

Excerpts from
Strategy Paper for Growth of Engineering Exports (2005-06 to 2009-10)

Considering India's growing competitiveness in the manufacturing sector and healthy growth in exports of Indian engineering products, Engineering Export Promotion Council (EEPC) appointed M/s. A. F. Ferguson & Co., a leading management consultancy firm, for developing a strategy paper for growth of engineering exports from India.

The Strategy Paper was formally released by the Hon'ble Union Minister of Commerce and Industries Shri Kamal Nath on 10th August, 2005.

The Strategy Paper recommends a focussed approach in terms of identified thrust products and thrust markets based on India's competitiveness, market features, trade block and associated features, strategic advantages, supply capacity etc.

Salient points of the Strategy Paper are given hereunder :

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Role of Various Bodies

Central Government

The Central Government is the chief responsible body that can promote export growth in the near future. It is critical for the Central Government to play a key role in the following areas :

Foreign Trade Policy

- ▶ The new Foreign Trade Policy announced by the UPA Government in 2004 for the first time integrated trade policy with the process of the country's economic development.
- ▶ The following strategies have been spelt out in the policy document :
 - ✓ Procedures simplification
 - ✓ Deregulation
 - ✓ Reduction in transaction costs
 - ✓ Facilitating the development of India as a global hub for manufacturing, trading and services.
- ▶ The Government should see to it that the benefits of these policies and strategies are available to the exporters through effective implementation of the same.
- ▶ The issue of policy on Labour Reforms does not impart flexibility to exporters of engineering products. It is important that the GOI documents a clear-cut policy on this issue. This would encourage exporters and other manufacturers to commit effort and resources to improve performance.
- ▶ The competitiveness of the exports from India depends on the availability of raw material at internationally competitive prices. Therefore, it is necessary to have a "**Raw Material Policy**" that will ensure the supply of raw material to exporters at competitive prices. This measure has become all the more important given the significant rise in input costs in the form of rise in steep prices of pig iron etc. over the last couple of years.
- ▶ In the year 2003-04, 31% of the total engineering exports came from Small Enterprises. The Foreign Trade Policy should research and make available WTO compatible export incentives to SME's. This obviously should be in line with India's WTO commitments.

Trade Agreements

- ▶ The Central Government should ensure that the industry has meaningful representation in formulation and negotiations of Trade Agreements with partnering countries/Trade Blocks.
- ▶ Trade Agreements should be planned with a larger perspective rather than signing them on a one to one basis. With this understanding, the Central Government could strategise and hasten the process towards becoming members of important trade blocks such as ASEAN with an objective of increasing exports of Engineering Products.

Infrastructure

- ▶ India needs very large investments in infrastructure, both social and economic, rural and urban to step up the rate of GDP growth to 7% to 8% p.a. The economy must therefore absorb very large investment in infrastructure over the next decade for us to be able to increase our growth rate. A large part of this needs to come from foreign direct investment. The Government over the years has assigned industry status to infrastructure. Commitment of funds to infrastructure has increased with time. The



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infrastructure issues range from ports, rail, roads, power, etc. All this is important not only from the point of view of reducing transaction costs, but also from the point of view of promoting a positive image of India abroad to do business. Discussion with the exporters revealed that if issues related to documentation and infrastructure were sorted out, the transaction costs could come down by 10%-15%.

- ▶ In power sector alone in order to sustain an annual growth rate of over 7% p.a. an estimated capacity addition over 10,000 MW per year is needed.
- ▶ Creating and operationalising port based SEZs with world class infrastructure and attracting FDI in Thrust Products manufacturing for exports in the SEZs is very important.
- ▶ The Government can arrange focussed road shows for attracting the export oriented foreign investment in Thrust Product categories and promotion of SEZs.

Foreign Direct Investment

- ▶ FDI has a significant role to play in the development of an export-oriented economy. The success of China's exports is a pointer in this direction. As discussed above for the development of manufacturing and infrastructure to support the growth in GDP and exports India needs very large investments and much of this must come in as Foreign Direct Investment. The Central Government could have a FDI roadmap to prepare foreign investors in identified thrust product categories in advance of the emerging investment potential in India. The Government has a role to play in making India attractive destination for FDI and create an environment conducive to the growth of spirit of adventure and enterprise. As an example, the Indian bureaucracy continues to slow down things. According to a World Bank "Investment Climate Assessment" report published last year (2004), it takes about 89 days to secure all the permits needed to start a business in India compared with 41 days in China. This shows that there is a need to simplify procedure and time taken to process the FDI related matters.
- ▶ The potential growth of outsourcing by foreign companies is a sign of the confidence of the foreign investors in India and it needs to pick up momentum.

Sectoral Policies

- ▶ The following sectors of the country require a long-term policy document that outlines with specific measurable results - for example 2010 vision document. Sectors that need to be covered include :
 - ✓ Steel - (e.g. to target over 100 Mn Tonnes of annual consumption at end of next 10 to 15 years)
 - ✓ Automobile
 - ✓ Power
 - ✓ Shipping : - In order to have complete control on exports from India, the importance of a *National Carrier and a Shipping Line* cannot be underestimated. A national carrier shipping policy will impart leverage to Indian exporters by reducing dependence on multinational shipping lines. At the moment, most of the trade happens through feeder vessels. With a shipping line policy in place, the Central Government could then develop a mother vessel policy to improve the volume of Indian exports.
- ▶ Along with the Sectoral Policies, the Government should establish research institutions for thrust product categories. An example in case is the dearth of institutions like Automobile Research Association of India (ARAI) and the test facilities. The domestic automobile industry is already facing shortage of test facilities for testing and certification.

India Promotion

- ▶ This is an extremely critical responsibility that is under the onus of the Central Government. The Government is doing its part in enabling this aspect.

Indian Embassies/Trade Missions abroad

- ▶ The Government should encourage Indian Embassies/Trade Missions in thrust markets abroad to be more responsive to the request by exporters for information, help and required assistance, especially by the SMEs.

Taxation

- ▶ Introduction of VAT will simplify the multi-level taxation structure
- ▶ It will also help in speeding up freight as lorries would no longer have to stop at the state borders

Exchange Rate Management

- ▶ This issue has been under the purview of RBI. A market-adjusted exchange rate is a reality now and encourages exporters to resort to foreign exchange instruments to manage their foreign exposure.



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Labour Reforms

- ▶ Labour reforms should be viewed by the government as a means of increasing the labour productivity and should be addressed in that manner. Labour Reforms are needed in order for India to become competitive internationally w.r.t. its competitors like China and also in attracting Foreign Direct Investments.

Partnership with Exporters

- ▶ In the area of project exports particularly, government could step in as a re-insurer.
- ▶ The Government should make efforts in bringing in 'Exports' as focus among industry sectors.

Incentives to Promote SMEs

- ▶ The Government should earmark some incentives which are WTO compatible and can be provided to the SMEs, e.g. Capital Subsidy @ 1% of the exports made by the SMEs or @ 1% of the export performance made by the engineering sector for export promotion of SME products.

Engineering Export Promotion Council (EEPC)

EEPC has a critical role to play in putting in place enablers for growth of engineering exports :

Executive Powers

- ▶ As an apex body for promoting engineering exports, it is important for the Council to have a forum to have the queries of its members answered and resolved.
- ▶ EEPC should be taken up a proactive role in networking with Government agencies and ensure that it has its say in the policy formulation at central level.
- ▶ EEPC Experts should be involved by the Government in addressing WTO related issues and strategy.

Thrust Product and Market Initiative

- ▶ EEPC, along with its members, could adopt focussed thrust product and market initiatives to drive export growth. The benefits could be the following :
 - ✓ Business potential and customer information to exporters
 - ✓ Awareness in thrust markets of Indian potential
 - ✓ Dissemination of information to other members
 - ✓ Information on product requirements in foreign markets for the benefit of exporters.

Exporter Related Matters

- ▶ EEPC could adopt the following initiatives to help exporters :
 - ✓ Knowledge Management of the experience of exporters for the benefit of other exporters
 - ✓ Information dissemination to exporters on the Lines of Credit in operation and availing benefit of them
 - ✓ Time bound grievance redressal.

SME Initiative

- ▶ EEPC should arrange industry specific training for SMEs with focus on thrust products and markets, in areas that need improvement. Further, EEPC could also look at the possibility to represent the products of SME sector internationally. More importantly, help should be provided in terms of market intelligence for various products in thrust markets viz. size, structure and growth, regulatory and standards related information, key competitors, products desired and key characteristics, etc.
- ▶ Training on export benefits/schemes, procedures and availing the benefits to SMEs.
- ▶ Training for the perspective and vision for SME Exporters.

Regional Meetings

- ▶ The regional meeting is an important forum to recognize the issues facing exporters. EEPC could put in place a mechanism to tap and resolve all major issues in a time bound manner. A dedicated team in EEPC with the Chairman as the Head could ensure that the concerns and ideas of engineering exporters are taken care of.

Foreign Offices

- ▶ Currently, EEPC has local/regional presence through its four international offices in following countries, viz. USA, Germany, Singapore and Nigeria. However, EEPC should aim at increasing local presence in thrust markets by setting up offices in the



identified thrust markets or at least regional offices catering to a group of thrust markets. It is suggested that EEPC should examine the feasibility of establishing a local office in the following key markets;

Americas

- ✓ Canada
- ✓ Mexico

Europe

- ✓ United Kingdom
- ✓ France

Asia

- ✓ China
- ✓ Japan
- ✓ Korea
- ✓ Malaysia

- ▶ EEPC foreign offices should be accessible to small and medium exporters.
- ▶ Apart from disseminating the market and product information these offices can provide other important information such as availability of cheaper (lower prices than that from India) raw materials from foreign markets, local standards, etc.

Joint Sessions and co-operation with other Councils and Industry Associations

- ▶ Joint meetings and sessions of EEPC with various Export Councils and other Industry Associations will help in co-ordination of export promotion and acquiring learning from other Councils. This would not only avoid duplication, but also lead to improved productivity in export related matters.

Infrastructure

- ▶ This issue is critical to almost all exporters. The team of Councils could work with the Central and State Government to direct efforts productively towards infrastructure development. EEPC would need to proactively undertake making presentations/ conducting workshops to relevant bodies to make them aware/sensitise them on the need for significant enhancement in availability of quality infrastructure, availability of critical materials, etc. needed by the exporters to achieve the target of doubling the engineering products exports in the next five years.

Engineering Export Promotion Council (EEPC) - Key Roles

The following are among the key roles that have been identified for EEPC :

Annual study of the thrust markets' regulations and business practices in the engineering segment. This shall provide valuable inputs in the formulation of relevant Indian policies for export promotion and also enable dissemination of useful information to Indian exporters.

One stop-shop for engineering firms interested in investing in India. EEPC could help firms find Indian partners and advise them on investment opportunities.

Operate Business Support Centers

- ▶ To provide companies with free office space for a limited for buyer-seller transactions, during trade and factory visits, etc.
- ▶ To provide cost-effective commercial intelligence to members.
- ▶ Web-based trade tie-up promotion programme will help match Indian and foreign firms with similar interests.

Operate foreign offices as mentioned earlier

- ▶ For international services to Indian members.
- ▶ To facilitate trade measures.
- ▶ Educate international firms of business customs and practices in the Indian market.

Liaison with other Trade Promotion Councils in the Thrust Markets that are involved with supporting industries in developing nations to enhance their exports.

Promote and review Foreign Direct Investment in different engineering sectors.

Support import of world-class capital goods for the engineering sector.

Assist foreign subsidiaries of Indian companies to grow their share in the global engineering market.

Seek and activate involvement of various commercial attaches of Government of India in foreign countries for effectiveness in trade promotion.

Organize international exhibitions in thrust markets and arrange participation of Indian engineering companies in similar events overseas.

Undertake trade missions primarily for SME's.

Operate Buyer Service Centers where buyers visiting India can receive assistance in business meetings with Indian companies and collect information on Indian engineering products and suppliers.

(To be continued at next issue)