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A Study of India's Investment Environment, Major FDI Inflows and Suggestion for Taiwan's Businessmen

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Summary:

As a part of its *Look East Policy*, India is trying to increase its economic engagement with East Asian neighbors, including Taiwan. India's economic ties with Taiwan in trade and investment will help support its growth and development agenda. Unfortunately, the current foreign direct investment (FDI) inflows from Taiwan to India are very low. This study analysed the potential to develop a mutually beneficial relationship addressing the growth imperatives of both countries. The study examined the investment climate in India with respect to Taiwanese business, focusing on select sectors and states. The sectors included information and communication technology, machine tools, retail, transport and logistics, auto and auto components, and food processing. The selected states were Tamil Nadu, Gujarat, Karnataka, Maharashtra, West Bengal, and the National Capital Region (Delhi, Gurgaon, and Noida). Primary and secondary data analysis established the tremendous potential for collaboration between the two countries beyond the sectors and states identified. The process to promote increased collaboration is already underway with representatives from both countries signing agreements to facilitate increased FDI. However, barriers to investment continue to exist and India must expedite the process of domestic reforms to create an attractive environment for Taiwanese investors. Additionally, the study has made specific recommendations for industry associations and businesses at the micro level.

Broad Conclusions

Liberalization of the FDI regime is a part of India's broad based growth strategy. A host of recent policy initiatives demonstrates the government's intention to attract FDI, especially to enhance India's domestic manufacturing. The National Manufacturing Policy of 2011 has conceptualized the National Investment and Manufacturing Zones with an objective to develop industry agglomerations with active participation of domestic and foreign investors. The sectors under focus in this study overlap with those identified in India's manufacturing policy, and have been purposively chosen for analysis, given Taiwan's interest in these industries. Taiwanese investments can therefore advantage from India's renewed attention towards these sectors. The timing is fortuitous and risks negligible, since other East Asian economies such as Korea and Japan have successfully invested in several manufacturing sectors creating brands that are profoundly visible in the Indian market. Leveraging such late mover advantages could fulfill the objectives of both Taiwan's business that is exploring opportunities outside of its traditional destinations such as China and India's needs to develop competitiveness in its manufacturing sector.

There is evidence of rising interest in Taiwan towards India, both in terms of increased FDI and the increasing frequency of trade exhibitions conducted by Taiwan in India. The ATA Carnet agreement was recently concluded between FICCI (India) and TAITRA (Taiwan). This agreement was being negotiated between the two counterparts over several years to facilitate duty free temporary admission of goods during trade shows and exhibitions. The research findings confirm the potential of increased collaboration in each of the sectors, especially in information and communication technology (ICT). The sectors are of mutual interest to both countries and a symbiotic relation between the two is possible given that Taiwan enjoys a comparative advantage in most, and India is looking for support to further develop its industries.

The stage is already set; both countries have an existing list of agreements that work towards creating an attractive environment for businesses. Some of these include

- a) Bilateral Investment and Promotion Agreement in 2005
- b) Double Taxation Agreement in 2011
- c) Customs Co-Operation Agreement in 2011
- d) ATA Carnet in 2013

Other agreements have been proposed for extension of trade facilitation and accreditation.

However, in order for this mutual collaboration to nurture, India must address the challenges raised by Taiwanese investors. The challenges are not specific to Taiwanese businesses but mostly generic and applicable to both domestic and foreign investors in India. The common problems of poor infrastructure, complex taxation, and tedious regulations and compliance requirements can be overcome if the proposed reforms are implemented effectively. They will not only help Taiwan, but create a better business environment in India. Some of the additional measures identified in the survey include negotiating country dedicated zones, along the lines of that for Japan and Korea. Cultural and language differences act as deterrents to FDI from Taiwan, The reassurance of investing in a familiar environment that they enjoy in China is clearly missing in the case of India. This should however only result in temporary troubles. A country dedicated zone helps address this problem. Most industrial zones dedicated to countries have also seen residential complexes and other facilities mushrooming in the vicinity.

A social security agreement is also proposed, to protect the interest of Taiwanese expatriates in India and vice-versa. Some other recommendations include signing of mutual recognition agreements (MRA) for increasing acceptance of Taiwanese products in India. Adoption of common standards and enhanced agreements for ICT, machine tools and auto component industries will be extremely beneficial to improve the market access conditions for Taiwanese products in India. Manufacturers from Taiwan may require customising of their products for the Indian market, but acceptance of common quality standards will make the process easier. An MoU has been drawn up by the Bureau of Indian Standards for a mutual recognition agreement between India and Taiwan, but it is yet to be finalised. Improved branding and marketing initiatives will help develop an awareness of Taiwanese products in India. Indian industries and consumers use a lot of products that are either designed or manufactured by Taiwanese companies. However, exports of Taiwanese products from manufacturing locations in other Asian countries limit recognition of Taiwanese brands in the Indian market. The quality of technically advanced Taiwanese products must be marketed more intensively, for consumers to identify with Taiwan.

There is undoubtedly tremendous potential for both countries to gain from collaborating, not only in the sectors and states identified, but beyond. The momentum is being created as governments of both countries are engaged in a continuous dialogue. The future looks promising, and addressing the issues identified in the research will only help us realise the potential more rapidly.