

The New Southbound Policy and Taiwan's Living Space in the Regional Political-Economic Context

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Abstract

The New Southbound Policy is regarded as a new strategic blueprint for Taiwan to counter China's domination. This paper depicts the timing of this policy and its subsequent strategic implications, challenges and opportunities. The author tries to put the background and prospects of the policy in the political-economic context of the region.

ASEAN countries and India, as host countries, tend to take a win-win view, instead of a zero sum view in dealing with competing forces from without. The facts show that over the past few years, the region has been filled with foreign resources, energies, and diplomatic engagements. From a strategic view, the interwoven structures appear out of the interactions among the host countries and China vis-à-vis the U.S. and Japan as well as some other democracies. It will be a protracted duel for the G2. These structures may offer some living space for Taiwanese to breathe even though China may exercise its influence to intimidate and block them.

Keywords: Taiwan, The New Southbound Policy, ASEAN, India, G2

I. The Timing of the Southbound Policy

The New Southbound Policy was one item of Tsai Ing-wen's electoral platform in 2016. It is regarded as a new strategic blueprint for Taiwan to counter China's domination. Under the auspices of the Chinese Communist Party (CCP) and the Kuomintang (KMT), Taiwan's development has been dominated and constrained by the One China Principle, whereby Taiwan is subordinate to China. The first democratically elected president Lee Teng-hui once tried to put forth a southbound policy in 1994 but it made little progress. His initiative was criticized as a pro-independence policy by supporters of unification. The policy also seemed premature since China started its second wave of opening-up in 1992. Moreover, the drastic depreciation of the RMB, owing to China's monetary reform, attracted more and more capital to China. Hence, the fruits of Lee Teng-hui's southbound policy were very limited. Chen Shui-bian tried to revive the southbound policy but the timing was clearly inappropriate since China had become a hub for foreign investment thanks to its entry into the World Trade Organization. Chen Shui-bian's southbound policy also failed.

Ma Ying-jeou's administration started to open up the three links across the Taiwan Strait after he was inaugurated as President in May 2008. On June 29, 2010, Taiwan and China signed the *Cross-Strait Economic Cooperation Framework Agreement* (ECFA). Cross-strait economic exchanges were pushed upwards to a higher level. Taiwan and China were economically highly integrated. Furthermore, Taiwan was also greatly incorporated into the Chinese system. Ma even accepted the 1992 Consensus and the One China Principle at a summit with Xi Jinping in Singapore on November 7, 2015.

On January 16, 2016, Tsai Ing-wen, the candidate of the Demo-

cratic Progressive Party (DPP), won Taiwan's presidential election. On March 5, Chinese President Xi Jinping warned against "Taiwan independence," saying that "We will resolutely contain 'Taiwan independence' secessionist activities in any form." He urged the newly elected government to adhere to the 1992 Consensus as a political foundation, and continuously advance the peaceful development of cross-strait ties. The essence of the 1992 Consensus recognizes the One China Principle, which has long been rejected by the DPP.

In these circumstances, to diversify and divert Taiwanese investment away from China is a must for any politician. In addition, China's economy has started to decline ever since the end of 2011. The statistics show that China's GDP growth slid to 7.4% in 2012. Prior to this drop, China's economy had grown at an average of around 10% a year for the past three decades, allowing the country to rocket past international competition to become the world's second largest economy.

In China, "the state sector advances, the private one retreats." This has made it difficult for Taiwanese small and medium enterprises (SMEs) to access the market in China. Taiwanese SMEs have much more difficulties than Chinese ones. The most urgent need of the vast majority of Taiwanese SMEs in China is not for money but for fair market competition. In this harsh business environment, the rise of Chinese enterprises is squeezing Taiwanese territory in China. Take the panel industry as an example. Before 2009, the market share of the Taiwanese TFT-LCD industry in China stood at 35% on average. But after China started its own industry, the Taiwanese share fell down to 27.4% in 2013. Thanks to the deterioration of its investment environment, the Chinese government is currently even encouraging large-scale Chinese enterprises to "go out," and merge their businesses.

Diplomatic factors also helped drive Japanese capital away from China. In the wake of a series of Chinese protests against Japan after the nationalization of the Diaoyu Islands on September 11, 2012, Japanese investment in China recorded a steep drop in the following October. At the same time, rising wages in China also hit Japanese companies badly. According to the Japan External Trade Organization, in 2013, Japanese firms pumped \$22.7bn into Singapore, Thailand, Indonesia, Malaysia, the Philippines and Vietnam, against a mere \$8.6bn invested in China.¹ Similarly, in 2013, foreign direct investment (FDI) into Indonesia, Malaysia, the Philippines, Singapore and Thailand outstripped FDI into China for the first time. Surprisingly, the demographic and wage benefits in Southeast Asia also attracted many Chinese companies to invest.² For a third straight year, in 2015 the amount of foreign direct investment from Japan to the 10-member Association of Southeast Asian Nations exceeded its investment in China and Hong Kong.³

Besides ASEAN, India is also a constitutive part of Taiwan's New Southbound policy. India has risen steadily as a host of overseas investment since 2000. While China was battling slow economic growth, overcapacity, and high debt, India replaced it as the top des-

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1. M. Rochan, "Japanese Investment in Southeast Asia Rockets Amid China Slump," *International Business Times*, April 19, 2014, <<http://www.ibtimes.co.uk/japanese-investment-southeast-asia-rockets-amid-china-slump-1445386>>.
 2. Sophie Song, "Southeast Asia Receives More Foreign Direct Investment (FDI) Than China, Which Is Now The World's Third-Largest Foreign Investor," *International Business Times*, May 3, 2014, <<http://www.ibtimes.com/southeast-asia-receives-more-foreign-direct-investment-fdi-china-which-now-worlds-1559537>>.
 3. Keiko Ujikane, "Japan Shifts Investment From China to Southeast Asia," *Bloomberg*, May 31, 2016, <<http://www.bloomberg.com/news/articles/2016-05-30/southeast-asia-is-winning-more-japanese-investment-than-china>>.

tinuation for FDI. India was the top destination for foreign direct investment in 2015.⁴ India's fast-growing economy attracted \$44 billion in foreign direct investment in 2015, making it the 10th largest destination globally for such investment in 2014.⁵

II. A Policy That Turns Taiwanese Vision from the North to the South

Given this historical context, the DPP's Southbound policy is a logical step. China itself is a very competitive market. The environment of management in China is becoming increasingly harsher and harsher, and profits are less and less. China is expected to be stricter in curbing pollution, overproduction and backward industries. What Taiwanese businesses can choose is either to upgrade their businesses, close them, or to return them to Taiwan or transfer them to Southeast Asia. At any rate, since overseas Taiwanese businesses are what Taiwan's economic development rely on, the Taiwanese government has the responsibility to assist them in strategy and policy. This strategy and policy cannot be just confined to the economic dimension, but should include overall support as well. They could be helped to shift to Southeast Asia or other developing countries, but it is worth questioning and inquiring if the government of Taiwan has a comprehensive policy for this and adequate preparation.

As a matter of fact, the Taiwanese government has fallen far

4. Madhura Karnik & Zheping Huang, "India attracted more FDI than China in 2015," *Quartz India*, April 22, 2016, <<http://qz.com/667598/india-attracted-more-fdi-than-china-in-2015/>>.

5. Raymond Zhong, "Foreign Direct Investment Into India Jumps 26%, U.N. Says," *The Wall Street Journal*, June 23, 2016, <<http://blogs.wsj.com/indiareal-time/2016/06/23/foreign-direct-investment-into-india-jumps-26-u-n-says>>.

behind global investment trends. Coincidentally, as more and more Taiwanese businesses move away from China to the ASEAN countries and India, Taiwan's political ecology has turned green, namely independence-oriented, from the local elections 2014 through the central elections 2016. A China-dominated world view in Taiwan is being drastically challenged.

Based upon the One China Principle, Beijing's Taiwan policy stressed cross-strait integration, and Taiwan was limited in the independence of its development, especially after the rise of the Chinese economy. Nevertheless, with the launching of the process of democratization, Taiwanese people have gradually become conscious and willing to go their own way. As a result of Taiwan's geographical proximity to China, cross-strait exchanges are a part of reality but undeniably the consequences of Taiwan's highly structural dependency on China cannot be underestimated. Risks accompany opportunities.

On December 31, 2008, President Hu Jintao commemorated the thirtieth anniversary of the "Message to Our Taiwan Compatriots" with a speech on "Working Together in Promoting the Peaceful Development of Cross-Strait Relations and Achieving the Great Rejuvenation of the Chinese People." In the speech, Hu clearly presented six points as guidelines for his Taiwan policy. We have found that Ma Ying-jeou's efforts over the past few years have locked Taiwan further into the strategic framework of Beijing's Taiwan policy.⁶

(1) Politically: Hu advocated "abiding by the One China Principle and enhancing mutual political trust." Ma accepted the "1992 Con-

6. 顏建發, 〈國民黨的中國政策〉, *Taiwan International Studies Quarterly*, Vol. 9, No. 2, Summer 2013, p. 74, *Taiwan International Studies Association*, <<http://www.tisanet.org/quarterly/9-2-4.pdf>>.

sensus” in the sense of “One China, with respective interpretations.” (2) Economically: Hu advocated “facilitating economic cooperation and promoting common development.” Ma acted in concert by opening up the three direct links and signing the pacts on the *Economic Cooperation Framework Agreements*, ECFAs. (3) Culturally: Hu advocated “promoting Chinese culture and strengthening the spiritual bond.” Ma actively deepened cross-strait cultural exchanges and deleted Taiwan Independence elements in textbooks. (4) Socially: Hu advocated “strengthening personnel exchanges and expanding exchanges among all sectors.” Ma responded by “relaxing the policy of Chinese students studying in Taiwan and the policy of Chinese spouses in Taiwan,” “conducting an overall review and correction on the *Act Governing Relations between the People of the Taiwan Area and the Mainland Area*,” and “the mutual establishment of SE-FARATS offices.” (5) Diplomatically: Hu advocated “safeguarding national sovereignty, negotiating foreign affairs.” Ma initiated a “diplomatic truce” and responded by “consulting with China over Taiwan’s participation in the international activities.” (6) Militarily: Hu advocated “ending the state of hostility and reaching a peace agreement.” Ma changed the “decisive battle offshore” into “tenacious defense.”

Obviously, Ma’s cross-strait policy complied with Hu’s Taiwan policy. Hu’s six-point proposals had been laid out completely since Ma’s inauguration in May 2008, except for the differing depth and breadth at the levels of politics, economics, culture, society, diplomacy, and military. Clearly, on the grand strategy, the KMT fully complied with the CCP in the chess manual. Hence, although the KMT got some peace dividend, in the end it just carried out the strategic intent and vision of the CCP. In these circumstances, those who opposed the continued high frequency of cross-strait exchanges worried about the deteriorating dependency of Taiwan on China. Increasing integration

between Taiwan and China derived from the growing exchanges concomitantly intensified the deep worries of Taiwanese who were looking for political autonomy or independence.

During the presidential election campaign, Tsai Ing-wen set out her China policy at the Center for Strategic and International Studies in Washington on June 3, 2015, asserting that “A leader must take into account public consensus when making decisions. We do have a broad consensus in Taiwan – maintenance of the status quo.” After she won the election on January 16, 2016, even though Beijing tried very hard to pressure her to move further toward the 1992 Consensus, she still kept firmly to her position and promise.

In line with the policy announcements during the campaign, Tsai has kept playing down sensitive cross-strait issues so that she may devote herself to resolving miscellaneous economic and social issues, including the New Southbound policy. It is important for her to avoid being involved in rhetorical disputes over cross-strait issues, which are not helpful to stabilizing cross-strait relations. Moreover, both Taiwan and China have a responsibility to promote regional peace and prosperity. The two sides could exert greater influence if they cooperated. The New Southbound Policy and cross-strait policy are complementary.⁷ In a broader sense, Tsai’s strong commitment to maintaining the status quo, promoting democracy, and transforming economic structures will reaffirm U.S.-led allies in safeguarding Asia-Pacific regional peace and prosperity.

7. “Office of the President approves guidelines for New Southbound Policy,” *Taiwan Today*, August 17, 2016, <<http://taiwantoday.tw/ct.asp?xItem=247068&ctNode=2175>>.

III. ASEAN Requires a Balanced Development Policy

On August 16, 2016, Guidelines for the New Southbound Policy were approved by the Office of the President during a meeting on foreign trade strategy convened by President Tsai Ing-wen, paving a new path for Taiwan's government to stretch out its antennae into the southern world.

As set out in the guidelines, the long-term goals of the policy cover Taiwan's technological and cultural links with Southeast Asia, South Asia, Australia and New Zealand so as to promote the sharing of resources, talent and markets. The short and medium-term goals are to facilitate increased exchanges with the targeted nations on investment, tourism, culture and human resources, and encourage Taiwanese businesses to explore opportunities in these countries.⁸

On May 25, 2016, China's Taiwan Affairs Office spokesman Ma Xiaoguang criticised the New Southbound Policy for running counter to economic principles. He also recalled that the so-called southbound policies put forth by Lee Teng-hui and Chen Shui-bian had brought huge losses to Taiwanese businesses. He also stated that "Beijing will resolutely contain any Taiwan independence separatist acts or plots."⁹ Deputy Dean of the Institute of Taiwan Studies at Tsinghua University, Wu Yongping maintained that Beijing's suspicion of Taiwan's southbound policy will make collision between China and Taiwan inevitable or at least reduce the effects of the policy.

8. "Office of the President approves guidelines for New Southbound Policy."

9. Simon Tay & Cheryl Tan, "Renewing Taiwan's 'pivot' to Southeast Asia," *The Japan Times*, June 1, 2016, <<http://www.japantimes.co.jp/opinion/2016/06/01/commentary/world-commentary/renewing-taiwans-pivot-southeast-asia/#.V71Fs9R95kg>>.

Nevertheless, ASEAN and India are concerned with a win-win option not a loss-loss one. They tend to assess either Taiwanese or Chinese capital in a win-win or balanced perspective. As a matter of fact, due to China's relative slow growth and upward costs, Taiwanese businesses will be more willing to go southward. Reciprocally, a number of ASEAN countries will welcome Taiwanese investment.¹⁰

Hence, once Taiwan engages ASEAN or India with a low-profile and in a pragmatic manner, they have no reason to reject it. They may even greatly welcome it. "It's very simple why we're doing it – every nation is investing in Southeast Asia. We are doing what we should do and we are already behind the United States, Japan, India and even China."¹¹

After all, Taiwan is rich in capital, technology, management, marketing, and innovation. Located at different levels, Taiwanese and Chinese businesses have their own strengths and weaknesses. As James Huang, the head of the New Southbound Policy Office, noted "China is good at mega projects – building high – speed rail, dams and power plants – while Taiwan's strengths are its small and medium-sized enterprises in fields such as sophisticated agriculture, vocational training and information and communications technology."¹²

Huang even said "so jointly, we can help ASEAN together."¹³

10. Simon Tay & Cheryl Tan, "Renewing Taiwan's 'pivot' to Southeast Asia."

11. Li Xueying, "Taiwan's Southbound policy is 'purely economics,'" *The Straits Times*, June 9, 2016, <<http://www.straitstimes.com/asia/east-asia/taiwans-southbound-policy-is-purely-economics>>.

12. Li Xueying, "Taiwan's Southbound policy is 'purely economics.'"

13. Li Xueying, "Taiwan's Southbound policy is 'purely economics.'"

For him, “Taiwan is open to cooperating with China in wooing the ASEAN and India markets together. Companies from both sides of the Taiwan Strait have formed joint ventures and should continue to do so.”¹⁴ Although Huang's comments sound like diplomatic rhetoric, there exist some theoretical possibilities of cooperation between Taiwan and China if China does not insist on the One China Principle as a precondition for political contact. Functionally speaking, Taiwan's New Southbound Policy may be on a par with the “One Road” of the “One Belt, One Road (OBOR)” in helping the ASEAN economy to develop.

ASEAN seeks to combine the advantage of every side. In exchange for oil and gas resources and mineral resources from ASEAN, China has a lot to offer thanks to its rich foreign reserves and vast industrial overcapacity. Focusing on sea routes linking China with Europe via the South China Sea and the Indian Ocean, the 21st Century Maritime Silk Road, called “One Road,” covers: (1) The Nanning — Singapore Economic corridor, including: Vietnam, Cambodia, Laos, Malaysia, Thailand, the Philippines, Brunei, Singapore, Indonesia and East Timor. (2) the BCIM economic corridors, including Myanmar, India, Sri Lanka, Bangladesh, Bhutan, Maldives, and Nepal. (3) the China-Pakistan Economic Corridor, including Pakistan and China's interior provinces involving: (a) the Southwest Region: Guangxi's Beibu Gulf Economic Zone and the Pearl-West River Economic Belt, and the Yunnan-centered Greater Mekong economic zone; (b) the Coastal areas and Hong Kong and Macao: Shanghai Free Trade Zone, Fujian Straits Blue Economic Experimental Zone, Zhejiang marine economic development demonstration area, Zhoushan Islands District, Hainan, Hong Kong and Macao, Shenzhen Qianhai,

14. Li Xueying, “Taiwan's Southbound policy is ‘purely economics.’”

Nansha and Zhuhai Hengqin and 15 ports including: Shanghai, Tianjin, Ningbo - Zhoushan, Guangzhou, Shenzhen, Zhanjiang, Shantou, Qingdao, Yantai, Dalian, Fuzhou, Xiamen, Quanzhou, Haikou, and Sanya.¹⁵

Such a big project is quite attractive to most ASEAN states. The “One Road” projects, especially those involving construction of physical infrastructure, are to facilitate commerce between China and the ASEAN states. Southeast Asia’s infrastructure is emerging as a major beneficiary of the One Road, which attracts a high proportion of China’s overseas direct investment outflows, and, nearly a third of which go towards infrastructure development. However, China’s rising economic influence plus its paramilitary spending to assert its preeminence in the South China Sea also make many ASEAN members nervous.

Internally, China’s rise has pushed ASEAN states to foster their own regional identity and move toward economic integration. Externally, deepening partnerships with the U.S. and Japan are a way to balance against China’s possible domination. In line with the U.S. military and diplomatic pivot and rebalance to Asia, Japan has been very active in reciprocating with its information, initiatives, programs and projects, including a five-year plan to increase its aid to Asian infrastructure projects to about \$110 billion announced in 2015. U.S. and Japanese interests are more aligned than ever before.

Ever since the second half of 2012, China’s strong position over the South China Sea has intensified its confrontation with most of the ASEAN states, especially the Philippines and Vietnam. At the

15. 〈什麼是一帶一路〉, *MBAlib*, August 15, 2016, Accessed, <<http://wiki.mbalib.com/zh-tw/%E4%B8%80%E5%B8%A6%E4%B8%80%E8%B7%AF>>.

same time, U.S. and Japanese involvement has been much welcomed by the ASEAN states even though most of them do not wish to take sides. China's abundant economic resources and geographic proximity mean ASEAN states require a balanced development policy. Under these circumstances, with its own economic strengths and experience, Taiwan may find its own niche.

IV. The Dangers of Chinese Expansionism in ASEAN

Although China has shown its strong capacity for investment, what it invests in and where it can invest are items and places that Western and Japanese multinational corporations and international agencies are unwilling to invest in. In theory, Chinese capital and Chinese technology are able to rectify unequal development created by investment from Western or Japanese companies. China can also challenge the hegemony and monopoly of the dollar imposed by Japan and the West. It can also extend its exchanges with the rich natural and human resources of ASEAN.

But the problem is that under the "One Road," the implementation of big projects requires the support and finance from local governments. Currently the first state-funded plan by the Asian Infrastructure Investment Bank is the "China - Pakistan economic corridor," a six-year plan with a total investment of US\$ 46 billion. The difficulties of financing, for example, the Pan-Asian high-speed rail route will be too big to overcome. If every item is managed in this way, then, China will fall into not only *the pit of Indonesia's project* but also China's own strategic predicament.

Since the OBOR was proposed as a strategic plan in late 2013, its specific details have not been made clear to the outside world. It is not an easy job to make a detailed assessment. According to

Professor Chan Man-hung, Director of the China Business Center of Hong Kong Polytechnic University, local cadres are not clear about the missions and details of the OBOR so its implementation is very problematic. At presentations in Hong Kong and in the mainland, Professor Chan has openly indicated that research for the OBOR is still weak. For example, the problems that have occurred in different countries on the route of the One Belt show the difficulties and troubles China has met during the process.

1. China vs. Philippines

Ostensibly, although the Philippine government expressed some interest in the OBOR, China-Philippine relations were deteriorating over the South China Sea issue during President Aquino III's administration, hence the Philippines have been neglected on the OBOR map. Besides, many Chinese enterprises abandoned their investments in the Philippines due to the political risks.

Chinese investment in the Philippines is very limited, even ranked below the top ten. In the Philippines, Japan and U.S. companies are everywhere. Japan chairs the Asian Development Bank whose headquarters are located in Manila. Rushed participation in the OBOR may damage the Philippines' existing relations with the U.S. and Japan and thus may cause it to lose substantial investment and aid from the U.S. and Japan.

Nevertheless, the business community and overseas Chinese community have different views on this. Ethnic Chinese occupy a large component of the Philippine economy, with seven of the top ten companies having Chinese ancestry, as revealed in Forbes magazine in 2015. Most ethnic Chinese favor the OBOR. Many ethnic Chinese fear that worsening China-Philippine relations may lead to the rise

of anti-Chinese sentiment in the Philippines. They believe that economic exchanges may ease diplomatic deterioration.

Rodrigo Duterte, the new President of the Philippines, openly called for direct talks with the Chinese leadership on the South China Sea issue. Both China and the Philippines have economic complementarities. The Philippines is rich in natural and human resources though lacking in capital and technology and poor in infrastructure. China could exchange its capital and technology with the Philippines for mining, agricultural and fisheries resources. China also can help the Philippines improve its infrastructure, high-speed rail, seaports and airports.

Although President Duterte has a strong pro-China tendency, it is not so easy to go off the U.S. strategic orbit. In security, U.S. and Japan are the most important providers of military aid. The Philippines and the U.S. signed the *Enhanced Defense Cooperation Agreement* (EDCA) in late April 2014.¹⁶ This agreement will be valid for 10 years. In the development of the Philippines' economy, U.S. and Japanese capital as well as the inflow of fixed assistance from the U.S. and Japan are an indispensable factor. The future of relations between the Philippines and China is still indeterminate; all will depend on the progress of the South China Sea issue as well as the results of the U.S. presidential election.

2. China vs. Laos, Vietnam, Cambodia, and Myanmar

Deutsche Welle reported, on June 5, 2016, that the countries along the Trans-Asian Railway (TAR), including Laos and Vietnam

16. Prashanth Parameswaran, "US-Philippines Alliance to Reach 'New Level': US Defense Chief," *The Diplomat*, April 10, 2016, <<http://thediplomat.com/2016/04/us-philippines-alliance-to-reach-new-level-us-defense-chief/>>.

are upset about China's lending conditions which have led to delays in the construction. China maintains that if they can get the land development rights along the way, they are willing to share more of the construction costs. However, China's request was rejected. Secondly, China is willing to provide at least \$30 billion in loans and credit guarantees. But construction costs amount to only part of such big scale infrastructure projects. Operation at a late period requires a lot of financial subsidies.

Laos and Vietnam do not have sufficient financial resources to promote the projects. Beijing so far has not been able to come up with an acceptable program which can convince Laos. The leading negotiator of Laos, Deputy Prime Minister Somsavat Lengsavad, was marginalized during the power struggle; he was criticized for showing too much favor to the Chinese side in negotiations. Laos must re-negotiate this railway project with China. Laos has started to play a balancing game of strategy with the great powers by using its geo-strategic position in Indochina.

Laos and Vietnam have maintained good relations with China respectively, but always at the key moment Laos will take the side of Vietnam. The United States also poured in a lot of effort in approaching Laos under its Pivot to Asia Policy. Currently, there are a large number of international non-governmental organizations on social and environmental issues in Laos. They have closely monitored dam and transport projects. They have even forced the government to delay or cancel them, to cut off China's access to the projects, partly to retain the natural and human resources of Laos and partly also intentionally to offer Western forces strategic space.

All-round diplomacy is in Cambodia's own interests. On the one hand, Cambodia's short-term temporary cooperation with China

has nothing to do with obedience. On the other hand, Cambodia pays close attention to its relations with Thailand and Vietnam. In the wake of U.S. and Japanese higher involvement in Southeast Asia, Cambodia started to develop strategic partnerships with Japan and the U.S.A.

In mid-2014, Myanmar canceled a railway project out of concerns for the environment.

3. China vs. Thailand, Malaysia, and Singapore

China had much closer diplomatic relations with Thailand during Prime Minister Yingluck Shinawatra's Administration. Technical input into Thai Rail was regarded as a highlight of Thai-Chinese relations. In October 2013, Chinese Premier Li Keqiang and Yingluck Shinawatra signed the "China and Thailand on Deepening Railway Cooperation Memorandum of Understanding" and both sides agreed on the promotion of cooperation on high-speed rail and on rice. But, the project was postponed due to Yingluck's ouster by a military coup in May 2014. On December 19, 2014, the New Prime Minister, Prayuth Chanocha, signed with Li Keqiang "The Joint Committee on Railway Cooperation between Thailand and China." On February 9, 2015, during a visit to Tokyo, Prayuth signed with Japanese Prime Minister Shinzo Abe "The joint statement to strengthen bilateral economic relations between Thailand and Japan." On December 1, a message from the Thai Ministry of Transport revealed that, because the interest on the loan from the Chinese government was too high, the Thai government planned to give up the Chinese loan and turned to Japan's ODA loans. The schedule of China-Thailand project was then delayed.

On March 23, 2016, Li Keqiang met Prayuth at the Boao Forum in Hainan Island. During the meeting, Li Keqiang said that China and Thailand are as close as a family and the China-Thailand railway

cooperation project has made significant progress. Nevertheless, after several days, the ninth round of negotiations broke down. The Thai government suddenly announced that the railway would no longer be operated as a joint venture; it will be wholly owned by the Thai side, the Chinese merely providing financial and technical assistance.

Recently, the wealth of Chinese people in Malaysia has rapidly surged. Chinese people's showing off their wealth with little constraint has gradually aroused anti-Chinese sentiments. On September 25, 2015, Chinese Ambassador Huikang Huang in his visit to the ethnic Chinese community at Petaling Street in Kuala Lumpur, told the media that the "Chinese government opposes all forms of terrorism, including against specific ethnic groups or terror and extremism, as well as serious violence or disruption of public order and social stability." Huang's remarks were condemned as interfering in internal ethnic relationships.¹⁷ Above all, after China's reclamation of islands in the South China Sea, China's rift with Malaysia, one of the claimants, has become more sensitive.

Singapore has always maintained a realistic diplomacy. Singapore unambiguously rejects China's intervention in the internal affairs of ASEAN in a solemn manner. Faced with China's aggressive expansion in the Pacific and Indian Ocean, Singapore tries to carefully strike a balance by joining the Japanese-Indian maritime alliance, thereby upholding stability in the region. Moreover, Singapore's acceptance

17. Elina Noor, "MALAYSIA: RECALIBRATING ITS SOUTH CHINA SEA POLICY?" *The Asia Maritime Transparency Initiative*, January 8, 2016, <<https://amti.csis.org/malaysia-recalibrating-its-south-china-sea-policy/>>; 〈外交部：駐馬大使慰問華僑華人是正常做法 綜合報導〉, *SINA*, September 28, 2015, <<http://dailynews.sina.com/bg/chn/chnpolitics/phoenixtv/20150928/04546939575.html>>.

of the ruling of the Hague also angers China.

4. China vs. Indonesia

China's "One Road" of the OBOR also covers Indonesia: on October 9, 2015, both China and India reached a verbal understanding on a high-speed railway project "Jakarta - Bandung - Cirebon - Surabaya." The first phase of the "Jakarta - Bandung" project was almost aborted due to Indonesia's financial difficulties, and later, China put forward a new high-speed rail program, offering a program with a 75% preferential loan for \$ 5.5 billion by the China State Development Bank (CDB). But, on January 21, 2016, a week after the groundbreaking ceremony, the Ministry of Transportation said that the project had not yet been approved and the construction had to be suspended because the Ministry has not yet received the necessary assessment documents, and some files are in Chinese so that Indonesian officials do not understand them.

It was reported that the Indonesian Minister of Transport, Ignasius Jonan, was still re-reading the files of the project at the groundbreaking ceremony. Agus Pambgio, Managing Director, Ph & H, was worried about safety and the environmental impact on Indonesia. He argued that feasibility assessment used to take 18-19 months, but it was done in only three months, and the environmental assessment in seven days. In March 2016, the spokesman for the Chinese Department of State replied to the media at a briefing in which he said that the Chinese side is maintaining closer communication with the Indonesian side. This implies that there is no progress and that both sides need to talk again.

5. China vs. India

India believes that China is a big threat. Ever since 2005, China

has implemented a “String of Pearls” strategy in the South China Sea and the Indian Ocean, composed of port and airport construction projects, foreign relations and military modernization. By this means, China hopes to resolve its unease and anxiety over a lack of energy security and build closer politico-economic relations with the countries of the Indian Ocean Rim as a “soft power network” to counterbalance India. China’s move has upset India.

Taking China as the imaginary enemy, the United States’ Pivot to Asia has dramatically become India’s potion. In view of the situation in Asia, any country which trades with China is closer, it tends to look to the U.S. security support. Recently, relations between Japan and India have turned bad. In order not to be constrained by China’s desire for rare earths, Japanese companies have been importing from India instead. Japan and India signed a bilateral economic cooperation agreement to accelerate bilateral civil nuclear cooperation. India is a huge and potentially untapped market for Japan. Japan’s economic structure determines that Japan must find a stronghold for the country’s foreign capital and technology overseas. Similarly, India also finds a good partner to cooperate. More importantly, India and Japan belong to the same political system.

V. The Living Space for Taiwanese to Breathe

After the Asian Financial Crisis of 1997, Southeast Asia has gradually depended on China economically. To cope with its problem of overcapacity and a deteriorating economic environment, Beijing started its southbound policy, the “One Road” at the end of 2013. Nevertheless, when the DPP government initiated its southbound policy beginning in May of 2016, it was strongly denounced by Beijing. Adhering to its claim to sovereignty over Taiwan, Beijing will take any opportunity to press President Tsai to finally accept the

One China Principle. Before an acceptable statement is released by Tsai, it is believed that Beijing will try any means to block and oppose Taiwan. Harassment will appear anywhere and anytime in Southeast Asia and India. Since the economic interdependence of Southeast Asia, as well as South Asia, and China is tremendously high, and, most importantly, China has official relations with those countries, China will have enormous room to manipulate its threats and harassment against Taiwan. From an insider's message based on interviewing Beijing officials we know that Beijing will make every effort to deprive Taiwan of living space in the countries targeted by the southbound policy as much as it can.

However, in the context of Chinese political plots and tactics, this is bluffing. Furthermore, ASEAN countries and India have their own national interests, and at a minimum, they are not colonies of China. A "win-win" rather than a "zero-sum" favors their national interests. They will welcome Chinese capital and certainly they will have no reason to reject Taiwanese capital. Besides, due to its excess capacity, China can offer a lot to feed the demand of Southeast Asia and India in building infrastructure and in exchange for rich natural resources contained in that region. Nevertheless, China's state-owned enterprises are generally perceived as overbearing by local residents. Most private companies suffer when they deal with Chinese state-owned companies. Chinese tend to be boastful. The Chinese way of doing business is always opaque, and anticlimactic. They give the host countries the impression of arrogance and reserve. Thanks to China's rise in economy and diplomacy, there are anti-Chinese sentiments in this region, especially in Vietnam, Malaysia, and Indonesia.

Over the past few years, most ASEAN countries have taken the pattern of economic dependence on China and security dependence on the U.S.. However, after the implementation of the TPP, if possible,

ASEAN and India may be structurally tilted toward the U.S.-led TPP. The governments of ASEAN and India may adopt a more pro-America approach. Most ASEAN countries will welcome aid from abroad, but the demand is too great for China to meet in full; China promises a lot of aid around the world. Furthermore, strategically, the U.S. and Japan, as well as India, are on the same front against China's rise. The main part of Japanese ODA is given to Southeast Asia so possible strategic collisions between China and Japan may occur at any time or place soon. In Indochina, China can grasp very little, probably only Cambodia and Laos; but both Cambodia and Laos also have strong links with the U.S. and Japan. China is now in face of being marginalized by the U.S. pivot/rebalancing policy in this region. Hence, if Hillary Clinton were elected, the pivot to Asia policy, her baby born in July 2009, may well be more advanced and better articulated. Clearly, the interaction among the host countries in this region and China vis-à-vis the U.S. and Japan as well as some other democracies will provide some living space for Taiwanese to breathe.

Except for certain levels of government-to-government relations in its ties with ASEAN and India, Taiwan may pursue a multi-pronged approach that prioritizes the promotion of business ties and people-to-people exchanges. For example, instead of dealing with central governments, with the auspice of Taiwanese government's public resources, Taiwanese businesses or organizations may engage with ASEAN's regional governments to carve out more room for cooperation.¹⁸ Clearly, ASEAN and India and the new world beyond this region will offer Taiwanese more new windows from which to look out. This is a new page and a new era with enormous challenges and opportunities that Taiwanese may dream of and fight for.

18. Simon Tay & Cheryl Tan, "Renewing Taiwan's 'pivot' to Southeast Asia."

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