India’s Global Value Chains: Integrating LDCs

Abstract

India’s Foreign Trade Policy of 2015–20 has the broad objective of promoting the ‘Make in India’ initiative. This policy aims at raising India’s participation in world trade, as well as increasing the domestic value-added content in India’s exports and promoting ‘brand India’. One of the ways in which these three objectives can be simultaneously achieved is if India initiates its own global value chains (GVCs) in a manner that it not only increases its share in world trade, but also increases its global competitiveness. In this context, the Trade Competitiveness Section (TCS) of the Commonwealth Secretariat has identified India’s lead products – those where India can increase its exports by forming its own GVCs. The study estimates additional exports worth USD 23 billion in 35 identified products in the country’s top 50 markets. Further, 129 inputs are identified which can be sourced more competitively from 20 least developed countries (LDCs). To actualise this trade, India’s Commonwealth SME Association has been launched to provide a sustainable platform for buyers and sellers from India and LDCs to meet. A product/market-wise strategic plan of actions is currently being designed to promote exports of finished products and imports of inputs from LDCs.

The prevailing situation

India’s global merchandise exports amounted to USD 261 billion in 2015–16, falling from USD 310 billion in the previous year, while imports fell more steeply to USD 379 billion in 2015–16 as compared to USD 448 billion in the previous year (Figure 1). Accordingly, India’s balance of trade continues to remain unfavourable. A continuous fall in exports since 2013 has further added to this problem. In this context, it becomes important to develop a strategic plan of action to boost India’s exports.

As regards direction of exports, 49 per cent of India’s exports (in value terms) were directed towards Asian countries; 19 per cent to Europe; 17 per cent to North America; 10 per cent to Africa; and 5 per cent to the rest of the world. India’s top exports in 2015–16 in value terms were gems and precious metals (14.7 per cent); oil (11.8 per cent); vehicles (5.4 per cent); machines, engines and pumps (5 per cent); pharmaceuticals (4.9 per cent); organic chemicals (4.3 per cent); clothing (not knit or crochet) (3.4 per cent); electronic equipment (3 per cent); clothing (knit and crochet) (2.9 per cent); and cotton (2.8 per cent). Pharmaceuticals have been the fastest growing exports in this category, followed by vehicles, mainly cars.

Rashmi Banga is Adviser and Head of Trade Competitiveness at the Commonwealth Secretariat. The Section provides technical assistance to Commonwealth member states in market access, exports of services, export development strategies, and trade facilitation. She was previously a Senior Economist in UNCTAD and a Professor of Economics in Jawaharlal Nehru University, India. She specialises in international trade, development policy and econometrics.
Boosting India’s exports through global value chains

Given the rising extent of trade under global value chains, the TCS noted that increasing the value of exports was extremely important for India and this could be achieved by upgrading in global value chains. At present, India has a limited number of products where it leads in GVCs; as a result, its share in total value added created by trade is not more than 1 per cent, as compared to 9 per cent in China. The lead firms in global value chains capture the maximum value generated, while those linked at the lower end of GVCs may not be net beneficiaries – even if their exports increase. In this context, the Government of India, through the Ministry of Commerce and Industry, requested the Trade Competitiveness Section of the Commonwealth Secretariat to provide technical support in the design, development and launch of a project aimed at assisting India to form its own GVCs and link suppliers from LDCs into these GVCs.

It was highlighted that the government is keen to incentivise Indian firms to initiate GVCs under their own brands. It was suggested that the markets to be assessed where India can potentially boost its exports are the Regional Comprehensive Economic Partnership (RCEP) negotiating countries, the EU, USA and selected African countries. In this context, the main objectives of the proposed project were to: identify India’s lead products in the identified markets and estimate the rise in their market share based on their competitiveness; formulate a strategic plan of action (SPA) to enable India to form its own GVCs in the lead products; increase domestic value addition in its exports; and improve India’s trade competitiveness by sourcing inputs from more competitive suppliers, which may lead in turn to a higher utilisation rate of its ‘LDC package’.

The government is keen to link LDCs into India’s GVCs to improve the effectiveness of the country’s LDC package, as well as to incentivise Indian investment into LDCs in order to encourage integration under a South-South trade and investment initiative. It was proposed that the project would comprise two broad components. Under the first component, it would identify the lead products where potential GVCs could be formed by India, along with developing a strategic plan of action (SPA) to address existing constraints. The second component of the project would focus on integrating LDCs into GVCs. The incentivising schemes would be developed after identifying constraints and sensitising key stakeholders. The project commenced in June 2015 and is expected to be concluded in December 2016. The Centre for World Trade Organization (WTO) Studies, Indian Institute of Foreign Trade, was identified as a partner organisation in the project.
India has the competitiveness to form GVCs in 35 products that could sell in 50 markets. This would boost India’s exports by USD 23 billion. The existing exports in these products in 2015 were USD 10.7 billion, implying that there is a potential to increase exports of these products by 112%. In the US market, the existing exports of USD 7.9 billion could be increased to USD 17.5 billion, a rise of almost 120%. In the UK, the potential exports could increase by USD 3.1 billion from USD 1.3 billion (a 125% increase). In the EU, the exports of these products have the potential to increase by USD 1.2 billion (an 80% increase) from a mere USD 700 million. Twenty LDCs could also be linked into these GVCs giving access of around USD 12 billion to these countries into the Indian market. These countries can export 55 inputs (at HS 4-digit) more competitively to India as compared to the existing sources. These LDCs include Benin, Nepal, Senegal, Malawi, Zambia, Guinea, Cambodia, Mali, Rwanda, Bangladesh, Mozambique, Sierra Leone and Togo, among others. Uganda is found to have the maximum potential market access (USD 2.4 billion) into India, followed by Tanzania (USD 1.9 billion).

Boosting India’s exports by linking LDCs into India’s potential global value chains

Following the request, TCS has undertaken a detailed analysis to assist India in increasing the value and volume of its exports and make its exports more globally competitive. The analysis contributes to the ‘Make in India’ campaign by identifying India’s lead products in 50 different markets (including RCEP countries, the EU, USA and selected African countries) where Indian products have a competitive edge and can capture a higher market share. The study further identifies inputs that India can source from LDCs at more competitive rates when compared to their current sources. This will help improve the utilisation rate of India’s ‘LDC package’ and integrate LDCs into India’s GVCs.

The four main contributions of this study are: first, it identifies India’s lead products in 50 identified markets, where India has the potential to capture additional market share and form its own GVCs; second, it estimates India’s potential market share in each of the identified markets; third, it identifies LDCs which can link into India’s GVCs by supplying inputs, and estimates the potential market access for the identified LDCs; and fourth, it identifies and estimates product-wise investment potential in LDCs and categorises inputs that may require regional investment and those where Indian investment can go to help LDCs link into India’s GVCs.

Methodology adopted

The study adopted a rigorous methodology to undertake the above analyses. The methodology used in the study can be broadly categorised into two components:

i. Identifying the lead products
ii. Identifying LDCs that can link into India’s GVCs for the lead products

To identify the lead products, a three-step approach has been adopted, as follows:

Step 1: Identify the finished consumer and capital goods that are exported by India to the identified markets

Step 2: Undertake competitiveness analysis of India’s products with the top five exporters in the identified markets

Step 3: Identify lead products and estimate their potential market share as a sum of the market shares of its weak competitors

The analyses were undertaken at 6-digit HS product level using three-year averages. Earlier studies have generally used revealed comparative advantage (RCA) to compare the comparative advantage of a country vis-à-vis other countries. However, RCA uses only export data and ignores the import content into exports. To overcome this limitation, TCS used bilateral RCA in conjunction with contribution to trade balance (CTB) and market position (POS). The CTB index is based on imports of the product, as well as the exports.
If a product adds to the trade balance positively, it is identified. This index helps in excluding those products that are mainly traded, i.e., imported and then exported with little value addition. Along with the competitiveness analyses, industry consultations were also undertaken with large Indian firms to identify more lead products where the industry is confident of establishing value chains.

Using the above methodology, a list of 35 unique lead products for India, with 71 lead product-market combinations, has been identified. The lead products are from 16 broad HS chapters. These include products like processed fish, cashew nuts, appliances, dyes, leather articles, footwear, carpets, women’s dresses, textiles furnishing articles, jewellery, machinery, turbines, transformers and tractors.

In terms of markets, the total potential market share in the identified lead products was estimated to be worth USD 22.8 billion in addition to India’s existing exports of USD 10.7 billion in 2015, implying that there is potential to increase exports of these lead products by 112 per cent. It was estimated that in the US market, existing exports of USD 7.9 billion could increase to USD 17.5 billion, a rise of almost 120 per cent; meanwhile in the UK, potential exports could increase to USD 3.1 billion from the existing USD 1.3 billion (a 125 per cent increase). In the EU, exports of lead products have the potential to rise by USD 1.2 billion (an 80 per cent increase) from the current value of just USD 700 million.

To identify the inputs that could be sourced more competitively from LDCs, the study used the unit cost methodology. It is to be noted that the analysis was conducted only for those inputs that are being imported by India; therefore it does not in any way dislocate the existing domestic supply chains for the lead products.

Using the above methodology, the study identifies 20 LDCs which are found to be cost competitive as sources of inputs for India, compared to existing sources of those imports. These LDCs can together export around 12 billion worth of inputs into exports of India’s lead products. There are 20 LDCs that can export 129 unique inputs at HS 6-digit (55 at HS 4-digit) more competitively for India’s global value chains in the identified lead products. These include Benin, Nepal, Senegal, Malawi, Zambia, Guinea, Cambodia, Mali, Rwanda, Bangladesh, Mozambique, Sierra Leone and Togo, among others. Uganda is found to have maximum potential market access (USD 2.4 billion) into India, followed by Tanzania (USD 1.9 billion). There are 192 LDC-input combinations identified at the HS 4-digit (281 at 6-digit HS).

**Figure 2: Methodology**

1. **35 Lead Products:**

2. **What are the Imported Inputs?**
   - BEC:
     - HS 6-digit Matrix
     - SION Norms for India

3. **Can India import from LDCs?**
   - Compare Unit Values

*Source: xxxx*
Potential regional and Indian investment in LDCs

The study further identifies potential areas of investment in African LDCs for regional investment from other African countries like Kenya, Ethiopia, Nigeria, South Africa etc., as well as Indian investment. Those inputs are selected from the above-identified list of inputs, where India’s global imports are greater than the identified LDC’s global exports, indicating a supply constraint in that LDC. However, if the region’s global exports (i.e., the sum of exports from African countries in that product) is found to be higher than India’s global imports, then the input is identified for potential regional investment. But, if the regional global exports are lower than India’s global imports, the input is selected for potential Indian investment. Using these criteria, 30 inputs have been identified for potential regional investment in 10 LDCs, while 29 inputs have been identified for potential Indian investment in 8 LDCs. For example, packaging is identified as one of the areas where Indian investment can productively increase Africa’s capacities to export and link into India’s GVCs. Meanwhile, wagons, leather, dyes, motors and carpets are finished products whose inputs can be sourced more competitively from Africa.

Figure 3 illustrates India’s potential GVC in women/girls’ dresses and bedspreads, where India has a high market potential of around USD 2 billion. Currently, the imported inputs used by India are packing and preserving materials. The major import partners are found to be Hong Kong, Indonesia, Thailand, Malaysia, Turkey, Korea and Singapore, among others. There exists the opportunity for India to import these inputs from LDC partners such as Tanzania, Uganda, Senegal, Cambodia, Malawi, Zambia and Burkina Faso, which are also exporting these inputs to the world—though at a lower capacity. India can also import these inputs from Bangladesh and Sri Lanka. This offers both the opportunity of capturing a high value added for this product, and identifies avenues for investment in the identified LDCs to upgrade in value chains.
India’s Commonwealth SME Association

To actualise the potential trade estimated by this study, it is important to initiate a common sustainable platform, where the producers/exporters/importers from Africa and other LDCs can meet Indian firms. For this purpose, the Commonwealth Secretariat has launched India’s Commonwealth SME Association. The main objectives of this association are to provide a sustainable platform for exporters and importers to regularly meet in order to build awareness of existing global standards, as well as to encourage regional and extra-regional investments in areas where African LDCs have competitiveness but lack supply capacity. The association can be beneficial for both India as well as African LDCs, since it will enable Indian firms to source their inputs more competitively while at the same time it will help African LDCs to improve their supply capacities and diversify their export baskets.

It is envisaged that the association will be initially housed in the Federation of Indian Small and Medium Enterprises (FISME), a government-funded industry association. However, in due course it will become a private sector initiative. It is proposed that the association will be an apex body of the industry associations and export councils (associations) of Commonwealth nations, including India. Hence all manufacturing associations and export councils can participate as members of the association. The association will be a non-profit apex association dedicated to providing services on Investment, market development, technology transfer, product standards, information dissemination and capacity building etc. to participating associations and other entities for growth. The association will also be useful in promoting joint ventures between Commonwealth countries and will encourage intra- and extra-regional investments.

Way Forward

The project has been able to achieve five major objectives. Firstly, it has identified Lead Products of India in 50 markets, where India has the potential to capture additional market share and form its own GVCs. Secondly, it has estimated India’s potential market share in each of the identified markets. Thirdly, it has identified LDCs, which could link into India’s GVCs by supplying inputs, and estimated the potential market access in India for these LDCs. Fourthly, it has identified and estimated product-wise investment potential in LDCs and categorised inputs that may require regional investments and those where Indian investments could go to help LDCs link into India’s GVCs. Fifthly, and most importantly, to actualise this potential trade, the project has launched India’s Commonwealth SME Association. This Association will be able to provide Indian industries with a pool of reliable suppliers from LDCs, which will greatly increase the confidence between trading partners, giving a further boost to trade and investment relations between India and LDCs, especially those in Africa. India’s major industry associations, including the Confederation of Indian Industry (CII), the Federation of Indian Chambers of Commerce & Industry and the Federation of Indian Small and Medium Enterprises, along with the Tanzania Private Sector Foundation and GBS-Africa, partnered in the launch of this association. Some of the key objectives of this Association include boosting intra-Commonwealth trade, forging joint partnerships for investments, and building awareness/harmonisation of existing standards. An advisory board of the Association has been formed and seed funding is being sought from key development funders as well as Indian Ministry. Existing and future trade that takes place within the association can provide an important tool to trace the success of this project.

The project comes to an end in December 2016, when the final report will be submitted along with the market-specific strategies that India can adopt to actualise the potential exports of the lead products. The way forward will include sensitising Indian firms on the existing potential of forming GVCs in the identified lead products along with the access available to the primary and intermediate products in LDCs. The Government of India will need to encourage relationships between private firms in India with those in LDCs. Joint ventures need to be encouraged and appropriate marketing support needs to be designed.
Trade Competitiveness Section

The Commonwealth Secretariat’s Trade Competitiveness Section (TCS) of the Trade Division provides technical assistance (TA) to member countries for improving their trade competitiveness in global markets. Recognising the limited size of the domestic market in many member countries, TCS has a strong focus on export development, with interventions targeted at the national level and where requested, escalated to the regional and international level. The Section has been recently given added responsibility for implementing the Commonwealth Secretariat’s Trade Finance Facility in their work program.

TC’s specific areas of expertise include:

1. **Market Access** – Interventions in this area of work aim to secure sustainable market access for priority exports. The Section is helping member states in identifying ‘New Products and New Markets’ and developing schemes around them to diversify their exports. TA is being provided to many countries on targeted action plans for linking into regional and global value chains. The Section is also helping the member states in their multilateral, regional as well bilateral trade negotiations.

2. **Export Development Strategies** – This initiative supports member countries to design and implement strategic plans for trade competitiveness and export development, underpinned by mechanisms for effective dialogue with governments and non-state actors. National Trade Policies as well as National Export Strategies have been designed for many member states.

3. **Enhancing the development and exports of services** – Exports of services can provide opportunities to create employment, diversify exports, enhance productivity and empower low skill workers. This area of work allows member governments to benefit from the new opportunities created by globalisation and trade liberalisation.

4. **Trade Facilitation** – Trade facilitation encompasses the process of identifying and addressing bottlenecks imposed by the weakness in trade related logistics and regulatory regimes that prevent the timely cost effective movement of goods. To deliver this short term outcome, interventions focus on assisting member countries to reduce the costs of doing business and, as signatories to the WTO, to meet their international obligations in this area. Interventions are made through the development of strategic action plans, benchmark studies and reports, and capacity building in trade facilitation.

The Trade Competitiveness Section works in response to the requests received from the Governments or apex institutions and provides technical assistance to address the above competitiveness issues. Areas of expertise include export diversification strategies; gender sensitisation of trade policies; implications of trade agreements and related policy advocacy; implications and compliance to WTO agreements; GATS and Trade in Services Agreements; Mega FTAs like Trade in Services Agreement (TiSA), Economic Partnership Agreements (EPAs), etc; trade facilitation measures and Trade Facilitation Agreement (TFA) along with cost of compliance to the TFA. For 2015/16, the Section is providing TA to 14 countries with 19 projects.
Trade Competitiveness Section

Team Members:
Rashmi Banga, Head of Section Yinka Bandele, Adviser
r.banga@commonwealth.int y.bandele@commonwealth.int
Okeyomi Abebe, Adviser Kirk Haywood, Adviser
o.abebe@commonwealth.int k.haywood@commonwealth.int
Estella Aryada, Adviser Sujeevan Perera, Adviser
e.aryada@commonwealth.int s.perera@commonwealth.int

For further information please contact:
Luisa Sala, Programme Assistant
l.sala@commonwealth.int

Trade Express will share information and lessons learned from recent Commonwealth Secretariat interventions. Articles will discuss design and implementation processes; in particular, practical solutions for the perennial problems surrounding appropriate trade policy design, advocacy and strategic trade interventions.

Forthcoming issues

Issue 5: Exporting professional services: Is there room for small states? The experience of Belize

Technology has made it easier to trade certain business and professional services. The global outsourcing industry, which exceeded £100 billion in 2014, continues to expand. Can this industry provide a viable growth stream for small economies? The next issue will consider how the Commonwealth Secretariat is supporting Belize to explore the export opportunities that Business Process Outsourcing provides.

Previous issues

Issue 3: Kenya Poised to Adopt International Transportation System

The geographical location of Kenya, combined with the status of Mombasa as a key transit port for neighbouring economies, particularly EAC member states, underlies the rationale for ratifying and implementing the TIR Convention. Both the Northern Corridor and the planned LAPSET Corridor would derive benefit from a transit regime streamlined within a TIR environment. The Export Promotion Council of Kenya (EPC) worked with the Trade Division to develop a strategic plan of action to institutionalise the TIR Convention.


In 2015 the Trade Division provided support to the National Export Strategy (NES) Secretariat to design Jamaica’s second NES. The key goal of the strategy is to position the country for a ‘market-driven approach to export development.’ The new NES has a focus on market intelligence to identify new priority products and services, as well as identifying interventions to support improved standards, quality management, logistics and supply chain management. The NES is seen as critical for Jamaica to significantly expand and diversify its export base.