

## **India-Taiwan Economic Relations: Charting a New Path**

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### **Abstract**

People's Republic of China (PRC) has leveraged globalisation to its advantage and has emerged as the manufacturing platform of the world. However, behind China's "economic miracle" is a very important role played by Taiwan. As economic growth slows in the PRC, it becomes imperative for Taiwan to look for alternatives. India, with its "Make in India" campaign, could become a lucrative destination for investment from Taiwan. This paper analyses economic initiatives undertaken to understand where economic ties between India and Taiwan are headed. Complementarities between the Act East policy and the New Southbound Policy are also discussed. Sources of data for this work are Bureau of Foreign Trade (Taiwan), Export-Import Bank (India) and National Bureau of Statistics (People's Republic of China), besides secondary sources.

**Keywords:** *India, Taiwan, Act East, New Southbound Policy, economic relations*

## **1. Introduction**

After the establishment of the People's Republic of China (PRC) in 1949, India's relations with the Republic of China (ROC) ceased to exist, as India recognised and set up official ties with the newly established PRC. The Cold War period did not see any furtherance of relations between India and the ROC. However, in the late 1990s, despite India's official adherence to China's One China Policy and the absence of diplomatic relations between New Delhi and Taipei, minor incremental positive changes in the relationship between the two sides were seen. This change was brought by Prime Minister Narasimha Rao's government, and subsequently, both sides established unofficial relations in 1995 with the formation of the India-Taipei Association (ITA) in Taipei. Since the ITA was founded, the two sides have signed plenty of bilateral agreements relating to trade and investment, technology, education, and culture (Sandano, 2017).

So, far relations between India and Taiwan have been a quiet arena despite the fact that many strides have been made. There is immense scope for taking this forward in a much more dynamic way. Taiwan's information technology (IT) sector with brands like Asus, HTC, Acer and Foxconn have already made their presence felt in India, and companies like Foxconn have even formed alliances with their Indian counterparts. In 2011, India even took the initiative to express its intention for a Free Trade Agreement (FTA) with Taiwan, and the announcement for forging of such an agreement was announced by the Foreign Secretary of the Ministry of External Affairs (MEA), New Delhi. Feasibility studies of such an agreement have already been

completed by both sides. Negotiation between representatives of the two sides however are yet to begin. Taiwan’s position in the global value chain has immensely added to the PRC’s export volumes. This is a case that India could emulate, since at the current stage of development, India could profit immensely by learning from Taiwan’s expertise. In order to understand the urgency and the necessity to step up economic ties between India and Taiwan, it is first important to look at how bilateral trade has grown between the two sides. Figure 1 shows the volume of total bilateral trade between India and Taiwan from 1989 to 2015.

**Figure 1** Trade between India and Taiwan (unit: USD million)



Source: Department of Commerce, Government of India.

As stated previously, bilateral trade between India and Taiwan increased fivefold from USD 1.19 billion in 2001 to more than USD 5

billion in 2016. In this period, as per statistics from the Taipei Economic and Cultural Center in India, exports to Taiwan from India increased from USD 550 million to USD 2.2 billion, while India's imports from Taiwan increased from USD 640 million to USD 3 billion. India ranks as Taiwan's 16th largest export destination and 21st largest source of imports. (Taipei Economic and Cultural Center in India, 2016) As seen in Figure 1, the trade relationship has generally been on the upward surge. Between the financial years of 2015-16 and 2016-17, there was an 11.42 percentage growth in total trade between the two.

Major articles of export from India to Taiwan include petroleum oils and oils obtained from bituminous minerals, ferro alloys, ferro manganese and unwrought zinc (*InfodriveIndia*, n.d.). The major articles of import from Taiwan include telephone sets, including telephones for cellular networks or for other wireless networks; other apparatus for the transmission or reception of vice, images or other data and polymers of vinyl chloride or of other halogenated olefins, in primary forms (*ibid.*).

However, despite the growth, fact remains that trade between the two sides remains a minuscule amount as part of the total trade. In 2016-17, India's exports to Taiwan were only 0.79 per cent of its total exports to the world, while India's imports from Taiwan in the same year were 0.82 per cent of its total imports from the world.

In the current context, when India wants to step up its manufacturing industry, the motive of the "Make in India" campaign, Taiwan could clearly step in. There is a great amount of synergy between India's current needs; particularly that of the manufacturing sector on the one hand and the Taiwanese machine tool industry on the other. Taiwan is already the world's fourth largest exporter of machine tools and components (*BusinessLine*, 21st August 2015). The complementarities between the two sides arise because of the differences the two have. The economic structures of Taiwan for example are

completely different. Taiwan is a developed and fast-growing economy with a high-skilled labour force. It has a positive balance of trade along with a current account surplus. It specialises in the exports of high-tech manufactured goods and high value-added services. India has an abundant labour force and low wages. In the face of rising economic costs in the domestic market in Taiwan, India becomes a natural choice. An increase in the number of Taiwanese enterprises in India can help India diversify its export basket into more value-added products. However, the problem is reflected in the bilateral trade between the two sides. Several products from Taiwanese companies are exported from third country markets such as China and Association of Southeast Asian Nations (ASEAN) countries. This is the result of production relocation by Taiwanese firms.

Additionally there are tariff and non-tariff barriers to trade which are responsible for the relatively low volume of trade between India and Taiwan. In 2019 itself, Taiwan requested disputes consultations with India at the World Trade Organization (WTO) alleging that India has imposed duties on 11 categories of ICT products in excess of India's bound duty rates for the goods (*The Economic Times*, 9 September 2019). Tariffs clearly remain a concern for Taiwan in India. In addition, Taiwanese companies in India are relatively new entrants in the Indian market. The knowledge and awareness of these firms is low among Indian consumers. The countries, the products of which Taiwanese companies are in competition with are those of Japan and South Korea for example. These countries entered the Indian market much before Taiwan and have comprehensive economic partnership agreements (CEPAs) existing with India already. An FTA between India and Taiwan therefore could be beneficial for Taiwan. For Indian companies seeking to export to Taiwan, the problem arises in the fact that the small Taiwanese market is already saturated. Penetration of such a market is

difficult. The problem increases due to the lack of competitiveness in manufacturing.

One arena where there is potential for increased trade, investment and technology transfer is that of the food processing sector. Taiwan has a more advanced food processing industry than that of India's, which is labour-intensive and is in dire need of technological upgrading. Technology imports from India could be tailored to suit interest needs of the food processing sector in India. Additionally, the extensive bamboo cultivation in India for example could be exported to Taiwan for the production of bamboo charcoal. According to a study conducted by Indian Council for Research on International Economic Relations (ICRIER) on enhancing trade and investment between the two sides, Taiwan's trade pattern reveals that a significant share of its merchandise trade is driven by intra-industry trade and trade in intermediate goods. This is largely the result of Taiwan's early integration with global value chains (GVCs) through vertical FDI and its present dominance in global contract manufacturing. However, such trade is almost absent between India and Taiwan. India, so far, has not been a part of global production networks due to reasons such as its low manufacturing base and the high cost of manufacturing. High tariff rates and the very high transaction costs associated with doing business in India have adversely impacted India's manufacturing sector. As India gradually lowers its tariff rates and improves its operational efficiency, countries such as Taiwan may find India an attractive alternative for production relocation or vertical FDI. This would not only increase trade flow between these two countries, but would also address some of India's major concerns, such as growth of manufacturing and generation of employment. (Pal, Mukherjee and Hsu, 2013)

Additionally, Taiwan's present emphasis on the green economy and sustainable development is an important potential arena of bilateral

cooperation. Prime Minister Narendra Modi's Zero Defect Zero Effect under the broad umbrella of India's Make in India will go well with Taiwan's stress on green economy and sustainable development. Dubbed as ZED, the acronym stands for zero effect, zero defect on the environment, which means high quality manufacturing that is green. The initiative is meant to raise quality levels in the unregulated micro small and medium enterprises (MSME) sector, which is the engine of growth for the Indian economy – driving about 38 per cent of the country's GDP and employing 110 million Indians. It is a cornerstone of the Make in India programme, which is aimed at turning India into a manufacturing hub (*The Economic Times*, 21 January 2016). This will augur well with Taiwan's emphasis on the green economy. Being a key driving force for industry upgrade and sustainable development, the Taiwanese government has been encouraging its industry and academia to invest funds and resources on circular economy-related R&D projects in the hope to facilitate industry transformation. (*Sustainable Business Magazine*, 31 July 2019) This definitely could be another arena where India and Taiwan could cooperate in.

## **2. Investment from Taiwan**

Investment from Taiwan in India has followed a very different pattern than that in the PRC, where the small and medium enterprises began investing from the early 1990s. Taiwanese investment in India has been typically limited to branches of high-profile tech companies such as BenQ and Acer. The top sectors in which Taiwanese companies invest in India are those of services (14 per cent), computer software and hardware (14 per cent), construction (infrastructure) activities (12 per cent), consultancy services (8 per cent) and telecommunications (7 per cent) (FICCI, 2013). About 90 per cent of Taiwanese investments are

located in Tamil Nadu, Maharashtra, Gujarat and New Delhi (Karackattu, 2013: 31).

From 2002 to 2014, Taiwanese investment in India amounted to a total of just USD 66 million but Taiwanese FDI in India surged exponentially in 2015 with a USD 5 billion investment from Taiwan's Foxconn (Sandano, 2017).

A pact was also signed between Tien Chung-kwang, representative of Taipei Economic and Cultural Center (TECC) in India, and Sridharan Madhusudhanan, director of India-Taipei Association. This pact seeks to institutionalise cooperation between India and Taiwan, in arenas such as design, engineering, product manufacturing, R&D and after-sales services. The two sides have also signed agreements in arenas like agriculture and aviation services. It would be pertinent to point out, that along with India's thrust on Southeast Asia and East Asia, and schemes like Make in India, it is Taiwan's New Southbound policy which focuses on 10 ASEAN countries, six South Asian countries and Australia and New Zealand which has helped in accelerating economic ties between India and Taiwan in trade and investment (Maini and Sachdeva, 2017).

According to the statement on country-wise FDI equity inflows from April 2000 to June 2015, India received USD 99.78 million as FDI from Taiwan. In terms of ranking of countries from which India receives investment, Taiwan ranks 43rd, and the amount received represents 0.04 per cent of the total FDI received by India in the period (DIPP, 2015). The amount increased, and in 2017, it was estimated that the amount of FDI inflows from Taiwan between April 2000 and December 2017 was USD 287.02 million, representing 0.08 per cent of total inflows, and Taiwan now ranks 37th in the list of countries with highest investments in India (DIPP, 2018). In a matter of two years, the investment therefore has increased by USD 187.24 million. Therefore, there has been an upward surge in investment. However, further improvements could be



made and more attempts need to be made to step up the volumes. One of the major hurdles faced by Taiwanese investors in India is the lack of a stable investing environment.

According to Pal, Mukherjee and Hsu, “if India wants to attract foreign investment from Taiwan, it has to offer a transparent and stable investment environment. Good governance and strong and supporting regulations not only at the centre but also at the state level are crucial for attracting any foreign investment. Taiwanese investors in countries such as China get supporting infrastructure, such as land and power at competitive and even lower than market rates. Unless basic infrastructure is provided, they will not be keen to invest.” (Pal, Mukherjee and Hsu, 2013) In addition to these, there are duty anomalies, tax issues and lack of labour reforms which drown international companies’ enthusiasm to invest in India.

Beyond low investments, what is also a fact is that the presence of Taiwan’s financial institutions in India and that of India’s in Taiwan is extremely limited. The state investment agencies in Taiwan could be encouraged to follow examples set by Singapore, Malaysia and other Asian countries that have invested in India. (Asher, 2006: 1)

A bright spot in Taiwanese investments in India has that been of Foxconn’s decision to set up base in Maharashtra. According to the Memorandum of Understanding (MoU) signed between the company and the government of Maharashtra, USD 5 billion will be invested in an electronics factory and an R&D centre, which will lead to the creation of 50,000 new jobs (*The Economic Times*, 17 February 2018). Additionally the company is also planning a joint venture with the Adani group and the proposed investment according to reports is worth USD 5 billion for the manufacture of electronic products such as iPhones and Kindles in factories in Karnataka and Gujarat. Asus is also reportedly exploring the issue of domestic manufacturing in India. While these are welcome

steps, infrastructure needs to be stepped up in India, which will be beneficial in the long run for not just economic relations between India and Taiwan, but for bettering the overall growth story in India as well.

According to predictions, trade and investment relations between the two sides will grow rapidly in the near future. According to James Kuo, the Deputy Executive Director of the Exhibition Department of Taiwan External Trade Development Council (TAITRA), “2017 was a year of success in terms of mutual trade and this number will reach USD10 billion within a couple of years. Over the same year, India made a total of 427 investments in Taiwan valued at USD 57.17 million, investing in various fields including information and communication, wholesale and retail, manufacturing, science and technology and more.” (*PR Newswire*, 28 February 2018) The following section discusses some of the landmark agreements between India and Taiwan for the promotion of better economic ties.

In 2018, Taiwan invested USD 360 million in India through its companies, and that was 12 times more than that of 2016’s. (*The Hindu*, 17 October 2019). Due to the U.S.-China trade war as well as escalating costs in China, Taiwan expects more from doing business with India, and this has been expressed repeatedly at several forums, including on the sidelines of the Taiwan Expo 2019 organised in New Delhi by the Bureau of Foreign Trade (MOEA) and the TAITRA. Walter Yeh, President & CEO of TAITRA, said that there is no limit to the growth potential. The current trade volume between India and Taiwan is to the tune of only USD 7 billion, and there is a lot of market to scale up further. In comparison, Taiwan’s trade with China alone is USD 160 billion. (*The Economic Times*, 20 May 2019)

In order to assess what more needs to be done, it first becomes pertinent to take stock of what exists between India and Taiwan in the realm of trade agreements so far.

### **3. Landmark Agreements Signed between India and Taiwan So Far**

Beginning in the 1990s, India started to cultivate extensive ties with Taiwan in trade and investment along with in other spheres. The ITA was established in 1995 in Taipei to promote non-governmental interactions between India and Taiwan, along with the motive to aid tourism, business, cultural, scientific and people-to-people contacts. The Taipei Economic and Cultural Centre in Delhi is the ITA's counterpart. From 2000 to 2015, a number of agreements have been signed between the two sides, ranging from the Double Taxation Avoidance Agreement to the ATA Carnet, to the decision to make the e-visa available to ROC passport holders in 2015. Some of these pertinent to bettering trade and investment between India and Taiwan are briefly discussed as follows:

- (1) **Bilateral Investment and Promotion Agreement (BIPA):** This was signed on 25th February 2005. India has a number of BIPAs with countries across the globe. These are defined as agreements between two countries for the reciprocal encouragement, promotion and protection of investments in each other's territories by the companies based in either country. The primary purpose of these agreements is to create conditions that are favourable for increased investments. These provide a legal basis for enforcing the rights of investors in the countries involved. They provide assurances to investors that their foreign investments will be guaranteed fair and equitable treatment, full and constant legal security and dispute resolution through international mechanism.
- (2) **Taiwan India Cooperation Council:** This was established in February 2006 to promote and facilitate Taiwanese investment into India (Yadav and Baghel, 2009: 240).

- (3) Double Taxation Avoidance Agreement (DTAA): The DTAA between India and Taiwan came into force on August 12, 2011. It establishes taxing rights over permanent establishments in each country, while reduced withholding taxes on dividends and interest should promote a rise in the flow of capital investment.
- (4) Customs Cooperation Agreement: A customs cooperation agreement between the two countries was signed at the same time as the DTAA, and came into effect on August 1, 2015.
- (5) ATA Carnet: On March 20, 2013, this agreement was signed. The agreement, signed by the Indian Chambers of Commerce and Industry (FICCI) and the TAITRA is an attempt to facilitate duty free temporary admission of goods and exhibits between India and Taiwan (*The Statesman*, 20 March 2013).
- (6) Taiwan-India Agricultural Cooperation: This agreement was signed in September 2016 between Ambassador Tien and ITA Director General Sridharan Madhusudhanan, on behalf of the ROC and India. This MoU is the first formal agreement for Taiwan, in agricultural cooperation with a South Asian country in history. (Chen and Chattaraj, 2017: 58)
- (7) Promotion of Industry Collaboration: This agreement was signed in December 2017, between Taipei Economic and Cultural Center in India and the India-Taipei Association in Taipei. The MoU aims to promote industrial technical cooperation and business matchmaking between the ROC and India, and will effectively boost bilateral economic, trade, and investment ties.

All these agreements in the realm of trade and commerce clearly aim at uplifting the level of economic engagement between India and Taiwan. In addition to these, what is worthy of mention in this context is that in April 2006, Taiwan identified India as the year's target country for trade

promotion and investment. Yuen-Chuan Chao, the president and the Chief Executive Officer of TAITRA signed an MoU on April 2, 2006 with the Southern India Chamber of Commerce and Industry and said that Taiwan had shortlisted information and communication technology, auto parts, textiles, food processing and pharmaceutical and biotechnology to be promoted in India (*The Hindu*, 2 April 2006). Also, the Ministry of Economic Affairs, Taiwan, constituted a task force for India in 2011. The sub-groups in the task force are those of economic cooperation, industrial cooperation, trade cooperation, education cooperation, economic cooperation agreement. As is visible through the sub-groups of the task force, the emphasis is on increasing trade and economic ties between India and Taiwan.

However, according to a study conducted by ICRIER, “a large part of Taiwanese investments is routed to India through third countries such as Mauritius and Singapore. It is possible that Taiwanese companies are routing their investment through third countries that have a more favourable BIPA and DTAA. This issue should be addressed in the proposed investment agreement between India and Taiwan”. (Pal, Mukherjee and Hsu, 2013) While India and Taiwan already have a BIPA and DTAA, it is not yielding the benefits it should. One of the occasions to address the issue is while signing the FTA. As such, more studies of the nature conducted by ICRIER are needed to understand the problems and to identify the solutions. The FTA which is yet to take shape has arguments in and against its favour. The following section elaborates on the possible consequences of signing an FTA between India and Taiwan.

#### **4. The Case for Signing an FTA between India and Taiwan**

Taiwan has been trying for an FTA with India since 2009. In fact, even in as recent as 2017, Chern-Chyi Chen, Deputy Director General of the

Bureau of Foreign Trade in the Taiwanese Ministry of Economic Affairs said that what Taiwan is looking for with India is an FTA-like agreement (IANS, 2017). While India treads with caution given its strict adherence to the One China policy, what becomes pertinent is that an FTA does not amount to steering away from a policy that is political in nature. Taiwan does have existing FTAs with other countries which also follow the One China policy. Examples include the Taiwan-El Salvador-Honduras FTA, FTA between Taiwan and New Zealand and that between Taiwan and Panama.

As stated previously, while bilateral trade between India and Taiwan has increased, speeding up of such improvements is needed for more meaningful bases of economic cooperation. For Taiwanese goods, the competition in the Indian market arises from competition with goods from countries such as Japan and Korea, which already have CEPAs with India. For Indian goods in Taiwan, the problem is one of penetration given the already saturated market. In such a scenario if the Indian market could be used as a base for the assembling of products by Taiwanese and exports to the global market, then a mutually beneficial situation would arise. A concern which the Indian side has with regard to FTAs in general is the fact that the negative balance of trade which India has with the signatory countries has increased even more after the signing of FTAs.

In the India-Singapore CEPA for example, India's negative trade balance has swung from USD 1.34 billion in 2003-04 prior to signing of the CEPA to USD 5.75 billion in 2013-14. This represents a deterioration of 326.03 per cent. In the case of the India-ASEAN FTA, which has been operational since 2010, India's negative balance of trade with ASEAN of USD 7.68 billion in 2009-10 worsened to USD 8.14 billion in 2013-14, representing a deterioration of 5.99 per cent. (Ghosh and Pathak, 2015)

What is clearly missed out in such arguments is that while balance of trade is affected, consumer surplus in India increases. Also if procedures were to be simplified under an FTA, an increase in bilateral trade could be expected. As far as the fear of non-tariff barriers such as sanitary and phytosanitary measures are concerned, the two governments need to come together to speak about removal of sanitary and phytosanitary measures (SPS) and decide on more concrete projects. (Hsu, 2015)

With the Chinese economy slowing, Taiwan clearly needs to relocate and diversify, while India on the other hand could definitely utilise Taiwanese expertise in production and investment. For Taiwan, a major source of concern also emerges due to the recently concluded China-South Korea FTA. About 30 per cent of Taiwanese industrial products may get affected, as the FTA could knock down Taiwan's exports by 1.35 per cent, which amounts to USD 3.75 billion. Industries of petrochemicals, flat panels, machine tools, textiles and steel will be affected. (*BusinessLine*, 13 November 2014)

As stated by Dr. Guann-Jyh Lee, Executive Director of Economic Division, Taipei Economic and Cultural Center in India, "Taiwanese companies can offer their machine tools in a broad spectrum of industries spanning aeroplanes, automobiles, watches, computers, auto ancillary, wind turbine parts, medical equipment and precision mould and help fuel India's growth. Many of the sectors in which we have expertise are those that have been identified as priorities under the Make in India programme". (ANI, 2015)

For India, an FTA with Taiwan would be beneficial in not just increasing the vigour of its manufacturing industry, but also would be beneficial for services. A major feature of the Taiwanese economy is the extremely strong trade-investment-services linkage. Taiwanese investments in the manufacturing sector are often supplemented by

significant FDI inflow in supporting services industries, such as banking and finance, logistics and retail. This allows Taiwanese companies to develop and control the entire supply chain. If India attracts substantial Taiwanese investment in the manufacturing sector, it is likely to trigger a secondary wave of investments in related services sectors that are linked to manufacturing. Taiwan may also benefit from India's strength and expertise in services such as software services. (Pal, Mukherjee and Hsu, 2013) In all, a conclusion of the FTA at the earliest between the two sides will be of immense mutual economic benefits.

### **5. Marrying the New Southbound Policy and India's Act East Policy**

The New Southbound policy (新南向政策), an initiative of the government under President Tsai Ing-wen, was officially launched on 5 September 2016. The purpose of the policy is to enhance trade, cooperation and exchanges between Taiwan and 18 countries in Southeast Asia, South Asia and Australia. As reported by *Focus Taiwan* (5 September 2016), the policy was created to make Taiwan less dependent on mainland China and to improve Taiwan's cooperation with other countries. Sharing similar objectives with Taiwan's New Southbound Policy is India's Act East Policy. The policy, an initiative of the Narendra Modi government in India is an attempt to cultivate economic and strategic relations with countries of Southeast Asia in order to bolster its standing as a regional power and to act as a counterweight to the strategic influence of the PRC.

Speaking to journalists in 2017, President Tsai Ing-wen stated that Taiwan should follow the Singaporean model of development, not focusing on its size as a limitation to progress, or brooding over China's One Belt One Road (OBOR) initiative as an obstacle, but should manage to build its own advantages from a positive vision and ambition (*Taipei*



*Times*, 7 May 2017).

Previously, Taiwan's government under President Lee Teng-hui and President Chen Shui-bian respectively had proposed southbound policies as well. Compared to the previous policies, the New Southbound Policy attempts at bringing in a shift from the labour-intensive sectors to capital- and technology-intensive sectors (Chen and Chattaraj, 2017: 40).

India's Act East policy outlines a multifaceted approach that ranges from expanding cultural links to improving trade ties and transport connectivity. The northeastern region of India, as stated by Prime Minister Narendra Modi in February this year, is at the heart of the Act East policy. As part of the policy, the government is working on plans to link the region through land, air and water with other economies, particularly those of Southeast Asia. Additionally, as stated by Assam Governor Jagdish Mukhi, a plan to develop Assam as a major hub for trade with the 10-nation ASEAN bloc is being worked on. (Press Trust of India, 2017)

Taiwan's strengths in the form of huge foreign reserves, along with expertise in hardware manufacturing, infrastructure, construction, food processing, automobiles, etc., could be leveraged to boost the potential of the north eastern region. A major component of Indian exports is agricultural commodities. Additionally, agriculture accounts for about 55 per cent of jobs. The north eastern region performs well in the production of agricultural goods, but exporting them remains a challenge that needs to be addressed.

An announcement by the prime minister concerning the development of exports from the north eastern region in January 2000 led to the setting up of the Export Development Fund (EDF), the primary objective of which was promoting exports from the region. Forty-seven projects have been sanctioned under the EDF so far. The proposals for funding through the EDF that have been approved include

passion fruit in Mizoram and Nagaland, *safed musli* in Assam, ginger in Manipur and Nagaland, cluster development of farms for organic farming in Nagaland and Tripura, etc.

Additionally, agri export zones (AEZs) have been set up for the region in Tripura for pineapples, Sikkim for floriculture, ginger and cherries, and Assam for fresh and processed ginger. However, despite the efforts, the north eastern states have not been able to achieve much growth in the sector due to inherent weaknesses that include poor marketing linkages, lack of infrastructure and lack of awareness. If Taiwanese expertise in food processing and logistics could be utilized, then benefits for the north eastern region could be greater, as the region's foreign trade development could be expedited.

Even in terms of improving the connectivity of the region, Taiwanese expertise and investment could be a solution. In 1950, the per capita income of undivided Assam was much higher than the national average. However, the region began lagging behind after independence as traditional trade routes with countries in Southeast Asia were severed. This in itself is telling as to how important foreign trade is for the region. For the re-establishment of trade, connectivity is very important. In fact, the realization of this is the reason behind the government considering linking Guwahati with all the major Southeast Asian countries with flight services, as a part of a plan to improve connectivity to the northeast and boost the region's trade prospects.

A memorandum of understanding to set up the India-Japan Act East Forum, with the aim of wedding India's Act East policy with Japan's Free and Open Indo-Pacific Strategy is among the major agreements signed during Prime Minister Shinzo Abe's visit to India in 2017 (*The Economic Times*, 18 September 2017). The purpose of the forum is to enhance connectivity and to promote developmental projects in India's northeast.

A cue from the India-Japan Act East Forum could be taken to formulate something similar with Taiwan. President Tsai Ing-wen announced in 2016 that Taiwan seeks to expand its dynamic relationships with India and ASEAN. A closer alignment of the Act East policy and the Southbound Policy would lead to win-win cooperation for both the sides. As India pushed forth with the Act East policy in the northeast, it would do well to take Taiwan on board to maximize the region's potential.

## **6. India-Taiwan Economic Ties in the Context of the US-China Trade War**

The trade war between the US and China began in 2018 when the US increased tariffs on products from China to curtail imports which led to retaliatory tariffs by China. Since then both sides have increased tariffs on imported products. Such retaliatory and escalating tariffs between the US and China has led to certain developments which could have economic ramifications for countries such as Taiwan.

According to an UNCTAD report, China's export losses in the United States market "have resulted in trade diversion effects" and United States imports from Taiwan, Mexico, the European Union and Vietnam among others, "have all substantially increased because of the United States tariffs on China" (Nicita, 2019: 3). It was also reported that the largest beneficiary of the trade diversion effects of the US tariffs on China was Taiwan, "accounting for additional exports to the United States of almost USD 4.2 billion in the first half of 2019. For Taiwan, the benefits are largely related to an increase in exports of office machinery and communication equipment" (*ibid.*: 11). A report by Rob Subbaraman, Sonal Varma and Michael Loo which explores the trade diversion by the US and China arrives at the conclusion that Vietnam,

Taiwan and South Korea have benefitted the most in economic terms especially in electronic products due to US import substitution (*Business Standard*, 5 June 2019). The report also mentioned that the trade war can boost exports of countries with smaller economies such as Taiwan which, the report stated, gained 2.1 per cent of GDP making it the second biggest beneficiary after Vietnam which gained 7.9 per cent of GDP. It mentioned that India benefitted 0.2 per cent of its GDP in 2019 and listed items such as petrol, minerals, cement articles, concrete, textiles as some of the products in which India stood to gain from the US-China trade war. Certain other opportunities have been provided by the trade war between the US and China for India on the economic front as well. For instance, India could intensify its trade in the backdrop of the trade war especially in categories where high tariffs have been imposed on China by the US. India also stands to benefit as an alternative destination for investment flows for those countries seeking alternatives to China (Press Trust of India, 2019).

## **7. The U.S.-China Trade War and Opportunities for Bettering India-Taiwan Trade Ties**

A report by the United Nations Conference on Trade and Development (UNCTAD) published in 2019 stated that one of the biggest fallouts of the trade war between the U.S. and China has been that of trade diversion. It went on to state that Taiwan is gaining the most trade diversion effects with a windfall of USD 4.2 billion, which is higher than any other market. (*Forbes*, 29 November 2019) In the first six months of 2019's financial year Taiwan's export to the US picked up drastically as Chinese exports to the U.S. declined.

The most business that Taiwan gained was in machinery and communication equipment. Office machinery including technological

hardware made up over USD 2.8 billion of the total (*ibid.*). Taiwan has a mature tech industry, which it has built over the years due to the supply chains it has built, its local talent and business ties with China. After the eruption of the trade war between the U.S. and China, numerous Taiwanese firms have been shifting operations back to Taiwan. Taiwan benefits the most from the trade war because much of its economy relies on technological hardware, the examples of which include semiconductors and new gear. According to a study conducted by Citibank, around 60 per cent of the 10 million people that Taiwanese companies employ in China work in information and communication technology (*South China Morning Post*, 4 July 2019).

According to Taiwan's Central News Agency, by October 2019, 142 Taiwanese investors had repatriated NT\$610 billion from China back to Taiwan (*Hellenic Shipping News*, 30 November 2019). Taiwanese firms are reliant on China as the primary production base, which is why as compared to firms from other countries like South Korea or Japan for example, Taiwanese firms did not build non-Chinese overseas supply chains which they could have used readily during the trade dispute. In such an absence, Taiwanese firms are therefore either shifting their production bases back home or are actively looking for new alternative overseas production bases. In such a scenario, India could be a lucrative option, given its potentials in IT and communication technology.

With regard to benefits for India-Taiwan economic relations due to the US-China trade war, it was mentioned that India is the “jewel in its external economic strategy” by James Huang, chair of the Taiwan External Trade Development Council. He stressed that industrial subsidies offered by the Indian government, coupled with the country's highly-skilled, low-cost labour force makes it a perfect site for Taiwanese electronic manufacturing (*Taiwan News*, 4 January 2019).

India has been pitched by Taiwan as a potential market for its businesses such as automobiles, technology, renewable energy and farm sector. High tariffs on billions of dollars' worth of goods due to the trade war have been prompting countries such as Taiwan to shift their companies from China to countries such as India. India's emergence as an alternative market for Taiwan was mentioned by Shih-Chung Liu, the vice-chairman of Taiwan External Trade Development Council, who stated that: "This trade war has encouraged more Taiwanese companies to figure out other options. So India and also other ASEAN countries are the alternative markets" (Reuters, 20 September 2019). He stated, "Taiwanese firms are looking to invest in India's technology, renewable energy, electric vehicle and farm sectors." Boosting economic ties with India is also one of the objectives of Taiwan's southbound policy. Four trade offices have already been opened in India and trade between India and Taiwan is expected to reach USD10 billion in the next few years according to Chung-Kwang Tien, the representative of the Taipei Economic and Cultural Centre (*ibid.*). He stressed that about 120 companies from Taiwan in the fields of information and communications technology have been operating from Bengaluru. In light of these developments, India and Taiwan are favourably positioned to improve economic cooperation by harnessing the opportunities provided by the fallout of the US-China trade war.

India and Taiwan have many economic complementarities which can be harnessed to achieve greater trade and investment. The major one being that India requires investment and Taiwan is seeking a diversification of investment destinations away from China. In the recent past several Taiwanese companies have invested in India and these have been helping India increasing manufacturing in India such as Foxconn. Taiwan can also aid India in technology required in sectors such as healthcare and food processing and can help release India from its

overdependence on China in areas such as solar power. Despite these opportunities, economic relations have been less than impressive between the two nations. Trade between the two was below 6.5 billion and investment was only \$1.5 billion in 2018 (Madan, 2019). India has been stalling on the FTA, without which these numbers are not likely to change, due to domestic reasons. Even without such an agreement Taiwan has been attempting to create avenues to familiarize its companies with the business environment and opportunities in India by setting up offices in the country and initiating dialogues with Indian counterparts in the fields of business and government in a bid to institutionalize cooperation.

Taiwan is also directly dealing with certain constituent units in India to consider investments given that subnational diplomacy is on the rise in India especially on the economic front with state units competing to provide favourable terms to foreign companies to attract greater investment. The state of Gujarat has been making considerable strides in attracting Taiwan's attention as a plausible destination for investments. The Gujarat Industrial Development Corporation in its meeting with the representatives of the Taiwan External Trade Development office invited firms from Taiwan to invest in the state and even offered land for them to develop a manufacturing base (*Taiwan News*, 27 April 2019). In the Vibrant Gujarat Global Summit of 2019 Taiwan's companies announced investments in the state's chemical and automobile sector. Seven other companies of Taiwan such as Seyi Group, Roller King Enterprise and Kao Ming Machinery Limited among others were reported to have been considering investments in the automobile manufacturing sector of states such as Gujarat. Gujarat has been forthcoming in offering favourable terms to foreign companies as part of the "Make in India" campaign which seeks to boost manufacturing in the country (*The Times of India*, 18 April 2019). Other states such as Karnataka have also been

attempting to woo investment from Taiwanese companies. In July 2019 a delegation of the state of Karnataka led by Gunjan Krishna, Commissioner for Industrial Development and Director of Industries and Commerce, interacted with leading Taiwanese companies at the 18th India-Taiwan Joint Business Council Meeting, organised jointly by the Federation of Indian Chambers of Commerce & Industry (FICCI) and Taiwan's Chinese International Economic Cooperation Association which was held in New Delhi. The Taiwanese companies which the Karnataka delegation sought to influence to consider investment in their state were in the sectors of electronics, electric vehicles, FMCG electronics, and green energy industrial (*BusinessLine*, 31 July 2019). Such subnational avenues could be the alternatives to ensure continued and flourishing cooperation on economic areas between the two countries despite the lack of an FTA between Taipei and New Delhi.

## **8. Conclusion**

The India-Taiwan relation has been a meandering one. The steps taken for forging better relations between the two sides have been in spurts and irregular at the very least. The agreements signed have brought about positive changes, but are far away from producing substantial changes. While Taiwan needs to produce more awareness about the Indian economic environment to facilitate more business ventures and investments in India, India needs to have a more long-term perspective on what it wants to do with the relationship between India and Taiwan. Additionally, India needs to take active steps to capitalise on the opportunities brought forth by the U.S-China trade war. Also, it needs to address the concerns raised by Taiwan with regard to import duties.

Bureaucratic processes, an illogical fear of flouting the One China policy if economic engagements are increased with Taiwan along with



an unclear idea of what the hurdles in the current economic relationship are form some of the issues that India needs to take care of. The already existing agreements between India and Taiwan need closer study and analysis to understand the benefits that have been produced and what remains yet to be done along with a conclusion of the FTA between the two at the earliest. A bilateral FTA or a similar arrangement would facilitate mutual trade and can help in bringing down investment barriers.

Taiwan's New Southbound Policy and India's Act East policy along with Make in India provide opportunities for mutual cooperation, and this needs acting upon soon. As such, ample synergies between the New Southbound policies and Act East policies exist. As stated previously, trade and economic ties between India and Taiwan have been on the upward swing for many years, and further reinvigoration could look at leveraging Taiwan's strengths to propel the Act East policy forward.

Given the fact that an increasing number of Taiwanese companies are rapidly relocating their manufacturing bases away from China, and consider India as a potential new base, India and Taiwan need to work together to improve productivity and quality in India's manufacturing sector. The two sides have covered sufficient ground to develop a kind of partnership that covers cooperation in high value-added manufacturing and knowledge-based services, along with R&D collaboration and joint human race development. In the backdrop of the trade war between China and the U.S., the time is opportune for India to take advantage and aim for better win-win outcomes from trade and investment relations with Taiwan.

## Notes

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