CHAPTER 1

INTRODUCTION

A country’s export performance impacts strategic areas such as currency reserves, trade balance, investment attraction, competitiveness, productivity, employment and economic development at the macro-level. Similarly, at the firm level, exporting is a crucial business activity that impacts costs, sales, risk, and competitiveness of the exporting unit. It also plays a key role in achieving sustainable competitive advantage by firms operating in the turbulent markets via improving financial strength, capacity utilization, technological standards, and attainment of desired performance (Leonidou and Katsikeas, 1996). These reasons have contributed to the recent growth in research interest in the arena of export performance of firms. Over the past two decades, exporting has been one of the fastest growing economic activities. Interest in exporting is driven by the changing economic conditions across the world viz. growing liberalization, integration and global competition, etc. which in turn are responsible for increased engagement of firms in exporting. Commenting on the emerging pattern of the global economy, Drucker (1986, p. 791) asserts - “From now on any country – but also any business……..that wants to prosper will have to accept that it is the world economy that leads and that domestic economic policies will succeed only if they strengthen, or at least not impair, the country’s international competitive position”. Nations economic policies therefore, play a very important role in integrating local economy with the global one by giving exclusive treatment to firms engaged in international business to increase the competitive position of the country (Faroque and Takahashi, 2012).

Many attempts have been made to establish association between export facilitation programs provided by the respective governments’ and the resultant export growth using macro level data (e.g., Coughlin and Cartwright, 1987; Kaiser et al., 2003; Lederman et al., 2010; Wilkinson and Brouthers, 2006; Wilkinson and Brouthers, 2000a and b; Sharma et al., 2001). However, there is also, a recent shift of attention towards micro or the firm-level export performance, to focus on the usage pattern of export assistance of specific firms and learn about the efficacy of such programs (Gillespie and Riddle, 2004). Superior performance
in exporting entails several firm-specific characteristics which can be captured only via focused micro-level analysis of the firms (Faroque and Takahashi, 2012). In the same light, this study attempts to make an enquiry into the export performance of the firms in operating in Gujarat State of India and the impact of the usage of governmental export facilitation programs on the same.\(^1\)

1.1 The Concept of Export Facilitation

A firm has to face many barriers in its process of internationalization. It therefore, becomes necessary for the exporters to have knowledge regarding the institutional support available to them. All the national governments acknowledge the importance of exports in the process of their country’s economic development and hence, assist the exporters in their efforts. For instance, a first time exporter has to be assisted in finding the right export marketing opportunities and may be supported on matters related to export policy, procedures, and documentations. An exporter who has already entered into the foreign market and is planning to expand the market base needs to be advised on selecting those foreign markets where one can derive optimum market opportunity. Similarly, the established exporters consistently attempts to explore ways to improve their international marketing operations and needs to be assisted by way of trade fairs, buyer-seller meets, export credit and insurance facilities, market promotion programmes and market development assistance.

The focus of export facilitation programs is to create awareness regarding exports and makes the current or prospective exporters understand that it is one of the most crucial instruments of growth and market expansion. The exporting firms needs to be exposed to better growth opportunities by way of market research, trade missions, and counselling, etc. (Seringhaus and Rosson, 1990). The export promotion programmes are basically designed to assist firms in entering international markets and achieving optimum opportunities for their international business activities (Joshi, 2008). The export promotion programmes initiated by

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\(^1\) **Note:** The terms export facilitation; export promotion and export assistance has been used interchangeably throughout the text.
the government are mostly in the form of public policy measures, which focus on enhancing the export activities at the company, industry, or national level (Root, 1971).

Broadly, export assistance programs refer to – ‘all public measures designed to assist firms’ exporting activity, ranging from counselling, tax incentives, and export financing to trade shows and sales leads’. Therefore, the basic objective for these programs is to act as an external resource for the firms to achieve knowledge and experience that is necessary for successful international business operations. Moreover, assistance measures can also be differentiated by whether the intent is to provide ‘informational’ or ‘experiential’ knowledge. Informational knowledge typically is provided through how-to-export assistance, workshops, and seminars, and experiential knowledge is imparted via arrangement of foreign buyers or trade missions, trade and catalogue shows, or participation in international market research (Gencturk and Kotabe, 2001). The functions of export promotion programmes can thus, be aptly summarized as (Joshi, 2008):
1. To create awareness about exporting as an instrument of growth and market expansion.
2. To reduce and remove barriers to exporting.
3. To create promotional incentives.
4. To provide various forms of assistance to potential and actual exporters.

1.1.1 Export Facilitation Schemes in India: An Overview

In the current competitive scenario, every country’s government is taking utmost care to encourage its exports via providing various export facilitation schemes including broad spectrum of programs like facilities for efficient export marketing, quality production, availability of easy credit, market research analysis, etc. In the recent past, India’s trade deficit has risen continuously, with growth in imports constantly outpacing the growth of exports. The trade deficit during 2012-13 was a staggering 191 billion USD. Under such circumstances, accelerating the growth of exports thus becomes a necessity and urgency for calming down the big gap between value of net exports and imports. Rigorous hard work needs to be directed at creating domestic capacity in production of quality exports items, along with supportive policy measures and sufficient infrastructure.

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2 http://www.business-standard.com/article/economy-policy
The Union Commerce Ministry, Government of India announces its ‘Foreign Trade Policy’ (FTP) in every five years. Earlier this was known as the ‘EXIM policy’ or ‘Export-Import Policy’. The current FTP (Foreign Trade Policy) 2009-14, provides a motivating environment via a mix of helpful measures like fiscal incentives, institutional aids, and efforts for higher foreign market penetration, etc. Annual supplement to the policy is also issued every year to keep pace with the changing international economic environment. The pilot study phase (refer chapter 4, sub-section 4.2.3) of this research conducted with firms in the target industry sectors revealed some programs representing the core set of available governmental export facilitation to exporters in India. This section discusses in brief these schemes/programs which have been undertaken by the government of India for assisting the exporters in their export efforts.

1.1.2 Rationale behind Export Facilitation to MSMEs

The potential of Indian MSMEs to compete in international markets is reflected in their share of about 34% in national exports. In case of items like readymade garments, leather goods, processed foods, engineering items, the performance has been commendable both in terms of value and their share within the MSME sector while in some cases like sports goods they account for 100% share to the total exports of the sector.\(^3\) Hence, export facilitation to the small scale sector has been given high priority in India’s overall export promotion strategy which includes incentives for higher production of exports, preferential treatments to MSMEs in the market development fund, simplification of duty drawback rules, and other export promotion schemes, etc. Products of MSME exporters are also displayed in international exhibitions free of cost abroad. Such measures and more are incorporated in India’s foreign trade policy to ensure steady progress of MSME sector which is a huge source of employment and foreign exchange generation for the country. The evolution of the Government of India’s export facilitation measures towards small sector industries can be broadly grouped into three periods\(^4\):

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(i). **From 1948-1991:** In this period MSMEs got the recognition as a tool for expanding employment opportunities, ensuring equitable distribution of the national income and facilitating effective mobilization of private sector resources of capital and skills. The Micro, Small and Medium Enterprises Development Organisation [earlier known as Small Industries Development Organisation (SIDO)] was set up in 1954 as an apex body for sustained and organised growth of MSMEs. Also, the National Small Industries Corporation (NSIC), the Khadi and Village Industries Commission (KVIC) and the Coir Board were set up. The era provided the supportive measures that were required to nurture MSMEs, in the form of reservation of items for their exclusive manufacture, access to bank credit on priority through the Priority Sector Lending Programme of commercial banks, excise exemption, reservation under the Government Purchase Programme and 15% price preference in purchases, infrastructure development and establishment of institutes for entrepreneurial and skill development. MSME – Development Institutes [earlier known as Small Industries Service Institute (SISI)] were set up all over India to train youth in entrepreneurship.

(ii). **From 1991-1999:** This was also the period of liberalization, privatization and globalization for the Indian economy. The new policy for MSMEs in this period was created to replace protection with competitiveness to infuse more vitality and growth to small sector in the face of foreign competition. Supportive measures concentrated on improving infrastructure, technology and quality. The Small Industries Development Bank of India (SIDBI) and ‘Technology Development and Modernisation Fund’ were created to accelerate finance and technical services to the sector. ‘Delayed Payment Act’ was enacted to facilitate prompt payment of dues to MSMEs and an ‘Industrial Infrastructure Development’ (IID) scheme was launched to set mini industrial estates for small industries.

(iii). **From 1999 onwards:** The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. Some of the crucial aspects looked at in this period include:

1. Market Development Assistance Scheme for MSMEs was introduced to let the small industries venture successfully in the global markets and to showcase their products internationally via trade fairs and exhibitions, etc.
2. Credit which forms one of the critical inputs for the promotion and development of the micro and small enterprises have been focused upon. Measures like ‘Priority Sector Lending —Credit to the MSMEs’ is part of the Priority Sector Lending Policy of the banks. For the public and private sector banks, 40% of the net bank credit (NBC) is earmarked for the Priority Sector. SIDBI (Small Industries Development Bank of India) is the principal financial institution for promotion, financing and development of the MSME sector. Apart from extending financial assistance to the sector, it coordinates the functions of institutions engaged in similar activities. SIDBI's major operations are in the areas of: (i) refinance assistance (ii) direct lending, and (iii) development and support services. At the State level, State Financial Corporation’s (SFCs) and twin-functional State Industrial Development Corps (SIDCs) are the main sources of long-term finance for the MSME sector.

3. ‘Competitive Technology’ is another area of concern for MSMEs even more so in today's fast paced global business scenario. With a view to foster the growth of MSME sector in the country, Government has set up ten state-of-the-arts ‘Training Centres’. The training programmes are designed with optimum blend of theory and practice giving the trainees exposure on actual jobs and hands on working experience. In this regard, the ‘National Manufacturing Competitiveness Programme’ (NMCP) is the nodal programme of the Government of India to develop global competitiveness among Indian MSMEs. Conceptualised by the National Manufacturing Competitiveness Council, the Programme was initiated in 2007-08. The main components under the NMCP which aims to target enhancing the entire value chain of the MSME sector are:

(a) **Building Awareness on Intellectual Property Rights for the Micro, Small & Medium Enterprises (MSMEs).** The scheme for “Building Awareness on Intellectual Property Rights (IPR), for the Micro, Small & Medium Enterprises (MSMEs) has been launched to enable Indian MSMEs to attain global leadership position and to empower them in using effectively the tools of Intellectual Property Rights (IPR) of innovative projects.

(b) **Scheme for Providing Support for Entrepreneurial and Managerial Development of MSMEs through Incubators.** This scheme aims at nurturing innovative business ideas (new technology, processes, products, procedures, etc.), which could be commercialized in a year. Under the scheme, various institutions like Engineering Colleges, Research Labs etc. are
provided funds for handholding each new idea/ entrepreneur. The incubator will provide technology guidance, workshop, lab support and linkage to other agencies for successful launching of the business.

(c) Quality Management Standards (QMS) and Quality Technology Tools (QTT). The scheme is aimed at improving the quality of the products in the MSME sector and inculcates quality consciousness.

(d) Lean Manufacturing Competitiveness Programme (LMCP) for MSMEs. In this scheme, MSMEs will be assisted in reducing their manufacturing costs, through proper personnel management, better space utilization, scientific inventory management, improved process flows, and reduced engineering time. LMCP also brings improvement in the quality of products and lowers costs which are necessary for competing in foreign markets.

(e) Encouragement of Information & Communication Tools (ICT) in Indian MSME sector. The objective of this programme is that those MSME clusters, which have quality production and export potential, be identified and aided in adopting ICT applications to achieve competitiveness according to global standards. The major activities under this scheme include, identifying target clusters for ICT intervention, setting up of e-readiness infrastructure, developing web portals for clusters, skill development of MSME staff in ICT applications, preparation of local software solutions for MSMEs to enhance their competitiveness, construction of e-catalogue, e-commerce, etc. and networking MSME cluster portals on the National Level Portals to enable MSMEs outreach global markets.

Policies of Indian Government for the development of MSMEs are gaining regular momentum. The government has moved away, though not fully, from its role of direct interventions to that of a friend and facilitator. The insight is that direct protection in the form of reservation needs to be replaced by better methods viz., easy access to credit, capital, technology, training and development so as to integrate the MSMEs more firmly with the domestic and international economy. These specific target areas are now being pursued by the Ministry of MSME in the form of broad spectrum of facilitation programs offered in the country’s foreign trade policy.
1.1.3 Key Export Facilitation Programs/Schemes Currently in India

i. Marketing Development Assistance (MDA)

Marketing Development Assistance (MDA) Scheme is under operation through the Department of Commerce to support the under mentioned activities:

(i) Enhance export from the small/ micro manufacturing enterprises.

(ii) Encourage Small & Micro exporters in their efforts at tapping and developing overseas markets.

(iii) Increase participation of representatives of small/ micro manufacturing enterprises under MSME India stall at International Trade Fairs/ Exhibitions.

(iv) Popularise the adoption of Bar Coding on a large scale and,

(v) Assist Focus export promotion programmes in specific regions abroad like FOCUS (LAC), Focus (Africa), Focus (CIS) and Focus (ASEAN +2) programmes, etc.

The scheme offers funding for:

1. Participation by manufacturing MSMEs in International Trade Fairs/ Exhibitions.

2. Sector specific market studies by Industry Associations/ Export Promotion Councils/ Federation of Indian Export Organisation.

3. Initiating/ contesting anti-dumping cases by SSI (Small Scale Industries) Associations and

4. Reimbursement of 75% of one time registration fee (w.e.f. 1st Januar2002) and 75% of annual fees (recurring) (w.e.f. Ist June 2007) paid by Small & Micro units for the first three years for bar code.

ii. Technical Assistance (TA)

National laboratories, SIS (Small Industries Service Institutes), National Test House, etc. are working towards providing technical guidance to the exporters for manufacturing export products to specifications and standards as desired by overseas buyers. For instance,
the Pilot Test House (PTH) at Mumbai offers technological support to the exporting units. Other incentives in this regard include, automatic approval by RBI (Reserve Bank of India) to all industries for foreign technology agreements within prescribed monetary limits, easy hiring of foreign technicians, availability of foreign exchange for testing of indigenous raw materials, etc.

India also faces difficulty in meeting and matching the packaging requirements of her exportable products in the markets abroad. Hence, the special training program on packaging of export goods is operational to generate much needed awareness in the industry about the packaging problems of MSME exporters and to educate the entrepreneurs about the latest packaging techniques and designs. Programs on ‘Packaging for Exports’ are being conducted since 1979 by all the field institutes in collaboration with ‘Indian Institute of Packaging’ and ‘GS1 India’ (A Bar Code solution provider). The range of such programs varies from 20-25 programs being conducted every year throughout the country and is subjected to an increase in its frequency.

iii. Advance Authorisation (AA)

This scheme allows duty free imports of inputs (including fuel oil, catalyst, etc.) needed for manufacturing export items. Inputs are allowed as per Standard Input Output Norms (SION) or on adhoc Norms basis where SION is not specified under Actual User condition. Norms are fixed by the technical committee (Norms Committee). This scheme is applicable for physical exports and deemed exports including intermediate supplies. Minimum value addition prescribed is 15% except for certain items. Exporter has to fulfil the export obligation over a specified time period, both quantity and value wise.

iv. Duty Free Import Authorization (DFIA)

This scheme has been made operational since 1st May, 2006. Its key objective is to facilitate transfer of the authorisation or the inputs imported as per SION, once export is done. Most of the other provisions of DIFA scheme are similar to that of Advance Authorisation scheme. A minimum value addition of 20% is needed under the scheme.
v. Duty Entitlement Passbook (DEPB)

The objective of Duty Entitlement Passbook Scheme was to neutralise the incidence of customs duty on the import content of the export product. The neutralisation was provided by way of grant of duty credit against the export product. Under the Duty Entitlement Passbook Scheme (DEPB), an exporter could apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency. The credit was available against such export products and at such rates as might be specified by the Director General of Foreign Trade by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging material etc. The holder of Duty Entitlement Passbook Scheme (DEPB) had the option to pay additional customs duty, if any, in cash as well. The DEPB was valid for a period of 12 months from the date of issue. The DEPB and/or the items imported against it were freely transferable. The transfer of DEPB was however for import at the port specified in the DEPB which was the port from where exports had been made. However, imports from a port other than the port of export were also allowed under TRA facility as per the terms and conditions of the notification issued by Department of Revenue. At the time of the study’s survey the scheme was operational. However, it has now been discontinued since October, 2011.

vi. Duty Drawback (DBK)

The Duty Drawback seeks to rebate duty or tax chargeable on any imported / excisable materials and input services used in the manufacture of export goods. The duties and tax neutralized under the scheme are (i) Customs and Union Excise Duties in respect of inputs and (ii) Service Tax in respect of input services. The Duty Drawback is of two types: (i) All Industry Rate and (ii) Brand Rate. It is also available on re-export of imported goods in the same condition/state or after use upto specified period. There is also a duty drawback credit scheme under which there is an advance payment by the specified banks immediately on presentation of shipping bill bearing certificate of customs authorities giving the amount of drawback as provisionally determined by them. Drawback is also available against deemed exports.
vii. Special Focus Schemes

Focus Market Scheme: Objective of this scheme is to offset high freight cost and other externalities to select international markets with a view to enhance our export competitiveness in these countries. Exporters of all products to notified countries shall be entitled for Duty Credit scrip equivalent to 2.5% of FOB value of exports for each licensing year commencing from 1st April, 2006. However, New additional Markets notified in Appendix 37C of HBP (Handbook of Procedures), Vol 1 shall be entitled for Duty Credit scrip on exports w.e.f 1.4.2008. Exports made by EOUs / EHTPs / BTPs who do not avail direct tax benefits / exemption shall be eligible. Under this special initiative for specific group of countries is being undertaken viz. FOCUS LAC (Latin American Countries), FOCUS AFRICA, FOCUS CIS (Commonwealth of Independent States), etc.

Focus Product Scheme: Objective of this scheme is to incentivise export of such products, which have high employment intensity in rural and semi urban areas, so as to offset infrastructure inefficiencies and other associated costs involved in marketing of these products. Exports of notified products (as in Appendix 37D of HBP, Vol 1) to all countries (including SEZ units) shall be entitled for Duty Credit scrip equivalent to 1.25% of FOB value of exports for each licensing year commencing from 1st April, 2006.

viii. Export Promotion Capital Goods (EPCG)

Under the EPCG scheme, Capital Goods (CG) including CKD (Completely Knocked Down)/SKD (Semi Knocked Down) as well as computer software for the manufacture of goods and for providing services, can be imported at zero duty (earlier 3%) against an obligation to export six times of the quantum of duty saved to be fulfilled over a period of six years (earlier eight years) reckoned from the date of Authorisation. Spares of CG can also be imported under this scheme.
ix. Export Finance Services

Finance is crucial to any business activity including exporting. The most common modes of financing used by firms include - Self-financing, Money market financing and Development Institutions financing. Self-financing forms the funds sourced from company’s savings through retained earnings. Retained earnings are the portion of net income or net profit, taken from the income statement, that is not paid out as fixed or variable costs. These earnings are reinvested in the company for furthering the business.

Money market financing constitutes all short-term loans and advances granted to the exporter for exporting activities by the commercial banks. These advances are basically categorised into pre-shipment and post-shipment finance depending upon the requirements of the exporter. 'Pre-shipment Credit' means any loan or advance granted or any other credit provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment, on the basis of letter of credit opened in his favour or in favour of some other person, by an overseas buyer or a confirmed and irrevocable order for the export of goods from India or any other evidence of an order for export from India having been placed on the exporter or some other person, unless lodgement of export orders or letter of credit with the bank has been waived. 'Post-shipment Credit' means any loan or advance granted or any other credit provided by an institution to an exporter of goods from India from the date of extending credit after shipment of goods to the date of realisation of export proceeds.

Development Institutions financing is a reflection of all sort of medium and long term export loans and other export facilities provided by specialized institutions like Export-Import Bank (EXIM), Industrial Finance Corporation of India (IFCI), Small Industries Development Bank of India (SIDBI), etc. to the exporters. While commercial banks traditionally meet the short-term working capital requirements of the exporters related to pre- and post-shipment activities, development finance institutions (DFIs) have mainly catered to the medium to long-term financing requirements. They provide support and assistance to small and medium exporters to identify opportunities for technology transfer, joint ventures, new project exports, acquiring new technologies and to understand new markets, etc. Provision of adequate financial help to the exporters in this regard has been looked after in the current foreign trade policy. Also, several export development institutions are financing
all sorts of medium and long term export loans and other export facilities needed by the exporters. These institutions include Export- Import Bank (EXIM), Industrial Finance Corporation of India (IFCI), Small Industries Development Bank of India (SIDBI), etc. For example, exporters can take advantage of foreign exchange loans at low rate of interest and connect with potential market through EXIM Bank’s regional branches in various countries. EXIM Bank has product-wise and country-wise market surveys which will be useful for SME exporters to enter into specific market with knowledge of demand and suppliers, price, quality and competition. Besides guiding and supporting SMEs for export promotion, EXIM Bank also helps them in the import of capital goods for production of quality products for domestic and international markets.

x. Assistance in settlement of Trade Disputes

Exporters must reflect a healthy image of the country to their foreign clients. To achieve this aim, a continuing relationship with foreign buyers is of the utmost importance, and trade disputes, whenever they arise, should be settled as soon as possible. Most of these disputes are related to issues like quality of the products, unethical commercial dealings, and non-supply of goods after confirmation of the orders, non-payment of agreed commission, non-adherence to the delivery schedule etc. The job of dealing with such complaints has been centralised with the 'Nodal Officer' and it’s assisting Cell viz., the Trade Disputes Cell in the office of the Director General of Foreign Trades, Ministry of Commerce, Udyog Bhawan, New Delhi. Several acts have been formulated to render quick justice in these cases and reduce delays as much as possible.

With these schemes in operation, the current foreign trade policy of India aims at making it a major player in the world trade by 2020, and assuming a leading role in the international trade organizations (Ram and Garg, 2013). This strategy is hanged on four pillars namely, (a) developing products with considerable growth potential, (b) diversifying our export markets, (c) encouraging better technology exports, and (d) building a brand for India. In this direction, the role of huge MSME sector of India is un-ignoreable. Hence, the government is facilitating the small sector with a variety of schemes/programs to enhance their competitive position in the global markets.
1.2 Micro, Small and Medium Enterprises (MSMEs) in India

The study focus on MSMEs (Micro, Small and Medium Enterprises) owing to the fact that small to medium-sized firms play an important role in many economies, as they often account for the largest part of the industrial base (Sousa et al., 2008). MSMEs have always remained the central agenda with policy makers of the nation since Independence as an inheritance of Gandhian\(^5\) philosophy. The emphasis on this sector has been mainly due to the manifold benefits it recurs in the form of employment generation, reducing regional disparities of industries and promoting effective entrepreneurship. The contribution of MSMEs has been remarkable in the industrial development of the country. It is considered to be the backbone of Indian economy contributing 45% of the industrial output, 40% of India’s exports, employing 60 million people, create 1.3 million jobs every year and produce more than 8000 quality products for the Indian and international markets. With approximately 30 million small scale units in India, 12 million people expected to join the workforce in next 3 years and the sector growing at a rate of 8% per year, Government of India is taking different measures so as to increase their competitiveness in the global market (Europe-India SME Business Council, 2012).

**Box 1. Definition of Micro, Small and Medium Enterprises**

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<thead>
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<th>Definition of Micro, Small and Medium Enterprises:</th>
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<tr>
<td>Enterprises engaged in the manufacture or production, processing or preservation of goods as specified below:</td>
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<tr>
<td>(i) A <strong>micro enterprise</strong> is an enterprise where investment in plant and machinery <strong>does not exceed Rs. 25 lakh</strong>;</td>
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<tr>
<td>(ii) A <strong>small enterprise</strong> is an enterprise where the investment in plant and machinery is <strong>more than Rs. 25 lakh but does not exceed Rs. 5 crore</strong>; and</td>
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<tr>
<td>(iii) A <strong>medium enterprise</strong> is an enterprise where the investment in plant and machinery is <strong>more than Rs. 5 crore but does not exceed Rs. 10 crore</strong>.</td>
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Source: Reserve Bank of India, Master Circular-Lending to Micro, Small & Medium Enterprises (MSME) Sector, Dated July 1\(^{st}\), 2010.

\(^5\) Mahatma Gandhi, Father of the Nation and chief architect of India’s Independence used the ideology of economic self reliance at local levels to not only decrease India’s dependence on British but also to generate mass employment.
1.2.1 Understanding the Industrial Clusters

Theoretical work on understanding industrial clusters goes back to early 19th century. Smith’s (1776) absolute advantage theory is considered as the underlying theory for economic specialization amongst firms, regions, and countries, which in turn formed the basic premise of development of the concept of industrial clusters. Ricardo (1817) further described this mechanism as, comparative advantage of international trade and specialization, thus considering clusters as the basis of regional competitiveness, owing to their ability to produce goods cheaper than any other region. Hence, Smith’s and Ricardo’s ideas reflected the general principles on which the industrial cluster concept is based. Marshall (1920) introduced the term ‘industrial district’ and emphasised the phenomenon of growth of industrial clusters. However, the modern cluster theory was propounded by Porter (1998) who defined clusters as group of firms from interrelated industries in a definite geographical area. Again, as far as MSMEs are concerned being part of ‘Industrial Cluster’ is additionally considered important for their sustainable growth. They are increasingly being recognized as an effective means of industrial development and promotion of MSMEs. At this point, it may be useful to understand the features of a cluster. It is loosely identified as a local agglomeration of enterprises (mostly MSMEs, but could include some larger enterprises too), which are producing and selling a range of related and complementary products and services. The Department of Industrial Policy and Promotion, Government of India defines clusters as – “geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities.”

The United Nations Industrial Development Organization (UNIDO) defines clusters as – “sectoral and geographical concentrations of enterprises that produce and sell a range of related or complementary products and, thus, face common challenges and opportunities. These concentrations can give rise to external economies such as emergence of specialized suppliers of raw materials and components or growth of a pool of sector-specific skills and foster development of specialized services in technical, managerial and financial matters”\(^6\). It is however, to be noted that a cluster is not merely a collection of firms at a place but reflects the linkages and relationships that get established amongst its members over a period of time.

\(^6\) Development of Clusters and Networks of SMEs, The UNIDO Programme (2001)
The precise definition of a cluster based on quantitative parameters may vary from country to country.

The use of clusters as a descriptive tool for examining regional economic relationships provides a richer, more meaningful representation of local industry drivers and dynamics. An industry cluster is different from the classic definition of industry sectors because it represents the entire value chain of a broadly defined industry from suppliers to end products, including supporting services and specialized infrastructure. Cluster industries are geographically concentrated and inter-connected by the flow of goods and services, which is stronger than the flow linking them to the rest of the economy. Developing clusters is not only a means to improve the competitiveness of industry but also an instrument for alleviation of poverty, generation of sustainable employment, fostering innovation, enabling better, effective and sustainable credit flow.  

In India, there are around 7000 clusters in traditional handloom, handicrafts and modern SME industry segment. These clusters are mostly predominant in small and medium industries and the share of large industries in the sales turnover, production and employment is nominal. The size in terms of number of units and the level of output of clusters may vary significantly. Some of them are large enough that their share includes 70-80% of the total volume of that particular product produced in India. For example, the township of Panipat produces 75% of the total blankets produced in the country. Similarly Tirupur, a small township in the Coimbatore district of Tamilnadu contributes 80% of the country’s cotton hosiery exports; Ludhiana in Punjab produces 95% of the country’s woollen knitwear, 85% of the country’s sewing machines and 60% of the nation’s bicycles and bicycle parts. Yet another example would be of the city of Agra, virtually a Footwear City with 800 registered and 6,000 unregistered small and cottage footwear production units, making 1.5 lakh pairs of shoes per day with a production value of 1.3 million dollars per day and exporting shoes worth USD 57.14 million per year. These clusters are fast emerging as the ‘Engines of

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8 Foundation for MSME Clusters, Policy and Status Paper on Cluster Development in India (2007)

Economic Activity’ in the present day, modern export-driven economy (San Diego, Association of Governments report on Industrial Clusters, 1995).

1.2.2 Industrial-Cluster Development Initiatives

Despite significant achievements, the majority of MSME clusters in the country face constraints like technological obsolescence, relatively poor product quality, information deficiencies, poor market linkages and inadequate management procedures. Also, with the Indian economy marching fast towards greater liberalization, such clusters are increasingly suffering from high competitive pressures coming from global giants. Hence, there is an urgent need to address the issue by supplementing these MSME clusters with additional help from outside. Common initiatives that individual units may not be able to afford could be supported via tools like, the cluster development programs which provide added advantage to the individual units to derive competitiveness through such provision of inputs. The cluster can have a common facility centre as one of the many possible options. Several existing institutions including service centres provide a variety of services such as locating markets, linking technology, facilitating common purchases, linking up with designers, facilitate subcontracting and training etc. each cluster can thus, find its own unique model that can cater to the requirements of its constituents. UNIDO (2001) in this regard is implementing a project in India for developing capabilities to promote MSME networking and cluster development by:

- Assessing the competitiveness and organization of clusters.
- Assisting the clusters’ actors (suppliers of raw materials, plant & machinery, buyers of SSI goods and services, testing laboratories and research agencies, industrial associations, training institutions, local government, financial institutions) in developing a common vision of what their cluster can achieve in national as well as international markets.
- Building up (through training, workshops and study tours), the capacity of cluster actors to implement such a vision.
- Providing advisory services at the policy level.
The program also draws strength through collaborative support from national developmental institutions like Small Industries Development Bank of India (SIDBI) and Development Commissioner Small Scale Industry (DCSSI). 10

The above discussion regarding clusters highlights few insights. Firstly, clusters need adequate infrastructure and other resources at their disposal if they are to function appropriately. Synergizing the positivity’s of the constituent units is of utmost importance to achieve the desired results. Secondly, there is a need for greater involvement on the part of governmental institutions, providing finance and infrastructural facilities to the MSME clusters. In fact, special provisions should be made keeping in mind specific needs of each of the respective clusters for better policy making. Finally, learning from experiences of other clusters globally could be of great help too. In this direction, UNIDO has an important role to play in terms of providing information of such experiences in other countries, leading to the use of better models and techniques by our own MSMEs, via the cluster development program it offers. With the MSME clusters contributing a huge share of India’s exports along with a large employment potential, there is no doubt that they have a significant impact on the nation’s economy. Hence, policy measures targeted towards structured development of such clusters are likely to have an immensely positive effect on the nation’s industrial development as well.

1.3 The Research Objectives

Following are the objectives of this study:

1. To review the firm-level export performance measures and identify its determinants.

2. To study the impact of the usage of export facilitation programs on export performance of firms.

3. To examine the role of firm-and management-specific variables as mediators and moderators in the relationship between usage of export facilitation program and firms’ export performance.

10 http://www.unido.org, Background to Indian Clusters (2001).
4. To study the role of clustering of the firms and its impact on the relationship between export facilitation program usage and firms’ export performance.

This study makes an earnest effort to analyse the role of export facilitation programs in firms’ export performance which is of great importance to both academicians as well as managers. Only few researches till date have specifically focused on this issue, especially in Indian context. Hence, the research outcomes would contribute notably to the existing limited literature in the field of firm-level export performance with special reference to India.