

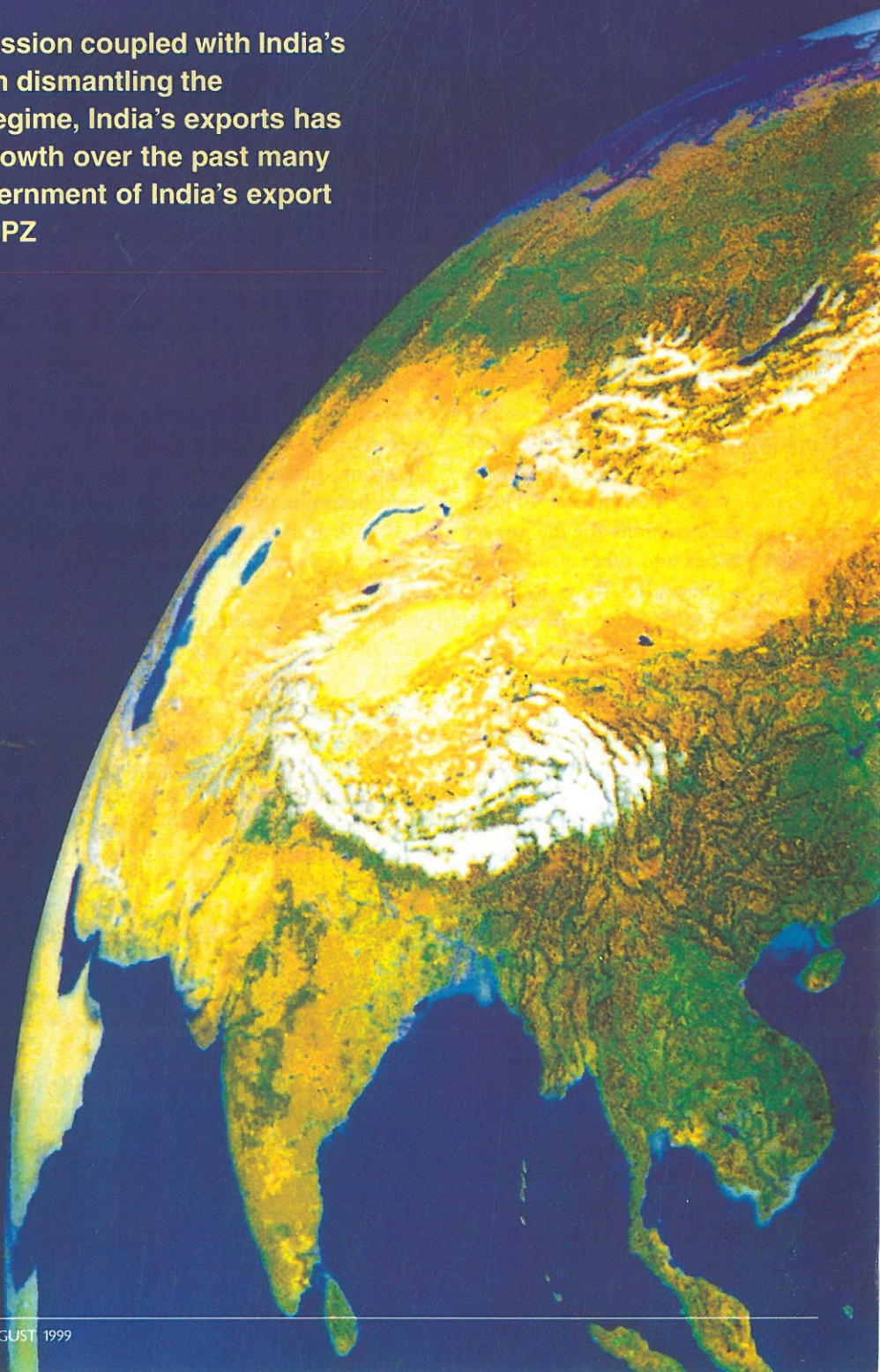
Promoting India Inc. in the Global Market

Despite global industrial recession coupled with India's own internal contradictions in dismantling the government's protectionist regime, India's exports has been recording consistent growth over the past many years - thanks mainly to Government of India's export promotion initiatives like SEEPZ

G P Vinaybabu

Santacruz Electronic Export Processing Zone (SEEPZ) is a saleable brand in the international market today. Consistent quality and enhanced focus on emerging areas of development has contributed to the continuous growth of exports from SEEPZ. SEEPZ as the name itself suggests was primarily set up as an exclusive electronic export promotion zone in 1974. But in 1989, considering the pollution free and non-invasive nature of jewellery manufacturing, the government decided that even jewellery exports should be a part of SEEPZ.

There are an estimated 150 export promotion zones all over the world. India has a total of 6 such zones located in different parts of the country. While most of the 6 zones are multi-product zones, manufacturing and exporting a variety of products, only SEEPZ located in Mumbai is exclusively devoted to the manufacture and export of electronic goods and jewellery. By far SEEPZ is the most successful export promotion zone in the country. It is also one of the oldest such zones set up by government of India to promote export, second only to the one at Kandla. Benefitting from the multi-farious advantages of SEEPZ are





SEEPZ service centre, Mumbai.

104 electronic units and 52 Gem and jewellery units.

The idea behind setting up such export promotion zones was very simple. The promotion zones or EPZs as they are popularly known, help exporters in three basic ways. Firstly, they help in removing all restrictions for the import of capital goods and other production materials. Secondly they help in providing all the necessary infrastructural facilities for export oriented companies desirous of setting up units in these zones. Finally, EPZs help in easing the procedures for export of goods like exemption from central excise duties etc.

Export promotion zones like SEEPZ were a great advantage in the pre-liberalisation era. But even after the doors of international trade were thrown open, exports from SEEPZ continued to grow at a steady rate. Even though there was a drop in the export contribution of SEEPZ to the total exports from India, there has been an increase in terms of export revenue earnings on a continuous basis from SEEPZ. The electronics export earnings, which was 8,173 million rupees in 1994-95 has reached an impressive 10,446 million rupees in 1998-99. The electronic exports which has shown a steady improvement

in the last couple of years has been largely due to the phenomenal growth of software exports in this period. This is one of the main reasons why electronic exports has been showing an uptrend in spite of the electronic hardware exports taking a severe beating in the international market.

A look at the export performance in the last 5 years reveals that the electronic exports which was predominantly computer subassemblies and peripherals till 93-94 has given way to computer software in 97-98. All the same the computer subassemblies, peripherals and computer software segments put together have been maintaining a combined share of around 80 per cent of the total electronic exports from SEEPZ in the last 5 years.

The export traffic has been primarily towards USA and Canada (up to 50 per cent) and South East Asia (up to 25 per cent). Even in terms of the number of companies having foreign collaborations, USA stands first. Out of 157 units in SEEPZ, 59 units have foreign collaborations 38 of which collaborations are with US companies.

Government's policy on exports

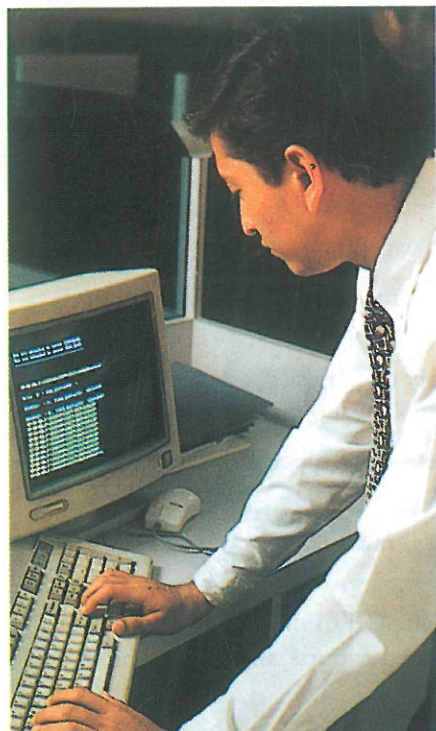
In the ensuing global business scenario, India has emerged as one of the best destinations for job outsourcing, that requires technological and precision skills. That's why software development, electronic design and gem & jewellery works have made it good in exports at the international market.

Government of India on its part hasn't spared any effort in capitalising on this global mood. If setting up of exclusive export promotion zones like SEEPZ was one of the earliest steps the government took in order to provide visibility for India's strengths in the world market, the tempo has been stepped up through various other initiatives in the last 10 years, to really provide an accelerated advantage to software and allied areas. Says Mr. Suhas Pathak, Vice President, System Integration Division, Tata Infotech, "The progressive steps taken by successive governments in the last 10-12 years has really helped the software companies to do consistently better." Apart from export promotion zones like SEEPZ, Government of India

SEEPZ exports in comparison to targets

Year	Target of exports (Fig. Rs. In crores)	Actual Exports (Fig. Rs. In crores)	Growth Rate (Annual)	Number of Units in Production.
1994-95	1350.00	1549.46	40%	155
1995-96	1800.00	1876.29	21%	155
1996-97	2250.00	2189.90	17%	158
1997-98	2580.00	2517.68	15%	157
1998-99	3260.00	3237.88	28.16%	156

Source: SEEPZ



Software exports forms 70 per cent of the total electronic exports from SEEPZ.



All the major IT companies are located at SEEPZ.

has also encouraged setting up of 100 per cent Export Oriented Units that would get the same kind of facilities and incentives as the one's in EPZs. The results are actually showing in the export performance of these EOUs in the last 3-4 years.

From a figure of Rs. 7009 crores in 1995-96, the exports have risen to Rs. 9000 crores (estimated figures) in the '98-99. In order to provide a greater impetus to EPZ and EOUs, the commerce ministry has also offered a special package in 1998 which allows

- a) Enhancement of corporate tax holiday from 5 years to 10 years;
- b) Subcontracting in the domestic tariff area; and
- c) Exports through courier.

Apart from these initiatives, the government has also permitted development of EPZs by private, state or joint sector parties. Already three such private EPZs have been given a go ahead in Mumbai, Surat and Kancheepuram. In

addition, a centrally sponsored 'Export Promotion Industrial Park' (EPIP) scheme has been introduced with a view to involve state governments in the creation of infrastructure facilities for export oriented production. The scheme provides for 75 per cent of the capital expenditure incurred towards creation of such facilities to be met by the central grant to the state governments. The Central Government

has so far approved 19 proposals for establishment of EPIPs in all the major states in India. Also recognition for established exporters and large export houses in the form of permission to build up marketing infrastructure and expertise required for export promotion is provided.

The benefits of recognition vary according to the category into which

Export growth over the years

Year	Country's exports (Figs. Rs. In million)	SEEPZ exports (Figs. Rs. In million)	% of SEEPZ exports to country's exports
(1)	(2)	(3)	(4)
1994-95	38,080	8,173	21.46%
1995-96	6,30,750	9,169	14.38%
1996-97	9,02,500	10,453	11.55%
1997-98	1,24,400	10,614	8.53%
1998-99		10,446	

Source: SEEPZ

exporters fall, like Super Star Trading Houses, Star Trading Houses, Trading Houses or just export houses.

Free Trade Zones

In a recent announcement, Mr. Rama Krishna Hegde, the union commerce minister, said that it has been decided to convert all Export Processing Zones (EPZ) to Free Trade Zones (FTZ) starting with SEEPZ. The status of Free Trade Zone should have been conferred on SEEPZ by July 1st 1999 itself. But, obviously, the government order is taking its own time to come into force. But what does a Free Trade Zone mean to exporters?

What does FTZ mean?

Free Trade Zone in reality is an extension of the facilities provided to Export Promotion Zones. Instead of offering duty exemptions, as is the case now for EPZ units, the Free Trade Zone ensures that they are out of the duty structure altogether. That means they are actually out of all the procedures that need to be followed in getting duty exemptions. Says Mr. A.K.D. Jadav, Development Commissioner, SEEPZ, "The essential difference is that the companies would be 'duty-free' instead of being 'duty exempted' in the free trade zones."

The units in SEEPZ actually feel FTZ is going to help them a lot. Mr. Suhas Pathak of Tata Infotech says, "We would



IC manufacturing at SEEPZ.

Dozen reasons to set up a plant in SEEPZ

- 1 SEEPZ units are entitled to a tax holiday at their option for any five consecutive years within eight years of the year in which they commence production.
- 2 There is an open General License System, which means that all the goods can be imported to the Zone without any license.
- 3 Duty free import of capital goods and equipment from preferred sources.
- 4 Exemption from customs duty on imported capital goods, raw materials, components, consumables, spares, tooling and packaging materials.
- 5 Exemption from Central Excise duties and other levies on products manufactured within the zone.
- 6 Excise exemption on capital goods, raw materials, computers etc. procured from Domestic Tariff Area.
- 7 Capital goods and all other inputs supplied to the zone from the rest of the country, are treated as deemed exports and are eligible for deemed export benefits.
- 8 SEEPZ Board, which is the Chief Executive body for the Zone, is the nodal agency giving a single point clearance for all new projects.
- 9 The SEEPZ Service Center within the zone is the one-stop shop which caters to all the needs of the zone units.
- 10 Plots are let out on thirty years lease and are eligible for a rental concession of 75 per cent for the first year, 50 per cent for the second year and 25 per cent for the third year, if production had commenced in the first year or second year.
- 11 Ready built space are let out on a five year renewable lease and are eligible for a rental concession of 50 per cent for the first year and 40 per cent for the second year if production had commenced in the previous year. A concession of 25 per cent is given for third year.
- 12 Electronics goods manufactured in the zone are allowed to be sold in the Domestic Tariff Area in accordance with provisions of the EXIM policy in force on payment of appropriate duties.

be able to sell our products in the Indian market as well if this becomes an FTZ." Biren Shah, DGM Finance, Tandon Group, also agrees with this view. He says, "Operations would be governed according to Chapter 9 of EXIM policy which would be helpful to all exporters." The FTZ also means that the companies can act as independent entities that are

judged based on their net foreign exchange earnings.

Whatever this means to EPZs, the units at SEEPZ are happy at the state of affairs here. The export earnings are about to touch the 4,000 crore mark during the present financial year which is actually a great boost for India's export promotion efforts.

'We have to change our mindset'

- Mr. Ashwin Panemangalore

Mr. Ashwin Panemangalore, Jt. General Manager, Control and Automation, L&T who is also the chairman of Industrial Electronics and Instrumentation Division in IEEMA, has been associated with the growth of industrial electronics in India for past many decades. In an informal discussion with **G.P.Vinaybabu**, he spoke about the state of electronic industry in India, the need to change our outlook towards electronic manufacturing and also the tremendous growth opportunities before the Indian electronic Industry



Industrial Electronics has been showing a negative growth rate of 6-1/2 per cent in the last three years. To my mind this growth rate has been calculated only based on the Indian indigenous production. It doesn't take into account the country's aggregate demand. The data collection in our country is traditionally related to production and not demand.

Demand projections are made by some statisticians in the ministries through macroeconomic projections (which many times won't translate into truth). So we don't have any accurate data on demands. On the production side, we have reasonably good data. I feel there hasn't been a negative demand, simply because there has been lot of imports into the country. So whatever we are producing less is substituted by imports, which is sometimes more than the demand, for which there is no record.

Definitely Indian manufacturers have suffered, many units have shut down and smaller people are in trouble. Technology has progressed fast, because of which again many people have shut down. These are

the factors that have affected the indigenous manufacturing industry.

Entry of foreign companies

Yes the entry of foreign companies has certainly affected our growth. All the major companies in Industrial Electronics - L&T, Siemens, ABB, NELCO, who have been in the forefront of manufacturing since 1970-80s are today manufacturing less. This has happened principally for two reasons. One, we have not kept up with the technology for indigenous manufacturing. Technology for electronic manufacturing today is very different from what it was 7-8 years ago. Product technology is moving very fast and product design changes taking place rapidly.

The other aspect is import. The same product, which was imported earlier with 80-85 per cent duties, is now available at just 25 per cent duties. Now, is it easy to import finished products at 25 per cent or invest in manufacturing to make the product? Under these circumstances, indigenous manufacturing becomes more expensive than import. So it does not

make economical sense anymore to manufacture electronics locally.

So the problems of Indian manufacturer is manifold. Duties have come down on finished goods, duties on components have come down, technology is moving very fast and capital investment for indigenous manufacturing is very high. So you need huge volumes to justify capital investment, which you can never do in India.

Manufacturing of electronics today is not only affecting India but also affecting some European countries. If you compare UK manufacturers of electronics in 1980s and today, you find the numbers are far lesser than before. So electronics manufacturing is concentrating in places where you can justify and produce higher volumes. Not in all countries, definitely not where the demand for industrial electronics is less than 1 per cent of the total world market.

The Future ?

Very frankly I don't see any future for electronics manufacturing in India. Even in Singapore electronics manufacturing factories are being shut down. Factories are moving towards USA, which at one time was considered a high-cost manufacturing centre. Costs are involved in capital investment for

manufacturing and testing. Those are justified only by high volumes of production and high volumes cannot be justified by countries like us. Not even by some South Asian countries. There is nothing to feel bad about it. We have to change our mindset. Apart from manufacturing there is a lot of work to be done. We have to focus on other value additions and not think that manufacturing is the only way to earn a livelihood.

Diversification

Most of the products today are going on open platforms. Open platform automatically means the high value strata like PC based or chip based solutions. So product design today is not just hardware design. Hardware is standard, but the software is what makes the difference to the product. Hardware can be bought off the shelf in different variants inexpensively. Reminder of the product depends on software.

Most of the foreigners who are into product development look for software development support. It is software like the embedded software, which actually provides a product its features, and character and makes it intelligent. Enormous amount of work needs to be done to build products in different fields like medical electronics, industrial electronics, telecom etc. We in India should develop such skills. We no doubt have such skills but it is still in its infant stages.

Developing skills

To develop these skills, we need to develop good ties with product developers. By developing good ties with them and showing them what we are capable of doing, lot of employment opportunities can be created in this area. So instead of being just a software coding or body shopping country, we should climb up the software value chain by developing software for products. Most of the electronics today is

20 hardware/80 software

Mr. Panemangalore feels that software would be the in-thing in electronic manufacturing soon. He says "An electronic product today has more of software and IT management than hardware. At the lower level, on the platform, a product contains application software, over that you have the customisation software. Then to put the product on a network some network software has to be written. Then the system has to be integrated. Then the operator stations that incorporate Human Machine Interfaces (HMI) should be developed, which is also software. Electronics today, I would say is 20 per cent hardware and 80 per cent software. So let us concentrate on 80 per cent and forget that 20 per cent.

But developing software for high end products is not going to be easy. To climb up the value chain, needs effort and better skills. If a software product for medical electronics has to be written, we should be familiar with its performance requirements and design needs. It is the same case in several other application areas. It is not enough to have just software coding skills. You need product skills also. As we climb up the value chain, we have to acquire better skills and better knowledge".

software, networking and communication. Hardware manufacturing is a very small aspect of it. Let us forget the past.

Networking, communication, fieldbus, telemetering, VSATs are the in-things today. If the managing director of a company wants to know the status of production he can actually get all production reports on his desktop. He can also communicate with his managers. In some cases plants can be commissioned and operated from remote. In Japan, Hitachi has commissioned a 1,000 MW thermal power plant from remote. That is the extreme end of communication across networks. We are talking of a new way to work. Networking is the future for industrial controls, information systems and optimisation systems. So, hardware is no longer the whole thing. Hardware is a small part of the whole thing. So we should not look at electronics the way used to do 10 years ago.

Changing with times

Many companies are doing such work. LT/ITL is working on embedded

software. There are other companies like Hinditron who are also working on embedded software. There are quite a few companies that have recognised this advantage. I think in the next 3-4 years, more and more companies would get into such development.

Indeginisation/R&D initiatives

You have to have a clear business focus to succeed. Not just R&D *per se*. Our business focus and strategy should be clear and people should be put at right place for the right job, which also includes R&D.

Our strength is we have engineers who are of good quality and who do not cost as much as their foreign counterparts. There is no capital investment in this like hardware manufacturing or testing equipment. You just have to employ good people.

As far as L&T's future is concerned, Mr. Panemangalore said that Mr. Naik, the new chairman of L&T has plans to make L&T an Indian multinational by 2005 and make it a Rs.25,000 crores company by then.