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Policy Reforms for Strengthening India's Global Value Chain Participation: An Analytical Review

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ABSTRACT

Global Value Chains (GVCs) today account for more than 50 per cent of world merchandise trade, making them the dominant mode of organising international production. India, in spite of having a large domestic market, a young working-age population, and a well-established services sector, has not been able to integrate deeply into manufacturing-oriented GVCs. Its share in global exports stands at around 1.3 per cent, which is well below its economic potential. India's GVC participation remains largely of the forward-linkage type, meaning the country supplies raw materials and basic intermediates rather than participating in the more complex, higher value-added stages of global production networks. This paper examines the policy environment that shapes India's GVC participation. It traces the history of India's inward-looking trade and industrial policies and the structural barriers that have resulted, assesses how recent reforms like the Production Linked Incentive (PLI) scheme, the Foreign Trade Policy 2023, the National Logistics Policy, and the PM Gati Shakti Master Plan address these gaps, and places these reforms within the broader context of global supply chain shifts triggered by geopolitical tensions, the COVID-19 pandemic, and the China Plus One strategy. Drawing on secondary data, existing literature, and policy documents, the paper argues that while the direction of current reforms is broadly correct, their coverage and depth of implementation remain inadequate. Key constraints including high logistics costs, weak MSME-GVC linkages, limited lead firm development, and insufficient regional trade integration continue to hold India back. The paper recommends a coordinated set of measures spanning trade policy stability, MSME supplier development, digital infrastructure investment, and regional economic integration to enable India to move up the value chain. The implications for employment generation, productivity growth, and inclusive development are also discussed.

Keywords: *Global Value Chains, India, Policy Reforms, PLI, Trade Facilitation, MSME, Economic Integration*

1. Introduction

Global Value Chains have changed the way countries trade and produce goods. Rather than one country making an entire product, production is now split across multiple countries, with each contributing a specific stage. This fragmentation of production, sometimes called the 'second unbundling' (Baldwin, 2016), has made it possible for developing countries to participate in international trade without having to build complete industries from scratch. All a country needs to do is become competitive in one or two stages of production, and trade linkages do the rest.

The economic gains from GVC participation are well documented. World Bank research shows that a one percentage point rise in GVC participation leads to per capita income growth about twice as large as that from ordinary trade. Countries like China, Vietnam, and Bangladesh reduced poverty sharply during periods when they were actively integrating into global manufacturing chains. The lesson, broadly, is that GVC integration works.

India's situation is less straightforward. The country has real strengths: a large domestic market, a significant and growing pool of technically educated workers, competitive wages, and a services sector that is genuinely world class. Yet in global manufacturing chains, India's footprint is modest. It exports raw materials and basic intermediates more than it exports finished or semi-finished manufactured goods. High-technology exports, particularly electronics, make up a small fraction of its total merchandise exports. Seventy-five per cent of India's exports come from just six states, while large parts of the country, including Bihar, contribute almost nothing to export earnings.

This paper asks why this gap exists and what policy responses are needed to close it. Section 2 describes India's current position in GVCs. Section 3 identifies the structural and policy constraints. Section 4 reviews recent reforms and their effectiveness. Section 5 offers recommendations, and Section 6 concludes.

2. India's Position in Global Value Chains

India's GVC participation is primarily of the forward-linkage type. This means that India supplies inputs, mainly primary commodities and basic intermediates, that are used in other countries' production processes. In steel, for instance, India imports coking coal from Australia, iron from South Africa, and steel scrap from the United Kingdom, processes them, and then exports steel to South Korea, Japan, and China, where it is used to manufacture consumer goods. India thus sits in the middle of the chain rather than at either end, where value addition tends to be the highest.

Contrast this with backward linkage participation, where a country imports components and intermediate goods, assembles or manufactures the final product, and exports it. This is the model followed by East Asian economies in electronics. China, for example, assembles iPhones using high-value components from the United States, Germany, South Korea, Japan, and Taiwan. India has not been able to build this kind of assembly-and-export model at scale in manufacturing.

There is also a structural issue with the kind of products India exports. Network products like electronics and precision machinery, for which GVCs are the dominant mode of production globally, account for only about 10 per cent of India's merchandise exports. This is low by the standards of comparable economies. And the share of labour-intensive products in India's GVC linkages has actually declined over time, even as high-technology manufacturing has grown, suggesting that the expected employment dividend from GVC integration is not being fully captured.

The regional concentration of India's export activity also needs attention. When most of the country's exports originate from a handful of states, it implies that GVC-linked growth is not reaching a large part of the population. Addressing this spatial imbalance is as important as increasing India's overall GVC participation.

3. Structural and Policy Constraints

3.1 Historical Policy Orientation

India's economic policy from independence through the 1980s was built around the idea of protecting domestic industry. Import substitution, industrial licensing, and heavy state intervention kept Indian firms oriented towards the home market. While these policies had some developmental rationale in the early decades, they also prevented Indian industry from developing the export orientation and cost discipline needed to compete in global value chains. Some of these tendencies linger. Tariff structures in certain sectors still make it expensive to import the intermediate goods needed for export-oriented manufacturing, which is the opposite of what GVC integration requires.

3.2 Logistics Costs and Infrastructure

India spends between 13 and 14 per cent of its GDP on logistics, compared to around 8 per cent in developed economies. This gap is significant. Higher logistics costs directly reduce the price competitiveness of Indian exports in third-country markets. They also make it harder for global buyers to rely on Indian suppliers for time-sensitive deliveries, which is often a requirement in GVC supply contracts.

The reasons for these high costs are well known: poor road quality in many states, congested ports, limited use of rail for freight, inadequate cold chain infrastructure, and insufficient warehousing capacity near manufacturing clusters. India's ranking on the World Bank's Logistics Performance Index has improved in recent years, but it remains below where it needs to be for the country to attract serious GVC investment in sectors like electronics or automotive components.

3.3 MSMEs and the Absence of Lead Firms

MSMEs contribute about 30 per cent to India's GDP and nearly half of its total exports. Their potential role in GVCs is therefore large. But in practice, most Indian MSMEs are not connected to global value chains. They lack access to credit, struggle to meet international quality and certification standards, and have weak linkages with the large firms that govern global supply chains.

The concept of the lead firm is important here. A lead firm is one that controls a value chain, sets the standards, and determines what gets sourced from whom. India has relatively few lead firms of this type in globally competitive manufacturing sectors. The ones that exist, like Tata Motors in automobiles or Sun Pharma in generic medicines, do play this role to some extent. But across electronics, textiles, chemicals, and other sectors, India's lead firm base is thin. Without lead firms creating backward linkages with domestic MSMEs, those MSMEs remain outside global supply networks.

3.4 Regional Trade Integration

GVC activity tends to be regionally concentrated. Manufacturing hubs in East Asia, Western Europe, and North America draw in suppliers from nearby countries, not just because of lower transport costs, but because proximity allows for faster iteration, easier quality control, and better communication. India's distance from the Factory Asia production network is a disadvantage. What makes this worse is that India has not compensated through trade agreements. SAARC remains largely inactive as a trade bloc. India's exit from RCEP in 2019 kept it outside the region's most comprehensive trade arrangement. Bilateral agreements are being pursued, but progress has been slow.

4. Recent Policy Reforms: What Has Changed

4.1 Production Linked Incentive Scheme

The PLI scheme, introduced in 2020, provides cash incentives to manufacturers in 14 sectors based on incremental production above a baseline. The targeted sectors include mobile phones, semiconductors, pharmaceuticals, automobile components, textiles, specialty steel, and food processing, among others. The logic is straightforward: make manufacturing in India financially attractive enough to pull in investment, scale up production, and create export-ready industries.

Some results are visible. Mobile phone exports grew from around USD 1.5 billion in 2018-19 to over USD 11 billion in 2022-23, and this growth is partly attributable to PLI investments by firms like Apple's contract manufacturers. In pharmaceuticals and medical devices, new manufacturing capacity has been added. But there are concerns. PLI benefits are structured around large firms, and the scheme has not done much to connect smaller suppliers to these large beneficiaries. In some cases, a significant share of the components used in PLI-beneficiary products are still imported, which limits the depth of domestic value addition. There is also geographic concentration, with benefits largely accruing to a few industrial states.

4.2 Foreign Trade Policy 2023

The FTP 2023 moves away from a purely incentive-based approach to one that focuses more on simplification and process reform. The Advance Authorisation Scheme allows exporters to import raw materials without paying customs duty, provided those materials go into export production. The Export Promotion of Capital Goods (EPCG) scheme lets firms import capital equipment at zero duty for use in export-oriented manufacturing. The expansion of Towns of Export Excellence to include Faridabad, Mirzapur, Moradabad, and Varanasi is intended to broaden the geographic base of export activity.

The policy also makes greater use of digital platforms for export documentation and clearances, which should reduce the time and cost of compliance for exporters. These are meaningful steps, though the real test will be in implementation. Procedural reforms in India have sometimes not translated into actual reductions in clearance times because of poor coordination across agencies.

4.3 PM Gati Shakti and the National Logistics Policy

PM Gati Shakti, launched in 2021, is a digital mapping platform that brings together 16 central ministries and all state governments to plan infrastructure projects in a coordinated way. The idea is that roads, railways, ports, airports, and industrial corridors should be planned together rather than separately, so that they form connected networks. This approach directly addresses one of the root causes of India's high logistics costs.

The National Logistics Policy 2022 sets specific targets: bring logistics costs below 8 per cent of GDP by 2030, reach the top 25 in the World Bank's LPI, and create a unified digital platform for logistics data through the Unified Logistics Interface Platform (ULIP). These are reasonable targets, but meeting them will require sustained implementation effort and effective coordination between the central government and states.

4.4 FDI Liberalisation

India now allows 100 per cent FDI through the automatic route in most manufacturing sectors. This is important because foreign investment in manufacturing is often a direct route into GVCs. When a multinational firm sets up or sources from India, it brings with it international quality standards, supplier development practices, and access to its global buyer network. In that sense, FDI is not just capital, it is a GVC entry point.

The challenge is that FDI liberalisation alone does not guarantee investment. Investors also consider labour market conditions, ease of acquiring land, reliability of power supply, and the overall regulatory environment. India has made progress on several of these fronts through the four labour codes, improvements in the ease of doing business rankings, and state-level investment facilitation, but significant gaps remain.

5. Recommendations

The reforms described above are a start, but they need to go further in several directions.

Trade policy needs to be more stable. One of the complaints heard frequently from exporters and foreign investors is that India's tariff structure changes without much warning, and that these changes make business planning difficult. A more predictable tariff regime, particularly for intermediate inputs used in export production, would make India a more reliable partner in global supply chains.

MSME integration into GVCs needs deliberate policy support beyond finance. Credit access matters, but so do standards compliance, technology adoption, and supply chain linkages with large firms. The government should consider mandatory supplier development obligations for PLI beneficiaries, requiring them to source a growing share of components from domestic MSMEs over time. Bangladesh's experience with its garment industry is instructive here: the government worked closely with industry associations to build up a supplier base that could meet international buyers' requirements, and this coordinated effort produced results over time.

Digital infrastructure is becoming a basic requirement for GVC participation. As supply chains shift towards digital tracking, AI-assisted demand planning, and blockchain-based quality certification, firms that cannot plug into these systems will be left behind. India needs high-speed broadband to reach industrial clusters, clear rules on data localisation that do not deter investment in digital services infrastructure, and a push towards paperless trade documentation across borders.

Regional trade agreements need more attention. India should look to negotiate agreements that specifically reduce non-tariff barriers in sectors where it is trying to build GVC presence, rather than signing broad agreements that trade off manufacturing interests against services. The ongoing negotiations with the European Union and the United Kingdom should, if concluded, open significant new markets and create supply chain linkages with high-value European industries.

Finally, sustainability cannot be treated as a secondary concern. European and American lead firms are increasingly requiring their suppliers to comply with environmental and labour standards, and in some cases these requirements are being written into trade policy through mechanisms like the EU's Carbon Border Adjustment Mechanism. Indian exporters who do not adapt to these requirements will find themselves squeezed out of premium markets. Government policy should help firms understand these requirements and invest in compliance, rather than leaving them to figure it out on their own.

6. Conclusion

India has a genuine opportunity to increase its role in global value chains over the next decade. The global context is, by most assessments, more favourable than it has been in a long time. Companies are actively looking to diversify their supply chains away from excessive concentration in China. India's labour costs are competitive, its services sector is sophisticated, and its domestic market is large enough to attract investors on its own terms.

But the country has been in a similar position before and not fully capitalised on it. When the China Plus One strategy began gathering momentum after 2018, India was not as well placed as Vietnam, Mexico, or even some smaller Asian economies to absorb the investment that was looking for a new home. The reasons for that have been discussed in this paper: logistics costs, regulatory unpredictability, weak MSME-GVC linkages, and limited regional integration.

The current reform measures are addressing some of these issues. PLI has brought in investment in a few sectors. Gati Shakti and the National Logistics Policy are improving infrastructure planning. FDI rules are cleaner than before. But reforms need to be deeper, faster, and better coordinated. If India can achieve that, GVC integration can become one of the main drivers of job creation, productivity growth, and rising incomes in the years ahead. That outcome is achievable, but it will not happen on its own.

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