

**Strategy Paper for the Growth of Indian Engineering Exports (2014-19)**

**Executive Summary**

Engineering exports from India was 62 USD Bn in FY 2013-14. The share of engineering exports in India's total exports is around 20% and has remained nearly the same over the last decade. India's share in global engineering trade is around 1.2% whereas China's share is around 12.3%. In the 34 product categories as defined by DGCIS classification, India does not hold a dominant position in any product category. Clearly, India has failed to establish a leadership position in any engineering product category and can be at best categorized as a 'follower' nation. India should strive to achieve leadership in at least some of the identified focus product categories within next five years and have detailed plans to achieve this objective.

India primarily exports low and medium technology intensive engineering goods<sup>1</sup>. The share of high tech goods is less than 6% of the overall engineering export basket. Almost all exporters from India rely on the labour cost arbitrage and this has resulted in limited exports in the high end segment. India's workforce will remain young compared to its competitors and low wages may help sustain labour cost arbitrage over the next decade. However, emerging trends like near shoring and disruptive technologies may threaten India's advantage owing to labour cost arbitrage. Further, bulk of the Indian engineering export basket is accounted by SMEs who neither have the financial prowess to invest in technology nor the capability to initiate path breaking research work. This report has made some specific suggestions with regard to identifying winners in the SME category and then embedding professional management in them.

This report was developed after taking a holistic view of the industry trends, data analysis and stakeholder interactions to arrive at the recommendations. During our interactions, large exporters did not discuss about incentives whereas every small exporter focused on incentives. This shows the importance of incentives to small engineering exporters who constitute a major share of the membership of EEPC. Further, this report highlights the fact that WTO SCM may withdraw export incentives in the future; hence it is imperative that the country focuses on institutional reforms to address competitiveness issues. Impediments such as high energy costs, high interest rates, un-refunded tax benefits, lack of adequate physical infrastructure, outdated manufacturing processes and lack of best practices, increase the cost of manufacturing, rendering Indian manufacturers uncompetitive in the international markets. Providing subsidies to neutralize the costs incurred on account of such structural deficiencies is a suboptimal way of reallocating scarce resources, whereas measures to remove such structural deficiencies through institutional reforms may result in savings and dispense benefits to a much larger population of exporters for a longer period. It is to be noted,

that the focus of this study is institutional reforms. Suggestions with regard to incentives have already been captured by the Gujral Committee Report (2013) and the Padmanabhan Committee Report (2013).

In this report we have collated learning from competitors like China and Germany in different sections. However, the mechanism of China's growth, decline, re-growth and impending decline does not appear to provide a model worth emulating. Before the industrial revolution established hegemony of the West, China, in contrast, was the world's leading innovator (and also a leading economy) with inventions like gunpowder, compass, paper, printing press etc. to its credit. Over the years, on account of various reasons like socio-political evolution and geographical spread, China could not harvest the boom of the industrial revolution. In the Deng Xiaoping era, China grew at an unprecedented pace and became an engine of growth for the global economy. After three decades of rapid growth marked by industrial expansion and urbanization, China stands on the verge of a calamitous environmental situation and a debt crisis. Thus, we believe that adopting the Chinese model may have undesirable consequences for India and India should adopt a 'HYBRID' model based on practices of different leaders of the engineering world.

The pillars of this study are market attractiveness, competition and inherent capabilities which along with other elements strengthen the contours of our growth strategy. The attractive markets for engineering exports are USA, China, Germany, U.K., Canada, France, Russia, Japan, Australia, South Korea, Saudi Arabia and Southern Africa. Saudi Arabia and Southern Africa are emerging attractive markets for engineering exports.

The main competing nations are China, Germany, USA, Japan, Republic of Korea, Mexico, U.K., Thailand, France, and Indonesia. Threats can be expected from Brazil, Turkey, and Poland. 'Innovation and R&D', 'attracting FDI', 'skilled workforce' and 'ease of funding' have been identified as some of the sources of competitiveness, which India may adopt in order to boost engineering manufacturing and exports.

