ASSESSING TAIWAN'S "NEW SOUTHBOUND" POLICY AND THE CHINA FACTOR

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Abstract - As part of President Tsai Ing-wen's efforts to give strength and diversify Taiwan's economy, the "New Southbound Policy" aims to secure new regional partners in South and Southeast Asia. Constructing upon the policies of previous administrations, the "New Southbound Policy" will also attempt to diminish Taiwan's economic reliance on the mainland by building anlarge network of cultural and interpresonal relationships throughout the region. This article will examine the new policy in the context of Taiwan's overall foreign policy objectives.

Index Terms - New Southbound, ASEAN, HEDGING, FTA

I. INTRODUCTION

The New Southbound Policy is the initiative of the Government of Taiwan under President Tsai Ing-wen to intensify cooperation and exchanges between Taiwan and 18 countries in Southeast Asia, South Asia and Australasia. Emerging markets in the Association of Southeast Asian Nations (ASEAN) and South Asian countries have developed rapidly as the global supply chain experience structural changes. Taiwan, meanwhile, is anprofound member of the Asia-Pacific region whose economy is relatively bound with those of many within the region. In particular, ASEAN has recently become Taiwan's second-largest export market and second-largest investment destination, and Taiwan's relations with ASEAN members have make more extensive to technology, tourism, education, labor, culture and other realms.

With concentrating interest on investment and trade, this research examines economic ties between Taiwan and Southeast Asia, and how this give an account to China. Itargues that Taiwan's active encouragement of economic engagement with ASEAN countries has been a crucial component of the island's sub-systemic level hedging strategy.

II. THEORY OF HEDGING

Goh (2005) defines hedging as a set of strategies aimed at avoiding (or planning for contingencies in) a situation in which states cannot decide upon more straightforward alternatives such as balancing, bandwagoning, or neutrality." Tessman and Wolfe (2011） define strategic hedging as an insurance policy that help states guard against two possibilities, that relations between the hedging state and the system leader will deteriorate to the point of a militarized crisis, and/or that the system leader will cease the provision of public goods that the hedging state currently enjoys.

Hedging act with or showing care and thought for the futureas a prudent insurance strategy state actors take up when facing uncertainties. Such astrategy is aimed at making smaller or minimizing risks, maintaining or expanding freedom of action, diversifying strategic options, and shaping the aim states' preferences and choices. Hedging is a set of pieces of creative work that mixes various strategic implement including engagement, enmeshment, fangang, qianzhi, and balancing.

Most of states in the Asia Pacific have a long bias when it comes to hedge against China. In the financial market, investors can also hedge by setting up options, so as to diminish possible risks by implying denial correlation. The buyer of an option canchoose to carry out an option or not when the expiration date approaches. If the buyer selects to exercise an option, the seller of the option will have the corresponding obligation to fulfill the transaction as identified clearly by the contract. If the option expiration date passes without the option being carried out, then the buyer of the option will forfeit a premium to the seller.

III. "GO SOUTH"AND"NEW SOUTHBOUND" POLICY

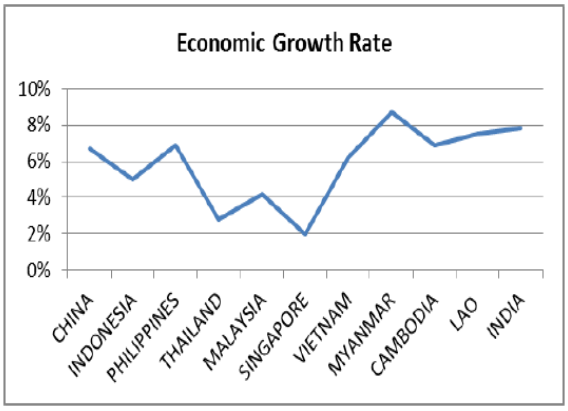
In January 1994, President Lee Tenghui officially launched the"Go South"policy targeted at boosting investment and trade ties with ASEAN countries in a bid to prevent overdependence on China's economy. The policy features were arranged by his cabinet in the"Guidelines for Strengthening Economic and Trade Ties with Southeast Asia," later inherited by Presidents Chen Shui-bian and Ma Ying-jeou. In particular the Lee, Chen, and Ma presidencies, the guidelines were put into effect in seven different aspects. Therefore, Taiwan has already had twenty years of energetic engagement with ASEAN before Tsai's inauguration. The significant difference was that, in 2002, Chen publicly said that he would strength the "Go South" policy. Ma, by contrast, never used the term"Go South" to preventa likely consequence that Taiwan's investment and trade

should prevent"going west" to China. Now that Tsai officially restored the rhetoric of "Go South" and put forward a"New Southbound"policy at a presidential level, the government is slated to allocate more resources to Southeast Asia.

Item	Under Previous Policies	Under New Policy
New Scope	The ASEAN 10 (Singapore, Vietnam, Indonesia, the Philippines, Malaysia, Thailand, Cambodia, Brunei, Myanmar and Laos)	The ASEAN 10, six South Asian countries (India, Sri Lanka, Bangladesh, Nepal, Bhutan, Pakistan), Australia and New Zealand
New Direction	•Taiwanese businesses going to ASEAN countries to invest •Taiwanese people visiting ASEAN countries for tourism •Students from ASEAN countries coming to study in Taiwan	•Welcoming ASEAN and South Asian businesses to invest in Taiwan •Allowing "white-collar" tourists from the ASEAN region and South Asia to visit Taiwan •Taiwanese students visiting ASEAN and South Asian countries for summer internships.
Basis	Sees ASEAN countries as a cheap overseas manufacturing base	Progressive expansion, with ASEAN and South Asia seen as an extension of Taiwan's internal demand

Source: Hsu Chun-fang's presentation translated from the original Chinese by Conor Stuart.

Economic Growth Rate of ASEAN and India



Source: Ministry of Economic as Jul 2017.

The previous "southbound policy" was launched under the administration of former president Lee Teng-hui and was briefly restored under the tiller of former president Chen Shui-bian. However, the concentrating interest of these policies, was merely to find a cheap manufacturing base with a cheap supply of labor for Taiwanese businesses. The higher economic of China, however, pulled many Taiwanese investors to drew away their resources to China, where there was no language obstacle and less administrative barriers.

IV. AN UPHILL TASK FOR "NEW SOUTHBOUND" ECONOMIC STRATEGY

Essence of the New Southbound Policy is to create a new and mutually beneficial model of cooperation, bring a sense of economic community.Rather than unilaterally organizing contract manufacturing bases in ASEAN and South Asia as in the past, Taiwan will seek bilateral partnerships and make more extensive exchanges of personnel, capital, technology, culture and education with ASEAN, South Asian states, Australia and New Zealand. These efforts will shape a new and mutually advantageous model of cooperation and ultimately create a sense of economic community.

Taiwan plans to settle in for the long haul and develop comprehensive ties with 18 countries—10 ASEAN members, six South Asian countries as well as Australia and New Zealand. To construct strategic partnerships that will establish regional prosperity, the plan outlines four tasks:

A. Promote economic collaboration

Shape new partnerships by combining with those countries' supply chains, linking with their domestic demand markets, and acting jointly on infrastructure projects.

1. Supply chains

Taiwan will hold up the industrial capacities and demands of partner countries through the five significant innovative industries it is currently advancing. For instance, Taiwan can spread or supportcreateinternet systems for such operation as electronic toll collection, smart health care and intelligent school campuses. The government will also establish a "Taiwan Desk" in those countries to collect local resources and support overseas Taiwanese enterprises form relatively close association. In Taiwan, a single window for southbound economy and trade enlargementcreated as a platform for seeking, creating, combining and inspiring bilateral trade chance.

2. Domestic demand markets

Use cross-border electronic and physical sharing channels to promote quality and affordable products. Export new service enterprises including education, health, and medical care. Identify the outline of Taiwan's industrial brand image.

3. Infrastructure projects

Established a collaborative platform for exporting the

basic physical and orga nizational structures and facilities needed for the operation of a society or enterprise services and turnkey projects. Form export phrase on energy, petrochemical and environmental infrastructure. Creat strategic associaion with third-country service supporters.

B. Conduct talent exchange

With the centre of interest on people, enlarged bilateral exchange and cultivation of young specialist, students and industry professionals.Cntribute extra feture and complement human resources with targeted countries.

1. Education ties

Broadening scholarships to produce more students from ASEAN and South Asia. Controlled on Taiwan's industrial demand, establish courses on academia-industry assistance and foreign youth technical exercising, and provide job services contend after their graduation. Support universities and colleges to build overseas campuses or courses or preparatory programs. Undertake elementary and junior high school language courses for new immigrants, and inspire universities and colleges to garden more Southeast Asian language specialists andareal trade professionals.

2. Industry talent

Build a points-based system permiting residency enlargement for obtain foreign professional or technical workers in Taiwan, and inspire them to acquire job ability and specified certification. Encourage a two-way flow of specialists, streamline procedures for foreign workers arriving Taiwan, and introduce them to local companies.

3. New immigrants

Support first-generation immigrants apply their linguistic and cultural benefit to acquire work certification and job chance (such as language trainingandtourism-relatedwork).Supportsecond-generation immigrants link with their ancestral countries by promoting universities to build appropriate units or curriculums, and provide admission priority to students speaking Southeast Asian languages.

C. Share resources

Capitalize on Taiwan's soft powers to encourage bilateral and multilateral operarion in culture, tourism, medical care, technology, agriculture, and small and medium-sized business. Develope quality of life in targete countries and enlarge Taiwan's economic impression.

1. Health care

Joint with ASEAN, South Asia, New Zealand and Australia on relative pharmaceutical certifications and new drug and medical resources development. Support ASEAN and South Asia raise medical care and public health employers.

2. Culture

Apply film, broadcasting and online games to sell Taiwan's cultural brand. Inspire Taiwan's local governments to involve in intercity interaction and cooperation with ASEAN, South Asia, New Zealand and Australia.

3. Tourism

Ease visa demand for ASEAN and South Asian tourists to Taiwan. Encourage Taiwan tourism by multiple channels, promote the quality and quantity of tour guides, and build a Muslim-friendly travel circumstance.

4. Technology

Establish technology interactive platforms, empower international connections at Taiwan's science parks and research organization, and inspire exchanges in clever disaster prevention technologies.

5. Agriculture

Build a "Taiwan international agricultural development company" to raise exports of agricultural products and resource. Help agricultural technology support, enlargeapply of biomaterials and agricultural machinery, and develop the business capabilities of partner countries.

D. Forge regional links

Systematize integrated and multilateral cooperation with targeted countries whenempowering negotiations and dialogue. Produce on the aggregatd strength of private groups, Taiwanese networks and third countries aboard. Raise regional safety and prosperity.

1. Regional integration

Aggressivelyseek economic cooperation agreements or individual economic integrated provisions with India and major ASEAN trade partners. Revised and empower current bilateral investment and taxation treaties. Development risk management by building significant event alert and emergency correspondence mechanisms.

2. Negotiations and dialogue

Develope multilevel and all-encompassing agreement and dialogue with ASEAN, South Asia, New Zealand and Australia. Open dialogue and agreement with China at aappropriate time on relevant topics and cooperation matters.

3. Strategic alliances

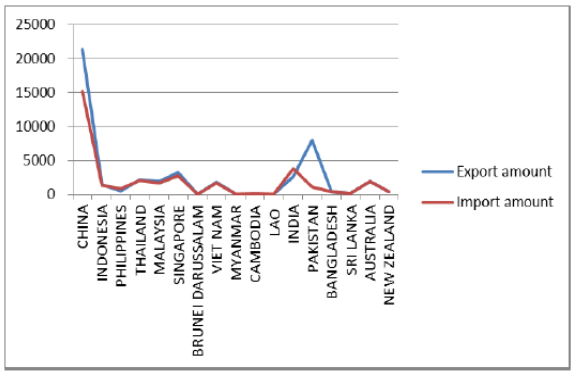
Reallocate foreign aid resources, shapeainternational foreign aid mechanism, and enlarge Taiwanese enterprise' participation in local advanced projects in other countries. Empower official and nonofficial

integrated platforms between Taiwan and Japan, build a Taiwan-Singapore economic and trade integrated platform, and connect third countries in tapping markets.

4. Overseas Taiwanese networks

Build an overseas Taiwanese database and integrated platform. Link with ethnic Chinese aboard and overseas Taiwanese enterprises networks and empower their connection with companies in Taiwan.

Amount of Imports and Exports of major New Southbound countries



Source: Ministry of Economics as Jul 2017

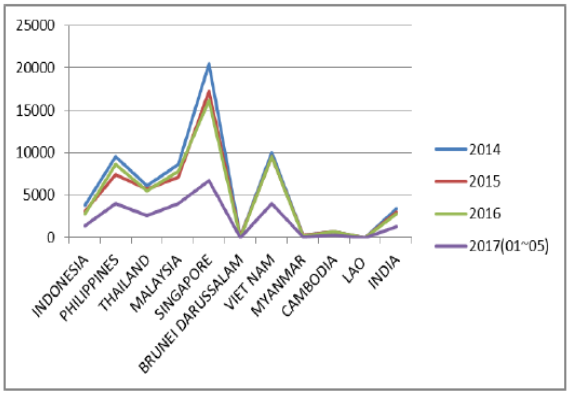
V. COMPLEMENTARY NATURS

Asia is the global center of economic force in the 21st century. Developments in population, GDP, total trade, and the pace of economic growth clearly show that Asia is now the significant engine of economic growth in the world. It is calculated that by 2030, the scale of the Asian economy may even overtake that of North America and Europe united. In the history of Asia's economic growth, Taiwan has acted a very important role by acting as a resource consolidator and ainvestorof capital and technology over the previous several decades. As a result, Taiwan has built close and long-term economic and trade links with the countries of Southeast and South Asia, as well as with New Zealand and Australia.

Taiwan has long been a significant source of Foreign Direct Investment (FDI) for many New Southbound countries. For example, Taiwan is the third-largest investor in Thailand, with accumulated investment amounting to US$14.1 billion by the end of 2016, and fourth in Vietnam (US$31.2 billion) and Malaysia (US$12.2 billion). Apart from the appropriate investment circumstance, there are many other exlanation why Taiwanese companies carry out very well in the region, including Taiwan's workforce competence, its good reputation, and its ability to help a match for the enterprise demands of the New Southbound countries.

Exports to the 18 countries covered by the government's New Southbound Policy increased by 15% in first quarter. Taiwan's exports to the 18 countries covered by the government's New Southbound Policy fruited more steam during the first four months of the year, representing the success of the initiative in promoting the local economy, according to the Directorate-General of Budget, Accounting and Statistics June 2.

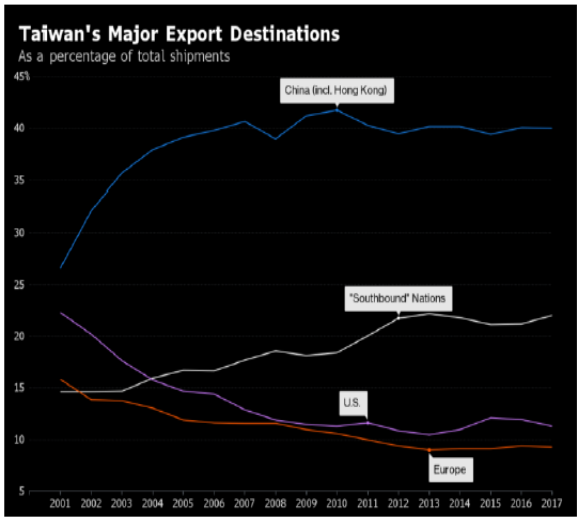
Amount of Exports of major New Southboundcountries from 2014-2017(1-5)



Source: Ministry of Economics as Jul 2017

A key part of President Tsai Ing-wen's economic development strategy, the initiative pursues to build Taiwan's agricultural, business, cultural, education, tourism and trade close links with the 10 Association of Southeast Asian Nations member states, six South Asian countries, Australia and New Zealand. According to the statistics compiled by the Ministry of Finance, the DGBAS said exports to the regions totaled US$21.14 billion between January and April for increase the amount of 15.6 percent, compared to the 13.6-percent increase in the nation's global exports over the same period.

Exports to the 10 ASEAN member states carried out particularly well, surging 17 percent year on year and accounting for the lion's share at 87.1 percent of exports to New Southbound Policy countries. This is came after an 8-percent gain in exports to the six South Asian countries and add 4.9 percent recorded for Australia and New Zealand. Electronic components and parts were the important export items, comprising 35.8 percent of all outgoing shipments to the regions. Minerals came in second at 11.5 percent, while fundamental metals and related products, plastic and rubber products and machinery achieved up 9.3 percent, 7.5 percent and 6.9 percent, respectively. The Office of Trade Negotiations under the Executive Yuan listed Taiwan's trade with the 18 aimed countries amounted to US$96.02 billion in 2016, or 18.8 percent of the national total. The New Southbound Policy is also paying handsome tourism dividends. Latest statistics from the Tourism Bureau show that the number of travelers arriving from the regions rose 15.3 percent to 1.79 million in 2016, above the annual target of 1.55 million.



Source: Ministry of Finance As of Mar. 2017

VI. RESTRICTED PARTICIPATION IN REGIONAL ECONOMIC INTEGRATION

"Go west!" is the mantra Taiwanese companies lived by for the best part of three decades, turning China into their largest trading partner. But with cross-strait relations at their worst in close to a decade, President Tsai Ing-wen is encouraging firms to turn south. Tsai desires to mitigate dependence on the mainland by promoting trade with 18 countries in Southeast Asia and South Asia, including Australia and New Zealand, a departure from her predecessor Ma Ying-jeou's promise of strength growth through better links with China.But Taiwan must emphasizestrengthen regional relations with other governments.

The New Southbound Policy is not wanted to compete or replace the One Belt, One Road. Because Taiwan has transformed itself over the years, obtained a lot of knowledge, experience. Taiwandesire to share these hard-earned knowledge with neighbors.Taiwan has transformed from an agricultural to a modern industrialized society where globaltrade is the lifeblood of the economy. Taiwan is a greatest world supplier of high-tech products, semiconductors, computers, and precision machinery. The UNCTAD World Investment Report 2016 listed by the end of 2015, Taiwan's foreign investment reached US$336.127 billion. The growth of 4.6 percent over 2014, made Taiwan the 5th biggest investor in Asia, the 18th worldwide.In 2015, seven Taiwan-made products were ranked No. 1 in the world market; 23 were ranked the top three. These manufactures were in the semiconductor foundry market, IC packaging and testing, high-end bicycles, glass fiber cloth, green algae, functional textiles, and portable navigation device.

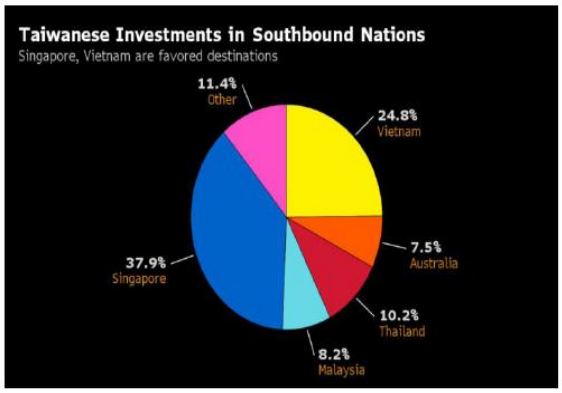
Major Obstacles to Doing Business in Southeast Asia

Item	Major Obstacles
Physical Distribution Channels	1. Lack of large retailers in the local market 2. Negotiating directly with local distributors often results in high costs and is limited by language barriers and lack of brand recognition. (Limitations in physical distribution channels can be overcome by using online distribution).
Cross-border E-commerce	1. Marketing/Sales:Lack of trust in e-commerce platforms run by Taiwanese companies; Low rate of sale closure. Given the amount of products available on e-commerce platforms, there may be difficulties in developing interest for specific products. Language barriers have an effect on customer service, sales and ease of tax filing 2. Logistics:Limited number of logistics companies. Speed of logistics. High cost of the last mile in logistics services. High rate parcel loss or theft. Lack of ease in returns; high likelihood of disputes 3. Cash flow:Online shoppers prefer to pay on receipt of goods; embezzlement often results.
Tariff and Non-Tariff Barriers	The tariff and non-tariff barriers in Southeast Asia are high, for example inspection and quarantine (foodstuffs, cosmetics, health foods) and limits on investment, which weaken the competitiveness of Taiwanese products in the absence of an FTA.

Source: Hsu Chun-fang's presentation translated from the original Chinese by Conor Stuart.

VII. OVER DEPENDENCE ON CHINA'S ECONOMY

The Southbound policy's aim countries account for 22 percent of exports compared with around 40 percent for China. But when the mainland's numbers are stagnating, Southeast Asia is increasingly acting Taiwan's driver of growth. Accumulated exports rose 13.6 percent from January to April, with exports to Southeast Asia increasing 17 percent. Although having official links with just 21 major developing countries in the Pacific, West Africa and Central America, Taiwan signed free-trade agreements with New Zealand and Singapore in 2013. All other investor-protection agreements it has with other countries were signed decades ago. Diplomatic isolation is an issue.



Source: Ministry of Economic Affairs As of Mar. 2017

The shortage of official ties is the largest problem local enterprises face when investing overseas. The judicial systems in these countries are under-developed, and you don't stand a chance if there's a legal dispute. Many Taiwanese enterprises get around that by recording in another country or integrated forces with investors from a third country to participate a market under their banner. Compared with other countries, Taiwanese enterprises have been late to participate Southeast Asia and can'tafford to ignore the fast-growing region's potential.

Taiwan's trade with the U.S. and Europe is decreasing. The purpose now is to take advantage of the fact trade with Southeast Asia is developing faster than it is shrinking with other areasregions, so accumulated trade could keep enlarging.Of the 18 countries aimed by the Southbound policy, including Indonesia, Vietnam and the Philippines, as priorities for conducting new investment-protection and tax-exemption agreements. Enterprises the government holds stakes in, such as Chunghwa Telecom Co., Taiwan Sugar Corp. and Taiyen Biotech Co. are leading the way. While investment may spend time to appear signs of accelerating, tourism is one area where the government can point to immediate results.

Taiwan is trying to strengthen and diversify Taiwan's economy. Currently, trade with China goes on over 20 percent of Taiwan's total trade. The over $100 billion in cross-Strait trade is about double that of Taiwan's second greatest trading country, the United States, leaving the island nation heavily dependant on the Chinese economy. Cross-Strait economic cooperation began under President Lee Teng-hui in the 1990s and promoted under Chen Shui-bian, who conducted a policy of "active opening and effective management" in 2001. Tsai's predecessor, Ma Ying-jeou, also developed economic integration with the mainland, which proved unpopular in his second term and provided propel Tsai's Democratic People's Party (DPP) to empower in landslide presidential and Legislative Yuan races in early 2016. The economic challenges facing Taiwan are not totally unique. States that rely heavily on trade as a source of economic operation and growth are often susceptible to fluctuations in the global market. This is especially real for Taiwan, which according to World Trade Organization, had a 63 percent trade to Gross Domestic Product ratio from 2013 to 2015. Particularly, Taiwan's trade with China is compounded by a contentious political circumstance. Unlike other small nations that are dependent on great trade partners, Taiwan must also face its disputed sovereignty, leaving it uniquely vulnerable to coercion from China. Taiwan's broader economic circumstances have compounded this disproportionate dependant on China. At present, Taiwan's economy is expected to have grown a paltry 1.5 percent in 2016, a mild development from the 2015 growth rate of 0.72. Projections from Taiwan' s Statistical Bureau for 2017 set its year-on-year growth rate at 1.92 percent. Stagnating wage rates and falling exports further contribute to the island's economic difficulties. The solution to Taiwan's economic struggles may hinge on exploring economic chances elsewhere in the region. ASEAN and South Asian nations encompass 32 percent of the world's population and have a combined GDP of $5.1 trillion. The annual economic growth rate for ASEAN and South Asian countries will be between 4.9 and 7.4 percent from 2017 and 2021. The developed economies of Australia and New Zealand provide safe, highly regulated investment environments.

CONCLUSION

Taiwanese enterprises could run into in the region keep forth some potential problems. There are a lot of variables in the market and there are a lot of local competitors who have been in the market longer.Potential partner countries have close relations with China.There is a certain cost for market access to the infrastructure market and little incentive for integration between think tanks.Lack of a serious effort at coordination between different ministries and departments.Uncertainty as to how willing Taiwanese enterprisesare to participate.

Look back at the shortcomings of the previous southbound policies to avoid retreading old ground.Start small and then expand using trial schemes initially.Sign economic cooperation agreements (ECA) with partner countries; cross-strait relations are still important.Establish a single government window to ease access for companies under Southbound policy, as well as raising government integration and efficiency.Build a new commercial environment. As well as the Transpacific Partnership, the Regional Comprehensive Economic Partnership should be taken more seriously. Innovation is significant, but innovative industries can be broadly shaped into two types: disruptive innovation and incremental innovation. The former, despite being ainternationalsuccess story in recent years, is time-consuming and requires high levels of investment, while the success rate is low. On the other hand, with incremental innovation, although

development is slight, the accumulated advances establish into significant progress over time. This supports to create a space between the incremental innovator and its competitors, which over time allows the innovator to restructure a competitive advantage.

The international economy is fraught with volatility and vulnerability, but a rising trend to search for opportunities in new economic blocks could improve the current impasse. Major players around the world, including the United States, the European Union, Japan, Korea and China, are trying to pay greater attention to the markets in Southeast Asia and South Asia. This situation also influenceTaiwan in deliberating its long term growth strategy and strengthening its adaptability to accept changes.

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