

Hard for Taiwan to avoid China even down south

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Taiwanese investments rushed into China after its economic opening in 1979. They continued to surge – along with exports to the mainland – despite restrictions imposed by Taipei, alarmed by the wave of interest.

In the early 1990s, the Taiwanese government sought another way to weaken the tide of enthusiasm for China by urging its businessmen to shift their investments to other areas such as South-east Asia.

The move – known as the Southbound Policy – was intended not only to reduce Taiwan's dependence on China but also to try and exert political influence on South-east Asian countries.

There were some positive effects initially but the policy was not as successful as expected as a booming China offered much greater opportunities. Moreover, many Taiwanese investors in South-east Asia were badly hit during the 1997 financial crisis, while those in China had remained largely unscathed. This encouraged further investments in China.

In 2001, Taiwanese investment in China accounted for 38.8 per cent of Taiwan's total outward investment. It rose to 53.4 per cent in 2002, and over 65 per cent after 2004. The Democratic Progressive Party (DPP) government headed by then President Chen Shui-bian from 2002 to 2008 failed to reverse the trend. The Southbound Policy was largely abandoned by his China-friendly successor Ma Ying-jeou of the Kuomintang.

Last year, the DPP came back to power and President Tsai Ing-wen

unveiled her New Southbound Policy (NSP), with its focus on the emerging Asean community, South Asia, Australia and New Zealand.

Its stated aim was to promote exchanges in trade, technology, talent and culture between Taiwan and these economies. To get things going, the Taiwanese government started a visa-free scheme to attract tourists from selected South-east Asian countries. It also introduced courses to attract students from the region. A slew of assistance programmes, ranging from healthcare to agriculture technology and industrial training schemes, were also rolled out to woo targeted countries.

Like the previous Southbound Policy, Ms Tsai's NSP is basically politically motivated – to reduce the island's overdependence on China. While it makes sense to avoid putting all of one's eggs into one basket, the policy is being carried out at the expense of growth and opportunities foregone in what is now the world's second-largest economy.

To be sure, there are good reasons for Taiwan businessmen to move south to places such as Vietnam and Indonesia as manufacturing costs rise in China. And the growth in Asean economies, which has created new demand for Taiwanese investments, has also been a boon for the NSP.

China's One Belt, One Road initiative is indirectly – and ironically – a plus for Ms Tsai's effort to find new growth areas because of the boost given by major infrastructural projects such as high-speed rail links in Indonesia and Thailand to regional economies. As these grow, more business opportunities will open up to foreign investors, including those from Taiwan.

But the NSP's other goal of expanding Taiwan's political influence in South-east Asia through education and cultural exchanges is likely to be less successful.

In the first place, it is unlikely that many local young people from South-east Asia will choose to study in Taiwan; and second, the goodwill from those who do is not likely to translate into political support for Taipei. Since the 1960s, Taiwan has in fact attracted many students, mainly ethnic Chinese, from the region. Their affection for Taiwan upon their return could not outweigh the bigger opportunities or political clout that China could offer.

As for the free-visa scheme, it is unlikely to attract a large number of tourists from Vietnam and the Philippines with the same spending power to replace the Chinese tourists.

So what are we to make of Ms Tsai's NSP and its goals?

Taiwan businesses will do well going south because of the growth momentum, in part driven by Chinese initiatives, namely the Belt and Road scheme and Asian Infrastructure Investment Bank. But for this to happen, Taiwan will have to cooperate closely with the local governments, and to avoid going against China there as Beijing's influence in this region will be dominant.

But the NSP will have little political impact on South-east Asia itself, and it will have to be modified to focus on economic objectives to be successful. The shifting away of Taiwanese investment from the mainland will not hurt China at all as Taiwanese investment accounts for a low percentage of total foreign investment there.

For Taiwan, its investment in South-east Asia is important, and will yield greater results when it gets the support from all parties, including the ever increasingly powerful China.

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