

Vertical and Horizontal Specialization Revisited: Case of India

Topic: Implications of GVCs

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In the last few decades world production system has been changing rapidly where splitting up the production of a good into different stages of production across spatially dispersed locations on the basis of their comparative advantages has become a rising phenomenon. This phenomenon is widely referred to as "the fragmentation of production processes" or "Global Value Chains". Trade involving production fragmentation has contributed to an increasing share of intra-industry trade (IIT) in manufactured goods and also that is mostly in the form of vertical IIT. Recent empirical researches have shown that vertical IIT not only reflects quality differences but also takes place due to vertical linkages in production resulting from international production fragmentation. After the adoption of trade liberalization measures in 1991 India's IIT has grown in importance. Against this backdrop, the present paper attempts to measure India's IIT and its various components like Horizontal IIT and Vertical IIT with some major trade partners, the USA, EU(27) and China during 2001-02 to 2015-16 and assess the country's role in international production fragmentation. The paper also investigates how far India's IIT contributes in inclusive growth by investigating its impact on employment considering various types of skills using Input-Output framework. This analysis is very pertinent for a highly unskilled labour-intensive country like India. The study also attempts to assess the impact of India's IIT on environment using IO technique and tries to find out whether India is a case of pollution haven in this regard. The study finds that share of IIT in total trade between India and its trade partners is increasing. India's IIT is dominated by the goods differentiated vertically (VIIT) which might be an indication of vertical specialization and increasing participation in global production network. However, India is found to be a pollution haven in case of IIT with EU(27) and the USA. Regarding employment generation, IIT has a positive impact on the labour market, particularly in trade with EU(27) and China. As India is found to be specialising mostly in lower-quality varieties which are unskilled labour intensive, promotion of IIT could lead to an inclusive growth in India.