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**TOPIC**

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**MOVING UP THE GLOBAL VALUE  
CHAIN**

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## MOVING UP THE GLOBAL VALUE CHAIN

### Context

- A major policy shift outlined in **India's Economic Survey 2025–26** focuses on '**strategic indispensability**' in **Global Value Chains (GVCs)**, reframing how India should approach industrial growth in a rapidly changing global economy.

### About the Global Value Chains (GVCs)

- GVCs refer to the **international fragmentation of production processes**, where different stages of producing a good or service are carried out across multiple countries.
- Instead of one country making a product from start to finish, tasks such as design, component manufacturing, assembly, logistics, marketing, and after-sales services are **distributed globally**.
- **For Example:** A smartphone may be designed in the United States, use chips from Taiwan or South Korea, contain components from Japan and Germany, assembled in India or Vietnam, and sold worldwide.
  - ◆ Each country contributes a specific task within the larger production network.

### Why do GVCs Matter?

- Participation in GVCs allows countries to access global markets, attract foreign investment, transfer technology and skills, create employment, and achieve scale economies.
- For developing economies, GVC integration has often been the fastest route to industrialization.

### Evolution of Growth Strategies in Emerging Economies

- **Import Substitution (Early Gains, Structural Limits):** In the **post-war decades**, emerging economies such as **Brazil, India, and Mexico** pursued **import-substituting industrialization (ISI)**.
  - ◆ They built initial industrial capacity, by protecting domestic industries from foreign competition.
- **Global Integration and GVC Participation:** From the late twentieth century, a new consensus emerged, to attract foreign direct investment (FDI), integrate into global value chains (GVCs), and leverage learning spillovers.
- **Impact of Globalization:** The globalization has unfolded in waves:
  - ◆ **First unbundling:** Production separated from consumption.
  - ◆ **Second unbundling:** Stages of production dispersed across borders.
  - ◆ **Current phase:** Tasks, not industries, are fragmented globally.

### Key Concerns & Issues in GVCs

- **Unequal Value Distribution:** Not all stages of production generate equal value. High-value activities (R&D, design, branding, IP) capture the largest share of profits.
  - ◆ Low-value activities (assembly, basic processing) generate thin margins.
  - ◆ Many developing countries remain stuck in low-value segments, limiting income growth and technological upgrading.
- **Limited Upgrading Opportunities:** Participation does not automatically lead to technological advancement. Common barriers to upgrading include intellectual property restrictions, dependence on foreign firms, limited domestic supplier ecosystems and weak R&D capabilities.
  - ◆ Without deliberate capability building, countries risk long-term dependence on low-complexity tasks.
- **Supply Chain Vulnerabilities:** Recent global shocks have exposed fragility in GVCs like COVID-19 disruptions, semiconductor shortages, geopolitical tensions (US–China trade conflict), and wars affecting energy and logistics.
  - ◆ Over-reliance on concentrated production hubs increases systemic risk. Resilience has become as important as efficiency.
- **Geopolitical Fragmentation:** Technology controls, export restrictions, and strategic decoupling are reshaping GVCs.
  - ◆ Emerging concerns include technology bans and sanctions, strategic reshoring and friend-shoring, and weaponization of interdependence.

- **Weak Domestic Linkages:** In many developing economies:
  - ◆ Imported intermediates dominate export production;
  - ◆ Domestic supplier networks remain shallow;
  - ◆ Backward linkages are weak;
    - It limits spillover benefits to local firms and reduces domestic value addition.
- **Labour Market Disruptions:** GVC integration affects labour markets unevenly:
  - ◆ Low-skill assembly jobs are vulnerable to automation;
  - ◆ AI and robotics reduce labour intensity;
  - ◆ Informal workers may be excluded from formal supply chains;
  - ◆ The AI–manufacturing convergence may amplify displacement risks if reskilling systems are weak.
- **Environmental and Social Concerns:** Global production fragmentation often shifts environmental burdens to developing countries. Key issues include carbon-intensive manufacturing, poor labour standards, resource depletion and waste management challenges.
  - ◆ Sustainability pressures are increasing due to ESG standards and carbon border adjustment mechanisms.
- **Trade Imbalances and External Dependence:** Deep GVC integration may lead to persistent trade deficits, currency vulnerability, and external debt accumulation.
  - ◆ Heavy dependence on imported inputs can expose economies to exchange rate and global price shocks.
- **Policy Coordination Challenges:** GVC participation requires alignment across trade policy, industrial policy, infrastructure planning, skill development, regulatory frameworks.
  - ◆ Fragmented policymaking can reduce competitiveness and delay upgrading.

### Case Study: Apple's Supply Chain

- Apple's global production network spanning 748 manufacturing locations, 28 countries, and 188 supplier firms.
- In 2013, **India was absent from this network.** By 2023, it had over 10 operational facilities, and more than 20 additional facilities in the pipeline.
- It was driven by firm-level strategic diversification, geopolitical realignment, and policy intent.

### Road Ahead: Five Pillars for Moving Up the Value Chain

- **Task-Focused Industrial Policy:** Traditional industrial policy targets sectors. But in a world of fragmented production, **policy must target tasks.**
  - ◆ Value now resides in systems integration, intellectual property, critical components, and technological choke points.
  - ◆ Policy tools should include export incentives, capability-linked procurement, standards that drive learning, and conditional support tied to internalizing complex tasks.
- **Deepening Backward GVC Participation:** India's modest share in global manufacturing value reflects weak backward linkages, particularly limited integration into intermediate imports for export production.
- **Cluster-Led Scale and Ecosystem Development:** Knowledge-intensive production thrives on proximity.
  - ◆ Successful examples, from **China's Greater Bay Area to Vietnam's key economic zones** demonstrate that industrial success depends on geographic concentration, infrastructure connectivity, and dense supplier ecosystems.
  - ◆ **In India,** clusters need to evolve beyond isolated industrial estates. They require housing and urban planning, transport networks, healthcare and education, and coordinated regional governance.
- **AI–Services–Manufacturing Convergence:** Modern manufacturing is inseparable from services like design and engineering, logistics, finance, software and data systems.
  - ◆ Upgrading requires integrating services as a core pillar of industrial strategy.
- **Economic Statecraft and Institutional Capacity:** Reducing the cost of capital depends on productivity growth, export performance, and surplus generation.
  - ◆ It requires regulatory coherence, trade facilitation, logistics efficiency, sustained investment in R&D and skills.

- ♦ Industrial policy needs to be continuous problem-solving—anchored in adaptive state capacity, not a one-time intervention.

### Conclusion

- In a global economy where production is sliced into tasks and value accrues unevenly, power lies with those who control critical functions.
- For India, the challenge is not merely to produce more, but to produce the right things, and then produce them better and smarter.
- Moving up the value chain is neither automatic nor guaranteed. It requires strategic task selection, deep integration, cluster-based scaling, AI-enabled convergence, and institutional strength.

### Daily Mains Practice Question

**[Q]** What do you understand about the global value chain? Discuss India's strategy to move up the global value chain in an era of fragmented production and geopolitical realignments.

[Source: BL](#)

