

# TECHNOLOGY EXPORTS

Vol. 8 • No. 1

May-June 2006

## THE RIGHT EXPORT STRATEGY FOR YOUNG INDIAN TECHNOLOGY COMPANIES

*Kevin Enterprises Pvt. Ltd. – A Successful Exporter\**

*Kevin Shah\*\**

### Why Does One Need to Export?

First and foremost reason for export is to earn much desired foreign exchange, which will serve as a robust cushion for the country and aid its utilization at appropriate time for a specific purpose.

*Secondly*, there is a lot of credibility given to companies that have been successful in export ventures, as it is assumed that the exporting company has withstood the test in meeting international standards and is able to satisfy foreign buyers. Established export credibility would significantly heighten status of country in the global exporting scenario.

*Thirdly*, as we embark on a process of exports in an integrated world, free exchange of ideas and cultural knowledge opens up immense business and trade opportunities for a company. *Fourthly*, as one starts visiting customers to sell one's goods, he has an opportunity to start exploring for newer customers, state-of-the-art machines and vendors in foreign lands.

*Lastly*, global operations keep one competitive and less vulnerable as he may enjoy a business boom in one market while simultaneously witnessing a gloom in a different market. Such opportunities are becoming incentives for many firms today to export.

\* The article published in this Issue is based on a presentation made by Mr. Kevin Shah for DSIR-IIFT-TEDO Technology Exports Lecture Series, on 12 July 2006 at IIFT, New Delhi.

\*\* Managing Director, Kevin Enterprises Pvt. Ltd., Mumbai.

Export therefore is not a matter of ambition but a must for survival.

### Strategies for Export

The SME segment can piggy back on the MNCs operating here and offer the various parts and components that fall within their scope or even work with them (invest) and develop a model for manufacturing to their specifications and subsequently exporting through them (what the author calls "Reversed Trojan Horse" model).

Where there is a lack of technology, SMEs must look for companies that do have technology but who cannot set up shop in India. Today they would gladly offer a technical collaboration. Here the technology provider will, in order to protect his market, put restrictions on sales territories to the Indian partner.

The challenge and fine balance lies in the fact that, in the long run it would be up to the Indian company to absorb the technology and then break loose from the restrictive collaboration or face possible take-over by the collaborator.

Some areas of concern within Indian SMEs are:

- *Spelling, grammar and phrase errors* – English is our strength, make it stronger
- *Inadequate marketing/branding materials* – Customers are humans with short memory
- *Lack of HSE systems* – Customers and employees expect it, you need it



## EDITORIAL BOARD

P.K. Mahapatra

Ministry of Commerce & Industry

Anjan Das

Confederation of Indian Industry

N.K. Sehgal

India Trade Promotion Organisation

N. Srinivasan

Asian and Pacific Centre for  
Transfer of Technology

S.P. Agarwal

Indian Institute of Foreign Trade

Ashwani Gupta

Department of Scientific & Industrial  
Research

Anil K. Kanungo

Indian Institute of Foreign Trade  
(EDITOR)

## ASSISTANT EDITORS

G.P. Gandhi

Madanlal

Santana Pathak

ISSN 0972-1460

## SUBSCRIPTION RATES

Single Copy : Rs 100 ; \$5

Annual Subscription : Rs 540 ; \$27

Reproduction of features and news from *Technology Exports* with due acknowledgement is welcome. Two copies of the issue reproducing any material from *Technology Exports* may kindly be sent to the Editor.

Printed and published by **P.K. Puri**, Registrar, for Indian Institute of Foreign Trade, B-21 Qutab Institutional Area, New Delhi-110016 with support of Department of Scientific & Industrial Research at Sagar Printers & Publishers, New Delhi.

- *Not IT enabled and poor data back-ups* – No excuse, India is a software super power
- *Poor project management* – Delegation w/ defined authorities and responsibilities a must
- *Inadequate attention to aesthetics and packaging* – Style is as important as substance
- *Inconsistent costing* – No second chance available
- *Improper house keeping* – Its our second home
- *Bad etiquettes* – International business culture revolves on mutual respect
- *No strategy to “set up” the customer* – No strategy is Yes tragedy
- *Not assertive* – If you got it, please show (off) it

## India’s Competitive Advantage

Exhibit (A) shows the likely shortage/excess of manpower in the world (by 2020) and the abundance of same in India by 47 million (even China will run out of manpower). Further, the Exhibit (B) shows the skill factor among competing nations and again puts India at the very top. This makes India a prime destination for “body shopping” as more and more Indians will be able to provide the service to the world through the www we live in.

## Kevin Enterprises Pvt. Ltd.

Kevin Enterprises Pvt. Limited (KEVIN) is engaged in design, manufacture, supply and installation of Mass Transfer Equipment. Formerly, KEVIN was a licensee & sub-contractor of M/s Norton (SG NorPro), USA.

## Product & Services

KEVIN offers a broad range of chemical process products/equipment like High Performance System – a tower which contains well matched components that optimize its distillation, absorption or stripping performance.

KEVIN has in-house capability for manufacturing following mass transfer equipments:

Random Tower Packing	Material of Construction			
	Metal	Plastic	Ceramic	Carbon
Medal Pak	X			
Tall Pak		X		
Pall Rings	X	X	X	
Raschig Rings	X	X	X	X
Omnipak		X		
Alumina Balls			X	
Super Saddles		X		
Saddles		X	X	
Berl Saddles			X	

**EXHIBIT A**

**INDIA'S COMPETITIVE ADVANTAGE VIS-A-VIS OTHER NATIONS**

**POTENTIAL SURPLUS POPULATION IN WORKING AGE GROUP – 2020 (MN)**

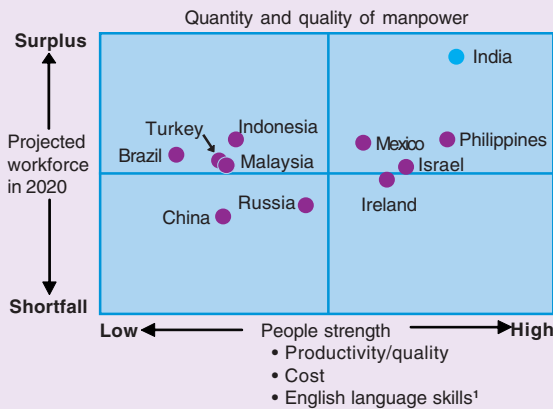


**Note:** Potential surplus is calculated keeping the ratio of working population (age group 15-59) to total population constant.

**Source:** US Census Bureau; BCG analysis.

**EXHIBIT B**

**INDIA'S COMPETITIVE ADVANTAGE VIS-A-VIS OTHER NATIONS**



<sup>1</sup> Over 50% of shortages from english-speaking countries

**Note:** Pakistan, Bangladesh and Vietnam have not been represented for lack of reliable data on productivity and cost of service employees.

**Source:** World Competitiveness Yearbook 2001; Britannica Yearbook; Literature search; BCG analysis.

Structured Packing	Mist Eliminator
ME-II Structured Packing	Demister Pad
Tower Internals	Tower Trays
Feed Pipes	Bubble Cap Trays
Distributors	Cartridge Trays
Bed Limiters	Baffle Trays
Support Plates	Sieve Trays
Collector Trays	Valve Trays
Flash Feed Gallery	
Flash Feed Chamber	
Liquid-Liquid Extraction Internals	

KEVIN offers metallic tower packing & structured packing conforming to international grades such as: AISI, DIN, etc. specification for stainless steel SS 304/L, SS 316/L, SS410/S, SS430, etc. grades, Aluminium grade, copper grade, exotic materials and carbon steel.

KEVIN offers metallic range of tower trays & tower internals conforming to international grades such as: ASTM specifications for stainless steel SS 304/L, SS316/L, SS410/S, SS 430 grades exotic material and carbon steel.

**Services**

**Feasibility Study:** Complete feasibility studies for new and revamp projects. The range of services includes process simulation, hydraulic design of columns, and preparation of preliminary G.A. drawing of columns – be it design or rating of absorber, stripper, fractionator or extractor.

**Design & Drafting:** Design and Drafting Services for all mass transfer equipment and packed column internals and trays including high performance distributors/redistributors, chimney trays, high capacity valve trays, shower trays, etc.

**Annual Installed Capacity**

- Random Tower Packings – 10000m<sup>3</sup>
- Structured Packing – 2000m<sup>3</sup>
- Tower Trays & Internals – 1200 Tons

**Major EPC companies KEVIN has worked with**

- Chemtex
- Engineers India Limited
- Haldor Topsoe, Denmark
- Project Development India Limited
- Halliburton KBR, USA
- Jacobs H&G
- Kvaerner Power Gas
- Lurgi
- L&T Chiyoda
- Toyo Engineering
- Snamprogetti Italy
- Technip KTI
- Uhde

**Major Customers**

Reliance Industries Ltd.; Gas Authority; National Fertilizers Ltd.; IFFCO; Bharat Petroleum Corporation Ltd.; Rashtriya Chemical & Fertilizers; Kochi Refineries; Tamilnadu Petroproducts Ltd.; IOC; SPIC; Hindustan Petroleum Corporation Ltd.; Indian Petrochemicals Corporation Ltd.; Coromandal Fertilizers Ltd.; Godrej Soaps Ltd.; Gujarat Heavy Chemicals Ltd.; Mangalore Chemicals & Fertilizers Ltd.; British Oxygen Company India Ltd.; Tata Chemicals Ltd.; Tata Power Corporation

Ltd.; India Glycols Ltd.; Dr. Reddy's Lab; Essar Steel Ltd.; Finolex Industries Ltd.; Air Liquide, Thailand; Asean Bintulu Fertilizers, Malaysia; Bahrain Petroleum Co, Bahrain; Cheminova, Denmark; Chevron, USA; Eastman Chemicals, Singapore; ExxonMobil, USA; Formosa Plastics, Taiwan; Grand Paroisse, France; Formosa Chem Industries, China; Mitsubishi Chem, Japan; Petronas, Malaysia; Petrobras, Brazil; Seibu Oils, Japan; Idemitsu, Japan; Burrup Fertilizers, Australia; Mitsui Chemicals, Japan; Hismelt Kwinana, Australia; Singapore Syngas, Singapore; Thai Caprolactum, Thailand; Sappi Ngodwana, South Africa; Chippewa Valley Engg. Corporation, USA; Darien Chem, China.

### Field Services

KEVIN provides Supervision/Installation, Field Services for Packings, Trays and Internals.

### Trouble Shooting

KEVIN provides guidance on design related problems and components like tower packings, valves, etc, which can take care of typical emergency replenishment requirements during shutdowns.

### Industries Served

- Oil & Gas
- Fertilizers & Soda Ash
- Petrochemical
- Petroleum
- Chemical & Fine Chemical
- Pharmaceutical

### Third Party Inspection Agencies Recognition

KEVIN has worked under world renowned and leading inspection agencies like BVIS, LRIS, TUV, PDIL, CEIL, Moody International, etc.

### Infrastructure

Manufacturing location; Mumbai

KEVIN employs a total workforce of 135 employees out of which 45 personnel are engaged in engineering & management functions.

### Design

KEVIN Design team comprises of engineering professionals & process consultants that cater to:

- Entire Design including Process Simulation
- Hydraulic & Mechanical Design of Packed/Tray columns

- De-bottlenecking & revamping of existing column

- KEVIN has installed FABRIWIN software program for converting drawing to CNC code that aids the CNC punching operations for trays/internals. This program requires no human intervention.



### Major Machinery

- Shearing Machines
- CNC Turret Punch Press
- Power Presses
- Mechanical Press Brake
- Air Plasma Cutting Machine
- Hydraulic Press Brake
- Band Saw
- Power Hack Saw
- Welding Machines
- Material Handling Equipment

### Tool Room Facilities

KEVIN has full-fledged in-house tool room facilities used for own tool & die design and development

### Financials

- KEVIN is a profit making company since inception
- 44 per cent profit growth over last five years
- 40 per cent sales growth over last five years
- 28 per cent IRR over last five years
- Ability to meet its obligations to all its stakeholders
- Prudent financial and operational risk management
- Comfortable financial and operating leverages



## KALEIDOSCOPE OF INDIA'S TECHNOLOGY EXPORT EFFORTS

### DRUGS & CHEMICALS

#### India A Hub for Speciality Chemicals

##### Conducive IPR Environment & Cost Advantage Attract Global Majors

INDIA is fast emerging as the sourcing hub for speciality chemicals for industries such as textile, rubber, paper and paints for many global majors. Most of the global chemical majors like Ciba Speciality Chemicals, BASF, Clariant and DuPont have set up sourcing teams in the country for speciality chemicals.

Lanxess Corp, the newly floated chemical company of the Bayer Group is planning to source \$20 million worth of chemicals from India this year for its global operations. "We expect to increase sourcing from India by 30% in the next few years", said Mr. Joerg Strassburger, Managing Director, Lanxess India.

The world's second largest chemical company DuPont sees India as a good base to procure speciality chemicals to meet its global needs. The company started sourcing from India in 2003 and the target is to increase procurement from India by four times in the next four years, according to company officials.

The Netherlands-based DSM NV, makers of performance material and industrial chemicals, recently announced the shutting down of operations in the US and Canada in order to migrate it to China and India, as part of its Vision 2010.

Many large and medium-sized companies like Coyne Chemicals, TFL Leather Technique, Syngenta and Sun Chemical are chalking out their India sourcing plans. According to a McKinsey report, India's speciality chemicals exports, which were around \$2 billion in 2002-2003 are expected to reach the \$12-15 billion mark by 2015.

There are reasons, apart from the obvious cost advantage (up to even 30%) for global majors to source from India. "It is hard to expand operations in Europe because of stringent environmental regulations. So they have to shift operations to India. They cannot place all their investment in China. So India gets a fair share. But we have an advantage in producing small volume, high value chemicals," according to an analyst tracking the industry.

Also, the markets are quite stagnant and the growth potential is in emerging markets in Asia. "Indian companies produce world-class quality products involving highend technologies, and a good IPR environment gives us more confidence to procure from India," say officials of DuPont India.

*(The Economic Times, 18 May 2006)*

#### Panacea Looks for R&D Licence Deal with Netherlands Institute

Panacea Biotech Ltd., the second largest Indian biotech company, is looking for a R&D licensing agreement with Netherlands Vaccine Institute. The company which has signed a bulk drug supply agreement for inactivated polio vaccines (IPV) with the Netherlands based producer, would manufacture finished IPV and target a market of about \$1 billion.

"The estimated demand is around 150 million doses and it can go up to 800 million doses. On a conservative estimate, the market worldwide is about \$1 billion and with this agreement, we can market it in India and overseas barring Netherlands, Denmark, Norway and Finland", said Shri Rajesh Jain, Joint Managing Director, Panacea Biotech.

The agreement is for three years and the vaccine is expected to be launched in a year. "The collaboration will substantially enhance Panacea Biotech's impact, scale and size of business," added Shri Jain.

Panacea has launched a \$100 million foreign currency convertible bond (FCCB) issue a few months ago and the company expects to explore both organic and inorganic growth opportunities especially in Europe and North America.

"We have a Rs 40-crore vaccine plant coming up by April 2007 in Baddi. We also plan to invest another Rs 20 crore for Research and Development facility expansion in Mumbai", said Shri Jain.

The new plant would manufacture injectible, oral and freeze dried vaccines and will have a capacity of 800 million doses per annum on a single shift.

*(Business Standard, 4 May 2006)*

## IT SECTOR

### IT-ITES Exports Rise 33 per cent at \$24bn

India's IT and IT-enabled services (ITES) exports registered a growth of 33 per cent to touch revenues of \$23.6 billion in 2005-06 as against \$17.7 billion notched in the previous year.

The IT and BPO exports are, however, projected to grow at relatively lower rate of 27-30 per cent in 2006-07 to garner \$29-31 billion in revenues.

According to the National Association of Software and Services Companies (NASSCOM), the projection for a lower growth rate for the current financial year is on account of the rising export base.

In 2005-06, of the total IT and ITES exports, IT software and services grew by over 32 per cent registering revenues of \$17.3 billion on the back of a strong demand for traditional applications development and maintenance services as well as new service areas such as package implementation, while ITES/BPO sector grossed revenues of \$6.3 billion recording a growth of 37 per cent.

Against a forecast of 26-27 per cent growth, the overall software and services (which includes exports and domestic market) grew by over 31 per cent at \$29.6 billion in 2005-06. The domestic market revenues grew to \$6 billion in 2005-06, from \$4.8 billion in the previous year.

The industry is on course to meet the projected target of \$60-billion exports by 2009-10 as projected in the NASSCOM-McKinsey report. "This growth is also reflected in the employment trends both direct and indirect, which according to our estimates is to the tune of 4.3 million people," the NASSCOM President, Kiran Karnik said.

With less than 10 per cent of the market currently addressed, a large market opportunity exists for the sector which will ensure sustained demand-led growth. Factors such as evolution of global delivery models, unbundling of large IT outsourcing deals with larger India-based delivery shares, and \$100 billion in contract value due for renewal over the next two years are some of the positive indicators for the sector, Shri Karnik said adding that so far Indian companies had concentrated on top 500 global firms, but in future demand will be led by top 2,000 global companies.

Shri Karnik further said that employment in the sector would grow by another 250,000-300,000 in 2006-07, and added that for every job created in the sector, more than 2.5 to three jobs are created in the support services and allied sectors.

He said the sector would have to overcome several problems, including the quality and skills of graduates, rising salaries and weak infrastructure.

We need to produce more and better quality talent. Other areas that need an immediate focus include strengthening of urban infrastructure in existing and emerging cities and emphasis on proactive regulatory reform to facilitate greater ease of doing business.

*(The Hindu Business Line, 3 June 2006)*

## ENERGY & POWER

### BHEL Bags \$457mn Sudan Deal

Bharat Heavy Electricals Limited (BHEL) has bagged a \$457 million contract to set up a 500 MW steam power plant in Sudan. The plant will be commissioned for the National Electricity Corporation (NEC) and will be completed by 2009. This is the single largest export order secured by BHEL so far.

The contract involves installing four units – each of 125 MW of crude oil fired boilers, steam turbines, generators, control systems and 220 KV switchyard and auxiliaries for the Kosti power plant. The plant may later be expanded to 3,000 MW. On completion, this will be the single largest power project in Sudan. The Government has given a concessional line of credit of \$350 million through the Exim Bank for the plant.

*(Business Standard, 15 February 2006)*

### L&T Bags Fuel Storage Facility Project at Kuwait Airport

Larsen & Toubro Ltd has bagged a contract for Rs 581 crore (37.98 million Kuwaiti Dinar) from Kuwait Aviation Fuelling Company (KAFCO) for its fuel depot project at Kuwait International Airport. The project which was won through international competitive bidding is to be completed in 24 months.

KAFCO is a subsidiary of Kuwait Petroleum Corporation which provides aviation fuel to Kuwait

International Airport and maintains the fuel storage facilities. The new project will cater to the needs of the international airport. The project involves pumping fuel through underground pipelines from Mina Al-Ahmadi Refinery to the storage depot.

Speaking recently about the project, K.V. Rangaswami, Executive Director and Head (Construction), L&T stated that the fuel storage facility project is yet another landmark for L&T in Kuwait and marks the company's continued involvement in major oil & gas projects in the Gulf region. L&T, he said, was well placed to contribute significantly to the growth and development of the region through critical infrastructural projects.

*(The Hindu Business Line, 18 April 2006)*

### **KEC Bags \$63-mn Order from Ethiopia**

KEC International Ltd., part of the Rs 8,450 crore RPG Enterprises, has bagged a \$63-million order from Ethiopian Electric Power Corporation (EEPCO) for construction of power distribution networks. The project involves construction of 33 KV distribution lines for about 1,400 km and setting up 460 transformers for electrification of 73 circles aimed at meeting the growing demand for electricity in Ethiopia. KEC is also constructing more than 2,000 km of 33 KV lines, which would entail rural electrification of nearly 40,000 villages in Ethiopia. The company is engaged in power transmission, engineering, procurement and construction with presence in more than 15 countries.

*(The Hindu Business Line, 26 April 2006)*

## **MISCELLANEOUS**

### **L&T Bags Rs 440 cr Ship Building Contract**

Engineering and construction major Larsen & Toubro (L&T) has launched its shipbuilding venture by securing a key contract for construction of four ships valued at over Rs 440 crore from Netherlands-based Zadeko Ship Management CV. The vessels will be built at a new shipyard that will form part of the company's engineering complex at Hazira, Surat. The shipbuilding is scheduled to commence in July 2006. Described in technical terminology as RO-RO/LO-LO semi-submersible, heavy lift container cargo ships, these highly specialized vessels

are being made in India for the first time. The vessels have a deadweight capacity of over 8,250 tonnes, 17,000 cubic metres of cargo and can carry 830 TEU of containerized cargo.

*(Business Standard, 3 May 2006)*

### **Indian Firms Bag \$1.3 bn Business at Hannover Fair 2006**

Hannover Trade Fair, the world's biggest industrial and technology show, saw Indian companies sign deals worth \$1.3 billion and generate additional business opportunities for a number of small and medium enterprises. On the occasion, India's Ambassador to Germany Ms. Meera Shanker, said that cooperation efforts between the two countries had made big strides in the areas of energy, including solar, bio mass and coal, besides scientific research and development. In terms of total business generated, the Indian companies signed deals worth \$1.3 billion and in addition, potential business opportunities have also been identified. India was able to project itself as not only the services hub but also as a country which was progressing very rapidly in industrial processing and manufacturing.

*(Business Standard, 29 April 2006)*

### **Feedback Ventures on Lankan Mission**

The Indian model of public-private partnerships, especially the success achieved in the roads sector, seems to have impressed Sri Lanka.

One of the country's leading infrastructure companies, Feedback Ventures has been roped in by the Sri Lankan government to devise methods of introducing public-private partnerships (PPPs) in the roads sector there.

Feedback has been asked to suggest structural reforms to develop the country's Road Development Organization on the lines of the National Highway Authority of India (NHAI).

In the last decade, NHAI has emerged as an aggressive road builder in India having undertaken seven phases of the National Highway Development Programme. The total cost of these projects is more than Rs 2 lakh crore and work is expected to continue up to 2012.

The Sri Lankan consultancy contract which is funded by the Asian Development Bank (ADB) was signed between

Feedback Ventures and the Sri Lankan government after the company won the contract last year.

According to Akhileshwar Sahay, president, transportation wing of the Infrastructure Advisory Division of Feedback Ventures, Sri Lanka has 11,000 km of highways and a road density of 1.4 km of roads per sq km.

He said that many of Sri Lanka's new roads have been built in the last few years, mostly with ADB and multilateral funding. Build-Operate-Transfer (BOT) projects and PPPs are almost non-existent, he adds.

Under the technical assistance agreement, Feedback Ventures has to suggest optimum use of public and private funding in the roads sector. The consulting company also has to prepare a model concession agreement for undertaking BOT projects in Sri Lanka.

*(Business Standard, 9 June 2006)*

## Exports Touch \$102 bn in 2005-06

India's merchandise exports grew by 23 per cent to touch record levels of \$102.7 billion in 2005-06 and it is estimated to cross \$120 billion by the end of 2006-07, according to the Ministry of Commerce and Industry.

Almost all the major sectors have contributed to the growth in exports particularly the project goods (79% growth over last year), petroleum products (64% growth) and transport equipment (61%). The other sectors, which added to the growth, are engineering goods (24.61%), basic chemicals, pharmaceuticals and cosmetics (25%), coffee (49%), oil meals (54%), processed food (22%), carpets (30 per cent), raw cotton, textiles as a group (over 17%) and spices (over 19%). Export of agricultural and allied products increased by over 17 per cent.

The US continues to be the number one destination for Indian exports with 16.75 per cent of the total merchandise exports from India in 2005-06 reaching that country. The other top destinations for Indian goods are UAE (8.36% share of India's exports), People's Republic of China (6.54%), Singapore (5.42%), the UK (5.01%), Hong Kong (4.34%), Germany (3.42%), Belgium (2.78%), Luxembourg and Japan (share of 2.39% each) and Republic of Korea (1.77%).

On the employment front, it is expected that an additional 21 million jobs will be created between 2004-05 and 2009-10 as a result of export growth, said a press release quoting an RIS study.

*(The Hindu Business Line, 17 July 2006)*

## JOINT VENTURES

### L&T Forms JV with Malaysian Company SapuraCrest

Larsen & Toubro has entered into a joint venture with Malaysian company SapuraCrest Petroleum Berhad to build a \$100-million derrick-cum-pipe-laying barge.

L&T will hold 60 per cent equity stake, and SapuraCrest 40 per cent stake in the joint venture which L&T described as a strategic effort, allowing it to enter a field where no Indian company is in operation.

With this vessel (which will be an Indian flag vessel) L&T can exploit the sub-sea pipe-laying and installation opportunities across India, West Asia, South-East Asia and other neighbouring areas, said A.M. Naik, Chairman & Managing Director, L&T.

Currently, there are three Korean companies (such as Hyundai) in operation in the Indian zone and L&T would become the fourth operator, he said.

The vessel, which would be completed in the fourth quarter of 2008, could bring in revenues of between \$50 and 70 million (Rs 225 and 490 crore) annually. There would be a commitment by L&T and SapuraCrest to use the barge for 140 days each yearly.

"To L&T's new capabilities of engineering procurement and construction, the new dimension of installation will be added," he said. For SapuraCrest, this joint venture is the latest in a series of efforts to ensure that it possesses the right technology, infrastructure, reach and human capital to address the needs of its clients from India to Australia, said Datuk Shahril Shamsuddin, Executive Vice-Chairman, SapuraCrest Petroleum.

The barge project cost would have a debt component of around 70 per cent for which the joint venture would be raising funds, likely in foreign currency since its business would earn foreign exchange and provide a natural hedge, said Y.M. Deosthalee, Chief Financial Officer, L&T.

*(The Hindu Business Line, 9 June 2006)*

•



## RECENT POLICY INITIATIVES

### NEIA: For Project Exports

The Government of India has set up the National Export Insurance Account (NEIA) which will enable Export Credit Guarantee Corporation (ECGC) to provide long-term insurance cover for project exports. The scheme will have a corpus of Rs 2,000 crore over the 11th Plan period. It will have an initial corpus of Rs 66 crore and will be enhanced to Rs 180 crore in 2006-07. ECGC will provide 20 per cent to the corpus.

Medium and long-term projects, including civil constructions, turnkey projects, supply of equipment, services and investments in overseas joint ventures are eligible for cover under the scheme. The transactions in the nature of buyer's credit, line of credit, suppliers' credit and those involving deferred terms of payments can be considered for cover.

NEIA would only cover commercially viable medium and long-term exports considered desirable from the point of view of national interests. The projects will be approved by a committee of directions which will be headed by Commerce Secretary, Government of India.

*(www.economictimes.com)*

### Rejuvenating Manufacturing Sector

In a bid to rejuvenate manufacturing sector and generate employment, the Union Budget 2006 has included five industries with the prospect of providing more employment opportunities. These are, namely textiles, food processing, petroleum, chemicals & petrochemicals, leather and automobiles in manufacturing sector; in services, tourism and software can offer large number of jobs.

Since the announcement of the Technology Upgradation Fund (TUF) scheme, there has been encouraging response. Under this TUF scheme, allocation has been enhanced from Rs 435 to 535 crore for 2006-07. In October 2005, a Scheme for Integrated Textile Parks (SITP) was launched with the intention of creating 25 textile parks. Seven parks have been sanctioned and 10 parks have been identified for development. A provision of Rs 189 crore has been made in the Budget.

For Food Processing Industry, NABARD will create a separate window with a corpus of Rs 1,000 crore for refinancing loans to the sector, especially for agro-processing infrastructure and market development. The Government will also set up the National Institute of Food Technology Entrepreneurship and Management.

With the spread of IT and ITes, India is a preferred destination for the manufacture of semi-conductors and other high technology IT products. The Ministry of Information Technology will announce a policy to achieve this goal. It is proposed in the Budget to use the existing vehicles of viability gap funding and the India Infrastructure Finance Company Ltd. to create a window to provide equity participation and/or viability gap funding to the new ventures. The window will be opened for 3 years in order to accelerate investment.

Promoting the manufacturing sector, Cluster Development model has also been planned to promote manufacturing and renew industrial towns and build new industrial townships. It is proposed to cover an additional 100 clusters at a cost of Rs 50 crore in 2006-07.

### NMCC's Rs 1,000cr Plan for Small and Medium Cos.

#### Govt. Proposes to Cut Down on Wastes and Increase Productivity

A big boost to small units is on the cards. The National Manufacturing Competitiveness Council (NMCC) has prepared a Rs 1,000-crore national manufacturing competitiveness programme for small and medium enterprises. The plan, which has been jointly worked out by the Commission and the Ministry of Small Scale Industry (SSI), aims to benefit over 10,000 firms in more than 500 SME clusters. The thrust of the plan is towards technology infusion with almost one-third of the project funds going towards it. The plan has been placed before the Eleventh Finance Commission for approval.

“Both the Ministry and the Commission have taken up the initiative to make an immediate intervention for the growth of the sector so as to enable SMEs to compete with new players. However, a separate long-term plan is under preparation as part of the NMCC's 10 year

strategy,” said a senior government official. This was considered necessary in the light of the pruning of the reserved items list from a whopping 800 items to 108 in recent years, he added.

The plan includes the infusion of Rs 300 crore for the application of ‘lean’ manufacturing in the SME segment by way of which SMEs will be encouraged to streamline their procedures and cut down on wastes. Another Rs 160 crore is proposed for promotion of information, communication and technology (ICT) along with Rs 93 crore as technology and quality upgradation support.

In order to enable manufacturers to adopt quality management standards and quality technology standards, Rs 135 crore will be extended as assistance to small scale units. The plan proposes to increase the number of tool rooms from 10 to 25 at a cost Rs 135 crore. Another Rs 110 crore are proposed for encouraging SMEs to file for patents and for offering market support to these manufacturers.

The government has identified more than 500 clusters including Tirupur (textile), Khurja (pottery), Ferozabad (glass), Ludhiana and Jaipur among others where this programme will be implemented. Leather, readymade garments, auto components, gems and jewellery are among the sectors identified where this programme will be extended, the official added.

(*The Economic Times*, 13 July 2006)

## Promoting R&D

Research & Development (R&D) is a basic need of any industry. India’s outstanding human resources have the capacity to make India a Knowledge Society, therefore, the Government accords high importance to R&D.

With regard to Institution of Excellence, a grant of Rs 100 crore was given in the last Budget so as to develop the Indian Institute of Science, Bangalore as a world class institution. Similarly this year, three universities have entered their 150th year, namely Universities of Calcutta, Bombay and Madras. A grant of Rs 50 crore to each University for a special research department or a research programme was proposed. Another grant of Rs 50 crore to each of them has been extended in the Budget 2006.

A special grant of Rs 700 crore for an institution of excellence has been proposed to a distinguished institution,

the Punjab Agricultural University, Ludhiana, in acknowledgement of its pioneering contribution to the green revolution.

The Ministry of Science and Technology has decided to accord the status of an autonomous National Institute to the Rajiv Gandhi Centre for Biotechnology, Thiruvananthapuram, Kerala.

The Government has taken up a programme to upgrade 500 ITIs over five years. One hundred ITIs are now covered with the help of the private sector. Assistance has been sought from multilateral agencies to cover the remaining 400 ITIs.

An allocation of Rs 97 crore for this purpose in 2006-07 has been announced in the Budget. Also, the Skills Development Initiative (SDI) announced last year has been taken up through a PPP Model with an initial provision of Rs 10 crore.

## FEEDBACK

Dear Readers,

Indian Institute of Foreign Trade (IIFT) in collaboration with Department of Scientific & Industrial Research (DSIR) brings out bi-monthly newsletter, *Technology Exports*.

The Newsletter aims to familiarize trade & industry with the latest happenings and to bring out the policy analysis in the field of technology exports.

We have received encouraging responses from Indian missions abroad, embassies in India and trade & industry. Words of praise, especially coming from various Indian missions have been extremely fulfilling and inspiring for us.

While positive responses are highly encouraging, we believe continued “Readers’ Feedback” will be the key factor not only for improving the contents but also for maintaining sustained interest.

Therefore, we at *Technology Exports* welcome Readers’ valuable suggestions, inputs and constructive ideas. We would appreciate receiving specific information such as lead articles, exportable technological developments, achievements in technology related exports, etc., for publication in the Newsletter. Such information may be addressed to: Editor, *Technology Exports*, Indian Institute of Foreign Trade, B-21 Qutab Institutional Area, New Delhi-110 016.

E-mail: [akanungo@iift.ac.in](mailto:akanungo@iift.ac.in)

Website: [www.iift.edu](http://www.iift.edu)

## TECHNOLOGY/PROJECT OFFERS

### LIST OF SELECT EXPORTABLE TECHNOLOGIES/PROJECTS FROM SMEs IN ANDHRA PRADESH & KARNATAKA STATES IN INDIA

Sector	Name of Technology/ Project offered	Name of company	Value of offer*
<b>Electronics &amp; Telecom</b>	1. Turnkey Project for Telephone Access Products, LED Display Systems and Hand held computer for multi applications	MIC Electronics Ltd., Hyderabad	US\$3.0 mn.
	2. Design, Development and Production of (a) Location based tracking and navigation systems (b) Global Positioning System based Land, Air and Marine systems	Aerospace Systems Pvt. Ltd., Bangalore	US\$1.0 mn.
<b>Electricals</b>	3. Turnkey Project for PV Modules and Amorphous Modules	Titan Energy Systems Ltd., Secunderabad	US\$1.0 mn.
	4. Manufacturing Plant for Cable Assemblies and Heat Shrinkable Products	Hindustan Electro Technology Pvt. Ltd., Bangalore	US\$0.5 mn.
<b>Light Engineering</b>	5. Manufacturing Plant for Filter Elements and Filtration Equipment	Mikroflo Filters Pvt. Ltd., Hyderabad	US\$1.0 mn.
	6. Manufacturing Plant for Vertical Glandless Pump & Hydrodynamic Seal Pumps	Process Pumps (I) Pvt. Ltd., Bangalore	US\$1.0 mn.
<b>Agriculture</b>	7. Research and Production Centre for Hybrid Maize	BISCO Seedtech Pvt. Ltd., Secunderabad	US\$0.2 mn.
<b>Chemicals &amp; Allied Industries</b>	8. Manufacturing Plant for Disinfectants and Antiseptics	Nath Peters Hygeine Ltd., Hyderabad	US\$0.3 mn.
	9. Turnkey Project for Production of Resins and Formaldehyde	Sieco Engineers Pvt. Ltd., Bangalore	US\$0.7 mn.
<b>Bulk Drugs &amp; Pharmaceuticals</b>	10. Manufacturing Plant for making Active Pharmaceutical Ingredients (API) and Fine Chemicals	RA Chemicals and Intermediates Pvt. Ltd., Hyderabad	US\$1.2 mn.
<b>Food Processing</b>	11. Manufacturing Plant for Confectionery Products	Sampre Nutritions Limited, Secunderabad	US\$1.2 mn.
	12. Manufacturing Plant for Fruit Products	Mysore Fruit Products Limited, Bangalore	US\$2.5 mn.

\*Value is excluding cost of land & building.

**Notes:** 1. The above list is an extract from the *Report on Profiles of Exportable Technologies/Projects from SMEs in Andhra Pradesh and Karnataka*, prepared by APITCO Ltd. for DSIR, Government of India, New Delhi.

2. For any enquiries, please contact : spagarwal@iift.ac.in, or ashwani@nic.in

**“Do Standards Matter for Export Success?”** by Maggie Xiaoyang Chen, Tsunehiro Otsuki, and John S. Wilson, World Bank Policy Research Working Paper No. S3809

IN this World Bank Policy Research Working Paper published in January 2006, the authors carefully examine how the prevalent technical standards and requirements of importing countries impact two aspects of an exporting firm – market diversification (the total number of export markets entered by a firm) and export propensity (the overall share in exports).

The authors test their hypothesis on 617 exporting firms in 17 developing countries from Eastern Europe, Latin America, Middle East, Sub-Saharan Africa and South Asia, taken from a World Bank Technical Barriers to Trade Survey (2002) database. Through a simple model, they quantify the results to show that firms have to incur additional costs in terms of standards, testing procedures, labeling requirements and even delay due to certification/information inquiry, etc owing to existence of varying norms in different countries, which result in declining export performance.

For example, in terms of market diversification, the results showed that a firm’s export decisions and the total number of markets to enter are significantly impacted by such regulations. An exporting firm’s production is targeted at both the local market and the exports market. Now, if the minimum standards and technical requirements like labeling, testing/certification, etc. are significantly different in the importing countries from the local requirements, production will definitely entail redesigning and additional labour costs. In case the firm is exporting to a number of countries, then meeting the standards in each export market will require an individual fixed cost to establish the capacity and subsequently variable production cost.

Quantification by the authors reveals that standards impede exporters’ market entry, reducing the likelihood of exporting to more than three markets by 7 per cent.

In terms of export propensity, testing procedures and lengthy inspection procedures by importers reduce exports

by 9 and 3 per cent respectively. This is more so in case of firms producing perishable items, although not less for the firms producing technology due to requirements of standards.

Overall, the requirement of a single fixed cost for each market, arising from the differences in technical requirements across markets, impose significant additional costs on firms and impedes their ability to export and therefore, these firms’ overall propensity to export and likelihood to diversify their markets inevitably decrease considerably.

Therefore, the authors conclude that merely technical know-how is not enough to create opportunities for exports for developing countries. Exporters need to understand the standards and technical regulations in practice in the importing countries which might affect their export performance.

Against such a complex trading scenario, the issue bears enormous implications for strategy and policy design of exporting countries.

The authors suggest that exporting nations should consider a number of issues in their efforts to address technical regulations imposed by importing countries:

- Efforts at negotiating on testing procedures towards mutual recognition with importing countries are necessary, as it could stimulate exports.
- Building exporters’ capacity in meeting standards, especially that of firms that outsource could help firms diversify their export markets and improve the stability of their sales given the uncertainty in international markets.
- Since information requirements are higher for exporting firms, simplifying information process and facilitating information exchange with importing countries on standards and **technical** regulations could also stimulate firms’ propensity to export.

The paper gives useful insight into the complex issues of requirements of standards and gives a fresh direction towards global export policy reconsideration.

•