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**DAILY EDITORIAL
ANALYSIS**

TOPIC

**Shifting Global Value
Chains: India's Opportunity**

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SHIFTING GLOBAL VALUE CHAINS: INDIA'S OPPORTUNITY

Context

- There is a need to move up the value chain by Indian industries for shifting the Global Value Chains (GVCs) which should be based on mission-led research, academic collaboration and government support.

About the Global Value Chains (GVCs)

- These refer to the intricate networks of production, where different stages of manufacturing occur across various countries. These chains involve suppliers, manufacturers, and distributors collaborating to create goods and services.

Key Determinants: Firm-Related Factors

- **High Labor Productivity:** Firms with efficient production processes and skilled workers are more likely to participate in GVCs. Labor productivity directly impacts a firm's competitiveness within these chains.
- **Large Firm Size:** Bigger firms often have the resources and capacity to engage in complex GVC activities. Their scale allows for better negotiation power and access to global markets.
- **Foreign Ownership:** Firms with foreign ownership or multinational affiliations tend to be better integrated into GVCs. Cross-border ownership facilitates access to international networks.
- **Technological Capability:** This factor is crucial, especially for small and medium-sized enterprises (SMEs). Adopting advanced technologies enables SMEs to participate effectively in GVCs and expand their engagement.

Key Determinants: Country-Related Factors

- **Openness to Trade and Foreign Direct Investment (FDI):** Countries that actively engage in trade and attract FDI create an environment conducive to GVC participation. Openness to global markets encourages firms to connect with international suppliers and buyers.
- **Educated Workforce:** Availability of skilled and educated people contributes to a country's attractiveness for GVCs. A well-trained workforce can handle complex tasks within the value chain.
- **Infrastructure:** Efficient logistics, reliable transportation, and modern infrastructure are essential. Well-developed infrastructure facilitates seamless movement of goods and services across borders.
- **Good Governance:** Transparent and effective governance ensures a stable business environment. It encourages investment and builds confidence among firms participating in GVCs.

India's Assets in the GVC

- **Domestic Demand:** India boasts a massive consumer base. With over a billion people, the country presents a significant market for both domestic and international products. This potential demand can drive GVC participation.
- **Government Support:** The Indian government has been actively promoting manufacturing through initiatives like "Make in India." Policies aimed at easing business regulations, encouraging investment, and fostering innovation are crucial for attracting global companies.
- **Demographic Advantage:** India's youthful population is a valuable asset. A large proportion of young workers can contribute to a skilled labor force, making India an attractive destination for manufacturing and services.

Challenges and Opportunities

- **GERD Gap:** Indian Gross Domestic Expenditure on Research and Experimental Development (GERD) currently stands at a modest 0.6. However, the **Indian industry contributes only 0.2%** to this figure.

- ◆ In comparison, advanced economies like the United States (2.7%), South Korea (3.9%), and Japan (2.6%) allocate significantly more resources to R&D.
- **Infrastructure:** While India has made strides in infrastructure development, further improvements are necessary. Modern logistics, efficient transportation, and reliable power supply are essential for seamless integration into GVCs.
- **Customs and Trade Procedures:** Simplifying customs processes and reducing red tape can enhance India's competitiveness. Streamlined procedures facilitate smoother cross-border transactions.
- **Micro, Small, and Medium Enterprises (MSMEs):** Engaging MSMEs with global lead firms is critical. These smaller businesses play a vital role in GVCs by supplying components, services, and specialized skills.

Key Suggestions

- **Benchmarking R&D:** R&D investment must increase substantially for Indian industry to elevate itself on the global stage.
 - ◆ A recent **report by FAST India and IIFL Securities** sheds light on industry R&D. They analyzed the top 10 companies across six sectors, comparing them with global peers.
 - ◆ Key parameters included R&D inputs, R&D intensity (R&D expenditure relative to revenue), the proportion of PhD-qualified employees, and outputs (patents and publications per USD billion revenue).
 - ◆ Indian firms must benchmark themselves against global peers and set targets for R&D-led product innovation. Mission-driven R&D, with clear product goals, is essential.
- **Indigenization and Exports:** To move up the value chain, Indian companies need to reduce reliance on high-complexity imports. This can be achieved through indigenization—developing domestic capabilities to manufacture advanced products.
 - ◆ Boosting exports is another crucial goal. By creating value-added products, Indian firms can compete globally and contribute to the country's economic growth.
- **Industry-Academia Collaboration:** Successful models involve research labs within Indian corporates working closely with academic institutions and end products.
 - ◆ These labs should align research efforts with revenue growth objectives. Global examples, such as Tesla's electric cars and Covid-19 vaccines, demonstrate the power of mission-driven R&D.
- **Learning from Excel's FlashFill:** Microsoft Excel's FlashFill feature emerged from an R&D project at Microsoft Research. It showcases how innovation can transform everyday tools.
 - ◆ Indian companies should foster similar collaborations between research teams and product/business units.

Role of Technology

- **Digitalisation:** Embracing digital technologies can enhance India's participation in GVCs. From e-commerce platforms to data analytics, technology enables efficient coordination across borders.
- **Industry 4.0:** India should leverage Industry 4.0 technologies like automation, IoT, and artificial intelligence. These innovations can boost productivity and competitiveness.

Trade Agreements

- **Free Trade Agreements (FTAs):** India's pursuit of new FTAs can expand market access. By reducing trade barriers, FTAs facilitate smoother movement of goods and services across borders.

Conclusion and Way Forward

- India stands at a crossroads—a moment where it can leverage its assets, address challenges, and actively participate in global value chains. As the world economy evolves, India's strategic positioning will determine its success in this interconnected web of production and trade.

- It's essential to recognise that GVCs extend beyond traditional production. Intangible assets—such as intellectual property, supply chain management expertise, and branding—play a significant role. Firms that excel in these areas lead and benefit from GVCs.
- India's industry must invest in R&D, collaborate with academia, and focus on mission-driven innovation. By doing so, Indian industries can ascend the value chain, reduce imports, and boost exports—ultimately contributing to our nation's economic prosperity

Source: BL



Mains Practice Question

[Q] To what extent do you agree that India's industrial growth hinges on its ability to ascend the value chain, and what specific strategies should be prioritised to achieve this goal?

