An Island Approach to the Territorial Disputes over the Senkaku / Diaoyu / Tiaoyutai Islands

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Abstract

The uninhabited Senkaku islands, which have been administered by the Okinawan local government, have been claimed by Japan, China and Taiwan. The vicinity of the disputed islands has long been identified as possessing potential oil and gas resources. The territorial disputes have been intensified after the Japanese government nationalized the islands in 2012. The situation has been regarded as the most serious for Sino-Japanese relations in the post-war period in terms of the risk of militarized conflict. The Chinese government used “core interests” to describe national sovereignty over the islands which it will make no compromise at any price, while the Japanese government hardened its stance by insisting that there is no territorial dispute to negotiate with China over the islands. The peaceful settlements on the disputed islands are complicated because it involves history, economy, security and nationalism. This paper argues that the best way to ease territorial disputes will be to create a common economic zone based on mutual understanding and economic interests through the wisdom of the islands of Okinawa and Taiwan based on a growth triangle (GT) approach. China has been claiming that the disputed islands are under Taiwan’s jurisdiction. Both Japanese and Chinese central governments should leave all powers to both Okinawa and Taiwan governments for peaceful, joint development of the disputed waters.

Key words:
Senkaku / Diaoyu / Tiaoyutai islands, terra nullius, territorial disputes, UN Law of the Sea, Exclusive Economic Zone (EEZ), Okinawa, Taiwan, East China Sea Peace Initiative, cooperative develop, growth triangle (GT) approach
1. Introduction

Over the territorial claims, the Senkaku (Japanese name) / Diaoyu (Chinese name) / Tiaoyutai (Taiwanese name) islands in the East China Sea and several islands in the South China Sea have become geopolitical hot spots between the People’s Republic of China (PRC) and the surrounding countries in international geopolitics in recent years. After the Japanese government’s acquisition of the main islands of Senkaku in September 2012, China set up the “East China Sea Air Defense Identification Zone,” including the Senkaku Islands which have been administered by the Okinawan local government.

The situation has been regarded as the most serious for Sino-Japanese relations in the post-war period in terms of the risk of militarized conflict. The Chinese President Xi Jinping has widened the dispute by political, military and propaganda means, while Japan’s Abe government has hardened its stance by insisting that there is no territorial dispute to negotiate with China over the islands.

The territorial disputes over the Spratly and Paracel islands in the South China Sea, which are claimed by PRC, the Republic of China (Taiwan), the Philippines, Vietnam, Malaysia and Brunei, have been escalating, particularly between PRC with the Philippines and Vietnam, after Chinese construction of airports on the disputed islands. These territorial disputes are complicated historical, geopolitical and economic issues with nationalistic emotionalism.

On the territorial disputes, Chinese reformist leader, Deng Xiaoping once mentioned that "It does not matter if this question is shelved for some time, say, 10 years. Our generation is not wise enough to find a common language on this question. Our next generation will certainly be wiser. They will certainly find a solution acceptable to all" (Taylor, 2010). Deng’s concept of "setting aside dispute and pursuing joint development" provides a new approach for peaceful settlement of territorial disputes. Deng’s Chinese successors and their counterparts, however, are making the situation worse. Facing China’s growing geopolitical and economic power, the smaller stakeholder countries do not have viable solutions on the issues. The United States does not have an official position on the merits of the competing sovereignty claims in this area. We should remember, however, that despite a preliminary agreement on joint development of marine resources between PRC and Japan in 2008, they could not implement the agreement because of some political reasons.

This paper focuses on the Senkaku/Diaoyu/Tiaoyutai dispute, and argues that the best way to ease territorial disputes will be to create a common economic zone based on mutual understanding and economic interests through the wisdom of the islands of Okinawa and Taiwan based on a growth triangle (GT) model.

2. Historical Development of the Sovereignty Issues over the Islands

Senkaku/Diaoyu/Tiaoyutai Islands are located 170km from both Taipei and Ishigaki Island and 330km from mainland China (FIG. 1).

Eight uninhabited islands with total land area of 5.8 km², of which the Japanese government purchased three islands from the private owner with about $26 million (TABLE 1). The purchase was intended to avoid the protest from China, but it fueled Chinese nationalist sentiment.

<table>
<thead>
<tr>
<th>Japanese name</th>
<th>Chinese name</th>
<th>Area(sq/km)</th>
</tr>
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<tbody>
<tr>
<td>Uotsuri-shima (魚釣島)</td>
<td>Diaoyu Dao (釣魚島)</td>
<td>4.32</td>
</tr>
<tr>
<td>Kita-kojima (北小島)</td>
<td>Bei Xiaodao (北小島)</td>
<td>0.3267</td>
</tr>
<tr>
<td>Minmi-kojima (南小島)</td>
<td>Nan Xiaodao (南小島)</td>
<td>0.4592</td>
</tr>
<tr>
<td>Taishō-tō (大正島)</td>
<td>Chiwei Yu (赤尾嶼)</td>
<td>0.0609</td>
</tr>
<tr>
<td>Kuba-shima (久場島)</td>
<td>Huangwei Yu (黃尾嶼)</td>
<td>1.08</td>
</tr>
<tr>
<td>Oki-no-Kita-iwa (沖ノ北岩)</td>
<td>DA Bei Xiaodao (大北小島/北岩)</td>
<td>0.0183</td>
</tr>
<tr>
<td>Oki-no-Minami-iwa (沖ノ南岩)</td>
<td>Da Nan Xiaodao (大南小島/南岩)</td>
<td>0.0048</td>
</tr>
<tr>
<td>Tobise (飛瀬)</td>
<td>Fei Jiao Yan (飛礁岩/飛岩)</td>
<td>0.0008</td>
</tr>
</tbody>
</table>
The following historical developments on the territorial issues on the islands are largely based on the latest studies of Drifte (2014) and Courmont (2015):

(1) By 1534, all the major islets of the island group were identified and named in the book Record of the Imperial Envoy’s Visit to Ryukyu, and were the Ming Dynasty’s (16th-century) sea-defense frontier. Although Ryukyu was an independent kingdom, the kings paid tribute to the Emperor of the Ming dynasty. Some researchers argue that China claims the islands because the Ryukyu Kingdom was under a tributary state of the Ming in 1372 (Shaw, 1999).

(2) In 1609, the Shimazu clan of the Satsuma Domain (current Kagoshima Prefecture) invaded the Ryukyu Kingdom making the kingdom Satusma’s vassal territory. Though recognized as an independent kingdom, the islands were occasionally also referred to as being a province of Japan. The kingdom was both a tributary of China and a tributary of Japan.

(3) In 1879, the Meiji government officially annexed the Ryukyu Kingdom as an Okinawa Prefecture. China protested and asked former U.S. President Ulysses Grant to intervene.

(4) The 1895 Treaty of Shimonoseki, following Japan’s victory in the Sino-Japanese war, under which Japan acquired numerous island territories from China, including those disputed islands which were under effective control of the Okinawa Prefectural Government. China and Taiwan believe that the Senkaku/Diaoyu/Tiaoyutai islands were ceded to Japan in 1895 under the Treaty of Shimonoseki. However, the islands were not specified in the treaty, and Japan claimed the islands in 1885 under the notion of terra nullius (no man’s land), or unclaimed territory.

(5) The 1951 San Francisco Peace Treaty, following Japan’s surrender in the Pacific War, the Ryukyu Islands, including Okinawa and Amami islands were subjected under U.S. military administration. The Peace Treaty was also concluded between China and Japan in 1952.

(6) The 1968 report of the United Nations Economic Commission for Asia and the Far East (ECAFE) identified potential oil and gas reserves in the vicinity of the disputed Islands. According to China specialists, however, even if oil resources did not exist, China would not give up one inch of what is considered its territory, pointing out that the symbolic value far outweighs the commercial value the islands may hold.

(7) In 1970, following the U.S.-Japan agreement to return Okinawa to Japanese administration, China formally claimed the control of the islands. “We may, however consider that Japan’s annexation of the Ryukyu Archipelago, including Okinawa in 1879 and Taiwan in 1895 marks the opening dates of this dispute, although neither Beijing, nor Taipei after 1949 has claimed the sovereignty of the islands until the U.S. occupation, which began in 1945” (Courmont, 2015). China claims the islands are part of its sovereign territory, having been wrongfully stolen by Japanese military expansions in the late 19th century. Japan, in turn, claims that it is the rightful sovereign of the Senkakus, alleging that the islands were terra nullius until 1895, when Japan incorporated the islets by cabinet decision. Japan further asserts sovereign title to the islands owing to China’s failure to object to Japan’s claims of sovereignty for over seventy years, until China first raised a competing claim to the islands in 1970.

(8) In 1982 Under the United Nations’ Law of the Sea, China claims the disputed ocean territory as its own Exclusive Economic Zone (EEZ) due to its being part of China’s natural extension of its continental shelf, while Japan claims the disputed ocean territory as its own EEZ because it is within 200 nautical miles (370 km) from Japan’s coast, and proposed a median line as the boundary between the EEZ of China and Japan (see FIG. 2). About 40,000 square kilometers of EEZ are in dispute. China and Japan both claim 200 nautical miles EEZ rights, but the East China Sea width is only 360 nautical miles. China claims an EEZ extending to the eastern end of the Chinese continental shelf (based on UNCLOS III) which goes deep into the Japanese’s claimed EEZ.
In 1995, the PRC discovered an undersea natural gas field in the East China Sea, namely the Chunxiao gas field, which lies within the Chinese EEZ while Japan believes it is connected to other possible reserves beyond the median line. Japan has objected to the PRC development of natural gas resources in the East China Sea near the gas fields in the Xihu Sag area in the East China Sea (Canxue, Baoyunting, Chunxiao, Duanqiao, Wuyunting, and Tianwaitian) are estimated to hold proven reserves of 364 BCF of natural gas. Commercial operations began 2006. In June 2008, both sides agreed to jointly develop the Chunxiao gas fields.

In 2010, a Chinese fishing boat intentionally rammed into two Japan Coast Guard vessels in Japan’s territorial sea. Chinese government vessels started to sail the waters more frequently than before.

The dispute over the islands has rumbled relatively quietly for decades until right-wing Tokyo Governor Shintaro Ishihara proposed to buy the islands from their private Japanese owner. In September 2012, the Japanese government purchased three of the disputed islands from the owner to block Mr. Ishihara’s more provocative plan. The purchase was completed under the government of Prime Minister Yoshihiko Noda of the Democratic Party of Japan. According to recently released emails of former U.S. Secretary of State Hillary Clinton, Japan grossly underestimated the anger it would face from China over the nationalization of the Senkaku islands.

The nationalization of islands triggered immediate public and diplomatic protests from Beijing to Hong Kong with slogans such as "Defend the Diaoyu Islands" and "Smash Japanese Imperialism." They called for the boycott of Japanese goods and for the government to retake the islands. In the process, many protesters tore up Japanese flags and smashed Japanese-branded cars and vandalized shops selling Japanese goods.
(15) The Chinese Ministry of Foreign Affairs officially elevated the disputed islands to a "core interest" in April 26, 2013. The designation of the islands as a "core interest" signals a shift in Beijing’s approach to the maritime dispute and indicates China "will make no concessions on the islets (Campbell, 203).

(16) On November 2013, China also announced the creation of a new air-defense identification zone (FIG. 2), which would require any aircraft in the zone – which covers the islands – to comply with rules laid down by Beijing. Japan labelled the move a "unilateral escalation" and said it would ignore it, as did the US.

(17) After the incident, the numbers of Chinese government and other vessels that entered into Japan’s territorial sea surrounding the disputed islands surged (FIG. 3). Each time Chinese government vessel intrudes into Japan’s territorial sea, on-site Japanese patrol vessels demand them to leave, and at the same time, the Japanese Government promptly lodges a strong protest against the Chinese Government through diplomatic channels, strongly demanding the vessels leave immediately and that China prevent such an incident from occurring again.

(18) The situation has been regarded as "the most serious for Sino-Japanese relations in the post-war period in terms of the risk of militarized conflict. The U.S. government urged Japan to break the deadlock between China and Japan over the disputed islands, and establish a crisis management mechanism to avoid unintended clashes in the sea or in the skies. The Chinese President Xi and Japanese Prime Minister Shinzo Abe finally met on the issue in November 2014. They agreed to create a hotline to prevent the escalation of any potential conflict in the sea.

(19) Despite the positive political signs, the frequency of Chinese maritime incursions has actually increased since the Abe/Xi icebreaker meeting. More worrying, however, is the fact that China’s decision to introduce armed vessels to the region raises the stakes considerably. Tokyo also decided to dispatch Japan’s Maritime Self Defense Forces, in addition to coast guard ships. Clearly Beijing intends to alter the status quo around the islands in order to force Tokyo to admit that there is a dispute.

(20) Meantime, it will be critical to mitigate the impact of any accidental incidents that that may arise in the coming months, whether military or non-military through implementing the crisis management mechanisms. In order to bring peace and stability in this region, we need to envisage long-term region-wide vision and solution as is proposed in the following sections.

3. East China Sea Peace Initiative

ROC President Ma Ying-jeou proposed the “East China Sea Peace Initiative” on August 5, 2012 based on the principle of safeguarding sovereignty, shelving disputes, pursuing peace and reciprocity, and promoting joint exploration and development. President Ma is a good position to propose a mutually beneficial solution to the disputed islands because Taiwan has also claimed the islands. Also Mr. Ma has maintained extremely close relations with both Beijin and Tokyo. Mr. Ma’s initiative was presented officially by the Ministry of Foreign Affairs in 2012 (ROC MOFA, 2012).

(1) Implementation
The East China Sea Peace Initiative is to be implemented in two stages:

First Stage: Peaceful dialogue and mutually reciprocal negotiation

This stage involves promoting the idea of resolving the East China Sea dispute through peaceful means, and establishing channels for Track I and Track II dialogue and encouraging all parties concerned to address key East China Sea issues via bilateral or multilateral negotiation mechanisms in order to bolster mutual trust and collective benefit.

Second Stage: Sharing resources and cooperative development

This stage involves institutionalizing all forms of
dialogue and negotiation and encouraging all parties concerned to implement substantive cooperative projects and establish mechanisms for joint exploration and development of resources that form a network of peace and cooperation in the East China Sea area.

(2) Five Points Key issues

Fishing industry—Convening bilateral and multilateral fishing industry meetings and other forms of fishing industry cooperation and exchange, and establishing a mechanism for fishing industry cooperation and administration.

Mining industry—Promoting the joint exploration in the territorial waters to the north of Taiwan and establishing a mechanism for joint exploration, development and management.

Marine science research and maritime environmental protection—Conducting multi-national marine and ecological research projects pertaining to the East China Sea.

Maritime security and unconventional security—Implementing bilateral and multilateral law enforcement exchanges and marine rescue agency cooperation, and establishing a collaborative marine security and crime-enforcement mechanism.

East China Sea Code of Conduct—Implementing mechanisms for Track I and Track II dialogue and negotiating mechanisms for resolving disputes through peaceful means that will bolster mutual trust and encourage all parties concerned to sign the East China Sea Code of Conduct.

The implementation of the Peace Initiative and its five key points would face a daunting task because the PRC considers Taiwan as a “renegade province” and Japan severed the diplomatic relations with Taiwan in 1972. However, it is important to recognize that the Ming Dynasty (1368-1644) considered the disputed islands were under the jurisdiction of Taiwan, and Taiwanese fishermen used the islands as a fishing base for several centuries. It is also important to note that during the Japanese occupation of Taiwan (1895-1945), the Senkaku/Diaoyu/Tiaoyutai archipelago came under the jurisdiction of Taipei Prefecture, and Taiwanese fishermen used the islands as a fishing base for several centuries. It is also important to note that during the Japanese occupation of Taiwan (1895-1945), the Senkaku/Diaoyu/Tiaoyutai archipelago came under the jurisdiction of Taipei Prefecture. It should also be noted that fishermen from the Miyako Islands also used Minami Kojima (one of the disputed islands) to catch and process bonito and keep vegetable gardens for many years.

4. Growth Triangle (GT) Approach to the Territorial Issues

This approach basically intends to solve the territorial issues of Senkaku/Diaoyu/Tiaoyutai islands based on the model of regional economic integration or the concept of growth triangle (GT) developed by this author.

(1) What is Growth Triangle (GT) Approach?

Growth Triangle (GT) can be defined as “transnational economic zones spread over well-defined, geographically proximate areas covering three or more countries where differences in factor endowments are exploited to promote external trade and investment” (See Kakazu, 1995; Kakazu, 2012). Depending on the approaches, GTs are also referred to as subregional economic zones, natural economic territories (Scalapino, 1992), or popular after Goh Chok Tong of the former Singapore Prime Minister, used it in reference to “SIJORI GT,” comprising Singapore, Malaysia’s Johor State and Indonesia’s Riau Province. The key elements of GT are “proximity,” “complementaries,” “network,” and “political consensus” as shown in FIG. 4.

(2) Merits of Growth Triangles

Compared to the on-going regional cooperation such as the TTP (Trans-Pacific Partnership Agreement), RCEP (Regional Comprehensive Economic Partnership), AEC (ASEAN Economic Community) and others as shown in FIG. 5, GT has the following merits (see Kakazu, et al, 1994):
(a) Unlike the trading bloc, which requires sweeping, nationwide institutional and administrative changes, the growth triangle approach involves only contiguous parts of countries. Therefore, politico-economic risks associated with regional integration will be localized or minimized when it fails. On the other hand, if it succeeds, its benefits will be easily expanded to the contiguous region as can be seen in SIOJRI and Southern China growth triangles.

(b) Compared to establishing a formal trading bloc, which usually requires tedious, time-consuming intergovernmental negotiations and procedures, growth triangles can be established at much lower cost and in a shorter period of time. This is one of the important reasons why countries such as Indonesia and Malaysia are establishing several growth triangles at the same time. The role of governments should be limited to that of shortening the period over which the GT process or natural process of economic integration takes place.

(c) The GT approach will be useful to initiate the trade liberalization of a country. This can be seen on the SIOJRI GT, where in the Batam Island of Indonesia has been given a status of a free trade area. The area is a model of the AFTA which aims at an ASIAN-wide free trade area by the year 2003. By the same token, the GT approach will also be useful to facilitate the transition of centrally planned economies to market economies such as Myanmar, Lao PDR, Vietnam and Cambodia in the Mekong River Basin GT. One major objective of the Tumen River GT is to open the North Korean economy to the world market.

(d) Trading blocs focus on the expansion and liberalization of the internal market of its member countries, while GTs are motivated by foreign direct investment and exports for which the size of the regional market is less important than the openness of the global trading systems. Therefore the GT approach is consistent with the GATT (WTO) principles of non-exclusional character of open regionalism. That is to say, the markets created by growth triangles are open to every participant.

(e) The GT method and process can also be useful to cope with the emerging environmental problems in Asia through cross border cooperative efforts and sub-regional participation.

(f) Lastly, the concept of GT can be effectively applied to develop remote, peripheral areas where economic complementarities and adequate infrastructure with neighboring nations exist. It is interesting to note that almost all GTs in Asia are located in nations’ peripheral and crossborder areas where informal border trade and crossborder labor mobility have been actively taking place.

GT is usually set up within a crossborder free trade zone which can be administered jointly by contiguous governments or by a jointly created development authority as can be seen in SIOJRI GT. In this sense, GT is a crossborder, multinational free trade and investment area, which is very much different from the conventional concepts of free ports, special economic zones, export processing zones, and foreign access zones (FAZ) which are established within a country.

(3) Taiwan–Okinawa–Shanghai Growth Triangle (TOS–GT)

(a) Is Geography Matter?

As we have discussed, the concept of GT can be usefully applied to develop a nation’s remote, peripheral, crossborder areas where socio-economic complementarities, common historical ties, and adequate infrastructure exist. There are three regions in Japan, where the ideas of forming GTs are discussed. They are Okinawa, the Japan Sea Rim region, encompassing Niigata, Ishikawa and Toyama, and the Yellow Sea Rim region centered on Fukuoka and Yamaguchi. Among these three possible GT regions, Okinawa seems to fit the GT concept best because of its geographical location and historical ties with its neighboring regions, particularly with Taiwan. Therefore, we focus our discussions on the prospects and problems of Okinawa’s GT formation. We will soon discover that Okinawa’s problems in forming a GT are more or less common problems for Japan’s other peripheral regions.

The Taiwan–Okinawa–Shanghai Growth Triangle (TOS–GT) comprises Taiwan, Okinawa and Shanghai. The major purposes of the TOS–GT are (a) to create trade and investment opportunities through a subregional FTZ; (b) to enhance regional economic activities through decentralization of the decision making process; and (c) to reduce politico-military tensions that had been building up in recent years, over the “Taiwan issue” and the territorial disputes on the Senkaku / Diaoyu / Tiaoyutai islands and the Spratly Islands in the South China Sea, by intensifying mutual economic interests.

If geographical proximity were a key factor for a successful regional economic integration--- since it implies lower transaction costs such as for travel, transportation, and communication--- then it would be natural for Okinawa to have much closer economic ties with Taiwan and Shanghai than Tokyo as is depicted in the following figure.
Okinawa is much closer to Taiwan (630km or 394 miles) and Shanghai (820km or 512 miles) than to Kyushu (1,000km or 625 miles), or to Tokyo (1,600 km or 1,000 miles) on which the Okinawan economy heavily depends today. If geographical proximity was a key factor for a successful regional economic integration---since it implies lower transaction costs such as for travel, transportation, and communication---then it would be natural for Okinawa to have much closer economic ties with Taiwan and Shanghai than Tokyo.

The reality, however, is the opposite. A very strange practice has been pursued for many years whereby Taiwanese products are first shipped to Yokohama or Kobe and then to Okinawa. This practice has been rationalized on the basis that there has been only one tanker trip per week between Okinawa and Taiwan, mainly because of the lack of cargo shipments to and from Okinawa as we have seen already. If economic activities expand through TOS-GT, more frequent trips among the participating regions will become economically feasible.

I should note here about the so-called “clearance shipping” between the ports of Taiwan and Shanghai through Okinawa’s Ishigaki ports before China and Taiwan started direct trade in 2008. Typically a Taiwan cargo ship visited Ishigaki port where the shipping documents were rewritten so as to make Japan as the origin of the shipment, thereby allowing clearance through Chinese customs. Cargoes were shipped both ways between Taiwan and mainland China. The location of Okinawa can be utilized once again for regional trade. The increasing number of cargo transactions will generate such conditions favorable for the Naha port to be designated as one of Asia’s bases, or hub ports. The designation as a base port means improved port facilities and lower transportation costs, which will serve to make Okinawa far more competitive in global trading. It is particularly important to improve almost one-way cargo traffic from the mainland and

It takes only 85 minutes by airplane from Naha to Taipei, and on a clear day we can see Taiwan’s highest mountain “Gyokuzan” from Yonaguni, the westernmost island of Japan. Yonaguni, a “sister city” with Taiwan’s Hualien, has proposed a “Yonaguni-Taiwan Cross-border Exchange Special Zone” to the Japanese Cabinet Minister. (Kakazu, 2015). The Special Zone aims at Yonaguni’s sustainable development through direct socioeconomic exchanges between Yonaguni and Taiwan, particularly through direct trade. Yonaguni prospered through direct trade with Taiwan until the early 1950s. In September 2010, the Yonaguni-Hualien Exchange Development Association (YHEDA) assisted Yonaguni farmers to import fertilizer from Taiwan, which was 30-40% cheaper than imports from mainland Japan. The YHEDA is planning to import other basic goods from Taiwan. Yonaguni’s innovative idea should be extended beyond Yonaguni-Taiwan bilateral trade to form a TOS-GT.

Economic and cultural ties between Taiwan and Okinawa have been on the rise in recent years. The number of visitors to Okinawa increased nearly 40% in the past decade, reaching about 7 million in 2014 (Kakazu, 2015). Particularly foreign inbound visitors increased by 13-fold during the same period. Of the foreign visitors, Taiwan accounted for about 40% of the total, indicating that Taiwan is the most important, rising tourist market in Okinawa(FIG. 8).
In order to rationalize the TOS-GT scheme, actual flows of trade and investment, particularly between Taiwan and Okinawa must be strengthened. Although Okinawa has kept trade surplus over Taiwan, Okinawa’s trade with Taiwan accounted for less than 2% of its total trade, and only 0.1% of Taiwan’s. There are, however, encouraging signs that both Okinawan and Taiwan traders and investors have shown keen interest in their respective markets.

As can be seen in the following figure, the Taoyuan International Airport is becoming an important regional hub airport for Okinawans who use the airport to travel beyond Taiwan. Recent services of low-cost carriers (LCC) between Taipei and Okinawa, such as Peach and TransaAsia, accelerated the hub function of Taipei.

The OTS-SEZ will be used as a trade center, including a stockpoint for parts, exhibitions of new products, processing parts, data and information center (back-office), design center, R & D center, human resource development center, etc. Just as the existing Okinawa Special Economic Zone, the OTS-SEZ should have a special tax credit system as well as duty-free imports for export purpose. In order to realize the OTS-SEZ, several complicated problems must be resolved as detailed in the following sections.

(c) Significance of the Japan (Okinawa)–Taiwan Fisheries Agreement

The Interchange Association, representing Japan and the Association of East Asian Relations (AEAR) finally concluded the Japan (Okinawa)–Taiwan Fisheries Agreement on April 10, 2013, after 17 years of consultations (see ROCMOFA, 2013). The pact also instituted the Taiwan–Japan Fisheries Committee, which serves to resolve disputes and consultations arising from the implementation of the agreement. The committee composed mostly of Okinawan and Taiwanese fishery representatives. The agreement is a success story of President Ma Ying-jeou’s “East China Sea Peace Initiative” which aims to transform the East China Sea into a “sea of peace and cooperation.” As we have already discussed, the Initiative was proposed right after Japan nationalized the Senkaku/Diaoyu/Tiaoyutai Islands whose sovereignty has also been claimed by Taiwan and China for many years. Amid the increasing tension between China and Japan over the islands, Taiwan acted as a peacemaker.

The contents of the agreement, however, are more favorable to Taiwanese fishermen than their Japanese counterparts, namely Okinawan fishermen, because the former fishing area was expanded to 4,530 square kilometers from 3,130 square kilometers without interference by Japanese government agency vessels. Even the same fishing areas, Taiwanese fishing vessels have overwhelmed Japanese vessels in terms of number and vessel size. The fisheries agreement, however, implies more geopolitical meaning for Japan than actual fishing operations.

(4) Impediments to TOS-GT Formation

Although Okinawa has a golden opportunity in the age of the locally based global economy to take advantage of its strategic location in the Asia-Pacific region as well as its historical legacy in promoting TOS-GT, there are obviously many hurdles and problems to overcome. These issues are examined in the following section. One of the most important issues in realizing the idea is local politico-economic initiatives. Despite enhanced local autonomy in recent legislation, Okinawa is not in a position to negotiate with Taiwan and China.

(b) Okinawa Initiatives

As an initiator of the TOS-GT, I would propose establishing an Okinawa–Taiwan–Shanghai Special Economic Zone (OTS-SEZ). Ideally the Okinawa side of the OTS–SEZ should be located in facilities within returned U.S. military bases such as the Naha Military Port or Camp Kinser which are expected to be returned in the near future (FIG. 10). The Taiwan Special Economic Zone in Subic Bay in the Philippines, which was successfully established on the returned naval U.S. bases in the 1990’s, may be a good model for OTS–SEZ.
in concluding trade related agreements. These are mandates of the central government in Tokyo.

Although Beijing and Taipei relationship has improved remarkably in recent years, the Japanese government is reluctant to encourage the local initiatives to better relations with Taiwan as long as the Beijing government regards it as a "renegade province." There are, however, encouraging signs that Taiwan businessmen in particular have shown keen interest in investing in Okinawa in response to Okinawa’s private sector initiative. As we have seen, Okinawa’s health food industry is also looking for joint venture partners in Taiwan.

(a) Stumbling Block of One–Country–One–System

Japan has been notorious for its centralized socioeconomic system which worked well to accelerate the catch-up process with advanced Western systems after World War II. After the completion of the catching-up phase in the 1980s, however, the system seems to have worked as a brake or a stumbling block for further advancement.

Despite emerging voices of regionalism and new decentralization laws, administrative power and cost sharing schemes between the central and local governments have not been effectively instituted. One good reason behind this lies in inertia on the part of local governments themselves. Transfer of administrative power from the central to the local governments means more local initiatives as well as responsibility. Most local governments, including Okinawa, are heavily dependent on subsidies from the central government, and they are reluctant to commit to more self-reliant development.

Article 14 of the Japanese constitution, which stipulates “Equality under the Law” is probably the most important stumbling block for regional initiatives to form a GT. A good example is the aforementioned Okinawa’s SFTZ. The Okinawa Prefectural government strongly demanded the Japanese government to allow “one-country–two-systems” for effective use of the zone. But the Japanese government stubbornly turned down the demand based on its interpretation of the article 14, that Okinawa should not be treated differently from any other national regions. Tokyo argued that if Okinawa enjoys one-country–two-system, the other national regions should also be granted the same privileges. The Governor of Okinawa was not convinced by the interpretation, saying that Okinawa has been under “one-country two-systems” because the island has burdened about 74% of U.S. military facilities in Japan. The Japanese government’s response to this assertion is "Okinawa is not the only place to have U.S. bases in Japan."

A full–fledged GT formation like the TOS–GT is not possible unless the local governments are allowed to institute independent globalization policies such as determining the level of tariffs, local taxes and contracting cooperative agreements with local partner as well as those selected by the central governments.

(b) Diplomatic Relations

In any country, diplomacy is exclusively left for the central government based on the idea of “integrated diplomatic policy.” It is understandable because plural policies would lead to confusions and conflicts among negotiating partners, particularly in highly sensitive fields such as security and national defense. Given overall national guidelines, however, there are many diplomatic negotiations to be left for the initiatives of each local government. The Japanese local governments are already conducting various “regional diplomatic policies” such as fishery agreements as discussed later, friendship agreements, personal and cultural exchanges, and establishing joint ventures. Most economic affairs should be left for the local private and public initiatives if they do not conflict with overall national guidelines.

Local diplomatic initiatives are crucial for the successful formation of TOS–GT. Although the diplomatic relationship between Taipei and Tokyo has improved remarkably in recent years, reflecting improved relationship between Beijing and Taipei, the past governors of Okinawa were reluctant to visit Taiwan officially for an afraid of offending the Beijing government. The stance of Okinawa, however, has been changing significantly in recent years as we have already discussed about the “Okinawa Initiative" in concluding the MOU between Okinawa and Taiwan on joint use of their major port facilities to promote tourism and cargo transportation.

(c) Complementarities

The success of TOS–GT depends on complementary relationships among the participating regions. Okinawa’s economic role in the region is particularly crucial. Okinawa’s strategic location in the region alone does not guarantee prosperous business opportunities for TOS–GT participants. As we have discussed, Okinawa is identifying itself as the region’s “healthy resort,” with accompanying regional “hubs” of information networks and entrepot. It is clear from our analysis that Okinawa is not well suited for intra–industry division of labor for a large–scale, labor–intensive manufacturing because of its high cost structure coupled with limited domestic and isolated market. Shanghai and Taiwan, on the other hand, possess comparative advantages in all ranges of manufacturing products and financial services.

(d) Cabotage and Base Port Regulations
One of notorious trade barriers for the local economy is the “Cabotage regulation” which is synonymous with the “use one’s own carrier policy.” The Cabotage regulation in Japan is stipulated in the 1899 “Vessel Act.” The Act, in principle, prohibits foreign vessels from carrying passengers and cargoes between domestic ports. The Cabotage became well-known when a huge earthquake hit the Hanshin-Awaji areas in 1995. International carriers such as Sealand and Maersk had to use local feeder vessels to transship between Kobe and Yokohama because the Kobe port was unserviceable by the earthquake. This incident revealed that transportation costs between San Francisco and Kobe are less expensive than the costs between Kobe and Yokohama. The Cabotage regulation is also applied to the air carrier. Foreign aircrafts are not permitted to carry passengers or cargoes between Narita and Okinawa. Okinawa’s transportation costs will be substantially reduced if these regulations and policies are removed.

The base port regulation also makes local ports less competitive in international market. This regulation is unique because the base port is designated by the Japan Shippers’ Union, a private organization, based on the volume of cargo traffic. In order to carry a 40 foot container from the U.S. west coast to Naha Port, Okinawa has to pay $2,769, compared to Yokohama ($1,461) and Taiwan ($1,226). The major differences in cost components are a special fee imposed on the local ports in order to compensate for the loss arising from small lot. The other additional costs accrue to high weather risk, taxes and port user fees which are almost exempted in Taiwan. If we think that the transportation costs account, on average, for roughly 20% of the total value of cargoes, Okinawa’s comparative cost disadvantages are enormous in this age of mega-competition.

(e) Taiwan–China Relations under the New DPP Government

While this author was in Taiwan as a research fellow, Tsai Ing-wen, the pro-independence presidential candidate of the Democratic Progressive Party (DPP), won a landslide victory against the anti-independence Kuomintang (KMT) candidate in the presidential election held on January 16, 2016. The DPP also won 68 out of 113 seats in the Legislative Yuan (LY), securing an absolute majority, enabling the DPP to pass legislation and annual budgets favoring its own policy agenda. The DPP’s victory also has implications for Taiwan’s relations with both Beijing and Japan.

As we have discussed, the KMT government has pursued pro–Beijing policies for eight years. Taipei and Beijing have signed twenty–three agreements, including the Economic Cooperation Framework Agreement (ECFA), to dramatically boost Cross–Strait cooperation and exchanges. The historical summit meeting between President Ma Ying-Jeou and President Xi Jinping was held in 2015. Japan has also benefited economically from stable and peaceful relations between Taipei and Beijing.

Although the President-elect Tsai repeatedly maintained the status quo for peace and stability across the Taiwan Strait, DPP’s victory “means that Taiwan’s tilt toward Beijing is likely to slow down or even reverse, as the party has been extremely cautious regarding Mainland China. Because China strongly opposes the DPP’s pro–independence political stance, Beijing may even take economic measures as leverage to pressure Taipei” (Matsuda, 2016).

Although Japan does not support Taiwan’s independence, there is no doubt that the DPP government will take a position much closer to Japan compared to the KMT government. As we have discussed, the Japan (Okinawa)–Taiwan Fisheries Agreement was concluded during the critical timing when geopolitical tensions had been rising between Japan and China. Japan wished to place a wedge between mainland China and Taiwan to prevent them from forming united front over the territorial claims of the Senkaku/Diaoyu/Tiaoyutai islands. The fisheries agreement could be possible because of the KMT’s friendly relationship with mainland China. The agreement is a significant development for forming TOS–GT because it demonstrated that the “local governments” could take an initiative to make joint use of the marine resources in the disputed areas.

For peaceful development of the Senkaku/Diaoyu/Tiaoyutai islands, the improvement of Japan’s bilateral relation with China is an essential prerequisite. Japan should be a balancer in this disputed region through maintaining peace and stability. Japan should promote the Regional Comprehensive Economic Partnership (RCEP) and join the Asian Infrastructure Investment (AIIB) which have been initiated by China, while promoting Taiwan’s participation in the Trans-Pacific Partnership Agreement (TTP).

As we have discussed, Japan and Taiwan have developed a number of unofficial economic as well as cultural agreements without inviting protests from China. This is due largely to the Ma administration’s pro–China policies. Japan therefore should continue on its current course of further solidifying practical agreements with Taiwan and further stabilize the relationship with China. In doing so, Japan should not emphasize any strategic intent of containing China by strengthening ties to Taiwan, which would certainly provoke China. Japan and Taiwan should instead demonstrate the model of a mature and inclusive bilateral relationship, stressing...
that it will always be open to China. Japan should appeal to both Beijing and Taipei to sustain peace and stability in the region.

The worst scenario will be a clear denial of the 1992 Consensus that refers to “one China” by the Tsai government. “It would serve Japan and the rest of the world’s best interests in terms of stability and economic development if both Beijing and Taipei can find the “right wording” through mutual concessions. But if the behind-the-scenes talks fail, cross-Strait relations may chill, and Japan may be caught between Beijing and Taipei, just as it was caught between the two until the end of the Chen Shui-bian administration in 2008” (Matsuda, ibid.).

5. Conclusions

The term “Enlightenment optimism” (Emmot, 1999) suggests that all problems are solvable by reason. In this spirit, we would like to argue that a growth Triangle (GT) approach might provide some rational solutions to the problems of disputed waters in the East and South China Sea. We argue that globalization and localization are not “trade-offs.” Instead, they are essential, “complementary” factors for the future development of this region, including the disputed waters in the East and South China Seas. Without full, efficient, value-added use of location factors such as geography, labor, niche technologies, culture and natural resources, the local economy will not be ready for the sea change brought about by globalization.

As we have discussed, Okinawa is not only geographically close to Taiwan, but also the both islands endowed many common historical as well as cultural heritages. In this age of borderless world, there is no reason why the both regions should not engage in more intensive socio-economic interactions. Although the idea is still at the formative stage, I believe that the TOS-GT offers a framework to establish the regional economic integration at the local initiative. The MOU on Okinawa-Taiwan partnership in using respective port facilities and the establishment of the Taiwan-Japan Fisheries Committee to discuss future issues in the disputed water are the first, steady steps towards realizing the TOS-GT.

The peaceful settlements on the disputed islands are complicated because it involves history, economy, security and nationalism. One of the greatest challenges facing the successful development of TOS-GT is a high degree of political commitment to the GT concept by participating regions and countries. Strong political commitment is also absolutely necessary in order to ensure a functional institutional framework for cooperation among the central and local governments, the private sector, and the residents of TOS-GT. Senkaku/Diaoyu/Tiaoyutai Islands are currently “effective control” under Okinawa Prefecture. China has been claiming that the disputed islands are under Taiwan’s jurisdiction. Both Japanese and Chinese central governments should leave all powers to both Okinawa and Taiwan governments for peaceful, joint development of the disputed waters.
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