



Universiteit
Leiden
The Netherlands

Evaluating Taiwan's new southbound policy: going south or going sour?

Black, L.O.

Citation

Black, L. O. (2019). Evaluating Taiwan's new southbound policy: going south or going sour? *Asian Survey*, 59(2), 246-271.
doi:10.1525/as.2019.59.2.246

Version: Publisher's Version

License: [Licensed under Article 25fa Copyright Act/Law \(Amendment Taverne\)](#)

Downloaded from: <https://hdl.handle.net/1887/3200547>

Note: To cite this publication please use the final published version (if applicable).

Evaluating Taiwan's New Southbound Policy

Going South or Going Sour?

ABSTRACT

Critiques of Taiwanese President Tsai Ing-wen's New Southbound Policy overemphasize Beijing's ability to hinder what is essentially a rational economic move that was already underway prior to Tsai's inauguration. China's antagonistic stance toward the New Southbound Policy merely pushes Taiwan into the hands of Japan, China's regional rival.

KEYWORDS: New Southbound Policy, 1992 Consensus, Belt and Road Initiative, Taiwan, Sino-Japanese relations

INTRODUCTION

Tsai Ing-wen's successful presidential bid was largely based on appealing to voters who had not experienced tangible benefits from President Ma Ying-jeou's efforts to foster closer cross-Strait economic ties. Tsai therefore renewed calls for Taiwanese businesses to invest in South and Southeast Asia rather than China. Building on attempts by previous presidents to encourage Taiwanese businesses to diversify their investments, Tsai's New Southbound Policy (NSP) aims to transform not only Taiwan's economic relations but also its political role in South and Southeast Asia.

Going beyond earlier calls by Taiwanese presidents for businesses to invest in Southeast Asia, the NSP also includes South Asia, emphasizes bilateral trade and investment ties rather than simply Taiwanese investment abroad, and seeks to build people-to-people links over the long term. Crucially, however, the NSP is founded on an investment trend whereby since 2012, Taiwanese firms have increasingly shifted their investments from mainland

LINDSAY BLACK is an Assistant Professor at the Leiden University Institute for Area Studies in the Netherlands. He is the author of *Japan's Maritime Security Strategy* (Palgrave, 2014). This article was supported by the Taiwan Fellowship. The author is grateful to Tabitha Speelman for research assistance with Chinese-language articles. Email: <l.black@hum.leidenuniv.nl>.

Asian Survey, Vol. 59, Number 2, pp. 246–271. ISSN 0004-4687, electronic ISSN 1533-838X. © 2019 by The Regents of the University of California. All rights reserved. Please direct all requests for permission to photocopy or reproduce article content through the University of California Press's Reprints and Permissions web page, <https://www.ucpress.edu/journals/reprints-permissions>. DOI: <https://doi.org/10.1525/AS.2019.59.2.246>.

China to Southeast Asia.¹ Attracted by lower production costs and developing infrastructure that connects an increasingly vibrant market that is integrating with mainland China through the China–ASEAN Free Trade Area (CAFTA), Taiwanese firms began to diversify their investment portfolios.² This trend quickened with the protracted slowdown of the Chinese economy in 2015.³ After two decades of largely ignoring the calls of successive Taiwanese presidents for businesses to “go south” and invest in ASEAN, Taiwanese firms were pushed by economic factors to develop operations in South and Southeast Asia.

According to its critics, the NSP will get off the ground only with support from mainland China. Tsai’s efforts could well “go sour,” with the mainland blocking her attempts to forge free trade agreements (FTAs) or join its Belt and Road Initiative (BRI), for example. While Taiwan’s business community recognizes the potential of South and Southeast Asia as a production base and market, it also maintains strong ties to mainland China. Taiwan’s business community therefore implored Tsai to maintain cross-Strait economic ties even as she planned her economic policy based on “going south.” Critics charge that the success of the NSP may therefore depend on how well cross-Strait relations are managed.

Such perspectives fall in line with a growing body of literature that perceives Taiwan as increasingly succumbing to Chinese pressure. Denny Roy argues that this literature overstates Chinese power, lacks evidence, and fails to appreciate Taiwan’s room for maneuver.⁴ Building on Roy’s analysis, this article maintains that although the Chinese government can stifle some aspects of the NSP, critics overemphasize Beijing’s ability to prevent what is essentially a rational move to encourage the existing shift of investment by Taiwanese businesses to cheaper production sites in South and Southeast

1. Goh Sui Noi, “Taiwan Looks beyond China for Growth,” *Straits Times*, October 16, 2015, <<http://www.straitstimes.com/opinion/taiwan-looks-beyond-china-for-growth>>, accessed May 24, 2016.

2. Huang Kwei-Bo interview, Taipei, May 17, 2017. Huang Kwei-Bo was head of the Research and Planning Committee of Taiwan’s Ministry of Foreign Affairs during the Ma Ying-jeou administration and is a professor at National Chengchi University.

3. Goh, “Taiwan”; Patrick Cronin and Phoebe Benich, “Taiwan’s Great Recalibration: President-Elect Tsai Ing-Wen Must Now Answer to the Popular Sentiment That Swept Her to Victory,” *Foreign Policy*, January 16, 2016, <<http://foreignpolicy.com/2016/01/16/taiwans-great-recalibration-what-president-elect-tsai-ing-wen-must-do-next/>>, accessed June 8, 2016.

4. Denny Roy, “Prospects for Taiwan Maintaining Its Autonomy under Chinese Pressure,” *Asian Survey* 57:6 (2017): 1135–58.

Asia. China's antagonistic stance toward Tsai Ing-wen and her NSP merely pushes Taiwan into the hands of Japan, China's regional rival.

Comparatively little has been written about the NSP. Ngeow provides a historical overview of successive Taiwanese administrations' attempts to "go south,"⁵ while Yang details how the policy evolved under Tsai and what is new about it.⁶ Other sources focus on the economic aspects of the NSP and opportunities that might derive from it,⁷ and how the policy might encourage economic cooperation with Japan.⁸ Similarly, Xu and Li's update on the NSP highlights notable successes in terms of strengthening political and people-to-people ties with South and Southeast Asian states, but notes that economic relations still need to develop further.⁹ Critics note that while a Go South policy might be attractive in terms of India's growth and ASEAN's economic integration, Tsai's policy is nothing new, but it is heavily politicized and needlessly undermines relations with the mainland.¹⁰ For their part, mainland Chinese authors writing on the NSP are typically negative and highlight the deterioration of cross-Strait relations since Tsai came to power.¹¹ The limitations of these articles are that they either provide a descriptive overview of the policy or are biased in their evaluation of it in terms of reflecting the position of a specific political party in Taiwan or being overly negative about the policy in the case of the Chinese articles. They also do not assess the geostrategic implications of the NSP. This article will do so, with a focus on

5. Chow Bing Ngeow, "Taiwan's Go South Policy: Deja Vu All Over Again?" *Contemporary Southeast Asia* 39:1 (2017): 96–126.

6. Yang Wu, "Jianshi Taiwan de Xin Nanxiang Zhengce: Yicheng, wangluo yu tiaozhan" [Revisiting Taiwan's New Southbound Policy: agenda, networks and challenges], *Wenti yu Yanjiu* 56:1 (2017): 123–43.

7. Shufei Yang and Yuying Wu, "Yatai bianju xia Taiwan luoshi Xin Nanxiang de tiaozhan yu jihui" [Challenges and chances for Taiwan's implementation of the New Southbound in the Asia-Pacific context], *Economic Outlook* (Jingji qiankan) 173 (2017): 32–36.

8. Congzhe Wei, "Tairi hezuo kuozhan dao xinnanxiang shichang zhi celue fangxiang" [Strategic Taiwan-Japan cooperation expansion in New Southbound markets], *Economic Outlook* (Jingji qiankan) 176 (2018): 43–47.

9. Zunci Xu and Mingxun Li, "Woguo xin nanxiang zhengce de zhixing chengguo yu weilai zhanwang" [The New Southbound Policy's results and future prospects], *Economic Outlook* (Jingji qiankan) 176 (2018): 9–18.

10. Xiangping Liu, "Cai Yingwen 'Xin nanxiang zhengce' Pingxi" [Comments on Tsai Ing-wen's 'New Southbound Policy'], *Taiwan Yanjiu* 6 (2015): 23–32.

11. Dingsha Shi, "Taiwan 'xin nanxiang zhengce' zhong de Meiguo yinsu" [The America factor in Taiwan's New Southbound Policy], *Taiwan Yanjiu* 4 (2017): 81–86.

the evolving ties between Japan and Taiwan in light of deteriorating cross-Strait relations.¹²

This article begins by contextualizing the NSP in terms of the attempts by previous Taiwanese administrations to encourage businesses to diversify their investments away from mainland China. It then evaluates what is new about the NSP in comparison to these earlier efforts. Next the article assesses the extent to which Chinese pressure shaped the NSP during the first year of Tsai's tenure. The article concludes by detailing how Chinese pressure has pushed the Tsai administration to bolster ties with Japan.

CONTEXTUALIZING TAIWAN'S NEW SOUTHBOUND STRATEGY

Taiwan's NSP is part of a long, if undistinguished, history. Taiwanese firms began investing in Southeast Asia in 1959, but shifted their production networks to mainland China from the late 1980s as production costs rose in Southeast Asia.¹³ With China's 2001 entry into the World Trade Organization, Taiwanese investments in the mainland increased exponentially as Taiwanese investors sought to secure a share in China's booming domestic market.¹⁴ As a result, the Taiwanese government became concerned that the country was becoming too reliant on the Chinese economy.¹⁵ Specifically, officials worried about the economic risks for Taiwanese businesses, the hollowing-out of Taiwanese industry in favor of the mainland,¹⁶ and the potential for Taiwan's business community to act as a "fifth column" in Taiwanese politics that would lobby on behalf of Beijing as its economic interests shifted to the mainland.¹⁷ Taiwan's economic dependence on China

12. Taiwan's relationships with both the US and India in the context of the New Southbound Policy are also worth examining further. For an earlier analysis of India-Taiwan relations, see Johnny Chi-Chen Chiang, "Asian Regional Economic Integration and Taiwan-India Economic Relations", in *Taiwan Today*, edited by Anita Sharma and Screemati Chakrabarti (New Delhi: Anthem Press, 2007).

13. Xiangming Chen, "Taiwan Investments in China and Southeast Asia: 'Go West, but Also Go South'," *Asian Survey* 36:5 (1996): 448, 452-54; Min-hua Chiang and Bernard Gerbier, "Foreign Factors in Taiwan's Economic Transformation," *Journal of the Asia Pacific Economy* 15:2 (2010): 150.

14. Chiang and Gerbier, "Foreign Factors": 157-58.

15. Chiang and Gerbier, "Foreign Factors": 158.

16. Chen, "Taiwan Investments": 458-59; Kevin Cai, "The China-ASEAN Free Trade Agreement and Taiwan," *Journal of Contemporary China* 14:45 (2005): 595.

17. Richard Bush, "Taiwan Faces China: Attraction and Repulsion," in *Power Shift: China and Asia's New Dynamics*, edited by David Shambaugh (Berkeley: University of California Press, 2005).

also raised security questions, particularly in the wake of the 1995–96 Taiwan Strait crisis, which saw the PRC intimidate Taiwan through a series of military exercises that also created a drag on the island's economy.¹⁸

In response to Taiwan's increasing economic dependence on the mainland, the Lee Teng-hui administration initiated the Go South policy in 1994. Under President Lee, the government provided substantial aid to encourage Taiwanese firms to invest in Southeast Asian states rather than in China.¹⁹ Despite prompting some firms to change their investment strategy, especially large enterprises affiliated with the Kuomintang (Chinese Nationalist Party, KMT), and securing a series of bilateral economic agreements,²⁰ Lee's policy had a limited impact on trade and investment ties between Taiwan and Southeast Asia.²¹ In 1996, Lee redoubled his efforts at curbing Taiwanese investment in China with his Go Slow, Be Patient policy and then again in 1997–99, when he relaunched the Go South policy.²²

These attempts did not bear fruit, as Taiwanese companies continued to direct their investments toward the mainland, particularly in the wake of the 1997–98 Asian financial crisis.²³ Lee's call would be repeated by his successor, President Chen Shui-bian of the Democratic Progressive Party (DPP), but again without significant effect.²⁴ The southbound policy under Chen was more about security concerns than about economics.²⁵ When China joined the WTO in 2001, it made more sense for Taiwanese firms to invest in China than in South and Southeast Asia, especially as many Southeast Asian states were still reeling from the effects of the 1997–98 crisis—or facing political upheaval.²⁶

Replacing Chen in 2008, President Ma Ying-jeou, with the support of much of Taiwan's business community, cemented Taiwan's economic dependence on the mainland by signing the Economic Cooperation Framework Agreement (ECFA) with Beijing. Over the course of his tenure, cross-

18. Chen, "Taiwan Investments": 451, 458–59.

19. Chiang and Gerbier, "Foreign Factors": 160.

20. Liu, "Cai Yingwen": 24; Ngeow, "Taiwan's Go South Policy": 103.

21. Chen, "Taiwan Investments": 459–60.

22. Chiang and Gerbier, "Foreign Factors": 160–61.

23. Interview with the chairman of a Taiwanese think tank, Taipei, May 11, 2017; Liu, "Cai Yingwen"; Ngeow, "Taiwan's Go South Policy": 105.

24. Goh, "Taiwan."

25. Chairman interview.

26. *Ibid.*; Ngeow, "Taiwan's Go South Policy": 108–09, 115.

Strait relations continued to flourish and culminated in the historic meeting between Ma and Chinese President Xi Jinping in Singapore in November 2015. At the same time, under President Ma, Taiwan's economic relations with ASEAN were more substantial than during the Chen administration, even though Ma did not inaugurate a formal southbound policy.²⁷ This not only reflected the increasing draw of Southeast Asian markets and lower production costs for Taiwanese investors, but also highlighted the continuing need to diversify Taiwan's economic relations.²⁸

Nonetheless, Ma's embrace of the mainland reignited fears that closer cross-Strait economic ties would further undermine Taiwan's autonomy. This was particularly apparent in 2014 with the emergence of the Sunflower Movement, a student-led protest against the Cross-Strait Services Trade Agreement negotiations under Ma. Unconvinced of the benefits of Ma's engagement with mainland China, the Taiwanese electorate looked to the DPP to explore new ways to bolster their country's economy.

WHAT'S NEW ABOUT THE NEW SOUTHBOUND POLICY

Driven by the perception that Taiwan was being outpaced by its competitors in South and Southeast Asia,²⁹ the NSP emerged as one of Tsai Ing-wen's key policy goals for her administration. Like its predecessors, Tsai's NSP focused on weaning Taiwanese investors away from their dependence on the mainland and engaging with South and Southeast Asia, but in many ways the circumstances surrounding the development of policy had changed. The concerns of the Taiwanese electorate about ever-closer cross-Strait relations had resurfaced with the Sunflower movement, and China's economy had begun to slow as the economies of South and Southeast Asian states grew.³⁰ Key reasons for Taiwanese firms to start shifting production sites away from China included rising production costs, politically imposed restrictions on businesses, and numerous internal economic problems, such as bad debt,

27. Liu, "Cai Yingwen"; Ngeow, "Taiwan's Go South Policy": III–12.

28. Hong Zhao, "Taiwan–ASEAN Economic Relations in the Context of East Asian Regional Integration," *International Journal of China Studies* 2:1 (2011): 39, 44.

29. Sophia Yeh and Lilian Wu, "Taiwan Needs to Catch Up in ASEAN: Southbound Policy Office Chief," *Focus Taiwan*, May 17, 2016, <<http://focustaiwan.tw/search/201605170011.aspx>>, accessed January 24, 2017.

30. Goh, "Taiwan"; Cronin and Benich, "Taiwan's Great Recalibration."

corruption, and environmental pollution.³¹ At the same time, South and Southeast Asia were becoming increasingly attractive investment sites due to their abundant natural and human resources and rising middle class.

By early 2017, Taiwan's Investment Commission reported a 21% decrease in the number of investments and a drop of over 11% in the value of investments by Taiwanese companies in China, as economic growth on the mainland decelerated.³² While Chinese academics argued that China remained at the heart of the Asian regional economy, some analysts indicated that China was losing its competitive edge as investments began to shift to South and Southeast Asia.³³ I-chung Lai, president of the Prospect Foundation, a think tank based in Taipei, maintained that the Chinese economy was becoming an increasingly risky investment market as South and Southeast Asian economies were starting to boom.³⁴ Even during the Ma administration, scholars emphasized the need to develop a more proactive Go South strategy compared with those of previous administrations, and to invest more heavily in the region.³⁵

Reflecting these concerns, Taiwanese firms increased their investments in Southeast Asia, long before the January 2016 election. Taiwan's exports to ASEAN had already risen to US\$ 308 billion in 2011,³⁶ and increased to US\$ 516 billion by 2015, as ASEAN became Taiwan's second-largest export market, after the mainland, thanks in part to the efforts of the Taiwanese government.³⁷

31. Taiwanese academic B interview, Taipei, May 18, 2017; Ngeow, "Taiwan's Go South Policy": 119; Zhao, "Taiwan-ASEAN Economic Relations": 47.

32. Li-yun Huang and Frances Huang, "Approved Taiwanese Investment in China Down Sharply in 2016," *Focus Taiwan*, January 20, 2017, <<http://focustaiwan.tw/search/201701200020.aspx>>, accessed May 9, 2017.

33. Guo Kuo-hsing, "New Strategies for Trade Relations," *Taipei Times*, March 18, 2017, <<http://www.taipetimes.com/News/editorials/archives/2017/03/18/2003666976>>, accessed May 5, 2017.

34. I-chung Lai, "Opportunities and Challenges for the New Southbound Policy," Prospect Foundation, June 21, 2016, <<http://www.pf.org.tw/Pages/ResearchManage/ResearchDetail.aspx?id=26372>>, accessed May 8, 2017, 2.

35. Zunci Xu, "Taiwan chanye de xin nanxiang zhengce" [Taiwanese industry's New Southbound Policy], *Maoyi Zhengce Luncong* [Review of Trade Policy] 22, December 2014, <<http://www.aseancenter.org.tw/upload/files/Industrial%20new%20south-ward%20policy.pdf>>, accessed April 17, 2018.

36. "Taiwan Exports to ASEAN Hit New High in 2011," *Taiwan Trade*, February 22, 2012, <<http://www.taiwantrade.com/news/taiwan-exports-to-asean-hit-new-high-in-2011-30462.html>>, accessed January 25, 2017.

37. Ya-ling Huang, "Deepening Cooperation with ASEAN," *Taiwan Trade*, October 26, 2015, <<http://www.taiwantrade.com/news/deepening-cooperation-with-asean-52957.html>>, accessed January 25, 2017.

The government was spurred on by reports, such as one published in late 2013 by the Taiwan Institute of Economic Research, which recognized the opportunities for Taiwanese businesses to invest in Southeast Asia and called on Taipei to facilitate this by providing more information on ASEAN markets and regulations, as well as signing bilateral agreements.³⁸ According to Lien Yu-ping, director-general of the Department of Investment Services under the Ministry of Economic Affairs, the Taiwanese government was already promoting “a strategic partnership program” between Taiwanese and ASEAN firms in late 2015.³⁹ The Taiwan Stock Exchange began holding investment seminars for Southeast Asian states in early March 2016 and finalized agreements on securities trading with Southeast Asian exchanges soon after Tsai’s inauguration in May.⁴⁰

Under Tsai, for the first time, economic considerations matched the political ambition of a Taiwanese Go South strategy.⁴¹ Whether the NSP will boost trade and investment with South and Southeast Asian states remains to be seen, with some arguing that the economic impact of the policy has been somewhat meager.⁴² Macroeconomic data reinforce this perception, as there has been no appreciable rise in trade or investment figures compared with previous years (Figures 1–3).

At the same time, some observers argued that the Tsai administration was merely following business trends rather than enacting a new policy.⁴³ Proponents of the NSP responded that, unlike its predecessors, it was about much more than just trade and investment. One of the key differences between the NSP and previous attempts to “go south” lay in the changing dynamics of the region. Whereas in the past Taiwanese firms only looked to develop their

38. Charles Chou, “Cooperation and Competitions between Taiwan, Japan, Korea and China in the ASEAN Markets,” Taiwan Institute of Economic Research, 2013: 4–5, <<http://pubfs.tier.org.tw/engRRUP/20140701090235.pdf>>, accessed May 15 2017.

39. “Nation Seeking to Expand Markets in Southeast Asia,” *China Post*, December 31, 2015, <<http://www.chinapost.com.tw/taiwan/2015/12/31/454892/Nation-seeking.htm>>, accessed January 24, 2017.

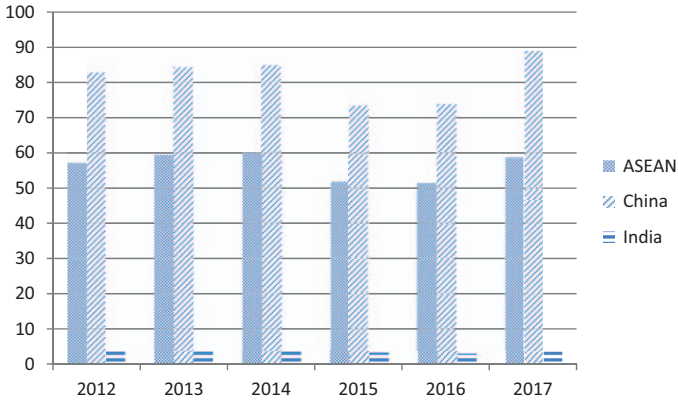
40. Yu-pin Tien and Frances Huang, “TWSE Supports Government’s ‘New Southward Policy,’” *Focus Taiwan*, June 4, 2016, <http://focustaiwan.tw/search/201606040020.aspx>>, accessed January 24, 2017.

41. Ngeow, “Taiwan’s Go South Policy”: 119.

42. Xu and Li, “Woguo xin.”

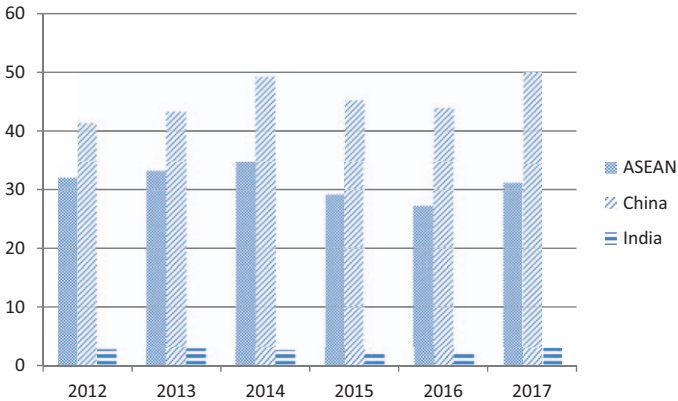
43. Stephanie Chao, “Southbound Pivot Has Potential, but Risks, amid Cooling Cross-Strait Relations,” *China Post*, June 20, 2016, <<http://www.chinapost.com.tw/taiwan/2016/06/20/469832/Southbound-pivot.htm>>, accessed January 20, 2017.

FIGURE 1. Exports (US\$ billions)



SOURCE: Taiwan Ministry of Economic Affairs, <https://www.moea.gov.tw/Mns/dos_e/content/ContentLink.aspx?menu_id=6748>.

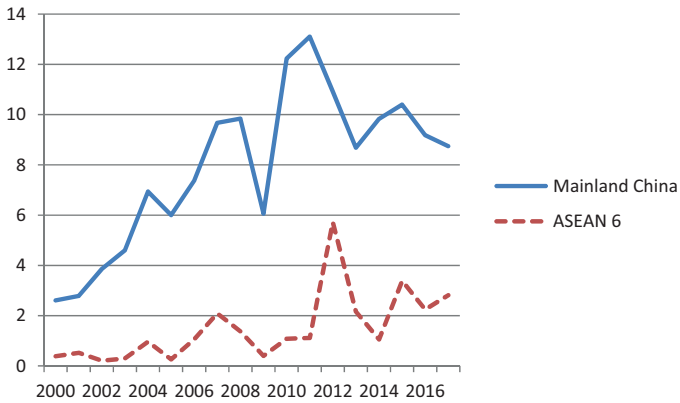
FIGURE 2. Imports (US\$ billions)



SOURCE: Taiwan Ministry of Economic Affairs, <https://www.moea.gov.tw/Mns/dos_e/content/ContentLink.aspx?menu_id=6748>.

production facilities to take advantage of cheap labor in Southeast Asia, more recently both South and Southeast Asia’s expanding markets, centering on a growing middle class, had also been attracting more Taiwanese firms. Furthermore, the Taiwanese government was eager to attract investment from both these regions. For example, by early 2017, Huang Po-li, a Taiwan

FIGURE 3. Outward Investment (US\$ billions)



SOURCE: Taiwan Investment Commission, Ministry of Economic Affairs, <https://www.moeaic.gov.tw/news.view?do=data&id=1239&clang=en&type=business_ann>.

Stock Exchange section chief, announced measures designed to court investment from and encourage cooperation with South and Southeast Asian states.⁴⁴ In Southeast Asia, these favorable economic trends were due in part to the establishment of the ASEAN Community, which freed up labor, services, trade, and investment among ASEAN members.⁴⁵ The NSP also emphasized higher-end and supply chain cooperation, fostering human talent, functional cooperation based on Taiwan's experience of economic growth, and innovative ways of building diplomatic connections, such as investment guarantees and memoranda of understanding. Compared to its predecessors, the NSP was not unilateral.⁴⁶

James Huang, then director of the NSP office, stressed that, unlike the efforts of previous governments, the NSP would also develop more comprehensive and mutually beneficial relations between Taiwan and ASEAN, including tourism, education, and cultural exchanges.⁴⁷ The policy would

44. Yu-pin Tien and Frances Huang, "TWSE Taking Measures in Response to New Southbound Policy," *Focus Taiwan*, January 16, 2017, <<http://focustaiwan.tw/search/201701160023.aspx>>, accessed May 9, 2017.

45. Hsu Tsun-tzu, "A Few Suggestions for the Economic Side of the New Southward Policy," *Taiwan Brain Trust Newsletter* 47 (June 2016): 6–7, <<http://www.braintrust.tw/uploads/47eng.pdf>>, accessed May 11, 2017.

46. *Ibid.*: 6.

47. Yeh and Wu, "Taiwan."

go beyond relationships with Southeast Asian states to forge links at the local and city levels.⁴⁸ According to President Tsai, the emphasis on people-to-people relations would put Taiwan's relations with South and Southeast Asian states on a sounder footing for the long term.⁴⁹ As Peter Huang, president and CEO of the Taiwan External Trade Development Council, noted, the NSP could only work if Taiwanese companies also engaged with their Southeast Asian partners, rather than just treating them as production and export platforms as they had in the past.⁵⁰ Speaking in September 2016, President Tsai stated that promoting cultural and educational ties to build the expertise needed to sustain the policy over the long term was a novel aspect of her initiative compared with the Go South policies of prior incumbents.⁵¹

Finally, in contrast to the efforts of presidents Lee and Chen, Tsai's NSP aimed to work with China rather than against it. James Huang claimed that Taiwan–ASEAN relations would complement Taiwan's cross-strait policy and that Taiwan would not be competing with Chinese firms in Southeast Asia since Taiwan's expertise lay in sectors such as agriculture, aquaculture, and information communication, whereas China was investing in major infrastructure projects through its Asian Infrastructure and Investment Bank (AIIB) and the BRI.⁵² Similarly, in September, at an international symposium on cross-strait relations, Lin Cheng-Yi, deputy minister of Taiwan's Mainland Affairs Council, emphasized that the NSP was “not politically driven” and that Taiwan was “willing to jointly participate with mainland China on issues related to regional development, exchange views, and explore all possibilities for cooperation and collaboration.”⁵³ Taiwanese officials

48. Wu, “Jianshi Taiwan.”

49. Chairman interview.

50. Victoria Jen, “Policy Indecision Marks Taiwan President Tsai's First 100 Days in Office,” *Channel News Asia*, August 27, 2016, <<http://www.channelnewsasia.com/news/asiapacific/policy-indecision-marks/3075912.html>>, accessed February 22, 2017.

51. Overseas Community Affairs Council, “President Tsai Eying 20% Jump in Southeast Asian Students to Taiwan,” Executive Yuan, September 22, 2016, <http://english.ey.gov.tw/News_Content.aspx?n=3FA02B129BCA256C&sms=925E4E62B451AB83&ts=09F0942CA0F38FA5>, accessed January 20, 2017.

52. Sophia Yeh and Elizabeth Hsu, “Taiwan to Open ASEAN Market, Starting with Visa Exemption,” *Focus Taiwan*, May 27, 2016, <<http://focustaiwan.tw/search/201605270021.aspx>>, accessed January 24, 2017.

53. “Maintaining Peace and Stability in the Taiwan Strait Is a Shared Goal of Both Sides: Opening Remarks at the International Symposium on ‘Cross-Strait Relations under the Tsai Ing-Wen Administration’ by Lin Cheng-Yi, Deputy Minister, Mainland Affairs Council of the Republic of China,

asserted that cross-Strait ties were completely separate from the NSP, which would work hand in hand with China's BRI.⁵⁴

The extent to which the NSP could complement Chinese initiatives would depend on Beijing's acquiescence. But Beijing put pressure on the NSP by shutting Taiwan out of the AIIB and BRI and preventing Taiwan from signing FTAs with South and Southeast Asian states. Beijing's rationale for doing so lay in Tsai's position on cross-Strait relations and the 1992 Consensus.

CHINESE PRESSURE

Cross-Strait Relations and the 1992 Consensus

Tsai's reference to the 1992 Consensus in her inauguration speech set the tone for frosty relations between Taiwan and mainland China. The 1992 Consensus was reached by representatives of the KMT and China and designated Taiwan as part of One China, though it left room for interpretation about which was the legitimate government of China. During Ma Ying-jeou's presidency the distance between the KMT and DPP positions had become far narrower, with the DPP leadership looking to stabilize relations with the mainland and to not actively seek independence. Nonetheless, with many among the DPP's rank and file still focused on securing independence and with the majority of Taiwanese people seeing themselves as having a separate national identity,⁵⁵ Tsai had to tread carefully. In her inaugural address, Tsai sought to meet mainland China halfway by affirming the historical importance of the cross-Strait meetings in 1992. A majority of the Taiwanese population endorsed Tsai's cross-Strait policy and her position on the 1992 Consensus, further cementing her stance on this issue.⁵⁶

But the inauguration speech raised the ire of the Chinese government, which characterized Tsai's depiction of the 1992 Consensus as an "incomplete

September 15, 2016": 7–8, <<http://www.mac.gov.tw/public/Attachment/6916117498.pdf>>, accessed January 27, 2017.

54. Yeh and Wu, "Taiwan."

55. Mathieu Duchâtel, "Introduction," in *Taiwan between Xi and Trump*, edited by Mathieu Duchâtel, European Council of Foreign Relations, 2017: 2, <http://www.ecfr.eu/page/-/China_Analysis_Taiwan_Between_Xi_and_Trump.pdf>, accessed May 10, 2017.

56. Emily Chen, "Japan's Practical Taiwan Policy: What's Driving Japan's Outreach toward Taiwan?" *The Diplomat*, April 14, 2017, <<http://thediplomat.com/2017/04/japans-practical-taiwan-policy/>>.

test answer”⁵⁷ and quickly exerted pressure on Taiwan. Having already pried Gambia away from Taiwan’s diplomatic orbit two months before Tsai’s inauguration, China convinced the nations of Saõ Tomé and Príncipe, and Panama, to end formal relations with Taiwan in December 2016 and June 2017, respectively. China also pushed Kenya and Malaysia to deport Taiwanese suspected of fraud to mainland China, restricted Chinese tourists from traveling to Taiwan, and urged both the World Health Assembly and the International Civil Aviation Organization to prohibit Taiwanese participation in meetings.⁵⁸ This shows the variety of tools that China has at its disposal to manage cross-Strait relations.⁵⁹

Chinese pressure on Taiwan over Tsai’s position on the 1992 Consensus extended to the NSP. For example, in response to Tsai’s inauguration speech, Ma Xiaoguang, a spokesman for China’s Taiwan Affairs Office, issued a veiled threat to Tsai, stating that if the NSP had a political agenda then it would harm Taiwan’s economy.⁶⁰ Taiwan’s Mainland Affairs Council responded immediately to Ma Xiaoguang’s comment, affirming that the Taiwanese government would abide by the Republic of China constitution and other key legislation regarding cross-Strait relations to maintain stability, as Tsai had stated in her inaugural speech.⁶¹ Nonetheless, in August, Zhang Zhijung, director of the Taiwan Affairs Office, reiterated the threat, adding that time would tell whether Taiwanese firms would relocate from the mainland to Southeast Asia.⁶² In addition, Chinese academia and media have openly criticized the NSP. At the Boao Forum for Asia in March 2017, a number of mainland Chinese academics argued that Taiwan’s NSP ignored how

57. Suisheng Zhao, “President Tsai and Beijing Clash,” *East Asia Forum*, October 4, 2016, <<http://www.eastasiaforum.org/2016/10/04/president-tsai-and-beijing-clash/>>, accessed February 2, 2017.

58. Huang interview; Takayuki Takeuchi, “Tsai Ing-wen seiken no tanjyō to osoi ‘ikōkiseigi’: 2016 no Taiwan” [Taiwan in 2016: the dawn of the Tsai Ing-wen administration and the slow “transition to justice”], *Ajia dōkōnenhō* [Asia Trends Annual Report] (2017): 187; Takashi Okada, “Heiwa to antei no daikyokuken wo” [A comprehensive view of peace and stability], *Sekai* 884 (2016): 277–78.

59. Huang interview.

60. Chia-lun Chen and Evelyn Kao, “MAC Urges Joint Cross-Strait Efforts on Regional Development,” *Focus Taiwan*, May 25, 2016, <<http://focustaiwan.tw/search/201605250022.aspx>>, accessed January 24, 2017.

61. *Ibid.*

62. National Policy Foundation, “TAO Director Casts Doubts on Taiwan’s New Southward Policy,” August 19, 2016, <<http://www.taiwannpfnews.org.tw/english/page.aspx?type=article&mnum=112&anum=17983>>, accessed January 27, 2017.

Asian trade increasingly focused on China, contending that the policy was geared to securing Taiwanese political independence.⁶³ Similarly, the *Global Times*, an English-language newspaper published under the auspices of China's *Renmin Ribao* (People's Daily) criticized a visit by Taiwanese parliamentarians to New Delhi in mid-February 2017.⁶⁴ Many of these critiques were echoed by KMT representatives and media sympathetic to the KMT cause in Taiwan.⁶⁵ Though rhetorical, these mainland Chinese critiques of the NSP have constrained both Xi Jinping's and Tsai Ing-wen's room to maneuver—even though it was in neither side's economic interest to undermine cross-Strait ties and there were arguably gains to be had through joint efforts in South and Southeast Asia.

Some analysts have argued that China's response to the NSP goes beyond rhetoric and increasingly uses economic tools, such as the offer of grants via its AIIB, to pressure states into acquiescing to its geopolitical goals.⁶⁶ That said, there is no evidence that Chinese enticements like these are preventing Taiwanese firms from signing business deals in South and Southeast Asia.⁶⁷ Taiwanese lawmakers have also brokered deals with their South and Southeast Asian counterparts to enhance bilateral exchanges. One example of this is the Taiwan-Philippines Congressional Association, established in April 2017 to enhance trade and investment between the two countries. One way for Taiwan to avoid or circumvent Chinese pressure when formulating such agreements has been to work through the Ministry of Economic Affairs rather than the Ministry of Foreign Affairs and to frame cooperation in terms of economic relations.⁶⁸

Furthermore, although China cut formal diplomatic ties with Taiwan following Tsai's inauguration speech, high-level personal channels remained open, and cross-Strait crisis management has developed, which should enable

63. "The Liberty Times Editorial: Economics a Tool for China's Goals," *Taipei Times*, March 31, 2017, <<http://www.taipetimes.com/News/editorials/archives/2017/03/31/200366778t>>, accessed May 5, 2017.

64. Ning Yu, "New Delhi Will Suffer Losses If It Plays Taiwan Card," *Global Times*, February 14, 2017, <<http://www.globaltimes.cn/content/1033001.shtml>>, accessed May 15, 2017.

65. E.g., Huang interview; interview, Darson Chiu, deputy director of the Taiwan Institute of Economic Research's Macroeconomic Forecasting Center, Taipei, May 17, 2017; Chao, "Southbound Pivot."

66. "Liberty Times Editorial."

67. Taiwanese government official A interview, Taipei, May 3, 2017; chairman interview.

68. Taiwanese academic B interview.

the relationship to be managed.⁶⁹ It is also difficult to find any evidence that Beijing acted on the threats by Taiwan Affairs Office officials or the negative reaction of Chinese academics and media to the NSP. As Fan Shih-ping, professor of political science at National Taiwan Normal University, argued, interference from Beijing not only might hurt China's economy but also could amount to a political victory for the DPP.⁷⁰ Nonetheless, Beijing has shut Taiwan out of the AIIB and BRI and inhibited Tsai's attempts to forge FTAs with South and Southeast Asian states.

The Asian Infrastructure and Investment Bank, the Belt and Road Initiative, and Free Trade Agreements

Tsai's emphasis on tying the NSP to the BRI made economic sense, considering the differing scope of these two projects. The BRI constituted President Xi Jinping's grand strategy to bolster the global economy and was first introduced in a speech Xi delivered in fall 2013, in which he expressed his desire to establish an economic belt connecting China with Russia, the Middle East, and Europe.⁷¹ His ambition was then extended to incorporate a maritime Silk Road that covered China's main sea routes to South and Southeast Asia, the Middle East, and Europe.⁷² Xi also proposed the creation of the AIIB, a multilateral development bank that would help finance the BRI.⁷³ China's aim was to build critical infrastructure to enable both the overland and sea routes to function effectively, create opportunities for China's western provinces, find alternative markets for Chinese construction firms, and develop China's soft power.⁷⁴ With projects totaling as much as US\$ 900 billion, covering 60 countries, four billion people, and approximately a third of global GDP, China's BRI dwarfed the NSP.⁷⁵

69. Okada, "Heiwa to antei": 277, 279.

70. Jen, "Policy Indecision."

71. Peter Ferdinand, "Westward Ho: The China Dream and the 'One Belt, One Road': Chinese Foreign Policy under Xi Jinping," *International Affairs* 92:4 (2016): 949–50.

72. Ferdinand, "Westward Ho": 949–50.

73. Mike Callaghan and Paul Hubbard, "The Asian Infrastructure Investment Bank: Multilateralism on the Silk Road," *China Economic Journal* 9:2 (2016): 116–39.

74. Ferdinand, "Westward Ho": 950–52; Callaghan and Hubbard, "Asian Infrastructure Investment Bank": 120.

75. Chiu interview; Ferdinand, "Westward Ho": 949–50.

By contrast, the NSP amounted to approximately NT\$ 800 billion (US\$ 25 billion) in terms of the budget, as well as credit lines, loans, and credit guarantees, by the end of January 2017.⁷⁶ Though these are not insubstantial amounts by themselves, making best use of these funds arguably required substantial benefits through business opportunities deriving from the BRI. Taiwan's aim was therefore to work with China on development projects financed by the Asian Development Bank⁷⁷ or to have Taiwanese firms provide advice on large-scale infrastructure projects to Chinese firms.⁷⁸ In linking the NSP with China's BRI, Tsai recognized that the same incentive to develop cheap production sites in South and Southeast Asia was also attracting China's interest. Nonetheless, prior to Tsai's inauguration, Beijing ruled that Taiwan could only join the AIIB as a customs territory of China, which it knew the DPP government would not accept.⁷⁹

Beijing similarly exerted pressure on Taiwan with regard to FTAs with South and Southeast Asian states. Critics argued that because of Tsai's stance on the 1992 Consensus, China would stand in Taiwan's way when it came to bilateral or regional FTAs, which these critics perceived as vital to the expansion of Taiwan's trade interests. Whereas President Ma had cemented bilateral FTAs with Singapore and New Zealand, Tsai would be unable to follow suit without the support of China.⁸⁰ Similarly, Taiwan would not be able to join the Regional Comprehensive Economic Partnership, because of the central role Beijing played in developing this regional trade initiative.⁸¹ Although Taiwan looked to develop bilateral economic partnership agreements with South and Southeast Asian states, these states would be reluctant to do so out of concern for how China would react.⁸²

Without new FTAs, critics of the NSP maintained, Taiwanese firms would struggle to compete in Southeast Asia due to the plethora of other

76. Financial Supervision Commission, "Financial Outlook Monthly" 149 (April 2017): 5–8, <<http://www.fsc.gov.tw/en/home.jsp?id=55&parentpath=0,4>>, accessed October 12, 2017; chairman interview.

77. Taiwanese government official A interview.

78. Taiwanese government official B interview, Taipei, May 4, 2017.

79. Takeuchi, "Tsai Ing-wen seiken": 186.

80. "How Can Taiwan Avoid Being Economically Marginalized under Tsai Ing-wen Gov't?" United Daily News, November 23, 2016, <<http://www.taiwannpfews.org.tw/english/page.aspx?type=article&mnum=112&anum=18315>>, accessed January 27, 2017.

81. Taiwanese government official A interview; Guo, "New Strategies."

82. Taiwanese government official A interview.

FTAs that states had already signed. According to an editorial published in the *China Post* before Tsai's inauguration, Taiwan was already too late in promoting a southbound policy, and the Tsai administration was "delusional" considering the strength of the existing China–ASEAN trade ties.⁸³ The China–ASEAN FTA has been raised as an example of how falling tariffs for member states benefit Taiwan's competitors.⁸⁴ The rules-of-origin stipulations in CAFTA and other FTAs further limited how Taiwanese firms could do business in the region.⁸⁵ Trade diversion caused by FTAs has also had negative ramifications for Taiwan. As a result of the ASEAN–China FTA, for example, an estimated 110,000 Taiwanese workers were expected to lose their jobs.⁸⁶

In addition to Chinese pressure, Taiwan's FTA options dwindled following US President Donald Trump's withdrawal in January 2017 from the Trans-Pacific Partnership (TPP), a robust trade deal that had encompassed 12 Asia-Pacific states, including Japan and the US. For many in the Taiwanese government the NSP had become all the more central in Taiwan's trade strategy following President Trump's withdrawal from the TPP. On the other hand, Darson Chiu, deputy director of the Taiwan Institute of Economic Research's Macroeconomic Forecasting Center, argued in August 2016 that the NSP could not be realized unless Taiwan joined the TPP.⁸⁷ Though Chiu saw little hope of the TPP's being resurrected as a trade deal following Trump's withdrawal,⁸⁸ Japan successfully revived the accord with the other remaining members, labeling it the Comprehensive and Progressive Agreement for a Trans-Pacific Partnership (CPTPP).

Indeed, Japan has been labeled a "pivotal state" acting as a capable and credible leader when making concessions in TPP negotiations,⁸⁹ an accolade

83. "New Southward Policy' Must Go Beyond Chasing White Elephants," *China Post*, May 19, 2016, <<http://www.chinapost.com.tw/editorial/2016/05/19/466600/New-Southward.htm>>, accessed January 20, 2017.

84. Huang interview; Chiu interview.

85. Chiu interview.

86. Zhao, "Taiwan–ASEAN Economic Relations": 48.

87. Darson Chiu, "TPP Critical to 'Southbound Policy'," Taiwan Institute of Economic Research, August 9, 2016, <http://english.tier.org.tw/V35/eng_analysis/pec3010.aspx?GUID=doa7d248-4f8c-4fd5-a195-fcbec733f2fe>, accessed May 15, 2017.

88. Chiu interview.

89. Mireya Solís and Saori Katada, "Unlikely Pivotal States in Competitive Free Trade Agreement Diffusion: The Effect of Japan's Trans-Pacific Partnership Participation on Asia-Pacific Regional Integration," *New Political Economy* 20:2 (2015): 155–77.

that is further reinforced by its efforts in getting the CPTPP signed March 8, 2018. Though Taiwan Vice President Chen Chien-jen stated Taiwan's intention to join the CPTPP on March 5, 2018,⁹⁰ the prospects for Taiwan's joining the TPP remain poor, and the benefits of any deal would be far less significant without the US. Furthermore, Tsai's hopes of signing a bilateral FTA with the US even after Trump's withdrawal from the TPP⁹¹ are also unlikely to bear fruit, given the scale of US–China economic relations and the likely political fallout.

All that said, there are a number of reasons why critics of Tsai's international trade policy may be overstating their case. First, the existing FTAs in East Asia are notoriously weak and rarely lower tariffs substantially on politically important and protected sectors of the economy.⁹² Rules of origin can also make business harder for multinational corporations running complex international production networks, leading to low usage rates for FTAs in the region.⁹³ Second, in the case of CAFTA, many ASEAN states see falling tariffs as primarily benefiting Chinese firms, whose products have swept through Southeast Asia, leaving small and medium-sized ASEAN businesses in a weaker position.⁹⁴ Most ASEAN states continue to run a trade deficit with China as they become more dependent on Chinese products.⁹⁵ Third, in the case of the TPP, Tsai faced domestic opposition from the agricultural sector, as well as lack of support for Taiwan's bid from both Japan and the US.⁹⁶ Even if the Trump administration had not withdrawn, it is far from certain that Taiwan would have been able to join. Fourth, Chinese attempts to prevent Taiwan from signing FTAs with South and Southeast Asian states are nothing new. I-chung Lai noted that even during the Ma administration Huang Huikang,

90. Sophia Yeh and Elizabeth Hsu, "Taiwan Seeking Stronger, Closer Partnerships in Region: VP," *Focus Taiwan*, March 5, 2018, <<http://focustaiwan.tw/news/aip/201803050022.aspx>>, accessed 3 April 2018.

91. Takeuchi, "Tsai Ing-wen seiken": 189.

92. John Ravenhill, "East Asian Regionalism: Much Ado about Nothing?" *Review of International Studies* 35 (2009): 215–35.

93. Christopher Dent, "Free Trade Agreements in the Asia-Pacific a Decade On: Evaluating the Past, Looking to the Future," *International Relations of the Asia-Pacific* 10:2 (2010): 227.

94. Taiwanese academic B interview.

95. *Ibid.*

96. Eika Ko, "Taiwanshinseiken no chiikikeizaitōgō he no sankā ni muketa senryakku to shiren" [Taiwan's new administration's strategy and challenges to participate in regional economic integration], *Ajiken wa-rudo trendo* [Asia Research World Trends] 254 (2016): 12–13.

China's ambassador to Malaysia, actively pressured the Malaysian government not to sign an FTA with Taiwan in 2014.⁹⁷ The FTAs that President Ma did finalize with New Zealand and Singapore were of limited economic import, considering the low tariff barriers already maintained by these two countries—the political significance of these FTAs notwithstanding. Fifth, in lieu of FTAs, the Taiwanese government nevertheless has made headway on finalizing investment guarantees, which aim to facilitate Taiwanese business operations in South and Southeast Asia.⁹⁸ While China has successfully inhibited Taiwan from penning FTAs, as well as from joining the BRI and AIIB, this pressure has also pushed Taiwan closer to Japan, China's regional rival.

THE NEW SOUTHBOUND POLICY AND JAPAN

Unable to realize aspects of the NSP through the BRI or by signing FTAs, Tsai has looked to enhance existing ties with key partners in the region, including Japan. Taiwan enjoys a long-term partnership with Japan, with burgeoning grass-roots cooperation, tourism, and people-to-people exchanges rooted in a relatively positive view of their historical ties.⁹⁹ In terms of economic relations, Japanese and Taiwanese businesses embarked on joint ventures in China from 2000, drawn by the size of the Chinese market and by its development as a regional production center. These ventures combined the technological superiority of Japanese firms with the business connections, sales and procurement networks, and knowledge of language and culture of their Taiwanese counterparts.¹⁰⁰ Taiwanese businesses complement their Japanese counterparts in numerous ways, including in supply chain management and infrastructure development.¹⁰¹ After 2010, Japanese and Taiwanese joint ventures declined as China's investment climate

97. Jia Teng Liew, "Taiwan to Forge Regional Ties with New Southbound Policy," *The Edge Malaysia*, July 1, 2016, <<http://www.theedgemarkets.com/article/taiwan-forge-regional-ties-new-southbound-policy>>, accessed May 10, 2017.

98. Chairman interview.

99. Fumio Niwa, "Shinkasuru Nichitaikankei: Jitsumugaikō no tenkai to Kusa no ne no gen-kōryū no kakudai" [Deepening Japan-Taiwan relations: development of diplomatic relations and expansion of grass-roots cooperation], *Kaigaijijyō* [Journal of World Affairs] 65:3 (2017): 121–27.

100. Momoko Kawakami, "Nichitai Keizai rinke-gi no shinkyokumen" [The new situation regarding Japan-Taiwan economic linkage], *Tōa* [East Asia] 604:10 (2017): 20, 23.

101. Wei, "Tairi hezuo."

changed due to labor shortages and wage increases, as well as the difficulty for Japanese and Taiwanese firms of operating in China.¹⁰² But despite this setback, Japanese and Taiwanese firms continue to cooperate, notably through investing in Southeast Asia.¹⁰³

Tsai's predecessor, President Ma, developed a somewhat ambiguous relationship with Japan, as he looked to position Taiwan favorably between China and Japan. On the one hand, Ma took a strong line against Japan on the Senkaku/Daiyou territorial dispute, questioned Japan's claims to a 200-nautical-mile exclusive economic zone around Okinotorishima, a tiny atoll in the Pacific 1500 km (900 miles) south of Japan, and imposed a ban on food products from Japanese prefectures affected by the Fukushima nuclear disaster.¹⁰⁴ Ma also replaced the Council of Japanese Affairs, which his predecessor had established to manage Taiwan's relations with Japan, with the Association of East Asian Relations, to reassure mainland China that Taiwan's diplomatic relations with Japan were informal.¹⁰⁵ On the other hand, Ma looked to build a stronger relationship with Japan by developing Taiwan–Japan tourism and eased tensions concerning the Senkaku/Daiyou dispute by signing a fisheries agreement with Japan.¹⁰⁶ Business ties also gained ground with the signing of a bilateral investment agreement that could provide the foundations for a de facto FTA.¹⁰⁷ In addition, the Taiwanese government and society stood by Japan following the triple disaster of March 11, 2011, when the Tohoku region of Japan was hit by an earthquake, a tsunami, and the Fukushima nuclear disaster, donating over US\$ 200 million by mid-May 2011.¹⁰⁸

Building on Ma's positive efforts, both the Abe Shinzō administration and Tsai began developing stronger ties prior to the Taiwanese presidential election. The first signs of this came when Tsai visited Japan in fall 2015 to

102. Kawakami, "Nichitai Keizai": 24.

103. Kawakami, "Nichitai Keizai": 25–26; Eurotrade, "Taiwan, Japan to Jointly Help SMEs Tap Southeast Asian Market," February 12, 2018, <ETmag.com>.

104. Takeuchi, "Tsai Ing-wen seiken": 190–91.

105. Yanan He, "Identity Politics and Foreign Policy: Taiwan's Relations with China and Japan, 1895–2012," *Political Science Quarterly* 129:3 (2014): 496.

106. Lauren Dickey, "Taiwan-Japan Ties Deepen amid Chinese Assertiveness," *China Brief* 16(16), October 26, 2016: 9–10, <<https://jamestown.org/program/taiwan-japan-ties-deepen-amid-chinese-assertiveness/>>.

107. Madoka Fukuda, "Japan-China-Taiwan Relations after Taiwan's Sunflower Movement," *Asia-Pacific Bulletin* 264 (2014).

108. Niwa, "Shinkasuru Nichitaikankei": 120.

meet key Japanese officials, including Prime Minister Abe himself.¹⁰⁹ Then, to congratulate her on her electoral victory and employing language usually reserved for Japan's alliance partners, Foreign Minister Kishida Fumio stated, "Taiwan is an important partner and a precious friend of Japan. We share basic values and enjoy a close economic relationship and people-to-people exchange. The government of Japan will work toward deepening cooperation and exchanges between Japan and Taiwan."¹¹⁰ Abe endorsed Kishida's statement, praising the "freedom and democracy of Taiwan" and signaling to China that he would strengthen relations with Taiwan in the face of perceived Chinese assertiveness in the South and East China Seas.¹¹¹ Tsai responded to Abe by stating Taiwan's intention to cooperate with Japan in the economic, security, and cultural fields.¹¹² The mention of security cooperation was particularly noteworthy in light of Taiwan's souring relationship with China.

In late 2016, Tsai's budding cooperation with Japan began to play a larger role in the execution of the NSP.¹¹³ This became clear following Japan's renaming of the Interchange Association, which coordinates Japan's diplomatic relations with Taiwan, as the Japan-Taiwan Exchange Association.¹¹⁴ When Tsai met with Tanizaki Yasuaki, the new president of the association, in August 2017, she used the opportunity to re-emphasize the security links with Japan by praising Japan's contribution to regional peace and stability.¹¹⁵ The secretary-general of the Taiwan-Japan Relations Association, Chang Shu-ling, thought Tanizaki's Southeast Asia experience, as a former ambassador to Indonesia, would be useful in helping Taiwan develop its NSP with Japan.¹¹⁶

By early 2017, officials on both sides moved to enhance the relationship due to the changing nature of the global political economy with President

109. Dickey, "Taiwan-Japan Ties": 10; Tor Ching Li, "Japan, Taiwan Poised for New Era in Ties," *Straits Times*, May 3, 2016, <<http://www.straitstimes.com/asia/east-asia/japan-taiwan-poised-for-new-era-in-ties>>; Chen, "Japan's Practical Taiwan Policy."

110. Okada, "Heiwa to anteï": 279–80.

111. Li, "Taiwan."

112. Okada, "Heiwa to anteï": 280.

113. Wu, "Jianshi Taiwan": 135.

114. "Editorial: Filling the TPP Vacuum," *Taipei Times*, April 2, 2017, <<http://www.taipetitimes.com/News/editorials/archives/2017/04/02/2003667906>>, accessed May 5, 2017.

115. "Taiwan Committed to Boosting Ties, Economic Collaboration with Japan," *Taiwan Today*, August 25, 2017, <<http://taiwantoday.tw/news.php?unit=2,6,10,15,18&post=120524>>.

116. Elaine Hou, "New President of Japan-Taiwan Exchange Association to Visit Taiwan," Central News Agency, August 1, 2017.

Trump's withdrawal from the TPP and in response to increasing calls for infrastructure projects from India and Indochina.¹¹⁷ Japan was also increasingly being seen by many in Taiwan as a means of countering Chinese pressure directed at the NSP.¹¹⁸ Certainly, it has proved easier for Taiwanese officials to advance the agenda of the NSP with Japan, as Southeast Asian states could frame such efforts in terms of international cooperation rather than engagement with Taiwan.¹¹⁹ One area where experts argued that Japan could cooperate with Taiwan was on the development of high-speed rail projects in South and Southeast Asia.¹²⁰ High-speed rail was an example given by James Huang, then head of the Southbound Policy Office, of where Chinese and Taiwanese firms were looking to cooperate.¹²¹ Similarly, a Taiwanese delegation from the Ministry of Economic Affairs to Japan in August 2017 looked to connect Taiwanese firms with Toshiba's Southeast Asian supply chains as part of the NSP.¹²² In January 2017, Vice President Chen Chien-jen met with a Japanese parliamentary delegation and floated the idea of Taiwan signing an economic cooperation agreement with Japan, as well as enhancing business collaboration in South and Southeast Asia.¹²³ In March 2017, the Taiwan External Trade Development Council (TAITRA) and the Japan External Trade Organization cemented cooperative efforts designed to expand business opportunities in Southeast Asia,¹²⁴ and Taiwanese and Japanese companies began to cooperate on large infrastructure projects and manufacturing.¹²⁵ In May, Japanese and Taiwanese car manufacturers began negotiations on jointly realizing their business

117. Taiwanese academic A interview, May 11, 2017, Taipei.

118. Guo, "New Strategies"; chairman interview; Taiwanese academic B interview.

119. Taiwanese academic B interview.

120. Taiwanese academic A interview.

121. Xueying Li, "Taiwan's Southbound Policy Is 'Purely Economics'," *Straits Times*, June 9, 2016, <<http://www.straitstimes.com/asia/east-asia/taiwans-southbound-policy-is-purely-economics>>, accessed May 10, 2017.

122. Frances Huang and Liao Yu-yang, "Delegation to Japan Expected to Sign NT\$8 Billion in Deals," Central News Agency, August 8, 2017.

123. Shu-hua Lee and Romulo Huang, "Taiwan Looks to Work with Japan in Developing Overseas Markets," *Focus Taiwan*, January 17, 2017, <<http://focustaiwan.tw/search/201701170026.aspx>>, accessed May 9, 2017.

124. Lauly Li, "TAITRA Eyes Southeast Asian Nations," *Taipei Times*, March 8, 2017, <<http://www.taipetimes.com/News/biz/archives/2017/03/08/2003666319>>, accessed May 5, 2017.

125. Taiwanese government official B interview.

interests in the Indonesian market,¹²⁶ and in early June, Japanese and Taiwanese firms agreed to combine their efforts to develop the Internet of Things in Southeast Asia.¹²⁷

These burgeoning economic ventures have been further strengthened by political ties. In March 2017, Tsai emphasized the need to improve relations with Japan, a sentiment that Abe echoed two days later, following a visit by Akama Jiro, Japan's deputy minister of internal affairs and communications, to Taiwan.¹²⁸ Akama's trip was the highest-ranking visit by a Japanese government official since Japan broke off relations with Taiwan in 1972.¹²⁹ Tsai reiterated her desire for Japan to participate in the NSP when hosting Takinami Hirofumi, a Liberal Democratic Party member of Japan's House of Councillors, in late December 2017.¹³⁰

Concerned by this evidence of Taiwan–Japan rapprochement, Ma Xiaoguang, spokesperson for China's Taiwan Affairs Office, slammed Akama's visit as “a severe breach of the spirit of the Four Political Documents between China and Japan.”¹³¹ Chinese Foreign Ministry spokesperson Hua Chunying summed up Beijing's view of Japan's improving relations with Taiwan by stating, “Since the beginning of this year, Japan has said it respects its promises on the Taiwan situation, but in fact has been acting provocative, which has caused severe disturbance to the improvement of Sino-Japanese ties.”¹³² According to mainland scholars, Tsai's NSP was merely a facet of Taiwan's regional strategy to align itself with the US and its allies to contain China.¹³³ For example, mainland scholars pointed to what they perceived as Taiwan's support for the US, Japanese, and Southeast Asian stances in the South China Sea disputes, based on statements like Vice President Chen's opening

126. Kai-hsiang Yang and Frances Huang, “Taiwan, Japan Car Makers to Cooperate to Penetrate Indonesia Market,” Central News Agency, May 13, 2017.

127. Frances Huang and Huang Li-yun, “Taiwan, Japan to Jointly Develop IoT as ‘Southbound’ Policy Proceeds,” Central News Agency, June 3, 2017.

128. *Taipei Times*, “Editorial.”

129. Chen, “Japan's Practical Taiwan Policy.”

130. “President Tsai Calls for Expanded Collaboration with Japan,” *Taiwan News*, December 27, 2017, <<https://www.taiwannews.com.tw/en/news/3329222>>, accessed April 3, 2018.

131. *Taipei Times*, “Editorial.” The four documents are the China-Japan Joint Statement of 1972, the China-Japan Treaty of Peace and Friendship of 1978, the China-Japan Joint Declaration of 1998, and the “Mutually Beneficial Relationship Based on Common Strategic Interests” of 2008.

132. Chen, “Japan's Practical Taiwan Policy.”

133. Shi, “Taiwan ‘xin nanxiang zhengce’”: 81.

remarks at the Taiwan–US–Japan Trilateral Security Dialogue in December 2017.¹³⁴ Again, beyond verbal condemnations, there was little Beijing could do to prevent the warming Taiwan–Japan relationship, and by ratcheting up pressure on Tsai, it arguably bore some of the responsibility for Taiwan's rapprochement with Japan.

Chinese concerns about Taiwan's developing relations with Japan have been compounded by the US-and-Japan-led vision of establishing an Indo-Pacific region. The Indo-Pacific region concept echoes Japanese foreign policy proposals, such as the "democratic security diamond" and the "arc of freedom and prosperity," aiming to unite the US, Japan, Australia, and India in upholding order throughout East, Southeast, and South Asia. It is perceived by Beijing as an attempt to encircle and contain China. In March 2018, Taiwan's deputy minister of foreign affairs, Wu Chih-chung, restated Taiwan's support for the Indo-Pacific concept, adding that Taiwan had "been active and effective in developing new forms of cooperation and exchange with neighbouring countries through the NSP, showing that Taiwan is willing and able to contribute to regional peace and stability."¹³⁵ And in an interview with Singapore's *Straits Times* newspaper, US Deputy Assistant Secretary of State Alex Wong recognized Taiwan's NSP as a contribution to President Trump's "free and open Indo-Pacific" strategy.¹³⁶ Tsai's NSP has therefore been incorporated into the rhetoric of the Indo-Pacific concept, indicating a shift away from earlier denials that the policy was political and aimed at countering China.

CONCLUSION

For a quarter of a century, successive Taiwanese governments tried to diversify the Taiwanese economy away from its reliance on mainland China. Though these attempts did not succeed, the economic and political logic

134. Liu, "Cai Yingwen": 32; Joseph Yeh, "Taiwan Supports U.S. Indo-Pacific Strategy and Japan-Led CPTPP," Central News Agency, December 13, 2017. It should be noted that Taiwan's stance on the South China Sea disputes does differ from these other states. For an introduction, see Bill Hayton, *The South China Sea: The Struggle for Power in Asia* (New Haven, CT: Yale University Press, 2014).

135. Shelley Shan, "Taiwan Backs US-Japan Strategy: Official," *Taipei Times*, March 12, 2018, <<http://www.taipetimes.com/News/taiwan/archives/2018/03/12/2003689130>>, accessed April 3, 2018.

136. Ravi Velloor, "Asean Is Fulcrum of Indo-Pacific Strategy: US," *Straits Times*, March 17, 2018.

of diversification was always sound. With China's economy slowing as South and Southeast Asian economies record year-on-year growth, President Tsai's New Southbound Policy builds on a firmer foundation than its predecessors. In these circumstances, it is natural for the Tsai administration to support Taiwanese businesses as they invest in South and Southeast Asia by developing bilateral investment agreements and bolstering cooperation among businesses. The NSP goes further than its predecessors by also forging people-to-people links through educational and cultural exchanges, as well as tourism. In this sense, the policy focuses on a long-term strategy to reorient the Taiwanese economy toward South and Southeast Asia.

Alarmed by this reorientation of the Taiwanese economy, the Chinese government has openly criticized Tsai's NSP and prevented the Taiwanese government from participating in the BRI and from signing FTAs with South and Southeast Asian states. China's actions have raised concerns in Taiwan that the NSP is destined to fail unless Tsai improves cross-Strait relations by endorsing the 1992 Consensus. Though better cross-Strait relations would engender a more positive climate in which Taiwan develops its relations with South and Southeast Asian states, it is unlikely that China would endorse the NSP or support Taiwan's signing new or joining existing FTAs in the region, regardless. Even under Ma Ying-jeou's presidency, the Chinese authorities only allowed Taiwan to sign FTAs with New Zealand and Singapore, two open economies with low tariff barriers. Beijing was quick to quash potentially more substantial FTAs, such as with Malaysia in 2014. The existing FTAs in East Asia are also weak, and many multinational corporations bypass their complex rules of origin.

Beyond preventing Taiwan from participating in the BRI or signing FTAs, it is doubtful how much Chinese pressure can achieve with respect to the NSP. On the other hand, pressuring Taiwan could have adverse effects for China. First, China is forgoing the potential economic benefits of combining the BRI and the NSP. Second, as opportunities to cooperate with China have dried up, the Taiwanese government has increasingly looked to Japan to realize the NSP. Third, Chinese pressure provides DPP members with potential political victories at home as they juxtapose the NSP with the KMT's willingness to work with the mainland.

Ultimately, Beijing needs to engage Taiwan more effectively. Even if the DPP stumbles in the next elections, Tsai is unlikely to be the last DPP president, and the mainland will need to develop a more effective Taiwan

strategy for the long term. Stubbornly insisting on the 1992 Consensus may see Chinese firms losing out to rivals from across the region and beyond. At the same time, the Tsai administration needs to take more care with how its actions will be perceived in Beijing. The most glaring example of this was Tsai's phone call to President Trump following his election victory. On both sides of the Taiwan Strait, more could be done to ensure stable relations.