



STRATEGIC FILE

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The Unexploited Potential of Poland's Cooperation with Taiwan

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Taiwan, with its economy based on high technology and innovation and home to global IT companies which are among the world's largest electronics manufacturers, should be an attractive economic partner for Poland. But the distance, limited channels of communication, lack of knowledge of each other, differences in economic development, and market access barriers in Taiwan make bilateral cooperation occasional and not intensive. A recent improvement in cooperation as a result of Taiwan's decision to open its market to Polish pork and prospects for signing an avoidance-of-double-taxation agreement should be used as a good basis for deepening bilateral cooperation. What is more, better Cross-Strait relations create a chance for Poland to improve its economic presence in mainland China through closer cooperation with Taiwanese companies.

Taiwan, with its economic success and dynamic development, might be called an Asian Silicon Valley, and should be an attractive economic partner for Poland. Because of the one-China policy,¹ Poland does not maintain diplomatic relations with Taiwan,² though it perceives the island as an economic entity with which it maintains relations in non-political areas such as the economy, culture, people-to-people contacts, education, science, and others.

Till the end of the 1980s, cooperation between Poland and Central and Eastern Europe (CEE) and Taiwan was nearly nonexistent as Taiwanese foreign policy was based on a strong anti-communist stance. Democratisation of the island during the late 1980s and early 1990s and its rapid economic development was a turning point in Taiwan's interest in European countries. As the first democratically and directly elected president (1988-2000),³ Lee Teng-hui adopted "flexible diplomacy", aimed at improving Taiwan's international space after years of isolation, diversifying exports and gaining new diplomatic allies. The collapse of communist regimes in Europe, the Soviet Union's disintegration and 1989's Tiananmen Square demonstrations in Beijing, which deteriorated China's international image, accelerated Taipei's decision to establish cooperation with CEE and Poland. Mutual economic relations were launched in the early 1990s.⁴

¹ Poland established diplomatic relations with China in 1949.

² At present, Taiwan maintains diplomatic relations with 23 states: in Europe, the Holy See; in Africa, Burkina Faso, Sao Tome and Principe, Swaziland, and Gambia; in East Asia and the Pacific, Kiribati, Nauru, Palau, Marshall Islands, Solomon Islands, and Tuvalu; in Central and South America, Belize, Dominicana, Salvador, Guatemala, Haiti, Honduras, Nicaragua, Panama, Paraguay, Saint Christopher and Nevis, Saint Lucia, and Saint Vincent and the Grenadines.

³ The first direct presidential elections took place in Taiwan in 1996.

⁴ For more, see: C. Tubilewicz, "The Scrooge Effect: Taiwan's Economic Diplomacy Toward Central Europe, 1988-2005", *Issues & Studies*, 41, no. 4, December 2005; C. Tubilewicz, "Europe in Taiwan's Post-Cold War Foreign

To enhance bilateral cooperation, in 1992 a Taipei Economic and Cultural Office was established in Warsaw, whilst in 1995 a Warsaw Trade Office was set up in Taipei. In 1998, the office began consular affairs.⁵ Economic relations are supported by Taiwan's External Trade Development Council's (TAITRA) Warsaw office, established in 1998, and the Export-Import Bank of Taiwan from its branch in Poland. There are also annual economic consultations between the ministries of economy.

Notwithstanding the recent intensification of economic cooperation between Poland and Taiwan, such as negotiations on an avoidance-of-double-taxation agreement and opening Taiwan's market for Polish pork, both sides still have not exploited the full potential of their relations.

Should Poland Intensify Its Relations with Taiwan?

Recent improvements in Cross-Strait relations should be perceived in Poland as an important factor for strengthening cooperation with Taiwan. Despite launching non-political cooperation in the 1990s, tensions between Taiwan and the PRC during Lee Teng-hui's and especially Cheng Shui-bian's presidencies were serious constraints on Poland to cooperate more closely with the island. Taking into consideration that Poland maintains diplomatic relations with the PRC, based on the one-China policy, and perceives China as one of the most important partners in Asia, the climate for enhancing Poland-Taiwan economic relations was not favourable.⁶

Taking into account Taiwan's success of political and economic development after almost four decades of isolation and authoritarian regime, the island should be recognised as another one of the most important economic partners in Asia for Poland. Taiwan successfully transformed to democracy in the late 1980s and belongs to the group of newly industrialised economies. With a population of 23 million people, economic growth of 4.03% (2011), nominal GDP of \$ 466.48 billion, per capita income of \$20,122, the fourth-largest holder of foreign reserves (\$385.55 billion), 17th largest exporter of merchandise, and a trade surplus of \$26.82 billion,⁷ Taiwan is truly an Asian tiger. Its economy is based on high technology and innovation, a result of generous spending on science and technology, provided both by government and the private sector, and has a strategic innovation policy that is paired with a highly-educated labour force (31% of Taiwanese have obtained a degree in higher education). Taiwan's economy is also based on the SME sector with strong state support and industrial clusters. At the beginning of the transformation of Taiwan's economy, it was based mainly on the OEM (Original Equipment Manufacturer) model, which meant that production was for external companies. Gradually, Taiwanese companies began ODM (Original Design Manufacturer) production, creating their own brands and products which are now known all over the world. Currently, most OEM is produced in mainland China, while ODM remains in Taiwan.⁸

Apart from SME development, other very impressive examples of the island's economic success are the huge Taiwanese global IT companies that are also some of the world's largest electronics manufacturers (e.g., Taiwan's Foxconn assembles in mainland China almost all Apple products) or brands positioned among the top 100 brands in the world (e.g., HTC, a smartphone and tablet maker). Global IT brands and companies such as Asus, Acer, BenQ, MSI, TSMC, ADATA, D-Link, Gigabyte, CyberLink (Power DVD products) are also Taiwanese enterprises. Taiwan's top 20 international brands by value exceeded \$10 billion. The island, including its production in mainland China, is the world's largest manufacturer of mask ROM, motherboards, notebooks, and WLAN, in which it has almost 90-100% market share.⁹ Taiwanese

Relations", *Diplomacy and Statecraft*, 18, 2007; C. Tubilewicz, "Breaking the Ice: The Origins of Taiwan's Economic Diplomacy Towards the Soviet Union and its European Allies", *Europe-Asia Studies*, vol. 56, no. 6, September 2004.

⁵ S. Tang, "The Relations between Poland and China/Taiwan", *Acta Asiatica Varsoviensia*, no. 16, Warsaw 2003, pp. 83–84.

⁶ For more about Poland-Taiwan relations through 2005, see: C. Tubilewicz, "The Scrooge Effect...", *op. cit.* pp. 220, 225–228, 235–236.

⁷ *2012 The Republic of China Yearbook*, December 2012, pp. 106–112; *Najważniejsze sektory gospodarki Tajwanu* [The main sectors of the economy of Taiwan], Warszawskie Biuro Handlowe.

⁸ *Najważniejsze sektory gospodarki Tajwanu*, *op. cit.*, p. 3, 6.

⁹ *2012 The Republic of China Yearbook*, *op. cit.*, p. 116; *Najważniejsze sektory gospodarki Tajwanu*, *op. cit.*, p. 8; *Taiwan Statistical Data Book 2011*, Council for Economic Planning and Development, 2011, p. 12.

companies are also among the world's top bicycle makers (e.g., Giant, Merida, Wheeler) in terms of numbers and quality.¹⁰

Taiwan's economic structure and achievements, its wealthy society, and improvement of relations with mainland China under President Ma Ying-jeou should be leverage used to include the island in Poland's strategy of enhancing economic cooperation with Asia. Furthermore, the Taiwan–EU (plus Switzerland, Norway and Iceland) visa-waiver program, which went into effect in January 2011 and the recent intensification of Poland–Taiwan economic cooperation have set a good base to start to deepen bilateral cooperation. Closer relations with Taiwan in the trade, investment, science and tourism sectors can bring benefits for Poland. Better economic cooperation with the island may also strengthen Poland's economic presence in mainland China through enhancing cooperation with Taiwanese companies in order to “enter” the mainland market.

Poland–Taiwan Economic Cooperation: The State of Play

Poland is Taiwan's 46th biggest economic partner and 36th as an export market. The situation is better when observed in the EU context. Poland is the island's 11th largest economic partner and 11th largest export market in the European Union. In 2011, Taiwan was Poland's fifth biggest economic partner in Asia behind mainland China, Japan, South Korea and India. Last year, the value of bilateral trade with Taiwan was €664.2 million (in 2011, €865 million), which means a plunge of about 23% compared to the previous year. In 2012, Polish exports to Taiwan were about €134.8 million, while imports from Taiwan were about €529.4 million. Poland records a trade deficit with Taiwan, which last year reached €394.6 million.¹¹

Polish exports to the island consist of non-processed products such as chemicals and metallurgical products, as well as electrical and industrial machinery. Taiwan's exports to Poland include highly processed items. The main exports consist of LCD panels, semiconductors, other electronic goods, and bicycles. Other products imported from the island are machinery, metallurgical elements, and motor vehicles and parts.

There is a low volume of Taiwanese investment in Poland. In 2012, combined Taiwanese FDI was about \$31.7 million. There are only 22 Taiwanese companies in Poland, represented mainly in the IT sector and which employ about 3,000 people.¹² Among them are Compal in Łódź, which produces elements for notebooks; TPV in Gorzów Wielkopolski, which manufactures LCD panels; Acer, with a service and logistic centre in Wrocław; and, Ideal Europe in Kutno, which produces bicycles for other brands. There are no registered Polish investments in Taiwan.

However, one can observe a recent intensification of Poland–Taiwan economic cooperation. After a 17-year stalemate, Poland and Taiwan have resumed negotiations on an agreement on avoidance of double taxation. It is assumed that the agreement might be signed after a year of intensive consultation.¹³ Taiwanese businesses argue that the accord could increase the amount of Taiwanese investments in Poland. Supposedly, the accord may also improve the climate of bilateral relations and help resolve potential problems in the future. The agreement may be also signal that Poland appreciates economic cooperation with Taiwan.

Another example of an improvement in bilateral cooperation is Taiwan's decision after eight years of negotiations to open its market in June to Polish pork. Poland is the first EU state in 10 years that has received permission from Taipei to export pork. Taking into account the limited access to the Taiwanese market, especially for agricultural products (the agricultural sector has a very strong lobby in Taiwan), this decision should be interpreted as a breakthrough in bilateral economic relations. It is worth underscoring that Poland is ahead of other EU countries—Austria, France, Spain and Sweden—which are in the midst of

¹⁰ *The Republic of China Yearbook 2009*, Government Information Office, November 2009, p. 112.

¹¹ *EU–Taiwan Factfile 2013*, European Economic and Trade Office, p. 9; *Tajwan-Polska. Dwustronne stosunki gospodarcze* [Taiwan–Poland. Bilateral economic relations], Warszawskie Biuro Handlowe, Taipei, June 2012; *Tai-Bo shuangbian jingmao guaxi* [Poland–Taiwan bilateral economic cooperation], Taipei Economic and Cultural Office, Warsaw, June 2013.

¹² *Poland–Taiwan...*, op. cit., p. 8

¹³ “Poland Ready to deepen economic ties with Taiwan: Polish envoy”, *Focus Taiwan*, 3 May 2013.

“meat issue” negotiations with Taiwan. This decision creates the chance to increase Polish exports to the island and gives Polish companies almost one year of a competitive advantage in Taiwan’s market.¹⁴

Despite these signals of an intensification of bilateral relations, there are still serious barriers to closer cooperation. It seems apparent that among the important obstacles are the distance, relatively recent bilateral contact (initiated in the 1990s), limited channels of communication, lack of knowledge of each other, no direct flights and the high travel cost between the two sides. Additionally, in Poland Asia is perceived through the prism of the other big economic powers such as mainland China, Japan and Korea, while in Taiwan Western Europe is a more popular, attractive economic partner as well as a tourist and shopping destination. All these reasons make Taiwan and Poland “invisible” to each other.

Apart from these problems, which could be perceived as soft issues, there are also serious economic barriers to bilateral cooperation. Taiwan’s rather closed market, with many administrative barriers, constrains economic cooperation, especially in increasing Polish exports to the island. Even as a developed market economy, the island still does not accept many international and EU norms for products and certificates. One example of this is that potential exporters to the island are obliged to either conduct time-consuming tests for their products in Taiwan or submit them to Taiwanese institutions for testing and to prepare the reports in Chinese. What is more, there are still sectors, such as agriculture, fabrics, alcohol, medical equipment, that have very high tariffs and other barriers such as restrictive sanitary and phytosanitary measures. Additionally there are long-term clearance procedures or weight restrictions on transport of imported products. All these procedures are important impediments to market access to Taiwan, which seriously limit the prospects for increasing exports to the island.

Areas for Closer Cooperation

The most basic area where closer cooperation is needed is in trade. Taking into account Poland’s negative trade balance with Taiwan, the priority is to boost Polish exports. However, this requires seeking attractive products for Taiwanese consumers and the cooperation of Polish authorities with Taiwan to reduce or eliminate barriers to market access. Opening Taiwan’s market to Polish pork should be perceived as a window of opportunity to further liberalise exports of Polish food (e.g., poultry), known in Asia as high quality and tasty products. Bearing in mind Taiwan’s prosperous society and its rising spending on luxury products, Poland could also consider exports of unique Polish luxury items such as jewellery made of amber and striped flint, expensive alcoholic beverages (though a serious barrier is the island’s 25% duty on imports of alcohol), and Polish folk products. Taiwan’s membership in WTO and implementation of relevant rules of accession gradually result in improving access to the island’s market.

Another area for improved cooperation is investment. Pressure from Taiwan to sign the double-taxation-avoidance agreement signals that after implementing this accord Taiwanese investors may increase their interest and investments in Poland. With its well-educated labour force, including world-class programmers with experience in global IT companies, Poland should be an attractive direction for Taiwanese investors from the IT sector. As well, the high level of innovation of Taiwanese companies not only can create new jobs in Poland but also can contribute to the modernisation of Polish industry.

Poland, which is interested in enhancing its presence in Asia, should take the opportunity provided by better Taiwan–mainland China relations to enhance cooperation with the PRC. The Economic Cooperation Framework Agreement (ECFA) signed in 2010, an accord similar to the FTA between China and Taiwan, not only exempts tariffs for many products and opens the Chinese market for services from Taiwan but also creates opportunities for Polish firms to cooperate with their Taiwanese counterparts and “enter” China’s market, which would improve the volume of Polish exports and investment in the PRC. It is apparent that for Poland a more reasonable approach is cooperation with smaller regions rather than all of China. Taiwan, with its economy based on SMEs (similar to Poland) and industrial clusters, seems to be a prospective and reliable partner for Poland. Additionally, Taiwan’s geographical location near the most important Asian trade lines (with access to the Japanese, Korean and Chinese markets) and recent intensive economic cooperation with mainland China should accelerate Poland’s interest in closer relations with the island as an economic partner and as a gateway to mainland China.

¹⁴ “MSZ: Tajwan docenia polską żywność, chce importować wieprzowinę z Polski” [Polish MFA: Taiwan appreciates Polish food, wants to import pork from Poland], *Polish Press Agency*, 28 May 2013.

Taiwan's high spending on science, including the commercialisation of inventions, might also be a prospective area of bilateral cooperation. It is worth considering cooperation between Polish researchers, inventors, the SME sector, and Taiwanese institutions and companies (such as on technological, science and industrial parks), which are well prepared and come with huge budgets for these activities, to commercialise new solutions, introduce them to the market and finance further research on innovative ideas and projects.

Another prospective sphere of cooperation should be tourism. Taiwanese tourists combine trips abroad with shopping (including for luxury and international brand-name goods). Very often, the shopping budget alone exceeds the cost of the trip to Europe or the U.S. The Polish side should work out a program to promote Poland as an attractive destination for Taiwanese tourists. Such activities are needed as there remains an association of Poland in Taiwan with such dubious things as Nazi concentration camps, the Second World War, and the communist regime, as well as the cold winter climate, which make not only Poland but also other Central and Eastern European countries not highly appealing destinations for tourists from the island.

Recommendations

Despite the recent improvement in economic cooperation, both sides still do not exploit the full potential of their relations. Given their "mutual invisibility", the first step in improving Poland–Taiwan cooperation should be a general information campaign about Poland in Taiwan and about business opportunities in Taiwan for Polish companies. Polish institutions such as the Ministry of Economy and economic agencies responsible for facilitating trade and investments should be engaged in working out a programme for promoting Poland–Taiwan trade and investment cooperation. Planned activities should also involve various central and local, public and private institutions. Taking into account that the cornerstone of bilateral relations is economic cooperation, during the campaign it would be worth underscoring Poland's relatively good economic condition, bearing in mind the contribution of the eurozone crisis to the rather negative perception of the European Union in Taiwan. The campaign should also include various aspects of the bilateral relations, not only economic cooperation but also tourism, education, culture, science, etc. On the other hand, it is worth using internet portals and the websites of other venues and institutions to post useful and comprehensive information about Taiwan, its economy, investment and trade needs, fairs, etc. to improve knowledge about Taiwan's economic environment among Polish exporters, importers and investors who are interested in doing business in Taiwan or in cooperating with Taiwanese companies.

An intensification of dialogue would be reasonable and helpful. Visits by MPs, governors of counties and cities, and representatives of various ministries, businesses, universities, tourism and cultural organisations, combined with widely distributed press releases, may increase knowledge of each other, improve the climate of contact and encourage closer cooperation. Furthermore, to improve knowledge of each other and understand how and why the Taiwanese economy has been successful, it may be worth considering visits by representatives of Polish businesses and organisations to Taiwanese industrial parks, which are centres of cooperation between science and industry. Then, the next step could be the initiation of regular and institutionalised cooperation between Taiwanese and Polish industrial and technological parks.

Poland should find a means to attract Taiwanese investors who may be more prone to invest in Poland than in other EU countries that currently face economic problems. Extensive information about Poland's favourable conditions in special economic zones and its well-educated and skilled labour force should be actively promoted to increase awareness among Taiwanese companies about Poland as an attractive destination for foreign direct investment.

At present, the most important issue is the prompt conclusion and implementation of the agreement on avoidance of double taxation. After the agreement is signed, Taiwanese investors may increase their interest in investments in Poland. The accord may also improve Poland's position in the EU and V4, as many EU Member States have already signed similar agreements with the island.

Poland should analyse and take advantage of the better Cross-Strait relations. ECFA could serve as an incentive for Polish businesses willing to enter the mainland Chinese market and contribute to greater interest in cooperation with Taiwanese companies that share the same cultural background as China and understand very well the mainland's economic conditions. Hence, it could be a platform for improving

Poland's economic presence in China, e.g., through establishing joint ventures with Taiwanese entrepreneurs. It seems reasonable to launch an information campaign for Polish businesses interested in cooperation with either China or Taiwan about how to use ECFA to increase their presence on the island or mainland.

Poland should also attempt to attract more Taiwanese tourists to visit Poland. The first step should be study tours for Taiwanese journalists and tour operators. These may reveal the places and activities in Poland attractive for Taiwanese tourists, which may then allow these groups to list Poland among their travel offers. Poland should also increase its visibility in Taiwan by providing articles about attractive Polish places, culture and unique activities, such as those connected with Polish rural culture, in tourist press and tourism fairs and exhibitions in Taiwan. It is worth promoting the architectonic symbols of Poland and specific Polish brands that can be easily associated with Poland in Taiwan. It is also necessary to prepare high quality information (folders, albums, websites) in traditional Chinese (which is different from the simplified characters used in mainland China) and train Chinese-speaking tour guides in Poland.

It is worth considering having Polish and Taiwanese airlines sign a codeshare agreement. Despite the fact that this agreement would not establish direct flights, it may result in more convenient reservations and a transfer system for indirect Poland–Taiwan connections. It could also be a way for Polish airlines to have “brand appearance” in Taiwanese airports, thus a means to increase awareness of Poland on the island. Since Taiwan airlines Eva Air joined the Star Alliance network in June this year, the chances have improved to sign a codeshare agreement with Polish airlines. In 2008, a similar agreement was signed between Czech Airlines and China Airlines (a Taiwanese airline), both members of the Sky Team network. Under this agreement, direct flights, such as between Frankfurt and Taipei, operated by China Airlines are also marked (at the airport and on boarding passes) with the Czech Airlines logo.