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India and Global Value Chains: Assessing Its Role in International Trade

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Abstract:

Global Value Chains (GVCs) have revolutionized the international trade system because they allow goods and services to be produced in different countries based on comparative advantages, technological abilities and price conditions. India, with a large internal market, skilled human resources, developing manufacturing sector, and a rapidly expanding services sector holds a strong potential to further engage in the global value chains. This paper discusses the changing nature of India's participation in GVCs and its impact on the performance of India's international trade. The study examines India's participation in the global production networks and its trends and patterns, especially in the context of export, import, foreign direct investment, manufacturing and services. It also discusses the possibilities of GVC integration for export diversification, job creation, technology development, productivity enhancement and competitiveness. Meanwhile, the paper highlights significant challenges including poor infrastructure, logistics cost, lack of skills, regulatory restrictions, low domestic value addition, and reliance on imported intermediate goods. The study's primary source of data is secondary data from government reports, international databases and published research studies. The analysis indicates that by increasing India's presence in GVCs it is possible to improve its trade position in the global market, if India builds up its infrastructure, human capital, trade facilitation, technological capabilities and investment climate. The paper concludes that India's integration into the global economy in a sustainable and competitive manner will remain essential with a shift towards more value addition in the domestic value chain and increased participation in technology-intensive and knowledge-based value chains.

Keywords: Global Value Chains, International Trade, India, Foreign Direct Investment, Export Competitiveness, Globalisation, Manufacturing, Services

Introduction:

The structure and the organization of international trade have been changed significantly by globalization. The classic theory of international trade is one where countries usually would specialize in producing finished products and then trade with one another across the borders. But development of transport and communications, information technology and trade liberalization, foreign investment have made production increasingly global. Consequently, various stages of product or service creation, manufacturing, production, manufacturing, marketing and distribution have begun to be carried out in different economies. The result of this phenomenon has been Global Value Chains (GVCs) that have become an important part of international trade today. Global Value Chains (GVCs) are the international division of the value creation process in which companies and countries engage in successive phases of value creation. The World Bank

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(2020) estimates that GVCs have contributed greatly to the growth of international trade since the 1990s and make up nearly half of the global trade. GVCs can make it possible for developing countries to access the international market without the need of building up a full production system. Based on their resources and skills, technological capabilities and comparative advantages, countries can specialize in specific tasks or specific stages of production. When trade, investor and domestic policies are tailored, participation in GVC can support economic growth and job creation, along with improving productivity and reducing poverty, the World Bank notes.(World Bank, 2020a)

The development of GVCs has also redefined the concept of international competitiveness. The(World Trade Organization, 2021a) concept of international competitiveness has also been redefined by the development of GVCs. The process of measuring competitiveness is no longer based solely on the ability of a country to export finished goods. Countries now compete to offer inputs, services, technology, skills, infrastructure and business contexts that are efficient and cost effective for firms to engage in international production networks. Trade in intermediate goods and services has thus become an integral part of the global trade. The WTO's Global Value Chain Development Report underlines the relevance of services, intangible assets and digital technologies in the development of GVCs, revealing that value creation is no longer restricted to traditional manufacturing processes.(World Trade Organization, 2021a) . India is an important case study in this research on the participation in GVC due to its large domestic market, growing manufacturing base, and a significant skilled workforce and competitive services sector. India's engagement with the world economy has picked up momentum since the economic liberalization in 1991, leading to a decrease in trade restrictions, relaxation of investment laws and increased involvement of Indian companies in international markets. The services sector, among them information technology and business-process services, has allowed India to play an important role in the global services value chain. The WTO has observed India's critical role in offshore business services, and stressed the need for human capital, digital skills, domestic business networks and research and development in transitioning towards higher value-adding services in the global value chains(World Trade Organization, 2021a)

Meanwhile, the participation of India in GVCs is not uniform across sectors. India has built up a robust information technology, business services, and pharmaceuticals sector, but lacks in its efforts for greater penetration in manufacturing value chains. Limitations in infrastructure, logistics, skill shortage, regulations, and the low productivity of some sectors, combined with low value addition within India, can impact India's competitiveness. OECD has also pointed out the productivity and competitiveness issues in India's involvement in global value chains.(OECD, 2019)

Foreign Direct Investment (FDI) is also an important pathway for countries to participate in GVCs. The Multinational enterprises frequently disperse the different phases of production processes between countries and create international production networks via FDI. As a result, the linkages between investment policies, trade policies and participating in GVC are tightly coupled. UNCTAD's World Investment Report highlights the close interaction between global value chains and multinational enterprises, and the strong influence that shifts in geopolitical environments, trade policies and investments have on shaping global production networks.(World Bank, 2020a) . The significance of India's involvement in GVCs has also resulted in the transition from traditional trade statistics emphasizing trade in terms of value of trade to trade-in-value-added (TiVA) statistics. An economy's contribution to gross exports can be overstated if exported products include inputs from other economies. The TiVA analysis allows to separate domestic and foreign value added in exports and imports and thus better understand a country's role in international value-

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added chains. The OECD's country analysis on India further highlights the role of imports in GVCs, as well as the value creation in the export of goods and services embodied in the value of goods exports, and sectoral linkages and international value chains.(Organisation for Economic Co-operation & Development, 2026b)

GVCs are also facing a changing environment at the global level. Firms and governments have again started to rethink the geographical division of production as a result of geopolitical tension, trade restrictions, technological change, and climate risks and disruptions to international supply chains. UNCTAD also notes that geopolitical and economic fragmentation is influencing world investment and supply-chain networks, and investment has become more focused on specific GVC-intensive sectors, such as electronics and automotive industries. These developments pose challenges and opportunities to India. The nation's efforts to boost manufacturing, upgrade infrastructure, attract investment and make exports more competitive might facilitate deeper involvement in the global value chains.

In this backdrop, the current study titled “India and Global Value Chains: Assessing its role in International Trade” aims to explore the changing role of India in global value chains and its implications for international trade. The study is focused on the involvement of India in GPs, export performance, import dependence, foreign investment and sectoral competitiveness. It also reflects the big opportunities and obstacles to a more integrated and dynamic GVC. Awareness of India's role in GVCs is crucial to not only evaluate India's standing in international trade but also to formulate potential measures to increase value addition, technology, employment opportunities and export competitiveness in the long run.

Review of Literature:

1. Baldwin (2013)

Baldwin (2013) attributes the development of global supply chains to technological, communication and transport developments. He said that the process of production has become more and more dispersed, prompting the developing countries to specialize in certain parts of it. Global supply chains offer opportunities for Technology Transfer, Investment, Employment and export growth. His framework offers a theoretical basis to analyze India's participation and role in Global Value Chains.(Baldwin, 2013)

2. Athukorala (2008)

In a study of the integration of India into the global production networks, Athukorala (2008) compared its experience with that of the economies of East Asia. The study concluded that India's involvement in production sharing was still relatively small, but trade liberalisation slowly started to bring India into the international fold. The author highlighted that the lowering of trade barriers, infrastructure development and development of manufacturing capacities could improve India's engagement with GVC. The study contributes to the literature discussing the competitiveness of exports to India, as well as the integration of production networks in India.(Athukorala, 2008)

3. Gereffi, Humphrey and Sturgeon (2005)

Gereffi, Humphrey and Sturgeon (2005) came up with an important framework for the governance of Global Value Chains. They identified various governance arrangements such as market, modular, relational, captive and hierarchical forms. Governance arrangements affect opportunities for participation

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in international markets, opportunities for upgrading, and opportunities for learning. Their framework can be adopted to analyse India's position in the global production chain and the trajectory of the Indian companies towards higher value activities.(Gereffi et al., 2005)

4. World Bank (2020)

In discussing economic growth, productivity, employment and poverty reduction, the World Bank (2020) pointed to the importance of Global Value Chains. The report underscored developing countries' ability to make a place in international markets by specializing in particular stages of production. Successful participation in GVCs, however, requires infrastructure, skills and investments, as well as trade facilitation and institutions. The results of these are significant for India, which aims to participate more in global production and international trade.(World Bank, 2020b)

5. World Trade Organization (2021)

The WTO (2021) analyzed how the GVCs are changing as a result of the digitalization, technological progress and growth of services. The report highlighted that human capital, digital infrastructure, innovation and technological capabilities are gaining more significance to participate in higher value activities. The report identifies opportunities for India in information technology, business services and advanced manufacturing. This study recommends strengthening of domestic capacities to make India more competitive and improve its position in global value chains.(World Trade Organization, 2021b)

Objectives of the Study:

1. To analyses the trend and pattern of the involvement of India in Global Value Chains (GVCs) and their contribution to global trade.
2. To evaluate the contribution of exports, imports and Foreign Direct Investment (FDI) in enhancing the India's integration with Global Value Chains.
3. To highlight important opportunities and barriers that India is experiencing in improving its engagement and competitiveness in Global Value Chains.

Research Methodology:

This study is of descriptive and analytical research type to analyze India's involvement in Global Value Chains (GVCs) and its contribution in international trade. With the descriptive approach, trends in India's exports and imports, as well as in India's foreign direct investment (FDI) and its involvement in global value chains (GVCs), are being explored; and with the analytical approach, the relationship between trade, investment and India's involvement in GVCs is analyzed. The study also highlights the key opportunities and structural bottlenecks for India's International competitiveness.

The study uses mainly secondary data which is gathered from authentic and internationally recognized sources like Organization of Economic Co-operation and Development (OECD), World Bank, World Integrated Trade Solution (WITS), United Nations Conference on Trade and Development (UNCTAD), World Trade Organization (WTO), Government of India, Ministry of Commerce and Industry, and Reserve Bank of India (RBI). These sources offer data on the trade of Goods and Services, imports and exports, FDI inflows and trade policies and indicators of trade in value added.

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Discussion & Analysis:

Global Value Chains (GVCs) have grown in India as a result of liberalization of trade and investment, increase in the manufacturing sector and internationalization of services. GVC participation also contains backward linkages (imports to exports) and forward linkages (value added in India in exports). Thus, the role of India cannot be determined based on the gross export figures alone. The OECD's Trade in Value Added (TiVA) framework offers a more suitable measurement, as it measures the value added in a domestic country and those produced by foreign countries in trade(Organisation for Economic Co-operation & Development, 2026a) . Recent evidence from OECD shows that India's contribution is still important but varies by sector. The linkages of Indian firms with overseas partners have become much stronger in services and knowledge-intensive activities, and remain relatively limited in manufacturing GVCs. The most recent OECD evaluation indicates that India, like other large emerging economies, was relatively advanced with respect to domestic value-added in gross exports during 2022–24, but also was somewhat backward-looking with production needs for foreign inputs. OECD In addition, the diversification of trade can be seen in the merchandise and services trade figures in India. According to UNCTAD, India's merchandise exports grew from US$99.6 billion in 2005 to US$442.8 billion in 2024 and services exports grew from US$52.2 billion to US$374.9 billion in the same period. In this context, UNCTAD states India's involvement in GVC has continued to diversify, but continued involvement in higher value manufacturing and technology-intensive activities is significant.(Organisation for Economic Co-operation & Development, 2026c)

The three variables' exports, imports, and FDI are intertwined and crucial aspects of GVC participation. Exports are the means of accessing international markets, whereas imports of intermediate goods, components, technology and services open up opportunities for domestic companies to engage in international production networks. A high level of imports does not, therefore, necessarily mean low competitiveness as imported inputs can then be processed and used in exports. OECD TiVA analysis highlights the significance of imported inputs and services used in exports for determining a country's position in the GVCs.(Organisation for Economic Co-operation & Development, 2026b). This is the relationship that is observed in India's trade expansion. World Bank WITS data shows that India's exports of merchandise goods rose from nearly US$275.5 billion in 2020 to nearly US$394.8 billion in 2021, while imports jumped from nearly US$368.0 billion to nearly US$570.4 billion. WITS: Higher integration with the international markets and more reliance on foreign inputs. FDI is also significant because of its ability to provide linkages between domestic businesses and global production, technology, management and distribution systems. UNCTAD highlights the interconnections between GVC structure transformation and technology and international investment flows. UNCTAD India therefore has the potential to attract productive foreign direct investment (FDI) in manufacturing and technology-intensive industries, which will help to enhance its export capabilities and technology transfer. Merits of FDI, however, rely on the capabilities of the domestic partners, infrastructure and linkages with the domestic suppliers.(United Nations Conference on Trade & Development, 2024)

India has significant opportunities to increase its engagement in GVCs. It has a large labor force, a growing domestic market, a developing digital skills base and a strong service sector, as well as becoming a more attractive place to produce. Globalization of value chains also opens opportunities for India to draw in investments and play a part in electronics, automobiles, pharmaceuticals, renewable energy equipment and other technology-related value chains. OECD evidence suggests that GVCs remain at high levels despite recent geopolitical and economic shocks, and will have opportunities for countries with competitive

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and reliable production environments.(Organisation for Economic Co-operation & Development, 2026c) . However, there are many structural challenges in India. High tariffs, complex customs procedures and restrictions on foreign service providers, and inadequate infrastructure, trade and investment restrictions are highlighted in 2026 assessment as constraints on India's GVC integration by OECD. These factors can raise the transaction costs and make the Indian producers less competitive as compared with the other OECD countries. Other challenges are to enhance skills and skill development, technological potential and value addition within the country. There is a need to increase linkages between MNCs and domestic suppliers to enable FDI to create broader technological and productivity spillovers in India. Competitiveness is not just about export volumes, but also about the shift towards higher value-value activities, logistics and trade facilitation, digital infrastructure, human capital and predictable investments. This can help to make India a bigger player in the value added of these global supply chains.(Organisation for Economic Co-operation & Development, 2026a)

Conclusion:

Countries have joined the international trade, investment and global production through Global Value Chains. The analysis suggests that India has had a significant share in GVCs, as merchandise exports have increased and services exports have increased at a high rate, and the linkages with international markets and multinational companies have increased. But, the ability of the Indian side in participating in the sectors is uneven in some sectors, especially in services, where the Indian side's capabilities are very strong, and comparatively very large potential in the manufacturing and technology-intensive sectors with deep integration. The OECD TiVA evidence also shows that the conventional gross trade statistics are not comprehensive enough in the context of India's trade, because there is domestic value added and intermediate goods imports, both of which play an important role in India's international trade. The combined effect of exports, imports and FDI positively affects India's GVC integration. Importation of intermediate goods can facilitate the export production and FDI can supply capital, technology, managerial knowledge, and access to international markets. Meanwhile, weaknesses in infrastructure, trade restrictions, cumbersome customs clearance process, lack of skills and limited domestic production chains restrict India's potential to create larger value.

Hence, the future GVC strategy for India should be on higher value addition domestically, facilitation of trade, improvement of infrastructure, upgrade of technology, skill development, promotion of investment, and strengthening of linkages between domestic and foreign firms. This is possible if these constraints are overcome, allowing India to compete more strongly in higher value-added parts of global production networks in addition to its existing low-cost advantage. This will improve export competitiveness, bring in productive investment and help in sustainable long term economic development.

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