

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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International Marketing Strategy

Changing Share of India's Thrust Products Exports in Future

The share of Thrust Products in India's Engineering Products exports is estimated at US\$ 4.82 Bn (36%) in 2004-05. With the targeted growth of 15% p.a. in India's overall engineering products exports, the share of thrust products is estimated to increase to US\$ 13.02 Bn (47%) by 2009-10. Table shows the changing share of Thrust Products exports in future. Considering the optimistic potential for exports this share is expected to increase to 52% by year 2009-10.

Estimated Changing Share of Thrust Products Exports as per Target Growth Rate

<i>Products</i>	<i>2004-05</i>	<i>2005-06</i>	<i>2007-08</i>	<i>2009-10</i>
Estimated Thrust Products Exports from India (US\$ Bn)	4.82	6.18	8.95	13.02
Estimated total Engineering Products Exports from India (US\$ Bn)	13.30	15.54	20.49	27.42
% share of Thrust Products Exports	36%	40%	44%	47%

Source : UNCTAD PCTAS Data analysis, EEPC Data 2003, AFF Estimates

Therefore greater focus on exports of thrust products in thrust markets is required vis-à-vis the current approach, i.e. exporting identified thrust products to identified thrust markets with a focus on increasing penetration/share in thrust product imports of these markets to achieve the overall exports target growth rate.

It is important to note that thrust products exports to thrust markets are characterised by a number of factors associated with identified products like;

- ▶ **Weight of products** : High weight of product means higher freight costs. This leads to geographical limitations for product exports. For example, for metal exports like copper and aluminium, India would have greater competitive advantage in Asian markets vis-à-vis Europe and Americas.
- ▶ **Standards** : Product related standards/ regulations can be a non-tariff barrier for exports of engineering products to a particular country. For example, high level of energy efficiency in electrical products is a key barrier for exports to developed countries.
- ▶ **Technology** : High technology products are typically demanded by developed economies, which are large markets for such products, while low technology products have relatively limited market size with high degree of competition.

Based on above considerations, engineering exports in certain thrust markets/non-thrust markets may be relatively more competitive vis-à-vis other markets and hence, international marketing strategy should be more product and market specific.

While increasing the focus on thrust markets, the current markets that are not part of thrust markets (mostly, developing countries) could be also be focussed upon, given that relatively low effort is required to increase exports in these markets as these markets have similar market conditions and product profile as that in India, viz. African countries (like Kenya, South Africa, etc.), SAARC countries (Nepal, Bangladesh, Sri Lanka, Bhutan), Latin America (key exporting nations are Mexico, Brazil). However, it should be noted that most of these markets do not have significant share of world imports of engineering products.

**Lesser Number of Products Contributing to the Same Share of Exports in Future**

In year 2004-05, nineteen thrust product categories contributed to 36% share of the exports of Engineering Products from India. In future, with the targeted growth in exports, about 12 to 14 number of product categories could contribute to the same share of exports. Thus allowing for a greater focus in exports. This will also enable more focussed product-market specific strategies to be implemented.

India's Future Thrust Product Exports to Developed/Developing Thrust Markets

The Table presents the breakup of exports of thrust products from India between developed and developing thrust markets. Developed thrust markets have shown a major share of India's exports of thrust products from 2004-05 till 2009-10. India's thrust product exports to developed markets are estimated to increase in share from 0.33% to 0.43%. The share of India's exports to developed thrust country markets is seen decreased vis-à-vis developing thrust country markets from 78% to 72%.

India's share in developing markets expected to increase marginally from 0.79% to 0.81% owing to the fact that the imports of developing thrust markets have increased three times in five years.

Even though the composition of export markets (developing countries and developed countries shares) for the Indian exports is not likely to change much, but this will get more in line with world imports pattern where nearly two third of the market would be constituted by developed markets. Obviously with the higher share of developed markets in world imports and not much change in India's destination composition, the share in developed country markets would increase and marginally decrease in developing markets.

India's Exports of Thrust Products to Developed and Developing Thrust Markets

<i>Classification of Thrust Country</i>	<i>2004-05</i>			<i>2009-10</i>		
	<i>Thrust Product Imports/All Thrust Markets' Thrust Product Imports</i>	<i>India's Thrust Product Exports/ India's Total Thrust Product Exports to Thrust Markets</i>	<i>India's Market Share</i>	<i>Thrust Product Imports/All Thrust Markets' Thrust Product Imports</i>	<i>India's Thrust Product Exports/ India's Total Thrust Product Exports to Thrust Markets</i>	<i>India's Market Share</i>
Developed Thrust country group	89%	78%	0.33%	83%	72%	0.43%
Developing Thrust country group	11%	22%	0.79%	17%	28%	0.81%

Source : UNCTAD PCTAS, EEPC Data 2003, AFF Estimates

The implication for International Marketing Strategy is that there will be a need to focus on the developed markets in terms of marketing effort and distribution set-up.

Importance of Value Added Products

As mentioned earlier, India's engineering exports are currently dominated by low value-added products. Very few categories in India's export basket have medium/high value addition. It is important to note that currently, contribution of high value added products to India's engineering exports is insignificant and estimated at less than 2 to 3% of the total exports in 2004-05. Hence, there is need to concentrate on exports of higher value-added items in each identified product category so that the contribution of value added items in India's engineering exports increases from current level to about 10 to 15% at the end of 5-year period i.e. in year 2009-10. This can be achieved by concentrating on Thrust Product categories and more exports of more value added products in these product categories.

The identified potential new thrust products have greater presence/inclusion of more value added or higher technology products. Increasing exports of these products would help in moving towards exports of more value added products and higher technology products. Which means that we will need to build more technological capabilities and also build markets for this value added products.

Market Research

As mentioned earlier to effectively implement the engineering export strategy and penetrate thrust markets, market research (country specific and including market surveys as considered relevant) should be undertaken through professional/experienced agencies in this domain as an initial step for international marketing in identified thrust products and their thrust markets to make market intelligence available to the exporters.

Structured and focused information on thrust products and thrust markets would help the exporters to direct their efforts to develop market specific products and penetrate these markets more efficiently.

Brand Promotion and Publicity

As indicated earlier, India has met with limited success in the field of brand promotion and publicity for engineering exports. Brand promotion/ publicity is desired at individual thrust product level as well as India as a supplier of high-quality exporter of engineering products.

If we consider the optimistic potential rate of growth of Engineering products exports from India, then share of Consumer Durables product group is expected to increase over the strategy period term (2005-06 to 2009-10).

Keeping above in mind, International marketing strategy should be targeting to increase awareness/visibility of thrust products in thrust markets through focussed activities like signature visits/delegation from thrust markets to reputed Indian engineering product manufacturers, aggressively participating in large exhibitions, arranging road shows in thrust markets, etc. However, to make these events effective, experienced/ professional agencies with wide experience in event management activities should be appointed.

Key Support Elements for Successful Strategy Implementation

The following have been identified as key support elements for successful implementation and execution of India's engineering export strategy. Their role has been detailed in the report.

- ▶ **Infrastructure** : The entire spectrum of infrastructure has been covered under :-
 - ▶ Ports
 - ▶ Roads
 - ▶ Rails
 - ▶ Power
 - ▶ Special Economic Zones (SEZs)
- ▶ Technology Improvement and Capacity Enhancement
- ▶ Domestic and foreign investments in manufacturing
- ▶ Exploit the potential for Outsourcing of engineering products
- ▶ Export Finance

(To be continued at next issue)