Auto parts makers eye increase in exports pie

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Automotive (auto) component companies see a new opportunity to increase their exports manifold — if India signs a bilateral agreement with the US, even after tweaking tariffs in this sector.

An ACMA-BCG report has targeted Indian auto component exports to hit $100 billion — nearly a fivefold increase from $21 billion currently. But for North America, India is a small market for component imports, accounting for 4 per cent ($6.7 billion) of its total requirement of $170 billion annually. However, for Indian component exporters, it is their largest market, accounting for 31 per cent of total exports of $21 billion.

The US has been importing large amounts of components from Mexico, which accounts for a 38 per cent share of US auto component imports in key products like axles, brakes, steering systems, and wheels and rims, according to the ACMA-BCG report.

According to the report, Mexican components are 2-5 per cent cheaper than Indian ones due to lower logistics and energy costs, as well as zero-duty tariffs — giving them a cost advantage over India. Also, US carmakers are deeply integrated into the Mexican supply chain, with components moving to and from freely due to FTA. However, the 25 per cent duty imposed by the US — which has now been deferred for a month — if implemented, could turn the tide in India's favour.

A report by ACMA-BCG says Indian auto component exports may hit $100 bn

Import duties on auto components in India range from 5-15 per cent. So even if the US imposes reciprocal duties, Indian exports would still be cheaper and more attractive than those from Mexico. If India pushes its tariffs to zero, exports could become even more lucrative.

But will this reduction impact Indian component players, as they will now have to face global competition with little or no protection?

A senior executive of an auto component maker says: "The fact is that Indian auto components are already globally competitive; otherwise, we wouldn't be selling to the US, Europe, and all over the world. And, we have FTAs with Japan and South Korea."

In the case of China, the world's largest exporter of auto components, the US market has already been shrinking. Previous tariff regimes (Section 301 of the US Trade Act, which imposed a 25 per cent duty) have already caused Chinese exports to the US to decline from $31 billion in 2018 to $26 billion in 2023. This has also made Chinese components 20-25 per cent more expensive than Indian ones in major categories.

And this could worsen, with Trump now proposing an additional 20 per cent duty on all Chinese goods, creating a major opportunity for India to gain market share. However, a word of caution for Indian auto component players: while Chinese exports to the US have fallen, they have circumvented tariffs by shifting production to Association of Southeast Asian Nations countries, where exports to the US face no duties.