

MALAYSIA-TAIWAN RELATIONS AND TAIWAN'S NEW SOUTHBOUND POLICY

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ABSTRACT

The main objective of Taiwan's New Southbound Policy is to reduce Taiwan's economic dependence on Mainland China (People's Republic of China/ PRC) and seek new engine for the economic development of Taiwan. Malaysia has the advantage of stable politics and open markets relative to other ASEAN countries. The New Southbound Policy launched in 2016 by Taiwan's Tsai Ing-wen administration encourages local enterprises to invest in and trade with Southeast Asian countries. Malaysia as one of the most important Southeast Asian countries is attracting foreign direct investments (FDIs) from Taiwan with her rich natural resources, cheap labor cost, similar culture, and the easy-access sale network that connects the Association of Southeast Asian Nations (ASEAN) countries. Besides, other aspects including cultural and other societal, people-to-people, interactions also represent important foci of Taiwan-Malaysia bilateral relations under the New Southbound Policy.

Keywords: Taiwan, Malaysia, New Southbound Policy, foreign direct investment, cultural exchanges, educational relations

INTRODUCTION

As one of the top 20 outward foreign direct investment (OFDI) countries, Taiwan has recently been employing a New Southbound Policy to encourage local enterprises to increase investment and trade with Southeast Asian countries including Malaysia. This paper, through reviewing Taiwanese outward FDI globally and in Malaysia including tracing its background, illustrates the motives of Taiwanese outward FDI in Malaysia from the marketing-seeking, resource-seeking, and “push factors” perspectives respectively. It scrutinizes various important stages of Taiwanese OFDI over the years from screening to growth to further expansion to internationalization to highlight the resilience of these Taiwanese investments.

In this regard, this paper looks at the potential ability of various Malaysian sectors to absorb the inflows of capital from Taiwan, while Taiwan's enterprises, e.g. Kuokuang Petrochemical Technology Corp., have been strengthening their path to seek natural resources in Malaysia, and some companies have been moving their production into Malaysia with the aim to access the other ASEAN markets by using the Malaysian sales networks. Besides analysing the economic relations between Taiwan and Malaysia, this paper also takes a close look at the cultural and other societal, people-to-people, interactions, including strengthening education ties through expanding scholarship opportunities, enhancing technical assistance and aid, promoting tourism in both directions, as they also represent pertinent aspects of the New Southbound Policy and constitute Taiwan's exercising her soft power to enhance her ties with Southeast Asia.

Taiwan-Malaysia relations were established in the 1960s with the opening of the Republic of China's (Taiwan) consulate in Kuala Lumpur in 1964 ("MFTC's Profile", 2014). However, due to the end of diplomatic relations between the two countries on 31st May 1974, the consulate offices on both sides had been closed down and renamed as, Malaysian Friendship and Trade Centre (*Persahabatan Malaysia dan Pusat Perdagangan*, Taipei) in Taipei and Taipei Economic and Cultural Office (TECO) in Kuala Lumpur ("Organizations", TECO, n.d.). However, bilateral foreign relations in terms of economic, education and cultural relations are still maintained between Taiwan and Malaysia through these two institutions in Taipei and in Kuala Lumpur. This paper will first analyse economic relations between Taiwan and Malaysia mainly in terms of foreign direct investment (FDI) and the related implications of the New Southbound Policy before it proceeds to look at the aspects of cultural and other societal interactions.

FDI flows have been volatile over the past few decades, and have been dominated by the developed world. As one of the four East Asian tigers, Taiwan experiences a 7 percent annual economic growth rate from 1960 to 2000. Over the past decades, Taiwan has become one of the top 20 OFDI countries. Taiwan's outward investment affects the exports, the structure of economy, and even the economic growth of the country. Since 1993, Taiwanese government has been employing the Southbound Policy to encourage local enterprises to invest in and trade with Southeast Asian countries. Taiwan's fast growth of OFDI has significant implications for the development of Southeast Asian countries and even for the local political order.

Although, Taiwanese OFDI has been increasing steadily, the amount of the OFDI in Malaysia is still miniscule compared to other developed countries' OFDI into Malaysia. Until 2012, the value of stock FDI only accounted for 0.45 percent of the total amount of FDI in Malaysia, and it has been increasing and decreasing in certain years. The surge of OFDI from Taiwan is clear to see. The amount of OFDI increased rapidly from US\$46 million in 2001 to US\$188 million in 2012 (UNCTAD, 2013). The surge of Taiwanese OFDI has far-reaching implications for the Malaysian economy, which will be discussed in the next few sections of this paper. It has been proved by scholars that FDI has effects on the economy of both the home country and the host country. Indeed, FDI can be a key driver of employment, technological progress, productivity improvements and the acceleration and sustenance of long-term economic growth. This paper is organised as follows. Section 1 reviews Taiwanese outward FDI globally and in Malaysia. Section 2 illustrates the motives of Taiwanese outward FDI in Malaysia from market seeking, resource seeking, and "push factors" perspectives respectively. Section 3 will conclude the discussion on FDI before the paper moves on to the cultural, education and other civil societal aspects of Taiwan-Malaysia relations from section 4 to section 8.

TAIWAN'S OFDI GLOBALLY AND IN MALAYSIA

This section provides an overview of OFDI from Taiwan; including a brief history and background of Taiwan's OFDI, and Taiwan's outward foreign direct investment in Malaysia.

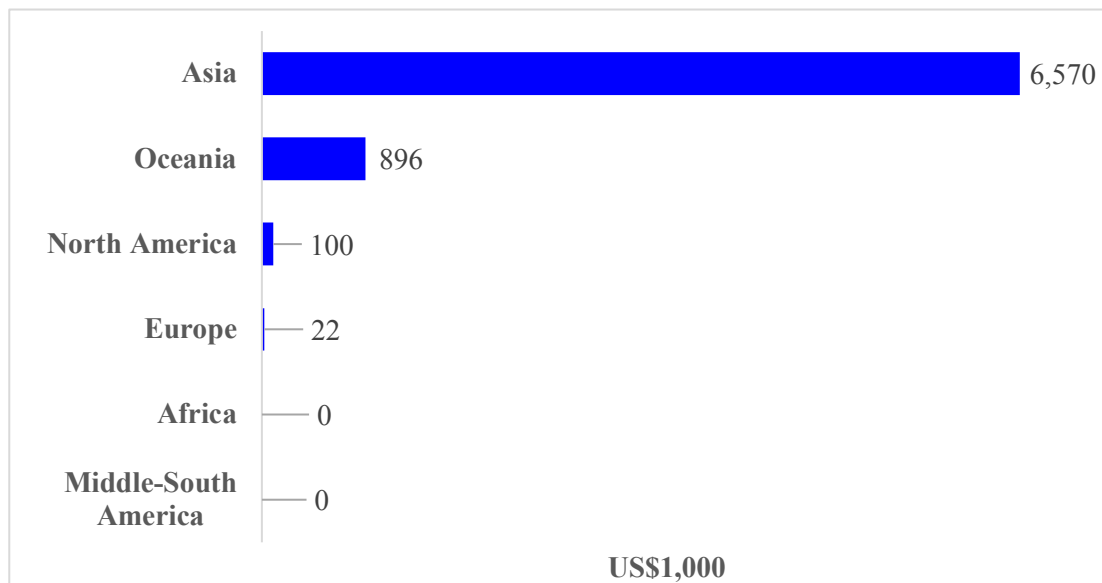
A Brief History of Taiwan's OFDI

Taiwan's OFDI had been in Malaysia since 1959 when a company invested in a cement plant in Malaysia. As OFDI mainly comes from small- and medium-sized private enterprises, the investment was driven by economic rather than political reasons. The development of Taiwanese OFDI can be roughly divided into five stages.

The Germination Phase, 1959-1969

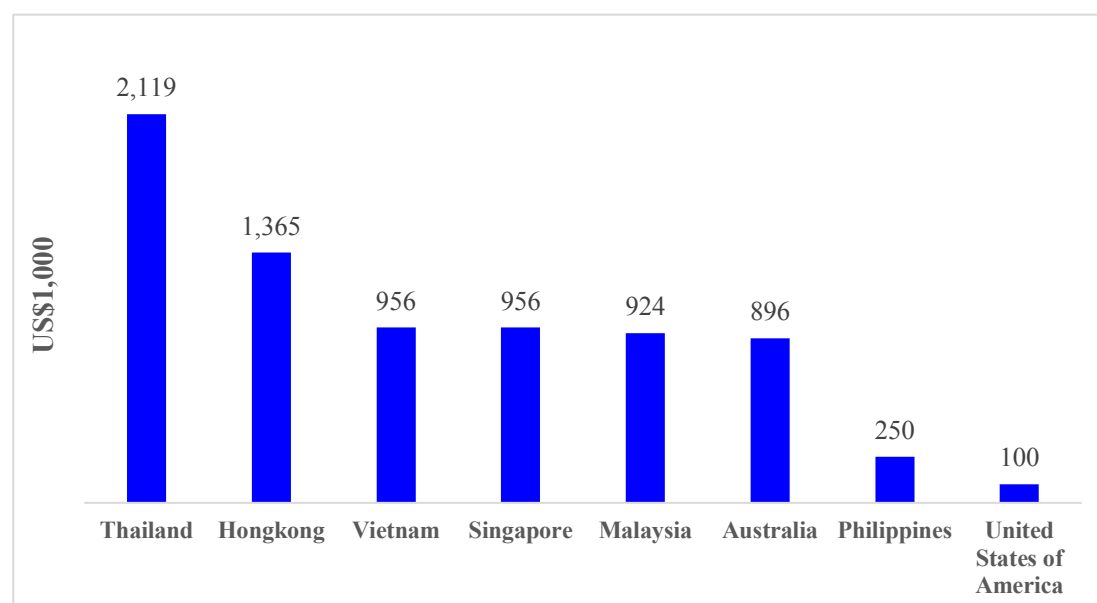
After World War II, due to shortages of capital, raw materials, technology, and foreign exchange, only few Taiwanese companies invested abroad. After the government promulgated the "Regulations Governing Outward Investment" in 1962, enterprises that had enough capitals and fulfilled the requirement of regulations were able to invest abroad. At this stage, the main driving force of OFDI was market-seeking which occurs when companies internationalize to a particular country (Markusen, 2002). From the location perspective, Taiwan's OFDI were mainly located in the East and Southeast Asian regions such as Thailand, Hong Kong, Vietnam, Singapore, Malaysia and the Philippines (Figure 1). Oceania, North America and Europe also shared OFDI from Taiwan (Figure 2). Taiwan's OFDI were specifically in primary and secondary industries such as mining, textiles, wood and bamboo products, food products, and chemical materials (Table 1).

Figure 1: Locations of Taiwanese OFDI, 1959-1969



Source: Investment Commission of the Ministry of Economic Affairs (MOEAIC), Taiwan.

Figure 2: Taiwanese OFDI by Country/Region, 1959-1969



Source: MOEAIC, Taiwan.

Table 1: Taiwan's OFDI by Industry, 1959-1969

Industry	Amount (US\$1,000)
Agriculture, Forestry, Fishing and Animal Husbandry	13
Mining and Quarrying	3,804
Manufacturing	3,771
Textiles Mills	2,316
Wood and Bamboo Products Manufacturing	526
Food Manufacturing	508
Chemical Material Manufacturing	233
Pulp, Paper and Paper Products Manufacturing	122
Printing and Reproduction of Recorded Media	66

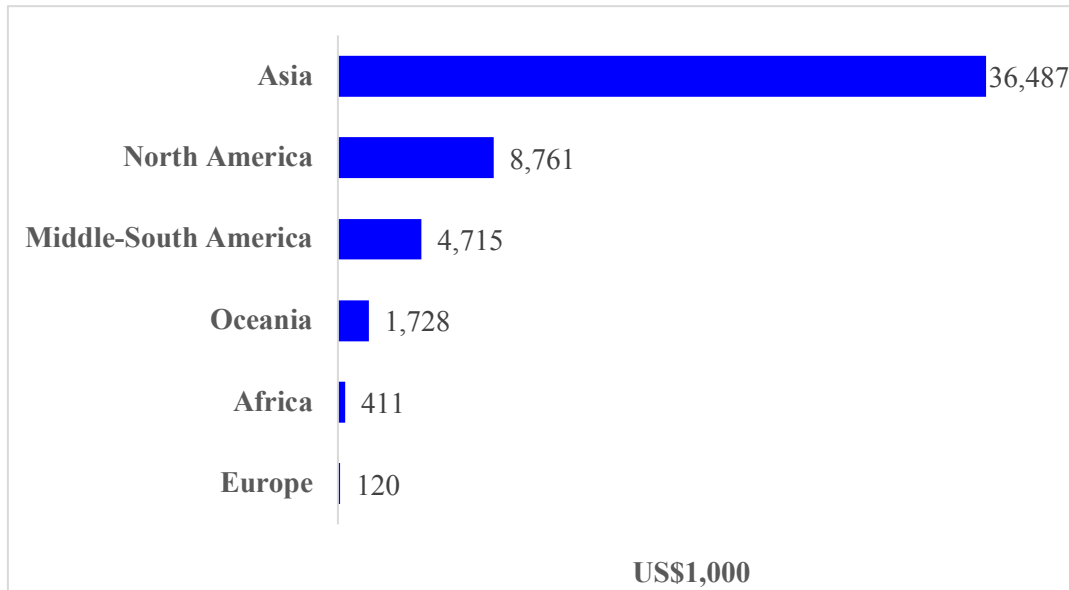
Source: MOEAIC, Taiwan.

The Strict Screening Phase, 1970-1979

After experiencing a remarkable export-oriented economic growth, Taiwan accumulated high trade surplus and foreign exchange. The old regulations of investment were replaced by “Regulations Governing the Screening and Approval of Outward Investment” in 1972. More Taiwanese companies had the opportunity to invest in markets that had never been penetrated before such as Japan, South Korea,

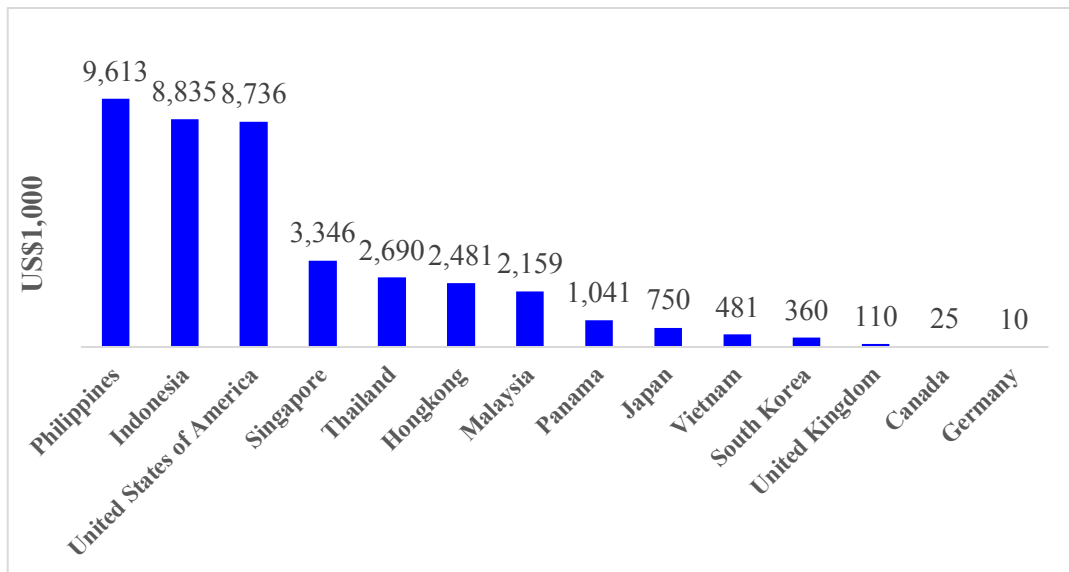
Indonesia, Canada, United Kingdom, Germany, and Panama (Figure 4). While Taiwan's OFDI began to flow to developed countries, the Asian region still attracted the largest amount of investment, especially the Philippines (Figure 3). Manufacturing and mining industries were still at the top of the ranking of investments, which had similar conditions as the germination stage (Table 2). The motivation of OFDI changed to resource-seeking as the Asian financial crisis unfolded at this stage, when local companies were trying to explore cheaper natural resources to neutralize the increasing costs of production.

Figure 3: Locations of Taiwanese OFDI, 1970-1979



Source: MOEAIC, Taiwan.

Figure 4: Taiwanese OFDI by Country/ Region, 1970-1979



Source: MOEAIC, Taiwan.

Table 2: Taiwan's OFDI by Industry, 1970-1979

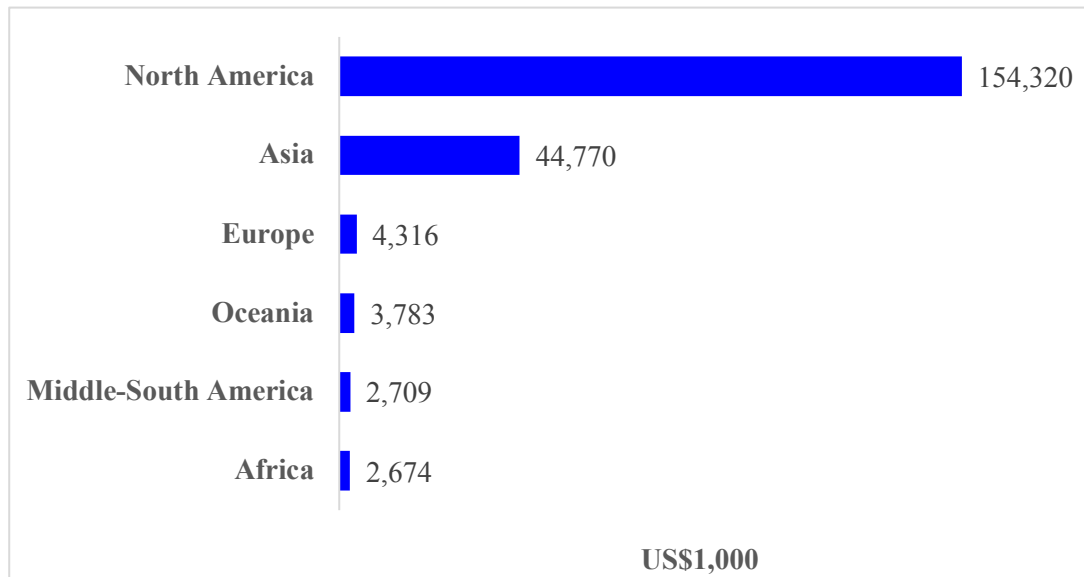
Industry	Amount (US\$1,000)
Agriculture, Forestry, Fishing and Animal Husbandry	1,425
Mining and Quarrying	14,066
Manufacturing	36,731
Textiles Mills	21,181
Wood and Bamboo Products Manufacturing	4,592
Food Manufacturing	2,477
Chemical Material Manufacturing	6,313
Pulp, Paper and Paper Products Manufacturing	200
Printing and Reproduction of Recorded Media	1,707
Non-metallic Mineral Products Manufacturing	166
Fabricated Metal Products Manufacturing	95

Source: MOEAIC, Taiwan.

The Growth Phase, 1980-1986

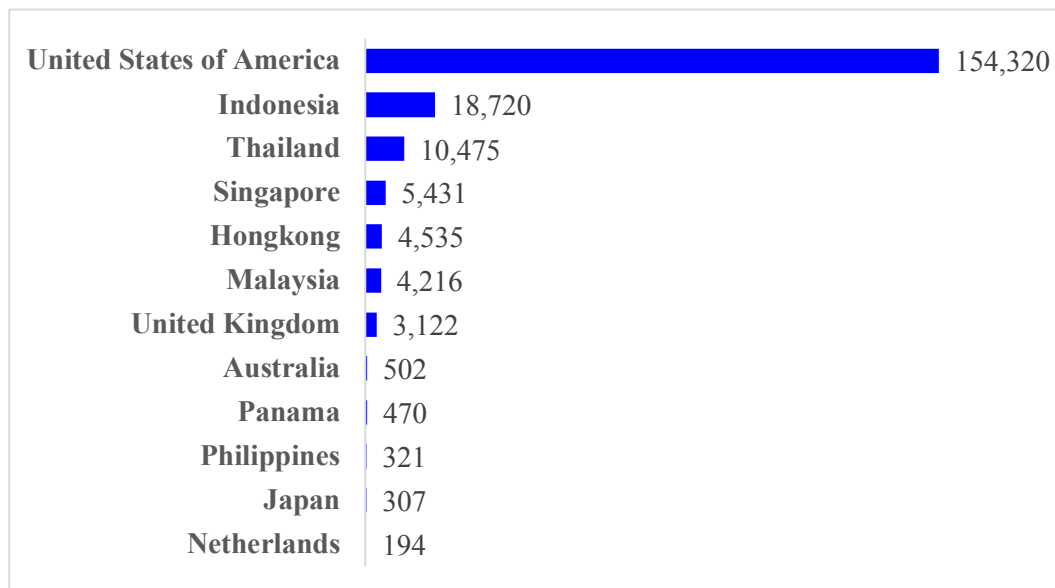
As a result of the 1979 oil crisis, Taiwan's currency began to appreciate. Foreign trade still experienced surplus, and foreign exchange accumulation had increased rapidly. The local enterprises possessed the production advantages and had the ability to expand their businesses abroad. North America replaced Asia as the area that attracted most OFDI from Taiwan. Europe followed Asia and for the first-time, surpassed Africa, Oceania, and Central-South America (Figure 5). United States of America occupied 76.16 percent of total OFDI from Taiwan (Figure 6). In the Asian region, most of the FDI flowed to Indonesia (US\$18.72 million), Thailand (US\$10.475 million), Singapore (US\$5.431. million), Hong Kong (US\$4.535 million), and Malaysia (US\$4.216 million). By industry, Taiwan's OFDI mainly focused on manufacturing and mining, with wood and bamboo products accounting for 49 percent of total manufacturing (Table 3). The growth of OFDI was a result of Taiwan revising the old investment regulations twice - in 1980 and 1985. More local companies were encouraged to establish new branch abroad.

Figure 5: Locations of Taiwanese OFDI, 1980-1986



Source: MOEAIC, Taiwan.

Figure 6: Taiwanese OFDI by Country/ Region, 1980-1986



Source: MOEAIC, Taiwan.

Table 3: Taiwan's OFDI by Industry, 1980-1986

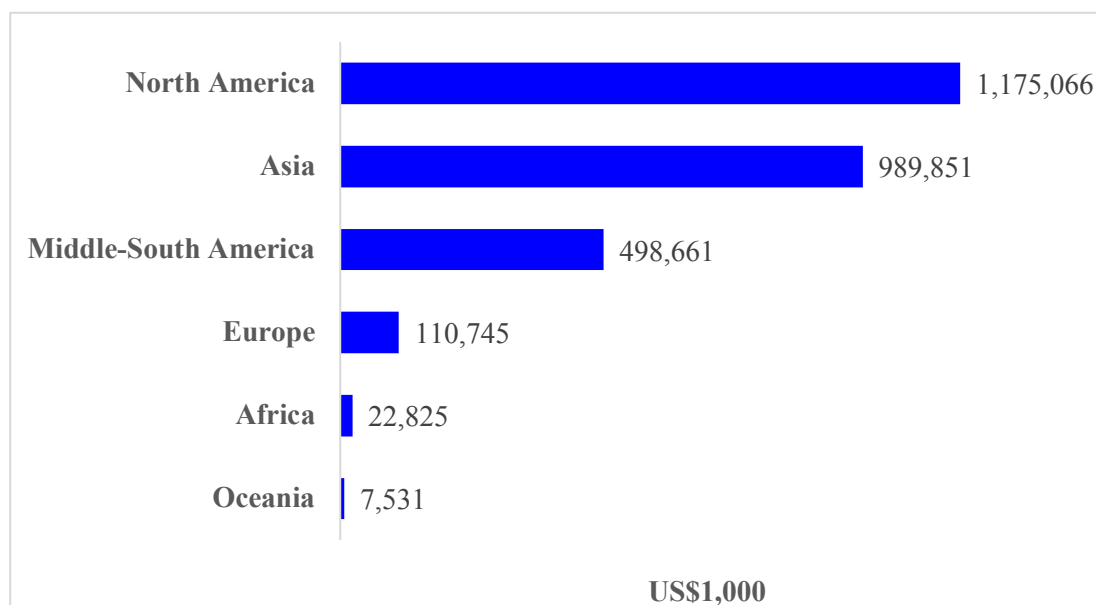
Industry	Amount (US\$1,000)
Agriculture, Forestry, Fishing and Animal Husbandry	3,859
Mining and Quarrying	30,535
Manufacturing	178,178
Textiles Mills	39,964
Wood and Bamboo Products Manufacturing	87,260
Food Manufacturing	9,787
Chemical Material Manufacturing	8,401
Pulp, Paper and Paper Products Manufacturing	1,295
Printing and Reproduction of Recorded Media	758
Non-metallic Mineral Products Manufacturing	11,705
Fabricated Metal Products Manufacturing	2,495
Petroleum and Coal Products Manufacturing	196
Plastic Products Manufacturing	16,317

Source: MOEAIC, Taiwan.

The Expansion Phase, 1987-1990

Government policy and institutions in Taiwan and abroad played an important role at this stage. OFDI increased rapidly in this short time period – an increase of about 22-fold in the Asian region to US\$989.85 million, two-fold in Oceania to US\$7.53 million, eight-fold in North America to US\$1,175.07 million, 26-fold in Europe to US\$110.75 million, 184-fold in Central-South America to US\$498.66 million, and nine-fold in Africa to US\$22.83 million (Figure 7). America was still the leading host country of Taiwan's total OFDI, however its share had decreased to 43 percent. Malaysia became the most popular host country in Asia (Table 4). Other than the increasing amount of total OFDI, nothing had changed with the industry locations (Table 5). This happened as a result of the depreciation of the U.S. dollar, increasing labour cost in Taiwan, and the deterioration of investment environment in Taiwan.

Figure 7: Locations of Taiwanese OFDI, 1987-1990



Source: MOEAIC, Taiwan.

Table 4: Taiwan's OFDI by Country/ Region, 1987-1990

Country/Region	Amount (US\$1,000)
United States of America	1,130,815
Malaysia	352,070
British Overseas Territories in the Caribbean	245,692
Philippines	228,771
Thailand	218,253
Bermuda	175,900
Indonesia	65,055
Singapore	60,565
Hong Kong	52,807
Canada	44,251
Germany	13,356
United Kingdom	12,288
Panama	9,757
France	7,777
Japan	7,595
Australia	7,531
Netherlands	7,358
South Korea	2,611

Source: MOEAIC, Taiwan.

Table 5: Taiwan's OFDI by Industry, 1987-1990

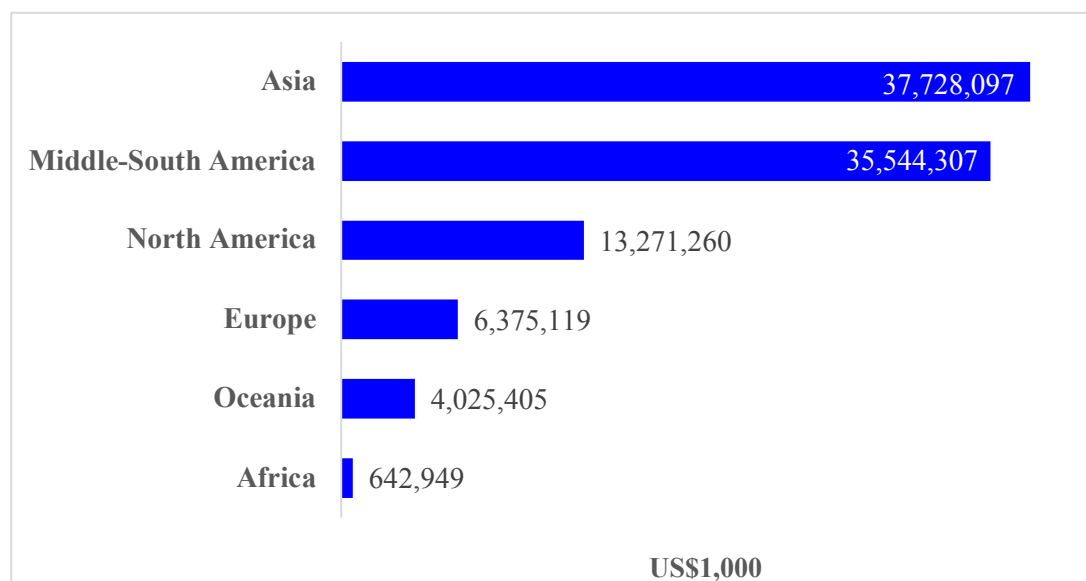
Industry	Amount (US\$1,000)
Agriculture, Forestry, Fishing and Animal Husbandry	6,038
Mining and Quarrying	305,241
Manufacturing	2,493,400
Textiles Mills	714,362
Wood and Bamboo Products Manufacturing	624,843
Food Manufacturing	65,581
Chemical Material Manufacturing	92,714
Pulp, Paper and Paper Products Manufacturing	12,654
Printing and Reproduction of Recorded Media	42,067
Non-metallic Mineral Products Manufacturing	218,275
Fabricated Metal Products Manufacturing	20,710
Petroleum and Coal Products Manufacturing	27,341
Plastic Products Manufacturing	674,853

Source: MOEAIC, Taiwan.

The Internationalization Phase, 1991-present

The internationalization stage of Taiwanese OFDI from 1991 to the present has seen North America ceased to hold the leading role and the Asian region rebounding to first position (Figure 8). Since 1991, Taiwan's investment has changed direction and flowed to China. China has replaced the U.S. to be the most attractive place for Taiwan's foreign investment, and it accounted for 62.3 percent of the total stock of OFDI from 1991 to 2015 (Table 6). As a result of the Southbound Policy that was implemented in 1993, Southeast Asia has become a strategic area to offset the political risks from China. From the industry perspective, electricity and gas supply, water supply and remediation services, construction, wholesale and retail trade, transportation and storage, accommodation and food services, information and communication, financial services and insurance, real estate, scientific and technical services, support services, public administration and defence and social security, education, human health and social work services, and arts, entertainment and recreation constitute the emerging industries that first attracted investment from Taiwan (Table 7), with the service industry leading the investment direction.

Figure 8: Locations of Taiwanese OFDI, 1991-2015



Source: MOEAIC, Taiwan.

Table 6: Taiwan's OFDI by Country/Region, 1991-2015

Country/Region	Amount (US\$1,000)
China	154,921,768
British Overseas Territories in the Caribbean	30,016,980
United States of America	12,914,739
Singapore	10,910,882
Vietnam	8,026,814
Hong Kong	5,273,895
Japan	3,812,510
United Kingdom	2,904,632
Thailand	2,745,817
Bermuda	2,706,427
Malaysia	2,388,428
Australia	1,987,000
Panama	1,622,619
Netherlands	1,613,783
Samoa	1,551,740
Philippines	1,361,290
South Korea	1,116,251
Indonesia	1,099,734
Brazil	357,166

Canada	356,520
India	311,445
Germany	306,924
Nicaragua	145,021
Czech	119,520
El Salvador	56,414
France	31,554
New Zealand	6,626

Source: MOEAIC, Taiwan.

Table 7: Taiwan's OFDI by Industry, 1991-2015

Industry	Amount (US\$1,000)
Agriculture, Forestry, Fishing and Animal Husbandry	77,549
Mining and Quarrying	1,451,925
Electricity and Gas Supply	18,995
Water Supply and Remediation Services	42,472
Construction	155,826
Wholesale and Retail Trade	7,281,585
Transportation and Storage	2,495,901
Accommodation and Food Services	218,905
Information and Communication	2,652,698
Financial and Insurance	46,716,444
Real Estate	2,249,354
Professional, Scientific and Technical Services	587,396
Support Services	404,802
Public Administration and Defense and Social Security	3,292
Education	29,407
Human Health and Social Work Services	206,241
Arts, Entertainment and Recreation	125,803
Other Services	324,414
Other Industries	421,015
Manufacturing	32,123,110
Textiles Mills	1,709,897
Wood and Bamboo Products Manufacturing	388,052
Food Manufacturing	510,204
Chemical Material Manufacturing	2,459,813
Pulp, Paper and Paper Products Manufacturing	176,241
Printing and Reproduction of Recorded Media	41,588
Non-metallic Mineral Products Manufacturing	919,334

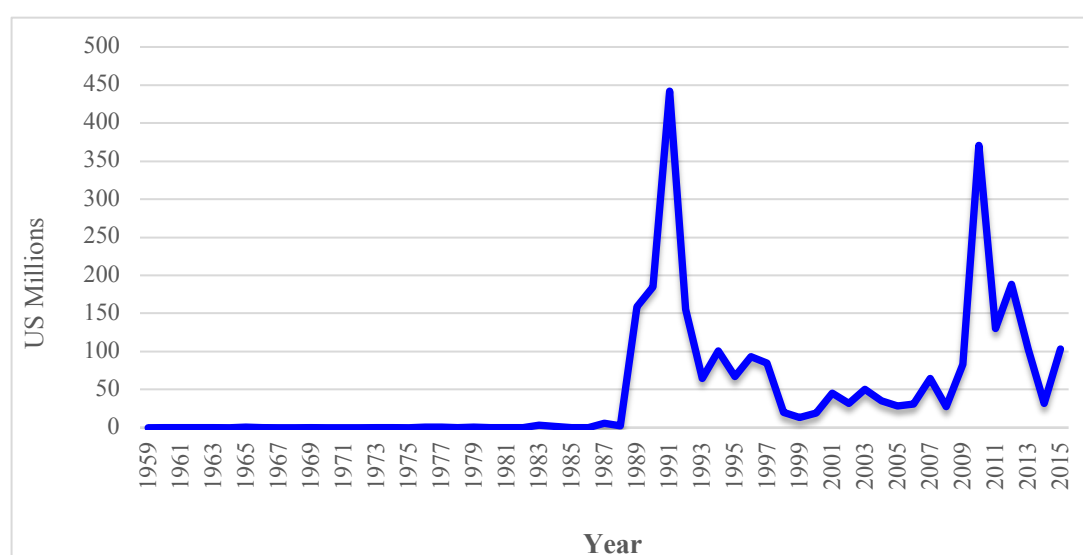
Fabricated Metal Products Manufacturing	1,465,208
Beverages Manufacturing	33,050
Wearing Apparel and Clothing Accessories Manufacturing	424,846
Leather, Fur and Related Products Manufacturing	220,120
Petroleum and Coal Products Manufacturing	42,643
Chemical Products Manufacturing	267,404
Medical Goods Manufacturing	824,340
Rubber Products Manufacturing	139,441
Plastic Products Manufacturing	1,083,121
Basic Metal Manufacturing	4,509,985
Electronic Parts and Components Manufacturing	10,475,277
Computers, Electronic and Optical Products Manufacturing	3,351,369
Electrical Equipment Manufacturing	1,079,962
Machinery and Equipment Manufacturing	699,490
Motor Vehicles and Parts Manufacturing	278,641
Other Transport Equipment Manufacturing	705,334
Furniture Manufacturing	148,783
Manufacturing Not Elsewhere Classified	161,966
Repair & Installation of Industrial Machinery and Equipment	7,002

Source: MOEAIC, Taiwan.

Taiwan's OFDI in Malaysia

From 1959 to 2015, Taiwanese OFDI in Malaysia had experienced a marked increase – from US\$0.1 million in 1959 to US\$103.59 million in 2015 according to Investment Commission of the Ministry of Economic Affairs (MOEAIC), Taiwan. From 1959 to 1991, Taiwan had cautiously increased its investment in Malaysia. But the trend inverted from 1992 to 1999, from US\$155.73 million dropping to US\$13.7 million. From 2000 to 2010, Malaysia received increasing OFDI from Taiwan again, rising from US\$19.41 million to US\$370.37 million. However, the decreasing trend seemed to return since 2011 (Figure 9). After the global financial crisis of 2008, Taiwan's OFDI had accelerated both domestically and abroad. Under the pressure due to declining economic growth rate, Taiwan's enterprises were still investing relatively more in Malaysia. Among the FDI from 19 countries/regions (Australia, Bermuda, Cayman Islands, China, Denmark, France, Germany, Hong Kong, Japan, South Korea, Luxembourg, Netherlands, Singapore, Switzerland, Thailand, United Kingdom, United States, Virgin Islands, Taiwan) in Malaysia, the volume of Taiwan's OFDI ranked from 15th in 2008 to 13th in 2009, and it had kept the same ranking (except in 2012) until 2015, indicating that Malaysia was still attractive for Taiwanese enterprises (Table 8).

Figure 9: Taiwan's Outward Foreign Direct Investment in Malaysia



Source: MOEAIC, Taiwan.

Table 8: Ranking of Taiwan's Outward FDI in Malaysia

Country/Region	2008	2009	2010	2011	2012	2013	2014	2015
Australia	14	6	11	10	5	11	17	17
Bermuda	7	5	10	6	11	7	5	19
Cayman Islands	3	16	7	19	17	9	4	16
China	16	17	13	14	12	12	10	8
Denmark	12	8	14	13	13	14	13	10
France	17	12	8	12	14	13	7	9
Germany	8	15	16	5	4	16	8	18
Hong Kong, SAR	11	2	18	16	8	4	3	6
Japan	5	7	4	1	1	1	6	1
Korea, Republic of	18	10	3	11	18	19	18	11
Luxembourg	19	11	12	17	10	18	16	13
Netherlands	4	1	2	3	3	3	2	5
Singapore	1	9	5	2	2	2	1	2
Switzerland	6	18	9	8	6	6	11	14
Thailand	10	14	17	7	15	8	12	7

United Kingdom	13	4	19	9	9	17	14	4
United States	2	19	1	4	19	10	19	3
Virgin Islands (British)	9	3	6	18	7	5	9	12
Taiwan	15	13	15	15	16	15	15	15

Source: Compiled by authors.

Table 9: Taiwan's OFDI in Malaysia by Industry, 1949-2015

Industry	Amount (US\$1,000)
Agriculture, Forestry, Fishing and Animal Husbandry	1,860.40
Mining and Quarrying	109,350.00
Manufacturing	1,743,698.84
Food Manufacturing	40,182.13
Textiles Mills	608,375.00
Wearing Apparel and Clothing Accessories Manufacturing	1,355.00
Wood and Bamboo Products Manufacturing	285,714.00
Pulp, Paper and Paper Products Manufacturing	13,468.66
Printing and Reproduction of Recorded Media	7,218.00
Petroleum and Coal Products Manufacturing	4,200.00
Chemical Material Manufacturing	50,100.00
Chemical Products Manufacturing	10,713.96
Medical Goods Manufacturing	1,779.00
Rubber Products Manufacturing	313.00
Plastic Products Manufacturing	57,201.53
Non-metallic Mineral Products Manufacturing	11,751.00
Basic Metal Manufacturing	78,335.00
Fabricated Metal Products Manufacturing	117,039.69
Electronic Parts and Components Manufacturing	235,050.62
Computers, Electronic and Optical Products	
Manufacturing	134,296.43
Electrical Equipment Manufacturing	48,929.58
Machinery and Equipment Manufacturing	12,125.36
Motor Vehicles and Parts Manufacturing	5,234.00
Furniture Manufacturing	4,943.00
Manufacturing Not Elsewhere Classified	15,373.88
Water Supply and Remediation Services	137.00
Construction	3,633.07
Wholesale and Retail Trade	124,885.90
Transportation and Storage	329.00
Information and Communication	27,697.11
Financial and Insurance	751,901.58

Real Estate	2,265.25
Professional, Scientific and Technical Services	16,624.92
Support Services	10,708.36
Human Health and Social Work Services	1,444.33
Arts, Entertainment and Recreation	2,714.00
Other Services	30,517.53

Source: MOEAIC, Taiwan.

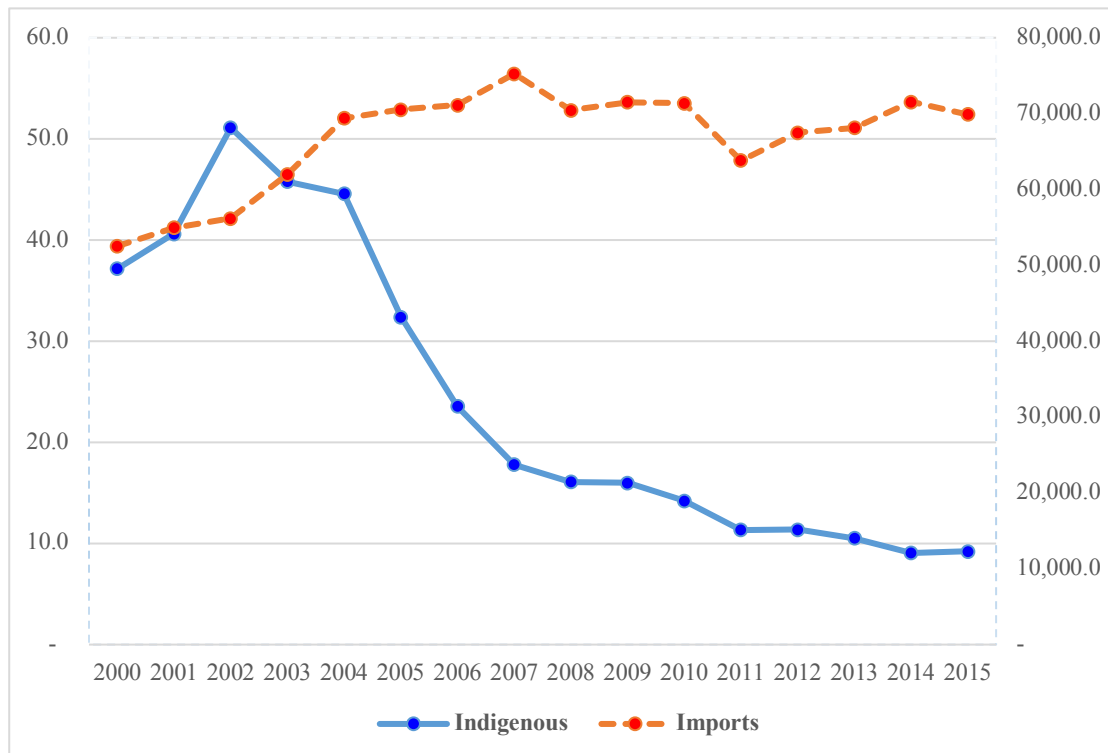
According to the classification of industries by Taiwan's government, manufacturing sector received the most of the FDI from Taiwan, accounting for 61.66 percent of Taiwan's total OFDI in Malaysia. In detail, textile mills, manufacturing of wood and bamboo products, manufacturing of electronic parts and components, computers, manufacturing of electronic and optical products, and manufacturing of fabricated metal products were the main sub-industries of manufacturing, which accounted for 44.28 percent of total Taiwanese OFDI in Malaysian manufacturing. Service industry in Malaysia had the potentials to absorb the inflows of capital from Taiwan. Financial and insurance (US\$751.90 million), wholesale and retail trade, information and communication (US\$124.89 million), professional, scientific and technical services (US\$16.62 million), and supports services (US\$10.71 million) were the new emerging industries in Malaysia to attract investment from Taiwan (Table 9).

DETERMINANTS OF TAIWAN'S OFDI

Based on the main theories of FDI in explaining the flows of FDI from developed and developing countries, some traditional motives of FDI can be referred to in illuminating why Taiwanese firms invest in Malaysia. Push and pull factors in both home country and host country, respectively, are playing significant roles in this regard. Resource-seeking investment mainly focuses on raw materials, low-cost labor, technological assets, and physical infrastructure (Scott, 2010). Taiwan's fast economic growth creates a huge demand for natural resources. As the centre of manufacturing in East Asia, Taiwanese enterprises consume factors of production to meet the domestic demand as well as that from the rest of the world. Although Taiwan has abundant resources, it still lacks the capability to meet the huge demand. In recent years, Taiwan rapidly imports oil from the oil-rich countries in order to fill the gap between consumption and production (Figure 10).

Characterized with high openness for international trade, exports amount to over 70 percent of GDP of Malaysia, of which three quarters are manufactures and about 14 percent are oil and gas (IMF, 2015). Taiwan's enterprises have been strengthening their path to seek natural resources in Malaysia. For instance, Kuokuang Petrochemical Technology Corp. signed a partnership agreement with the Malaysian government in 2012 which allowed Kuokuang Petrochemical Technology Corp. to invest between US\$10 billion and US\$12 billion in Pengerang to build an integrated refining and petrochemical complex.

Figure 10: Taiwan’s Crude Oil & Petroleum Products Production and Imports (10³KLOE)



Source: Energy Statistical Annual Report, various years.

Market-seeking investment happens when a company enters a particular country with the intention to supply goods or services to that market, and to be competitive within the industry as well as to provide opportunities to achieve production economies of scale (Dunning, 1977).¹ The growth of Taiwanese industry propels these enterprises to expand their global brands and international presence. Acer, BenQ, and Action Industries are all famous enterprises both in Taiwan and globally. Building on advantages in domestic markets, these firms seek offshore markets in a variety of ways. Through mergers and acquisitions (M&A), some firms easily get access to the local distribution channels and marketing networks. All in all, these investments are aimed to seek new markets and increase exports of the goods and services. Some companies move their production into Malaysia in order to access the ASEAN markets by using the Malaysian sale networks. Meanwhile, the establishing of free trade area in ASEAN means that Taiwanese investment in Malaysia can benefit from the same investment with other members of ASEAN. With sufficient money, technology and experience, Taiwanese enterprises can seek new markets, especially in ASEAN countries. Malaysia is characterized by her open market economy with less competition. Capitalising on that, Taiwanese firms first set up trade and representative offices in Malaysia, and then through their marketing strategies increase the selling of their products.

Table 10: Taiwan's Export and Import with Malaysia (US\$ million)

Year	Total	Export	Import
2006	11,097	4,979	6,118
2007	11,743	5,421	6,321
2008	12,465	5,548	6,917
2009	8,783	4,082	4,701
2010	13,836	5,975	7,861
2011	15,716	6,924	8,793
2012	14,580	6,600	7,981
2013	16,498	8,243	8,255
2014	17,632	8,671	8,961
2015	13,931	7,197	6,733
2016	14,096	7,815	6,281

Source: Bureau of Foreign Trade, Ministry of Foreign Affairs, Taiwan, Republic of China, <<http://www.trade.gov.tw>>

Thus, Malaysia fits well under the New Southbound Policy's promotion plan for forging regional links, in which the aims are to systematize bilateral and multilateral cooperation with partner countries, strengthen negotiations and dialogue, change previous patterns of individual effort and draw on the collective strength of private groups, overseas Taiwanese networks and third countries, in order to advance regional security and prosperity. For strategic alliances, the plan is to reallocate foreign aid resources, to build a comprehensive foreign aid mechanism, to encourage more businesses to participate in local development projects of other countries. Hence, the policy aims to join third countries, such as Japan and Singapore, in efforts to tap markets in ASEAN, South Asia, New Zealand and Australia, in order to strengthen cooperation between private corporations and nongovernmental organizations (*New Southbound Policy*, n.d.).

The Taipei Investors' Association in Malaysia (TIAM) is the only group that has been allowed to register under the Malaysian Societies Act on behalf of a legitimate group of Malaysian-Taiwanese businesses. The association was established on 27 March 1990. The purpose of this association is to cooperate with the policy of the Republic of China (Taiwan) to promote investment in Malaysia, to strengthen the links and coordination between members, to provide and help members with services and advice on Malaysian laws and regulations, to exchange information between each other to help members solve problems related to investment in Malaysia or business difficulties (TIAM, n.d.).

Agarwal (1985) argues that ethnic and culture similarity between home and host countries tends to be a key factor that attracts FDI. Malaysia's manufacturing firms are predominant owned by ethnic Chinese. The fact that Malaysian Chinese share the same culture with Taiwanese is conducive to help pull Taiwanese firms to invest in Malaysia. Usually Taiwanese subsidiaries in Malaysia are willing to employ Malaysian Chinese who have received high education in Taiwan at managerial levels. This overcomes the language and culture barriers and helps Taiwanese firms get more competitive advantage in Malaysia (Chow, 1996).

TAIWAN'S OFDI IN MALAYSIA AND THE NEW SOUTHBOUND POLICY: CONCLUDING REMARKS

The main objective of the New Southbound Policy is to reduce Taiwan's economic dependence on Mainland China and seek new engine for the economic development of Taiwan. Malaysia has the advantage of stable politics and open markets relative to other ASEAN countries. For Taiwan's enterprises, partly in view of culture similar to that of the Malaysian Chinese, retails, food, education, and clothing sectors can attract investment from Taiwan. While Malaysia has a multi-ethnic national culture, up to 60 percent of total population are Muslims. In recent years, Malaysia attempts to create the world's largest Islamic debt market, and build the global "Islamic financial centre". According to World Bank and the International Monetary Fund (IMF), the size of Islamic financial assets will expand to US\$4 trillion by 2020, and this could mean attractive business opportunities for Taiwan. Taiwan has cooperated with *Financial Times* to launch the "Taiwan Islamic Index" in 2008. In the same year, the first Islamic fund was launched. In the future, along with the New Southbound Policy to exploit the digital financial advantages, enterprises from Taiwan can go on to develop exchange-traded fund (ETF) and other funds, bonds, insurance and other related Islamic financial goods in order to grab these Islamic-based business opportunities.

However, in comparison with other Southeast Asian countries, Malaysia is not the most popular destination for foreign investment from Taiwan. This is due to the relatively higher labour costs and smaller market. Malaysia is trying to develop itself into a developed country and hence it needs high-tech industries to upgrade its economy. Taiwan's enterprises have less advantage in this area as they still have to compete with other enterprises from Japan, South Korea, and United States.

From the first investment in Malaysia in 1959, Taiwan's OFDI has experienced a fast growth during the past six decades. Since 1993, Taiwanese government has been employing the Southbound Policy, which recently received a new boost in the form of the New Southbound Policy launched in 2016 by the new Tsai Ing-wen administration, to encourage local enterprises to invest in and trade with Southeast Asian countries. Malaysia, as one of the most important Southeast Asian countries, is attracting FDI from Taiwan with her rich natural resources, cheap labor cost, similar culture, and the easy-access sale network that connects ASEAN countries. Taiwan's fast economic growth, increasing domestic demand for energy and market, all play a significant role in the country's surge in overseas investments. For natural resource-abundant Malaysia, Taiwan's OFDI is mainly market- and resource-seeking. Keeping in mind such pull and push factors for Taiwan's OFDI, especially under the overall delicate context of cross-Strait relations, as well as objectives of the New Southbound Policy to expand and deepen relations with Southeast Asian countries to help steer away from the risky over-reliance on Mainland China, further strengthening economic relations and cooperation between Taiwan and Malaysia can be looked forward to.

Cultural Relations and Exchanges

After analysing the economic relations, especially in terms of OFDI, between Taiwan and Malaysia in the previous sections, this paper now moves to look at other aspects –

cultural and other societal, people-to-people, interactions – of Taiwan-Malaysia bilateral relations. Since its establishment on 20th May 2012, the Ministry of Culture of the Republic of China (Taiwan) (MOC) has actively pushed for the development of overseas offices, including the creation of a Cultural Division of the Taipei Economic and Cultural Representative Office (TECRO) in Malaysia in December 2013. Previously, the promotion of Taiwanese culture in Malaysia was carried out by the Information Division of the TECRO in Singapore.

In addition to promoting the nation's cultural and foreign policies, the Cultural Division organises art performances, exhibitions, film screenings, lectures, literary translations and publications, and cultural immersion festivals such as the annual Taiwan Week Book Fair. The Cultural Division also aims to forge new partnerships with cultural groups and educational institutions of Malaysia, facilitate interactions between both arts communities, and bridge the gap between Malaysia and Taiwan through cultural exchanges.

Under the New Southbound Policy's promotion plan for culture, film broadcasting and online games are to be used to market Taiwan's cultural brand. Besides, Taiwan's local governments are encouraged to engage in exchanges and cooperation with cities in ASEAN, South Asia, New Zealand and Australia (*New Southbound Policy*, n.d.). Using Kuala Lumpur as its base, Taiwan's Ministry of Culture has always hoped to introduce Taiwan's rich and diverse cultural features to Malaysia and neighbouring Southeast Asian countries. Using Taiwan's soft powers as a means to hold dialogues with the international community, the Cultural Division wishes to demonstrate the nation's unique qualities and deepen cultural diplomatic relations (Cultural Division, TECO, n.d.).

Moreover, Taiwan also welcomes Malaysia's educational institutions to engage in cultural exchange. The United Chinese School Committees' Association of Malaysia (Dong Zong) recently organised the "Deep Cultural Exchange Delegation to Taiwan for Malaysian Youths" on 5th December 2016 ("Deep cultural exchange delegation to Taiwan for Malaysian youths", 2016). In related development, cultural exchange delegation from Sibul, Sarawak, visited Chang Jung Christian University (CJCU) on 23rd December 2016 (Chang Jung Christian University website, 2016) to seek cooperation in culture based on the "New Southbound Policy" of the Tsai Ing-wen Government, and the "Malaysia Culture Week in 2017" was held in National Taiwan Normal University (NTNU) from 13th to 17th March 2017, by the Malaysian Students' Association of NTNU ("Malaysia Culture Week", 2017).

Educational Relations

Under the New Southbound Policy's promotion plan for education ties, the aim is to expand scholarships to draw more students from ASEAN and South Asia. Depending on domestic industry needs, courses will be created on academia-industry cooperation and foreign youth technical training, and to provide job-matching services after graduation. Universities and colleges are encouraged to set up campuses or courses abroad or offer preparatory programmes. Elementary and junior high school language courses will be offered for new immigrants in Taiwan, and universities and colleges are encouraged to cultivate more Southeast Asian language experts and regional trade professionals (*New Southbound Policy*, n.d.).

Malaysia is the largest source of overseas students in Taiwan, which can be attributed to Taiwan's long-term, stable "policy of Overseas Chinese education". As part of the diplomatic strategy, the Republic of China provide special benefits for overseas Chinese students, encouraging global Chinese to study in the Republic of China, among them millions of Malaysian Chinese. The present annual growth rate of Malaysian students studying in Taiwan is 7.42 percent, according to TECO Malaysia (*Oriental Daily News*, 23rd April 2017). The number of Malaysian students studying in Taiwan in 2016 was at 16,051 while in 2015 it stood at 14,942.

Higher Education Evaluation and Accreditation Council of Taiwan (HEEACT) and Malaysian Qualifications Agency (MQA) signed the "Statement of Confidence on Higher Education Evaluation" on 20th July 2012. MQA published a list of 157 recognized universities or institutions on their website (TECO website). The relevant institutions of the two countries have recognized each other's higher education qualifications. The Federation of Alumni Association of Taiwan Universities, Malaysia (FAATUM), founded on 16th July 1974, has also been playing an active role in fostering the two countries' educational relations over the years. The Federation, which is a joint association consisting of all associations of Malaysian alumni of Taiwan universities, is the highest representative of all alumni of Taiwan universities, and has always been encouraging Malaysian students to pursue their studies in Taiwan in order for students with good academic results from poor families would have the opportunities to get scholarships and to complete their university education.

There were 14,946 Malaysian students studying in Taiwan in 2015 ("International Comparison of Education Statistical Indicators 2016"), making Malaysia the largest source of overseas students in Taiwan, according to the latest Taiwan Ministry of Education (MOE) statistics. The number nearly tripled the 5,248 Malaysian students who were studying in Taiwan in 2010 ("International Comparison of Education Statistical Indicators 2010"), as the MOE figures show, a surge attributed by the ministry to Malaysia's relaxation of restrictions in 2012 on the recognition of certificates and diplomas issued by Taiwanese schools. That same year, Taiwan also eased restrictions on foreign students working in Taiwan after graduating, including removing the requirement for work experience and lowering the minimum amount they must earn, giving Malaysian students greater incentives to study in Taiwan. According to figures made public at a Malaysia-Taiwan Higher Education Forum held at Feng Chia University in Taichung on 18th December 2014, there were 10,374 Malaysian students studying in Taiwan in 2013 (almost double the 5,248 Malaysian students who were studying in Taiwan in 2010), making Malaysia the largest source of overseas students in Taiwan ("Malaysia ranks as Taiwan's largest source of foreign students", 2014). More than 200 education officials attended the event, the first of its kind, from Taiwan and Malaysia. By the time when the second Malaysia-Taiwan Higher Education Forum was held on 15th October 2016 in Universiti Tunku Abdul Rahman (UTAR) Perak Campus, Malaysia, involving ten universities from Taiwan and Malaysia signing a total of nine cooperative agreements, there were almost 15,000 Malaysian students in Taiwan, which was 3.5 times more than the number in 2007 ("2016 Malaysia-Taiwan Higher Education Forum", 2016).

Recent educational visits between the two countries included a visit by a delegation from Tainan National University of the Arts (TNNUA) to Dong Zong on 19th December 2016 during which a discussion on cooperation model was held, focusing on promoting the arts education projects of Chinese high schools in Malaysia to strengthen the cooperation between the two sides, and TNNUA expressed its hopes to attract more students to study at the university. The delegation was led by Professor Huang Tsui-mei, dean of TNNUA who expressed admiration and gratitude for the contribution and efforts made by Dong Zong in promoting Chinese education of Malaysia and the development of Chinese independent high school education in Malaysia (Dong Zong website, 2016), and intention of TNNUA to cooperate with Dong Zong in the promotion of Malaysian Chinese independent high school art camps and teacher training, etc., by providing comprehensive assistance and support to jointly promote the Chinese arts education development in the Malaysian Chinese independent high schools. This was followed shortly by another delegation led by the Tunghai University President Mao-Juin Wang to visit Dong Zong on 22nd March 2017 (Dong Zong website, 2017), during which President Wang lauded Dong Zong's active engagement since 2015 in cultivating Chinese teachers' cooperation program and cooperating with leading universities in Taiwan to sign cooperation agreements and jointly promote and deepen the development of Malaysian Chinese education.ⁱⁱ

Technical Assistance and Aid

Under the New Southbound Policy's promotion plan for regional integration and negotiations and dialogues, economic cooperation agreements or individual economic cooperation provisions will be actively pursued with India and major ASEAN trade partners, current bilateral investment and taxation treaties will be updated and strengthened, and risk management will be improved by creating major event alert and emergency response mechanisms. Besides, multilevel and all-encompassing negotiations and dialogues will be promoted with ASEAN, South Asia, New Zealand and Australia, while there will be "open dialogue and negotiations with China at a suitable time on relevant topics and cooperation matters" (*New Southbound Policy*, n.d.).

Related to these aims mentioned above, it can be noted that aside from the economic relations mentioned earlier, Taiwan has also provided aid to Malaysia especially in terms of technical assistance. Taiwanese leaders have continuously advocated the Southbound Policy encouraging Taiwan's enterprises to invest more in Malaysia. For instance by providing basic education for children of Taiwanese expatriates in Malaysia, citizens of the Republic of China (Taiwan) residing in Malaysia are served by two international schools, namely the Chinese Taipei School Kuala Lumpur and Chinese Taipei School Penang ("Overseas Schools", Taiwanese Ministry of Education, n.d.).

During the visit of the then Taiwanese Vice-President Lien Chan to Malaysia in 1998, the country decided to collect \$100 million from all of the Taiwanese enterprises in the country to save some local enterprises which were near to collapse (Lee, 2000). The country also provided \$100 million to \$1 billion to help Malaysia recover from the impact of the 1997 Asian financial crisis. Also during the 1997 Southeast Asian haze, the Taiwanese authorities donated more than 100,000 respirators to Malaysia (Lee, 2000).

Early in 2014, Taiwan joined the search for MH370 even though only one of the airline passengers was a Taiwanese citizen (“Taiwanese fishing boats to join search for missing flight MH370”, 2014). At the end of the year 2014 when Malaysia was suffering from the worst floods, Taiwan had sent a number of medical workers and volunteers with supplies and rescue equipment, along with a money donation of MYR5,000 (US\$1,429) to help Malaysian flood victims (Kuay & Hsu, 2014).

Tourism

Under the New Southbound Policy’s promotion plan for sharing resources, Taiwan’s soft powers will be capitalized upon to promote bilateral and multilateral cooperation in tourism to improve quality of life in partner countries and expand Taiwan’s economic footprint, and visa requirements will be eased for ASEAN and South Asian tourists going to Taiwan. Taiwan’s tourism will be promoted through different channels, including raising the quality and quantity of tour guides as well as creating a Muslim-friendly travel environment (*New Southbound Policy*, n.d.).

In terms of tourism, the number of Taiwanese tourists visiting Malaysia was around 200,000 in recent years. This number reached 300,000 for the first time in 2000. However, due to SARS, the Iraq War and other effects, the number plummeted to 120,000 in 2003. The number of tourists gradually increased thereafter. According to the statistics from Taiwan Tourism Bureau, based on the period from January to September 2013, the number of tourists had then reached 180,000. According to the Malaysian Ministry of Tourism statistics, the number of Taiwanese tourists in 2012 was 242,515, which made Taiwan Malaysia’s 12th largest tourist-origin countries. The annual growth rate of Taiwanese tourists in Malaysia was 6.2 percent in 2016, according to TECO Malaysia (*Oriental Daily News*, 2017, April 23). The number of Taiwanese tourists in Malaysia in 2016 was 300,861. On the other hand, the number of Malaysians visiting Taiwan has also increased year by year. The tourist number in 2000 was only 58,000. However, it has exceeded 300,000 in 2011 and reached 341,032 in 2012 (TAITRA, n.d.). In order to develop tourism, Taiwan Visitors Association has set up an office in Kuala Lumpur. The annual growth rate of Malaysian tourists in Taiwan in 2016 was 9.95 percent, according to TECO Malaysia (*Oriental Daily News*, 2017, April 23). The number of Malaysian tourists in Taiwan in 2016 was 474,420.

The New Southbound Policy is the initiative of the government of the Republic of China under President Tsai Ing-wen to make Taiwan less dependent on Mainland China and to improve Taiwan’s cooperation with other countries. Tourism industry also follows this policy to attract Southeast Asian tourists. In response to the New Southbound Policy, the Taiwan Tourism Bureau organised promotional activities to communicate with tourism industry in Thailand, Vietnam and Malaysia. In order to attract Malaysian Muslim tourists, Taiwan has continued to build Muslim-friendly facilities such as prayer rooms, *halal* food certification restaurants, as well as organizing Muslim mosque-visiting tours in Taiwan, etc. For the tourism practitioners involved with the tourist groups from Mainland China, the Tsai Ying-wen government also counselled transformation and organised activities for the practitioners to enhance the understanding of Southeast Asian language and culture.ⁱⁱⁱ

CONCLUSION

As part of broader government efforts to expand ties with the region under the New Southbound Policy, the second Taiwan-Malaysia economic and trade dialogue was recently held in Taipei, with the two sides pledging to bolster exchanges across such areas as e-commerce and *halal* industry development. In line with the New Southbound Policy, Taiwan has planned to stage a series of trade promotion events in Malaysia this year to explore commercial opportunities and enhance cooperation between the two sides. These show the positive direction the Taiwan-Malaysia relations is moving into under Taiwan's new Tsai Administration, backed by strong bilateral relations – whether economic or societal-cultural – that have been maintained despite the lack of formal diplomatic relations, as this paper has explored in detail in the preceding sections. Economics and culture are closely interrelated. As seen earlier too, with the main objective of the New Southbound Policy being to reduce Taiwan's economic dependence on Mainland China and seek new engine for the economic development, Malaysia that has the advantage of political stability and open markets also has similar culture among her ethnic Chinese community with that of Taiwan. This can help to attract investments in terms of retail trade, food, education, and clothing sectors. Malaysia's multi-ethnic national culture with her dominant proportion of population being Muslims will also be advantageous to Taiwanese enterprises to develop various types of Islamic financial goods in order to exploit Islamic business opportunities.

When Taiwan's new president Tsai Ing-wen from the DPP, after the party's landslide electoral win in January 2016, launched the New Southbound Policy to further win the hearts and minds of South and Southeast Asians under the looming shadow of the deterioration in cross-Strait relations, public response was mixed. *The China Post*, one of Taiwan's two English-language newspapers, in its 29th July 2016 editorial entitled "New Southbound Policy' resembles empty promise" described the policy as "well-intended, but ill-defined" and "lacks oversight and is more of a wild goose chase than a thought-through strategic plan." ("New Southbound Policy' resembles empty promise", 2016) Such scepticism is not totally unfounded. Similar "Go South" policy under the earlier DPP Administration during the Chin Shui-bian presidency and even earlier under the overall "economic diplomacy" initiated by Taiwan's first democratically elected president, Kuomintang's Lee Teng-hui, has not been particularly astounding. However, given the unenviable situation that Taiwan has been in since the ROC lost her United Nations seat, her performance under the earlier "Go South" policy or the New Southbound Policy has to be appreciated with such seemingly insurmountable constraints in mind. As this paper has shown, Malaysia may still not be the most popular destination for foreign investment from Taiwan due to her relatively higher labour costs and smaller market in comparison with various other ASEAN countries, while Taiwan's enterprises, facing competition from Japan, South Korea and United States, may still have less advantage in high-tech industries that Malaysia needs to upgrade her economy. Nevertheless, given the strong background and past experience of Taiwan-Malaysia relations, there is much potential gain to look forward to in the further strengthening of such bilateral relations – both economic and societal-cultural – given the fresh impetus from the "New Southbound Policy".

NOTES

ⁱ This is the first statement of the OLI approach, later refined and extended in many books and papers by the author and his collaborators. See also Dunning and Narula (1996).

ⁱⁱ In addition, Tunghai University also implements the International Exchange Program, which gives tuition fee exemption for sister schools with tuition fees only payable at Tunghai University. Students who participated in this program may apply for scholarships. Tunghai University launched exchange and tour groups for high school students and teachers which are held annually in turn by Malaysia and Taiwan to promote the exchange of teachers and students to experience different cultures. At the same time, Tunghai University encourages teachers and students to participate in the activities held by the university. Currently, this project includes Tunghai University, Universiti Tunku Abdul Rahman, etc. President Wang has given support and affirmation to the “Chinese Independent High School Training Program” which had been promoted in the past two years by Dong Zong, and expressed hope for Tunghai University to assist Dong Zong in handling the program. President Wang also pointed out that Tunghai University has an education and training base, a complete education system which including Tunghai University-affiliated kindergarten, affiliated primary school, affiliated high school and Tunghai University, which will help to promote teacher training programs and other exchange activities.

ⁱⁱⁱ Additionally, in order to strengthen the communication and cooperation between Taiwan and Malaysia’s civil and nonprofit (non-governmental) organizations, The Chinese Non-profit Organization Development Association in Taiwan organised a “Taiwan-Malaysia Non-Profit Organizations communication group” jointly with department of Nonprofit Organization Management, Nanhua University and Fo Guang University (FGU). The communication group visited Malaysia from 11 to 15 July 2004 and conducted a three-day seminar on “Non-profit Organization Management Study Course”. See <http://www.nhu.edu.tw/~npo/e-papertwo/story2.htm>

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