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.