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Case for a Robust India-Taiwan Economic Partnership

As India continues to pursue calibrated globalization and expand external linkages, this is an opportune time to economically engage Taiwan, an economy with a GDP of over US$ 300 billion and a per capita income of US$ 14,000. Taiwan has recently been encouraging its businesses to explore economic opportunities with India, as a part of its more proactive "Go South" policy. This nicely complements India's "Look East" policy, initiated in 1991, with a view to integrating its economy with rest of Asia.

Taiwan is an integral and vital part of the globalized world, with particular strengths in manufacturing by small and medium enterprises, which account for more than 90 per cent of its exports. In 2004, its merchandise exports were US$ 182 billion (2 percent of the world total, ranked 15th), while its merchandise imports were US$ 168 billion (1.8 percent of the world total, ranked 15th). In 2004, Taiwan ranked 24th in exports (worth US$ 26 billion) and 20th in imports (worth US$ 30 billion) in commercial services. It ranks in top five economies in foreign exchange reserves (US$ 255 billion). Its stock market capitalization in February 2006 was US$ 485 billion.

In 2004, India's merchandise exports were US$ 76 billion (0.83 percent of world's exports, ranked 30th), while its imports were US$ 97 billion (1 percent of the world total, ranked 23rd). In 2004, India ranked 16th in exports (worth US$ 40 billion) and 15th in imports (US$ 41 billion) in commercial services. This suggests complementarity between India and Taiwan, with the former having strength in services, and Taiwan having strength in manufacturing.

As India progresses towards achieving US$ 1000 billion in GDP, and US$ 500 billion in international trade in goods and services, it needs massive investments in infrastructure, and in manufacturing. In Purchasing Power Parity terms, India's GDP will exceed US$ 4000 billion by end of 2006, making it the third largest economy after US and China. India is aiming for FDI inflow of US$ 10 billion in 2006-07. The portfolio investments by foreign financial institutions were about US$ 50 billion by end March 2006. Taiwan can be an important new economic partner in these areas for India.

India has well regulated financial and capital markets with internationally very competitive transaction costs and settlement procedures. India's stock market capitalization on the Bombay Stock Exchange (BSE) in February 2006 was US$ 610 billion. This is expected to grow rapidly as new companies, many in hitherto unrepresented sectors such as real estate, are listed, and the existing companies expand both domestically and globally. The divestment programme of the government is also expected to add depth to the stock market.

India also has many unlisted companies with good growth potential. Private equity and venture capital firms invested US $2.2 billion in India in 2005, and this is expected to grow rapidly. India's real estate sector also provides many profitable opportunities for investors. Rules for foreign investments in this sector are being liberalized considerably.

India's commodity exchanges are also progressing well, with total turnover of US$ 400

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billion in 2005-06. These add depth to the capital markets, and could provide a boost to the agricultural sector whose modernization is vital for spreading the benefits of knowledge-based economy and globalization more widely.

Deeper engagement can provide substantial benefits to both sides.

First, Taiwan is searching for partners who can help diversify its global trade and investment risks. Currently, China accounts for about two-fifths of Taiwan's total exports. Its investments in China are estimated to approach US$ 45 billion. The official statistics significantly under-report Taiwan's investments in China which could be of the order of US$ 200 billion.

Taiwan has experienced hollowing-out of its industrial base, with around 40 percent of export orders being manufactured offshore. The non-IT sector in particular has remained sluggish, and so has domestic demand. Taiwan is thus vulnerable to slowing of external demand, and to over-dependence on China.

Korea and Japan have taken significant steps to diversify their global trade and investment risks by deeper engagement with India with some success. Their small and medium enterprises are also increasingly exploring economic opportunities in India, though more progress is needed. Taiwan can thus draw upon Korea and Japan's experience in this regard.

India's bilateral trade with Taiwan was only US$ 2.5 billion (less than 1 percent of the total) in 2005. Unlike South Korea, Japan, Singapore and China, Taiwan has not made any significant direct or portfolio investments in India. Presence of Taiwan's financial institutions in India (and vice versa) is also extremely limited. This gap needs to be addressed. Taiwan's state investment agencies should be encouraged to follow the examples of Singapore, Malaysia, and other Asian countries in investing in India

As India has shown capacity to manage globalization and sustain high rate of growth over a prolonged period, Taiwan can diversify its global risks by deeper trade and investments relationship with India. Other Asia-Pacific countries such as Korea, Japan, and Singapore have begun on this path, so Taiwan will be a relative late comer. This, however, will not be a significant constraint as India can be an important export market for Taiwan businesses in many areas, particularly computer and mobile hardware components. While Taiwanese companies such as Acer, Honhai Precision Industry Company and BenQ Corporation have invested nearly US$ 200 million in India, the potential is several times more.

Given India's rising energy needs and Taiwan's demonstrated competence, there is also significant potential for cooperation in petrochemicals, and more broadly in the energy sector.

Automotive sector represents another important area of cooperation. India's Kinetic Motors has entered into technical collaboration with a Taiwanese company producing motorcycles and automobiles. This also involves equity participation by the Taiwanese company. This is a small step in the right direction but such collaborations need to be accelerated. India's industrial sector has been growing at about 12 percent per annum in recent years, and the momentum is expected to increase significantly. With Japanese and Korean companies having a head start in this sector in India, companies from Taiwan need to exhibit greater urgency in participating in India's growth.

For India, the benefits of greater engagement with Taiwan are also high. Taiwan has proven global competitiveness in manufacturing, particularly in electronics hardware, which India wants to develop. Its technological research capabilities can provide synergies with India's needs and capabilities in this area. Combining Taiwan's hardware expertise with India's software capabilities, particularly in Knowledge Process Outsourcing (KPO), activities could be mutually beneficial.

Second, there are demographic complementarities between Taiwan and India. Taiwan has been experiencing below replacement rate fertility levels of around 1.6 (and declining) for many years. Average life expectancy is 77 years and is increasing. The elderly will make up 20 percent of the total population by 2020, and this will imply an increase in median age and a reduction in working age persons to total population ratio.

In contrast, India is in a demographic gift phase, with rising working age to total population ratio till 2045. Even after that, its ratio will decline slowly, but it will remain higher than for Taiwan, and other high-income Asian and OECD countries.

Taiwan can extend its economic space and cope with population ageing by taking advantage of India's relatively young manpower through outsourcing and off-shoring of many activities. These may range from routine Business Process Outsourcing (BPO) types to those involving such KPO activities as research, and design. Many MNCs, including those from China, are basing their research and design centres in India. Taiwan's participation in selected areas of research and design could provide with win-win opportunities.

Taiwan's pension assets are projected to be US$ 150 billion by 2015. A portion of these assets could be invested in India to obtain high returns. These in turn can assist in achieving financial security for the aged in Taiwan.

Ageing population has significant implications for health care costs in Taiwan. India's pharmaceutical sector and its advantage in undertaking certain medical procedures at internationally very competitive prices and quality could be an option for Taiwan to manage its rising health care costs. Similarly, Taiwan could partner Indian pharmaceutical firms to help lower its drug costs for its ageing population.

The institutional arrangement for bilateral commercial diplomacy consists of India Taipei Association (ITA) in Taipei and Taipei Economic and Cultural Centre (TECC) in New Delhi. The two, however, need to be qualitatively and quantitatively strengthened to sustain deeper engagement. More informative, and user-friendly websites by ITA and TECC are required. Currently, these do not reflect the urgency and importance of developing more robust bilateral relations. More importantly Indian apex chambers such as FICCI and CII and sectoral industry bodies need to establish links with their Taiwanese counterparts and exchange business delegations to exploit opportunities that exist in several areas including auto parts, metals and minerals, chemicals and pharmaceuticals among others.

Consideration should be given to initiating the following:

First, greater air and sea connectivity between the two countries should be given priority. This will be a positive signal concerning the willingness to deepen economic linkages. Some steps in this direction are being taken.

Second, transaction costs of doing business and tourist travel between the two countries should be examined with a view to reducing them significantly.

Commercial viability of mutually advantageous opportunities may suffer unless the above two areas are addressed with some urgency.

Third, Taiwan could consider substantially enhancing its training and technical cooperation with India in areas of agriculture, technical and tertiary education, and Chinese language. India on its part should expand its cultural activities in Taiwan, and facilitate visits of Taiwanese scholars and researchers. The common Buddhist cultural heritage should be emphasized. For this the connectivity to Gaya and Varanasi needs to be improved. Museum exchanges can also be highly useful.

Fourth, linkages between universities and research institutes of the two countries should be encouraged and formalized.

Finally, regular exchange of business delegations and of civil society leaders should be encouraged. People-to-people contacts are essential to increase comfort levels between India and Taiwan. Indian business organizations should also forge closer links with their counterparts in Taiwan representing small and medium enterprises. Friendship societies, including formation of sector specific business associations need to be encouraged.

India needs to pursue more result-oriented and skilful economic diplomacy if it is to take advantage of mutually beneficial opportunities in engaging Taiwan. On its part, Taiwan needs to engage more deeply with India by shedding some of its cultural and other inhibitions if it is to diversify its global trade and investment risks, and expand its economic space.

A large-scale Taiwan-India forum, held in Taipei in April 2006, in which business leaders, academic experts, and government officials discussed ways to expand commercial exchanges, is a welcome step. The extent of its success will depend on the follow-up actions in the coming months. It is an opportunity neither side can afford to miss.

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