

Roadmap to reduce import dependence in engineering sector

Engineering sector is a vital sector in India's economy as it contributes 24% to the overall merchandise exports and many manufacturing MSMEs are engaged in this sector. The sector covers ferrous and non-ferrous metals, industrial machinery, electrical machinery, automotive, medical and scientific instruments, office equipments, aircrafts and spacecrafts, to name a few. The country's engineering exports declined 5% in 2019-20 from the earlier year, in line with the fall in overall merchandise exports. The sector has one of the highest trade deficit, at USD 64 billion, after petroleum products as India is highly dependent on imports for major engineering goods (including electronic goods). For instance, India is dependent on imports upto 90% for solar panels, upto 80% in case of machine tools, 65%-75% in case of textile machinery, pumps and construction machineries.

At a time when Government of India is promoting Self-Reliance, it is worthwhile to reflect on the roadmap to reduce import dependence in the engineering sector. In March 2019, consultancy firm Deloitte released a strategy paper, jointly with EEPC, to enhance engineering exports to USD 200 billion by 2025 from USD 76 billion at present. To realize this vision, India has to improve its competitiveness on par with China, which has a share of 16.8% in the world engineering exports, as against 0.8% for India.

The paper outlined various policy suggestions to enhance engineering exports from the country. Some of the suggestions are: Government and industry bodies should enhance awareness about mandatory standards and conformity assessment in developed nations amongst MSMEs.

One of the key recommendations of the paper was to create a trade repository in the form of a one-stop-shop portal for exporters and overseas buyers, to access right information. Apart from information on trade, markets, and customers, this portal may provide value added services such as online consultation, running a helpdesk, product branding, etc., the paper suggested.

The paper identified that availability of steel, which is a critical input for engineering goods, at reasonable cost is a major challenge for local MSMEs. Therefore, the authors of the paper suggested government and the industry to help MSMEs procure steel at a competitive price, as the bargaining power of MSMEs is low due to their low demand.

The paper emphasized on the need to understand the development needs and investment requirement across various engineering clusters in the country by conducting a comprehensive survey.

Skill development is identified as a major policy focus to enhance competitiveness in the engineering sector. Therefore, the paper called for introducing 'Workforce Development Fund' dedicated for engineering & manufacturing sector, with special focus on 'Digital skill development'.

The paper suggested periodic revision in the coursework and curriculum of vocational training based on the evolving demand in the industry. In order to boost trade credit in the sector, the report suggested restoration of LoU/LoC with "proper safeguards". The report highlighted the need to simplify the procedure to generate new letter of credit or renew trade credit limits.

The paper suggested setting up dedicated trade promotion desk in target countries, where



there is potential for enhancing engineering exports. Government should strengthen commercial wings of its diplomatic mission in these target countries.

Another recommendation was to strengthen Market Access Initiative (MAI) scheme by increasing budgetary allocation. The paper recommended the government to support exporters financially for meeting the regulatory compliance or testing costs in foreign countries.

The report also carries useful recommendations on optimally utilizing free trade agreements, enhancing budgetary allocations to various export promotion schemes, capacity building for MSMEs and other focus areas.

Notifications

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