

## **Efficiency Gain in Indian Manufacturing Sectors: Evidence from Domestic Value Addition in Exports**

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**Abstract:** Over the last two decades the global industrial value chains have increasingly expanded their bases across borders. The deepening of the Global Value Chains (GVCs) and international production networks (IPNs) have enhanced the presence of the developing countries like India in the global manufacturing canvas. While the Indian industry has become more globalized, domestic value-added content of sector-level industrial exports (DVA-content) from India has shown an interesting dynamics. The fluctuating trend in DVA-content of exports in several industrial categories raises a question on whether the Indian industries are becoming more efficient over time or not. The empirical analysis reveals that the DVA-content is positively influenced by domestic capital and unskilled workers, while presence of skilled workers exerts a negative influence on the same. Foreign Direct Investment (FDI) and Intra-Industry Trade (IIT) are found to be negatively influencing efficiency levels. The following key observations emerge from the empirical results. First, India is unable to capitalize on the foreign capital or technology-led benefits in the production process. Second, there might be a dearth of appropriate skills in the domestic market that could have otherwise been able to complement the imported capital and technology to secure higher DVA-content. The paper concludes that for securing better domestic value realization, India must undertake a series of reforms for facilitating skill-enhancement, credit access and technology transfer.

**Keyword:** Manufacturing Sector, Domestic Value Added in Exports, TIVA, Technical Efficiency, FDI, Skill level

**JEL Classifications:** F14, F16, L69

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