

General Studies-3; Topic: Effects of liberalization on the economy;

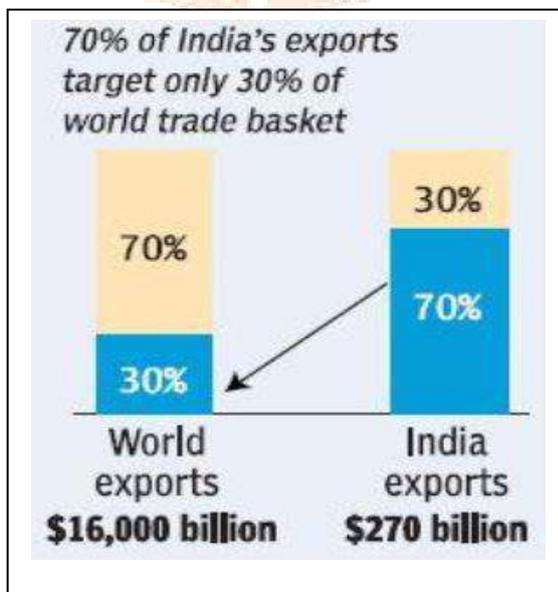
Global Value Chains (GVC)

1) Introduction

- The GVC model breaks the product life-cycle into many tasks. Participating countries complete each task sequentially
- Inputs and products manufactured in GVCs account for two-thirds of world trade.
- The iPhone is a good example to understand how GVCs work.
- The US prepares the iPhone design and prototypes, while Taiwan and South Korea produce critical inputs such as integrated circuits and processors.
- Final assembly takes place in China from where the iPhones are marketed all over the world.

2) Why is India out of GVCs?

- **Small basket**
 - a. Poor trade infrastructure increases cost and time of export operations which prohibit the country from participating in GVCs
 - b. 70 per cent of India's export earnings come from the small basket products.
 - c. The small basket contains products that account for 30 per cent of world trade. The large basket holds the remaining 70 per cent.
 - d. The small basket items include small diamonds, jewellery, rice, buffalo meat, shrimps, petroleum, cotton, yarn etc.
 - e. The small size of the global basket limits the potential for future growth.
 - f. Also, most products face intense competition from low-cost countries such as Bangladesh and Vietnam.



- **Weak global share**
 - a. Electronics, telecom, and high-end engineering products are important large basket items.
 - b. India has a weak global export share in these commodities.
 - c. India has an insignificant presence in large basket products that have become important in world trade.
 - d. Most large basket products are critical products whose parts are manufactured in several countries.
 - China, Japan, South Korea, Thailand and Malaysia have become part of GVCs through the quality trade infrastructure route.
 - India could not as it does not meet the

benchmarks for efficient entry/exit at the most ports/customs.

- Even compared to many Asian countries, India's transport time is high.

3) Importance of GVC

- For emerging nations, engaging in global value chains is key to their economic development.

- According to UN, there appears to be a positive correlation between participation in GVC and GDP per capita growth rates.
- GVC are most beneficial for countries that contribute in the higher value-added segments of a production chain
- GVC participation leads to job creation in developing countries, provided it occurs with high-skill based value addition.

4) Way Forward

- India needs to improve connectivity infrastructure and industrial laws to raise its ranking in world trade.
- Policy initiative must target all parts of the GVC life-cycle from conceptualisation, development of a prototype, to manufacturing, to after-sales service.
- Set up a National Trade Network (NTN) to enable all export-import related compliance online.
- NTN will allow exporters to file all documents online at one place; there will be no need to deal with customs, shipping companies, sea and air ports, and banks separately.
- Automate port and customs operations and allow green channel clearances (clearance of goods without routine examination of goods) for most consignments.
- Match the turnaround time of the ships with the global best parameters. This will ensure quicker transactions and allow better use of infrastructure.
- Indian firms need to upgrade production processes and product quality to meet the requirements of GVCs.
- India needs to create an institution to develop standards, set up globally accredited testing laboratories, and sign Mutual Recognition Agreements (MRA) with partner countries.
- We need to identify sectors with higher value addition as well as low entry barriers in global markets, to achieve quicker export success.

5) Conclusion

- These steps will reduce the cost and time of exporting and increase competitiveness.
- In the medium term, it will decrease India's dependence on the import of electronic and telecom goods and increase overall exports from India.