DBS Focus

India – North Asia: Emerging corridor

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Radhika Rao, Senior Economist
radhikarao@dbs.com

- *We are constructive on India's prospects to attract trade diversion flows.*
- *There has been a shift to strengthen trade ties beyond the usual strongholds.*
- *Deeper ties with North Asia will mark a shift towards technology-focused integration.*
- *Trade with the North Asian region is led by linkages with China, and Japan. Taiwan carries the most potential.*
- *An investment pivot will also help address the prevailing lopsided dependencies with the bloc.*
- *To backstop these ambitions, India has expanded the suite of initiatives to draw in more investments.*

STRENGTHENING TIES

Over the past year, India has jumpstarted efforts to strengthen trade and investment ties with various global partners, including Europe, Asia Pacific, and West Asia, with more discussions in the pipeline. Conclusion of key bilateral free trade agreements (FTA) will help broaden economic linkages, beyond the traditional focus on its largest export destinations.

This pivot reflects a structural transition from protectionism toward deep integration into global supply chains. Beyond the immediate dismantling of prohibitive import duties, the overarching benefits of these finalised pacts lie in their ability to stimulate massive investments, deeply integrate Indian MSMEs into global value chains, and safeguard sensitive domestic industries through calibrated exclusion quotas.

COUNTING ON POTENTIAL

The India–North Asia trade corridor sits at the intersection of manufacturing, technology, and geopolitical realignment. Although global trade faces greater fragmentation, production networks across Asia remain deeply interconnected. **North Asia** (representing eight countries, including China, Hong Kong SAR, Taiwan, and Japan) remains the region's manufacturing and technology hub, with India assuming a larger role in final assembly, domestic demand, and investment.

India-North Asia partners

Source: ChatGPT AI-generated map, DBS

Stronger trade and investment linkages with India will create new opportunities across sectors, including manufacturing-heavy electronics, machinery, automobiles, and critical minerals. Notably, India's import intensity for intermediate inputs for strategic industries, such as electronics (second biggest import item), semiconductors, electric vehicles, and rare earth industries is relatively high. For instance, 90-95% of inputs for the semiconductor industry are currently met through imports[1], while others range from 50%-90%.

In line of these dependencies, **India has moved to introduce institutional reforms, aggressive physical infrastructure builds, and targeted industrial incentives, which is likely to help to alter the calculus.** The country plans to build the semiconductor value chain worth $120-150bn within the coming decade.

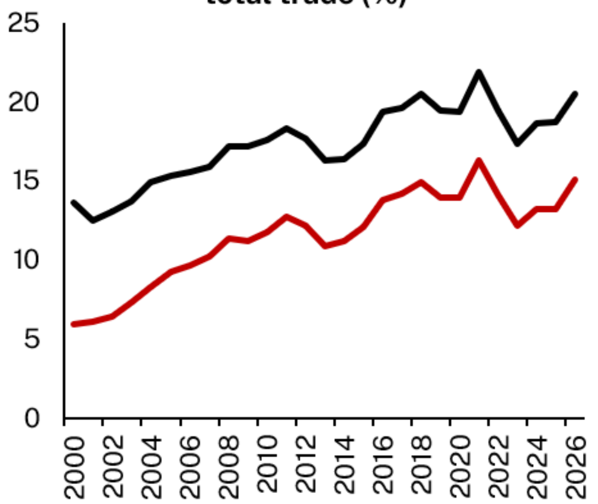
TRADE AND INVESTMENT DYNAMICS

India's trade with the North Asian region is led by linkages with China, Hong Kong, Japan, and South Korea. Taiwan carries most potential.

North Asia's importance in India's trade profile has risen, with its share of total trade increasing from 12-13% in the early 2000 at $11.8bn to around 20% in FY2025-26 at $249bn. That share has been largely steady over the past decade.

China and Hong Kong dominate the region's trade linkages with India, accounting for roughly three-quarters of North Asia-related trade in FY2025-26, of which China alone represented about 60%, followed by Japan at around 11%. **India has entered trade pacts with Japan and South Korea,** not the rest**. Japan has the biggest share of FDI into India in this group.**

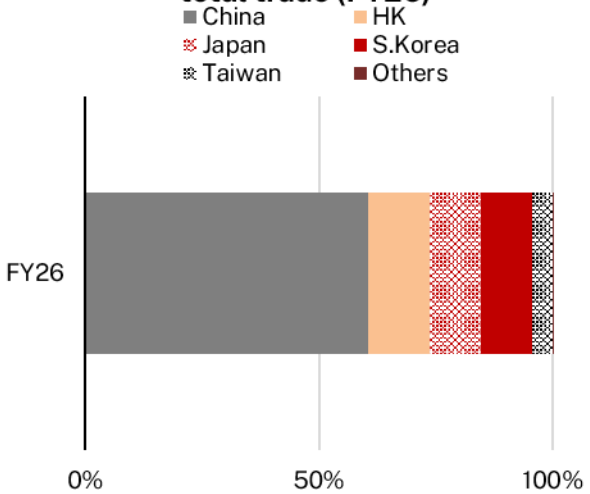
Share of North Asia in India's total trade (%)



Source: CEIC, DBS

[1] Niti Aayog

Share of North Asia in India's total trade (FY26)



Source: CEIC, DBS

CHINA AND HONG KONG

India's bilateral trade with China has surpassed that with the US in the past year. Even as this scale of bilateral trade is dwarfed by the China-ASEAN-6 corridor, strong linkage with India stem from structural drivers, and are influenced by geopolitical developments.

Bilateral trade between India and China grew by 18% CAGR between FY2000 at $1.8bn and FY2026 at $151bn, rising faster than India's overall trade of 10% CAGR in the same period. This dynamic was driven by import growth outpacing export growth, reflecting the country's broader manufacturing expansion and gradual push towards import substitution.

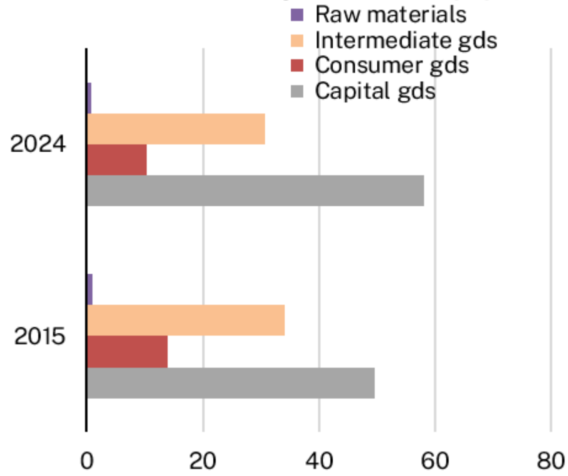
China and Hong Kong cumulatively accounted for about 20% of India's imports, and around 6% of exports. The trade imbalance has, as a result, widened sharply in this period (see chart).

Share in India's trade (China & HK)

Source: CEIC, DBS

By product-group, capital and intermediate goods cumulatively make up 88% of the total imports from China, up from 84% a decade ago, while India's exports to China are dominated by raw materials, followed by intermediate goods more recently.

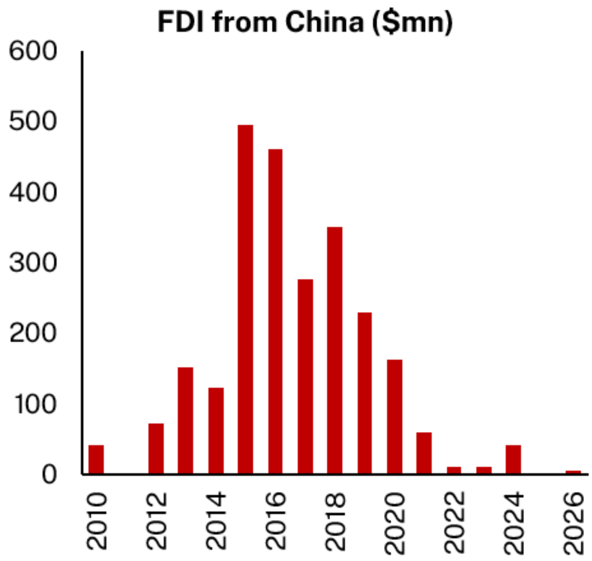
India's imports from China - shift in share in the past decade (%)



Source: World Bank, DBS

In FY26, India's imports from China were dominated by "Electrical machinery and equipment" referring to telecom gear, semiconductor devices, integrated circuits, electrical components, and consumer electronics, followed by nuclear reactors and boilers, with these two making up more than half of purchases. Inputs for the pharma and renewable sectors are also crucial through this pipeline.

Inbound FDI from China had slowed down sharply since a ratcheting up of border clashes and geopolitical tensions. India imposed strict restrictions in 2020 requiring prior government clearance for any FDI originating from or having beneficial ownership in countries sharing a land border with India. In the same period, outbound FDI from China into ASEAN countries rose at a much faster than into the sub-continent.



Source:DIPP, CEIC, DBS

Outlook

- In an earlier edition of the annual Economic Survey, India's Chief Economic Advisor's office had highlighted that one of the ways for India to boost manufacturing and plug itself into the global supply chain was to be a part of China's supply chain, via maintaining imports and partially through Chinese investments.

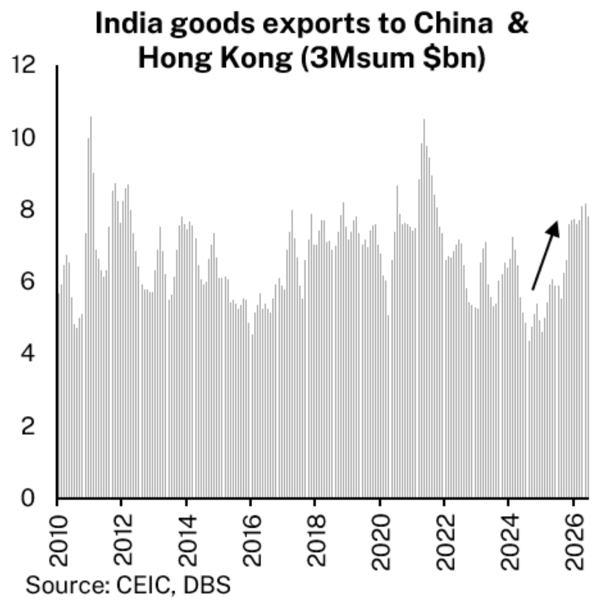
- **Bilateral relations are in the midst of a transition phase, marked by two key developments.**

  A start to easing limitations in the Press Note 3 regulation. In March 2026, the government revised few provisions, marking a step towards a calibrated approach towards investor entities with non-controlling beneficial ownership of up to 10%. Such entities are being permitted through the automatic route, without requiring prior government approval, while being subject to sectoral caps, entry routes and regulatory conditions, by way of safeguards.

  Taking the wide trade deficit with China into context, a move to gradually open the door to investments is intended to encourage local production, improve export capacity, lower structural dependence, and boost technology sharing. Players from sectors like electronics, automobiles, renewable energy, and consumer durables, are likely to be the initial sectoral players keen to expand presence in India, as and when limits are eased.

  Taking cues from the inflows into the ASEAN-6 market, **FDI could potentially grow by 3-5% CAGR, keeping pace with the ASEAN pace, while scale catches up with the momentum.**

- **Revival in India's exports to China and Hong Kong in FY26 and into early FY27.** Over the past decade and a half, India's exports to China have followed a cyclical path, rising and falling in line with shifts in global commodity demand, relative competitiveness, and China's evolving economic structure. For instance, exports had surged in 2010-11 on the back of high global demand and surging Chinese industrial consumption of raw materials like iron ore and copper, alongside a massive spike in Indian raw cotton exports.



Source: CEIC, DBS

In FY26, "electrical machinery" and electronics dominate India's exports (~16% share), comprising of partially processed electronics, specific telecom components, and electrical machinery parts, followed by mineral fuels (13%) and ores (9%). Seafood and organic chemicals are the next two important sectors.

Demand for commodities are tied closely to industrial growth and domestic construction activity, subjecting nominal exports to volatility. Moving up the value chain for exports will lend more resilience going forward.

To improve exports to China and Hong Kong, India has also sought better market access and lower regulatory hurdles for key sectors like pharma, agriculture, and IT services, including fewer non-tariff barriers. A conservative ~4% CAGR increase in India's exports to China (and HK) from now to 2030 to $33bn and further $40bn, helping to contain further slippage in the bilateral trade deficit.

A dual-pronged approach of improving market access to increase the scale of exports to China to better balance the trade deficit, and warming up to inward FDI from China will allow for deeper technology integration and in-housing of production capabilities. **Progress on FDI is likely to be gradual and with guardrails, but one that carries with potential.**

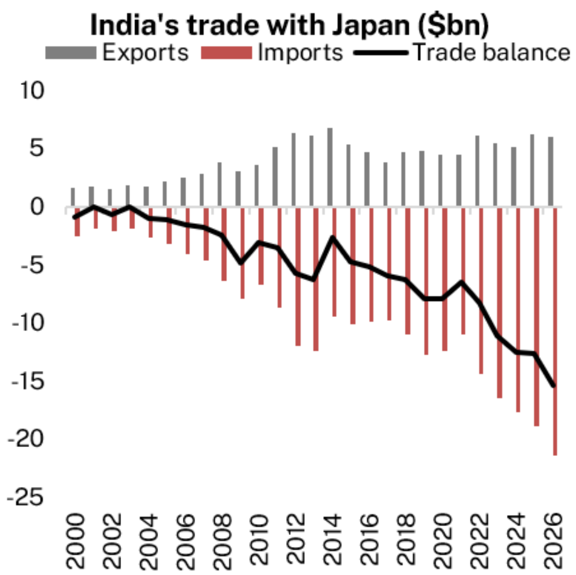
JAPAN

India and Japan share a deep and enduring economic partnership, underpinned by strong trade ties, and significant investment flows. Over the past two decades, Japan has emerged as one of India's most important development and investment partners, supporting the country's infrastructure modernisation, manufacturing growth, and technological advancement. These relations are anchored by the Comprehensive Economic Partnership

Agreement (CEPA), which was formalised in 2011.

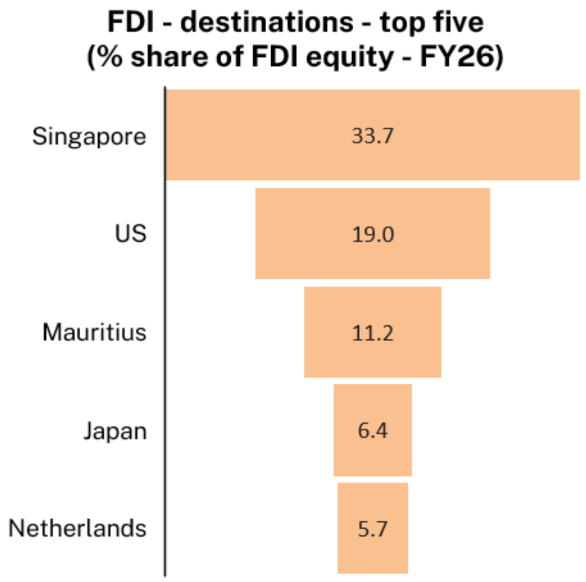
Japan ranked ~10th in India's total trade (~2.3% share) in FY26, and India is 14th in Japan's total trade (<2%)[2]. While India has stepped up exports, imports have risen by a faster CAGR of 8% since 2000, outpacing exports at ~5%. The bilateral trade deficit has, thereby, widened by five times to -$15bn in FY26 vs 2010 levels, making the trade linkage lop-sided.

Primary imports from Japan are nuclear reactors, copper and articles thereof, electrical machinery and equipment, inorganic chemicals, and iron and steel, while exports to Japan comprise of organic chemicals, vehicles, nuclear reactors, copper, etc.



Source: CEIC, DBS

On the FDI front, between 2000 to March 2026, investments into India have totalled $48bn, with the country ranking as the fifth largest investor in FY26 (see chart). This inward FDI has been concentrated in automobiles, electrical equipment, telecom, chemical, financial, and pharmaceutical sectors.



Source: DPIIT, DBS

Outlook

India and Japan have built a strong and resilient partnership that extends beyond trade and investment to encompass strategic, technological, and diplomatic cooperation. Japanese investment has been instrumental in supporting India's infrastructure and manufacturing ambitions, while growing economic complementarities continue to create opportunities for deeper commercial engagement.

India has also sought to tighten trade and security ties with allies, to cement its strategic autonomy amid geopolitical tensions. **Japan PM Takaichi visited India in July 2026 for the 16th Annual Summit**, emphasising supply chain resilience, investment, joint

[2] India Embassy in Tokyo

infrastructure projects, energy security, and artificial intelligence (AI), while unveiling a joint defence manufacturing project. More recently, Japan's banks have also made equity investments in domestic non-bank financial institutions to tap into the deep and matured local rupee market.

India will seek to make the bilateral trade balance less lopsided by increasing exports of raw materials, organic chemicals, etc. On the investment front, Japan had committed to take total investments to ~$65-70bn over the coming decade, with cooperation in semiconductors, critical minerals, batteries, robotics, shipbuilding, clean energy, AI, and digital technologies; all these are crucial from India's standpoint to backstop its manufacturing and technology capabilities.

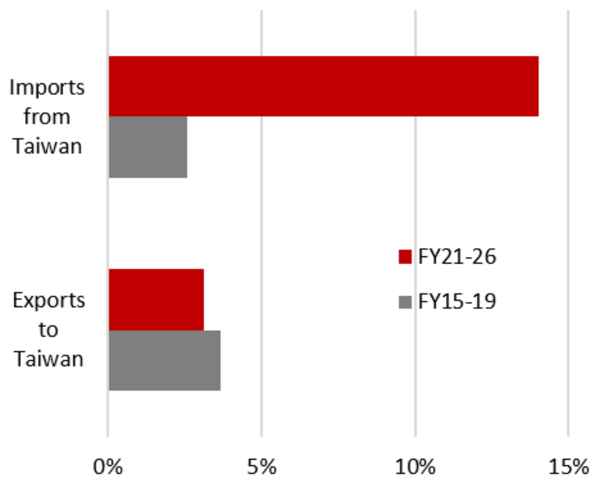
TAIWAN – ROOM TO GROW

India-Taiwan economic relations have expected to move from being a purely trade-centric engagement to one that is shaped by shared interests in supply-chain resilience, advanced manufacturing, and technology-driven growth. Taiwan's government had launched the New Southbound Policy in 2016, aiming to deepen trade, technological cooperation, cultural exchange, and talent sharing with 18 target nations - ASEAN, six South Asian countries (including India), Australia, and New Zealand.

The scale of India-Taiwan total trade is modest (~1% of India's total trade in FY26) relative to Taiwan's other partners, but the relationship has acquired growing importance through investment linkages.

India is Taiwan's 15th largest trading partner, and 11th largest export destination. Bilateral trade reached US$11-12bn in FY25-FY26. Total trade grew by 11% CAGR between FY21-26, outpacing the pre-pandemic pace of 3%. This was largely driven by a sharp increase in imports from Taiwan (CAGR 14% vs 2.6% prior), while exports grew at steady 3% in both these periods. Faster growth in imports from Taiwan widened the bilateral trade deficit from an average of $1.7bn in FY15-19 to $7.6bn in FY25-26.

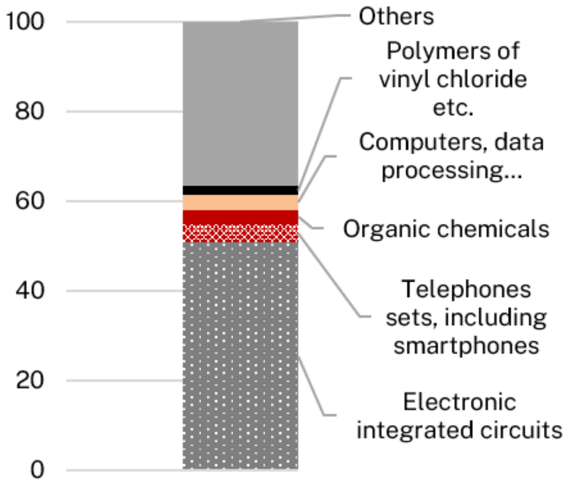
India trade with Taiwan
Growth rate CAGR %



Source: CEIC, DBS

The product-wise breakdown highlights the importance of intermediate product demand from India, by way of electronic integrated units, hardware/ equipment, and organic chemicals, which are largely driven by the strong push towards mobile manufacturing as well as semiconductor ambitions. Exports to Taiwan have consisted of smartphone/telephone sets (26% share in 2025), and mineral fuels/ ferroalloys/ lead/ aluminium (~18% share).

India's key imports from Taiwan; 2025 (% share)



Source: Govt agencies, DBS

Direct FDI into India from Taiwan has a modest share of less than 0.5% as of FY26, although there are clear indications of a pickup in interest. Official data suggests that almost 200 investment commitments [3] have been made by Taiwan companies, amounting to $1.7bn.

Notably, direct flows from Taiwan are not fully reflective of the true extent of its investment interests into India. Few of these have also been made via their subsidiaries in other countries. Case in point was Taiwan's firm Hon Hai Precision Industry Co., which through its subsidiary Foxconn Singapore, acquired $37.2mn worth common shares in its Indian unit through a fresh share subscription [4] in June 2026. With this infusion, Foxconn Singapore almost entirely owns the Indian entity, with cumulative value of Foxconn Singapore's investment at $2.8bn. Group company Yuzhan Technology India also plans to invest ~$1.5bn into expanding its smartphone manufacturing unit in India.

Key investments in India

Company Name	Sector
Foxconn (Hon Hai Precision Industry)	Electronics & Mobile Manufacturing
PSMC (Powerchip Semiconductor)	Semiconductors
Pegatron (Tata India have controlling stake) & Wistron (India's Tata acquired IPhone assembly business and co. shifted focus to IT hardware etc.)	
Delta Electronics	Power Electronics & Automation
China Steel Corp & CSRC	Heavy Industry & Materials
Century Development Corporation (CDC)	Integrated industrial township

Source: Press articles, DBS

On an aggregate basis, key interest areas for investments include smartphones, electronics, auto parts, textiles, and machinery, underscoring a shift from transactional trade towards longer-term industrial collaboration. Apart from expanding the presence of electronic clusters, Taiwan is undertaking industrial parks in India. For

[3] International trade administration

[4] Fortune India

instance, the Technology and Innovation International Park (TIIP) project of Century Development Corporation, and the Indo-Taiwan Industrial Park are being developed in Gujarat.

Outlook

As India seeks to attract high-value manufacturing, and Taiwan looks to diversify its investment footprint, trade and investment flows are becoming more closely linked, particularly in sectors such as semiconductors, electronics, digital infrastructure, and engineering services.

India plans to move beyond assembly to domestic manufacturing of critical components and essential raw materials. While this could widen the trade imbalances in the near term, build up in the local ecosystem will help produce domestic alternatives and indigenous inputs in the medium-term. Drawing comparisons with the pace of inflows into the ASEAN-6 region, the scale of inflows from Taiwan (and indirect flows from other jurisdictions) can amount to $4-$5bn in the medium-term.

CONCLUSION

Ongoing strong efforts will allow the country to move up the value chain, evolving from a purely consumption market into a production as well as assembly hub, thereafter, capture a bigger pie of value-added activities, while becoming more integrated into the industrial ecosystem in North Asia.

To backstop these ambitions, India has also expanded the suite of initiatives to draw in more investments. **The India Semiconductor Mission (ISM) 2.0** has been launched with an expanded INR1.3trn outlays in 2026. This builds on ISM 1.0 by shifting focus from basic fabrication setup to full-stack ecosystem consolidation, local equipment and material production, indigenous intellectual property (IP), and advanced skills training. This will support the country's plans to boost the size of the domestic electronics and chips market to $100-110bn by 2030, by also lowering import reliance and secure long-term sovereignty.

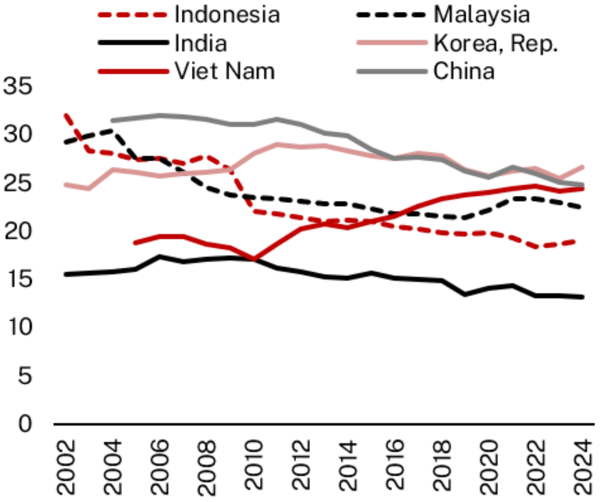
Separately, the Electronic Component Manufacturing Scheme (ECMS) had also been launched (budget of INR 229bn) to build a strong local supply chain for electronic parts, attract investments, and make India a global manufacturing hub over the next six years. Under this umbrella, cumulatively over 106 applications [5] have been approved to date covering 30 products, totalling INR 695bn ($7.3bn). Of these projects, 38 have already started production and 16 are in advanced stages of construction/ machinery installation.

Notably, India's current position in the electronics and semiconductor manufacturing bears resemblance to early stages of the process in Vietnam

[5] PIB India

and South Korea, and to some extent Taiwan as well. These countries initially emerged as assembly and contract manufacturing and thereafter moved up to higher value-added activities like chip design, semiconductor fabrication, and specialised components. This is expected to help lift India's manufacturing value added matrix vs regional peers.

Manufacturing value added (as % of GDP)



Source: World Bank, DBS

The rising role of North Asian trade and investment partners for India are likely to be shaped by supply chain integration, technology support, and creation of the ecosystem, as part of the larger industrial and manufacturing push.

An investment pivot will help address the prevailing lopsided dependencies with the bloc. Assuming the FDI CAGR stands at ~4.5-5% over the coming decade, the share of total FDI from North Asia into India could nearly double vs FY26.

DBS Group Research

Economics & Strategy

Taimur BAIG, Ph.D.
Chief Economist
Global
taimurbaig@dbs.com

Mo JI, Ph.D.
Chief Economist
China/HK SAR
mojim@dbs.com

Nathan CHOW
Senior Economist
China/HK SAR
nathanchow@dbs.com

Radhika RAO
Senior Economist
Asean/EU/South Asia
radhikarao@dbs.com

Tieying MA, CFA
Senior Economist
North Asia
matieying@dbs.com

Han Teng Chua, CFA
Senior Economist
Asean
hantengchua@dbs.com

Byron LAM
Economist
China/HK SAR
byronlamfc@dbs.com

Eugene LEOW
Senior Rates Strategist
G3 & Asia
eugeneleow@dbs.com

Philip WEE
Senior FX Strategist
Global
philipwee@dbs.com

Wei Liang CHANG
FX & Credit Strategist
Global
weiliangchang@dbs.com

Samuel TSE
Rates Strategist
Asia
samueltse@dbs.com

Sherilyn Chew
Multi-asset Strategist
Global
sherilynchew@dbs.com

Mervyn Teo
Senior Credit Analyst
USD, SGD, AUD
mervynteo@dbs.com

Dexter CHUN
Credit Analyst
USD
dexterchun@dbs.com

Tracy Li Jun LIM
Credit Analyst
USD, SGD
tracylimt@dbs.com

Ian Haan Chui
Credit Analyst
USD
ianchui@dbs.com

Amanda SEAH
Credit Analyst
USD, SGD, AUD
amandaseah@dbs.com

Teng Chong LIM
Credit Analyst
USD, SGD, AUD
tengchonglim@dbs.com

Joel SIEW, CFA
Credit Analyst
USD, SGD, AUD
joelsiew@dbs.com

Iris GAO
Credit Analyst
USD
irisgao@dbs.com

Lilian LV
Credit Analyst
USD
lilianlv@dbs.com

Daisy SHARMA
Analyst
Data Analytics
daisy@dbs.com

Violet LEE
Associate
Publications
violetleeyh@dbs.com

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