society.

### **3.) The East-West conundrum**

Western academics describe integration through a theorem modeled after the European process in their own languages, English, French or German mostly. Applying this theorem to other cultural contexts, we find that so many things do not match, that comparing the bilateral relations of Germany and France to Japan and China becomes “meaningless” as Peter Drysdale mentions. Starting with the very late adoption of the Westphalia system, over to very different understanding of key concepts like society, sovereignty (see Acharya).

This paper tries to circumvent this issue by going back to something that is more basic the cultures and societies: the disposition humans have to cooperate with each other, as described by Orbell, Morikawa, Hartwig, Hanely and Allen (2004). A recent trend in political science has been to find the origins of political behavior. Studies have indeed shown that political behavior is in parts genetically determined (Hatemi and McDermott 2012). Thus, this paper assumes that cooperation is something natural, that occurs unless it is not specifically prevented. Because of the intrinsic economic connotation of the word "cooperate", this paper will look at pure communication cooperating individuals.

### **4.) Reason for the Study**

The topic is interesting and has received much attention for different reasons.

Globalization remains a much discussed and possibly little understood phenomena. Our current world is strongly influenced by globalization. Geographic difference matters less and less. The reduction of travel barriers, the media revolution and the new connectedness as well as of people-to-people and people-to-computers are breaking down communicative borders. The significant market liberalization allows broad economic cooperation and has strongly shaped the world. All these phenomena constitute increased communication: a systematic reduction of communicative barriers by which the possibility that communications happens rises.

For long, it was supposed that economic integration is the sole driver of integration. However, the Sino-Japanese example seems to defy that. There are at least three aspects of integration that are usually differentiated from each other and looked at separately and attempts have been made to bring them into logical order to see what influences what. These are “Economic integration”: Enlarged economic system is being created from formerly independent system; “Political integration”: Institutionalization of integration; “Social Integration (or sociocultural integration)”: People enlarge their social and cultural sphere.

There is renewed interest in linking political science with biology. The basis for sociological phenomena should be able to be traced back to something that is inherently human, rather than being a cultural feature. Recent studies could indicate that the basis of integration is an anthropological disposition that humans share towards fraternizing with other humans beings. A “cooperative disposition” has been studied in all humans’ closest relatives in primates, and is a trait that seems fundamentally primate, and thus fundamentally human.

European integration is still being picked apart in order to find elements of success that made this experience so different from others. Recently the role of social organization such as “Association of Supra-National Cooperation” or the “The Franco-German Youth Office” has been described providing incremental substance to the bilateral relations (Krotz 2002 and Katzenstein 1987). Because of their hybrid character, they are called para-public institutions. Increased exchange can be seen firstly as mere increased communication. However, the relationship of communication and integration is opaque. Is a meta-conversation used to justify a common identity in which two different parochial entities can find together? Within the realm of social integration, this is sometimes described as “New Narratives” (Kupchan 2011). Such narratives are noticeable as they are often done publicly: New narratives of common identity can be found in individual's own perception, in public, private or para-public institutions and organizations. Can such narratives create a we-feeling and / or a common identity? If so, they must provide the integration process with a normative foundation for deeper cooperation and create social value as well as meaning. How difficult is it to progress in institutionalizing of integration, without an identity of common narratives?

#### **4. Objectives**

- Understand the relationship between transnational communication and common narratives
- Understand how common narratives have added towards institutionalized integration
- Identify the driving mechanism behind transnational communication being a contributor toward institutionalized integration.

## 5. Research questions

- How does transnational communication form common narratives?
  - Is transnational communication only a means for economic cooperation?
  - Do common narrative spring up naturally because they are necessary to organize cooperation?
  - Is the existence of common narratives necessary for increased transnational communication?
- How do common narratives foster institutionalized integration?
  - Are institutions that are linked with transnational matters dependent on common narratives?
  - How important are common narratives to people who drive institutionalization of integration?
  - What effect do common narratives have towards the challenges of setting up institutions?
- What makes transnational communication being a contributor towards institutionalized integration?
  - Is outside pressure the driver for common narratives to develop?
  - How far does do economic incentives help to mold communication into institutionalized integration?
  - Which form of communication is most likely to contribute towards institutionalization?

## 6. Research Methods

Qualitative Analytical Case Study of different agents that are part of the exchange and communicative process between Japan and China:

*Case: Private Individuals*

*Subject: Two Chinese engineers who have joined a Japanese company in Tokyo after graduation.*

*Method: Periodically in-depth interviews focus on individual experience and perception over two years*

*Case: Para-public institution (for an explanation see Krotz 2002 and also (Katzenstein 1987, pp. 4, 35)*

*Subject: The Sino-Japan friendship center for environmental protection*

*Method: Study of historic documents, homepage etc.*

*Case: Public Institution*

*Subject: Japanese Disaster Relief Team*

*Method: Studying policy and purpose published by JICA*

## **7. Significance of the Study**

The phenomenon of a paradox relationship China and Japan in which is one of increased communication but not necessarily one of integration. Academics of the schools of Realism and Neo-realism would expect states to act assertively to avoid any concessions to their power and to protect their economic interests. While this confrontational behavior is something this school anticipates, the jeopardizing of their economy is not. Both countries are very much mutually dependent on each other, and every dispute comes with big costs to their economy. As the Japan-China economic relationship, driven by complementarity in economic structures and the multilateral settings, integrates even deeper it strikes observers as odd that no institutionalized mechanism to deal with political issues has been created despite their negative repercussions for trade. While Realism and Neorealism remain important, whether its state and power-centric approach has reached its limits when dealing with the phenomenon of common institution building is debated.

To get behind the phenomenon of integration the schools of liberalism and neoliberalism use a (Neo-) functionalist approach. This approach sees economic integration as the driving force and a potential trigger for the building of other institutions. The neo-functionalist approach emphasizes the role of pressure groups within each state, trying to influence state policy. Their motives are fueled by economic interest, which according to the comparative advantages dictates that national boundaries inhibit efficiency and thus will eventually be overcome by triggering cooperation in sociocultural or political areas, which will spill-over into common institutions.

This paper follows a new theoretical approach to see if political integration can be circumnavigated by cooperation in sociocultural spheres. It is timely because the sociocultural patterns of China and Japan are undergoing a significant shift. Moreover, the media revolution is arguably the most significant change in the history of human interaction.

In the research of communication technologies, we have just embarked on this academic journey. Since 2006 the Center for Collective Intelligence, a multi-disciplinary research group at the Massachusetts Institute of Technology, has advanced our understanding of collective intelligence and measuring it. Any number of groups of human beings be it companies, cities or even countries can act collectively more or less intelligent. Maybe a link can be found of communication that produces “intelligence” and communication that leads to integration. Ideally

this research would open the path to discuss integration as a matter of changing a group's collective intelligence.

This research will be a qualitative analysis of individuals that are entering a context that could foster transnational integration. The paradoxical Sino-Japanese bilateral relation illuminates the quagmire of integration theory. At the very least, the research will contribute towards the ongoing discussions of other incentives that drive integration.

This will be a qualitative analysis of individuals that are entering a context that could foster transnational integration. The research will contribute towards the ongoing discussions of other incentives that drive integration.

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Panel Session 5 – Group B – Number 2

*The Economist (2012) Can't we all just get it on?*

*A Japanese actress reminds her Chinese fans how conflicted they are. On September 22*

*The Economist (2012) Could Asia really go to war over these?*

*The bickering over islands is a serious threat to the region's peace and prosperity. On September 2*

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## **China's Ageing Population: Challenges and Implications**

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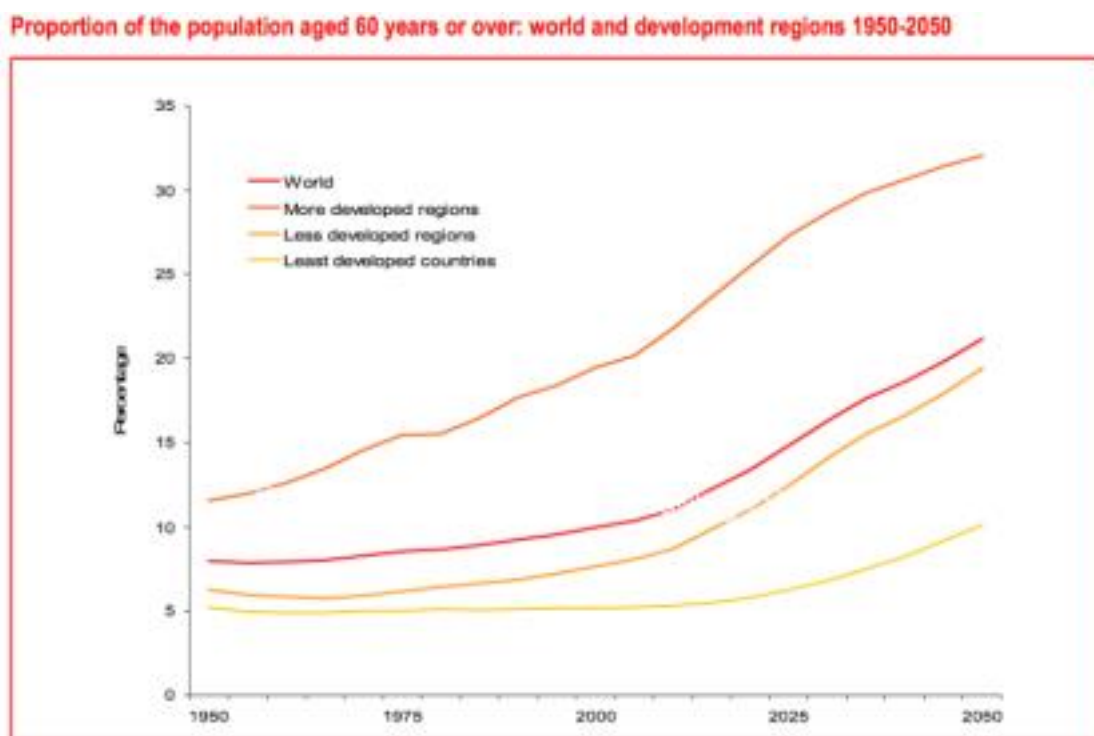
### **Abstract**

The ageing of population has become an international phenomenon, and has been particularly manifested in some highly industrialized nations such as Japan, the US, Germany etc. In many fast developing countries, serious challenges that could be caused by fast ageing populations are keen concerns for the key policy makers. This paper reviews the current status quo of China's demographical situation with specific focus on the rapidly ageing population and the related national concerns in economic and social terms. It elaborates on the possible causality of China's national "one child policy" to the ageing population and enlist a case study of the author's family from qualitative sense to illustrate the 'difficulties' faced by their single child generation. For the discussion part, this paper entertains some ideas on the very notion of 'ageing population' from a rather philosophical approach, to call upon an effort of rethinking the notions we have in the contemporary world.

**Keywords:** China, Chinese population, ageing population, one child policy;

## Global Background of Population Ageing

Ever since the middle of the 20<sup>th</sup> century, the world population has been experiencing significant ageing – the process that leads to the increasing population of older people in the share of total population (United Nations 2013). The occurrence of this population-ageing phenomenon is generously caused by the increasing of life expectancy and/or the decreasing of birth rates or mortality rates. Initially, this phenomenon happened in the more economically developed countries (MEDC), but the trend has swiped to the less economically developed countries (LEDC) as well on an up scaled global level.



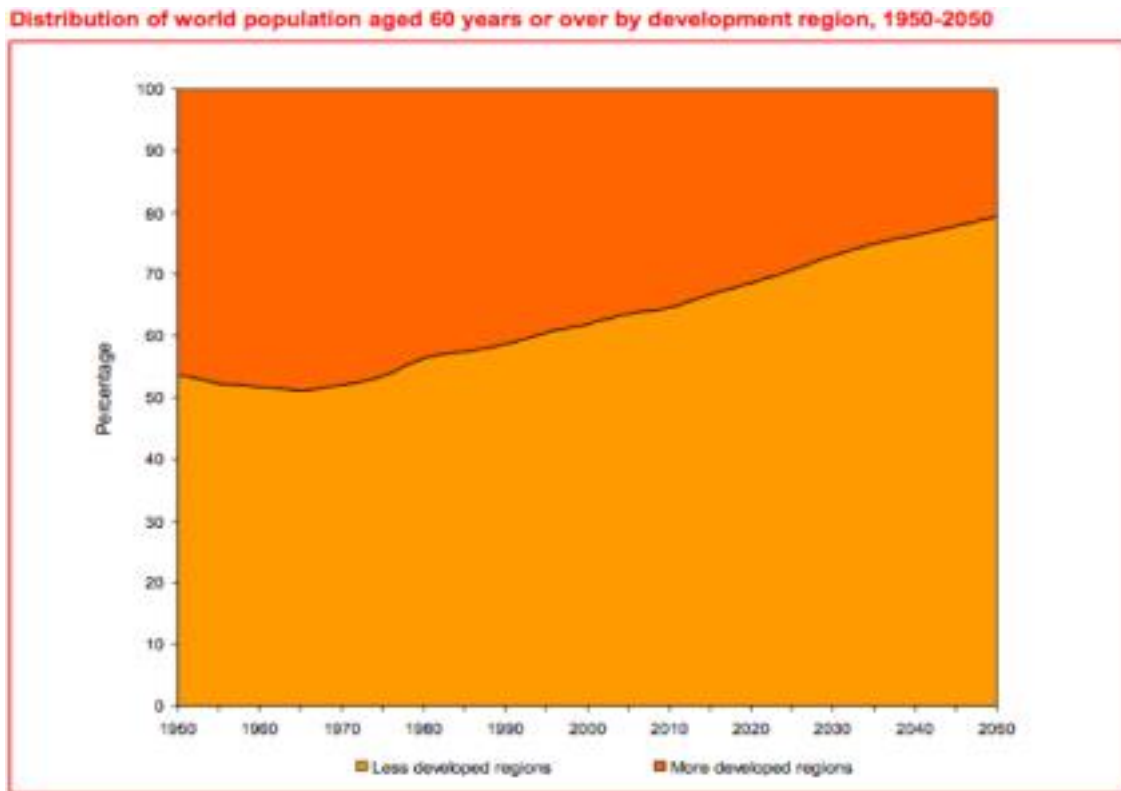
**Figure 1 Proportion of the population aged 60 years or over: world and development regions 1950-2050.**

Source: United Nations, World Population Ageing 2013

According to the UN, the world’s average population with the age of 60 years and above was 8% in 1850, and reached to 12% in 2013. This percentage is expected to reach over 21% by 2050. The increasing speed is directly reflected by the curves, which indicates a faster pace of population ageing in the coming 4 decades than the previous 60 years or so. It can also be observed that the more developed regions manifest a higher percentage of aged groups and faster ageing pace than the less and least developed regions or countries (refer to Figure 1).

This observation is not at all surprising since populating ageing results from decreasing mortality and increasing life expectancy, and most importantly declining

fertility, which are more likely seen in the developed regions where Medicare, Social Welfare System are more developed, and where people are having less children.



**Figure 2 Distribution of the world population aged 60 years or over by development region, 1950-2050**

Source: United Nations, World Population Ageing 2013

Despite the high proportion of the aged population in the rather developed regions, more older people are seen in the less developed regions due to their large population foundation and faster ageing rate. From Figure 2, it can be observed that even in the 1950s, there had been more than half of the people aged 60 and above living in the less developed regions, and today over 2/3 of the global elder population (841 million in 2013) is living in the developing countries, and this rate is projected to reach 80% by 2050 with a total of 2 billion (UN, 2013). That means 8 out of 10 old people will be living in less developed parts of the world in the future.

What could be the implications for the fast developing countries like China and India, amongst others, in economic, political and social aspects? This paper reviews the major contributing factors to China's population ageing and discusses the profound consequences that would rise as population ageing deepens. It employs a case study of typical "4-2-1" family and describes in qualitative terms of challenges that one might face in the Chinese society and raise concerns as well as possible counter measures in the tides of ageing society. At the final part of the discussion, some ideas are enlisted to

challenge the conventional notions in the line of ageing society as a means to provoke further brain wrestling on such issues.

### Population Ageing Situation in China

China has now the world's largest population, and is the 2nd largest economic power in measurement of Gross Domestic Product (GDP). Shortly after the establishment of the People's Republic of China (from here on referred to as China), also known as the new China in 1949, there has been a rapid increase in the growth of the population. According to the United Nations(2012), Chinese population was around 543 million in 1950, 1.36 billion in 2010, and is projected to reach 1.58 billion by 2050. China's population has been rapidly ageing especially for the past two decades. Some major contributing factors such as the decrease of mortality rate due to the improvement of overall live quality, and more importantly the "one-child policy" that was adopted in 1979, which has greatly retrained the population growth despite the substantial population growth in overall quantity (Thomposon 2010).

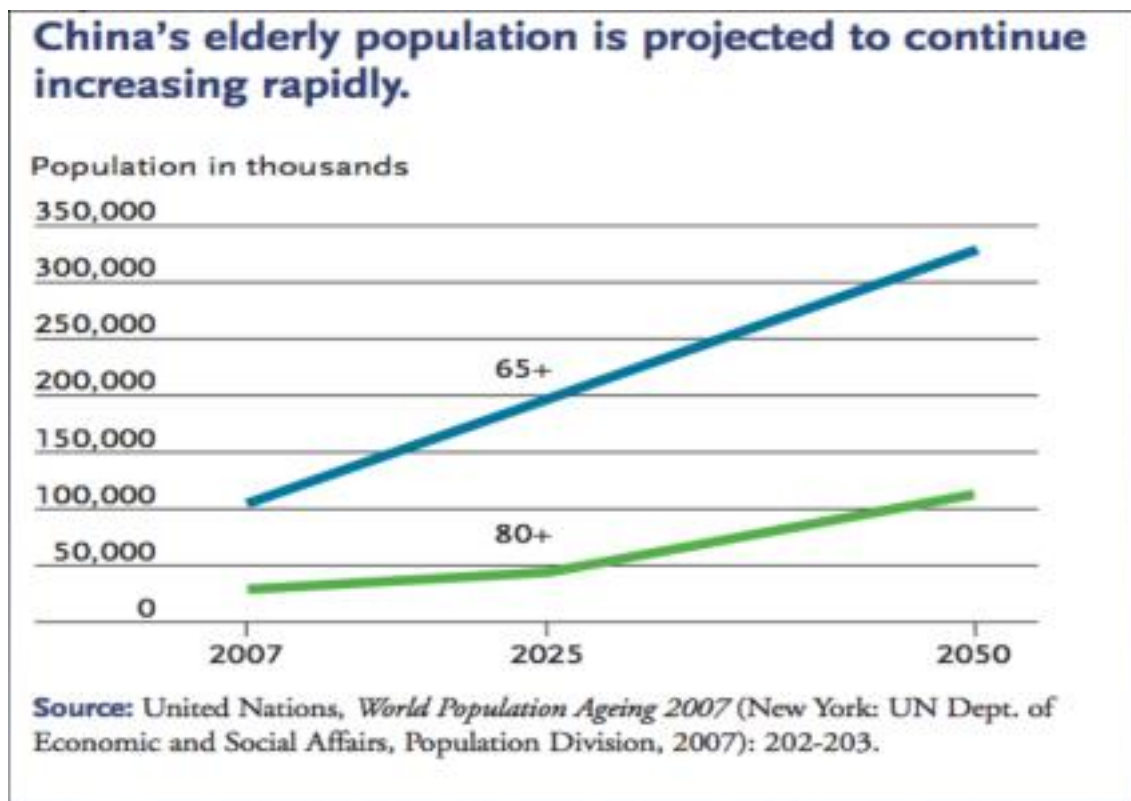


Figure 3. China's elderly population growth from 2007 to 2050 (projected)

According to the UN (refer to Figure 3), China's population of age 65 and above was around 90 million in 2000, and is expected to reach 300 million by 2050. The oldest-old population (people with the age of 80 and above) was 12 million in 2000, and is expected to reach 40 million by 2050. Due to the lack of old-caring force as the result of the one-child family (a more specific case study will be illustrated in the later part of

the paper), the underdeveloped social Medicare and Welfare systems, which party (family, community or government) should care more for the older people in the domestic society has become a mind troubling problems and severe social issue.

### **China's One-Child Policy and Its Major Influences for China's Demographic Situations**

The “one-child policy”, officially known as the Family Planning Policy was introduced in 1979 in Mainland China to curb the problems in social, economic and environmental terms caused by the oversized and fast growing population in China. However this “one-child” title often allow rooms for misconceptions for the outside worlds, given China's specific social and political ideology. There are several “exceptions” for this policy, for instance, rural families can have a second child if the first is a girl or is disabled, and ethnic minority groups are exempted from this policy; Families where neither parent has siblings are also allowed to have two children. It also doesn't apply to the residents from Special Administrative Regions of Hong Kong and Macau, as well as the foreigners living in China. Thus, the states newspaper stated that the majority of Chinese people are actually not subjected to this policy except the 35.9% of the total (Guan 2007). It has been estimated that since the introduction of this ‘one-child’ policy, around 200 million births (the Chinese government states that 400 million births were prevented as of 2011) had been “avoided” between 1979 and 2009 (Olesen 2011) despite its controversial implementation methods such as violation of human rights, sex discrimination, forced abortion etc.

From a pure economic point of view, it makes sense to control the fast growing population given the scarcity in resources (Haskenth, Lu et al. 2005), and the devastating consequences results from the vast size of population back then in China. And the average household would better allocate resources on raising one child instead of many in terms of money and time. Socially speaking, it also helps to provide better health services for women and reduces pregnancy related death risks and injuries due to free classes offered by the family planning offices in their communities.

On the other hand, this one-child policy also contributes significantly to the population ageing in China due to the decreasing of fertility rate, and formation of ‘4-2-1’ family problems. Ever since its introduction, the total fertility rate in China had gradually fallen from 2.9 to 1.7 until 1995, and stayed on this level ever since. The so-called ‘4-2-1’ family is due to the only child generation under the policy who become parents themselves, and the couple has two pairs of parents (grandparents) and one child (refer to Figure 4). This ‘Sandwich’ like family type would bestow considerable amount of financial and domestic burdens upon the parents generation, who grow up from single-child family, especially when the grandparent generation come to the retirement ages, and their child's generation stay un-labored or in schooling. That is to say, under the worst case scenario, a married couple would have up to 4 elders and 1 child to care for at the same time maintaining their own livelihood (Li 2008).



**Figure 4. Typical '4-2-1' Family Structure in China**

Source: Luo Jie, China Daily

On a national level, China's labor population aged from 15 to 59 had reached the peak value of 941 million in 2011, and decreased to 937 million in 2012. If this trend continues, by 2030, there will still be over 800 million labor population, but the percentage would fall to 52.3% of the total population, which would greatly impair the economic driving power of labor (Family Planning Commission 2013). Plus the increasing number the older people and the resources needed to provide the necessary social and medical cares, the burden for China is immense and will only grow heavier.

To mitigate this ageing trend of population in China, the central government has cautiously brought up an exempt policy targeting the single child family known as "the second child policy", stating that if both parties of a couple are the single child in their respected family, it is permissible for them to have a second child (Ibid). This is not yet a national policy and is being implemented in only few provinces in China. Some scholars believe that it is only a matter of time to implement this policy on a national scale.

From a personal view, the first author grew up witnessing first hand the "pros and cons" of the one-child policy and the family structure between his generations and that of his parents'. His late grandparents gave births to 4 children on his father side, the same number on his mother side. Back then in the 1980s, this multi-generation family structure was the "norm", especially due to the infrastructures of big-yard, single flat housings in most urban areas. When it comes to holidays or festivals, the scene was



magnificent for family gathering. Then in the late 1990s and onward, when most “singleton” children grew into adolescent hood, accompanied by the fast urbanization and economic development, his family houses were torn down for residential buildings, and their families moved into newly built apartments. The “new norm” of nuclear family structure began to prevail. Gradually, he realized that he doesn't have brothers or sisters but only cousins from different uncles or aunt's families who no long share the communal physical “family boundaries”. Being the “only baby” in the family, he did enjoy all the available care and love that his parents could offer, but loneliness gradually caught up with him due to the less frequent visits from or to his relatives at the other side of city.

There are downsides being the sole prince or princess in the family, which magnified into social problems by accumulative quantity, such as the heavy dependencies on family support, personal physical and psychological developments amongst others. A common phenomena in China is that, for most students even when they enter college, their total finances are born by their families, while in Japan, very few undergraduate students do not have “Baito” (part-time job), most of which are partially if not mostly financially independent. Being the only child can also nurture tendency of being spoiled. A rather subjective observation is that a child with siblings know more about sharing, taking care of others and easier to get alone. In terms of physical development, obesity in childhood is getting more and more serious in China due to the over-nutrition fed into parents' ‘only baby’, which is understandable since most parents would want the best for their kid. Just walk in randomly into any city elementary or high school, the evidences are rather obvious even though the Chinese diet is comparatively healthy before the introduction of western fast foods like KFC and McDonalds.

### **Conclusions and Discussions**

It is evident that China is rapidly entering into an ageing society under a vast population foundation. Due to the on-going population policy of having one child, families transformed into having more elders and less young, which could lead to great burdens to individual family as well as the nation. On the economic front, the reduction of fertility has lead to decrease of labor forces from the young, and the current labor forces would become the old generation in the upcoming 2-4 decades if the retirement age bar (male 60 years old, female 55 years old, in common cases) stays unchanged. How to pursue the economic developments under the future lack of labor for a fast developing country like China, how to develop the social welfare and Medicare systems that cope with the basic needs for the elderly people has posed great challenges for the top-level policy makers as well as everyday individuals who are directly influenced by the national policies.

On the other hand, this population ageing phenomena is not peculiar to certain regions or countries but manifesting on a global scale. Just like the German philosopher Hegel once said, “What is rational is real; and what is real is rational”, since this phenomena is real, should there at least be some rationalities behind its incremental expansion globally?

To a certain extent, what could be really “evil” about the ageing population in a society? The increasing of life expectancy or mortality rate reflects its representing improvement of social, medical and economic conditions, which are still lacking in most least-developed countries and many developing ones. The decrease of birth rates would lead to the decreasing of babies, which contributed to reduction of total population. However, it is the fast increasing population worldwide that has caused numerous issues and problems. If there are less people on earth, at least the eco-and environmental problems would less likely to be as serious as it is now.

Then what about the elderly themselves? People grow old and decease, that’s just the “law of nature”. By embossing a physical age limit for diverting the aged people from working, it might be a kind gesture to acknowledge their contributions to the society that will be supported by exploiting the younger generations to pay for their needs. But what about the younger generations needs? Moreover, it is an exaggerated underestimation of how capable the orderly can be. Take a look at China’s neighbor Japan, which has the biggest percentage in older people and a decreasing of population size. Their long living senior citizens are “Genki” (healthy) enough to do in their 70s or even 80s what many 20 to 30 years old can in both physically and mental labors. Is it the time to let them decide for themselves when to seize working and when to enjoy life? The wisdom of ages enable most of them to make better choices than the younger generations, which is comprehensively indicated in the top political entities, managements of companies or organizations, or the rich.

Human civilisation has entered into an era of information, imagination, and globalization. It is very hard to predict what the future societies would look like in the next 30 to 50 years’ time. In the meantime, we are also creatures of nature, animals of societal conventions, our constant pursuit of knowledge and technological advancements would help us counter different problems faced along our pace onward. Sometimes people create their own paradoxical traps with scientific definitions such as “poverty”, “level of development”, “society model” which constantly stimulate nations to pursue or rid of various titles of these definitions. Sometime, we as an intellectual entity need to critically assess these “conventional” ideas, maybe, just maybe, it is not that bad.

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**Converging paths of integration?  
Migrant fates and effects in national, regional, and global contexts**

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**Abstract**

While East Asia may lag behind Europe and North America in the volume of permanent transnational migration, it has nevertheless experienced very large increases in all kinds of migration, whether internal or transnational, temporary or permanent, low-skilled or high-skilled, legal or undocumented. As East Asian governments face the challenges of managing this migration, they must also confront a degree of societal diversity that is relatively new to them. Furthermore, most countries now accept that the process of integrating newcomers into the national society is interwoven with how the nation itself is integrating into both regional and global contexts. These converging paths of integration can be seen in many domains. For example: in the national context, there is usually a commitment to integrate newcomers within the national fabric lest they create new societal fracture lines; in the regional context, there is increasing recognition that neighboring countries are often sources and destinations for overlapping sets of labor, business, education, and marriage migrants; in the global context there is often a strong desire (perhaps especially in Japan and South Korea) to have pride of place in international organizations by virtue of conforming to international norms on forced migration. As a specific illustration of these interwoven paths of integration, this paper discusses the explosion in usage of the term *damunhwa* (multiculturalism) in South Korea over the past decade, how that term is wound into Korean social and political identity, and what this portends for the future of Korea's relationships in Asia and beyond.

## **Introduction**

While East Asia may lag behind Europe and North America in the volume of permanent transnational migration, it has nevertheless experienced very high increases in all kinds of migration, whether internal or transnational, temporary or permanent, low-skilled or high-skilled, legal or undocumented. As governments in East Asia have had to confront the issues of managing migration, they have simultaneously had to confront a degree of societal diversity that is relatively new to them. The manner in which they have done so provides the opportunity to reconsider the nature of migration and diversity policy more broadly, including the extent to which such policy is a reflection/refraction of current socio-economic forces versus the extent to which such policy provides a discursive domain through which future societal potentialities can be considered, perhaps especially by linking political and societal actors who might otherwise not be engaged with each other.

The East Asian migration case is important on its own terms but also provides some insights for a more global consideration of migration and diversity policy. The East Asian case, for example, highlights the extent to which policy is a way of thinking proactively about adaptation to future conditions rather than simply reacting to current conditions on a political basis. Furthermore, the experiences of these countries highlight the different tones of policy in the public and private sectors, and on the national, regional, and local levels. Those varied experiences also illustrate how existing concepts of societal diversity within particular countries sometimes hinder yet also sometimes facilitate the conceptualization of new forms of diversity.

Today I cannot address that full East Asian comparative framework, but will instead offer a preliminary analysis of the specific South Korean case. But the South Korean case is an especially instructive one because of the particularly rapid and comprehensive way in which the government is addressing migration and diversity. The core national policy documents, the First and Second Basic Plans for Immigration, are not only ambitious but also attentive to the need to begin redefining labor and marriage migrants in parallel with a consideration of how Korea might become a multicultural society. That South Korea is attentive to new diversity is hardly surprising. As the numbers of temporary (students, tourists, business people) and permanent (labor, marriage) migrants have surged, the Korean government has needed to react quickly and comprehensively. But that reaction has been in some ways a pro-action, moving ahead of current conditions and even public sentiment in pursuit of a longer-range Korean future. Thus while the Korean government has often been roundly criticized for its multicultural efforts, particularly for its emphasis on marriage migrants and its seemingly unexamined invocation of assimilationist assumptions, its willingness to open up new issues for discussion has also been evident.

This evolving Korean engagement with diversity has several main currents. One is the international human rights regime, in which venue Koreans seek pride of place. Recent negative reviews of Korea's labor policies, for example, have been met with considerable embarrassment. Another is the importance of children to a very low fertility society, and of workers to a society whose native-born workforce is peaking about now (2016 officially). A third current is the continuing evolution of the discourse about societal diversity, past, present, and future, including both public and governmental dialogue and revision of textbooks and activities throughout the educational system. Key to that discourse is the emergence of the relatively neutral term used to translate multicultural (*damunhwa*/ 다문화 – effectively a neologism and thus without great affect), rather than such alternatives as multiethnic (*daminjok*/다민족 – a more traditional notion of co-existing groups), some variation of race per se (*injong*/인종), or biracial (*honhyol*/혼혈 – with some sense of unexpected and questionable racial interaction). The shift in the usage of these words is both a political one (for Koreans and for migrants) and a conceptual one about the proper role of government in Korea and, indeed, the proper role of Korea in the world.

All of this, of course, is a reaction to South Korea's surge in both temporary and permanent in-migration. For example, the number of foreign residents in South Korea surged from fewer than 400,000 in 1997 to over 1.0 million in 2007 and to some 1.4 million at the end of 2012, or about three percent of South Korea's total population. The number of returning ethnic Koreans is an important component of this increase (accounting for about a third of the total net "foreigner" population). One problem posed by this new diversity is that, lacking any very clear historical precedents, the very nature of diversity in society has to be conceptualized from the beginning. In Korea, this new diversity is – as noted -- usually now described as *damunhwa* (다문화), a perfectly legitimate Korean word meaning "many cultures" but one which was only called into use in recent decades to match the English word "multiculturalism." The speed with which this word *damunhwa* became central to migration and diversity discussions in Korea is worth underlining, since it shows how volatile the discourse on diversity can be. By Kim Hui-Jung's count (2009), 235 newspaper articles featured the term *damunhwa* in the 1990s, but 99,000 articles used the word between 2005 and 2008. This escalation in the use of the term *damunhwa* is paralleled by significant changes in social attitudes in Korea, whether seen in the political realm (for example, the election to the national assembly of a Philippines-born woman – reflected in some 5.4 million Internet posts by one count) or in public attitudes generally (for example, a public willingness to extend citizenship to Southeast Asian immigrants that increased from 16 percent at the end of the 1990s [1998] to 56 percent in 2010).

The South Korean case thus provides an opportunity to reconsider what "multiculturalism" might mean both as a description of social interaction and as a public

policy objective. One way to approach the issue of multiculturalism is overall national policy as with the First and Second Basic Plans for Immigration of 2009 and 2012. Those documents are detailed attempts to manage migration and to construct a framework for Korean societal diversity. But it is also possible to approach the issue by considering more ad hoc programs. As a specific example, let me discuss today a set of awards launched in 2012 by The Korea Times, the oldest English language Korean daily, in cooperation with the Korean government, several voluntary organizations (e.g., the Seoul YMCA), and the foreign diplomatic community.

### **Case example: A multicultural awards program**

The Korea Times awards simultaneously addressed new diversity in Korean society and the state's interest and responsibility in positive channeling of that diversity through the educational system. Specifically, the awards were to help promote "diversity," support children from "multiethnic" backgrounds, and "honor interracial students who serve as role models." There were also awards to volunteers who had made efforts "to eliminate racial discrimination." A similar range of terms was used in the published list of award recipients. The word "multicultural" was used only twice, for example, in the published description of the first-year awardees, as compared to three uses of "multiracial," two of "interracial", and one of "biracial." (The race-related terms were used despite the fact that there was only one non-Asian student awardee; the others included one Taiwanese immigrant awardee and six children of marriages between Korean fathers and Asian wives: two Japanese, two Chinese, one Filipina, and one Vietnamese.)

At the first year awards ceremony itself (in December 2012), the organizers were uncertain about attendance, but the showing was reasonable for the room, and the effort and cost of the arrangements were manifest: large photos on easels along the corridor leading to the room, an elaborate stage, engaging young MC's, good representation from the diplomatic corps, a congratulatory message from the soon-to-be elected president of the country, and an ample post-ceremony food offering. The highlight of the event was a performance of Psy's break-away hit Gangnam Style by one of the awardees, nicknamed Little Psy, who had also performed in the Gangnam Style video. He is the child of a Korean father and a Vietnamese mother.

The details of the event show the official narrowing of the terminology used to discuss diversity. Damunhwa ("multiculturalism") was prominently on the banner at the front of the room and frequently invoked in the many speeches. The other more race-related terms were not used during the event itself, leaving a uniform damunhwa lexical standard: multicultural children in multicultural families in a multicultural society. Rep. Jasmine Lee, the first non-ethnic-Korean member of the Korean General Assembly, read the entirety of soon-to-be-President Park Geun-hye's message on the awards and

multiculturalism in general, and the English word itself cropped up in the otherwise largely Korean language proceedings.

In policy terms, perhaps the crucial element seen in these awards is the emphasis on children and youth in a formal educational setting. Education is at the heart of the public policy construction of multiculturalism and diversity in contemporary South Korea. This is where the state knows it must step in. The soon-to-be president herself noted in the message read by Rep. Lee, the hardships faced by those with cultural differences “while fighting loneliness and prejudice” and how this broke her own heart when she heard of the “hardships suffered especially by children.” Only through that recognition that children are people and that one is instinctively drawn to their suffering, comes the recognition that children live in families and that their parents, by extension, might also be fully “people” in policy terms as well.

Much of the recent academic and political discussion of immigrant integration has focused on granting legal rights (especially in the form of full citizenship) and on how immigrants take on participation in their new society (often discussed as a kind of social or participatory citizenship). The case here suggests a somewhat different situation in which people achieve status not directly through their own actions but through those of their children. In the eyes of Korean government and society, the adults assume personhood through parenthood. Since children must almost automatically be viewed as people (or people-to-be), their parents also become people by refraction.

These multicultural awards illustrate one important path by which migrants come to be viewed as people and not simply labor. That path suggests some interesting twists on how public policy on immigration might be developed in Korea. For example, one might imagine that migrants who have children should receive special consideration as long-term immigrants because their children represent a demographic bonus that is vital to a country with plummeting fertility rates. One can also see how useful would be a revision of citizenship laws toward some kind of birth citizenship, followed by some retroactive legalization of the parents of those with birth citizenship. This is an issue both of the content and timing of public policy. If the legalization of children born to migrants is delayed, it inevitably contributes to the well-known problems of newcomer children in Korean society. The state pays a great cost for this delay: high rates of school non-attendance, low achievement rates, and frequent bullying. Such problems are best addressed earlier than later, proactively rather than retroactively.

But there is also here a general methodological point that policy as an arena for reconceptualizing societal relations may be seen in a more fluid guise in less formal and less fully governmental activities, such as this awards program. Furthermore, while the critiques of multiculturalist policy in Korea – as elsewhere – may be on target in the ways that such policy often obscures rather than ameliorates hierarchical and exclusionary social relations, still the kind of event discussed here shows that public



attitudes and public policy are in flux, that terminological choices may be crucial to understanding that flux, and that – despite the inevitable critiques – the policy arena can indeed provide opportunity for the exploration of more egalitarian and inclusive societal planning.

We might think of these events as public rituals that function both as acts (or rites) of renewal and simultaneously as acts (or rites) of transformation. In the second year awards ceremony (in December 2013), for example, much was quite similar. The format was kept roughly the same and at a similar scale. That small scale was intended to foster a familial, relaxed environment (as one of the organizers noted when asked why there was not greater publicity for the awards ceremony). Even the core characters were the same or similar. True, there were new MC's, but again they were young and engaging – and the woman MC again a beauty contest winner. Little Psy was again a featured performer and Rep. Jasmine Lee, who was not this time formally on the program, was nevertheless asked to say a few words.

But there were also some changes, including some evolution in the thinking about diversity. For example, the discourse shifted toward the obvious recognition that the diversity represented in the awards was very much one of Asians in Korea. The most explicit of those comments was that “what connects Korea to all of the Asian nations is our multicultural families . . . They really are our nation's extremely precious and invaluable human resource.” There was also a bit more explicit discussion in this second year ceremony of the connection between “family” as it is generally understood in the West and “family” as a word that also applies to nationality in East Asia – i.e., all Koreans are indeed “family.” That point was made quite explicitly in the opening speech, that the gathering was itself a family gathering, and that the nation is itself “our family.” (왜냐하면 우리 가족이라는 것은—우리 국민은 한 가족입니다). There was some poignancy in this mention of nation as family since several of the awardees had lost parents to death and separation. The national “family” thus becomes a substitute for a truncated residential family.

There were some other interesting shifts in the second year. One was an attempt to switch from a largely Korean language format to a balanced Korean and English presentation. The opening comments and introduction to the speakers were carefully paired by the two MC's and, while most speeches were in Korean, one impromptu speech in English made the next speaker raise the issue (in Korean) of whether she should also try English. Her deft decision to go with Korean sparked a round of sympathetic laughter. There is, of course, some irony in the use of English since for most of the awardees English would be, at best, their third language. But the more balanced use of Korean and English supports the frequent push in Korea toward a bilingual format that demonstrates internationalism and the acceptance of diversity in general.

Another shift was a more intense emphasis on the importance of dreams. The first of the speeches laid out the basic logic: students are the leaders of the future but in order to achieve their proper role as leaders they must have a dream (여러분은 꿈을 가지셔야 합니다). Only the combination of a dream and effort in meeting that dream can achieve success. That connection between student dreams and Korea's future was reiterated in the third speech: if students have such a dream, then they are indeed "our future" (우리 미래). The speaker after that, in turn, emphasized the need not only for dreams, but for dreams of great scope: "big dreams" (큰 꿈).

In this discussion of dreams we see the outlines of the roles of government and newcomers. Newcomers must be self-motivated to use their unique talents. In return, the state must provide the environment in which they can cultivate their talents and achieve their dreams. As one speaker explained to the students in the audience: if you have a dream with conviction of what kind of person you will be, then "those here can help you to easily follow your path" (여기 앞에 앉아계신 모든 . . . 분들이 여러분들의 길을 편하게 갈 수 있게 도와줄 것 입니다)

## **Conclusion**

In conclusion, the two points I would stress about the Korean case are, first, that there has indeed been rapid, continuing, and pervasive change in the way diversity is conceptualized and managed in South Korea. That change can be seen in government documents and in public attitudes. This does not mean the issue of diversity has been resolved or that attempts to manage diversity may not create different kinds of problems – perhaps especially if diversity policy comes to solely focus on Asian diversity or on diversity by international marriage. But there has been progress and the Korean mixture of the public and the private, the national interest and the business interest, seems here to have had positive effect and is well-conveyed by the specific example of the Korea Times awards.

Second is the importance of migration in highlighting the need for diversity policy and for expanding the range in the meaning of diversity. That range has the effect of undermining older and more fully racialized ways of seeing diversity. The problems faced by refugees from North Korea, for example, are significant but they are not problems that can be construed as racial in the classic sense. They are more profoundly cultural – and even linguistic. That, in turn, suggests that differences can be resolved both by changing people and by changing institutions. The need for balance between the two is perhaps most clear in the educational area where the teaching of children is predicated on changing children but also on changing schools (and teachers) to accommodate new societal goals and new kinds of students. Here the discussion in the

awards process of dreams is especially pertinent. There may be a burden on newcomers to adapt but there must also be a balance: between their freedom to dream and society's need for them to dream; between their own dreams and the dreams that others have for them; and between their own efforts to reach their own dreams and the supportiveness of the environment provided to them by society and by government.

This search for balance raises the issue of potential convergence noted in the paper title. As migrants move, they present a new kind of shared challenge to almost all countries. In so doing they raise a new kind of social diversity that is anchored both in specific national experiences and in more general regional and global similarities. Part of the diversity challenge may indeed be unique to particular countries, but part of the diversity challenge is shared among countries both as internal response to external factors of new populations and external responses to new kinds of population exchanges between countries. This new diversity challenge, fueled by new population movements rather than old embedded population fractures, provides an especially productive route to regional and global alignments that can no longer be dichotomized as “internal” or “external” policy. With migration, then, regional integration will continue much as an entwined process with two strands: first, internal adjustments to new societal diversity and, second, external adjustments to new population flows. It is those two kinds of regionalization – and their interaction – that are especially clear in this case of migration and diversity policy.

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## **Strengthening Politic of Taxation through Broadening Power of Local Tax Agency: Indonesia Case**

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### **Abstract**

Weak administrative capacity leads to poor taxation capacity of the local tax agency in the regency / cities in Indonesia. This condition is caused by the limited authority of local tax agencies as a consequence of the central and local government's regulation within the framework of autonomy and decentralization. Another factor is the magnitude of the political intervention to the local tax agency. Both factors indicate the weak position of taxation politics of a local tax agency.

There are two alternatives that can be chosen by the government, strengthen the position of local tax agency as a department within the local authority by broadening and strengthening its powers or, merged local tax agency with the central tax authorities.

This research was conducted with a qualitative approach. Qualitative data conducted through in-depth interviews with local tax agency in Mataram, West Lombok regency, Pangkalpinang City, City of Depok and Bogor.

*Keywords: politics of taxation, local tax agency, administrative capacity*

### **Introduction**

Entering the 21st century, there are two major forces influencing the world of development policies, namely globalization and localization (World Bank, 2000). Globalization and localization have an important role in influencing the design and implementation of development policies in various countries in the world. Slowly but surely, globalization and localization has become the definition of development itself. Localization is meant in this context to be decentralization (Ebel dan Taliercio, 2004, p. 1). Currently, decentralization has become a policy that accommodated many countries with different variations. Decentralization is considered to have several advantages that are, among others, to improve accountability,

transparency and political participation, and to increase efficiency in the provision of public services in accordance with public preferences (Coll, Prior, Ausina, 2009).

As with other countries, Indonesia also accommodates a decentralization policy, which is where the central government transfers some of its functions to local governments. The type of functions that must be provided by local governments in Indonesia, both at the provincial and district / city levels, amount to a relatively large 26 obligatory functions, and are coupled with a number of optional function in accordance with the conditions of each area (Articles 13 and 14 of Law No. 32 Year 2004 on Local Government and Government Regulation No. 38 Year 2007 on Functional Assignment the Government, Provincial Government and Regency / City). Various affairs handed over or delegated as regional affairs (provinces or regency/city) should be supported by sufficient financing. Thus, the Regions should be given a free space for managing fiscal dynamics of the regions more autonomously without the intervention of the Central Government (Irianto, 2012, p.172). Policy transfer functions/affairs to local governments also followed with the policy of fiscal balance between central and local government, which is regulated in Law No. 33 of 2004 on Financial Balance between Central and Local Governments. This law set about the sources of funding for the implementation of local government functions or regulate of fiscal decentralization. It is based on the idea that when affairs are transferred to local governments, it should be followed by local autonomy in raising revenues. As the responsibility of the service to be provided, as well as the authority to mobilize resources through local taxes, user charges, and loans (Schroeder, 2003).

Public service needs the support of good financial management capacity. The capacity of local financial management consists of two main capacities; the capacities to generate revenue and manage the expenditure / spending. The capacity of local governments to generate revenue areas, consisting of, capacity to earn income transferred, grants, loans, and locally raised revenue. The capacity to obtain locally raised revenue is divided into the capacity to generate local taxes, local charges and revenues from local government enterprises.

Nationally, the capacity to obtain locally raised revenue in Indonesia is still relatively low. In the last six years, the ratio of locally raised revenue to total revenue tends to increase, whereas, the ratio of funds transferred to the local authority to the total revenue tends to decline. In 2008, the ratio of locally raised revenue to total revenue was 17.7 percent up to 20.6 percent in 2013. In contrast, in the same period, the ratio of transfers to local government funds to total revenue declined from 79.7 percent in 2008 to 73.8 percent in 2013, although in 2011 had increased to 79.0 per cent (Financial Note and State Budget 2014). Although there is a trend of increased financial capacity for local governments to fund their spending, the dependence of local governments to the central government is still generally relatively large. This condition indicates that there is a gap between the cost of public services to be provided and the ability to finance it.

In order to strengthen the capacity to obtain local tax and local charges, the central government assigns some taxes and fees to the local government as stipulated in Law No. 28 of 2009 on local tax and charges. However, at this time, local tax revenue is not sufficient to fund public services. In 2013, the tax ratio of local taxes is estimated at 1.2 percent, an increase of 1.1

percent compared to the year 2012, while the per capita tax Rp.410.475 / capita, up 23.1% compared to the year 2012. Although it is likely to increase, but the tax ratio and per capita tax is still relatively low compared to the GDP and population. This indicates there are potential tax revenues as a source of local revenue (Financial Note and State Budget 2014).

Studies conducted by Kristiaji and Poesoro (2013) in Indonesia shows that the factors that affect the tax revenue is institutional (36%), the capacity of the economy (29%), the structure of economic activity (19%), and socio-demographic (16%). Referring to the study, institution is a key factor to encourage tax revenue in Indonesia, including local taxes. Accordingly, a draft policy on institutional capacity building of local tax agency to increase local tax revenue is needed.

### **Methods**

The approach in this study is qualitative. The primary data in this study was obtained through in-depth interviews with key informants who are stakeholders in the research site of Depok, Bogor, West Lombok, Mataram and Pangkalpinang in the period from May to June by 2014. The data was then analyzed using qualitative data analysis techniques. In addition, the study also conducted a study of literature and documents relevant to the study to provide a more comprehensive picture of the research problem.

### **Discussion**

The capacity to obtain local tax revenue is related to two factors. First, the local authorities in matters of local taxes that received through the principle of decentralization and local policies on the types and tax rates and local tax administration. Second is the ability of local governments to implement local tax policy, which is determined by the administrative capacity of the local tax agency. Currently, there are two variations of local tax agency in Indonesia at the provincial and regency / city level; the Local Revenue Department (Dispenda) and the Department of Local Finance, Revenue and Asset Management (DPPKAD). Dispenda and DPPKAD manage all types of local taxes as stipulated in Law No. 28 of 2009 on Local Taxes and Charges. The provincial government administers five types of taxes, while the regency / city taxes eleven types, including of Property Tax on Land and Building for Rural and Urban Sector devolved to the regency / city. Tax administration on property tax requires higher administrative capacity of local tax agency because it has a number of objects with large tax collection costs, especially for preparing appraisal expert, and develop IT systems (Lutfi, et.all, 2013). That is the reason why the research was conducted at the regency / city level.

From the standpoint of local government, the success of administering local taxes can be seen from the three indicators of organizational capacity performance, ie effectiveness, efficiency, and sustainability (Hilderbrand & Grindle, 1997). Effectiveness of the performance can be seen from the gap between potential and realization of local taxes. Efficiency means the success of narrowing the gap between potential and realization of local taxes conducted with a low collection cost. In other words, Cost Efficiency Ratio, the ratio between collection cost and



tax revenue should be less than 100% (Rosdiana and Irianto, 2012). Effectiveness of and efficiency should not only be achieved in the short term, but takes place in a sustainable manner, despite the external circumstances change, such as a change of council members or mayor. The issue of sustainability is becoming important, due to the change of government may affect the performance of local tax agency. Success in achieving the performance indicators (effectiveness, efficiency, and sustainability) is determined by the capacity of local tax administration agency. In the context of effectiveness, efficiency and sustainability particularly, the issue of politics of taxation is important because it determines the level of political intervention on local tax agency. On the other hand, the tax also has an important role in improving accountability. A country with a high dependence on tax revenues tend to have better accountability than those dependent on natural resources (Prichard, 2009).

Grindle (1997) stated that the development of administrative capacity should include three main dimensions, namely: human resource development, organizational strengthening, and institutional reform. The focus of the development of human resources is providing employees with good technical competence and professional to achieve organizational goals effectively and efficiently, through among others the development of education and training systems, payroll and recruitment. Strengthening the organization focused on the development of management systems that include incentive systems, employee empowerment, leadership, organizational culture, communication, and organizational structure. In a broader scope, needed institutional reform with a focus on institutional and wider system, including environment supra structure of local government. Institutional reforms include the development of regulations and policies on local finance, locally raised revenue, both within local government and central government.

In accordance with the opinion of Gridle, OECD (2013) states the ideal powers that need to be owned by autonomous tax agencies in order to perform their functions properly. These powers include: Budget Expenditure Management; Organization and Planning; Performance Standards; Personal Recruitment, Development, and Remuneration; Tax Law Interpretation; Information Technology; Enforcement and Penalties and Interest. This research evaluates the seven powers suggested by the OECD on the local tax agency in Mataram, West Lombok regency, Pangkalpinang City, City of Depok and Bogor City.

#### *Budget Expenditure Management*

The local tax agency has the authority to arrange the required budget. However in the budget determination process with city/regency council, the proposed budget may not be approved due to budget constraints or because the local government proposed program is considered to have a low urgency by Parliament (in-depth interviews). For example, the budget for the tax census in Mataram not entirely approved by the legislature, so the adjustments made to the data collection program into a very limited area (in-depth interview with the Regional Revenue Office Mataram, 2014)

#### *Organization and Planning*

Planning and organizational development of local tax agency conducted in accordance with institutional standards owned by the local government and central government regulations which,

among others, outlined in Government Regulation No. 41 Year 2007 on the regional organization (depth interviews). Under these regulations, local tax agency included in the category of department / agency operations. This regulation does not accommodate the unique role of local tax agency to generate tax revenue for local government. As a consequence, process of planning and governance of the organization can not be designed in accordance with the primary goal of local tax agency.

#### *Performance Standards*

Findings indicate that the local tax agency do not have the power to design their own performance standards. However, the local tax agency has discretion to determine the standard of services to taxpayers (in-depth interviews with DPPKAD city of Depok and Dispenda of Bogor City). Limitations discretion reflects that the local tax authorities do not have the authority to determine the employee's performance standards associated with the primary function of local tax agency to generate tax revenue (in-depth interviews).

#### *Personal Recruitment, Development, and Remuneration*

Recruitment of staff at the local tax agency is not only determined by the need for organizations to administer local taxes, but other policies of the local government and central government (in-depth interviews). For example, the central government's policy to limit the ratio of employee salary expenditure to total government expenditure has an implication for recruitment policy. Other findings related to human resource development is that the post-reform, there is a relatively large political intervention to personnel transfers. As a result, staffing is often not in accordance with its competence. Civil servants remuneration policy in general is the authority of the central government's Ministry of Administrative Reform and Bureaucratic Reform (Ministry of PAN-RB) however, the local government may provide additional incentives in accordance with local financial capability (depth interviews). Remuneration of local tax agency is part of the cost of tax collection, so that local the tax agency employee remuneration can be formulated with specific policies as known by international best practices.

#### *Tax Law Interpretation*

The interpretation of the tax law is not clearly regulated in the regulation of local government so that there are doubts about the agency of the local tax authority to interpret tax regulations (in-depth interviews). It also occurs associated with enforcement powers, penalties and interest. This condition causes the occurrence of problems in tax collection as taxes receivable collection through auctions.

#### *Information Technology*

Local tax agency has sufficient authority to dictate the design and development of information technology systems, supported by the city / reGENCY council. However, the decision remains influenced by the ability of the local government budget (in-depth interviews).

Based on the data obtained from the City of Depok, Bogor, West Lombok, Mataram and Pangkalpinang, it can be concluded that the local tax agency does not have sufficient power associated with the seven powers mentioned in the OECD study. Limited powers possessed by local tax agency due to existing regulations that do not accommodate the special function of the

local tax agency to generate local tax revenue. In addition, a local tax agency can not avoid political intervention against the institution. This shows the weak position of politics of taxation which is owned by the Local Tax agency. This condition causes the taxing capacity possessed by the local tax agency to be weak.

Strengthening the politics of taxation of local tax agencies can be done with two alternatives. First, strengthening the capacity of local tax agencies by strengthening and broadening its power, with due regard to the context of regional autonomy and its relationship with the central government's position. In this case, the central government and local governments need to design a policy that accommodates sufficient power for the local tax agency with reference to the OECD models. In the context of autonomy, the design of local tax agency in each region can vary, depending on the local context and local wisdom owned by each region. This condition is the strength and weakness of autonomy. On the one hand, the ability to accommodate local context and local wisdom to make local tax agency is able to adapt to the conditions of each area. But on the other hand, the organization design become less effective and efficient as is the case today. Secondly, establishing State revenue bodies which are autonomous, with task to generate tax revenue for both central and local government. Task of local governments to generate tax revenue will be transferred to this institution, but the results will be handed over to the local government. The advantages of this alternative, is that institutions can work more effectively and efficiently because it has great autonomy and power to generate tax revenue. This alternative makes local tax agencies have good tax political position, so as to avoid a major political intervention. The weakness of this alternative is that tax institutions are not able to accommodate local context and local wisdom which is an added value of policy autonomy and decentralization.

### **Conclusions**

Limited authority and the weak position of the local politics of taxation resulted in low capacity of the tax administration agency to generate optimal local tax revenue. Strengthening the politics of taxation of local tax agencies can be done by strengthening the authority / power. In the context of autonomy and decentralization, options for strengthening the institutional capacity of local tax agencies in a position as a department / operational agent of the local authority seems to be a pretty good choice, although it remains difficult to avoid political intervention. However, the incorporation of local tax agencies with the central government tax authorities seems to be a logical choice if the main concern is the efficiency and effectiveness of tax collection to generate local taxes.

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## **Sino-Japanese Relationship in the Context of Regional Integration in the Asia Pacific: Challenges and Opportunities**

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### **Abstract**

China and Japan, with their political influence, economic capacity and military strength, undoubtedly are the major players in the Asia Pacific region. A closer bilateral relationship is commonly regarded as a key parameter to deepen regional integration. However, recent territorial disputes, diplomatic rivalry in Africa as well as Association of Southeast Asian Nations (ASEAN) and misunderstanding of historical legacies in World War Two continue to accelerate the feelings of bilateral distrust. Even though there were leadership changeovers in China and Japan in late 2012, President Xi Jinping and Prime Minister Abe Shinzo up to now still have not had a chance to hold official bilateral summit. So, is regional integration in the Asia Pacific full of uncertainty? Or is it possible to look for an alternative thought that the competition may in fact brighten the progress of further integration?

This paper first addresses the evolution of Sino-Japanese relationship since late 2012 when Xi and Abe have become the national leaders in China and Japan respectively. Pro-nationalistic and patriotic approach was adopted by Xi and Abe to handle various bilateral disputes. It successfully consolidated their power base in domestic politics but eventually led to an unprecedented fierce competition between China and Japan since the normalization of their diplomatic relationship in 1972. Then, the paper argues that the implications of Sino-Japanese rivalry do not necessarily obstruct the process of regional integration and more importantly may even produce positive effects onto it. The paper concludes by highlighting the parameters of regional integration and applying them into the analysis.

## **Introduction**

China and Japan, with their political influence, economic capacity and military strength, undoubtedly are the major players in the Asia Pacific region. A closer bilateral relationship is commonly regarded as a key parameter to deepen regional integration. However, recent territorial disputes, diplomatic rivalry in Africa as well as Association of Southeast Asian Nations (ASEAN) and misunderstanding of historical legacies in World War Two continue to serve as the impediments to accelerate the feelings of bilateral distrust. Even though there were leadership changeovers in China and Japan in late 2012, President Xi Jinping and Prime Minister Abe Shinzo up to now still have not had a chance to hold official bilateral summit. In November 2014, the Asia Pacific Economic Cooperation (APEC) Leader Informal Summit is going to be held in Beijing. As a hosting country, Xi must have to “welcome” and “meet” Abe in various official occasions (Przystup, 2014). But, the negotiation over the arrangement of their bilateral summit is yet completed. So, is regional integration in the Asia Pacific full of uncertainty? Or is it possible to look for an alternative thought that the competition may in fact brighten the progress of further integration?

This paper first addresses the evolution of Sino-Japanese relationship since late 2012 when Xi and Abe have become the national leaders in China and Japan respectively. Pro-nationalistic and patriotic approach was adopted by Xi and Abe to handle various bilateral disputes. It successfully consolidated their power base in domestic politics but eventually led to an unprecedented fierce competition between China and Japan since the normalization of their diplomatic relationship in 1972. Then, the paper argues that the implications of Sino-Japanese rivalry do not necessarily obstruct the process of regional integration and more importantly may even produce positive effects onto it. The paper concludes by highlighting the parameters of regional integration and applying them into the analysis.

## **Methods**

The paper adopts a qualitative research method – documentation analysis. By first reviewing the literature of Sino-Japanese relationship in the 21<sup>st</sup> century, the author may be able to figure out the major concerns of Chinese and Japanese national leaders (both present and past) and what strategies they adopted. When Xi and Abe came to power in 2012, both governments recognized the importance of rallying support from international communities and therefore a propaganda “war” among them had begun. So, newspaper articles (both printed and internet-



based) are very useful for the author to uncover the development of China-Japan bilateral competition.

## **Discussion**

Sino-Japanese relationship is commonly regarded as an essential element of realizing regional integration in the Asia Pacific. An in-depth understanding of the current status of Sino-Japanese relationship is therefore necessary. Undoubtedly, the bilateral relationship between China and Japan has always experienced ups and downs (Sutter, 2005; Hook, Gilson, Hughes & Dobson, 2012; He, 2013; Mori, 2013). The departure of former Japanese Prime Minister Koizumi Junichiro in 2006 brought about a “warm spring” and led to the official visits of former Chinese Premier Wen Jiabao in 2007 and former Chinese President Hu Jintao in 2008. However, the “spring” climate did not last long. The outbreak of Trawler Incident near the Diaoyu/Senkaku islands in 2010 reversed the positive sign of Sino-Japanese relationship (Chung, 2012). It also triggered the dispute of real earth trade and cancellation of other economic and culture exchanges (Daily News Egypt, 23 September 2012). In late 2012, when Xi and Abe became the Chinese President and the Japanese Prime Minister, some optimistic observers hoped that new leaders of both countries might be able to focus on their mutual interests and mitigate political tensions (Hunter-Williams, 2012). However, the nationalistic strategies including Yasukuni war shrine visit by Abe (The Australian News, 26 December 2013) and ship patrol in disputed water by China (South China Morning Post, 11 September 2012) adopted by both sides to handle the history problem and territorial disputes heightened the bilateral tension due to domestic political consideration (Lam, 2013; You, 2013). In foreign ministry level, the diplomats in both countries criticized each other over the abovementioned core problems and even engaged in a new “media war” overseas to gain international support (Mckenzie & Li, 2014). In terms of economic consideration, China and Japan attempted to compete as “buying powers” in Southeast Asia. Both countries have provided ODA to those developing countries and gained their support on Sino-Japanese disputes. In military aspect, the decision to set up Air Defense Identification Zone (ADIZ) by China also triggered the suspicions of Japan over territorial disputes in East China Sea. In retrospect, as newly chosen/elected national leaders, it is important to strengthen their powerbase in the early ruling period. Xi Jinping needed to demonstrate his firm determination to fight against “Japanese aggression” while Abe Shinzo needed to rally the conservative (right wing) supports for his rule. As a result, domestic political driven motives in diplomacy, economy and military considerations deteriorated Sino-Japanese

relationship that finally obstructed the progress of developing a solid regional framework in the Asia Pacific.

However, the paper argues that the impact of worsening Sino-Japanese relationship may serve as a “push factor” to strengthen regional integration in the Asia Pacific. First, middle and small powers particularly in Southeast Asia can play with the deteriorating relationship between China and Japan which ultimately leads to deepening regional integration. The competition between China and Japan on the one hand “forces” themselves to engage more their Southeast Asian neighboring countries. China looks for various possibilities which can maintain closer relationships with ASEAN countries despite a number of territorial disputes with the Philippines and Vietnam. China agrees to look into the possibility of establishing “code of conduct” in South China Sea in order to minimize the possibility of military conflicts over territorial issues (The Jakarta Post, 3 September 2014). Japan also views its relations with ASEAN as a counterbalance to China’s potential influences there. Japan has sought to strengthen the relationship with the Philippines and Vietnam by providing them military aid (China Daily Mail, 29 May 2014). In short, ASEAN countries are the partners of both countries and then work as a “bridge” to formulate and maintain regional balance as well as integration. The current practice of East Asian Summit (ASEAN-Plus mechanism) remains an essential annual regional event to bring the leaders of China and Japan to meet.

Second, a problematic Sino-Japanese relationship brings back the US as the forerunner of Asia Pacific regional integration. While China and Japan worsened their relationship, the US President Barack Obama decided to adopt a “return to the Asia Pacific” policy since 2011 (Ma, 2014). The US on the one hand takes back the initiative to propose further regional integration in the Asia Pacific. The negotiation of Trans Pacific Economic Partnership (TPP) has been accelerated under the strong US willingness. Beginning in 2005, TPP first was established in very small scale. The Obama administration sees TPP as a venue to enhance bilateral or multilateral free trade of goods and services among members despite many controversies remain (Cheong, 2013). More importantly, China is currently excluded from the TPP negotiation. Although such situation may be good for China to avoid touching on sensitive issue in trade aspect at the moment, the US influence in realizing Asia Pacific regional integration is unchallengeable. By setting up “rules of games” by the United States, it is expected that China will be finally invited and then comply with in the TPP negotiation which eventually contributes the economic strength regionally.

In conclusion, the paper demonstrates a different perspective to examine the impacts of a bilateral relationship onto the process of regional integration. In fact, there are a number of parameters to be examined such as (1) the number of other powers, (2) the influence of other powers, and (3) the rigorousness of the existing regional architecture. In retrospect, in the Asia Pacific, there are a number of individual members. The US as the largest economy in the world plays a significant role after 2011 in pushing regional integration. Apart from APEC framework, other rigorous regional framework – TPP is ready to foster the process of regional integration. So, the paper concludes that the difficulties of Sino-Japanese relationship since 2012 in fact have not hampered the progress of regional integration in the Asia Pacific.

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## **Chinese economic activities in North Korea on the sector of security affairs in the border areas: motivations and implications**

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### **Abstract**

Since the Korean War against the UN troops, China has been the closest ally of North Korea. However, with the end of the Cold War, it seems that the commercialization of China's foreign policy has begun to influence the interaction between China and North Korea. The de-ideologization and commercialization of Sino-DPRK relationship also develops towards a win-win mode. This paper discusses China's economic activities in DPRK in the context of non-traditional security. It contrasts a new approach of resolving the non-traditional security problems in the border area of Jilin and Liaoning provinces (specifically regarding the labor shortage and shirking of ethnic culture through regional integration across the sub-regions of northeast China and North Korea border areas) with the traditional notions of military security in inter-state high politics. It uses the concept of "complex interdependence" to examine the diversification of China's economic actors in North Korea by showing a decline in Beijing and the central government's role to more multi-level actors. The specific economic activities include the establishment of a joint-management zone, cooperation on the use of social transport infrastructure, and labor cooperation between Chinese companies and North Korea communes and between Chinese sub-level governments and North Korea local authorities. The governments of Jilin and Liaoning provinces are the major actors of these activities. Their nationally owned companies and medium-small private enterprises are also important whereas Beijing only plays an assistant role.

### **Introduction**

China borders 14 Asia countries on the land: North Korea and Russia on the northeast, Mongolia on the north, Kazakhstan, Russia, Tajikistan and Kyrgyzstan on the northwest, Pakistan and Afghanistan on the west, India, Nepal and Bhutan on the southwest, and a few Southeast Asian countries such as Vietnam, Laos and Burma on the south. Three major types of border security problems exist and threaten China's national security in the border area. The first one is the drug problem, which means the drug production and trade between southeast parts of China and the Southeast Asian countries that make up the golden triangle area (located at the border area of Burma, Laos and Cambodia). The second one is the territorial disputes between China, Pakistan and India on the control and sovereignty of Kashmir, Aksai Chin and Arunachal Pradesh. The third one is the

cross-border terrorism under the Islamic extremism in the Central Asia especially Afghanistan, Post-Soviet countries, and the Xinjiang Uyghur Autonomous Region. Thus, the threats towards western China, both southwest and northwest, have attracted most attention. In contrast, the border security threats around the northeast border between China and North Korea are less concerned. This paper aims to discuss the relationship between China's economic activities in North Korea and two non-traditional security problems in northeast China, which have been given less attention by the academics than the three major threats noticed above.

In the following paragraphs, the methodology part will outline the analytic and practical methods by introducing the concept of “complex interdependence” and by explaining several ways of data collection. After that, in the discussion part, the details of China's economic activities in North Korea will be outlined first. Then it will discuss the background information of population outflow and its negative impacts: the ethnic shirking of the Chinese-Korean and the labor shortage in northeast China. Finally it will evaluate how these activities can be helpful to resolve the border security problems in northeast China: Chinese companies could use the cheap labors of North Korea to reduce the labor shortage; the use of Rason harbors in North Korea could open the gateway of Jilin province to the Sea of Japan in order to change its geographical isolation, attract external investments and stop the outflow of population. It will also examine a weakened role of China's central government in the economic relationship with North Korea and the increasingly significant role of the actors below the state. Economic policies and activities and local border security problems are being formulated by actors below the state, which include local non-state actors and the local governments rather than the central government of China in Beijing whose major targets are solely of sustaining regional peace and stability of Northeast Asia and denuclearizing North Korea.

## **Methods**

The analytical methodology will be the concept of complex interdependence in the neo-liberalism of IR theory and sea-power theory in geo-politics. There are several fundamental points of the concept complex interdependence: multiple channels of interaction between states; a blurred border between domestic problems and external affairs as well as between high politics and low politics; the use of military power is inefficient in international relations; there is no hierarchy between high politics (military affairs) and low politics (such as environment protection and other domestic problems) to the state (Keohane and Nye, 2012: 23-26). In this paper, firstly, although the inter-government relationship between Pyongyang and Beijing is heavily influenced by Pyongyang's nuclear development and the deadlock of Six Party Talks due to the withdraw of North Korea, the bilateral trade between China and North Korea kept a steady continuous increase after 2002. The channels of interaction and communication

have built the business relationship between the companies from China and communes from North Korea and the inter-ethnic Korean relationship. Secondly, the Jilin province's problem of geographical isolation and the labor shortage of Northeast China have been partly resolved by the regional integration of Tumen River area under the economic cooperation between China and North Korea. In other words, these historical domestic problems of China, which failed to be dealt by one-side effort of Beijing and regional governments, met the opportunities of being resolved in an international way through the labor export from North Korea. Finally, it can be found that Chinese government did not agree to follow the idea of Washington to choose the military way to resolve the nuclear problems of North Korea. In order to provide a peaceful condition for Six Party Talks with available pressure, Chinese government agreed the economic sanction of UN Security Council towards North Korea but provided a few conveniences such as the agreement and negotiation for companies to enter North Korea because it did not want to push North Korea so hard and cause the breakdown of Six Party Talks.

The data and information are collected from three major origins. The first one is the online official websites of different departments in the different levels of governments (both central government in Beijing and regional governments) and companies. In addition, the publication is also one significant source. The information from official documents, articles, books and annual reports could improve the shortage of official released information because in China the information related to North Korea, in particular the details of economic cooperation and data are highly sensitive. Central government in China has already stopped to publicize trade data with North Korea since 2004. Therefore the information from literatures with limited information can be an available supply to the information from official origins. Furthermore, I also have interviewed a large amount of people on different positions. The interviewees include scholars in the universities, research institutions and think-tanks who do research on regional affairs of Northeast Asia and Sino-DPRK relations, businessmen whose enterprises have commercial relationship. The interviews aim to examine the reliability and promote the details of online information through the personal experiences and understanding to these issues.

## **Discussion**

### **1. Details of Chinese economic activities in North Korea.**

#### **1.1 Labor cooperation**

In January 2012, Jilin province and North Korea finished the negotiation of using North Korea labor in Jilin. In the next decade, there will be over 20 thousand North Korea laborers working in Tumen Sino-DPRK Labor Cooperation Zone and other a few cities in Jilin province (Globaltimes, 2012). In April 2012, Liaoning province and North Korea Co-operation Committee reached agreement on using North Korea labors in



Liaoning province. Around 40 thousand North Korea technicians will enter Liaoning provinces to work in the following years (Globaltimes, 2012).

On Dec 11th 2012, Changchun Custom Hall's request of implementing 'going abroad for processing and returning business' has been permitted by China Custom Hall. Four local clothes companies in Hunchun (Hunchun Yunda Clothes Corporation, Jilin Telai Clothes Company, Hunchun Hongfeng Clothes Company and Small-Island Clothes Corporation) were added in the list of first experimental point group to use the perfect labor resource of North Korea. Those four companies were allowed to start "going abroad business" from Jan 2013. The length of experimental point is 2 years (Hunchun.gov.cn, 2012).

### **1.2 Agreement of Rason mutual management**

On August 14th, 2012, China and North Korea reached a mutual development agreement of Rason economic trade area, Golden Floor and Granville Island. Chen Deming, the minister of China's department of Commerce, and Jang Sung-taek, the central administrative minister of North Korea Labor Party, started the two economic zones' committees of mutual management together (Sohu, 2012). The information released by China's department of Commerce claimed that the agreements included the foundation of an operation management committee, economic technological cooperation, agricultural cooperation, and electrical supply from China to Rason. The signing of this agreement meant that the operation of these economic zones came into practice. Jilin local government also makes sure that they would send at least 100 officials to enter and manage the Rason economic zone (Sohu, 2012).

Additionally, Hunchun and Rason also reached agreement on the cooperation between China's experiment point of domestic trade with cross border transport (Hunchun Gov.cn, 2010; Jilintv.cn, 2010). This experiment point of Jilin province in Hunchun was supported by China's Custom Hall in its official announcement on Aug 4th, 2010. On Dec, 7th 2010, 11 heavy trucks with 380 tons of coal left Hunchun Quanhe border port for Shanghai and Ningbo through North Korea's Rason Port. It is the first group of products for China's test of domestic trading through cross border transport. The exchange work in Rason was only done in the special port rented by China's company. The product for experiment was only coal produced by Hunchun Mineral Corporation. (Hunchun Gov.cn, 2010; Shanghai.Gov.cn, 2011)

## **2. Regional security problems: population outflow**

The net population outflow of northeast China, particularly the Jilin province, was another local border security problem. Not only influencing the normal industrial operation through labor shortage, it also threatened the cultural continuation. This

section will firstly outline the background information of labor problem. Then it will specifically discuss the ethnic shirking in Yanbian Korean Prefecture. Finally it will explain that how the economic activities outlined above have relieved these problems.

## **2.1 Background: origins, positive & negative impacts**

The labor problem presents in two major ways: purely labor outflow in the major area of northeast China, and a mixture of labor shortage and ethnic shirking in Yanbian Korean Autonomous Prefecture

Firstly, since the opening-up policy in 1980s, due to the change of the national development strategy from heavy industry to light industry, and the transition of strategic concentration from northeast China to the eastern coastal areas, (except the resource industry such as oil) Northeast China became less attractive to its own citizens. Although recently the central government has implemented a national strategy called Northeast Rejuvenation Plan, except very few young cities in Liaoning province, such as Dalian which human capital inflow achieved twice the amount of outflow, most cities in the northeast undergoing industrial transformation still lacked the attractiveness needed to keep their younger citizens to stay in their hometown. It has caused serious shortage of labor in northeast China: since late 1980s, the yearly human capital inflow of Jilin province is 57% of its outflow on average; a worse condition existed in Heilongjiang with an outflow as much as 3 times of inflow; the young population, especially high level educated students, became the majority of outflow (Liu, 2012).

Secondly, the foundation of formal relationship between China and South Korea in 1992 worsened the labor problem in Yanbian and made it complicated because it caused the huge outflow of population towards South Korea from Yanbian Korean Autonomous Region for almost 20 years until 2011. Depending on its dual identity on both culture and ethnicity, Chinese-Koreans can easily find jobs in both South Korea and inner lands of China which have attracted huge amount of investments from South Korea. In 2008, there were over one million Chinese-Korean civilians leaving for other places: 380 thousand in South Korea, 100 thousand in Japan, the United States and Australia, and another 500 thousand in the other areas of China (Jin, 2011; Guan, 2010). These one million Chinese-Korean civilians have achieved half of Chinese-Korean population.

Indeed, the outflow of population has brought a great amount of benefits to the development of Yanbian local economy and the improvement of living condition. Firstly, the outflow of population consumed the surplus labor force in the village and other unemployed. Over 200 thousand workers from Yanbian have been removed outside (Gao, 2011). It promoted the local economic development and social stability.

Secondly, the overseas labor income promoted the development of third industry in Yanbian. Currently, the GNP of third industry has been more than half of local economic strength. Thirdly, the foreign currency income from overseas labor works increased the local deposit and sped up the improvement of local living conditions. In 2008, the deposit amount per people in Yanbian is 18 691 RMB. This amount is highest in Jilin province (Gao, 2011; Jin, 2011). Finally, the outflow of population also pushed the modernization of ethnic Koreans in their technical level while giving them experience and creative ideas from their experience in developed countries and other developed areas of China.

However, the outflow of population caused a crisis on the shrinking of ethnic Korean's settlement in Yanbian. Firstly, the outflow of population from Yanbian made caused difficulties for local enterprises. The local enterprises cannot employ enough workers because they cannot pay the salary as high as what the companies in South Korea can pay to the workers. In 1993, the salary of construction workers in China is 80 dollars per month but in South Korea it is 850 dollars. Currently, the lowest salary in Jilin has increased to 300 dollars per month. However, this amount is still lower than South Korea even the amount a decade ago. Secondly, the outflow of population deepened the problems of the aging population. In 2008, the amount of 60+age population was over 23,000, more than 15% of total population. This percent is higher than the international standard of 10% (Jin, 2011). The aging population structure, especially the rapid increase of empty nest-ship, forced local governments to re-design and reduce the administrative region. From 1993 to 2008, the size of administrative region in Yanbian reduced 17%. Finally, in the population outflow, the amount of women, 42%, is a large amount. There are several thousand women in the reproductive age getting marriage with South Korean. It directly lowers the birth rate and caused the population reduction of Chinese-Korean. In the previous 20 years, over 18 ethnic Korean schools were forced to shut down due to the shortage of students (Jin, 2011).

## **2.2 Effectiveness of Chinese economic activities in North Korea to resolve the problem.**

To some extent, the use of labor from North Korea can be helpful to reduce the labor shortage in northeast China as well as the ethnic shirking in Yanbian in both the short term and long term. For one thing, the short-term effect mainly means the direct supply of labor into northeast China. Through either the direct introduction of North Korean labor into northeast China or the coordination and cooperation on OEM clothes products with North Korea light industry communities can resolve the labor shortage of local enterprises. Although this short-term effect has not achieved a significant increase the local employment of these companies because they directly used the external labors of North Korea, at least, it ensured the survival of these companies and avoided a new wave of unemployment due to the collapse of local industrial system.

For another thing, a long term effect can be achieved particularly to reduce the ethnic shirking of Chinese Korean society in Yanbian. Jin (2011) and Li (2007) point out that the failure of regional integration of Yanbian, Russia's Far East, and North Korea made Yanbian in an isolated geo-graphical position, and prevented Yanbian from attracting its local citizens to choose to stay rather than finding jobs overseas. In such conditions, in contrast to the other regions in China which have developed very well by using external economic strength, Yanbian can only attract slight external attention. Thus, by speeding up the regional integration and opening-up to the outside world, a long term resolution of changing the isolative status of Yanbian will be achieved. In other words, Yanbian can be increasingly attractive to its local citizens. Take the example of Hunchun, by using the Rajin harbor, Hunchun has attempted to develop itself as a transporting hub among Russia's Far East, northeast China and Korea Peninsula. Its practical implementation of Road-Harbor-District has attracted a large number of foreign companies which held positive view to the regional economic developing prospect but cannot set branches in North Korea. From 1993 to 2010, almost 150 foreign companies (80 from South Korea, 20 from Japan, 12 from the United States and a few from other countries such as Russia and Ireland) have invested Hunchun but only 25 of them, less than 20 percent, entered Hunchun before 2005 (Hunchun gov.cn, 2008). These companies have created 50 000 jobs for local ethnic Koreans. In April 2011, Posco, a South Korea company in world top 500, has started a 2-year-cooperation-program on the construction of linguistic district in Hunchun. This linguistic district can create over 10 thousand jobs in the future (SEAC, 2012; Mofcom, 2011). With the increase of foreign companies in Hunchun and improvement of income for local workers, the outflow of population still continues but speeds down significantly.

Compare to the yearly hundreds and thousands of population outflow in 1990s with a mixture of illegal immigration to South Korea, recently the majority of outflow population has changed (Li, 2007). The mid-level technicians, who went to receive short-term professional training overseas, and the businessmen who went to develop business in southeast China took the majority. To the former population, they normally returned Hunchun for a higher position such as technician managers in foreign companies. Although the local salary is lower than overseas, they do not need to take the heaviest and most difficult jobs in South Korea because falling behind in the competition with South Korean workers who normally have received better education and technology skills, and have experience living overseas. Liu (2012) and Gao (2011) claimed that due to the increase attraction to overseas Chinese-Korean labors and intellectuals under the internationalization of Yanbian, in 2009, there has been a balance between human capital outflow and inflow while since 2010 the inflow has been slightly more than outflow (1%). Meanwhile, according to the Yearbook of Yanbian (2012, 2013), in 2011 and 2012, the natural growth rate and birth rate of total

population in Yanbian and these two rates of ethnic Korean in Yanbian, have turned over from the negative growth rates which have been around for a long time. The natural growth rate of total population even reversed previous ten-years 1% negative growth rate and increased 1%. Thus, the regional integration of Yanbian and Rason stopped the long history of serious human capital outflow. It can be expected with the increasing regional integration particularly the enlargement of North Korea's special economic zones on the borders, the population growth can be consolidated and the use of North Korea labor in the northeast China can go a step further.

### **2.3 Actors below the state are the major players.**

From the outlined information, it can be found that Jilin province government and Hunchun local authorities are the main actors of the economic cooperation with North Korea. The central state-owned companies, such as SINOPEC, which are considered as the national superpowers and the symbols of direct control to the key industry from Beijing, did not develop their business relationship in North Korea. It seems that the Chinese central government participated in achieving agreement with North Korea on the mutual agreement of Rason. However, the attendance of officials from Beijing and Pyongyang only aimed to show the legitimacy of this agreement and follow the traditional decision-making progress of North Korea. The Chinese officials in the mutual management committee of Rason for further management, training and other practical participation were all from Jilin province in particular from Yanbian Ethnic Korean Prefecture. The cooperation on the use of Rason harbor is a key target of Chang-ji-tu plan for Jilin province from 2010 which was approved first in the local people's congress of Jilin province and then promoted to the national strategy in 2011 by central government.

### **Conclusion**

To sum up, Chinese central government and its central state-owned companies did not play a significant role in the negotiation and dialogue with North Korea except in the final step of signing agreement. As the major actors of economic cooperation with North Korea, it seems that the positive effects of their efforts started to come out. It can be found that the regional economic integration between Jilin and Hunchun has started to resolve the problems of labor shortage and net outflow of ethnic Korean population by changing the geographical isolation of Jilin province. The use of Rason harbor connected Jilin province to the other parts of China more effectively. It increased the attraction not only to the foreign investments with a large number of new jobs but also

to the local citizens with a steady population increase which is a significant turnover of long-term historical negative increase rate.

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## **The role of Culture Industry Contents in the Inter-integration of Asia-Pacific Region**

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### **Abstract**

Recently in Asia-pacific region, especially in Northeast Asia and North America, many multimedia contents, which are made by contents corporations, are spreading worldwide. In South Korea, television companies are selling TV Dramas to Japan and Southeast Asia, and K-pop Music groups also spread their music on YouTube. Besides, many people buy manga, animation, and VOCALOID culture products from Japan; other people like Japanese stars including AKB48, Perfume, and Kyari Pamyu Pamyu. Some people love dramas and movies from North America. This creates a coexistence of multiple culture content experiences for people in one country. It then makes changes in each society which is prescribed by nationality, but where a sum of population has now gained a mix of culture capitals.

In this paper, I will try to find answers for these problems: First, do culture industry contents (CCs) make interconnections between people worldwide who like specific CCs? Language problem exists, but with increasing multilingual populations in the overall Asia-pacific region there is increases in the frequencies of the connection. Second, explain how different CCs can overcome the conflicts of world-views of populations that differ between ages, genders, and subcultures? There's always a risk of ethnic-national clash, especially in Northeast Asia. But differently from the 1950's, CCs over the nations makes relax of conflict. And the last, how CCs can make effort on inter-integration of Asia-Pacific region? CCs with specific cultures and subcultures make same culture capitals in their lives, and with locomotion of people will make international and interpersonal relationships: And In democracy, a nation consists of that people.

### **Introduction**

Recently in the East Asia Region, the historical and political conflicts are reemerging, including the territory conflicts, Yasukuni Shrine conflicts, and the comfort women conflicts. These conflicts come from shared archetype, constructed by history educations and the socializations from older people – who have taken painful time from wars and colonization times.



But why do these conflicts not lead to huge conflicts in East Asia? Explanations from political and economic points are possible. But in this article, I want to focus on another point – the culture industry contents and its exchange worldwide.

The visual culture contents, which are produced by various creators, contain each creator's thinking about worldview, culture, and society. And In the notion of Bourdieu (Bourdieu, 2010), all content contain nature of culture capital, which helps each people construct each other's culture capital.

Recently, most of visual contents, Including comics, game, movie, animation, TV contents, music video, ads, et cetera, are integrated into internet space(s), which enables spreading of visual contents worldwide, including culture industry contents(홍유진, 2013). Especially, the status quo develops into multi-level, from popular culture which consists of TV Drama, Pop Music, Movie, etc., to User Generated Contents (UGC) including the commercial and non-commercial purposes.

In this paper, I want to clarify the fact, that is, Culture Industry Contents (CICs) and cultures (especially subcultures) help the integration of Asia-Pacific region. By this, we could illuminate the importance of Culture Industry Contents, on not only Culture studies and Culture Management studies, but also International affairs studies and Diplomatic Sciences.

## Methods

In this paper, I want to use case study method, which enable free exploration of today's culture situations to us. Some culture phenomenon will introduce, and then interpret using the humanistic theories.

## Cases

### Case 1: Frozen and its recent impact on East Asia

The movie *Frozen*, which was released at 2013, by Disney, was introduced to East Asia in early 2014, and then impacted a lot in South Korea, from little children to grown-up people. According to the Hollywood Reporter, *Frozen* earned \$75.48 million as of March 2014 in South Korea, and over 10 million people watched it (Lee, 2014). According to an article from *Maclean's*, the Canadian weekly magazine, the elementary students in Buan-gun in middle of South Korea, have wear clothes from Frozen characters (Treble, 2014), and these trends continued before the Sewol ferry accident.

This trend showed in Japan, also. According to the *SmaSTATION!!*, the Saturday night TV program in Asahi TV, during the first half of 2014, one of OST in the

Frozen, *Let it go* ranked number one for music in wedding ceremonies (朝日テレビ, 2014).

But, the important problem exists: Why didn't the biggest animation hit not help the interconnection of the region? We have to attribute that the movie contents are responsible for it. Many people worldwide gained fun in *Frozen*, as well as South Korea, including celebrities who covered *Let it go*. But Because of language wall, each country's second contents were failed to forward into another country.

#### Case 2 : K-pop in worldwide

In recently, the people who likes K-pop has expanded all over the world, and the situations in outside of Republic of Korea have started to change: The K-pop and Korean entertainment-only news and forum sites(including allkpop, soompi, dailykpopnews, etc.) emerges; Through this site and other channels including Youtube, K-pop fans in Asian-Pacific region can contact original fan culture in Korea – for example, *maknae*, the Korean word which means 'the youngest one', is now using in K-pop fan communities who speak in English.

On the other hand, there are movements for utilize many K-pop fan's into promoting Travel in South Korea. Let's see some of examples: There is a shop which sells popular Korean culture, so called 'Korean Wave' products in the Incheon International Airport. In Incheon and Gyeongju, local governments hold the Korean wave festival for regional promotion. And Seoul city government runs a website *Visit Seoul* (<http://visitseoul.net>) for promotion of tourism, which shows the places of K-pop for foreigners.

Korean wave or *hanryu* trend was started at early 2000's, which was gained by *gyaŭl yānga*, or *huyūno sonata* ('love story in the winter') in Japan. From the next year, Korean CCs are delivered to some countries in TV-formed contents systems. In this system, receivers of contents have hard feeling for sharing their expressions. Some internet users open the fan site of Korean stars, but these movements are in insignificant at that status.

But after mid-2000's, internet community systems are improved and introduced worldwide. For example, some people who are good at Korean and their mother tongue translated their star's news or what's going on fan community in Korea, and uploaded it into internet sites – then they can master fan culture in Korea.

And from that time, YouTube enabled K-pop fans to find their star's stages, TV programs, and music video easily. Fans in worldwide could start communications in YouTube. By this way, K-pop can be spread into the Occident.

The point what we have to watch are two things. First, the way that k-pop fans

organize themselves is different by countries. In Japan and China, because Idol entertainment system is developing, fans at K-pop can meet their stars easily, in the CD shop and concert. So their fan activities have organized in off-line style. But in Asia & Australia, their stars rarely come into their country, and they have to pay highly for their star's Goods. So they have to get cultural capital(s) from Internet, which is free, and the fastest way, and they share their favor of Korean stars.

Secondly, in the evaluation, the existence of prosumer translator is important. People who like another country's contents always approach into their new contents as soon as fast. But many contents makers are concentrated on domestic contents distribution, and the needs of foreign receivers are almost ignored. So in this place, prosumer translator emerges: they make what their stars saying and singing in their language, just with love and like into their stars. With their no-guarantee work, People can know what their stars are saying in their language, just by translation. Surely, in the case of Japan, also the translator is important for make contact for possible contents consumer into the work piece (including TV Drama and Anime).

It shows the content providers an unfamiliar conclusion: No illegal translation, and not enough ways for keeping in touch with their contents reasonably and as soon as fast, there is no consumption from their overseas.

### Case 3 : The adaptation of Japanese modern culture in Asia-Pacific Region

In the Asia-pacific Region, the acceptance of Japanese Modern Culture, based on Culture Industry Contents, is more improving, despite of national hate emotion into Japanese invasion to their country.

Let's see some of examples: In early of 2013, Han Kyung-chul opened the Saboten store, Located in Sadang, one of subcenters in Seoul. His shop sells *Doujin* (*Doujin* in japan, 'coterie') products of Korean and Manga/Anime goods from Japan, and maids service café drinks and the toast with syrup arts (Ashcraft, 2014).

This is not just crazy thing, but some 'subculture' places also appear: In June 2014, *A-Site* in Honjæ area launched, and in august, at near of Yanjæ citizen's forest area, *Yaco cafe*, which provides café with cosplay goods also appeared. In October, *Atelier Inno* also launched in Sadang.

Now, let go to America: In the May 2011, Toyota launched a promotion campaign for Corolla with *Hatsune Miku*: who is most famous VOCALOID character. After that point, Miku have concert in America twice, and also appeared in Yeosu Expo 2012. And in 2014, the Miku expo, holded in Indonesia, Los Angeles, and New York.

The phenomenon is also spread widely oveall in America. There are so many comic cons, including Comic Con International, San Diego, New York Comic Con, Fan Expo Canada, Emerald City Comic Con in Seattle (MacDonald, 2013). And more media

based on cons culture have emerge from 2013, include the

And in Academic field, researches for Japanese culture contents have organized. The *Japanamerica*, written by Roland Kelts tries for account of the reason of introduce of Japanese culture into American mainstream culture (Kelts, 2007). And the academic journal the *mecamedia*, also deals with Anime/Manga Culture.

Let's see last example: In June 2014, the *Love Live School Idol Festival* (LSF), the Japanese mobile game launched in South Korea, then, unbelievable phenomenon arose: some people started to make a bow in front of LSF's billboard, located in Hongdae station, in subcenter of Seoul (In the Confucian Culture, to make bow to someone means 'I adore him or her').

More important thing is this phenomenon was repeated in other countries. In the late July, one of trains in Shanghai Subway Line 2, China, became lapping car of Love live. Then, a chinese Love Liver also make a bow – and this bow was broadcasted into Japan. And this phenomenon repeated in Taiwan, Singapore, also.

But there is another side. In recently, Japan starts campaigns which promote latest culture movement, especially in national level, including the Culture Japan, World Cosplay Summit (WCS). But these movement converged in promote Japan's CCs, and done in commercial way.

## Discussion

In the result of reviewing cases, we can make following conclusions :

1. Each nation has their own CCs, and these contents have its own fascination in all people. So people can accommodate contents from another country, culture, and subcultures. This is different with original notion of export and import: in this notion, some goods are deficit in X country, and these goods exist in Y Country. But in the contents area, CJK and Pacific area have each own good CCs, and these contents proliferate in other countries, thanks to the internet.

2. The mere spreading of CCs not assures the integration of Asia-Pacific region. In case 1, *Frozen* was spread into 41 nations, but people in 41 countries have not made share their own experiences to other countries. On the other hand, in case 3, Japanese culture make people communicate with domestic fans using same culture capital, and move into real places(윤은호, 2012), then they make international connection using social network services.

3. CCs with specific cultures and subcultures make same culture capitals in viewer's lives, and viewers construct para-community or subculture with

communication. And the locomotion of people will make international and interpersonal relationships: And In democracy, a nation consists of that people – which helps in decline of conflicts with other countries.

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## **US Asia-Pacific rebalancing and Chinese power in Asia**

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Having focused on security threats from non-state terrorist organisations for almost a decade, the United States began to show a clear shift of attention back to the Asia-Pacific in 2011 when the then Secretary of State, Hilary Clinton, offered her vision of the US ‘Pacific Century’ (Clinton 2011). Then, in an address to the Australian Parliament later that same year, President Obama formally declared US rebalancing towards the Asia-Pacific (Obama 2011).

Although the United States has repeatedly denied its intention to contain China by rebalancing its foreign policy towards the region, this has not allayed the Chinese fear of containment. The huge gap of understanding and perception between the two sides of the strategic intentions and policy implications has created strategic distrust (Lieberthal & Wang 2012).

This paper argues that, despite this background of distrust, Sino-US contests have been manifested in different ways at global and regional levels. The regional level of analysis is particularly important because the Asia-Pacific region remains a hotbed for traditional power politics to play out and traditional security concerns dominate regional politics. As Buzan and Wæever (2003) point out, territoriality has a strong impact on security, ‘most threats travel more easily over short distance than long ones.’ At the global level, the two countries have more common interests to promote cooperation and help build more cordial relations.

In the following sections, this paper will on the one hand study the US’s Asia-Pacific rebalancing policy, its implications for China and the latter’s response while, on the other hand, examine their bilateral relations in the global context to demonstrate that Sino-American relations must be examined at different levels of analysis.

### **I. US Rebalancing**

As the United States began to disentangle itself from military intervention in Afghanistan and Iraq, it decided to return to the world’s economically fastest growing region, the Asia-Pacific.

To ensure its global leadership and to compensate for its weakening presence in the region, especially in the face of a more assertive China, the US strengthened its political, military, and economic relations with countries in the Asia-Pacific region (IISS 2012).

The main ideas of rebalancing were summarised by then US Secretary of Defence, Leon Panetta: ‘promote international rules and order ..., deepening and broadening our bilateral and multilateral partnerships, enhancing and adapting the U.S. military’s enduring presence in this region, and to make new investments in the capabilities needed to project power and operate in Asia-Pacific’ (2012). These have remained intact after his succession by Chuck Hagel (2013).

One of the objectives is to constrain China with multilateral and international institutions and norms that have been shaped under American influence. Its importance is further revealing when we look at the deepening of Chinese integration into regional and global institutions. The more China is conscious of its ‘great power’ status, the stronger it feels the need of such engagements and the power of ideational factors and institutional arrangements (Gong 2009; Men 2013).

A core element of the partnership mentioned by Panetta is certainly the alliance networks built during the Cold War era. From Korea and Japan in the north through Thailand and the Philippines in the middle and down to Australia in the south. Not surprisingly, the Australian parliament was chosen as the venue by Obama to announce his rebalancing strategy. The United States have endeavoured to reach a common strategic vision with its allies regarding regional security and to strengthen military forces deployed to ally hosts (Hagel 2013).

But the partnership is obviously not restricted to reinforcing alliance relationships because a key objective is to reconfirm friends and allies US commitment to the region’s stability and to maintain its credibility as a leading power (Lieberthal & Wang 2012). In the face of a rising China and a United States preoccupied by military interventions in Central Asia and the Middle East, Southeast Asian countries generally adopt a hedging policy, taking care not to offend Beijing (Goh 2005; Mauzy & Job 2007; Graham 2013). So, as early as 2009, Obama became the first US president to meet with all ASEAN leaders in a summit and a US permanent mission to ASEAN was established the next year. Now, US re-engagement with the region has reached the Indian Ocean (Auslin et al. 2009; Burns 2014).

Perhaps, the most concrete symbol of the US return the Asia Pacific is its military redeployment. Apart from expanding the rotating forces in the Philippines and Australia, the US decided to increase the number of warships from 50 today to 67 by 2020 and to field advanced weapons and platform to the Asia-Pacific ‘in response to the rapidly increasing A2/AD capabilities of potential adversaries in the region’ (Greenert 2014). The air force will also deploy 60 percent of its assets there in the same timeframe (LaGrone 2014b).

## **II. Chinese countermeasures**

It is not difficult to imagine Chinese reaction would be scepticism if not out-right denouncement. According to a study by Michael Swaine, although official, authoritative comments were generally measured, quasi-authoritative and non-authoritative ones were far more critical (2012). A sense of anxiety and fear of foreign hostility or conspiracy against a rising China leads to the

observation that the rebalancing is no more than a euphemism for containment (Tan & Li 2013; Wang et al. 2013).

To counter this perceived threat, a top choice of the Chinese leadership is to enhance military power which is regarded as an important symbol of a great power and the ultimate guarantee in the struggle of international politics (Chen 2006; Wang & Liu 2012). As this is not the place to detail the modernisation progress, suffice it to say its People's Liberation Army has been making great efforts to develop asymmetric military capabilities for cyber, anti-carrier, anti-satellite, and the so-called A2/AD (anti-access and area denial) operations while losing no time to closing its gap in traditional capabilities with its American rival (US DOD; IISS 2013).

But this is exactly one of the biggest problems about realising the 'China Dream': the development of Chinese hard power has outpaced that of soft power. As said above, geographical space plays a role in determining security threats. China is well aware that its consistent military build-up and assertive behaviour might backfire on its neighbours (He 2013). To deal with this dilemma, Chinese leaders have embarked on busy diplomacy. The main objectives are to dispel suspicion, to reinforce relations with traditional friendly countries, and to neutralise US influence. Perhaps, one of its most successful tours was the summit in Seoul. Sino-Korean relations were brought to new heights. But all this was dwarfed by the opening of a schism in the US alliance network in Northeast Asia. The contradictions between Japan and Korea were utilised to challenge their solidarity.

Given US pressure, it remains to be seen how far the warming relations between Beijing and Seoul may go. So, China diligently cultivates its partnership with Russia to counter-balance the United States. The Naval Interaction and Peace Mission series of military exercises, the frequent high-level diplomatic interactions, and strengthening economic cooperation epitomise the steadily warming bilateral relationship although there are admittedly problems to be solved (Huanqiu Shibao 2012; Wang 2014).

### **III. Global cooperation**

In contrast to the heated contest in the Asia-Pacific region, Sino-US relations at the global level have seen more cooperation. A major reason is, China's military reach is largely regional but its political influence is global. A permanent seat at the United Nations Security Council makes it a player of international politics that even the United States cannot easily ignore (Bosco 2009). As the United States becomes increasingly cash-strapped, its reliance on multilateral regimes and coalition formation to implement its interventionist foreign policies imposes severe constraints on its use of power. As a result, China gains political leverage through its veto right and its extensive diplomatic networking, especially with developing countries and political regimes regarded as villainous by the West, such as Iran and North Korea. Its nuclear capability, albeit modest among other nuclear-armed states, also gives it voice over the issue of arms control. These qualities make China a possible partner in global politics (Etzioni 2013).



Moreover, existing US financial predicament accentuates its economic interdependent relationships with China. While it is debatable how much sizeable Chinese ownership stakes of the treasury bonds may affect White House foreign policy making (Drezner 2009), it is obvious that the voluminous bilateral trade would make each other indispensable, particularly before both countries could confidently step out of the shadow of the global financial crisis.

Both Beijing and Washington certainly perceive the ample space for cooperative relationships. The most significant development is the introduction of the so-called ‘New Type of Great Power Relations.’ While the precise content and conceptual interpretation are subject to diverse opinions, the two countries have taken care to avoid misunderstanding and confrontation. The US Chief of Naval Operations, Jonathan Greenert, even advised against ‘unnecessarily antagonise China,’ amidst expected dissenting opinions (LaGrone 2014a).

Indeed, bilateral military exchanges have been little affected, and have actually progressed. Despite China’s vehement opposition to US stance over its border disputes in the East China Sea and the South China Sea, this has not prevented it from joining the RIMPAC exercise. China’s military was highly positive about this opportunity. In fact, Chinese enthusiasm ran so high that their media reported an invitation to the next biennial exercise even though no such invitation had been issued to any participants yet (Zhang 2014; Rahmat & Jean 2014).

## **Conclusion**

The bilateral relationship between the United States and China cannot be easily characterised in any International Relations concepts. The key lies in the necessity of bringing in a regional level of analysis because the intensity of the contest and cooperation are played out remarkably different at regional and global levels. The limited Chinese military reach means their capacity to change the balance of power by force or threat of violence is confined to the Asia-Pacific region but its political and financial influence pervades across the globe. For the United States, challenge to its regional primacy is more real and solicits a response of strategic rebalance. Its status as a lone global superpower remains secure although unipolarism is a foregone conclusion.

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## **India and ASEAN: How strategic is the partnership? Case of Vietnam**

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### **Abstract**

India and ASEAN have reaffirmed their strategic partnership in 2012. This paper will examine exactly how that strategic partnership would be understood. First, it will briefly examine what can be understood under the term 'strategic partnership' **itself**, before looking into theoretical framework of middle and regional powers as well as the prevailing balance of power policy within Southeast Asia and ASEAN policies thereof. Three fields of cooperation within the strategic partnership will be examined in the course of the paper: economic and trade relations, security and defense, and lastly, political and ideological ties within the changing politico-ideological paradigm in both India and Vietnam. Finally, the strategic partnership will be evaluated, to see how the regional policies of both Vietnam and India are interdependent on one another. India found in Vietnam a willing partner to help establish a sphere of influence in Southeast Asia, especially in relation to China, while Vietnam acknowledged India as a balancer of Chinese influence. This paper will show that the relationship of both New Delhi and Hanoi with Beijing has very tangible influence over the strategic partnership between India and Vietnam.

### **Introduction**

The strategic partnership between Vietnam and India has been renewed and reinvigorated in 2012. This made Vietnam perhaps the most important partner of New Delhi within Southeast Asia. For Vietnam, a close relationship with India certainly had its advantages, especially in light of the aggressive Chinese policies on South China Sea. India for Vietnam seemed to be the perfect balancer of Chinese influence. Vietnam was for India a geo-strategically placed ally that could be the key to the third phase of Look East Policy.

This strategic partnership is happening when both India and Vietnam are experiencing a paradigm shift<sup>1</sup> of their foreign policy: India has realized non-alignment has no more place in world politics, has lost its meaning and therefore it has to enter into partnerships and alliances. For Vietnam, the shift has been much more internal: in 2003 the Vietnam Communist Party Central Committee adopted a new “Strategy of Fatherland Defense in a New Situation”, which discarded ideology as the main motivator of foreign policy<sup>2</sup> by dividing foreign states into two groups: *doi tac*, the cooperation partners, and *doi tuong*, the targets of struggle.<sup>3</sup> This shift away from the ideology and towards pragmatism meant that Vietnam was not bound by the shared ideology with China and was free to pursue closer relationships with other partners, such as India, a perfect balancer for other regional powers present in Southeast Asia.

This new reality, in which India and Vietnam both found themselves, prompted them to seek the most natural allies: both India and ASEAN countries have always considered each other safe partners. Devbrat Chakraborty has noted that the potential of a threat in that relationship has always been very low.<sup>4</sup> Thus both sides embraced the strategic partnership, as their regional interests are very much aligned: secure and free South China Sea, free trade area and an anti-imperial stance in world politics are the most obvious characteristics of both Indian and Vietnamese policies in the region as well as of their strategic partnership.

## Methods

The main problem with the analysis of any strategic partnership is the lack of a proper definition. Strategic partnership has never been defined or explained in any official capacity, but this may be the actual point: it is declaratory, there are no specific obligations connected to it, thus the partners can make of it what they want.

Therefore, the only available method of creating any kind of definition would be to consult dictionaries. Furthermore, discerning what the strategic partnership is exactly in the case of India and Vietnam would mean analyzing the recent policies and decisions made by both governments regarding their cooperation in the light of that provisional definition.

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<sup>1</sup> It could be most simply defined as a change in the thought pattern. Thomas Kuhn wrote about paradigm shifts in “The Structure of Scientific Revolutions”.

<sup>2</sup> Alexander L. Vuving “Strategy and evolution of Vietnam’s China Policy” Asian Survey vol. 46 No 6 2006 p. 818

<sup>3</sup> Ibidem p. 818

<sup>4</sup> Sam Bateman, Joshua Ho (ed.) “Southeast Asia and the Rise of Chinese and Indian Naval Power” New York 2010 p. 152

In 1827 Thomas Malthus offered four rules that could help with “guidance in defining and applying the terms used in the science of political economy”, but which are easily applicable to the science of international relations in situations when an often used term has no scientific definition. Malthus proposed that “When we employ terms which are of daily occurrence in the common conversation of educated persons, we should define and apply them, so as to agree with the sense in which they are understood in this ordinary use of them.”<sup>5</sup> Following Malthus’ train of thoughts, the only possible solution in defining the meaning of strategic partnership would be to apply the widely and instinctually understood definition.

According to one definition, ‘strategic’ means pertaining to achieving success in different situations or anything relating to long-term goals and interests.<sup>6</sup> A definition of a strategic partner is as follows: “an organization that has an arrangement to work with or help another, so that it is easier for each one of them to achieve the things they want to achieve.”<sup>7</sup> A provisional definition of a strategic partnership, based on the above, is therefore an arrangement in which two sides agree to work together or help one another in order for one or both of them to achieve their long term goals. This working definition will be used in a provisional manner in this paper due to the lack of a proper definition within the international relations, to help with the analysis of the strategic partnership of India and Vietnam and to discern what those strategic goals are in case of both countries.

## **Discussion**

John Ciorciari wrote that “alignment preferences and policies can be best understood as efforts to optimize the risks and rewards of alignment under conditions of strategic uncertainty.”<sup>8</sup> For Vietnam this means seeking out the greatest degree of autonomy within the political framework of Southeast Asia and Asia-Pacific as well as seeking out

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<sup>5</sup> Thomas Robert Malthus “Definitions in Political Economy” London 1827 p. 8

<sup>6</sup> Cambridge International Dictionary of English, Cambridge 1999

<sup>7</sup> Cambridge Dictionary Online <http://dictionary.cambridge.org/dictionary/business-english/strategic-partner>

<sup>8</sup> John D. Ciorciari „The Limits of Alignment: Southeast Asia and the great powers since 1975” Washington DC 2010 p. 131

the optimal allies to ensure such autonomy. For India it's mostly the later: seeking out the optimal allies, alignments which would allow New Delhi to pursue and perhaps even aid its regional policies. So far, within ASEAN and Southeast Asia, Vietnam has proven to be the optimal ally for India. Similarly, India has established itself as a valuable associate for Vietnam, especially under Ciorciani's conditions of security uncertainty.

Both Vietnam and India have a strong anti-imperialistic, anti-hegemonic stance and both countries have been reorienting themselves towards pragmatic, anti-hegemonic alignments.<sup>9</sup> The partnership is all the easier for the common threat: China, which is both the biggest rival of India on the continent and the country which holds a great deal of geostrategic influence over Vietnam. The convergence of interests is very simple: India needs to secure for itself key points in Southeast Asia to be able to remain the dominant power in Indian Ocean. Vietnam considers balance of forces, or as they named it, considerations of relative power chief imperatives of foreign policy.<sup>10</sup> India can therefore balance the Chinese policy of “long-term stability, future orientation, good neighborliness and all-round cooperation”<sup>11</sup> in Vietnam with its mere presence in the region.

The strategic partnership between Vietnam and India started in 2007: during the visit of Nguyen Tan Dung, the Vietnamese Vice-Minister of Defense, in India, and officially it covered only security matters: promotion of regional security and fortification of defense supplies, training cooperation, intelligence exchanges, enhanced cooperation in: capacity building, technical assistance and information sharing. In reality, India and Vietnam has enjoyed a very close and friendly relationship for decades: ever since the Geneva Peace Convention in 1954 when the first Vietnam War officially came to an end. At the time India chaired the International Control Commission for Indochina States.

This was a beginning of the relationship, which for years was based on the close friendship both countries shared with Soviet Union and on non-alignment as well as anti-imperialistic rhetoric. Things further improved with the implementation of New Economic Policy after 1991<sup>12</sup>, while ASEAN was implementing a Look West policy. The early nineties marked the beginning of a shift in Indian policy: non-alignment was

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<sup>9</sup> Alexander L. Vuving “Strategy and evolution of Vietnam's China Policy” Asian Survey vol. 46 No 6 2006 p. 821

<sup>10</sup> Vietnam has been surrounding itself with strategic partners in Asia-Pacific: in 2009 it was Japan, later Thailand and finally Indonesia in 2013.

<sup>11</sup> <sup>1</sup> After China and Vietnam settled the land border disputes Prime Minister Khieu was given those key words to be the basis of future China- Vietnam relations. See: *ibidem* p. 810

<sup>12</sup> It is often considered the first Look East Policy.



slowly loosing relevancy in foreign policy, as India reoriented itself towards regionalism and Southeast Asia. In 1992 began the dialogue, which evolved quickly enough for India to begin Look East Policy phase two in 2003, and then to be invited to join East Asia Summit in 2005. The relationship with Vietnam ran along parallel lines: in 2000 there was the first agreement of cooperation in defense and security matters. Already at the time George Fernandez, Indian Minister of Defense called Vietnam a “most trusted friend and ally.”<sup>13</sup>

The strategic partnership between India and Vietnam has a lot of characteristics of an alliance. While defense cooperation is only one of the facets of the relationship between the countries, it very much bears resemblance to a tentative security alliance: it certainly shares enough characteristics with one, which again would point towards the paradigm shift in foreign policy of both countries.

However if India was to become a regional player able to influence the Southeast Asia, it had to have better control and access to the key strategic points. Admiral Arun Prakash said “As the pre-eminent maritime power in the Indian Ocean, we must poses and maintain a capability for sustained operations in our area of interest.”<sup>14</sup> According to David Scott Indian security environment stretched from Persian Gulf to Malacca Straits<sup>15</sup> and it had been fully penetrated by the Chinese.<sup>16</sup> This is an example of mahanian philosophy according to Scott, for the navy to be one of the tools of realizing Indian ambitions. Therefore for India to be able to achieve its goals according to the new paradigm, it would need an ally in Southeast Asia, as that would ease securing the key access points and grant forward bases to Indian Navy.

This meant that, ever since the beginning of the strategic partnership in 2007, the cooperation in defense department has been steadily intensifying. In 2010 began a new chapter, in which India was to help Vietnam upgrade their defense capabilities, especially in the navy. It was to include IT training, English courses<sup>17</sup> and jungle training. There was also a number of friendly visits of Indian Navy ships to Vietnamese

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<sup>13</sup> Tridib Chakraborti „India and the Indochina States in Emerging Global Politics: Challenges and opportunities” Policy Brief No 4 2012 University of Calcutta p. 6

<sup>14</sup> David Scott “India’s ‘Grand Strategy’ for the Indian Ocean: Mahanian Visions” Asia-Pacific Review Vol. 13 No.2 p. 97

<sup>15</sup> Ibidem p. 97

<sup>16</sup> The disputed Chinese string of pearls is one source of unrest for Indian Navy.

<sup>17</sup> Those were paralelly pursued with US Navy.

ports, all of which was to send a clear signal in the region of Indian plans to become a player in the regional <sup>18</sup>politics with Vietnam as the first ally.

Vietnam's importance as India's regional ally is underscored by the sell of BrahMos missiles. Some of the most advanced missile systems in the world, developed by India and Russia, will most probably be sold to Vietnam within the next two years or as soon as Russia approves the sale.<sup>19</sup> Vietnam would be the first country to obtain the system. Both countries also pledge each other support in seeking the non-permanent seat on UN Security Council after 2020.<sup>20</sup>

The strategic partnership makes all the more sense when the Indian perspective on 'China threat' is considered. Hilali names four main reasons: different ideologies, conflicting strategic interests, China's ascendancy and perceived encroachment of China on traditionally Indian sphere of influence. Three out of four, with the exception of different ideologies, are shared by the Vietnamese regime. Vietnam has different strategic interests to China, mostly due to the conflict on South China Sea, which in turn Hanoi sees as encroachment on Vietnamese territory. Both the conflict and the growing Chinese influence are part of China's ambitions to become the regional leader. This again is directly at odds with Indian interests. Vietnam is uniquely placed in terms of geo-strategy, which makes it the best partner to help India achieve its goal: greater presence on the Pacific and better monitoring of the Malacca Straits. Vietnam's deep water ports like Cam Ranh Bay already accept friendly visits from Indian Navy and are likely to continue this trend.

Vietnam, according to Alexander Vuving, has implemented strategies of solidarity and enmeshment, which have the goal of enhancing economic ties and strengthening common goals. Primarily used in relation to Vietnam's allies and close partners, India is a prime example. Strengthening the economy and economic ties with the world is one of the quandaries to which both the Politbiuro and National Congress gave a lot of attention over the years.<sup>21</sup> While ASEAN is, as a whole, the 4<sup>th</sup> biggest trading partner of India,<sup>22</sup> Vietnam accounts for only around 2% of that.<sup>23</sup> The trade relations

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<sup>18</sup> A.Z. Hilali "India's strategic thinking and its national security policy" Asian Survey vol. 41 no 5 p. 990

<sup>19</sup> Joint Communique between Socialist Republic of Vietnam and the Republic of India , 15 September 2014

<sup>20</sup> ibidem

<sup>21</sup> It started with 13<sup>th</sup> Politbiuro resolution in 1988, when economic weakness was named as one of the 3 major threats to country's security and independence and then again in 2006.

<sup>22</sup> The biggest trading partner is EU, then USA and finally China.

accelerated after Vietnam implemented *doi moi* reforms and joined ASEAN. However, while trade between ASEAN and India grew twelve times since the signing of the Free Trade Agreement, Indochina still accounts for only around 10%. What's more telling is that while the volume of the trade grew, the net worth remained small. The plans remain ambitious: with the implementation of the FTA, India plans to raise the over-all trade with ASEAN from 12% to 25%<sup>24</sup> by 2020, and the trade with Vietnam is predicted to reach a net worth of 7bln USD by 2015.<sup>25</sup>

Both India and Vietnam have made plans to strengthen their trade relations, mostly through FDI. India as the 30<sup>th</sup> biggest investor in Vietnam has had 73 investment projects worth over 254 mln USD between 1988 and 2010.<sup>26</sup> In addition to existing credit lines, some of which have been active since before 1974, in 2014 India has opened for Vietnam a new line of credit worth 100 mln USD dedicated to defense purchases.

Possibly the most important part of Vietnam – India economic cooperation is the joint exploration of the South China Sea. Mammohan Singh said “India and Vietnam are maritime neighbours. (...) We believe it is important to ensure the safety and security of the vital sea lanes of communication.”<sup>27</sup> This goes directly against Beijing's interest, which has protested the cooperation from the very beginning. For Vietnam it is however a very good temporary solution to a very long term problem: the conflict over Spratly and Paracel Islands is unlikely to be resolved soon and joint exploration with India allows Vietnam to exploit the off-shore territories with less fear of repercussions from China.

The Vietnamese predictions about Indian backing proved correct when, after Beijing sent to Delhi a demarche protesting the cooperation, Indian Minister of Foreign Affairs defended the enterprise: “energy ties with Vietnam are as per international regulations.”<sup>28</sup> India has therefore, by defending its own interests in exploring the natural resources of South China Sea, become the defendant of Vietnam's rights to explore its shore. This is a strategic issue for the Vietnamese regime: “Concerning the

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<sup>23</sup> Tridib Chakraborti „India and the Indochina States in Emerging Global Politics: Challenges and opportunities” Policy Brief No 4 p. 9

<sup>24</sup> Sam Bateman, Joshua Ho (ed.) “Southeast Asia and the Rise of Chinese and Indian Naval Power” New York 2010 p. 153

<sup>25</sup> Party Leader arrives in India for State Visit 19 November 2013

<sup>26</sup> Party Leader arrives in India for State Visit 19 November 2013

<sup>27</sup> Ashok Tuteja “India, Vietnam sign oil exploration pact” The Tribune 13 October 2013

<sup>28</sup> Tridib Chakraborti „India and the Indochina States in Emerging Global Politics: Challenges and opportunities” Policy Brief No 4 p. 11

disputes over sovereignty, sovereign rights and jurisdiction over the territories in the East Sea, the complicated developments so far have seriously affected many activities and the maritime economic development of Vietnam.”<sup>29</sup>

Alexander Vuving noted that Vietnam has been balancing its relations with China since the 10<sup>th</sup> century.<sup>30</sup> Hanoi always had to be mindful of Beijing and its interests in Southeast Asia and South China Sea. Carlyle Thayer noted that Vietnam always had to “contend with the tyranny of geography.”<sup>31</sup> India’s presence in the region has made balancing much easier, which is all the more important as Vo Van Kiet implied that balance of power is the default strategy for Vietnam.<sup>32</sup>

Womack added, that “disparities in capacities create systemic differences in interests and perspectives between stronger and weaker.” Balance of power in the region is therefore a key strategy of Vietnam. That strategy depends on the political framework<sup>33</sup> ASEAN and its individual members were able to build in Southeast Asia. As one of Vietnamese diplomats put it “For the first time we are relying on diplomacy to safeguard security. In the past, it was only used as a crown to military victory.”<sup>34</sup>

As balance of power remains at the forefront of Vietnamese foreign policy strategy, Indian role grows: it is the optimal balancer for China, one whose immediate interests coincide with those of Vietnam. At the present Vietnamese long-term goal is the balance of power in the region in general and securing its interest in South China Sea in particular, while Indian long-term goal is to establish itself as a regional power in Southeast Asia in general and balance Chinese influence in particular, then Vietnam and India really appear to be strategic partners. They are both willing to help one another achieve their long term goals.

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<sup>29</sup> Vietnamese White Paper on National Defence p. 18

<sup>30</sup> Alexander L. Vuving “Strategy and evolution of Vietnam’s China Policy” Asian Survey vol. 46 No 6 2006 p. 807

<sup>31</sup> Carlyle A. Thayer “Vietnam and Rising China: the structural dynamics of mature asymmetry” Southeast Asian Affairs Vol. 2010 p. 393

<sup>32</sup> Alexander L. Vuving “Strategy and evolution of Vietnam’s China Policy” Asian Survey vol. 46 No 6 2006 p. 808

<sup>33</sup> The argument of balance of power depending on political framework is mostly associated with the English School of international relations, most notably Hedley Bull and his “The Anarchical Society: A study of Order in World Politics”.

<sup>34</sup> Tung Nguyen Vu “Vietnam’s Security Challenges: Hanoi’s New Approach to national Security and Implications to Defense and Foreign Policies” p. 112

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