Taiwan’s New Southbound Policy: The India example

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Asia Institute University of Tasmania, Australia
To-hai Liou, Professor
Department of Diplomacy
National Chengchi University, Taiwan, ROC

Outline
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- Taiwan’s New Southbound Policy
- Three Drivers behind increasing Taiwan-India Economic Relations: Worsening China’s Investment Environment, Emerging China’s ICT-based New Economy, Modi’s Rise and his Investment incentives
- Taiwan enterprises’ Coping Strategy: Foxconn’s Diamond Shaped Strategy
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Interests of government and businesses are not necessarily identical. In the Taiwan case, the public sector and the private sector are most of times in different directions.

Even they are in the same orientation, still they have different focuses due to different motivations and goals. Generally speaking, government policy is primarily politically and strategically oriented, while businesses are economically oriented.

Taiwan’s Mainland China policy: Westbound

Cross-Strait economic interactions have inaugurated since 1979 when Mainland China opened the door to the world. Only eight years under Ma Ying-jeou Presidency (2008–2016) both sides maintained diplomatic truce and engaged in economic interactions in full swing.

Southbound

From the early 1990s up to now, Taiwan has pursued Southbound policy three times under three different governments, aiming at reducing Taiwan’s economic dependence on Mainland China for political and strategic reasons.
Three phases of Southbound Policy in a comparative analysis

- **Similarities:**
  - All intend to reduce dependence on China’s economy and its political and strategic implications, attempting to reinvigorate and diversify Taiwan’s economy.
  - Three phases are all primarily politically oriented.

- **Differences:**
  - Unlike the previous two stages which were against business trends, 1) the New Southbound Policy is no less than fait accompli. As a result, 2) government and business interests are compatible.

- **3) Scope of Targeted countries**
  - Lee Teng-hui: ASEAN countries
  - Chen Shui-bian: ASEAN plus Australia, India, New Zealand
  - Tsai Ing-wen: 18 countries (10 ASEAN countries and Australia, India, New Zealand plus 6 South Asian countries: India, Bangladesh, Pakistan, Bhutan, Nepal, Sri Lanka).

ASEAN and South Asian nations encompass 32 percent of the world’s population and have a combined GDP of $5.1 trillion.

Global Insight estimates that the annual economic growth rate for ASEAN and South Asian countries will be between 4.9 and 7.4 percent from 2017 and 2021. The developed economies of Australia and New Zealand offer safe, highly regulated investment environments.
Global operational mode

Most Taiwanese enterprises favor the operational mode of global division of labor, namely regarding China as their primary production base for its cheap labor and huge market, while Taiwan a hub for taking orders, advanced research and development, marketing, and financial operation.

77% of ICT using China as production base

In 2006, 45% of Taiwanese firms adopted this mode of operation. By sectors, 77% of information technology (IT) and communication industries are operating in this fashion, followed by electric engineering (57%) and precision machinery (47%).

Shui-bian: Taiwan’s first president from the DPP

Taiwan’s economy continued to become deeply linked with Mainland China. China became a WTO member in 2001 and Taiwan in 2002. China has become Taiwan’s largest trade partner since 2003, absorbing nearly 40% of Taiwan’s exports by value. 70% of Taiwan outbound FDI went to China.

Growth in cross-Strait trade was more modest under the Ma Ying-jeou administration that took over from Chen, though the Kuomintang (KMT) leader nevertheless deepened the economic ties between the two countries.

Exports of ICT products jumped 17.2% to US$2.93 billion, while optical devices gained 13.4% to US$994 million. China accounted for 40 percent of outbound shipments in June 2017, buying US$10.44 billion worth of electronic components, flat panels and ICT products.

Taiwan investment in China reduced for 7 consecutive years

Taiwan investors continued to reduce their investment in China between 2010 and 2016, while increased their investment in ASEAN.
Taiwan’s FDI to China has decreased since 2012

New Southbound Policy: Fait Accompli
- The number of planned investments in China by Taiwanese companies that were approved by Taiwan's government in 2016 fell for the third consecutive year, slumping 21 percent year-on-year, the Investment Commission.

Taiwan has been suffering from dual pressure since 2008
- Globalization: hyper-competition and high uncertainties, the 2008 global financial tsunami
- Rising China (the 2nd largest economy in the world in 2010): cross-strait economic relations have transformed from a vertical division of labor to horizontal division of labor, from more cooperation than competition to more competition than cooperation.

Cross-Strait economic ties: from vertical division of labor to horizontal competition
- China has been trying to promote domestic consumption by boosting the supply and demand of its domestic brands. Those attempts have lessened the need for Taiwan’s products.

Driver 1: New labor law introduced in China in 2008
- The new labor law enhanced rights for mainland workers, including open-ended work contracts and severance pay. These changes brought about skyrocketing labor cost for foreign investors, in particular labor-intensive industries.

First wave of relocation
- Olympus, one of the world’s largest digital camera makers, and Yue Yuen Industrial, the biggest maker of shoes for brands like Nike, are among companies shifting some production to Vietnam to cut costs.
**Driver 2: Emerging China’s ICT-based New Economy**

- The number of web users in China—already the world’s largest online population—has risen over 700 million by the end of June 2016, and the number would reach to 1 billion as soon as 2022 or 2023.
- Mobile payments in the country in 2015 surpassed those in the US. By some estimates, loans from a new breed of informal online banks called peer-to-peer lenders did too.
- China’s largest internet companies are the only ones in the world that rival America’s in scale.

**China’s tech industry — particularly its mobile businesses — has in some ways pulled ahead of the US.**

Already in China, more people use their mobile devices to pay their bills, order services, watch videos and find dates than anywhere else in the world.

**The Asia bloc is the biggest New Economy bloc in the world**

- With the growing use of smartphones, the internet penetration rate of Indian cities is close to 60%. According to IMRB International and Internet and Mobile Association of India, by June 2017, internet users in India reached 450 million and 465 million.

**Driver 3: The most efficient man in India became Prime Minister in 2014**

- On the back of Indian Prime Minister Narendra Modi’s “Make in India-Digital India” initiative, Hon Hai drafted a massive investment project in which the Taiwanese manufacturing giant aims to set up 10-12 production plants in India by 2020 to turn the country into one of its global production hubs.

**Foxconn will keep its commitment of investing $5 billion in Maharashtra, as outlined in a memorandum of understanding (MoU) signed in 2015.**
India was chosen as a new focus of Taiwan’s FDI in addition to China and Vietnam around 2014. India is the first destination other than China in terms of Taiwan’s FDI in technology sector led by Hong Hai’s Foxconn (富士康), followed by MediaTek Inc. (聯發科), Wistron Corp. (緯創) and so on.

Foxconn's Diamond Shaped Strategy

Taking advantage of China and India's industrial development grand strategies and coping with changing international environment, Hong Hai Chairman Terry Gou's grand strategy of cross-strait alliance with Japan and India worth noting.

This is going to have regional and global implications for Taiwan’s economic survival. Foxconn can serve as a matchmaker of China and India and a bridge between Japan and China as well as a diamond shape of Taiwan, India, Japan and China.

Xiaomi, one of the largest Chinese smartphone brands, worked with Hon Hai to build two factories in India. India has been very competitive in the logistics business and serves as an export hub to the Middle East and African markets.

Huawei, Oppo and Xiaomi proactively tap into Indian smart phone market in May 2018 before Apple iPhone introduces its new phones. MediaTek as the major supplier of the three Chinese mobile phone's chips is expected to benefit most. Its P22 chips allow cheap smart phones to equip with AI functions.

MediaTek Inc: the largest mobile chip supplier to China

Component suppliers to the Chinese firm include chip designer MediaTek Inc (聯發科), touch-panel makers TPK Holdings Ltd (宸鴻) and Wintek Corp (勝華), handset camera lens maker Largan Precision Co (大立光) and camera module maker Lite-On Technology Inc (光寶).
MediaTek to triple India staff to 1,500 by 2019

Chairman and Chief Executive Tsai Ming-kai of MediaTek said that his company was planning to grow the number of its employees in India to 1,500 over the next three years as demand for mobile internet and emerging connected devices grows.

Huawei Honor is now India’s 5th largest smart phone factory. Oppo in collaboration with Amazon provides Realme series smart phones in India. Hong Hai in cooperation with India’s Reliance Jio to produce cheap 4G smart phones in India.

Xiaomi now accounts for over 30% of India’s smartphone sales, according to industry estimates. At the end of 2017, it broke Samsung’s six-year dominance of the country’s fast-growing market. With Huawei and Oppo together, the three Chinese companies account for 40% of India’s mobile market.

Terry Gou persuaded Jack Ma to make joint investment in Snapdeal

Chinese e-commerce giant Alibaba and Taiwanese electronics contract manufacturing company Foxconn Technology Group, are reportedly in talks to jointly invest about US$500 million in Snapdeal, a deal that could value the Indian e-commerce company at about US$5 billion.

Foxconn, Alibaba to invest in SoftBank’s robotics business

Upon the completion of the investment by Alibaba and Foxconn, SoftBank’s share ownership ratio in SoftBank Robotics will become 60%, and Alibaba and Foxconn will each hold ownership stakes of 20%.

Foxconn is doing OEM for Softbank’s Pepper
Foxconn assembles Pepper, which was designed by Aldebaran, the French humanoid robotics company that SoftBank acquired in 2012. **SoftBank founder Japanese billionaire Masayoshi Son said Foxconn’s skills were crucial to increase production for Pepper.**

Foxconn and Alibaba jointly tap into India’s e-commerce market

In June 2015, Taiwan’s electronics contract manufacturing company Foxconn Technology Group and Chinese e-commerce giant Alibaba plan to jointly invest about US$500 million in Snapdeal, a deal that could value the Indian e-commerce company at about US$5 billion.

RoBoHoN is 1st product introduced to market after Foxconn Merged Sharp in March 2016

Sharp started to sell global’s first portable robotics **RoBoHoN** in Japan since May 2016. **RoBoHoN is taking advantage of the new technology of **"AloT"**, a combination of AI and IoT.**

Foxconn and its Japanese subsidiary Sharp might start making next-generation display panels for smartphones in China as early as 2019. The Foxconn-Sharp alliance plans to invest $1.92 billion to become capable of mass-producing OLED panels.
The Foxconn-Sharp alliance is mulling the move as U.S.-based Apple is preparing to adopt the display panels -- made of a thin, bendable layer of organic light-emitting diodes -- for its iPhones as early as 2017. The OLED panels would replace today's liquid crystal display panels.

Foxconn, the Taiwanese firm that assembles Apple's iPhones in China, has installed 40,000 robots in its factories. Apple accounts for more than 40 percent of the Taiwanese manufacturer's total revenue.

Wistron Corp. (緯創) in India

Another Taiwan-based contract electronics maker Wistron Corp. (緯創) said that a new joint production site located in India turned a profit in just one month after the plant began commercial production.

The Wistron cellphone plant currently takes orders placed by Taiwan's smartphone brand HTC Corp. (宏達電) and China's OPPO. Before Wistron, Hon Hai Precision Industry Co. (鴻海), a Taiwanese assembler of iPhones and iPads, has poured large funds into India, aiming to set up 10-12 plants there by 2020.

Modi-Xi seek a modus vivendi in April 2018 Wuhan Summit (phase II)

India-China Relations in an Uncertain World

A China-India IT industry cluster was launched in southwest China's Guizhou Province, in a bid to step up cooperation between the two countries through integrated development.

Conclusion

For survival, Taiwan businesses characterized by primarily small and medium enterprises (SME) especially vulnerable to changing international environment are always ahead of government.
The New Southbound Policy is a natural orientation, given that the asymmetrical power exists between Mainland China and Taiwan. The New Southbound Policy is fait accompli and a response to changing international environment, in particular China’s rise and worsening investment environment.

Challenges from G2

Enterprises have to be strategic, nimble, pragmatic and flexible when it comes to accommodating themselves to changing international environment and highly competitive global market, or they can hardly survive, let alone making any profit.

From a low-end manufacturer to high-end manufacturer

China has turned its focus on domestic consumption in an attempt to increase the supply of domestic raw materials and intermediate goods, while decrease imports of those from abroad, in particular those fields of high profitability such as semiconductors and machinery.

According to a report "Evaluation of Industrial Competitiveness of Korean Industry Based on Export Big Data" published by the Korea Institute for Industrial Economics & Trade, the industrial competitiveness of Korea in the world has moved up from 16th to 13th for the past 20 years.

During the same period, China overtook Korea by climbing up from 20th to second. When it comes to industrial cohesiveness index that measures the potential for industrial development, Korea moved down from 21st in 1995 to 25th in 2015. During the same period, China shot up to third from 18th.

Shifting Paradigm

The current triangular trade model of “Take orders from Taiwan, Produce in China, Export to the US” is facing daunting challenges, in particular ICT sector, as the Trump administration pushes ahead with tariffs on $US200 billion worth of Chinese goods this week.
Many foreign investors in China such as Philip, Apple, Samsung, LG, Sony, Sharp and Toshiba will have to consider if they relocate their production lines away from China or to greatly reduce their investment in China.

Among those foreign investors, Taiwan investors are likely to suffer most compared to South Korean, Japanese, US counterparts, for they leveraging China as manufacturing bases most.

Taiwan exported more than US$130.2 billion of goods to Mainland China in 2017, accounted for 40% of its total exports. Almost 70% of exported items to China are intermediate goods and parts.

Final products assembled or processed from those intermediate goods and parts then re-exported to overseas markets, the US in particular. In view of statistical figures of China's relevant exported items, foreign-owned enterprises accounted for 70% of China's top one hundred export enterprises in 2017.

Among those foreign-owned enterprises, 40% are Taiwan investors-owned enterprises. Furthermore, when it comes to China's top twenty US export-oriented enterprises, 15 are Taiwan investors-owned enterprises. They are mainly ICT producers.

Taiwanese investment in China is estimated to total in excess of US$150 billion. Between 2011 and 2015, Taiwan's FDI in Singapore, Indonesia, Malaysia, Philippines, Thailand and Vietnam totaled US$13 billion, more than double five years ago. (US$6 billion in 2006-2010)
The New Southbound Policy does have a chance to succeed but the improvement of relations with Mainland China is inevitable, given the formation of G2 and China’s huge market and booming economic future. Taiwan also need to increase investment in the US as well.

Taiwan needs to pay attention to Asian economic integration

The Regional Comprehensive Economic Partnership (RCEP) is likely to sign by the end of this year.

Taiwan needs to take part in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

演講人：政治大學外交系教授
劉德海
(liu7249@nccu.edu.tw)