TAIWAN'S NEW SOUTHBOUND POLICY IN THE GLOBAL SUPPLY CHAIN

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Executive Summary

1. The New Southbound Policy proposed by the Tsai administration is based on four principles, namely, economic cooperation, special talent exchange programmes, resource sharing and regional integration, and aimed at deepening economic and cultural links with 16 ASEAN and South Asian countries, Australia and New Zealand.

2. Tsai's New Southbound Policy is motivated by structural changes in world trade as a result of the international fragmentation of production. Economic interdependence within the East Asia region indicates that this region as a whole is gradually being transformed into a single trading bloc, with a pronounced increase in the intensity of intra-regional trade.

3. In terms of the global supply chain, China is now the nexus of a production network involving most countries in Asia and a final export market for the East Asia region.

4. From a political and economic viewpoint, the New Southbound Policy is to keep Taiwan from becoming overly dependent on a single market (e.g. China) and to establish bilateral economic partnerships with targeted countries to support a New Model for Economic Development.

5. In 2016, trade between Taiwan and the New South+18 countries amounted to US$96,018.2 million, a decrease of 3.3% from 2015 due to the slower global recovery.

6. ASEAN+10 countries constitute the second-largest trading partner for Taiwan after China, with trade amounting to US$78,509.5 million in 2016, a decrease of 2.7% compared to that in 2015. Within ASEAN+10 countries, Singapore (4.6% of Taiwan's total trade), Malaysia (2.8%), Vietnam (2.4%) and the Philippines (2.1%) are Taiwan's major trading partners.

7. In 2016, Taiwan's leading imported products from ASEAN+10 countries included electrical machinery and equipment and parts thereof (HS85, accounting for 34.1% of total imports), mineral fuels (HS27, 16.7%), machinery and mechanical appliances (HS84, 13.6%), optical and photographic instruments (HS90, 3.9%), and plastics and articles thereof (HS 39, 2.1%).

8. As at end May 2017, Taiwanese investment in the New South+18 countries was largely in Singapore (4.6% of the total), Vietnam (3.1%), Thailand (1.2%), Australia (0.9%), the Philippines (0.5%) and Indonesia (0.4%). Taiwanese investment followed the path of small to medium-sized enterprises in the 1980s and early 1990s and large firms in the 1990s.

9. Given the competition, Taiwan would do well to focus on value-adding to the global supply chains through R&D and innovation, particularly in the information and communications technology sector. Without such value-added activity upgrades, Taiwan's role in the global supply chains and East Asian economic integration will diminish.