

## NAVIGATING GEOPOLITICAL WATERS: TAIWAN'S NEW SOUTHBOUND POLICY AND ITS IMPLICATIONS FOR INDIA

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### Abstract:

Taiwan's New Southbound Policy, initiated by former President Tsai Ing-wen in 2016, aims to reduce Taiwan's economic dependence on China and strengthen ties with South and Southeast Asian nations. The policy seeks to diversify trade and cultural exchanges, enhancing economic resilience amid geopolitical tensions. The DPP's electoral victories in 2020 and 2024 have reinforced the New Southbound Policy's continuity and potential for expansion.

Despite its promise, the New Southbound Policy faces significant challenges, including China's economic coercion, particularly against Taiwan's crucial semiconductor industry, and the complexities of Taiwan's lack of formal allies. As Taiwan strives for economic independence, it is also navigating interdependencies within global supply chains.

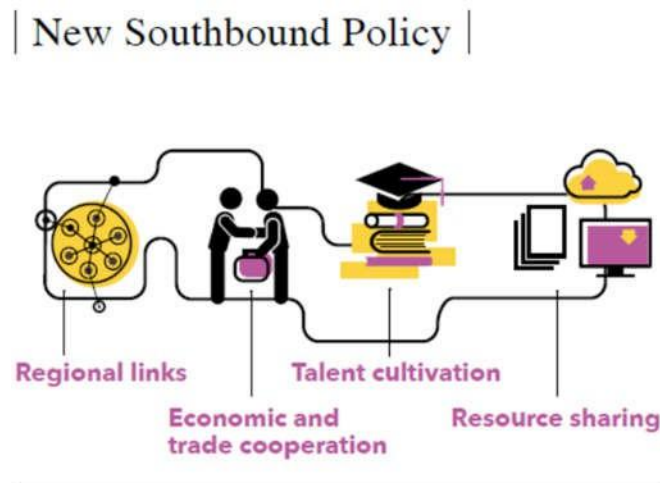
For India, the New Southbound Policy presents substantial opportunities for increased trade, investment, and technological collaboration, particularly in the semiconductor sector. However, India's cautious approach towards Taiwan is complicated by its diplomatic ties with China. Strengthened India-Taiwan relations could serve as a counterbalance to China's assertiveness in the region while fostering mutual cultural and educational exchanges.

Ultimately, the New Southbound Policy represents a strategic initiative for Taiwan to enhance its regional presence, with implications that require careful navigation for India. Both nations must focus on collaborative efforts to realize the full potential of their partnership while addressing the geopolitical complexities involved.

**Keywords:** New Southbound Policy, Taiwan, India-Taiwan relations, Cross-Strait Relations, Indo-Pacific region, Foreign Policy.

## Introduction:

Taiwan's New Southbound Policy (NSP) [新南向政策], a key foreign policy priority of former President Tsai Ing-wen, has been a subject of much consternation ever since it was launched in September 2016 (Focus Taiwan, 2016). The policy aimed at reducing Taiwan's dependence on China and enhancing economic and cultural ties with the high-growth states of South and Southeast Asia. According to Taiwan's official homepage, "Under President Tsai Ing-wen's New Southbound Policy, Taiwan is... striving to broaden exchanges with the 10 Association of Southeast Asian Nations member states, six South Asian countries, Australia and New Zealand on economic and trade cooperation, talent cultivation, resource sharing and regional links. The long-term goal is to create a new type of cooperation based on shared benefits" (Ministry of Foreign Affairs, 2024).



The underlying risks and threats from China raised doubts about the long-term survivability of the policy, especially if a new administration were to come to power in Taiwan. However, the DPP's landslide win in the 2020 Taiwan presidential election removed the cloud of uncertainty regarding the sustainability of the NSP. This victory and its third consecutive victory in the

<sup>1</sup> [https://www.taiwan.gov.tw/content\\_5.php](https://www.taiwan.gov.tw/content_5.php)

2024 presidential elections further paved the way for continuity or even a possible expansion of the policy in areas that would enhance its attractiveness for the countries of the Southeast and South Asian region.

For India, the NSP presents both opportunities and challenges. As Taiwan seeks to diversify its economic engagements, India could benefit from increased trade and investment. However, the geopolitical implications of closer ties with Taiwan must be carefully navigated, particularly given India's complex relationship with China. Balancing these dynamics will be crucial for India as it seeks to strengthen its position in the Indo-Pacific region while fostering a stable and cooperative environment.

### **Genesis of the NSP:**

There were several considerations behind the launch of the NSP. Since the 1990s, the economic performance of South and Southeast Asian countries has been very impressive, while China's economic growth has declined in recent years. It is because of the high growth being witnessed in the two regions in the last three decades that every leader of Taiwan since the 1990s have either called for a Southbound policy or included South and/or Southeast Asia in their economic roadmap (Bo-Huang, 2018).

Secondly, Taiwan like any other state, desires greater diversification of its trade and economic activity with other countries. In South and Southeast Asia, emerging economies like India, Vietnam, Indonesia, Philippines and Malaysia provide an opportunity for Taiwan to increase economic and cultural engagements with the two regions.

But, more than economic interests, the NSP emerged primarily out of the realization that China's efforts to undermine Taiwan's interests will not cease and regardless of the growing economic linkages between Taiwan and the Mainland, Beijing will not denounce its claims over the island. In 2016, the then Minister of Foreign Affairs of the Republic of China (Taiwan), David Lee said that the NSP is being considered by the Tsai administration as an "alternative" non-traditional solution to de-couple from China and enhance cooperation with other countries (Yi-hsuan & Jake, 2016).

That the real elephant behind the policy is China is quite obvious when one looks at the trend of Taiwan's trade with Mainland China in the last 30 years. In 1992, China was Taiwan's 26<sup>th</sup> largest trading partner, by 2002, it became Taiwan's fourth largest trade partner and today China stands as the largest trading partner of Taiwan, accounting for 22.6% of the total trade and 19.6% of Taiwan's imports in 2022 (International Trade Administration, US Dept. of Commerce, 2024). No country prefers to put all its eggs on one basket and Taiwan would be even more worried over getting economically entangled by China, given the history of Cross-Strait ties.

The main idea behind the NSP is to lessen the dependency on China and diversify Taiwanese economic contacts. Currently China accounts for almost 30 percent of the island's total trade and Chinese citizens make up around a quarter of the total tourists who visit Taiwan each year (Gifford, 2019). This unbalanced nature of Taiwan-China relations – tilted heavily in favour of China has its consequences, since Beijing has repeatedly used trade and tourism as instruments to achieve political objectives. Recently, in an effort at hurting Tsai's re-election campaign in 2019, China restricted visits of Chinese nationals to Taiwan. Beijing also repeatedly sent its air force to violate Taiwan's airspace and used information warfare as a means to influence people into voting against the DPP. After a visit by then U.S. Speaker Nancy Pelosi to Taipei, China also suspended the import of fish, fruits and the export of natural sand, which is widely used for construction, to Taiwan in 2022 (Reuters, 2022).

### **Need for Decoupling from China:**

Beijing's regular use of economic coercion to punish other countries and force them into obeying its diktats has necessitated the need for economic independence or decoupling from China. This is particularly important for Taiwan since it is always in a state of high alert over any potential attack from the Mainland.

Moreover, it is pertinent to note that China today presents not only a territorial/maritime threat to Taiwan but also to the cherished values of democracy that Taiwan abides by. A leaked confidential internal document of the Chinese Communist Party [CCP] known as the Communique on the Current State of the Ideological Sphere [or Document Number Nine] explicitly highlighted "western values" of democracy, freedom, civil society as dangerous for

the survival of the CCP (Buckley, 2013). This reflects that the threat from Communist China encompasses the entire tradition, values and the way of life of people residing in the Free World.

Therefore, under this de-coupling policy, Tsai is calling for Taiwanese businesses to return from the mainland and enticing them with preferential tax benefits. Taipei is also encouraging its tech companies to set up bases in the NSP countries. Besides economic goals, Taiwan has also invested heavily in expanding educational and cultural exchanges with the NSP states.

Some of these efforts have begun to bear fruits. For instance, trade with and tourism from Indo-Pacific countries is steadily increasing while Taiwan's share of trade with China has shown a slight reduction (Hawksley, 2019). Some companies have started to move out of China. Taiwanese tech manufacturers like Foxconn and Wistron have already set up manufacturing facilities in India. Educational and cultural exchanges have also increased. "Taiwan Connection" bases have been set up in India, Indonesia, Myanmar, Malaysia, New Zealand, Sri Lanka, Thailand and Vietnam to promote educational exchanges and develop industrial talent (Ibid.)

### **Challenges in Decoupling:**

Taiwan also faces significant challenges from China in its de-coupling efforts.

The first relates to Taiwan's semiconductor industry, which the entire world, including China heavily relies on. This industry is at stake from increasing Chinese efforts to replicate the same within the Mainland as part of their Made in China 2025 plan. Towards this end, China has been luring Taiwanese talents with generous paychecks. This is a cause of worry for Taiwan for three reasons.

- One, Taiwan currently dominates the industry, with just one Taiwanese company, TSMC, producing about half the world's annual supply of chips.
- Two, Taiwan holds the cutting edge of semiconductor technology which are the brains of all electronics from mobile phones to fighter jets.
- And lastly, semiconductors act as leverage for Taipei against Beijing (Sullivan-Walker, 2020). Since China is dependent on these chips from Taiwan, they offer a certain amount of clout against any threats or hostile actions from China. Precisely because of this leverage that its semiconductor technology offers, Taiwan had for long resisted the

shifting of its semiconductor plants out of the country, until it finally relented recently to the US.

The second challenge for Taiwan lies in its limited hedging capacity against China. Unlike most other states in the Indo-Pacific region which are also facing similar challenges of an assertive China, Taiwan's lack of formal allies means that it cannot indulge in a genuine 'collective bargaining' strategy against China.

Thirdly, many Taiwanese and Chinese companies are closely integrated in the global supply chain, creating interdependencies that are difficult to untangle. While Taiwan's government is encouraging Taiwanese companies to move operations out of China, many companies are hesitant to invest in new markets due to uncertainty or lack of adequate infrastructure.

In short, while Taiwan is motivated to reduce its dependency on China through decoupling, it faces substantial economic, geopolitical, and social challenges. Addressing these obstacles will require strategic planning, international collaboration, and a continued willingness to adapt to a changing global landscape.

### **Implications for India:**

Taiwan's New Southbound Policy has significant implications for India, shaping the bilateral relationship and influencing regional dynamics in various ways. One of the most promising aspects is the potential for increased trade and investment. The NSP encourages Taiwanese businesses to explore markets in India, which could lead to greater economic engagement, particularly in sectors such as technology, manufacturing, and agriculture. Additionally, as companies seek alternatives to China, India stands to benefit from Taiwanese firms relocating operations, thereby enhancing its manufacturing capabilities and contributing to economic growth. Major Taiwanese firms like Powerchip Semiconductor Manufacturing Corp and Foxconn have recently entered into joint ventures with local firms in India, driving up Taiwan's foreign direct investment in India to more than USD \$665 million between 2018-2023, compared to around USD \$277 million during the decade from 2006-2017 (Reuters, 2024).

Technological collaboration is another key area of opportunity. Enhanced cooperation in the semiconductor sector could prove mutually beneficial, helping India develop its own

semiconductor capabilities while addressing global supply chain needs. Moreover, opportunities for collaboration in research and development could arise, especially in high-tech fields like renewable energy, artificial intelligence, and biotechnology, fostering innovation and technological advancement in both countries.

Strategically, strengthened ties between India and Taiwan can serve as a counterbalance to China's assertive actions in the region, aligning with India's own strategic interests in the Indo-Pacific. Both nations share concerns about regional security, and increased collaboration could lead to joint efforts in maritime security and defence dialogues, contributing to a more stable security environment in the region. As both India and Taiwan face increasing belligerence from China, strategic cooperation between the two countries will continue to rise. One recent acknowledgement of this was in late January 2024, when the Indian envoy to Taiwan congratulated Taiwan's president-elect, Lai Ching-te about the success of Taiwan's democratic process (Panda, 2024).

Cultural and educational exchanges are also a crucial aspect of the NSP's implications for India. The policy promotes educational exchanges and cultural interactions, fostering mutual understanding and goodwill between the two nations. This has led to enhanced tourism and academic partnerships, enriching the relationship on multiple levels. Furthermore, initiatives aimed at talent cultivation under the NSP could contribute to skill development in India, particularly in sectors where Taiwanese expertise can be leveraged.

However, the engagement between India and Taiwan is not without challenges. India's ties with Taiwan is closely scrutinized by China. Increased economic and strategic ties with Taiwan could complicate India's diplomatic relations with China, potentially leading to heightened tensions in the region. As a result, India must carefully navigate its relationships with both Taiwan and China, ensuring that closer ties with Taiwan do not adversely affect its broader strategic interests in the neighborhood.

Taiwan's lack of formal diplomatic recognition presents additional constraints. This limitation restricts the scope of official engagement and may hinder the full realization of the potential economic and strategic benefits that could arise from a closer partnership.

**Way Forward:**

The continued deterioration of cross-strait ties will further bolster Taiwan's efforts to decouple from China and pursue stronger relationships with like-minded states in the Indo-Pacific region. Taiwan's New Southbound Policy represents a strategic initiative aimed at mitigating its economic dependence on China while fostering robust connections with high-growth regions in South and Southeast Asia. By emphasizing diversification, Taiwan seeks to enhance its economic resilience and secure a more stable future amidst ongoing geopolitical tensions. The New Southbound Policy has already demonstrated potential through increased trade, investment, and cultural exchanges, indicating a gradual shift in Taiwan's regional engagement.

However, significant challenges persist, particularly due to China's ongoing economic coercion and the critical importance of Taiwan's semiconductor industry. While Taiwan is making notable strides in relocating its manufacturing and promoting educational exchanges, it faces an uphill battle against China's efforts to attract talent and replicate key industries. Additionally, Taiwan's lack of formal alliances complicates its ability to mount a cohesive response to the assertive actions of its neighbor. Ultimately, the success of the New Southbound Policy will hinge on Taiwan's ability to navigate these challenges while building a sustainable and diversified regional presence.

In terms of the policy's implications for India, Taiwan's New Southbound Policy presents substantial opportunities across various domains. However, it necessitates a thoughtful approach to balance the potential benefits against the risks inherent in the geopolitical landscape. New Delhi should reconsider its overly cautious stance towards Taiwan, while both countries should strive to move beyond historical baggage to fully realize the scope of their partnership. This collaborative approach can lead to enhanced economic ties, transfer of technology, cultural exchanges, and strategic alignment, contributing positively to the Indo-Pacific's stability and growth.



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