A STUDY ON EXPORT PERFORMANCE OF ENGINEERING GOODS AND SERVICES IN INDIA – PARADIGM

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ABSTRACT:

Engineering is by far the largest segment in the Indian industry. It is a diverse industry with a number of segments, and can be broadly categorized into two segments, namely, heavy engineering and light engineering. The sector has a comparative advantage in terms of manufacturing costs, market knowledge, technology and creativity. Powered by significant investments in power projects and infrastructure development, the sector has witnessed tremendous growth in recent years. It employs approximately four million skilled and semi-skilled workers and accounts for 27 per cent of the total factories in the industrial sector. Capacity creation in sectors such as infrastructure, power, mining, oil and gas, refinery, steel, automotives, and consumer durables are driving demand in the engineering sector.

INTRODUCTION

The engineering sector is among the top contributors to the total Indian export basket. Engineering exports from the country include transport equipment, capital goods, other machinery/equipment and light engineering products such as castings, forgings and fasteners. The sector accounts for about 20 per cent of India's total exports and is the largest foreign exchange earner for the country in terms of merchandised goods. The Engineering Export Promotion Council (EEPC) is the apex body in charge of promotion of engineering goods, products and services from India.

Continued growth of manufacturing sector and favorable regulatory policies will further propel the sector's growth. With 100 per cent foreign direct investment (FDI) allowed through the automatic route, major international players such as Cummins, ABB and Alfa Laval have entered the Indian engineering sector and have raised the industry's competitiveness.

OBJECTIVES OF THE STUDY

1) To study about the profile of EEPC.
2) To analyze the export performance of engineering goods and services in India.
3) To know about the overview of Indian Engineering Sector.
4) To analyze the growth of Indian Engineering Sector from 1975-76 to 2012-2013.

PROFILE OF EEPC

Way back in 1955-56, the nascent Indian engineering sector was in the process of diversifying and restructuring the narrow export base of the industry and it needed a strong push - the **EEPC INDIA (Formerly Engineering Export Promotion Council)** was set up in 1955 under the sponsorship of Ministry of Commerce & Industry, Govt. of India, for export promotion of engineering goods, projects and services from India. Initially started with a few hundreds of engineering units as a small outfit, with a passage of time it has grown to be the largest Export Promotion Council having membership of nearly 12,000 from amongst large Corporate Houses, Star Trading Houses, Small & Medium Scale Units (SME), Trading Houses, etc. Out of the total membership of the Council, 60% constitutes the SMEs.

The steady growth in the export of engineering goods from India has been the continuous innovation and setting up quality standards in manufacturing and in delivering services – this is evident as a large number of exporters are ISO 9000 or equivalent accredited. EEPC India – right from its inception has been insisting the exporting community on the quality parameter – and the Council itself has the distinction of achieving the ISO 9002 accreditation from world renowned KPMG. This has further been upgraded to ISO 9001:2008 for designing and execution of exhibition management services and provision of specialized management, educational, consulting and public relation services to engineering industry.

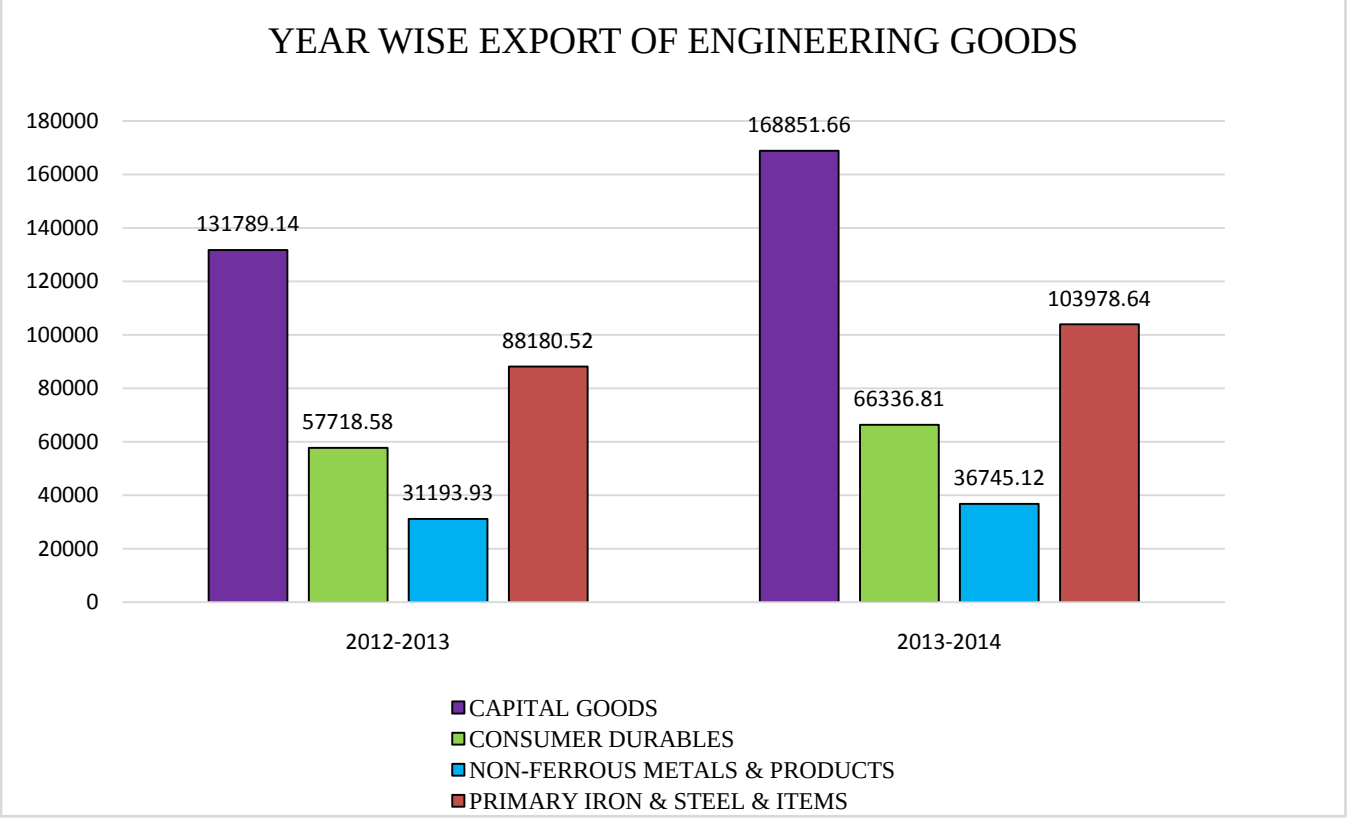
Engineering exports from India has been steadily growing and the performance has probably exceeded all expectations ever since the birth of the Council. Apart from being one of the largest stakeholders in the total exports out of India, the engineering exporters are the foremost net foreign exchange earner in the country. As the engineering sector is extremely diversified, the Council has set up different Product Panels with a view to ensure that all possible & potential Indian products reach out to the global markets.

EXPORT OF ENGINEERING GOODS AND SERVICES DURING 2012 - 13 TO 2013 - 14

S.NO	GOODS OF EXPORT	2012-2013	2013-2014	GROWTH IN %
1	CAPITAL GOODS	131789.14	168851.66	28.12
2	CONSUMER DURABLES	57718.58	66336.81	14.93
3	NON-FERROUS METALS & PRODUCTS	31193.93	36745.12	17.80
4	PRIMARY IRON & STEEL & ITEMS	88180.52	103978.64	17.92
	TOTAL	308882.17	375912.23	

Source: www.eepcindia.org

It is inferred from the above table that, engineering goods and services has a tremendous increase in the year 2013-14 when compared to that of previous year (2012-13). Whereas Capital goods show high increase as that of previous year when compared to all other goods such as Non-Ferrous Metals & Products, Primary Iron & Steel are in the same growth, and consumer durables are the lowest growth rate.



INDIAN ENGINEERING SECTOR – AN OVERVIEW

The Indian engineering sector is divided into two major segments – heavy engineering and light engineering. The sector has a comparative advantage in terms of manufacturing costs, market knowledge, technology and creativity. Capacity creation in sectors such as infrastructure, power, mining, oil and gas, refinery, steel, automotives, and consumer durables are driving demand in the engineering sector.

The total exports of the Indian engineering sector stood at US$ 56.7 billion during FY 13. Over the period FY 08–13, exports from the sector posted a compound annual growth rate (CAGR) of 11 per cent. Transport equipment is the leading contributor to engineering exports. The segment accounted for 32.5 per cent of the total engineering exports during FY 13.

The engineering industry has been de-licensed and 100 per cent foreign direct investment (FDI) is allowed in the sector. The sector has received cumulative FDI of US$ 45.35 billion over the period April 2000–August 2013.

Engineering Services Outsourcing (ESO) is a huge opportunity for India over the next few years. By 2020, the ESO market in India is expected to reach US$ 40–50 billion, driven by the increasing onshore to offshore movement of services.

Energetic Export Performance

- Indian engineering exports rose from US$ 33.7 billion in 2007-08 to US$ 56.7 billion in 2012-13, posting a growth of around 11 per cent. Also, engineering exports showed an annual increase of 14.72 per cent in November 2013 over the corresponding month of 2012.
- The US and Europe together account for about 60 per cent of India’s total engineering exports.
- The US import of engineering goods from India stood at US$ 475 million in November 2013.
- Indian engineering exports to Saudi Arabia, Thailand, the Netherlands, Malaysia, Czech Republic, Bangladesh and Egypt have also seen significant rise during the period 2011-12 to 2013-14
- A key driver for increased engineering exports ha
- s been the shifting of global manufacturing bases to countries such as India that offer lower costs and good engineering aptitude

- The nature of Indian engineering exports is changing with time. India is fast moving from exporting low-value goods to developing countries to exporting high-value goods to developed countries
- New opportunities, such as outsourcing of engineering goods and services, new product design, product improvement, and maintenance and designing of manufacturing systems, are providing fresh growth avenues
- With development in associated sectors such as automotive, industrial goods and infrastructure, coupled with a well-developed technical human resources pool, engineering exports are expected to touch US$ 120 billion by 2015

Market Magnitude of Engineering Goods

Engineering research & design (ER&D) revenues are projected to increase to US$ 45 billion in 2020 from US$ 11.2 billion in 2012. The turnover of engineering services firms is also likely to touch US$ 37 billion by 2020.

Engineering exports from the country stood at US$ 61.61 billion in 2013–14, registering a growth of 8.49 per cent compared to the previous year. During April 2014, the overseas sales of engineering products rose 21.3 per cent to US$ 5.7 billion.

Engineering exports to India's Free Trade Agreement (FTA) partners such as South Korea, Japan, Sri Lanka and the Association of Southeast Asian Nations (ASEAN) bloc have witnessed robust growth. Shipments to South Korea rose by over 60 per cent and to Japan by 16 per cent during February 2014.

Of the country's total engineering exports, the United States (US) and Europe account for over 60 per cent. Transport equipment is the leading contributor to engineering exports, accounting for 32.5 per cent of the total exports during the year 2013.

Investments

The foreign direct investment (FDI) inflows in miscellaneous mechanical and engineering industries during April 2000 to March 2014 stood at US$ 2,606.83 million, as per data released by Department of Industrial Policy and Promotion (DIPP).

The following are some of the major investments and developments in the Indian design and engineering sector:

- Hindustan Aeronautics Ltd (HAL) has entered into collaboration with IIT Kharagpur to establish a Faculty Chair to give thrust on research and development (R&D) and academic work in new and emerging technologies in the aerospace industry. This initiative is to conduct applied research and tackle multi-disciplinary problems in the field of aerospace technology and its applications.
- BS Ltd has won several orders worth Rs 722 crore (US$ 121.78 million) from various power utilities. The orders are for turnkey engineering, procurement and construction (EPC) contracts for 220 kilovolt (kV) and 132 kV transmission lines and associated sub-stations in Madhya Pradesh.
- Oman Oil Refineries and Petroleum Industries Company (Orpic) has awarded a part of its US$ 3.6 billion project to Engineers India Ltd (EIL), recognising the Indian state-run engineering consultancy provider's prowess. The contract is valued at over US$ 40 million.

Government Initiatives

With an aim to give a boost to the manufacturing sector, the government in its interim budget 2014-15 has announced cut in excise duty, or factory gate tax, on capital goods, consumer durables and vehicles. It would also provide 15 per cent exemption on tax to manufacturing companies that invest more than US$ 18.4 million in plant and machinery over the year 2015. Further, the National Manufacturing Policy has set the goal of increasing the share of manufacturing in gross domestic product (GDP) to 25 per cent and to create 100 million jobs over the next decade.

In addition to that, the government plans to give impetus to engineering in India through investments in infrastructure development in 2012–17 in telecom, energy and construction sector, as per a report by the National Association of Software and Services Companies (Nasscom) and Booz & Co.

India – Move in Advance

India is fast moving from exporting low-value goods to developing countries to exporting high-value goods to developed countries. With development in associated sectors such as automotive, industrial goods and infrastructure, coupled with a well-developed technical human resources pool, engineering exports are expected to touch US$ 120 billion by 2015. “Engineering exports are likely to grow in India with the new government set to take bold decisions that will boost the sector,” as per EEPC.

India's share of global engineering process outsourcing is expected to reach US$ 40 billion by 2020, which will be 30 per cent of the total global market. The Indian electrical machinery industry is likely to double its sales to US$ 100 billion between 2012 and 2022.

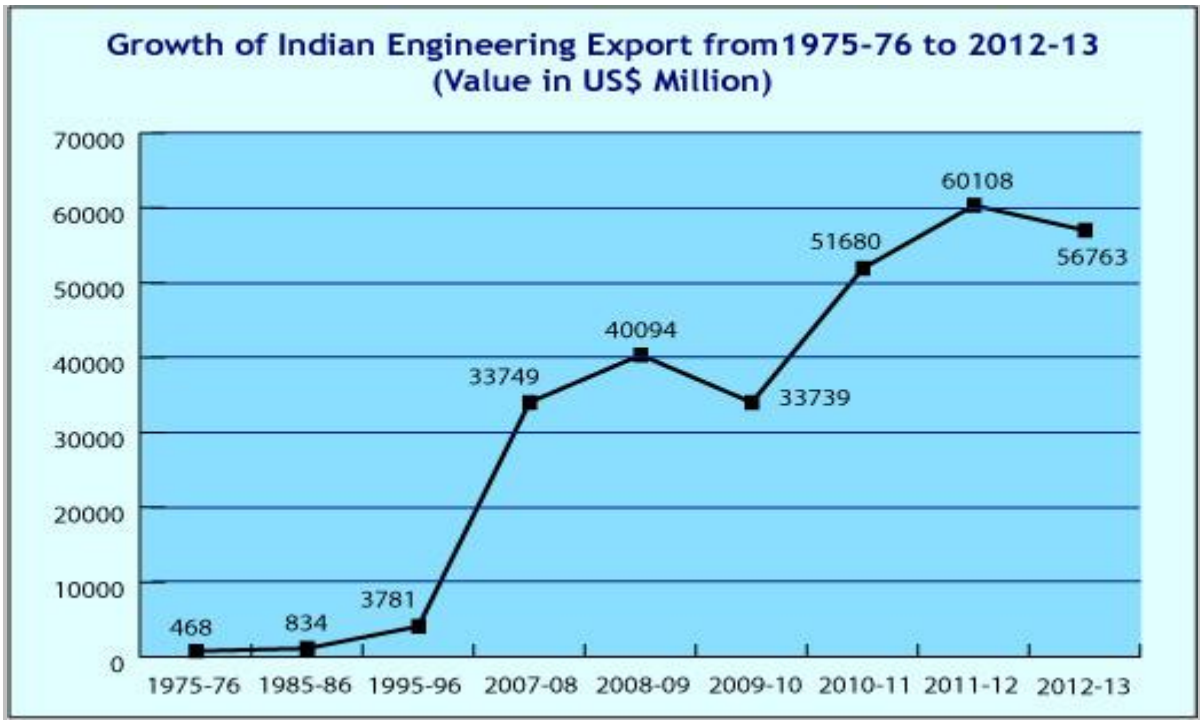
The industry can also look forward to deriving revenues from newer services and from newer geographies with Big Data, Cloud, M2M and Internet of Things, becoming a reality. Wipro, HCL Technologies, Tata Consultancy Services (TCS), Tech Mahindra and Infosys are account for most of the R&D activities outsourced to India.

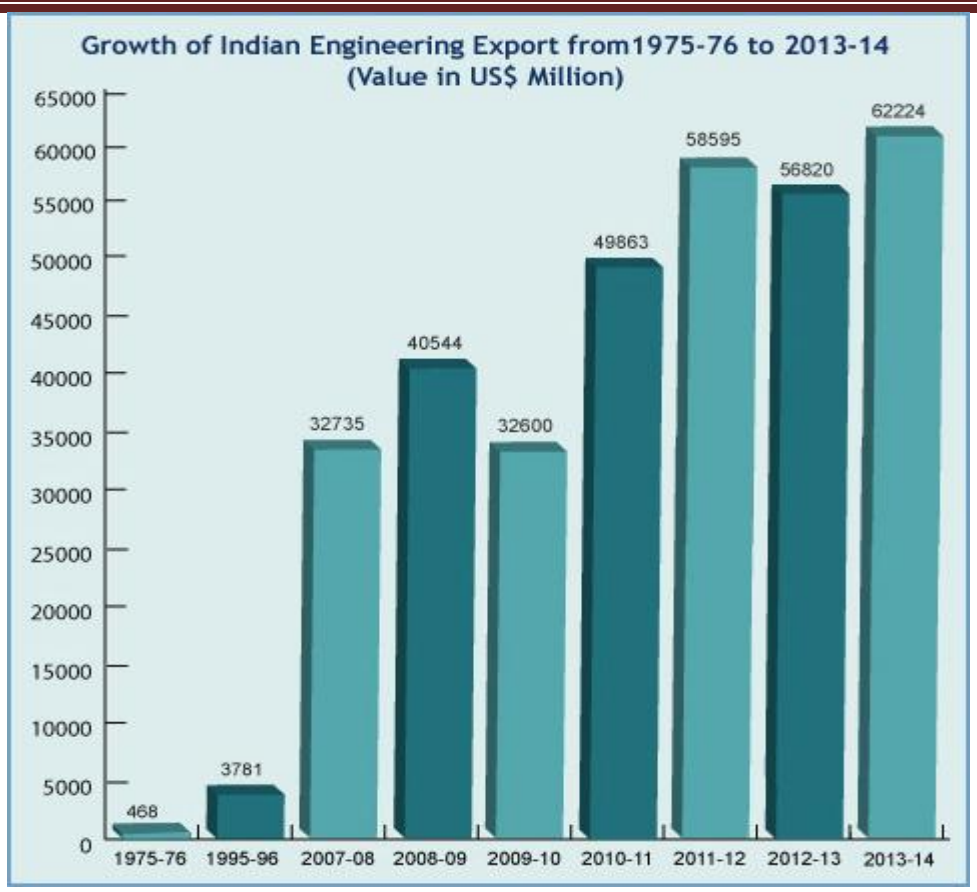
GROWTH OF INDIAN ENGINEERING EXPORT FROM 1975 -1976 TO 2012-2013

EEPC India aggressively peruses a number of activities & services for its exporting community, its members & the potential overseas buyers with a two-point objective of facilitating exports of Indian engineering products & services to the global market and to provide the overseas buyers true value.

Export Performance

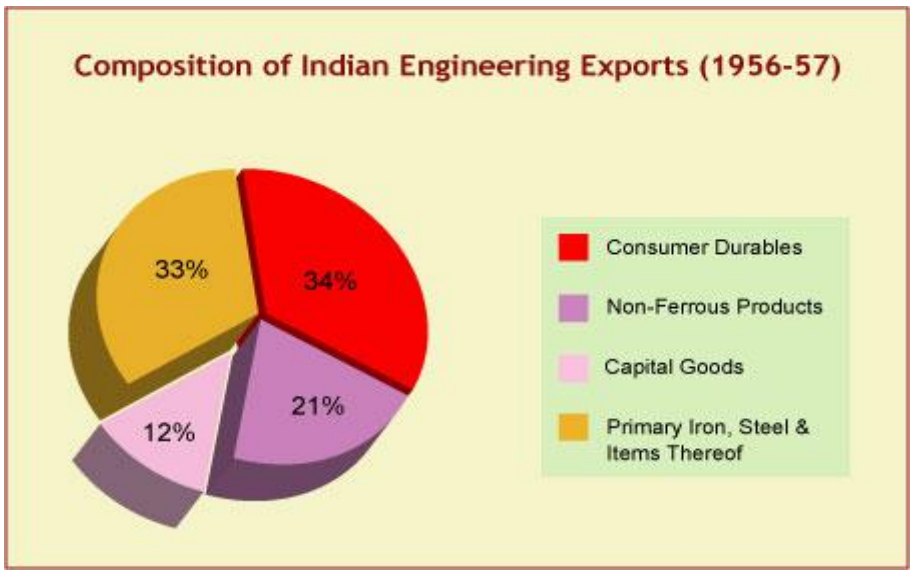
During last five decades, EEPC India has been playing a pivotal role in increasing country's engineering exports and as of date, engineering exports stands at US$ 62 billion in the year 2013-14 in comparison to US$ 10 million that was achieved in the year 1975-76.



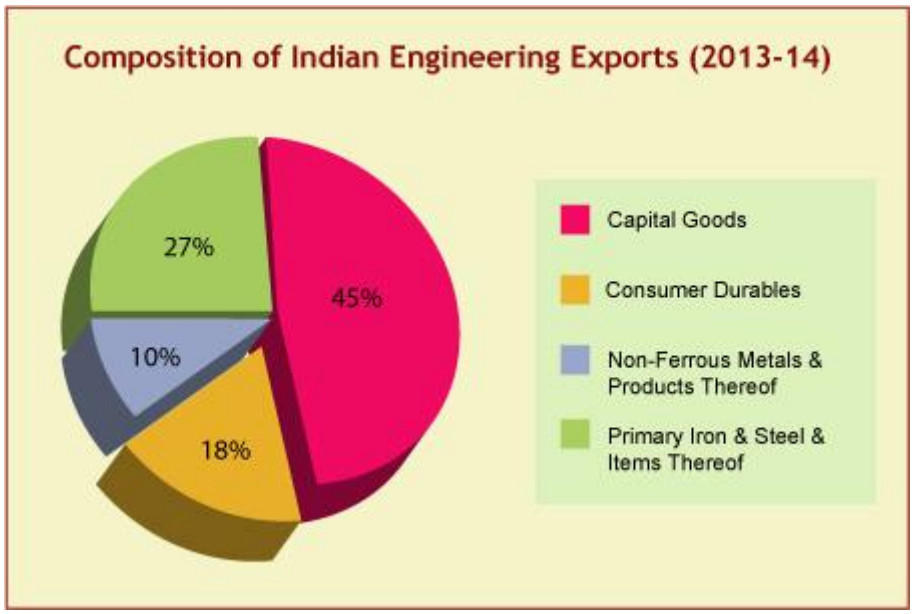


Transformation

EEPC India has been instrumental in transforming the profile of Indian engineering exports as supplier of low value items to capital goods, plant and machinery, high-end engineering services, etc.

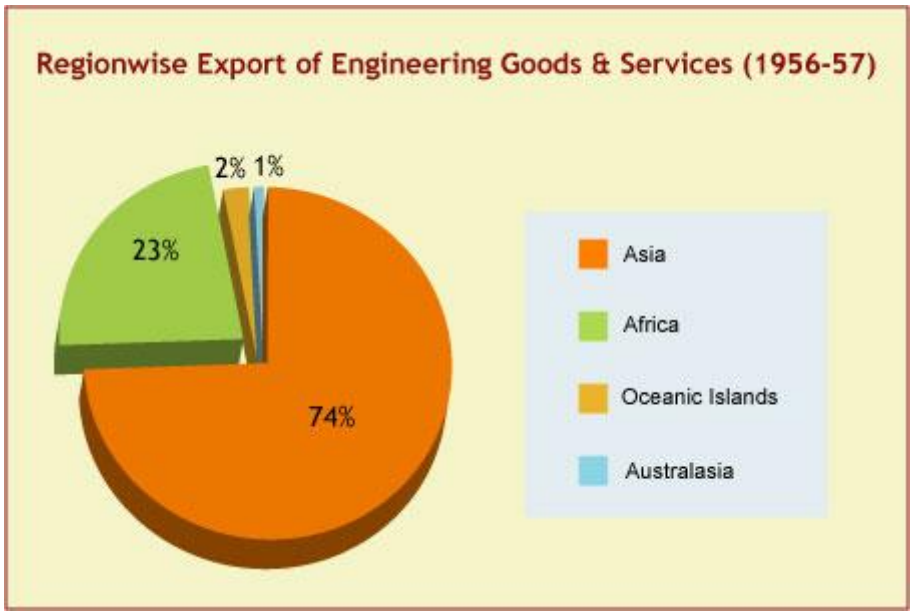


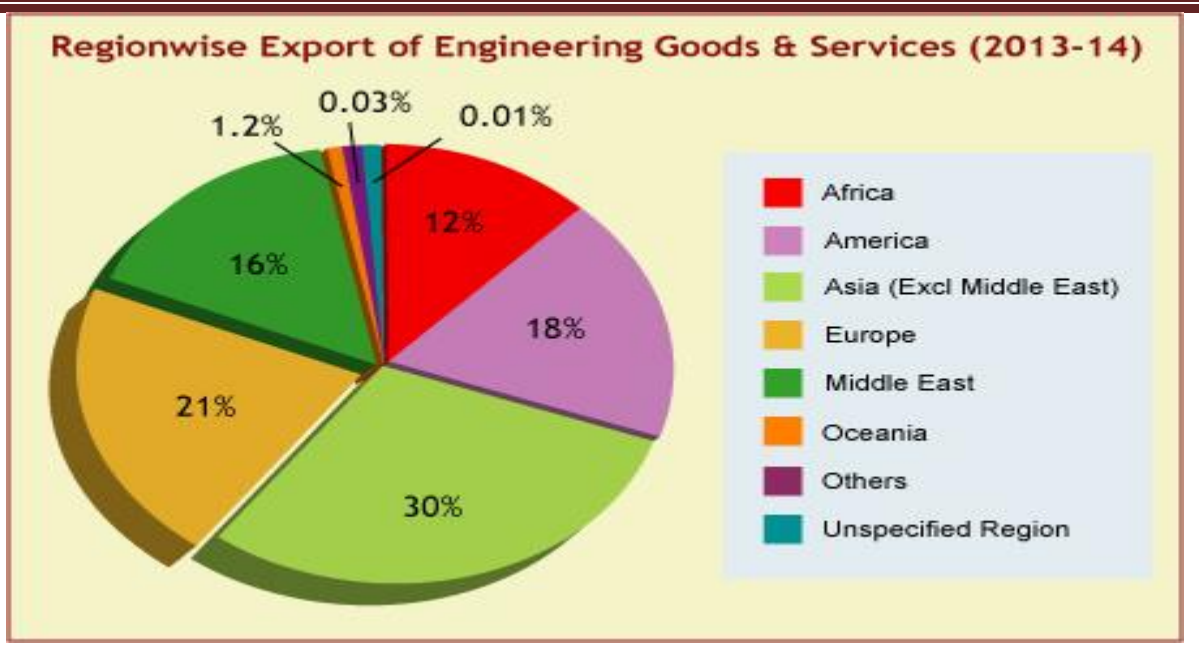
Today, out of total engineering exports, capital goods and machinery account for around 45 % as against around 12 % in the year 1956-57.



Diversification

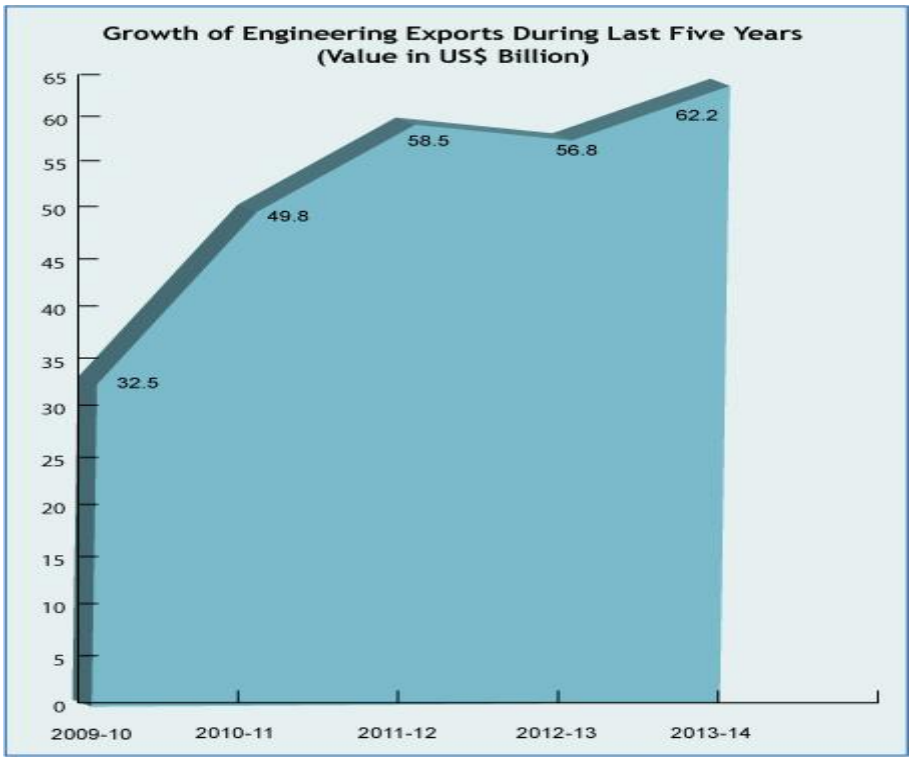
During the emerging stage, Indian engineering exports were mainly confined to Asia and to a small extent to Africa. Over the years, the scenario has completely changed and as of date, about 30 % of total engineering exports are made to developed countries. A table showing exports of 30 % to developed countries out of total engineering exports is given below:





Development of Engineering Goods

During the last five years, engineering exports have achieved an average growth of over 17%. In the year 2009-10 there was a drop in engineering exports by about 18% which was primarily owing to severe global recession especially in USA & Europe.



Conclusion

The outlook of the growing acceptance of Indian engineering goods across new market spaces across the globe, the growth trend has been very positive. Council has already prepared a Medium Term Strategy Paper to suggest various measures to be adopted by all concerned viz. EEPC India, Government and the exporting community for achieving engineering export growth. Exporting engineering goods to highly industrialized countries is, no doubt a difficult task, but it is not beyond the capability of Indian industries and workers. There are numerous labour- intensive engineering goods and particularly components where India, as a low wage country has a comparative advantage. If Indian industrialists energetically exploit their advantage, they will able to get their due share of the world market of engineering goods. Besides significant increase in physical exports, foreign exchange earnings from export of technical know-how, management consultancy, joint venture and construction of civil and industrial projects also received a spurt since the middle of 1980s. In fact, the ground work and various export promotional measures undertaken by the Engineering Export Promotion Council to put this promising sector on sound footing started yielding results in higher foreign exchange earnings.

REFERENCE WEBSITES:

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