EXPLORING THE INTERPLAY BETWEEN TRADE AND INDUSTRIAL POLICIES AND THE IMPACT OF GEOPOLITICS ON THE TRANSFORMATION OF TAIWAN’S ECONOMY

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Abstract:
Over the past five decades, Taiwan's economy has shifted from inward-oriented to outward-oriented, from an import-substitution policy to an export-expansion policy. This evolution in economic structure has also brought about changes in the industrial landscape. While there is an ongoing debate about the respective roles of the market and the government in promoting Taiwan's economic growth, this article argues that the history of Taiwan's economy demonstrates a mutually beneficial relationship between trade and industrial policies. The integration of market forces and government intervention has played a crucial role in Taiwan's economic success story. However, the dynamics between the United States and China, as well as the emergence of new Asian regionalism, pose challenges to Taiwanese industries and enterprises. In conclusion, this article emphasises the importance of refining trade and industrial policies in line with the geopolitical context in order to maintain the momentum of Taiwan's economy.

Key Words: Taiwan’s economic miracle, trade dependency, the US-China dynamic relations, Asian regionalism, new southbound policy

Resumen:
En las últimas cinco décadas, la economía de Taiwán ha pasado de orientarse hacia el interior a orientarse hacia el exterior, de una política de sustitución de importaciones a otra de expansión de las exportaciones. Esta evolución de la estructura económica también ha provocado cambios en el panorama industrial. Aunque existe un debate en curso sobre los papeles respectivos del mercado y el gobierno en la promoción del crecimiento económico de Taiwán, este artículo sostiene que la historia de la economía taiwanesa demuestra una relación mutuamente beneficiosa entre las políticas comerciales e industriales. La integración de las fuerzas del mercado y la intervención gubernamental ha desempeñado un papel crucial en el éxito económico de Taiwán. Sin embargo, la dinámica entre Estados Unidos y China, así como la aparición del nuevo regionalismo asiático, plantean retos a las industrias y empresas taiwanesas. En conclusión, este artículo subraya la importancia de perfeccionar las políticas comerciales e industriales en consonancia con el contexto geopolítico para mantener el impulso de la economía taiwanesa.

Palabras Clave: El milagro económico de Taiwán, dependencia comercial, relaciones entre EE.UU. y China, regionalismo asiático, nueva política hacia el Sur

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1. Introduction

Since the Kuomintang (KMT) retreated to Taiwan from mainland China in the 1950s, Taiwan's economy has enjoyed steady prosperity, earning it the title of an economic miracle as one of Asia's Four Tigers. Despite its limited natural resources, Taiwan has become a major global supplier of information and communication technology (ICT) products. In particular, the semiconductor industry and advanced manufacturing capabilities not only give Taiwan a competitive edge in exporting products, but also play a pivotal role in the geopolitical tensions in the Asia-Pacific region, mainly caused by the trade war between the United States and China.

Experts and economists have studied Taiwan's economic growth from different theoretical perspectives. Alice Amsden, for example, argues that although market openness and export-oriented economy drive Taiwan's economy, neoclassical theory and dependency theory cannot fully explain Taiwan's economic miracle. The former focuses more on market functioning and liberal economic policies, while the latter wrongly places Taiwan's economy in a peripheral context, particularly dependent on the US market. Pekka Korhonen examines the interpretative power of the flying geese development theory, originally proposed by Kaname Akamatsu in the 1930s, on Asian economies. Korhonen suggests that while Japan's influence on Taiwan's economy was significant during the World War II period (also known as the colonial period in Taiwan), it did not persist in the post-war period. Amidst various theoretical analyses, these discussions highlight several vital elements essential to Taiwan's economic structure, including market openness, an export-oriented pattern, and liberal economic reforms.

However, since Taiwan acceded to the World Trade Organization (WTO) in 2002, the international trade and economic landscape and international relations have undergone significant changes. For instance, The Economist expanded on Korhonen's study to propose an X theory, arguing the diminishing influence of Japan on Asian economies. This theory is supported by the economic performance of Singapore, Hong Kong, and Taiwan, which surpassed Japan in the early 1990s and the 2010s, respectively. Instead, the Sino-American rivalry seems to have paved the way for Japan to regain its reputation as a big player in the Asia-Pacific region. This is evident through the expansion of Japan's former minister Abe's Indo-Pacific strategic approach worldwide and Japan’s cooperation with the United States to form the Chip 4 alliance. Furthermore, the global economy is facing challenges of the global public health emergency, accelerated economic nationalism, regional conflicts, an ineffective WTO dispute settlement mechanism, and stagnant negotiations and reforms of the multilateral trading system.

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2 The author thanks Luo Fang-Hong and Qiu Yun-Ting for their research assistance.
4 Ibid., pp. 341-380.
8 Lewis, Leo and Inagaki, Kana: “Global chipmakers to expand in Japan as tech decoupling accelerates”, Financial Times, 18 May 2023, at https://www.ft.com/content/5b36a5ca-4175-428a-93ed-b5e4c3b9eae1.
9 As United States Trade Representative Katherine Tai said in the 2023 APEC Ministers Responsible for Trade Meeting, “We meet at a time of shared uncertainty and challenges in the global economy. These challenges were exacerbated through the pandemic and increasing geopolitical tensions that we see today”. APEC: “Ambassador
These factors, combined with the intensifying geopolitics and unstable international relations, have resulted in a restructuring of the global economy, shifting from rule-based globalization towards regional alliances driven by top-down regionalism. Given the evolving global economic and regional landscape, this article aims to contribute to the existing studies on Taiwan's experiences of economic transformation and export-led growth through a double-layered analysis. Specifically, the first-layer of analysis focuses on the interaction between trade and industrial policies to make Taiwan’s economy adapted to the global environment. The second-layer of analysis concentrates on Taiwan's relationships with the United States and China that affects its trade policy to transform from multilateralism to regionalism.

Accordingly, Section 2 provides an overview of the growth phases in Taiwan's economy, spanning from the 1950s to the 2020s. This section aims to examine the changes in Taiwan's economic structure, with a specific focus on how the Taiwanese government responded to the evolving global economy through trade and industrial policies and drove economic reform and industrial transformation. Section 3 aims to transcend the debate regarding the pivotal factor behind Taiwan's economic miracle: the government or the market. Instead, it analyzes the interplay between trade and industry policies, which have sustained Taiwan's economic momentum. It argues for a circular relationship between trade and industry policy, which represents the complementary power between the market and the government in promoting an emerging economy.

Moving to Section 4, the focus shifts to the dynamic relationship between the United States and China and its impact on Taiwan's trade structure, relying on a triangular trade relation between Taiwan, the US, and China. Considering that the US-China dynamic relation holds central importance in the geopolitics of the Asia Pacific region, this section also examines Taiwan's Southbound Policy. It explores how this policy aims to strengthen connections with Asia Pacific economies and its political implications within the new regional landscape of Indo-Pacific Cooperation. In conclusion, this article emphasizes the uniqueness of Taiwan's economic performance. The global and regional landscape that Taiwan's economy confronted also indicates that the dynamic geopolitics and regionalism have made trade and industry policies part of a state's political responses to international relations.

2. The progress and transformation of Taiwan’s economy from the 1950s to 2010s

2.1. 1950s-1960s: Shifting from an inward-oriented to export-oriented economy

When the Kuomintang (KMT) arrived in Taiwan between 1949 and 1950, Taiwan's economy was inward-oriented. The society of Taiwan was in post-war period. At that time, the economic structure primarily relied on agriculture and infant industries. The concentration of agricultural land in the hands of a small group of landlords meant that not only were rents exorbitant, but the rights and welfare of tenants were neglected. As a result, the KMT government sought to address this problem through the "Green Revolution", a series of policy reforms designed to redistribute agricultural property rights and ultimately achieve the goal of redistributing land to farmers. Moreover, they introduced the "Industrial Development of Agriculture" policy to enhance farming techniques and increase the productivity of processed agricultural goods. Additionally, the production of industrial goods primarily aimed to meet domestic demand to substitute imports. Most of these industries are low-capital and labor-intensive, meeting people's daily needs. Furthermore, due to limited resources and foreign exchange, the
government enforced strict controls on foreign exchange, trade, material distribution and production\textsuperscript{12}.

By the late 1950s, import substitution policies and foreign exchange controls had led to significant challenges, including overcapacity, inefficiency and monopolistic practices. As a result, the Taiwanese government made crucial adjustments to its economic policies, shifting to an export-oriented approach and encouraging investment to ensure sustainable growth in domestic industries\textsuperscript{13}. The implementation of an export expansion policy marked the beginning of Taiwan's industrialization with a focus on export-oriented industries.

Accordingly, Taiwan experienced significant economic growth in the post-war period, characterized by a transition from import substitution to the expansion of labor-intensive manufacturing through exports\textsuperscript{14}. Nevertheless, this economic transformation heavily depended on trade and industrial policies as crucial drivers.

Specifically, to implement the import substitution policy, the Taiwanese government implemented trade control measures to facilitate the growth of the domestic labor-intensive consumer goods industries and satisfy domestic market demands. These measures included the imposition of high tariffs and quantitative restrictions on imports and the introduction of an import licensing system\textsuperscript{15}.

While the Taiwanese government-imposed restrictions on the import of consumer goods related to people's livelihood, it did not enforce a complete ban on imports and exports. Instead, the government, in conjunction with US aid, facilitated the import of raw materials and equipment essential to the development of the emerging industries it supported. With the support of imported resources and government subsidies, infant industries such as rubber, steel and cement, electrical machinery and textiles were strengthened, ultimately laying the foundations for the subsequent phase of export expansion\textsuperscript{16}.

The shifting toward an export-oriented policy led the Taiwanese government to implement a series of trade policy reforms in 1958.\textsuperscript{17} First, the government eased import and foreign exchange restrictions, expanded the scope of export tax rebates and simplified export procedures. Secondly, it introduced the "Investment Incentive Act" 《奬勵投資條例》 to enhance the investment environment for private enterprises. Meanwhile, the "Act for the Establishment and Administration of Export Processing Zones" 《加工出口區設置管理條例》 was formulated to provide manufacturers within the zones with more favorable treatments and privileges than that provided by the "Investment Incentive Act" to promote exportation\textsuperscript{18}. In 1966, the first zone was established in the southern port city of Kaohsiung.


\textsuperscript{14} See Amsden, op. cit., p. 364.


\textsuperscript{17} See Duong, op. cit., p. 39.

Export Processing Zones (EPZ) had the hybrid function of free trade zone and industrial park to provide a one-stop service for tax concessions, customs clearance and land only renting\textsuperscript{19}. The tax incentives are even better than that of the Investment Incentive Act. Because of the benefits and privileges, the Exporting Processing Zones became the major force in Taiwan’s economy and drove the development of labor-using and high-value-added industries such as plastic products and electronics\textsuperscript{20}.

2.2. 1970s-1980s: Industrial reforms and progressing towards economic liberalization

The export expansion policy, introduced in the 1960s, fostered Taiwan's industrialization and economic growth. However, the international economy and Taiwan's foreign policy faced significant challenges during this period, including the Middle East war in 1973 and the Oil Crisis in 1979, to stimulate the rising protectionism and global recession, and the severance of Taiwan-US diplomatic relations resulting in decreased US aid. These challenges had adverse effects, leading to a decline in domestic investment, widespread inflation, and necessitating the government to move the economic drivers back to enhancing domestic productivity as a substitution for imports\textsuperscript{21}.

In contrast to the import substitution policy of the 1950s, the Taiwanese government adopted a different approach by striving to balance inward and outward development. This shift in strategy promoted industries more aligned with international markets and opened opportunities for economic expansion\textsuperscript{22}.

Given the rapid industrial development, the Taiwanese government initiated the "Ten Major Development Projects"(十大建設) to enhance infrastructure and critical resources. These projects encompassed six transportation-related initiatives, three heavy-industry-related endeavors, and one energy project. The aim of these projects was to support and facilitate the growing needs of Taiwan's industrial sector. In the 1980s, an additional long-term development project was introduced known as the “Twelve Development Projects” (十二大建設). This initiative broadened the focus to encompass improvements in agricultural and cultural infrastructure.

The Ten Major Development Projects stand as the initial large-scale infrastructure undertakings that laid the groundwork for Taiwan's transformation into a Newly Industrialized Economy. Continuing the efforts of export expansion policy in the 1960s, the core industries being concentrated under the Ten Major Development Projects were mainly heavy industries such as petro-chemicals, steel, machinery and electronics\textsuperscript{23}. A difference from the export expansion policy is that it prioritized the creation and expansion of state-owned enterprises than encouraging the engagement of private enterprises and foreign investment\textsuperscript{24}. For instance, the China Petrochemical Development Cooperation and Chung-Tai Chemicals were new state-owned enterprises created in this period.

The labor-intensive and export-oriented industrial structure then was reviewed by the Taiwanese government due to increased protectionism measures by other states, higher

\footnotesize{\textsuperscript{19} Export Processing Zone Administration, Origin, at https://www.epza.gov.tw/english/page.aspx?pageid=ce7b2de9e958965c.}  
\footnotesize{21 See Chen, op. cit., pp. 188-189.}  
\footnotesize{22 See Duong, op. cit., pp. 44-45.}  
\footnotesize{24 See Perkins and Tang, op. cit., p. 187; Cheng, op. cit., p. 30.}
production costs and diminishing labor capital\textsuperscript{25}. To maintain the competitive advantage of Taiwan, the government decided to transform industrial structure towards technology-intensive and high added-value industries. Sectors such as machinery, information technology, computers, and chemical fibers were selected as the "strategic industries" in the 1980s\textsuperscript{26}. To support the development of these technology-intensive industries, the Taiwanese government established the Industrial Technology Research Institute (ITRI) in 1973 to serve as a hub for technology research and development and created science-based industrial park to house new enterprises of the information industry\textsuperscript{27}.

The changing global economy not only fostered the progress of industrialization but also motivated the economic reform toward liberalization.

In the early 1980s, Taiwan experienced a surge in trade surplus, which led to the rapid accumulation of foreign exchange reserves. However, the long-term trade surplus between Taiwan and its leading trade partner, the United States, made it face rising pressures from the United States government on market openness. Moreover, the continuous expansive trade surplus caused the supply of foreign exchange to exceed the demand and then put pressure on the appreciation of the NTD (New Taiwan Dollar) and contributed to inflation. Also, the rising labor cost diminished demographic advantages. These factors finally eroded the competitiveness of Taiwan's exports, especially those of labor-intensive industries. Under the political and economic pressures, the Taiwanese government eventually shifted the economic policy ideology from the US-dependency to access to the global market\textsuperscript{28}.

In 1984, the Taiwanese government announced the adoption of a trade policy based on three principles: liberalisation, internationalisation and institutionalisation. Liberalisation refers to the removal of government control, reduction of government intervention and allowing economic activities to be driven by the market mechanism; internationalisation refers to the free flow of goods, services, capital and technology across borders; institutionalization refers to the improvement of domestic laws and regulations to establish a rule-based system to facilitate globalization and internationalization. Under the three principles of economic liberalization, specific trade measures included the reduction of tariffs and import restrictions. For example, in 1981, the average nominal tariff rate was first reduced from 39.14\% to 31.17\%, covering at least 1,604 products. Subsequent tariff reductions in 1987 and 1989 further reduced the average nominal tariff rate to 9.65\%\textsuperscript{29}.

To bolster the rule-based trading system, the Taiwanese government introduced amendments to the "Trade Act," delineating essential principles and regulations pertaining to exports and imports. These amendments encompassed the establishment of trade remedies and a declaration of commitment to uphold the principles of fair and free trade advocated by international organizations. Furthermore, part of the economic liberalization reform involved expanding opportunities for foreign investment in sectors that were previously regulated such as banking, securities and airline, privatizing state-owned enterprises and liberalizing foreign exchange\textsuperscript{30}.

\textsuperscript{25} See Cheng, \textit{op. cit.}, p. 30.
\textsuperscript{26} See Duong, \textit{op. cit.}, p. 44; Wu, \textit{op. cit.}, p. 32.
\textsuperscript{27} See Cheng, \textit{op. cit.}, pp. 32-33; Wang and Chiu, \textit{op. cit.}, p. 64.
\textsuperscript{28} See Perkins and Tang, \textit{op. cit.}, p. 189; Cheng, \textit{op. cit.}, p. 34.
\textsuperscript{29} See Chen, \textit{op. cit.}, p. 191.
\textsuperscript{30} See Chen, \textit{op. cit.}, pp. 191-196.
2.3. 1990s-2000s: Access to the global market and refine economic structure and regulation in line with WTO rules

The industrial and economic reforms initiated in the 1980s led the booming Information Technology industry and significantly contributed to Taiwan’s exports. The value of the IT industry in 1986 stood at a mere $2.1 billion. By 1992, it experienced a substantial increase, reaching $9.4 billion, and continued the upward growth to reaching an impressive $47 billion by 2000. Throughout the period from 1986 to 2000, the IT industry demonstrated an average growth rate of 26 percent.\(^{31}\)

However, the increased competitiveness of IT products in the global market forced Taiwanese enterprises to explore new market and search new investment place to reduce manufacturing costs.\(^{32}\) Industrial demands explain two advances in Taiwan's economic growth in the 1990s and 2000s. These are closer ties with mainland China and membership of the World Trade Organization (WTO).

First, the advancement of cross-strait relations was a consequence of policy reforms undertaken by both governments. On the one side, the Taiwanese government adopted measures in 1987, such as the relaxation of foreign exchange controls and the lifting of Martial Order, which enabled Taiwanese people to visit mainland China. Simultaneously, the Chinese government extended its open-door policy to Taiwan.\(^{33}\) It initially introduced the "Regulations on Encouraging Investment from Taiwan Compatriots" in 1988 to create incentives for Taiwanese enterprises to shift their productivity centers to China. Furthermore, the Chinese government introduced the "Taiwan Businessmen Investment Protection Law" in 1994 to enhance the investment environment for Taiwanese enterprises, providing a comprehensive and delicate arrangement of rights and protection to Taiwanese businesses in line with its One-China principle.\(^{34}\)

Taiwan's outward investment in China primarily targeted labor-intensive industries, resulting in a significant inflow of machinery, equipment and raw materials, and a rapid expansion of cross-strait trade. These products are processed and assembled in China before being exported to the United States. This pattern resembles the early stages of Taiwan's economy, which relied heavily on US investment and factories established in Taiwan. In addition, Taiwan's dependence on the United States and Japan since the 1906s, which formed a Japan-Taiwan-US triangular trade structure, has also been replaced by a new triangular trade structure.


\(^{32}\) According to official surveys conducted between 1996 and 2002, Taiwanese enterprises identified the availability of "cheap and abundant labor" as the primary reason (59-64 percent) for engaging in outward investment in the IT industry. The second major factor (51-64 percent) was the appeal of a "potential huge local market." Further analysis reveals that when specifically targeting outward investment in China, a significant majority (72-74 percent) of Taiwanese businesses chose "cheap and abundant labor" as the primary reason for their investments, followed closely by the factor of a "potential local market" (49-66 percent). See Tung, op. cit., p. 85.


structure, namely the Taiwan-China-US trade dynamic\textsuperscript{35}. The evolution of Taiwan's trade structure is evident in the following data: In 2000, the proportion of Taiwan's exports to China increased from 23.4\% in 1998 to 24.4\%, surpassing the proportion of exports to the United States (23.4\%) for the first time. Subsequently, there has been a consistent upward trend in the proportion of Taiwan's exports to China, reaching 41.1\% by 2009. Conversely, exports to the United States are downward, dropping to 11.6\% by 2009\textsuperscript{36}.

The economic reform and open-door policy not only boosted China’s economy but also led China becoming the world factory and welcomed the Chinese century\textsuperscript{37}. Investments from Taiwanese enterprises are also crucial to building China as the global factory\textsuperscript{38}. However, the closer economic ties between China and Taiwan led to another wave of economic dependency and raised the issue of the hollowing out of Taiwan's manufacturing industries in the 2010s.

The 1990s and 2000s saw another significant change for Taiwan: its membership of the WTO. As noted above, the Taiwanese government initiated liberal economic reforms in the 1980s, driven by the core ideology of joining the international trading system and accessing the global market. During this period, however, Taiwan was not a member of any regional or international trade organization.

The desire to engage with the international trading system motivated the Taiwanese government to seek membership of the Asia-Pacific Economic Cooperation (APEC) and the General Agreement on Tariffs and Trade (GATT) in the 1990s\textsuperscript{39}. Despite Taiwan's remarkable economic growth and its reputation as one of the four Asian Tigers, its economic performance alone could not guarantee its membership in these organizations, as is usually the case with sovereign states. Taiwan's politically contentious status led the government to focus primarily on membership of APEC and GATT, as these two organizations do not limit their membership exclusively to sovereign states. As a sui generis entity, the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu (TPKM) was used to apply for GATT membership in 1990, while the name Chinese Taipei was used to apply for APEC membership in 1991. Although Taiwan successfully obtained APEC membership in 1992, it took more than twelve years to secure GATT/WTO membership. This lengthy process was mainly due to a political arrangement aimed at accommodating China's one-China principle and avoiding political controversy in Geneva. As a result, Taiwan's membership had to come after China's concession to the WTO\textsuperscript{40}.

WTO membership has several implications for Taiwan's international trade. First, Taiwan can enjoy equal status with other 143 WTO members and ensure fair and equitable treatment


\textsuperscript{36} Chen, Mei-Ju and Li, Shu-Li: “Quanqiu Jingi Weiji Dui Taiwan Maoji zhi Yingxiang ji Duice” (The Impact of the Global Economic Crisis on Taiwan's Trade and the Countermeasures), Economic Research, Vol. 10 (April 2010), p. 286.


\textsuperscript{38} For instance, from 1999 to 2001, Taiwanese enterprises contributed to approximately 60-70 percent of China's IT hardware production and accounting for no less than 60-70 percent of China's IT hardware exports.


\textsuperscript{40} Liu, Han-Wei: “An Entity Sui Generis in the WTO: Taiwan's WTO Membership and Its Trade Law Regime”, Journal Int’l Com. L &Tech., nº 4, pp. 252, 254.
in economic and trade matters. This allows Taiwan to provide a more stable and predictable international environment for Taiwanese businesses. Second, Taiwan can actively participate in the rule-making process of international economic and trade norms, promote economic and trade liberalization with members, and safeguard its trade interests. Finally, by using the WTO's dispute settlement mechanism, Taiwan can effectively resolve trade disputes with other members in a rules-based, transparent and predictable manner. This provides Taiwan with a means to seek resolution and fair outcomes when faced with such challenges.

In addition, WTO membership gives Taiwanese products the opportunity to access a market of 143 WTO members. This not only benefits the export of Taiwanese products with competitive advantages, but also provides more choices for Taiwanese consumers. As consumers prefer product differentiation and scrutinize quality and price, enterprises will strive to provide higher quality goods and services, thereby enhancing product competitiveness, forming a virtuous circle. After joining the WTO, Taiwan experienced a remarkable surge in total exports, which increased from US$135 billion in 2002 to US$277 billion in 2010, more than doubling.

On the other hand, joining the international trading system brought challenges for certain industries. Therefore, helping Taiwanese industries to meet these challenges is becoming a central aspect of post-WTO industrial policy. Specifically, the Taiwanese government provided support for the transformation of the agricultural sector towards high technology and knowledge-based approaches. This included the promotion of strategic alliances in agriculture and the implementation of business-oriented measures to enhance the competitiveness of the agricultural industry. For labor-intensive industries such as automobiles, machinery and electronics, and home appliances, which are primarily focused on the domestic market, the Taiwanese government prioritized the implementation of measures to help small and medium-sized enterprises (SMEs) adjust and adapt to outsourcing and relocation trends. The government also enacted legislation to improve the resilience of domestic banks and enhance the competitiveness of financial institutions, thereby addressing the challenges posed by the liberalization of the banking sector.

The impact of economic liberalization and engaging in globalization promoted trade dependence in Taiwan's economy. From 1995 to 2009, Taiwan's total trade dependence increased from 55.76% in 1995 to 60.34% in 2009. The trade statistics of gross export and import showed that Taiwan's export dependence increased from 44.9% to 59.77%, while import dependence increased from 43.37% to 51.13%. In terms of value-added statistics, Taiwan's export dependence also showed an upward trend, rising from 28.65% to 34.49%; import dependence also showed a slight increase, while it fell to 25.85% in 2009 due to the financial crisis.

2.4. 2010s-2023: Economic transition 2.0 amid the rise of Asian regionalism and US-China tensions

Over the past decade, market liberalisation in the 2000s, Taiwan's accession to the WTO and closer economic ties across the Strait have led to rapid trade expansion in Taiwan.

Taiwan's total trade value has been on an upward trend since it joined the WTO, rising from around 250 billion US dollars in 2002 to 533 billion US dollars in 2010, and then reaching 907 billion US dollars in 2022. Previously, information, communication and audio-visual

41 In 2001, WTO had 143 members. Since 2016, WTO membership has been grown up to 164.
products were the main exports, but now electronic components have taken the lead, with their export share rising from 28% in 2001 to 37% in 2010 and then reaching 51% in 2022. Both information and communication products and electronic components have benefited from tariff reductions in the multilateral trading system, as Taiwan joined the WTO's Information Technology Agreement (ITA), which led to the elimination of import duties on IT products. The change in Taiwan's export structure is also indicative of the shift in its industrial structure towards the upstream sector. The second industrial transformation, focusing on high value-added and advanced manufacturing, is also motivated by the increased investment and trade relations between Taiwan and China.

However, increased trade dependence and growing reliance on the Chinese market also expose Taiwan's economy to greater vulnerability and instability, particularly in the face of stagnation in the multilateral trading system, unstable cross-strait relations and changing geopolitics.

During this period, Taiwan's economy has faced various challenges. These challenges include a decline in export competitiveness, global financial crises, China's shift to expanding domestic demand and the vision of "Made in China 2025", and low wages and brain drain due to stagnant economic growth. From 2008 to 2017, Taiwan's economic growth rate was 2.7%, lagging behind Singapore's 4.4% and South Korea's 3.1%. Not only has the aura of Taiwan's economic miracle faded, but its economic development has also lagged behind the other three Asian tigers, marking a significant shift in its economic situation.

In addition, former US President Donald Trump officially launched the trade and technology wars against China in 2018. The Trump administration first announced the results of the Section 301 investigation against China. The investigation found that China had violated intellectual property rights and acquired technology through illegitimate means, and accused China of engaging in economic aggression that undermined US interests. Donald Trump then directed the executive branch to impose punitive tariffs on Chinese exports to the United States, marking the beginning of the US-China trade war. China retaliated by imposing tariffs on US exports to its territory. Both sides subsequently expanded the list of products subject to additional tariffs. Even with Biden in office, the sanctions imposed by both China and the United States have not stopped.

As previously mentioned, Taiwan's trade export structure has been transformed, shifting from a triangular relationship involving the United States and Japan to a new triangular relationship between the United States and China. Given that the US and China are the two largest markets in the world, tensions between the US and China are forcing Taiwanese companies to take sides, raising production costs and exposing them to the risk of a reorganization of the global supply chain.

COVID-19 pandemic, Russia's invasion of Ukraine, and the reshoring of manufacturing industries by advanced countries have all contributed to a slowdown in global trade volume growth. In 2020, Taiwan's export dependence fell to 51.6%, a decline of 8.1 percentage points.

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over the past six years. This decline in export dependence reflects the dynamic nature of the global economic environment.

On the other side, the stagnation of multilateral negotiations and the unfunctional dispute settlement mechanism in the WTO drives the rise of regionalism to change the landscape of trade rule-making. The Doha Round was launched by the WTO to promote the development issues in 2001, but has not reached progressive outcomes in the two decades. The functioning of the WTO dispute settlement mechanism has also been hampered by the US blocking the reappointment of Appellate Body members since 2018. As Pasha L. Hsieh observed, the slow down progress of multilateral trade negotiation and the launch of the Association of Southeast Asian Nations (ASEAN) Community led the international society experiencing the third wave of regionalism. A unique of the third wave of regionalism is driven by Asia-Pacific economies. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Regional Comprehensive Economic Partnership (RCEP), both enforced, are significant outcomes of Asian regionalism. In particular, RCEP is currently the world's largest free trade area, encompassing 30% of global GDP and a consumer population of 2.2 billion people.

Given the significant economic magnitude of CPTPP and RCEP, as well as their alignment with Taiwan's key trade partners, Taiwan risks marginalization in the Asia-Pacific region as a result of its exclusion from these two major free trade agreements (FTAs) and undermines the comparative advantage of its IT products in the global high-tech industrial supply chain.

To address the new landscape of the global and regional economy, the Taiwanese government introduced an industrial transformation initiative in 2016 known as the "5+2 Industry Innovation Plan." Building on this foundation, the government has continued to advance a comprehensive plan for the "Six Core Strategic Industries" in 2020. The six core strategic industries include information and digital, information security, precision health, green power and renewable energy, national defense and strategy, people's livelihood and war readiness. The plan to promote six core strategic industries resembles Taiwan's industrial transformation 2.0 in the 21st century. It is to promote a new economic model centered on the spirit of "innovation, employment and distribution". The new economic model aims to achieve sustainable development with three thematic concepts: "connecting the future, connecting the world and connecting the local area". Through these strategies, the government has fostered an


\[49\] CPTPP was the successor of the Trans-Pacific Partnership (TPP), which began in 2010 and concluded in 2015. Besides the United States' withdrawal in 2016, it has 11 members, including Canada, Mexico, Peru, Chile, New Zealand, Australia, Brunei, Singapore, Malaysia, Vietnam, and Japan. The United Kingdom announced in March 2023 that it will complete its concession to the CPTPP soon.

\[50\] RCEP began the negotiation in 2012, led by the ASEAN, and concluded in 2022. Its members include 10 ASEAN members (Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), and five ASEAN's free trade agreement partners (Australia, China, Japan, New Zealand and the Republic of Korea). India withdrew from RCEP negotiation in 2019 and is unwilling to return yet.

\[51\] The members of CPTPP and RCEP are Taiwan's primary export markets and investment destinations. Economic and trade interactions with the 12 CPTPP members contribute to 35% of Taiwan's trade volume, while trade with the 16 RCEP members accounts for 57%.
environment conducive to industrial innovation, thereby creating momentum and vitality in the industrial sector.

Meanwhile, the Taiwanese government is shifting its trade strategy from multilateral fora to regional and bilateral engagements. In September 2021, the Taiwanese government announced that it would apply for the CPTPP, taking a significant step towards regional economic integration and the government has been actively urging CPTPP members to consider its application through the APEC forum. In addition, a milestone in Taiwan's bilateral trade negotiations was reached when the government reached an agreement with the US government to launch the US-Taiwan 21st Century Trade Initiative and formally launched negotiations in August 2022. The first agreement under this Initiative was signed in June 2023.

Unlike its rival, the Republic of Korea, which ranks among its top ten trading partners, the Taiwanese government has only signed bilateral trade agreements with China and Singapore, namely the Cross-Strait Economic Cooperation Framework Agreement (ECFA) and the Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP) in 2010 and 2013 respectively. The trade agreement with the United States therefore responds to Taiwan's need to strengthen trade relations with its major partners and maintain its competitiveness in key export-oriented industries.

3. The interaction between trade and industrial policies in Taiwan’s economic growth

This history shows that Taiwan's economic structure evolved from an inward-looking economy based primarily on agriculture and consumer goods manufacturing to an outward-looking economy driven by exports of heavy industry and electronic goods. Finally, it transformed into an export-oriented economy, embedded in the global supply chain, with liberal economic policies. The journey of economic liberalization and internationalization has positioned Taiwan as a key player in the global value chain of the information technology industry, laying the foundation for Taiwan's renowned soft power as the "Silicon Shield".

Nevertheless, there is a long-term debate regarding Taiwan's economic miracle. On the one hand, proponents of neoliberalism argue that market openness and minimal government intervention are crucial for economic growth. In this respect, the effectiveness of liberal economic policies plays a role in the success of Taiwan's economy. Developmentalists, on the other hand, emphasize the role of the state in economic development. In particular, the implementation of industrial policies demonstrates the power of the state in prioritizing the
promotion of certain industries. Consequently, they stress the importance of industrial policy in promoting economic growth in Taiwan.\(^57\)

This article seeks to transcend the ongoing debate surrounding the roles of the market and the state by asserting that liberal economic and industrial policies are not mutually exclusive or separate entities. Rather, they are complementary forces that work together to accelerate a country's economic growth. The interplay between government and the market is evident in the initiation of industrial and trade policies. Industrial policy requires strong government leadership to reallocate resources to selected industries and drive industrial reform, while trade policy aims to maximize the functioning of the market by limiting excessive government intervention. Although trade and industrial policies have different motivations and operate in different time frames, they are integral parts of a government's overall economic policy aimed at adjusting the structure of the economy and maintaining dynamism. It is therefore crucial to understand the complex ways in which these policies can be used to effectively address economic challenges.

In the 1950s and 1960s, the implementation of export control measures served as a tool to support an import-oriented economic structure and to protect emerging domestic industries. However, as industrial development progressed and the domestic market landscape evolved, the Taiwanese government recognized the need to adjust trade policy to facilitate the export of local products. During this period, trade policy acted as a complementary measure to support industrial adjustment and accommodate changing economic dynamics.

In the transition to the 1970s and 1980s, it may initially appear that liberal trade policies and industrial reforms operated in parallel without significant interactions. Trade policy seemed to respond to external political pressure from the United States and global protectionist measures, while industrial policy focused primarily on domestic economic concerns such as infrastructure projects and the selection of strategic industries.

However, the trade theory of comparative advantage suggests that liberal trade policies served as the foundation for the export of these carefully selected strategic industries and created a rule-based environment for investment in them. These industries were explicitly targeted to facilitate the transformation of the industrial structure towards high value-added and technology-intensive sectors. On the other hand, the Taiwanese government's selection of strategic industries was aimed at maintaining the country's comparative advantage in exports. Therefore, the trade and industrial policies adopted during this period were also inherently complementary, working together to facilitate Taiwan's economic development. The transformation of Taiwan's industrial and economic structure into an export-oriented one is clearly reflected in the substantial increase in the share of exports in the country's gross domestic product (GDP). This share rose from 24% in the 1970s to 49.7% in the 1980s and further to 51.4% in the 1990s.

The industrial transformation of the 1980s played a pivotal role in the development of Taiwan's IT industry and had a significant impact on the country's trade landscape. The successful outcomes of the industrial policy not only fueled Taiwan's economic growth and inspired the Taiwanese government to seek membership in regional and international economic organizations. In addition, the growing demand for outsourcing and relocation of production in traditional labor-intensive industries prompted the Taiwanese government to ease restrictions

on trade relations with mainland China. Consequently, the emergence of new industrial structures and evolving demands influenced the Taiwanese government's decision to shift the focus of its trade policy towards access to global markets and active participation in the multilateral trading system centered on the World Trade Organization (WTO).

Overall, Taiwan's economic development and transformation highlights the crucial role played by both the market and the government. The government has the authority to allocate and distribute resources to strategic industries at different stages of development. However, it is important to note that the government's policy decisions are influenced by market orientation and preferences.

The ongoing interplay between government and the market is still evident in current trade and industrial policies. Nevertheless, the theoretical basis for trade and industrial policies in the 2010s seems to be different from previous periods.

Of the six strategic industries, most are extensions and expansions of existing industries that account for a significant proportion of Taiwan's exports, such as machinery, mechanical appliances and electrical equipment. Resources will be reallocated and pooled by establishing manufacturing and research hubs and clusters for these selected industries to strengthen the industrial supply chain and broaden their application scope.

In addition, the New Southbound Policy (新南向政策), announced in 2016, aims to promote the integration of domestic industries with the markets of Southbound countries, while also enhancing Taiwan's soft power, especially its cultural and medical influence in Southeast Asian countries, to foster closer ties with these countries. In other words, the New Southbound Policy is a trade policy that the Taiwanese government adopted in response to the rise of Asian power and dependence on the United States and China. By trading with Southeast Asian countries, Taiwan can create external economies of scale for its industries and promote the diversity of foreign investments.

The interplay between trade and industrial policies during this period echoes the new trade theory advocated by Paul R. Krugman. According to this theory, international trade is a means to seek expanded market space and economies of scale for domestic industries, thereby enhancing and protecting the economic power of domestic industries rather than promoting competition. Although the policy scenario is different, from the perspective of this paper, it is clear that trade and industrial policies are complementary to maintain the momentum of Taiwan's economic growth.

4. The relationship between Taiwan, China, and the United States and the Asian regionalism in Taiwan’s economy

4.1 The dynamics between Taiwan, the United States, and China: between cooperation and confrontation


59 The analytical dimension is inspired by the study of Lee, Yen, and Yang on the origin of the US-China trade conflicts and the influence on Taiwan’s economy. See Lee, Roy Chun, Yen, Hau-shing, and Yang, Shu-fei: “The Development of the US-China Trade war and Its Implications on Taiwan’s Trade and Investment Structure”, Prospect Quarterly, Nov. 22, nº 2 (April 2022), pp. 10-15.

Before the break in diplomatic relations between Taiwan and the United States, Taiwan's largest and second largest trading partners were the United States and Japan respectively. However, with China's economic opening and reform and increased cross-strait interaction, Taiwan's imports and exports to China have been steadily increasing. In 2001-2002, Taiwan's trade structure underwent a significant turning point. China emerged as Taiwan's most important trading partner, overtaking the United States, while trade relations with the United States and Japan experienced ups and downs over time (Figure 1). Specifically, the share of trade with China has been stable at around 29%-32% of Taiwan's total trade volume, while the share of trade with the US has been on a downward trend (Table 1).

**Figure 1:** The proportion of Taiwan’s trade with China, Japan, and the United States (1989-2022)

![Graph showing trade proportions over time](image)

Source: Ministry of Finance, Trade statistics database.

**Table 1:** The trade proportion and growth rate of Taiwan’s trade with China and the United States during different ruling party (1989-2022)

<table>
<thead>
<tr>
<th>Year</th>
<th>China (include Hong Kong)</th>
<th>The United States</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>The proportion</td>
<td>The growth rate</td>
</tr>
<tr>
<td>1989</td>
<td>7.8%</td>
<td>23.1%</td>
</tr>
<tr>
<td>1990</td>
<td>8.2%</td>
<td>8.2%</td>
</tr>
<tr>
<td>1996</td>
<td>14.8%</td>
<td>2.4%</td>
</tr>
<tr>
<td>1997</td>
<td>14.9%</td>
<td>9.5%</td>
</tr>
<tr>
<td>1998</td>
<td>15.0%</td>
<td>-7.7%</td>
</tr>
<tr>
<td>1999</td>
<td>15.5%</td>
<td>11.3%</td>
</tr>
<tr>
<td>2000</td>
<td>15.7%</td>
<td>26.4%</td>
</tr>
<tr>
<td>2001</td>
<td>17.8%</td>
<td>-8.9%</td>
</tr>
<tr>
<td>2002</td>
<td>21.6%</td>
<td>28.6%</td>
</tr>
<tr>
<td>2003</td>
<td>24.1%</td>
<td>25.2%</td>
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<tr>
<td>2004</td>
<td>25.3%</td>
<td>32.5%</td>
</tr>
<tr>
<td>2005</td>
<td>26.4%</td>
<td>13.0%</td>
</tr>
<tr>
<td>2006</td>
<td>27.2%</td>
<td>16.3%</td>
</tr>
<tr>
<td>2007</td>
<td>28.0%</td>
<td>12.4%</td>
</tr>
<tr>
<td>2008</td>
<td>26.8%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2009</td>
<td>29.0%</td>
<td>-17.5%</td>
</tr>
</tbody>
</table>
While the trade relationship between Taiwan, China and the United States appears to have been stable over the past two decades, the relationship between the United States and China is experiencing a shift from coexistence and cooperation to confrontation.

Following China's accession to the WTO in 2001, US-China trade has experienced remarkable growth, rising from 125 billion US dollars to over 700 billion US dollars by 2021. At the same time, China's economy has experienced an unprecedented expansion, quadrupling in size from the fourth-largest economy in 2001 to the second largest economy in the world today. China is also the US's third largest trading partner. The supporters of liberal international relation argue that the increased trade volume between China and the United States will increase mutual benefits and improve economic interdependence and political communication. Moreover, China's integration into the multilateral trading system could make it a responsible stakeholder in the international society. Therefore, by granting China permanent normal trade relations (PNTR) as a milestone for China's accession to the WTO, the US government has demonstrated its attitude of coexistence and cooperation with China.

While there are concerns about China as a potential security threat to the US, the primary issue that could trigger China's hostility is the Taiwan issue. This explains why the US government has consistently maintained its stance of not recognizing Taiwan as an independent state and not supporting Taiwan's efforts to claim independence.

China's economy has made significant progress thanks to its abundant human capital and its participation in the multilateral trading system. As shown in a 2018 working paper by the Asian Development Bank, China and the United States are the top two economies in the global value chain. Their markets serve as important hubs that connect and strengthen other economies, including Taiwan and Japan.

Source: Ministry of Finance, Trade statistics database.

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>29.0%</td>
<td>28.8%</td>
<td>28.5%</td>
<td>29.1%</td>
<td>30.1%</td>
<td>30.6%</td>
<td>31.0%</td>
<td>31.8%</td>
<td>31.3%</td>
<td>31.1%</td>
<td>34.3%</td>
<td>33.1%</td>
<td>30.0%</td>
</tr>
<tr>
<td>China</td>
<td>39.8%</td>
<td>11.4%</td>
<td>-3.7%</td>
<td>3.1%</td>
<td>5.4%</td>
<td>-11.3%</td>
<td>-1.1%</td>
<td>15.4%</td>
<td>6.4%</td>
<td>-1.3%</td>
<td>13.4%</td>
<td>26.3%</td>
<td>-0.6%</td>
</tr>
<tr>
<td>Taiwan</td>
<td>10.9%</td>
<td>10.7%</td>
<td>10.0%</td>
<td>10.3%</td>
<td>10.8%</td>
<td>12.1%</td>
<td>11.9%</td>
<td>11.4%</td>
<td>11.8%</td>
<td>13.2%</td>
<td>13.2%</td>
<td>12.7%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>36.6%</td>
<td>9.7%</td>
<td>-8.7%</td>
<td>4.2%</td>
<td>6.5%</td>
<td>-2.4%</td>
<td>-3.7%</td>
<td>7.7%</td>
<td>11.4%</td>
<td>11.7%</td>
<td>2.4%</td>
<td>26.3%</td>
<td>14.8%</td>
</tr>
</tbody>
</table>

65 Fordham and Kleinberg, op. cit., p. 218.
The hub-and-spoke effect has not only allowed China to establish a network of free trade agreements (FTAs), but has also raised concerns within the US government about its significant trade and economic dependence on China. The introduction of the "Made in China 2025 Strategy" in 2015 further exacerbated these concerns, leading to a shift in the American government's perception of China from a trading partner to a competitor. These concerns eventually escalated into a trade and technology war against China during the Trump administration in response to China’s unfair trade policies. The trade and technology war did not stop when Biden took office; instead, it escalated into the "chip war".

The changing dynamics of the US-China relationship have significant implications for Taiwan's economy. First, during the period of US-China cooperation and coexistence, Taiwanese companies were able to take advantage of the two largest consumer markets and establish industrial supply chains in line with globalization trends. However, the technology and trade war between the US and China has disrupted the global supply chain, particularly affecting Taiwan's high-tech industries with a comparative export advantage. As the technology and trade war forces Taiwanese companies to create a two-track production or take sides, there are growing concerns about the end of globalization and free trade, as TSMC founder Morris Chang points out.

Secondly, the technology and trade war targeting Chinese high-tech products draws attention to the pivotal role of Taiwan's IT industry in the global supply chain. Taiwan is the global epicenter of semiconductor manufacturing. TSMC and UMC produce more than 60 per cent of the world's chips. As Taiwan continues to be the world's major semiconductor manufacturing hub, it may face a similar predicament to the Chinese industry: being perceived as too influential and a potential threat to the US economy. Moreover, like the Taiwanese government, the US government is interested in diversifying production away from Taiwan and China. This goal is being pursued through the establishment of an open competition for subsidies in the renewable energy and IT industries, rebuilding a supply chain centered on US interests. In light of this, the Taiwanese government will need to adjust its trade policy to help Taiwanese companies and industries cope with the US-China struggle.

4.2. Cross-strait economic and trade relations fluctuate with changes in Taiwan's ruling party: myth or truth?

Since the 1990s, economic and trade relations between China and Taiwan have become increasingly close, with China emerging as one of Taiwan's top three trading partners and eventually overtaking the others to become Taiwan's most important trading partner. As Liang and Wang point out, the close economic relationship between Taiwan and China is unique in the world, given their geographical proximity and shared language, traditions and cultural background.

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67 Meltzer and Shena, op. cit., p. 7.
However, it is important to note that a closer economic relationship also entails a higher degree of trade dependence, which makes the economy more vulnerable to changes in the political atmosphere.

Since Taiwan's first presidential election in 1996, the Kuomintang (KMT) and the Democratic Progressive Party (DPP) have engaged in peaceful party rotation. So far, the KMT administration has been led by Teng-Hui Lee from 1996 to 1999 and then by Ying-Jeou Ma from 2008 to 2015. The DPP administration was led by Shui-Bian Chen from 2000 to 2007, and currently Ing-wen Tsai has been in office since 2016.

However, their foreign policies on China and the United States diverge. The KMT advocates maintaining positive interaction with China, drawing on its historical background and party history. The DPP, on the other hand, advocates maintaining a certain distance from China in order to safeguard national security, protect sovereign integrity and address concerns about China's economic influence.

Under Taiwan's two-party system, the KMT is expected to have a relatively closer relationship with the Chinese government, leading to increased economic interaction across the strait during KMT rule. Conversely, when the DPP is in power, the party's policy stance tends to result in more frequent policy interventions that impede cross-strait economic and trade exchanges. To test this hypothesis, this paper analyses the share and growth rate of Taiwan's trade with China and the United States within Taiwan's political structure from 1996 to 2022.

According to trade statistics, the proportion of trade with China has shown a progressive and consistent increase, rising from 14.8% in 1996 to 30% in 2020. Although the growth rate of trade with China has fluctuated, there is no clear evidence of a significant decline in the growth rate during the DPP administration. The stable and progressive increase can also be observed in both exports to and imports from China (Table 2).

It is important to highlight that a historic cross-strait leaders' meeting in Singapore in 2015 took place during Ma's presidency, but the overall volume of trade with China did not experience a dramatic increase. In fact, the growth rate of general trade with China experienced a downward trend, and the share of exports to China also faced a decline in 2015.

In recent decades, peace and security in the Taiwan Strait have faced several crises. The first crisis occurred in 1995 when the United States issued a visa to President Teng-Hui Lee for his speech at Cornell University, marking the first time after severing of diplomatic relations between Taiwan and the United States. This led to China deploying missiles along the coast in protest against the United States actions. The second crisis occurred when Ms Nancy Pelosi, the Speaker of the US House of Representatives, visited Taiwan in 2022. In response, Beijing announced a series of “targeted operations”, including live-fire drills around Taiwan, effectively imposing a three-day blockade. Indeed, the 2022 cross-strait crisis is part of a recent shift in Western attitudes towards Taiwan. This shift is evident in the statements of the G7 foreign ministers in 2022 and 2023. Their statements expressed the G7 members' commitment to maintaining peace and stability in the Taiwan Strait and their concern about China's use of economic coercion.

Looking at the two cross-strait crises in 1995-1996 and 2022, Taiwan's trade volume with China did not experience a rapid decline and the share of imports and exports remained stable.

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73 “Nancy Pelosi has left Taiwan. The real crisis may be just beginning”, The Economist: 3 August 2022, at https://www.economist.com/asia/2022/08/03/nancy-pelosi-has-left-taiwan-the-real-crisis-may-be-just-beginning.

Therefore, political crises do not seem to have had a direct impact on trade activity. Furthermore, when cross-strait trade volumes are examined during Taiwan's presidential elections in 2000, 2004, 2008, 2012, 2016 and 2020, trade statistics show no significant fluctuations in exports and imports with China. Therefore, while changes in cross-strait political relations may affect firms' business decisions, the main factors influencing cross-strait trade and investment activities are the global economic environment, industrial development and supply chain arrangements.

Given the significant trade and economic dependence on China and the escalating tensions between the US and China, the Taiwanese government has been prompted to actively explore alternatives to enhance trade and industrial supply chain diversification and the resilience of Taiwan's economy. One such alternative is the New Southbound Policy initiative, launched by President Tsai Ing-wen in 2016. The economic and political meaning of the New Southbound Policy will be discussed in the next section.

**Table 2:** The trade proportion and growth rate of Taiwan’s trade with China during different ruling party (1996-2022)

<table>
<thead>
<tr>
<th>Year</th>
<th>Taiwan’s ruling party/President</th>
<th>The proportion of total trade volume</th>
<th>The growth rate of total trade volume</th>
<th>The proportion of exports</th>
<th>The proportion of imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996</td>
<td>KMT / Teng-Hui Lee</td>
<td>14.8%</td>
<td>2.4%</td>
<td>23.8%</td>
<td>4.7%</td>
</tr>
<tr>
<td>1997</td>
<td></td>
<td>14.9%</td>
<td>9.5%</td>
<td>24.2%</td>
<td>5.2%</td>
</tr>
<tr>
<td>1998</td>
<td></td>
<td>15.0%</td>
<td>-7.7%</td>
<td>23.5%</td>
<td>5.9%</td>
</tr>
<tr>
<td>1999</td>
<td></td>
<td>15.5%</td>
<td>11.3%</td>
<td>23.9%</td>
<td>6.1%</td>
</tr>
<tr>
<td>2000</td>
<td>DPP / Shui-Bian Chen</td>
<td>15.7%</td>
<td>26.4%</td>
<td>24.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>2001</td>
<td></td>
<td>17.8%</td>
<td>-8.9%</td>
<td>26.9%</td>
<td>7.3%</td>
</tr>
<tr>
<td>2002</td>
<td></td>
<td>21.6%</td>
<td>28.6%</td>
<td>32.5%</td>
<td>8.7%</td>
</tr>
<tr>
<td>2003</td>
<td></td>
<td>24.1%</td>
<td>25.2%</td>
<td>36.1%</td>
<td>10.0%</td>
</tr>
<tr>
<td>2004</td>
<td></td>
<td>25.3%</td>
<td>32.5%</td>
<td>38.3%</td>
<td>11.3%</td>
</tr>
<tr>
<td>2005</td>
<td></td>
<td>26.4%</td>
<td>13.0%</td>
<td>39.6%</td>
<td>12.1%</td>
</tr>
<tr>
<td>2006</td>
<td></td>
<td>27.2%</td>
<td>16.3%</td>
<td>40.3%</td>
<td>12.9%</td>
</tr>
<tr>
<td>2007</td>
<td></td>
<td>28.0%</td>
<td>12.4%</td>
<td>41.1%</td>
<td>13.4%</td>
</tr>
<tr>
<td>2008</td>
<td>KMT / Ying-Jeou Ma</td>
<td>26.8%</td>
<td>1.8%</td>
<td>39.5%</td>
<td>13.5%</td>
</tr>
<tr>
<td>2009</td>
<td></td>
<td>29.0%</td>
<td>-17.5%</td>
<td>41.6%</td>
<td>14.5%</td>
</tr>
<tr>
<td>2010</td>
<td></td>
<td>29.0%</td>
<td>39.8%</td>
<td>42.3%</td>
<td>14.8%</td>
</tr>
<tr>
<td>2011</td>
<td></td>
<td>28.8%</td>
<td>11.4%</td>
<td>40.8%</td>
<td>15.9%</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td>28.5%</td>
<td>-3.7%</td>
<td>40.1%</td>
<td>15.9%</td>
</tr>
<tr>
<td>2013</td>
<td></td>
<td>29.1%</td>
<td>3.1%</td>
<td>40.7%</td>
<td>16.2%</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>30.1%</td>
<td>5.4%</td>
<td>40.7%</td>
<td>18.1%</td>
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<tr>
<td>2015</td>
<td></td>
<td>30.6%</td>
<td>-11.3%</td>
<td>39.7%</td>
<td>19.8%</td>
</tr>
<tr>
<td>2016</td>
<td>DPP</td>
<td>31.0%</td>
<td>-1.1%</td>
<td>40.2%</td>
<td>19.8%</td>
</tr>
</tbody>
</table>


76 The President of Taiwan serves a four-year term and is eligible for one re-election. The term begins on May 20 of the election year. To facilitate data analysis and given the limited influence of the previous ruling party on economic and trade policies during the election or re-election year, the author shortens each president's term to the year preceding the election or re-election.
5. Taiwan’s Southbound Policy and the trade relation with Asian economies in the Asian regionalism

The ongoing battles between the US and China present both opportunities and challenges for Taiwanese industries and companies.

As the global supply chain becomes more localized, there are two possible solutions for Taiwanese companies. One solution is to create a "China plus one" business model, moving away from the traditional approach of manufacturing in China and exporting to the US. Another option is to relocate production to lower-cost regions such as Southeast Asian countries, rather than bringing production back to the US. For Taiwanese companies, either option relies on economic ties between Taiwan and other Asian countries.

In order to strengthen economic and trade relations with Southeast Asian countries, the Taiwanese government implemented a Southbound Policy in 1993. The Southbound Policy is divided into two phases. The first phase ran from 1993 to 2003. By focusing primarily on economic and trade policies, the Taiwanese government aimed to reduce economic and trade dependence on China and respond to the establishment of the ASEAN Free Trade Area in 1997, which aimed at regional economic integration. As part of its trade-centered policy, one of the key objectives is to initiate negotiations for free trade agreements or bilateral investment treaties with Asian countries. Countries targeted in this phase include Thailand, Malaysia, Indonesia, Philippines, Singapore, Vietnam, Brunei, Lao, Myanmar, Cambodia, Austria, and New Zealand.

The second phase was initiated by President Tsai Ing-wen in 2016, and is known as the New Southbound Policy. Compared with the traditional Southbound Policy, the New Southbound Policy has several differences. First, it is not only a trade policy, but also a comprehensive strategy to build a sustainable and pragmatic relationship with southbound economies. Therefore, it aims to promote economic and trade, technological and cultural ties between Taiwan and ASEAN, South Asia, New Zealand, Australia and other countries, to share resources, talents and markets, and to create a win-win situation through a new model of cooperation. Cultivating an "economic community consciousness" is also the purpose of the New Southbound Policy. Second, the New Southbound Policy aims to establish a comprehensive and multi-level consultation and dialogue mechanism between Taiwan and the targeted southbound countries. As a result, the policy places great emphasis on interdepartmental coordination in order to maximize synergies. In addition, the New Southbound Policy aims to facilitate greater engagement in international and regional cooperation and to promote political alliances between Taiwan and the Southbound Countries.

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77 Lee et al., op. cit., p. 42.
79 Ibid., p. 63.
Trade statistics show a progressive increase in trade relations with southern countries (Figure 3). Although the growth rate of trade with these countries fluctuates, it is noteworthy that there is a notable difference in the growth rates between ASEAN countries and Taiwan's southbound countries during two distinct phases. In the first stage, trade with ASEAN countries grew faster than trade with Taiwan's southern countries. In the second stage, however, the situation was reversed, with trade with southbound countries growing faster than trade with ASEAN countries (Figure 4).

**Figure 3:** The proportion of Taiwan’s trade with Southbound Policy countries and with the ASEAN countries

![Figure 3](image)

Source: Ministry of Finance, Trade statistics database.

**Figure 4:** The growth rate of Taiwan’s trade with Southbound Policy countries and with ASEAN countries (1989-2022)

![Figure 4](image)

Source: Ministry of Finance, Trade statistics database.
In terms of rebuilding the global supply chain, the stable progress of economic relations with Southbound countries allows Taiwanese companies to diversify their production bases and reduce the commercial risks caused by the US-China conflicts.

However, the evolving regional political landscape gives the New Southbound Policy political significance. This is the Indo-Pacific vision.

The Indo-Pacific strategy was first proposed by former Japanese Prime Minister Abe. Its main aim is to strengthen the network of security cooperation between Japan and its democratic allies in Asia. On the one hand, Japan needs to redefine its role in Asia in response to the United States' "Pivot to Asia" strategic plan introduced in 2011. On the other hand, it also stems from the sovereignty dispute with China in the South China Sea. To safeguard its interests in the East China Sea, Japan is seeking to build a maritime alliance with India, Australia, and the United States. The integration of the Pacific and Indian Oceans prompted the Japanese government to launch a new regional concept, the "Free and Open Indo-Pacific Strategy", in 2017.

Interestingly, similar to the establishment of APEC, Japan pioneered the idea of a Pacific Free Trade Area in 1965 as the basis for the concept of the Pacific Economic Community. As a result, in the 1980s, Japan worked with Australia to launch the Asia-Pacific Economic Cooperation initiative, a regional organization promoting free and open trade and investment in the Asia-Pacific region. Learning from the history of APEC, while Japan's original intention behind the Indo-Pacific strategy was to ensure security and stability in the Asian region, the follow-up theme of a Free and Open Indo-Pacific means that Japan intends to expand the scope of Asia-Pacific economic integration and strengthen the rule of law through this new regional strategy.

Although the Indo-Pacific Strategy did not attract much attention at first, it has since gained widespread acceptance and has been embodied in the foreign policies of several countries, including the United States, Australia, the United Kingdom, France, India and Indonesia. Under the new regional concept of the Indo-Pacific Strategy, Taiwan's New Southbound Policy is in line with the regional cooperation needs and ideals of the Indo-Pacific Strategy. First, Taiwan's New Southbound Policy expands its scope to include countries in the Indian Ocean region, such as India, Pakistan, Sri Lanka and Bhutan. This expansion reflects Taiwan's commitment to regional cooperation in Asia, which is in line with the shift from the Asia-Pacific to the Indo-Pacific trend. Second, one of the long-term goals of Taiwan's New Southbound Policy is to foster a sense of community with countries such as ASEAN, South Asia, New Zealand and Australia, while establishing a new model of cooperation that prioritizes mutual benefit and people-centered development. The essence of this community-building effort also resonates with Japan's vision of a free and open Indo-Pacific region. In other words, the New Southbound Policy could be seen as Taiwan's version of the Indo-Pacific Strategy.

From Japan's Indo-Pacific Strategy, the US Indo-Pacific Economic Framework and Taiwan's New Southbound Policy, it is clear that trade policy has evolved beyond being an

82 Koda, Yoji: “Japan’s Perceptions of and Interests in the South China Sea”, Asia Policy, nº 21 (January 2016), pp. 29-35.
economic consideration. It now serves as a policy tool to address geopolitics and international relations. As a result, the Taiwanese government's primary focus is to use the New Southbound Policy to build a network of policy cooperation with other like-minded countries, while safeguarding the interests of Taiwanese industries in the global supply chain.

5. Conclusion

According to studies by Taiwanese economist Qu Wan-Wen, the history of Taiwan's economic growth and the trade and industrial policies associated with it highlight the uniqueness of Taiwan's economic performance among emerging economies. What sets Taiwan apart is the intertwined and complementary relationship between government intervention and the liberal market.

Moreover, this state intervention is led by a group of forward-looking economic officials who, driven by a sense of responsibility to save the country, spearheaded the post-war reconstruction effort. They have strategically developed light and heavy industries, implemented land reforms and pursued long-term industrial policies, including extensive integration of upstream and downstream sectors. It is important to note that neither aid from the United States nor the remnants of Japanese colonialism alone could naturally drive Taiwan's economic growth. In particular, emerging industries with high investment risks, such as semiconductors, rely heavily on government-led industrial policies to thrive, as TSMC founder Morris Chang acknowledged. On the other hand, industrial transformation requires the exploration of new markets to avoid overproduction and excessive competition in the global market. Trade policies that prioritize market access and reduce trade barriers play a crucial role in facilitating the expansion of export-oriented domestic industries and creating a rule-based environment for firms to scale up. Thus, trade and industrial policies are complementary and adaptive, strengthening the resilience of Taiwan's economic structure.

Moreover, the importance of dynamic geopolitics in Taiwan's economic development is evident in initiatives such as the Chip 4 Alliance and the US-Taiwan 21st Century Trade Initiative. The changes in trade policy and the government's pursuit of industrial transformation 2.0 convey an important message. It means that trade and industrial policy is no longer focused on economic issues alone, but has become an integral part of political decisions shaped by changing international relations.

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86 Qu, Wan-wen: “Taiwan Jingji Qiji de Chengyin, Heni Xiang de Bu Yiyang” (The Cause of Taiwan's Economic Miracle is Different from What You Think), Academic Sinica, April 2017, at https://research.sinica.edu.tw/taiwan-economic-miracle-why/.

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