

## Taiwan's New Southbound Policy: Limited Progress and Future Concerns

By Kwei-Bo Huang

After three years, the expected effects of Taiwan's "New Southbound Policy" (NSP) appear less substantial than hoped. The Democratic Progressive Party (DPP) government's NSP has put on its radar screen a few South and Southeast Asian countries and attracted some attention within Taiwan, but it has not been able to transfer a substantial part of Taiwan's economic activities from mainland China to the NSP-identified countries and regions.

The NSP has drawn a huge economic and socio-cultural map to include countries in Southeast Asia and South Asia, as well as Australia and New Zealand – none of whom have diplomatic relations with the Republic of China (Taiwan). In total, 18 countries are included in the NSP launched in mid-2016. Acknowledging the salient growth of Southeast/South Asia and the geographical proximity between Taiwan and some of the countries, and taking into account the necessity of risk diversification in Taiwan's high trade dependence rate on mainland China and Hong Kong since the mid-2000s, the Tsai Ing-wen administration in Taiwan has strong reasons to implement the NSP.

Due to the insurmountable difficulty in formal political and strategic engagement with the countries within the framework of the NSP, the Tsai administration has attempted to stress the "people-centered" approaches to promoting and carrying out related programs. It also put forward the Promotion Plan of the NSP, focusing on the following four tasks: economic cooperation, personnel exchanges, resource sharing, and regional links, in the hope that there will be more two-way exchanges.

People-to-people exchange has been one of the highlighted dimensions for the NSP, mainly because it can be fruitful once adequately funded. For the government itself, success in this area can impress its people most quickly. Education cooperation – scholarships, fellowships, cultural and religious exchanges, etc., the assistance to the new immigrants for better integration into Taiwan's society, and the loosening of regulations facilitating residency extensions for eligible foreign professional or technical workers to live in Taiwan have been often mentioned by the Tsai administration.

Economic cooperation is another highlighted dimension of the NSP, but the efforts devoted by the Tsai administration and the achievements so far have not matched each other. Despite a growing number of financial and human resources put into the NSP programs and despite worsening relations between Taipei and Beijing, the NSP has not succeeded in diverting Taiwan's economic focus from mainland China to the NSP regions and countries. It has been anticipated that Taiwan's industrial sectors such as the internet of things, biomedical, green energy, smart machinery, defense, "new agriculture," and circular economy can bind Taiwan and the NSP regions more closely. However, only in Indonesia, Vietnam, and India does the NSP score well in terms of resource sharing, regional links, or bilateral and multilateral cooperation.

**Kwei-Bo Huang**, Vice Dean and Associate Professor of Diplomacy at National ChengChi University in Taiwan, explains that "Due to the insurmountable difficulty in formal political and strategic engagement with the countries within the framework of the NSP, the Tsai administration has attempted to stress the "people-centered" approaches to promoting and carrying out related programs."

Taiwan's exports to and imports from the NSP regions both increased in 2018. In terms of their shares in the total export/import, the export increased from 20.4% to 21.2%, and the import from 17% to 20.4%. Yet, Southeast Asia was the only region that progressed noticeably. Exports to Southeast Asia accounted for 18.5% of Taiwan's total export in 2018, while imports remained the same at 12%. Meanwhile, the share of Taiwan's trade with mainland China and Hong Kong rose from 40.1% to 41.2% between 2017-2018.

Taiwan's investments to the NSP regions remain mediocre, while foreign capital from the NSP regions to Taiwan have increased. In 2018, because of the lack of significant investment projects, Taiwan's investment to the NSP regions decreased 34.7%, to about \$2.4 billion. Yet, the amount of investments from the NSP regions to Taiwan increased 44.3%, to approximately \$400 million. Meanwhile, in 2018, Taiwan's investments to mainland China (\$8.5 billion) account for more than half of its total foreign investment. Although Taiwan's investments to mainland China have dropped 8.1% in the last year, partially affected by sour cross-Strait relations and Washington-Beijing trade struggles, the total amount was still about 3.5 times larger than Taiwan's investments to the NSP-target countries.

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A related issue is the very slow progress in helping Taiwan's companies collaborate with the NSP governments for their local infrastructure and major development projects. Having proposed government-initiated bank loans of about \$3.5 billion in the form of official development assistance (ODA) in October 2017 and a \$33 million subsidy plan for Taiwanese loan takers to cover interest payments in 2018, as of early February 2019, the Tsai administration has received and passed no bid proposal from Taiwanese companies. Concern for transparency and possible fraudulent activities has been raised in Taiwan's society, too. Moreover, petroleum and chemical state-owned enterprises of Taiwan have encountered challenges in their big investment projects in Indonesia and India, respectively. The risks of such investment projects could be higher if the Tsai administration feels an urgent need to leave some impressive marks on the NSP's scoreboard and thus orders these enterprises to invest in a hasty or unfavorable way.

Also noteworthy is that since May 2018, the Tsai administration has vowed to reinforce the linkage between the NSP and the "Indo-Pacific strategy" initiated by President Trump's administration. There are three vital pillars in the "Indo-Pacific strategy": economics, governance, and security. They can be achieved through U.S. investments and partnerships. However it is not very clear to what extent and by what means will the NSP link to the Free and Open Indo-Pacific Strategy which has been viewed at least by some Chinese researchers as a means of subduing mainland China. Would such a link, if significant enough, would trigger mainland China's additional containment towards Taiwan's very limited international space and external economic cooperation? The answers to these questions remain uncertain and express potential shortcomings in the achievements of NSP.

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