

Trade

ENHANCING GLOBAL VALUE CHAIN PARTICIPATION

- ▶ The foreign value added content of India's exports was 22% in 2009, up from 10% in 1995, illustrating increased integration into global value chains.
- ▶ Despite India's steady efforts to open up its economy, its trade and investment regime remains restrictive relative to other countries at similar levels of development.
- ▶ While India's vibrant export-oriented services market is relatively open in several sectors (computer, audio-visual and engineering), there is ample scope for improvement in others, including basic infrastructure, legal and air transport services.
- ▶ India's full implementation of measures in the WTO Trade Facilitation Agreement could reduce trading costs by as much as 15%, and facilitate wider participation in GVCs.

What's the issue?

Global value chains (GVCs) have become a dominant feature of world trade. To begin providing evidence in response to policy questions raised by the growing importance of GVCs for trade and investment, the OECD and WTO embarked on an initiative to measure trade in value added (TIVA) terms to provide an accurate view of the underlying economic importance of trade.

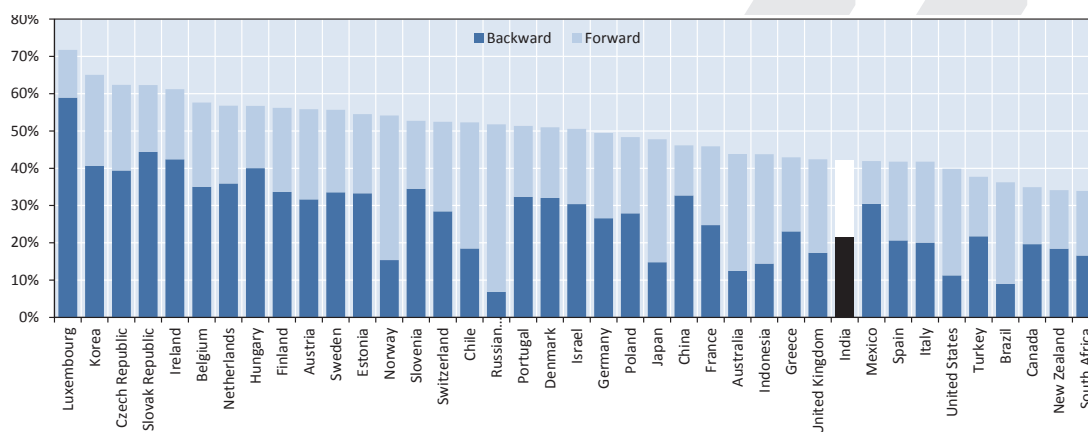
The dataset reveals that India's foreign value added content of exports was 22% in 2009 (the second highest in the BRIICS after China), up from 10% in 1995, illustrating an increased fragmentation of production, and integration into GVCs (see Figure). India participates strongly in manufacturing GVCs for

chemicals, electrical equipment and other manufacturing, and shows high participation in services sectors, in particular business services, mainly driven by the use of Indian intermediates in the exports of other countries. But there is room to do even better.

GVCs are particularly sensitive to the quality and efficiency of services. India has a vibrant export-oriented services sector, with services accounting for more than 30% of gross exports and more than half of value added exports. These shares are among the highest of the countries for which data are available, and are mainly driven by business services and other modern tradable services, particularly ICT and ICT-enabled

India could integrate even better into Global Value Chains

GVC participation across countries, 2009



Source: OECD TIVA Database (2013)

services. Openness to services not only ensures market access for foreign suppliers but also improves performance and competitiveness in the sectors concerned. The OECD Services Trade Restrictiveness Index (STRI) reveals that India has a relatively open market for computer services, audio-visual services and engineering. It is no coincidence that these are the service sectors where India performs well in international markets. India also has relatively open markets in construction, maritime and road transport services.

Why is this important for India?

India is one of the largest and fastest growing emerging markets located in direct proximity to 'Factory Asia'. As a consequence, it could have been expected to experience a labour-intensive manufacturing boom. Yet, since the beginning of economic reforms in the early 1990s, India has struggled to improve the regulatory and business environment, in particular for labour-intensive activities, and has instead developed pockets of specialisation in relatively skill- and capital-intensive manufacturing and service sectors.

Ongoing OECD analysis suggests that participation in global value chains is linked with desirable development outcomes, including growing productivity and export sophistication and diversification. Developing economies with the fastest growing GVC participation have GDP per capita growth rates some 2% above average, and wider GVC participation can help countries reduce wage disparities between the rich and poor. Early results from OECD analysis indicate that India's participation in regional value chains is among the lowest across the developing world. To reap further economic benefits from GVC participation, India should look to engage in wider and deeper integration with neighbouring countries.

There is also ample scope for improvement in basic infrastructure services, which are essential to support GVCs. Rail transport in particular is completely closed to foreign participation. Considering the important role that railways have played in industrial development in other large countries, India could greatly benefit from the liberalisation under way in this sector. India will benefit fully from its relative openness in the transport sectors only when infrastructure supports the establishment of modern transport services, whether foreign or local.

Further evidence also points to the importance of India pursuing trade-facilitating measures as a way to reduce border bottlenecks and facilitate wider participation in global and regional value chains. The OECD has developed a set of trade facilitation indicators that enable the potential impact of reforms to be assessed, and show that if India implemented fully the measures in the WTO Trade Facilitation Agreement, it could reduce trading costs by as much as 15%.

What should policymakers do?

- ▶ Continue to reduce barriers to trade and FDI, especially in goods and services sectors with strong links to the manufacturing sector.
- ▶ Prioritise trade facilitation measures that have the greatest potential for lowering trade barriers and increasing India's bilateral trade flows, such as streamlining and simplifying border procedures and the related fees and charges. Further simplification of trade documents and enhancement of border process automation could also have strong positive impacts.
- ▶ Accelerate regulatory reforms, particularly in the following services sectors, where restrictions negatively affect trade in manufactured goods: distribution services, telecommunication, transport services, courier services, commercial banking, and insurance services.



Further reading

OECD (2014), *Services Trade Restrictiveness Index (STRI): India*. http://www.oecd.org/tad/services-trade/STRI_IND.pdf

OECD (2014), *Trade Facilitation Indicators: India*. <http://www.oecd.org/tad/facilitation/india-oecd-trade-facilitation-indicators-april-2014.pdf>

OECD, WTO and World Bank Group (2014), *Global Value Chains: Challenges, Opportunities and Implications for Policy*, report prepared for the G20. http://www.oecd.org/tad/gvc_report_g20_july_2014.pdf