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# **Navigating Cross-Strait Waters**

**India-Taiwan Relations in the Indo-Pacific Era**

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### Introduction

The historical relationship between India and Taiwan is defined by India's adherence to its interpretation of the One China principle, under which India recognizes the government in Beijing at the expense of the government in Taiwan. Prior to the 1949 defeat of the nationalist Guomindang (KMT) forces of Chiang Kai-shek in the Chinese civil war against the Chinese Communist Party (CCP) led by Mao Zedong, the internationally recognized KMT government had enjoyed close relations with nationalists in British India. In 1942, Chiang travelled to India, which remained key to supply the KMT armies via the Burma Road, and met Jawaharlal Nehru and Mahatma Gandhi, with whom Chiang shared a vision for a post-colonial Asia free from Western interference (Tianshi, 2014). Following the KMT's defeat against the CCP in 1949 and the KMT's subsequent fleeing to Taiwan, however, India formally recognized the CCP-led People's Republic of China, rather than Chiang's Taiwan-based Republic of China, as the international representative of the Chinese people. Following this recognition in 1950, Beijing and Delhi further formalized their relationship via the 1954 Panchsheel Agreement, also known as the Five Principles of Peaceful Co-existence Agreement. Under the Panchsheel Agreement, both sides committed themselves to mutual respect for territorial integrity, non-aggression, non-interference, and peaceful co-existence (Ministry of External Affairs, n.d.). The agreement came in the aftermath of the *de facto* annexation of Tibet by China and saw India recognize Tibet as an autonomous region of China. Nehru's policy of non-alignment during the Cold War and his scepticism toward the United States further diverged from the KMT's anti-communist stance, which reinforced the KMT's ties with Washington (Karackattu, 2019). Delhi-Taipei relations took another hit when the Indira Gandhi government supported mainland China's membership on the UN Security Council, which had been held by Taiwan until 1971. In 1979, India formally acknowledged the People's Republic of China as the sole representative of China, indicating its adherence to the "One China" policy. Given India's diplomatic support for communist China as the sole representative of the Chinese people in the theatre of nations, relations between India and Taiwan remained underdeveloped and, crucially, non-formalized.

Now, however, the Delhi-Taipei relationship is characterized by increased dynamism as tensions in the Indo-Pacific increase in the context of intensifying China-US competition. Although India has been careful not to antagonize China regarding the matter of cross-strait relations, it has ramped up its *de facto* diplomatic interactions with Taiwan. Trade has increased significantly over the course of the 21st century alongside people-to-people exchanges, and Taiwan plays a key role in India's drive to emerge as a key manufacturing hub for semiconductor-related industries. India is also concerned about a potential crisis in the Taiwan Strait, both due to the strategic volatility such a crisis would create and its dependence on the navigability of sea lines of communication in the East and South China Seas (Gokhale, 2023). In this context, India has subtly altered its rhetoric on regional maritime disputes (Singh, 2023). In sum, Taiwan plays an increasingly important role in India's strategic thinking about its wider neighbourhood.

This paper examines the development of the India-Taiwan bilateral relationship in the 21st century. It starts off by examining trends in the relationship since the 1990s in consideration of three policy domains: diplomacy, trade and investment relations, and cooperation on semiconductor-related technology. It then moves on to examining India's role in Taiwan's New Southbound Policy, announced by the outgoing President Tsai Ing-wen in 2016. It lastly

formulates a list of policy recommendations to Indian and Taiwanese policymakers on how to strengthen the bilateral relationship whilst avoiding a further antagonization of Beijing.

### India-Taiwan relations since the 1990s

#### ▪ *Diplomacy*

Although India's position on China-Taiwan relations prohibits New Delhi from formally establishing relations with Taipei, the bilateral relationship deepened following the end of the Cold War. This was part of a broader reconfiguration of Indian foreign policy as part of the Look East Policy, which sought to strengthen India's economic and political interactions with countries in East and Southeast Asia in the pursuit of new market opportunities (Menon, 2022). In March 1995, India established the India Taipei Association (ITA) to facilitate cooperation between both sides, with the Taipei Economic and Cultural Centre (TECC), which has now offices in New Delhi, Chennai, Kolkata, and Mumbai, forming the Taiwanese counterpart (Karackattu, 2019). This semi-official model is perhaps best compared with Washington's *de facto* diplomatic presence in Taiwan, which is institutionalized via the American Institute in Taiwan (AIT). In practice, the AIT functions as the United States' diplomatic representation vis-à-vis Taiwan without formally undermining Washington's position on 'One China' (Yang, 2018). Similarly, the ITA and the TECC function as quasi-diplomatic representations by providing consular services and serving as platforms for economic interactions. India's unofficial interactions with Taiwan have gradually expanded over the 21st century: flights between New Delhi and Taipei operate since 2003, former high-ranking Indian officials have visited Taiwan, and India has received candidates from both the KMT and Tsai's Democratic Progressive Party (DPP), which recently won the 2024 presidential election in Taiwan (Karackattu, 2019). *De facto* relations have thus become more formalized even if diplomatic recognition continues to be absent.

Despite expanding its interactions with the island, different Indian administrations have remained focused on not making Taiwan an issue of contention in the China-India bilateral relationship. During the 2003 visit of the Chinese Premier Wen Jiabao to India, Indian officials, including Prime Minister Vajpayee, reiterated India's commitment to its One China policy, including by reaffirming the recognition of Tibet as part of the territory of China (Bhaumik, 2020). When protests in Tibet began breaking out in the build-up to the 2008 summer Olympics in Beijing, including by Tibetan exile communities in India, Indian authorities also blocked pro-Tibet protests (Madhukar, 2008). When Xi Jinping visited India in 2014, Modi and Xi acknowledged the need for mutual respect and sensitivity on core issues (BBC, 2014) - code for territorial disputes China and India may have with other countries. India has thus aimed to not make territorial issues a bone of contention in its relationship with Beijing.

As relations have deteriorated in the past years, however, India has explored ways of reconfiguring the discourse surrounding the notion of One China. India has subtly modified its discourse regarding the One China policy to protest Chinese assertiveness. Indian representatives have not publicly referred to India's position on the One China policy since 2008, with Ministry of External Affairs officials simply stating that India's position on the matter was "*well-known and consistent*" (South China Morning Post, 2022). India's rhetorical reluctance manifests a form of protest to China's practice of providing visas to visitors from the Indian state of Arunachal Pradesh, which China claims as part of Tibet and over which the two countries fought a war in 1962 (Tiberghien & Lakshmi, 2022). In 2014, the then Indian Minister of External Affairs Sushma Swaraj further elaborated on this, suggesting that it was unrealistic for Beijing to expect India to reaffirm its commitment to its One China policy when

China continuously ignored Indian sovereignty concerns in Arunachal Pradesh and Jammu and Kashmir (Pant & Mattoo, 2022). The Indian unwillingness to reaffirm its rhetorical commitment can only be presumed to have intensified amid concerns over China's Belt-and-Road Initiative (BRI), Beijing's growing naval presence in the Indian Ocean, and the military clashes on the Doklam Plateau (2017), the Galwan Valley (2020), and in Arunachal Pradesh (2023). Despite Modi's commitment to stabilizing the relationship with Beijing, the bilateral relation has thus rapidly deteriorated (Raja Mohan, 2023). While the deterioration in the China-India relationship has not led to a general shift in India's diplomatic position on One China, New Delhi has become more comfortable with exploring ways of improving the relationship with Taipei.

India's approach towards Taiwan has thus been shaped by its efforts of managing the relationship with China. Prioritizing the relationship with Beijing has meant that relations with Taiwan have not been (and could not have been) formalized. India's historical reluctance to push for closer ties with Taiwan, even on an unofficial level, is notable as *"Even after New Delhi established formal contacts with Taipei after the Cold War, India remained more than cautious in its engagement with Taiwan and deferential to Chinese policy sensitivities"* (Raja Mohan, 2023). Taiwan does not feature, for instance, in relevant policy documents on India's Act East Policy, which aims to deepen regional connectivity. The subsequent gradualism in the relationship has frequently frustrated Taiwanese interlocutors as *"Taipei's foot is on the accelerator while New Delhi hits the brakes each time their relationship gains momentum [...] because India's engagement with Taiwan seems both driven and constrained by its own relationship with China"* (Pant & Mattoo, 2022). More generally, India is keen to expand economic interactions with the island without altering the diplomatic status quo to not further undermine relations with Beijing. In this context, India has thus far not backed motions to grant Taiwan observer status at international bodies such as the World Health Organization (Pant & Mattoo, 2022). Yet, the India-Taiwan relationship is not static as *de facto* interactions have expanded, for instance through the ITA and the TECC. Although there are limits to the extent of this engagement, the willingness to engage Taiwan is also clearly partially shaped by the deterioration of India's relationship with China. Whilst India has not formally altered its commitment to the One China policy, and is unlikely to do so given the strategic ramifications this decision would likely produce, there have been some notable shifts in its diplomatic practice.

#### ▪ *Trade and investment*

The progress in the non-formal diplomatic relationship has been accompanied by improvements in the bilateral economic relationship since the 1990s. In 2000, the bilateral trade volume stood at one billion US\$ - by 2019, the volume had grown to seven billion US\$ in total (Tiberghien & Lakshmi, 2022). Trade dropped to just under six billion US\$ in 2020 in response to the market shocks of the COVID pandemic (Pant & Mattoo, 2022) but had recovered to 7.7 billion US\$ in 2022 (Tien, 2022). On the Indian side, exports to Taiwan are primarily made up out of mineral fuels, mineral oils, iron and steel, organic chemicals, and cotton (Karackattu, 2019). Taiwan primarily exports high-end manufactured goods to India, including electrical machinery and equipment, nuclear reactors, plastics, and organic chemicals (Karackattu, 2019). Most notably, Taiwanese exports to India have increased even as the export performance of Taiwanese firms dropped slightly in 2022 and 2023 (Jennings, 2023). Past bilateral negotiations have also focused on concluding a free trade agreement, although talks over such a framework appear to have stalled since (Pant & Mattoo, 2022). There has thus been marked

progress in the evolution of the bilateral economic partnership, even if the respective export baskets are likely to drive up trade deficits for the Indian economy.

Direct investment from Taiwan to India has also grown significantly since the 1990s. Taiwanese foreign investment in India was weak until the 2010s, with only 0.03% of all Taiwanese outward investments targeting India between 2001 and 2010 (Karackattu, 2019). This investment rate has improved since (Pant & Mattoo, 2022), also as the investments of Taiwanese firms such as Foxconn in India ramp up as firms seek to reduce their exposure to the Chinese market. As Harsh Pant and Shashank Mattoo (2022) highlight, investments from Taiwanese firms could prove crucial as the Modi government aims to address domestic unemployment and growing demand, especially for electronic goods. Other industrial sectors targeted by Taiwanese firms include engineering, electronics, machinery, and construction (Karackattu, 2019). Cooperation in these sectors was more formalized through an ITA-TECC Memorandum of Understanding (MoU) of 2017 that focused on industrial engagement and was later buttressed by the holding of the inaugural India-Taiwan Trade Forum in 2018. Investment initiatives have also been supported by legal frameworks that have sought to reduce double taxation whilst greater air and sea connectivity has further benefited trade (Menon, 2022). As will be discussed below, attracting investment (and, subsequently, technical expertise) from Taiwanese electronics firms will be crucial for India as the BJP administration seeks to develop the domestic electronics industry, most notably in the semiconductor sector.

Despite the progress made so far, the bilateral trade and investment relationship has not evolved as far as both sides have wished. In 2020, India and Taiwan were only each other's 16th and 17th largest trade partner, respectively (Tyler, 2022). Although the presence of Taiwanese firms in India is expanding, firms still appear to focus on other investment destinations in East Asia, including China, instead of India (Karackattu, 2019). It remains to be seen whether this will change significantly as geopolitical and geoeconomic volatilities increase. The Indian foreign ministry has also sought to develop India as a main tourism destination for Taiwanese tourists - however, this demographic continues to prefer other Asian destinations, and Taiwanese tourism to India has recently begun to stagnate (Tiberghien & Lakshmi, 2022). More generally, India has not emerged as a more important trade partner for Taiwan even as Taiwan's bilateral trade volumes with China and Southeast Asian countries such as Indonesia, Malaysia, and Vietnam have grown (Karackattu, 2019). Although the progress in the bilateral relationship is undeniable, it is not as dynamic as it arguably should be given the broader complementarities between the two economies: India registers a surging demand for high-end technologies and agricultural machinery that can be manufactured by Taiwanese firms, which, in turn, seek to establish operations in places other than China, where rising labour costs and geopolitical tensions raise business volatility (Nair, 2021). Considering this, the bilateral relationship has remained relatively lacklustre.

One of the key reasons for this relative lack of dynamism is the continued existence of structural issues in the Indian economy that raise the bureaucratic and administrative hurdles for foreign investors. On a more surface level, the cultural exposure between Indians and Taiwanese has remained limited given the lack of geographical proximity and the non-formal nature of the diplomatic relationship. This remains a key concern for Taiwanese entrepreneurs who remain more comfortable with relocating their businesses and families to more culturally familiar places in China and, as tensions rise, Southeast Asia (Chau & Ting-Fang, 2022). Perhaps more tellingly, Taiwanese businesses struggle with the relative unease of doing business in India, which is shaped by convoluted tax regulations, complicated and state-dependent land-acquisition processes, and the extant shortcomings in Indian infrastructure that have remained prevalent even as the Modi government has ramped up infrastructure investments (Kishore,

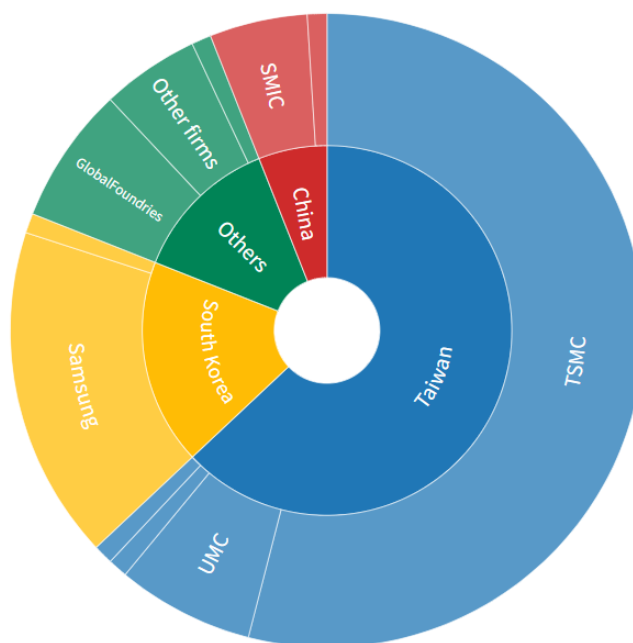
2023). These broader structural issues are not idiosyncratic to Taiwanese investments in India and have been encountered in a similar form by other international investors (Singh, 2023). Although the Modi government has made significant progress on regulatory reforms (The Economist, 2024), bureaucratic hurdles restricting investment thus remain.

In conclusion, the bilateral trade and investment relationship between Taiwan and India has experienced significant strides but includes room for improvement. Notably, direct investment from Taiwan to India has witnessed a substantial uptick since the 2010s, with a focus on sectors like electronics, machinery, and construction. This sectoral shift and Taiwan's growing focus on India are linked with the growing geopolitical and geoeconomic volatilities in Taiwan's regional neighbourhood as well as the associated attempt to derisk the Taiwanese economy from China. However, challenges persist as Taiwanese firms, while expanding their presence in India, still prioritize primarily Southeast Asian destinations. The limited cultural exposure and bureaucratic hurdles in the Indian economy remain impediments, posing challenges for deeper engagement. Despite marked progress, the bilateral relationship is not as dynamic as the economic complementarities between the two countries suggest, underscoring the need to address structural issues and fostering a more conducive business environment to unlock the full potential of this evolving commercial partnership.

### **Semiconductor-related cooperation**

Taiwan's present role in the manufacturing of advanced semiconductors, a market India now is eager to enter, is heavily linked with the global manufacturing role of the Taiwan Semiconductor Manufacturing Company (TSMC). In 1985, the Taiwanese government hired Morris Chang, a previous engineer at the US semiconductor firm Texas Industries, as head of the Taiwanese Industrial Technology Research Institute (TITRI). The semiconductor industry became the key focal point of Taiwanese industrial policy and was financed via a combination of private but especially public funding that sought to transform Taiwan into the central node of semiconductor manufacturing. Chang founded TSMC as part of his new role at TITRI and launched what would become known as the foundry model: instead of overseeing the design and manufacturing of semiconductors, TSMC would solely focus on building and running fabs for manufacturing semiconductors, the transistors for which Chang estimated to become ever-smaller (and thus ever more expensive as manufacturing and R&D costs grew), which would price out insufficiently capitalized firms (Miller, 2022, p. 166). The foundry model filled a market gap: as fabless firms relied on competing companies such as Intel to manufacture their semiconductors, manufacturing would be outsourced to *de facto* competitors. By having TSMC function as the actor solely responsible for manufacturing chips, Chang thus provided a lifeline for smaller companies. Since the 1980s, TSMC has emerged as the central player in advanced semiconductor manufacturing. Figure 1 visualizes the dominant role TSMC and, thus, Taiwan, plays in global semiconductor supply chains, vastly outperforming regional competitors such as Samsung and SMIC.

**Figure 1: Semiconductor manufacturers by global market share**



Source: Lee (2021)

India launched two largely unsuccessful attempts to establish itself as a semiconductor manufacturing hub prior to Modi’s first election in 2014. In 2007, the Congress government of Prime Minister Manmohan Singh promised “a forward-looking” semiconductor and technology policy that would reduce tariffs on industry-related goods and services whilst creating a regulatory environment that was more conducive towards the development of the industry (Venkatesh, 2006). Broadly, Singh’s government sought to attract investments, facilitate research and development, and enhance the infrastructure necessary for semiconductor manufacturing. In his second term, Singh doubled down on his ambition via the 2012 National Telecom Policy (NTP), which sought to make India a global hub for the electronics system design and manufacturing (ESDM) industry (India Briefing, 2013). The NTP outlined specific strategies for promoting semiconductor manufacturing, including fiscal incentives, establishing semiconductor wafer fabrication facilities, and fostering innovation and research and development. As Pranay Kotasthane and Abhiram Manchi (2023) show, however, these policy initiatives largely failed, partially due to the discussed structural issues in the Indian economy as well as the lack of skilled labour and the continued role of protectionist policies.

When it first came into power in 2014, the Modi government launched the India Semiconductor Mission (ISM) as part of its wider Make in India industrial strategy. Make in India aims to improve the international competitiveness of Indian manufacturing, especially in high added value sectors, and reconfigure the role of Indian firms (and, thus, the Indian economy) in global supply and value chains (Anand et al., 2015). As part of this, the ISM seeks to capitalize on the central role Indian firms and Indian semiconductor engineers play in parts of the supply chain, most notably in the design of semiconductors in industry hubs such as Bangalore. The ISM, which came into force in December 2021, includes a series of policy components that seek to

facilitate the development of a competitive manufacturing sector in India. These policy measures include:

1. The creation of semiconductor manufacturing clusters to provide infrastructure, power, and water facilities to manufacturing companies. Clusters include fabs for display chips, compound chips, silicon photonics and sensors, assembly hubs, testing, and marking and packaging (ATMP) facilities (Rajagopalan, 2022).
2. The provision of vertical industrial policy funding for semiconductor-related industries via subsidies, grants, tax breaks, and loans to manufacturing companies to incentivize them to establish operations in India.
3. The creation of training and skilling facilities that provide training for engineers and technicians working in the manufacturing of advanced semiconductors.
4. The encouragement of indigenous R&D via the provision of funding and infrastructure for educational facilities working on semiconductor design and broader semiconductor technology.
5. The creation of adequate policy frameworks ensuring the protection of intellectual property rights of semiconductor manufacturers.
6. The provision of financial assistance to small and medium enterprises and venture capitals, specifically in areas that already are integrated into the wider industry (such as Bangalore).

Individual state governments in India (for instance in Karnataka, Telangana, Tamil Nadu, Andhra Pradesh, Madhya Pradesh, Odisha, Tripura, and Punjab) announced an interest in setting up manufacturing facilities as well, with allocation decisions being made based on the existing infrastructure and the investment incentives offered by individual states (Rajagopalan, 2022). Notably, the ISM provides a new version of a long-standing policy ambition in Indian elite politics that can be traced back to the Singh government. The ISM subsequently functions as another embodiment of the economic-industrial vision of Modi's BJP government for the Indian economy over the coming years and decades.

As India has sought to expand its role in global semiconductor supply chains, incentivizing the presence of Taiwanese firms in India has become increasingly crucial. The much-touted free trade agreement that Indian and Taiwanese interlocutors have been discussing for several years would likely include provisions that specifically focus on semiconductors to attract investments from firms such as Foxconn, TSMC, and United Microelectronics Corporation (UMC) (Tiberghien & Lakshmi, 2022). This drive to attract Taiwanese investments has been partially successful: Foxconn has established and expanded its manufacturing presence in India over the past years and the semiconductor design firm MediaTek and its subsidiary Noida, as well as the companies One97 and the Wistron Corporation, have sought to expand its operations in India (Karackattu, 2019). Investment from these firms thus shape the growing investment flows from Taiwan to India, highlighting the overlap in trade and technology relations. India's eagerness to attract Taiwanese investment and expertise in the semiconductor domain is likely to grow further as India seeks to build up domestic industrial capacities.

However, the Foxconn manufacturing presence in India also illustrates the limits to Taiwanese investments in India and India-Taiwan semiconductor and technology cooperation. Foxconn aimed to create a joint venture with the Indian firm Vedanta to construct a semiconductor fab in Gujarat. This project was abandoned in 2023, with a Foxconn statement suggesting that *"There was recognition from both sides that the project was not moving fast enough, there*



were challenging gaps we were not able to smoothly overcome, as well as external issues unrelated to the project” (Kharpal, 2023). Despite this initial failure, Foxconn has since recommitted to continued investments in India and India’s semiconductor drive (Hashmi, 2023). However, the infrastructure and regulation-related failure of the Foxconn-Vedanta joint venture indicates the extent to which structural issues in the Indian economy and the regulatory state constrain the degree to which Taiwanese firms can enter the Indian market. Taiwanese investors have also lamented the inconsistency of policy in India, which makes investments in more centralized and regulatory coherent states such as Vietnam more attractive for investors (Hashmi, 2023). These struggles reflect broader hurdles constraining the foreign investment the Modi government has sought to attract.

Taiwan's pivotal role in the global semiconductor market, particularly in the context of TSMC, has shaped India’s interaction with Taipei and what policy domains are emphasized in the bilateral relationship. India has thus far occupied a relatively marginal role in the manufacturing of semiconductors (despite playing a more central role in semiconductor design). The Modi government's ISM under the Make in India initiative reflects a renewed effort to leverage India's strengths in semiconductor design and includes policy measures to encourage semiconductor manufacturing, such as creating clusters, providing financial incentives, facilitating training, and protecting intellectual property rights. India's push to attract Taiwanese investments and expertise has seen partial success, with Foxconn and other companies expanding their presence. Nevertheless, the Foxconn-Vedanta joint venture's failure underscores the challenges posed by infrastructure and regulatory issues in the Indian economy, limiting the extent to which Taiwanese firms can enter the market. These struggles highlight broader hurdles affecting the foreign investment landscape that the Modi government must navigate in its pursuit of enhancing India's role in global semiconductor supply chains.

### **Taiwan’s New Southbound Policy and India’s role**

The Tsai government's New Southbound Policy provides a main framework through which Taipei sought to further its cooperation with India. Launched in 2016 under the administration of then President Tsai Ing-wen of the DPP, the policy seeks to enhance Taiwan’s economic, cultural, and people-to-people ties with Australia, New Zealand, and countries in South and Southeast Asia. Although Tsai is no longer in power as Taiwan’s constitutional framework restricts presidential terms to two, the rhetoric of her successor Lai Ching-te from the DPP has aligned with Tsai’s China-sceptical discourse that portrays concessions to China as opening the risk for a Hong Kong-like scenario that would see Taiwan lose its *de facto* independence (Rich, 2024). In this context, Lai is expected to continue Tsai’s New Southbound Policy (Chung, 2024). As a result, the New Southbound Policy (or something akin to it) will likely remain a key policy framework for Taiwanese policymakers even as Tsai leaves office.

The policy’s focus on strategic diversification beyond the immediate neighbourhood marks a continuation of foreign policy approaches by some of Tsai’s predecessors. The most notable examples here are the initiatives of the administrations of Lee Teng-hui and Chen Shui-bian, which sought to incentivize firms to shift their investment portfolios away from China toward Southeast Asia (Glaser et al., 2022). The derisking of the Taiwanese economy is directly linked with the deterioration in cross-strait relations: as tensions ramp up, China can weaponize the dependencies of Taiwan on the Chinese market to exert pressure on Taiwan and reshape domestic policy priorities. Alongside China’s well-recorded incursions into Taiwan’s maritime and air defence zones (Campbell, 2022), economic coercion thus constitutes a component of

China’s strategic grey zone toolkit (Tsui, 2022). The objectives of the New Southbound Policy are summarized in Figure 2 below.

**Figure 2: The objectives of the New Southbound Policy**

<b>Key indicator</b>	<b>Evaluation criteria</b>	<b>Goal</b>
Promote the Policy as a means of deepening ties with target countries	Number of treaties, protocols, and MoUs signed with target countries	Increase number of each activity at an annual rate of 10%
	Number of bilateral meetings and cooperation projects	
	Number of visits by former heads of state, current government leaders, members of congress, and senior government officials	
Simplify visa processes for personnel from target countries	Number of visa facilitation services/programs provided to target countries	Offer 15 programs/services

Source: adopted from Glaser et al. (2022)

The New Southbound Policy thus aims to diversify Taiwan’s economic and strategic relations and enhance its *de facto* recognition by other regional powers, including India. For policymakers in Taiwan, it is paramount that other regional States do not face an either-or choice for Beijing or Taipei - if confronted with this decision, China’s outsized geopolitical influence and market significance would simply be too overwhelming. As such, Taiwan has focused on policy domains that are politically less costly for other countries to engage in. This includes the diversification of trade and economic partners to alleviate dependencies on China, cultural and educational exchanges to foster a deeper understanding and appreciation among the people of Taiwan and the target countries, the enhanced provision of humanitarian assistance and disaster relief, and collaboration in technology sectors in which key Taiwanese firms possess market-leading expertise (Glick, 2022). Semiconductor-related technology collaboration, as illustrated above, has played a key role in this.

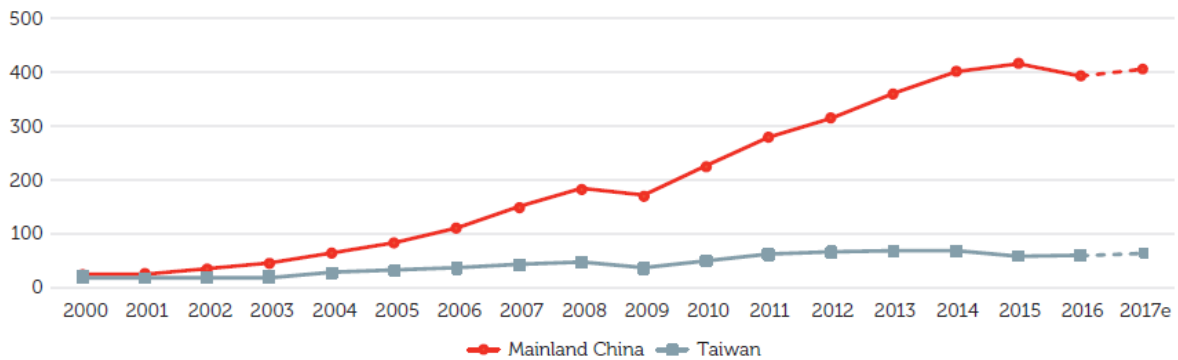
In Southeast Asia, the New Southbound Policy has been a relative success in stimulating economic and people-to-people ties with countries in the region. Trade with Southeast Asian States had been expanding prior to Tsai coming into office, growing at an annual rate of 10.9% under Tsai’s predecessor Ma Ying-Jeou from the KMT (Nair, 2021). This trend accelerated under Tsai as growth rates increased to 13.6% between the inauguration of her administration and the outbreak of the COVID-19 pandemic in 2020, with growth being particularly strong in the relations with Brunei, Singapore, and Vietnam (Nair, 2021). People-to-people exchanges also intensified as the number of Southeast Asian exchange students grew significantly and begun exceeding the number of exchange students from mainland China for the first time (Marston & Bush, 2018). The increased formalization of political relations also accelerated via the signing of an investment treaty with the otherwise fairly pro-Chinese Filipino President Rodrigo Duterte in 2017 and the inking of MoUs on economic cooperation with Indonesia and

Malaysia (Marston & Bush, 2018). In Southeast Asia, the policy has thus been relatively successful in stimulating greater regional engagement and integration.

In South Asia, in contrast, the policy initiative has been less successful for a number of reasons. India has been the major target country of the New Southbound Policy in the region, and Taiwan has explicitly sought to broaden cooperation into areas such as industrial supply chains and manufacturing, exchange programs, agriculture, e-commerce, infrastructure, and tourism (Karackattu, 2019). This broader ambition distinguishes the New Southbound Policy from previous policy approaches toward the region that were mainly focused on outsourcing contract manufacturing to India. As noted above, bilateral trade and investment volumes between India and Taiwan have grown over the past thirty years. People-to-people ties have also improved as tourism has increased (Madan, 2019). Additionally, the number of Indian workers in Taiwan has increased on the back of a planned labour act that would see the growing supply of Indian workers to the Taiwanese labour force, which faces major demographic challenges as Taiwanese society is ageing (Sen et al., 2023). However, commercial connectivity has not grown as rapidly as either side would have wished (Pasricha, 2023), and the relatively undynamic performance of the relationship is mirrored elsewhere in South Asia. Between 2016 and 2021, Taiwan's trade with all regional countries bar Nepal has stagnated or even decreased (Nair, 2021). Several reasons shape this trend. South Asian countries vary widely in terms of economic development, priorities, and interests. While Taiwan may offer technological expertise and investment, the economic needs of regional States may not necessarily align with the sort of expertise or investment Taiwan aims to offer. Taiwan's political status and the relation of regional countries with China remains an issue as the political sensitivity of bilateral relations with Beijing can prevent regional countries from engaging extensively with Taiwan, even in economic matters. A broader lack of cultural familiarity and understanding between Taiwan and South Asian countries can additionally impede the development of robust people-to-people connections and hinder the success of diplomatic and economic initiatives. Lastly, South Asia faces infrastructural challenges that can affect the implementation of economic initiatives through issues such as inadequate transportation networks, bureaucratic hurdles, and regulatory complexities that hinder the smooth execution of projects. In this context, Southeast Asian countries are more culturally familiar, more administratively easy to navigate for Taiwanese firms, and offer a more consistent and reliable regulatory environment.

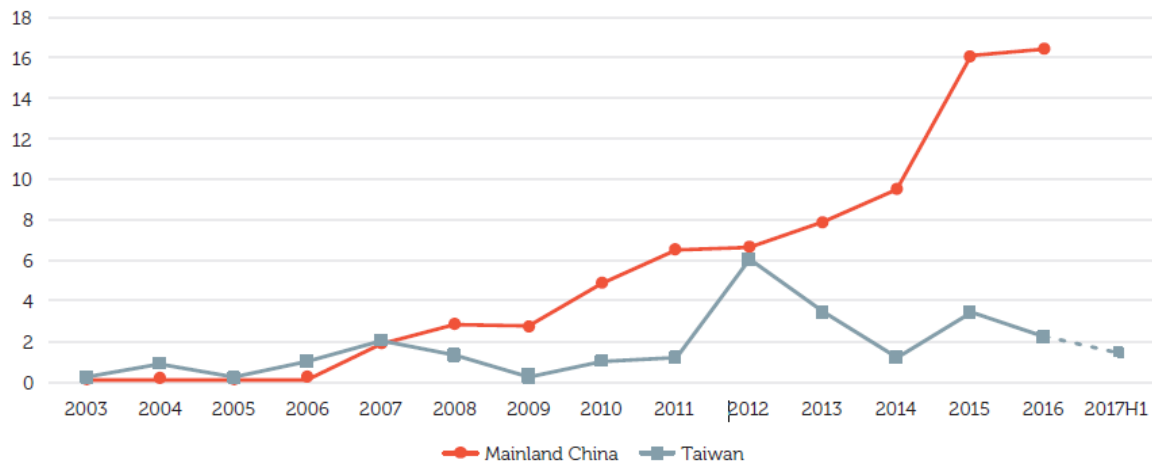
More generally, the extent to which target countries can engage with the New Southbound Policy remains limited by China's market significance and Beijing's willingness to leverage its importance to exert pressure on third countries. Whilst Taiwan is not an insignificant trade partner for regional countries, its role is dwarfed by that of China, as Figure 3 and Figure 4 indicate. Chinese FDI into target countries is directly linked with Chinese infrastructure financing provided under the Belt-and-Road Initiative, launched in 2013.

**Figure 3: China’s and Taiwan’s exports to target countries of the New Southbound Policy (in billion US\$), 2000-2017**



Source: Glaser et al. (2022)

**Figure 4: China’s and Taiwan’s FDI into target countries of the New Southbound Policy (in billion US\$), 2000-2017**



Source: Glaser et al. (2022)

The market centrality of the Chinese economy thus provides China with leverage that it can use to influence policy discourses and policy practices regarding Taiwan in third countries. China has used this capacity repeatedly in the past. Diplomatic pressure from China halted efforts in Australia to pursue a free trade agreement with Taiwan, and Beijing has also protested the 2017 investment agreement signed between the Tsai and the Duterte administrations (Marston & Bush, 2018). This reflects a broader pattern in Chinese foreign economic policy to leverage dependency relations to extract political benefits or, at the very least, prevent countries from formalizing closer ties with Taipei.

The willingness to leverage this influence is further demonstrated by China’s response to the New Southbound Policy’s focus on India. Policymakers in Beijing have perceived the New Southbound Policy as an attempt by Taipei to respond to Chinese BRI investments (Singh,

2022). Furthermore, China has been irked by the policy's specific focus on India: as Taiwan's economic relations with Southeast Asian countries are viewed as almost saturated while the South Asian market remains underleveraged, statements by Taiwanese government officials that "*The Indian market is all that is needed for the development of Taiwan's industries in the next 20 years*" shapes Chinese perceptions of India-Taiwan ties (Singh, 2022). China has been broadly critical of the intensifying *de facto* rapprochement between India and Taiwan: when the former chief of the air staff R.K.S. Bhadauria, the former chief of the naval staff Admiral Karambir Singh, and former chief of the Army staff general M.M. Naravane visited Taipei to partake in the Ketagalan Forum on Indo-Pacific security, China criticized this visit (Mansi, 2023). Although China's immediate leverage vis-à-vis India in this context is limited, China has evidently become increasingly critical of the India-Taiwan relationship.

The New Southbound Policy ultimately provides a framework for strategic diversification at a time of growing geostrategic uncertainty and volatility in the Indo-Pacific. In this context, the Tsai administration's policy efforts are comparable to the New Northern and Northern Southern Policies launched by the Moon Jae-in government in South Korea as well as other regional initiatives that seek to derisk national economies from the Chinese market as tensions between Beijing and Washington increase. Taiwan's position and policy restrictions in this case are unique considering its idiosyncratic status in the international system: while it is *de facto* part of this system, Taipei continues to operate outside of the institutional frameworks governing this system. The New Southbound Policy aims to navigate the pressures generated by this challenging policy environment.

### Policy recommendations

There is a range of policy options available to Indian policymakers that they can employ to bolster relations with Taiwan without significantly alienating China. While formal diplomatic ties will remain strategically unfeasible, India should strengthen informal channels of communication with Taiwan by encouraging more cultural exchanges, educational collaborations, and people-to-people interactions. This could be done via an expanded number of bilateral scholarship programs that encourage Taiwanese students to pursue higher education in India and vice versa. These interactions would promote cross-cultural understanding and strengthen ties between the people of the two countries at the grassroots level. As part of this, policymakers could also focus on facilitating academic and research collaborations between universities in India and Taiwan, especially on issues that are of crucial importance for both sides, such as technology. Economically, both sides should aim to strengthen collaboration in sectors such as technology, agriculture, healthcare, and renewable energy, which offer opportunities for mutually beneficial economic engagement and capitalize on the complementarities of the two economies. A formalized agreement further setting out procedures and frameworks would be helpful in this regard. Domestically, India should strengthen its creation of dedicated technology hubs that welcome Taiwanese companies to set up research and development centres in India. These centres could focus on emerging technologies, such as artificial intelligence, where firms from both countries can contribute expertise. To address broader issues linked with investments, the government must continue its efforts to address structural issues in the Indian economy by streamlining bureaucratic processes and reducing regulatory complexities in a way that is consistent with Indian domestic labour law. Lastly, India must continue investing in improving infrastructure, particularly in regions with potential semiconductor manufacturing clusters.

Strengthening the diplomatic, economic, and technological relationship while maintaining a balanced approach with China will require a continuously nuanced and policy approach by Taiwanese officials. Taiwan should continue expanding its support for a diversified economic partnership that includes investments in areas such as renewable energy, healthcare, and infrastructure development. As part of its technology collaboration, Taiwanese expertise can be crucial to contribute to India's skill development initiatives by providing training programs for Indian professionals in advanced technology sectors. This could include scholarships, workshops, and internships to enhance the capabilities of the Indian workforce in areas where Taiwanese expertise is particularly pronounced. Rhetorically, both sides must emphasize their shared values regarding democratic governance and a regional order that is based on rules enshrined in international law. This broader public diplomacy approach can enhance Taiwan's image in India and highlight the positive dimensions of the relationship. Lastly, both sides can further encourage unofficial dialogues and Track II diplomacy initiatives between Taiwanese and Indian scholars, think tanks, and non-governmental organizations. These forums can provide a space for discussions on regional and global issues, fostering mutual trust and coordination.

## **Conclusion**

This paper has discussed the evolution of India-Taiwan relations in the 21st century and India's role in Taiwan's New Southbound Policy, announced by the outgoing Tsai government in 2016. Structural factors, most notably China's centrality in India's broader strategic approach toward the Indo-Pacific, continue to constrain the extent of the relationship as New Delhi remains keen to not further undermine its ties with Beijing. As such, India has frequently been reluctant to support a more formalized role for Taiwan in the international diplomatic system. There have nevertheless been clear shifts in political practice: informal but *de facto* diplomatic interactions have ramped up, the trade and investment relationship has expanded, and semiconductor-related exchanges have increased as India aims to occupy a more central role in global supply and value chains. The aim to deepen the relationship with India also features prominently in the New Southbound Policy, which manifests an attempt to diversify Taiwan's economic partnerships and enhance the country's *de facto* regional integration (even if *de jure* support remains absent). Yet, the initiative has been notably less successful in South Asia than in Southeast Asia. While this partially owes to China's outsized economic significance in the wider region, some of the issues are also India-specific. Reflecting the continued issues in the Indian economy more broadly, Taiwanese investments remain restricted by infrastructural gaps and regulatory hurdles that India, in fairness, has begun addressing.

This process is nevertheless far from complete and will require both time and continued policy effort in what looks likely to be a third Modi administration.

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