

EXIM BANK: RESEARCH BRIEF

Potential for Enhancing Exports from Andhra Pradesh



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The economy of Andhra Pradesh is multi-faceted, with the coastal region providing requisite environment for development of manufacturing activities, the fertile river plains supporting agriculture and allied activities, and the districts in Rayalaseema being conducive for the mineral based industries.

The resource diversity is complemented by fairly well developed infrastructure facilities and a favourable policy environment. In spite of the challenges on account of the State bifurcation, Andhra Pradesh has emerged as an important investment destination in India and offers conducive environment for business to flourish. Investor friendly policy and business environment, coupled with availability of reliable power, large industrial land banks, skilled labour, and robust infrastructure have made the State a globally competitive investment destination.

KEY ECONOMIC ACTIVITIES

Andhra Pradesh has consistently been among the top performing States of India. The growth in the State's Gross Domestic Product (GSDP) has been higher than the growth in the Gross Domestic Product of India over the past three years. The growth in Gross Value Added for Andhra Pradesh has also been robust, recording a Compound Annual Growth Rate (CAGR) of 6.8 percent during the period FY12 - FY16. This growth can largely be attributed to the services sector which registered a CAGR of 10.4 percent during the same period.

The share of services sector in the State's GSDP has been growing and stood at 46 percent in 2015-16. The sector not only

contributes directly to the exports from the State, but also propels growth in exports from the manufacturing sector, as low cost and high quality services in areas such as telecommunications, financial services, transport, logistics and distribution are crucial for enhancing the competitiveness of merchandise exports. IT and ITeS, tourism, healthcare, engineering, procurement, etc. are some of the key services segments in Andhra Pradesh.

While services sector has been the major growth driver for the State, agriculture and allied sector remains the bedrock of Andhra Pradesh's economy. It accounts for nearly 27 percent of the total State output. A favourable agro-climatic condition and long coastline have enabled agriculture and allied activities to play a key role for Andhra Pradesh in terms of contribution to output, employment and foreign exchange.

Andhra Pradesh is one of the largest producers of rice, maize, groundnut, sunflower, cotton, etc. in the country. It also ranks first in the production of brackish water shrimp and fresh water prawn, and second in production of fresh water fish. The State also ranks fourth in marine fish production and boasts of a developed animal husbandry sector as well.

The industrial sector is also an important contributor to output and employment in the State. According to the Annual Survey of Industries 2013-14, Andhra Pradesh accounts for nearly 7 percent of the total number of factories in India, with food products accounting for the largest share of 29 percent in the total output from the State. The other major industries contributing to the total output are coke and refined petroleum products

(share of 15.4 percent), basic metals (15.1 percent), chemical and chemical products (6.5 percent), other non-metallic mineral products (5.8 percent) and textiles (5.6 percent).

EXPORT POTENTIAL

The diverse resource endowments, coupled with robust production and value addition networks, position the State at the fulcrum of the exports sector in India. During 2015-16, Andhra Pradesh ranked sixth among all States by value of exports. Merchandise exports from the State amounted to Rs. 794.9 billion during the year, accounting for 4.6 percent of the country's total exports.

Vehicles, aircraft, vessels and associated transport equipment was the largest sector of exports from Andhra Pradesh, followed by chemical and allied products, animal and animal products, vegetable products, pharmaceutical, gems and jewellery, and textiles and garments. The USA (share of 18 percent), Singapore (10 percent), China (8 percent), Hong Kong (7 percent) and Malaysia (6 percent) were the top destinations for exports from the State.

While exports from Andhra Pradesh have registered robust increase in the recent past, in order to maintain this trend going forward, it might be essential to identify key products and markets which provide opportunities for companies to grow and achieve economies of scale, as also increase their efficiency levels. The State has significant comparative advantage in several products, which can be explored for boosting exports.

Vegetable products, construction material, pharmaceutical products, and vehicles, aircraft, vessels and associated transport

equipment have the maximum potential for exports from Andhra Pradesh, not only because the State has comparative advantage in exports of these products but also because the global import demand for these products has been robust.

The Government can also improve the quantum of exports by increasing manufacturing capabilities and improving competitiveness in the product categories of machinery and mechanical appliance; electrical and electronics; optical, measuring, medical and similar instruments and parts; and leather and leather products.

STRATEGIES

The State Government policies formulated after the bifurcation of the State are imparting a renewed energy and momentum to export growth. However, there is currently no dedicated export strategy for the State. The following strategies can be considered by the State Government in formulation of an export strategy:

Augment Warehouse and Storage Facilities

Lack of adequate transportation, storage and distribution services is an issue for exporters across the country. Specifically, in the context of Andhra Pradesh, this is a major constraint as perishable products account for a significant share of the State's exports. Agro and food processing, and marine products are key export sectors for the State, and the Government is also focusing on incentivizing pharmaceutical exports. These require adequate warehousing and cold storage infrastructure.

According to the analysis conducted in the current study, the State should have at least 19 million tonnes of storage space only from the perspective of agro and agro based industries. However, according to the Andhra Pradesh State Warehousing Corporation, the State currently has only about 1.1 million MT per annum of warehousing capacity. The State also needs substantial expansion of cold storage infrastructure, which is critical for ensuring quality and maintaining shelf life of products.

The State can also develop a multi-modal cold-chain network which shall involve two or more modes of transport

for facilitating transportation and storage of perishable products. Investment in development of last mile connectivity can also serve as an objective for this proposed multi-modal network.

Establishment of Coastal Economic Zones

Fourteen Coastal Economic Zones (CEZs) have been identified along the coastline of the country in the National Perspective Plan of the Sagarmala Programme. Two CEZs have been proposed in the State of Andhra Pradesh – one covering the ports of Kakinada, Vizag and Gangavaram; and the other around the port of Krishnapatnam.

Creation of adequate infrastructure in the CEZs need to be complemented through incentives from the Government for enterprises located within these. For export prospects from the CEZs in Andhra Pradesh to remain positively resolute, key driving forces need to be identified. Some policy interventions which could be considered include the following:

- The policy of tax exemption with a sunset clause as in the case of SEZs may not necessarily promote productivity and innovation. Therefore, overall tax incidence on the units should depend on the type of enterprise, its stage of development, and the amount of exports. To promote more units in high-technology manufacturing sector, the tax incidence on such units should be comparatively lower. Units at early stage of business development, adjudged by the number of years of operation and nature of industry, can also be provided greater tax incentives. This would stimulate entrepreneurship and exports, and as a corollary, will engender employment and economic growth.
- Common testing and certification facilities for major export sectors should be provided within the CEZs. Compliance to enhanced quality standards adherence will be crucial to keep pace with international trends and expectations.
- Sales by SEZs to Domestic Tariff Area (DTA) are subject to tariffs. On the other hand, India has signed free trade agreements with several countries, and the tariff levied on goods imported from these countries are at concessional rates. To alleviate this constraint in case of CEZs, a certain percentage of

sales to DTA should be permitted at concessional duties.

Setting Up Andhra Pradesh Export Promotion Council

Andhra Pradesh Export Promotion Council (APEPC) can be set up with support from the State Government, industry associations and exporters for providing information and guidance to exporters. It can also serve as a link between the exporters and the Government, and help alleviate the constraints for export growth. The role of the Council shall, inter alia, include:

- Assisting exporters in understanding and leveraging the export policies and export assistance schemes of the State and Central Government;
- Building a statistical database for exports and imports from the State;
- Providing commercially useful information to exporters through market research, and identification of key markets and products. This can be made available through the agency's website;
- Providing guidance to exporters on various matters such as standards, certification, export finance, insurance, etc.;
- Providing support for promotional activities such as external publicity, participation in fairs and exhibitions, promotion of exclusive exhibitions and trade fairs of specific products;
- Coordinating the working of all institutions engaged in supporting international trade within the State;
- Identifying the need for export related training and capacity building, and liaison with DGFT and industry chambers for facilitating these.

The proposed APEPC can set up Trade and Information Centres / Kiosks at major industrial growth centres of the State for providing information to exporters, conducting buyer-seller meet, etc. These centres can provide information pertaining to setting up export business, market and buyer identification, channels of distribution, processing of export order, export pricing and costing, risk mitigation methods, export finance, and labelling, packaging and marking of goods.

Raw Material Banks

Availability and cost of raw material can be a major constraint for manufacturers. To ensure timely supply of quality raw materials to producers, raw material banks can be set up by the Department of Industries, Government of Andhra Pradesh in key sectors such as textiles, engineering, and agro and food products. These raw material banks can supply the required raw materials to MSME units as and when required on producing a prescribed requisition form. A price fluctuation reserve can be maintained in these banks to ensure that smaller producers are protected against wide fluctuations in raw material prices. Several raw material banks already exist in sectors such as handlooms, but there is a need for more such banks in areas such as handicraft, agro and food products, etc. In this regard, APEPC can make recommendations to the State Government based on its assessment of the supply related constraints for export oriented production in the State.

Branding of Geographical Indications Products

Several handicrafts, handloom and agricultural products from Andhra Pradesh have been conferred Geographical Indications (GI) status. GIs are considered important tools for marketing strategies, and function as product differentiators.

To reap the benefits of GI status, it is important for the GI brand to be recognised as a reliable and preferred brand in the market with a distinguished positioning. Products such as Darjeeling Tea have been able to gain substantial market share on account of this brand building. In order to attain similar levels of success, key value proposition needs to be defined for the products having GI status. The logo and name of the GI brand needs to be developed and marketed, and mechanism needs to be devised for ensuring that all the products marketed under the GI brand meet the minimum specified standards. Initiatives are also needed for identifying more products from the State which can be accorded with GI status. In this regard, a Brand Equity Fund can be setup by the State Government under the aegis of the Department of Industries. This will be aimed at building globally competitive brands for products originating from the State. The Fund can also assist in marketing of these branded products in

the international arena. Export related brochures, interactive CDs, etc. can be created for popularizing the products from the State in international markets.

Export Awards

To encourage exports from the State, Export Awards can be introduced for recognizing the efforts of exporters across the key sectors—agricultural and allied products, marine products, chemical and allied products, engineering goods, textile and garments, drugs and pharmaceuticals, and services. Separate awards can also be instituted for the MSME units in the State. A selection committee comprising officials from key Government agencies and eminent industrialists can evaluate the applications taking into consideration the value of exports, ratio of exports to sales, level of value addition, adoption of best practices, product and process innovation, R&D activity, etc.

Skill Development and Capacity Building

Exporters need to have in-depth knowledge of the latest global developments pertaining to international trade viz., export finance, insurance, packaging / eco-labelling, quality, etc. They should also acquaint themselves with the rules and procedures of importing countries. Hence, there is a need to conduct Workshops/ Seminars / Conferences regularly on different aspects of international trade and across different sectors in the State. Industry associations and agencies, along with the proposed Andhra Pradesh Export Promotion Council can help in organizing these programmes.

The Government of Andhra Pradesh intends to set up Sector Skill Councils at the State level on the lines of National Sector Skill Council. These can also be leveraged for enhancing the existing capacity of exporters and creating awareness about important procedural aspects.

Financial Support for Managing Technical Barriers to Trade / Standards

Analysis carried out in the Study indicates that exports from Andhra Pradesh have largely been geared towards developing countries, and its penetration in the developed countries, which are the largest importers for several of the identified products, has been fairly limited. The usage of Non-Tariff Barriers (NTBs) in developed countries, especially Technical

Barriers to Trade (TBTs) discourage exporters from entering these markets.

For Andhra Pradesh, alleviating this constraint is even more important given that it is one of the major producers and exporters of agriculture and allied products, which remains one of the most protected sectors for majority of the trading nations. Standards in the sector are stringent, and compliance with these requires significant investment. In order to encourage exporters, the State can share a portion of the expenses incurred for such compulsory certifications. Depending upon the turnover of the exporting unit, the State can bear 50-100 percent of the certification / compliance cost.

Leveraging Technology Acquisition Schemes

The Government of India has launched several schemes for assisting Indian manufacturers to acquire and evolve cutting-edge technologies to catalyse growth and compete in global market. One such initiative is the Technology Acquisition Fund Programme (TAFP) which is an industry driven initiative aimed towards assimilation of technology in a short span of time. The TAFP provides financial assistance to Indian capital goods sector to facilitate the acquisition of strategic and relevant technologies and also development of technologies through contract route, in-house route or through joint route of contract and in-house. Similarly, the Technology Acquisition and Development Fund aims at facilitating acquisition of clean and green technologies by MSMEs across sectors, and bridge the technological gap at an affordable cost. These can be leveraged by exporters from Andhra Pradesh to boost high-technology exports.

In this context, the State government can provide support in submission of applications under the schemes. Prior to the opening of the Request for Proposal cycle of the schemes, the State Government can invite and review applications from export-oriented units / clusters / consortium in the State, and provide necessary advisory and financial support in preparation of the application. As these programs meet only a fixed percentage of the cost of technology acquisition (25 percent in case of TAFP subject to ceiling of Rs. 10 Crore), the State Government can provide additional financial support on a case-to-case basis.

Support from Exim Bank

Several flagship programmes of Exim Bank, such as Lines of Credit (LOC), and Buyer's Credit under National Export Insurance Account (BC-NEIA) can help propel medium and long term exports from the State, and create export opportunities for Indian companies.

Benefits from the LOC program can accrue to the exporters from Andhra Pradesh in several key areas. For example, in the cement sector, Exim Bank has several operative LOCs in the countries of Djibouti, DR Congo, Central African Republic, and the Republic of Congo. Exporters from the State can tap such opportunities. In fact, Andhra Pradesh is best placed to take advantage of such opportunities as the State is among the top exporters of cement from India. Under the LOC program, several countries also seek machinery imports, which can be supplied by the exporters from Andhra Pradesh.

IT and ITeS is also a focus sector for the State, and through the LOC program, mutually beneficial arrangements can be made by exporters with other countries which require IT training. Currently, Exim Bank has an operative LOC in Senegal for IT training.

While the State has substantial technology-intensive exports, it will need to move up the ladder in terms of technology. Since investment in R&D has high gestation period, the Overseas Investment Finance programme of the Bank can help companies get access to high technology by way of inorganic growth through the mergers and acquisition route overseas. Exporters in Andhra Pradesh can also achieve vertical integration through their overseas investments which will improve their efficiency and margins.

There exists substantial potential for capital goods exports from the State. However, the scope of these exports is fairly limited as developing countries are the major markets for India's project exports, and these countries demand medium-to long-term credits. With the BC-NEIA product, project exporters from the State can venture into new markets and help diversify the exports.

Market Development Assistance

Marketing Development Assistance (MDA) Scheme of the Government of India assists exporters for export promotion activities abroad. Entrepreneurs get funding for participating in trade delegations/ buyer seller meets/ fairs/ exhibitions. These initiatives have been proven to assist exporters for export promotion activities. A State-level MDA scheme can also be put in place for further encouraging participation of Indian exporters. The implementation of the scheme needs to be made segment specific, with focus on exporters in the high value added and technology intensive sectors.

Capacity Building of Industrial Clusters

The State of Andhra Pradesh has several industrial clusters spread across an array of sectors. The development and upgrading of clusters will be an important agenda for the State Government. As an essential first step, the State needs to develop a mechanism for assessment of existing clusters in the State. The assessment can cover aspects pertaining to infrastructure bottlenecks, technological upgradation, access to skilled human resource, environmental sustainability, etc. Upon assessment of the clusters, relevant capacity building activities can be undertaken by the Government. The key elements of capacity building include construction of physical infrastructure, building institutions, and development of human resources, etc.

Export Promotion Performance Measurement System

A quantitative-based performance based system needs to be developed for measuring the effectiveness of the strategies for export promotion. The parameters for assessment could include extent of utilization of common testing and certification facilities, number of firms seeking assistance from the proposed APEPC, training and capacity building activities undertaken by APEPC, number of branded products assisted / marketed through the Brand Equity Fund, support provided by the State for compulsory certifications, etc. This performance can be matched with actual trade statistics

for the State, and help in quantification of measurable goals for the next fiscal and devising the action plan.

CONCLUSION

India expects to increase its share in world exports from 2 percent to 3.5 percent by 2020. Contribution from various States would form the bedrock for achieving this target. Based on the country's target, it is projected that Andhra Pradesh must achieve the target of US\$ 25 billion of exports by 2020, under a baseline scenario. For the share of Andhra Pradesh to concomitantly increase in India's exports, exports need to further increase to US\$ 39 billion by 2020. Under this optimistic scenario, share of the State in national exports shall increase from the current 5 percent to 7.5 percent by 2020.

To achieve these targets, it will be essential for the State to focus on enhancing trade competitiveness, promoting innovation, bolstering availability of export finance, and strengthening the institutional capacity for exports, among others. The aforementioned export strategies can help devise the roadmap and action plan for achieving the desired results.

The contents of the publication are based on information available with Export-Import Bank of India and on primary and desk research through published information of various agencies. Due care has been taken to ensure that the information provided in the publication is correct. However, Export-Import Bank of India accepts no responsibility for the authenticity, accuracy or completeness of such information.

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