



Changing Directions of India's Automotive Trade

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Abstract

The present study aimed to analyse the changing directions of the Indian automotive industry. The Automotive industry is one of the dominant industries in the manufacturing sector of India and accounts a significant share in the export earnings of the country. The study used the UN COMTRADE data of WITS bank for a period of 21 years starting from 1998 to 2018. Here we initially examined the share of the Indian automotive industry in India's and world trade of automotives. The growth in the export and imports of this industry has also analysed in different regions of the world. The study pointed out the changing directions in India's automotive trade from the traditional regions to new destinations.

1.1 Introduction

The automotive industry is one of the crucial industries globally as it has strong forward and backward linkages¹ with several vital sectors of the economy. The automotive industry is a significant contributor to the GDP of India; it accounts for 7.2 percent of India's GDP and projects to reach 12 percent by expanding its size to Rs 16.16 Trillion in the year 2026. This industry accounts for 27 percent of India's industrial GDP and 45 percent of the manufacturing GDP in the year 2015-16 (GoI, 2016). It also provides employment to 17.1 million people either directly or indirectly (CII and EY,² 2016). Before the advent of the economic reforms of 1991 and limited liberalisation measures of the 1980s, there were very few players in the Indian automotive industry.

The automotive industry in India consists of automobile and auto component segments. Up to 1982, there were only very few players in the Indian automobile industry (IBEF, 2016). The

¹ When investment in a particular industry encourages investment in subsequent stages of production, we may say that the industry has forward linkages. When investment in a particular industry encourages investment in the previous stages of production, it is called backward linkages.

² Confederation of Indian Industries and Ernst & Young



growth of the auto component segment of the Indian automotive industry during this period was also weak as the demand for the products of the auto component segment is derived demand. But the liberalisation measures have changed the fate of this industry as well. Now the automotive industry is one of the fastest-growing manufacturing sectors in India. In 2016-17, there were more than 40 players in the Indian automobile sector with a gross turnover of US \$ 67724 million. India became the fourth largest automobile market in the world after China, the USA, and Japan in the year 2017 (Economic Times, 2018). The auto component industry has also grown over the years. The Indian auto component industry is projected to become the 3rd largest in the world by the end of 2025 (IBEF, 2017). In 2019, there were more than 800 firms in the organised sector of the Indian auto component industry (ACMA, 2019). The automotive industry as a whole is a significant contributor to the government's exchequer in the form of indirect taxes as it accounted for 13 percent of the central excise revenue in the year 2014-15 (GOI, 2016).

1.2 Statement of the problem: Liberalisation and India's Automotive Trade

The government of India has announced a large number of policies to open the automotive industry and increase the competition as a part of the economic reform measures announced during the 1990s and later. All the vehicle segments (except passenger cars) and the auto component segments were delicensed in July 1991. The passenger car segment was also delicensed in May 1993. New industrial policy has allowed Foreign Direct Investment (FDI) up to 51 percent under automatic route. Further, the auto policy 2002 permitted 100 percent FDI in the automotive industry through automatic route. Auto Policy 2002 sets itself for making the Indian automotive industry globally competitive. It aims at promoting modernisation and indigenous design and development within the country as well as establishing domestic safety and environmental standards at par with the international ones. Furthermore, it targeted to make India an international hub of manufacturing small cars as well as a key centre in the world for two-wheelers and tractors (Ranawat and Tiwari, 2009). The government has also announced two Automotive Mission Plans (AMPs), one is the Auto Motive Mission Plan 2006-16, and the second one is the Automotive Mission Plan 2016-26. The Automotive Mission Plan 2006-16 sets an action plan to reach the market turnover of the automotive industry of India to US\$145 billion by the year 2016, and increase the sector's share to more than 10 percent of the GDP, and



generate additional employment to 25 million people in India. This AMP has given particular emphasis to small cars, multi-utility vehicles, two-wheelers, and auto components. The Automotive Mission Plan 2016-26 aimed to increase the contribution of the automotive industry to India's GDP from the existing 7.2 in 2016 to over 12 percent by 2026. It also aimed at creating around 65 million additional numbers of direct and indirect jobs in this sector during the specified period.

The liberal economic policies adopted after 1991 in India led to the emergence of international players in the Indian automotive industry. Now, most of the leading global automotive players have a presence in the Indian automotive market. Big names like Nissan-Renault, Volkswagen Group, Honda Motors, Toyota Motors, Ford Motor Company, General Motors³, and General Electric (GE) Corporation have set up their manufacturing units in India (Rajesh and Dileep, 2013). Foreign Direct Investment (FDI) inflows into the Indian automotive industry during the period of April 2000 to June 2018 were recorded at US\$ 19.29 billion (DPIP⁴, 2018). The liberal policy measures lead to the development of the Indian automotive industry. Now India has a well-developed automobile and auto component industry (Lavanya et al., 2017). Indian automotive industry initially worked under the condition of protection from the external competition (Shukla, 2016). But when it opened to foreign investment and collaboration, it was exposed to intense competition both in domestic as well as foreign markets. Some studies were examined the export performance of the Indian automotive industry, especially during the post-liberalisation period. Melwani and Sitlani (2017) studied the export performance of the Indian automobile industry. The export performance has been measured in terms of the numbers of vehicles exported from India in the study period. The study period was from the financial year 2005-06 to 2015-16. The study shows that the overall exports will increase with the growth of 8.01 percent, 7.42 percent, and 6.91 percent for the next three financial years. There are no studies that examined the direction of India's automotive trade in the international market. The present study is an attempt to fill this gap in the literature.

³ General motors' closed its production unit in India in 2017. Ford also plans to stop by the end of 2021

⁴ Department of Industrial Policy and Promotion (DIPP) now DPIT (Department for Promotion of Industry and Internal Trade)



1.3 Objectives of the study

- To examine the share of the Indian Automotive Industry in India's Total trade
- To understand the share of the Indian Automotive Industry in world automotive trade
- To analyse the changing directions of India's automotive trade

1.4 Methodology and Organisation of the Study

The study used secondary data to understand the changing directions of India's automotive trade. The data has been taken from the UNCOMTRADE database available in WITS⁵, World Bank. The study covers a period of 21 years starting from 1998 to 2018. Even though we intended to examine the changing directions of India's automotive trade during the entire post-economic reforms period, our study starts from 1998 onwards due to the non-availability of comparable data starting from 1991.

This article has been organised as follows, at first we will discuss about the share of automotive industry in India's total trade. The share of both auto components and auto mobiles in total exports and imports are also discussed here. The growth rate of this industry during this period is also discussed in the next section. The share of Indian auto mobile industry in world automotive trade has discussed in the third section. Regional differences in the trends and patterns of India's direction of automotive trade has been discussed in the next section.

1.5. Share of Automotive Industry in India's Total Trade

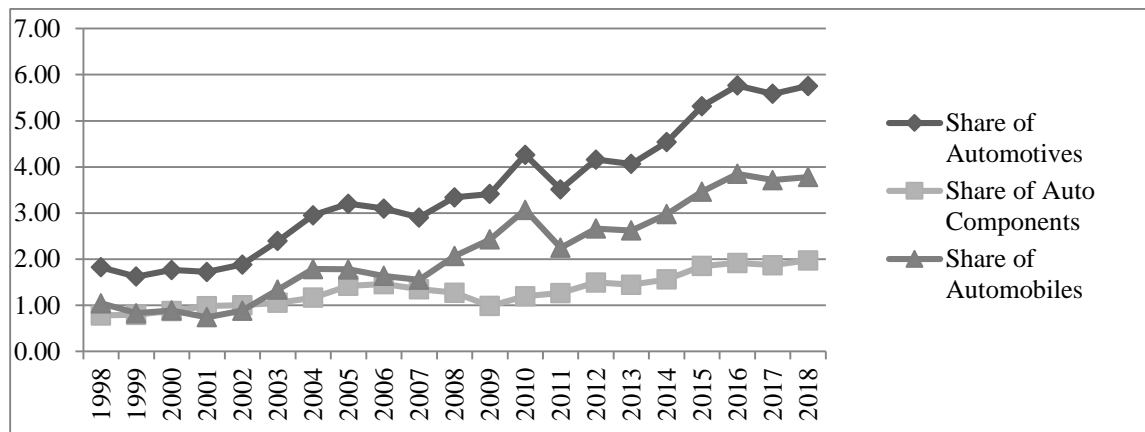
In order to understand the importance of India's automotive industry in India's total trade, we have calculated the share of this industry in the total trade of India during the study period. Here the total trade includes both the exports and imports of automobiles⁶. The share has been calculated for the aggregate level automotive industry and the disaggregate levels such as automobile and auto component industry in India's total exports.

⁵ WITS (World Integrated Trade Solution) provides trade data at a four-digit level.

⁶ Includes both automobiles and auto components.



Figure 1.1: Share of Automotive Industry in India's Total Exports

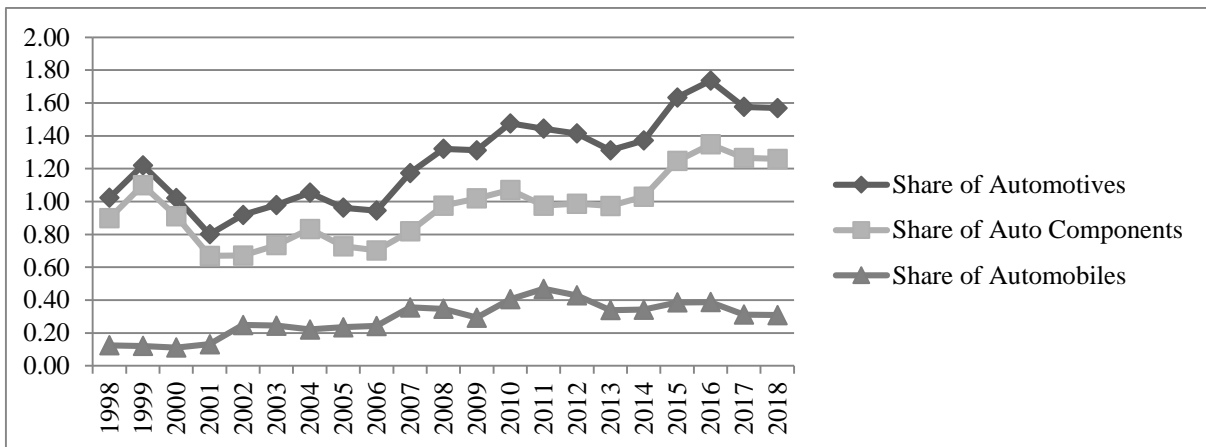


Source: Computed from UN COMTRADE data, WITS, World Bank

Figure 1.1 reveals that the share of the Indian automotive industry in India's total exports has been increasing over the years. In 1998 the share was just 1.82 percent, and it shows a study trend of increase over the years and in 2018, its shares reached to 5.76 percent of India's total exports. In order to understand which sub-sector accounts for this increasing share, we have also calculated the share of each sub-sector in India's total automotive exports. The figure clearly shows that the share of the automobile sector is much higher than that of the share of the auto component industry. The share of the automobile sector was 1.04 percent in 1998 compared to the share of 0.78 of the auto component industry. Over the years the share of these two sectors was also increasing but the growth was much higher in the automobile sector than that of the auto component sector. In 2018 the share of the previous one reached 3.78 percent as against the share of 1.97 percent in the latter sector. The important point to be noted here is that for three years, ie. 2000 to 2002, the share of the auto component industry was higher than that of the automobile sector.



Figure. 1.2: Share of Automotive Industry in India's Total Imports



Source: Computed from UNCOMTRADE data, WITS, World Bank

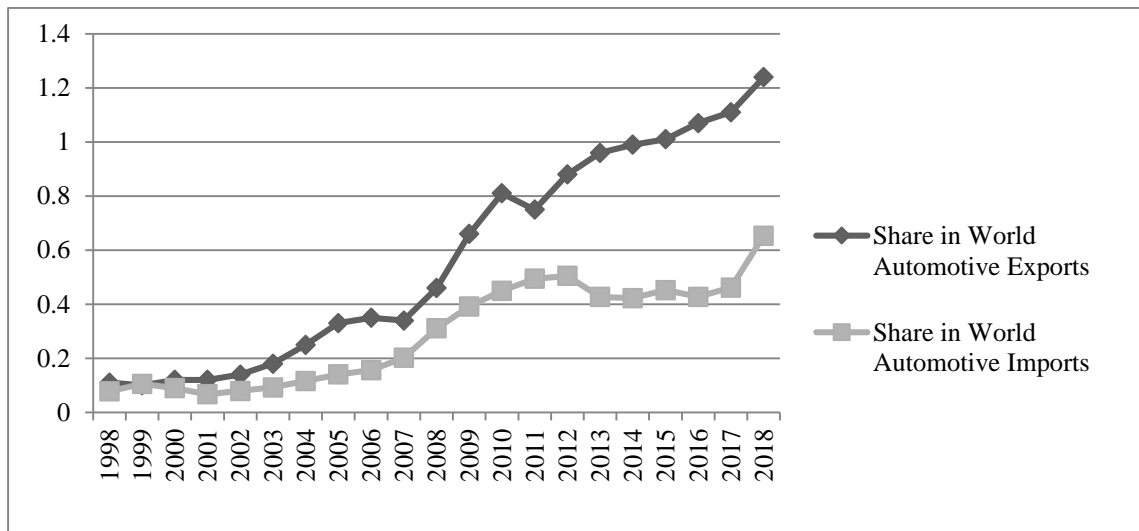
In order to understand the importance of the automotive industry in India's total imports, we have also calculated the import share of this industry. Figure 1.2 shows that the share of automobiles in India's total imports has remained stagnant or less than 2 percent during the study period. For a few years, the share fell to less than 1 percent, and over the years, it shows a slight increase. The critical thing in this is that a major share of this automotive import is coming from the auto component industry rather than the automobile industry. In 1998 about 90 percent of the imports were auto components, and in 2018 also 81 percent of the total imports were for the automotive sector rather than the first one. Since both industries are complementary to each other, the increased share of the auto component industry may be for the production of automobiles which needs to be explored in further studies.

1.6 Share of Indian Automotive Industry in World Automotive Trade

We have further examined the role of the Indian automotive industry in the world trade of automotive products. Here we have examined India's position in world export and import of automotive products. Figure 1.3 shows that the share of both automotive exports and imports in the world automotive exports and imports has been increasing during the study period.



Figure 1.3: India's Share in World Automotive Trade



Source: Computed from UNCOMTRADE data, WITS, World Bank

Figure 1.3 also clearly shows that the share of automotive imports is still far below the automotive exports share. The share of India's automotive imports in the World automotive import was only 0.08 percent in 1998, and it increased to 0.65 in 2018. From the figure it can also be seen that the share of automobile imports is only half of that of automotive exports in 2018. The gap between the share in world export and imports has been widening in recent years, and it is in favour of exports rather than imports.

1.7 Growth of India's Automotive Trade During the Economic Reform Period

Here a detailed analysis of the growth performance of the Indian automotive industry has been undertaken. Here the growth has been analysed by grouping⁷ the nations into different regions as it is impossible to analyse the growth of India's automotive trade with each country in the world. Here the countries are classified into different regions as per the classifications done in the WITS database. The growth in the exports and imports of the automotive industry in the world market has also been analysed. The annual average growth rate⁸ of exports and the import of the

⁷ The countries are classified into different regions as per the classifications done in the WITS database.

⁸ Here the growth rate has been measured by deflating the value of different variables in the current price by the GDP deflator of the United States of America for the study period.



automotive industry as a whole during the study period 1998 to 2018 has been analysed with the help of table 1.4. A more disaggregated level growth analysis has also been done by dividing the automotive industry into the automobile as well as auto component industry.

Table 5.2: Regional Wise Annual Average Growth Rate

Region*/ Category	Export of Automotive Industry	Import of Automotive Industry	Export of Automobile Industry	Import of Automobile Industry	Export of A. Component Industry	Import of A. Component Industry
EAS	32.58	23.66	45.92	28.70	27.61	23.20
EU27	18.76	22.70	21.65	30.30	20.74	22.18
LCN	36.98	64.56	39.40	269.07	39.07	62.55
MEA	25.50	34.19	30.86	44.72	16.65	47.90
NAC	25.72	20.94	77.97	57.82	22.05	18.93
SAS	21.57	66.90	22.42	622.74	17.87	159.52
SSA	28.94	51.12	36.51	528.26	17.35	27.85
WORLD	22.69	22.25	24.71	27.37	21.50	21.67

Source: Computed from UNCOMTRADE data, WITS, World Bank

***EAS**= East Asia and Pacific, **EU-27**= European Union members, **LCN**= Latin America and Caribbean, **MEA**= Middle East and North Africa, **NAC**=North America, **SAS** = South Asia, **SSA** = Sub-Saharan Africa

Table 1.1 shows that the growth rate in India's automotive exports is higher with Latin America and the Caribbean region (LCN) followed by East Asia and Pacific region (EAS) during the study period. The growth in the export of automotive with the entire world during this period was 22.69 percent. The growth in the import of automotive is higher with South Asia (SAS) followed by Latin America and Caribbean region. The growth in automotive import with the



entire world countries during this period was 22.25 percent, and there were not many differences between export and import growth. Suppose we are looking into the export of the automobile segment alone. In that case, the growth rate is higher in North American (NAC) region, and the growth rate of imports in this segment is higher with South Asia (SAS) as in the case of automotive aggregates.

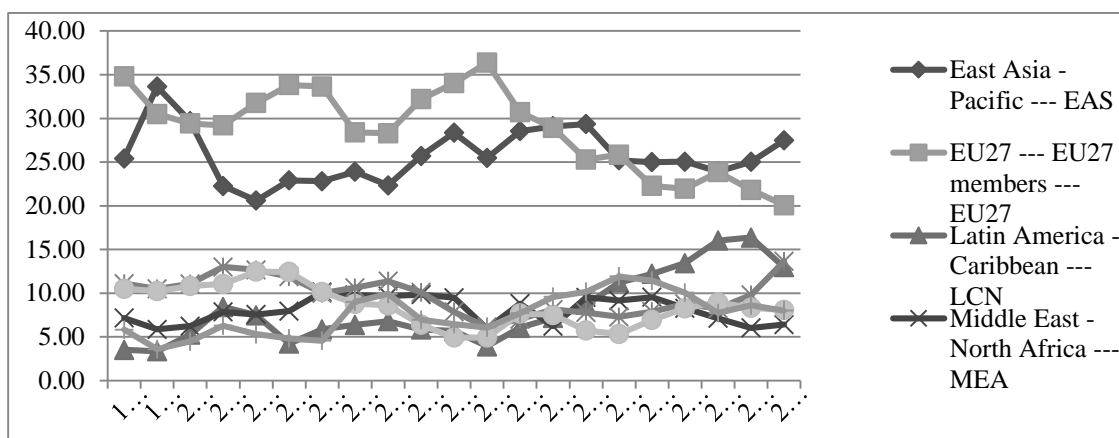
The growth in the export and imports of automobiles with the entire world countries during this period was 24.71 and 27.37 percent respectively. The point to be noted here is that import growth is higher than the growth in export in this segment during the study period. The export growth of auto components is higher with Latin America and Caribbean region (LCN), and the growth in the imports of auto components is higher with South Asia (SAS). The growth in the export and imports of automobiles with the entire world countries during this period was 21.50 and 21.67 percent respectively. There is not much difference between the two in the Indian auto component industry during the study period.

1.8 Direction of India's Automotive Trade

A clear understanding of the direction of India's total automotive trade is essential in the discussion of the automotive trade. Here total trade includes both the export and the import value of automotive items. From the table, it is clear that European Union was India's single largest partner for many years in terms of the total automotive trade. Since 2013 there was a transition, and East Asia overtook European Union in terms of the total automotive trade of India.



Figure 1.4: Direction of India's Automotive Total Trade⁹

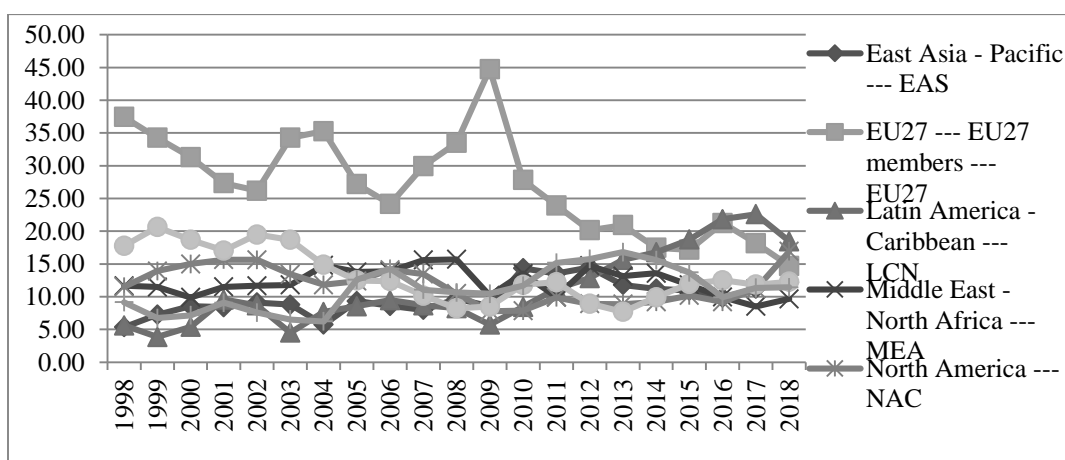


Source: Computed from UNCOMTRADE data, WITS, World Bank

1.8.1 Direction of India's Automotive Exports

An analysis of the direction of India's total trade in automotive will not tell us a clear picture of India's trade positions in different regions because exports and imports have different interpretations while analysing the international trade of a country. The export will bring foreign currency to India that will better our balance of payment situations and be an important engine of economic growth in many countries. On the contrary, the import will lead to the flow of our currency to foreign countries and adversely affect our balance of payment situations.

Figure 1.5: The Direction of India's Automotive Exports



Source: Computed from UNCOMTRADE data, WITS, World Bank

⁹ Total trade includes value of both automotive exports and automotive imports

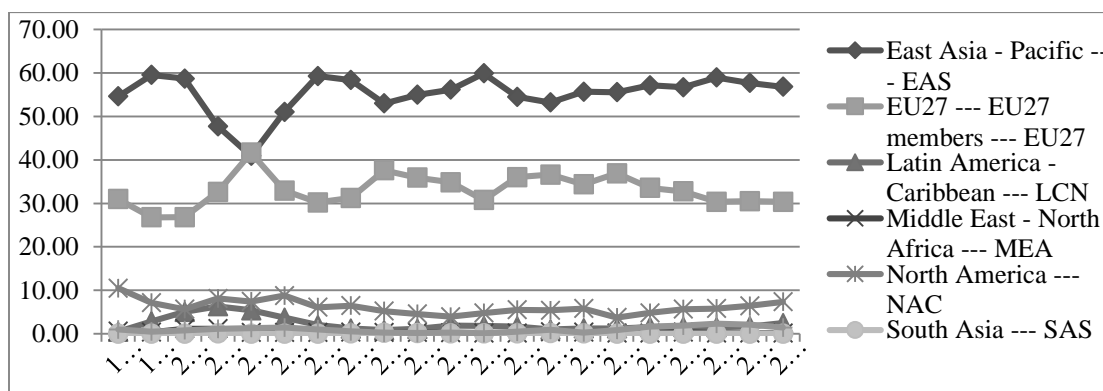


An analysis of the figure 1.5 clearly reveals that the European Union was the largest export partner for many years during our study period. In the year 1998, they account for around 45 percent of India's total automotive exports. However the Latin American region has overtaken the European Union since 2015 in automotive exports. The situation has changed drastically in recent years, and now there is no signal of a concentration of India's exports; instead, it seems to be distributed across the regions. There is no clear dominance of a particular region, and the share of all regions comes in the range of 10 to 20 percent in recent periods.

1.8.2 Direction of India's Total Automotive Imports

Region-wise analysis of the direction of India's automotive imports shows a different story. Throughout the period, East Asia stood in the first position in automotive imports, and they accounted for more than 50 percent of India's imports in most of the years¹⁰. European Union comes only in the second position, and their contributions lie in between 30 to 40 percent of India's total automotive imports during the entire study period. Together they account for more than 85 percent of India's automotive imports. The remaining five regions, including Latin America, contributed less than 20 percent of India's automobile imports throughout the study period.

Figure 1.6: The Direction of India's Automotive Imports



Source: Computed from UNCOMTRADE data, WITS, World Bank

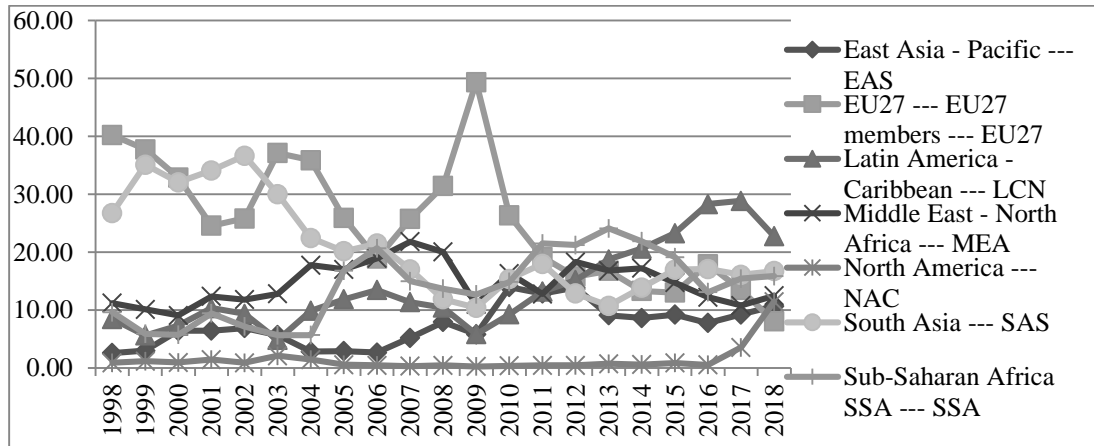
1.8.3 Regional Distribution of India's Direction of Automobile Trade

¹⁰ It is interesting to look into more disaggregate analysis to know whether India is a net beneficiary in the trade of automobiles with these regions.



So far, we have discussed the regional distribution of India's total automotive trade. But such an analysis will not tell us which automotive industry sector has advantages in both exports and imports to these regions. Figure 1.7 shows the regional wise direction of India's automobile exports.

Figure 1.7: The Direction of Automobile Exports

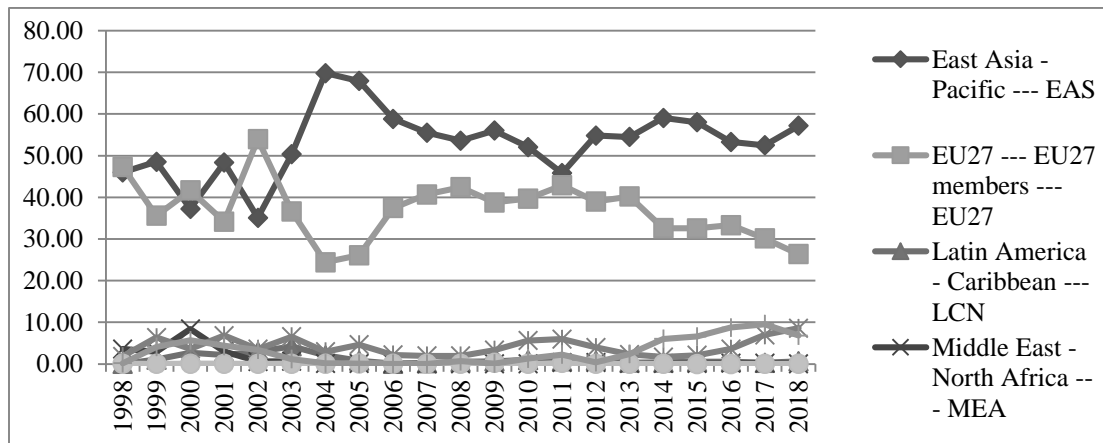


Source: Computed from UNCOMTRADE data, WITS, World Bank

During the initial periods of our study, the European Union accounted for almost 40 percent of India's automobile exports. East Asia comes in the second position. But the situation has changed drastically since 2005, and the share of these regions fell to 20 percent. The share of other regions except North America in India's exports has improved since 2005. The interesting point to be noted here is that there is a concentration of the share of all regions in the share of exports around 10 to 20 percent. But ironically European Union is the only region that has less than 10 percent of the automobile export share of India. Their share had fallen from 40 percent in 1998 to less than 10 percent in 2018.



Figure 1.8: The Direction of Automobile Imports



Source: Computed from UNCOMTRADE data, WITS, World Bank

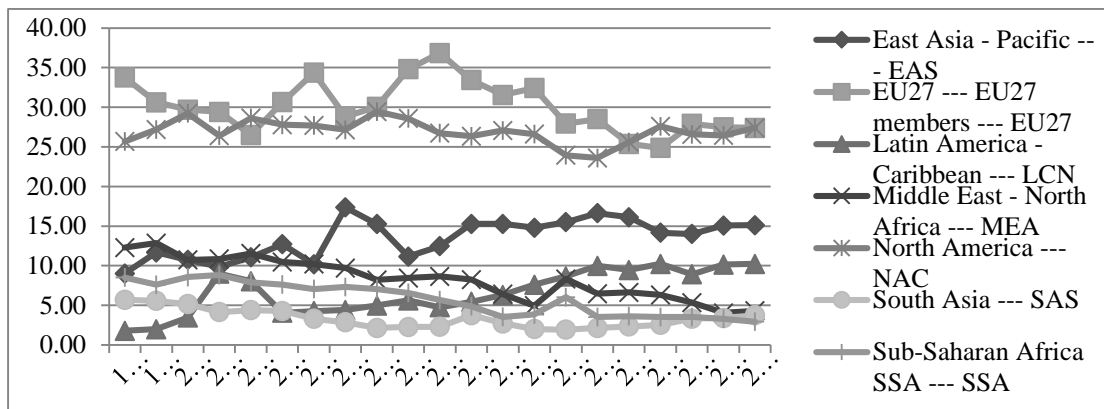
Figure 1.8 shows the direction of India's automobile imports. Here the trends are apparent. The import has mainly come from two regions: East Asia and the European Union, as we have witnessed in the auto component imports. East Asia and the Pacific alone account for around 60 percent of India's automobile imports. The share of the EU has been falling in recent years. Import from EU reached its peak in 2002 at more than 50 percent, and it has fallen sharply since 2013, and it is now less than 30 percent.

1.8.4 Regional Distribution of India's Direction of Auto Component Trade

So far, we have analysed the regional distribution in the direction of India's total automotive as well as automobile trade. The second major component of the Indian automotive industry is auto components. Figure.1.9 shows the regional distribution of India's direction of auto components exports.



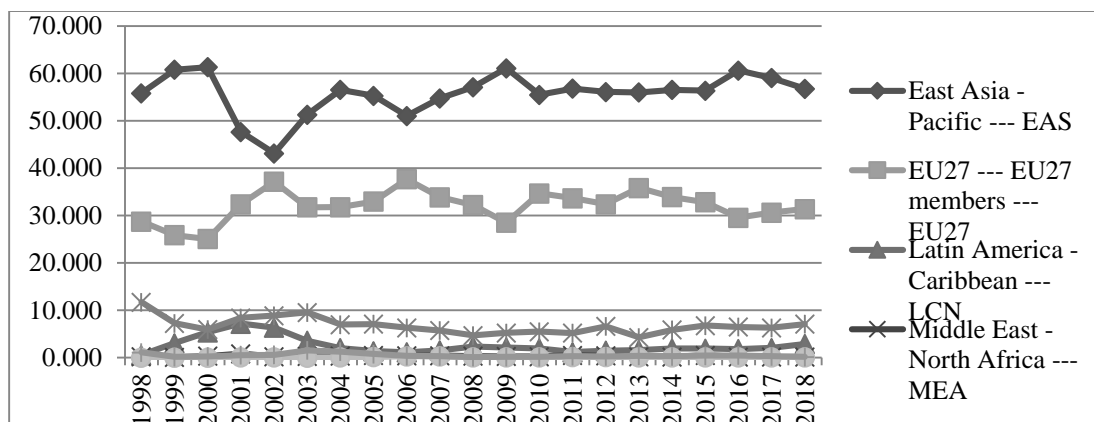
Figure 1.9: The Direction of Auto Component Exports



Source: Computed from UNCOMTRADE data, WITS, World Bank

From the table, it is clear that the European Union and North America are the major partner regions in auto component exports. European Union had a clear dominance for so many years during the study period, but in 2015 the North American region overtook the EU, and in 2018 both of them had an equal share in the export of auto components. East Asia and Latin America come in the next positions. South Asia and sub- Saharan Africa account for the least share in India's auto component exports.

Figure 1.10: The Direction of Auto Component's Imports



Source: ibid



The import scenario of the auto component industry shows a different story. Figure 5.11 below shows the region-wise direction of auto component imports. Here East Asia accounts for more than 50 percent of India's auto component imports. European Union comes in the next position with more than 30 percent in most of the years during the study period. The share of the remaining five regions is almost negligible, and it was below 10 percent during the study period.

1.9 Conclusion

Changing directions of automotive trade of India has been analysed by using various indicators and shares. The study found that in the initial years European Union was India's single largest partner for many years in terms of the total automotive trade. Since 2013 there was a transition, and East Asia overtook European Union in terms of the total automotive trade of India. The analysis of the growth rate showed that Latin America, East Asia and Sub Saharan African regions are the leading regions in growth rate of automotive trade. Similarly the European Union was the single largest export destination of the India automotive industry for many years, but the situation has changed drastically in recent years, and now there is no signal of a concentration of India's exports; instead, it seems to be distributed across the regions.

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