



## **PROJECTS AND CONSULTANCY EXPORTS: STRATEGIC EXPOSITION AND FRAMEWORK**

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### **ABSTRACT**

*Developing countries have realized the importance of undertaking extensive infrastructure development in order to achieve and sustain economic growth and prosperity. The standard of living of their population is rising, enhancing their expectations. At the same time, adverse balance of payments position with regards to the developed world is making them realize the need for diversifying their economic relations, away from the developed world towards other developing countries. This is accompanied by the growing realization of the opportunities available in overseas markets for the project and consultancy firms from the developing countries.*

*Moreover, several factors have brought about major changes in the competitive position of leading project and consultancy exporting countries, including labour costs, technology, patterns of international demand, government policies etc Growth of developing countries' output and trade as well as their share in the world trade in services has increased over last ten years. Although currently only a few developing countries are contributing to this growth, many more countries are realizing the inevitability of exports. By year 2016, the share of developing countries in world's exports is expected to increase from the current 17% to 22%. The dynamics of global service market continue to stimulate demand with reduction in domestic and international entry barriers. The quick changes in marketplace and*

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*increasing number of international competitors require immediate responses to current opportunities as well as strategies for establishing long term validity in rapidly expanding markets.*

**Keywords:** Economic Growth, Developing Countries, Trade.

## **INTRODUCTION**

Projects and consultancy exports from India offer exciting opportunities as developmental activities are picking up in Africa and Asia. The experience gained in executing domestic projects has given confidence to Indian companies to venture outside and undertake project and consultancy assignments. The nature of such projects, including civil engineering construction, industrial turnkey projects and consultancy services is such that there is a time gap between the approval of a project bid, its completion and the payment received.

Hence, there is a need for infrastructural system to harness this potential, as most of these projects are very big. Moreover, Indian companies have to compete with bidders from developed countries, who are facing recessionary trends and maturity in their own countries are ready to give highly competitive quotations and payment schedules. Moreover, they have financial clout and muscle power. Indian project exporters are also inexperienced in using various international money market instruments and are unable to raise the prerequisite funds themselves.

There are also limits to their ability to undertake pre-feasibility studies, provide long term credit facilities to prospective buyers, import machinery and equipment for executing these projects and to withstand the blocked funds for long periods, all these are now pre-requisite in developing overseas markets. In order to boost Project and Consultancy exports, Government of India has taken a series of steps, including setting up a Market Development Agency, Consultancy trust fund, granting income tax exemptions upto 50% of the export earnings. The government has also set up a working group to coordinate the various activities of the departments and agencies and to remove any procedural bottle-necks, which the intending project or consultancy exporter may face.

## **IMPORTANCE OF THE STUDY**

International Exposure to Indian project and consultancy exporters offers exciting opportunities due to the following reasons:

- a) There are possibilities of marketing these services to a much larger clientele with the resulting economies of production and utilization of experiential learning.
- b) Much faster growth rate is expected as many of the potential international markets for projects and consultancy are expanding at a much faster rates than the domestic Indian market.
- c) As domestic infrastructure market is passing through a recession period, the services of project professionals can be utilized for International infrastructural projects.
- d) It allows other Indian firms supplying ancillary equipments to tap international markets through piggyback on core project exports. It also provides access to newer technology for domestic markets.
- e) It allows Indian firms to broaden their technical capabilities and develop an International reputation and goodwill, both for their organizations and the country.
- f) The trade in services is growing at a faster rate, and also exports of services from India is showing encouraging trends, making the study of International Business Strategy for Project and Consultancy exports an exciting and challenging task.

## **OBJECTIVES OF THE STUDY:**

- a) An analysis of the emerging trends in the financing of the international project and consultancy markets, including an appraisal of the multilateral projects overseas (MFPO) and the private investment opportunities. The purpose is to identify the top priority areas of investment (geographical and sectoral) of these financing institutions.
- b) Critical appraisal of the evaluative guidelines of the Asian Development Bank, F.I.D.I.C., Overseas Development Agency and other funding agencies to understand the process and criteria involved in tendering and financing of international projects.
- c) Evaluation of the various business strategies pursued by various project and consultancy organizations operating in the global markets.

d) Emerging issues of international project management, including difficulties in international projects, risk mitigation techniques used, tendering procedure followed and importance of technology transfer.

### **THE SCOPE OF THE STUDY:**

The Export and Import Policy of India (2015-2016) as well as the Export-Import Bank of India (EXIM Bank) treat the following activities as the Project and Consultancy Exports. The same criteria have been followed for the present study at hand.

1. Turnkey Projects: Those which involve rendering services like design, civil construction, erection and commissioning of plants, supervision and the supply of equipment.
2. Engineering Services Contracts: Those involving the supply of services alone, such as design, erection, commissioning or supervision of erection and commissioning.
3. Consultancy Services: Those including the preparation of feasibility studies, project reports, preparation of design, preparation of tender documents and purchase of plant equipment etc.
4. Civil Construction Contracts: Those with or without the preparation of designs/ drawings for civil works.

### **LIMITATIONS OF THE STUDY**

The fundamental limitation of any research study i.e. the possibility of the difference between what is recorded and what has been left out, holds good for this study also as it was based on survey of exporters who may be either unwilling or unable to express their viewpoints.

Other limitations regarding the scope and validity of the conclusions drawn are:

- a) This study was conducted for only project and consultancy exports from India. Thus, the findings may not hold true for other types of services like banking, insurance etc nor for exports of other products from India.

b) Effort was made to contact all those organisations who had availed of the facilities of EXIM bank of India. Similarly, officials in ITPO, EEPC and OCCI were contacted. Hence, other project and Consultancy exporters who have not availed of the facilities of EXIM Bank of India may have different International Business Strategies than those surveyed. Hence, the chances of a “drop error” can not be ruled out.

c) Although effort was made to contact all project and consultancy exporters from India through mailed questionnaire, however only seventeen exporters responded. Hence, there may be differences in the opinions of those who could not respond and those who responded to the survey. d) As the study was focused only on project and consultancy exports from India, the conclusions and recommendations of the study may not be applicable to other countries.

## **REVIEW OF LITERATURE**

### **1.1 THE CHANGING PATTERNS OF INTERNATIONAL BUSINESS:**

Developing countries have, hitherto, concentrated their international trade offerings to primary sector products and minerals to the secondary sector of the world markets. This has resulted in the extreme fluctuations, lower returns, besides little or no value addition or remunerative returns for their efforts, leading to low levels of export growth. As the import basket of most of the developing countries is inflexible, they need to diversify their offerings so as to enhance the exports, and neutralise the adverse terms of the balance of payments. Developing countries also depend on imported technological support and raw materials for their domestic industry for upgradation of the products and processes, thereby putting additional burden on the balance of payments.

The post-GATT scenario makes it imperative to diversify the export base to include services so as to gain competitive advantage There is also an impetus on developing the service sector in emerging economies as liberalization in many of these countries has opened new vistas.

## **1.2 EXISTING LITERATURE ON PROJECT AND CONSULTANCY EXPORTS: A CRITIQUE AND GAP ANALYSIS**

In the light of the startling facts mentioned above, it was thought prudent to undertake a detailed analysis of the existing literature to identify the future areas of research. A perusal of the published reports show that only a few countries and international organizations have presented selected facts and ideas with respect to trade in services and its role in development. The present study is directed towards helping business organizations gain the factual and methodological bases for understanding of the project and consultancy service sectors so as to enable them to formulate suitable international business strategy.

### **1.3 Studies on Emerging Trends in International Project Exports**

The international project and consultancy market is getting more intense and confusing each year, with new firms jumping into the market and old firms continuing to compete but under different names or affiliations. Increasingly, improved technology and the blossoming use of the Internet are making international communications easier. Technology is turning global construction into a whole new -world. Ever-improving information technology is making it easier and faster to send Project management files and documents around the world, communicate, and cut costs. The more widespread use of the Internet, for example, is allowing many global contractors to work on a project twenty-four hours a day with virtually no downtime, regardless of the location of personnel. Tele-communications in general are helping to level the playing field among contractors. Computers and related communications technology allow international project firms to use lower-cost personnel outside their home country without sacrificing quality. Such an expertise is highly sought after in many countries and computers enable contractors to use management tools they are familiar with into the project. Schriener and Angelo (1995) 4, however feel that computers are not a panacea for firms doing extensive international work. Computers equalize the quality level, but they do not equalize the knowledge level.

### **FINDINGS AND SUGGESTIONS:**

Indian exports have been passing through a difficult period. Global recession, Asian Currency crisis, lack of strong brand and quality image and the quantitative restrictions on agricultural produce have resulted in slowing down of the exports. The problem has been

compounded by the sluggishness of domestic market and uncertain political environment. With the opening up of Indian economy, the ratio of foreign trade to the GDP has increased from 11.6% in 2015 to 14.1% in 1990-91 and to 19.6% in 2016. However, the export boom, which began in 2015 (20.2% growth rate in dollar terms) has slowed down to 2.6% in 2016, leading to an increase in trade deficit on balance of payments basis from 3.4% of GDP in 2015 to 4.0% in 2016. Even the self-reliance, as measured by the coverage of imports by exports (on B O P.) basis) declined from 85% in 2015 to 70% in 2016, although it has risen again to 83.3% in 2015-2016. These figures call for diversifying the export basket to enhance the stability in the exports and long-term strategic thrust rather than minor modifications of the export-import policy or ad hoc offering of incentives.

One reason for this performance can be attributed to slower rates of growth of imports from India's major trading partners due to economic slowdown in their own countries. Imports of U S. and Japan increased by only 6.6% and 4.0% respectively in 2015 over the previous year. This difficulty was compounded by the Southeast crisis, leading to depreciation of currency of India's competitors like Philippines, Indonesia, and Thailand. Even Agricultural exports faced quantitative restrictions besides pressures on supply to domestic markets. However, Engineering exports have maintained growth rate, although not realizing their full potential. The exports of engineering goods and services has risen from \$3,190 million in 2015 to \$4400 million in 2016, constituting more than 15% of the total exports of manufactured goods and maintaining a growth rate of 17% continuously from 2015-2016, although falling to 5.4%. The lack of proper infrastructural facilities, high rates of export finance and poor market development and promotional strategies have hindered the growth. A large number of international engineering and consultancy firms are looking towards Indian engineering firms for setting up strategic alliance in third countries. The direction of India's exports has changed<sup>1</sup>. The share of Eastern Europe has fallen down from 17.9% (2015) to 2.9% (2016) due to disintegration of the erstwhile USSR. Even Japan's share has declined from 9.3% (2015) to 6.0% (2016). At the same time, Asia's share has increased from 14.3% (2015) to 22.7% (2016).

The composition of India's exports has also witnessed a similar change, with share of ores and minerals has declined from 4.6% (2015) to 3.5% (2016). The analysis of data indicates that there are wide fluctuations in agricultural exports, gems and jewellery.

There has been a fall in dollar earnings per unit, as the depreciation-driven growth seems to have ended. The growth of India's exports has been much below the world standards. Thus, the rise in export volumes has been accompanied by a decrease in value terms.

The forecast of exports made by different agencies are also very dismal. Although Business Today study has recommended that lower tariffs can boost the exports, its impact has not been fully justified. There, however, is a need for a fundamental transformation in our export structure<sup>3</sup>. Even as the country's exports of goods show a depressing trend, the project exports are doing well and hold a promising future. These project exports are a sign of technological maturity and increase capability of Indian companies. These also have a compounding effect as project exporters can create entry points for supplies of machinery, raw material, constancy and manpower exports. The potential of Indian Project exports can be attributed to India's developmental strategy during first three decades of Independence, wherein thrust was laid on developing a strong domestic capability in production of industrial exports and capital goods. This gave rise to technical expertise in modifying and adapting the western technology to suit the local developmental needs. Today, Indian economy is robust, considered twelfth biggest in the world and capable of manufacturing all items of its needs.

The infrastructural market in the country is also set to take off as many multinationals are entering, thereby providing valuable experience and expertise to Indian companies in handling large complex projects. This is particularly true in case of large petrochemical, power generation and distribution projects and building up of hospitals, dams, bridges, roads, railways and airports. India has acquired considerable skills, experience and capabilities to undertake a multifarious range of projects, in manufacturing, non-manufacturing and consultancy sectors. This is coupled with the availability of highly skilled technical manpower within the country, on account of a network of engineering and technical institutions, research laboratories and scientific establishments. Today it is estimated that there are over five thousand consultancy organizations, supplying a varied range of technical services having capabilities to handle projects ranging from manufacturing small, mechanical instruments to setting up mega projects using latest technologies. Consultancy Development Centre was set up in 1986 to channelize and harness the consultancy skills of Indian entrepreneurs and consultants by Department of Scientific and Industrial Research (DSIR), Government of India in collaboration with Consulting Engineers Association of India and

Federation of Indian Exporting Organizations Its objectives include supporting the growth and competitiveness of Engineering Consultancy Services, including those of Indian exporters.

The Overseas Construction Council of India (OCCI), The Engineering Export Promotion Council (EEPC) and The Federation of Indian Export Organization (FIEO) are the forums through which the information is being disseminated about the opportunities for project overseas. They also facilitate developing an interface with the government and other statutory bodies for construction industry to represent and secure assistance in improving project exports.

### **The Present Chapter Highlights:**

- a) Environmental Analysis of Indian Project and Consultancy Exports in order to identify various factors having an impact on the success or failure in the international efforts. The factors, identified by project exporters, for affecting project viability have been analysed.
- b) Segmentation Analysis of Indian Project and Consultancy exports in terms of type of services offered, trend analysis of Indian project exports in terms of the region, country and project offerings.
- c) Business Structure Analysis of Indian project exports to study present and recommended entry strategies, risks associated with project exports and strategies used by surveyed organizations to minimize these risks affecting success of Indian projects and consultancy exports.
- d) Identification of the markets offering growth prospects.

### **Conclusion:**

In order to reduce the risks associated with international projects, various arrangements are undertaken by international project exporters. These include preferring strong, experience sponsors, mortgage arrangements and rich immense policies. Because of paucity of resource in the developing countries particularly those of Africa, financing of consultancy services has become a major factor for winning consultancy assignments. Our competitors offer long-term soft credit aid programs, free training facilities, etc. making their packages attractive to the clients. Indian consultants have the support of EXIM Bank but are

often not able to provide attractive financial packages to win many assignments. Offering similar attractive packages by tie up with international banking organizations for arranging soft commercial credits on long term would make their offer more competitive and enable them to compete in the international market on equal terms and eliminate the substantial edge enjoyed by the consultants of richer nations in securing assignments.

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