



## Global Value Chains: The Missing Link in India's Growth Story

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The world witnessed intensified globalisation with advancements in ICT revolution. With the establishment of World Trade Organisation in 1995, countries globally slashed tariffs and non-tariffs barriers and adopted policy frameworks to attract foreign direct investment. This facilitated the progress of global value chains (GVCs) that internationalised fragmentation of production thereby advancing economic growth, facilitating poverty reduction and increasing job creation. As per the World Bank, currently about 50% of global trade is via GVCs — a one percent increase in GVC participation betters the per-capita income of the nation by one percent — this is twice as much as conventional trade.

The world's fastest growing economy, India, contributes only about 2% to global merchandise exports. This is because the full potential of India's manufacturing sector still remains untapped. In GDP terms, India is the third largest economy, globally. India's growth so far has been on the back of strong domestic demand and growing service sector. But in terms of per-capita income, India remains in the low-middle income country group as per World Bank classification. Low merchandise exports and low per-capita income in India persist due to weak linkage of India with GVCs in the manufacturing sector as compared to other emerging economies.

Recent geopolitical tensions have raised concerns over the current order of globalisation. Global organisations continue to transition to a 'China plus one' strategy to diversify their country's risks. Amidst this, Asian economies like India, Vietnam, South Korea, Malaysia and Japan, have a chance to allure these multinational organisations and GVCs.

Meanwhile, as the world advances towards Industry 5.0, semiconductors would play a crucial role in the global geopolitics, much like the role that reserves of oil and gas have played so far. Semiconductors are the backbone of all the technology systems and electronics like mobile phone devices, wearable devices, computers, television sets, automotives, satellites, drone, electric healthcare devices, microchips and IT hardware. McKinsey & Company estimates that global semiconductor industry will grow to be a \$1 trillion industry by 2030. The supply chain disruptions due to COVID-19 made the world realise that currently China and Taiwan dominate the value chains of semiconductor industry, which gave thrust to 'China plus one' strategy as nations wanted to diversify the critical risks and security.

Recognizing the critical role of technology in development, the Government of India (GoI) has been taking initiatives to advance India's digital trajectory since 1960's. In the last decade, the current dispensation has been exponentially able to advance India's digital trajectory with initiatives like Digital India, Smart Cities and Indian Semiconductor Mission. Semiconductors and component parts are at the very heart of the electronics industry. As per a Deloitte report, India's semiconductor market has a potential to grow to be \$85 billion industry by 2030, generating about six lakh jobs in the country.

This is an opportune time for India to integrate in one of the most value chain intensive sectors which is electronics. So far, India's gains from the new emerging order of globalisation have been limited, mainly to the assembly lines. This can be attributed to India's more protectionist trade policy in comparison to other emerging economies, which has eschewed India's integration into GVCs. There is a need to evaluate India's trade policy measures so that it can take advantage of the current geo-political scenarios and attract investments from global corporations and GVCs.

India started to liberalise its economy in early 1990s, but the focus remained to remove the roadblocks on the inward-looking growth. India reduced its peak tariff in the 1990s and early 2000s, but on an average the most favoured nation tariffs for manufactured merchandise remained high as compared to the other emerging economies. As per the latest report by India Cellular and Electronics Association (ICEA), in comparison to import duties across six major manufacturing economies, including India, Vietnam and China; India has the highest average tariffs at 8.5% while China has an average tariff rate of 3.7% and Vietnam's average tariffs rate is 0.7%.

The current dispensation is committed to make India an export manufacturing hub, and is showcasing mobile-phone manufacturing as the success story of 'Make in India' initiative. Towards this aim, the GoI has been evolving a framework which would attract production lines of export-oriented products such as smartphone manufacturing to India. Recently, in January 2024, the GoI announced a cut in import duty from 15% to 10% on mobile-phone components such as battery covers, GSM antenna, camera lens, back cover, other mechanical items of plastic and metal, SIM socket and other parts. The import duty on inputs used for manufacturing mobile parts has also recently been zero rated. Further, under the PLI scheme, electronics manufacturing, specifically of mobile-phones, is being aggressively promoted.

Reduction of import duties on mobile phone components over time has encouraged the setting up of more large-scale mobile phone assembly lines in the country, advancing mobile phone exports. India recorded a CAGR of 23% between 2014 and 2022 for mobile device production, claiming its position as the second largest mobile device producer globally after China, as reported by Counterpoint. India has a massive untapped potential to establish itself as a global electronics manufacturing export hub, specifically for mobile phones which contributed over 40% to domestic electronics production in FY-22.

Besides giving incentives to this industry by the way of cut in tariffs and subsidies, what really is required to make manufacturing in India *Atmanirbhar* (self-sufficient) is to encourage and incentivise investment in research and development, which is the key to innovation. Further, integrating into GVCs would facilitate India manufacturing units to learn and adopt to best technology and management practices thereby moving up the value chain, overtime.

## Note

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