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CHALLENGES IN TAIWAN'S ECONOMY AND SOCIETY

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Abstract

Taiwan still faces the dilemma to identify its relation and behaviour within the Cross-Strait relations, not only due to the well-known political considerations and diplomatic isolation, but it is widely visible that Taiwanese investors and the Taiwanese government is scared about the possible implications of a trade war between the USA and Mainland China. Besides other reasons, this is the main motivation of the sudden outflow of the Taiwanese FDI from Mainland China. This huge amount of capital, however merely does not return to Taiwan to create new jobs and develop new, high value-added containing industries, but rather goes to Southeast Asia where still focuses on the low-cost labour-intensive manufacturing sector. Besides other, non-industrial fields, the present NPP-based Tsai-administration fosters its New Southbound Policy (NSP), which is partially implemented under the umbrella of a special NGO, the Taiwan-Asia Exchange Foundation (TAEF). The 18 target countries of NSP comprise the full ASEAN, plus South Asia and Australia and New Zealand. However, from among the target countries Taiwan has the most intensive investment and trade relations with the ASEAN region (mostly Vietnam, Philippines, Thailand, Malaysia and Indonesia). The near future, however might bring about significant changes. If the upcoming elections in January 2019 would oust the NPP from power, a new, KMT-administration would revert the focus to the improvement of the Cross-Strait relations. Anyhow, such a new policy could stand on the basis of reality: Mainland China has still been far the biggest export market of Taiwan. In case of the Hungaro-Taiwanese business and investment relations the study discusses about the results of the recent years mentioning several constraints and also positive facts.

Keywords: *Taiwan, Economy, New Southbound Policy, Cross-Strait relations, Hungary*

Introduction - The Antecedents and the Objectives of the Research

The author spent two months in 2017 with the research mobility fellowship of OBIC when he prepared a thorough assessment about Taiwan's developmental model, compared even to South Korea, discussed about the issues of constraints and endeavours to maintain its competitiveness including Taiwan's external economic activities focusing on the Cross-Strait relations and on the Taiwan-EU business and investment relations.

The present research can be considered a kind of straight continuation of the above-mentioned project. The author also gives a brief insight to the present state and to the most recent developments of the Taiwanese economy in general, then the scope of the research was turned towards Taiwan's external economic relations with special focus on the regional endeavours. The main part of the latter is the overview on the New Southbound Policy (NSP) which was proclaimed by the incumbent Taiwanese President, Tsai Ing-wen in 2016 targeting the South and Southeast Asian regions and including Australia and New Zealand with the view of providing Taiwan a regional alternative against (or besides) the Cross-Strait relations. Tsai and the Democratic Progressive Party (DPP) focuses on Taiwan's own identity (avoiding to use the term independence) and considers hazardous Taiwan's overdependence on the excessive trade and investment relations with Mainland China, therefore considers the NSP-driven diversification a security issue as well. It is another question that after January 2020 – the next parliamentary elections – the winner might keep further impetus to NSP or eventually drop it and turn back to Taiwan's "Chinese identity" and further strengthen again the Cross-Strait relations. Besides the main characteristics and implications of the New Southbound Policy the author briefly summarizes the recent developments in the Hungaro-Taiwanese economic relations as well.

Material and Methods

The author based his research on both secondary and primary research to collect information to the paper. The secondary research meant principally bibliographic review (those literature sources that were available in Taiwanese libraries, mainly in National Taiwan University and Shih Chien University), the statistical data were collected from Taiwanese, e.g. Central Bank of the Republic of China, Taiwan (CBC), DGBAS (Treasury Department of the Ministry of Finance of Taiwan, Bureau of Trade, Statistical Office), the Directorate General of Customs, Ministry of Finance of Taiwan), Mainland Affairs Council of the Republic of China (MAC) and international databases (CIA World Factbook, IMF). Mention has to be made about the author's previous, recent fellowship in Taiwan and his monograph (Neszmélyi,

2017) and other papers he published after could serve as starting points to the present research as well.

The author, similarly to his previous stay in 2017, spent one month in Taiwan in 2019 with the fellowship of the Oriental Business and Innovation Centre (OBIC) of Budapest Business School which gave him a very good opportunity to re-establish and enlarge his personal contacts and carry out discussions, like in-depth interviews with a number of academic professionals and experts from the fields of business and administration (from Academia Sinica, Taiwan Institute of Economic Research, Shih Chien University, National Taipei University of Business, National Formosa University, CTBC Financial Holding, Hungarian Trade Office in Taipei). Hence, these first-hand information and experiences merely contributed to the outcomes of this paper as well.

I. Taiwan's Economic State and Challenges Nowadays

General Overview on Taiwan's Economy

In our days Taiwan has a modern and developed economy with gradually shrinking government guidance on investment and foreign trade. Exports, led by electronics, machinery, and petrochemicals provided the primary impetus on its economic development. This means strong dependence on exports that exposes the economy to fluctuations in world demand. Taiwan's diplomatic isolation, low birth rate, and rapidly ageing population are other major long-term challenges.

Even though, during the fellowship period of the author (12 April – 12 May 2019) figures of the year 2018 have still not been available at the Central Bank of the Republic of China Taiwan (CBC), foreseeably the Annual Report of 2018 would be published in June, 2019. Chin-Long Yang, Governor of CBC pointed out, that 2017 was a period of a steady global economic recovery and commodity price upswings, which combined to drive Taiwan's exports expansion as domestic consumer spending maintained moderate growth. Against this backdrop, Taiwan's economy grew at a faster pace of 2.86%, the highest annual growth rate in three years. Meanwhile, inflation was mild as NT dollar appreciation helped alleviate imported inflationary pressures and a weather-induced higher base effect held down food prices. Compared to the previous year, the consumer price index (CPI) rose by 0.62% and the core CPI (excluding vegetables, fruit, and energy prices) went up by 1.04% (CBC 2017 Annual Report, 2018). According to estimated figures of The World Factbook of CIA (2019), Taiwan's PPP-based GDP (purchasing power parity) was 1.189 trillion USD, GDP (official exchange rate) was 572.6 billion USD (2017), while the GDP real growth rate was 2.9% (2017). The per capita GDP (PPP) was 50,500 USD (2017), while the ratio of gross national saving was 34.9% of GDP (2017). In 2017, the composition of GDP by sector of origin was as follows: agriculture (1.8%), industry (36.0%) and services (62.1%). The

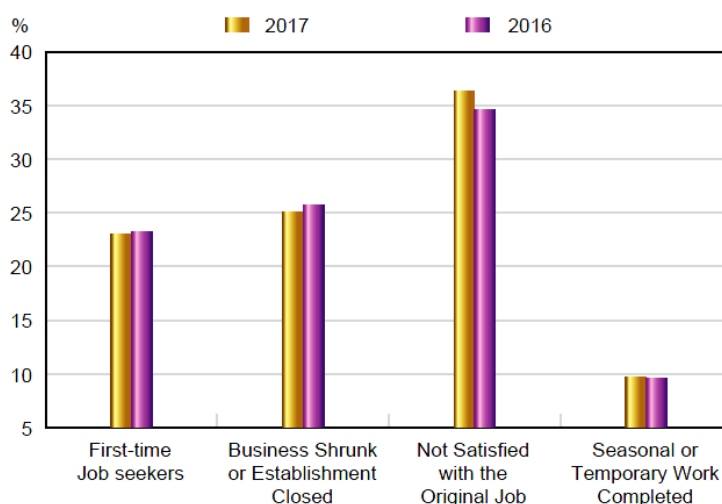
main industries are: electronics, communications and information technology products, petroleum refining, chemicals, textiles, iron and steel, machinery, cement, food processing, vehicles, consumer products, pharmaceuticals. In 2017, the labour force was estimated 11.78 million, the division of which by sectors was as follows: agriculture (4.9%), industry (35.9%), services (59.2%). The unemployment rate was 3.8% in 2017, 0.1% lower than in 2016 and the same as it was in 2015. In 2016, the Taiwanese public debt was 35.7% of GDP, (0.5% lower than a year before), while in 2017 the budget had a 0.1 percent deficit (in 2016 it was 0.6%). In 2017, the inflation rate (consumer prices) was 1.1% (The World Factbook, CIA, 2019).

The growth was steady the main driver of which was the external demand, the global economic expansion continued, the annual GDP growth rate rose to 2.86%. The overall balance of payments recorded a surplus of USD 12.467 billion, with a current account surplus and a net asset increase in the financial account. In terms of inflation, fuel and gas cost hikes in response to international energy price rises were partially offset by food price declines; the annual growth rate of the consumer price index (CPI) averaged 0.62% for the year as whole. Meanwhile, the unemployment rate went further down to 3.76%, the lowest in 17 years. While domestic demand kept steady, stronger external demand drove the economic growth rate to climb from 1.41% in 2016 to 2.86% in 2017, the fastest pace in three years. In terms of GDP components by expenditure, exports registered faster growth on thriving trade activity, and imports increased along with greater domestic demand as well as export-derived demand; net external demand contributed 2.02 percentage points to GDP growth, serving as the mainstay for economic growth in 2017. On the other hand, private consumption grew steadily amid improved employment conditions. However, this was partially offset by negative growth in private investment, as machinery equipment investment slowed in the second half of the year owing to a higher base effect. As a result, domestic demand contributed only 0.83 percentage points to GDP growth. Labour productivity indices of the industrial sector and the manufacturing industry also grew, average non-farm (industrial and services sectors) monthly earnings per employee grew by 2.46% year on year reaching TWD 49,989. (The abbreviation TWD or NT\$ means New Taiwanese Dollar which is Taiwan's official currency. In April/May 2019 1 USD was equal to cc. 30-31 TWD, 1 EUR was around 34 TWD).

For the year 2017, the unemployment rate in general exhibited a downward trend, except in February (due to a typical wave of post-Lunar New Year job switching) and in June to August (as new graduates enter the job market) when seasonal factors resulted in higher unemployment. For the year as a whole, the unemployment rate was 3.76%, the lowest in 17 years. As labour market conditions improved, unemployment duration decreased by 0.85 weeks to 24.22 weeks. In terms of age, the unemployment duration of the age groups 15-24 and 45-64 increased by 0.01 and 0.24 weeks to 19.92 and 26.32 weeks, respectively, while that in the age group of 25-44 decreased by 1.54 weeks to 25.47 weeks. The

average number of the long-term unemployed (those who were unemployed for 53 weeks or more) was 63 thousand persons, a decrease of six thousand persons compared to that in the previous year. In terms of causes of unemployment, total unemployment in year 2017 was 443 thousand persons, a decrease of 17 thousand persons or 3.52% from the previous year, mainly because unemployment of experienced job seekers decreased by 12 thousand persons or 3.31% (CBC 2017 Annual Report, 2018). The main reasons of unemployment can be seen in Figure 1.

Figure 1: The main reasons of unemployment in Taiwan (2016-2017)



Source: CBC 2017 Annual Report, 2018, p. 26, based on figures of DGBAS, Executive Yuan.

It can be seen that both in 2016 and 2017 the main cause was the dissatisfaction with the original job, it even grew by 2017 against other factors that are calculated in the comparison.

Foreign Trade and Investment

In 2017, Taiwan's external trade gathered steam amid a robust recovery in the global economy, while domestic demand witnessed mild expansion. Private consumption rose at a steady pace, and, despite a slight contraction seen in private investment, investments by general government and public enterprises both exhibited positive growth. For the year as a whole, real GDP expanded at an annual growth rate of 2.86%, higher than the 1.41% in the previous year (CBC 2017 Annual Report, 2018).

In 2017, the total exports of Taiwan amounted 349.8 (in 2016: 310.4 billion USD), while the total amount of imports was 269 billion USD in 2017 (239.3 billion USD in 2016) (The World Factbook of CIA, 2019).

The main export commodities are: semiconductors, petrochemicals, automobile/auto parts, ships, wireless communication equipment, flat displays, steel, electronics, plastics, computers, while the main items of imports: oil/petroleum, semiconductors, natural gas, coal, steel, computers, wireless

communication equipment, automobiles, fine chemicals, textiles. Taiwan has the sixth biggest reserves of foreign exchange and gold the total amount of which was estimated 456.7 billion USD (on December 31, 2017), one year before it was 439 billion USD. Taiwan's total amount of external debts was estimated 181.9 billion USD (on 31 December, 2017) while one year before it was 172.2 billion USD (The World Factbook of CIA, 2019).

According to customs statistics, the value of exports increased by 13.2% to USD 317,381 million on free on board (FOB) parity, and the value of imports increased by 12.5% to USD 259,499 million on CIF (cost, insurance, and freight) basis. The biggest trading partners of Taiwan in 2017 were Mainland China including Hong Kong, ASEAN, the USA, Europe and Japan. In terms of Taiwan's trade with Mainland China, the value of exports amounted to USD 130,280 million in 2017, 16.0% higher than in 2016. As a manufacturing hub of the world, Mainland China remained Taiwan's biggest export market, with the share of total exports increased to 41.0% in 2017. Of all major export products, parts of electronic products (especially integrated circuits) maintained their leading roles, contributing 7.8 percentage points to the growth in Taiwan's exports to Mainland China. Imports from Mainland China increased by 13.8% to USD 51,562 million in 2017. With a ratio of 19.9%, Mainland China continued to be Taiwan's largest import partner. The trade surplus with Mainland China increased to USD 78,718 million in 2017. As a result, Mainland China remained the largest source of Taiwan's trade surplus. Exports to the ASEAN economies increased by 14.2% to USD 58,584 million in 2017, with a combined share of 18.5%. Imports from these countries increased by 14.4% to USD 31,058 million, with a share of 12.0% of total imports. The bilateral trade between Taiwan and the ASEAN heated up, and the exports and imports of parts of electronic products increased greatly. In sum, the trade surplus with the ASEAN increased to USD 27,526 million, with Singapore, Vietnam, and the Philippines being the second, third, and fourth largest sources of Taiwan's trade surplus, respectively. Exports to the US grew by 10.3% to USD 36,976 million, though comprising a smaller share of 11.7% in Taiwan's total exports compared to a year earlier. Being encouraged by bigger consumer demand for newer models of gaming laptops and commercial computers, information, communication & audio-video products exported to the US increased by 16.8% over the previous year. Imports from the US rose by 5.6% to USD 30,210 million, but its share in total imports fell to 11.6%. The trade surplus with the US, Taiwan's fifth largest surplus source, increased to USD 6,766 million. The gradual recovery in Europe, combined with a stronger Euro, allowed Taiwanese exports to Europe to increase by 11.2% to USD 29,162 million, yet its share of total exports declined to 9.2%. Taiwanese exports of machinery and base metals soared especially well among major products, growing by 22.5% and 16.1% from a year earlier, respectively. Taiwan's import from Europe increased by 8.7% to USD 31,452 million, though its share of total imports decreased to 12.1%. Consequently, Taiwan's trade deficit with Europe shrank to USD 2,290 million in

2017. Taiwan's exports to Japan increased by 6.3% to USD 20,787 million, with its share declining to 6.5% (exports of machinery and base metals made the biggest contribution to total exports). Taiwan's imports from Japan increased by 3.3% to USD 41,950 million, with the share dropping to 16.2% of total imports. Japan remained Taiwan's second largest source of imports in 2017. To sum up, the trade deficit with Japan widened to USD 21,163 million year (CBC 2017 Annual Report, 2018). The main trading partners of Taiwan in 2017 and 2016 can be seen in Table 1.

Table 1: Taiwan's trade of goods by country in 2016 and 2017

	2017			2016		
	Amount	Share	Annual change	Amount	Share	Annual change
Exports	million USD	%	%	million USD	%	%
Mainland China (incl. Hong Kong)	130,280	41.0	16.0	112,277	40.1	-0.2
ASEAN	58,584	18.5	14.2	51,291	18.3	-0.7
USA	36,976	11.7	10.3	33,523	12.0	-3.0
Europe	29,162	9.2	11.2	26,221	9.4	1.0
Japan	20,787	6.5	6.3	19,551	7.0	-0.2
Rest of the World	41,592	13.1	11.0	37,459	13.4	-8.8
Total	317,381	100.0	13.2	280,321	100.0	-1.8
Imports						
Mainland China (incl. Hong Kong)	51,562	19.9	13.8	45,321	19.7	-3.0
Japan	41,950	16.2	3.3	40,622	17.6	4.5
Europe	31,452	12.1	8.7	28,924	12.5	1.5
ASEAN	31,058	12.0	14.4	27,155	11.8	-6.5
USA	30,210	11.6	5.6	28,597	12.4	-2.1
Rest of the World	73,267	28.2	22.2	59,949	26.0	-7.6
Total	259,499	100.0	12.5	230,568	100.0	-2.8

Source: The author's editing from CBC 2017 Annual Report, 2018, p. 16 (on the basis of Monthly Statistics of Exports and Imports, Ministry of Finance of Taiwan).

The Most Recent Traits in the Taiwanese Economy

According to the recent survey and forecast of the Taiwan Institute of Economic Research (TIER) published in April 2019 the global demand has turned weaker, therefore major the major central banks in the world simultaneously adopt looser monetary operations. Both of the most recently published composite indicators for manufacturing and service go up due to more promising domestic investment activities despite of deteriorating global economic conditions. As a result, it is predicted that Taiwan's GDP will grow by 2.12% in 2019 (the same as it was stated in its previous forecast). Taiwan's exports in March 2019 decreased by 4.36% compared with the same month of 2018, and it is the 5th-month consecutive decrease. Regarding imports, Taiwan's imports in March 2019 increased by 6.62% compared with imports in March 2018. On the cumulated basis, exports and imports from January till

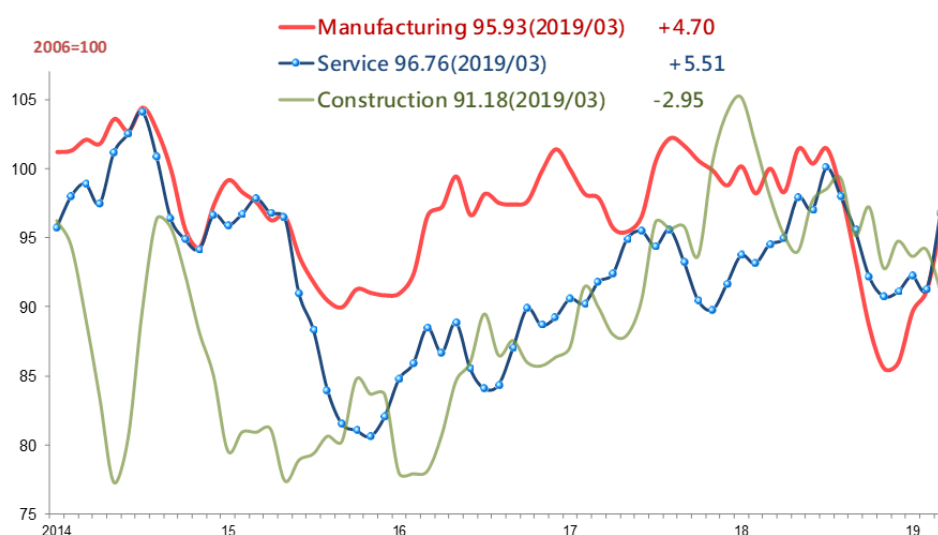
the end of March this year gave a trade surplus of USD 8.96 billion or decreased by 23.75% on a year-on-year basis. The consumer price index (CPI) increased by 0.58% in March 2019 compared with the same month of previous year. The core inflation rate excluding prices of the energy and food grew by 0.47% in March 2019. In addition, the wholesale price index (WPI) moved up by 1.19% in March 2019 on the year-on-year basis. As for exchange rate, the NTD similar to all other major currencies in the world became slightly weaker due to the strengthening USD. The NTD/USD rate was at 30.825 in late March 2019 indicating a 0.16% depreciation. Regarding the interest rate, it remained low and steady in March 2019 due to the continued loose monetary operations by the CBC with respect to the most recent CPI reading and potential global uncertainties; the lowest and highest over-night call rate in March 2019 stood at 0.174% and 0.186% respectively (TIER, 2019).

The ratio of manufacturing firms which considered business were better than expected in March 2019 was 46.5% or increased by 35.0 percentage points compared with respondents who perceiving better business in the previous month. The ratio of those perceived business getting worse in March 2019 was 11.6% or decreased by 38.5 % than 50.1% expecting worse business of the previous month (February 2019). The ratio of those manufacturing companies which considered business remained constant in March 2019 was 41.9% or increased by 3.5 percentage points compared with 38.4% perceiving constant business in the previous month. Altogether, manufacturing firms considering about the business in March 2019 were more optimistic than in the previous month. However, the real reason of it was because of more working days in March compared with February with the lunar new year break. In addition, the proportion of manufacturers who considered that business would be better in the following six months (April September 2019) was 32.8% in the target month or decreased by 12.8 percentage points than 45.6% feeling more optimistic about the future in the previous month. The portion of firms who perceived the economic outlook would be worsening was 15.5% or increased by 6.2 percentage points compared with 9.3% feeling rather pessimistic about the future in the previous month. The ratio of manufacturing companies which perceived business remained constant in the following six months (April September 2019) stood at 51.7% or increased by 6.6 percentage points compared with 45.1% feeling neutral about the business outlook one month earlier. After all, manufacturing firms considered the business situation in the near future more pessimistic than the preceding month (February, 2019) (TIER, 2019).

The manufacturing composite indicator for March 2019 adjusted for seasonal factors on moving average, saw an upward correction, and from a revision of as 91.23 points in February 2019 moved up to 95.93 points. In Figure 1 an increase of 4.70 points can be seen, the fourth month of consecutive increase. The TIER service sector composite indicator for March 2019 adjusted for seasonal factors on moving average, also saw an upward correlation, and from a revision of as 91.25 points in February

2019 moved up to 96.76 points. Figure 2 shows an increase of 5.51 points, the first increase after a one-month drop. In addition, the TIER Construction Sector Composite Indicator for March 2019 adjusted for seasonal factors on moving average, saw a downward correction, and from a revision of 94.13 points in February 2019 went down to 91.18 points. Figure 2 shows a decrease of 2.95 points, the first decrease after a one-month mount (TIER, 2019).

Figure 2: TIER Business Composite Index about the Taiwanese economy



Source: Taiwan Institute of Economic Research (TIER), March, 2019: p. 6.

The economic survey of TIER forecasts lower economic growth in the first half of 2019 while for Q3 and Q4 it predicted higher GDP growth, reaching 2.51% percent by the end of the year (see Table 2).

Table 2: Taiwan's economic forecast for 2019
(TWD 100 million, Chained (2011) dollars)

	2019				2019
	Q1	Q2	Q3	Q4	Total
GDP	40,961	42,034	43,722	44,971	171,688
Real GDP (%)	1.80	1.85	2.30	2.51	2.12
Private Consumption	23,559	23,353	23,820	23,798	94,530
Private Consumption (%)	2.15	2.20	2.40	2.43	2.30
Gov't Consumption	5,452	5,864	6,186	6,736	24,238
Gov't Consumption (%)	-2.55	-3.32	3.40	2.03	-0.03
Fixed Capital Formation	9,153	9,486	10,308	10,206	39,153
Fixed Capital Formation (%)	3.78	6.15	4.09	7.40	5.36
Gov't Investment	922	1,230	1,343	1,928	5,422
Gov't Investment (%)	8.59	11.92	12.02	13.62	11.96
Public Enter. Invest.	353	566	545	965	2,429
Public Enter. Invest. (%)	7.24	17.42	7.92	4.92	8.63
Private Investment	7,878	7,690	8,422	7,313	31,304
Private Investment (%)	3.20	4.60	2.80	6.10	4.10
Exports, goods +serv (USD 0.1 billion)	30,480	31,697	34,415	35,725	132,318

Exports, goods +serv (%)	0.30	1.70	2.95	3.15	2.08
Imports, goods +serv (USD 0.1 billion)	28,229	28,615	31,300	31,865	120,009
Imports, goods +serv (%)	1.45	2.40	3.25	3.75	2.75
Exports, goods (USD 0.1 billion)	764	832	883	892	3,371
Exports, % Growth, yoy	-4.19	-1.05	2.40	3.90	0.36
Imports, goods (USD 0.1 billion)	674	708	759	754	2,895
Imports, % Growth, yoy	-0.81	0.80	1.20	3.06	1.10
Trade surplus (USD 0.1 billion)	90	124	125	138	476
CPI	101.85	102.34	103.35	103.63	102.79
CPI (%)	0.33	0.45	0.85	1.55	0.80
WPI	102.67	104.49	106.53	105.80	104.87
WPI (%)	0.72	0.20	-0.30	0.60	0.30
Exchange rate (TWD/USD)	30.83	30.85	30.83	30.70	30.80

Source: Taiwan Institute of Economic Research (TIER), 2019

Lin¹ underlined that the Taiwanese capital returning from Mainland China seeks fast and high return, therefore it goes either to the real estate market or goes abroad again. There are two factors that barely contribute to this phenomenon. In Taiwan, real estate prices are extremely high and the property tax – comparing to the United States and several European countries where it is around 1% of value, in Taiwan it is very low, only around 0.1 percent per value. (It cannot go to the real estate market of Mainland China as there is no property, people may get only the right of usage for 70 years). The other factor is that in other countries, like in Southeast Asia, economic growth is higher and the level of wages is still much lower than in Taiwan: Vietnam, the Philippines and other states provide Taiwanese investors with higher profits. The government even supports this under the auspices of the New Southbound Policy. Therefore, it is not surprising that Taiwanese capital does not flow into the Taiwanese manufacturing or services sector which result in scarcity of jobs and conserves the relatively high but long ago stagnant wage level. Taiwan's domestic financial market is very strictly regulated, and this is one more reason why capital still flows out, rather to or through Hong Kong or Singapore (Lin, 2019).

Chung² underlined the fact that that Taiwan is in scarcity of most production factors (land, energy, raw materials, labour, etc.), this is the reason why Taiwanese capital – returning from Mainland China – goes rather to Southeast Asia, then to the domestic industry. This looks to be a general phenomenon that capital has no „national emotions” and goes where the return/profit is the highest, but the situation is more complex. The labour-intensive manufacturing industry, which is principally based on the low-cost labour has no way and reason to be further developed in Taiwan, where the wages are significantly higher than in most of the Southeast Asian countries. Taiwan's government offers special

¹ Chien Fu Jeff Lin PhD, Chief Economist of CTBS Financial Holding Co. Ltd, former Director of Taiwan Institute of Economic Research (TIER), Professor of National Taiwan University, Taipei

² Chung, Grace, PhD, Director, President's Office, Research Fellow, Taiwan Institute of Economic Research (TIER)

incentives to develop Taiwan's knowledge-intensive sectors, like the „green-industries“. There are projects for sustainable power generation (like coastal powerhouses using the wave-energy of the ocean, here many foreign companies wish to join (Chung, 2019).

I. The New Southbound Policy and its Implications

The global and inner circumstances of Taiwan's economy have undergone rapid changes in recent years. Mainland China faces a number of difficulties after three decades of rapid and uninterrupted economic development, such as industrial structural transformation, adjustments in laws and institutions, a sharp increase in production costs, and a slowdown in economic growth. At the same time the most prominent Southeast and South Asian economies have still continued to grow, and their consumers' purchasing power has also been increasing. These countries also actively participate in their regional economic integrations with the view of improving their companies' competitiveness, and to achieve even better business opportunities. This region has been emerged as one of the present – and future - locomotives of the global economy. Nowadays, the total GDP of the 10 members of the Association of Southeast Asian Nations (ASEAN) with its population of approximately 620 million, has reached USD 2.4 trillion. Moreover, the six South Asian countries (India, Pakistan, Bangladesh, Sri Lanka, Nepal, and Bhutan) have altogether nearly 1.7 billion population and their GDP amounted USD 2.7 trillion. According to Global Insight forecasts, the average annual economic growth rates for the ASEAN and South Asian countries would reach 4.9% and 7.4% between 2017 and 2021. This is considerably higher than the global economic growth average of 3.1%. As a result of this spectacular growth, in these countries a new middle class will emerge with higher purchasing power, that means excellent business opportunities even for Taiwanese companies. Taiwan is entering a critical period of industrial transformation and structural adjustment, in which wage growth has still been stagnant. Although Taiwan has previously maintained trade and economic relations with many emerging markets in Asia, most of these relations are based on export processing and related investment, not on the local markets themselves. Furthermore, the majority of the exported manufactured goods were of little value added. As Taiwan faces difficulties in participating in regional economic integrations, its export items are merely affected by tariffs and trade barriers, all these problems mean a significant constraint for Taiwan to foster its exports and economic growth. Another problem is that Taiwan also has a high concentration of trade and outbound investment in mainland China, which means potential risks to Taiwan's economy and security (An Introductory Guide, 2017).

Lőrincz (2019) underlined that Taiwan has nearly reached into a stalemate in the Cross-Strait relations, this way now clearly seems to an unsuccessful option to break out the diplomatic isolation. In the recent years another 2-3 countries have left that “narrow club” which countries still recognize Taiwan

as independent country, the tiny state Eswatini (Swaziland) remained the only one in the African continent and not even any significant economic and political power can be found among the other countries as well (Holy See, Kiribati, Marshall Islands, Nauru, Palau, Solomon Islands, Tuvalu, Haiti, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Belize, Guatemala, Honduras, Nicaragua, Paraguay). Other attempts to get admitted into international organizations, like the World Health Organization (WHO) of the United Nations also failed. But, in the other hand, based on the robust exports, Taiwanese economy works well and from the point of the Southeast Asian countries Taiwan looks to be a success story, a developed and rich economy, therefore it means a promising partner for co-operation. For many ASEAN citizens Taiwan provides livelihood as they were allowed to arrive and stay as guest workers (several hundred thousand of people from ASEAN – mainly from the Philippines, Indonesia, Vietnam arrived so far). The Taiwanese environment is friendly with them, there is no discrimination against foreigners, especially against Moslems, no antimigrant rallies, etc. (Lőrincz, D. 2019).

Under these circumstances, it is not surprising that Taiwan needed a firm diversification in its strategy for economic and foreign relations. The most logical choice was to diversify these relations by intensifying co-operation in the Asia-Pacific region which is in direct geographical proximity of Taiwan. In this context, Taiwanese President Tsai Ing-wen in her inaugural speech in 2016 emphasized the significance of the New Southbound Policy to improve Taiwan's stance and versatility in the international economy, pointing out that by this Taiwan should give up to be relying on a single market (Mainland China), re-establish and intensify ties with other Asian economies. Taiwan's trade ties with ASEAN countries have gained rapid traction in recent years. Exports to the region reached USD 32.90 billion in the first seven months of 2017, an increase of 14.73 percent from the same period last year. Outbound shipments to South Asia totalled more than USD 2.9 billion as of the first 7 months, rising 10.29 percent from a year earlier and reversing a decline of 3.87 percent for the whole of 2016. Apart from exports, Taiwanese firms have made hefty investments in the region, with Taiwanese direct investments adding up to USD 97 billion, according to official government tallies. Taiwan's main economic strengths lie in its advanced technology, talented people and a diversified culture, and the New Southbound Policy consequently intends to promote cooperation with the target countries in fields such as medical care, education, technology, agriculture, and tourism. With a high degree of complementarity between Taiwan and the partner countries, the government has encouraged supply chain integration in such sectors as information and communications technology (ICT), industries driven by domestic demand, energy and petrochemicals, agriculture, and financial services. One example of this is MediaTek Inc, the world's top contract chip designer, with its headquarters in Hsinchu, Taiwan. In December last year, MediaTek invited 42 executives and senior engineers from

Indian smartphone vendors, including Micromax Informatics Ltd, to take part in a six-week handset hardware design development program in Taiwan. The program has made a substantial contribution in helping India meet its (An Introductory Guide, 2017).

The Main Targets: The Emerging South and Southeast Asian Countries

Despite the recent financial crisis in the Far East the ASEAN region has managed to hold its position as one of the most dynamically developing regions in the world economy. The member states express a keen interest in broadening the forms of cooperation among themselves. In January, 1992 ASEAN announced the future development of AFTA (ASEAN Free Trade Area) for the period 1993 to 2008, with the gradual phasing out of customs restrictions within the Association. In 1995 the deadline for the completion of AFTA was brought forward to 2003. In the course of the half-century history of the Association, ASEAN members have been among the most spectacularly developing countries in the world. According to competent analysts, the economy has been continuing to grow rapidly in the forthcoming years (see figures of Table 3). The member countries in total represent a population of 622 million people, which - in case of the continuation of the economic growth and increasing incomes – may expect considerable growth in their consumption for the coming decades. According to its population ASEAN is bigger than the European Union or the United States, it is the 3rd largest market in the world, behind only India and China. ASEAN is a fast growing and promising region. Its total trade increased by nearly USD 1 trillion between 2007 and 2014, with intra-ASEAN trade comprising the largest share of ASEAN's total trade by partner. ASEAN attracted USD 136 billion in FDI in 2014, accounting for 11% of global FDI inflows, up from only 5% in 2007 (Neszmélyi Gy. – Kozár, L. 2018).

The most recent milestone in the economic integration process of Southeast Asia was formal establishment of the ASEAN Economic Community (AEC) on 31st December 2015 which was built on four interrelated and mutually-reinforcing characteristics: (a) a single market and production base, (b) a highly competitive economic region, (c) a region of equitable economic development, and (d) a region fully integrated into the global economy. ASEAN is nowadays is a highly competitive economic region in the world with a combined GDP of USD 2.6 trillion in 2014, ASEAN economy was 7th largest in the world and the 3rd largest in Asia. The formal establishment of the AEC in 2015 is not a static end goal, but a dynamic process that requires continuous reinvention of the region to maintain its relevance in an evolving global economy. The agenda “AEC Blueprint 2025” has therefore been adopted to guide ASEAN economic integration from 2016 to 2025 (Fact Sheet on ASEAN Economic Community, 2015).

Bagla³ (2018) underlined, that India is the world largest recipient of foreign investments and has the world's highest rate of economic growth. India has a huge and young population. In the future these young India and will provide the momentum for innovation. This offers great opportunity and a huge market for IT business, which will continue to carry out innovation. From this point of view, it can be predicted that Taiwanese investment in India will continue to grow (Yushan Forum,2018).

Table 3: Real GDP Growth in Southeast Asia, China and India
Annual percentage change

	2017	2018	2019	2019-23 (average)	2012-16 (average)
Indonesia	5.1	5.2	5.2	5.3	5.3
Malaysia	5.9	4.9	4.8	4.6	5.1
Philippines	6.7	6.4	6.5	6.6	6.6
Thailand	3.9	4.5	4.1	3.7	3.4
Vietnam	6.8	6.9	6.7	6.5	5.9
Brunei	1.3	2.0	2.3	2.0	-1.3
Singapore	3.6	3.5	2.9	2.7	3.5
Cambodia	7.0	7.0	6.9	6.9	7.1
Laos	6.9	6.6	6.8	7.0	7.6
Myanmar	6.8	6.6	6.9	7.0	7.3
China	6.9	6.6	6.3	5.9	7.3
India	6.7	7.5	7.3	7.3	6.9
Average of ASEAN-10	5.3	5.3	5.2	5.2	5.1
Average of Emerging Asia	6.5	6.6	6.3	6.1	6.8

Source: Economic Outlook for Southeast Asia..., 2018, 1. p.

Taiwan and the Southeast-Asian Countries

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 (Hsu, 2017).

Yang (2017) reiterated that the relationship between Taiwan and Asian countries has been is undergoing structural change that derives from the continuous bilateral interaction since the 1970s. The internal driving force behind these relationships on Taiwanese side is the Taiwan government's foreign policies and their impact on the private sector's capacity to expand the global and regional industrial chain and investment network. The Taiwanese government has launched a number of regional initiatives with the view of fostering the regional strategic, economic, and trade relations in the Asia-Pacific area, which would bring about constructive partnerships for Taiwan while creating

³ Deepak Bagla, Managing Director & Chief Executive, Invest, India

mutual understanding with its neighbours as well. In the 1990s, President Lee Teng-hui announced his Go South Policy which led to Taiwanese state-owned enterprises (SOE) investing in Southeast Asia and encouraged domestic small and medium-sized enterprises (SMEs) to look for business opportunities in the region. Its continuation was the No. 2 phase of Go South supported by President Chen Shui-bian, during the 2000s when Taiwan adopted a “balanced westward” approach to regional investment and trade strategy (Yang, 2017).

Hsiao⁴ (2019) confirmed that Taiwan’s government proclaimed its original Southbound Policy (Go South) in 1994, since then the above-mentioned two phases were implemented before 2016 when the Tsai-administration launched its third Step, the New Southbound Policy with the view of expanding relations with Southeast Asian countries, Australia and New Zealand. While many countries in the region have started similar programmes (South Korea has its own NSP, India has a Go East policy, etc), in case of Taiwan it is unique that the program is implemented like a PPP (Public-Private Partnership). Due to the diplomatic isolation the Taiwanese government has very limited possibilities to act directly abroad, however its role is in rendering financial instruments to the investment projects. The second „P” means a non-governmental organization (NGO) – the Taiwan-Asia Exchange Foundation (TAEF) – that acts as an umbrella organization that takes care of projects in various fields, like co-operation in health, agricultural, education and cultural and youth exchanges. An additional – and important – field of co-operation is resilience and post-disaster resilience (like earthquakes) (Hsiao, 2019).

The Taiwan-Asia Exchange Foundation (TAEF) was established in 2018 as the first policy-oriented think tank in Taiwan with a focus on Southeast Asian and South Asian region. Under the auspices of the New Southbound Policy (NSP), the goal of the TAEF is to promote comprehensive ties between Taiwan and the 10 ASEAN countries, 6 South Asian states, as well as Australia and New Zealand through cooperation and exchanges in three major fields – including think tanks, non-governmental organizations (NGOs) and young leaders – to consolidate a sense of regional community in Asia and establish long-term cooperative partnerships. TAEF is devoted to building new mechanisms for regional cooperation among Asian societies. It is our goal to cultivate common policy blueprints for Taiwan, ASEAN and South Asian countries through frequent regional dialogue, while also highlighting Taiwan’s commitment and contributions towards Asia’s development through concrete initiatives for cooperation. In addition, the TAEF hosts various international conferences – including the Yushan Forum: Asian Dialogue for Innovation and Progress – with the aim of strengthening ties with New Southbound Policy partner states and societies, while also inviting other like-minded countries to

⁴ Hsin Huang Michael Hsiao, Chair Professor, Research Fellow (Academia Sinica), Senior Advisor to the President of Taiwan, Chairman of Taiwan-Asia Exchange Foundation (TAEF)

participate in regional dialogue. TAEF has a three-bounded mission in terms of expanding Taiwan's regional relationships as follows:

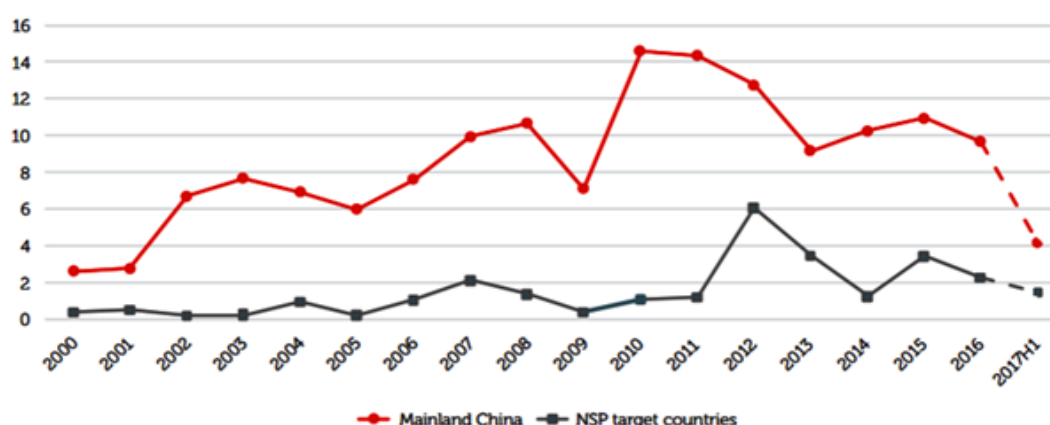
- Fostering think tank cooperation by building domestic and international think tank networks to increase capabilities on academic cooperation, encourage international exchange, and promote the New Southbound Policy.
- Supporting civil society partnerships by launching the "Asian Double Helix Initiative" on regional youth leadership, encourage diverse connections among Asian NGOs and civil societies, promote public diplomacy and social participation.
- In addition, it has the role as a pilot think tank by engaging in in-depth policy research to strengthen Taiwan's contributions to Asian studies, and develop joint task forces on international policy cooperation (TAEF, 2018).

The NSP comprises 16 partner countries (10 ASEAN members, India, Pakistan, Sri Lanka, Nepal, Bhutan, Bangladesh, Australia, New Zealand) from among them 8 ones are considered priority-partners, like Vietnam, Philippines, Thailand, Malaysia, Singapore, Australia, Indonesia and India. The NSP is a possible way for Taiwan to diversify its business and investment activities in the Southeast Asian region as now it is visible that Taiwan became too much focused on – and became dependent on - Mainland China. Even though during the recent two decades ten billions of USD Taiwanese capital flew into Mainland China, now the Cross-Strait relations tending to be in a stalemate, so the Taiwanese government has been preparing to receive and re-direct the returning capital from Mainland China. The majority of this capital still would not remain in Taiwan, it goes abroad into the various "southbound" partners, e.g. to Vietnam. He added that the Cross-Strait relations are "frozen" in the recent two years, from Taiwan's point of view there is no remarkable development, so Taiwan needs new partners and in parallel needs to gradually withdrew from the unilateral-sound dependence on Mainland China in terms of trade and investment (Hsiao, 2019).

Lin underlined that the New Southbound Policy would ease Taiwan's isolation at least in terms of business. The previous phases of Southward policies in the 1990's could still not be really successful, but in the ASEAN region many positive changes happened since then. The ASEAN region is one of the most rapidly growing regions in the world, with gradually increasing purchasing power, consumer demands and increasing openness to the e-commerce as well. So, the New Southbound Policy is the "new hope" for Taiwan. Contrary to South Asia, in most ASEAN members the cultural background has many similarities) (The common background is the Chinese cultural roots and the Chinese communities living there). Another interesting and common point he added is that Taiwanese men brought a big number of wives from Southeast Asia to Taiwan. Nowadays one fifth – 20% - of the new-born babies in Taiwan have Southeast Asian roots (Lin, 2019).

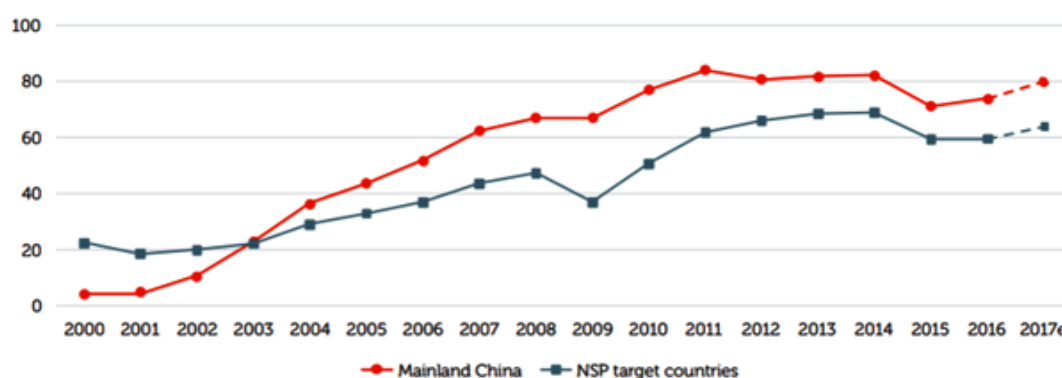
The diagrams in below figures (Figure 3 and 4) illustrate the Cross-Strait trade and investment figures – together the same about the NSP partner countries. It is well visible that since the early 2010's Taiwanese FDI investment to mainland China has been decreasing, but even if it shows a declining trend it was still higher till early 2017 than to the NSP target countries. The Taiwanese exports show increasing trend both to Mainland China and to the NDP target countries, and from 2003, in absolute figures exports to Mainland China were still higher than to the NSP target countries until 2017.

Figure 3: Taiwan's outbound investment into Mainland China and to NSP target countries in billion USD



Source: Glaser et al. (2018) 17. p.

Figure 4: Taiwan's exports to Mainland China and to NSP target countries in billion USD



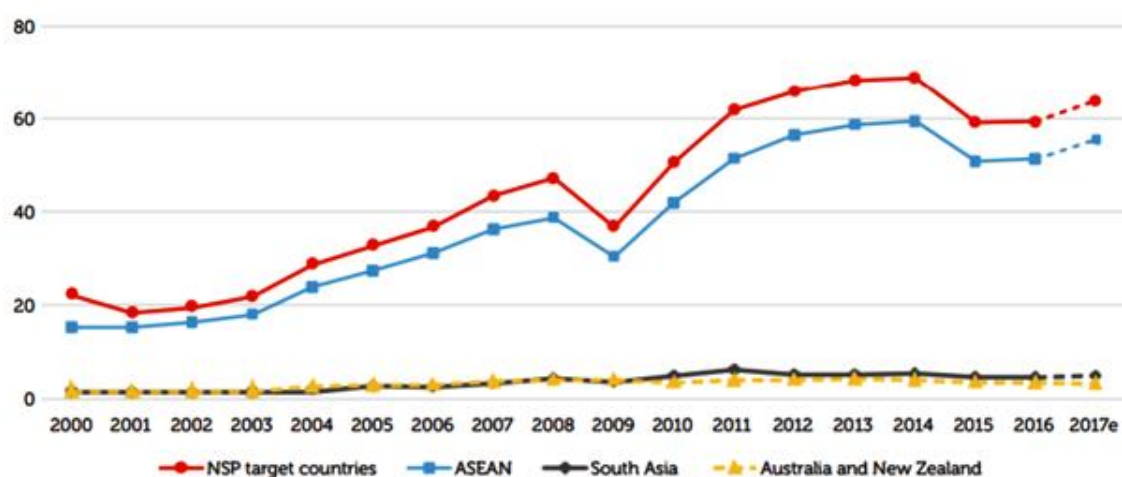
Source: Glaser et al. (2018) 17. p.

With the announcement of its New Southbound Policy in 2016, the Taiwanese government signalled its devotion in helping businesses expand abroad. Whether they were already moving southward or striving to do so, companies could also start to see the benefits of this policy. The figures show evidence about the success of this policy, between January and August 2018, trade with the 18 partner nations grew by 5.5 percent from a year before, according to the Office of Trade Negotiations of the Executive Yuan (Taiwan's Government). The successes go beyond the bottom line — a major feature of the policy

is its focus on long-term development and efforts to forge a sense of economic community, and government agencies have responded with an array of resources to achieve these goals (Progress & Prospects, 2018).

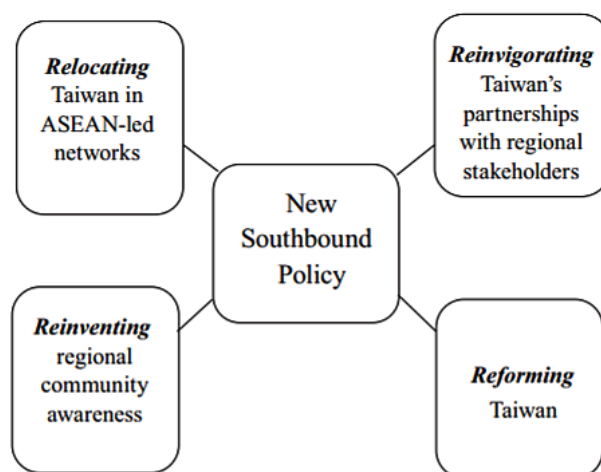
From among the NSP target countries Taiwan has the biggest exports to the ASEAN countries, comparing to the ASEAN 10, hence so far South Asia, Australia and New Zealand seemed to be relatively smaller export markets for Taiwan as it can be seen on the diagram in Figure 5.

Figure 5: Regional distribution of Taiwan's exports among the NSP target countries



Source: Glaser et al. (2018) 16 p.

Figure 6: The rationale of the New Southbound Policy of Taiwan



Source: Yang, 2017: p. 8

Taiwan is open towards Southeast Asia including countries with the Moslem population. Citizens of Southeast Asian countries may come to Taiwan as migrant workers moreover there might be around 170,000 Southeast Asian wives who moved and married to Taiwanese men. Taiwan prepared to even more efficiently co-operate with Moslem-oriented markets in the region, for example developing and

selling slaughtering and processing technologies for Halal-food (Hsiao, 2019). Yang (2017) also emphasized that in parallel with the government's commitment to the New Southbound Policy a reform process was initiated in the Taiwanese tourism industry, mentioning as an example that halal certifications were awarded to more than a hundred restaurants and hotels symbolizing that Taiwan is becoming a Muslim-friendly environment. A new Taiwan Halal Center, opened in Taipei in April 2017, would increase understanding of Muslim norms and markets in Taiwan (Yang, 2017).

Glaser⁵ (2018) warned about the "China factor" that could be an obstacle in the path of New Southbound Policy. Southeast Asian countries may be hesitant to co-operate with Taiwan as they are worried about Chinese retaliation. Even though the New Southbound Policy could be a good start and suggested that Taiwan should co-ordinate its efforts with the Indo-Pacific strategy of the USA (Yushan Forum, 2018).

Contrary to the above, Hsiao ruled out this scenario emphasizing, that ASEAN countries can freely do business with Mainland China Taiwan does not want to hinder it, through NSP the government just wants these countries to do business with Taiwan as well. After all the growing foreign trade and investment figures justify the success of the New South Policy of Taiwan. By diversification and also with technological upgrade, developing new industries Taiwan might prevent to lose its advanced position and maintain its competitiveness. It is now very well visible that closer co-operation with Mainland China will not help this process moreover it will even further shrink Taiwan's space of mobility on the international markets (Hsiao, 2019).

The Taiwanese government by distributing tasks among the governmental organizations rendered significantly increased financial instruments to support the goals of NSP, the budgetary allocation of the New Southbound Policy can be seen in Table 4.

Table 4: The budget allocations for the New Southbound Policy for financial years 2017 and 2018 (in million TWD)

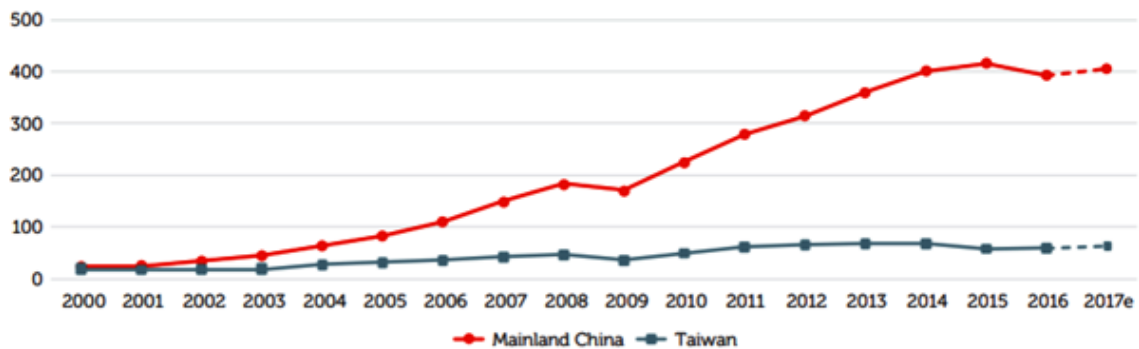
	2018 NSP Budget	NSP as % of 2018 Budget	2017 NSP Budget	NSP as % of 2017 Budget	Change
Total Budget	7,255	-	4,452	-	63%
Ministry of Foreign Affairs	323	1.2%	260	1.1%	24%
Ministry of Education	1,696	0.7%	1,000	0.4%	70%
Ministry of Economic Affairs	2,891	5.3%	1,745	3.3%	66%
Tourism Bureau	320	6.6%	218	4.1%	47%

Source: Glaser et al. (2018): p. 5.

⁵ Bonnie Glaser, Senior Advisor for Asia, Director of the China Power Project, Center for Strategic and International Studies (CSIS), USA

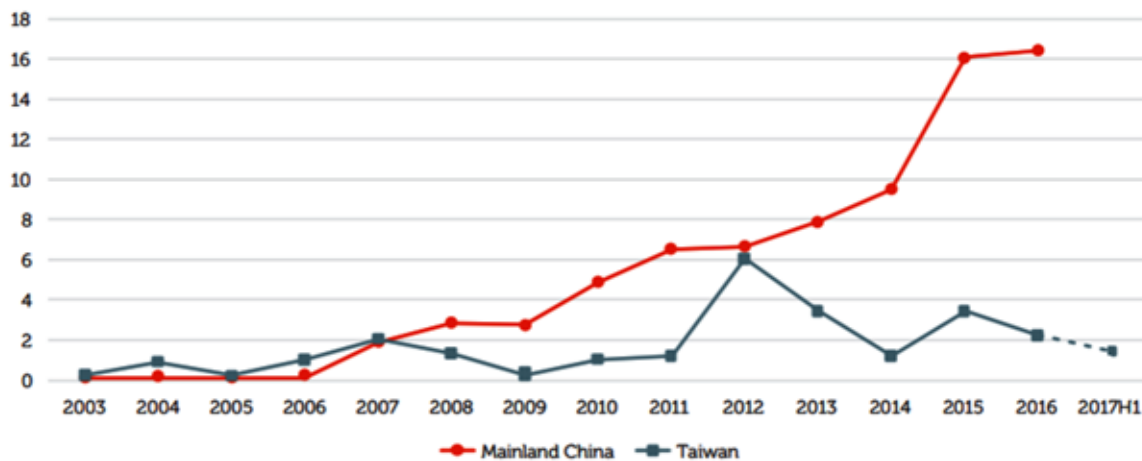
Hsiao (2019) underlined the NSP is not competing and not against Mainland China's international business and investment endeavours. NSP partner countries may freely do business with Mainland China, and in addition (and not instead of) they should also co-operate and do business with Taiwan. It is well visible in Figures 7 that from the early 2000's Mainland China has higher exports to the NSP partner countries and in Figure 8 it can also be seen that since 2007 Mainland China has invested more capital in the mentioned partner countries than Taiwan.

Figure 7: Mainland China and Taiwan's exports to NSP target countries (USD billion)



Source: Glaser et al. (2018) 23. p.

Figure 8: Mainland China and Taiwan's outbound investment into NSP target countries (USD billion)



Source: Glaser et al. (2018) 24. p.

II. The Recent Situation in the Cross-Strait Relations

The NPP-based Tsai-administration has good relations with the USA and Japan while the Cross-Strait relations became chilly. Tsai does not recognize the 1992 Consensus, - with other words – the One-China Policy, while Kuomintang (KMT) accepted it (Lin, 2019). Hence, it is not surprising that the stance of Mainland China towards the Taiwanese leadership is reserved and negative towards the Tsai-cabinet

and the NPP. As Ma Xiaoguang⁶ pointed out that the 1992 Consensus is the common political foundation for development of Cross-Strait relations. It reflects the adherence to the one-China principle by both sides in their efforts to seek national reunification, so it clearly defines the characteristics of the relationship. He warned against moving further along this “separatist stance” and attempts for seeking personal benefits by hyping confrontation and hostility between the two sides of the Taiwan Strait which undermines the Cross-Strait ties. The one country - two systems principle is an institutional arrangement after national reunification is achieved, and by purposefully confusing the 1992 Consensus and the mentioned principle, the leader of the Democratic Progressive Party is deliberately misleading the people of Taiwan. (Xinhua, 2019).

Wang et al. (2018) emphasized that the content of the 1992 Consensus is, in fact, quite complex. First, both sides have different definitions and interpretations of the term. The ruling Chinese Communist Party evokes the term to indicate that both the Mainland and Taiwan belong to “one China”, and both sides have a prospective of an ultimate unification under the “one country, two systems” framework. The Consensus in Taiwan is interpreted differently. The Kuomintang (KMT) that signed and adopted the Consensus argues that it simply indicates that both the Mainland and Taiwan belong to one China; however, the interpretations of “China” are different on both sides. For (Mainland) China, the “one China” term refers to the People’s Republic of China (PRC), but for Taiwan, “one China” refers to “the Republic of China (ROC)” (Wang et al., 2018).

Lin added that investment activities of companies from Mainland China in Taiwan are also very strictly regulated. Furthermore, Taiwan still faces structural problems in its economy as the services sector’s contribution to GDP is still low, around 60% and in terms of employment the ratio is similar, that means the value added content of the Taiwanese economy is still low, comparing to the developed economies, like USA, UK, etc, where the GDP-contribution of services sector is over 75%. He added, even though under Tsai-administration the Cross-Strait relations worsened but business still goes on. The main reason why Taiwanese capital flows back to Mainland China is not the security risk, but the fact that those investors who invested during the 1980-1990’s into the manufacturing industry in Mainland China are getting old now, and their children, - the upcoming generation, - instead of becoming the successors in management, do not want to take over the business which means usually labour-intensive, low value-added containing manufacturing. Another reason that drives out the Taiwanese capital from Mainland China is the trade war between China and the United States. If Taiwanese firms remained, they would also be hit by the high, even 10-25% American tariffs which might be imposed on the goods made in Mainland China. Being back to Taiwan or anywhere else, the Taiwanese investors and goods, especially semiconductors and HD drives could be safe from these

⁶ Ma Xiaoguang, spokesperson for the Taiwan Affairs Office of the State Council, Mainland China

punitive tariffs. This is the reason also why in this year macroeconomic indicators of Q1-Q2 seem to be weaker than the forecasted figures of Q3-Q4. (see Table 2). Companies having fears of a possible trade war fulfilled orders still before the end of 2018, so the fallback in Q1-Q2 in 2019 is rather virtual than a real economic phenomenon (Lin, 2019).

The Cross-Strait relations might be more in the focus again, after the January 2020 elections if the KMT wins, and it looks so. Tsai's predecessor (before 2016) opened Taiwan in a great extent to Mainland China and implemented reforms for which the institutional system and people were still not be prepared. For example, under the implementation of ECFA the former Taiwanese government wanted to abolish the limitation of Chinese investments in Taiwan (they must have Taiwanese partner and they cannot have more than 50% shares in a company). This was the reason why the Sunflower Movement (the forerunner of the present governing party) could be successful among people. If KMT wins again it might revert from the New Southbound Policy back to Mainland China (Chung, 2019).

Yeh⁷ added, that the Cross-Strait trade, however still works, 30% of Taiwan's direct export goes to Mainland China, and if we add the indirect export (e.g. via Hong Kong), then nearly 50% of the Taiwanese export goods are forwarded to Mainland China. He explained that just in the first quarter (Q1) of 2019 one billion USD Taiwanese capital returned from Mainland China, moreover 11 million USD capital of Mainland China companies flew to Taiwan (with the view of rescuing it from the China-USA trade war). In the first quarter (Q1) of 2019 830 million USD Taiwanese capital was invested in the 18 target countries of the New Southbound Policy (Yeh, 2019).

In spite of some hostile voices in political rhetoric serious conflicts cannot be expected between Mainland and Taiwan. The interactions and business relations are normal. According to Taiwan Customs statistics, the estimated value of total Cross-Strait bilateral trade was USD 20.7 billion in Jan-Feb 2019 with the decrease of 5.3% year-on-year. The value for Taiwan exports to Mainland China has decreased by 7.3% year-on-year to USD12.5 billion while the value that imports from Mainland China has decreased by 2.0% year-on-year to USD 8.2 billion. In January – February 2019, Taiwan's trade with Mainland China accounted for 23.1% of Taiwan's total foreign trade with the decrease of 1.1 percentage points from 24.2% in 2018. Exports to Mainland China accounted for 26.1% of Taiwan's total exports with the decrease of 2.7 percentage points from 28.8% in 2018, while imports from Mainland China accounted for 19.6% of Taiwan's total imports with the increase of 0.8 percentage points from 18.8% in 2018 (MAC, 2019).

⁷ Yeh, Chi-yen PhD, Director, Taiwan European Studies Centre, Taiwan Institute of Economic Research (TIER)

Taiwanese Investment in Mainland China

According to the Investment Commission, MOEA, Taiwan, the number of approved foreign investment totalled to 190 cases with the value of USD 2.5 billion, in which USD 1.0 billion was approved to invest in Mainland China in Jan-Feb 2019. Mainland China has attracted 40.8% of Taiwan's total foreign investment where it became the first destination for Taiwan's foreign investment. Approved investment to Mainland China accumulated to 43,401 cases from 1991 to the end of February 2019 with a value of USD 183.4 billion, which is 57.2% of Taiwan's total foreign investment. A total of 86 cases for the investment in Mainland China covering the post-registration were approved in Jan-Feb 2019 with a decrease of 18.1% (the post-registration is covered) year-on-year, while the total value of approved investment in Mainland China covering the post-registration stands at USD 1.0 billion with the increase of 64.7% (the post-registration is covered) year-on-year. Taiwan's investments mainly located in Jiangsu, Zhejiang, Fujian, Tianjin and other areas in Mainland China with the investment values of USD 321.5 million (31.5% of total investment), USD 160.7 million (15.7%), USD 148.1 million (14.5%) and USD 105.6 million (10.3%) respectively. Investments were distributed among Wholesale and Retail Trade with USD 216.1 million (21.1% of total direct investment), Transportation and Storage with USD 135.4 million (13.2%), Chemical Material Manufacturing with USD 134.2 million (13.1%) and Rubber Products Manufacturing with USD 106.6 million (10.4%) (MAC, 2019).

Mainland China's Investment in Taiwan

According to the Investment Commission, MOEA, Taiwan, the number of approved Mainland China investment in Taiwan totalled to 18 cases with the amount of USD 7,405 thousand in January and February 2019. The number of approved Mainland China investment in Taiwan totalled to 1,246 cases with the amount of USD 2.2 billion from June 2009 to February 2019, where mainly distributed in Wholesale and Retail Trade, Electronics Parts and Components Manufacturing, Banking services, and Harbour Services. The investment amounts for above industries are USD 601.9 million (27.4% of total amount), USD 283.0 million (12.9%), USD 201.4 million (9.2%), and USD 139.1 million (6.3%), respectively (MAC, 2019).

Cross-Strait Visits

According to the China Ministry of Culture and Tourism, the number of Taiwanese tourists to Mainland China in 2018 totalled to 6.1 million visitors with an increase of 4.5% year-on-year. The number of Taiwan tourists to Mainland China from 1987 to the end of 2018 totalled to 105.4 million visitors. The poll of Mainland China residents visit to Taiwan for tourism has been more than those visits to Taiwan

for economic and trade activities since 2003. According to Taiwan National Immigration Agency statistics, there have been 517,790 visitors from Mainland China in Jan-Feb 2019 with an increase of 2.9%. Among these, 26,797 visitors to Taiwan for economic and trade related activities with a decrease of 6.8%, and 382,003 visitors to Taiwan for tourism with a decrease of 0.6%. In total, there have been 29.3 million Chinese visitors to Taiwan from 1987 till the end of February 2019 (MAC, 2019).

Table 5: Trade between Taiwan and Mainland China (million USD)

Year	Taiwan Customs Statistics			Mainland China Customs Statistics		
	Exports*	Imports*	Total	Exports*	Imports*	Total
2002	10,690.0	8,041.3	18,731.3	38,063.1	6,585.9	44,649.0
2003	23,209.8	11,095.7	34,305.5	49,362.3	9,004.7	58,367.0
2004	36,722.8	16,891.5	53,614.3	64,778.6	13,545.2	78,323.8
2005	44,056.3	20,161.6	64,217.9	74,684.4	16,549.6	91,234.0
2006	52,377.1	24,909.0	77,286.1	87,109.0	20,735.2	107,844.2
2007	62,928.4	28,221.2	91,149.6	101,021.7	23,458.3	124,480.0
2008	67,515.8	31,579.7	99,095.5	103,337.6	25,877.9	129,215.5
2009	54,842.9	24,554.4	79,397.4	85,722.9	20,505.3	106,228.2
2010	77,949.5	36,255.2	114,204.7	115,693.9	29,676.6	145,370.5
2011	85,244.4	44,094.8	129,339.2	124,919.9	35,111.9	160,031.8
2012	82,666.2	41,431.4	124,097.6	132,183.9	36,779.1	168,963.0
2013	84,122.2	43,345.5	127,467.7	156,636.9	40,643.6	197,280.5
2014	84,738.1	49,254.3	133,992.4	152,029.5	46,284.8	198,314.3
2015	73,409.6	45,266.0	118,675.6	143,306.7	44,898.8	188,205.5
2016	73,878.9	43,990.8	117,869.7	139,217.2	40,373.7	179,590.9
2017	88,981.2	50,042.7	139,023.9	155,385.6	43,989.8	199,375.4
2018	96,756.4	53,783.5	150,539.9	177,597.6	48,646.7	226,244.3

Note: * Exports indicate the amount of exportation from Taiwan to Mainland China, and Imports indicate the amount of importation from Mainland China to Taiwan.

Source: The author's own editing on the basis of MAC (2019), p. 2-1

From Table 5 it is visible that since the early 2000's the volume of trade turnover between Taiwan and Mainland China has continuously been growing in both directions. It is also visible and interesting that there is a huge gap between the statistical figures registered by the Taiwanese and the Chinese customs authorities.

Therefore, the result of the next elections (January 2020) will be of crucial importance for Taiwan's future and for the NSP and the Cross-Strait relation. According to the present polls, KMT might have a good chance to return to governing position. As for the Cross-Strait relations he pointed out that he most important task is to build mutual trust. If KMT comes back to power, most likely the full implementation of the Cross-Straits Economic Cooperation Framework Agreement (ECFA) would take place. Now only the so-called early harvest list works, the rest – including the services-related parts of the agreement - is still pending. The latter, however would be of crucial importance for Taiwan, as then Mainland China's growing domestic market would be much more open for Taiwanese exporters and

services providers. It could have positive implication even in the academic field as well. Chuo⁸ mentioned at their university in the past (before 2016) hundred students came for studies from Mainland China, but now as a counter-reaction on the Tsai-administration's negative stance towards Mainland, China suspended sending students and paying for their tuition in Taiwan. Taiwan badly needs the market potentials of Mainland China in services (Chuo, 2019). As for the short- and long-term future of Taiwan and the Cross-Strait relations it is an important fact that Mainland China has never took over or occupied Taiwan in the history and Taiwan firmly wishes to protect its democratic system and society, the rule of law, freedom of speech, the respect of private ownership and human rights. Taiwan would not surrender, however in the longer future a mutually acceptable variety of the "one country – two systems" (or one country – two constitutions" system could work. The experiences so far, however are not promising (Beijing's interference into the free elections in Hongkong, the situation of Tibet, etc.). The European Union, the United States or other federal states may show useful models for that, maybe China – together with Taiwan – could have two seats in the United Nations (Lin, 2019).

Chung added that even if without military conflicts, the too strong Cross-Strait economic relations might lead to a gradual voluntary surrender of Taiwan to Mainland China, and this is a big risk. Taiwanese people wish to keep their democratic rights, freedom of speech and looking either at Hong Kong's recent negative experiences with the central power, or the recently introduced social credit system in Mainland China, so such a future seems to be not bright but shocking for Taiwanese people (Chung, 2019).

III. The Hungaro-Taiwanese Economic Relations in the Recent Few Years

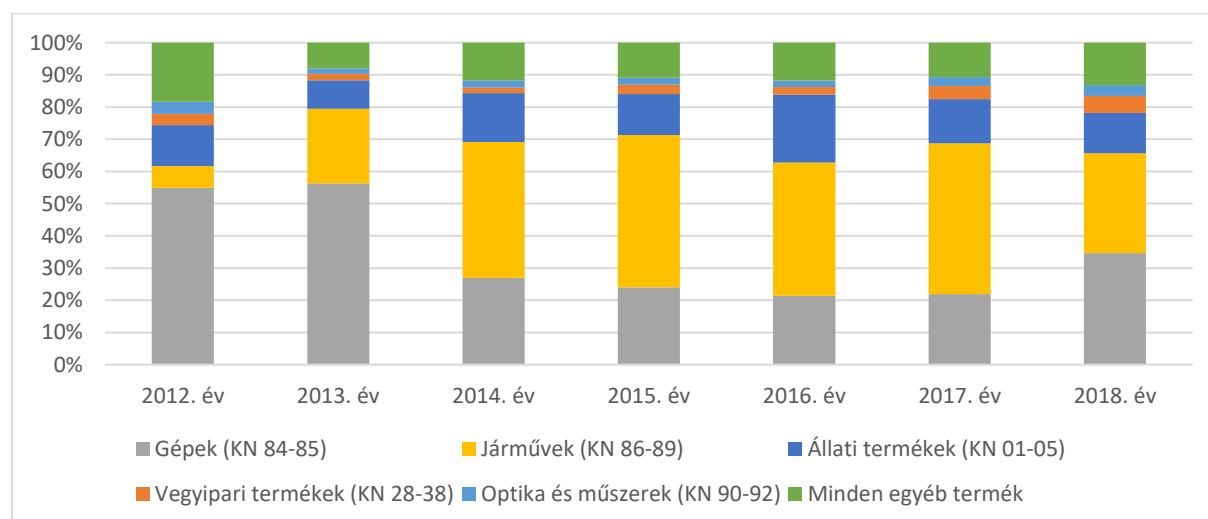
In 2018 Taiwan was the No 6 biggest export market for Hungary in Asia. According to the Hungarian Statistical Office (KSH, HCSO), the sum of the total Hungarian exports sent to Taiwan in 2018 was 176.6 million USD. This amount is similar in range to the exports of 2016 but less than the exports were in 2017 by 19%. In the other hand the Taiwanese statistical office, it was 292 million USD which would mean a 5% growth comparing to 2017. The vast majority of the Hungarian exports were machinery (36%), motor vehicles (32%) and food products (13%). (The Taiwanese import ban imposed because of the African swine fever epidemic appeared in Hungary in 2018 harmfully affected (-12,8 M USD) the Hungarian food exports to Taiwan which in March 2018 still had a positive impetus due to the extension of the list of approved meet factories. The value of Hungarian poultry exports to Taiwan was

⁸ Jenny Jia-chen, Chuo, Associate Professor of Shih Chien University (SCU), Department of Applied Foreign Languages (former Deputy Head of English Taught Program of SCU)

0.5 million USD, on which the negative impacts of the bird flu epidemic (2017) can also be seen (in 2016 the poultry meat exports were 2.5 million USD). However, the feather exports could further grow to 13.3 million USD. From animal products, after Japan and Mainland China, Taiwan is the No. 3 biggest export market for Hungary. The exports of plant-based food products (mainly frozen vegetables) shrank by 30% since 2016. The exports of machines grew (+29%) while the same of motor vehicles decreased (-46%), the amounts in USD were 63.3 million and 56.8 million respectively. In motor vehicle exports Taiwan is still No 4 biggest export market for Hungary in Asia (after Mainland China, Japan and the Republic of Korea). The mentioned product categories (food products, machines and motor vehicles) provided the 81% of Hungarian exports to Taiwan (See Figure 9). According to the HCSO data Hungary's imports from Taiwan amounted 557.5 million USD in 2018 which was 19% less than in 2017. The total turnover was 734.1, the balance for Hungary was -380.9 million USD, both are many-years bottom values (see Table 6) (Lőrincz, 2019b).

Regarding the structure of the Hungarian exports to Taiwan it can be said that many years ago more than two thirds of the exports derive from the supplies of machines and motor vehicles, however their proportion reversed. Since 2014 the ratio of the animal products has been increasing continuously and this trend still continues in spite of the import-limitations in 2017-18. Moreover, during the recent years, from the category "other goods" several groups of products became significant with gradually increasing proportion within the exports, like chemical products, medical and other precision instruments (Lőrincz, 2019b).

Figure 9: The structural breakdown of the Hungarian exports to Taiwan according to product categories



Source: Lőrincz, 2019b, on the basis of Source: Hungarian Central Statistical Office (HCSO) data, 2019

Table 6: Figures of the Hungaro-Taiwanese trade turnover (million USD)

	2012	2013	2014	2015	2016	2017	2018
Hungarian exports to Taiwan	91.9	138.6	147.6	164.7	174.3	217.4	176.6
Hungarian imports from Taiwan	1,176.5	990.0	800.9	660.7	642.6	688.3	557.5
Total turnover	1,268.5	1,128.6	948.5	825.4	816.9	905.7	734.1
Balance	-1,084.6	-851.4	-653.3	-495.9	-468.3	-470.9	-380.9

Source: Lőrincz, 2019b, on the basis of HCSO data

The data of the Taiwanese statistical office (DGBAS) usually show 30-40 % higher values in Taiwanese imports (Hungarian exports), however in case of figures of 2018 the difference was over 60%. According to this in 2018 the Taiwanese imports from Hungary were 292 million USD (176.6 million USD according to HCSO). Analyzing the Central European region (See Table 7), it can be also seen that the Visegrad-group's exports to Taiwan grew by 18% (the exports of the total EU28 grew by 7%). In 2018 Hungary's share in the total Visegrad group's exports to Taiwan was 27% (Lőrincz, 2019b).

Table 7: Trade turnover of Hungary and several other Central-Eastern European countries to Taiwan according to the Taiwanese statistical, data (million USD)

Country	2012	2013	2014	2015	2016	2017	2018
Czechia	199.7	193.8	217.2	239.9	239.8	286.6	338.8
Hungary	115.8	159.8	202.8	236.3	245.6	277.1	292.0
Poland	205.2	216.2	252.1	203.1	214.8	276.6	250.0
Slovakia	57.9	52.6	60.9	58.0	61.0	61.5	179.6
<i>Visegrad 4</i>	<i>623.6</i>	<i>622.5</i>	<i>733.1</i>	<i>737.3</i>	<i>761.2</i>	<i>901.8</i>	<i>1060.5</i>
Austria	461.8	474.3	516.8	497.9	499.5	522.4	658.1
Romania	58.0	67.0	83.6	96.0	91.345	106.5	115.3

Forrás: Lőrincz, 2019 on the basis of DGBAS data

Hungary remained No. 14 exporter to Taiwan within the European Union (after DE, NL, FR, IT, GB, IE, ES, SE, AT, BE, FI, DK and CZ), keeping the same position like in 2016 and 2017. Regarding the year 2018 there is an extremely huge gap between Hungarian and Taiwanese statistical databases – according to HCSO Hungary's exports to Taiwan fell by 25 %, while Taiwanese data show 5% growth comparing to 2017. It might make analysts confused as neither for the author nor for the source (Lőrincz, 2019a) it was clear what makes the differences between HCSO and DGBAS methodology. Anyhow, Taiwan and Hungary strive to mutually show gestures towards each other to broaden the chances of mutually beneficial trade activity. From January 2018 Hungary was authorized to export poultry meat to Taiwan again, and in March 2018 11 further poultry and pork processing companies were registered to the list of approved companies by the Taiwanese quarantine authorities. These recently approved companies could potential contribute to the Taiwanese food supply (and to the Hungarian food exports) in a value

of 15-25 million USD. However, this favourable period was short as in April 2018 Hungary was put to the list of banned countries because of the swine fever, however till then – in the first quarter of the year – Hungarian pork exports exceeded the amount of 6 months exports of the preceding two years. The potentials of the market enlargement however are still given as the main Hungarian suppliers of the meat exports to Taiwan (e.g. Pick, Pápa Meat) are located in non-infected areas and concluding the negotiations on regionalization could bring a solution to this issue and the Taiwanese partner seems to be open for that (Lőrincz, 2019b).

Conclusion

Taiwan faces significant challenges as outbound investments to Mainland China decline. Investors gradually withdraw their capital, but still instead of investing it in Taiwan they need better revenues therefore they rather search for other possibilities. The New Southbound Policy therefore serves double goals: it should provide with the Taiwanese government a broader scope and space of mobility in the international arena, Taiwanese investors – under governmental assistance – channelize capitals the Southeast- and South Asian regions.

Taiwanese investors and the Taiwanese government are scared about the possible implications of a trade war between the USA and Mainland China. Besides other, mentioned reasons, it is the main motivation of the sudden outflow of the Taiwanese FDI from Mainland China. This huge amount of capital, however merely does not return to Taiwan to create new jobs and develop new, high value-added containing industries, but rather goes to Southeast Asia where still focuses on the low-cost labour-intensive manufacturing sector.

Taiwan cannot “forget”, that Mainland China has still been its largest export market and in the longer run – especially in case of KMT comes back to power after the elections in January 2020, the focus would be reverted to the Cross-Strait relations with special respect to the implementation of full ECFA and its extension towards the services sector. In such case the significance and intensity of the New Southbound Policy might diminish, or perhaps it would be continued under a different name or umbrella.

Hungary and Taiwan have minor share within each other's trade, however in V4 or EU28 comparison Hungary's trade activity still exceeds its dimensions. There are still good opportunities and potentials along which the trade and even investment activities could be extended in the future.

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