

Himachal Pradesh A Possible Export Strategy



Export-Import Bank of India

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Himachal Pradesh: A Possible Export Strategy

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Executive Summary

The State of Himachal Pradesh is spread across an area 55,673 sq.km, with a population of around 70 lakhs. Agriculture is the main occupation in the State with almost 90% population dependent on it. The GSDP at constant prices of Himachal Pradesh was recorded at ₹ 1244 billion in FY 22, up from ₹ 773.8 billion in FY 13. The AAGR for State's GSDP was recorded at 5.5%, during the last decade. On per capita basis, Himachal Pradesh's per capita GDP remained higher (₹ 1,66,443) than India's (₹ 1,07,000) in FY 22.

Further, unlike India's economic structure, wherein services contribute to majority of India's GDP with industry being a distant second, in case of Himachal Pradesh, industry is the top contributor to the State's economy and is followed by services, and agriculture and allied sectors. The manufacturing segment in Himachal Pradesh's GSVA had a contribution of 26% in FY 13, which increased to 32.8% in FY 22. On the one hand, this is an opportunity for the State to increase its performance in industry, but it is also an option for the State to see services grow with minimal impact on the economy emanating carbon emissions.

Trend in Exports from Himachal Pradesh

An analysis of the last five years (2017-18 to 2021-22) reveals that the exports from Himachal Pradesh registered an AAGR of 15.5%, with exports increasing from US\$ 1.2 billion in 2017-18 to US\$ 2.1 billion in 2021-22. This growth is much faster than growth in India's merchandise exports (10.3%), during the same period.

The top item for years that is being exported from Himachal Pradesh is pharmaceuticals. This is majorly attributed to the presence of

Baddi-Barotiwala-Nalagarh (BBN) industrial area which has about 650 pharma units. The share of pharmaceuticals in Himachal Pradesh's exports was 61.4% in FY 22, followed by cotton yarn (7%), and cotton fabrics, madeups etc. (4.1%).

It is important to note that in exports of products such as accumulators and batteries, drug formulations, biologicals, and tin and products, Himachal Pradesh features in the top five States of India.

With respect to the key markets of the State's exports, the US has a share of 12% in total HP's exports. Other key markets include Bangladesh (7% share), Russia (6.4%), Brazil (3.7%), and Germany (3.5%).

The top ten export destinations of Himachal Pradesh contributed to almost 46% of the exports from the State in 2021-22, which essentially shows a scattered and diversified market for the State's exports. A comparison with the national level shows that the exports from Himachal Pradesh are marginally less concentrated than India's export destinations.

In the pharma space, the US is the biggest export destination (14%) for Himachal Pradesh, followed by Russia and Brazil. However, the share of US has reduced by half in the last five years.

It may be noted that a country such as Bangladesh which is the second largest export destination for HP overall, is not even in the top ten destinations for the pharma exports from HP.

There is one Inland Container Depot (ICD) in Himachal Pradesh at Baddi. However, one-fourth of the State's exports, that is around 25%, are routed through Delhi Airport and only 2% are through ICD Baddi. ICD Baddi is majorly being used for the textile exports. Out of US\$ 42.6 million exports through ICD Baddi in FY 22, 65% were of cotton yarn.

Investment Trend

As per the CMIE database, new investment projects worth ₹ 79.4 billion were announced in Himachal Pradesh in 2021-22 and projects worth ₹ 1614 billion

were outstanding as on 2021-22 in Himachal Pradesh. A growth of over 58% was recorded for new projects announced in 2021-22, over 2020-21 (which however does not exhibit implementation of the announced projects). Additionally, almost 82% of the new projects announced in 2021-22 were from the private sector.

Further, as per DPIIT, the State received FDI equity inflows to the tune of US\$ 180.3 million (0.17% of total received in India), cumulatively during October 2019 to September 2022 with almost US\$ 130.4 million in Q3 FY 22.

Export Target for Himachal Pradesh

The merchandize exports from Himachal Pradesh, in the last decade, have increased by more than 2.5 times. Himachal Pradesh, with its past performance, has displayed excellent trajectory as far as the growth in its export basket is concerned. The export target setting, hence, for the State of Himachal Pradesh becomes an important parameter in the formulation of the export strategy.

Given this background, Exim Bank Study estimates the merchandize export potential for HP in the range of US\$ 3.5-5 billion, depending on various scenarios, by FY 27. There is a significant range of untapped exports from Himachal Pradesh and realizing this potential could take Himachal Pradesh to an export figure of over US\$ 3.5 billion soon.

Export Competitiveness of Himachal Pradesh

The exports from Himachal Pradesh have registered a robust growth in the recent years. An analysis is done towards identifying key products in HP, and their possible markets. The Study undertakes a granular analysis of the products where the State's exports have demonstrated comparative advantage and matches this with the global import demand for these products.

For analyzing the export competitiveness, the concept of Revealed Comparative Advantage (RCA) is used. The products exported from Himachal

Pradesh are divided into four categories at HS 6-digit level - Product Champions, Underachievers, Declining Sectors, and Achievers in Declining Markets. In the short to medium term, the State can focus on leveraging the opportunities arising in the Product Champions segment, as the State is already performing well in this segment. In the medium to long term, the State needs to encourage development of capacities in the Underachievers segment.

This Study has undertaken a detailed analysis on the above concept and has found that there are 127 products which could be classified as Product Champions in Himachal Pradesh. The combined exports of these products from the State stood at US\$ 1593 million, accounting for 78.4% of the State's exports. The reason for this high percentage of the product champions in the total exports is the State's high dependence on the pharmaceuticals category.

However, the Study is of the opinion that the State should also focus on the 'Underachiever products' category, which are around 533 in number at HS-6 digit level, and contributed to 26% of the world imports in 2021 but accounted for just 2.3% of the State's exports during 2021. This shows a tremendous opportunity in these identified products.

Challenges and Strategies

Focused Export Sectors

Himachal Pradesh would be required to strive to increase its share in India's exports, which is currently at just over 0.5%. Providing special focus on the identified product champions would help the State in moving closer to the target. Out of the 127 product champions, the top 20 account for almost 70% of Himachal Pradesh's total exports. Targeting these 20 product champions could be a significant effort in achieving the export target. Products like pharmaceuticals, decorative laminates, face creams, amongst others, fall under this category.

Attracting FDI for Underachievers

The underachievers group is the most crucial to target for Himachal Pradesh's export goal, aside from the product champions, which are an obvious choice for attracting FDI. The Study identified 533 items which are in the category of underachievers. While these 533 items contribute to 2.3% of Himachal Pradesh's exports, they constitute almost 26% of the global imports, showing the export potential of this group. The low share of underachievers in Himachal Pradesh's exports reflects the supply side bottlenecks. Given that the international demand is significant, the bottlenecks could be overcome by attracting FDI in the relevant sectors. In this category, products such as static converters, and surgical instruments like forceps, needle holders etc. can be targeted.

Addressing the 'Achievers in Adversity' Category of Products

For the category of 'achievers in adversity', the exports from Himachal Pradesh display competitiveness, however, this category has exhibited a low growth in the global exports. While diversification from these products could be a solution for the long term, diversification to export destinations with strong import demand could be an immediate and effective strategy. It will be important for Himachal Pradesh to focus on the nations which are top importers and have displayed robust import demand, during the last decade. For instance, for HS 300420 (Medicaments containing antibiotics, put up in measured doses), Himachal Pradesh's export destinations are completely different from the top global importers. Similarly, for HS 520932 (Woven fabrics of cotton), Himachal Pradesh has extraordinary dependence on Bangladesh. It should explore countries like Vietnam as well, which has shown an impressive import demand in the last decade.

Identifying and Promoting Niche Varieties of Apple for Exports

The share of Himachal Pradesh in domestic production of apples in FY 22 was over 26%. But its share in India's exports of apples is almost negligible, as per DGCIS. One reason is that a significant portion of the apples in Himachal Pradesh is consumed within the country, particularly in the northern regions

of the country. There are also issues like high GST on items such as packing material, agricultural tools, pesticides etc.

The State can identify and promote niche varieties of apples which it can offer to the international markets. These could include McIntosh apples, Granny Smith, Tydeman's Early, Scarlet Spur, etc. Besides this, Himachal Pradesh should explore the successful export models such as of the Washington Apples and its commission, Washington Apple Commission. In this regard, it will be important for H.P. Horticulture Produce Marketing & Processing Corporation (HPMC) to invest in the logistics infrastructure including the advanced refrigeration systems.

Further Strengthening the Pharmaceutical Industry

The strength of Himachal Pradesh's pharmaceutical industry lies in the production of generic medicines that are manufactured and marketed after the patent on the original drug has expired. While the generic drugs are an important aspect of healthcare as they provide affordable options, they also become a hindrance in promoting the research and development in the pharmaceutical industry for developing new drugs. Further, as the generic drugs are cheaper, they lead to lower value realization for the exporters and the focus is completely on the quantity. In this regard, it is important for the state of Himachal Pradesh to explore the Telangana model in pharma space, which has become a hub for life sciences in Asia.

Going forward, given its experience and the potential, the State has a good opportunity, especially with its own upcoming drug park, to enhance its R&D in the pharmaceuticals industry.

Upgrading the ICD Baddi

The ICD in Baddi started its operations in 2015 with the catchment areas of rich industrial belt of Baddi, Nalagarh, Barotiwala and other adjoining areas. The exports from ICD Baddi which were over US\$ 100 million in FY 18 have dropped to US\$ 43 million in FY 22. There are various infrastructural and logistical issues associated with the ICD Baddi that would need to be

addressed by the Government of Himachal Pradesh. For instance, currently, the ICD Baddi does not have a proper functioning railway network to optimally operate a container depot. The exporters are thus compelled to rely on trucks for their transportation needs. Further, there have also been issues such as lesser cranes, forklifts, inadequate capacity etc.

Additionally, ICD Baddi should also be equipped to handle import shipments like other ICDs in India. This could balance the inflow and outflow of containers, as currently only export facility is available at ICD Baddi.

Realizing the Tourism Potential of the State

The tourism sector in Himachal Pradesh is extremely important for the State's economy. It contributes to around 7% of the State's GDP. However, the sector remains largely untapped. In 2021, the foreign tourist arrivals (FTAs) in Himachal Pradesh were just 4,932, down from 3,56,568 FTAs in 2018, due to the pandemic. However, even before the pandemic, the State's share in total FTAs to India was just 1.2%.

The low foreign tourist arrivals' scenario can be addressed by undertaking 'stressed marketing' activities. The government can focus on marketing what the State can offer that is different (for instance, latest adventure sports), from the other States with similar structures, so that a unique image could be developed around a tourist destination.

Additionally, the State can also strengthen its tourism industry by promoting religious tourism. Destinations like Tabo Monastery, Gandhola Monastery, Kee Monastery, etc., which may be covered under the Buddhist Circuit, should be promoted for international tourists. Himachal Pradesh may also like to explore the religious tourism model of Uttarakhand.

Setting up the Himachal Pradesh Export Promotion Council

The Himachal Pradesh Export Promotion Council (HPEPC) can be set up with support from the State Government, industry associations, and exporters for providing information and guidance to exporters. Exporters, generally,

go to various departments and agencies to execute their work. The council shall also serve as a link between the exporters and the Government and help alleviate the constraints for export growth. HPEPC can be set up with an organization structure incorporating equal representation from the private (export-oriented firms across sectors) and the public sector. As the institution will have representation from both the exporters as well as the Government, it will help in building and sustaining an export-oriented focused approach.

Conclusion

This Himalayan State has significant prospects to earn foreign exchange utilising suitably any of the three - industry, agriculture and services. From improving infrastructure at the base of the hills towards building industry and agro-related capabilities, to the hugely untapped potential in the services segment. The latter could be suitably built around keeping sustainability in mind. It was in 2019 when the Sustainable Tourism Development Policy was last framed. Going forward Himachal Pradesh may seek to develop its tourism potential in a manner that not only protects its environmental heritage, but also ensures that a larger number of local people benefit from tourist arrivals. A balanced development of this hill state would go a long way in the growth of the region.

1. Macroeconomic Scenario

Himachal Pradesh, located in the northern part of India shares its borders with Jammu & Kashmir, Punjab, Haryana, Uttarakhand, while also sharing the international border with China. The climate varies from warm and sub-humid tropical at low-altitudes to cold and icy at high-altitudes.

The 12 administrative districts of this State are spread across 55,673 sq.km, having a population of over 68 lakhs, while exhibiting a population density of 123 people per sq. km. Agriculture remains the main source of income and employment in the State with more than 90% of the population dependent on it.

Economy

Gross State Domestic Product (GSDP) is one of the important factors to determine the growth and economic development of a State. It is equal to the income generated by the production of goods and services within the geographical boundaries of a State. The estimates for value added without any adjustments for the capital depreciation/consumption is termed as Gross Value Added (GVA)¹.

The GSDP at constant prices of Himachal Pradesh was recorded at ₹ 1244 billion in FY 22, up from ₹ 773.8 billion in FY 13. The GDP in FY 22 crossed the pre-pandemic level which was at ₹ 1211.7 billion in FY 20. The average annual growth rate (AAGR) for HP's GSDP during FY 13 to FY 22 was 5.5%. A comparison with national GDP shows that Himachal's GSDP grew at the same rate as India's GDP, during this period.

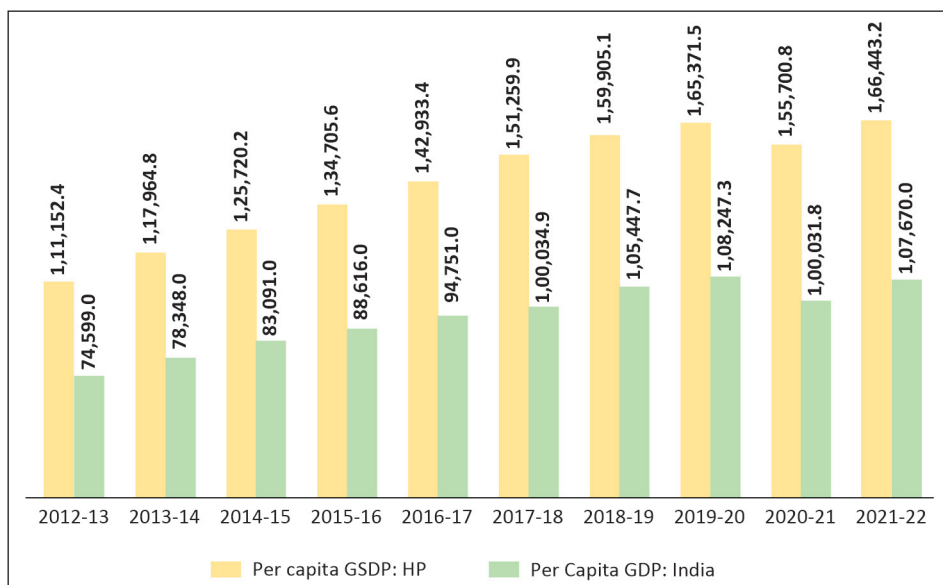
¹ CSO

**Table 1.1: GDP of Himachal Pradesh and India at Constant 2011-12 Prices:
A Comparison (₹ Billion)**

Year	GSDP of HP	Growth in HP's GSDP	India's GDP	Growth in India's GDP
2012-13	773.8	6.4%	92,130.2	5.5%
2013-14	828.5	7.1%	98,013.7	6.4%
2014-15	890.6	7.5%	1,05,276.7	7.4%
2015-16	962.7	8.1%	1,13,694.9	8.0%
2016-17	1,030.6	7.0%	1,23,081.9	8.3%
2017-18	1,094.1	6.2%	1,31,445.8	6.8%
2018-19	1,164.1	6.4%	1,39,929.1	6.5%
2019-20	1,211.7	4.1%	1,45,159.6	3.7%
2020-21	1,148.1	-5.2%	1,35,584.7	-6.6%
2021-22	1,244.0	8.4%	1,47,355.2	8.7%

Source: Economic Survey 2020-21, Government of HP; CMIE; India Exim Bank Research

**Figure 1.1: Per Capita GDP of Himachal Pradesh and India (in ₹)
at Constant 2011-12 Prices**



Source: CMIE; India Exim Bank Research

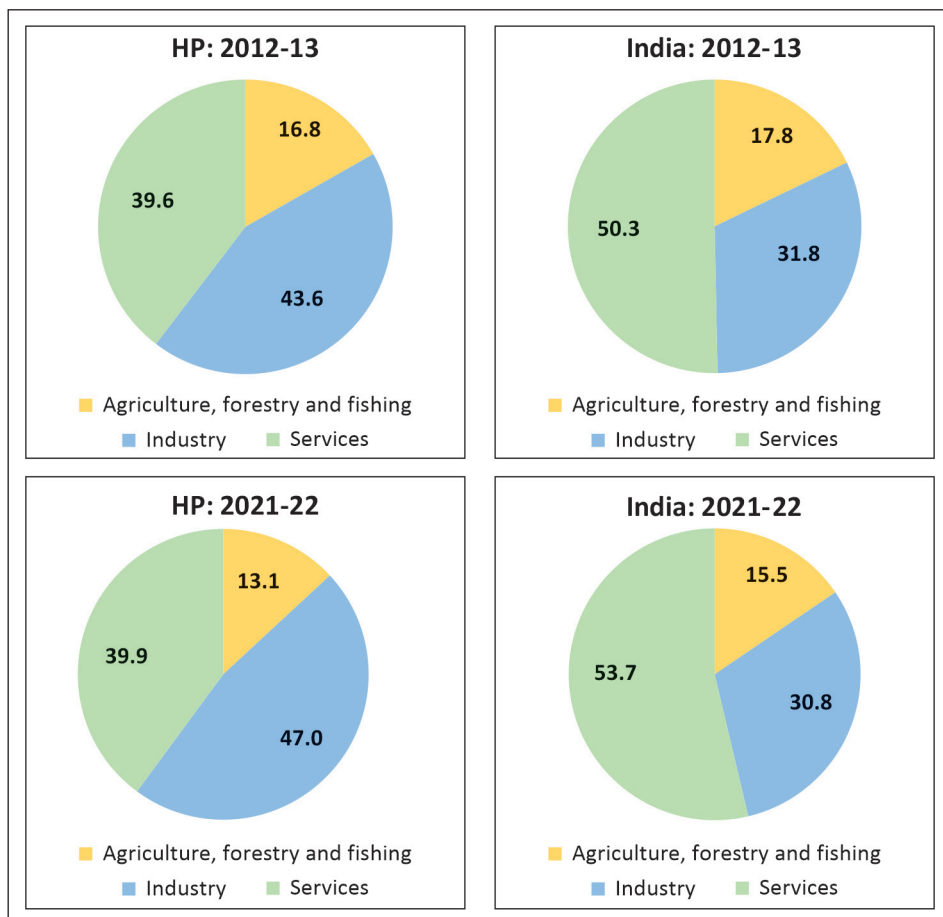
However, on per capita GDP basis, Himachal Pradesh has shown a better performance than the India's average. India's per capita GDP at constant prices was registered at over ₹ 1,07,000 in FY 22. On the other hand, the same for Himachal Pradesh was recorded at ₹ 1,66,443 in FY 22. While the AAGR recorded by HP in its GSDP during FY 13 to FY 22 was 4.7%, the same for India was 4.3%, during the same period.

**Table 1.2: Contribution of H.P. to India's Economy, 2020-21:
At Constant 2011-12 Prices**

Segment	Contribution in %
Total GVA	0.86
Crops	0.67
Livestock	0.38
Forestry and logging	2.49
Fishing and aquaculture	0.08
Mining and quarrying	0.08
Manufacturing	1.56
Electricity, gas, water supply and other utility services	2.47
Construction	0.81
Trade, hotels, transport, storage, and communication	0.58
Financial services, real estate, and business services	0.50
Public administration & other services	1.03

Source: CMIE; India Exim Bank Research

**Figure 1.2: Sector-wise Contribution to the GVA at 2011-12 Prices:
Himachal Pradesh and India (in %)**



Source: CMIE; India Exim Bank Research

An analysis of economic contribution of different sectors to the State's GSVA shows a different picture than what is seen at the national level. In FY 22, while industry was the top contributor to Himachal Pradesh's economy and was followed by services, agriculture and allied sectors held a distant third position. On the other hand, at the national level, services contributed to majority of India's economy, with industry being a distant second. The share of industry in HP's GSVA has, in fact, increased by almost 4 percentage points in the last decade. The same for services has not changed, indicating that

the increase in industry's share has come from the decline in the share of agriculture & allied sectors.

Under the industry segment, the contribution of manufacturing segment in India's GVA was 18.2% in FY 22, and in fact, was just a percent lesser, a decade ago. The manufacturing segment in Himachal Pradesh's GVA had a contribution of 26% in FY 13 and increased to 32.8% in FY 22. It was as high as 33.7% in FY 19. A major sub-segment which gives Himachal Pradesh's industry a lead over India's industry is the contribution of 'Electricity, gas, water supply, and other utility services.' This head's contribution to India's GVA was only 2.3% in FY 22 while its contribution in Himachal Pradesh's GVA was 6.5% in FY 22.

However, even with impressive figures in the industry segment, Himachal Pradesh will still have a lot of work to do on the industrialization front as its contribution in percentage to the Indian industry is significantly less.

Need for Export Strategy

The share of Himachal Pradesh's merchandise exports in its GDP was recorded at 9.1% in 2021-22. This is lesser than the share of India's average in 2021-22 which was registered at 13.3% in 2021-22. In FY 20, the State's share was 8.2%. In comparison to neighbouring States such as Haryana (13%), and Punjab (9.7%), the State's performance requires improvement. However, in comparison to other Himalayan States, Himachal Pradesh's performance has been better, barring Uttarakhand (8.5%).

It may also be noted that Himachal's contribution to India's GDP was only 0.8% in FY 20 whereas landlocked States such as Haryana (3.9%), Punjab (2.8%), Bihar (2.8%), Chhattisgarh (1.7%), and Jharkhand (1.6%) have performed much better on this front. Himalayan States such as Assam (1.7%) and Uttarakhand (1.3%) have also registered a better performance.

Clearly, a push on the exports front by the State administration could help Himachal Pradesh in increasing its GDP size, which in turn would increase its

contribution to national GDP and its export to GDP ratio. At the same time, the export push could also positively impact the employment generation in the State.

Given these dynamics, the Study attempts to assess the export performance of the State at a granular level and evaluate the export potential of the State. This would help the policymakers in identifying dynamic products and leading markets for exporters to yield greater benefit, and the administration to expedite reforms. Given the potential opportunities to resolve the industrial and logistics infrastructure of the State, the same has been discussed. The study also outlines the strategies for developing the trade competitiveness at the State-level and creating an enabling environment for exports in the State.

2. Export and Investment Trends of Himachal Pradesh

Himachal Pradesh (HP) is at an important junction in its export story given the impressive growth rates that the State has registered in recent times. This has been at the backdrop of robust economic growth, improvement in infrastructure, and enabling policy environment. While the improvement has been noteworthy, a substantial scope remains to scale up exports as its share has been consistently under 1% in India's merchandise exports.

Exports from Himachal Pradesh: Trends

The merchandise exports from HP increased from US\$ 0.8 billion in 2012-13 to US\$ 2.1 billion in 2021-22, recording an AAGR of 12%. In fact, exports exhibited a linear increase in the last ten years (barring 2015-16 when growth was (-) 0.3%).

An analysis of the last five years (2017-18 to 2021-22) reveals that the exports registered an AAGR of 15.5%, with exports increasing from US\$ 1.2 billion in 2017-18 to US\$ 2.1 billion in 2021-22. This growth is much faster than growth in India's merchandise exports (10.3%), during the same period. It may be noted that during this period, while a higher growth for India is majorly because of the exceptional growth (44.6%) in 2021-22, the exports from Himachal Pradesh have consistently registered impressive growth rates in the last five years.

Key Exported Products

The top item for years that is being exported from Himachal Pradesh is pharmaceuticals. This is majorly attributed to the presence of

Baddi-Barotiwal-Nalagarh (BBN) industrial area which has about 650 pharma units. Out of these, over 200 units are WHO-GMP Certified Manufacturing Units². Over 10% of WHO-GMP certified manufacturing units in India are in Himachal Pradesh³.

The exports from Himachal Pradesh have significantly been dependent on the pharma sector. The share of pharma-based exports in total exports of Himachal Pradesh exceeded 65% in 2021-22. However, while the pharma exports from the State grew at 18.4% in FY 22, the overall exports grew by 29.2%, indicating that the non-pharma exports showed an impressive jump.

Major exported items from Himachal Pradesh such as cotton yarn (103.1% growth in FY 22), cotton fabrics, made ups (82%), manmade yarn and fabrics (118.2%), among others, were the key drivers of high exports in FY 22. It must however be noted that the pharma exports have been the backbone of HP's export economy and registered an AAGR of 17.7%, during 2017-18 to 2021-22. The rest of the exports grew by 14.5%, during the same period.

Table 2.1: Trend in Exports from Himachal Pradesh

Year	Exports in US\$ Million			Y-o-Y Growth in %			Share in Total Exports	
	Total	Pharma-based	Others	Total	Pharma-based	Others	Pharma-based	Others
FY18	1221.7	742.0	479.6	-	-	-	60.7%	39.3%
FY19	1323.4	761.8	561.6	8.3%	2.7%	17.1%	57.6%	42.4%
FY20	1392.9	882.4	510.5	5.2%	15.8%	-9.1%	63.3%	36.7%
FY21	1661.9	1182.8	479.1	19.3%	34.0%	-6.2%	71.2%	28.8%
FY22	2147.5	1400.1	747.4	29.2%	18.4%	56.0%	65.2%	34.8%

Source: DGCIS; India Exim Bank Research

An analysis of the top ten exported items from Himachal Pradesh shows that 'drug formulations, biologicals' was the largest exported item from HP








² According to World Health Organization (WHO), Good Manufacturing Practice (GMP) is a system for ensuring that products are consistently produced and controlled, according to quality standards

³ Central Drugs Standard Control Organisation (CDSCO)

in 2021-22 with its share of over 61%. The AAGR registered by this category in its exports was around 18%, during FY 18 to FY 22, higher than the AAGR registered by the overall exports from HP.

Further, items such as ‘cotton yarn’, ‘cosmetics and toiletries’, ‘accumulators and batteries’ have registered impressive growth rates.

**Table 2.2: Major Products Exported from Himachal Pradesh
(Value in US\$ Million)**

Item	FY18	FY19	FY20	FY21	FY22	AAGR (FY18- FY22)	Share in FY22	Trend in Absolute Value
Drug formulations, biologicals	702.9	703.0	822.0	1111.8	1318.0	17.7%	61.4%	
Cotton yarn	80.7	77.4	64.6	73.7	149.7	24.1%	7.0%	
Cotton fabrics, madeups Etc.	47.3	63.3	72.3	48.2	87.7	24.2%	4.1%	
Manmade yarn, fabrics, madeups	60.4	62.1	43.8	39.6	86.5	20.5%	4.0%	
Bulk drugs, drug intermediates	39.2	58.8	60.3	71.0	82.6	21.7%	3.8%	
Paper, paper board and product	35.9	45.2	50.7	48.7	63.9	16.3%	3.0%	
Cosmetics and toiletries	26.0	28.5	28.5	37.3	50.0	18.6%	2.3%	
Accumulators and bateries	13.8	24.6	24.4	27.9	44.6	38.0%	2.1%	
Electric machinery and equipment	10.4	20.5	15.6	14.7	16.7	20.5%	0.8%	
Auto components/ parts	7.3	7.8	8.3	8.8	15.3	23.2%	0.7%	
Others	197.9	232.3	202.5	180.2	232.5	5.6%	10.8%	
Total	1221.7	1323.4	1392.9	1661.9	2147.5	15.5%	100.0%	

Source: DGCIS, India Exim Bank Research

Note: Green Bar in the Trend column shows the highest point in the last five years

Further, there are some products where Himachal Pradesh performs decently at the national level. Some of the products where Himachal Pradesh is within the top ten States with respect to India's exports in 2021-22 include drug formulations and biologicals, accumulators and batteries, cotton yarn, among others. However, in products such as accumulators and batteries, drug formulations, biologicals, and tin and products, Himachal Pradesh features in the top five contributors.

Table 2.3: Products with H.P. in Top Ten in India's Exports (2021-22)

Item	Exports from HP (US\$ Million)	Share in India's Exports	Rank in India's Exports
Drug Formulations, biologicals	1318.0	6.9%	5
Cotton yarn	149.7	2.7%	9
Cosmetics and toiletries	50.0	2.5%	9
Accumulators and batteries	44.6	6.9%	4
Cereal preparations	13.0	2.0%	10
AYUSH and herbal products	10.2	1.7%	10
Cocoa products	3.5	2.3%	6
Tin and products made of tin	2.3	11.9%	4
Woolen yarn, fabrics, madeups etc.	1.3	0.8%	10
Finished leather	0.7	0.2%	8
Nickel, product made of nickel	0.2	0.2%	10

Source: DGCIS, India Exim Bank Research

Key Markets

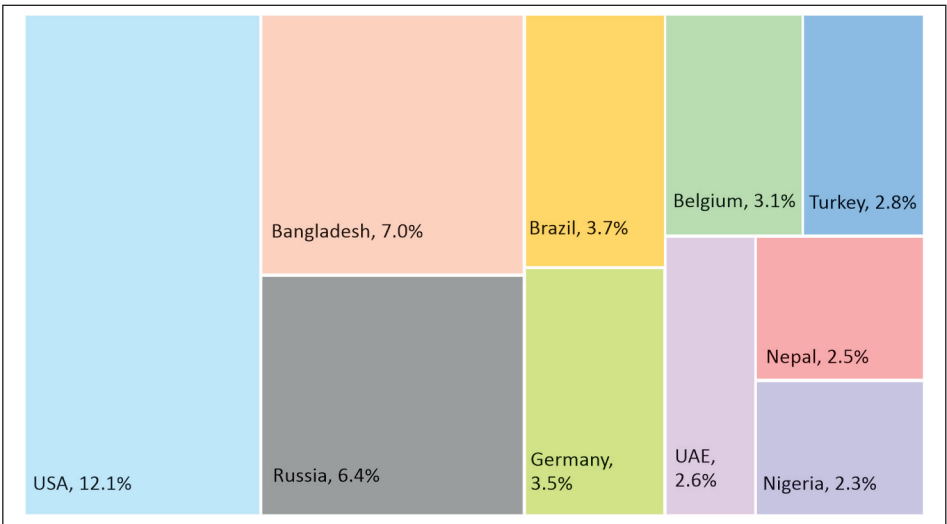
With respect to the major markets where the exports from Himachal Pradesh go, the US with 12% share in total HP's exports, was the largest export destination in FY 22. The US's share was 15.7% in 2016-17 and went as high as 19.4% in 2017-18. The reason for the recent fall is decline in the share of USA

in HP’s pharma exports; the pharma-based exports to USA constituted over 85% of total HP’s exports to USA in FY 18, which has come down to about 69% in FY 22.

Other key markets include Bangladesh (7% share), Russia (6.4%), Brazil (3.7%), and Germany (3.5%). It may be noted that the share of Bangladesh (increase of 1.5%) has increased in 2021-22 vis-à-vis 2017-18, while the shares of Russia, Brazil, Turkey, etc. have come down marginally.

The top ten export destinations of Himachal Pradesh contributed to almost 46% of the exports from the State in 2021-22. A comparison with the national level shows that the exports from Himachal Pradesh are marginally less concentrated than India’s export destinations. The top ten export destinations for India accounted for 49% of India’s exports in 2021-22.

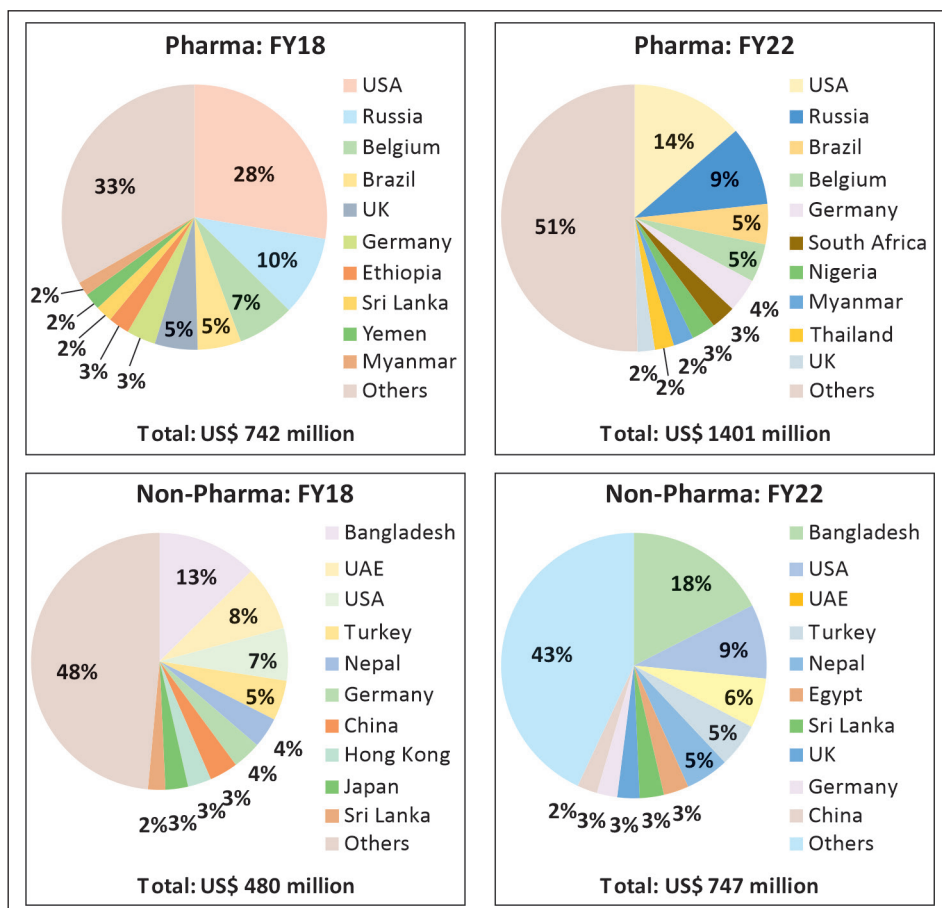
Figure 2.1: Major Export Destinations for Himachal Pradesh: 2021-22



Source: DGCIS; India Exim Bank Research

It is also important to analyze Himachal Pradesh’s export destinations by segregating the pharma and non-pharma categories, given that a huge chunk of exports is from the pharmaceuticals industry in Himachal Pradesh.

Figure 2.2: Major Exports Destinations for Himachal Pradesh: Category-wise



Source: DGCIS; India Exim Bank Research

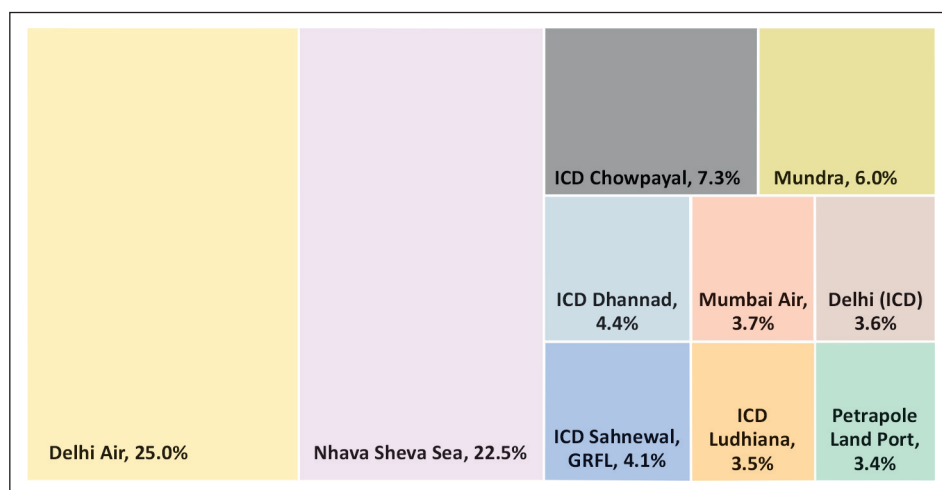
It may be noted that in the pharma space, the US is the biggest export destination for Himachal Pradesh, followed by Russia and Brazil. However, the share of US has reduced by half in the last five years. The top ten export destinations for the pharma-based exports accounted for two-thirds of the HP's pharma-based exports in FY 18. This share reduced to less than 50% in FY 22, indicating a significant reduction in the concentration of pharma export destinations.

However, it is interesting to note that a country such as Bangladesh which is the second largest export destination for HP overall, is not even in the top

ten destinations for the pharma exports from HP. In the non-pharma exports, however, Bangladesh is the top export destination for Himachal Pradesh and has rather shown a significant increase in the share in the last five years. Unlike the pharma export destinations, the non-pharma export destinations have shown an increase in the concentration, during the last five years.

With respect to the ports used by the exporters from Himachal Pradesh to export their products, it may be noted that currently, there is only one Inland Container Depot (ICD) in Himachal Pradesh at Baddi. As a result, an analysis of FY 22 exports reveals that one-fourth of HP's exports are routed through Delhi Airport. And this is followed by Nhava Sheva Sea port at 22.5%. The share of ICD Baddi was only 2% in exports from Himachal Pradesh.

Figure 2.3: Port-wise Exports from Himachal Pradesh: 2021-22



Source: DGCIS; India Exim Bank Research

From the Delhi airport (accounting for 25% of HP's exports), almost 17% went to the US, followed by Russia at 9.6%, and Germany at 8.3%. Through the other major port of Nhava Sheva, almost 15% of the exports went to Russia.

With respect to ICD Baddi, over 20% of the exports have gone to Bangladesh, followed by Japan at 17.2%. ICD Baddi is majorly being used for the textile exports. Out of US\$ 42.6 million exports through ICD Baddi in FY 22, 65% were

of cotton yarn. Another 21% were of manmade yarn, fabrics, and made ups. On the other hand, from the Delhi airport, over 88% of the exports were of pharma, and a similar share of pharma also existed for the Nhava Sheva port.

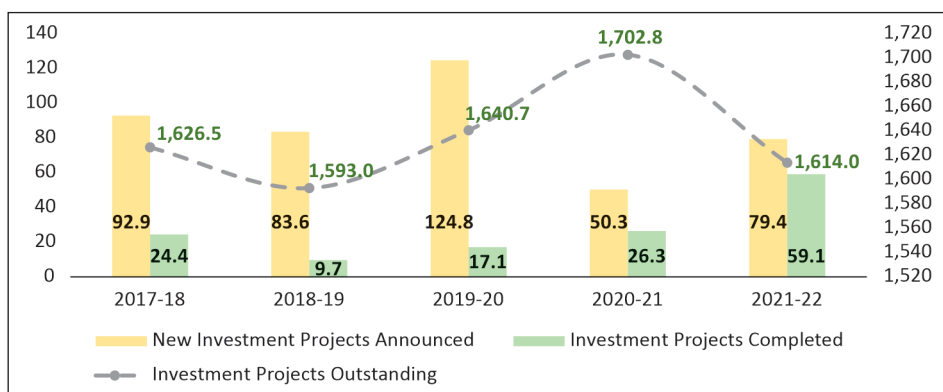
Investment Trend in the State

Himachal Pradesh has been an important destination for investors, both domestic and foreign, in the last two decades. The industrial activity, especially in the pharmaceuticals segment, has grown exponentially during this period. This has, in turn, supplemented domestic private investment, boosted economic growth, led to employment generation, and facilitated technology transfer in the State. The State has also been organizing global investment summit and came up with the 'Industrial Investment Policy' in 2019.

According to the Centre for Monitoring Indian Economy (CMIE) States of India database, new investment projects worth ₹ 79.4 billion were announced in Himachal Pradesh in 2021-22 and projects worth ₹ 1614 billion were outstanding as on 2021-22 in Himachal Pradesh.

After registering a low of ₹ 9.7 billion in projects completion in 2018-19, the project completion pace picked up the pace and the projects worth almost ₹ 60 billion were completed in 2021-22. Further, a growth of over 58% was also recorded for new projects announced in 2021-22, over 2020-21.

Figure 2.4: Investment Projects in Himachal Pradesh (in ₹ Billion)



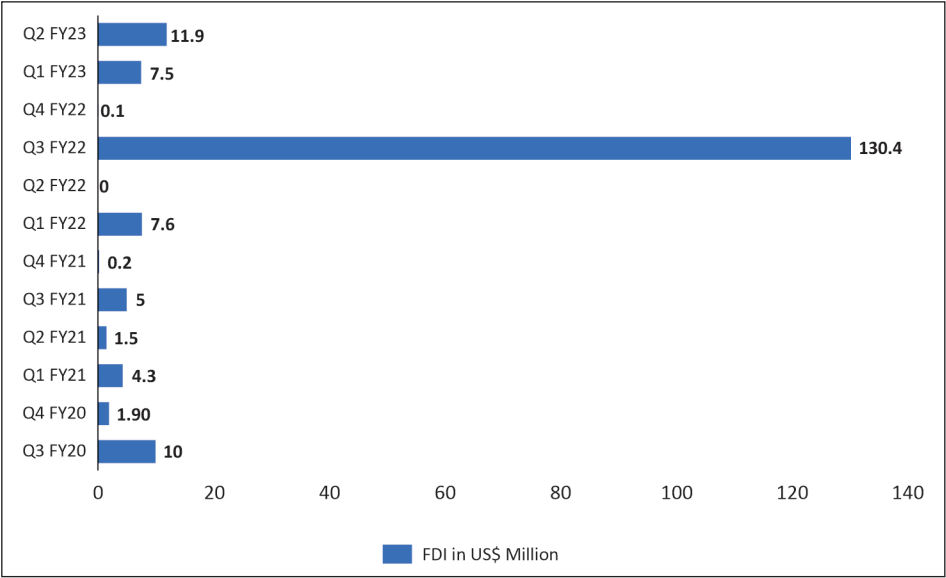
Source: CMIE States of India; India Exim Bank Research

It is also interesting to note that almost 82% of the new projects announced in 2021-22 were from the private sector while only 18% were from government sector. This shows the confidence of private sector in the industrial base of the State.

Foreign Direct Investment (FDI) in Himachal Pradesh

According to the Department for Promotion of Industry and Internal Trade (DPIIT), Himachal Pradesh received FDI equity inflows to the tune of US\$ 180.3 million (0.17% of total received in India), cumulatively during October 2019 to September 2022.

Figure 2.5: FDI in Himachal Pradesh



Source: DPIIT; CMIE; India Exim Bank Research

Out of US\$ 180.3 million of FDI received during Q3 FY 20 to Q2 FY 23, FDI worth US\$ 130.4 million was received in Q3 FY 22. While the DPIIT does not provide a sector-wise breakup at the State level, there is a possibility that this FDI was a result of Amazon Fresh’s launching of new fresh produce collection center at Balag in Himachal Pradesh in 2021. This was Amazon Fresh’s fourth fresh produce collection center in India.

3. Export Targets for Himachal Pradesh

The merchandise exports from Himachal Pradesh, in the last decade have increased by more than 2.5 times. The exports were approximately US\$ 800 million in 2012-13 and have since then registered a positive growth every year, barring a marginal fall in 2015-16. The average annual growth rate (AAGR) recorded by the exports from Himachal Pradesh during this period has been an impressive 12%. On the contrary, India's merchandise exports during the last decade have grown by approximately 5% on an average, every year.

The Government of India has been giving an extensive push to the international trade sector and has been setting ambitious targets for the exporter community. A glimpse of this was also seen when India set a target of US\$ 400 billion for the merchandise exports for FY 22, which was easily achieved. Given this background, it is important to note that the national targets can only be fulfilled when States contribute to the same. And given that a few States are contributing most of India's exports, it will be important for the other States to increase their share in India's export basket. Himachal Pradesh, with its past performance, has displayed excellent performance as far as the growth in its export basket is concerned. The export target setting, hence, for the State of Himachal Pradesh becomes an important parameter in the formulation of the export strategy.

While Himachal Pradesh has grown significantly on the export front, it has been mostly due to the export of pharmaceuticals. The reason for the same is the new industrial policy and other concessions given to the States of Himachal Pradesh and Uttarakhand, that was announced in 2003, by the GOI, as these States lagged in industrial development. The policy package was for a period of 10 years and was later extended till March 2017. Given that

the export basket got somewhere concentrated around the pharmaceuticals space, it is important for the State to diversify its manufacturing base, and thereby increase its exports further, especially from the other categories.

As a result, attracting investments, both domestic and foreign, become important as these are closely linked with the export growth from any economy. Investment can be an important tool for the State to reap the benefits through various strategies, such as adoption of superior technology, skill upgradation, becoming a part of value chains, amongst others, all leading to a higher export growth.

These processes become easier when a State links its export targets to its export policy. The following section provides export targets for the State of Himachal Pradesh, depending on various scenarios. However, it may be noted that these targets should ideally be revisited every year as multiple factors get involved at the global level which could impact exports in the short to medium term.

Export Targets

The study sets the merchandise export target for HP in the range of US\$ 3.5-5 billion by FY 27. There is a significant range of untapped exports from Himachal Pradesh and realizing this potential could take HP to an export figure of over US\$ 3.5 billion soon.

However, going beyond its own impressive past performance, through an appropriate export strategy, HP should look to target an export figure of US\$ 5 billion in the next five years, given that the factors such as depreciating rupee as well as high global commodity prices might persist for some time.

The target set by the Government of India for the country's GDP is to reach US\$ 5 trillion by 2024-25. It is further expected that 20% of this GDP's contribution will come from the exports of both merchandise and services. The target set by the Government of India for merchandise exports in the year 2021-22 was US\$ 400 billion and India comfortably achieved it by realizing an

export figure of US\$ 422 billion. Further, the services exports also reached an all-time high of US\$ 254 billion in 2021-22. As a result, India registered total exports of US\$ 676 billion in 2021-22.

Scenario 1: Growing at par with Himachal's past performance

The exports from Himachal Pradesh were recorded at US\$ 2.15 billion in FY 22. The share of Himachal Pradesh in the national exports has increased consistently in the last few years and was recorded at 0.51% in FY 22.

The AAGR recorded in Himachal Pradesh's exports during FY 18 to FY 22 was around 15.5%. In this scenario, it is estimated that the exports from Himachal Pradesh will grow at a CAGR of 15.5% during FY 22 to FY 27 and could reach an export figure of US\$ 4.4 billion by FY 27.

The exports from Himachal Pradesh have grown at a faster rate than India, in three out of the last five years. In fact, before FY 22, during FY 17 to FY 21, the exports from HP grew at an annual rate of 12.1% vis-à-vis that of India at 1.7%. Certainly, the track record of Himachal Pradesh's exports allows the State to outperform India in the coming years too.

Scenario 2: Growing at par with India's past performance

As mentioned above, India's merchandise exports reached US\$ 422 billion in FY 22, up from US\$ 303.5 billion in FY 18. During this period, the Indian merchandise exports registered an AAGR of 10.3%. In this scenario, it is assumed that Himachal Pradesh will replicate the past performance of India's merchandise exports and grow at a rate of 10.3% for the next five years. If this happens, Himachal Pradesh could be looking at an export figure of US\$ 3.5 billion by FY 27.

Scenario 3: US\$ 5 billion target in 5 years

It may be noted that the recent external events such as high oil prices, high commodity prices, depreciating rupee, among others, could give further push to the export value from India and its States. As a result, Himachal Pradesh

could keep an optimistic target of US\$ 5 billion target in 5 years, that is, by FY 27. If Himachal Pradesh’s exports have to reach a figure of US\$ 5 billion in FY 27, up from US\$ 2.15 billion in FY 22, the exports will have to record a CAGR of 18.4% during this period.

Table 3.1: Export Targets for Himachal Pradesh (FY 27)

Scenario	Current Exports: FY 22	Export Target: FY 27	CAGR (FY 22 to FY 27)
At par with Himachal Pradesh’s Growth Rate	US\$ 2.15 billion	US\$ 4.42 billion	15.5%
At par with India’s Growth Rate	US\$ 2.15 billion	US\$ 3.5 billion	10.3%
US\$ 5 billion target in 5 years	US\$ 2.15 billion	US\$ 5 billion	18.4%

Source: DGCIS; India Exim Bank Research

4. Export Competitiveness of Products

The exports from Himachal Pradesh have registered a robust growth in the recent years. An analysis is done towards identifying key products in HP, and their possible markets. This would provide opportunities for firms in the State to grow and achieve economies of scale while increasing their efficiency levels to meet such targets. The analysis would also provide investors an overview of the opportunities HP has, enabling them to set up ventures and do business within the State.

The present section undertakes a granular analysis of the products where the State's exports have demonstrated comparative advantage and matches this with the global import demand for these products. Quantification of comparative advantage will help in identification of products where exports from the State have been performing well, as also those where success has been limited, although opportunities are significant.

The first set of products, where the State has competitive advantage and global import demand is increasing, could be targeted for achieving export growth in short to medium term.

On the other hand, in products where the State does not have a competitive advantage, but the global import demand has been robust, the State could provide incentives for enabling growth in the medium to long term.

Methodology

For analysing the export competitiveness, the concept of Revealed Comparative Advantage (RCA) is used. RCA Indices are used to identify

categories of exports in which an economy has a comparative advantage by way of comparison of the country's trade scenario with the world scenario. The basic assumption underlying the concept of revealed comparative advantage is that trade profile reflects the inter-country differences in terms of relative costs as well as non-price aspects. As per Balassa's (1965) measure, index for country i, commodity j is-

$$RCA_{ij} = (X_{ij}/X_i) / (X_{wj}/X_w)$$

Where,

X_{ij} : exports of commodity j from country i

X_i : total exports from country i

X_{wj} : total exports of commodity j from world w

X_w : total exports from world

The RCA index ranges from 0 to infinity, with 1 as the break-even point, i.e., an RCA value of less than 1 means that the product has no export comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

The normalized revealed comparative advantage (NRCA) index has been demonstrated capable of revealing the extent of comparative advantage more precisely and consistently than other alternative RCA indices in the literature. NRCA can be defined in the following manner-

$$NRCA_{ij} = RCA_{ij-1} / RCA_{ij+1}$$

The export competitiveness of Himachal Pradesh, as reflected in the NRCA, has been mapped with global demand for the products. Based on this mapping, four categories of products have been identified:

Product Champions

Competitive Exports (NRCA > 0)

Growing Import Demand (Product Import AAGR > World Import AAGR)

These products have the maximum potential, as the world demand for these products during 2012-2021 has shown robust growth, and Himachal Pradesh's exports of these products are competitive.

Underachievers

Exports not competitive ($NRCA < 0$)

Growing Import Demand (Product Import AAGR $>$ World Import AAGR)

Himachal Pradesh does not have comparative advantage in these products, while the import demand for these products has shown higher growth than the overall world import growth over the period under consideration. The State can strive towards increasing competitiveness in these products.

Declining Sectors

Competitive Exports ($NRCA > 0$)

Weak Import Demand (Product Import AAGR $<$ World Import AAGR)

Himachal Pradesh has competitiveness in these products, but the world import demand for these products has been lower than the overall world import growth.

Achievers in Declining Markets

Exports not competitive ($NRCA < 0$)

Weak Import Demand (Product Import AAGR $<$ World Import AAGR)

Himachal Pradesh does not have comparative advantage in these products, and these sectors have also registered lower global import growth than the total world import growth during the period under consideration.

In the short to medium term, the State can focus on leveraging the opportunities arising in the Product Champions segment, as the State is already performing well in this segment. In the medium to long term, the State needs to encourage development of capacities in the Underachievers segment.

Detailed Analysis

As per the data available with DGCIS, during the calendar year 2021, Himachal Pradesh exported around 1211 products at HS- 6 digit level⁴.

Based on the methodology outlined above, 127 products exported from Himachal Pradesh can be classified as Product Champions. The combined exports of these products from the State were US\$ 1593 million, accounting for 78.4% of the State's exports. The reason for this high percentage of the product champions in the total exports is the State's high dependence on the pharmaceuticals category, which contributed to 62% of the total exports of the State in 2021. The item HS 300490⁵ alone contributes to over 52% of the State's exports and falls in the category of product champions.

While the pharmaceuticals category has given a huge push to the exports from HP in the last few years, it is also important for the State to focus on the 'Underachiever products' category, which accounted for 26% of the world imports in 2021 – however, accounted for only 2.3% of the State's exports during 2021. There is need for capacity creation in these product categories, through an appropriate incentive framework for attracting investments in the State. Focus on these products will further enhance the exports from HP in the face of declining global demand. It may also be noted that the highest number of products (533 out of 1211) fall under the underachievers category for Himachal Pradesh.

The 'declining sectors' category had 409 products for Himachal Pradesh in their exports of 2021. The global imports for these products have been declining and Himachal's exports also are not competitive in these items. These products contributed to just 1% of the HP's exports in 2021.

⁴ These 1211 items represent almost 99% of Himachal Pradesh's exports in 2021. A few commodities at HS-6 digit have not been taken into account due to insufficient data.

⁵ Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses "incl. those in the form of transdermal administration" or in forms or packings for retail sale (excluding medicaments containing antibiotics, medicaments containing hormones or steroids used as hormones, but not containing antibiotics, medicaments containing alkaloids or derivatives thereof but not containing hormones or antibiotics and medicaments containing provitamins, vitamins or derivatives thereof used as vitamins)

The final category is of ‘achievers in adversity’ wherein 142 products lie in Himachal’s export basket. The combined share of these in HP’s exports in 2021 was 16.9%. However, it is important for Himachal to diversify its exports from this segment as the State has comparative advantage but the global demand in these products has declined in the recent period, adding vulnerabilities to the export basket of Himachal.

A sector-wise coverage of product champions and underachievers is shown in Table 4.1 and 4.2. The maximum number of product champions at HS-6 digit level for Himachal Pradesh fall in the product category of cotton. With respect to the export value, however, majority of the exports of product champions are in pharmaceuticals.

On the other hand, for underachievers, the maximum number of items are in machinery and mechanical appliances, and organic chemicals, while by value, electrical machinery and equipment is the highest.

Figure 4.1: Product Identification for Exports from Himachal Pradesh: 2021

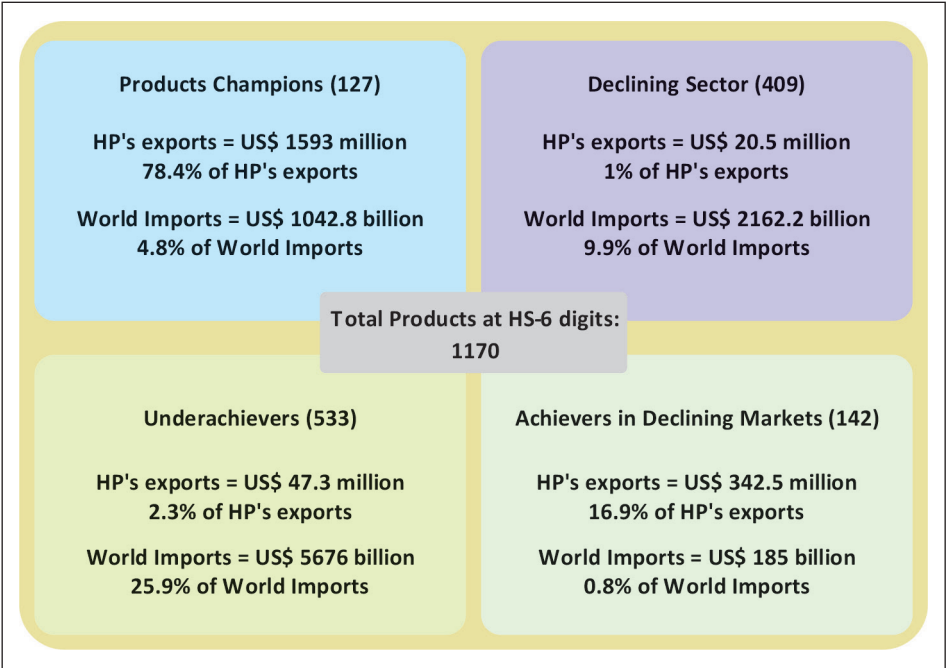


Table 4.1: Sector-Wise Product Champions of Himachal Pradesh

Product Category	Number of Products at HS-6 digit level	Value of Exports (US\$ Million): 2021
Pharmaceutical products	6	1106.8
Cotton	25	127.4
Electrical machinery and equipment	7	68.0
Paper and paperboard and articles	4	59.0
Essential oils and resinoids; perfumery, cosmetic or toilet preparations	6	31.4
Man-made staple fibres	9	30.4
Man-made filaments; strip and the like of man-made textile materials	2	27.4
Other made-up textile articles; sets	3	18.4
Copper and articles thereof	3	13.0
Preparations of cereals, flour, starch, or milk; pastrycooks' products	2	12.6
Miscellaneous edible preparations	2	11.6
Soap, organic surface-active agents, washing preparations etc.	3	10.2
Organic chemicals	5	9.0
Machinery, and mechanical appliances	6	7.9
Tools, implements, cutlery, etc. of base metals	3	6.7
Knitted or crocheted fabrics	2	6.3
Aluminium and articles thereof	1	6.0
Vehicles and parts	2	6.0
Residues and waste from the food industries; prepared animal fodder	1	4.6
Miscellaneous manufactured articles	3	4.1
Albuminoidal substances; modified starches; glues; enzymes	3	3.4

Product Category	Number of Products at HS-6 digit level	Value of Exports (US\$ Million): 2021
Optical, photographic, cinematographic instruments etc.	3	2.9
Lac; gums, resins and other vegetable saps and extracts	1	2.8
Iron and steel	1	2.0
Other base metals; cermets; articles thereof	1	1.9
Headgear and parts thereof	1	1.9
Cocoa and cocoa preparations	1	1.7
Animal or vegetable fats and oils	1	1.4
Wadding, felt and nonwovens; special yarns etc.	4	1.3
Rubber and articles thereof	3	1.1
Carpets and other textile floor coverings	1	0.9
Articles of iron or steel	1	0.9
Footwear, gaiters, and the like; parts of such articles	1	0.9
Oil seeds and oleaginous fruits	1	0.6
Miscellaneous chemical products	1	0.5
Dairy produce; birds' eggs; natural honey etc.	1	0.4
Tanning or dyeing extracts; tannins and their derivatives etc.	1	0.4
Vegetable plaiting materials; vegetable products	1	0.4
Articles of apparel and clothing accessories, not knitted or crocheted	1	0.3
Plastics and articles thereof	1	0.3
Special woven fabrics; tufted textile fabrics etc.	1	0.3
Pearls, precious or semi-precious stones etc.	1	0.1
Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	1	0.03
Total	127	1593

Source: DGCIS; ITC Trade Map; India Exim Bank Research

Table 4.2: Sector-Wise Underachievers of Himachal Pradesh

Product Category	Number of Products at HS-6 digit level	Value of Exports (US\$ Million): 2021
Electrical machinery and equipment	43	11.3
Plastics and articles thereof	39	7.0
Articles of iron or steel	17	4.4
Machinery, and mechanical appliances	46	2.9
Optical, photographic, cinematographic instruments etc.	29	2.3
Preparations of cereals, flour, starch or milk; pastrycooks' products	7	2.2
Organic chemicals	46	1.7
Vehicles and parts	17	1.7
Cocoa and cocoa preparations	5	1.4
Essential oils and resinoids; perfumery, cosmetic or toilet preparations	12	1.2
Soap, organic surface-active agents, washing preparations etc.	9	1.1
Aluminium and articles thereof	9	1.1
Footwear, gaiters and the like; parts of such articles	2	0.9
Miscellaneous chemical products	12	0.7
Albuminoidal substances; modified starches; glues; enzymes	2	0.6
Pharmaceutical products	6	0.5
Tanning or dyeing extracts; tannins and their derivatives etc.	6	0.4
Miscellaneous edible preparations	6	0.4
Paper and paperboard and articles	5	0.4
Sugars and sugar confectionery	5	0.4
Wadding, felt and nonwovens; special yarns etc.	5	0.4
Articles of stone, plaster, cement, asbestos, mica or similar materials	7	0.4

Product Category	Number of Products at HS-6 digit level	Value of Exports (US\$ Million): 2021
Man-made filaments; strip and the like of man-made textile materials	3	0.3
Toys, games and sports requisites; parts and accessories thereof	3	0.3
Articles of apparel and clothing accessories, knitted or crocheted	2	0.3
Glass and glassware	8	0.3
Beverages, spirits and vinegar	1	0.3
Rubber and articles thereof	9	0.2
Furniture; bedding, mattresses etc.	11	0.2
Miscellaneous articles of base metal	10	0.2
Wood and articles of wood; wood charcoal	8	0.2
Inorganic chemicals	12	0.2
Copper and articles thereof	9	0.2
Preparations of vegetables, fruit, nuts or other parts of plants	10	0.2
Knitted or crocheted fabrics	4	0.1
Other made-up textile articles; sets	4	0.1
Cotton	4	0.1
Tools, implements, cutlery, etc. of base metals	10	0.1
Coffee, tea, maté and spices	5	0.1
Prepared feathers and down and its articles; artificial flowers; articles of human hair	1	0.1
Miscellaneous manufactured articles	5	0.1
Lead and articles thereof	2	0.1
Articles of leather; saddlery and harness etc.	4	0.1
Animal or vegetable fats and oils	5	0.1
Works of art, collectors' pieces and antiques	3	0.1
Lac; gums, resins and other vegetable saps and extracts	2	0.05

Product Category	Number of Products at HS-6 digit level	Value of Exports (US\$ Million): 2021
Products of the milling industry; malt; starches; inulin; wheat gluten	3	0.05
Railway or tramway locomotives, rolling stock and parts thereof; etc.	2	0.04
Articles of apparel and clothing accessories, not knitted or crocheted	13	0.04
Man-made staple fibres	3	0.03
Carpets and other textile floor coverings	2	0.03
Headgear and parts thereof	2	0.03
Iron and steel	4	0.03
Mineral fuels and oils	1	0.02
Clocks and watches and parts thereof	5	0.02
Ceramic products	2	0.01
Salt; sulphur; earths and stone; plastering materials, lime and cement	5	0.01
Edible vegetables and certain roots and tubers	3	0.01
Live trees and other plants; bulbs, roots etc.	1	0.01
Other base metals; cermet; articles thereof	1	0.01
Cereals	1	0.01
Edible fruit and nuts; peel of citrus fruit or melons	4	0.01
Fertilisers	2	0.01
Impregnated, coated, covered or laminated textile fabrics	4	0.003
Zinc and articles thereof	1	0.002
Ores, slag and ash	2	0.00009
Printed books, newspapers, etc.	1	0.00002
Umbrellas, sun umbrellas, etc.	1	0.00001
Total	533	47.3

Source: DGCIS; ITC Trade Map; India Exim Bank Research

Further, Table 4.3 digs deeper into the category of major product champions to understand where Himachal Pradesh is exporting, where the global demand is coming from, which are the major competitors for India, which States are the competitors to Himachal Pradesh, amongst others.

Some of the key takeaways from Table 4.3 are:

- ❖ While the top ten product champions from Himachal Pradesh consist of 65% of Himachal Pradesh's exports, these items contribute to 2.5% of the global import demand
- ❖ Out of these ten product champions, Himachal Pradesh is in the top five exporting States of India for six product champions
- ❖ For six product champions out of the ten, Himachal Pradesh's top export destination is not in the list of major global importers, possibly indicating a demand-supply mismatch.

Overall, it is observed that the number of products at HS-6 digit level are the lowest in product champions. However, its share in Himachal's exports is significantly high due to the overdependence of the State on the pharmaceutical exports. On the other hand, underachievers are the maximum in number, however, their exports are valued at US\$ 47.3 million. This is where Himachal Pradesh will have to work on enhancing its capacities and thereby, cater to the world demand.

Table 4.3: Top Product Champions from Himachal Pradesh and their Global Trade Scenario

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's Exports	HP's Share in India's Exports	HP's Major Export Destinations: 2021	Global Imports: 2021 (US\$ Million)	Share in Global Imports	Major Global Importers: 2021 (in percent)	Major Global Exporters: 2021 (in percent)	Top Exporting States in India (in percent)
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes, put up in measured doses "incl. those in the form of transdermal administration" or in forms or packings for retail sale	1062.3	52.3%	7.2%	USA (17.6), Russia (11.4), Belgium (5.8), Brazil (5.4), Germany (4.9)	353169.0	1.6%	USA (18.6), Germany (8.3), Switzerland (6.3), Belgium (5.8), China (4.4)	Germany (16), Switzerland (13.6), Belgium (8.2), USA (7.7), Ireland (6)	Gujarat (21.1), Telangana (18.8), Maharashtra (15), Madhya Pradesh (8), Andhra Pradesh (7.5)

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's Exports	HP's Share in India's Exports	HP's Major Export Destinations: 2021	Global Imports: 2021 (US\$ Million)	Share in Global Imports	Major Global Importers: 2021 (in percent)	Major Global Exporters: 2021 (in percent)	Top Exporting States in India (in percent)
482390	Paper, paperboard, cellulose wadding and webs of cellulose fibres, in strips or rolls of a width ≤ 36 cm, in rectangular or square sheets, of which no side > 36 cm in the unfolded state, or cut to shape other than rectangular or square, and articles of paper pulp, paper, cellulose wadding or webs of cellulose fibres, n.e.s.	57.9	2.9%	14.2%	Poland (15.3), Italy (11.3), UK (9.8), Egypt (8.4), UAE (4.9)	4730.6	0.02%	USA (13.2), Mexico (6.3), Germany (5.2), Canada (4.9), Japan (4.7)	China (29.9), USA (12.9), Germany (8), India (7.9), Japan (4)	Gujarat (28.9), Haryana (19.9), Himachal Pradesh (14.2), Uttar Pradesh (7.8), Rajasthan (7.6)
850720	Lead acid accumulators (excluding spent and starter batteries)	35.2	1.7%	11.5%	UAE (36.2), Turkey (12.2), Lebanon (10.8), Nigeria (10.4), Oman (8.8)	7803.2	0.04%	USA (14.9), Germany (8.6), Netherlands (4.8), Italy (4.5), Canada (4.1)	China (28.3), Vietnam (9.6), USA (8.8), Germany (7.6), France (4.2)	West Bengal (25.3), Himachal Pradesh (11.5), Punjab (10.6), Delhi (9.7), Andhra Pradesh (9.3)

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's Exports	HP's Share in India's Exports	HP's Major Export Destinations: 2021	Global Imports: 2021 (US\$ Million)	Share in Global Imports	Major Global Importers: 2021 (in percent)	Major Global Exporters: 2021 (in percent)	Top Exporting States in India (in percent)
520523	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 192.31 decitex to < 232.56 decitex "> MN 43 to MN 52" (excluding sewing thread and yarn put up for retail sale)	35.1	1.7%	2.6%	Bangladesh (43.8), Portugal (12.1), China (8), Egypt (7.9), Spain (3.8)	2298.9	0.01%	Bangladesh (27.7) China (13.5) Portugal (6.1) Turkey (5.8) South Korea (5.5)	India (54.8), Vietnam (9.7), Uzbekistan (8.9), Turkey (8.6), Indonesia (3.6)	Gujarat (41.6), Punjab (21.5), Madhya Pradesh (12.1), Tamil Nadu (9.3), Rajasthan (6.7)
520524	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 125 decitex to < 192.31 decitex "> MN 52 to MN 80" (excluding sewing thread and yarn put up for retail sale)	27.7	1.4%	3.1%	Bangladesh (59.7), China (19.5) Japan (8.7) Portugal (3.1), Djibouti (2.3)	1426.4	0.01%	Bangladesh (37.9) China (22.3) Vietnam (6.8) Sri Lanka (3.2) Hong Kong (2.5)	India (55.6) Vietnam (11) China (9.6) Turkey (5.3), Uzbekistan (4.5)	Gujarat (27.4), Madhya Pradesh (20.4), Punjab (20.3) Tamil Nadu (15), Rajasthan (4.6)

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's Exports	HP's Share in India's Exports	HP's Major Export Destinations: 2021	Global Imports: 2021 (US\$ Million)	Share in Global Imports	Major Global Importers: 2021 (in percent)	Major Global Exporters: 2021 (in percent)	Top Exporting States in India (in percent)
520522	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 232,56 decitex to < 714,29 decitex "> MN 14 to MN 43" (excluding sewing thread and yarn put up for retail sale)	24.6	1.2%	4.0%	China (14.2), Bangladesh (12.2), Colombia (9.7), Portugal (9.4) Japan (6.9)	1269.1	0.01%	China (25.6) Bangladesh (16.5), Portugal (7.7), Egypt (7.6) Peru (4.2)	India (48.5) Vietnam (15.9), Turkey (9.9) Pakistan (4.6), Uzbekistan (3.7)	Gujarat (43.4), Punjab (15.1) Madhya Pradesh (10.6), Tamil Nadu (8.7), Maharashtra (6.5)
540244	Synthetic filament elastomeric yarn, single, untwisted or with a twist of <= 50 turns per metre (excluding sewing thread, yarn put up for retail sale, textured yarn and filament yarn of polyester, nylon or other polyamides)	23.9	1.2%	44.7%	Turkey (49.9), Bangladesh (14.3), Brazil (10.5) Egypt (6.1), Peru (5)	2506.7	0.01%	China (13.7) Turkey (11.7), Netherlands (7.9), Chinese Taipei (6.9), Italy (4.6)	China (28.8), Vietnam (24.8), South Korea (12.4), Singapore (8.5), Turkey (3.8)	Maharashtra (51.3), HP (44.7), West Bengal (3.2), Dadra & Nagar Haveli (0.3), West Bengal (0.2)

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's Exports	HP's Share in India's Exports	HP's Major Export Destinations: 2021	Global Imports: 2021 (US\$ Million)	Share in Global Imports	Major Global Importers: 2021 (in percent)	Major Global Exporters: 2021 (in percent)	Top Exporting States in India (in percent)
550953	Yarn containing predominantly, but < 85% polyester staple fibres by weight, mixed principally or solely with cotton (excluding sewing thread and yarn put up for retail sale)	20.5	1.0%	8.4%	Egypt (26.4), Argentina (10.8), Colombia (10.7), Peru (10.5), Brazil (6.5)	970.8	0.004%	Colombia (12.4), El Salvador (10.1), South Korea (6.6), Peru (6.3), Portugal (5.2)	USA (29.9), India (19.7), Indonesia (13.3), Vietnam (11.8), China (8.1)	Punjab (28.5), Rajasthan (23.3), Madhya Pradesh (15.8), HP (8.4), Gujarat (6.7)
300220	Vaccines for human medicine	18.7	0.9%	1.7%	Pakistan (31.1), Brazil (29.7), Bangladesh (20.1), Sudan (16.4), Nicaragua (2.3)	117217.8	0.5%	Belgium (14.6), Germany (9.2), USA (7.1), Spain (6.2), Japan (5.3)	Belgium (37), USA (12.7), China (12.4), Germany (10), Switzerland (5.5)	Maharashtra (74.2), Telangana (20.9), HP (1.7), Andhra Pradesh (1.3), Tamil Nadu (0.9)

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's Exports	HP's Share in India's Exports	HP's Major Export Destinations: 2021	Global Imports: 2021 (US\$ Million)	Share in Global Imports	Major Global Importers: 2021 (in percent)	Major Global Exporters: 2021 (in percent)	Top Exporting States in India (in percent)
330499	Beauty or make-up preparations and preparations for the care of the skin (other than medicaments), incl. sunscreen preparations (excluding medicaments, lip and eye make-up preparations, manicure or pedicure preparations and make-up or skin care powders, incl. baby powders)	13.9	0.7%	8.5%	Philippines (26.5), France (11.2), Bangladesh (9.9), Germany (9.6), Italy (5.3)	59141.7	0.3%	China (28.7), Hong Kong (11.4), USA (6.5), Singapore (4.5), Macao (4.3)	France (15.5), South Korea (12.5), Singapore (10), Japan (9.9), USA (7.4)	Maharashtra (15.1), Gujarat (13.9), Haryana (9.7), Uttar Pradesh (8.9), Himachal Pradesh (8.5)

Source: DGCIIS; ITC Trade Map; India Exim Bank Research

5. Challenges and Strategies

An export strategy is one of the critical elements for the competitiveness of any State, and the State Government has a major role to play to create an amenable environment towards facilitating trade and commerce, as the Central Government in its efforts supports such initiatives. It is therefore essential for a State like Himachal Pradesh to form an export strategy and integrate into their overall economic agenda.

This chapter makes an attempt towards devising an effective strategy, which needs to be implemented across levels while taking a holistic view of the State’s economic potential.

Enhancing Exports from Himachal Pradesh

Product-Side Strategies
<ul style="list-style-type: none">● Focused Export Sectors● Attracting FDI for Underachievers● Addressing the 'Achievers in Adversity' Category of Products● Identifying and Promoting Niche Varieties of Apple for Exports● Further Strengthening the Pharmaceutical Industry
Other Strategies
<ul style="list-style-type: none">● Upgrading the ICD Baddi● Realizing the Tourism Potential of the State● Setting up the Himachal Pradesh Export Promotion Council

1. PRODUCT-SIDE STRATEGIES

Focused Export Sectors

Himachal Pradesh, as is the case with other states, is required to identify and strengthen its potential in products that can garner high foreign exchange revenues for the State.

In the earlier chapters, export analysis for Himachal Pradesh was conducted at HS-6-digit level and 127 items were identified which fell in the category of product champions. These products have not only witnessed robust demand in the international market over the last decade – which could likely follow the increasing trend going forward – but have also been the ones where Himachal Pradesh has exhibited increasing export competitiveness.

This Study has mapped the export potential of the State to be in the range of US\$ 3.5-5 billion by FY 27. As a result, Himachal Pradesh would be required to strive to increase its share in India’s exports, which is currently at just over 0.5%. Providing special focus on the identified product champions would help the State in moving closer to the target.

In fact, out of the 127 product champions, the top 20 account for almost 70% of Himachal Pradesh’s total exports. Targeting these 20 product champions could be a significant effort in achieving the export target. This can be supplemented by ironing out the export infrastructure and policy bottlenecks prevalent with a focus on these 20 products, amongst others.

The Study narrows down some specific items that can be targeted under product champions. For instance, these may include the following:

Targeted Product	Related Production/Manufacturing in HP	HS Code
Decorative laminates	Paper, paperboard, cellulose wadding and webs of cellulose fibres, in strips or rolls	482390
Face creams (excluding turmeric).	Beauty or make-up preparations and preparations for the care of the skin	330499

Table 5.1: Select Product Champions for Himachal Pradesh

HS Code	Description	Exports: 2021 (US\$ Million)	Share in 2021
300490	Medicaments consisting of mixed or unmixed products for therapeutic or prophylactic purposes	1062.3	52.3%
482390	Paper, paperboard, cellulose wadding and webs of cellulose fibres, in strips or rolls of a width <= 36 cm	57.9	2.9%
850720	Lead acid accumulators (excluding spent and starter batteries)	35.2	1.7%
520523	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 192,31 decitex to < 232,56 decitex "> MN 43 to MN 52"	35.1	1.7%
520524	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 125 decitex to < 192,31 decitex "> MN 52 to MN 80"	27.7	1.4%
520522	Single cotton yarn, of combed fibres, containing >= 85% cotton by weight and with a linear density of 232,56 decitex to < 714,29 decitex "> MN 14 to MN 43"	24.6	1.2%
540244	Synthetic filament elastomeric yarn, single, untwisted or with a twist of <= 50 turns per metre	23.9	1.2%
550953	Yarn containing predominantly, but < 85% polyester staple fibres by weight, mixed principally or solely with cotton	20.5	1.0%
300220	Vaccines for human medicine	18.7	0.9%
330499	Beauty or make-up preparations and preparations for the care of the skin	13.9	0.7%
630260	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton	13.3	0.7%
740990	Plates, sheets and strip, of copper alloys, of a thickness of > 0,15 mm	12.1	0.6%
210690	Food preparations, n.e.s.	11.5	0.6%
853620	Automatic circuit breakers for a voltage <= 1.000 V	11.4	0.6%
300439	Medicaments containing hormones or steroids used as hormones but not antibiotics	10.9	0.5%
300432	Medicaments containing corticosteroid hormones, their derivatives or structural analogues	9.8	0.5%
330590	Preparations for use on the hair	8.7	0.4%

HS Code	Description	Exports: 2021 (US\$ Million)	Share in 2021
293629	Vitamins and their derivatives, used primarily as vitamins, unmixed	8.0	0.4%
190190	Malt extract: food preparations of flour, groats, meal, starch or malt extract, not containing cocoa or containing < 40% by weight of cocoa calculated on a totally defatted basis	7.7	0.4%
520623	Single cotton yarn containing predominantly, but < 85% cotton by weight, of combed fibres and with a linear density of 192,31 decitex to < 232,56 decitex "> MN 43 to MN 52"	7.5	0.4%

Source: ITC Trade Map; DGCIS; India Exim Bank Research

As is observed, most of these champions are either under pharmaceuticals or textiles, especially cotton. Some champions are also in the chemical industry. Himachal Pradesh will therefore have to work on multiple fronts. Suitable actions will be required for creating an enabling environment across these sectors, as also for undertaking capacity building in sectors with high potential for exports.

Attracting FDI for Underachievers

If the State is successful in inviting FDI, it will not only mark an important milestone in the 'Make in India' initiative, but it could also be incentivizing for the foreign companies to make Himachal Pradesh an important junction in their global value chains.

The 'Make in India' products are anticipated to automatically integrate themselves into the global value chains as their quality continues to rise. China was also able to apply this method with great success. Presently, the pharmaceutical industry accounts for most Himachal Pradesh's exports. Additionally, most of the units in this industry are domestic and account for a sizable share of exports.

As per the data available from Department for Promotion of Industry and Internal Trade (DPIIT), during October 2019 to September 2022, Himachal Pradesh received US\$ 180.3 million worth of FDI. This is just 0.2% of what India received during this period. It is also significantly lesser than Himachal Pradesh's contribution to India's exports and India's GDP.

Thus, it is critical that the State pinpoints industries that could increase Himachal Pradesh's exports. These are the industries that need to be prioritized for investment. The underachievers group is the most crucial to target for this goal, aside from the product champions, which are an obvious choice for attracting FDI.

The Study identified 533 items at HS-6-digit level which are in the category of underachievers. While these 533 items contribute to 2.3% of Himachal Pradesh's exports, they constitute almost 26% of the global imports, showing the export potential of this group. It should be noted that these are the items where the world has registered a robust demand during the last decade, however, Himachal's exports in this category have not been competitive.

The low share of underachievers in Himachal Pradesh's exports reflects the supply side bottlenecks. Given that the international demand is significant, the bottlenecks could be overcome by attracting FDI in the relevant sectors.

Since this is a category where Himachal Pradesh does not have export competitiveness, the Study dives deep into the segment of underachievers which have been identified at HS 6-digit level to identify specific commodities where Himachal Pradesh has some existing capacity. Exim Bank at the same time specifies select products (mentioned below) which could be targeted by HP.

Targeted Product	Related Production/Manufacturing in HP	HS Code
Static converters	Electrical Machinery and equipment	850440
Forceps, Forceps Clamps, Clips, Needle Holders, Introducers, Cephalotribe Bone Holding and Other Holding Instruments	Instruments and appliances used in medical, surgical, or veterinary sciences, n.e.s.	901890

Table 5.2 throws various observations on how sectors can be narrowed down. Some of the insights from the table are:

- Out of the 20 underachievers mentioned, 9 fall in the category of ‘electrical machinery and equipment’ and 3 fall in the category of ‘machinery and mechanical appliances’ showing how robust the global demand has been for these sectors, during the last decade
- There are some items such as HS 854140 (Photosensitive semiconductor devices, incl. photovoltaic cells) in underachievers category where India has been taking significant efforts in moving towards self-reliance and ultimately becoming export hub. Given the global renewable energy revolution, Himachal Pradesh should prioritize sectors such as these and invite investments, to cater to the increasing global demand
- Out of 20 items, there are 3 items where in Himachal Pradesh already has a decent presence and is exporting the items worth over US\$ 1 million. These items are HS 392690⁶, HS 850440⁷, and HS 732690⁸. In these items, Himachal Pradesh may like to enhance the capacities as the global import demand has been robust, during the last decade

Table 5.2: Underachievers from Himachal Pradesh with Significant Global Demand (Top 20)

HS Code	Description	Global Imports of the Item: 2021 (US\$ Million)	Share of Item in Total Global Imports: 2021	AAGR of Item's Global Imports: 2012-21	HP's Exports: 2021 (US\$ Million)
854231	Electronic integrated circuits as processors and controllers	479890.1	2.2%	8.8%	0.004
851712	Telephones for cellular networks "mobile telephones" or for other wireless networks	305760.3	1.4%	4.0%	0.104
847130	Data-processing machines, automatic, portable, weighing <= 10 kg	211550.2	1.0%	4.2%	0.193

⁶ Articles of plastics and articles of other materials of heading 3901 to 3914

⁷ Static converters

⁸ Articles of iron or steel, n.e.s.

HS Code	Description	Global Imports of the Item: 2021 (US\$ Million)	Share of Item in Total Global Imports: 2021	AAGR of Item's Global Imports: 2012-21	HP's Exports: 2021 (US\$ Million)
851762	Machines for the reception, conversion and transmission or regeneration of voice, images or other data, incl. switching and routing apparatus	187490.5	0.9%	6.3%	0.185
847330	Parts and accessories of automatic data-processing machines or for other machines of heading 8471, n.e.s.	153074.7	0.7%	3.2%	0.180
851770	Parts of telephone sets, telephones for cellular networks or for other wireless networks and of other apparatus	141318.4	0.6%	3.5%	0.411
847150	Processing units for automatic data-processing machines	84919.47	0.4%	7.6%	0.038
392690	Articles of plastics and articles of other materials of heading 3901 to 3914	78966.65	0.4%	5.7%	1.896
870829	Parts and accessories of bodies for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles	78901.28	0.4%	2.8%	0.0003
850440	Static converters	78842.77	0.4%	5.4%	3.212
854140	Photosensitive semiconductor devices, incl. photovoltaic cells	71349.07	0.3%	3.2%	0.115
853710	Boards, cabinets, and similar combinations of apparatus for electric control or the distribution of electricity	67549.23	0.3%	5.9%	0.203
870840	Gear boxes and parts thereof, for tractors, motor vehicles for the transport of ten or more persons, motor cars and other motor vehicles	67026.38	0.3%	2.4%	0.056
901890	Instruments and appliances used in medical, surgical, or veterinary sciences, n.e.s.	66733.23	0.3%	4.7%	0.289
950300	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys;	61809.14	0.3%	5.2%	0.00007

HS Code	Description	Global Imports of the Item: 2021 (US\$ Million)	Share of Item in Total Global Imports: 2021	AAGR of Item's Global Imports: 2012-21	HP's Exports: 2021 (US\$ Million)
850760	Lithium-ion accumulators (excluding spent)	60783.83	0.3%	22.7%	0.012
382200	Diagnostic or laboratory reagents on a backing, prepared diagnostic or laboratory reagent, whether or not on a backing, and certified reference materials	59617.57	0.3%	12.2%	0.610
853400	Printed circuits	59184.99	0.3%	2.4%	0.002
732690	Articles of iron or steel, n.e.s. (excluding cast articles or articles of iron or steel wire)	52109.3	0.2%	3.6%	2.043
100590	Maize (excluding seed for sowing)	51596.06	0.2%	5.4%	0.007

Source: ITC Trade Map; DGCIS; India Exim Bank Research

Addressing the 'Achievers in Adversity' Category of Products

The categories of product champions and underachievers have shown the products where the world import demand has been growing during the last decade. While in the category of product champions, the exports from Himachal Pradesh are competitive, it is not the case for underachievers.

The other two categories are 'declining sector' and 'achievers in adversity'. In both the cases, the global import demand has been weak during the last decade. Under the 'declining sector' category, Himachal Pradesh's exports are not competitive. As a result, focus should completely be shifted from the products falling under this category.

However, for the category of 'achievers in adversity', the exports from Himachal Pradesh display competitiveness. While diversification from these products could be a solution for the long term, diversification to export destinations with strong import demand could be an immediate and effective strategy.

Table 5.3 identifies the top ten⁹ exported products of Himachal Pradesh from the category of 'achievers in adversity'. Further, it shows where Himachal Pradesh is exporting these products and globally, which countries are the top importers. It will be important for Himachal Pradesh to focus on the nations which are top importers and have displayed robust import demand, during the last decade.

For instance, for HS 300420 in Table 5.3, Himachal Pradesh's export destinations are completely different from the top global importers. Further, under the top global importers, it is only USA (11.1%) and China (6.6%) which have displayed positive and higher AAGR than the world, during the last decade, for this item. So, for this particular item, that is, HS 300420, USA and China should be the target countries for exporters of Himachal Pradesh. Similarly, for HS 520932, Himachal Pradesh has extraordinary dependence on Bangladesh. It should explore countries like Vietnam as well, which has shown an impressive import demand in the last decade.

⁹ The 'achievers in adversity' category constitutes 16.9% of Himachal Pradesh's exports. The top ten from this category together constitute 12.4% of HP's exports, making the top ten a good representation of this category

Table 5.3: Diversifying Export Destinations for 'Achievers in Adversity'

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's exports	Major Exporting Destinations for Himachal Pradesh: 2021	Major Global Importers other than India: 2021 (% share)	Top Global Importers with Positive and Higher AAGR than World (AAGR: 2012-21)
300420	Medicaments containing antibiotics, put up in measured doses	109.0	5.4%	Ukraine (9.2), Nepal (6), Kenya (5.6), Russia (4.1), Philippines (4.1)	USA (19), China (9.8), Switzerland (6.8), Belgium (5.1), Germany (3.2)	USA (11.1%), China (6.6%)
294200	Separate chemically defined organic compounds, n.e.s.	62.9	3.1%	USA (16.6), Bangladesh (13.9), China (7.8), Spain (5.9), Poland (4.9)	Iran (12), Japan (5.4), USA (5), China (3.2), Italy (3.1)	Iran (42.5%), Japan (93.2%), USA (5.9%), China (16.7%), Italy (14.3%)
300410	Medicaments containing penicillin or derivatives thereof	26.3	1.3%	Nigeria (13.5), Turkey (13.2), France (5.9), Iraq (5.9), Kenya (4.7)	USA (12.5), Saudi Arabia (6.3), Belgium (5), Germany (4.8), Egypt (4.8)	Belgium (5.8%), Germany (3.6%), Egypt (19.5%)
300450	Medicaments containing provitamins, vitamins	14.5	0.7%	Myanmar (35.4), Uzbekistan (10.2), Russia (6.2), Nigeria (4.4), Ethiopia (3.7)	China (8.5), Russia (7), USA (5.1), Hong Kong (3.7), Canada (3.6)	China (10.5%), Russia (6%), USA (13.7%), Hong Kong (8.6%), Canada (6.4%)
520932	Woven fabrics of cotton, containing >= 85% cotton by weight and weighing > 200 g/m ²	9.3	0.5%	Bangladesh (67.8), Sri Lanka (8.1), Japan (6.5), USA (5.5), Indonesia (5.4)	Bangladesh (27.7), Mexico (8.7), Vietnam (7.5), Tunisia (4.3), Morocco (4)	Bangladesh (13.4%), Vietnam (12.7%)

HS Code	Description	Exports: 2021 (US\$ Million)	Share in HP's exports	Major Exporting Destinations for Himachal Pradesh: 2021	Major Global Importers other than India: 2021 (% share)	Top Global Importers with Positive and Higher AAGR than World (AAGR: 2012-21)
821220	Safety razor blades of base metal, incl. razor blade blanks in strips	7.4	0.4%	Bangladesh (64.4), UAE (15.6), Vietnam (4.4), Sudan (4.3), Nepal (2.2)	USA (10.8), Poland (9.5), Mexico (6.3), Germany (6.2), China (5.4)	USA (4.4%), Germany (0.7%)
910211	Wrist-watches	6.8	0.3%	USA (49), Germany (25.6), Hong Kong (20.3), Sri Lanka (2.1), Japan (1.2)	Hong Kong (12.8), USA (12.1), China (11.1), Germany (6.8), France (6.2)	China (6.4%)
520842	Plain woven fabrics of cotton, containing \geq 85% cotton by weight and weighing > 100 g to 200 g/m ²	6.2	0.3%	Bangladesh (71.9), Sri Lanka (22.7), Indonesia (2.1), Italy (1.4), Egypt (1.3)	Bangladesh (29.6), Vietnam (15.8), Indonesia (5.7), Hong Kong (3.6), Spain (3.3)	Bangladesh (0.5%), Vietnam (68.2%), Spain (7.1%)
550951	Yarn containing predominantly, but $< 85\%$ polyester staple fibres by weight	5.6	0.3%	Turkey (93.9), Egypt (4), Vietnam (1.6), Yemen (1.3)	Turkey (22.1), Brazil (15), South Korea (9.2), Vietnam (8.5), Chinese Taipei (4)	Vietnam (52.8%), Chinese Taipei (40.9%)
520622	Single cotton yarn containing predominantly, but $< 85\%$ cotton by weight	4.8	0.2%	Bangladesh (46.9), Egypt (23.6), Argentina (10.5), Spain (3.9), Chile (3)	Bangladesh (21.2), South Korea (13), China (10.3), Chile (7.4), Guatemala (5.5)	Bangladesh (141.7%), South Korea (0.6%), Guatemala (67.8%)

Note: For HS 520932, 520842, and 520622, AAGR is calculated for the period 2015 to 2021, as data for 2014 is not available

Source: ITC Trade Map; DGCI; India Exim Bank Research

Identifying and Promoting Niche Varieties of Apple for Exports

India's production of apples in 2021, according to FAO was 2.3 million tonnes in 2021, with a share of 2.4% in the global production of apples. China is the largest producer with almost 50% share. However, due to a large domestic market, India's share in global exports of apples was just 0.2% in 2021 and China's export share was 18%. With respect to the states in India, Jammu & Kashmir region produces over 70% of Indian apples and exports almost 44% of India's apples.

However, with respect to Himachal Pradesh, there is a significant room for improvement. The share of Himachal Pradesh in domestic production of apples in FY 22 was over 26%. But its share in India's exports of apples is almost negligible, as per DGCIS. One reason is that a significant portion of the apples in Himachal Pradesh is consumed within the country, particularly in the northern regions of the country. As a result, there is less surplus available for export. At the same time, there are also issues like 18-28% GST on items such as packing material, agricultural tools, pesticides etc. which can possibly hamper the export competitiveness.

Given this scenario, the State can identify and promote niche varieties of apples which it can offer for the international markets. While apple varieties like 'Red Delicious' and 'Royal Delicious' are already popular varieties from the State, Himachal can particularly target 'Golden Delicious' apples. This variety is, in fact, very popular in the US, although to export, various standards of USFDA will have to be met. Here, the State Government can collaborate with institutions such as APEDA to aid the exporters. Markets like ASEAN and Middle East could also be targeted for exports.

Additionally, there are many other varieties that are already being produced in Himachal and can be explored to tap international markets. These include varieties like McIntosh apples (widely used for making desserts, jellies, jams, pies and cakes), Granny Smith (used in making beverages, jams, desserts, cakes and candies), Tydeman's Early (used in desserts and fresh salads), and Scarlet Spur (used in pies, tarts and other baked goods).

Besides the above, Himachal Pradesh should explore the successful export models such as of the Washington Apples and its commission, Washington Apple Commission. In this regard, it will be important for H.P. Horticulture Produce Marketing & Processing Corporation (HPMC) to invest in the logistics infrastructure including the advanced refrigeration systems. HPMC, along with APEDA, should collaborate with the Indian embassies abroad to tap the major apple importing markets such as Germany, Russia, UK, etc.

Box 1: The Success of Washington Apples in Export Markets

The Washington apples are a variety of apples that are primarily grown in the state of Washington in the US. The State is the largest apple producing region in the US. These apples are known for their firm texture, sweet flavor, and bright red or green skin. The most popular varieties of Washington apples include Red Delicious, Golden Delicious, Gala, Granny Smith, and Fuji.

Today, Washington apples, especially in regions like India, have become a household name. The Washington Apple Commission which advertises, promotes, educates, and works for market development is present in more than 30 countries. The commission has been present since 1937.

The export success of Washington apples is driven by a variety of factors. First and foremost, the State has developed a reputation for producing high-quality apples that meet strict industry standards. This has led to strong demand for Washington apples both domestically and internationally. Second, the modern packing and shipping facilities have complemented this success. However, the most important is the strong relationships that the commission has established with international buyers and distributors, over the years. As a result, they are able to suitably develop international marketing campaigns.

In India, specifically, Washington apples have seen success as they are of one of the highest quality apples in the country. Due to the distribution network, they have been vastly available, even in the tier II and III towns of the country.

Further Strengthening the Pharmaceutical Industry

Given the contribution of pharmaceuticals to the State's exports, it is evident that the industry has much more significant prospects if exploited well. The share of pharmaceuticals in Himachal Pradesh's total merchandise exports was over 61% in FY 22, with the US being the largest market with a share of 14%.

As mentioned earlier the Baddi-Barotiwala-Nalagarh (BBN) industrial area alone has about 650 pharma units. The State is one of the leading manufacturers of generic medicines in India and has a strong presence in the global market. Some of the major pharmaceutical companies that have operations in Himachal Pradesh include Alkem Laboratories, Cadila Pharmaceuticals, Dr. Reddy's Laboratories, Sun Pharmaceutical Industries, amongst others.

The strength of Himachal Pradesh's pharmaceutical industry lies in the production of generic medicines that are manufactured and marketed after the patent on the original drug has expired. These drugs are typically cheaper than their brand-name counterparts and are made by different manufacturers. While the generic drugs are an important aspect of healthcare as they provide affordable options, they also become a hindrance in promoting the research and development in the pharmaceutical industry for developing new drugs. At the same time, the unique selling proposition (USP) of the generic drugs is that they are cheaper which ultimately also leads to a lower value realization for the exporters and the focus is completely on the quantity. In this regard, it is important for the State of Himachal Pradesh to explore the Telangana model in pharma space.

Box 2: Success of Telangana in Pharmaceuticals

The State of Telangana has made some important inroads in the pharma space, which could possibly be a good learning for Himachal Pradesh too. In fact, today Telangana exports almost 20% of India's pharmaceuticals. In and around Hyderabad, is the hub of life sciences in Asia with over 800 pharma and biotech units, which produces one-third of global vaccines and 40% of India's APIs, amongst others.

The 'Telangana Life Sciences' division of Government of Telangana has already set up 'Hyderabad Pharma City' which is the world's largest pharma cluster. It is further strengthening and expanding the existing 'Genome Valley' cluster which is India's first organized cluster for Life Sciences R&D and Clean Manufacturing activities. In FY 2017-18, Genome Valley was accorded with Industrial Area Local Authority (IALA) status. The IALA status enables single point administration of the cluster.

The grid also has country's largest Medical Device Park which was set up in 2017. Hyderabad has more than 20 incubation centers focused on Health tech and MedTech, highest for any city in India. The Government has also conceived Research and Innovation Circle of Hyderabad (RICH) initiative. This platform aims to link research institutions, academia and industry along with venture capitalists, angel investors and incubators. Overall, Telangana has created a conducive ecosystem for the growth of the life sciences industry, with a strong focus on innovation, research, and entrepreneurship.

Himachal Pradesh's focus has mainly been of pharmaceutical manufacturing and has developed a good position in this industry during the last decade or so. Going forward, given its experience and the potential, the State has a good opportunity, especially with its own upcoming drug park, to enhance its R&D in the pharmaceuticals industry. Pharmaceuticals business does not require significant land space and hence Himachal Pradesh could well develop itself as an attractive destination with scientific minds and businesses to flourish within the foots and the hills.

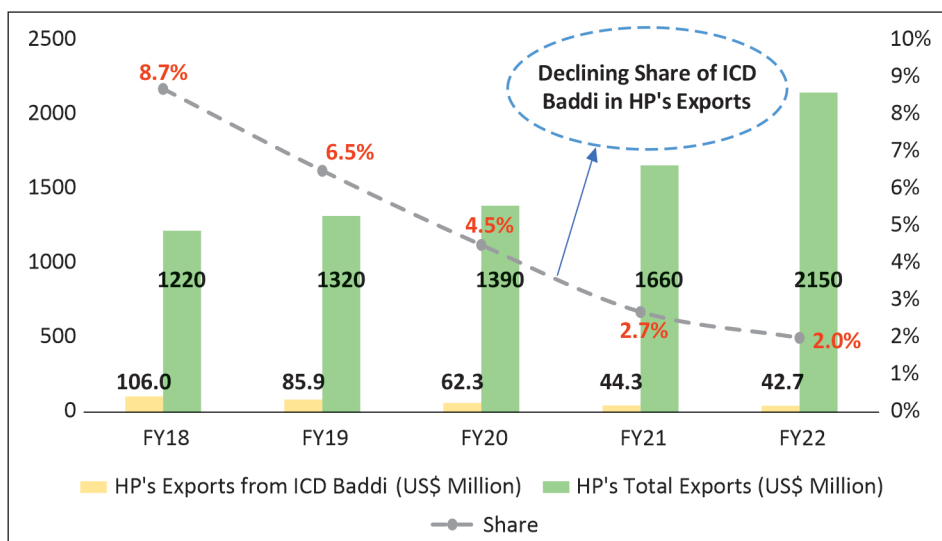
OTHER CHALLENGES AND STRATEGIES

Upgrading the ICD Baddi

The filing of Customs manifests, Bills of Entry, Shipping Bills, and other declarations, assessment, and all other operations linked to the clearance of goods for the aforementioned objectives take place at an ICD, which is a “self-contained custom station” like a port or an air cargo unit.

An ICD ideally should have its own automated system with a unique station code assigned by the Directorate General of Systems, as well as built-in functionality to enable examination report entry, document evaluation, manifest processing, modifications, and other functions. Receiving and delivering goods, packing, and unpacking containers, transit operations by rail and/or road to and from servicing ports, customs clearance, consolidation, and desegregation of Less Container Load (LCL) freight, temporary storage of cargo and containers, reworking of containers, and maintenance and repair of container units are the main duties of an ICD¹⁰.

Figure 5.1: ICD Baddi’s Share in Himachal Pradesh’s Exports



Source: DGCIS; India Exim Bank Research

¹⁰ CBIC

There are 87 ICDs in India, out of which, one named ICD Baddi is in Himachal Pradesh. The ICD in Baddi started its operations in 2015 with the catchment areas of rich industrial belt of Baddi, Nalagarh, Barotiwala and other adjoining areas including Parwanoo, Kalka, Solan, Pinjore, Chandigarh etc. The exports from ICD Baddi which were over US\$ 100 million in FY 18 have dropped to US\$ 43 million in FY 22. As a result, the share of ICD Baddi in total exports from Himachal Pradesh has declined from 8.7% in FY 18 to just 2% in FY 22.

There are various infrastructural and logistical issues associated with the ICD Baddi that would need to be addressed by the appropriate authorities. For instance, currently, the ICD Baddi does not have a proper functioning railway network to optimally operate a container depot. The exporters are thus compelled to rely on trucks for their transportation needs. Higher freight rates are a typical practice since the Baddi-Barotiwala-Nalagarh (BBN) area contains some of the biggest transport unions in the nation. With this arrangement, the overall cost of finished goods increases, and the exports become less competitive.

It may be noted that the State Government has completed the land acquisition process on the Himachal side for the railway line connecting Chandigarh and Baddi. However, the project first got the nod in 2007 and has been pending since then. As a result, the project needs to be expedited.

Further, there have also been issues such as lesser cranes, forklifts, inadequate capacity etc. at ICD Baddi. The data shows that in FY 22, over 64% of Himachal Pradesh's pharma exports were from Delhi air and Nhava Sheva sea ports. And less than 1% of pharma's exports were from ICD Baddi. From the ICD Baddi, almost 65% exports were of cotton yarn and 21% were of manmade yarns, fabrics, and madeups.

It is important to mention here that the Government of India recently granted in-principle approval for three bulk drug parks to be set up in India. One of these three parks will be in Haroli tehsil of Una district. Given that this park would be supplementing pharma exports from the State, it becomes even more vital for the State to expand the existing capacity of ICD Baddi and upgrade it further.

Additionally, ICD Baddi should also be equipped to handle import shipments like other ICDs in India. This could balance the inflow and outflow of containers, as currently only export facility is available at ICD Baddi. As a result, containers are brought in by the exporters on their own and it adds to the overall cost.

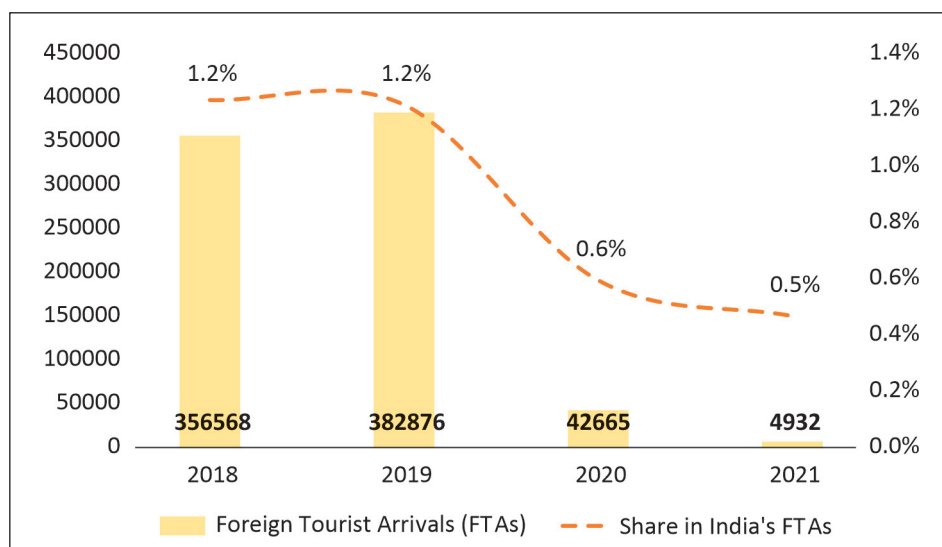
Finally, as on date, only full container load (FCL) shipments are cleared from ICD Baddi. And for less container load (LCL) shipments, exporters have to resort to other ICDs. The authorities should evaluate this challenge and may like to allow the clearance of LCL shipments as well, from ICD Baddi.

Realizing the Tourism Potential of the State

The tourism sector in Himachal Pradesh is extremely important for the State's economy. It contributes to around 7% of the State's GDP. In fact, tourism is an important source of income including foreign exchange for many States in the country, as has been the case with Kerala and Rajasthan. The growth of tourism has a positive impact on industries like hospitality, transport, entertainment, etc. Because of the linkages that the tourism sector has with multiple industries, it is an important contributor to the employment generation of the region. The unique customs of Himachal Pradesh, along with its traditions, cultural and the natural attractions and topography provide excellent opportunities for tourism development. At the same time, its terrain is ideally suited for numerous adventure activities.

However, even with a significant potential of tourism in the State, the sector remains largely untapped especially with respect to the arrival of the foreign tourists. In 2021, the foreign tourist arrivals (FTAs) in Himachal Pradesh were just 4,932. The number has gone significantly down from 3,56,568 FTAs in 2018 due to the impact of the pandemic. But even before the pandemic, the State's share in total FTAs to India was just 1.2%, showing how untapped Himachal's tourism remains. Even the share of domestic tourist arrivals (DTAs) remains dismal. The share was 0.7% in 2019 and 0.8% in 2021.

Figure 5.2: Foreign Tourist Arrivals in Himachal Pradesh



Source: Ministry of Tourism; India Exim Bank Research

The low foreign tourist arrivals' scenario can be addressed by undertaking 'stressed marketing' activities. Rather than focusing on the overall tourism of the State, the government can focus on marketing what the State can offer that is different (for instance, latest adventure sports), from the other States with similar structures, so that a unique image could be developed around a tourist destination. In terms of advertisement campaigns in the print media or the television media, the State could possibly target select countries from where the influx of tourists has been majorly from.

Further, the State can also strengthen its tourism industry by promoting religious tourism. Himachal Pradesh is known as 'Dev Bhoomi' and has various religious sites to offer such as Chintpurni temple, Jwallaji, Bijeshwar temple in Kangra, Baba Balak Nath in Hamirpur, Nainadevi in Bilaspur and Markandey temple. Even from the foreign tourists' point of view, the State has important destinations to offer such as Tabo Monastery, Gandhola Monastery, Kee Monastery, etc. which can be covered under the Buddhist Circuit. Until now, Himachal Pradesh has not been able to market its religious and pilgrimage sites effectively. In this regard, it will be important for the State to Study the model of religious and pilgrimage tourism of Uttarakhand.

Box 3: How Queenstown became the Adventure Capital of the World?

Tourism is one of the important sectors of New Zealand, contributing to around 5% of its GDP. The number of international tourists visiting New Zealand in 2022 was over 1.4 million. More importantly, Queenstown, New Zealand is today known as the 'Adventure Capital of the World'.

A lot of factors were involved in making Queenstown as the adventure capital, with two primary factors being the marketing and innovation. Firstly, Queenstown is surrounded by stunning mountains, lakes, and rivers, providing the perfect backdrop for adventure activities such as skiing, bungee jumping, and whitewater rafting. As far as marketing is concerned, the branding of the region as the 'adventure capital' was itself one of the biggest marketing strategies.

Further, the advertisements were made in such a way that the consumers would get that adrenaline rush and would feel that only Queenstown can offer that rush. New Zealand Tourism has also undertaken activities to target tourists from specific countries. For instance, in 2017, the agency partnered with Singapore airlines and Air New Zealand for Indian tourists, to offer promotional fares for a year.

However, none of this would have been possible without the consistent innovation that New Zealand has undertaken to make Queenstown as the adventure capital. Queenstown was one of the first places in the world to offer heli-skiing, which involves being flown to remote mountain peaks by helicopter and then skiing down untracked powder slopes. Queenstown established commercial jet boating as early as in 1960. The boat had the ability to travel in less than 3 cm of water. Even the first white water rafting of New Zealand was started in 1974. Finally, in 1988, AJ Hackett Bungy, a leading Bungy jumping operator set up the world's first commercial bungy jumping operation which further cemented the title of 'adventure capital' for Queenstown.

Box 4: Success Story: Religious and Pilgrimage Tourism in Uttarakhand

The growth of tourism in the state of Uttarakhand, since its formation, has been enormous. As per the Tourism Policy of Uttarakhand, this segment contributed over 50% to the State's total GDP during 2006-07 to 2016-17. A large part of this was accounted by the religious and pilgrimage tourism. This can be estimated from the fact that in 2021, out of over 2 million tourist arrivals in Uttarakhand, more than 63% were for Haridwar, which is a major religious centre in the State.

Today, the Char Dham Yatra of Uttarakhand, is one of the most popular religious tourism circuits in the country. In fact, the promotion of religious tourism has gone beyond the Char Dham yatra in the State and centres such as Rishikesh and Haridwar have been aggressively promoted. Rishikesh is now considered as the yoga capital of the world and is home to several ashrams and spiritual centres while Haridwar has seen continuous upgradation of its ghats.

The State government has invested in promoting Uttarakhand's religious destinations by organizing festivals, cultural events, and pilgrimages.

Setting up the Himachal Pradesh Export Promotion Council

The Himachal Pradesh Export Promotion Council (HPEPC) can be set up with support from the State Government, industry associations and exporters for providing information and guidance to exporters. Exporters, generally, have to go to various departments and agencies to execute their work. The Council shall also serve as a link between the exporters and the Government and help alleviate the constraints for export growth. HPEPC can be set up with an organization structure incorporating equal representation from the private (export oriented firms across sectors) and the public sector.

As the institution will have representation from both the exporters as well as the Government, it will help in building and sustaining an export-oriented focused approach. In this case, the State can actually assess the amount of investment, kind of investment (domestic or foreign), policy changes, policy challenges, sectoral issues etc. which can facilitate in enhancing exports. At

the same time, the organization can internally divide itself into departments based on the relevant sectors for the State. The role of the agency could, inter alia, include the following:

- ❖ Assisting exporters in understanding and leveraging the export policies and export assistance schemes of the State and Central Government;
- ❖ 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 activities;
- ❖ Organizing awareness workshops regularly, especially focussing on agro-based manufacturer exporters, food processing being a priority sector for the government;
- ❖ Organizing regular coordination meeting of all export promotion councils and governmental departments at a monthly level to address issues related to coordination.

The proposed HPEPC can set up Trade and Information Centres/Kiosks at major industrial growth centres of the State for providing information to the 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.

In addition, one of the key annual performance metrics of the HPEPC could be the number of new exporters added in its clientele list.

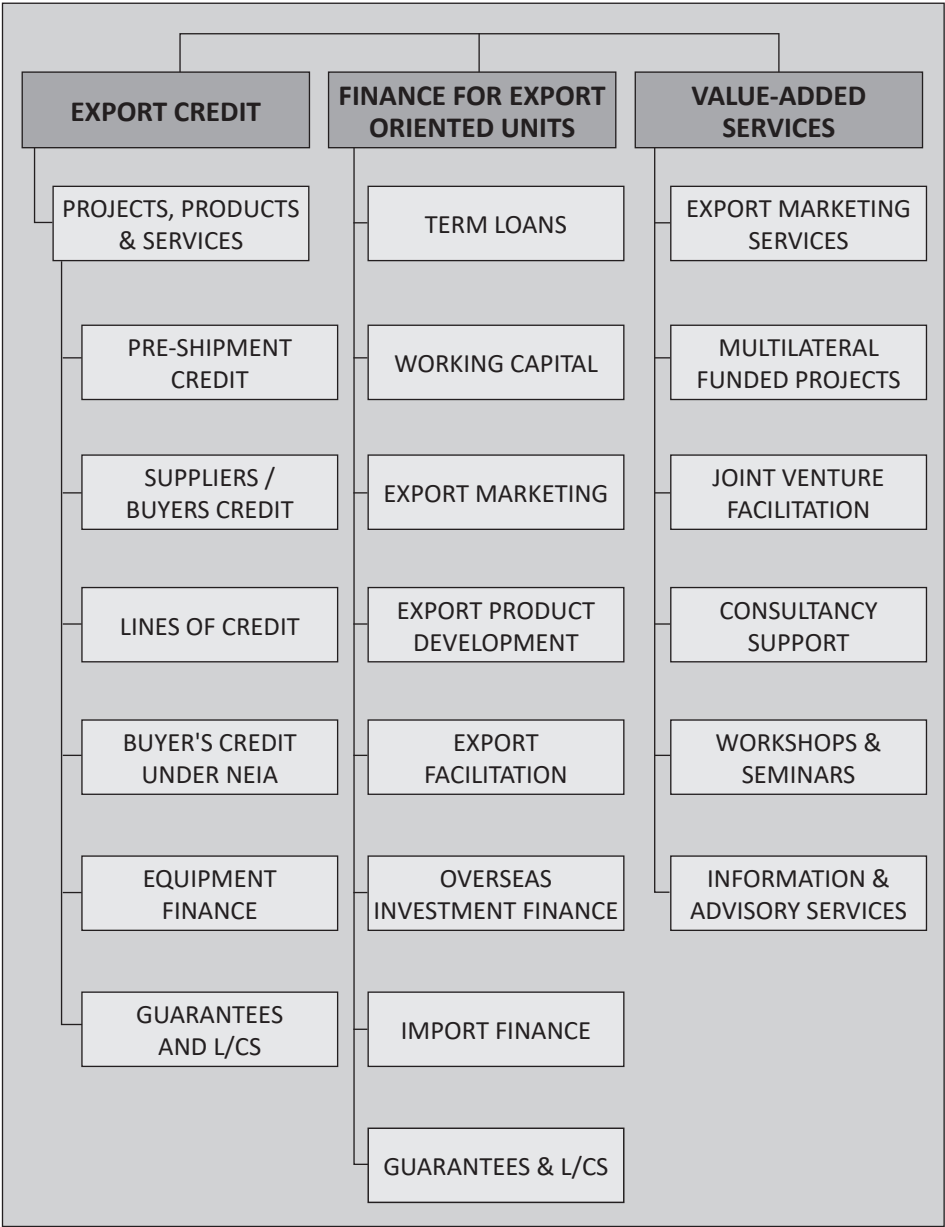
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