

Structural Change in External Economic Linkages of India

Topic: Capturing Production Heterogeneity I

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There has been considerable increase in production networks of trade since 1990. While the 1990s saw the growth of regional production networks, since 2000 there has been an increase in the involvement of Asian countries resulting in internationally interconnected networks of trade, with each country adding value at various upstream and downstream stages of production. One significant feature of the rise in Asian production networks has been the rise of China as the prime export base for manufactured goods.

India is one of the fastest growing economies of Asia. Yet there is a scarcity of literature that examines how it is linked to/benefits from these international production networks. The purpose of this paper is to shed light on the structural change of India's external linkages between the period 1995 and 2011. The motivation for doing this is based on two observations: First, China has significantly increased its position in the world trade of intermediate goods and has become the prime export base for manufactured goods. Second, Chinese exports contain foreign value added that is exported to third countries. Based on these two observations, what can be said about the changes in India's external backward linkages in the past decade? Has there been an increase in supply of goods from China to India? Furthermore what can be said about the value added content of Indian imports from China? With these research questions in mind, we examine the changes in the structure of India's of external backward linkages and value added in trade over the past decade.

Using the World Input " Output Table as well as a newly created Global International Output Table(YNU GIO), this paper examines the change in India's external trade with 6 trading partners plus the rest of the world. The method of analysis used are: 1) Rasmussen (1957) index which is modified to look at the external power of dispersion dis-aggregated based on country of origin 2) Johnson and Noguera (2012) is modified to look at foreign value added in Indian imports from each of its trading partner. The preliminary results from the analysis show that there has been a significant increase in the importance of China as a supplier of manufacturing goods to India especially in key manufacturing industries like electronics, transport and machinery industries. The presence of foreign value added in Indian imports from China also increased in those industries. Furthermore, the percentage share of Japan's value added in Indian imports from China decreased while the share of US and rest of the world increased.

Note: YNU GIO (soon to be released for public use by Centre for Economic Growth, Yokohama National University) is a Global Input Output Table that includes many countries of Asia in the International Input Output Table. It is a useful database to examine the global linkages between ASEAN, South Asia, East Asia, Europe and US.