Chapter - V
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PROBLEMS AND PROSPECTS OF INDIA’S EXPORT OF ENGINEERING GOODS

5.1 Introduction:

The detailed analysis of India’s exports of engineering goods in the previous chapter suggests that though this sector has been a sector of increasing importance in the growth of India’s overall exports, yet the country continues to be marginal player in the field. Our objective in this chapter is therefore, to identify factors that inhibit India’s exports of engineering goods. This will also enable us to examine the prospects and suggest methods to improve the export prospects in the year to come so that India could emerge a significant player in the field of engineering exports.

The organization of chapter is as follows: section 5.2 deals with factors that inhibit exports. Section 5.3 examines the prospects and sets out the strategy to improve export performance in future. Conclusions are set in section 5.4.
5.2 Problems of Exports:

Exports of engineering goods from India face two sets of problems: (i) external such as veiled protectionist sentiments in the developed countries, in the guise of technical standards, environmental and social concerns, tariff escalation and tariff peaks on imports; (ii) internal that includes mainly the problems of production and export marketing.

Among the former, though considerable progress has been made in tariffs reduction in a large number of developed countries, under the successive rounds of GATT/WTO, the veiled protectionism in most of these countries still persists. The developing countries, including India, often complain about the malfunctioning of the WTO provisions on market access in the case of industrial products in developed countries. Presently, four tariff related concerns are important at the negotiations, namely, tariff reduction, sectoral coverage, tariff bindings and preference erosion.

Indian engineering exports also face stiff competition from other countries of the world. China, Mexico, Hungary, Czechoslovakia and Korea which have emerged as the fastest growing engineering export countries in the world provide formidable challenges and fierce
competition to Indian exports. The South East Asian financial crisis of 1997 had put Indian exports at receiving end due to overvaluation of Indian Rupee, curtailment of Indian imports by these countries (this is because 15 per cent of total engineering exports is accounted for by these countries).¹

However, the internal problems are no less significant. Therefore, in the following pages we will try to analyse the influence of these factors on India’s exports of engineering goods mainly in quantitative terms.

The internal problems may be discussed under the following heads:

(i) **High Cost and Poor Quality of Products:**

The engineering industry mainly uses raw materials of domestic origin. The raw material’s price index has risen faster than the machinery price index. It is difficult for engineering manufactures to pass on the rise in prices to the consumers thereby impacting their profitability. Similarly, the quality of raw materials is also not up to the international standards and it in turn affects the quality of final products.

(ii) **Lack of Infrastructural facilities:**

Inadequate infrastructural facilities such as lack of power, lack of finance, inadequate transport facilities and inadequate shipping facilities,
are other factors which adversely affect engineering industries and consequently engineering exports too.

A study by CII\(^2\) and World Bank\(^3\) has found that although India has the advantage of cheap labour, this advantage is nullified by infrastructural bottlenecks. The quality of infrastructure (transport, communication, and power) is poor, thus affecting competitive delivery schedule and increasing operating costs. The delivery time of locally made engineering goods in many cases is 1.5 to 2 times longer than industrialized countries.

(iii) **High Transaction Cost:**

The export transaction costs for Indian engineering goods industry are among the highest in the world. Heavy transaction costs not only increase the prices of the final export products, but also result in inordinate delay in export fulfillment, thus affecting export competitiveness. According to available studies, total cost of transaction of engineering goods in India works out to be around 10 per cent of total export earnings.\(^4\)

(iv) **Inadequate Market Research:**

Another constraint on the engineering export front is the lack of sound market research. Consumers are sovereign everywhere in the
world, and they buy things of their choice. So it is very necessary for the engineering sector to adopt, modify and redesign the products in the light of the requirement of ultimate users. As such, adaptation, modification and redesigning require a sound market research. But Indian exporters spend very little on market research. As stated by Udeshi, "exporters did not conceive of any marketing plan and strategy; neither did they think of any market research and collection of data, without which modern marketing men cannot proceed in any market. They simply went to the markets and attempted to sell what they have produced." As such, in order to have first-hand knowledge of overseas markets, sound market research is the pre-requisite. But the problem in India is lack of sound and adequate market research programmes.

(v) Problems of export marketing:

Marketing problems and practices appear to explain the fact that Indian engineering firms are not able to secure export orders at the landed prices received for the same products by competitors from the advanced countries: India does not have a reputation for industrial production; established suppliers have advantages over new suppliers; and poor performance by many Indian exporters has created a bad reputation for Indian suppliers. Apart from problems beyond India’s control, even Indian engineering firms engaged in export have allocated few resources
to export marketing activities as a way of increasing export demand and prices, and the contribution of the Indian government in this area has been small.

(vi) **Technological Problem:**

    Technological competitiveness of Indian engineering goods sector is low. Some of the Indian exporters are still at disadvantage in international markets vis-à-vis their counterparts in terms of product design, finish, specific features, performance and raw material substitutes. Although Indian firms are capable of achieving high levels of precision, they are unable to provide high quality products due to lack of supporting process, technologies such as precision measuring material engineering and process control.  

(vii) **Domestic Inflation:**

    The world market calls for manufactured goods of high quality to be supplied at comprehensive prices. But domestic inflation tends to increase the cost of production, which in turn, increases prices of the final product. And when prices of exportable increases, they become less competitive in the world market. In India, inflation has been higher than many of the rival exporting countries. One of the constraints on engineering goods export can be the domestic inflation which may have
raised the prices of exportable and may have made them less competitive.\textsuperscript{7}

(viii) Quality Control and Packaging:

Due to the increased competition in the world market, quality consciousness has developed among importers. Factors such as design, quality and packaging now play an important role in determining the export deals. To capture the markets over a longer time, there is a need to control quality as well as to give touch of sophistication in design and packaging. But the pity is that many of our manufacturers, particularly those who have entered the export market through the easy door of export incentives, have restored to selling their goods through the price factor instead of concentrating on the problems of quality, design and packaging etc. This lack of quality consciousness has led not only to low value for out products but also to lose of our share of world markets to the competitors.

(ix) Lack of Warehousing Facilities and order Delivery Log:

The order-delivery lag which is due to inadequate warehousing facilities is one of the major factors on the export front. Because Indian exporters are not provided with adequate warehouses, they sometimes are unable to make quick deliveries to their importers. Due to inadequacies of
warehouses and of transport and shipping, the importers have to wait for 8-9 months before they get the goods ordered by them. As a result of such long delivery lag, our exporters get less order from abroad.  

(x) Some other Problems:

- Growth of the engineering exports are also hampered by the inadequate credit facilities given to small-scale and medium-scale exporters of these goods.

- Indian engineering exporters face a disability factor of 16 to 18 per cent in comparison to just 6 to 8 per cent faced by their counterparts in South East Asia. Services tax, state levies among others, amounting to “export taxes” erode the competitiveness of Indian exports.

- Reduction in the number of foreign offices of EEPC has also limited the exposure of Indian SMEs abroad. The foreign branches of EEPC help SMEs get relevant market and product related information to plan their export strategies accordingly.

- An additional fear for the engineering goods exporters has been over the large scale dumping by Chinese companies, whose orders to the US are said to have shrunk substantially in the wake of the financial crisis.
• A major import of machine tools is already hampering the extensive use of indigenously developed tools.  

5.3 Export Prospects:

World market offers great prospects for Indian exports of engineering goods provided the difficulties enumerated above are removed and an all out effect is made to take full advantage of the opportunities that exist in the world market. India has an abundant cheap labour, specific skills and wide industrial base. The engineering sector produces a wide range of products ranging from simple metal products to sophisticated machinery and equipment and there are many areas in which India enjoys comparative advantage.

A bond of confidence has also developed between Indian manufactures and Original Equipment Manufactures (OMEs)/ buyers/ actual users in the developed countries of North America, Europe and Far East. More and more foreign companies are coming to India not only for sourcing their requirements but also having their back office in the country for monitoring production, planning and control of offshore manufactured goods and services. General Motors, Ford, Volkswagen, Skoda, Honda, Hyundai, Catterpillar, Kamatsu, IBM, Texas Instruments, Wal-Mart, to name a few, have satisfied themselves on the various
aspects connected with the design, quality and specifications of goods and subsequently established their presence, mainly for cost effective procurement. United States has been India’s largest trading partner with nearly 15 per cent engineering goods from India reaching the US shores. In the financial year 2004-05, India exported engineering goods worth US $ 2260.78 million to the US which was 70.63 per cent higher compared engineering exports in 2003-04. The engineering items exported to US from India in the recent years include Primary Iron and Steel, Auto Parts, Industrial Casting, Tractors and Agricultural Equipment, Industrial Machinery, Electric Power Equipments and Parts, Steel, Sanitary Castings, IC Engines and Parts etc.¹⁰

In the global industrial arena, Indian engineering industry today commends respect by rendering suitable cooperation in engineering services by way of updated technological know-how and industrial propensity. Indian firms have competed successfully in global tenders to supply consultancy, know-how, technical and management services, plant and equipment, civil construction in diversified fields involving residential complexes, road and dam construction, bridges and flyovers, fertilizer and refinery projects. Indian firms are successfully participating in industrial programmes of developing countries in Asia and Africa by setting up on a turnkey basis textile mills, sugar and cement plants etc.
They are occupied with power generation and transmission projects in the friendly developing countries.\textsuperscript{11}

The engineering industry continues to attract Foreign Direct Investment (FDI), with inflow of US $ 1, 196.73 million from August 1991-July 2006 (www.ciionline.com). The engineering sector stands to benefit significantly from the government’s plan to add 1, 00,000 MW to the country’s electricity generation capacity by 2012. Continued emphasis on rural electrification and infrastructure development will encourage up gradation and investment in capital goods. A key driver for increased engineering exports is the shift of global manufacturing bases to low-cost countries like India. Engineering and design services such as new product design, product improvement, maintenance, and designing manufacturing systems are increasingly being outsourced to countries like India.\textsuperscript{12}

The Indian automotive sector has been transforming rapidly over the past few years. Driven by a combination of factors like stagnation in large global markets, growth in domestic economy, and supportive government policies, the industry is now poised to become a significant regional player, with the potential of playing a key role on the global scene in the future (www.siamindia.com). Globally, the automotive industry is shaped by some major trends: (i). Original Equipment
Manufactures (OEMs) are forming a variety of strategic alliances and mergers to leverage their individual strengths and generate synergies, for example, CM, Fiat, Suzuki, Ford, Volvo, and Mazda. (ii) Relationships between OEMs and component manufacturers are changing, with suppliers increasingly taking on roles in design, system aggregation, and warranty. This is enabled by greater tierization in the supplier industry. (iii) In the quest of cost reduction and supply-chain efficiencies, a significant amount of manufacturing and support activities is being outsourced to low-cost countries. (iv) Regional and global trade is being enhanced through a variety of trade agreements, which facilitates free movement of goods between trading partners. The Indian auto industry has benefited from these trends. Most global automotive majors, both OEMs and suppliers, are either already established in India or have announced plans to enter the Indian market. (www.acmainfo.com).

The Indian auto component industry is quite comprehensive with around 500 firms in the organized sector producing practically all automotive components. The auto component sector has been one of the fastest growing segments of the auto industry. The component industry now has the capability to manufacture the entire range of auto-components, for example, engine parts, drive, transmission parts, suspension and braking parts, electrical, body and chassis parts,
equipment etc. The auto component industry’s all round capabilities can be gauged from the high levels of indigenization products such as the Tata Indica, Tata Indigo, Mahindra Scorpio, and Bajaj Pulsar. Over the last few years the Indian auto component industry has created a robust capacity and all major global auto component manufacturers have set up units in the country. In terms of quality, several auto component players in India have matched or exceeded global standards. National Automotive Testing and R&D Infrastructure Projects (NATRIP) is an ambitious project aimed at setting up world-class automotive testing and R&D infrastructure in the country to deepen manufacturing, encourage localized R&D, boost exports and merge India’s strengths in IT and electronics with automotive engineering capabilities.

Against these backgrounds, India can make its presence felt in the global engineering exports landscape. But this will depend on several factors. Some of the important ones are given below:

(i) **Competitive Prices for engineering exports:**

There can be little doubt that prices of the products serve as one of the main factors in success of an exporting nation in the international markets. Therefore, if India wants to make its presence felt in the international arena, the prices of the products must be competitive. This
calls for a substantial reduction in the cost of production of engineering goods in India. This can be achieved by full utilization of the capacity, supply of bulk raw materials to the exporting units at world prices, reduction in the cost of domestically available raw materials etc.

Some efforts have been made in India in this direction. But there still remains a lot to be done. For example, the procedures relating to the various incentives provided by the government to the exporters need to be streamlined so that exporters may avail of the benefits expeditiously. Things move slowly in the Indian bureaucracy and this effects exporters’ desire to avail of the facilities provided.

(ii) Product Development and Improvement in Quality:

Developments of products and improvement in their quality are another factor that will largely determine the prospects for India’s exports of engineering goods. The preferences of buyers in developed countries are much different from those of buyers in India and other developing countries. India can, therefore, hope to increase her exports on a sustained basis only if she offers the products which the buyers in them want and not what she produces. This requires continues study of what the developed markets need.
(iii) Improving Infrastructures:

Infrastructural shortages have long been identified as sources of competitive disadvantage in terms of costs, and timeliness for Indian exports. Infrastructure issues range from ports, rail, roads, shipping, power etc. Presently, our infrastructure services are inadequate, inefficient and expensive. It is necessary that we must plan for an efficient infrastructure both for reducing transaction costs and promoting a positive image of India abroad to do business.

(iv) Establishment of Engineering Export Processing Zones (EEPZs) and Special Economic Zones (SEZs):

There is a need for establishing separate engineering exports processing zones and export oriented zones. A few engineering items with highest potential have to be selected for development in these special processing zones. Establishment of separate zones for engineering products will enable them to overcome the problems of infrastructure and raw material shortage. In addition it can attract more Foreign Direct Investment (FDI) into the production and export of engineering products.14
(v) Market Diversification:

During 1980s, the main destination of engineering exports was Asia and Africa. After that Europe and America emerged as a major destination. There are number of markets with high potential for engineering goods exports. In addition to the visits of delegation for market studies, manufactures of engineering items should actively participate in international fairs abroad, introduce Indian manufactured and semi-manufactured products to the customers, distributors, dealers, and importers of Indian engineering goods may be invited to visit Indian engineering factories at as frequent interval as possible. These visits can be arranged by the Engineering Export Promotion Council and various sub associations of engineering goods/products like machine tools manufacturers association etc.\(^{15}\)

(vi) Sales Promotion Effort, Prompt Delivery and After Sales Services:

For furthering the export of engineering products, India must evolve an aggressive sales promotion effort. It can be done through advertisement, trade fairs, brand promotion – ‘Made in India Brand’, distribution of technical catalogues (giving comprehensive information about the products). Further, commercial intelligence should be made
available to Indian exporters as frequently as possible so that they remain updated on the current trends and requirements. Along with the sales promotion effort, strict adherence to delivery schedules is crucial for the success of Indian engineering exports. As foreign buyers have option to procure their requirement from anywhere in the world, Indian exporters must be accurate more than 100 per cent in timely delivery of the products. After sales services and customer care effort is highly indispensable for the growth of engineering exports. This has been one of the neglected areas in India due to our protected market. Now when the environment has changed under the forces of globalization and liberalization and foreign companies are rigorously following after sales services and provide custom care support, Indian engineering exporters have also to rigorously follow the after sales services and customer care support.

(vii) **Support to Small Scale Units:**

Small-scale engineering units contribute around 40 per cent of engineering exports. For the continued contribution of these units to export sector, they must be provided with the production and exports incentives, support for adoption of latest technology, advisory services, and market support to sustain the competition in the international market. Increasing the investment ceiling and dereservation of major small-scale
units can go a long way in overcoming the hurdles in the way of modernization and faster growth of these units and hence higher contribution to total engineering exports. Further, adequate finance must be made available to these units. Due to the high risk involved in lending to these units, banks are often reluctant to lend to them.

(viii) **Involvement of Large Scale Units:**

Just to reap the economies of scale in production, Indian exporters must look beyond the domestic market. Although exports can be increased by providing incentives to small scale industrial (SSI) units, there is limit to growth. There is a need for involving large units in exports activities. The exports intensity figure is still very low in India especially for large units. Hence, it is necessary to gradually increase the exports intensity ratio of Indian products by involving more and more large-scale units and exporting more from the existing units.

(ix) **Free Trade Area/Preferential Trade Agreement (FTA/PTA).**

India must explore the possibility of setting up Free Trade Area (FTA) and Preferential Trade Agreements (PTA) with countries where exports have largest concentrations. For instance, FTA/PTA with Brazil and Mexico which will provide a fillip to our engineering exports in the
field of auto-components. Our effort to establish free trade area with ASEAN countries will also be a big boost to engineering exports.\textsuperscript{16}

(x) **Joint Ventures and Foreign Direct Investment:**

Another area which needs special emphasis is establishment of joint ventures and foreign collaborations in engineering production. It is also imperative to attract more foreign direct investment into the engineering sector. This will enable attraction of more sophisticated technology (which is of utmost importance in high technology products like engineering products), better management technique, modern marketing strategy and exploration of more foreign markets. Penetration of engineering products in developed countries would require good dealer networks, availability of range of products, after sales services etc. This is possible only if Multinational Companies (MNCs) and joint venture units have presence in India on their own or in collaboration with Indian companies. FDI is therefore essential to promote export of engineering goods.\textsuperscript{17}

5.4 **Concluding Remarks:**

To conclude, India’s exports of engineering goods have suffered due to structural constraints both on the demand and supply side. On the demand side exports have continued to face the problems of veiled protectionism and tariff differentials on imports in the developed
countries. On the supply side the factors that have constrained engineering goods exports from India include high cost and poor quality of products, inadequate, inefficient and expensive infrastructure, high transaction costs, lack of sound market research, etc.

Keeping in view the problems and constraints on Indian engineering goods exports, realization of the prospects needs sound export planning and strict implementation of policy actions. Internal or domestic inhibiting factors can be tackled by the concerted efforts of the government, the EEPC and exporters provided they are attacked from their real perspectives and are handled with realistic attitude and pragmatic approach, based on long term export strategy. The Government should make available the required export finance, raw material at international prices and other infrastructural and marketing facilities. Producers and exporters should develop quality consciousness along with sophistication in design and packaging of products. Once the efforts for export expansion are made earnestly along with assurance of quality, specification and adherence to delivery schedules, there is hardly any reason to doubt the realization of future targets of engineering goods exports. Globally India in cooperation with other developing countries should seek access to markets of the developed countries at the multilateral force.
References:


4. Illiyan, A., op. cit., pp. 75


8. ______ pp.220-221.


15. _____pp.78.


17. _____(www.eepcindia.org)