

▶ Chapter 6

Relations with Northeast Asia (South Korea and Taiwan)

—South Korean Corporations Take the Lead, Taiwanese Corporations also Start Active Deployment

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1. Political and social relations

1.1 Politics

Korea established diplomatic relations with India in 1973, and in terms of visits by leaders, Prime Minister Rao visited South Korea in 1993, and President Kalam made an official visit in 2006. Meanwhile, South Korean President Kim Young-sam visited India in 1996, President Roh Moo-hyun visited in 2004, and President Lee Myung-bak visited in 2010.

On the other hand, after India recognized the government of the People's Republic of China in 1949, relations with Taiwan continued with only scanty private-sector exchanges for over 40 years. However, the Taipei Economic and Cultural Center (in New Delhi) and the India–Taipei Association (in Taipei) were founded in 1995 as mechanisms for mutual representation by both India and Taiwan. As a result, a real relationship began. Mutual economic- and trade-related traffic has gradually stepped up as a result of a memorandum of understanding regarding private aviation service in 2001, the establishment of nonstop service between the two the following year, and the signing of the Investment Promotion & Protection Agreement in 2002. In June 2007, Taiwanese opposition presidential candidate Ma Ying-jeou (current president) received an invitation and visited India.

In the backdrop to closer India–Taiwan relations lies in the mass media, academia, and the like, where there is a sense of caution over rising dependence on investment in China, and where there is a surge in reflection over the late penetration of the Indian market (the Taiwan-India Cooperation Council website). “Business in Southeast Asia has a sense of saturation, and Taiwanese businesses that have expanded to China are attempting to disperse their investment risk. On this point, India–Taiwan relations have benefits for both sides” (the website of the Taipei Economic and

Cultural Office in New Delhi).

1.2 Society

The flow of people between South Korea and India in both directions was about 70,000 in 2009, and with Taiwan about 20,000. In 2001, there were fewer than 30,000 South Korean tourists who visited India, but as the economic relationship grew closer, this expanded rapidly, exceeding 80,000 in 2007. In 2010, the number of long-term South Korean residents in India rose to 8518.

The number of tourists is not necessarily limited only to those who went for the purpose of tourism, but it is difficult to obtain data in both directions for the number of people entering a country separated by purpose, and so the details are hard to get at. Still, since tourism appears only due to a strong interest in the other country, the fact that there are many tourists indicates that the people of one country have a strong interest in the other regardless of whether their purpose was tourism, to study abroad, or commerce. Thus, the trend line for the number of tourists is used here to represent the flow of people.

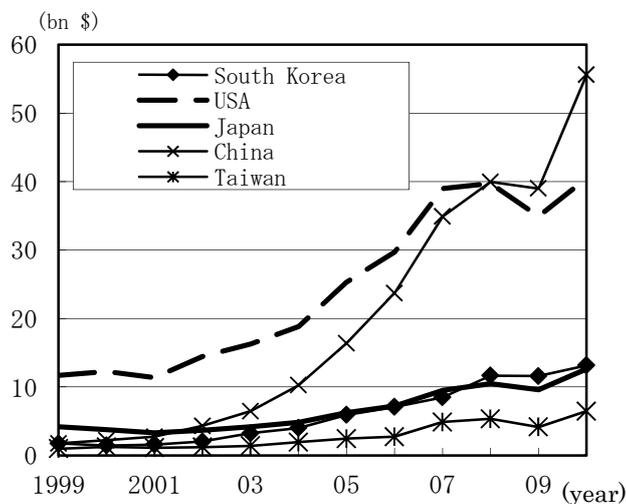
On the other hand, Taiwanese airlines (China Airlines and EVA Airways) started direct service in 2002. In 2010, visa issuance to Indians exceeded 11,000, and visa exemptions also increased to about 5,600. As a result, the numbers of travelers from India to Taiwan in 2010 totaled 23,849 people. Also, the number of Indians living in Taiwan has been gradually continuing to rise from 1052 people in 2001 to 1520 people in 2010. Additionally, the number of travelers from Taiwan to India has been trending at about 20,000-30,000 per year, and the number of people visiting India for reasons including tourism, religion, business, and the like has been increasing as economic relations have become more active. Furthermore, a memorandum of understanding was issued in 2010 regarding cooperation in higher education, resulting in mutual recognition of university academic backgrounds.

2. Economics

2.1 Trade

Trade between India and each of South Korea and Taiwan is small compared to trade with China and the US, which are at the level of \$40-50 billion per year, but both are achieving growth (figure 6.1). Indian trade with South Korea and Taiwan in 1999 merely amounted to a respective \$1.7 billion and just shy of \$1 billion. However, this started to gradually increase, and the 2010 numbers are a respective 7.6-fold and 6.6-fold increase (for reference, Japanese trade with the US grew 3-fold between 1999 and 2010, and with China rose 31-fold).

Figure 6.1: India's external trade

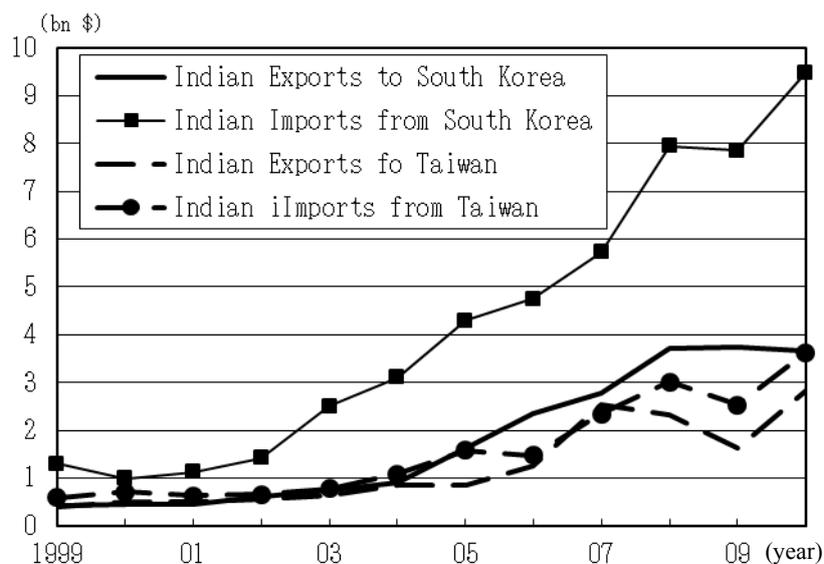


Source: IMF multilateral trade statistics; Statistics of imports/exports, the Republic of China

Indian trade with South Korea grew at an eye-popping pace, reaching \$13.1 billion in 2010 and exceeding trade with Japan (\$12.6 billion). In an India–South Korea joint statement in January 2010, both sides agreed to expand bilateral trade to \$30 billion by 2014.

Trade with Taiwan did drop to \$4.1 billion in 2009 due to the effects of the financial crisis, but rallied in 2010 to a record high of \$6.4 billion, about half the level of India–Japan trade. There is also the goal to “raise trade to \$10 billion soon” (Tianzhu Quarterly, Issue 20).

Figure 6.2: The direction of India's trade with South Korea and Taiwan



Source: IMF multilateral trade statistics; Statistics of imports/exports, the Republic of China

Within Indian imports from South Korea in 2010, the electrical/electronics-related sector was the largest, at 15%. This was followed by general machinery at 13%, steel at 11%, and then plastics and automobile parts. Meanwhile, the largest share of India's exports to South Korea was taken by oil and mineral fuel, at 34%. The largest share of India's imports from Taiwan in 2010 was taken by electrical and electronic components (such as recording/playback, recording/playback of TV video and audio, and the like) at nearly 20%, followed by organic chemicals and steel. Meanwhile, exports from India to Taiwan included oil meal from soybeans, etc., frozen fish, and the like.

2.2 FTA/EPA

In the backdrop to the increasing activity in trade between South Korea and India is the launch of the Comprehensive Economic Partnership Agreement (CEPA) between the two countries in 2010. South Korea has high hopes for the economic effect from this agreement. For example, regarding South Korea's IT services industry, it has been pointed out that "as a result of CEPA coming into effect, the exchange of products as well as service trade, investment, the movement of people, and economic cooperation between the two countries become freer, and so it is necessary to acquire experience, knowhow, business models, and the like through partnering with the primary Indian IT services companies" (Lee, 2009).

At this point in time, the ink has still barely dried on the agreement. Nevertheless, according to the South Korean Yonhap News on January 20, 2011, it was evaluated at the first meeting of the India-Korea CEPA Joint Committee of South Korea's Ministry of Foreign Affairs and Trade and India's Ministry of Commerce and Industry that that there has been an effect, such as by bilateral trade rising by 40% to a record high after CEPA came into effect. In light of that, there was an agreement to proceed with improvements to CEPA.

However, even though India-Korea trade in 2010 grew by 40% year-over-year (and exports also rose by about the same amount), greatly surpassing that of trade between South Korea and the world as a whole (a 29.8% increase, with a 28.3% increase in exports), there is also the cautious viewpoint that "it is unlikely that Korea can enjoy any immediate benefits from the Korea-India CEPA because it has not been long since tariffs were abolished" (Park, 2011).

Table 6.1: India–Korea CEPA

	Example Items	Indian Concessions		South Korean Concessions	
		Item Basis	Cost Basis	Item Basis	Cost Basis
Tariff Elimination		71.5%	74.5%	88.6%	84.7%
1-5% reduction within 8 years	Diesel engines, extruding machines	8.8%	8.5%	0.3%	0.2%
50% reduction within 8/10 years	Color TVs, transmission shafts	5.0%	2.4%	4.2%	4.8%
Exceptions	Passenger vehicles, air conditioning, all automatic washing machines (under 10 kg), gasoline engines (at least 50 cc), motor trucks	14.7%	14.5%	6.8%	10.3%
Total		100.0%	100.0%	100.0%	100.0%

Note: There are no more than 100 new items with immediate abolishment of tariffs. All agricultural and fishery products are low tariff items, 50% tariff reduction items, or exceptions, and none are tariff abolishment items.

Source: Mizuho Research Institute (2009) Mizuho Policy Insight

Here, the India–Korea CEPA and the Japan–India EPA will be compared. Looking at the rate of liberalization, the India–Korea CEPA is 69.6% (on a tariff item basis, HS 8-digit level), while the Japan–India EPA is around 90%. On the basis of value of trade as well (according to Mizuho Policy Insight 2011), the Japan–India EPA (at around 90%) is at a level that exceeds that of the India–Korea CEPA (at around 75%). However, even if the Japan–India EPA is at a higher level than the India–Korea CEPA, it is necessary to pay attention to the fact that at an intermediate stage, the liberalization rate of the Japan–India EPA is less than that of the India–Korea CEPA (Table 6.2).

Table 6.2: Comparison of liberalization rate for India of the Japan–India EPA and the India–Korea CEPA

	2014	2017
Japan–India EPA	18.4%	22.9%
India–Korea CEPA	7.8%	69.6%

Source: Sugawara (2011)

Meanwhile, although Taiwan did enter into an agreement with India to avoid double taxation, the most watched move is that towards an India–Taiwan FTA.¹

Both the Chung-Hua Institution for Economic Research, a major Taiwanese research institute, and the Indian Council for Research on International Economic Relations (ICRIER) have jointly begun

¹ The statements in this section basically are attributable to the contents of a briefing from Liu Danien of the Chung-Hua Institution for Economic Research under the condition of it being an explanation based on personal opinion.

research regarding an India–Taiwan FTA. To Taiwan, the benefit of such an agreement would be the reduction or elimination of tariffs in the manufacturing industry. Since IT-related tariffs have already been eliminated through the WTO, the benefit is in other machinery and electrical equipment. Agriculture is basically oriented towards the domestic market, so there is no advantage there, and services will not be helped particularly greatly either. To India, the benefit of deepening economic relations with Taiwan with its different industrial structure is that a complementary relationship would strengthen without redundancy of industries.

Taiwan and China signed the cross-strait Economic Cooperation Framework Agreement (ECFA) in 2010. In response, Taiwan has been putting effort into entering into economic agreements, but this has not been apparent on the surface with regards to an India–Taiwan FTA. There have been news reports and the like about statements by the Indian Foreign Minister and spokespeople for Taiwan’s Ministry of Foreign Affairs, but due to the complicated political relationship between Taiwan and China, it is rare for news to surface about specific negotiation stages or processes in the manner during normal economic agreement negotiations such as the Japan–India EPA.²

However, even if an India–Taiwan FTA enters into effect, mutual trade and investment will not necessarily balloon at once. For example, unlike China, where investment by Taiwanese firms is active and dispatches of personnel is frequent, there is a strong tendency to avoid assigning employees—with their families—to India, where the language, food, culture, customs, and climate are very different.

2.3 Investment (sales)

According to the foreign direct investment (FDI) statistics of India’s Ministry of Commerce and Industry, the cumulative total of FDI to India from April 2000 to April 2011 was \$780 million from South Korea (ranking 15th), and \$42 million from Taiwan (ranking 41st). According to the website of South Korea’s Ministry of Foreign Affairs and Trade, cumulative FDI in India had reached \$1.64 billion as of September 2009.

Looking by company, the major South Korean corporations including Posco, Samsung, and LG have been increasing their production and sales activities in India. Next, the specific investment activities of South Korean and Taiwanese firms are presented.

² At a press conference, a senior official at Taiwan’s Ministry of Foreign Affairs stated that “there is an interest in a Taiwan–India FTA, but a feasibility study and the like should be conducted first” (February 11, 2010). According to a report by China WTO based on Lianhe Zaobao, the head of the East Asia Division of India’s Ministry of External Affairs met with the Taiwanese press corps in New Delhi, and stated that in light of the enormous trade deficit with China, “this is not the time to start discussing an India–China FTA, and while its possibility has been unthinkable for the past few years, an India–Taiwan FTA is more likely” (March 14, 2011). The electronic version of the Liberty Times states that Taiwan’s inactive posture stands out against India’s External Affairs Minister Krishna support of an India–Taiwan FTA. It notes that in the backdrop to India’s active support lies the territory dispute between India and China, the strategic race in the Indian Ocean, India’s large trade deficit with China, and the like (May 11, 2011). According to United Daily News, President Ma Ying-jeou stated both India and Taiwan are studying an India–Taiwan FTA (June 9, 2011).

South Korean Corporations

Posco

South Korean steel heavyweight Posco announced a plan in 2005 to build an integrated steelworks in Orissa in India's East. Starting with a production of 3 million tons in 2010, this will ultimately be a 12 million ton establishment. Extraction rights at mines have also been acquired, and overall investment is predicted to reach \$12 billion.

In 2009, under the condition that environmental conservation be practiced, such as forest transplantation, the Indian government approved the use of the resulting land for the ironworks. However, in 2010, it revised the land use authorization having determined that there is a need to protect the traditional forest inhabitants and waterways, and suspended the construction activity. In January 2011, the government approved the plan by adding conditions suppressing environmental impact, but there has been a local lawsuit over the ore extraction rights and a resolution is still not in sight. As a result, Posco is planning to add the building of a separate ironworks in the southern state of Karnataka, as well as to enter into a joint venture with the Steel Authority of India (SAIL) (Nihon Keizai Shimbun, April 23, 2011).

Samsung India

Samsung India began business in 1995. At their Noida factory (in the state of Uttar Pradesh), color TVs, color monitors, washing machines, refrigerators, and cellular phones are manufactured. The production of color TVs and LCD televisions began in 2007 at the Sriperumbudur factory (in the state of Tamil Nadu), which is furnished with cutting-edge facilities. According to the Hindustan Times (February 9, 2010), Samsung is showing a motivated stance towards business expansion, such as by planning investment of about \$10 million (470 million rupees) in 2009 and \$15 million (700 million rupees) in 2010, and by aiming to increase sales from \$2.2 billion in 2009 (2% of Samsung's global sales) to \$3.08 billion in 2010 (3% of sales). The goal for 2011 is to increase sales by 40% to \$4.9 billion, and to that end, Samsung will introduce 35 new models of television, including those with 3D capabilities, as well as Android phones (IndianExpress.com news, April 13, 2011). From 2010-2011, \$70 million will be invested to build a consumer electronics factory to produce air conditioners and refrigerators (Tianzhu Quarterly, Issue 21).

LG Electronics

LG Electronics will invest \$300 million in the three years from 2010, and will augment the two factories in Greater Noida (in the state of Uttar Pradesh) and the state of Maharashtra. In the first half of 2009, TVs, refrigerators, and air conditioners had the largest share (Nihon Keizai Shimbun, July 3, 2010).

Japanese Corporations

Looking at sales share focusing on consumer electronics, the high share of South Korean firms stands out. In terms of microwave ovens, Japanese corporations are finally showing their faces at

the front lines of the battle for market share, but still are very small, with Panasonic at 1.23% and Sharp at 0.15%. Sony is fighting hard in the LCD TV market, and according to Reuters (February 18, 2011), sales in that sector from January-September 2010 was a three-cornered battle between Sony (with a 23.0% share), Samsung (with a 22.0% share), and LG Electronics (with a 22.3% share).

Table 3: Consumer electronics share in the Indian market (FY 2009)
(CRT CTVs and air conditioners are calendar year 2010)

CRT CTV market		Air conditioner market		Refrigerator market	
Elcot	27%	LG	22%	LG (1-12/2009)	26%
LG	21%	Samsung	17%	Samsung	19%
Vid Group	17%	Voltas	16%	Whirlpool	18%
Samsung	13%	Other	45%	Videocon Group	16%
Onida	8%			Godrej	16%
Other	14%			Other	5%

Washing machine market		Microwave oven market	
LG	28%	LG	32%
Samsung	19%	Samsung	16%
Videocon Group	16%	Whirlpool	10%
Whirlpool	16%	IFB	10%
Godrej	7%	Onida	10%
IFB	4%	Videocon Group	9%
Onida	4%	Godrej	8%
Other	6%	Kyoryo	4%

Source: TV Veopar Journal (http://www.adi-media.com/tv_veopar_journal.htm)

Taiwanese Corporations

Delta Electronics, which began investing in India in 2003, has factories in the north in Rudrapur (producing telecommunications power systems), Gurgaon in the outskirts of New Delhi (projector-related products), and in the southeast in Pondicherry (electronic components). According to Tianzhu Quarterly (Issue 21), \$15 million will be invested in a new factory in Chennai, and devices for solar power generation will be produced starting in April 2012.

Mediatek, which is involved in semiconductors for cellular phones, announced a plan on July 2011 to acquire Indian cellular services company Spice Digital for around \$20 million. This aimed to expand business in the burgeoning Indian cellular phone-related market.

In 2011, Acer aims to increase sales in the Indian market by 20% to \$600 million. Acer has set up 750 branches called “Acer galleries”—of which 240 are in the state of Andhra Pradesh (with 80 in Hyderabad)—in the major cities through local sales partners. But the idea is to increase this to 4000 locations in 10 states within the year (Hindustan Times, March 15, 2011).

3. A comparison of strategy

Here, the respective strategies employed in the Indian market by South Korean corporations, Taiwanese corporations, and Japanese corporations will be compared. First is the strategy of the South Korean firms, which have been deploying in India the most actively. Samsung suspended sales of curved CRT televisions in 2006 and began putting effort into marketing LCD and plasma TVs, thus starting to deploy a premium pricing strategy in the Indian market. On the other hand, localization was also furthered by the cumulative effects of small modifications in product design. For example, the output of television speakers was raised to take into account the characteristics of areas with high levels of ambient noise, adding the feature of allowing remote control operation of programs frequently used by users, adding voltage regulators to consumer electronics for frequent blackouts, and adding the functions in washing machines of remembering the state before operation was halted and of not damaging saris, the female national costume (Park, 2009).

In furthering localization of products, Samsung's strategy has been a reverse engineering style of development. Instead of bringing in high-quality/high-added-value products as-is, they are redesigning by analyzing local needs and only increasing necessary functions (Katayama, 2011).

With the recognition that managers having a global mindset are indispensable, Samsung launched the "Local Expert Program" in order to nurture internal human resources into executives of overseas subsidiaries in order to administer those subsidiaries efficiently (Chang, 2009). This program, which started in 1990, dispatches personnel who are at least in their third year of employment and at the deputy section chief class to Asia, Europe, the Middle East, Russia, and the like. They remain there for one year, and instead of working, they specialize in the local way of life. With the aim of nurturing them into experts through the accumulation of this kind of experience, hundreds of people are deployed every year, with a cumulative total of about 4000.

Meanwhile, at LG Electronics, localization is assigned to local experts in charge of sales, and marketing duties are also nearly all entrusted to them. Of about 3500 employees, there are only 27 South Koreans posted overseas, who are assigned only to production and finance, while those in charge of sales and human resource administration are mainly locals. Also, LG is putting energy into building a distribution network in India; half of the branch employees are managed as after-sales service personnel, and a female sales representative program has been implemented (Park, 2009).

By contrast, the business deployment of Japanese corporations in India has overall been timid compared to Southeast Asia and China. It is necessary for the importance of marketing, a personnel strategy, early-stage investment, and top-down decision making to be more recognized. As long as this awareness is lacking, Indian business deployment will be difficult with a half-baked, "wait-and-see" thought process (Kondo, 2009).

Similarly, Taiwanese firms are finally at the stage of starting their offensive in India. Xiao (2008)

presents the lament of a responsible party at a trade promotion organization, who said, “Taiwan is the only place in the world that considers India to be an emerging market. South Korea and others already have over 10 years of experience in the Indian market.”

Chang and Delios (2006), who analyzed the strategy of the South Korean firms to compare it to that of the Japanese corporations, note that both groups adopted contrasting overseas business strategies. The Japanese corporations, which expanded abroad first, emphasized the advanced markets, and invested in a risk-averse manner in markets having low political risk. By contrast, South Korean corporations, which forayed abroad later, chose the path of entering emerging markets with high risk and the possibility of securing an undeveloped market, instead of a head-on clash with their rivals from Japan. Put succinctly, the strategy of avoiding competition from Japanese rivals involved putting effort into emerging markets and aiming for high risk and high return. According to Chang and Delios, “The most common investment destinations for South Korean firms were China, Southeast Asia, and the Eastern European countries that were in the process of shifting from the communist system to market economies.” It can be said that India is an extension of this pattern. Especially now, China and India are in the limelight as members of the BRICS, but South Korean corporations early on—with the mindset of moving into niche markets—had actively and boldly opened regions having high political and economic uncertainties, and that effort is now paying off.

A future point of interest is what kind of business strategy South Korean firms will take in the Indian market, which is ceasing to be a simple niche market. This is because the Japanese corporations, although late to the game, have keenly felt the need to develop products that meet local demand, and are beginning to seriously engage in breaking into emerging markets. During a visit to New Delhi, Panasonic’s President Fumio Ohtsubo stated, “We will seek out what functions are truly necessary to India’s consumers in order to develop products. We had not been able to do the obvious task of understanding the local lifestyle and needs” (Nihon Keizai Shimbun, April 16, 2010). Panasonic has been putting effort into developing volume zone (product adoption price band) products targeting the broader middle-class, and has unveiled a plan that is not overly obsessed with high functionality or an upscale image when developing products in the Indian market.

In this way, Japanese corporations are aiming to shift from conventional strategies, and separately, Taiwanese firms are also interested in investing in India. Chinese corporations are also indicating interest in the Indian market. Even as a high-growth market, vigorous competition and the clash of powerful corporations can be predicted for the future. South Korean corporations have thus far steadily developed new demand by cleverly aiming at the gap between Japanese corporations, which specialize in high-cost, high-quality products, and the relatively low-cost local corporations. Nevertheless, as Japanese firms and the like continue strengthening their products for the middle classes, cost competition will also intensify. Will they go for a straightforward method avoiding a head-on collision with the dominant corporations of other companies at a relatively low price point,

such as the volume zone, will they place a degree of importance on a product class that will not be subject to cost competition, or will they aim at the overall demand by an assortment of products at a wide range of price points? To South Korean companies, which are accumulating successful experiences in the Indian market, there is the question of strategy towards their next step.

If the time has come for South Korean companies to readjust their future strategy, it can be said that the chance has arrived for Japanese and Taiwanese firms to aim at infiltrating the Indian market. As Kondo (2009) notes, a long-term perspective is indispensable when deploying business in India while recognizing the importance of marketing, a human resources strategy, early-stage investment, and top-down decision making. Recently, the interest of Japanese firms in India has been shifting from the stage of taking a look at the local conditions for now based on the difficulty in dispatching employees to the site, to the stage of deciding how to implement business in India while recognizing the difficulties in the area of benefits.

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