

## THE MAIN TRAITS OF THE HUNGARO-TAIWANESE ECONOMIC RELATIONS WITH SPECIAL FOCUS ON THE TRADE WITH AGRICULTURAL PRODUCTS

György Iván Neszmélyi

professor

Budapest Business School - University of Applied Sciences

E-mail: [neszmelyi.gyorgy@uni-bge.hu](mailto:neszmelyi.gyorgy@uni-bge.hu)

### Abstract

This paper provides the reader with a thorough insight into the bilateral economic relationship between Hungary and Taiwan. Due to the One-China policy Hungary – and most countries in the world – do not have formal diplomatic or political contacts with Taiwan, however Taiwan as an autonomous economic entity seems to be a promising partner for Hungary and other European countries, even though due to the huge geographic distance and to the relative less-known market environment the amounts of trade turnover and investments have still been modest. Taiwan, due to its natural and social endowments cannot produce enough food for its population, therefore it is merely reliant on imports. Due to the mentioned distance and being closely embedded into the European economic integration, Hungary definitely cannot be among the main food suppliers of Taiwan, but still there are market segments (like chilled poultry) in which Hungarian companies can be successful, if they focus not only on the product quality but also on the marketing promotion.

The paper makes mention about some additional ideas of joint co-operation in the food production, like potentials in Mangalica breeding, as it has also started in Taiwan a few years ago.

**Keywords:** *Hungary, Taiwan, food demand, trade, investment*

**JEL classification:** *R11, R53, F14, O53, Q17*

**LCC:** *HF3000-4055; HF1021-1027*

### Introduction

The basis of the Hungaro-Taiwanese relations – from political point – is that Hungary follows the One-China Principle, which means it does not maintain diplomatic relations and official inter-governmental co-operation with Taiwan. However, beyond this frame Hungary is interested in the development of relations in the fields of economy, culture, education, science and technology and human relations.

The relations look back slightly more than a quarter of century now. 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 were the improvement of 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).

## **Material and methods**

The author used both secondary and primary research to gain the necessary information for the present paper. The secondary research was conducted along bibliographic review (available in international and Taiwanese sources) moreover statistical data, the author used from various Taiwanese and Hungarian databases (DGBAS, HCSO, World Factbook) and from the Directorate General of Customs, Ministry of Finance of Taiwan.

As for primary research the author as research fellow spent two months in 2017, then in 2019 another one month in Taiwan, in both cases with the fellowship of the Oriental Business and Innovation Centre (OBIC) of Budapest Business School. These occasions gave him very good opportunity to establish personal contacts and carry out discussions and interviews with a number of professionals and experts from the fields of business, farming and administration. So, the gained first-hand information and experiences merely contributed to the outcome of the present paper to which the author used his previously published papers, like Neszmélyi (2017) as well.

## **About Taiwan in nutshell**

The island of Taiwan (formerly called Formosa) is located off the south-eastern coast of the continental China, at the western edge of the Pacific Ocean, between Japan and the Philippines. The Central Mountain Range divides the east and west coasts and stretches from north to south. With Japan to the north, mainland China (the People's Republic of China, PRC, hereinafter: mainland China) to the west, and the Philippines to the south, Taiwan has always been a location of strategic maritime importance since ancient times. (See map of Taiwan in Figure 1.) It has played an important role in the development of Asia as well as in world history, politics and trade. As a result, Taiwan, which comprise several smaller archipelagos in the South China Sea as well) now enjoys a high level of openness and cultural diversity.

Taiwan has a dynamic capitalist economy with gradually decreasing government guidance on investment and foreign trade. Exports, led by electronics, machinery, and petrochemicals provided the primary impetus on its economic development. This heavy dependence on exports exposes the economy to fluctuations in world demand. Taiwan's 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). In 2016, the composition of GDP by sector of origin was as follows: agriculture (1.8%), industry (36.1%) and services (62.1%) (CIA, 2017).

According to Statistics Times (using database of IMF, October, 2016), Taiwan was at No. 21 place in terms of the amount of GDP on current price basis and No. 21 in purchasing parity basis (PPP), while foreseeably it would keep its present position in 2020 in PPP basis. On current price basis, it would likely slip one grade back to the 22nd position.

## **Food supply and demands in Taiwan**

The East Asian region, where Taiwan is located, is characterized by regular monsoon rain, together with mountainous, undulated topography in which irrigation water can be controlled relatively easily even at the family and community levels. This made the region suitable for rice

production in the frames of small family farms, which were organized into village communities long ago. The agrarian structure — established before the modern era — involved smallholder farms on an average of about one or less than one hectare, predominantly dependent on rice cultivation. The rural community was traditionally subordinated to landlords, land-owning cultivators and landless tenants before the land reforms after the Second World War (Honma – Hayami, 2009).

The ratio of total agricultural land is 22.7% (roughly 810,000 ha), the arable land is 16.9% and the ratio of lands covered by permanent crops is 5.8% (estimated figures of 2011 in CIA World Factbook, 2017). The amount of irrigated land is 3,820 km<sup>2</sup> (2012). Data of the Taiwanese Council of Agriculture (CoA) refer to 796,618 ha total land under cultivation in 2015 (see Table 5). Mention must be made about the opinion of Taiwanese experts, like Hsu (2017) who considered the official statistical figures overestimated, and he considered the realistic amount of the total cultivated land actually 4-500,000 ha only (Hsu, 2017).

Due to the natural endowments, Taiwan faces scarcity of arable lands and food production capacity. The island, which is almost three times smaller than Hungary (36,000 km<sup>2</sup>) is merely covered by mountains, while the population is more than twice than it is in Hungary (23 million). The main role of the Taiwanese agriculture is to supply the domestic market with food. With the exception of rice, self-sufficiency is low, Taiwan need a considerable amount of imported food from nearly all kinds of commodities. Before the Tsai-administration (from 2016), policy-makers did not consider much importance of developing agriculture. Nowadays there are a few positive signals that Taiwanese agriculture started to shift towards a quality-based production. Taiwan is, therefore, heavily dependent on food imports, especially meat products (poultry and beef), animal feed and even fresh fruits. About the latter mention must be made that Taiwan has one of the world's highest per capita consumption rates of fresh fruit. In 2015, Taiwan imported approximately 623 million USD worth of fresh fruit, a 1.8% increase from the previous year (Doing Business in Taiwan, US, 2016).

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 2018), but they are usually much more interested in to increase their exports, than opening their markets in front of imports. The huge geographic distance, various administrative restrictions and sometimes the lack of information about the Taiwanese market and food consumption habits may hinder European exporters. However, the trade turnover between Taiwan and the European Union member states gradually growing (Neszmélyi, 2019), and among the EU members Hungarian exporters have also been trying to strengthen their positions on the Taiwanese market.

### **The bilateral trade**

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).

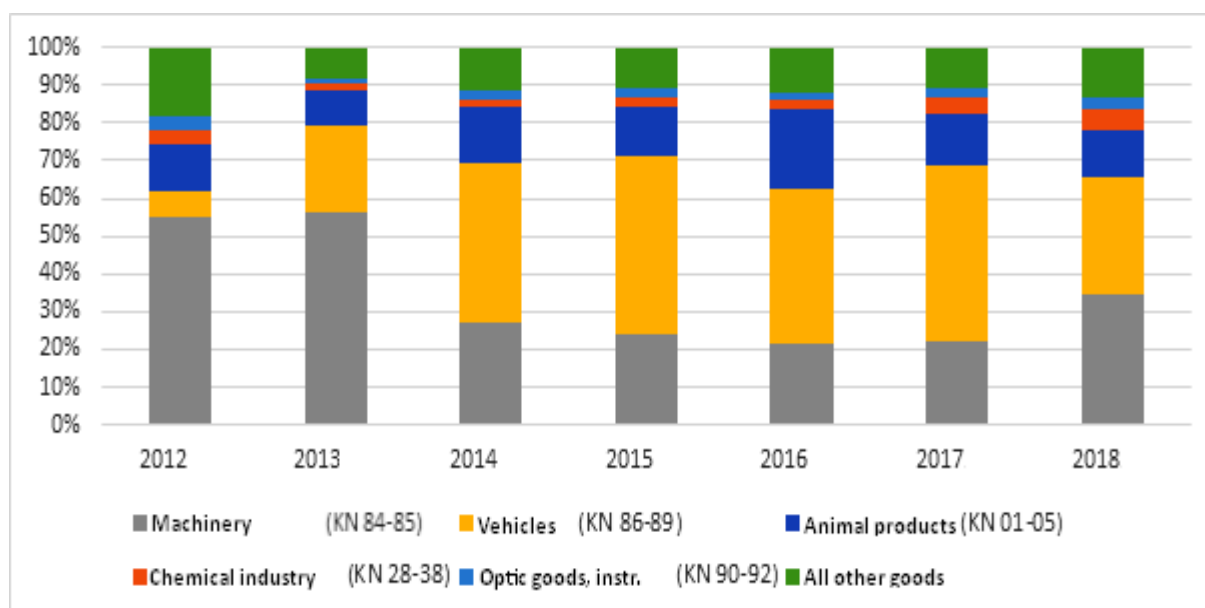
In case of machinery and vehicles the Hungarian exports slightly fell (7% and 5 % respectively), the value of exports in these product categories were 38 and 73.5 million USD in 2016. In case of motor vehicle export Taiwan is the No. 4 export market in Asia for Hungary after China, Japan and South Korea. The above items constituted the 89% of the entire Hungarian export to Taiwan.

According to the data of 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

In 2018 Taiwan was the No 6 biggest export market for Hungary in Asia. According to the Hungarian Statistical Office (KSH, HCSO), the sum of the total Hungarian exports sent to Taiwan in 2018 was 176.6 million USD. This amount is similar in range to the exports of 2016 but less than the exports were in 2017 by 19%. In the other hand the Taiwanese statistical office, it was 292 million USD which would mean a 5% growth comparing to 2017. The vast majority of the Hungarian exports were machinery (36%), motor vehicles (32%) and food products (13%). (The Taiwanese import ban imposed because of the African swine fever epidemic appeared in Hungary in 2018 harmfully affected (-12,8 M USD) the Hungarian food exports to Taiwan which in March 2018 still had a positive impetus due to the extension of the list of approved meet factories.

The value of Hungarian poultry exports to Taiwan was 0.5 million USD, on which the negative impacts of the bird flu epidemic (2017) can also be seen (in 2016 the poultry meat exports were 2.5 million USD). However, the feather exports could further grow to 13.3 million USD. From animal products, after Japan and Mainland China, Taiwan is the No. 3 biggest export market for Hungary. The exports of plant-based food products (mainly frozen vegetables) shrank by 30% since 2016. The exports of machines grew (+29%) while the same of motor vehicles decreased (-46%), the amounts in USD were 63.3 million and 56.8 million respectively. In motor vehicle exports Taiwan is still No 4 biggest export market for Hungary in Asia (after Mainland China, Japan and the Republic of Korea). The mentioned product categories (food products, machines and motor vehicles) provided the 81% of Hungarian exports to Taiwan (See Figure 1). According to the HCSO data Hungary's imports from Taiwan amounted 557.5 million USD in 2018 which was 19% less than in 2017. The total turnover was 734.1, the balance for Hungary was -380.9 million USD, both are many-years bottom values (see Table 1)(Lőrincz, 2019b).

Regarding the structure of the Hungarian exports to Taiwan it can be said that many years ago more than two thirds of the exports derive from the supplies of machines and motor vehicles, however their proportion reversed. Since 2014 the ratio of the animal products has been increasing continuously and this trend still continues in spite of the import-limitations in 2017-18. Moreover, during the recent years, from the category "other goods" several groups of products became significant with gradually increasing proportion within the exports, like chemical products, medical and other precision instruments (Lőrincz, 2019b).



**Figure 1: The structural breakdown of the Hungarian exports to Taiwan according to product categories**

Source: Lőrincz, 2019b, on the basis of Source: Hungarian Central Statistical Office (HCSO) data, 2019

**Table 1: Figures of the Hungaro-Taiwanese trade turnover (million USD)**

|                               | 2012     | 2013    | 2014   | 2015   | 2016   | 2017   | 2018   |
|-------------------------------|----------|---------|--------|--------|--------|--------|--------|
| Hungarian exports to Taiwan   | 91.9     | 138.6   | 147.6  | 164.7  | 174.3  | 217.4  | 176.6  |
| Hungarian imports from Taiwan | 1,176.5  | 990.0   | 800.9  | 660.7  | 642.6  | 688.3  | 557.5  |
| Total turnover                | 1,268.5  | 1,128.6 | 948.5  | 825.4  | 816.9  | 905.7  | 734.1  |
| Balance                       | -1,084.6 | -851.4  | -653.3 | -495.9 | -468.3 | -470.9 | -380.9 |

Source: Lőrincz, 2019b, on the basis of HCSO data

The data of the Taiwanese statistical office (DGBAS) usually show 30-40 % higher values in Taiwanese imports (Hungarian exports), however in case of figures of 2018 the difference was over 60%. According to this in 2018 the Taiwanese imports from Hungary were 292 million USD (176.6 million USD according to HCSO). Analyzing the Central European region (See Table 2), it can be also seen that the Visegrad-group's exports to Taiwan grew by 18% (the exports of the total EU28 grew by 7%). In 2018 Hungary's share in the total Visegrad group's exports to Taiwan was 27% (Lőrincz, 2019b).

Lőrincz (2017b) added that Taiwan has a great potential for broadening the scale of goods for export. He mentioned as an example that 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.

**Table 2: Trade turnover of Hungary and several other Central-Eastern European countries to Taiwan according to the Taiwanese statistical, data (million USD)**

| Country           | 2012         | 2013         | 2014         | 2015         | 2016         | 2017         | 2018          |
|-------------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| Czechia           | 199.7        | 193.8        | 217.2        | 239.9        | 239.8        | 286.6        | 338.8         |
| <b>Hungary</b>    | <b>115.8</b> | <b>159.8</b> | <b>202.8</b> | <b>236.3</b> | <b>245.6</b> | <b>277.1</b> | <b>292.0</b>  |
| Poland            | 205.2        | 216.2        | 252.1        | 203.1        | 214.8        | 276.6        | 250.0         |
| Slovakia          | 57.9         | 52.6         | 60.9         | 58.0         | 61.0         | 61.5         | 179.6         |
| <i>Visegrad 4</i> | <i>623.6</i> | <i>622.5</i> | <i>733.1</i> | <i>737.3</i> | <i>761.2</i> | <i>901.8</i> | <i>1060.5</i> |
| Austria           | 461.8        | 474.3        | 516.8        | 497.9        | 499.5        | 522.4        | 658.1         |
| Romania           | 58.0         | 67.0         | 83.6         | 96.0         | 91.345       | 106.5        | 115.3         |

*Forrás: Lőrincz, 2019 on the basis of DGBAS data*

### **An interesting example – Mangalica breeding in Taiwan**

The Mangalica pig is the only porcine species native to Hungary, however they can also be found in the surrounding Central-East European countries as well. The most remarkable characteristic of Mangalica is that its whole body is covered with abundant thick blonde hair and thus it is known colloquially as "the pig-sheep". The distinguishing feature of Mangalica is its fat, as its name indicates, since, in Hungarian, Mangalica or Mangalitsa means "pork with a lot of fat". Besides being extremely fatty, they are very pastoral and resistant to some diseases.

This pig lives three times longer than normal breeds, and during this time, it forms a very high proportion of fat in the bacon under its skin. Then this fat delicately infiltrates all the flesh and gives it a beautiful and delicious mottling. (Mangalica.com).

Michael Ming-qian Peng, a young Taiwanese entrepreneur a few years before decided to start farming as well, and found a way, which was still considered new and unique in Taiwan. Besides having exotic pets as special attraction around his restaurant (he has mountain goats from Peru, and alpacas from New Zealand), he started with pigs as well. However, he did not choose from among the generally bred varieties, but he decided to breed Mangalica pigs. The initial stock (3 boars and 11 sows) he imported from a year before (from Czechia, not from Hungary), and now he has already 60 pigs in a provisional, semi-open stable in a rented land in a mountain area in Sanzhi, in the outskirts of Taipei. He said the climate is cooler there, which is more favourable for the pigs. He plans to extend his stock over 1,000 in short run, and in longer run he plans to sell them also to mainland China. He explained he used quality fodders, he fed them with pumpkins, potatoes and carrots. He added, although it was more costly for him that regular feed, pigs usually received, but the quality of meat would be also higher, so it would worth financially more on the market and also would be healthier for human consumption (Peng, 2017).

### **Future prospects**

Lőrincz (2017b) also mentioned about those 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).

Hungary remained No. 14 exporter to Taiwan within the European Union (after DE, NL, FR, IT, GB, IE, ES, SE, AT, BE, FI, DK and CZ), keeping the same position like in 2016 and 2017. Regarding the year 2018 there is an extremely huge gap between Hungarian and Taiwanese statistical databases – according to HCSO Hungary's exports to Taiwan fell by 25 %, while Taiwanese data show 5% growth comparing to 2017. It might make analysts confused as neither for the author nor for the source (Lőrincz, 2019a) it was clear what makes the differences between HCSO and DGBAS methodology. Anyhow, Taiwan and Hungary strive to mutually show gestures towards each other to broaden the chances of mutually beneficial trade activity. From January 2018 Hungary was authorized to export poultry meat to Taiwan again, and in March 2018 11 further poultry and pork processing companies were registered to the list of approved companies by the Taiwanese quarantine authorities. These recently approved companies could potential contribute to the Taiwanese food supply (and to the Hungarian food exports) in a value of 15-25 million USD. However, this favourable period was short as in April 2018 Hungary was put to the list of banned countries because of the swine fever, however till then – in the first quarter of the year – Hungarian pork exports exceeded the amount of 6 months exports of the preceding two years. The potentials of the market enlargement however are still given as the main Hungarian suppliers of the meet exports to Taiwan (e.g. Pick, Pápa Meat) are located in non-infected areas and concluding the negotiations on regionalization could bring a solution to this issue and the Taiwanese partner seems to be open for that (Lőrincz, 2019b).

## **Conclusion**

Hungary and Taiwan have minor share within each other's trade, however in V4 or EU28 comparison Hungary's trade activity still exceeds its dimensions. There are still good opportunities and potentials along which the trade and even investment activities could be extended in the future.

Regarding the state and future of the Hungaro-Taiwanese relations in the agricultural field it can be said that with continuous market research and marketing efforts, in parallel with intensive lobbying the Hungarian agricultural exports can be further increased, especially in case of meat products, however other product categories, like cheese, wine or other unique Hungarian products (Hungaricums) could have good chances as well. An example for the latter could be the idea: with Hungarian professional background and marketing support, Mangalica pig production might be a mutually beneficial business in the future.

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