

THE INNER STORY OF THE GROWTH OF ENGINEERING SECTOR IN INDIA

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It was not very long ago when Indian products, much like the caricature of an Indian in the westerner's psyche were objects of ridicule in the international market. Cheap in quality, poor in finish and often defective, Indian companies were afraid even to think about exports. Till late eighties there were several instances where final consignments exported from the country were rejected due to poor quality. Even with extremely low prices, our products could not find a place in the international market , India's export performance was constrained by factors like marketing inefficiency, Improper design and packing, infrastructural bottlenecks, absence of effective pre-shipment Inspection, poor handling facilities etc.

After globalization and liberalization "*Made In India*" became a respectable tag. There has been a constant growth in exports from the country and engineering goods export is responsible for 28.54% (2007-08) of the total. According to recent report "engineering exports grew by 80% i.e 60 billion \$ this fiscal from 24.08 billion \$ in the same period last fiscal ("The Hindu" dated 5th March 2011). The latest

Drastic structural changes have taken place and the rebalancing of globe has begun. We will experience different growth rates and increasing share of East in global trade and thus changing power equations. India has placed itself beautifully in this economic scenario and this opportunity to achieve its rightful place in the world cannot be missed. India with well balanced and vibrant banking system coupled with various stimuli is well on its way to recovery as evidenced by an expected GDP growth rate of approximately 8.5.

India has attained better structural position and its outlook remains bright because:

- Approximately 55% of GDP is domestic consumption.
- Dependence on exports is low.
- Saving rate is high.
- Larger young population.

- Fiscal system is robust with a vibrant equity market in place.

The **Eleventh Plan** has clearly identified areas of focus such as infrastructure subsidy-revamp from general to specific and more efficient distribution; expenditure on health and education, energy policy; agri-reform covering land tax, cooperative and supply chain and financial inclusion. The issue is of execution. It is important that government puts in place appropriate system for budgeting, monitoring and accountability so that intended objectives are attained.

The scenario of the country is very optimistic but the gloomy interruptions are posing very significant questions about robust growth of economy. Current Account Deficit (CAD) is very alarming.

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Graph No1 shows the criticality of issue. Shankar Acharya who has been chief economic advisor to Government of India believes that the scenario is very similar to characteristic of Indian economy in the late 1980s which culminated in an excruciating Balance of Payment and overall financial situation for the government at the start of 1990s.

Graph No 1



Projected Source: RBI, & Goldman Sachs; 2010, as given in Business

India February 20 2011, P44.

Senior officials of Ministry of Finance also point to the inherent dilemmas of other policy options that might have a bearing on CAD. The government can go for direct restrictions on imports, but this is a bad practice for Government and economy as well.

Moving from macro scenario of Indian economy to micro i.e. to Engineering goods Industry which is called “Engine of Growth” of the country, it is found that despite of robust growth in exports Balance of Trade condition is worrisome

Table No 1

Sl no	Year	TB in CR
1	1997-1998	-17413.6998
2	1998-1999	-18499.2798
3	1999-2000	-18181.5677
4	2000-2001	-11929.6284
5	2001-2002	-17323.705

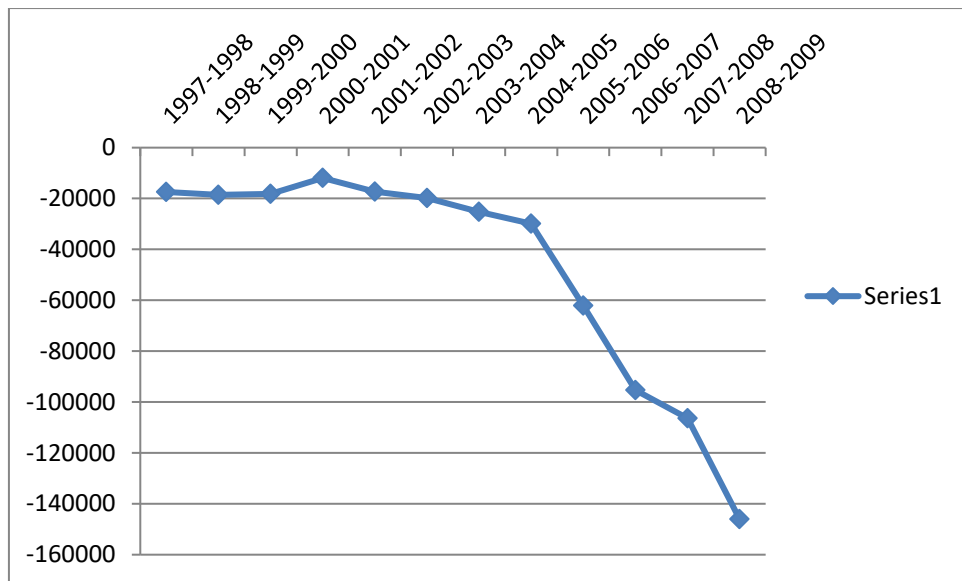
6	2002-2003	-19805.1615
7	2003-2004	-25176.3466
8	2004-2005	-29862.3112
9	2005-2006	-62148.9563
10	2006-2007	-95376.5381
11	2007-2008	-106442.4678
12	2008-2009	-146011.0275

Import-Export Trade Deficit of the Engineering Sector in the last 12 Years¹

The graph No2 depicts the striking negative balance of trade from 2003 onwards. From 1997-98 the negative trade balance was hovering around Rs.18000 crore, but from 2003 onward unabated, uncontrolled and a steep fall in the balance of trade has taken place and the trend is still continued with the same pace. There is an emergent need to have stringent measures to cease the falling graph.

1. commerce.nic.in

Graph No 2



Graph Showing Balance of Trade – Current Account of the Engineering Sector from the year 1997 to 2009¹

In 1997-98 it was around Rs. 17,500 Crore and now in the year 2008-09 it is exceeding the figure of Rs.1, 46,000 Crore. Balance of Trade is a cumulative effect of continuous rising negative CAD.

Since engineering goods export is responsible for 28.54 % (2007-08) of total export earning of the country. It is also responsible for -0.931 % of negative Balance of Payment (out of -3.5 % overall) of the country².

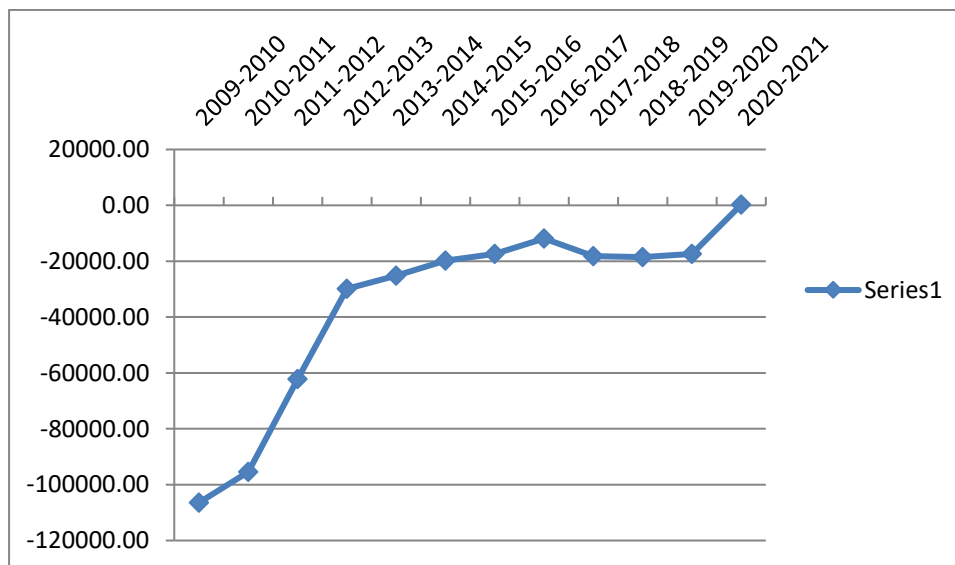
It seems that Govt. of India Ministry of commerce has not made introspection for the Engineering goods industry. What is needed is that an Engineering goods Development Council (EDC) is to be established. This council should be given with responsibility to develop engineering industry for the goods which are imported and for which we do have raw material and technology as well. This will slowly reverse the curve and Balance of Payment condition will become favourable.

2. rbi.org.in

Sl no	Year	Rev TB in cr
1	2009-2010	-106442.47
2	2010-2011	-95376.54
3	2011-2012	-62148.96
4	2012-2013	-29862.31
5	2013-2014	-25176.35
6	2014-2015	-19805.16
7	2015-2016	-17323.71
8	2016-2017	-11929.63
9	2017-2018	-18181.57
10	2018-2019	-18499.28
11	2019-2020	-17413.70
12	2020-2021	215.00

Projected Recovery of Balance Of Trade in coming 12 years³

Graph No 3



Graph Showing projected recovery of Balance Of Trade in coming 12 years³

Given above is the projected figure for coming 12 years to reverse the scenario. If government is enthusiastic enough, higher targets per annum may be fixed and an early recovery is very well possible. The recent exponential growth of 80% in engineering exports is a foreboder of good times ahead and it seems that projected recovery is not beyond achievable targets. Honorable Minister of Commerce and Industry, Mr. Anand Sharma has revised the target for achieving 500 billion in exports by 2013-14.

3. Projected figure from commerce.nic.in

The case cited is specific for engineering goods industry to highlight the issue. But the same may be true for every sector where unfavourable balance of trade situation is there. Needless to say that country has enough potential to mar all adverse effects provided concerted effort is made.

It is hoped that CAD will go off and all other adverse interruptions may be tided over and economic health of the country will improve.

Our textile sector is a shining example of a favourable balance of trade where only three items forms around 31% of the total export earning of the country. The following table No 3 substantiates the above statement.

Table No 3

Sl No	Foreign Exchange Earners(Export>Import)	Value Of Earnings in Rupees (crore)	Percentage of total Earnings of 13 years (1996-97 to 2008-093)
1	Cotton	13521291	8.3590
2	Articles of apparel and clothing accessories, knitted or crocheted	14262395	8.8171
3	Articles of apparel and clothing accessories, not knitted or crocheted	22473032	13.8930
	Total Earnings	50256718	31.0691

Value of the earnings and percentages in total earnings of 13 years (1996-97 to 2008-09)⁴

4. commerce.nic.in

References

1. Business India, Feb 20, 2011.
2. www.commerce.nic.in
3. www.rbi.org.in

