CHAPTER 3

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Although lots of work has been done on intra-industry trade but most of them are for developed countries and only few of them are for developing countries. As far as the case of India is concerned the number of studies is very less, some of have been discussed in the present chapter.

3.1 THE VEERAMANI’S CONTRIBUTION

Veeramani is the one who has analyzed India’s intra-industry trade from different perspectives and therefore created a good knowledge base for India centric studies. Few of his works related with India’s IIT have been discussed over here.

In his first study (Veeramani, 2001), he worked on India’s intra-industry trade under economic liberalization. He focused on two aspects of India’s IIT in manufactured commodities under economic liberalization – first he examined the changes in the intensity of multilateral IIT as between 1987-88, 1994-95 and 1998-99 to understand the impact of trade liberalization on IIT; and second – he analyzed the influence of various country specific factors on the intensity and probability of IIT in India’s bilateral trade with her major trading partners. Here he assumed that India’s bilateral trade is vertical in nature and therefore, he mainly concentrated on vertical IIT. The source of data used was CMIE database and products were grouped under 4-digit level of Indian Trade Classifications. The intensity of intra-industry trade was measured by using the most popular index, the Grubel-Lloyd Index. He divided different industries into two groups – A and B. “Group A” had all the primary commodities with relatively low intensity of IIT, low growth of exports and falling shares in the export basket; on the other hand, “Group B” had mainly manufactured items where the intensity of IIT was relatively high, high growth of exports and a rising share in the export basket.
He found a general increase in GL index after liberalization process, therefore, he confirmed the hypothesis that “trade liberalization biases trade expansion towards intra-industry trade in the Indian context”. He also found that GL index was higher in those industries where export was more than that of import and he found a strong correlation and rank correlation coefficient between the growth of export and increase in GL index. He also found that, although generally intra-industry trade is expected to be more with similar type of countries, but in case of India, it is relatively more with high income countries than with the countries of similar level of development.

Therefore, he concluded that, India’s trade is vertical in nature because it is more with dissimilar economies rather than similar one, as well as India’s intra-industry trade is characterized by a greater extent of complementarity (i.e., within the same industry there are imports from one group of countries and simultaneous exports to another).

In another work, he (Veeramani, 2003) focused on the effect of liberalization on the relationship between industry-specific factors and intra-industry trade. He examined how industries differ in their level of intra-industry trade and how various industry-specific factors influence the level? Here he mainly focused on the multilateral context rather than on bilateral context, because, according to him, India’s intra-industry trade was characterized by a greater extent of complementarity. He estimated the level of IIT across industries in India using a “static” as well as a “dynamic” measure and found that, first – in a large number of industries, trade liberalization was biasing trade expansion towards IIT, i.e., within industries, both exports and imports expanded simultaneously. This finding indicated that domestic industries were unlikely to go out of business because of trade liberalization; second – considerable variation observed in the level and growth of IIT across industries.

He performed an econometric analysis also and found that trade liberalization would give rise to greater intra-industry trade in such industries which have narrow product lines. He found that structure of market is also a significant factor and industrial concentration promotes intra-industry trade. While small firms would seek market niches abroad because of collusive behavior by dominant firms in the home market, on the other hand,
multinational firms would have a mitigating effect on IIT because the overseas production (for the local market) of differentiated goods substitute export sales.

Finally, he concluded that the phenomenon of intra-industry trade will gain more importance even in the coming future and India should develop policies in such a way so as to attract vertical foreign investment, and should try to remove the rigidities in the functioning of factor markets – e.g. – labor market.

3.2 THE BURANGE AND CHADDHA’S CONTRIBUTION

Burange and Chaddha (2008) worked on to assess the growth in India’s intra-industry trade for a period of 19-years, ranging from 1987-88 to 2005-06. Coupled with the growth in intra-industry trade, they also considered the growth in IIT with respect to various Country Groups. Apart from this, they also discussed the change in the trade flows owing to IIT as reflected by marginal intra-industry trade (MIIT). They considered 4-digit level of IIS classification as an industry. They used GL-IIT index for measuring the degree of intra-industry trade. For calculating India’s IIT at the multilateral level, they classified all the countries into 7 groups, on the basis of territorial distribution, they were – America, Europe, Africa, Asia, Middle East, Australia & Oceania, and the Unspecified Group. The countries included in each of these groups were as per the classification followed by World Trade Atlas. To calculate growth in IIT at the multilateral level as well as with the various country groups, they used annual compound growth rate (ACGR). They also calculated MIIT, to overcome some of the problems of the result of GL-index.

As far as the growth of India’s IIT at multilateral level was considered, they found that the GL-IIT index was increased from 23.48 to 32.09 with the ACGR by 1.86% only. Along with this, they found that 16 out of a total 21 sections of products displayed above average growth rate for the entire period of study. As far as India’s IIT with various country groups were concerned, they found that – it was growing with almost all the country groups, for example: the ACGR with Europe, Asia, America, Middle East,
Africa, Australia & Oceania was about 2.01%, 4.17%, 5.83%, 11.00%, 13.59% and 2.97% respectively.

Therefore they found that India’s IIT was greater with the region of Asia and Europe when compared to the other regions. Nevertheless, the region of America and Middle East were fast catching up, however, in terms of growth in IIT, Europe had registered least while Australia & Oceania registered maximum growth. They further found that, it was mainly manufacturers, which augmented the component of intra-industry trade with the various regions.

Therefore, they concluded that it is a clear reflection of India’s growing capabilities of producing similar goods in certain manufactures, which also reflects lower adjustment costs in these industries, as the economy proceeds on the path of liberalization.