

**TAIWAN'S NEW SOUTHBOUND
POLICY: FIVE YEARS ON**

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Executive Summary

1. Taiwan President Tsai Ing-Wen's New Southbound Policy (NSP) announced in 2016 signifies a shift in the country's foreign policy from focusing on cross-strait economic ties during Ma Ying-Jeou's presidency (2008-2016) to relations with a larger "Asia economic group" in the South.
2. NSP covers more countries and is more comprehensive in scope than the Southbound Policy (SP) in the 1990s. It incorporates 10 countries in Southeast Asia, six countries in South Asia, plus Australia and New Zealand. It aims to deepen links, share resources, create new cooperation mode and forge a sense of economic community with NSP countries.
3. The NSP was launched when Taiwanese manufacturers have already shifted some production lines away from China. The US-China trade war has accelerated this investment relocation. The outbreak of COVID-19 further reinforced the necessity of supply chain diversification.
4. In 2021, NSP countries accounted for 31% of Taiwan's total outward direct investment (OFDI), a significant increase from 10% in 2016. In contrast, China's share declined from 44% to 32% during the same period.
5. NSP countries' share in Taiwan's total trade did not progress in recent years. In 2021, NSP countries accounted for 19% of Taiwan's exports and 17% of Taiwan's imports, compared to 21% and 16% in 2016. China and Hong Kong remained Taiwan's largest trade partner (42% and 22% of Taiwan's exports and imports in 2021).
6. The rise in visitors from NSP countries has offset the decline in Chinese tourists after Tsai's election in 2016. Before the outbreak of COVID-19, NSP visitors (2.8 million in 2019) had already surpassed visitors from China (2.7 million).

7. The numerous immigrants from NSP countries will facilitate efforts to cultivate people-to-people's relations between Taiwan and the region. Over one million people from NSP countries are living in Taiwan on a long-term basis, including spouses and their children, students, migrant workers and professionals.
8. NSP people-centred strategy is unlikely to boost other countries' support for Taiwan's participation in any regional economic agreements. NSP could be an intermediary to keep Taiwan connected with the region through informal social and commercial links.
9. Given China's huge economic size and strong dependence on Taiwan's key components for its high technology products, cross-strait economic ties are likely to remain important. The continued effort on NSP and global trend of business diversification may generate a new dynamic industrial linkage between Taiwan, China and NSP countries.
10. Greater cooperation with Japan and South Korea, which are also looking for deepening relations with the South, might be helpful to increase NSP's relevance in the regional political economy. Taiwan is likely to further increase NSP's strategic importance by connecting it with the United States' Indo-Pacific Economic Framework in the future.