

THE IMPACTS OF ABE'S ECONOMIC AND TERRITORIAL POLICIES ON TAIWAN FASTENER INDUSTRY

by Wayne Sung, Management College doctoral program of I-Shou University



The 46th general election of the House of Representatives was held in Japan in December 2012. Liberal Democratic Party, which had been the biggest opposition party of Japan, won a landslide victory with 294 seats, about 1.5 times of the number of seats compared to 118 seats in the last general election. Shinzo Abe, the leader of the LDP, became the 96th prime minister of Japan and formed a new government. Abe has been a hardliner and has repeatedly denied Japan's war crimes in WWII, voicing that such acts did not constitute crimes. Such statements caused condemnation and resentment of China and South Korea. Abe has been a member of Japan-China Bilateral Congressional Exchanges and Consultation Organization, which has been a pro-Taiwan organization. In a book he published before he was elected as the 21st leader of the LDP, he pointed out that in order for Japan to become a truly open and democratic country in Asia, Japan has to put Taiwan into consideration. From this, we can see that Abe is a pro-Taiwan politician.

During Abe's electoral campaign, he vowed to end the deflation that had plagued Japan for 20 years and expressed a hardliner approach to the territorial dispute over Diaoyutai and Takeshima ("the Liancourt Rocks" in English). His views about these two issues became the headlines of the global news and contributed to his winning in the election.

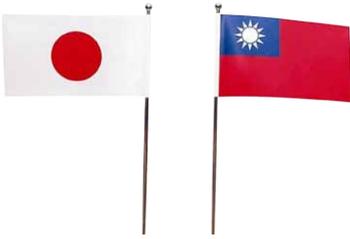
The Impacts of Abe's Economic Policy on the Fastener Industry

In 2012, Japan's trade deficit reached a record high 6.9 trillion yens (US\$ 78.4 billion), 2.7 times as compared to 2011, because of long-lasting sluggish export condition and a jump in the demand for imported fuels (only 2 out of 50 nuclear power plants in Japan were able to operate). Its trade deficit with China reached 3.521 trillion yens and

its trade deficit with EU was close to 140 billion yens. The problem of Japan's trade deficit was an important reason for the landslide victory of the LDP in the election and was the first problem for his administration to solve.

On January 22, 2013, his administration and Central Bank of Japan issued a joint declaration raising the targeted inflation rate from 1% to 2%, and (in succession of the 101 trillion yen asset purchase plan that will end in the end of 2013) intended to adopt an asset purchase plan for 2014 that is bigger than that of the Fed of the U.S. by purchasing 13 trillion yens (US\$ 144.77 billion) of financial assets, which is 3.2 times of the USD 45 billion amount that the U.S. spent in the purchase of long-term government bonds in its QE4. The Japanese government will spend 2 trillion yens to buy the Japanese government bonds and 11 trillion yens to buy short-term bills until its inflation rate is lowered to 2%. Its financial and monetary policy has driven Japanese yen to depreciate by over 13% from mid-November in 2012 till now. Such substantial depreciation has caused structural impacts on the fastener industries of Taiwan and Japan. The relation between the fastener industries of Taiwan and Japan has been more of a cooperative one and less of a competitive one, and such relation would not be affected by such substantial depreciation. However, in the long run, if the countries in southeastern Asia follow suit by depreciating their currencies, such a trend will work against the economic development of this region.

In 2012, the stock markets in Asia did quite well. Japanese stock market exhibited a jump of 23%, which was the biggest increase during the 7-year period. Thai SET index took a jump of 35.8%; the stock market of the Philippines showed a big growth of 33%; KSE 100 index of Pakistan exhibited a jump of 49%; Sensex of India rose by 25.7%. Indonesia, Thailand and Malaysia are expected



to benefit from the depreciation of yen, and asset values, investment and consumption in these countries will grow due to the increased investment from Japanese banks in these countries thanks to the money easing policy of Japan. Therefore, these economies will exhibit a higher growth in

2013. However, if yen continues to depreciate to the ratio of 100 to 1 against green back, emerging markets in Asia will purchase more foreign currencies to suppress

the appreciation of their currencies; this will result in a vicious global currency depreciation war, bringing another round of bubble economy and steep price hike in consumer goods.

During the global financial storm, Korea coped with the storm by a substantial depreciation of its currency and such depreciation laid a good foundation for its high growth in its GDP in the past few years. This wave of Japanese yen depreciation would have much bigger impacts on Korea than on Taiwan because Korea has an industrial structure very similar to Japan's and hence the competition between these two countries in the automobile industry and home appliance manufacturing industry has been quite severe. The depreciation of Japanese yen prompted the Korean KOSPI to plummet to 1,900 points in November of 2012. However, because the inflation rate in Korea has been quite high, a substantial depreciation of Korean yen would further drive up the prices of consumer goods in Korea. It is yet to be observed about the currency policy of the administration of newly elected female Korean President, Park Geun-hye, and whether Korean yen will closely follow the fluctuation pattern of Japanese yen.

In 2012, 209,488,745Kg of fasteners were exported from China to Japan (a growth of 2.38% as compared to 2011) and the average price was US\$ 1.993/Kg, a drop of 0.009% as compared to 2011. This meant low-priced fasteners were still the main fastener products exported from China to Japan. The amount of construction-used fasteners has exhibited a pattern of small growth after the March 11 quake in Japan. The amount of orders placed on the tooling machines made in Japan has been a good economic indicator of

the global manufacturing sector. Therefore, one thing that is worth our attention is that the monetary value of orders placed on the tooling machines made in Japan exhibited a decline of 26% in January of 2012 as compared to January of 2011, and a monthly decline of 15% as compared to December of 2011 (having been declining for 4 consecutive months). Especially, the monetary value of orders placed from China on the tooling machines made in Japan exhibited a big decline of 65% in January of 2012. It is yet to be observed whether the trade relation between China and Japan has been affected by non-economic factors, such as the dispute over Diaoyutai.

65,880,039Kg of fasteners were exported from Taiwan to Japan in 2012, a growth of 2.32% as compared to 2011; the average price was US\$ 3.315/Kg, a drop of 2.71% as compared to 2011. Though Taiwan fastener industry did benefit from the increased demand caused by the March 11 quake in Japan, it did not enter the high-priced automobile fasteners supply chain of Japanese automakers after the flood in Thailand; therefore, though the amount did exhibit a small growth, the average price had a drop near 3%. It is suggested that the fastener industry of Taiwan enhance the values of its fastener products.

The depreciation of Japanese yen would lower the cost in purchase of Japanese patents, key technologies and components; however, it would lessen Japanese investment in Taiwan. In the former period when yen appreciated, Japanese orders were passed onto Taiwan; now, because yen has depreciated, it is expected that Japanese orders would return to Japan.

Impacts from Abe's Territorial Policy on the Fastener Industry

“Takeshima” comprises a group of small islets in the Sea of Japan (East Sea). Sovereignty over the islets is disputed between Japan and South Korea. They are called “solitary or bamboo island” in Korea and are under the control of South Korea. After Abe came to power, he asked one official of his cabinet to attend the activity of “Takeshima Day” held on February 22, 2013, triggering protests from the South Korean government and causing discontent from people of South Korea. Such discontent prompted Consumers Union, which contains

over 6 million members, to be established by the civilian sector in South Korea. On February 25, the Consumers Union announced that starting from March 1st it would team up with other organizations to boycott Japanese products, including Japan-made tobaccos, alcoholic beverages, cars, appliances, consumer electronics and apparels. It is my view that such movement would not have big impacts on the corresponding Japanese manufacturers, nor would it have any big impacts on the fastener industry of Taiwan.

In September of 2012, the Japanese government announced it would purchase

Diaoyutai. In response to it, anti-Japan demonstrations and violent incidents took place in many cities in China. The Chinese government put many Sino-Japanese exchanges on haul. Sino-Japanese relation plummeted to the freezing point. Abe, who is a nationalist, has downplayed the Japanese invasion to other countries during World War II. His promise of taking a tougher stand against China helped him to win the election. When Abe went to Okinawa on February 2, he vowed that his administration would defend Japanese sovereignty of Diaoyutai against other countries. In addition, the Japanese government has approved the increase of its defense expenditure so as to secure its sovereignty of Diaoyutai. Japanese Coast Guard indicated that in order to protect Japan's interests on the East China Sea, within three years, there will be additional 10 large patrol boats, 2 helicopters and 600 troops. Outwardly, it may seem that wars overhang the East China Sea; however, in fact, China and Japan are interdependent in terms of industrial supply chain. Key components and tooling machines are made in Japan and less sophisticated products and market are provided by China. In addition, because the two countries are quite close, goods and products may be shipped to each other quite conveniently. As of now, either of the two countries has a new leader and either new leader should exercise self-control so as not to wage war. Nevertheless, the dispute over Diaoyutai has aroused nationalistic sentiment in China and has rekindled the old hatred directed towards Japan and its people dated back to World War II. Such hatred has adversely affected the sales of Japanese goods in China and it will provide new business opportunities for the fastener industry of Taiwan in terms of the development of Chinese market and Japanese market. ■