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Strategizing the Relations

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Attracting Taiwanese Businesses to India

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Long exposure aerial shot of a major freeway interchange in New Taipei City, Taiwan

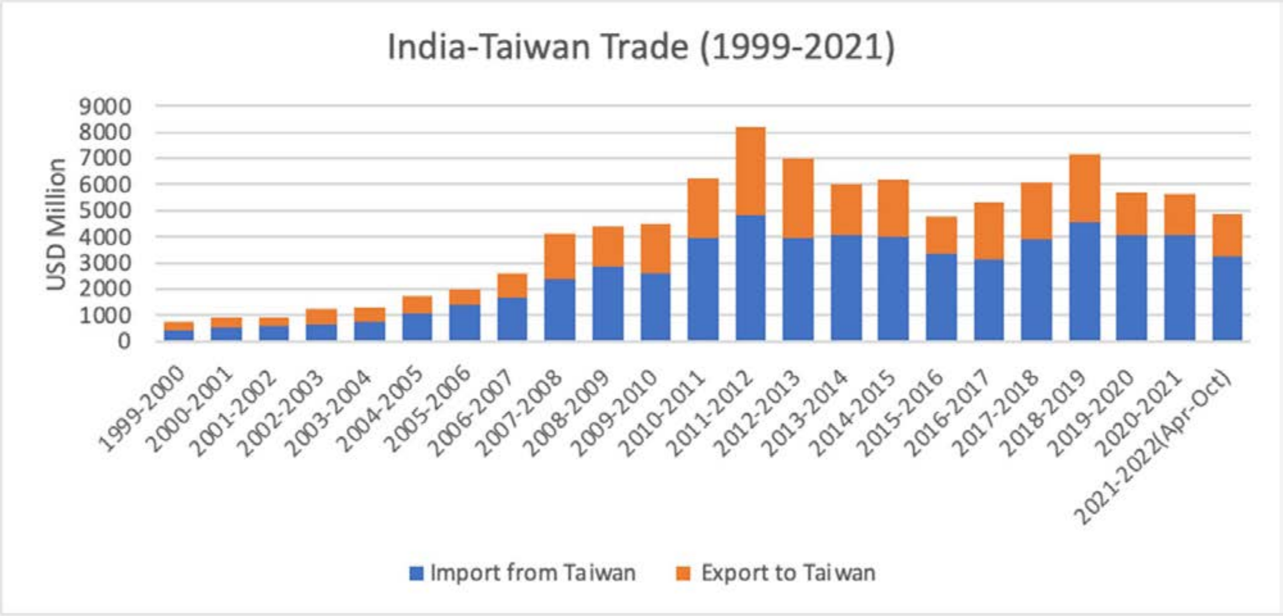
Attracting Taiwanese Businesses to India

Santosh Pai

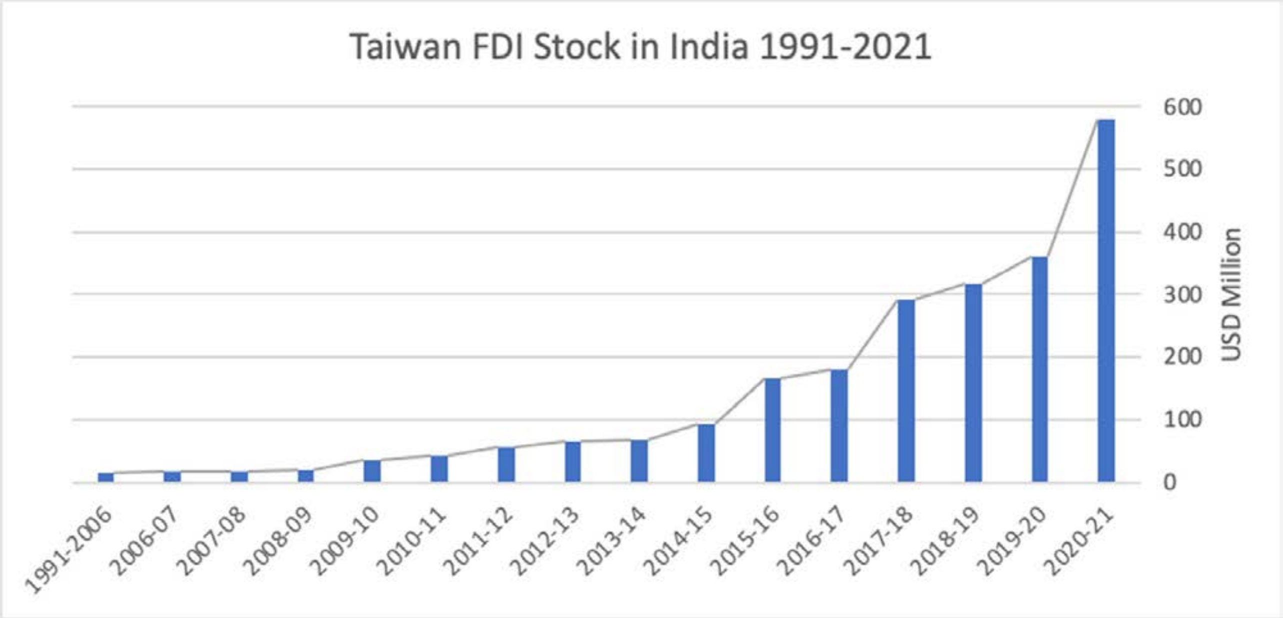
Taiwan's industry has been hitting above its weight in the global economy for several decades. In addition to the US$ 345 billion of exports [1], entrepreneurs from Taiwan have established factories in coastal provinces of China like Fujian and Guangdong [2] to amplify their industrial footprint beyond its borders. With increasing friction in cross-Strait politics it appears that this investment corridor has run its course.[3] Taiwan's New Southbound policy is one reflection of this reality. Taiwanese industry needs to diversify both manufacturing destinations and markets for its industry to hedge against its tumultuous political ties with China. The chip shortages during the COVID-19 pandemic brought new geopolitical heft to Taiwan which controls over 60 percent of the global semiconductor industry. It also accounts for 45 percent of semiconductor manufacturing equipment exports from the United States.[4] The United States-Taiwan Economic Prosperity Partnership Dialogue (EPPD), announced in November 2021, is a testimony to the trustful relationship that Taiwan enjoys with the United States.

With India joining the long line of countries seeking to reduce dependency on Chinese imports, synergies with Taiwan have surfaced prominently on the radar of decision makers in New Delhi. Production Linked Incentive (PLI) schemes across 13 sectors are the main plank of India's roadmap to self-reliance.[5] In addition to this, a proposed US$ 760 billion (76,000 crore) incentive package for the semiconductor industry will be the icing on the cake for Taiwanese companies.[6] Several other ingredients for a more productive economic relationship already exist.

Efforts at attracting Taiwanese investments into India have been underway for a decade already. India and Taiwan signed a Double Taxation Avoidance Agreement (DTAA) and a Customs Cooperation Agreement to strengthen bilateral trade and investments as far back as 2011.[7] Bilateral trade which is often a precursor to investments has increased from US$ 2 billion in 2006 to US$ 5.7 billion in 2020.[8] Unlike India's bilateral trade with China that is plagued by an unmanageable deficit, its trade with Taiwan is more balanced. This makes dialogue about enhanced economic partnerships more palatable to both sides.



More recently, India and Taiwan signed a landmark Bilateral Investment Agreement in 2018.[9] The Agreement seeks to ensure protection for Taiwanese investments and investors in India. FDI stock from Taiwan in India has almost doubled in the last three years from US$ 316.97 million in 2018-19 to US$ 579.51 million in 2020-21.[10]



More than 100 Taiwanese companies are active in India.[11] After India imposed restrictions on investments from China, it is certain that they will find more opportunities to expand manufacturing facilities in India, both for exports and domestic sales. Taiwan has been excluded from the purview of India's investment curbs.[12] In 2020 alone, several industrial giants from Taiwan unveiled ambitious plans for India. In July 2020, Pegatron, Apple's second-largest contract manufacturer, registered a subsidiary in India to expand the manufacturing capacity of iPhones in the country.[13] At around the same time, Foxconn Technology Group announced its intention to invest US$ 1 billion to set up a manufacturing unit in Sriperumbudur, Tamil Nadu. The investment will take place over three years and is expected to add 6,000 jobs at the plant.[14] Wistron announced a joint venture that will hire 11,000 workers [15] in addition to its plan of investing US$ 165 million for expansion of its factory in Narasapura near Bengaluru.[16] Outside the electronics industry, Taiwanese tyre major Maxxis has made India central to its goal of becoming a global top five tyre maker by 2025. It plans to invest US$ 400 million on its first manufacturing plant at Sanand in Gujarat, where it is working to hike output to 60,000 units of two-wheeler tyres per day from the current 20,000 units a day [17].

The need of the hour is to identify more opportunities and develop a playbook that will help many more Taiwanese companies to enter the Indian market. There are three broad strategies that could be considered each with a distinct set of pros and cons. First one is the supply chain approach where Taiwanese companies can enter the market as part of an existing supply chain network to serve South Korean, Japanese, German or American customers with an established presence in India. This can cover several major industries such as electronics and automobiles. The advantage of this approach is that recognition of Taiwanese manufacturing capabilities can be leveraged to provide for a soft-landing in a market perceived to be difficult for the new entrants. Most of the recently announced investment plans by Taiwanese companies cited above belong to this category.

Second is the joint venture approach. India's thrust towards self-reliance is prompting domestic companies to localize their product development and manufacturing. A staggered approach in this direction might begin with a technology licensing arrangement that guarantees relatively risk-free royalties from Indian companies with no prior experience that are looking to establish manufacturing units. It can then progress towards an equity or contractual joint venture where each partner contributes different inputs, shares risk and profits commensurate with their contributions. The advantage with this approach is that investment plans can be customized to suit the risk appetite of each Taiwanese company and it allows for trust building in a measured manner.

The third possible approach could be to tap India's public procurement market which is valued at US$ 71 billion.[18] This offers the flexibility of initially exporting products from Taiwan or other markets with limited localization and then gradually increasing the proportion of domestic content. It can also be undertaken as part of a consortium with domestic partners. The advantage of this approach is that it guards companies from the vicissitudes of the market such as brand building, distribution, etc. and reduces payment risk since the customer is always a government entity.

Alongside the opportunities one should also be mindful of the challenges faced by foreign companies in India so that adequate risk mitigation can be employed. One common refrain among foreign investors is that land procurement in India is a formidable challenge. Around 61 percent of the Special Economic Zones (SEZs) in India cater to the manufacturing sector,[19] so unlike China these are not natural choice for manufacturing units. Additional options like private industrial parks and government sponsored industrial zones need to be considered. The decision making can be quite complex involving factors such as price, infrastructure, availability of labor, logistical links and so on. A thorough due diligence exercise is required before suitable land is identified. The idea of an exclusive industrial park for Taiwanese companies has been tried in the past.[20] The main shortcoming of this idea is that it is an untested model and most industrial clusters in India are sector-specific and so it will be a tall order to convince Taiwanese companies from diverse sectors to converge in a single location. Another challenge is negotiating incentives with multiple state governments. It is often the case that the states that need investments the most offer the huge incentives to the largest investors. This also means that such states are likely to have underdeveloped industrial ecosystems and in the absence of a substantial investment plan the outcome of such negotiations is often underwhelming. Finding good quality managerial talent with multilingual skills is yet another challenge for foreign investors from East Asia. Hiring Taiwanese managers who have experience with Chinese companies in India might offer a possible solution. Offering vocational training is another tool to attract and retain a loyal workforce.

There is no doubt that the famed Taishang community will experience a steep learning curve in India. However, India's newfound appetite to sign a slew of Free Trade Agreements should assuage the doubters who were disappointed when India chose to stay out of the Regional Comprehensive Economic Partnership (RCEP) in 2019. India will also need to make more political overtures towards Taiwan in its quest to attract semiconductor players that are considered the island's national jewels. However, incremental steps such as a government-led sourcing initiative for semiconductors, boosting logistics and travel links and vocational training partnerships between India and Taiwan lead to an early harvest and lay a strong foundation for a more robust economic partnership in the post-COVID-19 pandemic era as geopolitics and economics become inseparable. ■

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