

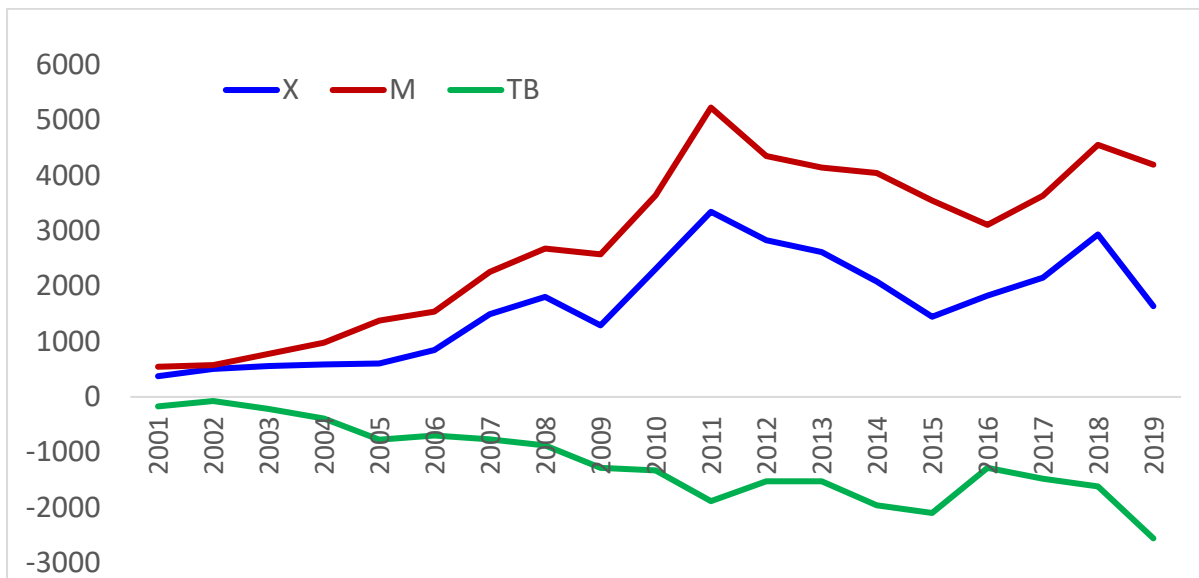
## Opportunities in Trade and Commerce between India and Taiwan in the Post-COVID-19 Era

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While India launched the Look East Policy in 1991 to deepen the economic cooperation with the East and Southeast Asian partners, greater trade relationship with Taiwan has only been a recent phenomenon. Over 2001-19, India's exports to Taiwan increased from USD 0.37 billion to 1.64 billion, while the corresponding import figures were USD 0.54 and 4.19 billion respectively. The bilateral trade trends are reported in Figure 1, which indicates that India has witnessed a steadily worsening trade deficit against Taiwan over the period.

Figure 1: Indo-Taiwan Trade Trends (USD Million)



Source: Constructed from the Trade Map data

India's widening trade deficit with Taiwan can be understood considering the bilateral trade composition. While the Indian export basket to Taiwan primarily consists of primary (cotton, ores, minerals) and intermediate (chemicals) products, the import basket is intensive in value-added and technology-oriented products (iron and steel, machinery and equipment). It is argued by recent studies that there exists considerable scope to enhance the bilateral trade flows further.<sup>1</sup> Given the recent geo-political set up, Taiwan has been keen to collaborate with India both on trade and investment fronts.<sup>2</sup> India on the other hand, recently has shown stronger resolve to break from the 'One China' policy it strictly adhered to for a long time<sup>3</sup> and expand the economic ties with Taiwan.<sup>4</sup> This evolving perspective became amply clear, when India announced last year that the change in investment rules for FDI coming from neighbouring countries are not to be imposed on FDI originating in Taiwan.<sup>5</sup> The growing trade relationship with Taiwan can play a crucial role in reducing India's dependence on China for several commodities, which has emerged as India's major policy objective in recent period.<sup>6</sup> India is actively seeking FDI and technology transfer from Taiwan in the recent period.<sup>7</sup>

However, it is unlikely that the process of Taiwan replacing China as the major trade partner of India would be an easy and fast one. Tables 1 and 2 show the reach of Taiwan in India's import and export baskets for select commodities. It has been noted that for some commodities (e.g., organic chemical, plastic, machinery and equipment, electrical machineries etc.), Taiwan has the potential to reduce India's import dependence on China. However, for several commodities like inorganic chemical, pharmaceutical, apparels, footwear, aluminium, vehicles, instruments etc., China may still dominate India's import basket for some time. Conversely in some commodities (e.g., mineral fuels, iron and steel, marine products, machinery and equipment, electrical machineries etc.), Taiwan in long run can emerge as a major replacement market for India, lowering export dependence on China. However, for commodities like organic chemical, ores and slag, cotton, plastic, salts etc., animal or vegetable fats, such a replacement is unlikely. One point of concern is the relative decline of Taiwan as India's trade partner for several commodities, which deserve a closer analysis.

<sup>1</sup> [http://www.icrier.org/pdf/enhancing\\_trade\\_Investment\\_cooperation.pdf](http://www.icrier.org/pdf/enhancing_trade_Investment_cooperation.pdf)

<sup>2</sup> <https://economictimes.indiatimes.com/small-biz/trade/exports/insights/taiwan-sets-eyes-on-india-amid-china-us-trade-war/articleshow/69408405.cms>

<sup>3</sup> <https://www.hindustantimes.com/world/china-asks-india-to-adhere-to-one-china-policy-on-taiwan/story-OYK6F424ILOArbm1x5BJK.html>

<sup>4</sup> <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-set-to-expand-ties-with-taiwan-focus-on-trade-and-investments-says-envoy/articleshow/80201407.cms?from=mdr>

<sup>5</sup> <https://economictimes.indiatimes.com/news/economy/policy/new-fdi-rules-not-for-taiwan-inflows/articleshow/75479443.cms?from=mdr>

<sup>6</sup> <https://www.theindiaforum.in/article/india-s-dependence-china>

<sup>7</sup> <https://www.investindia.gov.in/country/taiwan-plus>

**Table 1: Taiwan’s reach in Indian Import Basket**

Products	Taiwan’s Average Share in Indian Imports (%)			
	2001-05	2006-10	2011-15	2016-19
Inorganic Chemical	0.30	0.46	0.70	0.55
Organic Chemical	2.04	3.38	3.18	2.50
Pharmaceuticals	0.20	0.22	0.48	0.43
Misc. Chemical Products	1.02	1.02	1.36	1.35
Plastic	5.42	7.26	6.58	5.60
Paper and Paperboard	0.36	0.60	1.14	1.63
Cotton	2.28	1.24	0.56	0.35
Apparel, Knitted or crocheted	0.76	0.56	0.56	0.28
Apparel, Not knitted or crocheted	2.40	0.56	0.24	0.08
Footwear	1.48	1.16	0.48	0.28
Iron and Steel	0.72	1.50	1.52	1.83
Articles of Iron and Steel	1.18	1.00	1.16	1.35
Aluminium	1.24	0.54	0.34	0.35
Machinery and Equipment	2.92	2.04	1.88	2.03
Electrical Machinery and Equipment	3.22	2.10	2.62	1.63
Vehicles and Accessories	1.40	0.56	0.48	0.38
Instruments, Medical, Surgical, Experimental	0.60	0.82	0.90	0.73

Source: Constructed from Trade Map data

**Table 2: Taiwan’s reach in Indian Export Basket**

Products	Taiwan’s Average Share in Indian Exports (%)			
	2001-05	2006-10	2011-15	2016-19
Organic Chemical	2.26	1.80	1.50	1.53
Mineral Fuels	0.60	2.34	2.16	1.65
Ores, Slag, Ash	2.18	0.34	0.02	0.50
Marine Products	1.58	0.86	1.18	1.00
Cotton	2.82	1.70	0.90	0.80
Plastic	2.20	0.52	0.22	0.18
Machinery and Equipment	0.58	0.32	0.54	0.43
Electrical Machinery and Equipment	0.96	0.38	0.40	0.53
Salt, Sulphur, Stones	3.44	2.40	1.94	1.38
Iron and Steel	2.22	1.66	2.74	2.88
Coffee, Tea, Spices	0.20	0.26	0.24	0.35
Animal or vegetable fats and oils	0.90	0.66	0.60	0.65
Tanning or dyeing extracts	2.52	1.62	1.38	1.30
Copper Products	7.32	3.44	0.64	4.63
Instruments, Medical, Surgical, Experimental	0.38	0.20	0.24	0.38
Misc. Chemical Products	1.48	1.16	0.72	0.60

Source: Constructed from Trade Map data

A moot question then would be whether India could indeed enter into a Free Trade Agreement (FTA) with Taiwan in the coming period, to consolidate the expected benefits

further? The political issue of handling the Chinese pressure, citing the ‘One China’ policy would of course be an anticipated roadblock. Apart from that, one needs to judge the role of economic congruence between the players. The recent analysis indicates that the trade pattern of India and Taiwan is becoming increasingly similar, which can fuel bilateral trade flows and in turn, investment relationships. Table 3 shows the Intra-Industry Trade (IIT), i.e., the simultaneous export and import across product categories and for the aggregate trade flows. It is observed that through the bilateral IIT is presently at a modest level, it is showing a rising trend in the recent period, underling more intense trade flows within sub-categories. A formal trade cooperation can provide a significant boost to this evolving trend, resulting in deeper production integration between the two countries. One of the major underlying objectives of replacing the ‘Look East Policy’ by the ‘Act East policy’ in 2014 has been to integrate closely with the East Asian value chains. As India has opted out of the Regional Comprehensive Economic Partnership (RCEP) negotiations in 2019, Taiwan can offer India an opportunity through that aspect as well. It deserves mention that lead Taiwanese players are already part of India’s value chains in sectors like IT and automotive products.<sup>8</sup>

**Table 3: Intra-Industry Trade Scenario for India and Taiwan**

HS Code	Description	Average IIT Index	
		2010-14	2015-19
28	Inorganic Chemicals	16.98	15.55
29	Organic Chemicals	18.85	24.47
30	Pharmaceuticals	32.89	35.00
72	Iron and Steel	14.48	11.10
73	Articles of Iron and Steel	13.42	14.95
84	Machinery and Equipment	11.28	9.95
85	Electrical Machinery and Equipment	10.81	15.99
87	Automobile and Transport Equipment	8.21	23.85
1-99	All Sectors	10.64	11.67

Source: Computed from Trade Map data

A quick analysis of the Organisation for Economic Co-operation and Development’s (OECD) Trade in Value Added (TiVA) data<sup>9</sup> involving China, India and Taiwan for six major manufacturing sectors, as reported in Table 4, shows interesting results. The numbers reported in the table are interpreted in the following manner. For instance, for India in 2015, its own share in total exports (i.e., the DVA-content of exports) of the Computers, Electronic and Electrical category had been 63.76 percent, compared to the corresponding figures of 0.50 percent and 6.53 percent for Taiwan and China respectively.

<sup>8</sup> [https://www.eria.org/RPR\\_FY2013\\_No.7\\_Chapter\\_5.pdf](https://www.eria.org/RPR_FY2013_No.7_Chapter_5.pdf)

<sup>9</sup> [https://stats.oecd.org/Index.aspx?datasetcode=TIVA\\_2018\\_C1](https://stats.oecd.org/Index.aspx?datasetcode=TIVA_2018_C1)

The corresponding figures during 2005 had been 65.36, 0.58 and 3.02 percent respectively. The numbers indicate that while the domestic value added (DVA) in sectoral exports declined, the value addition contribution has increased from China but decreased from Taiwan. The table indicates that India is heavily dependent on import of intermediate products from China in all sectors, but not so much on Taiwan. The observation can be part explained by the absence of any bilateral trade preferences and modest presence of Taiwanese MNCs in Indian manufacturing sectors, which is growing only in the recent period. Conversely, in Taiwanese exports the rising proportional value addition from India underlines the growing participation by Indian players in its value chains. The result underlines the possibility of deepened value chain integration between Indian and Taiwanese players in case of a formalized trade agreement.

**Table 4: Comparison of Domestic Value Added (DVA) Content of Exports for India and Taiwan (Percent)**

Source Country for VA (%)	Base Metals and Fabricated Metal Products	Chemicals and Non-Metallic Minerals	Machinery and Equipment	Computers, Electronic and Electrical	Textile, Leather and Footwear	Transport Equipment
<i>India as Exporter</i>						
<i>2005</i>						
China	1.80	1.12	1.73	3.02	1.91	1.62
Taiwan	0.22	0.27	0.25	0.58	0.16	0.27
India	67.19	67.39	72.61	65.36	84.69	74.62
<i>2015</i>						
China	3.75	3.34	4.43	6.53	3.82	4.17
Taiwan	0.22	0.24	0.28	0.50	0.12	0.25
India	63.56	67.27	69.20	63.76	83.61	73.64
<i>Taiwan as Exporter</i>						
<i>2005</i>						
China	5.57	2.33	4.96	4.68	3.15	1.36
Taiwan	52.03	46.52	55.99	61.53	64.06	3.92
India	0.42	0.41	0.35	0.20	0.71	0.40
<i>2015</i>						
China	6.12	4.15	8.26	7.64	6.56	1.30
Taiwan	54.74	46.46	59.57	69.81	64.94	6.55
India	0.64	0.48	0.52	0.27	0.62	0.30

Source: Constructed from OECD TIVA database (OECD, 2018)

An associated and extremely pertinent concern would be how the two countries can handle the tariff reform question during a future trade negotiation. Table 5 presents the current product-wise average tariff scenario for both India and Taiwan. It is clearly

observed from the table that India is generally having a higher tariff for all the product categories vis-à-vis Taiwan, which will make negotiation a complex exercise. It needs to be borne in mind that the intense negotiation over tariff reduction forced India to opt out from the RCEP negotiations earlier.<sup>10</sup> The fact that Taiwan has already set their tariff regime at a lower level, would offer India a thin preference margin in the post-bloc period. Therefore, the determination of the preferential tariff regime would test the negotiating skill of the bureaucrats involved.

**Table 5: Comparing Average Applied Tariff Rates for India and Taiwan**

<b>Product Categories</b>	<b>India</b>	<b>Taiwan</b>
Animal products	32.5	16.2
Dairy products	35.7	17.4
Fruits, vegetables, plants	33.2	24.1
Coffee, tea	56.3	8.5
Cereals and preparations	37.1	29.5
Oilseed, fat and oils	52.0	15.8
Sugar and confectionary	51.5	15.5
Beverages and tobacco	74.7	15.9
Cotton	26.0	0.0
Other Agricultural Products	29.0	3.6
Fish and fish products	30.0	19.2
Minerals	11.2	2.7
Petroleum	42	2.1
Chemicals	10.2	2.8
Wood, paper	10.0	0.4
Textiles	22.3	7.3
Clothing	23.9	11.7
Leather, footwear	13.1	5.1
Non-Electrical machinery	8.1	3.0
Electrical machinery	9.1	3.4
Transport equipment	31.2	8.1
Manufactures, nes	11.1	2.9

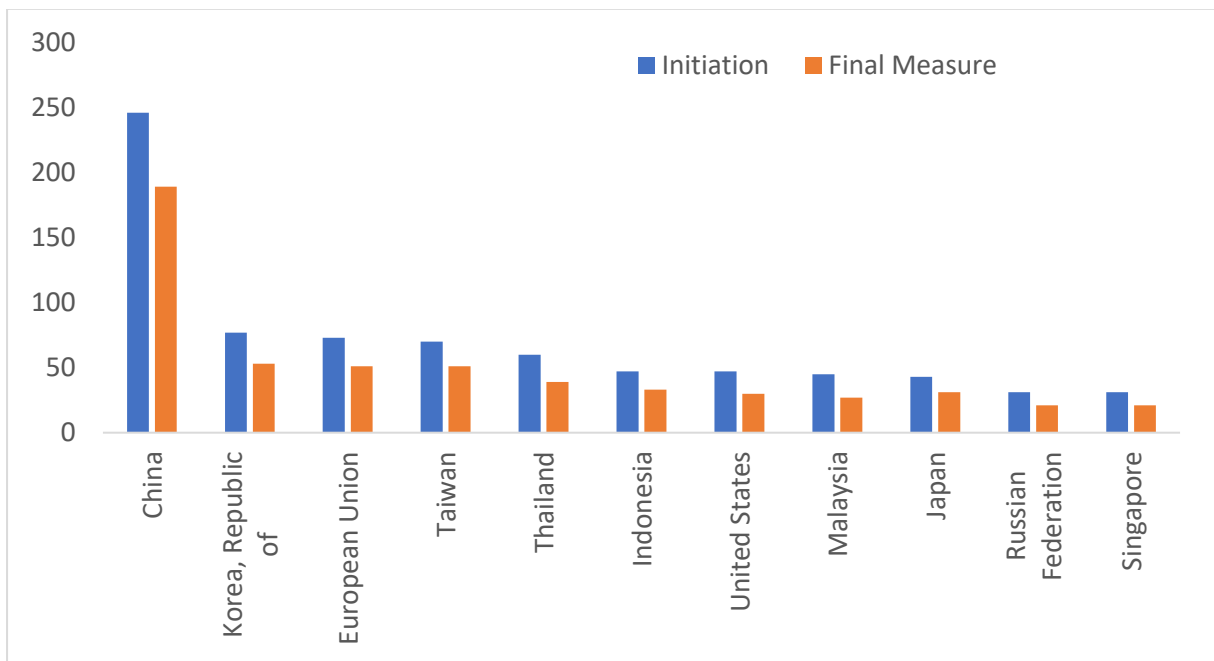
Source: World Tariff Profiles 2020

Last but not the least, if one looks into the composition of the India's anti-dumping activism (i.e., initiation of anti-dumping investigations and imposition of final duties / measures) till date, it is seen that the Taiwan is on the fourth position in the cumulative scale. On a number of cases, the country has imposed a final duty on exports originating

<sup>10</sup> <https://www.cambridge.org/core/journals/asian-journal-of-international-law/article/abs/is-it-finally-time-for-indias-free-trade-agreements-the-asean-present-and-the-rcep-future/99FDF187C9DA69525CBC62371C077C91>

from Taiwan.<sup>11</sup> In fact, Taiwan has lodged three complaints against India at the WTO dispute settlement body so far, of which two has been on the question of anti-dumping duties.<sup>12</sup> The third dispute had involved tariff treatment of IT products.<sup>13</sup> There is a need for both the countries to jointly work on this aspect, to ensure that in the aftermath of a trade deal when the tariff barriers come down, the contingency measures do not spring up simultaneously.

**Figure 2: India’s Country-wise Anti-Dumping Scenario**



Source: WTO Anti-Dumping database

To conclude, there exist significant economic complementarities between both economies, given the respective comparative advantages. For instance, while India can be a major exporter of medicines to Taiwan<sup>14</sup>, it will immensely benefit by collaborating with Taiwan in the sphere of green energy and aerospace segments<sup>15</sup>. While the lower labour cost, huge domestic market and improved ease of doing business framework provide a crucial opportunity for Taiwanese investors in the Indian market; the Indian quest for

<sup>11</sup> <https://www.dgtr.gov.in/>

<sup>12</sup> [https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds498\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds498_e.htm);

[https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds318\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds318_e.htm)

<sup>13</sup> [https://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds588\\_e.htm](https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds588_e.htm)

<sup>14</sup> <https://www.newindianexpress.com/nation/2021/mar/13/under-mega-quad-initiative-india-to-produce-covid-19-vaccines-for-indo-pacific-region-2275867.html>

<sup>15</sup> <https://english.ey.gov.tw/iip/B0C195AE54832FAD>

lower trade dependence on China in the post-Covid (and, definitely the Post-Galwan) period and growing urge for sophisticated technology can be met through greater involvement with Taiwan. The mutual economic complementarities and political compulsions can play a key role in facilitating bilateral cooperation in coming days.



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