

**ROLE OF ENGINEERING EXPORT PROMOTION
COUNCIL IN DEVELOPMENT OF CAPITAL GOODS
EXPORTS: A CASE ON INDIAN MANUFACTURING
INDUSTRY**

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Abstract

This case study gives detailed insights upon the role of Engineering Exports Promotion Council (EEPC) in promoting the exports of capital goods. Manufacturing sector has seen a long stagnant time in the recent past but has now started to show some signs of improvement in its performance. It is a resultant of many initiatives and policy changes along with macroeconomic improvement which has also improved the attractiveness in this segment or exporting as whole. There are many products which are listed under Capital Goods segment whereby most of the products have shown growth rates above 15% but some products have also shown as steep fall as 70%.

Also, the market of the exports have been well-diversified within past 60 years, but still it is skewed towards Asia which needs to be taken care of by increasing the diversification process and tapping new potential markets for India's Capital Goods exports.

II Keyword Capital Goods, Diversification, Exports, Manufacturing.

III Case Scenario

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a. Introduction

Engineering Exports Promotion Council (EEPC) is an organisation that is sponsored by Ministry of Commerce for promotion of exports of engineering related goods which are divided into 4 groups namely: Goods (Capital Goods), Durables (Consumer Durables), Non-ferrous metals and products, Primary Iron and Steel products. These 4 group comprise all the segments which are under its focus. In this case, I will try to analyse the performance of Capital goods segment and will try to understand its driving factors.

When we take a look at Manufacturing Sector as whole, India has always lagged behind and has shown around 1% growth Y-o-Y till 2014. When we look at evolution of developed countries, we see that the growth started from agriculture intensive, then to industrial revolution and then develop the service industry. India, in this case has skipped the industrial revolution and has jumped directly to service sector-led economy where a major proportion of India's population works in service sector and also contributes highly to country's GDP.

This case would like to highlight the initiatives done by EEPC and if it is reflecting in the performance of exports. The growth in exports have also been empowered by recent government's initiatives like "Make In India", which is inviting foreign investors to manufacture their products in India rather than importing, which might give a big boost to the whole economy as the surplus products could be exported, hence a big potential in a long-term perspective. There may be several other reasons which are effecting the future growth. Let's analyse this case.

b. Background Data

[Figure 1]

This figure shows the growth rates in exports of various capital goods that come under its umbrella. With this graph, we see that maximum number of product categories have been experiencing growth rates more than 15% on yearly basis. This is in Rupees (INR) terms.

But, there is steep decline in Cement Mill Machinery, around 73% fall Y-o-Y. There is also substantial fall in knitting machinery which tolls around 40%. Transmission line towers and Machine tools also showed a decline of around 5-6% each.

[Figure 2]

This graph shows the growth rates of all 4 groups which are under EEPC. In the pack, Capital Goods segment has highest growth rate and is the leading segment among the groups. The total growth of all engineering goods' and services' exports is of 21.7%. So, we can say that the growth in capital goods segments have increased drastically when compared between FY13-FY14.

[Figure 3]

With the growth rates been analysed, we can also see that a good amount of diversification in markets have also been done. In past 60 years, India has managed to explore new markets for its engineering products. Earlier Asia used to hold around 74% of the market, but now it holds around 30%, which is still the biggest market for Indian engineering products. There are now many more destinations for Indian engineering exports.

[Table 1]

This table shows the leading producers and their share in World's production of Machinery and Equipment whereby India is just after China as the third column lists the Emerging countries ex-China and contributes nearly 16.4%. In overall, India stands in 12th position with a 1.3% share in world production.

Lately, diversification has also been evident in the product portfolio of the exports of capital goods. Automobiles and Automobile components, aircraft parts, Iron and Steel products are the segments which have shown the impact of the maximum diversification.

This is evident by seeing the figures for 2014-15, it tells us that 22.8% of India's total exports are dominated by capital goods.

EEPC also helps the exporters by helping them avail various schemes from ECGC and various other institutions. In addition to that, its office at Kolkata also handles WTO issues. It includes:

1. Providing informations about Countervailing and Anti-dumping investigations.
2. It also attends WTO meeting and represent the government and other bodies to protect the interest of nation.
3. Conduct studies, attend seminars etc.
4. Publishing journal informing about recent updates, FAQs etc.

Major Challenges

Technological competency

The technologies used for production are not always updated according to the international standards and best practices in technology. Though there are some who have technological competencies but the capabilities of majority, particularly the SMEs are limited. Additionally, the technological competencies of SMEs, who provide components or intermediates to original equipment manufacturers (OEM) are not up to the mark. Transfer of technology from developed countries has been very limited despite liberalization of technology transfer and foreign direct investments. There usually exists a large gap between domestic and foreign manufacturers' technology of capital goods, impelling user industries with fewer options other than.

Delivery schedules

Most capital goods are custom-made to match the requirement of buyers. So, the delivery schedule to deliver to the order is longer than other engineering products which are sold off-the-shelves. to Reasons, including capacity limitations, the delivery schedules of Indian capital good suppliers are longer than other foreign suppliers. The infrastructure available to Indian manufacturers i.e. power, communication, transport etc. is inadequate, thus hampering competitive delivery schedules, and elevating the operating costs. The delivery time of locally made capital goods in many cases is 1.5 to 2 times longer than in industrialized nations. Slow Inland transport is a big reason, although the density of rail in India is amongst the highest globally. Though cost of electricity is comparable to that in other developing nations, but the reliability is a big concern.

Low R&D Intensity

Low research and development expenditures by capital goods sector has raised India's dependency on imports of capital goods. While analysing the gross domestic expenditure on R&D as (% of GDP) shows that India retains a very low position in the total expenditure on R&D compared to other countries. While India's share of R&D expenditure was 0.9% of GDP in 2014, China spent to the tune of 2%. Israel depicts largest share in R&D expenditure at 4.2% of GDP. These data shows the overview in these economies, the point is that the R&D intensity of Indian capital goods industry has been increasing from 0.45% to 1.42% during 2012-13 (within 6 years). But there is still much to advance and reduce import dependence.

Localization and Technology transfer

India is one of the fastest growing markets in the world. Local demand provides an opportunity for capital goods manufacturers to scale-up. This will help in forming the base for developing a long term growth strategy for Indian capital goods sector. The government needs promote investments in local manufacturing and enable domestic manufacturers to compete with foreign manufacturers on a level playing field. Countries like China and South Korea, these factors have helped in prospering global giants, and should also be adapted in the Indian context.

China is an excellent example of how it was successful in building a world class manufacturing sector. China's value-addition in manufacturing sector had seen a steep rise in the previous decade, and is now trying to match the performance that of U.S.A. Acquisition of technology and building self sufficiency in capital goods has played a major role in this rise. This was made possible through proactive and focused policies, strong procurement policy favouring goods that are domestically produced. China's public procurement policies prefer domestic goods with extensive controls over purchase of imported products (with provisions of taking several approvals and special procedures). According to Chinese government's procurement law, the government shall procure goods, construction and services goods from outside only when they are not available within the territory of the P.R.O.C or, if available, can't be acquired on reasonable commercial terms or where items to be procured are for use abroad. Preference for domestic innovation is also clearly stated. Such policies have led to localisation of several capital goods products. Foreign players are now trying to setup production facilities in China to locally

manufacture the goods. India should also consider such measures and should give preference to local manufacturers.

c. Alternatives

Now, since we will discuss regarding improving the export performances of capital goods, I think we need to analyse the situation from two different perspectives.:

Demand-side: Increasing the demand for Indian Capital Goods.

- More export fairs and exhibitions to target importers/merchants. (Increasing frequency).
- Using internet to leverage the demand. (China used it to tap foreign bulk customers at no significant costs).
- Exploring new markets.

Supply-side: Making the manufacturing and supply more viable and more efficient

- Wider use of quality-management tools and techniques like six-sigma, lean management will enhance the efficiency and thus lower the costs and wastages making the business more viable.
- Helping the SMEs with technological upgradation costs by way of easier lending process if EEPC guarantees some part of that loan. (Currently, SIDBI has this scheme but this might not be up to the mark as the limit of loan may be insufficient for many industries.)
- EEPC may also provide skill development training to people working in such SMEs at certain levels to enhance their efficiency.
- EEPC can also provide training to the management on hedging against foreign exchange risks which will again help minimize their risks.

d. Proposed Solution

The alternatives I have listed should be considered as complimentary to each other as better demand side needs better supply side as well to bring effectiveness in the reforms. Thus, these solutions must be considered as complimentary and should not be taken up individually.

IV Recommendations

In this case, we have seen how the growth trends of exports in capital goods segment. To improve the situation further, the proposed solution needs to be reviewed once so that a better balance between demand and supply situation can be attained.

1. EEPC must help the industry to improve its supply side as it will enhance the quality and lower the costs associated to manufacturing.
2. Financing institutions must enable easier lending procedures for manufacturing sector as it desperately needs some thrust to uplift itself.
3. More diversification is desirable as the distribution is still skewed to Asian markets. New markets like CIS, Oceania might reduce the dependency on some specific markets thus lowering risks.

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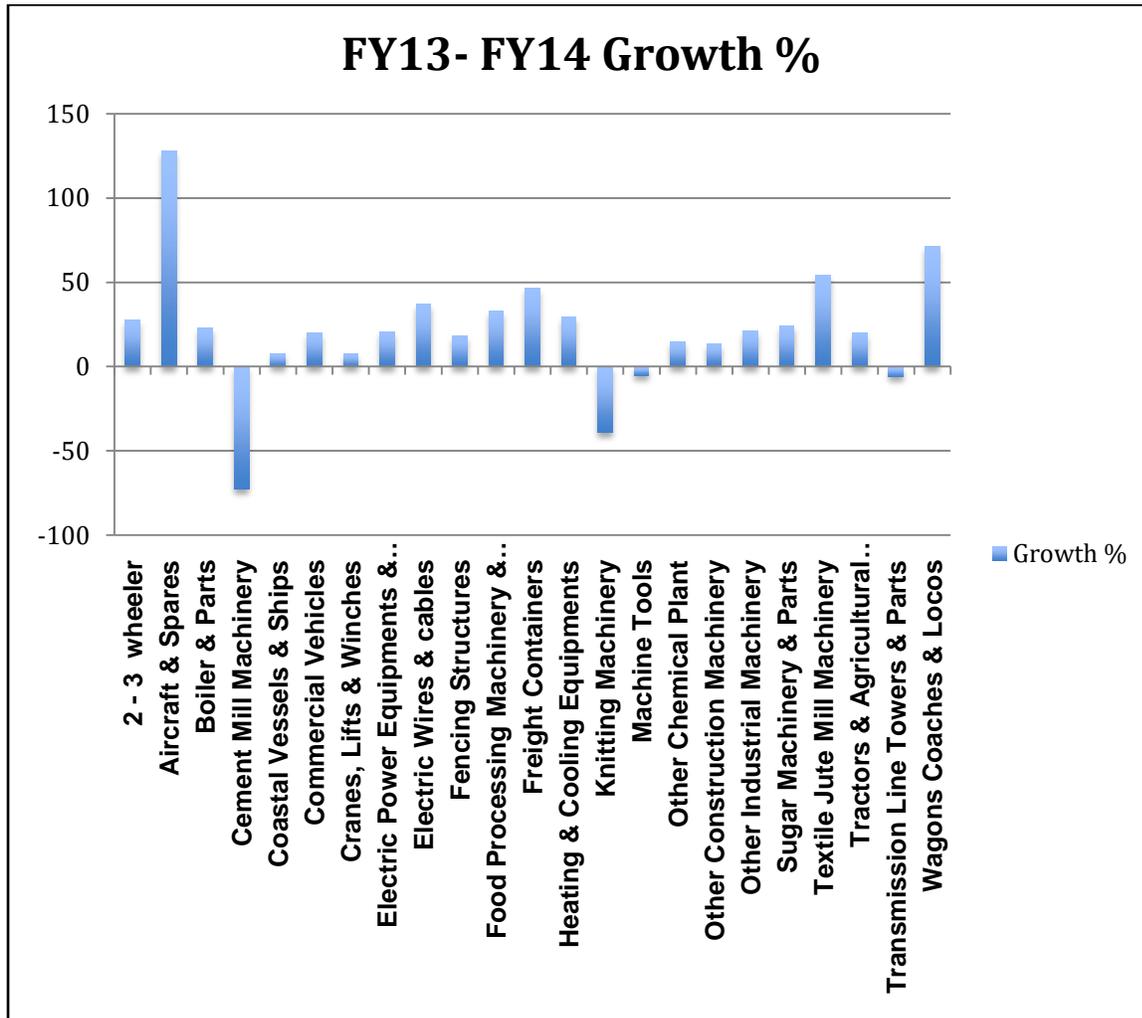
Exhibits

Figure 1: Growth Rate of exports of various components of capital goods.

Source: Data retrieved from EEPC website <http://www.eepcindia.org/export-statistics.aspx>

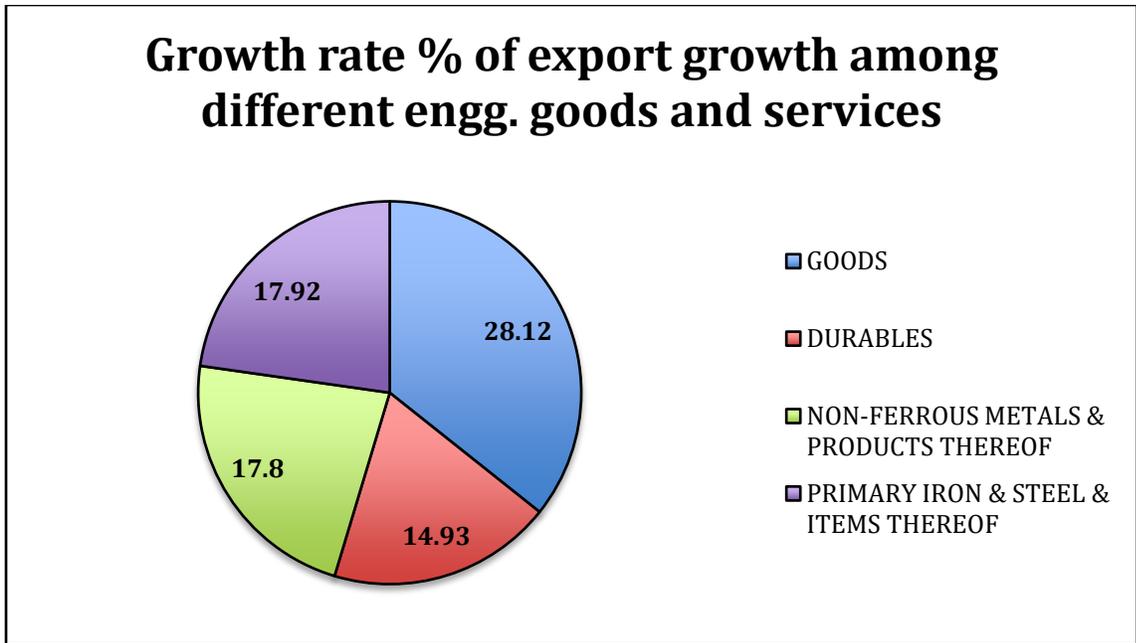


Figure 2: Growth rate % of export growth among different engineering goods and services.

Source: Data retrieved from EEPIC website <http://www.eepcindia.org/export-statistics.aspx>

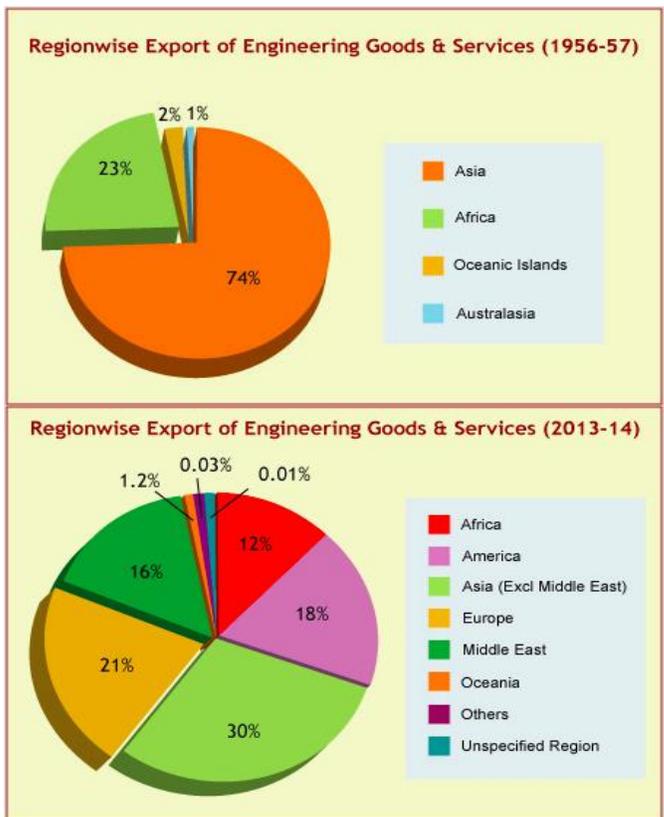


Figure 3: Diversification of exports.

Source: <http://www.eepcindia.com/export-statistics.aspx>

Leading countries and their share in the World production		Leading countries and their share in the developing and emerging regions' production (other than China)	
Countries	% share	Countries	% share
China	27.0	India	16.4
Japan	14.0	Poland	14.0
Germany	13.5	Brazil	13.8
USA	10.3	Turkey	10.4
Italy	4.8	Mexico	9.5
South Korea	2.9	Thailand	6.8
France	2.6	South Africa	4.0
UK	2.3	Iran	3.4
Spain	1.6	Indonesia	2.6
Sweden	1.4	Argentina	2.3
Austria	1.4	Romania	2.1
India	1.3	Egypt	1.8
Switzerland	1.2	Venezuela	1.8
Poland	1.1	Bulgaria	1.2
Canada	1.1	Greece	1.2
Others	13.5	Others	8.7

Table 1: World's Leading producers of Machinery and Equipment (data as of 2012)

Source: Export-Import Bank of India (December 2014), "Indian Capital Goods Industry: A Sector Study".