

## ▶ Chapter 7

# India–ASEAN Relations

## —The Formation of a Production Network

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### Introduction

To India, ASEAN is an important political and economic partner as the “neighbor to the east,” and relations between the two have grown closer in recent years. The first half of this chapter summarizes the state of exchanges in the fields of trade and investment, touching on the background to and history of stronger Indian relations towards ASEAN as well as the movements towards signing FTAs, of which there has been a spate in recent years. In the second half, attention is paid to the movements of machinery products, particularly parts/components, among the items traded, and the state of progress in the formation of an India–ASEAN production network is noted.

### 1. Closer India–ASEAN relations

#### 1.1 The core of India’s “Look East” policy

In 1991, India turned to a policy of reform and liberalization, engaging in the “Look East” policy to strengthen economic exchanges with Asia, with relations with ASEAN as an axis. The ASEAN countries had been furthering an export-promoting industrial policy, leveraging the introduction of foreign capital in the 1970s and 80s, and overall had been treading a solid path of development. Behind India pushing ahead with the policy of reform and liberalization was not just that it had fallen into an economic crisis due to the worsening of the international situation such as with the Gulf War, but there is also the result of having been stimulated by the growth of the neighboring ASEAN countries.

India first became a dialogue partner with ASEAN in 1995, and the following year, it became a member of the ASEAN Regional Forum (ARF), which is for consultation over Asia’s security issues. In 2001, India–ASEAN summit meetings regularized, and India signed the basic treaty of ASEAN, the Treaty of Amity and Cooperation in Southeast Asia (TAC),<sup>1</sup> in 2003. In 2005, India became a member of the East Asian Summit (EAS), which assembles ASEAN and six other countries such as Japan and China.

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<sup>1</sup> The treaty stipulates non-interference in the domestic affairs of other countries, the renunciation of the use of force, and the like, and was adopted at the First ASEAN Summit Meeting in 1976.

## 1.2 Building an FTA network with ASEAN

### (1) Bilateral FTAs

India embarked on trade liberalization with ASEAN in 2005, when an FTA between China and ASEAN came into effect. In September of that year, “Early Harvest (EH)” measures were introduced with Thailand as a preliminary stage towards an FTA; tariffs were lowered on 82 items such as color TVs and air conditioners, and were eliminated on both sides by September 2006. A Comprehensive Economic Cooperation Agreement (CECA) with Singapore came into effect in August 2005, targeting a wide range of areas such as trade in products and services, investment, and the movement of people. In July 2011, a CECA (a comprehensive FTA) came into effect with Malaysia. India agreed to begin negotiations towards a bilateral FTA with Indonesia in February 2011.

### (2) AIFTA

While India has been furthering bilateral FTAs with ASEAN, AIFTA came into effect in January 2010. Before AIFTA, India had imposed a maximum 10% tariff rate (most favored nation tariff rate) on many manufactured products, but this was lowered to 7.5% at the same time that the agreement launched, and further to 5% in January 2011.<sup>2</sup> India and five ASEAN countries<sup>3</sup> plan to eliminate tariffs on 80% of about 5000 traded items by the end of 2013 (and a portion by the end of 2016). When items that will have a reduced tariff are included, 90% of items are the targets of trade liberalization in AIFTA. The next focal point involves the negotiations towards liberalization of service trade and investment. Due to India’s relative advantage in the IT field and the like, there is a need to expand the intake of Indian workers, and negotiations are proceeding.

## 1.3 Trade relations—ASEAN as India’s #3 export destination and #2 import source

Below is an examination of the state of India–ASEAN economic relations from trade (in goods), direct investment, and the movement of people.

First, in terms of trade, the 10 ASEAN countries taken together were India’s third largest export destination and second largest import source in 2010 (tables 7.1 and 7.2). Although it is not in the figures, India is very small from ASEAN’s perspective and has a low ranking, rising from 15th to 9th in terms of exports and from 21st to 13th in terms of imports from 2000-2010.<sup>4</sup> Exports to India (in 2010) were only 3.7% of ASEAN’s total exports, not even half of the share of the top holder, China (11.1%). In terms of imports, India’s share is even smaller at 2.1%, less than a sixth of the top holder, Japan (12.6%).

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<sup>2</sup> JETRO (2011a).

<sup>3</sup> Singapore, Malaysia, Thailand, Indonesia, and Brunei.

<sup>4</sup> Based on five ASEAN countries (Singapore, Malaysia, Thailand, the Philippines, and Indonesia). Calculated from UN trade statistics.

Table 7.1: India's export destinations

2000				2005				2010			
Rank	Country	Export Value	Share (%)	Rank	Country	Export Value	Share (%)	Rank	Country	Export Value	Share (%)
(2)	ASEAN	2,749.3	6.4	(2)	ASEAN	9,914.9	10.1	(3)	ASEAN	20,679.9	9.5
1	USA	9,083.3	21.3	1	USA	16,475.2	16.8	1	US	27,469.2	12.6
2	Hong Kong	2,608.4	6.1	2	UAE	8,280.8	8.4	2	UAE	26,474.6	12.2
3	UAE	2,468.8	5.8	3	China	6,473.3	6.6	3	China	17,699.6	8.1
4	UK	2,233.1	5.2	4	Singapore	5,069.1	5.2	4	Hong Kong	8,874.2	4.1
5	Germany	1,865.3	4.4	5	UK	4,714.9	4.8	5	Singapore	8,684.4	4.0
6	Japan	1,767.2	4.1	6	Hong Kong	4,276.5	4.4	6	Germany	6,423.2	3.0
7	Belgium	1,444.9	3.4	7	Germany	3,396.2	3.5	7	UK	6,422.7	3.0
8	Italy	1,261.6	3.0	8	Belgium	2,780.9	2.8	8	Japan	5,033.5	2.3
9	France	998.9	2.3	9	Italy	2,460.8	2.5	9	Netherlands	4,536.4	2.1
10	Russia	903.7	2.1	10	Japan	2,392.9	2.4	10	Belgium	4,410.0	2.0
	Total	42,627.3	100.0		Total	98,212.1	100.0		Total	217,336.0	100.0

Note: ASEAN consists of 10 member countries. Export values are in millions of dollars.

Source: Created from IMF, Direction of Trade. Based on July, 2011 statistics.

Table 7.2: India's import sources

2000				2005				2010			
Rank	Country	Export Value	Share (%)	Rank	Country	Export Value	Share (%)	Rank	Country	Export Value	Share (%)
(1)	ASEAN	4,381.7	8.7	(2)	ASEAN	10,441.4	7.5	(3)	ASEAN	37,992.9	10.7
1	US	3,152.3	6.3	1	China	9,925.5	7.1	1	China	44,012.2	12.4
2	Belgium	3,072.8	6.1	2	US	8,848.4	6.3	2	UAE	23,332.4	6.5
3	UK	3,052.8	6.1	3	Switzerland	6,402.6	4.6	3	Saudi Arabia	20,806.8	5.8
4	Switzerland	3,019.5	6.0	4	Germany	5,521.6	3.9	4	US	20,394.2	5.7
5	Japan	2,015.6	4.0	5	Belgium	4,691.1	3.4	5	Australia	15,943.1	4.5
6	Germany	1,780.1	3.5	6	Australia	4,667.1	3.3	6	Iran	14,190.6	4.0
7	Singapore	1,481.5	2.9	7	UAE	4,425.8	3.2	7	Singapore	13,304.8	3.7
8	China	1,448.6	2.9	8	S. Korea	4,300.1	3.1	8	Germany	12,354.3	3.5
9	Malaysia	1,388.6	2.8	9	Japan	3,854.6	2.8	9	Indonesia	11,054.0	3.1
10	S. Africa	1,270.4	2.5	10	UK	3,839.3	2.7	10	S. Korea	10,291.8	2.9
	Total	50,336.4	100.0		Total	139,888.0	100.0		Total	356,357.0	100.0

Note: ASEAN consists of 10 member countries. Export values are in millions of dollars.

Source: Created based on Sugawara (2009), Ishikawa (2010), JETRO (2011a), etc.

India is running a deficit across the board with its primary trade partners. In terms of the size of the deficit, the number one and two spots in 2010 were taken by that with China (about \$26.3 billion) and with ASEAN (about \$17.3 billion). The sum of these two deficits is about 40% of the overall trade deficit. Comparing the rates of increase in deficits from 2005-2010, that with China increased eight-fold, while that with ASEAN actually ballooned 33-fold.

### 1.5 Direct investment—Expansion of Indian firms to ASEAN is accelerating

In the rankings by country of direct investment in India (2010), ASEAN countries appear with Singapore as number two, and Indonesia as number ten (table 7.3). Singapore has been number two for four straight years as a result of 1) capital gains tax being exempted due to the India–Singapore CECA that launched in 2005, and 2) the investment arm of the government

increasing investment in India.<sup>5</sup> However, amidst two successive years of declining overall direct investment in India from overseas, Singapore's investment in India also decreased in 2010.

Table 7.3: Direct investment in India (2010)

Rank	Country	Value (\$millions)	YOY Growth (%)	Component Ratio (%)
1	Mauritius	7,207.9	-37.5	34.3
2	Singapore	2,121.3	-30.7	10.1
3	US	1,414.2	-31.0	6.7
4	Japan	1,295.0	3.0	6.2
5	Netherlands	1,146.6	37.7	5.5
6	Cyprus	919.5	-42.9	4.4
7	Switzerland	883.6	519.1	4.2
8	UK	748.1	59.8	3.6
9	France	745.9	151.2	3.6
10	Indonesia	433.1	213.1	1.7
	Total (Including Others)	21,006.8	-22.3	100.0

Source: Created from JETRO (2011b)

Table 7.4: Direct investment in ASEAN (2010, net basis)

Rank	Country	Value (\$millions)	YOY Growth (%)	Component Ratio (%)
1	EU	16,984.1	86.4	22.4
2	ASEAN	12,107.5	131.8	16.0
3	US	8,578.1	109.9	11.3
4	Japan	8,386.1	122.9	11.1
5	S. Korea	3,769.4	156.2	5.0
6	Caymans	3,089.4	-545.7	4.1
7	China	2,701.0	-31.2	3.6
8	India	2,584.3	212.7	3.4
9	Australia	1,765.1	127.5	2.3
10	Canada	1,641.0	225.7	2.2
	Total (Including Others)	75,757.7	100.0	100.0

Source: Created from the ASEAN Secretariat website

Meanwhile, investment in ASEAN by Indian firms has been clearly increasing (figure 7.4). Although India does not come close in scale to the EU at the number one spot or the US at the number three spot, the growth rate in recent years has been high, and more than tripled in 2010 year-over-year to nearly the same amount as China. India's investment in ASEAN increased by 51% year-over-year even in 2009, when the effects of the financial crisis were still lingering. This increase gained momentum starting around 2007.

## 2. The direction of trade in machine parts—India and the Asian production network

In India–ASEAN trade, India has a massive excess of imports, and this deficit is rapidly expanding. The following sections focus on the movement of trade in India's primary import good, which is machinery, particularly parts/components.

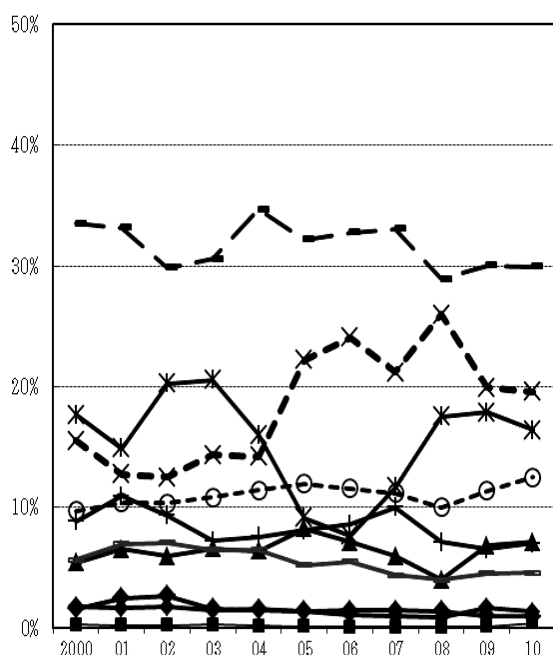
### 2.1 India's deficit rapidly expands in machinery trade

First, this section reviews what is being exported and imported between India and ASEAN. Figures 7.5 and 7.6 compile the trend lines for the share of various products within India's exports and imports from 2000 to 2010 based on the Standard International Trade Classification (SITC) at the one-digit level.<sup>6</sup>

<sup>5</sup> JETRO (2011b).

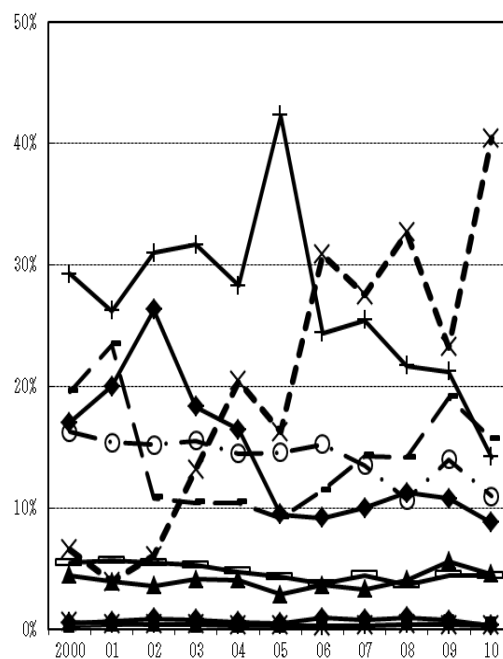
<sup>6</sup> The following analysis considered the statistics for ASEAN's imports from India to be India's exports to ASEAN, and ASEAN's exports to India to be India's imports from ASEAN. As UN trade statistics did not include India's 2010 numbers at the time of the analysis (October 2011), ASEAN's statistics were used to confirm the direction of trade by item in the most recent year of 2010.

Figure 7.1: India's exports to ASEAN  
Fraction by item



- Food and live animals
- Beverages and tobacco
- ▲— Crude materials
- Mineral fuels
- \*— Animal and vegetable oils
- Chemicals and related products
- +— Manufactured goods
- Machinery and transport equipment
- Miscellaneous manufactured articles
- ◆— Commodities and transactions not classified

Figure 7.2: India's imports from ASEAN  
Fraction by item



- Food and live animals
- Beverages and tobacco
- ▲— Crude materials
- Mineral fuels
- \*— Animal and vegetable oils
- Chemicals and related products
- +— Manufactured goods
- Machinery and transport equipment
- Miscellaneous manufactured articles
- ◆— Commodities and transactions not classified

Note: ASEAN consists of ten member countries. Item classification is SITC one-digit.

Source: Created from UN trade statistics.

The largest Indian export in 2010 was mineral fuels (about 40%), and has been fairly consistently gaining share through the 2000s, reaching the top spot in 2006. Petroleum products are a majority of the mineral fuels category. In imports, machinery and transport equipment (“machinery”) largely trended at a 30-35% share as the number one item. Its share in 2010 was about 30%, followed by vegetable fuels (20%) and mineral fuels (16%). In the SITC one-digit classification, machinery has the largest Indian trade deficit with ASEAN. In 2010, this deficit was about \$7.55 billion, which was a six-fold increase over the previous ten years and roughly half of the total trade deficit with ASEAN. It can be understood that the main reason for the rapid expansion in the

excess of imports to India was due to the increase in the deficit in machinery trade.<sup>7</sup>

## 2.2 Imports of parts/components stand out

In Table 7.5, which illustrates the top ten items (at the SITC three-digit level) in Indian imports from ASEAN in 2006, 2008, and 2010, seven of the ten items in the most recent year of 2010 are parts. The first ranked “semiconductors, thermionic valves and tubes” and the second ranked “parts for office machines” stand out from the others, and when added together make up a third of the imports of machinery from ASEAN. Also appearing in the top ten are “electrical machinery and apparatus not elsewhere specified” at number five and “parts for tractors and motor vehicles” at number six.

These specific items are central components to other products: the first ranked “semiconductors, thermionic valves and tubes” are for cathode ray tubes and integrated circuits for color TVs, the second ranked “parts for office machines” are for printers, the fifth ranked “electrical machinery and apparatus not elsewhere specified” are capacitors and parts for manufacturing equipment for semiconductors and flat panel displays, and the seventh ranked “internal combustion engines” are automobile engines. Since a large part of the fourth ranked “telecommunications equipment and parts” is assembled cellular phones, it is not included in parts.

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<sup>7</sup> Looking at the sources of machinery imports to India (in 2009), ASEAN’s share totaled 9.4%, putting it at the number four spot. The largest sources were China (28.4%), Germany (11.2%) and the US (9.7%). ASEAN is far behind China, but is still an important source.

Table 7.5: India's imports of machinery from ASEAN, top ten items

2006				
Rank	SITC	Item Name	Import Value	Share
1	752	AUTOMATC.DATA PROC.EQUIP	1,081	18.2%
2	759	PARTS,FOR OFFICE MACHINS	1,073	18.1%
3	776	TRANSISTORS,VALVES,ETC	886	14.9%
4	764	TELECOMM.EQUIP.PARTS NES	601	10.1%
5	723	CIVIL ENGINEERING EQUIPT	218	3.7%
6	784	PARTS,TRACTORS,MOTOR VEH	203	3.4%
7	761	TELEVISION RECEIVERS ETC	170	2.9%
8	713	INTRNL COMBUS PSTN ENGIN	152	2.6%
9	778	ELECTRIC.MACH.APPART.NES	149	2.5%
10	772	ELECT POWER MACHNY.PARTS	122	2.1%
		Total Machinery Imports	5,934	100.0%

2008				
Rank	SITC	Item Name	Import Value	Share
1	759	PARTS,FOR OFFICE MACHINS	1,659	19.1
2	776	TRANSISTORS,VALVES,ETC	1,086	12.5
3	752	AUTOMATC.DATA PROC.EQUIP	906	10.4
4	764	TELECOMM.EQUIP.PARTS NES	717	8.2
5	723	CIVIL ENGINEERING EQUIPT	372	4.3
6	751	OFFICE MACHINES	366	4.2
7	713	INTRNL COMBUS PSTN ENGIN	332	3.8
8	778	ELECTRIC.MACH.APPART.NES	312	3.6
9	784	PARTS,TRACTORS,MOTOR VEH	283	3.3
10	761	TELEVISION RECEIVERS ETC	266	3.1
		Total Machinery Imports	8,702	100.0%

2010				
Rank	SITC	Item Name	Import Value	Share
1	776	TRANSISTORS,VALVES,ETC	2,018	19.5%
2	759	PARTS,FOR OFFICE MACHINS	1,655	16.0%
3	752	AUTOMATC.DATA PROC.EQUIP	986	9.5%
4	764	TELECOMM.EQUIP.PARTS NES	612	5.9%
5	778	ELECTRIC.MACH.APPART.NES	463	4.5%
6	784	PARTS,TRACTORS,MOTOR VEH	370	3.6%
7	713	INTRNL COMBUS PSTN ENGIN	364	3.5%
8	761	TELEVISION RECEIVERS ETC	347	3.4%
9	723	CIVIL ENGINEERING EQUIPT	328	3.2%
10	741	HEATNG,COOLNG EQUIP,PART	320	3.1%
		Total Machinery Imports	10,345	100.0%

Note: Import values are in millions of dollars. Highlighted items correspond to parts/components.

Source: Created from UN trade statistics.

From 2006 to 2008 to 2010, the number of top ten imports that are parts/components remained fairly steady at 5 or 6. Still, their share of the total value of machinery imports rose sharply from 42% in 2008 to 53% in 2010. This situation indicates that India's imports of machinery from ASEAN are expanding by being driven by major parts such as "semiconductors, thermionic valves and tubes" and "parts for office machines."

### 2.3 India as a destination for ASEAN's machinery exports

In East Asia in the 2000s, amidst China's rise as "the factory of the world," Japan, South Korea, Taiwan, and the ASEAN countries have expanded exports of parts to East Asia, especially China. Thus the formation of an intra-regional production network moved forward. Given this, amidst a growing quantity of imports of parts from ASEAN, will India strengthen its involvement in the production network? Below is an investigation of whether India's presence is rising as an export destination for parts from ASEAN, which is a major pillar of the East Asian production network.

### 2.4 India as an export destination for major parts/components

Below, the top two ASEAN countries in terms of exports to India of the top five (in 2010) items that India imports (and ASEAN exports) are extracted for each item, and the changes in India's rank and share as an export destination for those countries is examined.

### 2.5 India as an export destination for major parts/components

#### (1) "semiconductors, thermionic valves and tubes"—India is not in the top 10

For these items, ASEAN's largest exporters to India are Singapore followed by Malaysia. India's ranking as an export destination in 2010 was 13<sup>th</sup> for both countries (Table 7.6). Since 2005, India's rank has remained the same or has only risen slightly. These items are the most actively traded machine parts in the Asian region,<sup>8</sup> and Singapore and Malaysia are major suppliers. However, the exports from these countries to India are not even 10% of those to China (including Hong Kong).

Table 7.6: Export Destinations from Singapore and Malaysia of "semiconductors, thermionic valves and tubes" (2010)

Singapore					Malaysia				
Rank	Export Destination	Value	Share (%)	Change vs. 2005	Rank	Export Destination	Value	Share (%)	Change vs. 2005
1 (2)	Hong Kong	20,471	23.7	8.7	1 (4)	China	6,586	21.6	12.9
2 (3)	China	12,717	14.7	2.5	2 (1)	Singapore	6,288	20.6	-2.0
3 (1)	Malaysia	10,546	12.2	-5.1	3 (2)	Hong Kong	5,256	17.2	-3.1
4 (6)	South Korea	6,868	8.0	0.4	4 (3)	USA	2,249	7.4	-5.4
5 (5)	Taiwan	6,613	7.7	-0.9	5 (9)	Germany	1,817	6.0	6.0
6 (4)	USA	6,193	7.2	-3.8	6 (5)	Japan	1,596	5.2	-0.4
7 (7)	Japan	5,523	6.4	-0.7	7 (6)	Taiwan	1,508	4.9	0.2
8 (10)	Thailand	2,961	3.4	0.3	8 (8)	France	1,423	4.7	0.5
9 (9)	Germany	2,409	2.8	-0.7	9 (11)	South Korea	786	2.6	0.2
10 (13)	France	2,220	2.6	1.7	10 (7)	Netherlands	557	1.8	-2.3
13 (15)	<b>India</b>	1,482	1.7	1.1	(13) (13)	<b>India</b>	303	1.0	-0.5
	Total Exports	86,392	100.0			Total Exports	30,474	100.0	

Note: Values are in millions of dollars. Numbers in parentheses are 2005 ranks. "Semiconductors, thermionic valves and tubes" is SITC776.

Source: Created from UN trade statistics.

<sup>8</sup> According to UN trade statistics, the value of East Asian intra-regional trade in "semiconductors, thermionic valves and tubes" in 2009 was \$1.4185 trillion, making up 14% of all trade that year. It is the largest traded category in the region by SITC three-digit classification. Here, East Asia refers to the countries and regions of Japan, South Korea, China, Hong Kong, and the main five ASEAN countries.



(2) “Parts for office machines”—Towards being an export destination exceeding Japan and South Korea

To its largest supplier in this category, Singapore, India rose from being ninth in 2005 to being sixth in 2010, and to the second largest exporter, Malaysia, India rose from being 17<sup>th</sup> to being eighth (Table 7.7). Thus, India has risen above Thailand or Japan to Singapore, and to Malaysia and Indonesia this appears likely to happen soon. To Malaysia in particular, it is running close to Japan. This category is mostly printer parts. An increase in the number of finished products assembled in India is considered to lie in the backdrop to the expanding share of exports to India.

Table 7.7: Export destinations from Singapore and Malaysia of “parts for office machines” (2010)

Singapore					Malaysia				
Rank	Export Destination	Value	Share (%)	Change vs. 2005	Rank	Export Destination	Value	Share (%)	Change vs. 2005
1 (1)	USA	2,403	12.9	-4.1	1 (4)	China	2,575	22.8	15.9
2 (7)	Hong Kong	2,287	12.3	7.0	2 (1)	Singapore	2,185	19.4	-7.7
3 (4)	China	1,777	9.6	1.0	3 (2)	USA	1,396	12.4	-7.5
4 (2)	Malaysia	1,376	7.4	-3.3	4 (3)	Thailand	1,231	10.9	-2.2
5 (3)	Indonesia	1,255	6.8	-3.4	5 (8)	Hong Kong	710	6.3	2.2
6 (9)	<b>India</b>	1,249	6.7	2.1	6 (6)	Netherlands	678	6.0	1.1
7 (12)	Netherlands	990	5.3	2.4	7 (5)	Japan	379	3.4	-3.0
8 (8)	Thailand	972	5.2	-0.1	8 (17)	<b>India</b>	368	3.3	2.8
9 (6)	Japan	831	4.5	-1.7	9 (6)	Netherlands	314	2.8	1.6
10 (10)	South Korea	811	4.4	-0.2	10 (10)	South Korea	291	2.6	0.9
	Total Exports	18,579	100.0			Total Exports	11,271	100.0	

Note: Values are in millions of dollars. “Parts for office machines” is SITC759

Source: Created from UN trade statistics.

(3) “Electrical machinery and apparatus not elsewhere specified”—Catching up to China

For these items, which are primarily parts for flat panel display production devices, Singapore is the largest exporter to India. India lifted its rank from 13<sup>th</sup> in 2005 to seventh in 2010, to make it into the top ten (Table 7.8). China dropped to sixth place from fourth in 2005, and is being chased down by India. As an export destination for Thailand, India rose from the 20<sup>th</sup> spot in 2005 to 13<sup>th</sup>, drawing close to the top ten.

Table 7.8: Export destinations from Singapore and Thailand of “electrical machinery and apparatus not elsewhere specified” (2010)

Singapore					Thailand				
Rank	Export Destination	Value	Share (%)	Change vs. 2005	Rank	Export Destination	Value	Share (%)	Change vs. 2005
1 (2)	Malaysia	1,015	16.3	-4.5	1 (1)	USA	606	17.6	0.7
2 (1)	Indonesia	968	15.5	-5.5	2 (2)	Hong Kong	341	9.9	-1.9
3 (3)	Hong Kong	775	12.4	2.2	3 (6)	China	330	9.6	3.1
4 (6)	USA	472	7.6	1.4	4 (3)	Japan	308	8.9	-2.6
5 (7)	Thailand	432	6.9	1.4	5 (5)	Malaysia	200	5.8	-1.3
6 (4)	China	414	6.6	-0.4	6 (4)	Singapore	178	5.2	-2.7
7 (13)	<b>India</b>	356	5.7	4.0	7 (8)	Indonesia	166	4.8	0.9
8 (5)	Japan	299	4.8	-1.4	8 (11)	South Korea	162	4.7	2.5
9 (8)	South Korea	181	2.9	-1.0	9 (9)	Taiwan	112	3.3	0.2
10 (11)	Taiwan	181	2.9	1.0	10 (12)	Germany	94	2.7	1.0
	Total Exports	6,229	100.0		(13) (20)	<b>India</b>	62	1.8	0.9
						Total Exports	3,445	100.0	

Note: Values are in millions of dollars. “Electrical machinery and apparatus not elsewhere specified” is SITC778.

Source: Created from UN trade statistics.

(4) “Parts for tractors and motor vehicles”—Rising to the number four export destination

The largest exporter to India in this category is Thailand, which has built up its automobile industry and is called the Detroit of Southeast Asia. To Thailand, India rose from being the seventh largest export destination in 2005 to the fourth in 2010 (Table 7.9). Amidst major domestic and foreign automakers increasing production of finished vehicles in India, the supply of parts from Thailand has been expanding, and exports by Japanese manufacturers is particularly large. Meanwhile, the value of exports from the Philippines to India is less than that of those from Thailand, but India shot up to the seventh spot in 2010, finishing just behind China.

Table 7.9: Export destinations from Thailand and the Philippines of “parts for tractors and motor vehicles” (2010)

Thailand					Philippines				
Rank	Export Destination	Value	Share (%)	Change vs. 2005	Rank	Export Destination	Value	Share (%)	Change vs. 2005
1 (2)	Japan	591	14.1	-0.5	1 (1)	Thailand	452	27.0	4.3
2 (3)	Indonesia	535	12.8	2.3	2 (2)	Japan	331	19.8	-3.6
3 (1)	Malaysia	532	12.7	-2.3	3 (3)	Germany	250	14.9	-8.7
4 (7)	<b>India</b>	243	5.8	1.9	4 (5)	Indonesia	98	5.9	1.2
5 (4)	South Africa	236	5.6	-3.6	5 (4)	USA	97	5.8	-5.0
6 (5)	USA	210	5.0	-2.7	6 (9)	China	63	3.8	2.5
7 (13)	Brazil	176	4.2	2.3	7 (14)	<b>India</b>	55	3.3	2.7
8 (10)	Philippines	163	3.9	1.3	8 (15)	South Africa	55	3.3	2.7
9 (9)	Australia	161	3.9	1.1	9 (8)	Vietnam	54	3.2	1.7
10 (17)	Vietnam	157	3.8	2.1	10 (7)	Taiwan	42	2.5	0.5
	Total Exports	4,177.4	100.0			Total Exports	1,671	100.0	

Note: Values are in millions of dollars. “Parts for tractors and motor vehicles” is SITC784

Source: Created from UN trade statistics.

(5) “Internal combustion engines”—Entering the top three export destinations

Thailand is the largest exporter to India of this item, primarily automobile engines. India has entered the top three export destinations for this item, rising to the position of a dominant export market behind Indonesia and Japan (Table 7.10). Exports to India also nearly tripled in the five years from 2005. As an export destination from Singapore as well, India rose from being tenth in 2005 to fourth in 2010, setting a spot in the top three in its sights.

Table 7.10: Export destinations from Thailand and Singapore of “internal combustion engines” (2010)

Thailand					Singapore				
Rank	Export Destination	Value	Share (%)	Change vs. 2005	Rank	Export Destination	Value	Share (%)	Change vs. 2005
1 (2)	Indonesia	374	14.9	2.0	1 (4)	Indonesia	669	32.7	-1.5
2 (3)	Japan	307	12.2	0.2	2 (1)	USA	209	10.2	6.4
3 (7)	India	236	9.4	3.0	3 (2)	Malaysia	157	7.7	-3.0
4 (1)	Malaysia	225	9.0	-4.0	4 (3)	India	111	5.4	2.7
5 (6)	Vietnam	210	8.4	1.8	5 (8)	China	107	5.2	2.1
6 (13)	Brazil	159	6.3	3.9	6 (6)	South Korea	91	4.4	0.2
7 (5)	USA	128	5.1	-2.1	7 (5)	UK	83	4.1	-1.2
8 (4)	Philippines	126	5.0	-2.5	8 (17)	Japan	67	3.3	-6.7
9 (18)	Taiwan	114	4.6	3.3	9 (6)	Thailand	53	2.6	-2.7
10 (12)	Belgium	78	3.1	0.6	10 (10)	Hong Kong	48	2.3	-1.3
	Total Exports	2,509	100.0			Total Exports	2,044	100.0	

Note: Values are in millions of dollars. “Parts for office machines” is SITC713

Source: Created from UN trade statistics.

### 3. Conclusion

From the results of the analysis above, it is understood that cases have begun to arise of India breaking in among the other countries and regions of Asia as a major export destination for parts/components. This reflects the fact that India is becoming incorporated into the East Asian production network, wherein parts are exchanged in large quantities. Conventionally, large quantities of parts have been supplied within East Asia—and mainly to China—from ASEAN, where the production bases of Japanese, American, European, and South Korean corporations are accumulated. However, amidst rising demand for parts as foreign manufacturers have been making increased inroads, it can be said that India is strengthening its involvement in the network.

Triggered by the Plaza Accords in the mid-1980s, investment by Japanese corporations in ASEAN shifted into full swing. The direct investment balance (in the industrial sector) by Japanese corporations in the ASEAN Six Majors is at ¥4.8557 trillion, a scale that exceeds the investment of ¥3.8536 trillion in China by nearly 30%.<sup>9</sup> There has been a succession of cases of Japanese

<sup>9</sup> The ASEAN Six Majors are Singapore, Malaysia, Thailand, the Philippines, Indonesia, and Vietnam. The monetary values are according to BOJ statistics. The industry in the industrial sector with the largest investment

corporations pushing forward with direct investment in India aiming to acquire business opportunities in the local market, but with an eye on the India–ASEAN FTA, a strategy of taking advantage of Indian business using the ASEAN production base is also an important option.

What is needed from the Japanese government is to create an environment for smoothly furthering the building of a production network or a supply chain for Japanese corporations. Specifically, it is important to integrate the multiple FTAs that are on the so-called “ASEAN plus one” basis and that are individually signed between ASEAN and outside countries such as Japan, China, and India. The rules of origin differ between the ASEAN Japan Comprehensive Economic Partnership (AJCEP) signed between Japan and ASEAN and AIFTA. As a result, the problem has been noted that when sourcing parts from Japan, assembling finished goods in ASEAN, and exporting to India, it is not possible to enjoy preferential tariffs.<sup>10</sup> Japanese corporations are engaging in expanding and deepening wider-area operations in order to reduce costs and build an efficient distribution network. It is the duty of the government to reduce or eliminate the barriers that hinder this.

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in ASEAN is “transport equipment” at ¥1.1445 trillion, followed by “electrical machinery” at ¥0.9443 trillion and “chemical and pharmaceutical” at ¥0.6715 trillion.

<sup>10</sup> Jetro (2011c).