Taiwan’s New Southbound Policy and Its Geopolitical Implications in Asia

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Abstract

When presidential candidate Tsai Ing-wen declared her commitment to promote a New Southbound Policy (NSP) during her campaign and after she took office as president, there was no shortage of critics citing failed southward-looking policies in previous Lee and Chen presidency. Might this time be different? It appears there are some contexts, both economic and political, that might lead to different outcomes this time around. Chinese president Xi has shown more willingness to weaponize its market and to coerce trading partners for adopting policies that do not fits China’s interest. This creates incentives for countries in Southeast and South Asia, like Taiwan, South Korea and others, to diversify trading network and reduce economic dependence on China. On the other hand, the US redefines China as its major national security threat and adopts tougher competition policy toward China including attempts to correct China’s unfair trade practices with mounting tariffs. Gradually it leads to companies moving their production sites out of China to Southeast and South Asia, areas where most of the 18 New Southbound Policy target countries locates. Against the backdrops, Taiwan’s New Southbound Policy has better opportunities to success by providing alternative partnership to Asian countries and may introduce geopolitical implications along.

Keywords: New Southbound Policy (NSP), Indo-Pacific Strategy, alternative partnership

*The article does not represent positions of the Prospect Foundation.
台灣的新南向政策及其對亞洲的地緣政治影響

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摘 要

蔡英文總統競選時及就任後表明將推動新南向政策，遭到外界許多批評，並援引過去李登輝及陳水扁總統時期推動南向政策未獲成功的例子。然而，當前國際局勢脈絡顯示，特定經濟及政治條件使蔡總統之新南向政策可能有不同境遇。近年中國國家主席習近平不恆於展現將中國廣大市場武器化之企圖，頻頻施壓、企圖迫使其政策作為不符中國利益之貿易夥伴就範；習氏此一作法在經濟上對如臺、韓、東南亞及南亞國家帶來分散貿易網絡、降低對中國經濟依賴之誘因。另方面，美國重新將中國定義為主要國家威脅，不僅推出印太戰略，並對中國採取更為強硬之競爭政策，包括運用提高關稅企圖矯正中國不公平之貿易實踐，並逐漸導致外國企業將製造基地移出中國、移往 18 個新南向政策目標國所在之東南亞及南亞地區。在此國際情勢脈絡下，蔡總統推出之新南向政策藉由對亞洲國家提供替代夥伴關係，將有更佳成功機會，並將帶來地緣政治影響。

關鍵詞：新南向政策、印太戰略、替代夥伴關係

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I. Introduction

The New Southbound Policy (NSP) is once again staged as a pillar of economic policy while Taiwan navigating a path through under China’s increasing choking in economics and pressuring in terms of diplomacy. This paper analyzes how NSP might meet its goal of diversifying economic engagement by laying ground for broader integration with targeted countries through a people-centered approach, and what implications might be introduced to Asia.

Small to medium size country normally does not have the prowess required to create preferable conditions for their own agenda. Usually they need to seize current flow of the tide and take the ride for a better chance to fulfill their goals. Thus, regional situations the Tsai administration faces could have heavy weight on the fate of her New Southbound Policy. Furthermore, as situations provide ride for the NSP, impacts of the NSP are inevitably embedded into the specific context as well.

This paper examines how the regional environment back in 1990s and 2000s failed earlier Southern Policy in both Lee Teng-Hui and Chen Shui-Bian presidency. Yet, when president Tsai took office, trend of the situations favors NSP economically and politically. Rising production cost in China has driven companies to move their factories from China to cheaper production sites in Southeast Asia (SEA). The trade war between the US and China facilitates the trend even further. Moreover, Trump administration officially redefined China as its rival competitor and major national security threat in the US National Security Strategy of 2017 and National Defense Strategy of 2018. The US-China trade war is part of the efforts to compete with China by correcting the unfair trade practice.

Following the redefinition of the US-China relations, the US brought up Indo-Pacific concept and strategy to actively compete with China. While China under president Xi Jinping demonstrated more willingness to weaponize its market and capital to coerce trading partners, aversion to risks of over-dependence on trading with China requires regional countries to diversify their economic structure and trading network now more than ever. The concerns shared among regional countries align with the core concept
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of upholding a free and open, rules-based order in the US Indo-Pacific strategy with which the US competes with China in the region.

Riding the preferable economic and political trends, the NSP might land differently than its predecessors. While Taiwan trying to lay ground for comprehensive integration with NSP targeted countries and to bypass interference from China through people-centered approach, challenges remain. Taiwan and other South China Sea claimants in Southeast Asia need to soothe their difference in sovereign claim on South China Sea and to find ways to work together on maintaining stable and rules-based order. To prevent a setback in implementing the NSP for quarrels over South China Sea serves all parties’ benefits of building a stronger non-China trade network, hence diluting exposure to Chinese coercion.

II. Why Earlier Southward-Looking Policies Failed

The Taiwanese government has sought to protect itself from economically over-dependence on China after Chinese leader Deng Xiaoping initiated economic reforms in the 1980s. While keen to benefit from these reforms, Taiwanese leaders were concerned about the “magnet effects” that could ultimately be exercised on Taiwanese society through China’s market scale and human resources to serve as factory of the world. Former president Lee Teng-Hui launched the first generation Southern Policy in 1993. A Guideline to promote economic cooperation with the Southeast Asian (SEA) region was announced by the government in March 1994. The main goals of the Southern Policy were to diversify investment from China to SEA region. During the Lee administration, Taiwan signed agreements on promotion and protection of investment with 6 ASEAN members including Singapore, Indonesia, Philippines, Malaysia, Vietnam and Thailand. However, the SEA region was later hit hard by the 1997 Asian Financial Crisis, and the Southern Policy did not succeed as was
hoped, though Taiwanese investment and trade with SEA region did increase modestly.

Former president Chen Shui-Bien attempted to reinvigorate the economic redirection engineering with his Southbound Policy in 2002. Yet the sharp comparison between weak economic recovery in SEA and thriving growth in China worked against his wish. In practice, the trend of concentration of FDI in China from Taiwan became even more solid and the two economies became even more integrated.

III. The Prospects for the New Southbound Policy

However, with China’s economy entering into the phase of ‘new normal’ of slower growth and higher wage rates since 2014, certain SEA and South Asia (SA) countries look more attractive to investors (see Table 1). There is even the prospect that SEA and SA might gradually replace China as globally favored destinations for trade and investment.

Furthermore, the trade war between China and the U.S. under way since 2018 may extend into the long term. If so, it may push companies to diversify their investment from China in order to deal with the downsides of punitive tariffs. Many corporations based in China have sensed the need to speed up deploying the ‘China plus one’ strategy, which is to diversify their production line to another country, mostly to Southeast Asia, and some Taiwanese companies also think of moving back to Taiwan.

Perhaps more importantly, risks stemming from over-dependence on

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3 Taiwanese government launched an initiative (歡迎台商回台投資行動方案) to encourage oversea Taiwanese businessmen coming back to invest home on Jan. 1, 2019. So far, in the first six month of the year, Taiwan has been able to attract more than 10 billion US dollar investment. The US-China trade war is a major factor of the returning investment. 馮建榮,〈捷報！台商回台投資衝破4,000億元〉，《工商時報》，2019年6月28日，https://ctee.com.tw/news/policy/111124.html.
China’s economy have been realized. China has not hesitated to use its economic power to penalize countries and their companies when the countries’ leaderships have made foreign policy decisions that it does not agree with. Especially when in recent years, China has leveraged the power of its market share to punish other countries taking a policy decision that displeases China, such as cutting off numbers of Mainlander tourists visiting Taiwan over different opinion on ‘92 consensus’ across the Strait, hindering LOTTE business operations over South Korea’s THAAD deployment, forcing Vietnam to suspend oil drilling over maritime disputes, asking airline companies to change their website description to fit the ‘one China principle’, and so on.

Finally, smaller countries in China’s immediate sphere of influence, such as the littoral countries of the South China Sea have faced challenges from China similar to Taiwan’s past experiences. They may be looking to cooperate with other countries within the region to improve their bargaining power versus China.

Given these new dynamics, president Tsai’s NSP may have a chance to succeed. A second key factor that could help improve prospects for NSP is its people-centered approach. Prior to the NSP, Taiwan governments tended to strike investment promotion and protection agreement and then focused on encouraging investment in SEA by providing preferential financing facilities. The Tsai administration is continuing the prior approach of developing agreements on promoting and protecting investment with the 6 ASEAN members. In addition, the NSP emphasizes people-to-people exchanges to lay the ground for closer integration in terms of cultural, social life and economic network.
Table 1 Minimum Wage in China & ASEAN

<table>
<thead>
<tr>
<th>Country</th>
<th>Average Monthly Minimum Wage (Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>China (Shenzhen)</td>
<td>316.38</td>
</tr>
<tr>
<td>Cambodia</td>
<td>170 (Garment Industry)</td>
</tr>
<tr>
<td>Indonesia</td>
<td>102.74-257.73</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>130</td>
</tr>
<tr>
<td>Malaysia</td>
<td>229.11-249.03</td>
</tr>
<tr>
<td>Myanmar</td>
<td>98.88</td>
</tr>
<tr>
<td>Philippines</td>
<td>144.14-288.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>276-295</td>
</tr>
<tr>
<td>Vietnam</td>
<td>120-173</td>
</tr>
</tbody>
</table>

Sources: Author’s compilation from Dezan Shira & Associates, aseanbriefing.com, data updated as of August 2018; Dezan Shira & Associates, china-briefing.com, data updated as of November 2018.

This is believed by the government to be a key differentiator.
Promoting people-to-people exchange may provide a means to link Taiwan with the SEA and SA countries through civil society in various dimensions. This will be accomplished by providing scholarship and job training courses to NSP partner countries by cooperation directly with universities and vocational schools. It also includes unilateral tools Taiwan government can adopt to promote connectivity between Taiwan and its NSP partners, such as providing visa waiver program which boosts tourists from NSP target countries to Taiwan by large number. This is expected to stabilize the tourist industry at a time when China seeks to reduce mainland tourists as punishment for president Tsai’s refusal to recognize the 1992 consensus.

IV. Geopolitical Implications in Asia

China, by implementing its Belt and Road Initiative in SEA and along the Indian ocean sea lanes with building railways and air/sea ports, reveals its ambitions in controlling the important sea lanes that East Asian countries rely on to import energy from the Middle East. Not to mention that China’s recent military deployments in the South China Sea shows its dedication to build up anti-access capability and turn the South China Sea into China’s territorial water. Against the backdrop of China expanding strategic space in the Indo-Pacific region through PLA modernization, military outposts build-up in South China Sea and projecting influence through its Belt and Road Initiative, Taiwan’s NSP can contribute to regional countries’ management of balancing China in two ways. First, strengthening economic collaboration between Taiwan and SEA and SA countries through

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5 According to Tourism Statistic Database of the Taiwan Tourism Bureau, inbound tourists from 18 NSP countries amounts to 4.6 million in 2016, 5.27 million in 2017 and 5.62 million in 2018. That is over 1 million increase from 2016 to 2018. https://stat.taiwan.net.tw; the 18 NSP partner countries includes 10 ASEAN members, India, Sri Lanka, Nepal, Bhutan, Bangladesh, Pakistan, Australia and New Zealand.
diversifying trade relations and supply chain away from Chinese economy could help both Taiwan and partner countries reduce their exposure to China’s political influence. Second, as US deputy assistant secretary of State Alex Wong indicated in his policy briefing introducing Indo-Pacific strategy, Taiwan’s NSP could play a role in enhancing the US’ Indo-Pacific strategy.7 Assistant Secretary of Defense for Asian and Pacific Security Affairs Randy Schriver also said in an event held by Heritage Foundation in 2018 that “Taiwan is a partner in promoting a free and open Indo-Pacific and can make valuable contributions.”8 The newly published US Indo-Pacific Strategy Report also addressed the vital interest of the US free and open Indo-Pacific Strategy including strengthening partnership with Taiwan to maintain security and stability of the region.9 Taiwan can contributes by extending areas of collaboration promoted by NSP between Taiwan and SEA and SA countries into maritime resources management, building maritime awareness, and maritime security capability. While there are internal contradictions need to be dealt with among Taiwan and other South China Sea claimants, it could use help from other regional countries, such as Japan and the US, to bridge maritime collaborations.

A. NSP as a Way to Check China’s Ability to Turn SEA into Its Region of Influence.

SEA/SA has already become a major trading partner of Taiwan. A growth in Chinese influence over SEA/SA countries could be economically and politically disastrous for Taiwan. NSP’s success will help confront

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China’s efforts to undermine collaborations between Taiwan and SEA/SA countries. Taiwan, which played a key role in supporting China’s opening up since 1979, is concerned that its relationship with China is rapidly changing from being a recognized pioneer to a subsidiary and potentially subservient role. In other words, Taiwan helped feed the giant dragon of Asia, and the dragon now has grown to wiggle its tail on its own term.

One of the geopolitical expectations of the NSP is to prevent China from turning SEA and SA into its influential area by strengthening practical economic incentives and providing alternatives partnership to SEA and SA countries. In doing so, it helps mitigate the potential for damages that could be inflicted by China on Taiwan, SEA and SA countries’ economic security while also serving the other side of the coin to boost reciprocal economic collaborations between Taiwan and SEA and SA countries, which are trade partners carrying complementary advantages for development. NSP offers a way for Taiwan to collaborate more closely with Japan by joint investment in third country in SEA and SA. Japan competes for regional leadership with China for long. Its works in SEA have shown the importance and ways to provide alternative economic development partnership other than China to SEA and SA countries. For example, Indonesian president Jokowi has chosen Japan to be its partner to build the Jakarta-Surabaya railway after giving the Jakarta-Bandung high speed rail project to China.

Taiwan cannot compete with Japan and China as source country for inward FDI to ASEAN. Still, its FDI into the ASEAN countries has increased considerably in recent years. This shows Taiwan has potential capability to raise its importance to the SEA countries as an economic development partner carrying not just capital but along with technology, manufacturing know-how and supply chain cluster that SEA and SA countries are interested to learn from without attachment of a price tag of Chinese influences.

B. NSP as a Way to Enhance the US’ Indo-Pacific Strategy
Another major geopolitical implication of NSP will be its potential combination and coordination with the Indo-Pacific strategy. The brand name of the strategy, free and open Indo-Pacific, reflects the fundamental common interest for most countries in the region. China is the notable exception. Fears of China aggressively expanding its influence in the region have driven the creation of the Indo-Pacific Strategy.

The US presence in the region is widely welcomed by its allies and partners here, including Taiwan, Japan, Vietnam and others. In March 2018, the nuclear-powered aircraft carrier USS Carl Vinson, for the first time after end of the US-Vietnam war, visited Vietnamese port Danang. This came after China forced Vietnam to suspend its oil drilling project earlier in the year, and cost Vietnam a large amount – according to some estimates, about 200 million dollars. In mid-February 2018, president Duterte’s aides boarded the USS Carl Vinson while the aircraft carrier visited the Philippine in a routine Indo-Pacific regional operation to promote freedom of navigation.

Although UNCLOS does not recognize any of the Spratly Islands as true islands capable of independently supporting life, it is a reality that several countries, including Taiwan, have staked claim to and occupied these land features. Given this reality, it may be possible to use the land features for HA/DR work. After she took office, president Tsai instructed her administration to turn the Taiping Island (also known as Itu Aba, one of the land features in the Spratly Islands under Taiwanese control) into international HA/DR nexus of the area. Since then, Taiwan has held two HA/DR drills on Taiping Island, in November 2016 and December 2017. According to the Taiwanese government, ever since Taiwan Coast Guard positioned on the Spratly Island and Pratas island in 2001, they have

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With its seafaring experience and capability, Taiwan has shown its willingness to contribute to capability-building on maritime awareness and maritime security for the region, however, it will require related regional countries’ consent to set up cooperation among countries respect and follow international laws. In Tsai administration’s efforts of implementing NSP, Taiwan and the Philippine signed a 3-year joint research program, the VOTE projects, in the 5th bilateral ministerial technology cooperation meeting in December 2016. The VOTE program covers joint research on analyzing and forecasting Volcanos, Ocean, Typhoon and Earthquake. The joint program could pave for HA/DR cooperation and drills on one of non-disputed island between Taiwan and the Philippine. Researcher from government-affiliated think tank in Vietnam also showed interest on conducting maritime collaboration. Aside from bilateral cooperation between Taiwan and SEA countries, the existed Global Cooperation and Training Framework between Taiwan and the US could serve as a platform for mini-lateral collaboration on HA/DR and other maritime cooperation. Considering the sensitiveness of maritime collaboration on the disputed South China Sea, mini-lateral collaboration through GCTF could start from less sensitive item such as maritime rescue training. To build on less sensitive maritime cooperation among regional countries abide by international laws, also contributes to maintaining a free and open Indo-Pacific.

V. Challenges Facing Taiwan and NSP Partners

To fulfill the purposes set to diversify trade relations from over dependence on China, to be free from coercion of China’s influence, and to lay ground for further integration on cultural, social and economic network while promoting the NSP, Taiwan and its NSP partners may face challenges from China and internal contradictions.

Both Taiwan and its NSP partners prefer a balanced regional political
and economic order. Many SEA countries and Taiwan still look on the US to continue serving as the major balancing power to China in this region, whether it’s called Asia-Pacific region or Indo-Pacific region.

Some countries have spoken out their concerns and made responses, such as the US, Japan, India and Australia had the quadrilateral senior official meeting at the sideline of APEC Summit and showed willingness to reinvigorate QUAD dialogue and maybe further cooperation to look for; even if discussion of QUAD had gone quiet for Australia and India seem lack of commitments, many bilateral, trilateral and mini-groupings of cooperation burgeon in recent years.11 Last month in the 32nd ASEAN Summit, Singapore serves as this year’s chair country put out the Chairman’s Statement and express ASEAN’s commitment to full respect for legal and diplomatic processes, the way ASEAN referring to uphold the South China Sea arbitration award;12 in March Indian president Ram Nath Kovind visited Mauritius and Madagascar to strengthen their cooperation in maritime affairs;13 the White House put out a statement on calling out China’s imposing political rightness on American airline companies as ‘Orwellian nonsense’ and calling on China to stop threatening American companies and citizen.

We can expect China will try to intimidate countries from cooperating with Taiwan and putting up resistance to China by collaboration with each other, however, responses to China’s aggressive behavior are long overdue, countries in the region need to stop the vicious acquiescent cycle while facing China’s influence and coercion. Recent developments show that as long as China keeps on aggressive moves to change the status quo and forge a new regional and international order on its own term, it’s likely more and

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more countries will step up and response to defend their interest and the rule-based order. And as more and more countries step up for defending their own interest, it possibly will cost China more for further aggressive actions. To weaponize China’s market access may not always only hurt the party punished by China, many companies have diversified their investment in China to other countries to manage harms caused by volatility of China’s political weather.14

Disputes in the South China Sea could create quarrels between Taiwan and other claimants in SEA, and jeopardize collaborations between Taiwan and SEA countries, especially when there is no well-established disputes-settlement mechanism in this region, and Taiwan is shut out off the door of negotiation on COC of South China Sea. To work with NSP partners on supporting the free and open Indo-Pacific strategy, Taiwan will need to address the internal contradiction between Taiwan and other South China Sea claimants. Both president Ma and now president Tsai’s administration has expressed their stance on peacefully managing disputes and cooperation on exploring and sharing maritime resources in South China Sea. It will require political wisdom and willingness for regional leaders to start talking and listening to each other for peacefully managing the South China Sea issue while upholding the rule-based order and a free and open Indo-Pacific region. As mentioned before, to build mutual understanding and trust among Taiwan and SEA countries, especially those South China Sea claimants, through people-centered exchange maybe able to allow governments appealing to domestic audience and encouraging maritime cooperation including in HA/DR operations and maritime resources preserving and sharing.

Exchange and cooperation among civil societies, such as promoting and supporting activities/groups pursuing democracy, labour rights and human rights through NGOs collaborations, could touch upon sensitive domestic issues and enrage some governments of SEA countries. Taiwan

14 Ben Bland, Ibid.
needs to show its neighbors that the Taiwanese government supports free and open engagements between civil societies worldwide, won’t intervene or ask to stop activities involving sensitive domestic issues in other countries, nor will Taiwan government try to implant certain political ideology against governments of SEA countries. President Tsai’s administration and whoever takes the baton will have to state its position loud and clear in order to prevent setback of practical relations between Taiwan and SEA countries.

VI. Conclusion

Taiwan’s Tsai administration launched the New Southbound Policy to promote deeper and wider cooperation and integration with 18 NSP targeting countries most of them locates in SEA and SA. The rationale behind NSP includes economic calculation to invest in the region that enjoys some of the most robust growth in the world, and the long existing concern about over dependence on China’s economy hence exposure to its political influence. Many SEA and SA countries share these concerns with Taiwan, especially when China, under president Xi Jinping, has increasingly shown its willingness to achieve its goals by leveraging economic power to coerce other countries into serving China’s purpose. Furthermore, China’s aggressive behavior and militarization South China Sea also gradually reveals its ambition to set up anti-access deployment and turn the South China Sea into its own territorial water. The need for regional countries to cooperate with each other and step up to resist China’s ambition of changing the status quo and the rule-based order is long overdue. Yet, through promoting NSP, Taiwan and its partners can contribute to upholding a free and open Indo-Pacific region while cooperating on boosting and integrating cultural, social and economic developments.
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