

## ECONOMIC AND SOCIAL FACTORS IN TAIWAN'S COMPETITIVENESS WITH SPECIAL FOCUS ON THE TAIWAN-EU TRADE RELATIONS

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### Abstract

The main question of this study is the present and future challenges that influence Taiwan's development and competitiveness. From among these traits the issue of the high exposition (especially in terms of FDI) and growing dependence on mainland China (the People's Republic of China), the need for a shift in terms of the main drivers of the future economic development and to mitigate the risks of brain drain and social unrest. Taiwan needs to give up insisting to the principle of low labour costs, and this may give impetus to the two-decades long salary stagnation and to the domestic consumption. Taiwan can be competitive by increasing its focus to the domestic R&D and innovation in the new industries and also puts more emphasis on sustainability. It may give Taiwanese economy a chance to remain competitive and successful. The study gives a brief overview on the main characteristics and figures of the Taiwan-EU economic and trade relationship from which it can well be seen that while in a 10 years period (2004-2015) the European exports to Taiwan grew by around 50 % in value, Taiwanese exports to the EU countries more or less remains stagnant during the same period. It illustrates and emphasizes the fact that Taiwanese economy needs stimulus to regain its competitiveness. Within the frames of the Taiwan-EU economic relations the paper gives a brief insight into the Hungaro-Taiwanese trade issues too.

**Keyword:** *Taiwan, economic development, competitiveness, European Union*

**JEL Classification:** *R11, F14, F54, F59, N45, O53, O57*

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### Introduction

After the 1960s, Taiwan underwent a rapid economic and industrial reform, also experienced remarkable social development. The economic achievements of the 1970s and 1980s allowed Taiwan to rank among the Asian Tigers and, in the 1990s, among developed countries. Since the 1980s, the economic structure of Taiwan gradually shifted from labour-intensive industries to high-tech industries, wherein the electronics industry was particularly vital to the world's economy. Taiwan has excelled in the semiconductor, optoelectronics, information technology, communications, and electronics fields. At present, the economy is shifting toward nanotechnology, biotechnology, optoelectronics, and the tourism service industry. Moreover, international trade is the economic lifeline of Taiwan. Japan and the United States were Taiwan's top two trading partners until 2005, when mainland China took over as Taiwan's main import/export trading region, with Japan and the United States coming in second and third. In recent years, the unfavourable financial situations of the USA and European economies and the economic slowdown in mainland China had a joint impact on the economic performance of Taiwan (MEET-Taiwan, 2017).

Since the 1970's Taiwan has a rapidly modernizing and developing economy, one of the so-called Asian Newly Industrialized Economies (ANIEs), driven by exports of electronic goods,

machinery, petrochemicals that provided the primary impetus on its economic development. The strong dependence on exports exposes Taiwan's economy to fluctuations in world demand. The diplomatic isolation, low birth rate, and rapidly ageing population are other major long-term challenges. According to estimated figures of CIA World Factbook (2017) Taiwan's PPP-based GDP (purchasing power parity) was 1.125 trillion USD, GDP (official exchange rate) was 519.1 billion USD (2015), while the GDP real growth rate was 1% (2016). The per capita GDP (PPP) was 47,800 USD (2016), while the ratio of gross national saving was 35.7% of GDP (2016). The high savings ration enabled Taiwan to have the sixth biggest reserves of foreign exchange and gold the total amount of which was estimated 456.9 billion USD (on December 31, 2016), one year before it was 430.7 billion USD. Taiwan's total amount of external debts was estimated 155.4 billion USD (on 31<sup>th</sup> December, 2016) while one year before it was 159 billion USD (CIA World Factbook, 2017). In the world's GDP toplist Taiwan was No. 21 (both in current prices and PPP) and foreseeable will keep its place in 2020 as well (at PPP basis) while on current price basis it may step back to No. 22 (Statistics Times - database of IMF, Oct. 2016) See Taiwan's main economic indicators in table 1. The author intended to find answers to the question: what are the present social and economic problems that jeopardize Taiwan's competitiveness and influence Taiwan's development at present and in the foreseeable future.

### **Material and methods**

The author used both secondary and primary research to gain the necessary information for the present paper. Most of the secondary information was acquired was based on bibliographic review (available in international and Taiwanese sources) moreover statistical data, the author used derive from international databases (CIA World Factbook, IMF) and from the Directorate General of Customs, Ministry of Finance of Taiwan.

The author as research fellow spent two months in Taiwan in 2017 with the fellowship of the Oriental Business and Innovation Centre (OBIC) of Budapest Business School which gave him an excellent opportunity to establish personal contacts and carry out discussions and interviews with a number of academic professionals and experts form the fields of business and administration. Hence, these first-hand information and experiences merely contributed to the outcomes of this paper as well.

### **Economic and social challenges**

Taiwan experienced significant trade with richer countries when the Qing imperial government was pushed to open several ports in China to international trade, including two ports in Taiwan in 1860. After Taiwan was ceded to Japan in 1895, it began to engage in large-scale trade with Japan. In addition, investment, modern technology, and educated people moved to Taiwan from Japan. Before 1945, the economic relationship between Taiwan and Japan resembled a modern common market. Taiwan could export a variety of products in which Taiwan had comparative advantage to Japan without paying tariffs. Factor flows between Taiwan and Japan were also cost free. Consequently, income and wage rates in Taiwan grew closer to those of Japan (which were higher). The factor price equalization mechanism began to contribute to the economic development of Taiwan. In 1937, four decades after Japan occupied Taiwan, per capita income in Taiwan reached roughly 75 percent of Japan's (Chen, P. 2016).

**Table 1. Taiwan's main economic indicators between 2000 and 2016**

	2000	2005	2010	2011	2012	2013	2014	2015	2016
GDP (USD billion at current prices)	331.5	375.8	446.1	485.7	495.8	511.6	530.5	525.2	529.7
Per capita GDP (USD at current prices)	14,941	16,532	19,278	20,939	21,308	21,916	22,668	22,384	22,530
Real GDP growth rate (%)	6.4	5.4	10.6	3.8	2.1	2.2	4.0	0.7	1.5
Total exports (USD billion)	151.9	199.8	278.0	312.9	306.4	311.4	320.1	285.3	280.3
Total imports (USD billion)	140.7	185.4	256.3	288.1	277.3	278.0	281.8	237.2	230.6
Consumer price inflation (%)	1.3	2.3	1.0	1.4	1.9	0.8	1.2	-0.3	1.4
Unemployment rate (%)	3.0	4.1	5.2	4.4	4.2	4.2	4.0	3.8	3.9

*Source: Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Taiwan (cited by DBIT update, 2017)*

Since the beginning of the global economic crisis of 2008 Taiwanese has been in a downturn phase. This is because of the overdependence on exports. Both investment and consumption are growing at a slow pace. It can be said in general that usually, rich and more developed nations have been the supporters of free trade in recent times (Sági - Engelberth 2018a), but they are usually much more interested in to increase their exports, than opening their markets in front of imports. It is a peculiar question is if the earlier macroeconomic trends were really defeated by the changing global situation and world market or they simply deteriorate under a narrow-minded governance of the political leadership (Horváth, B. – Magda, R. 2018). In case of Taiwan there are three major factors that contribute to the economic growth: investment, export and consumption. Regarding the investment sector, the government has faced the sovereign debt ceiling, which restricts its capacity for raising public debt. The private investment sector shows limited growth potential. Furthermore, there is little progress in negotiations for FTA (Free Trade Agreement) as well as EFCA (Cross-Straits Economic Cooperation Framework Agreement) follow-up agreements. Negotiations, however, have been started for a cross-strait trade in goods agreement under the ECFA framework (ECFA, Wang, J-C. 2015). The ECFA aimed to reduce tariffs and commercial barriers and it was signed on June 29, 2010, in Chongqing, and can be considered as the most significant agreement since the two sides split after the Chinese Civil War in 1949 (BBC News, 2010). For the implementation of business and technical issues between Taiwan and mainland China, Taiwanese government established an organization called Straits Exchange Foundation (SEF) which is funded by the government. It is a kind of de facto embassy to mainland China, symbolising that Taiwan does not accept Beijing's sovereignty over Taiwan (SEF, 2017).

The legislative ratification of the latest Cross-strait Trade in Services Agreement has been held in abeyance since the Sunflower Movement took place in March 2014. Taiwan attended a WTO (World Trade Organization) Trade Policy Review meeting in Geneva on September 16, 2014. During this meeting from mainland China (PRC) expressed its concerns over Taiwan's

restrictive measures that substantially limit its direct/portfolio investments in Taiwan. In addition to reiterate its expectation towards the removal of Taiwan's unilateral import bans on basic products from mainland China in compliance with the MFN (Most Favoured Nation)-level obligations of WTO. Beijing has also signalled that, by failing to open Taiwan's domestic economy to China, it will lobby against Taiwan's participation in multilateral pacts such as the Trans-Pacific Partnership (TPP).

Since the early 2000's Taiwan Also, similarly to South Korea significantly increased their exports to mainland China, however South Korea's export expansion was more successful in absolute values.

Chang (2015) added that while South Korea's relative share within the Chinese market did not change significantly (from 9.7% to 9.6%), Taiwan's share decreased from 12.9 % to 7,4% in spite of the fact that in absolute values Taiwan's exports grew from around 38 bln USD to 114 bln USD during the mentioned period. In the long run, keeping restrictive stance towards reciprocal flows from mainland China is definitely cannot be an option for Taiwan. Making prudent policies of cross-strait opening, with appropriate safeguards in place, may not be the panacea for Taiwan's competitiveness, but it is a necessary step to maintain and further enhance its strength in global trade (Chang, C-C. 2015).

The domestic consumption, the average growth of Taiwan's disposable income was approximately one percent in the past ten years. It causes the sluggish growth of Taiwan's economy. Lastly the export trade is also largely affected by the up-and-down fluctuations of the global economy, which imply that Taiwan has lost much of its control over its economic growth. However, on the bright side, Taiwan's export and consumption are better off following the recovery of the global economy. Foreign tourist arrivals were expected to exceed ten million in 2016 to significantly increase domestic demand. Moreover, with the establishment of Free Economic Pilot Zones (FEPZs) and the shift in investment from China to Taiwan, by Taiwanese businessmen, the economic growth of 2015 shows signs of recovery. But with the rise of China's high-tech industry, the cross-strait business relationship has shifted from cooperation to competition. However, there are still some doubts about the global economic recovery, Taiwan still has a lot of work to do, though its economic growth in the next two or three years shows promise and has an optimistic forecast. It has to speed up not only in industrial transformation but also sign FTAs to stand a chance in this fierce competition and break through existing trade barriers to get back on the right track of economic growth, at faster pace too. Taiwan has been too much dependent on mainland China. Taiwan is pressured to speed up industrial upgrading and transformation. Moreover, Taiwan has to plan FEPZs (free economic pilot zones) and sign FTAs at faster rate in order to make industrial advancements and maintain competitive advantages over mainland China. Upon accomplishment Taiwan will be able to pursue sustainable economic growth. Besides the aforementioned challenges, there are still some other pressing complications. Such one is the rise of mainland China's supply chain and the fierce industrial competition between the two sides of the Taiwan Strait. In recent years, Taiwanese and foreign companies all face the pressure of localization or joining with the China supply chain. This means the original Taiwanese and foreign suppliers of semi-conductor and other component manufacturers are being replaced. The negative effect can be seen by the recent decrease in the ratio of intermediate goods Taiwan imports from mainland China. It may have resulted from mainland China's import substitution and localized production policy. In 2013, the manufacturing of ICT (information and communication technology) products and optical instruments, which constitute a large part of imported goods, has been hit the hardest, weakening Taiwan's export performance. Therefore, Taiwan has to shift focus to the American

reindustrialization process to maintain competitive advantages over mainland China (Wang, J-C. 2015).

The harmonization of the governmental interventions in space and in time is of crucial importance and may facilitate synergy while the least advanced regions and sectors can gain a chance for development. In case of development programmes it is also important that sustainable progress should be achieved in long run (15-20 years (Tóth, 2008; Tóth - Goda - Malomsoki, 2009).

During the preceding, 8-year period of the KMT-government, (2008-2016), Taiwan made many gestures to improve relations with mainland China. When Taiwan and mainland China concluded the ECFA in 2010, as a part of this framework agreement, a so-called Early-harvest List was agreed in 2011, which comprised altogether tariffs concessions of 806 product items. He pointed out that the unhindered trade of at least two third of these products was really beneficial for Taiwanese exporters to mainland China, which is interested in the imports of modern technologies from Taiwan. On the other hand, it is a noticeable fact that nowadays around 23 million people are employed by Taiwanese firms in mainland China – which number is comparable to the entire population of Taiwan (Füle, 2017). Such deals and transactions reflect China's changing geostrategic ambitions, which, after all predicts the re-balancing the global power of the US in economic terms (Engelberth - Sági 2017).

Following ECFA, within few years altogether 22 additional agreements were concluded between Taiwan and mainland China, which covered the field of liberalization of the movement of persons as well. At the beginning only tourist groups, but later on individual travellers were also allowed to travel to the other side of Taiwan Strait. Finally, ECFA became highly debated and the last agreement within its framework on the liberalizing trade in services was not ratified by the Taiwanese legislature. It even raised public dissatisfaction and created an intense situation in Taiwan, which resulted in the significant occupation of the Taiwanese Legislative Yuan as many people had fears of the fast pace of signing and ratifying so many agreements between the two sides of the Taiwan Strait. It was considered too risky both from political and economic point of view. Finally, it contributed to the victory of the previous opposition, the liberal, Democratic Progressive Party (DPP) in 2016. Moreover, Taiwan struggles for any kind of additional possibility to participate in the international arena, however it is very much limited in the shade of mainland China, as the latter prevented most of these efforts. The Free Trade Agreement (FTA) between Taiwan and the European Union is widely promoted by various feasibility studies and would highly benefit both the EU and Taiwan. However, it is stalemated and not likely to be signed unless a similar agreement had already been concluded between the EU and mainland China. He underlined that it is very unlikely that such an agreement would be concluded between the EU and China in the near future, therefore the case of FTA between Taiwan and the EU cannot be on the agenda. He said it can be considered as a breakthrough-sound achievement that mainland China did not prevent the conclusion of the FTA between Taiwan and New Zealand in 2013, as well as the earlier conclusion of an investment protection accord between Taiwan and Japan in 2011 (Füle, J. 2017).

In the course of the recent decades, labour market has been undergoing a thorough transformation, resulting new demand for both the demand and supply side (Erdeiné Késmárki-Gally. 2018). In case of Taiwan one of the major problems on the labour market is the salary stagnation. Real salary has stagnated for almost 20 years because of the imbalance of income distribution, not from the lack of economic growth. Salary stagnation serves as an obstacle hindering Taiwan's economic recovery. Although the speed of inflation in Taiwan is relatively low, the increase in salary is even lower. Under such circumstances, Taiwan is struggling to

maintain talent in the country, further reinforcing the vicious cycle of low salary (Wang, J-C. 2015).

It can be emphasized that at a higher level of development – like Taiwan’s economy reached - such factors should be in focus like innovation, new, R&D-intensive industries which increase the value-added content of the final product. Otherwise there will always be other economies which will invest more into the domestic R&D and innovation hence in these economies salaries will rise higher (Káposzta et al., 2008). It is also well known that policies should be tailored on the specific traits of each economy or region, with regard to its competitive advantage and needs (Sági – Engelberth, 2018b). But, in spite of all this the young generation in Taiwan still faces elementary problems, for example in establishing families as there is an increasing gap between the growing real estate prices and the stagnating salaries (Cheng, C. 2017).

The unity of the dynamic and inductive inter-relationship of the sciences-education and implementation (best practice) triangle gains increasing importance in the future (Zéman, 2016). It has to be underlined that 60% of college graduates in Taiwan are engineers, many of whom establish ventures and most of them become successful in a course of a couple of years (Chou, C-C., 2017). However, another study pointed out that the young generation (20-24 years old people) face nowadays even bigger difficulties at the labour market than before. He claimed that Taiwan’s labour market had gone through a major change over the past decade. In fact, unemployment among people aged 35 or above had declined since 2003, but joblessness of the age 20-24 age group hit a new high in 2013. He suggested that Taiwan should learn from the US and other OECD countries which use the so-called Active Labour Market Policy (ALMP) to structurally connect the youth to the labour market and also urged for more innovative strategies that systematically could bring back this underrepresented generation, whose members possess with high educational attainment (Hsu, Y-H. 2015).

The main traps jeopardizing Taiwan’s competitiveness “behind the shade” of mainland China are as follows:

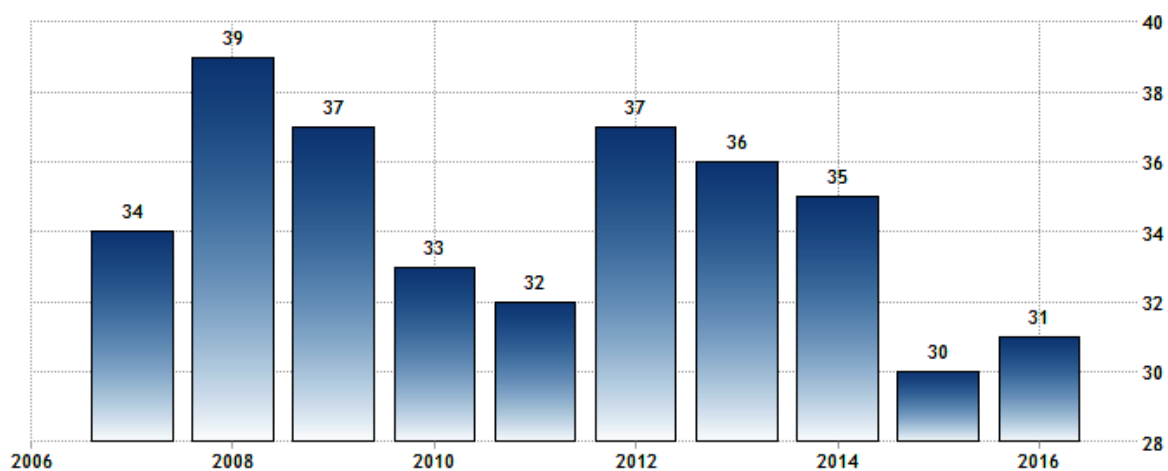
- Many Taiwanese businessmen went to China to manufacture and enjoy the advantages of the cheap labour. But, it has several risk factors for Taiwan as follows:
- If Taiwanese manufacturers focus too much on the advantages deriving from the low labour costs, in longer run these manufacturers will lose their competitiveness, as the labour costs, even in China are growing. The Taiwanese government has been trying to encourage entrepreneurs to rather do more intensively innovations and increase the value-added content in their products and services.
- As China needs semiconductors in growing quantities, but still not able to meet her own demand from domestic resources. He mentioned that China spent nearly as much on importing semiconductors as on the annual oil imports. Hence, in the recent years China started to intensively develop her own semiconductor industry, which is followed by a special kind of brain-drain process: Chinese firms offer good job opportunities for Taiwanese specialists working in this field. He underlined: this was not prevalent in case of the assembly- manufacturers, just the cutting-edge segment of the industry: the semiconductor design and production. If this process went on, Taiwan would surely face serious difficulties with her competitiveness in this field (Lin, M-J. 2017).

Tsai Ing-wen (who assumed her office on May 20, 2016) and her administration has a number of steps to make to stimulate Taiwan’s economy even in unfavourable global economic conditions. The cabinet has at least six significant challenges as follows:

- 1) Building on the economic statecraft that has brought participation in the WTO, plurilateral and multilateral trade arrangements;
- 2) Expanding its limited successes in bilateral FTAs negotiations, especially with those countries which have multiple memberships in the emerging trade blocs;
- 3) Continuing economic gains that Taiwan has made through its functional approach to deepen further the de facto economic integration it has achieved through outward investment and its participation in the global value chains (GVCs);
- 4) Maintaining peace and stability in the cross-Strait relations by taking a non-provocative attitude toward China;
- 5) Pursuing membership in the new mega-regional trade blocs to diversify its trade and investment flows so as to mitigate its asymmetric dependency on China's market;
- 6) Engaging a "New Southward Policy" to integrate further with the economies in Southeast and South Asia. This might be a grand strategy for the Tsai-administration to globalize Taiwan's economy with substantial political dividends in the international community (Chow, P. C.Y. (2016).

Another challenge the Taiwanese government and society have to face is the corruption. The corruption does not mean major obstacle for business operating or planning to invest in Taiwan, but there are several reports of official corruption. These can be traced back to the close ties between politics and business which have raised the risks of corruption particularly in public procurement. Petty corruption, however, is very uncommon in most sectors. Taiwanese anti-corruption law is primarily contained in the Anti-Corruption Act, the Criminal Code and the Organic Statute for Anti-Corruption Administration and the government generally implemented these laws effectively. Taiwan's Agency Against Corruption defines low-level gratuities; therefore, any facilitation payment could be viewed as a bribe by the courts (Taiwan Corruption Report, GAN 2016).

According to Transparency International, in 2016 Taiwan ranked at No 31 in the world list, which is slightly worse than in 2015, but an improvement comparing to the preceding several years can still be seen on Figure 1.



**Figure 1. Taiwan's Corruption Rank**

*Source: Trading and Economics (Transparency International)*

In close relationship with all this, in Taiwan a new idea and well-functioning solution was found out to combat against tax evasion, at least in retail trade. In an effort to get merchants to keep

things on the books, the Taiwanese government introduced a sweepstake, called Receipt Lottery. The theory being, with millions in winnings on the line, customers would start demanding receipts with every purchase and merchants would wind up with all their income on the books. Each receipt gets a unique eight-digit number stamped on it. On the 25<sup>th</sup> of every odd month they announce six winning numbers. People who collect their receipts, check their receipt numbers from the preceding two months (Taiwan Receipt Lottery).

This author believes that this is a classic win-win situation. The customers, who have a real chance to win, are strongly interested to claim receipts even after their small shopping, as the highest prize is 10 million TWD (around 330,000 USD), but even minor prizes are still attractive. In the other hand both the government and the community wins, as the total sum of prizes remains far below the surplus the budget receives from taxes like this, even though the VAT ratio is much lower in Taiwan (5%) than in most European countries. This system works well, with bimonthly draw, and people follow the results with keen attention while VAT and all additional payments arrive to the budget.

### **Economic relations between Taiwan and the European Union**

Bilateral trade relations between the EU and Taiwan are in general good and expanding. According to statistical figures of 2015 Taiwan is the EU's 18<sup>th</sup> trading partner and the 7<sup>th</sup> in Asia in value of goods 44 billion EUR traded in 2015 (9.4% increase comparing to 2014). The EU is Taiwan's 5<sup>th</sup> trading partner, after China, the ASEAN block, US and Japan. The EU-Taiwan bilateral trade accounted for 1.3% of EU's world trade 2015. The EU's exports to Taiwan (18.5 billion EUR) grew in 2015 by 9%. Total trade in services between the EU and Taiwan was 7 billion EUR in 2014, with a shrinking surplus for the EU (1.3 billion EUR). ICT products dominate Taiwanese exports to the EU (35%), followed by machinery (17%) and transport equipment (11%). The share of Taiwan in integrated circuits and electronic components in EU's imports worldwide is more than 15%. Machinery is the main export of the EU to Taiwan (23%); transport equipment takes also a significant part of EU's exports to Taiwan (18%), followed by ICT products (9%), pharmaceuticals (8%) and agri-food (7%). With a stock of FDI of 10 billion EUR, the EU is the largest investor in Taiwan. The EU's FDI accounts for 25% of all foreign investment in the island. At the same time, Taiwanese investment in the EU remains at a very low level (stock of 1 billion EUR). The EU as a whole only accounts for 2% of the stock of Taiwanese FDI. The inclusion of Taiwan in the European Commission's "Trade for All" trade communication, adopted in October 2015 is a major development. The prospect of a bilateral investment agreement (BIA) is an opportunity to create an overall better business environment in Taiwan for EU investment (EU-Taiwan Factfile, 2016).

Regarding the issue of the EU – Taiwan BIA, in spite of the recently mentioned optimistic consideration of the EU-Taiwan Factfile (2016), the state of this agreement does not look bright. It has even no reality until such an agreement between the EU and mainland China has been concluded (which is very unlikely). From the European Union's side, such an agreement with Taiwan would collide with the One-China Policy (Füle, J. 2017).

In 2015, the European Union continued its intense and well-structured dialogue on economic and trade matters with Taiwan. Four technical expert-level working-groups, that meet twice a year, deal with questions related to sanitary and phyto-sanitary rules (including food safety), technical barriers to trade, automotive (including standards, certification and testing requirements), intellectual property rights, pharmaceuticals, cosmetics and medical devices. Ad hoc regulatory dialogues are held on government procurement, customs, telecom,

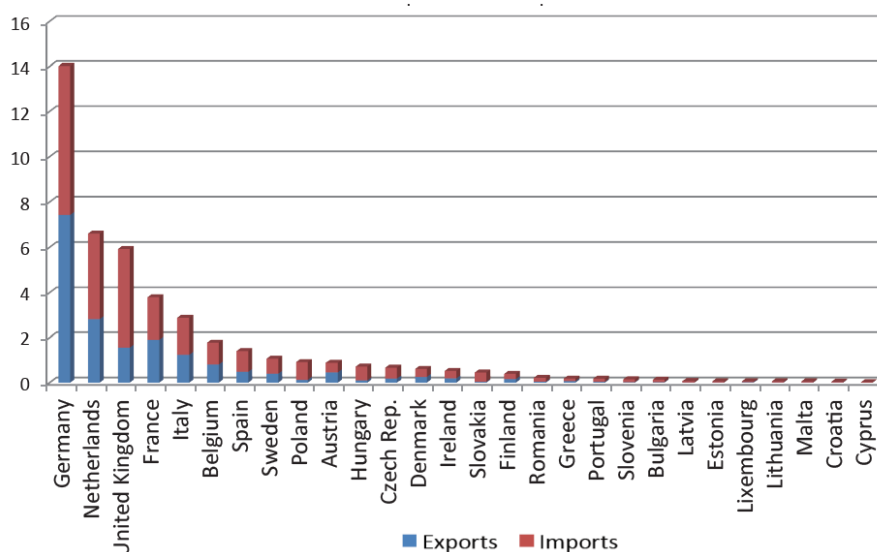


complemented by seminars and workshops on issues of mutual interest, organised jointly by the European Economic and Trade Office (EETO) and Taiwanese stakeholders aimed at strengthening the cooperation. At the joint events, European experts from European Commission, EU Member States, industry and academia share best practices and advocate international and EU regulatory principles. The first Industrial Policy Dialogue took place in June 2015, which focused on innovation through digitalisation, standardisation and SMEs internationalisation and clusters cooperation, notably in the framework of the Enterprise Europe Network, of which Taiwan became a member on 28<sup>th</sup> May, 2015. The aggregated figures of trade between the European Union and Taiwan can be seen in Table 2, while the bilateral trade between the 28 EU member-states and Taiwan (in 2015) can be seen in Figure 2. In the latter, it can be clearly seen that Germany is the biggest economic partner for Taiwan from among 28 member states, covering 31.9% of the total EU-Taiwan trade turnover. The second biggest partner is the Netherlands (15.0%), the third one is the United Kingdom (13.5%), France (8.6 %), Italy (6.5%), Belgium (4.1%) and Spain (3.2%) are still significant (EU-Taiwan Factfile, 2016).

**Table 2. EU’s trade in goods with Taiwan**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EU’s exports (EUR billion)	12.9	13.0	13.2	13.3	11.6	10.0	14.8	16.2	15.8	16.5	17.0	18.5
Annual growth rate (%)	16.8	1.2	1.3	0.8	-13.0	-13.5	47.5	9.7	-2.4	4.1	2.9	8.8
EU’s imports (EUR billion)	24.0	24.2	26.8	26.1	24.2	17.9	24.3	24.3	22.6	22.1	23.2	25.5
Annual growth rate (%)	5.6	0.8	10.8	-2.5	-7.5	-25.7	35.2	0.2	-6.8	-2.3	4.9	9.8
Total (EUR billion)	36.9	37.2	40.0	39.4	35.8	28.0	39.0	40.5	38.5	38.6	40.2	43.9
Annual growth rate (%)	9.3	1.0	7.5	-1.4	-9.4	-21.8	39.6	3.8	-5.1	0.4	4.1	9.4
Balance for the EU (EUR billion)	-11.1	-11.1	-13.6	-12.8	-12.6	-7.9	-9.5	-8.1	-6.8	-5.6	-6.2	-7.0

Source: EU-Taiwan Factfile, 2016 (on the basis of EUROSTAT data)



**Figure 2. Bilateral trade between the 28 EU Member States and Taiwan in 2015 (EUR, billion)**

Source: EU-Taiwan Factfile, 2016 (on the basis of EUROSTAT data)

## **The Hungaro-Taiwanese economic relations**

The relations look back slightly more than a quarter of century now. Hungary as member of the European Union follows the One-Chine Principle in its approach to Taiwan that excludes to direct political and diplomatic contact however leaves broad room for economic co-operation. As starting point the year 1990 can be considered, when the Hungarian Chamber of Economy (MGK) – with the consent of the Hungarian government - and its Taiwanese partner agreed to open a trade representation in Budapest (called Taipei Trade Office) functioning on the basis of the private international law. The intention and the objective was to improve the economic relations, tourism and other fields. This office was the very first Taiwanese mission in Central and Eastern Europe. In 1995, it changed its name to Taipei Representative Office. From point of the same reasons and motivations and under similar conditions the Hungarian Trade Office was opened on 23rd July, 1998 (Hungarian Trade Office, 2017).

The economic relationship, including the turnover in trade between Taiwan and Hungary is relatively modest. The bilateral trade in 2015 was 1.6% of the total EU-Taiwan turnover (EU-Taiwan Factfile, 2016). According to the data of the Hungarian Central Statistical Office (HCSO) in the year 2016, the value of Hungarian exports to Taiwan was 174.3 million USD (156.9 million EUR), however, it was an increase of 6% comparing to the preceding year.

From among the characteristic product groups the export of animal products to Taiwan grew in the fastest pace, at 74% (from 21.5 to 37.5 million USD) reaching 21.5% share in the entire Hungarian export to Taiwan. After Japan and P.R. China, Taiwan is the third largest export market for Hungarian animal products (and in global terms Taiwan is No. 16). Within animal products the biggest volume was pork (28 million USD, +72%), poultry meat (2.6 million USD, +275%), from feather and down (6.4 million USD, +169%). Other agricultural products were exported to Taiwan in value of 5.7 million USD, from which frozen vegetables (potatoes, sweet corn and green peas) were in 3.29 million USD and wine and sparkling wine (champagne) were in value of 377 thousand USD (Lőrincz, 2017a).

In case of machinery and vehicles the Hungarian exports slightly fell (7% and 5 % respectively), the value of exports in these product categories were 38 and 73.5 million USD in 2016. In case of motor vehicle export Taiwan is the No. 4 export market in Asia for 134

Hungary after China, Japan and South Korea. The above items constituted the 89% of the entire Hungarian export to Taiwan. According to the Hungarian Central Statistical Office (HCSO), the amount of Taiwanese imports to Hungary has been continuously shrinking and it has a positive impact on the bilateral trade balance – the trade deficit of Hungary was halved during the recent 5 years (see Table 3). According to Taiwanese official statistical data of DGBAS (Treasury Department of the Ministry of Finance, Bureau of Trade, Statistical Office) in 2016 Hungary became the biggest exporter to Taiwan from among the Visegrad-group countries (Poland, Czechia, Slovakia and Hungary) - the share of Hungarian exports reached 32% within the entire Visegrad-group's export to Taiwan (see the comparison in Table 4).

**Table 3. The Hungaro-Taiwanese Bilateral Foreign Trade (USD)**

	2012	2013	2014	2015	2016
<b>Exports to Taiwan</b>	91,922,862	138,624,562	147,622,191	164,732,866	174,291,753
<b>Imports from Taiwan</b>	1,176,533,212	990,006,144	800,936,006	660,664,962	642,600,566
<b>Total Turnover</b>	1,268,456,074	1,128,630,706	948,558,197	825,397,828	816,892,319
<b>Balance</b>	-1,084,610,350	-851,381,582	-653,313,815	-495,932,096	-468,308,813

Source: Lőrincz, 2017a, on the basis of HCSO data

The Taiwanese statistical data base consistently shows higher import values (the export figures of Hungary) comparing to the Hungarian statistical data basis. Within the European Union Hungary became No. 13 largest exporter to Taiwan (behind Germany, the Netherlands, France, Italy, Greece, Spain, Ireland, Belgium, Austria, Sweden, Denmark and Finland) (Lőrincz, 2017a).

Lőrincz (2017b) also emphasized that even though the Hungaro-Taiwanese economic relations are relatively modest, but in terms of trade volume Taiwan became No 6 economic partner for Hungary in East Asia. The trade turnover, especially Hungarian exports are growing, moreover, Taiwanese companies invested around 450 million Euros in Hungary. A Taiwanese investor (Chi Fu Ltd.) has recently acquired one of the best-known Hungarian meat processing company. Taiwanese food safety and quality controllers have recently approved three Hungarian meat processing companies which could start exporting poultry products to Taiwan. He noted it was a significant achievement that these slaughterhouses could meet the rigorous criteria.

**Table 4: Hungarian and Several Other CEE Countries' Exports to Taiwan**  
(according to Taiwanese official statistical data between 2012 and 2016 in USD)

Countries	2012	2013	2014	2015	2016
<b>Hungary</b>	<b>115,854,327</b>	<b>159,826,061</b>	<b>202,811,844</b>	<b>236,339,577</b>	<b>245,660,853</b>
Czechia	199,738,818	193,804,510	217,212,200	239,899,668	239,798,844
Poland	250,176,619	216,243,897	252,145,276	203,115,325	214,802,342
Slovakia	57,862,983	52,606,249	60,911,325	57,972,745	60,965,997
<b>Visegrad-group</b>	<b>623,632,747</b>	<b>622,480,717</b>	<b>733,080,645</b>	<b>737,327,315</b>	<b>761,228,036</b>
Austria	461,787,023	474,357,152	516,820,659	497,850,254	499,531,353
Romania	57,973,588	67,053,396	83,613,955	96,029,048	91,345,534

Source: Lőrincz, 2017a (on the basis of DGBAS)

Taiwan has a great potential for broadening the scale of goods for export. Cheese and other dairy products could be another good opportunity, as nearly all dairy products are sold in premium price category, in spite of the fact that products of those European companies are also available – at high prices – which are not symbolizing the highest quality. In Taiwan Hungarian or other foreign companies may sell many kinds of goods with success, but it needs a lot of efforts, first and foremost very intensive and costly marketing activities. In spite of that, there are various constraints that hinder the expansion of exports to Taiwan: tariffs and miscellaneous non-tariff barriers, the bureaucracy, the extremely rigorous registration processes (in case of foodstuffs and medicines) and others. He revealed as another constraint the fact, that being not recognized as independent state by the majority of the international community, Taiwan could

not join various international professional agreements and organizations (with the exception of WTO), therefore, the lack of recognition of international protocols and standards (like single European standards) means also a problem. Hence in case of food exports each EU member has to undergo the procedures at Taiwanese authorities individually (Lőrincz, 2017b).

## Conclusion

The main findings and conclusions of the study can be summarized as follows.

- One of the major dilemmas for Taiwan is how to manage its economic relationship and the “political contacts” with mainland China, in order to preserve its competitiveness and relative freedom (the *de facto* independence) while from some points it looks that mainland China and Taiwan seem to merge into a peculiar free trade zone.
- Taiwan invested too much FDI into mainland China, which makes her economy and quasi independence vulnerable. Furthermore, this phenomenon contributes to mainland China’s competitiveness only if Taiwanese companies went to the mainland to benefit from the lower labour costs there. It will not help to generate more jobs and it would not give any impetus to increase the salary level in Taiwan which is one of the main obstacles that hinders the growth of the domestic consumption and the economic growth.
- The author found that in spite of the geographic and cultural distance there are some points and phenomena, in which Taiwan and Hungary have similar experiences and challenges. One of these ones is the already mentioned salary stagnation, which hit Taiwan and also Hungary, where the salary level has still been retarded, comparing to other European countries, even most of the neighbouring states. Taiwan’s (and other ANIEs’) example clearly shows the fact that the low salary level cannot be a helpful competitive advantage for too long time. Definitely it helped the economic growth during the “take-off” period, but after a time it will be a constraint to catch up. (There must be different factors, like innovation, more R&D-intensive industries to generate more value added). Otherwise, there will always be more competitive economies which invest more to the domestic R&D and innovation and in longer run such countries will be able to pay higher salaries. Taiwan should follow this way. In the other hand, there will always be another place in the world – like mainland China – where the salary levels are lower, but to deploy manufacturing industries in a bigger extent to such places, it too risky. It has a reason why, for example, the new president of the United States campaigned and strived for bringing back the production capacities of American companies which went long ago abroad to benefit from lower wages, furthermore – due to such considerations - he withdrew the United States from the Trans-Pacific Partnership (Bradner, E. 2017).
- The author believes that – very similarly to Hungary, - the salary stagnation has been a very timely issue in Taiwan for the recent decade as well. In this respect, another similarity has to be pointed out between Taiwan and Hungary: the weak role and activity of labour unions. This is also one reason why the salary level could not catch up, even though Taiwanese or even the Hungarian economic performance would enable significantly higher salaries by now.
- In case of Hungary – thanks to the free movement of labour within the European Union, – several hundred thousand Hungarians have migrated to other European and overseas countries with the view of finding better livelihood. As a result of this process there is a massive shortage in various professions from medical doctors to skilled workers. This finally gave an impetus to the government to start tackling on the salary issue, while labour unions still not too active in this matter.

- The case of Taiwan is different a bit, young Taiwanese people who study abroad, remain there for a better job, and do not return. In some specific professions (like the mentioned semiconductor industry), brain-drain strongly exists and can even be accelerated if the government does not make sufficient efforts in this field. Till Taiwanese companies prefer keeping their manufacturing units in mainland China, the Taiwanese wages will not grow. If this stagnation continues, it will have adverse impact to the economy and will be a hard constraint of the future development.
- As a successful solution, the adaption and implementation of the mentioned Receipt Lottery system can be highly recommended in any European country where governments combatting with VAT evasion.

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