

VERTICAL SPECIALIZATION IN INDIAN MANUFACTURING AND SERVICE SECTORS

Topic: (1.5) Global Value Chain and Vertical Specialization (1)

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India is one of the fastest growing economies in Asia. This transition to the high economic growth path is widely believed to have been triggered by accelerated growth of services that has fared better than manufacturing, in terms of increasing sectoral share in gross domestic product (GDP) and total employment. The government of India is currently concerned with engineering further economic transformation and thus, has launched its "Make in India" national programme wherein, greater emphasis is being placed on foreign and local investments in 25 focus sectors to transform India into a global manufacturing powerhouse. Therefore, greater integration of domestic industries with global production networks must form an essential part of Make in India initiative. Against this backdrop the objective of this paper is to estimate the extent of integration of Indian manufacturing and service sector into the global value chains. There are various ways to measure the economic participation in global value chains and a more rigorous measure is vertical specialization. Using Koopman, Wang and Wie (2012,2014) Value Added in Trade method (VAiT), the study estimates domestic and foreign value added in exports to quantify the vertical specialization in India's trade and subsequently Trade in Value Added method (TiVA) is used to calculate India's value added trade disaggregated by industry. The calculations are based on recently published World Input Output Database (Timmer et al., 2016). We compare the data for first and final years available in WIOD, 2000 and 2014. For the purpose of analysis the WIOD countries have been combined other than India into 5 countries and two destination regions (the United States, China, Korea, Japan, Taiwan, the European Union and Rest of the World). The findings suggest that from the policy perspective India should continue to reduce trade barriers to trade and FDI in goods and services having strong links with manufacturing sector.