Enhancing Trade, Investment and Cooperation between India and Taiwan

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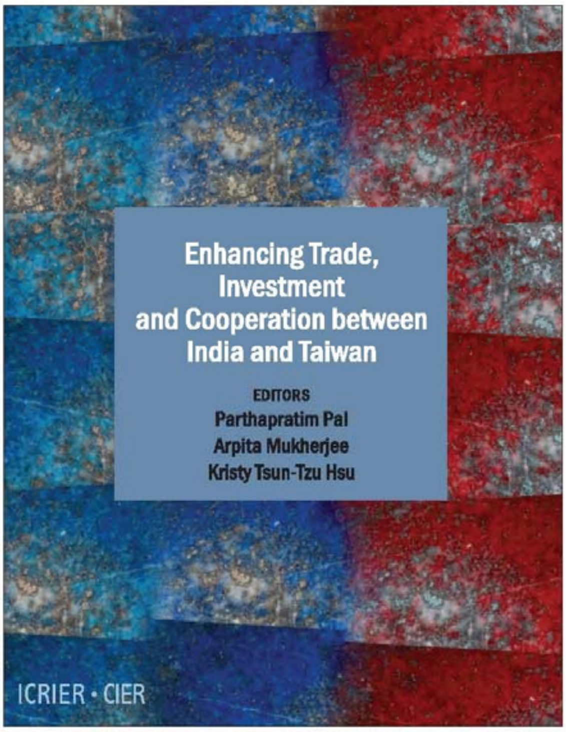

This is the first exhaustive study on possibilities of comprehensive economic partnership between an emerging market in Asia, India, and one of the four 'Asian Dragons', Taiwan. It focuses on how Asian countries can leverage their mutual complementarities, develop production networks and efficient supply chains and enhance investment flows—taking the example of India and Taiwan. Based on primary survey based research, the report highlights the barriers to trade and investment in India and Taiwan, and suggests measures to remove them. It critically examines the WTO and FTA strategies of India and Taiwan in the context of the trade agreements in Asia. The report focuses on both cross-cutting and sector-specific issues. The sectors discussed in the report include: logistics, automobile and auto component, information and communication technology, food processing, distribution and retail, and human resource development. These sectors have been selected as they are undergoing regulatory and policy changes in India and emphasis is on how India and Taiwan can learn from each other's development and regulatory experiences. The report provides information to businesses operating or planning to operate in each other's market and to policymakers on how to facilitate business interaction and greater trade, and investment flows.

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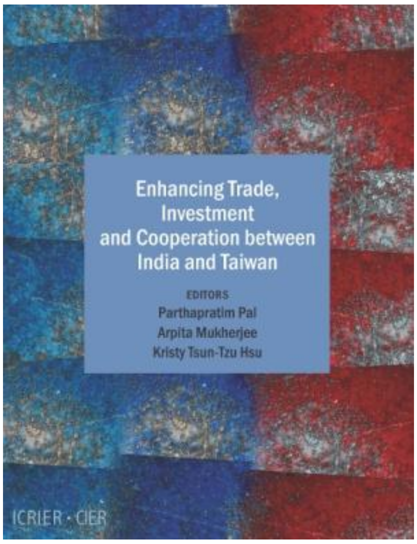

Key Findings of the Report

Enhancing Trade, Investment and Co-operation between India and Taiwan

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The past two decades have seen high rates of growth across several developing countries. To a significant extent, this growth comes from their increased participation in international trade and investment. Traditionally, developing countries have been dependent upon developed countries for their trade and investment. The economic slowdown in developed countries with the simultaneous industrialisation of developing countries has changed this pattern of economic engagement and countries are now diversifying their markets to increase exports and investment inflows. This trend has also strengthened due to the lack of progress on multilateral trade negotiations at the World Trade Organization (WTO). As a result, countries have turned to bilateral economic co-operation agreements to liberalise trade and investment flows.

This report focuses on the possibilities of a comprehensive economic partnership between an emerging market in Asia—India—and one of the four 'Asian Dragons'—Taiwan. It focuses on how Asian countries can leverage their mutual complementarities, develop production networks and efficient supply chains and enhance investment flows, taking the example of India and Taiwan. In a globalised world under a difficult geo-political scenario, India and Taiwan are inter-linked through trade and investment. Both countries are currently looking to expand and diversify their export markets through economic co-operation agreements in Asia. In the past few years, India's policy emphasis has been on increasing economic and strategic co-operation with East and Southeast Asian countries. Its 'Look East' policy tries to take advantage of complementary business interests with countries in the region; this policy also has strong strategic implications for India. Similarly, Taiwan wants to diversify its business interests from dependence on a handful of developed countries and China. Here, the large and growing Indian market provides an excellent business opportunity for Taiwan to increase its economic footprint in South Asia.

India and Taiwan share several economic and commercial interests. For Taiwanese businesses, India offers both a large, unsaturated market for its exports as well as low-cost skilled workers for manufacturing. Taiwan's strong performance in information technology (IT) hardware complements India's software capabilities. In agriculture, Taiwan has a well-developed food processing sector that India can emulate in processing agricultural and marine products. However, in the automotive and auto components sector, where the push is towards high-end electronics components, neither country can act alone; their specific strengths in manufacturing and software, if combined, would push the industry towards a higher trajectory. The scope for collaboration extends to several manufacturing and services sub-sectors: auto component manufacturing, logistics, information and communications technology (ICT), audiovisual, tourism and knowledge services. Through such collaboration in manufacturing and services, companies from India and Taiwan can better access third-country markets in Asia, Africa and the Middle East, integrate their production networks and develop efficient value chains.

India and Taiwan exhibit strong complementarities in investment. Taiwan is a major investor in Asian countries and has significant horizontal and vertical FDI in several countries in the region. India, on the other hand, is looking to attract more FDI to cover its current account deficit and to boost its manufacturing sector. Taiwanese companies have successfully set up global production networks and India wants to be part of the global production network and high-value manufacturing. These synergies and complementarities have ensured that trade and investment flows between the two countries can be mutually beneficial. In fact, both trade and investment have shown a substantial increase in the past decade. Bilateral trade between India and Taiwan has grown nearly eight times—from $0.92 billion in 2001-02 to $8.54 billion in 2011-12. Taiwan's exports of goods to India increased from $0.36 billion in 2001-02 to $5.2 billion in 2011-12. In investment, India's FDI inflows from Taiwan increased from $0.19 million in 2001 to $9.06 million in 2012. The cumulative investment from Taiwan over the period April 2000 to March 2013 was at $65.70 million. Around 80 Taiwanese subsidiary companies have invested in India in sectors such as auto components, electronic products and machine tools, and more companies are exploring investment options. The official statistics of Taiwan show that between 1952 and 2012, the total investments to India from Taiwan were valued at $141 million. It is important to note that this under-represents Taiwanese investments, which also enter India through third countries such as Singapore, China, Mauritius and Thailand.

Both India and Taiwan have recognised the potential for even higher economic and business activities and have taken measures to facilitate the same. They have signed several agreements, such as the BIPA, DTAA and the Taiwan–India Customs Co-operation Treaty to facilitate trade and investment. They are now exploring the possibilities of signing a comprehensive bilateral economic partnership/co-operation agreement to further enhance their trade and investment relationship. This agreement proposes to cover goods, services, investment and trade, among other areas.

Against this backdrop, this report aims to provide insights to policymakers and industry of the two countries on how to enhance bilateral trade, investment and co-operation in light of the proposed comprehensive trade agreement. The report highlights the macroeconomic policies of the two countries, their trade and investment regimes for goods and services and their bilateral and multilateral negotiation strategies and options. It also provides a comprehensive analysis of bilateral trade, investment flows and collaboration in sectors of interest to either India or Taiwan or both. These include logistics, automobile and auto components, information and communications technology (ICT), food processing, distribution and retail and human resource development. The research is based on a primary survey as well as secondary information analysis. Overall, this study found that a comprehensive agreement that involves trade in goods and services, investment and trade facilitation issues, and which focuses on removing non-tariff, regulatory and other barriers is likely to generate benefits for India and Taiwan. These benefits will be subject to the two countries implementing a series of domestic reforms and measures to facilitate trade and investment.

The key highlights of the report are presented below.

- **Trade in Goods**

The economic structures of Taiwan and India are very different. Taiwan is a small, developed and fast-growing economy with a highly skilled workforce. It has a large current account surplus and a positive trade balance. Taiwan is a key player in the global production network and high-value manufacturing, and specialises in exports of high-tech manufactured goods and high-value-added services. Due to the rising cost of labour in the domestic market and in its existing production bases such as China, Taiwanese companies are exploring the possibilities of offshoring their production through investments to countries such as India, which has low wages and an abundant workforce. India has not been a very successful player in global production networks and its share in high-value manufacturing is quite low. These structural differences open up scope for Indian and Taiwanese companies to collaborate in a symbiotic manner. The presence of Taiwanese companies in India can help diversify India's export basket into more value-added products, if they consider India as a base for exporting to other countries.

India has a large consumer market. The growing consumer base in India has attracted several international companies to export and sell their products in India. Taiwan also sees India as a large potential market and during the past decade, several large Taiwanese companies have increased their presence in India through increased exports. But the extent of Taiwan's presence in the Indian market is not fully reflected in bilateral trade data, since several products from Taiwanese companies are exported from third-country markets, such as China and ASEAN countries. This is the result of Asia-wide production relocation by Taiwanese firms. The study also found that Taiwanese companies are relatively new entrants into the Indian market. Possibly due to this factor, knowledge and awareness about Taiwanese brands among Indian consumers is low. Another disadvantage Taiwan faces is that most of its competitors such as Japan, South Korea and some ASEAN countries entered the Indian market before Taiwan and these countries have already signed preferential trade and investment agreements with India. Taiwan, therefore, needs to catch up with these countries if it wants to increase brand and product visibility and trade.

The analysis in this report suggests that a trade agreement with India can open up significant market access for Taiwan. India is a country with high tariffs, which it has lowered in its comprehensive agreements with Japan and Korea, thus placing Taiwanese manufacturers at a disadvantage. However, discussions with Indian industry and associations show that gains for Indian exporters will be somewhat less promising. This is due to the fact that India's tariff barriers are higher than those of Taiwan and a reciprocal reduction in tariff rates will consequently benefit Taiwan more. High tariffs sometimes give Indian domestic industry in sectors such as automobiles protection against foreign imports. Also, Taiwan has a small and open domestic market that is saturated. Indian exporters may find it difficult to penetrate such a market even if they are accorded preference in tariff rates, since they lack competitiveness in manufacturing. This study also shows that there are complex non-tariff barriers in both countries and dismantling these may help promote bilateral trade.

One common feature of trade barriers in India and Taiwan is that there are very high tariff rates or tariff peaks in certain sectors such as agriculture. Agriculture is a sensitive sector for the two countries and, consequently, it is unlikely that either country will be keen to liberalise this sector in the proposed comprehensive agreement. In this context, this study has identified a set of products that the two countries are likely to place in the 'negative list'. However, there is potential for increased trade, investment and technology transfer in the food processing sector.

An analysis of 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.

- **Trade in Services**

Globally, India is a much larger player in trade in services than Taiwan. However, unlike Taiwan it has not been able to link services exports with manufacturing exports and thus services exports from India are in few sectors (IT/ITeS services) and in Mode 4. This study found that India can learn from Taiwan how to diversify its services exports basket and have a comprehensive services sector development policy.

Liberalising the temporary movement of professionals is of great importance to India. The report proposed that to facilitate labour mobility between Taiwan and India there is a need for consultation and sharing of information between the professional bodies of the two countries to minimise barriers related to qualifications. The two countries can evaluate the possibility of issuing visas on arrival for a stay of 30 days to facilitate business interaction and tourism.

Overall, the report shows that most of the barriers faced by service suppliers and companies in India and Taiwan are domestic reform issues rather than ones that can be addressed under a trade negotiation. The trade negotiations will help bind the domestic regime and, therefore, provide operational certainty to companies operating in each other's market. However, India cannot achieve global competitiveness in services until it implements the crucial domestic reforms.

- **Investment**

Taiwanese companies are large outward investors in manufacturing and in services sectors such as logistics and retail. FDI by Taiwanese companies are both market-seeking and efficiency-seeking and India can become an important destination for Taiwanese investments. India is an attractive country for market-seeking or horizontal FDI due to its growing middle-class population. However, Taiwanese companies are facing competition, as several Japanese and South Korean companies have already established their presence in the Indian market. Taiwan has huge FDI of the resource-seeking variety where it relocates its production process to low-cost countries. Such production relocation has resulted in the establishment of massive contract manufacturing of Taiwanese companies in China and other parts of Southeast Asia. However, as the cost of doing business in these countries—particularly China—is increasing due to the rise in labour costs, India may become an alternate location for Taiwanese FDI. This report found that although labour costs in India are low, Taiwanese investors will weigh this benefit against the cost of doing business in India in terms of poor infrastructure, regulatory hurdles, etc., to make investment decisions.

The evidence suggests that investment from Taiwan has been increasing due to the constant efforts of the Indian and Taiwan governments and the interest of Taiwanese companies in the Indian market. However, bilateral investment data under-represents the actual inflow from Taiwan, as 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.

One possible concern raised by Indian industry is whether after tariff reduction under the proposed comprehensive trade agreement Taiwanese companies will continue to bring FDI into India given the problems of investing in India. A low tariff regime would open up possibilities for Taiwanese companies to export from their bases in other countries. While vertical FDI may not be affected by lowering tariff rates, this study finds that apart from a large market and low labour costs, India currently does not have a conducive environment for investment in manufacturing. This study strongly recommends that 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. Unlike China and Taiwan, Indian and Taiwanese companies have cultural and language differences. If the Indian government can encourage Taiwanese companies to set up industrial clusters or SEZs (where they can form their own habitat) and help them get land and other clearances to set up such facilities, it will be an attractive option for Taiwanese investors. Some Indian states have already initiated such measures and it will be important for other states to ensure these facilities if they want to attract FDI from Taiwan.

Another major feature of Taiwan's economy is the very 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.

Based on synergies and complementarities, this study has identified the following sectors, which are likely to play important roles during the negotiations on the bilateral economic co-operation agreement.

1. Logistics

The analysis of the logistics sector shows that Taiwan is a more technologically advanced market than India, with integrated logistics services that help in just-in-time deliveries. Indian companies can learn from the experiences of companies from Taiwan to set up an integrated logistics network. There is scope for Taiwanese investment in India in this sector, which will help to streamline the fragmented supply chain in India. However, at present Indian companies do not see significant business potential in Taiwan. At the same time, companies from the two countries could collaborate to develop regional production and supply chain networks in East Asia and to link India with ASEAN countries, such as Thailand and Vietnam, where Taiwanese companies also have their production bases. In particular, the Government of India can ask Taiwanese companies to invest in the northeast of India in road and rail connectivity, which will also enable them to integrate their manufacturing units in India with those in ASEAN countries through Myanmar. The northeast of India could be developed, as has been the case with the Delhi-Mumbai Industrial Corridor.

Direct and frequent flight connectivity is crucial for promoting trade and people-to-people contact. The two countries have to re-examine their bilateral air services agreements and ensure greater flight connectivity.

2. Automobiles and Auto Components

In automobiles, India has emerged as a global outsourcing hub/manufacturing base for vehicle design and engineering services and Taiwan has competence in high-technology areas, such as automotive electronics and green technology. There is scope for companies to collaborate in these areas. It is likely that the comprehensive agreement will focus on tariff reduction in this sector, which is a sensitive issue for Indian industry. The automobile and auto components sector has benefitted from protection in India and there is strong domestic opposition to tariff reduction. Since several Taiwanese automobile and auto component companies are present in China, Indian industry is also worried about an inflow of goods from China. This can be addressed through a carefully designed rule of origin. Moreover, for India, it will not be easy to reduce bilateral tariff rates *vis-à-vis* Taiwan without taking into account the demands of other trading partners such as Japan, Korea and the EU with whom India has signed or plans to enter into comprehensive trade agreements.

3. ICT

In the ICT sector, India and Taiwan have tremendous synergies and there is scope for collaboration. Taiwan's hardware capabilities complement the software capabilities of India. India can benefit from Taiwan's expertise in IT electronics and hardware manufacturing, while Taiwan can benefit from India's capabilities in high-value-added software and services. This study found that cloud computing, digital technology-enabled design and green environment are areas in which companies from the two countries can work together to secure new global business for high-value-added products and can cater jointly to third countries such as the US. There is scope for movement of IT professionals from India to

Taiwan, which is currently limited, due to language and other barriers.

The study shows that India's commitments in trade agreements in ICT services and regulations are lower than the domestic regime and there is scope for further improvement in the commitments for telecommunications. India is apprehensive about signing ITA II; also, its present policies emphasise local content/manufacturing. This will have implications for India's future trade negotiations not only with developed countries but also under RCEP.

4. Food Processing

Taiwan, despite its low agriculture base and limited natural resources, has a more advanced food processing industry than India. India's food processing sector is labour-intensive and needs technological upgrading. If technology is imported from Taiwan, it will benefit India, but it has to be customised to suit the requirements of the Indian food processing sector.

This report argues that Taiwan can use raw materials from India for its food processing sector if the raw materials are of processing quality and if trade barriers (tariff and non-tariff) are removed. However, Indian exports to Taiwan in organic products face trade barriers in the absence of mutual recognition of standards for organic products. Similarly, India has high tariff and non-tariff barriers in agricultural products. The study suggested that APEDA (India) and the Bureau of Animal and Plant Health Inspection and Quarantine (BAPHIQ) (Taiwan) can enter into an agreement to mutually recognise product standards in order to enhance trade in processed food items, particularly organic products.

Food shows and exhibitions in the two countries will help popularise each other's cuisines, products and brands. India and Taiwan can collaborate in setting up R&D laboratories and agriculture research institutes. There is scope for Taiwanese SMEs to invest in India's food parks and Taiwan can develop similar parks where Indian SMEs can establish a presence. There is scope for collaboration and sharing of information between government bodies of the two countries in quarantine and inspection measures applicable to agriculture and food products.

5. Distribution and Retail

Retail is a key component of GVCs since it enables products to reach end-consumers. This is one sector in which India has FDI restrictions. The large consumer base of India has attracted a number of global retailers including Taiwanese retailers to India. Nevertheless, the presence of Taiwanese retailers in India is limited and they largely market their products through agents, under franchise agreements, etc. Taiwanese companies find that the retail FDI policy of India is restrictive and would seek further liberalisation of the policy in the proposed comprehensive trade agreement, especially for sub-sectors such as consumer durables and electronic goods.

Indian retailers consider the Taiwanese market to be saturated and small. They do not foresee entering the market in the near future in spite of no FDI restrictions. Overall, the primary survey showed that knowledge about each other's markets, products and brands is low and there is a need to share information and brand marketing in each other's market for enhancing bilateral trade and investment in retail.

6. HRD (human resource development)

The analysis of the HRD sector shows that there are significant disparities between India and Taiwan in terms of the human resources structure and distribution of educational resources. Taiwan has invested significantly in human resource development and ranks high on HDIs. It has high-quality educational institutes with excess capacity. India, unlike Taiwan, ranks low on HDIs and has only a few high-quality institutes of international reputation. The study shows that there is scope for Taiwanese investment in Indian educational institutes. However, such investment will be subject to India having a stable regulatory regime for foreign investment in education and recognition of each other's degrees in the two countries. India and Taiwan have already recognised each other's university degrees. There is a need to recognise professional qualifications from the two countries and the professional bodies of the two countries should collaborate in this direction.

There is scope for joint collaboration between Taiwanese and Indian institutes in language teaching (Indians teaching English and Taiwanese teaching Mandarin), academic and student exchange programmes, R&D, vocational training, etc., which will facilitate skill development. Since Taiwan is trying to attract Indian students to study in Taiwan, this study proposes that there is a need to explore the possibility of liberal student visas that allow employment after studies. Taiwan also can provide Indian students with attractive student aid packages and scholarships. These issues can be addressed at inter-government meetings.

The Way Forward

To facilitate trade, investment and co-operation, between India and Taiwan, this study proposes that there should be collaboration at three levels:

- Level A: Company. Companies have to work as joint venture partners to understand each other's market. At present, most Taiwanese companies tend to enter India through the wholly-owned subsidiary route. That makes their operations difficult since they lack market knowledge. Partnering with Indian companies will help them acquire local market knowledge. Indian companies also should partner with Taiwanese companies in Taiwan and in China to overcome language and other barriers.

- Level B: Industry association and professional bodies. The industry associations and professional bodies of the two countries should interact and start sharing information. This will enhance market knowledge. Industry bodies can also help companies find the right partner. Along with trade promotion bodies, they can organise business meets, trade fairs and exhibitions. India and Taiwan may consider establishing an India-Taiwan Business Coalition that could serve as a platform for promoting exchange between Taiwanese and Indian industry and also between individual business enterprises.

- Level C: TECC and ITA interaction. The Indian Department of Commerce should start interacting with TECC and ITA. The two countries can set up a Joint Working Group for the possible comprehensive partnership agreement.

To enhance co-ordination across the three levels, India and Taiwan may also consider establishing an India-Taiwan annual meet of government officials, industry and academics alternatively in India and Taiwan, which should be co-ordinated by TECC and ITA.

Overall, it can be said that India-Taiwan trade and economic relationship has strengthened in the past decade and both countries should continue to promote and enhance economic and trade linkages. The governments of the two countries should work together to build consensus and an environment favourable to the establishment of a comprehensive economic partnership agreement. At present, the Taiwanese economy is heavily dependent on the Chinese and Southeast Asian markets and on investment in these regions. From the point of view of economic security and risk diversification, Taiwan needs to work actively to strengthen economic and trade ties with India and to promote Taiwanese investment in India. Ideally, the relevant Taiwanese and Indian government institutions should work together to remove barriers/obstacles to investment and facilitate Taiwanese companies, including potential ones, to invest in India. To promote trade and investment, India and Taiwan can work together to renew the existing agreement between TECC, New Delhi and the ITA, Taipei, on ***Promotion and Protection of Investment*** to add more trade facilitation and investment promotion measures.

There are significant differences between India and Taiwan in terms of ethnicity, culture, language, religion, customs, business operating environment and the legal system. Further, in the past there has been relatively little contact or exchange between the India and Taiwan compared with their other trading partners. As a result, market knowledge is limited. Brand visibility and knowledge of Taiwanese products and brands are low in India. The majority of Taiwanese companies do not have manufacturing facilities in India and tend to operate through sales/trading offices. There are limited joint ventures between Indian and Taiwanese companies and companies find it difficult to get the right partners. Indian consumers are price-sensitive and have distinct taste patterns. Taiwanese companies have to customise their products for the Indian market and have the right price points. Otherwise, it will be difficult for them to compete with companies from countries like Korea. To address these issues, the two countries not only need to hold trade promotion activities, but they should also promote cultural exchange programmes and educational and academic exchanges to strengthen mutual understanding. The ITA and TECC can play a key role in this process. In the case of India, these exchanges and interactions should also be held at the state level.

There are several areas in which India can learn from Taiwan to develop the regulatory environment and global production chains. For example, Taiwanese companies have been key players in the successful development of SEZs in China, and India can learn from their experiences in developing its SEZs. Similarly, food processing and efficient agriculture production are other areas where India has a lot to learn from Taiwan.

The report strongly recommends that India and Taiwan should start extensive industry consultation for the proposed comprehensive trade agreement. India should closely monitor Taiwan's commitments in its trade agreement with New Zealand and its negotiations with Singapore. India should also understand how these countries have progressed with trade agreements and overall trade relationship with Taiwan in the present geopolitical scenario. Both New Zealand and Singapore signed trade agreements with China prior to negotiating and signing trade agreement with Taiwan. India needs to also examine how its relationship with Taiwan fits into the overall framework of its policy in East Asia and in policy related to trade agreements such as the RCEP. India is already a part of the RCEP negotiations where it will be negotiating with China. The country has to do a comprehensive impact analysis of its existing comprehensive agreements with Singapore, Japan and Korea to understand the lacunas and learn from the mistakes. The Trade Policy Division of the Department of Commerce, India, should commission a comprehensive study on RCEP similar to this report on India-Taiwan, to identify the strengths and complementarities between India and different RCEP members. Unless such detailed research is done by independent organizations and the research is made public through consultation papers for industry consultations, Indian manufacturing, agriculture and services may not benefit from such trade agreements.