

TRADE IN VALUE ADDED: INDIA

The international fragmentation of production in global value chains (GVCs) challenges the way we look at the global economy. Today, “what you do” - the activities a firm or country is involved in - matters more for growth and employment than “what you sell” - the products that make up final sales or exports.

Understanding how GVCs work and how they affect economic performance is essential, as is determining which policies help derive the greatest benefits, and reduce the risks. The OECD-WTO Trade in Value Added (TiVA) database facilitates analysis of GVCs by measuring trade in value-added terms to generate new insights about the commercial relations among economies and the process of value creation. Drawing on the third version of the TiVA database, this note describes India’s trade patterns in value-added terms, with a view to informing policy debates in a range of areas, including trade, innovation, and investment.

Accompanying this note is a User Guide designed to assist interpretation and provide context to the indicators presented: http://www.oecd.org/sti/ind/TiVA_2015_Guide_to_Country_Notes.pdf

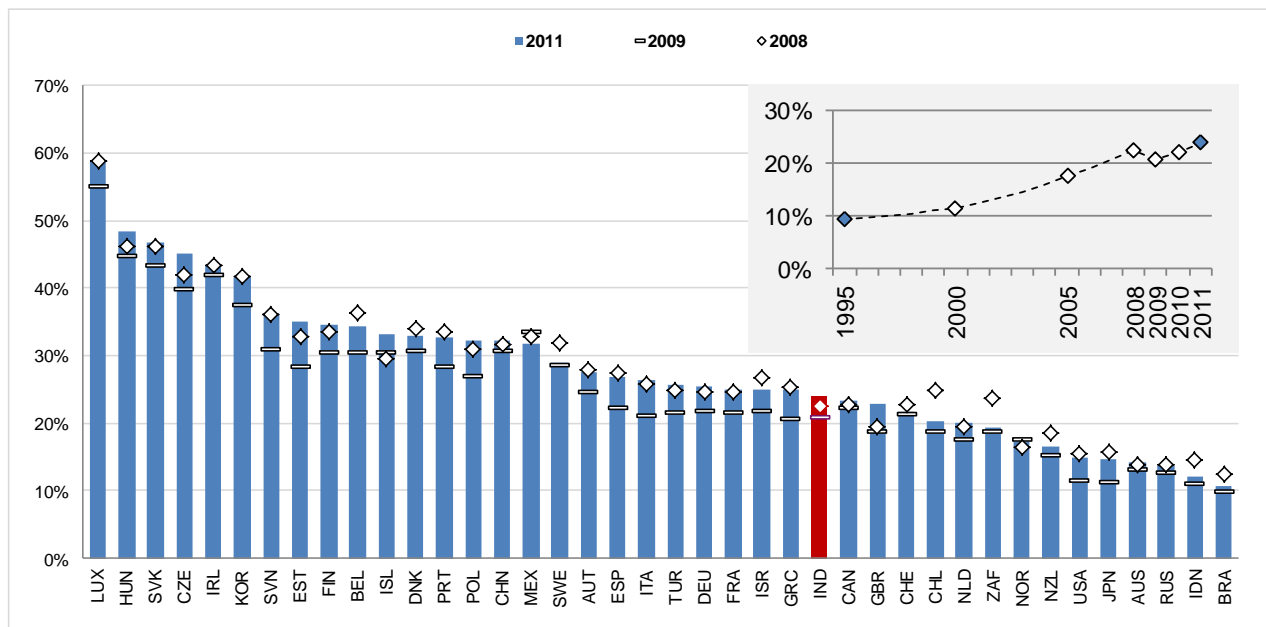
Key findings

- India has seen an acceleration in its integration into global value chains over the last two decades with the foreign content of its exports more than doubling from less than 10% in 1995 to nearly one quarter in 2011, which now puts it at the second highest rate among BRIICS economies.
- A specialisation in services has played a key role in India’s integration with 57.5% of the total value of exports reflecting services content in 2011.
- But the services content of manufacturing, at just over one-third of the total value of manufacturing exports, was relatively low in 2011.
- Although low compared to most economies, the export orientation of Indian manufacturers (27.1%) in 2011 was the third highest among BRIICS economies and nearly double the rate in 1995.

The role of foreign and domestic value added in exports

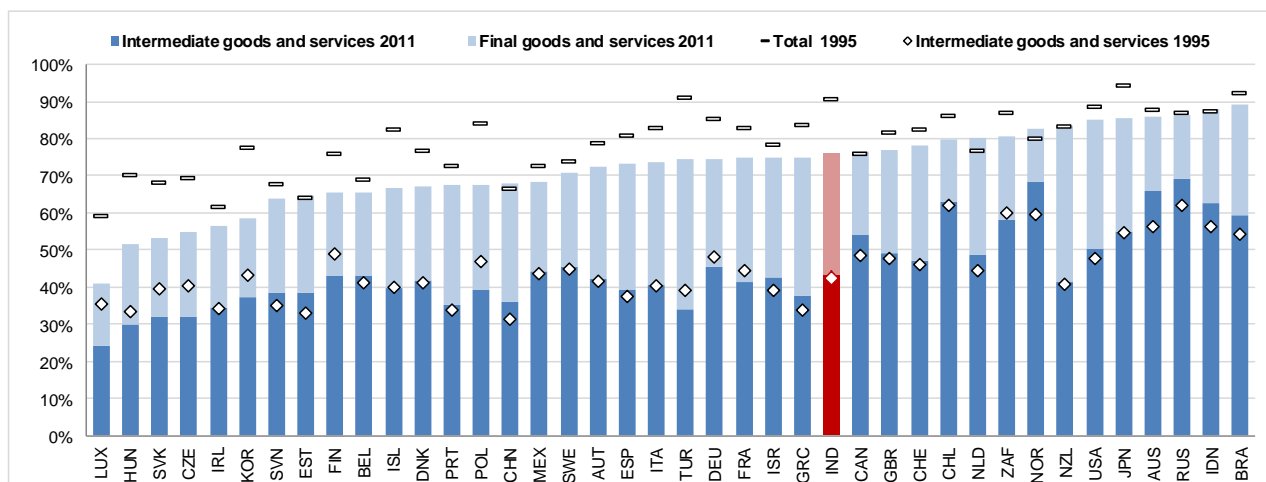
The foreign content of India's exports has increased significantly in the last two decades, more than doubling from under 10% in 1995 to 24.0% in 2011 (Figure 1); the second highest rate, after China, amongst BRICS economies.

Figure 1. Foreign value added content of gross exports by country
percent, 2008, 2009, and 2011 (right insert = time series for India)



Of India's total exports of domestic value-added in 2011, 56.9% reflected exports of intermediates, significantly higher than in 2009 (47.4%), in part reflecting the rebound in GVCs which were disproportionately affected by the crisis, and higher than in 1995 (46.9%), (Figure 2). India's share of intermediate inputs in total exports of domestic value added was below the OECD average of 61.5%, however.

Figure 2. Domestic value added content of gross exports by end-use category by country
percent, 1995 and 2011



Direct exports by the Wholesale, retail & hotels industry (reflecting in part tourism and upstream distribution services to exporters), generated the greatest source of domestic value added in 2011, accounting for 12.6% of the total value added of exports. The next three most important industries were Business services (11.7%), Transport & telecoms (10.5%) and Coke & petroleum (4.8%) (Figure 3a). The largest foreign contributions were in the Coke & petroleum and Other manufacturing industries, which together contributed 9.1% of India's total exports.

The foreign content of exports has increased significantly across nearly all industries in the last two decades. The three industries with the highest foreign value added shares in India's exports in 2011 were Coke & petroleum, Other manufacturing and Basic metals with 56.6%, 42.4% and 42.1% respectively, significantly higher than the shares in 1995 (26.6%, 16.3% and 18.5%), (Figure 3b).

Figure 3a. India's industry share of domestic and foreign value content of gross exports
percent of total gross exports, 2011

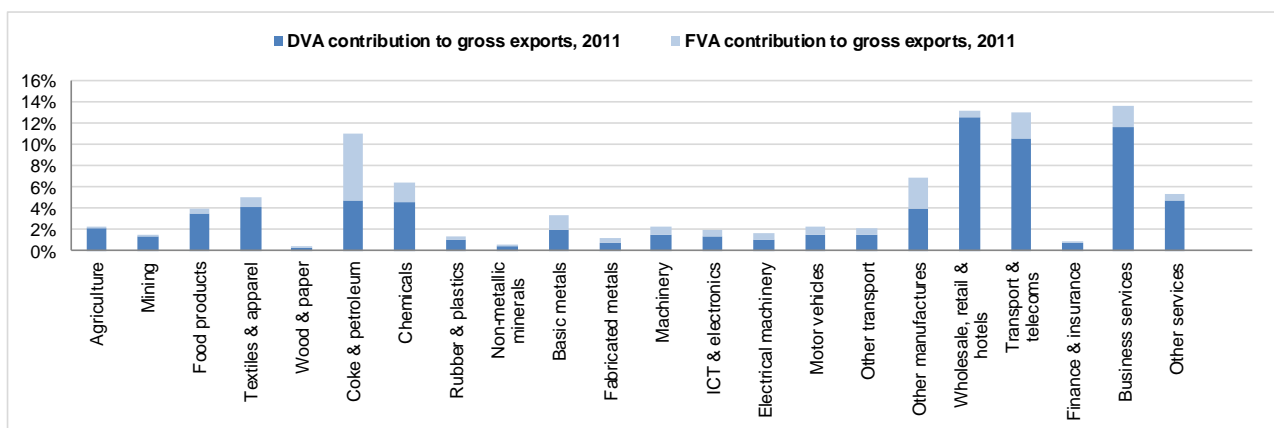
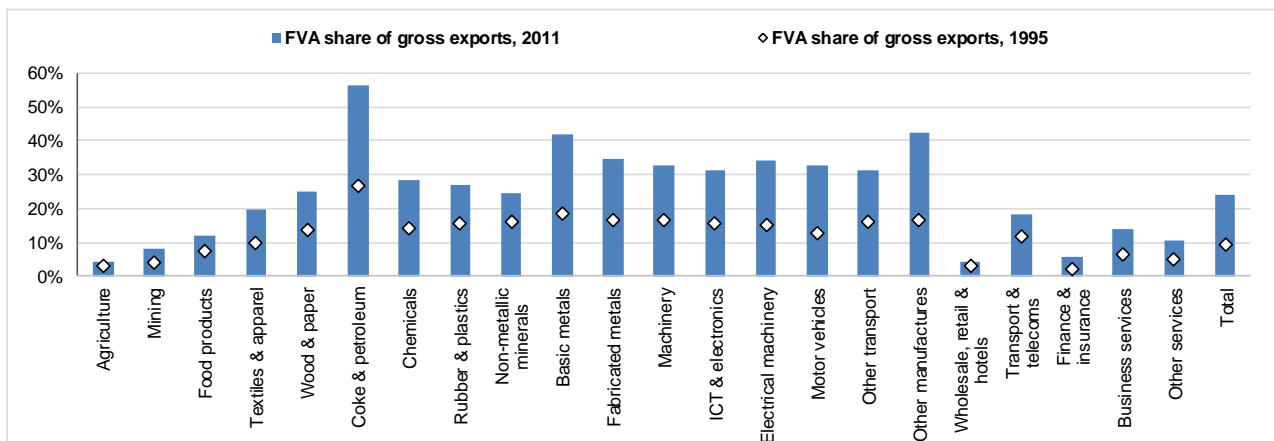
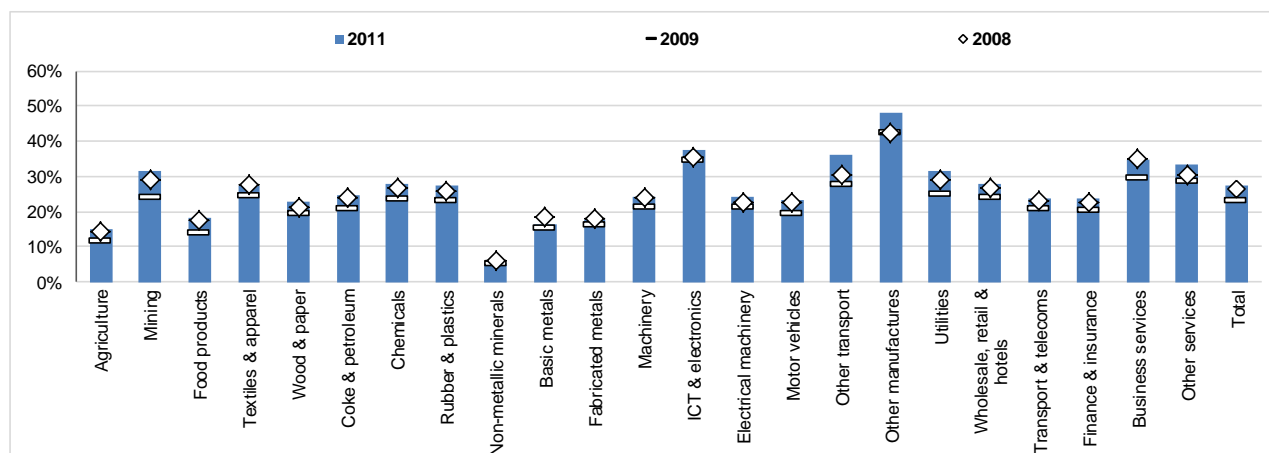


Figure 3b. India's foreign value added content of gross exports
1995 and 2011



Of the total value of India's imports of intermediate products and services, just over a quarter (27.5%) was subsequently embodied in exports, lower than the OECD average (39.3%) but higher than in 2009 (23.5%) (Figure 4). The products with highest shares were Other manufacturing, ICT & electronics and Other transport, at 48.3%, 37.7% and 36.0% respectively.

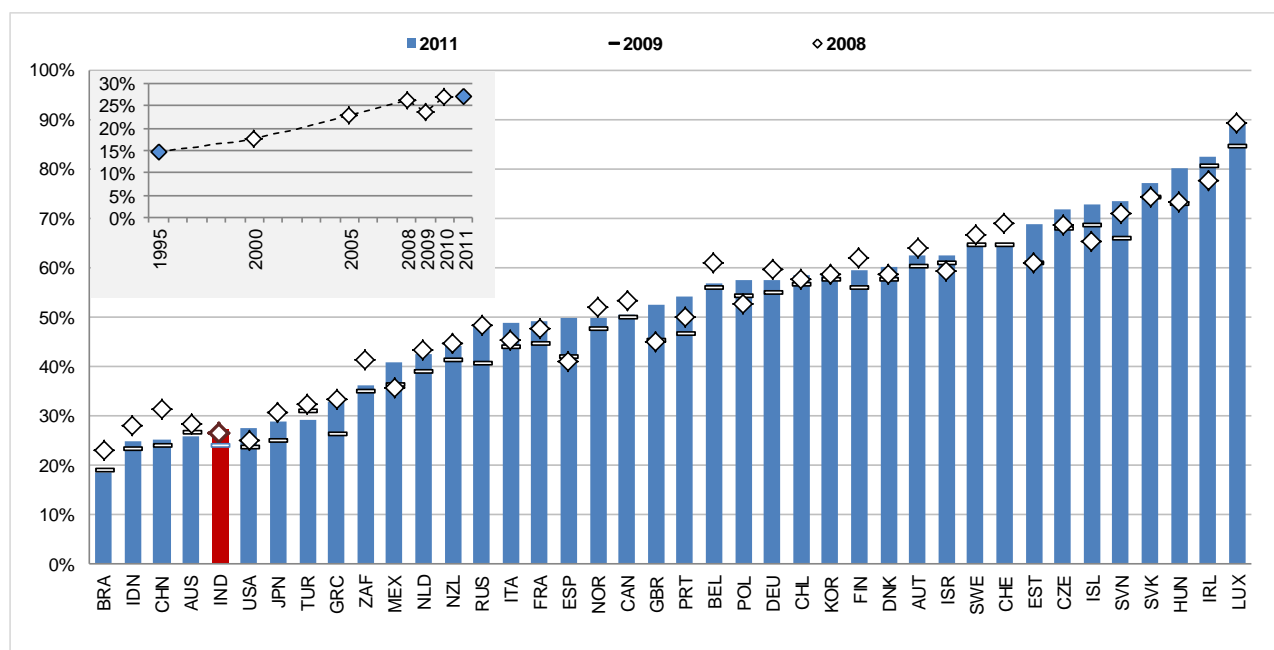
Figure 4. India's imported intermediate inputs used for exports, by import category
percent of intermediate imports, 2008, 2009, and 2011



The destination of domestic value added produced in India

Of the total domestic value added produced by the manufacturing sector in India, 27.1% reflected foreign final demand in 2011, higher than 2009 (23.8%) and 2008 (26.3%), (Figure 5). Although this was low compared to most economies, this partly reflects India's large size. Amongst BRIICS economies India had the third highest level of export orientation, above China, Brazil, and Indonesia.

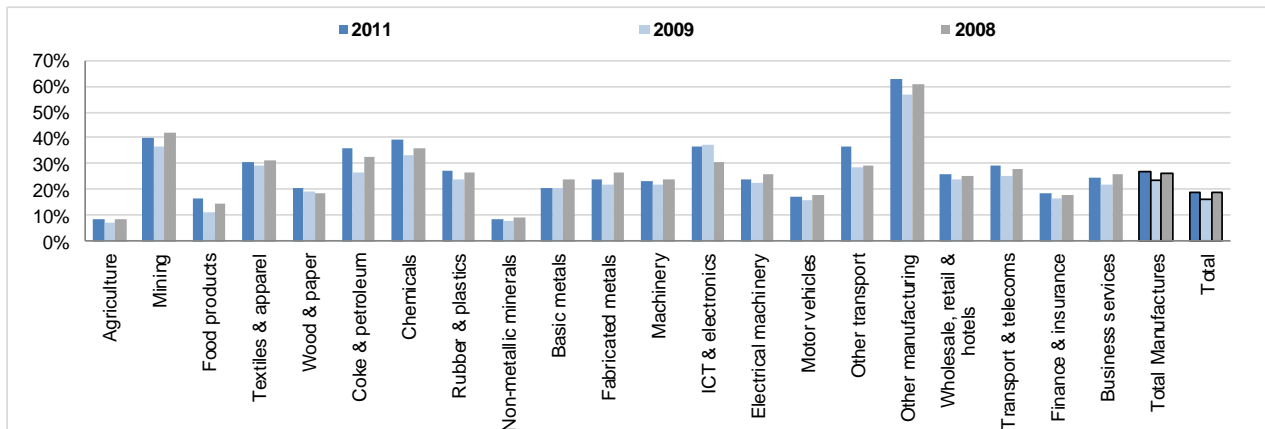
Figure 5. Manufacturing domestic value added in foreign final demand by country,
percent of total manufacturing value added, 2008, 2009, and 2011 (left insert = time series for India)



Note: Final demand excludes inventories: See also http://www.oecd.org/sti/ind/TiVA_2015_Guide_to_Country_Notes.pdf

At the total economy level, 18.6 % of India's domestic value added was driven by foreign final demand, but significant differences exist across industries. Other manufacturing (63.0%) and Mining (39.9%) had the highest level of export orientation in India, with the lowest shares in Non-metallic minerals (8.3%) and Agriculture (8.8%) (Figure 6).

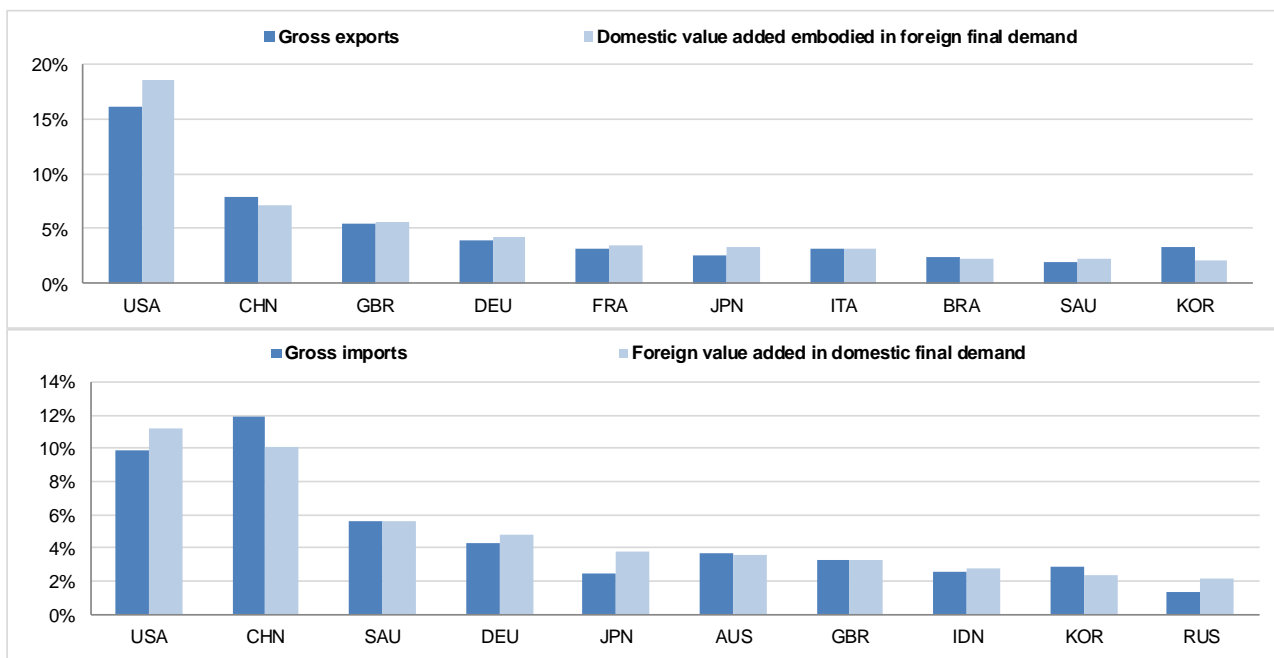
Figure 6. India's domestic value added in foreign final demand, percent of value added by industry, 2008, 2009, and 2011



Note: Final demand excludes inventories: See also http://www.oecd.org/sti/ind/TIVA_2015_Guide_to_Country_Notes.pdf

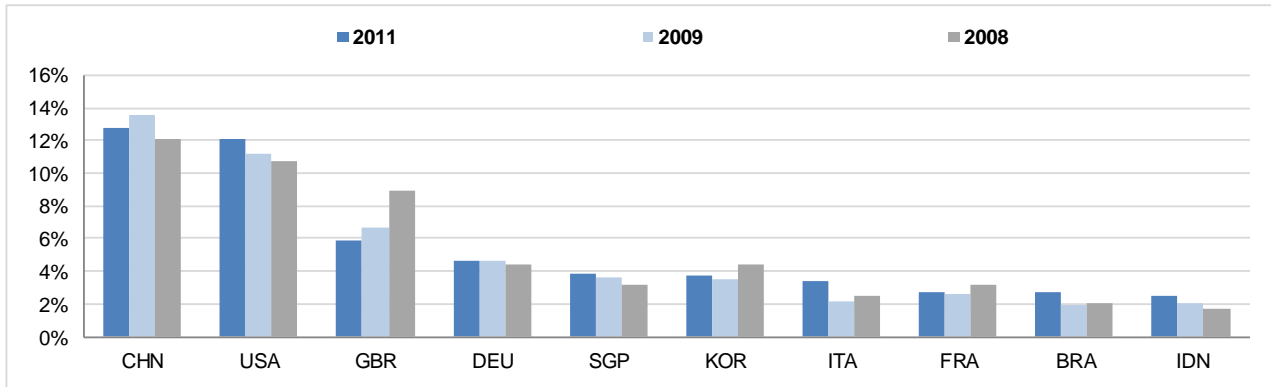
Trade relationships in gross and value-added terms are broadly similar, in part reflecting India's position at the end of the value-chain in many sectors, and its high specialisation in services exports. The United States, China and the United Kingdom were the three most important Indian export market destinations on both counts, with a slightly stronger role for the United States in value-added terms partly reflecting Indian value-added embodied in Chinese exports. For imports, the positions of China and the United States are reversed when comparing rankings on a gross and net basis, which partly reflects the higher domestic value-added content of United States exports, (Figure 7, bottom).

Figure 7. India's exports to and imports from main partner countries percent of total gross and value added exports and imports, 2011



Looking only at exports of intermediates goods and services in value-added terms, India's major export destinations in 2011 were: China (12.7%), the United States (12.1%) the United Kingdom (5.9%), and Germany (4.6%) (Figure 8). Between 2008 and 2011, the importance of the United Kingdom as an importer of Indian intermediates decreased significantly.

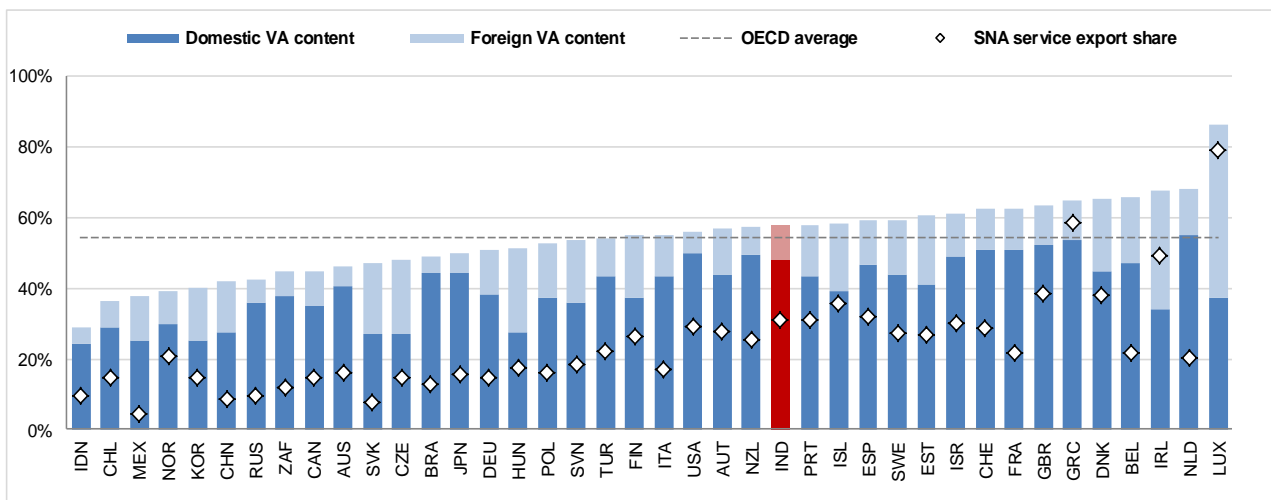
Figure 8. India's domestic value added embodied in intermediate exports to main partner countries
percent of total intermediate exports, in value added terms, 2008, 2009, and 2011



The importance of services

In 2011 the service content of total exports in India was 57.5%, above the OECD average of 54.3%, (Figure 9).

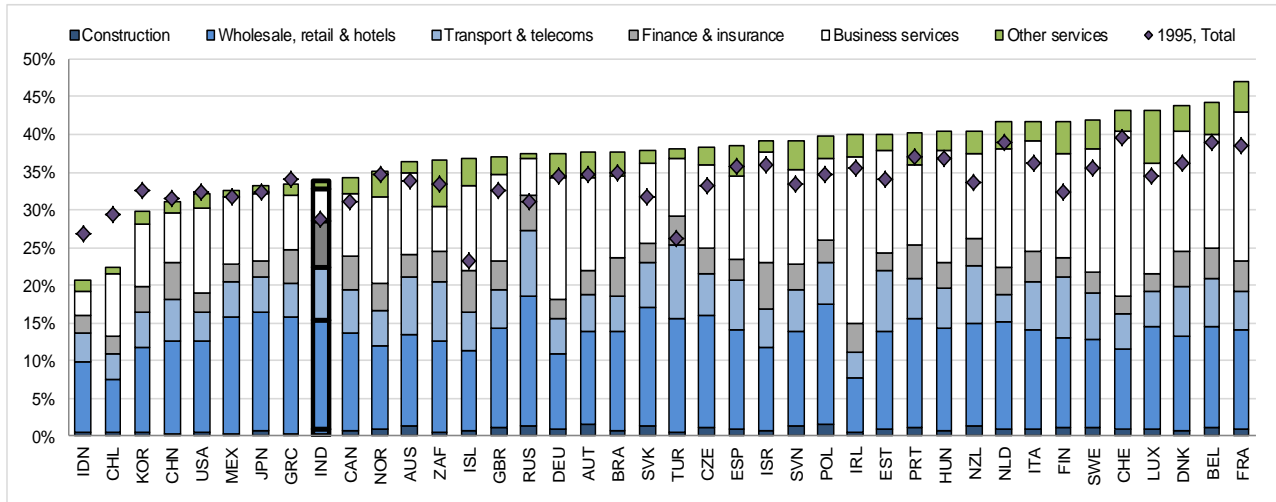
Figure 9. Services content of gross exports by country, gross and value-added terms,
percent of total gross exports, 2011



Note: SNA services export shares include re-exports in the denominator, and include any actual differences in free on board and basic prices (the distribution margin provided by resident distributors to resident exporters) in goods.

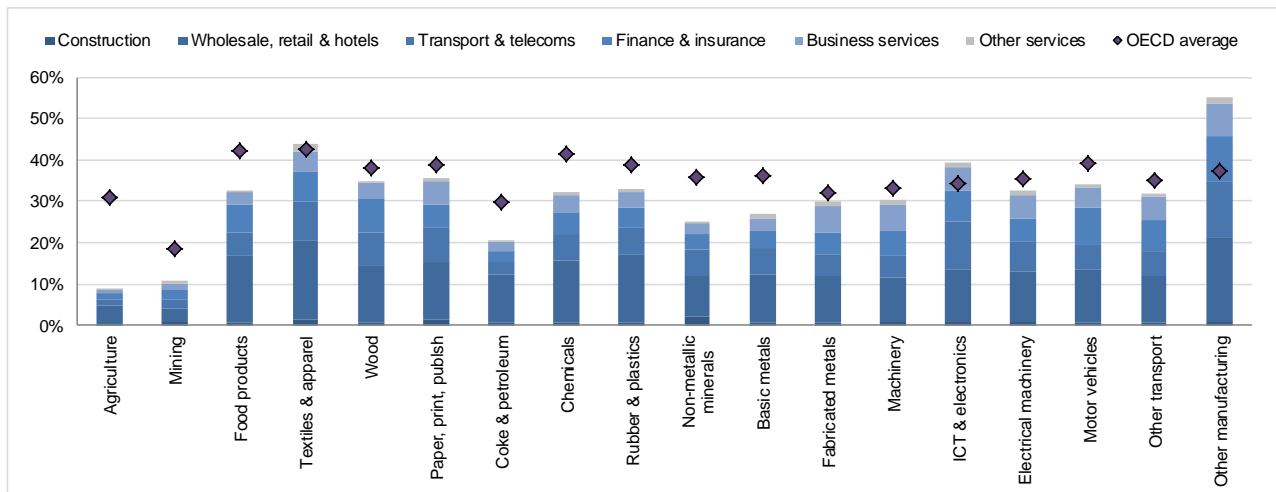
For exports of manufactured goods alone, just over one-third (33.8%) of the total value reflected services sector value-added, below the OECD average (36.9%). Of this share, the Wholesale, retail & hotels sector accounted for 14.6% of total gross exports, with Transport & telecoms and Finance & insurance accounting for 7.0% and 6.1% respectively (Figure 10).

Figure 10. Services value added embodied in manufacturing exports, by country, percent of total gross exports, 1995 and 2011



At the individual sectoral level, the services content of exports was below the OECD average in most industries. The highest shares were in the Other manufacturing (55.0%), Textiles & apparel (43.7%) and ICT & electronics (39.4%) industries (Figure 11).

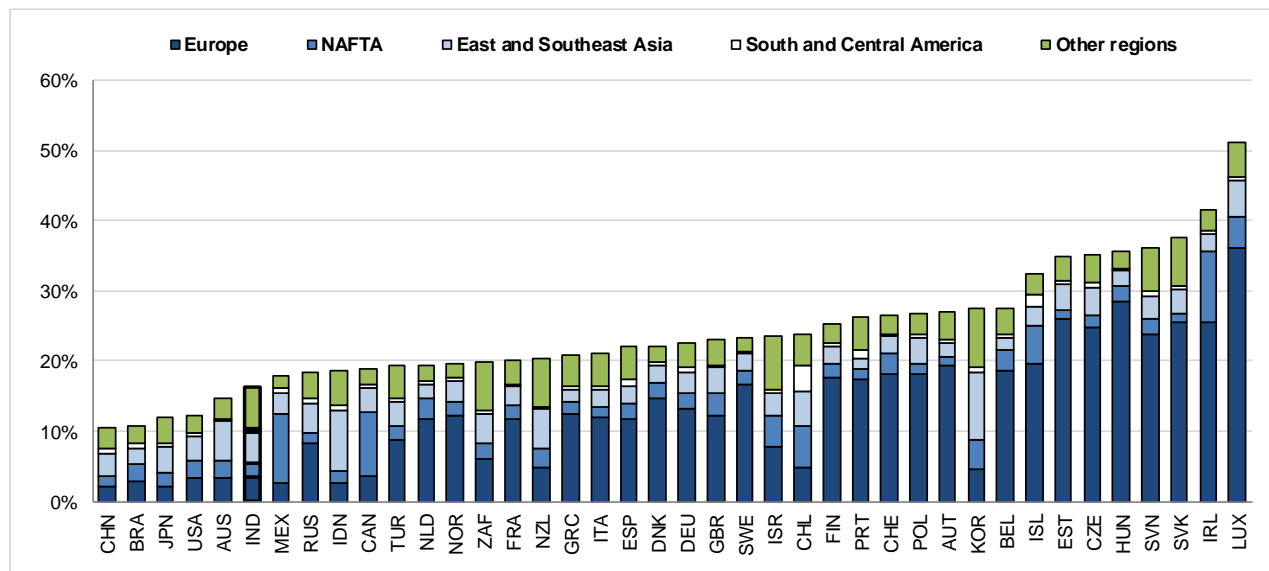
Figure 11. India's Services content of gross exports, by exporting industry and service category percent of gross exports by industry 2011



The origin of domestic consumption

In 2011, 16.2% of India's total final domestic consumption reflected foreign content, of which Europe contributed 3.5 percentage points, NAFTA 2.1 pp, East and Southeast Asia 4.4 pp, South and Central America 0.4 pp and other regions 5.9 pp (Figure 12).

Figure 12. Foreign value added content of domestic consumption by country
by source region, 2011



Further Information

The information included in this note is based on the 2015 edition of the Trade in Value Added (TIVA) database.

» Access the data at <http://oe.cd/tiva>

» Please contact us with your questions at tiva.contact@oecd.org