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## Signs of a Structural Change in Indian Trade

Ryuichi Ushiyama  
Senior Economist

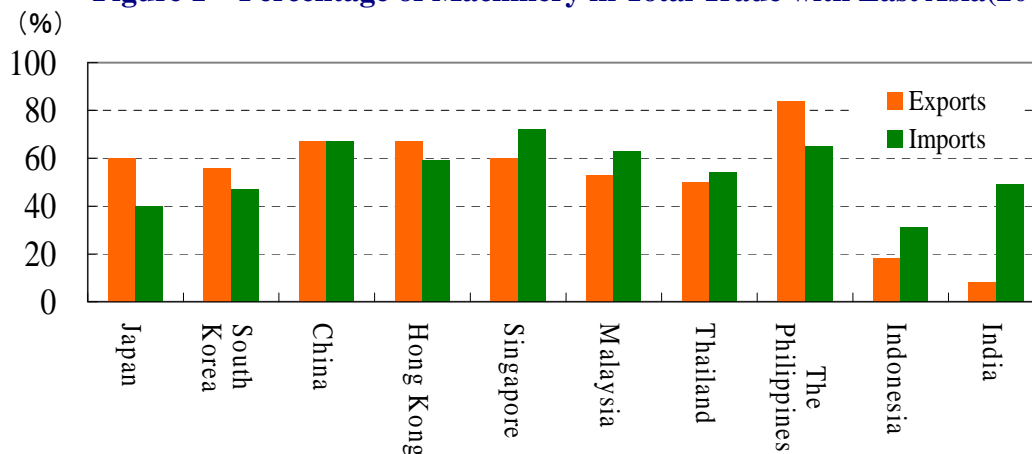
India's trade with East Asia has been expanding without falter. East Asia has already become its largest trading partner. The structure of India's trade, however, is markedly different from that of trade in East Asian countries and regions, as it is characterized by a small percentage of machinery parts. In the future, as inward investment by foreign enterprises increases, it is expected that India's trade structure will become more similar to that of East Asia.

### Net Imports Continue in Machinery Trade

According to a statistic of the International Monetary Fund (IMF), India's exports and imports to and from East Asia [nine countries and regions, comprising Japan, China, Hong Kong, the Republic of Korea and the five major countries of the Association of Southeast Asian Nations (ASEAN)] increased 3.3 fold during the five years up to 2006, exceeding the increase of 2.9 fold in its trade with the world as a whole during the same period. The share of East Asia has increased year after year to reach 25 percent for exports and 27 percent for imports. By region, East Asia today is India's largest trading partner in both exports and imports.

In India's trade with East Asia, the percentage of machinery items varies greatly between exports and imports (Figure 1). While machinery items account for approximately 10 percent of exports, they account for approximately 50 percent of imports. While the ratio of machinery tops 50 percent for both exports and imports in many East Asian countries and regions, India has not been able to outgrow the net-import situation in machinery.

**Figure 1 Percentage of Machinery in Total Trade with East Asia(2005)**



Note: Machinery is defined as that in category HS84-92.

Source: Compiled by this writer from United Nations' statistics.

India's low ratio of machinery to its total exports can be attributed to the fact that primary products, such as diamonds, iron ore, and petroleum products, still play the central role in this country's exports. Shipments of iron ore are increasing sharply, particularly to China.

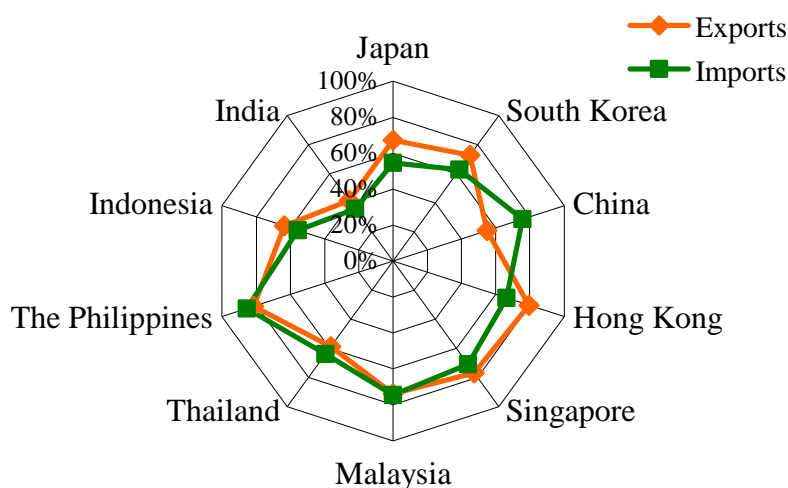
Meanwhile, the current increase in machinery imports can be attributed to the fact that purchases of cellular phones and computers from China, the Republic of Korea (South Korea) and elsewhere are burgeoning thanks to growing domestic demand. In sum, India's trade with East Asia can be characterized as an inter-industry trade, in which India imports machinery and exports primary and related products.

### *Small Trade in Machinery Parts*

Another characteristic is the fact that trade in machinery parts is small. Parts account for approximately 40 percent of India's machinery exports to and imports from East Asia. In contrast, in intra-regional machinery trade among the East Asian countries and regions, parts account for slightly over 80 percent in the Philippines and more than 60 percent in a majority of the countries (Figure 2).

In East Asia, multinational companies, including those from Japan, have aggressively built production centers since the 1980s. This has resulted in active trade in parts in the region and fueled the expansion of intra-regional trade. For example, while 40-49 percent of India's part imports come from East Asia, the comparable ratio for China is nearly 80 percent. Since India is not in East Asia, it is not appropriate to make a simple comparison, but this shows that India is still isolated from East Asian production networks.

**Figure 2 Percentage of Parts in Machinery Trade with East Asia(2005)**



Note: The definitions for parts are based on Ando (2006).

Source: Compiled by this writer from United Nations' statistics.

Bolstered by the nation's huge population and high economic growth, India's market is fast expanding. India is also making progress in signing economic partnership agreements (EPAs) and free trade agreements (FTAs) with East Asia, and the country is increasingly attracting attention as a destination of foreign investment. With the growth of inward investment by foreign companies, India will become more and more integrated into East Asia in the area of production. As demonstrated by the fact that the amount of computer part exports from East Asia to India increased 12 fold during the 10 years to 2005, exports are already increasing conspicuously in some product categories.

### *ASEAN as a Base for Exports to India*

In the ASEAN, the number of Japanese companies which use their local plants as bases for production and exports to India has begun to increase. Since last year, there have been many plans in Thailand to export parts to India, especially in the automotive industry. With other foreign automakers poised to increase production in India, Japanese companies are aiming to utilize Thailand, which boasts the largest clusters of automotive industries in the ASEAN, as “a supply center for parts,” (according to the president of a local subsidiary of a major Japanese manufacturer.)

Setting its sights on production expansion of electronics products in India, a Japanese electronic machinery maker, which has its Asian headquarters in Singapore, said that it wanted to export hard disk drives and their parts to India from its plants in Singapore, Thailand and other ASEAN nations.

As industrial clusters develop in India, so will its capacity to export parts made domestically. The amount of exports of automotive parts to East Asia increased approximately 14 fold during the 10 years through 2005, making these products one of the country’s principal export items. Like Toyota Motor Corp., some Japanese companies supply parts made in their ASEAN plants to their plants in India, and vice versa. If these activities increase, India’s trade in parts with East Asia will grow in both directions, and its style of trade will become more “East Asian.”

There are many obstacles, however. Many foreign companies are still reluctant to invest in India because roads, ports and harbors and other physical infrastructure and legal frameworks are not yet in place. As can be seen in its on-going negotiations with the ASEAN for an FTA, the Indian government’s stance is to secure a large number of items as exceptions to liberalization. Whether or not India can be smoothly integrated into the East Asian production network depends on the Indian government’s will and ability to implement economic reform and opening.

#### Reference:

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*Ryuichi Ushiyama*

*Senior economist in the Asia Research Department, specializing Asian politics and economies.*

*For inquiries regarding this paper, please contact at 81-3-3639-2813 (phone).*

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#### **Japan Center for Economic Research (JCER)**

Nikkei Kayabacho Bldg. 2-6-1 Nihombashi Kayabacho, Chuo-ku, Tokyo 103-0025, Japan

Phone: 81-3-3639-2801 / FAX: 81-3-3639-2839 / E-mail: jcernet@jcer.or.jp