



Cease NUC Update 1

By CK Wong 2006.03.09

<http://www.ck-wong.ca/MoneyChina/cease%20nuc%20update%201%2020060309.pdf>

Introduction

After Taiwan in power President Chen 'ceased the National Unity Council', Japan Foreign Minister voices its support to the action. Situation is escalation on March 8. But China regarding this is Japan's line of strategy to claiming Chinese resources. On March 9, Japan Ministry of Foreign Affair responds. For the meantime, some Asian markets do not like what is going on.

Formosa Movement

Formosa is given by the Dutch to Taiwan which is the name given by China. The native has been living with the Chinese over 500 years and traded over 1000 years because it was part of Chinese territory. During the beginning of Nineteen Century, Taiwan was ruled by the Dutch during the Qing Dynasty. Qing government had no military power to defense. Later, with the rise of the Japan, Dutch was replaced by Japanese. Japan started a series of identity change strategy to sever the Chinese tie. This included clothing, language, culture, custom and values. No Taiwan resident was allowed to make contact with mainland China. As the result, Taiwan people had a strong emotional tied with Japan. The major economic benefits for Japan were food, mineral and timber.

Japan had similar strategy when it captured the natural resources rich Northeast China at the beginning of the Twentieth Century. Due to the much short period of capture, the emotional tie was not formed.

After the Second World War, under the terms of surrender, Japan returned all captured territories to their original country.

Taiwan native felt the lost of the tie. When the National Part was defeated by Communist and retreated to Taiwan, the late comer dominated all aspect of the society: finance, business, culture and intellectual. This created the resentment of the native. It provoked the *good old days* memory.

This is the seed of the Formosa movement; independent of the Formosa. Japan has been very supportive to the movement

Motivation

Taiwan is a wonderful land: resource rich, fertile farm land, great fishery and great produce. These are what Japan wants. With the discovery of energy resource around the eastern cost of Chinese continental shelf, the probability to find energy near Taiwan will be high. It will be much easier to access these resource from an independent Taiwan which has been support by Japan than from either Chinese government.

Market Reaction

The market does not like the uncertainty. The Asian market is unkind. The American's semiconductor index is down because most American's high-tech firms rely on the Taiwan foundries to manufacture their chips. The following is quoted from Richard Russell's Dow Theory Letter Remark on March 8:

Yesterday was a weirdo, in that the Dow was up while the great majority of US stocks were down. I was particularly struck by the big crack in the emerging market stocks, such as in Taiwan, South Korea, and Mexico, which you can see on the charts below. Also whacked was the heart of the Nasdaq, the SOX or "chip stocks" index. Yesterday both the S&P and the Nasdaq closed under their 50-day moving averages.

The US markets action may not cause by the Taiwan situation but it could be. Many company, such as HP, has OEMing product from Taiwan. If China uses military force to take over Taiwan and American defenses it, the export to US could be interrupted which could trigger an American recession. The domino effect may kick off and spread to the world.

Japan's First Remark

On March 9, Japan's Foreign Minister Taro Aso called Taiwan a law-abiding "country". This has been interpreted by China as Japan sees Taiwan as an independent country rather than part of China. In another word, Japan support Taiwan's Formosa Movement to be independent. This statement has been condemned by China's Foreign Affair Minister Li Zhaoxing. Later, Japan's Foreign Ministry back-paddled. On the same day, Japan's attitude changed again. The Vice-Minister of Foreign Affair of Japan made a strong protest to Chinese Ambassador to Japan Wan Yi. The protest alleged the Chinese statement was inappropriate.

This time, it is more than China, Taiwan and US. Japan is jumping in this muddle. We should keep our eyes open to see how the event unfolded.

Resources

- [1] Dow Theory Letter Remark, 2006.03.08, Richard Russell
- [2] Internet Press Chat Conference, 2006.03.09, The Ministry of Foreign Affairs of Japan, <http://www.mofa.go.jp/announce/press/2006/3/0309.html>
- [3] CIA World Factbook – Taiwan, <http://www.cia.gov/cia/publications/factbook/geos/tw.html>
- [4] Japan FM's remark on Taiwan condemned, China Daily/AP, 2006.03.10, http://www.chinadaily.com.cn/english/doc/2006-03/10/content_530474_2.htm