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Liou To-Hai

Taiwan's Role in the Enhancing Asia-Europe Economic Interactions

Abstract

Surveys show that while Asia accounts for nearly forty percent of global output, it gives nearly two-thirds of global growth. Consequently, Asia represents strong business opportunities and it compels the EU countries to reprioritize their trade and investment with a particular focus on Asia. Furthermore, with the intensification of Sino-US strategic manoeuvres, exemplified by China's One Belt One Road (OBOR) Initiative, but also by the conclusion of Trans-Pacific Partnership (TPP) negotiations on US initiative, the Asia-Europe economic interactions have become more important than ever. At the opposite ends of the Eurasian continent, Taiwan and Hungary should take advantage of their geographical position, seize the opportunity and benefit economically from the changing dynamics across the Eurasian continent.

The purpose of the paper is first to identify characteristics of Asian economic integration, then to elucidate Taiwan's unique role in the Asian economic integration and how Taiwan can contribute to the burgeoning Asia-Europe economic relations under the OBOR Initiative and the emergence of the New Economy in Asia. It provides an overview of ^{Asian} ~~European~~ integration driven by the private sector, the export-oriented Asian economic bloc where cooperation is gradually expanding due to the efforts of China.

Special attention is dedicated to Taiwan's unique place and role in Asian economic collaboration and it is pointed out that in spite of some negative tendencies Taiwan cannot be left out of consideration when analysing regional and continental cooperation and the future of Asian economic development. Finally the implications for Taiwanese-Hungarian collaboration are highlighted.

Keywords: Taiwan, Hungary, China, Asian economic integration, OBOR

Introduction

According to International Monetary Fund (IMF) Survey in 2015, "while Asia accounts for nearly forty percent of global output, it continues nearly two-thirds of global growth."¹ This means that Asia represents strong business opportunities and thus there is a need for EU countries to reprioritize their trade and investment with a particular focus on Asia. Furthermore, with the intensifying of Sino-US strategic maneuvers exemplified by China's One Belt One Road (OBOR) Initiative in 2013 and the conclusion of Trans-Pacific Partnership (TPP) negotiations in October 2015 on US initiative, Asia-Europe economic interactions have become more important than ever. At opposite ends of the Eurasia continent, Taiwan and Hungary should take advantage of their geographical position, seize the opportunity and benefit economically from the changing dynamics across the Eurasia continent.

The purpose of this paper is first to identify characteristics of Asian economic integration, then to elucidate Taiwan's unique role in the Asian economic integration and how Taiwan can contribute to the burgeoning Asia-Europe economic relations

¹ "Asia: Stabilizing and Outperforming Other Regions," Economic Health Check, May 6, 2015, <http://www.imf.org/external/pubs/ft/survey/so/2015/car050615a.htm>

under the OBOR Initiative and the emergence of the New Economy in Asia, finally implications for Taiwan-Hungary collaboration.

Characteristics of Asian economic integration

When it comes to Asian economic integration, there are at least five identifiable characteristics, that is, export-oriented, private sector-driven, China-dominated, OBOR-led and New Economy-based bloc.

Private sector-driven Economic Integration

The first characteristic of the Asian economic integration (AEI) is private sector-driven integration. It can be dated back to the emergence of flying-geese pattern (FGP) featured with vertical division of labor and a model of co-existence of cooperation and competition simultaneously in the latter half of the 1980s. Due to the dual pressure of budget and foreign trade deficits of US\$100 billion respectively, U.S. President Ronald Reagan decided in 1985 to push those countries with largest trade surpluses with the country to cut down their trade surpluses by appreciating their currencies against dollars. Japan and the Newly Industrializing Economies (NIEs) were the major targets.

For survival, Japan, Taiwan and South Korean companies took similar policies of diversifying their export markets and initiating foreign direct investments in the region. ASEAN and China were locked as primary targets of these kinds of operations due to their abundant cheap labor and natural resources. Japan and NIEs poured their money into those countries at the lower level of FGP and relocated its sunset industries (labor-intensive industry with less price competitiveness) to ASEAN and China. Products produced there were either exported to the US (to reduce Japan and NIEs' trade surplus with the US and take advantage of ASEAN's Most Favored Nation status) or back to the upper level countries in the region. NIEs, China and ASEAN benefited from Japan's newly opened market, investment and technology. Japan and NIEs have to continue to upgrade their technology or they might be caught up by countries at the lower level.

As a result, Japan became the head (or the upper layer) of the flying-geese, while NIEs (as the body of the flying-geese) were the intermediate layer and the bottom layer of ASEAN and China (two tails of the flying-geese). The interdependence of Northeast Asian and Southeast Asian economies thus has greatly increased through a rapid expansion of intra-regional trade and investment as well as the strengthening of their industrial cooperation activities among the economies in the region.² In other words, Asian economic integration is largely driven by private sectors, not by governments. This feature is quite dissimilar to the European economic integration which has been led by governments, West Germany and France in particular. In terms of theory, the Asian economic integration model is quite similar to David Mitrany-proposed functionalism emphasizing the private sector's forces in the process of

² Harry H. Kendall and Clare Joewono (eds) *Japan, ASEAN, and the United States*, Institute of East Asian Studies, University of California, Berkeley, 1991, pp. 225-228.

integration, while the EU model is close to Michael Haas-asserted neo-functionalism which stresses the important role of government in the integration process.³

Export-oriented Economic Bloc

Then, another characteristic can be identified from the afore-mentioned AEI feature, that is, unlike the EU, Asian economic bloc is export-oriented region. China serves as manufacturing bases for its East Asian neighbors. Regional integration by itself is not the crucial ingredient in the East Asian growth potion. Instead it is the way these countries go about it. The link between intraregional trade and growth observed in East Asia can be summarized into two important trade patterns: a high incidence of intra-industry trade, namely trade flows within narrowly defined sectors or industries, such as mobile phones, electronics and heavy machinery; and a high participation in global value chains, in which trade is associated with multicounty production operations. For instance, an auto company may manufacture transmissions in one country, chassis in another, and export these to another country where they are assembled into a vehicle. "East Asian firms tend to participate in the intermediate stages of production-receiving inputs from abroad, transforming them, and shipping them to more advanced stages of production. They then maximize the potential for learning and knowledge transfers."⁴ Final products mostly go to the United States and the European Union. Asia's Intraregional trade share (in percentage) in 2013 was 54.9%,⁵ lower than EU (64.4%), higher than NAFTA (46%). Among Asian countries, they primarily trade intermediate goods with each other. Among the trade between APEC members, intermediate goods account for 60%.

China-led Economic Integration

The third characteristic that makes Asian economic integration different from that of the EU model is China's dominance in Asia.⁶ China has become the largest trading partner and export market of almost all Asian countries, for examples, Taiwan (2003), South Korea (2004), Japan (2007-2009), Australia⁶ (2007), India (2008) and ASEAN (2009). Against this background, China formally replaced Japan as the leader of Asian economic integration in 2009 in terms of the total trade volume and then overtook Japan in real GDP terms in 2010, second only to the US.

Moreover, there is a bloc within the Asian economic bloc, namely the Greater China trade bloc of 1.5 billion people, which is embedded in the ASEAN plus six framework plus Taiwan, Hong Kong and Macau. One reason why China proposed FTA to ASEAN is that there are more than 30 million overseas Chinese in Southeast Asian

³ To-hai Liou, "A Comparative Study of Sibling Policy of the Divided Nations: Taiwan versus South Korea," *The Journal of International Relations*, No. XXXVIII, 2015, pp. 107-2.

⁴ Augusto de la Torre, Daniel Lederman, and Samuel Pienknagura, "Doing It Right," *Finance & Development*, September 2015, Vol. 52, No. 3, <http://www.imf.org/external/pubs/ft/fandd/2015/09/delatorre.htm>

⁵ Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?

<http://www.adb.org/sites/default/files/publication/177205/asian-economic-integration-report-2015.pdf>

⁶ Liou To-hai, "Australia-India Relations in the 21st Century: a growing convergence of national interests," *Taiwanese Journal of Australian Studies*, No. XI, 2015, pp. 137-3.

countries. They only constitute less than 10% of total population in the region, but they control two thirds of ASEAN economy.

OROB-led Economic Integration

With his goal of building a new type of big powers relationship, Chinese President Xi Jinping decided to make a strategic move by proposing the New Silk Road Initiative, consisting of a “new Silk Road economic belt” and a “maritime Silk Road”.⁷ The former is to be built on networks of high-speed railways all the way to Europe through Central Asia and Russia plus a pan-Asia high-speed railway down to Southeast Asia,⁸ while the latter is perceived to be a strategic attempt to ameliorate relations with South and Southeast Asia. In the end, the New Silk Roads will make China the hub of the global economy.⁹

This new grand strategy is to extend China’s clout through its One Belt and One Road (OBOR) Initiative. The Initiative has two pillars. One pillar is the Silk Road Economic Belt concept which was introduced by Xi Jinping during his visit to Kazakhstan in September 2013. In a speech delivered at Nazarbayev University, Xi suggested that China and Central Asia cooperate to build a Silk Road Economic Belt with a focus on bringing together China, Central Asia, Russia and Europe (the Baltic); linking China with the Persian Gulf and the Mediterranean Sea through Central Asia and the Indian Ocean. The Silk Road Economic Belt — from Western China through Central Asia to Europe will involve infrastructure projects, trade and public-private partnerships.

The other pillar of the OBOR Initiative - mainly in South-East Asia is the 21st-Century Maritime Silk Road which is designed to go from China's coast to Europe through the South China Sea and the Indian Ocean in one route, and from China's coast through the South China Sea to the South Pacific in the other. President Xi proposed building a close-knit China-ASEAN community and offered guidance on constructing a 21st Century Maritime Silk Road to promote maritime cooperation in October 2013. In his speech at the Indonesian parliament, Xi also proposed establishing the Asian Infrastructure Investment Bank (AIIB) to finance infrastructure construction and promote regional interconnectivity and economic integration.¹⁰

Hence, the emergence of OROB-led Asian economic integration can be regarded as the future orientation of AEI and the fourth characteristic of Asian economic integration. The Belt and Road routes run through the continents of Asia, Europe and Africa, connecting the vibrant East Asia economic circle at one end and developed European economic circle at the other. The initiative signals China's active involvement in building a new trend of globalization. China is attempting to promote the integration of Eurasia, and trying to make trade and investment more convenient,

⁷ Shannon Tiezzi, “China’s ‘New Silk Road’ Vision Revealed,” *The Diplomat*, May 9, 2014, <http://thediplomat.com/2014/05/chinas-new-silk-road-vision-revealed>

⁸ To-hai Liou, “Changing International Politics on the Korean Peninsula: from Geo-politics to Geo-economics,” *Prospect Journal: Taiwan Forum*, October 2014, No. 12, pp. 1-31.

⁹ Justyna Szczudlik-Tatar, “China’s New Silk Road Diplomacy,” *Policy Paper*, No. 34 (82), December 2013, https://www.pism.pl/files/?id_plik=15818

¹⁰ “Chronology of China's Belt and Road Initiative,” *Xinhuanet*, March 28, 2015 http://news.xinhuanet.com/english/2015-03/28/c_134105435.htm

deepen economic and technological cooperation, and develop free-trade areas,¹¹ in order to help build a grand Eurasian market of more than 3.6 billion.¹² If this game-changing initiative were materialized, it would definitely help Beijing to extend its clout beyond Asia and to bring about a new global political and economic order very likely centered around China.¹³ Last but not least, with the hidden strategic goals to respond to the U.S. rebalancing strategy in the Asia-Pacific region,¹⁴ OBOR initiative is designed to accelerate Asia-European economic integrations.

New economy-based Economic Integration

The last characteristic of Asian economic integration is the new orientation of New Economy-based economic integration. To be more specific, it is Information and Communication Technology (ICT)-based New economy. Asia is the most vibrant E-Commerce region in the world. With an economic size of total US\$11 trillion-plus GDP, China under Xi Jinping is determined to move away from debt-fueled investment, exports and heavy industry as dominant drivers of growth and more toward sectors like consumption and services. It is exemplified by its 13th Five-Year Plan, a roadmap for the nation's development from 2016 to 2020 for the economy, have consumption and services at the center.

Even though China's economic growth is slowing down, Stephen Roach, a senior fellow at Yale University and former Morgan Stanley non-executive chairman in Asia, believes "the building blocks are now in place for what could be the world's greatest consumption story of the 21st century. The evidence is everywhere: from sales of cinema tickets to smartphones, consumers are spending." In addition, Apple's Chief Executive Officer Tim Cook expects the world's most populous country will eventually be the company's biggest market. Therefore, the company is planning to have 40 stores in the region by 2016, up from 25 in the previous year. Alibaba's billionaire founder Jack Ma mentioned at an Alibaba Cloud conference in October 2015 that "China's middle class population to reach 500 million, from about 300 million now, by 2030."¹⁵

Across the globe, Asian people are more obsessed with internet than people in any other region. Taiwanese spent most time in smart phones than people in other countries on earth, followed by China. However, Chinese spent most time in smart

¹¹ Wang Yiwei, "Misconceptions about China's Belt and Road," *The China Post*, November 29, 2015 <http://www.chinapost.com.tw/commentary/the-china-post/special-to-the-china-post/2015/11/29/452142/Misconceptions-about.htm>

¹² China's 1.3 billion population plus India's 1.2 billion, ASEAN's 600 million and EU's 500 million.

¹³ "China and the world: With new Silk Road, Xi seeks to have all roads lead to Beijing," *Nikkei*, December 24, 2015,

<http://asia.nikkei.com/Politics-Economy/International-Relations/With-new-Silk-Road-Xi-seeks-to-have-all-roads-lead-to-Beijing>

¹⁴ Simon Shen, "How China's 'Belt and Road' Compares to the Marshall Plan, Should we think of 'One Belt, One Road' as China's Marshall Plan?," *The Diplomat*, February 6, 2016, <http://thediplomat.com/2016/02/how-chinas-belt-and-road-compares-to-the-marshall-plan/>

¹⁵ "Alibaba Mirrors the Fits and Starts Rise of China's New Economy," *Bloomberg*, October 29, 2015, <http://www.bloomberg.com/news/articles/2015-10-28/alibaba-mirrors-the-fits-and-starts-rise-of-china-s-new-economy>

phones for purchasing goods globally. Almost half of China's population use smart phones and most of them tend to purchase goods and services on-line. In 2014, there were more than 600 million using internet. Among them, 361 million Chinese were purchasing goods and services through internet in contrast to India's ratio of 35 million people purchasing goods and services out of 243 million internet users. China's fast growing local services market is expected to reach US\$1.14 trillion in sales by 2017. Local services are a key area of competition in China as people turn to their smartphones or the Web to order takeout food, beauty treatments and domestic helpers. Chinese users of location-based services could rise 29 percent to 400 million by 2017, according to Shanghai-based Internet consultancy Research.¹⁶ The epitome of its robust e-commerce is last year's Alibaba Singles Day sales, the world's biggest online shopping event. It has broken its own record for sales. By the close of trade, the site had seen sales worth 91.2 billion yuan (US\$14.3 billion), a 60% increase from the previous year. In comparison, sales on Cyber Monday, which is the biggest online shopping day in the US, hit US\$1.35 billion, according to data analytics firm ComScore. Singles Day is held every year on 11 November.¹⁷

Taiwan's Unique Role in Asian Economic Integration

In terms of AEI, Taiwan's private sector has played a very active role ever since the integration inaugurated since the 1980s. In fact, Taiwan enterprises have been leading in making China the world factory by using Mainland China as primary manufacturing base. Most Taiwanese enterprises favored the operational mode of global division of labor, namely regarding China as their primary production base for its cheap labor and huge market, while Taiwan a hub for taking orders, advanced research and development, marketing, and financial operation. In 2006, 45% of Taiwanese firms adopted this mode of operation. By sectors, 77% of information technology (IT) and communication industries are operating in this fashion, followed by electric engineering (57%) and precision machinery (47%). By November 2012, 51.7% of Taiwan's manufacturing sector is operated (manufacturing in overseas) in this fashion, from 13.3% in 2000 to 47% in 2008 to more than 50% in March 2010.¹⁸

According the WTO, Taiwan is the country which has taken advantage of China most, followed by South Korea and Japan. More specifically, Taiwan played a key role in China-centered export-oriented Asian bloc. Taiwan investors have facilitated global operational mode based on China, taking advantage of its skillful marketing, design and global supply chain. Given that China's labor cost is skyrocketing and labor intensive industries could no longer enjoy preferential treatments in China, Taiwan investors have shifted part of their production bases away from China to ASEAN

¹⁶ "Alibaba Mirrors the Fits and Starts Rise of China's New Economy," *Bloomberg*, October 29, 2015, <http://www.bloomberg.com/news/articles/2015-10-28/alibaba-mirrors-the-fits-and-starts-rise-of-china-s-new-economy>

¹⁷ "China's Alibaba breaks Singles Day record as sales surge," *BBC*, November 11, 2015, <http://www.bbc.com/news/business-34773940>

¹⁸ Liou To-Hai, "Chapter 6 Cross-Taiwan Straits Economic Relations and the ECFA," in Kevin G. Cai (ed.) *Cross-Taiwan Straits Relations since 1979: Policy Adjustment and Institutional Change Across the Straits*, World Scientific Publishing Co., 2011, pp. 155-185. <http://www.worldscibooks.com/socialsci/7435.html>

countries such as Vietnam, Indonesia and Myanmar since 2008. This trend has become even more apparent since 2012. In the year, total investment of Taiwan companies in China was decreased by 16.6% to US\$10.9 billion, the lowest in three years. In the same year, Taiwan's investment in Vietnam more than doubled up to US\$943 million. In the subsequent three years, Taiwan's investment in China continued to reduce around 20% (down to US\$9.8 billion) in 2014,¹⁹ while Taiwan's investment in ASEAN countries increased by 20% annually. Between 1998 and 2014, Taiwan companies invested US\$28.4 billion in Vietnam. Taiwan is Vietnam's fourth largest foreign investor. Taiwan companies have hired 1.4 million Vietnamese workers there. Companies from Taiwan invested US\$1.39 billion in Vietnam in 2015, making Taiwan the fourth largest source of foreign investment in the country, according to statistics released by Vietnam's Ministry of Planning and Investment. Investment from Taiwan last year trailed only investment from South Korea (US\$6.72 billion), Malaysia (US\$2.47 billion) and Japan (US\$1.84 billion).²⁰ The most recent remarkable example is a huge investment by Formosa Hung Nghiep Ha Tinh Steel Company (FHS) belonging to Taiwanese Formosa Group. It had invested over US\$10 billion in the first phase of the steel complex and Son Duong Formosa deep seaport project at Vung Ang Economic Zone, Ky Anh district, the north central province of Ha Tinh.²¹

As East Asian economic integration intensifies and China's role becomes more central, Taiwan's role in the regional economic integration has increased. Trade statistics reveals a declining dependence of East Asia's exports on the EU and US markets, whereas increasing dependence on China.²² With the advent of the 21st century, what matters most in this era of hyper-competition is market. That is exactly what China holds, given its 800 million middle class.²³ As Helen Wang indicates in 2012, "as a result of China's new capitalist paradigm, a burgeoning middle class-calculated to reach 800 million within the next fifteen years".²⁴ All these point to the fact that China is on the way to becoming the hub of AEI.

A successful entrepreneur must have a capacity to identify business opportunities ahead of other competitors. This vision has to be followed by strategic moves and swift action. With China's promulgation of OBOR initiative, one of Taiwan's leading entrepreneurs Terry Gou (郭台銘), Chairman of Hon Hai Precision Industry Co. (鴻海), the world's largest contract electronics maker and Foxconn's 71 per cent owner,

¹⁹ "Taiwan's Economy and Presidential Election," *Nikkei*, January 14, 2016, <http://cn.nikkei.com/politicsaeconomy/politicsasociety/17825-20160114.html>

²⁰ "Taiwan the fourth largest investor in Vietnam in 2015: Vietnamese gov't," *The China Post*, January 6, 2016, <http://www.chinapost.com.tw/taiwan/business/2016/01/06/455338/Taiwan-the.htm>

²¹ "Taiwanese company invests over US\$10 billion in Vung Ang EZ," January 17, 2016' <http://www.talkvietnam.com/2016/01/taiwanese-company-invests-over-us10-billion-in-vung-ang-ez/>

²² Zhao Hong, "Taiwan-ASEAN Economic Relations in the Context of East Asian Regional Integration," *International Journal of China Studies* 2.1 (April 2011): 39-54.

²³ "China's 800 million middle class is Korea's opportunity," *Korea JoongAng Daily*, January 25, http://chinese.joins.com/big5/article.do?method=detail&art_id=146846

²⁴ Helen Wang, *The Chinese Dream: The Rise of the World's Largest Middle Class and What It Means to You*, Bestseller Press, 2012.

<http://www.amazon.com/The-Chinese-Dream-Worlds-Largest-ebook/dp/B00416D2Q6>

works out his coping strategy characterized by a diamond shape of a combination of Taiwan (OEM), Japan (technology), China (market) and India (cheap labor), taking advantage of their respective competitive edges. Hon Hai manufactures computers, consumer electronics, communications and other products including connectors, cable assemblies, enclosures, flat-panel displays, game consoles, motherboards, servers, and TVs. The Taiwanese manufacturing powerhouse has been working with Chinese e-commerce leader Alibaba Group and Japanese telecommunications group Soft Bank to establish a foothold in the Indian market.²⁵

Given that Terry Gou persuaded Jack Ma to make joint investment in Snapdeal, Chinese e-commerce giant Alibaba and Taiwanese electronics contract manufacturing company Foxconn Technology Group are reportedly to jointly invest about US\$500 million in Snapdeal, a deal that could value the Indian e-commerce company at about US\$5 billion. Meanwhile, Foxconn and Alibaba also made investment in Soft Bank's Robotics.²⁶ As a result, share ownership ratio in SoftBank becomes 60%, and Alibaba and Foxconn each hold ownership stakes of 20%. Foxconn is doing OEM for Softbank's *Pepper*. Foxconn builds a structure to bring Pepper — a robot that can interact with human emotion — and other robotics businesses to global markets, and cooperate with the aim of spreading and developing the robotics industry on a worldwide scale. According to SoftBank founder Japanese billionaire Masayoshi Son, Foxconn's skills are crucial to increase production for Pepper.²⁷ SoftBank owns a 32 per cent stake in Alibaba and wants to tap into the Chinese group's user base, sales channel and cloud technology.

Even before this grand strategy, Foxconn already has factories in both Chengdu (成都) and Chongqing (重慶). The former city has Rong Europe (蓉歐) international rapid rail freight direct trains to Lodz, Poland, while the latter the Yuxinou (渝新歐) International Rapid Railway to Duisburg, Germany.

On the other side of OBOR, Terry Gou has also enhanced Foxconn's operations in Europe. Last July, he visited Prague and signed MOU with Prime Minister of the Czech Republic Bohuslav Sobotka, to commit 2.5 billion Kroc investment in building a research and design center in order to facilitate the automation of its factories in Pardubice and Kutná Hora in preparation for exporting products produced in the Czech Republic to China.²⁸

With regard to the forthcoming New Economy-based Asian economic bloc revolving around China, Taiwan also enjoys a favorable position, given its talent niches, geographical proximity, language and cultural similarity and accumulated experience.

²⁵ "Foxconn on the hunt: Chairman Terry Gou explores Indian opportunities," *Nikkei*, July 10, 2015, <http://asia.nikkei.com/Business/Companies/Chairman-Terry-Gou-explores-Indian-opportunities>

²⁶ "Alibaba, Foxconn invest \$236m in SoftBank robotics division," June 19, 2015, <http://www.avcj.com/avcj/news/2413960/alibaba-foxconn-invest-usd236m-in-softbank-robotics-division>

²⁷ "SoftBank's Pepper robot gets helping hand from Foxconn and Alibaba," *The Financial Times*, June, 2015

²⁸ "Sobotka, Foxconn sign memorandum of cooperation," *Prague Post*, July 23, 2015, <http://www.praguepost.com/czech-news/48973-thursday-news-briefing-july-23-2015>

In terms of ICT hardware, Taiwan enterprises have maintained a dominant position in semiconductors, panels, smart phones, personal computers (PC) and etc. According to Gartner and IDC, in 2015, Taiwan's Quanta Computer Inc. (廣達) and *Compal Electronics* (仁寶) accounted for 70% of global PC OEM. The rest of orders was shared by other Taiwan's firms including Wistron Corporation (緯創), Inventec Appliance Corp (英華達), Pegatron Corporation (和碩) and Hon Hai Precision Industry Co (鴻海).²⁹

Furthermore, Taiwan enterprises are famous for their dominant place in OEM. In this regard, patents matter a lot. Taiwan Semiconductor Manufacturing Co. (TSMC, 台積電), the world's largest contract chip maker, was granted 620 patents in the U.S. between January and May 2015, ranking 16th on the list of the "most innovative" companies worldwide. Moreover, with granted 408 U.S. patents and being ranked 29th by the Seattle-based startup Sqoop Inc. in June 2015, Hon Hai Precision Industry Co. has long been a major supplier to both Apple Inc. and Xiaomi Corp (小米). Xiaomi Corp. earned a reputation as the "Apple of China" when it launched its first cellphone in 2000, is now contending with the US-based company for the No. 5 position in China, the largest smartphone market in the world. FIH Mobile Ltd (富智康), a handset manufacturing arm of Hon Hai Precision Industry Co (鴻海精密), and Inventec Appliance Corp (英華達) assemble phones for *Xiaomi*. This year *Xiaomi* plans to sell 80 million to 100 million smart phones and to earn 100 billion to 120 billion *Renminbi*. Component suppliers to the Chinese firm include chip designer MediaTek Inc (聯發科), touch-panel makers TPK Holdings Ltd (宸鴻) and Wintek Corp (勝華), handset camera lens maker Largan Precision Co (大立光) and camera module maker Lite-On Technology Inc (光寶). As the leading *China* enterprise, Foxconn's customers include Cisco, Dell, Nokia and Sony in addition to Apple and *Xiaomi*. Hon Hai also provides design engineering and mechanical tooling services. China and the U.S. have reached a consensus concerning the expansion of ITA terms during APEC Beijing Summit in 2014. It eliminates that considerable tariffs on technology products are expected to benefit most from this agreement, including Taiwan's IC (US\$47.3 billion), foundry (晶圓代工), DRAM (\$5.6 billion), semi-product backend (封測) industries.

The assistance of Taiwan enterprises to China's advance into global market in recent years has shifted from traditional commodity trade to services sector. Taiwan investors' contribution to China's exports worth more than US\$40 billion. Nowadays, Taiwan elite is helping China to upgrade its capacity building in services, inter alia high-end services, such as intercultural communication skills, banking and so on, so as to enable China to link with the EU and the US. Taiwan talents assist Chinese marketers with added value (money, time, effort) so as to improve the product itself,

²⁹ "Pegatron Corporation (和碩) and Hon Hai Precision Industry Co are fighting to grow in an adverse situation," *The United Daily*, 2016
<http://udn.com/news/story/7240/1451148%E5%92%8C%E7%A2%A9%E3%80%81%E9%B4%BB%E6%B5%B7PC%E6%A5%AD%E5%8B%99-%E6%8B%9A%E9%80%86%E5%8B%A2%E6%88%90%E9%95%B7>

to design new channels of distribution, to create better communications strategy, or a Chairman and former Chief Financial Officer Joseph Tsai (蔡崇信) combination of all three.³⁰ The salient example is Alibaba executive Vice

Why Taiwan matters in the China-led Asian economic integration?

Talents in Taiwan possess most international competitiveness among four countries in Northeast Asia (ahead of Japan's 28th ranking; Korea 40th; China 43rd),³¹ according to *2014 World Talent Report* released by World Competitiveness Center, Switzerland-based International Institute for Management Development (IMD). Taiwan advanced four notches in the annual IMD World Talent Ranking for 2015, moving from 27th place in the previous year to 23rd and ranking 4th in Asia. Taiwan's National Development Council attributed the progress in the global talent ranking conducted by the IMD World Competitiveness Center to efforts by the government to promote vocational education and industry-academic cooperation. In Asia, Taiwan was behind Singapore (10th), Hong Kong (12th) and Malaysia (15th), but was ahead of Japan (26th), South Korea (31st), Thailand (34th) and China (40th).

According to the center, rankings are based on 20 years'-worth of competitiveness-related data, including an in-depth survey of more than 4,000 executives in the 61 countries covered by the study. The research focuses on three main categories — investment/development, appeal and readiness — which in turn are derived from a much broader range of factors. These include education, apprenticeship, employee training, brain-drain, cost of living, worker motivation, quality of life, language skills, remuneration and tax rates. Taiwan ranked 18th in the investment/ development category last year, and was placed 26th in the appeal category and 25th in readiness.³² The IMD World Talent Ranking assesses a country's ability to develop, attract and retain talent for companies that operate there. It reflects three key factors: *Investment and development* in home-grown talent, reflecting a country's public investment in education and the quality of its education system. *Appeal*, reflecting a country's ability to retain home-grown talent and attract talent from overseas. *Readiness*, reflecting a country's ability to fulfil market demands with its available talent pool.³³ When it comes to IMD World Competitiveness Yearbook 2015, Top 3 are US, Hong Kong and Singapore. Taiwan ranks 11th, followed by New Zealand (17), Australia (18), China (22), South Korea (25), Japan (27).

In addition, Taiwan was ranked the best performer in the knowledge-based economy in Asia early 2014 by the Asian Development Bank (ADB). In ADB's April report titled *Innovative Asia: Advancing the Knowledge-based Economy*, Taiwan scored 8.77 on a 10-point scale in the Knowledge Economy Index (KEI) used by the World Bank. Taiwan's score was much higher than the average of 4.28 for Asia and even

³⁰ Warren J. Keegan and Mark C. Green, *Global Marketing*, 8th edition, Prentice Hall, 2015

³¹ <http://www.imd.org/news/IMD-releases-its-2014-World-Talent-Report.cfm>

³² "Nation ranked fourth in Asia in IMD World Talent Ranking for 2015," *The China Post*, November, 2015, <http://www.chinapost.com.tw/business/asia-taiwan/2015/11/21/451471/Nation-ranked.htm>

³³ <http://cn.nikkei.com/career/humanresource/11977-20141124.html>

beat the average of 8.25 among the developed countries of the Organization for Economic Co-operation and Development (OECD).³⁴³⁵

Against this background, Taiwan is favoured by Japanese firms as a partner to tap into China market. For Japan, Taiwan serves as a gateway to the Greater China Community. Many Japanese companies tend to sell their products in Taiwan, the only country they sell their products outside Japan. Crunching Black Thunder (雷神) chocolate bars by Japan's *Yuraku* Confectionary became popular in Taiwan first, then the bars are on sale in the US. In addition, SK &C Co. (鮮京集團), South Korea's third largest conglomerate signed a strategic partnership agreement to form a joint venture with Hon Hai Precision Industry Co. in March 2015, aiming at China's IT market.

Conclusion

Taiwan is well incorporated into the Asian economic integration. Altogether almost 65% of Taiwan's exports went to East Asia. In 2009, Taiwan's exports to China were at US\$83.6 billion (41.1% of its total exports), to ASEAN at US\$ 30.1 billion (14.8%), to Japan at US\$14.5 billion (7.1%) and to South Korea US\$7.3 billion.

There are a lot of potential business opportunities between Taiwan and the EU. So far, EU has concluded three FTAs with Asia countries, South Korea, Singapore in 2013, and Vietnam in 2015. Alternatively, among Taiwan's bilateral trade agreements, the one with New Zealand has drawn much attention. Taiwan entered into the Agreement between New Zealand and the Separate Customs Territory of Taiwan, Penghu, Kinmen, and Matsu on Economic Cooperation (ANZTEC) in July 2013. Not only is it the first OECD country to sign an FTA with Taiwan, it is also the first FTA Taiwan had signed after the Economic Cooperation Framework Agreement (ECFA) with Beijing.³⁵ Subsequently, Taiwan signed a FTA with Singapore in November, 2013 under the Agreement between Singapore and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu on Economic Partnership (ASTEP).³⁶

What is more, with the signing of the ECFA in June 2010, Taiwan can serve as a bridge between China and the world. China can further take advantage of Taiwan enterprise's managerial and marketing skills as well as worldwide supply chain in order to not only consolidate its position in Asia but also to advance its position in the global market. China companies can also expand their operations beyond the physical borders through strengthening the competitiveness of *Chaiwan* enterprises led by Honghai. China companies can also expand their operations beyond the physical borders through strengthening the competitiveness of *Chaiwan* enterprises led by Honghai. Taiwan could serve as a global R&D center to advance China market. The world's top PC maker, Hewlett-Packard Co (HP) decides to invest US\$112.5 million

³⁴ "Council details nation's status as Asia's No. 1 knowledge economy," *The China Post*, December 11, <http://www.chinapost.com.tw/taiwan/national/national-news/2014/12/11/423789/Council-details.htm>

³⁵ Cho-Hsin Su, "Time for Taiwan-Australia FTA Negotiations," *The Journal of International Relations*, No. XXXVIII, 2015, p. 93.

³⁶ "ASTEP increases bilateral investment, trade: minister," *The China Post*, November 8, 2013, <http://www.bilaterals.org/?astep-increases-bilateral&lang=en>

to set up a global research and development (R&D) center called the “Computing Hub” in Nangang Software Park, Taiwan. Taiwan can also serve as an international financial center for trading in *Reminbi*. With its strong connection with the West and familiarity with Western customs and ways of doing business, Taiwan in fact is a bridge between China and the world. Taiwan companies can also help China to get more FDI and technologies from the West. Taiwan enterprises may also assist in China’s overseas investment in the West as well as Southeast Asia. Taiwan-EU Mutual investment According to the Ministry of Economic Affairs’ Investment Commission, about 3.2 percent of Taiwan’s outbound investment flows went to the EU in 2013, US\$168.9 million, compared with US\$71.5 million in 2012.

The main investment destinations for Taiwan in the EU were the Netherlands, the UK, Germany and the central European countries. The EU remained Taiwan’s largest foreign direct investor in 2014, as it has been historically. According to the Investment Commission, Europe provided 14 % of all FDI flows into Taiwan in 2013, for a total of US\$686 million, with the Netherlands being the largest EU investor in Taiwan, representing 34 % of the European FDI to Taiwan, or US\$237 million. Taiwan was the EU’s sixth-largest trading partner in Asia. Businesses from EU countries have invested a total of US\$33 billion in Taiwan so far. In October, 2015, the European Commission (EC) announced that it lists Taiwan as a candidate to negotiate a trade agreement with as part of a trade globalization plan and to explore launching negotiations on an investment pact with Taiwan in the future. According to our MOFA statistics, the EU was Taiwan’s fifth-largest trade partner, with trade amounting to US\$50.9 billion in 2014. The European Parliamentary Research Service¹Taiwan has a critical role in Asia’s supply chains and its trade with China is expanding rapidly, enhancing the possibility of triangular trade with Europe. This makes the island an important partner for the EU, with strong potential to develop bilateral trade.

No other countries in the world know China market better than Taiwan. Given its common language and culture and decades of operational experience in China, Taiwan can not only help EU countries attracting more Chinese investment and tourists, but also assist EU enterprises in their investment in China, given the reduction of risk and cost. The strengthening of EU-Taiwan trade relations, in particular through an FTA, could turn the island, at the heart of Asian supply chains, into an important regional and global export platform, and a production location for EU firms. The complementary benefits of manufactured goods exports and increased trade in services, in which the EU maintains its surplus, would be boosted by an agreement addressing trade and investment barriers (for example certain high tariffs, country-specific standards and testing procedures).

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Last but not least, increasing economic integration with mainland China, in the framework of the ECFA, would offer preferential access to the Chinese market to EU

producers in Taiwan. This could be seen as an alternative to a direct EU FTA with China, which is not seen as a likely prospect in the short or medium term.

The US emphasizes the dominance of rule-making for future global trade and economic interactions, while China focuses on market size and gaining strength and leverages through OBOR and the New Economy. For survival, it is essential for small and medium economies like Taiwan and Hungary to know how to take advantage of big powers and maximize their economic gains. In addition, they also need to know to collaborate with each other through a combination of their comparative edges for creating their aggregated niches.

