

# **A Review of Taiwan's Old and New Go South Policy: An Economic Perspective**

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## **Abstract**

The New Southbound Policy was officially announced by President Tsai Ing-wen in her inaugural address on May 20, 2016, to formalize the Democratic Progressive Party's proposal initiated during the presidential election campaign to enhance relations with Southeast Asia, or the Association of Southeast Asian Nations, South Asia, Australia, and New Zealand. The New Southbound Policy often is compared with the previous governments' policy in the 1990s and 2000s but regarded to have different agenda and policy goals. Thus, the New Southbound Policy is a renewal of the old versions but with new elements and different priorities. The policy has seen full implementation since January 2017. Although time is needed to evaluate the overall effects, some positive progress has been seen in student exchanges and tourism. The policy needs to respond to the changing international geopolitical and economic environment. In addition, it also needs to respond to target countries' future development plans and regional economic integration, including the RCEP, which may conclude trade negotiations in the end of 2017 or early 2018. To help

the business community better engage in the region and improve competitiveness, the government also needs to consider a revised FTA strategy to develop bilateral ECAs/FTAs and participate in regional trade agreements.

**Keywords:** Go South Policy, New Southbound Policy, ASEAN, AEC, RCEP

## **I. Introduction**

The New Southbound Policy was launched officially by President Tsai Ing-wen, also Chairwoman of the Democratic Progressive Party (DPP), in her inaugural address on May 20, 2016, to formalize the party's proposal announced in September 2015 during the presidential election campaign to enhance relations with Southeast and South Asia.<sup>1</sup> The New Southbound Policy is regarded as a renewal of Taiwan's previous policy to encourage the business community to go south, while there are new elements and different priorities in the policy objectives and contents.

Taiwan is a small island country with a population of 23 million. Taiwan has been an export-oriented and outward looking economy, highly dependent on global demand for its trade-driven economic growth. The country enjoyed significant economic growth momentum from the 1970s to 1990s. Real GDP growth rate during that period averaged about 8 percent. Since the late 1980s, however, Taiwan has been forced to undertake an industrial re-structuring, which led to the beginning of offshoring labor-intensive manufacturing industries

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1. Office of the President, Republic of China (Taiwan), "Inaugural address of ROC 14th-term President Tsai Ing-wen," *Office of the President, Republic of China (Taiwan)*, May 20, 2016, <<http://english.president.gov.tw/NEWS/4893>>.

to Southeast Asia and China, while promoting more value-added and technology industries at home. In 1994, President Lee Tung-hui formally introduced a Go South policy<sup>2</sup> to further encourage enterprises to go south under enhanced policy coordination and resources. Politically, Lee's administration also took advantage of the investment flows to promote trade diplomacy, including pushing for presidential and high-ranking officials' visits and negotiating bilateral agreements with Southeast Asian countries to promote investment and other economic cooperation.

Two decades have passed since the earliest Go South policy was launched. The previous experiences can shed light on better coordination and implementation of the New Southbound Policy. Although lacking a comprehensive assessment of the preceding governments' Go South policy, it is important to acknowledge that the previous Go South policy raised awareness of the Southeast Asian community in Taiwan and helped build business networks of Taiwanese enterprises, or *Tai shang*, across several Southeast Asian countries. Through offshoring manufacturing activities to the region, the previous Go South policy not only contributed to fueling Taiwan's economic growth in the 1990s and early 2000s but also helped establish production networks and value chains dominated by Taiwanese investors and their local partners. For example, in the 1990s, more than 2,000 Taiwanese electronics firms invested in Penang, Malaysia, and helped establish one of the most dynamic electronics clusters in Southeast Asia at that time. In Vietnam, Taiwan, the earliest foreign investor to move into the newly open market, was an important player in

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2. Though the Chinese term is “南向政策”, avoiding use of “南進政策” (go south) to create an aggressive image, the official English translation is “Go South policy”. In this paper, the author uses “Go South” policy in general to be consistent with the official terminology.

developing the Socialist country's light industry.<sup>3</sup>

This paper reviews the Go South policy in the 1990s and 2000s and compares it with the New Southbound Policy from an economic perspective. It then makes conclusions and proposes policy recommendations.

## **II. The Go South Policy in the 1990s and 2000s**

According to historical literature, Taiwan's earliest reported out-bound investment project to Southeast Asia was filed in the 1950s. At that time, Taiwanese enterprises began to set foot in the neighboring region through business networks mainly with ethnic Chinese in these countries. The gradual appreciation of the New Taiwan Dollar since the mid-1980s due to a weak US dollar and increasing trade surplus towards the USA encouraged another wave of investments in Southeast Asia. As a result, before 1994, when the government officially launched the Go South policy, Southeast Asian countries, mainly Indonesia, Thailand, and Malaysia, were already home to overseas operations for many of Taiwan's small private businesses. Under the Go South policy in the 1990s and 2000s, state-owned and some Kuomintang (KMT)-owned enterprises, together with public and private banks and large land developers, were instructed to join the investment activities in setting up operations in Southeast Asian countries.

In March 1994, Taiwan's Ministry of Economic Affairs (MOEA) proposed a three year "Work Plans for Enhancing Economic Ties and Trade in Southeast Asia" (加強對東南亞地區經貿工作綱領), which

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3. Tsun-Tzu Kristy Hsu, 《東協經濟共同體（AEC）形成後對我國與東協貿易與投資之影響》(Taipei: Ministry of Economic Affairs / Ministry of Foreign Affairs, Taiwan, R.O.C., 2016), pp. 277-319.

was approved quickly by the Executive Yuan. The Work Plans, retroactively effective from January 1, 1994, covered seven Southeast Asian countries, including the original six ASEAN Member States<sup>4</sup> and the Socialist country Vietnam, which only began to open its doors to foreign direct investment (FDI) after the Vietnamese Communist Party decided to adopt the Doi Moi,<sup>5</sup> or the Open-Door and Renovation Policy, in 1986.<sup>6</sup>

The Work Plans, after expiring in the end of 1996, were renewed in 1997 for another three years. The geographical scope also expanded to include the three new ASEAN Member States, Cambodia, Laos, and Myanmar (the CLM countries); Australia; and New Zealand. The title of the 2<sup>nd</sup> Work Plans also was changed to “Work Plans for Enhancing Economic Ties and Trade in Southeast Asia and Australia and New Zealand” (加強對東南亞及澳紐地區經貿工作綱領) accordingly.

Although the nature and contents of the 1<sup>st</sup> and 2<sup>nd</sup> Work Plans were not unique to Taiwan's ordinary region-specific or country-specific trade and investment work programs,<sup>7</sup> they were regarded

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4. Thailand, Indonesia, Malaysia, Singapore, Philippines, and Brunei.

5. The Vietnamese term *Đổi Mới* literally means “renovation” or “reconstruction”. It is an economic philosophy and aims to increase economic growth and development by liberating the economy within Vietnam and increasing Vietnam's contribution to the global economic community. It was officially endorsed by the 6<sup>th</sup> national congress of Vietnam in 1986.

6. Vietnam joined ASEAN in 1995, Laos and Myanmar in 1997, and Cambodia in 1999.

7. For example, there have been “Work Plans for Enhancing Economic Ties and Trade in the North America,” “Work Plans for Enhancing Economic Ties and Trade in Europe,” and “Work Plans for Enhancing Economic Ties and Trade in Japan.”

as Taiwan's earliest Go South policy with multiple strategic purposes beyond the economic agenda. Economically, the government intended to redirect Taiwanese enterprises' investment movement in China by encouraging and strengthening trade and investment ties with Southeast Asian countries. Politically, through use of trade diplomacy, the KMT government was observed to have a more ambitious goal of enhancing bilateral official relations with the target countries. For example, the then Premier Lien Chan successfully managed to visit Malaysia and Singapore in the end of 1993, followed by President Lee Tung-hui, who also visited the Philippines, Thailand, and Indonesia during the Chinese Lunar New Year Holidays in 1994. These groundbreaking presidential and premier-level visits, described by the media as "Vacation Diplomacy," were perceived by some people as a diplomatic milestone in Taiwan's pursuit of international space and recognition.

In 2000, the DPP won the presidential election for the first time since the political party was established in September 1986, and became the ruling party. The Work Plans were extended again after President Chen Shui-bian took office in 2000, and continued through Chen's two terms as president. In addition, in August 2002, President Chen instructed the DPP government to announce a new strategy of external relations. Under the strategy, Southeast Asia was for the first time equally placed and weighted *vis-a-vis* the US, Japan, and Europe, as one of the four pillars of the government's external policy. This period usually is regarded as the 3<sup>rd</sup> wave of Taiwan's Go South policy, following President Lee's first two waves between 1994 and 1999. It is also the DPP's first policy response in addressing Southeast Asia.<sup>8</sup> Furthermore, India was included in the Work Plans for the

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8. Ministry of Economic Office of the R.O.C.(Taiwan), 〈我國推動南向政策面臨問題與解決之道〉, March 26, 2003, pp. 1-19, *Library Legislative Yuan, R.O.C.*, <<http://npl.ly.gov.tw/npl/report/920326/3.pdf>>.

first time.<sup>9</sup>

It is important to note that the “Work Plans for Enhancing Economic Ties and Trade in Southeast Asia” continued during Chen’s administration. When the KMT won the presidential election in 2008 and President Ma Ying-jeou took office in May, the Work Plans also continued and entered into the 7<sup>th</sup> Work Plans in 2013. Nevertheless, during President Ma’s two terms of presidency until April 2016, the KMT government never officially and openly adopted or used the term of Go South policy. In contrast, in President Ma’s inaugural address in May 2008, he exposed that his plan was to “actively participate in Asian Pacific regional cooperation....., to fully integrate in the East Asian economic integration and to make contribution to the peace and prosperity in East Asia.”<sup>10</sup> It is generally conceived that, in Ma’s external policy, Southeast Asia, together with China, was part of his Asia-Pacific regional strategy. Although some scholars suggested that the government promote a renewed Go South Policy to respond actively to the acceleration of Southeast Asian economic integration and ASEAN’s plan to establish the ASEAN Economic Community (AEC) by the end of 2015, President Ma refrained from launching a separate Go South policy to avoid negative response from China.

In May 2006, President Chen, in his 2<sup>nd</sup> term of presidency, on his return trip from Latin America to Taiwan, managed to visit Batam Island of Indonesia, where he met with Taiwanese companies located

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9. Due to India’s growing economic importance, in 2004 MOEA began to draft India specific Work Plans.

10. See full text of the address, 〈馬英九總統就職演說全文「人民奮起，台灣新生」〉, *Liberty Times Net*, May 21, 2008, <<http://news.ltn.com.tw/news/focus/paper/212939>>.

in an industrial zone developed by a Taiwanese enterprise on the island.<sup>11</sup> In August 2002, then Vice President Annette Lu managed to visit Bali, Indonesia, in her “private capacity” or “Vacation Diplomacy,” to greet Taiwanese companies investing in Indonesia.

During the aforementioned three waves of Go South policy and more than one decade of implementation, the common primary policy goals were to enhance Taiwan’s economic engagement with Southeast Asia and gradually integrate into the emerging regional economy, while the policy objectives and priorities varied under different governments to respond to the changing regional geopolitical environment, Taiwan’s economic development needs, and cross-Strait trade and economic relations at the time. Furthermore, as Taiwanese investments in the region were the core of Taiwan’s economic engagement in Southeast Asia, Taiwanese enterprises’ business interests affected the success of the policy.

Before 1994, when President Lee first adopted the Go South policy, Southeast Asia was the most important overseas investment destination for Taiwan’s agriculture-based investments and labor-intensive industry. As of end of 1993, Taiwan’s accumulated investment volume in Southeast Asia totaled USD 19.071 billion. Accumulated investment in Indonesia reached USD 6.453 billion, making about one third of the total volume, while investment in Malaysia and Thailand ranked 2<sup>nd</sup> and 3<sup>rd</sup>, reaching USD 5.817 billion and USD 3.969 billion, respectively.

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11. President Chen visited Batam on May 11, 2006, and was received by Ismeth Abdullah, governor of Riau of Indonesia. 〈宿印尼 扁扮船長出航〉, *Apple Daily*, May 12, 2006, <<http://www.appledaily.com.tw/appledaily/article/sports/20060512/2602251/>>.



The year 1994 immediately saw significant growth of trade and investment resulting from the government's policy-driven incentives and instructions. As a result, in the 3-year period of the 1<sup>st</sup> Work Plans on Enhancing Economic Ties and Trade in Southeast Asia, total FDI outflows into the target seven countries reached USD 13.714 billion. In addition to Malaysia, Indonesia, and Thailand, investment activities expanded to the Philippines, Singapore, and Vietnam. The first investment project in Cambodia also was reported in 1994.

By the end of 1999, total accumulated investment in the region reached USD 43.217 billion, which was double the volume before the Go South policy was initiated. Among the Southeast Asian countries, Indonesia ranked No. 1 and attracted total investment of USD 16.938 billion, followed by Thailand (USD 9.914 billion), Malaysia (USD 8.652 billion), and Vietnam (USD 4.91 billion).<sup>12</sup>

The growth momentum, however, did not last long. Since the 2000s, growth of FDI outflows into China has outpaced the growth of FDI outflows into Southeast Asia significantly. Although President Chen launched the Go South Policy in 2002 and strongly encouraged investment in Southeast Asia and India, the policy did not successfully change the trends. Therefore, Chen's policy was often criticized as a political agenda rather than an economic one. Moreover, as Taiwanese investment in Indonesia and other Southeast Asian countries continued to decline, President Chen and Vice President Lu's visits appeared to have limited economic significance.

In the breakdown FDI statistics of the three Work Plans, the

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12. Ministry of Economic Office of the R.O.C.(Taiwan), 〈「加強對東南亞及紐澳地區經貿工作綱領」專案報告〉, April 25, 2001, pp. 1-12, *Library Legislative Yuan, R.O.C.*, <<http://npl.ly.gov.tw/npl/report/900425/5.pdf>>.

1994-1996 Work Plans attracted USD 13.714 billion, the 1997-1999 Work Plans attracted USD 10.430 billion, while the 2000-2002 Work Plans only attracted USD 3.493 billion. The data demonstrates the declining interest of the business community in Southeast Asia since the 2000s. Hence, this period marks an obvious turning point of Taiwanese investment flows shifting from the South to the West. China replaced Southeast Asia and since then has become the most popular destination for Taiwan enterprises seeking to establish overseas operations. It was not until 2009, after the global financial crisis, that Southeast Asia again attracted more investment than China.

According to an MOEA survey of the trade and investment barriers during the early Go South policy, among the most reported concerns was the poor infrastructure in the region and the protectionist trade and investment regime in some countries. The poor infrastructure was a major obstacle for the operation of manufacturing facilities and transportation to support the businesses. In addition, during the 1990s, most Southeast Asian countries, except Singapore, still highly regulated their foreign investment by restricting foreign ownership and prohibiting foreign investment in certain sectors. Other concerns or obstacles included the growing anti-Chinese sentiment in Indonesian society, which eventually led to riots in 1997. China's interference in the target countries was also a concern. China's pressure forced some of the target countries to adopt a more rigid "One China" policy and avoid high-level official contacts with Taiwan.

All these were counted as the major trade and investment barriers in the early years and hindered further investment activities under the Go South policy. To solve the problems and increase confidence in the investment environment in Southeast Asia, the government had to prioritize negotiating bilateral investment agreements (BIAs) and other trade-related mechanisms, including the Agreements of

Avoidance of Double Taxation, with the countries.<sup>13</sup> As of the end of the 2<sup>nd</sup> Work Plans, BIAs were successfully concluded and signed with six Southeast Asian countries, namely Singapore, Indonesia, the Philippines, Malaysia, Vietnam, and Thailand. Furthermore, in 2002, the DPP government signed a BIA with India, which entered into force in 2005. These trade agreements became the foundation for further bilateral trade and economic relations. Trade consultation mechanisms also were created to allow regular policy dialogue between Taiwan and the target countries.

**Table 1: Bilateral Investment Agreement with Southeast Asian Countries**

Signatory	Name of the Agreement	Date of Signature	Date of Enforcement
Singapore	<i>Agreement between the Industrial Development and Investment Center in Taipei and the Economic Development Board in Singapore on the Promotion and Protection of Investments*</i> 《臺北投資業務處和新加坡經濟發展局投資促進和保護協定》	1990.4.9	1990.4.9
Indonesia	<i>Agreement between the Taipei Economic and Trade Office and the Indonesian Chamber of Commerce to Taipei for the Promotion and Protection of Investments</i> 《中印尼投資保證協定》	1990.12.19	1990.12.19
Philippines	<i>Agreement between the Taipei Economic and Cultural Office and the Manila Economic and Cultural Office for the Promotion and Protection of Investments</i> 《中菲投資保證協定》	1992.2.28	1992.2.28
Malaysia	<i>Agreement between the Taipei Economic and Cultural Office in Malaysia and the Malaysian Friendship and Trade Center, Taipei for the Promotion and Protection of Investments</i> 《中馬投資保障證協定》	1993.2.18	1993.2.18

13. Kuei- Bo Huang, Rong-Hui Chou, 〈我國「南向政策」之回顧與影響展望與探索〉, *Prospect & Exploration*, Vol. 12, No. 8, August 2014, pp. 61-69.

Vietnam	<i>Agreement between the Taipei Economic and Cultural Office in Hanoi and the Vietnam Economic and Cultural Office in Taipei on the Promotion and Protection of Investments</i> 《駐越南臺北經濟文化辦事處和駐臺北越南經濟文化辦事處投資促進和保護協定》	1993.4.21	1993.4.21
Thailand	<i>Agreement between the Taipei Economic and Trade Office in Thailand and the Thailand Trade and Economic Office in Taipei for the Promotion and Protection of Investments</i> 《中泰投資促進及保障協定》	1996.4.30	1996.4.30
India	<i>Agreement between the Taipei Economic and Cultural Center in New Delhi and the India Taipei Association in Taipei on the Promotion and Protection of Investments</i> 《駐新德里臺北經濟文化中心與駐臺北印度－臺北協會間投資促進及保護協定》	2002.10.17	2005.3.18

Source: Department of Investment Services, MOEA, R.O.C.(Taiwan), "List of BIAs with Other Countries," August 15, 2017, Accessed, *DOIS, MOEA, R.O.C.(Taiwan)*, <[https://www.dois.moea.gov.tw/Home/relation1\\_1](https://www.dois.moea.gov.tw/Home/relation1_1)>.

Note: \*This agreement was later incorporated into the Investment Chapter of the Free Trade Agreement (《臺星經濟夥伴協定》), which was signed on November 7, 2013 and entered in force on April 19, 2014.

### III. Taiwan's Recent Investment Trends – Growing Interest in the CLMV Countries and India

Taiwan's first investment movement into Vietnam started in the early 1990s, when the Socialist country first opened its door to foreign investors in 1986 under the "Doi Moi," or the Open-Door and Economic Revolution Policy. The 1994 Go South Policy provided further incentives for FDI flows into Vietnam. Before Vietnam was admitted to the World Trade Organization (WTO) in January 2007, Taiwan had remained its top foreign investor for approximately two decades. As of March 2017, Taiwan's accumulated FDI volume in Vietnam reached USD 32 billion, ranked as the 4<sup>th</sup> largest FDI source in the country. Vietnam continues to receive the lion's share of Taiwan's outbound FDI. As of 2016, FDI stock in Vietnam constituted 35 percent of Taiwan total investment in all ASEAN countries. The

country very likely may remain Taiwan's top investment destination in Southeast Asia for the next decade.

Following huge investment in Vietnam, Taiwanese enterprises also have sought every opportunity for investing in other less-developed ASEAN countries, mainly Cambodia and Myanmar, to diversify investment. In 2013, Myanmar lifted a ban existing for decades prohibiting direct trade with and direct investment from Taiwan by recognizing Taiwan's official documents and application submissions by Taiwanese enterprises.<sup>14</sup> In May 2015, the Ministry of Commerce of Myanmar opened its Representative Office in Taipei to promote bilateral trade and assist with Taiwanese investment. Cambodia, although currently showing no signs of improving official relations with Taiwan under Prime Minister Hun Sen's extremely rigid One China policy, welcomes investment from Taiwan and provides necessary assistance to ease investment barriers to Taiwanese enterprises. As an informal survey suggests, Taiwan is currently the largest employer in the textile and garment industry, the most important manufacturing sector in Cambodia, and provides more than 30 percent of job opportunities to domestic Cambodian workers.<sup>15</sup>

Different from Chinese firms, which focus in mining, infrastructure, and power plants, or many South Korean and Hong Kong investments, which concentrate on real estate and natural resource development, Taiwanese investments in Cambodia, Laos, and Myanmar mainly are in manufacturing, ranging from textile and garments, foot-

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14. Investment Commission, MOEA, 《緬甸投資環境簡介》(*Investment Guide to Myanmar*) (Taipei: MOEA, 2013), p. 92.

15. Tsun-tzu Kristy Hsu, 《柬埔寨與寮國商機探索》(Taipei: The Chinese National Association of Industry and Commerce (CNAIC), Taiwan, R.O.C., 2016), pp. 106-114.

wear, food processing, and furniture to electronics and automobile parts. Among the investors, Pou Chen Group, the largest branded athletic and casual footwear contract manufacturer in the world, has established plants in Vietnam, Cambodia, and Myanmar. The plant in Myanmar began operation in early 2016. Moreover, eleven Taiwanese banks have opened representative offices in Yangon. In 2016, one of them successfully was approved for upgrading to a full branch. Five Taiwanese banks in Cambodia and two banks in Laos have representatives or branches.

In recent years, Taiwanese businesses, in particular IT companies, have begun to investigate and set foot further into India. Although India already was among the target countries in the 1997 Go South policy, Taiwan's FDI outflows in India had been very small until the early 2000s, when the DPP government adopted more aggressive measures to promote trade with India and other priority countries under the government's "Promotion of Key Emerging Markets Plans." It is noteworthy that, since the adoption of India's New Manufacturing Policy in 2011 and Prime Minister Modi's "Make in India" initiative in 2014, India has seen significant growth in FDI inflows from Taiwan. These investments have focused on the Computer Hardware and Software, Telecommunications (including radio paging, cellular mobile, and basic telephone services), and Automobile Industry sectors.<sup>16</sup> Given India's huge potential and rising economy, it is among the six priority target countries of the New Southbound Policy.<sup>17</sup> India also shows keen interest in the New Southbound Policy and further co-

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16. Rajat Kathuria, Mansi Kedia, Yu-Yin Wu, & Yu-Chia Hsu, "The Information and Communication Technology (ICT) Sector," in Parthapratim Pal, Arpita Mukherjee, & Kristy Tsun-Tzu Hsu eds., *Enhancing Trade, Investment and Cooperation between India and Taiwan* (New Delhi: Academic Foundation, 2013), pp. 245-286.

17. The six priority countries are India, Indonesia, Vietnam, Malaysia, Thailand, and the Philippines.

operation with Taiwan in the areas of trade, investment, technology, and talent cultivation.

Nevertheless, Taiwan's Going South movement has faced increasing external pressure from accelerating regional integration. First, ASEAN has initiated a series of ASEAN-centric economic engagement initiatives since the 2000s as part of its efforts to establish the ASEAN Economic Community (AEC) by the end of 2015. These include the existing ASEAN-centric Free Trade Agreements signed with China, Japan, South Korea, Australia, New Zealand, and India and the upgraded versions with China and South Korea. Furthermore, ASEAN began to negotiate a new FTA with Hong Kong in 2014 and may conclude negotiations by the end of 2017 or early 2018.<sup>18</sup>

In December 2015, ASEAN Leaders announced the establishment of the AEC and vision beyond 2015, signaling the regional economic integration in Southeast Asia has moved forward from a free trade area to a single market that allows free flow of goods, services, investment, skilled labor, and freer flow of capital in the region.<sup>19</sup> In the meantime, since 2013, ASEAN leaders have been negotiating the Regional Comprehensive Economic Partnership (RCEP), which is comprised of the ten ASEAN Member States and its six FTA partner countries. The RCEP will be the world's most populous Free Trade Area, covering a population of 3.3 billion. Its political and economic

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18. Hong Kong is negotiating with ASEAN the FTA under its WTO membership and status of Separate Customs Territory. If signed, it will be ASEAN's 6<sup>th</sup> ASEAN+1 FTA. See Trade and Industry Department (TID) of the Hong Kong Special Administrative Region, "Free Trade Agreement negotiations commenced between Hong Kong and ASEAN," July, 14, 2014, *TID Hong Kong*, <<https://www.tid.gov.hk/english/aboutus/pressspeech/press/2014/20140711.html>>.

19. The ASEAN Secretariat, *ASEAN 2025: Forging Ahead Together* (Jakarta: The ASEAN Secretariat, 2015), pp. 59-60.

importance increased after U.S. President Donald Trump decided to leave the Trans Pacific Partnership (TPP) when he took office in January this year. The RCEP negotiations very likely may conclude by the end of 2017 or early 2018. If successfully concluded and signed, the mega FTA will further enhance ASEAN's central role and may become the only leading trade initiative in the regional Asian economic integration.

The accelerating regional integration centered around Southeast Asia in the past years has changed Taiwan's general perception of the region and business operations of Taiwanese enterprises. First, Taiwan's huge investments in the manufacturing sector in the region have created increasing need for services to support their businesses, which include banking, insurance, R&D, retail and wholesale, logistics, tourism, and education. The need of a comprehensive partnership between Taiwan and Southeast Asian countries to support robust economic growth and mutual prosperity is seen as a vital strategy to enable deepened and sustainable bilateral relations.

The need for creating strong ties with Southeast Asia and South Asia is more acute as more Taiwanese enterprises are faced with increasing difficulties in Chinese market. For example, the rise of "the Red Supply Chains," meaning the Chinese policy to establish Chinese-invested or -dominated supply chains, has driven many Taiwanese suppliers out of Chinese market. In 2015, Foxconn Technology, officially known as Hon Hai Precision Industry and the world's largest electronics contract manufacturer,<sup>20</sup> announced a USD 5 billion investment project to set up manufacturing, research, and development facilities in the western Indian state of Maharashtra over the next

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<sup>20</sup> Foxconn is the manufacturer of smartphones and tablets for mobile device players like Apple (AAPL), Samsung (SSNLF), and Xiaomi.



five years.<sup>21</sup> Foxconn decided to invest in India with the ambition of establishing an Indian base as the company's next growth engine. Many other companies also have relocated from China to Vietnam or India as a response to the rise of the "Red Supply Chains."

#### **IV. The New Southbound Policy: Progress so far and Obstacles Ahead**

The New Southbound Policy was announced officially by President Tsai Ing-wen on May 20, 2016, after her party proposed the policy in September 2015 and won the presidential election in January 2016. The New Southbound Policy is regarded as a renewal of the previous Go South policy but with a broader geographic scope of target countries and different approaches and priorities. Compared with the previous policy scope and objectives, the New Southbound Policy for the first time includes five South Asian countries, namely Pakistan, Bangladesh, Nepal, Sri Lanka, and Bhutan, in addition to ASEAN countries, India, Australia, and New Zealand. Nevertheless, as there are no representative offices or official ties in these countries, it would be difficult to promote relations with these countries.

The short-to mid-term goals of the New policy include: to use a combination of national will, policy incentives, and business opportunities to spur and expand "two-way" exchanges in the areas

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21. According to media, Chief Minister of Maharashtra state government Devendra Fadnavis has confirmed the announcement and signed an agreement with Foxconn. It is reported that the facilities will be located either near Mumbai or Pune, and 1,500 acres will be allocated for this purpose and create direct jobs to 50,000 people when completed. "Foxconn Plans USD 5 billion investment in over 5 years in Maharashtra facilities," *Reuters India*, August 8 2015, <<http://in.reuters.com/article/india-hon-hai-foxconn-investment-idINKCN0QD07620150808>>.

of economic and trade relations, investment, tourism, culture, and talent; in support of a New Model for Economic Development, encourage industry to adopt a New Southbound strategy in planning their next moves; to cultivate more people with the skills needed to support the New Southbound Policy, thereby resolving a developmental bottleneck; and to expand multilateral and bilateral negotiation and dialogue to enhance economic cooperation and resolve disputes and disagreements. While the long term goals are to foster links with the 18 countries in the areas of economic and trade relations, science and technology, and culture; to share resources, talent, and markets; and to create a new cooperation mode that seeks mutual benefits and win-win situations, the policy emphasizes forging of mutual trust and a “sense of economic community” between Taiwan and the target countries.<sup>22</sup>

Comparing the new policy and previous ones, new elements were added in order to reflect the changing global and regional economic landscape and Taiwan’s broader social and economic interests in the integrated region. For example, four links are emphasized to build up soft power diplomacy. They are soft power links, supply chain link, regional markets links and people-to-people links. Policy measures to enhance soft power engagement and people-to-people exchanges, new to previous regional policy, have been very much welcomed, particularly by universities and non-profit organizations.<sup>23</sup>

The New Southbound Policy has been implemented fully since

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22. “Taiwan Banks on New Policy for Greater Regional Cooperation, Prosperity,” January 3, 2017, *New Southbound Policy*, <<https://www.newsouthboundpolicy.tw/English/NewsDetail.aspx?id=99b01512-9cc5-4075-a7b9-9d17e0a75ec8>>.

23. Office of the President of the R.O.C. (Taiwan), 〈總統召開「對外經貿戰略會談」通過「新南向政策」政策綱領〉, August 16, 2016, *Office of the President of the R.O.C. (Taiwan)*, <<http://www.president.gov.tw/NEWS/20639/>>.

January 2017. In the past months, increasing university and student exchanges and tourists from certain Southeast Asian countries have demonstrated encouraging progress of the policy, although time is needed to evaluate its overall effect. Nevertheless, it is important to pay attention to the rapidly changing international geopolitical and economic environment. First, since 2016, the world has witnessed a series of events that have severely influenced the value of trade liberalization and globalization promoted over the past two decades. These include the Brexit in the U.K. and President Donald Trump's America First policy and the retreat from the TPP, replacing President Barack Obama's Asia Rebalancing Strategy. The widespread atmosphere of growing trade protectionism is supported by a WTO report that shows an increasing number of WTO members are using protectionist trade measures and raising Most Favoured Nation (MFN) tariffs.

Within Southeast Asia, most countries are suffering from economic slowdowns and declining FDI inflows. The external uncertainty and growing trade protectionism in the world will have a negative impact on economic integration in the region and, consequently, on the New Southbound Policy.

For example, Taiwan's trade with 18 Southbound policy target countries in 2016 registered a -3.3% growth rate, while the average trade growth with the world was only -2.1%. Among them, trade with Indonesia, the largest economy in Southeast Asia, decreased by 22.1%. In 2016, trade with the 18 countries made up 18.8% of Taiwan's total trade, reaching USD 96.0 billion. Among which, trade with the ten ASEAN countries made up 15.4%, totaling USD 78.5 billion. Trade with India, the most important country in South Asia under the new policy, grew by 1.2% and reached USD 5 billion. Nevertheless, Taiwan's exports to India decreased by 7.2% while Taiwan's imports

from India expanded by 1.2%.

In investment activities in the target countries, in contrast with the 2003 Go South policy, Taiwanese firms have continued to show strong interest. Informal reports also show that Taiwanese enterprises are relocating from China to Southeast Asia, sometimes even to India. Unfortunately, in May 2016, Taiwan's single largest FDI project in Vietnam, Formosa Ha Tinh Steel Corporation, was accused of creating massive toxic substances that polluted the waters of eight neighboring states. After Formosa openly admitted responsibility for the pollution, the company paid USD 500 million to compensate for the losses of the fishermen and poor families.

The New Southbound Policy was adopted after China proposed the One Belt, One Road (OBOR) initiative in 2013. All ASEAN and South Asian countries are geographically covered by China's Maritime Silk Road Initiative (One Road). It is only natural that New Southbound Policy and OBOR initiatives are considered and compared as two competing initiatives by Taiwan and China, respectively. They are competing for attention and resources from the Silk Road countries. China's recent stronger stance on One China policy will also have political implications for some of the target countries.

Admittedly, China's OBOR initiative focuses on trade and infrastructure, while the New Southbound Policy emphasizes services, education and people-to-people exchanges, among others. It is highlighted as a soft power economic policy. The long-term goals are to foster links between Taiwan and the target countries in the areas of economic and trade relations, science and technology, and culture; to share with these countries resources, talent, and markets; and create a new cooperation mode that seeks mutual benefits and win-win situations. As such, the government needs to make sure that the OBOR

initiatives will not obstruct the New Southbound Policy.

## **V. Conclusions and Policy Recommendations**

Taiwan has developed close ties with Southeast Asian countries over the past three decades. The interconnected trade and investment flows have formed deep economic interdependence and *de facto* integration in the region. The trend of Taiwanese enterprises relocating from China to Southeast Asia has been observed since the late 2000s. This explains the economic considerations and rationale behind the New Southbound Policy. Nevertheless, the government needs to prioritize resource allocation and improve cross-ministry coordination to ensure effectiveness of the implementation of the policy. Furthermore, to demonstrate the progress and improve confidence in the policy, the government may need to accelerate some measures for early harvests and communicable concrete achievements.

The government also needs to respond to the changing external and domestic environment and make necessary adjustments. The policy not only has to remain pragmatic and flexible, but also needs to study, respond to, and collaborate or synchronize with like-minded countries or other major initiatives in the region, for example, the OBOR initiatives and the Free Corridor Initiative proposed by Japan and India.

Third, economic integration in the region has become an important driver for economic growth and industrial reform in some target countries. Vietnam, for example, is drafting its 2020-2030 Socio-Economic Development Plan to move the country towards an industrialized economy. The region also may see conclusion of the RCEP trade negotiations by the end of 2017 or early 2018. The New Southbound Policy has to take into consideration the various initiatives and help

enterprises respond to future developments. The government also will need to address the need, including a revised FTA strategy, to promote bilateral ECAs/FTAs and participate in other regional trade agreements.

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