

## **India's Exports Diversification - Crisscross Outcomes**

### **Executive Summary**

*India's exports have witnessed an upward and steady growth after the Economic Reforms of 1991. India's exports were registered at US\$18 billion in 1991-92, increased by 9.6% (CAGR) to US\$45 billion in 2000-01 and by 17% (CAGR) to US\$163 billion in 2007-08 when the global recession of 2008 jolted this upward rising trend. Annual export growth rate registered at 29% in 2007-08 declined to 13.6% in 2008-09 and turned negative at (-) 3.5% in 2009-10. This significant decline in India's exports was primarily due to overdependence on a few export destinations viz. USA and EU which together comprised of around 40% share in India's total exports.*

*It was realized that exports concentration on only a few markets was really an impediment to achieve a steady and sustainable exports growth. Therefore, Indian Government then embarked upon a diversification strategy wherein exporters were encouraged to venture into new export destinations.*

*As an aftermath of the Government various remedial policy actions and strategies, barring few years India's exports are still recording a negative growth rate. The trend has been indeed alarming and pushed us to review the policy measures especially relating to export diversification which were undertaken by the Government in the wake of slowdown in the traditional export destinations.*

*At this backdrop, PHD Research Bureau of the PHD Chamber has conducted a study to analyze changes in India's direction and composition of exports as a consequence of the measures taken during the last few years on diversifying into new markets and new products. Furthermore, changes in India's direction and composition of exports are also measured in terms of export concentration and diversification.*

*The analysis shows that the share of developed regions (EU and America) which was approximately 50% in India's exports by the end of the first decade of economic reforms in FY2000 declined to 44% in FY2005 and 36.5% in FY2010. Though the share of these regions has registered a marginal increase to 37.2% in FY2015, it is still relatively less than the share of other developing regions (Asia and Africa) in the same year.*

*The share of the fastest developing region viz. Asia in India's total exports witnessed a rise from around 37% in FY2000 to 48% in FY2005 and 52% in FY2010. The share of Asia in India's exports has reported a decline to around 50% in FY2015; but is still the highest amongst all regions. The region Africa has also registered a significant rise of share in India's exports from 5% in FY2000 to around 7% in FY2005 and FY2010 and 11% in FY2015.*

*Measuring the shift of India's share from developed economies to developing economies by using a standard measure of export market diversification i.e. Regional Herfindahl Index (RHI) shows that RHI for Europe and America has declined from 0.067 and 0.061 in FY 2000 to*

*0.033 and 0.036 in FY2015 which apparently indicate that India's concentration of exports in these markets have reduced and are tilted towards the other regions viz. Asia and Africa. RHI for Asia has witnessed a significant rise from 0.14 in FY2000 to 0.24 in FY2015 and RHI for Africa has increased from 0.002 in FY2000 to 0.0112.*

*Overall, RHI of India's exports has reported a rise from 0.52 in FY2000 to 0.57 in FY2005 and 0.59 in FY2010, however it declined to 0.57 in FY2015. This suggests that India's exports have been marginally diversified to non-traditional markets in last few years. With regard to India's exports product composition to different regions, the data indicate that India's exports are still concentrated in top 10 export commodities across almost all regions.*

*Measuring the shift of India's share from traditional to non traditional products pertaining to different regions by using a standard measure of export product diversification i.e. Sectoral Hirshman Index (SHI) shows that SHI of India's exports has reported a rise from around 0.32 in FY2000 to 0.36 in FY2005, 0.41 in FY2010 and 0.40 in FY2014. This indicates that contrary to expectations of a decline in product export concentration in the light of various product diversification measures undertaken by the government, product export concentration has gone up and there is a bleak sign of its reduction in the near future.*

*Though the Central Government has undertaken several measures for encouraging exporters to venture into new markets and to develop new products accordingly, however a desired level of export diversification is still a distant reality. This is because of several causes which are seen as impediments to enhance level of diversification for India's export products and destinations. These causes are identified on the basis of primary survey wherein around 15 exporters (MSMES and Large) were personally interviewed.*

*The survey revealed that small exporters are not preferring to venture into new markets or into new products as it involves huge funds and risks, whereas large exporters are constantly trying to build new customer base across different parts of the world while maintaining commercial relations with their existing customers' markets.*

*With regard to the benefits provided/extended by the government eventually for diversifying into new markets and products views of the small exporters' are highly pessimistic. According to them, they do not get information about the benefits provided by the government for exports diversification.*

*Exporters reported lack of adequate financial facilities, frequent changes in tax rates, interest rates, forex rates, lack of comprehensive market information as the major problems for diversifying into new markets. Therefore It is suggested that the government should assist MSMEs exporters by providing them all necessary resources viz. finance, technology, marketing intelligence, export incentives.*

*PHD Chamber believes that export diversification strategy, if effectively implemented can enable the exporters to revive and strengthen their exports and enable the Government in achieving its long term export target of US\$900 billion and enable the whole society to be benefitted in terms of employment , income and growth.*

## 1.0 Introduction

India's exports have witnessed an upward and steady growth after the Economic Reforms of 1991. India's exports were registered at US\$18 billion in 1991-92, increased by 9.6% (CAGR) to US\$45billion in 2000-01 and by 17% (CAGR) to US\$163 in 2007-08 (**Table -1**), when the global recession of 2008 jolted this upward rising trend. Annual export growth rate registered at 29 % in 2007-08 declined to 13.6% in 2008-09 and turned negative at (-) 3.5% in 2009-10. This significant decline in India's exports was primarily due to overdependence on a few export destinations viz. USA and EU which together comprised of around 40% share in India's total exports.

**Table - 1 India's exports FY2001-FY2015**

Years	Exports (US \$ billion)	Annual % Change
2000-01	44.07	20.05
2001-02	43.8	(-) 0.56
2002-03	52.7	20.29
2003-04	63.8	21.1
2004-05	83.5	30.8
2005-06	103.1	23.41
2006-07	126.4	22.62
2007-08	163.1	29.05
2008-09	185.3	13.59
2009-10	178.7	(-) 3.53
2010-11	249.81	39.76
2011-12	305.96	22.48
2012-13	300.4	(-) 1.82
2013-14	314.4	4.66
2014-15	310.3	(-)1.29

*Source : Ministry of Commerce and Industry, GOI*

At that juncture, it was realized that exports concentration on only a few markets was really an impediment to achieve a steady and sustainable exports growth. The Government then embarked upon a diversification strategy wherein exporters were encouraged to venture into new export destinations. With that end in view, the government extended various policy measures viz. Focus Market Scheme (FMS), Market Linked Focus Product Scheme (MLFPS), Focus Product Scheme (FPS) etc. to arrest the declining of exports in the short run and to ensure exports stability in the long run.

As an aftermath of the Government various remedial policy actions and strategies, not only the declining trend of India’s exports was arrested but exports registered a very high growth of around 40% in FY2011, thereby raising the hopes of attaining the growth at pre-crisis level. But, in FY2012 because of Euro Zone crisis and domestic constraints, India’s export growth was again moderated to 22% and turned negative at (-) 1.8% in FY2013. Barring FY2014, India’s exports have been still recording a negative growth rate for the last 11 months in a row. On an average exports declined by around 16% from December 2014 to October 2015 (**Table -2**).

**Table -2 India's foreign trade (in US\$bn)**

<b>Months</b>	<b>Exports (in US\$bn)</b>	<b>% Exports growth (y-o-y)</b>
Dec-14	25.3	-3.77
Jan-15	23.8	-11.19
Feb-15	21.5	-15.02
Mar-15	24	-21.06
Apr-15	22.05	-13.96
May-15	22.34	-20.19
Jun-15	22.08	-15.82
Jul-15	23.13	-10.3
Aug-15	21.2	-20.66
Sep -15	21.8	-24.3
Oct -15	21.4	-17.5
<i>Source : PHD Research Bureau, Compiled from Ministry of Commerce and Industry , GOI</i>		

The trend has been indeed alarming and the Central Government under the New Foreign Trade Policy (2015-20) has set an objective of increasing India’s exports of merchandise and services from US\$466 billion in 2013-14 to approximately US\$900 billion by 2019-20 and to raise India’s share in world exports from 2% to 3.5%. However, as India’s exports have been decelerating continuously need is being felt to review the policy measures undertaken by the government to revive and strengthen the exports going forward.

Export diversification measures are amongst the Government major policy initiatives. Therefore, PHD Research Bureau of PHD Chamber has conducted a study to analyse

changes in India's direction and composition of exports as a consequence of the measures taken during the last few years on diversifying into new markets and new products.

### **1.1 Objectives of the study**

The main objectives of the study are :

1. To analyze India's direction of exports during the pre-crisis and post-crisis period.
2. To measure the diversification of India's exports markets.
2. To analyze India's composition of exports during the pre-crisis and post-crisis period.
3. To measure the diversification of India's exports commodities.
4. To provide a few suggestions to enhance India's exports through export diversification strategies.

### **1.2 Research Methodology**

The study has been based on secondary analysis of data which is collected from several national and international databases viz. Ministry of Commerce and Industry (MOC&I), Reserve Bank of India, World Trade Organization (WTO) among others. Further few specialized indices viz. Regional Hirshman Index (RHI) and Sectoral Hirshman Index (SHI) will be applied to measure the diversification of India's export markets and products.

### **2.0 Exports Diversification – Conceptual Framework**

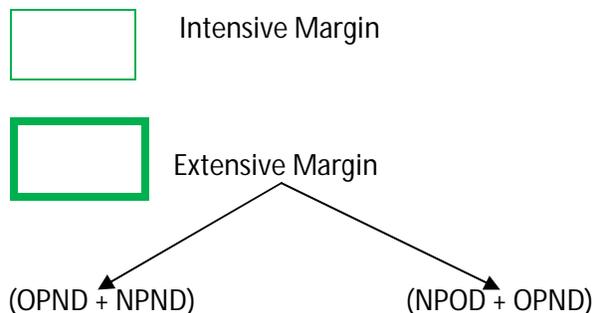
Export diversification is defined as the change in the composition of a country's existing export product -mix or export destinations. For many developing countries, export diversification is conceived as the progression from traditional to non-traditional export products and/or markets as part of an export led growth strategy. By providing a broader base of exports, diversification can lower instability in export earnings, expand export revenues, upgrade value addition, and enhance growth through various channels. In short, there are two well-known forms of export diversification viz. Export Market Diversification and Export Product Diversification.

In trade literature, market diversification is linked with the intensive margin and extensive margin of trade. The intensive margin of trade refers to the growth of exports in goods that are already being exported i.e. "old products". The extensive margin is defined as the growth of exports in new categories i.e. "new products". This traditional classification is well suited to discuss diversification issues from a product point of view, but it lacks a geographical dimension. Hence, a twist is added to the traditional definition. The twist consists simply in including the geographic dimension in order to distinguish between product and geographic diversification.

Thus, while the intensive margin will consist of "Old Products" being exported to "Old Destinations" (OPOD), the extensive margin will consist of "Old Products" being exported to "New Destinations" (OPND), "New Products to New Destinations" (NPND), and "New Products to Old Destinations" (NPOD).

**Figure - 1 Definitions**

	Old Product (OP)	New Product (NP)
Old Destination (OD)	<b>OPOD</b>	<b>NPOD</b>
New Destination (ND)	<b>OPND</b>	<b>NPND</b>



**To sum up, there are two dimensions to export diversification. Product diversification is the sum of NPND and NPOD, whereas geographical diversification is the sum of NPND and OPND ( Pacheco and Pierola, 2008). The classification as per the above discussion is illustrated in Figure 1.**

### **3.0 Foreign Trade Policy Measures: Export Diversification**

In the light of the relevance of export diversification for enhancing export growth and export stability though, India has initiated a new strategy - Focus LAC (Latin American Countries) and Focus Africa in late 1990s. However, the strategy has focused upon and extended amid global crisis in the form of Focus Market Scheme (FMS), Market Linked Focus Product Scheme (MLFPS) and Focus Product Scheme (FPS)

The Focus Market Scheme was introduced w.e.f 1.4.2006, with an objective to offset the high freight cost and other disabilities to select international markets that hindered export competitiveness to these countries. According to the scheme, exports of all products to notified countries have been entitled for a Duty Credit Scrip equivalent to 2.5% of FOB value of exports.

The Focus Products Scheme was also introduced with effect from 1.4.2006, with an objective to incentivize export of such products which have high employment intensity in rural and semi-urban areas so as to offset the inherent infrastructure inefficiencies and other associated costs involved in marketing of these products. According to the scheme, exports of notified products are entitled for Duty Credit Scrip equivalent to 2% of FOB value of exports.

The scope and benefits of these schemes have been enhanced from the time to time. In the Foreign Trade Policy 2015-2020 all these schemes have been merged into a single scheme, namely Merchandise Export from India Scheme (MEIS). MEIS, with product and

market focused incentives for 4914 tariff lines, is a major export promotion scheme. Rewards under MEIS are payable as a percentage of realized FOB value of exports, by way of the MEIS duty credit scrip which can be transferred or used for payment of a number of duties including the basic custom duty. Furthermore, the Government has recently announced tariff revision for export of various products. The current revision has introduced 110 new tariff lines and increased rates or country coverage or both, for 2228 existing tariff lines.

#### **4.0 Data Analysis**

The following section pertains to analyzing changes in India's direction and composition of exports over a period of time.

##### **4.1 Pattern in India's direction of exports**

Over the past few years , India's exports witnessed momentous changes in the direction of exports markets. The share of developed regions (EU and America) which was approximately 50% in India's exports by the end of the first decade of economic reforms in FY2000 declined to 44% in FY2005 and 36.5% in FY2010. Though the share of these regions has registered a marginal increase to 37.2% in FY2015, it is still relatively less than the share of other developing regions (Asia and Africa) in the same year.

The share of the fastest developing region viz. Asia in India's total exports witnessed a rise from around 37% in FY2000 to 48% in FY2005 and 52% in FY2010. The share of Asia in India's exports has reported a decline to around 50% in FY2015; but is still the highest amongst all regions. The region Africa has also registered a significant rise of share in India's exports from 5% in FY2000 to around 7% in FY2005 and FY2010 and 11% in FY2015.

**Table – 3 India’s Direction of Exports (Value in US\$bn)**

Regions	FY2000		FY2005		FY2010		FY2015	
	Exports (US\$ billions)	Share (%)						
1) Europe	10.23	25.94	19.67	23.55	38.52	21.55	56.30	18.14
2) America	9.62	24.70	16.79	20.1	26.87	15.03	59.05	19.03
<b>Total</b>	<b>19.85</b>	<b>50.64</b>	<b>36.46</b>	<b>43.65</b>	<b>65.39</b>	<b>36.58</b>	<b>115.35</b>	<b>37.17</b>
3) Asia	13.86	37.44	40.00	47.88	93.33	52.21	153.81	49.57
4) Africa	1.90	5.35	5.57	6.67	13.43	7.51	32.84	10.58
<b>Total</b>	<b>15.76</b>	<b>42.79</b>	<b>45.57</b>	<b>54.55</b>	<b>106.76</b>	<b>59.72</b>	<b>186.65</b>	<b>60.15</b>
5) CIS & Baltics	1.06	2.35	1.09	1.31	1.69	0.94	3.40	1.09
6) Unspecified Region	0.04	4.22	0.4	0.49	4.91	2.76	4.93	1.59
<b>Total</b>	<b>36.71</b>	<b>100</b>	<b>83.53</b>	<b>100</b>	<b>178.75</b>	<b>100</b>	<b>310.34</b>	<b>100</b>

*Source: PHD Research Bureau, compiled from Ministry of Commerce and Industry, Government of India.*

The structural shift in India’s direction of exports from developed to developing countries i.e. EU and USA to Asia and Africa is considered to be the result of various developments at the domestic as well as international fronts in terms of global economic imbalances, increasing trends of bilateral and multilateral trade agreements, exchange rate fluctuations, trade facilitation measures and most significantly, export diversification policy measures undertaken and recently highly focused upon by the Government.

#### **4.2 Exports Market Concentration vis-à-vis Diversification: Measurement**

The shift of India’s share from developed economies to developing economies can be measured by using a standard measure of export market diversification i.e. Regional Hirshman Index (RHI) which is calculated as below:

$$\text{Regional Hirshman Index} = \text{RHI} = \sqrt{\sum (x_i / X_t)^2}$$

Where, RHI - Regional Hirshman Index

$x_i$  - Exports to country  $i$

$X_t$  - Total exports of the country

The highest possible value of market concentration index (RHI) is 1; this occurs when total exports are made to only one market. The index would enable us to find whether India's exports are diversifying to new markets and to what extent.

The table below shows that RHI for Europe and America has declined from 0.067 and 0.061 in FY 2000 to 0.033 and 0.036 in FY2015 which apparently indicate that India's concentration of exports in these markets have reduced and are tilted towards the other regions viz. Asia and Africa. RHI for Asia has witnessed a significant rise from 0.14 in FY2000 to 0.24 in FY2015 and RHI for Africa has increased from 0.002 in FY2000 to 0.0112.

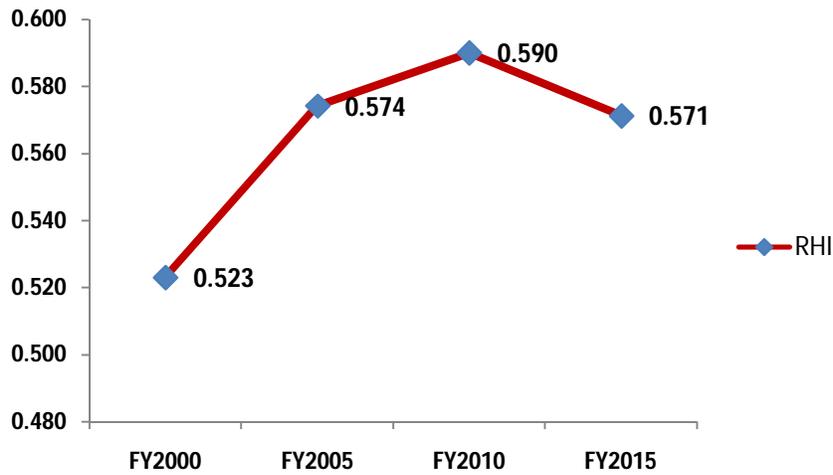
**Table - 4 Export Market Concentration (Regional Hirschman Index)**

Regions	FY2000	FY2005	FY2010	FY2015
1) Europe	0.0673	0.055	0.046	0.033
2) America	0.0610	0.040	0.023	0.036
3) Asia	0.1402	0.229	0.273	0.246
4) Africa	0.0029	0.004	0.006	0.011
5) CIS & Baltics	0.0006	0.000	0.000	0.000
6) Unspecified Region	0.0018	0.000024	0.001	0.000
<b>Sum of the squares of the share of regions</b>	<b>0.2737</b>	<b>0.3298</b>	<b>0.3481</b>	<b>0.3264</b>
<b>Regional Hirshman Index (RHI)</b>	<b>0.5231</b>	<b>0.5742</b>	<b>0.5900</b>	<b>0.5713</b>

*Source : PHD Research Bureau*

Overall, RHI of India's exports has reported a rise from 0.52 in FY2000 to 0.57 in FY2005 and 0.59 in FY2010, however it declined to 0.57 in FY2015. This suggests that India's exports have been marginally diversified to non-traditional markets in last few years. However, export market concentration coefficient (0.57) is still found to be very high and gives an indication to undertake further measures for enhancing exports to different non-traditional markets.

**Figure - 2 Regional Hirshman Index (RHI)**



Source: PHD Research Bureau

### 4.3 India's Composition of Exports - Regions Wise Analysis

With regard to India's exports product composition to different regions, the data indicate that India's exports are still concentrated in top 10 export commodities across almost all regions.

**Table - 5 Share of top 10 export commodities to different regions (%)**

Regions	FY2000	FY2005	FY2010	FY2015
Europe	58.01	55.09	63.92	57.12
America	71.98	67.97	68.96	65.97
Asia	60.76	65.25	68.28	65.08
Africa	63.59	70.2	71.74	72.53
CIS	81.26	72.33	70.21	63.71

Source : PHD Research Bureau, Compiled from Ministry of Commerce & Industry , GOI

The share of top 10 exports to Europe from India increased from 58% in FY2000 to 63% in FY2010 but, declined to 57% in FY2015 indicating that India's export has diversified over a period of time and especially during the post crisis. However, share of 57% of top 10 export products to Europe is still very high suggesting the country to enhance its

export basket for the region in the light of its changing demands and preferences. Presently, conventional export products viz. apparels, mineral fuels, articles of iron and steel, natural or cultured pearls are still in the top 10 export products to Europe, while only few products viz. electrical machinery, aircrafts, ships, boats, have entered the top 10 export products replacing copper, cotton, coffee, organic chemicals, and manmade filaments **(Refer : Annexure -1, Table A.1)**

The share of top 10 exports from India to America has witnessed a gradual decline from 72% in FY2000 to 65% in FY2015 suggesting that India's exports to the region is gradually diversifying other products. However, there is no significant change in composition of top 10 exports to America. India is still exporting almost all the traditional products to America viz. pearls, apparels, minerals, nuclear reactors, boilers, machinery, articles of iron and steel and organic chemicals. Pharmaceutical products has entered the list of top 10 export products to the region, while a few products viz. carpets, iron and steel, edible fruits and nuts do not appear in the list any more. **(Refer: Annexure -1, Table A.2)**

India's export product concentration has increased in case of Asia. As evident from the Table -4, share of India's top 10 exports to Asia increased from 61% in FY2000 to 65% in FY2005 and to 68% in FY2010. While, it has registered a decline to 65% in the FY2015. This indicates that India's export of products remained highly concentrated for most of the time, but during the last few years the country has diversified its export basket for the region though there is not much significant change in its export product composition.

Among the top 10 export products to Asia, pearls, mineral fuels, cereals, cotton, organic chemicals, iron and steel the existing traditional products, while vehicles, ships, meat have entered the list of top 10 export products replacing other items like ores, electrical machinery, plastics, fish and apparels. **(Refer : Annexure -1, Table A.3)**

India's exports to Africa are also concentrated amongst top 10 export products. The analysis shows that share of India's top 10 exports to Africa has increased from 64% in FY2000 to 72% in FY2015 implying India has not enhanced its exports composition for the African region. Moreover, in terms of product composition almost all products exported to Africa are traditional viz. mineral fuels, vehicles, pharmaceuticals, nuclear reactors, cereals, plastics, articles of iron and steel, electrical machinery and cotton. Only meat and edible meat offal has since entered the list of India's top 10 export products to Africa replacing organic chemicals, articles of apparels and manmade filament. **(Refer : Annexure -1, Table A.4)**

India's exports to CIS countries have witnessed a significant level of exports diversification. This is manifest in the share of top 10 export products to CIS which declined from around 82% in FY2000 to 64% in FY2015. Several top 10 export products to the region viz. plastics, tobacco, cereals, optics, organic chemicals, etc. have been replaced by iron and steel, aircrafts, meat and vehicles, while articles of apparel, coffee, tea, electrical machinery are still amongst the top 10 export products to the CIS region.

#### **4.4 Exports Product Concentration vis-à-vis Diversification – Measurement**

The shift of India's share from traditional to non traditional products pertaining to different regions can be measured by using a standard measure of export product diversification i.e. Sectoral Hirshman Index (SHI) which is calculated as below:

$$\text{Sectoral Hirshman Index} = \text{SHI} = \text{sqrt} [\text{sum} (x_i / X_t)^2]$$

Where, SHI -SectoralHirshman Index

$x_i$  - Exports of product  $i$

$X_t$  - Total exports of the country

The highest possible value of commodity concentration index (SHI) is 1; this occurs when total exports are comprised of only one commodity. The index enables us to find whether India’s exports are diversifying to new products and to what extent.

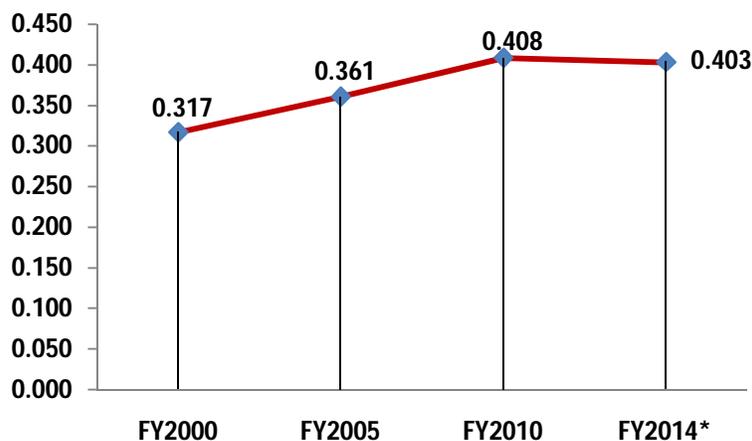
**Table -6 Export Product Concentration - Sectoral Hirshman Index (SHI)**

Year	Exports of Top 10 Commodities (US\$bn)	% Share of Top 10 Export Commodities in India's Exports	SHI
FY2000	20.7	56.3	0.317
FY2005	50.2	60.05	0.361
FY2010	114.3	63.9	0.408
FY2014*	200	63.5	0.403

Source : PHD Research Bureau, compiled from Ministry of Commerce and Industry  
 \* FY2014 is taken instead of FY2015, because new commodity classification has been adopted since FY2015

Overall, SHI of India’s exports has reported a rise from around 0.32 in FY2000 to 0.36 in FY2005, 0.41 in FY2010 and 0.40 in FY2014. This suggests that India’s product export concentration has increased contrary to the expectations of its decline in the light of undertaking various product diversification measures by the Government.

**Figure – 3 Sectoral Hirshman Index (SHI)**



Source : PHD Research Bureau

## 5.0 Major Findings

- With regard to export market diversification, the share of developed regions viz. USA and EU in India's exports has reduced from one half to around one third, while share of developing regions, Asia and Africa has witnessed a gradual rise over the period of time. This indicates that India has been successful in venturing into non-traditional export destinations, though the share of traditional export destinations in India's total exports is still high. This is also evident from the Concentration coefficient index i.e RHI which has declined in case of Europe and America from around 0.060 in FY2000 to 0.033 in FY2015, while, RHI in case of Asia and Africa has witnessed a significant rise during the same period, indicating India's exports are gradually tilting towards developing regions.
- Export product concentration seems to decline in case of Europe and America as the share of top 10 export products to these regions have registered a decline to 57% and 66% in FY2015 from 58% and 72% in FY2000 implying India has enhanced exports of the products other than the top 10. With special reference to pre or post crisis period, Europe has witnessed a significant decline in share of top 10 export products from around 64% in FY2010 to 57% in the present. This is an indication of a positive impact of the product diversification measures undertaken by the government amid global crisis.
- Contrary to registering a noteworthy diversification of exports towards Asia and Africa, product diversification in case of these regions is disappointing. As, the share of top 10 export products to these regions have registered a rise in comparison to the FY2000 implying exports to these regions are still restricted to a few commodities and could not be enhanced further despite undertaking several product diversification measures undertaken by the Government.

- Though, CIS region comprises of a very small share in India's exports, however India has registered a significant diversification of export products in these countries.
- Overall, India has registered a rise in export product concentration from 0.32 in FY2000 to 0.40 in FY2014, while export market concentration has increased from 0.52 to 0.57 during the same period. This suggests that India has not been able to enhance exports of varied products and to the different markets, rather the country is still dependent on few products and few markets for its exports which is not a desirable situation in the present times.
- The analysis also shows that though export product and market concentration has increased in FY2000, it has registered a decline when compared with the position in FY2010. Export market concentration has reduced from 0.59 in FY2010 to 0.57 in FY2015; export product concentration has declined from 0.41 to 0.40. This also shows that the country has been relatively more successful in enhancing its exports to the different markets as compared to enhancing variation in its export products. This is a sign of narrow product range and inability of extending value chain of the country which needs to be rectified amid a frequent changing global dynamics.

### **5.1 Preferences and Impediments to export diversification**

Though the Central Government has undertaken several measures for encouraging exporters to venture into new markets and to develop new products accordingly, a desired level of export diversification is still a distant reality. This is because of several causes which are seen as impediments to enhance level of diversification for India's export products and destinations. These causes are identified on the basis of exploratory study wherein around 15 exporters (MSMES and Large) were personally interviewed:

- i. To identify exporters' preferences for diversifying into new markets
- ii. To know whether the exporters are aware and availing the export benefits extending by the Government during post crisis for diversifying into new markets
- iii. To identify the current issues/challenges to diversify into new markets and products

**5.1.1 Facts pertaining to the exports diversification are as follows:**

- Global recession affected the Indian exporters severely as USA and Europe are their major export destinations which faced a high degree of repercussion of the global crisis and are still in doldrums. Amid this situation, small exporters are not preferring to venture into new markets or into new products as it involves huge funds and risks, whereas large exporters are constantly trying to build new customer base across different parts of the world while maintaining commercial relations with their existing customers' markets. They are also trying to assess the needs/ preferences of the different markets but are not able to diversify their products much due to involvement of huge funds and lack of comprehensive information.
- With regard to the benefits provided/extended by the government eventually for diversifying into new markets and products views of the small exporters' are highly pessimistic. According to them, they do not get information about the benefits provided by the government for exports diversification. Moreover, the eligibility criterion for availing these benefits is very high and this makes small exporters incapable of taking the advantage of these benefits. Large exporters are reported to avail of the government benefits viz. Market Development Assistance (MDA) , Market Access Initiative (MAI) , Focus Market Scheme (FMS) among others frequently.

- Exporters have reported lack of adequate financial facilities, frequent changes in tax rates, interest rates, forex rates, lack of comprehensive market information as the major problems for diversifying into new markets.

### **Conclusions and Suggestions**

The analysis shows that as the Government is highly focused upon export diversification strategy to enhance India's exports and the scope and benefits for the dedicated schemes relating to export diversification has eventually enhanced, especially during the post crisis. As a result, export market and product concentration has witnessed a decline in last few years. India's exports have been observed shifting from the developed to the developing regions and share of top 10 export commodities to different regions has also been reduced marginally. However, the country has not marked a significant change pertaining to diversification of India's exports and in fact achieving the desired level of diversification still seems to be far away from the reality. In the present times, when India's major export destinations USA and EU are facing slowdown period it is preferable for the exporters to explore new business avenues in the different markets.

But, because of various problems viz. lack of adequate finance and knowledge, incapacibilities of taking high risk, high transaction costs, lack of knowledge about the government assistance programs MSMEs exporters do not prefer to enter into new markets with new products. Since, MSMEs exporters comprises of a major chunk of overall Indian industry, any efforts made in the direction of export diversification will not generate effective and fruitful results, if their interest are ignored.

It is suggested that first the government should assist MSMEs exporters by providing them all necessary resources viz. finance, technology, marketing intelligence, export incentives; second, various domestic constraints viz. high transaction costs, multiple taxes, lack of proper infrastructure should be addressed to on an urgent basis; third, MSMEs exporters should be well encouraged to participate in various national and international trade shows;

last but not the least, technological collaboration with foreign partners should be further enhanced and the ongoing alliances with foreign partners should be well routed to the MSMEs exporters.

Export diversification strategy is an effective tool which if effectively implemented can enable the exporters to revive and strengthen their exports and enable the Government to achieve its long term export target of US\$900 billion and thus enable the whole society to be benefitted in terms of employment , income and growth.

## Annexure – A

**Table : A.1 India's Exports to Europe: Trend Analysis**

S No.	FY2000			FY2005			FY2010			FY2015		
	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)
1	Natural or Cultured Pearls and Stones	1.33	12.95	Natural or cultured pearls and stones	2.03	10.30	Mineral fuels, oils, waxes	6.23	16.17	Mineral fuels, oils, waxes	5.45	9.69
2	Artciles of Apparel not Knitted or crochheted	1.01	9.81	Artciles of Apparel not Knitted or crochheted	1.46	7.43	Artciles of Apparel not Knitted or crochheted	2.94	7.63	Natural or cultured pearls and stones	4.01	7.12
3	Artciles of Apparel - Knitted or crochheted	0.69	6.67	Artciles of Apparel - Knitted or crochheted	1.33	6.75	Vehicles other than railways	2.67	6.94	organic Chemicals	3.70	6.58
4	Articles of Leather,Saddlery & Harness	0.56	5.42	Iron & Steel	1.13	5.73	Natural or cultured pearls and stones	2.52	6.55	Artciles of Apparel not Knitted or crochheted	3.49	6.20
5	Cotton.	0.44	4.30	organic Chemicals	0.99	5.03	Artciles of Apparel - Knitted or crochheted	2.45	6.36	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	3.32	5.91
6	organic Chemicals	0.43	4.22	Mineral fuels, oils, waxes	0.84	4.28	organic Chemicals	2.17	5.62	Artciles of Apparel - Knitted or crochheted	3.30	5.86
7	Footwear & parts of such articles	0.43	4.17	Worn Clothing & Textile Articles; Rags	0.80	4.04	Electrical Machinery & Equipment & Parts Thereof.	1.75	4.55	Vehicles other than railways	2.78	4.94
8	Sets; Worn Clothing & Worn Textile Articles; Rags	0.41	4.02	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	0.78	3.95	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	1.64	4.24	Electrical Machinery & Equipment & Parts Thereof.	2.22	3.95
9	Coffee, Tea, Mate & Spices.	0.35	3.38	Vehicles other than railways	0.76	3.88	Footwear & parts of such articles	1.23	3.18	Iron & Steel	1.94	3.45
10	Carpets & Other Textile Floor Coverings.	0.31	3.06	Articles of Leather,Saddlery & Harness	0.73	3.69	Articles of Leather,Saddlery & Harness	1.03	2.68	Articles of Iron or Steel	1.92	3.42
<b>Top 10</b>		<b>5.96</b>	<b>58.01</b>	<b>Top 10</b>	<b>10.84</b>	<b>55.09</b>	<b>Top 10</b>	<b>24.62</b>	<b>63.92</b>	<b>Top 10</b>	<b>32.14</b>	<b>57.12</b>
<b>India's Exports to Europe</b>		<b>10.28</b>	<b>27.91</b>	<b>India's Exports to Europe</b>	<b>19.67</b>	<b>23.55</b>	<b>India's Exports to Europe</b>	<b>38.52</b>	<b>21.55</b>	<b>India's Exports to Europe</b>	<b>56.26</b>	<b>18.13</b>
<b>India's Total Exports</b>		<b>36.82</b>		<b>India's Total Exports</b>	<b>83.54</b>		<b>India's Total Exports</b>	<b>178.75</b>		<b>India's Total Exports</b>	<b>310.34</b>	

*Source: PHD Research Bureau, compiled from Ministry of Commerce & Industry, Government of India.*

**Table : A.2 India's Exports to America: Trend Analysis**

S No.	FY2000			FY2005			FY2010			FY2015		
	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)
1	Natural or cultured pearls and stones	2.97	30.83	Natural or cultured pearls and stones	4.11	24.47	Natural or cultured pearls and stones	4.84	18.07	Natural or cultured pearls and stones	8.58	14.54
2	Articles Of Apparel , Not Knitted or Crocheted	1.23	12.79	Articles Of Apparel , Not Knitted or Crocheted	1.57	9.36	Mineral fuels, oils and waxez	2.31	8.63	Mineral fuels, oils and waxez	7.13	12.08
3	Articles Of Apparel, Knitted or Corcheted.	0.54	5.57	Worn Textile Articles; Rags	0.88	5.22	Articles Of Apparel , Not Knitted or Crocheted	1.73	6.46	Pharmaceutical Products	4.63	7.85
4	Miscellaneous Goods.	0.37	3.81	Articles Of Appare , Knitted or Corcheted.	0.78	4.62	organic Chemicals	1.73	6.46	Vehicles other than railways	3.78	6.40
5	Worn Textile Articles; Rags	0.33	3.40	Iron & Steel	0.76	4.53	Pharmaceutical Products	1.60	5.99	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	2.87	4.86
6	Carpets & Other Textile Floor Coverings.	0.32	3.37	Mineral fuels, oils and waxez	0.74	4.42	Electrical Machinery & Equipment & Parts Thereof.	1.43	5.34	organic Chemicals	2.63	4.45
7	Iron & Steel	0.32	3.30	organic Chemicals	0.71	4.21	Articles Of Appare , Knitted or Corcheted.	1.36	5.09	Articles Of Apparel , Not Knitted or Crocheted	2.49	4.22
8	Edible Fruit & Nuts; Peel or Citrus Fruit or Melons.	0.30	3.14	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	0.71	4.21	Worn Textile Articles; Rags	1.19	4.46	Worn Textile Articles; Rags	2.42	4.11
9	organic Chemicals	0.29	3.05	Articles Of Iron or Steel	0.64	3.81	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	1.14	4.26	Articles Of Iron or Steel	2.20	3.73
10	Articles Of Iron or Steel	0.26	2.71	Vehicles other than railways	0.52	3.10	Articles Of Iron or Steel	1.05	3.93	Articles Of Appare , Knitted or Corcheted.	2.04	3.45
	<b>Top 10</b>	<b>6.94</b>	<b>71.98</b>	<b>Top 10</b>	<b>11.41</b>	<b>67.97</b>	<b>Top 10</b>	<b>18.39</b>	<b>68.69</b>		<b>38.77</b>	<b>65.67</b>
	<b>India's Exports to America</b>	<b>9.64</b>	<b>26.17</b>	<b>India's Exports to America</b>	<b>16.79</b>	<b>20.10</b>	<b>India's Exports to America</b>	<b>26.87</b>	<b>15.03</b>	<b>India's Exports to America</b>	<b>59.03</b>	<b>19.02</b>
	<b>India's Total Exports</b>	<b>36.82</b>		<b>India's Total Exports</b>	<b>83.54</b>		<b>India's Total Exports</b>	<b>178.75</b>		<b>India's Total Exports</b>	<b>310.34</b>	

Source: PHD Research Bureau, compiled from Ministry of Commerce & Industry, Government of India.

**Table : A.3 India's Exports to Asia: Trend Analysis**

S No.	FY2000			FY2005			FY2010			FY2015		
	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)
1	Natural or cultured pearls and stones	3.27	23.49	Natural or cultured pearls and stones	8.14	20.35	Natural or cultured pearls and stones	21.60	23.14	Mineral fuels, oils and waxez	31.42	20.43
2	Cotton.	1.10	7.91	Mineral fuels, oils and waxez	4.70	11.76	Mineral fuels, oils and waxez	16.57	17.76	Natural or cultured pearls and stones	28.04	18.24
3	Fish & Crustaceans, Molluscs & Other Aquatic Invertabrates.	0.76	5.45	ores, Slag & Ash.	3.55	8.87	ores, Slag & Ash.	6.53	7.00	Cereals.	6.97	4.53
4	Articles Of Apparel , Not Knitted or Crocheted	0.71	5.11	Iron & Steel	2.03	5.07	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	3.21	3.44	Cotton.	5.72	3.72
5	organic Chemicals	0.57	4.12	organic Chemicals	1.79	4.48	Cotton.	3.17	3.40	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	5.51	3.58
6	Cereals.	0.51	3.65	Cereals.	1.36	3.40	organic Chemicals	3.16	3.38	organic Chemicals	5.02	3.26
7	Electrical Machinery & Equipment & Parts Thereof.	0.43	3.10	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	1.35	3.38	Electrical Machinery & Equipment & Parts Thereof.	3.03	3.24	Vehicles Other Than Railway & Parts & Accessories Thereof.	4.49	2.92
8	Nuclear Reactors, Boilers, Machinery & Mechanical Appliances; Parts Thereof.	0.40	2.88	Cotton.	1.18	2.95	Cereals.	2.70	2.90	Iron & Steel	4.48	2.91
9	Residues & Waste From The Food Industries; Prepared Animal Foder.	0.36	2.61	Plastic & Articles Thereof.	1.13	2.83	Iron & Steel	2.48	2.65	Ships, Boats & Floating Structures.	4.39	2.85
10	Iron & Steel	0.34	2.42	Electrical Machinery & Equipment & Parts Thereof.	0.86	2.16	Ships, Boats & Floating Structures.	1.82	1.95	Meat & Edible Meat offal.	4.05	2.64
	<b>Top 10</b>	<b>8.45</b>	<b>60.76</b>	<b>Top 10</b>	<b>26.10</b>	<b>65.25</b>	<b>Top 10</b>	<b>64.28</b>	<b>68.88</b>		<b>100.08</b>	<b>65.08</b>
	India's Exports to Asia	13.90	37.75	India's Exports to Asia	40.00	47.88	India's Exports to Asia	93.33	52.21	India's Exports to Asia	153.78	49.55
	India's Total Exports	36.82		India's Total Exports	83.54		India's Total Exports	178.75		India's Total Exports	310.34	

Source: PHD Research Bureau, compiled from Ministry of Commerce & Industry, Government of India.

**Table : A.4 India's Exports to Africa: Trend Analysis**

S No.	FY2000			FY2005			FY2010			FY2015		
	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)
1	Cotton.	0.34	17.77	Mineral fuels, oils and waxez	0.70	12.56	Mineral fuels, oils and waxez	2.82	21.01	Mineral fuels, oils and waxez	10.12	30.81
2	Pharmaceutical Products	0.17	8.86	Cereals.	0.49	8.72	Pharmaceutical Products	1.26	9.39	Vehicles Other Than Railway & Parts & Accessories Thereof.	3.30	10.04
3	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	0.13	6.72	Vehicles Other Than Railway & Parts & Accessories Thereof.	0.42	7.61	Vehicles Other Than Railway & Parts & Accessories Thereof.	1.09	8.12	Pharmaceutical Products	2.95	8.99
4	Vehicles Other Than Railway & Parts & Accessories Thereof.	0.12	6.23	Articles of Iron or Steel	0.42	7.59	Nuclear Reactors, Boilers, Machinery & Mechanical Appliances; Parts Thereof.	1.06	7.87	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	1.69	5.14
5	Articles Of Apparel , Not Knitted or Crocheted	0.11	5.66	Nuclear Reactors, Boilers, Machinery & Mechanical Appliances; Parts Thereof.	0.42	7.50	Electrical Machinery & Equipment & Parts Thereof.	0.92	6.88	Cereals.	1.69	5.14
6	Cereals.	0.09	4.87	Pharmaceutical Products	0.41	7.31	Articles of Iron or Steel	0.67	4.99	Electrical Machinery & Equipment & Parts Thereof.	0.95	2.90
7	Iron & Steel	0.08	4.29	Cotton.	0.40	7.16	Iron & Steel	0.60	4.44	Cotton.	0.81	2.48
8	Articles of Iron or Steel	0.08	4.04	Iron & Steel	0.29	5.14	Plastic & Articles Thereof.	0.48	3.55	Plastic & Articles Thereof.	0.79	2.41
9	Electrical Machinery & Equipment & Parts Thereof.	0.06	2.96	Plastic & Articles Thereof.	0.23	4.12	Cotton.	0.45	3.33	Articles of Iron or Steel	0.76	2.33
10	Man-Made Filaments.	0.04	2.19	Electrical Machinery & Equipment & Parts Thereof.	0.14	2.48	organic Chemicals	0.29	2.16	Meat & Edible Meat offal.	0.75	2.30
	<b>Top 10</b>	<b>1.21</b>	<b>63.59</b>	<b>Top 10</b>	<b>3.91</b>	<b>70.20</b>	<b>Top 10</b>	<b>9.64</b>	<b>71.74</b>		<b>23.82</b>	<b>72.53</b>
	<b>India's Exports to</b>	<b>1.90</b>	<b>5.15</b>	<b>India's Exports to Africa</b>	<b>5.57</b>	<b>6.67</b>	<b>India's Exports to Africa</b>	<b>13.43</b>	<b>7.51</b>	<b>India's Exports to</b>	<b>32.84</b>	<b>10.58</b>
	<b>India's Total Exports</b>	<b>36.82</b>		<b>India's Total Exports</b>	<b>83.54</b>		<b>India's Total Exports</b>	<b>178.75</b>		<b>India's Total Exports</b>	<b>310.34</b>	

*Source: PHD Research Bureau, compiled from Ministry of Commerce & Industry, Government of India.*

**Table : A.6 India's Exports to CIS: Trend Analysis**

S No.	FY2000			FY2005			FY2010			FY2015		
	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)	Commodities	Exports (US\$ billions)	Share (%)
1	Coffee, Tea, Mate & Spices.	0.20	19.15	Pharmaceutical Products	0.28	25.98	Pharmaceutical Products	0.50	29.82	Pharmaceutical Products	0.68	20.01
2	Articles of Apparel & Clothing Accessories, Knitted or Corcheted.	0.16	14.83	Articles of Apparel & Clothing Accessories, Knitted or Corcheted.	0.14	12.42	Coffee, Tea, Mate & Spices.	0.14	8.35	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	0.40	11.76
3	Pharmaceutical Products	0.12	11.56	Coffee, Tea, Mate & Spices.	0.09	8.47	Nuclear Reactors, Boilers, Machinery; Parts Thereof.	0.10	6.10	Articles of Apparel & Clothing Accessories, Knitted or Corcheted.	0.24	7.04
4	Articles Of Apparel , Not Knitted or Crocheted	0.12	11.00	Nuclear Reactors, Boilers, Machinery & Mechanical Appliances; Parts Thereof.	0.05	4.39	Electrical Machinery & Equipment & Parts Thereof.	0.08	4.61	Coffee, Tea, Mate & Spices.	0.18	5.24
5	Cotton.	0.07	6.17	Articles Of Apparel , Not Knitted or Crocheted	0.05	4.24	Miscellaneous Edible Preparations.	0.07	4.23	Iron & Steel	0.12	3.66
6	Tobacco & Manufactured Tobacco Substitutes.	0.05	4.94	Miscellaneous Edible Preparations.	0.04	3.88	Articles of Apparel & Clothing Accessories, Knitted or Corcheted.	0.07	3.93	Articles Of Apparel , Not Knitted or Crocheted	0.12	3.61
7	Miscellaneous Edible Preparations.	0.04	4.07	Tobacco & Manufactured Tobacco Substitutes.	0.04	3.74	Tobacco & Manufactured Tobacco Substitutes.	0.06	3.79	Meat & Edible Meat offal.	0.12	3.49
8	Cereals.	0.04	3.61	Plastic & Articles Thereof.	0.04	3.48	Iron & Steel	0.06	3.52	Vehicles Other Than Railway & Parts & Accessories Thereof.	0.11	3.35
9	Optical, Photographic Cinematographic Measuring, Medical & Apparatus Parts & Accessories Thereof;	0.03	3.10	Natural or cultured pearls and stones	0.03	2.99	Plastic & Articles Thereof.	0.05	3.09	Aircraft, Spacecraft, & Parts Thereof.	0.10	2.97
10	organic Chemicals	0.03	2.83	Electrical Machinery & Equipment & Parts Thereof.	0.03	2.74	Aircraft, Spacecraft, & Parts Thereof.	0.05	2.77	Electrical Machinery & Equipment & Parts Thereof.	0.09	2.59
	<b>Top 10</b>	<b>0.86</b>	<b>81.26</b>	<b>Top 10</b>	<b>0.79</b>	<b>72.33</b>	<b>Top 10</b>	<b>1.18</b>	<b>70.21</b>		<b>2.16</b>	<b>63.71</b>
	India's Exports to CIS Baltics	1.06	2.88	India's Exports to CIS Baltics	1.09	1.31	India's Exports to CIS Baltics	1.69	0.94	India's Exports to CIS Baltics	3.40	1.09
	India's Total Exports	36.82		India's Total Exports	83.54		India's Total Exports	178.75		India's Total Exports	310.34	

Source: PHD Research Bureau, compiled from Ministry of Commerce & Industry, Government of India.

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