

Creating Jobs and Growth by Specializing to Exports in Network Products

The current environment for international trade presents India an unprecedented opportunity to chart a China-like, labour-intensive, export trajectory and thereby create unparalleled job opportunities for our burgeoning youth. By integrating “Assemble in India for the world” into Make in India, India can create 4 crore well-paid jobs by 2025 and 8 crore by 2030. Exports of network products, which is expected to equal \$7 trillion worldwide in 2025, can contribute a quarter of the increase in value-added for the \$5 trillion economy by 2025

The US–China trade war is causing major adjustments in Global Value Chains (GVCs) and firms are now looking for alternative locations for their operations. Even before the trade war began, China’s image as a low-cost location for final assembly of industrial products was rapidly changing due to labour shortages and increases in wages. These developments present India an unprecedented opportunity to chart a similar export trajectory as that pursued by China and create unparalleled job opportunities for its youth. As no other country can match China in the abundance of its labour, we must grab the space getting vacated in labour-intensive sectors.

China’s remarkable export performance vis-à-vis India is driven primarily by deliberate specialization at large scale in labour-intensive activities, especially “network products”, where production occurs across GVCs operated by multi-national corporations. By importing components and assembling them in China for the world, China created jobs at an unprecedented scale. Similarly, by integrating “Assemble in India for the world” into Make in India, India can raise its export market share to about 3.5 per cent by 2025 and 6 per cent by 2030

Is India’s lacklustre export performance caused by a lack of diversification in its export basket (extensive margin) or is it because of a lack of specialization (intensive margin)? On examining this question, it is observed that the China- India gap in world market share is almost fully driven by the effect of specialization. On the other hand, India is clearly catching up with China in terms of diversification across products and markets . Overall, high diversification combined with low specialization implies that India is spreading its exports thinly over many products and partners, leading to its lacklustre performance compared to China

Further, on decomposing the specialization effect into quantity and price effects , it is observed that the China- India gap with respect to specialization has been fully driven by the quantity effect. The bottom line is that if India wants to become a major exporter, it should specialize more in the areas of its comparative advantage and achieve significant quantity expansion

Low Level of Participation in Global Value Chains

Despite being abundant in labour, the share of traditional unskilled labour-intensive industries in India's non-oil merchandise exports declined by almost one-half from 30.7 per cent in 2000 to 16.3 per cent in 2018. In contrast, China's export composition shows a strong bias towards traditional labour-intensive industries and labour-intensive stages of production processes within capital-intensive industries (in particular, assembly of electronics and electrical machinery). While capital-intensive products account for a higher share in China's export basket than that of India's, it is important to emphasize two contrasting patterns. First, exports of capital-intensive products from China expanded since 2000 after the country recorded a major export expansion, for nearly two decades (1980-2000), of traditional unskilled labour intensive products. By contrast, India had not undergone a similar transition. Second, in contrast to India, export growth of capital-intensive products from China has been driven by its high level of participation in GVCs within these industries. China's export promotion policies since the 1990s have relied heavily on a strategy of integrating its domestic industries within the GVCs. Making use of imported parts and components, China emerged as a major assembly hub for several capital-intensive products.

Low Market Penetration in High Income Countries

The dominance of capital intensive products in the export basket along with a low level of participation in GVCs have resulted in a disproportionate shift in India's geographical direction of exports from traditional rich country markets to other destinations. That India's market penetration in high-income countries is perceptibly low, and has declined disproportionately during the recent decades, is not difficult to understand given the distorted pattern of its specialization. Developing countries, especially those with low level of participation in GVCs, find it extremely difficult to export capital intensive products to the quality/brand conscious markets in richer countries. In contrast to capital-intensive products, high-income countries generally provide relatively a larger market for India's unskilled labour-intensive products

It can be concluded that China's remarkable export performance, compared to India, is driven by a set of interrelated factors including a high level of participation in GVCs, a high degree of specialization in labour intensive production activities, large scale in the chosen sectors of specialisation, and a high level of export penetration in traditional rich country

In a nutshell, driven by the nature of its specialization, India has gained a competitive advantage in relatively low and middle income country markets but at the cost of losing the much bigger markets in richer countries¹. Though India can benefit significantly from utilising the potential opportunities from greater trade with high income markets, this requires a reorientation of our trade specialization towards labour-intensive product lines. This can be achieved both via selective focus on (i) traditional labour-intensive sectors such as textiles, especially man-made fibres, (ii) increased participation in

