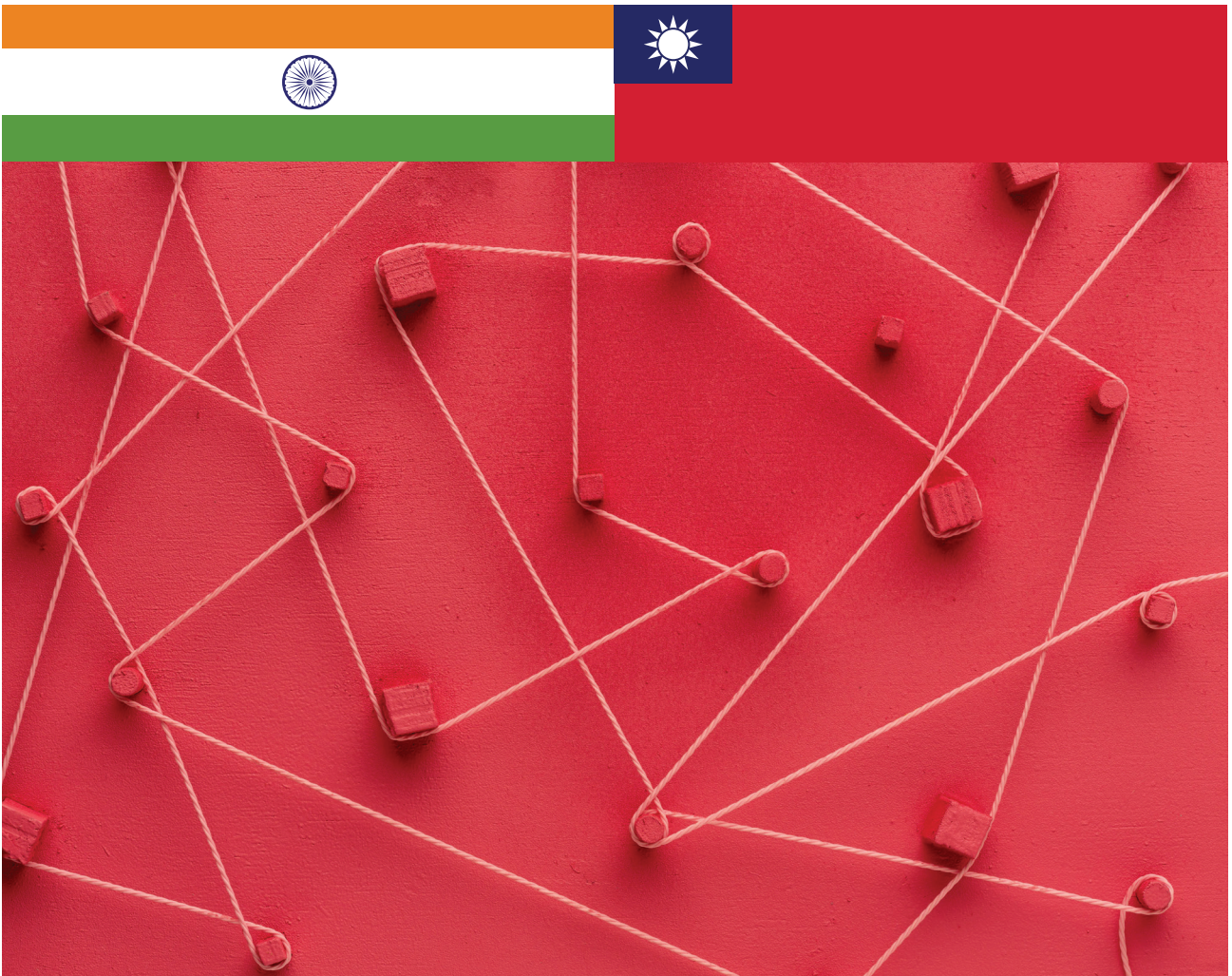


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The Role of Commercial Ties in Advancing India-Taiwan Relations

Sana Hashmi



ORF OBSERVER
RESEARCH
FOUNDATION

TAEF
Taiwan-Asia Exchange Foundation
臺灣亞洲交流基金會

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Abstract

India and Taiwan have historically maintained ‘unofficial’ ties. There have been notable shifts in recent years, as seen in the creation of representative offices in both that serve *de facto* as embassies. Today the two are aiming to foster more robust economic ties. The COVID-19 pandemic, China’s assertive behaviour, and the growing significance of Taiwan in regional geopolitics, have prompted India to pay greater attention to the island nation. At the same time, under the Democratic Progressive Party (DPP), Taiwan is actively working to expand its engagements with its neighbours to reduce reliance on China, resist its economic coercion,

and counteract attempts to shrink Taiwan’s international space. This ORF-TAEF report evaluates the current state of commercial ties between India and Taiwan, and offers policy recommendations to bolster engagements.



Introduction

Taiwan's foreign policy outlook has experienced a transformation under the Democratic Progressive Party (DPP) administration. Since 2016, the island nation has shifted its approach to put greater emphasis on enhancing its outreach to the immediate and extended neighbourhood. Such a strategic shift is seen in the launch of the 'New Southbound Policy' by the Tsai Ing-wen administration. The primary stated objectives are twofold: to diversify Taiwan's risks and minimise overdependence on any single market (read, China); and to strengthen the country's relations with its neighbours in South and Southeast Asia, and Oceania.¹ President Tsai has stated that "the government (Taiwan) will continue to augment its (New Southbound Policy) implementation to allow Taiwan to play an integral role in economic development throughout Asia."²

India is a priority country for Taiwan's external engagement. Chen Chern-Chyi, Deputy Minister of Taiwan's Ministry of Economic Affairs (MoEA), has been quoted as saying, "A decade ago, people kept saying India is a potential rising star. Now we are starting to realise this."³ As Taiwan is looking to diversify its economic relations and India is aiming to establish itself as a viable alternative hub within the global supply chain framework, current geopolitical and economic developments provide both India and Taiwan with opportunities to navigate cooperation for achieving mutually beneficial objectives. Commercial ties are the mainstay of the bilateral relations and recent developments demonstrate the potential of mutually beneficial cooperation. In this context, this report examines the status of the economic exchanges between India and Taiwan, and explores their prospects.



Current Institutional Mechanisms

In the recent years, advancing commercial ties with Taiwan has become one of India's priority goals with regard to its engagement with its eastern neighbours. Despite Taiwan not officially integrated in the Look East/Act East policy, Taiwan holds immense significance in the context of India's outreach. The 1990s witnessed economic liberalisation in India, the establishment of the representative offices in each other's capitals (de facto embassies of India and Taiwan), and the growing Indian diaspora in Taiwan collectively creating a favourable environment for collaboration.

Both sides have strived to strengthen commercial exchanges. This is motivated by the fact that such engagements are mutually beneficial and fit well within the existing framework of India-Taiwan relations. A number of steps have been taken to advance commercial relations, including India's expression of willingness to initiate negotiations for a free trade agreement (FTA) with Taiwan in 2011 and the signing of the upgraded version of the bilateral investment treaty in 2018.

The representative offices have played important roles. Both the India Taipei Association (ITA) and the Taipei Economic and Culture Centre (TECC) have separate economic divisions to promote economic ties between India and Taiwan. Later this year, TECC is set to establish its third representative office in Mumbai, the financial capital of India. This expansion will enhance its ability to facilitate coordination between Taiwanese businesses and Indian companies. The Taiwan External Trade Development Council (TAITRA) has four liaison offices in India—in Delhi, Chennai, Kolkata, and Mumbai. On 26 April 2017, TAITRA also established an India Center in Taipei, operating in coordination with its four India-based offices, functioning as a hub of expertise, information dissemination, and support for Taiwanese enterprises seeking insights and assistance regarding their endeavours in India. To facilitate Taiwanese investments in India, Taiwan Plus—TAITRA and Invest India's (National Investment Promotion and Facilitation Agency) joint platform—was launched in 2019. Several agreements in the economic field have been signed in the past decade.

Table 1. Key Agreements in the Field of Commerce

Name of the Agreement	Signed
Double Taxation Avoidance Agreement	2011
Customs Mutual Assistance Agreement	2011
ATA Carnet Protocol	March 2013
The Taiwan Chamber of Commerce in New Delhi signed a memorandum of understanding (MoU) with India's PHD Chamber of Commerce and Industry.	June 2016
Taiwan-India Agricultural Cooperation	September 2016
MoU on Promotion of Industry Collaboration	14 December 2017
Updated Bilateral Investment Treaty	18 December 2018
Taiwan-India MoU on Intellectual Property Rights	18 May 2022

Source: Author's own, using data from TECC

On 21 December 2012, a non-government business organisation, Taiwan-India Business Association (TIBA), was established with the support of business representatives and ITA. Much like TAITRA, TIBA has a mission to support

Taiwan businesses keen on entering the Indian market by strengthening their understanding of the country's economy.⁴

Commerce remains the only domain where there are open and direct government interactions. Dialogues at the deputy minister and secretary levels take place regularly, and Taiwan has been receiving state government and Department for Promotion of Industry and Internal Trade delegations. In November 2022, Taiwan's Deputy Minister of Economic Affairs Chen Chern-Chyi visited India to participate in a dialogue of deputy ministers. He also attended the India-Taiwan Industrial Collaboration Summit 2022, organised by the Federation of Indian Chambers of Commerce and Industry

and Taiwan's Chinese National Federation of Industries. Chen's visit was significant as it marked the resumption of high-level visits following the COVID-19 pandemic. During his visit, Chen expressed Taiwan's readiness to start FTA negotiations with India. He stated, "India can be the best production place for us (Taiwan). India's policy of 'Make in India' is fully in line with my government's policy."⁵

Trade Analysis

There has been a significant increase in trade in the recent years. In 2021-2022, with US\$8.9 billion, the trade figure witnessed a jump of 60 percent. For the first time in the history of India-Taiwan trade relations, the figure

crossed the US\$ 10-billion mark; the balance of trade, however, remains in Taiwan's favour.⁶

Table 2. India-Taiwan Trade, 2015-2023 (in US\$ billion)

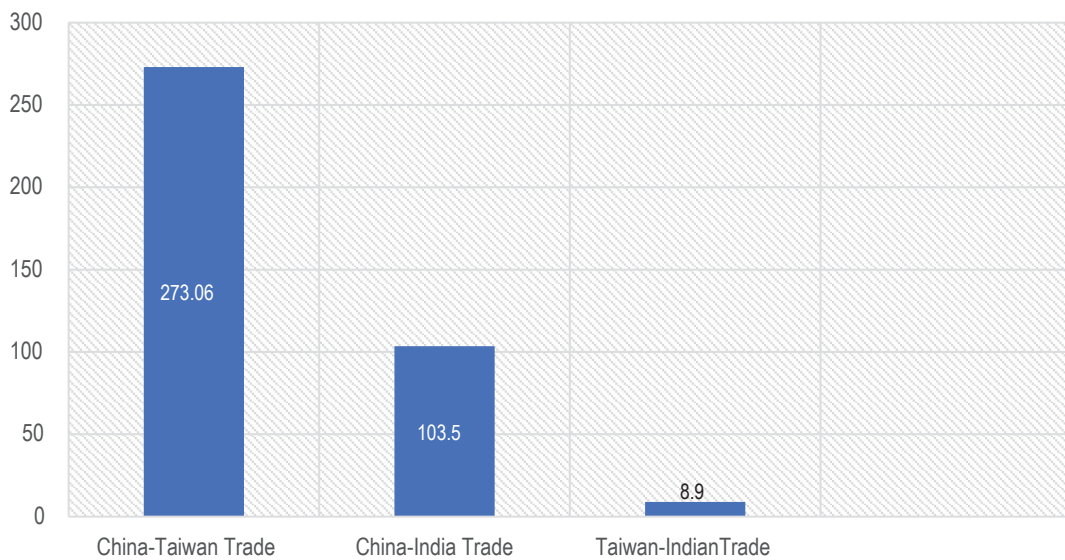
Year	Exports	Imports	Total Trade	Balance of Trade
2015-2016	1.4	3.3	4.7	(-) 1.9
2016-2017	2.2	3.1	5.3	(-) 0.9
2017-2018	2.15	3.9	6.05	(-) 1.75
2018-2019	2.6	4.5	7.1	(-) 1.9
2019-2020	1.7	4	5.7	(-) 2.3
2020-2021	1.6	4	5.6	(-) 2.4
2021-2022	2.7	6.2	8.9	(-) 3.5
2022-2023	2.6	8.3	10.9	(-) 5.7

Source: Department of Commerce, Government of India

The primary items exported to Taiwan include naphtha, metals and metal products, organic chemicals, and agricultural products. The main items imported from Taiwan are PVC, machinery, organic chemicals, electrical machinery, ICT products, and solar cells.⁷ India's imports from Taiwan encompass a range of high-end products, contributing to the prevailing trade imbalance.

China continues to retain its position as the largest trading partner of Taiwan and the second largest trading partner of India. In 2021, India's trade with China stood at US\$103.5 billion with a negative balance of trade amounting to US\$73.3 billion; in the same period, the volume of Taiwan's trade with China touched a high US\$273.06 billion.⁸

Fig. 1: India's and Taiwan's Trade with China (US\$ billion)



Source: Author's own, using data from Department of Commerce, Government of India and Government Portal of the Republic of China Taiwan.



Is an FTA on the Cards?

In 2011, addressing a visiting Taiwanese media delegation, then Foreign Secretary of India Nirupama Menon Rao announced that the country was commissioning the Indian Council for Research on International Economic Relations (ICRIER) and Taipei-based Chung-Hua Institution for Economic Research to prepare a feasibility study.⁹ Gautam Bambawale, the senior official dealing with Taiwan at the Ministry of External Affairs (MEA) at the time, stated, “At this stage of economic relations with China, where China has emerged as India’s largest trade partner, where Indian companies still face issues of market access in China, where Indian companies are still dealing with issues of market regulations of licensing in China, I don’t think the time is right for India and China to enter into a free trade agreement. But a free trade agreement between India and Taiwan is a possibility.”¹⁰

While India was willing to negotiate an FTA, Taiwan was reluctant then. Taiwan’s Ministry of Economic Affairs responded by saying that “it is not yet time to conduct official FTA talks with India.”¹¹ Ma Ying-jeou, the then Taiwanese President, was directing his attention towards managing Cross-Strait ties, and his efforts also led to a Xi-Ma meeting in 2015. His administration believed that Beijing could potentially view a Taiwan-India FTA as a provocation, and thereby destabilise the progress made in Cross-Strait relations.

Taiwan, under DPP, has exhibited a greater willingness to engage in negotiations for an FTA with India. It has also initiated trade agreement talks with a number of countries. The US-Taiwan Initiative on 21st-Century Trade is one example. However, despite media speculations about the possibility of an India-Taiwan FTA, a trade pact does not seem to be in the pipeline.

The recurrence of such speculations in the news cycle can be attributed to three factors. First, due to shifts in the geopolitical landscape and bonhomie of the civil society, it was assumed that the next logical step would involve negotiating an FTA. Second, this assumption was fueled by India's expressed interest in pursuing an FTA with Taiwan, followed by the announcement of the feasibility study in 2011. Third, India's willingness to go for bilateral FTAs has rekindled hope for an India-Taiwan FTA as well.

The absence of diplomatic ties poses a challenge to the prospects of negotiating the FTA. Adding to this challenge, Taiwan currently maintains a favourable trade balance with India. India, which is attempting to alter the balance of trade globally in its favour, may see the FTA providing Taiwanese goods with greater access to the Indian market, leading to further negative balance of trade. Nonetheless, engaging in FTA negotiations with Taiwan aligns with the unofficial framework of India-Taiwan relations. Crafting mutually beneficial terms of reference during the negotiations could advance the interests of both parties effectively, while enticing an influx of Taiwanese businesses to India.



Investment Story: The Growth So Far and Prospects

Since the announcement of the New Southbound Policy and India's showing of active interest in courting Taiwanese investment, an economic partnership that was previously overlooked has now garnered renewed focus. This is despite the fact that cumulative FDI inflows from Taiwan to India were relatively modest. Amounting to US\$579.5 million as of March 2021, the Indo-Taiwanese investment relationship has demonstrated steady growth in the past few years.¹² While FDI stood at US\$44 million in 2019-2020, it experienced a remarkable surge, reaching US\$219 million in 2020-2021.¹³ However, the actual investment figure from Taiwan to India is as high as US\$3 billion via third-country channels, and this increase in investment can be linked to the signing of the updated bilateral investment treaty.

Foreign investment from Taiwan flowing into the Indian market has focused on a few key industries, such as rubber goods, electronics manufacturing, chemicals, computer software, and metallurgical engineering.¹⁴ In electronics manufacturing, enterprises such as Foxconn, have consolidated their presence in India while Apache and Feng Tay have made forays into footwear manufacturing. Over 160 Taiwanese businesses have active operations in India.¹⁵

In an interview with the author, Invest India^a identified a series of pivotal target sectors including electronics manufacturing. With the domestic demand for electronics hardware in India expected to hit US\$400 billion by 2025, local manufacturing has become a national priority.¹⁶

a India's investment promotion agency,

The introduction of the Production Linked Incentive (PLI) scheme for large-scale electronics manufacturing in India aims at boosting domestic manufacturing to meet this demand.¹⁷ However, domestic manufacturing levels seem unlikely to match the demand without sizeable investment in scaled-up manufacturing. Taiwan's businesses are well positioned to help India. Foxconn, for instance, is planning on strengthening its presence in India, expecting to spend close to US\$1 billion on expanding its iPhone manufacturing facility in Tamil Nadu.^{18,19}

Industry experts have also identified power electronics and cable manufacturing as sectors of potential growth. Textiles are likewise recognised as a promising sector for cooperation. In particular, India hopes to tap into Taiwan's expertise in technical textiles and synthetic fibres.²⁰ The perception is that India's abundant supply of raw materials and workforce, coupled with an existing manufacturing value chain and a large domestic market, presents an appealing prospect for Taiwanese textile firms. There has already been some traction in this sector, with the Taiwan Technical Textile Association signing MoUs with a number of Indian textile associations to enhance their understanding of opportunities in this sector.²¹

The growth in demand for organic chemicals, nutraceuticals, and specialty chemicals represents another target industry.²² Taiwanese firms, such as the China Petrochemical Development Corporation and the Taiwan Fertilizer Corporation, are operating in the Indian market. At 9.3 percent, the chemicals industry is among the fastest growing industrial sectors. Additionally, experts also consider alloys and steel, and agro-food processing significant potential areas of growth.²³ Given Taiwan's dependence on imports to maintain food security, India can attempt to position itself as a reliable business partner and guarantor of the island nation's food needs.

India's former representative to Taiwan and currently joint secretary at MEA's East Asia division, Gourangalal Das, has pinpointed tourism and education as focus areas, extending beyond trade and investment. Out of the 17 million trips made by Taiwanese tourists abroad in 2019, a mere 48,000 were to India.²⁴ Regarding education, Taiwan has been progressively emerging as a favoured choice for Indian students seeking higher studies and training in Mandarin.

However, despite Taiwan facing a massive talent crunch in various fields, particularly science and technology, Taiwan has been able to attract only 3,000 Indian students. Scholars such as Evan A. Feigenbaum, Vice President for studies at the Carnegie Endowment for International Peace, have pointed to Taiwan's diminishing strength in research and development.²⁵ India's sizeable pool of strong science, technology, engineering, and math (STEM) talent can help Taiwan in mitigating its talent shortage, while boosting linkages between the startup ecosystems in both countries and catalysing more R&D collaboration. These will enhance existing efforts to expand cooperation between the startup ecosystems in India and Taiwan, which have been put in place by Invest India and Taiwan's Industrial Technology Research Institute (ITRI).²⁶ To address the issue of talent crunch, it is anticipated that India and Taiwan will finalise a migration and mobility agreement in the coming months. This pact will pave the way for establishing people-to-people interactions and streamlining the migration process between the two sides.²⁷

Despite potential and the steady growth in trade volume and investment, structural issues limit the prospects of commercial ties between the two.

India-Taiwan trade figure is only a fraction of their overall global trade and investment. Taiwanese FDI in India has remained comparatively low, especially when compared to the multi-billion-dollar investments that countries like Vietnam, Indonesia, and Malaysia have attracted from Taiwan over the years. During the interviews conducted for this report with Taiwanese scholars, diplomats, and business leaders, some of the reasons for this comparatively weaker economic relationship were identified.

First, Taiwanese businesses tend to struggle with what they perceive as a significant degree of policy irregularity in India. Frequent changes in tariff rates were cited as a particular challenge that adds complexity to long-term business calculations. Second, navigating the policy disparities between the Central government and the state governments in India creates regulatory cholesterol--a consequence not witnessed in more centralised party-states, such as in Vietnam. Third, Taiwan's enterprises encounter significant cultural barriers in India. Unlike the familiarity with the markets and cultures in the Southeast Asian countries and China, language barriers coupled with a lack of complete understanding of the Indian market hinder commercial ties.



India's Semiconductor Dream: Can Taiwan Play a Role?

Few topics have energised as much discussion on the India-Taiwan relationship as that triggered by the possibility of a semiconductor partnership between the two. Taiwan produces more than half of the world's semiconductors and this is a significant reason why the country is deemed important to India. The disruptions in regular semiconductor supplies caused by the COVID-19 pandemic led to an economic setback for India. Certain sectors, such as automobile manufacturing, suffered serious production delays and substantial losses as a result.²⁸ While the pandemic served as an immediate catalyst for a comprehensive discussion on India's reliance on semiconductor imports and the imperative to develop a native semiconductor industry, there are structural economic considerations at hand. India's semiconductor consumption is anticipated to reach US\$110 billion

by 2030.²⁹ However, the country imports all of its semiconductors, relying on sources primarily from Taiwan, Singapore, Thailand, and Hong Kong.³⁰ India is no exception to the increasing trend of onshoring or nearshoring critical technological and economic dependencies. The US\$10-billion PLI scheme hopes to bring semiconductor design, components manufacturing, and display fabrication units to India.

In September 2022, there was an announcement of Foxconn's joint venture with India's Vedanta for establishing a semiconductor plant in the Indian state of Gujarat. Vedanta's Chairman Anil Agarwal announced in a tweet that the new semiconductor fabrication unit would be set up. He added that this Indian-Taiwanese joint venture would help create a robust manufacturing base in India (@AnilAgarwal_Ved, September 13, 2022).

However, as explained by Rajeev Chandrasekhar, India's Union Minister of State for Entrepreneurship, Skill Development, Electronics & Technology, on a social media platform, the joint venture dissolved due to Foxconn and Vedanata's inability to secure a suitable technology partner for the timely manufacturing of a 28 nm fabrication plant (@Rajeev_GoI, July 10, 2023). Despite this setback, Young Liu, chair and CEO of Foxconn expressed the company's commitment to further expand its operations in India. Speaking at the 2023 Semicon India in July 2023, he said, "Prime Minister Modi once mentioned to me IT stands for India & Taiwan. Taiwan is and will be your most trusted and reliable partner. Let's do this together."³¹

According to media reports, semiconductor giants Taiwan Semiconductor Manufacturing Corporation (TSMC) and United Microelectronics Corporation (UMC) have expressed interest in the Indian market.³² However, interviews with industry experts and trade officials suggest that, at present, TSMC and UMC are reluctant to consider greenfield fabrication investments in India.



Top Growth Sectors

It is important to move away from the overhyped semiconductor narrative and explore areas in which both sides can benefit from cooperation.

Electric Vehicles (EVs): By 2030, India plans to have 30 percent of the EVs on the road. In this particular area, Taiwan is identified as an important partner. In January 2023, the Indian state of Maharashtra announced a deal between Taiwanese electric scooter and battery swapping provider Gogoro and Indian automotive system manufacturer Belrise to build energy storage infrastructure.³³ Against the backdrop of rising fuel costs and a concerted drive towards environmentally sustainable alternatives, cooperation in the EV sector is welcome and being pursued by both sides.

Health and Medical Diagnostics: India is popularly known as the ‘pharmacy of the world’, whereas Taiwan is known for its impeccable healthcare infrastructure and national insurance system. Under the project, ‘One Country, One Center’, Taiwan is looking to extend cooperation

in the medical field, with certain partnership already underway. Some collaborations are in progress. The 2022 Taiwan-India Small and Medium Enterprises Cooperation Forum, held in Taiwan, centred around the theme of exploring and expanding business prospects within the medical devices industry in both territories.³⁴

As Taiwan is exporting its leading-edge information technology capacities with innovative medical management to the New Southbound Policy countries, its experience can be matched with India’s health diplomacy.

Bamboo Industry Collaboration: A significant sector of interest is the bamboo industry, where India holds the position of the second-largest producer. Taiwan presents a promising opportunity for establishing technical collaboration in this field. While there has been recognition of its potential and even instances of university-level collaboration, tangible advancements at the level of government have yet to materialise.



Policy Recommendations

India-Taiwan relations have a huge underutilised potential and can move forward with greater synergies in the economic field. This is achievable for two reasons. First, economic cooperation falls under the mandate of the relations, evading the complexities associated with the China factor. Second, this is mutually beneficial and an area where India is most comfortable working with Taiwan.

The following paragraphs outline specific policy recommendations.

Formulate a Well-Defined Rulebook: Motivation and intention are there to inject fresh vigour into the economic ties; nevertheless, the absence of a comprehensive rulebook poses a hurdle. Both India and Taiwan are difficult bureaucracies, which, when compounded by the absence of diplomatic relations, exacerbates the challenge.

The resulting dearth in established protocols and guidelines adds layers of complexity for businesses seeking to operate effectively within this context.

Understand India Better: A prevailing issue that surfaced in the course of interviews with the officials, industry practitioners and experts for this study is the perception that Taiwan lacks a comprehensive understanding of India, and that there are notions that are difficult to dispel. Taiwanese businesses must recalibrate their approach and grasp the intricate nature of India. This understanding should encompass the realisation that India is characterised by complexity, underscored by its democratic values and diverse societal fabric. The notion of homogeneity is antithetical to the Indian context, further highlighting the need for Taiwanese companies to adapt to India differently than other markets they have been traditionally dealing with.

Work in Synergy with the Indian Staff: Embracing local practices hold paramount importance. On condition of anonymity, an Indian managerial executive at a Taiwanese company operating in India cited the presence of Indian staff in managerial and leadership positions as an important reason for the success of this particular company in India. Despite the shared democratic values of both India and Taiwan, there are differences in terms of how they conduct work. Taiwan leans towards a more hierarchical, top-down approach, while India emphasises consensus-building.

India and Taiwan Need to Work Jointly for ‘Decoupling’ from China: India is attempting to decouple from China, however, the trade—and with that, the trade imbalance—continues to grow. The prioritisation of security concerns related to China outweighs the economic advantages for India. This is the fundamental motivation behind India’s concerted efforts to decouple from, or at the very least, curtail its economic reliance on China. India’s goal of establishing itself as a manufacturing hub is inadvertently contributing to a rise in imports from China. While India is trying to gain the status of a manufacturing hub, other countries are looking to move their investments and businesses out of China, to South and Southeast Asia. India and Vietnam

are featuring prominently in the China-Plus-One model.³⁵ China’s use of economic coercion for Taiwan has prompted Taiwanese businesses to consider pulling out of China, with India emerging as a prospective relocation option for many of them. However, there is a mismatch and disconnect in expectations. One example is that while Taiwan is looking for a market for its high-end products, India has a service-heavy industry.

As India and Taiwan are seeking like-minded economic partners, the moment is ripe to transcend reservations and deepen economic cooperation. President Tsai’s New Southbound Policy and Prime Minister Narendra Modi’s initiatives like *Viksit Bharat*, *Make in India*, *Digital India*, and *Skill India*, can be clubbed to reap maximum benefits. India should make full use of this opportunity and shed diffidence for advancing economic ties. That does not cross any red line.

India should seek economic cooperation with countries and partners that adhere to the rule of law and abstain from employing economic coercion tactics. In the midst of China’s efforts to limit Taiwan’s global presence, and as Taiwan seeks new economic partners, India has an opportunity to cultivate robust political trust and attract an increased flow of business from Taiwan.

Endnotes

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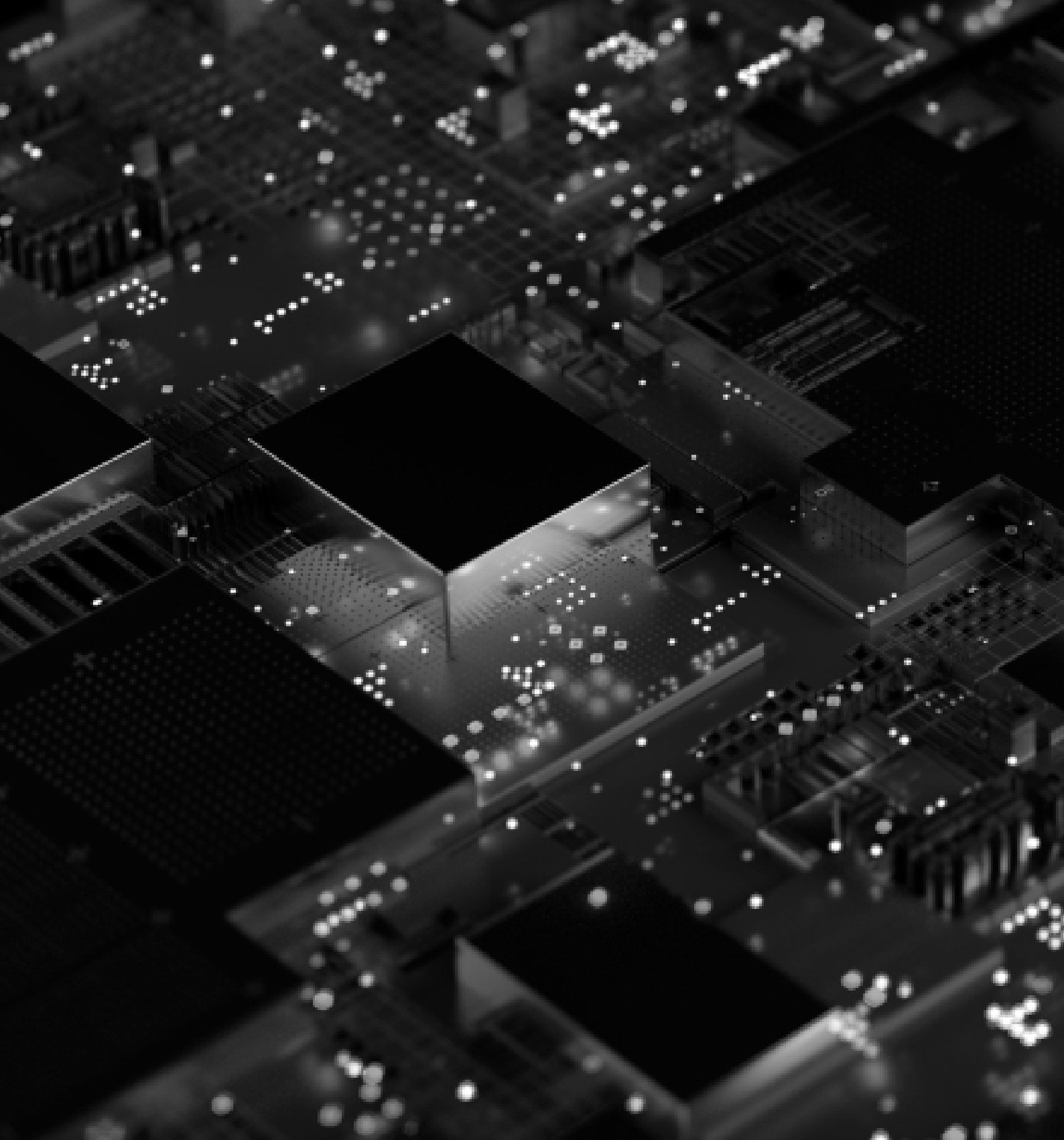
About the Author

Sana Hashmi is a Fellow at the Taiwan-Asia Exchange Foundation (TAEF).

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**20, Rouse Avenue Institutional Area,
New Delhi - 110 002, INDIA**
Ph. : +91-11-35332000. Fax : +91-11-35332005
E-mail: contactus@orfonline.org
Website: www.orfonline.org



Taiwan-Asia Exchange Foundation
臺灣亞洲交流基金會

Taiwan-Asia Exchange Foundation (TAEF)
Room 1107, No. 136, Section 3, Re'nai Road
Da'an District, Taipei City
Phone: +886-2-2700-2367
Website: <https://www.taef.org/>
Email: service@taef.org