

# Indian Apparels – A Sector Study

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# **EXPORT- IMPORT BANK OF INDIA**

## **OCCASIONAL PAPER NO. 205**

### **INDIAN APPARELS - A SECTOR STUDY**

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## EXECUTIVE SUMMARY

Indian textile and apparel have always been an important sector in the Indian economy. The textile and apparel industry contributes up to 7% of industry output in value terms, 2% of India's GDP and to 10.8%<sup>1</sup> of the country's export earnings. The textile and apparel industry are one of the largest sources of employment generation in the country with over 45 million people employed directly, and another 60 million people in allied sectors, including a large number of women and rural population<sup>2</sup>. Given the share in exports and the number of people employed in the sector, the growth in the sector not only provides economic growth, but also inclusive growth and community development.

The Indian readymade garments/apparel industry is the largest segment in the Indian textile and apparel industry, accounting for almost 50% of the total industry. The Indian apparel sector is characteristically unorganised and segmented. Apparel production is broadly segmented into production for domestic markets and for exports. As per the Annual Survey of Industries (ASI) 2017-18, there were 10,498 factories in the manufacturing of apparel. These factories are divided into three categories, namely, manufacture of wearing apparel (except fur apparel), manufacture of fur apparel and manufacture of knitted and crocheted apparel. The estimated number of factories in 2012-13 ASI were 9,275. However, there are huge number of small manufacturers in this sector, making it difficult to arrive at a formal size of apparel industry. Most of the production is organized in clusters and major clusters are located in Bangalore, Delhi NCR, Kolkata, Ludhiana, Mumbai, Tirupur, and other cities. As per a study by Apparel Export Promotion Council (AEPC), 95% of the total apparel production takes place in the top 19 clusters.

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<sup>1</sup> Ministry of Textiles, Government of India

<sup>2</sup> Annual Report 2019-20, Ministry of Textiles, Government of India

Apparel manufacturing in India is largely organised at three levels. The first level comprising of the Tier 1 firms are involved in cutting of the fabric into patterns as specified by the buyers, performed predominantly using power operated cutting machines. The second level, which is the most labour-intensive stage in the entire production process involves sewing the cut fabric using mostly foot operated sewing machines and sometimes with power operated ones. This is often outsourced or subcontracted to fabricators, which forms the Tier 2 firms. The third stage pertains to operations involving the finishing stages that includes trimming, checking the dimensions, washing, ironing, and packaging. . The fourth and final level, which constitutes the Tier 3 and Tier 4 firms are composed of home-based workers or own account enterprises (OAEs) that service the outsourcing needs of the Tier 2 firms.

The integration of the Indian apparel supply chain to the global value chain is of two types: supplying to the European Union (EU) and the United States (US); and supplying to the Middle East market (to cater to South America). Most of the medium-sized and large firms in India cater to the global value chains that supplies to the EU and the US. Besides, there are also integration with regional value chains, such as with Bangladesh.

A highly diverse production landscape of the Indian apparel industry also corresponds to an equally or more diverse landscape of labour, which is often displayed in distinct regional labour regimes both in factory and in non-factory settings.

While the Indian apparel industry continues to remain a significant supplier to world apparel markets, in the recent years, the industry is faced with heightened competition from the traditional as well as emerging apparel supplying countries. Besides competition from China as the leading supplier, apparel products from India are increasingly facing competition from products from Vietnam, Indonesia, Bangladesh and Turkey.

With advent of new trade models, such as E-commerce, greater integration of global value chains and changes in consumer and market preferences towards ethical and sustainable apparel, the industry is exposed to increased

vulnerabilities in trade. It is thus, important for the industry to revisit its potential as a global supplier by addressing its limitations and challenges and capture the emerging market opportunities for expansion and sustainability.

## Global Apparel Industry

The global market for apparel manufacturing was estimated at around US\$ 898.3 billion during the year 2019<sup>3</sup>, which was expected to reach around US\$ 950 billion by 2020. Due to the global impact of COVID 19 pandemic, the expected market value is anticipated to have altered and the overall market for apparel is projected to witness a downward trend during 2020. The apparel manufacturing market grew at a CAGR of 5.3% during 2015 to 2019. The Asia-Pacific region accounted for around 64% of the total market for apparel during 2019. European aggregation accounted for around 30% of the market. Western Europe, China, the USA and India were the top contributors to the revenue in the global apparel market during 2019.

The global textile and apparel export was estimated at US\$ 821.3 billion in 2019. Apparel and clothing accessories (HS 61 and HS 62) had a combined share of 57.8% in total textile and apparel exports during 2019<sup>4</sup>. China is the largest exporter of apparels with exports worth US\$ 138.2 billion in 2019, accounting for a share of 29.1% in the total global apparel exports, followed by Bangladesh with a share of 8.5% (US\$ 40.4 billion) in the total global apparel exports. Vietnam was the third largest exporter of apparels globally in 2019 with a share of 7.0% (US\$ 33.3 billion) in global apparel export. Other major apparel exporters during 2019 include Germany (5.0%), Italy (5.0%), India (3.4%) and Turkey (3.3%). Vietnam was an outlier, witnessing an increase of 18.2% of y-o-y growth during 2019 over 2018, while China witnessed a decline of 4.6% during 2019. Apparel exports from China registered a CAGR of (-) 3.9% during 2015 to 2019. Globally, the HS code 610910, which include T-shirts, singlets and other vests of cotton, knitted or crocheted, was the most exported item with exports worth US\$ 31.1 billion in 2019. Bangladesh was the top exporter in this segment with a share

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<sup>3</sup> Market Line

<sup>4</sup> ITC Trademap, includes HS Code 50 to HS Code 62

of 19.2% in total global exports of the segment during 2019, followed by China (12%) and India (6.3%).

Global import of apparel was estimated at US\$ 435.4 billion in 2019, witnessing an increase of 0.8% as compared to US\$ 432 billion in 2018<sup>5</sup>. Apparel and clothing accessories listed under HS code 61 and HS code 62 had a combined share of 57.7% in total textile and apparel imports during 2019. The US was the largest importer of apparel with an estimated import of US\$ 87.5 billion in 2019 and a share of 20.1% in the total global import of apparel. Germany was the second largest importer of apparels with an estimated import of US\$ 39 billion in 2019, accounting for 9% of the global apparel import. Other major apparel importing countries during 2019 included Japan (6.4%), the UK (5.7%), France (5.5%) and Spain (4.5%). The major apparel importing countries witnessed a downward trend, with six out of the top ten importers in 2019 witnessing a negative growth rate.

**Asia – The Apparel Supplier to the World:** While China continues to dominate the global apparel supply chain, consequent to rising labour cost in China apparel manufacturing is steadily shifting to other low-cost countries in Asia, such as Bangladesh, Vietnam, Indonesia, Cambodia and Sri Lanka, with these countries getting increasingly integrated to the Global apparel value chains. Apparel exports from Bangladesh registered a CAGR of 11.1% during 2015 to 2019. Apparel trade from Bangladesh has the advantage of duty-free access to around 52 countries that include the EU, the USA, Australia, Switzerland, Japan, Turkey, Russia, Norway, New Zealand, China, South Korea, Thailand, Malaysia, and India. Apparel export from **Vietnam** registered a CAGR of 11.6% during 2015 to 2019. Vietnam has emerged among the major exporters of apparel globally in the last 10 years. Increased market access through Free Trade Agreements (FTAs) and technology has been the major growth drivers for the Vietnamese garment and textile industry. FDI in the Vietnamese apparel industry has been another major growth driver for rising exports. With new FTAs in effect such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Vietnam-EU FTA (EVFTA), new markets are anticipated to open up leading to higher exports by Vietnam. Apparel exports from **Indonesia**

<sup>5</sup> As per data accessed in September 2020 from ITC Trade Map

registered a CAGR of 3.2% over 2015 to 2019. The changing dynamics due to the US-China trade war have resulted in more Indonesian garments being exported to the US and more cotton imported from the US. With the conclusion of the Indonesia-European Comprehensive Economic Partnership Agreement (IEU-CEPA) in 2019, and Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) in February 2020, apparel exports from Indonesia to the European markets and Australia is expected to increase. Apparel export from **Cambodia** registered a CAGR of 8.8% during 2015 to 2019. Cambodia is a relatively new garment producer compared to its Asian neighbours but has grown considerably since the mid-1990s. Around 90% of investment in the sector is from foreign firms. Cambodia too enjoys LDC status from EU and had a duty-free access to the vast markets of EU. However, in February 2020, European Commission withdrew part of the tariff preference granted to Cambodia under EBA program. The Cambodian garment industry also benefitted considerably by the quotas placed by the US for Cambodia since 1997 and also from the reimposition of quotas on Chinese exports by the EU and USA, during which many Chinese producers re-allocated part of their production to Cambodia<sup>6</sup>. Apparel export from **Pakistan** registered a CAGR of 6.8% during 2015 to 2019. Pakistan's apparel industry has largely benefitted from exports to EU-15 and the US. The US had been Pakistan's top trading partner throughout the early 2000s. Pakistan is a beneficiary of EU's GSP+ program. GSP+ status allows more than 76% of Pakistan's textile and apparel exports to enter the EU-15 without duties or quotas<sup>7</sup>. Pakistan is also a beneficiary of preferential market access under GSP to Canada, Japan, New Zealand, Norway, Russia, Switzerland, and Turkey, and it is also a signatory of bilateral Free-Trade Agreements with countries, such as Indonesia, Malaysia, Sri Lanka, Iran and Mauritius. Apparel export from **Sri Lanka** registered a CAGR of 5.5% during 2015 to 2019. Sri Lankan apparel industry and exports historically benefitted from Multi-fibre Arrangement (MFA) since 1978 and then from restoration of the generalised system of preferences plus (GSP+) facility by the EU in May 2017. Sri Lanka has FTAs with Singapore, India and Pakistan. An FTA with China is underway. The country is also a member of the South Asian Free Trade Area and the Asia-Pacific Trade Agreement. With the US, Sri Lanka has a bilateral Trade and Investment Framework Agreement

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<sup>6</sup> Asuyama and Neou, 2012

<sup>7</sup> EC, 2018b

(TIFA). Apparel exports from **China** registered a CAGR of (- 3.9%) during 2015 to 2019. China historically has enjoyed MFN status, which made China emerge as a giant player in the apparel trade globally. However, with its accession to WTO, removal of quotas by the developed markets like the US and the EU for China, WTO's anti-dumping implementations, Preferential Trade Agreements (PTAs) and implementation of safeguard mechanism by other developed markets on Chinese textile and apparel products have led to the emergence of competition for China from other Asian textile and apparel economies. This has led China to invest in technology and upgradation of production quality and increase in focus on high end products. Apparel and textile trade from China reportedly have benefitted largely from the Belt and Trade Initiative of the Chinese government. By 2018, the Chinese textile and apparel industry is reported to have invested US\$6.5 billion in countries along the Belt and Road route. During the initiative's first five years, the total trade volume between China and countries along the Belt and Road route has exceeded US\$ 6 trillion, accounting for nearly a third of China's total trade in goods during the period. The textile and apparel industry is reported to have a large share of this trade.

India too appears in the list of leading Asian suppliers, however, has been facing increasing competition from the emerging Asian competitors, resulting in a loss in share in the global markets.

**Emerging Africa in Textile and Apparels:** East Africa has emerged as the global apparel sourcing hub in Africa. In the recent years, increasingly global buyers have established regional sourcing offices in Kenya and Ethiopia. **Kenya** is the largest apparel exporter for cut, make and trim (CMT) in the region, with the highest level of productivity. Apparel industry in **Ethiopia** is on the rise due to upcoming industrial parks with available plug and play infrastructure, which is attracting a number of foreign investors. **Tanzania** and **Uganda** are significant cotton producers and exporters; some of the very few integrated textile mills in the region are based in these two countries. **Rwanda** currently has two operating textile and apparel manufacturing units. Apparel exports from Africa has largely benefitted from the African Growth and Opportunity Act (AGOA), which is a non-reciprocal preference programme extended by the Government of the United States to eligible African countries. East Africa continues to remain

the largest exporter of apparels to the US under AGOA with Kenya (US\$ 319 million in 2018), Madagascar (US\$142 million in 2018) and Mauritius (US\$137 million in 2018) being among the largest suppliers to the US market. Ethiopia has been fast-emerging as one of the significant apparel suppliers (US\$32.5 million in 2018) and is forecast to join the “big three” East African apparel producers if the recent growth continues. Apparel exports by Africa to the rest of the world is significantly low. AGOA is due for expiry in 2025. Over-reliance of the East African countries on the US markets could emerge as a considerable challenge for the apparel sector of the region. Governments in East Africa have given priority status to the textiles and apparel sector. The East African Community (EAC) have also prioritized textiles and apparel sector. In November 2019, EAC launched its Cotton, Textiles and Apparel Strategy, which aims at an integrated and globally competitive cotton, textiles and apparel industry for its six member countries<sup>8</sup>. The Governments envisages to increase the current spinning capacity of less than 500,000 spindles to at least 2.7 million spindles by 2029. The establishment of the African Continental Free Trade Agreement (AfCFTA) in 2019 envisions the largest free trade area and economic zone in the world.

**Latin America in Textile and Apparels:** Pushed by several market entry arrangements, increasing consumer demand and large-scale investments, Latin American countries, such as Peru, Brazil, Argentina, and Columbia are emerging as significant suppliers in the regional apparel supply chains. The textile and apparel industry in Latin America is estimated to register a CAGR of approximately 3.8%, over a forecast period (2019- 2024)<sup>9</sup>. **Peru** has emerged as South America’s largest clothing exporter due to its unique domestic raw materials, such as the Alpaca fibre and Tangüis cotton. Clothing exports from Peru is estimated to be around US\$ 950.1 million. Clothing exports from Peru has exhibited steady growth in the recent years. However, the growth is reported to be affected by increasing imports of low-grade products and the recent impact of the Covid-19. **Brazilian** clothing sector perhaps is the only integrated sector in the region, from fibre production to the finished apparel products. The clothing sector of Brazil is the 2<sup>nd</sup> largest employer in the manufacturing industry and is also the 2<sup>nd</sup> largest job creator. Brazil’s exports of apparel were estimated to be

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<sup>8</sup> Kenya, Rwanda, Tanzania, Uganda, Burundi and South Sudan

<sup>9</sup> Mordor Intelligence

around US\$150 million during 2019. **Colombian** apparel sector has 106 free-trade zones, of which 67 are permanent-single company zones. Apparel sector also considerably benefits from the free trade agreements with large importing regions, such as the Europe and the USA. Colombia is a member of the Andean Community (since 1969), which constitutes a free trade agreement with Bolivia, Ecuador, and Peru. The Andean Community has a free trade agreement with the Mercosur countries (Brazil, Argentina, Paraguay and Uruguay), which gives the Colombian apparel sector easy access to more markets in the region. The sector also has an advantage of Colombia's membership in Pacific Alliance (founding member), Caribbean. Besides, the United States-Colombia Trade Promotion Agreement (CTPA) has aided Columbia to become one of the largest apparel sourcing destinations for the USA. **Mexico** is the number one Latin American supplier of apparel products to the USA and the 6<sup>th</sup> worldwide exporter of apparel to the USA. Mexican textile and apparel sector specialises in synthetic fibres. Mexico's proximity to the US and implementation of North American Free Trade Agreement (NAFTA) initially benefitted the apparel sector considerably. Mexico's trade equation with China and heavy dependence on imported raw materials have been affecting the apparel industry considerably in the recent years, with exports declining significantly in comparison to the imports. However, the industry and export are set for a revival and stability in the traditional markets of the US and Canada, following the signing of the United States-Mexico-Canada Agreement (USMCA).

**Impact of COVID 19 on Global Apparel Market:** The short-term impact of COVID pandemic on the global apparel industry trade has been reflected in sharp decline in sales due to the economic lockdowns in many parts of the world, and subsequent disruptions in the supply chain and halt in international trade. The apparel industry is expected to have witnessed an estimated negative growth rate of 27% globally in 2020. The value of the U.S. clothing and clothing accessories sales witnessed a year-on-year fall by 50.5% in March 2020<sup>10</sup>. As the industry, globally, is largely dependent on China for raw materials, the peak of the outbreak in China, resulted in shortages of raw materials and inputs causing disruption to manufacturing across the world, and particularly in garment producing countries in the South-East Asia. In the medium-term, impact of

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<sup>10</sup> US Census Bureau



the pandemic is forecast to be felt in the new production, which could be at much reduced levels due to huge unsold stocks. In the longer-term, however, the pandemic is forecast to affect the composition of global textile industry with clothing supply chains and trade moving towards re-or nearshoring of production.

## Indian Apparel Industry

**Production and Sales:** The Index of Industrial Production (IIP), with base year 2011-12, for wearing apparel registered a positive y-o-y growth since January 2018, before entering in the negative growth territory during October 2019 with y-o-y growth of (-) 2.8% and continued to register a negative trend for several months thereafter. The IIP witnessed a y-o-y fall of 40% in March 2020, followed by 94% fall in April 2020. This dip was due to the imposition of stringent lockdown norms during the COVID 19 pandemic. The index slowly started picking up in the following months, with the ease in the lockdown norms.

The Wholesale Price Index (WPI) has also been exhibiting an increasing trend for the apparel industry. The WPI (base year 2011-12) was estimated at 138.3 for the year 2019-20 a marginal drop from the value of 138.8 in 2018-19.

**Trade:** India has been a net exporter of apparel, having a trade surplus. The export of apparel<sup>11</sup> by India was estimated at US\$ 16.5 billion in 2019, registering a y-o-y growth of 5.4%, over the previous year. Apparel exports registered a CAGR of 5% during 2010 to 2019. In the readymade garments section, the garments of cotton including accessories were the highest exported item, with an estimated export of US\$ 8.6 billion in 2019-20. It was followed by readymade garments of manmade fibres with an estimated export of US\$ 3.5 billion in 2019-20. Top five export destinations for India's apparel export contributed to around 59.1% of total apparel export from India in 2019. The US was the largest export destination for Indian apparels, with an estimated export of US\$ 4.4 billion in 2019, accounting for a share of 26.7% in India's apparel export. Other major export destination includes the UAE (11.5%), the UK (9.7%), Germany (6.4%),

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<sup>11</sup> HS code 61 (Articles of apparel and clothing accessories, knitted or crocheted) and 62 (Articles of apparel and clothing accessories, not knitted or crocheted)

Spain (4.7%), and France (4.5%). HS code 610910, which is T-shirts, singlets and other vests of cotton, knitted or crocheted, was the largest export item with exports valued approx. US\$ 2 billion in 2019, a share of 12.1% in India's total apparel export. Other major HS codes for exports include HS 620520<sup>12</sup> with exports of US\$ 0.8 billion, HS 611120<sup>13</sup> with US\$ 0.7 billion and HS 620443<sup>14</sup> with US\$ 0.7 billion.

The import of apparel by India was estimated at US\$ 1.14 billion in 2019, registering a y-o-y growth of 7.5%, over the previous year. The apparel import was highest in 2019, as compared to all the previous years. Apparel import registered a CAGR of 23.2% during 2010 to 2019. Top five source countries for apparel imports for India contributed up to 81.6% of total imports by India in 2019, of which the top two countries contributed around 61.5%. Bangladesh is the largest supplier of apparel to India, with an estimated import of US\$ 389.6 million in 2019, accounting for a share of 34% in India's apparel import. Import of apparel by India, from Bangladesh, has been increasing rapidly, registering a CAGR of 42.5% during 2010 to 2019. China is the other major import source, accounting for a share of 27.5% in India's apparel imports during 2019. Other major import source includes Spain (8.5%), Sri Lanka (5.8%), Hong Kong (5.8%) and Vietnam (3.5%). HS code 620342, which include Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear), was the most imported item with imports worth approx. US\$ 125.7 million in 2019, accounting for a share of 11% in India's total apparel imports. Other major imports includes items in HS 620520<sup>15</sup> with imports of US\$ 90.1 million, HS 620462<sup>16</sup> with US\$ 50.3 million and HS 610910<sup>17</sup> with US\$ 49.7 million worth of imports.

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<sup>12</sup> Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)

<sup>13</sup> Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)

<sup>14</sup> Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)

<sup>15</sup> Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)

<sup>16</sup> Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)

<sup>17</sup> T-shirts, singlets and other vests of cotton, knitted or crocheted

**FDI in Textile and Apparel Sector:** The FDI equity inflow in the textile and apparel sector during April 2000 to September 2020 was estimated at US\$ 3,464.1 million, which was 0.7% of the overall FDI equity inflow in India.

**Operating Margin and Labour Cost:** Raw materials dominate the overall operating cost for the Indian apparel industry. It constituted about 41.8% of the operating cost in 2018-19. Compensation paid to employees remains other major constituent of overall costs in the apparel industry, with an estimated share of 15.3% in the operating cost during 2018-19. Rising expenditure predominantly due to these factors is creating downward pressure on the profitability of the apparel industry.

**Credit Flow:** Total outstanding credit from banks and financial institutions to the textile and apparel industry in India was estimated at ₹1924.2 billion at the end of financial year 2019-20, which equals to 6.6% of total outstanding credit to all industries for the year 2019-20.

**Export Competitiveness:** Export competitiveness of India's apparel export was worked out in the study using Normalized Revealed Comparative Advantage (NRCA) for HS codes 61 and 62 at a six-digit level. In the basket of top 25 apparel items exported by India, except for two, India had comparative advantage for all other apparel products. For India's top ten apparel export items in 2019, a cross-country analysis of competitiveness shows that India enjoys a relative comparative advantage in 6 of the top products when compared to China, Vietnam, Germany and Italy, while Bangladesh has higher NRCA for each of the ten products.

## **Market Access Arrangements**

Trade agreements provide preferential market access to countries leading to various economic and dynamic advantages ranging from trade creation, market expansion to capital accumulation and productivity improvement.

**Market Access Arrangements by Key Textile and Apparel Markets: The USA** has in place several market access arrangements with countries, regions, and

trading blocs. These arrangements involve elimination or reduction of tariff rates, providing access to government procurement opportunities and easing of investment regulations. Key trade arrangements of USA include: Programs - AGOA<sup>18</sup>, CBI<sup>19</sup> (include CBERA, CBTPA and HOPE); FTAs - Australia, Singapore, Bahrain, Chile, Oman, Israel, S. Korea, Jordan, Morocco, NAFTA, CAFTA-DR<sup>20</sup>; Trade Promotion Agreements - Colombia, Panama and Peru. **The EU** as a bloc is the largest importer of textile and apparel products globally and has in place several market access arrangements covering almost all regions of the world. Key trade arrangements include: Economic Union (27 European countries); GSP, GSP + and EBA status - for several developing and least developed nations; Customs Union – Turkey; FTAs - South Korea and North Africa; Trade Agreements - Latin American countries (Full-fledged agreements with two Latin American groupings, Cariforum and the Central America group), a multiparty trade agreement with three countries of the Andean Community (Colombia, Ecuador, and Peru), and agreements with Mexico and Chile underway; inter-regional and bilateral framework agreements with both Mercosur and its individual members. Japan has established 15 Economic Partnership Agreements (including with India). Besides, **Japan** has also implemented a GSP program granting preferential tariff advantage to 151 countries<sup>21</sup>.

**India's Market Access Arrangements and Implication on Apparel Trade in Key Markets:** India has several trade agreements, however, only a few are relevant with respect to trade in textile and apparel products as majority of the countries covered by these arrangements are not significant importers of textile and apparel products. India's trade arrangements include: FTA - South

<sup>18</sup> The African Growth and Opportunity Act that covers 38 African countries

<sup>19</sup> Caribbean Basin Initiative launched in 1983 through the Caribbean Basin Economic Recovery Act (CBERA) and expanded in 2000 by the U.S.-Caribbean Basin Trade Partnership Act (CBTPA). CBERA was implemented on January 1, 1984 and has no set expiration date. The CBTPA is scheduled to expire on September 30, 2020. Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE)/ 2008 (HOPE II) are additional benefits created for Haiti by amending CBERA. There are 17 CBERA beneficiary countries, 8 of which are beneficiaries under CBTPA

<sup>20</sup> The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR FTA) entered into force for the United States, El Salvador, Guatemala, Honduras, and Nicaragua in 2006, for the Dominican Republic in 2007, and for Costa Rica in 2009

<sup>21</sup> United Nations Conference on Trade and Development (UNCTAD), Generalised System of Preferences- List of Beneficiaries

Asia Free Trade Area (SAFTA), Bhutan, Sri Lanka; PTA - Asia Pacific Trade Agreement (APTA), Afghanistan, Chile and MERCOSUR; CECA - Association of Southeast Asian Nations (ASEAN), Malaysia and Singapore; CEPA - Japan and South Korea; GSP – EU. India has established trade agreements with South Korea and Japan, but the gains have not been significant as they are competed by other bilateral and multilateral trade agreements by the two countries with other peer countries of India in the sector, such as with Vietnam, Bangladesh, Turkey and China.

Though there has been an organic increase in exports from India to the **Republic of Korea** since 2009, India's share in South Korea's import of apparel products has remained low at less than 1%. India also does not appear among top 5 suppliers of apparel products to South Korea. A product-wise analysis of the top ten apparel products imported by Republic of Korea reveals that, except for HS 610910 (T-shirts, singlets and other vests of cotton, knitted or crocheted), where India has a share of little over 2%, rest in all other products India has a negligible share. While India's share has been diminishing, Bangladesh's share in most of the categories has increased significantly since 2009.

Despite having a duty free access, India's share in **Japan's** total apparel imports has been significantly low. India's share has been lower than even the new apparel exporting countries, such as Myanmar, Indonesia and Cambodia. Product-wise analysis of top ten apparel products imported by Japan reveals that India's share in the imports has been significantly low at less than 1%. The analysis also reveals that from 2014 to 2019, share of Vietnam and Bangladesh in Japan's top ten apparel imports have increased steadily.

India's trade agreement with **Association of South East Asian Nations (ASEAN)**, also have not been able to render significant gains in apparel trade with member countries. India's apparel trade with select member countries in ASEAN were analysed in the study. A product-wise analysis of apparel products traded between India and the member countries with whom India has FTAs reveals that: only in few products India has been able to expand its trade in these markets; diversification in products in these markets has been low in case of India; India has been lacking consistency in supply to these markets; India also

has been facing steep competition from emerging apparel suppliers, such as Bangladesh and Turkey. An analysis of India's apparel trade with **Vietnam** reveals that Vietnam has been most non-yielding partner. A product-wise analysis of the apparel products imported by Vietnam reveals that only for two product categories India's share in imports are around 2-3% and for other products the shares are negligible. Besides China and ASEAN, South Korea, Bangladesh and Pakistan are top suppliers of apparel products to Vietnam. An analysis of apparel products imported by **Indonesia** reveals that even for Indonesia, India has not been able to gain in the apparel segment with duty free access under the India-ASEAN CECA. There has been a steady growth of imports of apparel products by India from Indonesia from 2009 to 2019, resulting in a trade deficit for India in the segment with Indonesia. Bangladesh has emerged as the third largest supplier of apparel product (HS Code 61) and second largest supplier of HS code 62 to the Indonesian market followed by Turkey during 2014 and 2019. An analysis of **Malaysia's** imports of apparels reveals that India is not among the top five suppliers of apparels to Malaysia. India's exports in the apparel segment to Malaysia has been reasonably positive over the period 2009 to 2019 with a positive trade balance. However, there is a significant decline in exports of HS 62 from India to Malaysia during 2019 when compared to 2014. An analysis at the HS code 8-digit level of the Indian apparel products exported to Malaysia reveals that Vietnam and Bangladesh are emerging as leading suppliers to Malaysia steadily.

#### **India-Bangladesh apparel trade under South Asian Free Trade Area (SAFTA):**

According to industry sources, SAFTA has not been able to yield much benefit for the Indian apparel industry but has benefited Bangladesh apparel industry with respect to apparel trade. An analysis of trade in apparels between India and Bangladesh exhibits a steep and steady rise of exports from Bangladesh to India as against India's exports to Bangladesh during the period 2010-11 to 2019-20. A product-wise analysis reveals significant increases in imports of apparel products to India from Bangladesh in product groups 620342<sup>22</sup>, 620462<sup>23</sup>, 620520<sup>24</sup>, and 620590<sup>25</sup>.

<sup>22</sup> Mens, boys trousers and shorts, of cotton, not knit

<sup>23</sup> Womens, girls trousers and shorts, of cotton, not knit

<sup>24</sup> Mens, boys shirts, of cotton, not knit

<sup>25</sup> Mens, boys shirts, of material nes, not knit

**Duty Disadvantage in Leading Markets:** India's major trading partners in apparel products are the USA, the EU and the UAE. India does not have free trade agreements with its key apparel import markets. Unlike India, all major apparel exporting countries have trade agreements with the leading importing countries, particularly the US or the EU or with both. Apparel exports to the EU and the USA are subjected to high autonomous tariff; however, countries under the trade agreements have the benefit of zero or preferential tariffs, which are much lower. This has put Indian apparel manufacturers into a disadvantageous position in these markets. Depending on the apparel products<sup>26</sup>, India faces an import duty of up to 32% on its exports to the USA. India has been accorded a GSP status by the EU. Indian apparel products under GSP are subjected to 9.6% import duty, while Bangladesh and Turkey, two of the leading suppliers of apparel products face zero tariff. The UAE has been one of the key export markets for apparels for India largely acting as a hub for catering to African and Middle-East markets. India's exports of apparel products to the UAE have been considerably affected since May 2019 with the UAE imposing a 5% duty on apparel products.

## Challenges

In the recent years, dwindling exports, underperformance of the garment industry, cut-throat competition from new and emerging garment manufacturing countries, slacking approach of the industry to keep pace with the changing needs and developments of the global garment value chain, and influences of changing dynamics of liberalised trade are some of the deep drawn challenges faced by the Indian apparel sector. Key challenges include:

### ***Policy Implications***

***Multi Fibre Agreement and Quota Regime:*** The Multi Fibre Agreement (MFA) has long governed the global textile and apparel industry from 1974 to 2004. Under this protectionist agreement, quotas on apparel trade were imposed on the developing countries while certain Least Developed Countries (LDCs) were selectively preferred overruling the agreement providing them considerable

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<sup>26</sup> Classified at HS Code eight digit

market advantages in the developed country markets. The MFA was phased out during 2004. Since the elimination of quotas, trade in apparels from India to the EU, though grew at a steady rate, have not kept pace with other LDCs. Elimination of quotas resulted in heightening of protectionist measures in the developed countries constraining exports from developed countries.

### ***Domestic Regulatory Frameworks***

*The lasting SSI Structure:* Long drawn policy imperatives such as the Monopolies and Restrictive Trade Practices Act (MRTP Act), and the Foreign Exchange Regulation Act (FERA) have largely restricted the garment sector to small scale units discouraging large size enterprises from entering the sector. This coupled with seasonal nature of demand for garments has been instrumental in the heavy dependence of the domestic apparel industry on the Small Scale Industry (SSI) sector. Though these policies have been phased out, the impact of the policies are still felt strong in terms of the sector's largely fragmented structure with limited economies of scale, which have been detrimental for the sector's overall growth and productivity.

*Low FDI Inflow:* Despite a liberal investment regime, foreign capital inflows have remained minimal in the Indian apparel sector largely due to poor quality of infrastructure, fragmented structure of industry, lack of congenial business environment, complex regulatory environment, high transaction costs, stringency in labour rules, and sectoral caps on FDI in the retail sector. The total FDI inflow in the textile and apparel sector during April 2000 to December 2020 stands at only 0.7% (US\$ 3,682.7 million) of the total FDI inflow in all industry<sup>27</sup>. Besides, a lack of synergy between the National Manufacturing Policy (NMP) and FDI policy is also cited as one of the reasons for low FDI inflow in the sector.

*GST:* Differential taxation for yarn and fabric have been detrimental to the sector's competitiveness and has been directly affecting the growth of the SMEs in the sector. Apart from the policy limitations, system errors, such as delay in reimbursement of input credit, and limited knowledge of GST have also been considerably impacting the sector.

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<sup>27</sup> Department for Promotion of Industry and Internal Trade



*Lack of Fibre Neutrality:* Global trends in apparels have been a mix of 35:65 in favour of Manmade Fibre (MMF), whereas in Indian apparel sector it is 58:42 Cotton-MMF composition of textile for garmenting. This sluggish adaptation of MMF in the Indian apparel industry has been largely due to limited availability of manmade fibres at competitive prices. This has also been considerably affecting India's trade in apparels in the global markets.

*Challenges with Credit and Insurance:* Letter of Credit (LC) is one of the significant components in credit mechanism of apparel trade. In the recent years there has been a considerable rise in non- LC buyers, and as a result, the large and established apparel buying houses are exposed to significant risks, particularly when exporting to markets in Africa, CIS and certain Asian countries, which has emerged as a hindrance for market diversification for Indian apparel exporters.

*Exclusion of activities in SITPs:* In the current modalities of the Scheme for Integrated Textile Parks (SITPs), many of the key activities, such as knitting and dyeing, cannot be brought under the cluster format due to wet processing mainly due to procedural complexities associated with obtaining environmental clearances, which fails the whole concept of integrated textile parks.

### **Market Access Arrangements**

*Viability of FTAs:* India has 15 trade pacts, which also covers trade in textile and apparel to the non-traditional markets. However, India's FTA engagement in terms of textiles and garments trade has not been encouraging under these market arrangements, which cater to only around 7% of India's total apparel exports under the duty-free access in the global market, and the remaining products face higher duties. Conversely, China, Bangladesh and Vietnam have around 30% of their clothing exports traded under the duty-free access to the global markets. The current Rule of Origin (RoO) for apparel products under SAFTA stipulates differential RoO for the LDC and non-LDC members. Discriminatory RoO, and no restrictions on sourcing of raw materials is affecting the Indian apparel manufacturers considerably. Lack of uniformity in RoO across the trade agreements of India has emerged as a compelling factor for the garment manufacturers to set up separate production lines to cater to different

markets or select specific markets and thus, compromising on economies of scale.

*Preferential Treatments:* Apparel trade from India is significantly affected by preferential treatments enjoyed by competing countries, such as Bangladesh, Pakistan and Vietnam. Such preferential access coupled with increasing Non-Tariff Measures (NTM) imposed on imports by the EU and other countries are considerable deterrent to apparel trade for India. With the ratification of the EU-USA FTA and easing of NTMs for the USA, it is anticipated to have greater impact on apparel trade from developing countries including India.

*GSP Utilization:* EU as a bloc is the largest importer of apparel products. Majority of imports under EU's GSP (47.9% of €33 billion) remains in apparel and clothing. Though India has emerged as the largest beneficiary of the EU's GSP (non-zero) in the recent years, it remains behind Bangladesh in trade with the EU in apparels. Pakistan has emerged as the largest beneficiary of EU's GSP+ program, which also include significant apparel trade from the country.

*Non-Tariff Barriers (NTB):* Apparel trade from India has been also subjected to a plethora of NTBs in various export markets, particularly on labour, making them challenging in terms of cost competitiveness and compliance. The textile and apparel sector accounts for around 4.1% of NTMs faced by all categories of exports in top destinations<sup>28</sup>. EU's policy of granting special incentives for enforcing labour standards and environmental safeguards, and labelling requirements in the USA and EU and in many countries is emerging as a significant NTM for apparel trade in these markets.

### ***Industry Level Challenges***

*Export Similarities:* Export similarities with the competitors is also a significant challenge for Indian apparel trade. Studies reveal that Bangladesh, Pakistan and Vietnam has significant overlaps with India in apparel products exported to the EU, which coupled with preferential treatments is considerably affecting India's

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<sup>28</sup> Exim Bank Study on NTB

apparel trade. The Finger Kreinin Index (FKI)<sup>29</sup>, which analyses similarities in exports shows considerable similarities in products exported by India and its Asian competitors. The similarities have been rising over the years from 17% during 2009 to over 50% in 2019.

*Unit Price Realisation of Exports:* An analysis of unit export prices of apparel products from India and its competitors to the world market shows that the export unit prices of major export items from Bangladesh are lower compared to India's unit price in the markets largely due to its lower labour cost. Despite establishing sustainable backward linkages in terms of achieving self-sufficiency in raw material production, India has not been able to enhance its export competitiveness and market penetrations largely due to its cost disadvantage. Although the Integrated Skill Development Scheme (ISDS) of the Government of India is focused on growing the pool of skilled labour in the country, the growing labour costs are impeding India's competitive advantage in the apparel industry.

*Structural Deficiencies:* Export production nodes for apparel are scattered across the country and take the form of industrial clusters, defined by dense agglomerations of SMEs. The small size of the units hinders investments in plants and machinery, technology upgradation, R&D, attractive packaging and effective international marketing, such as participation in international trade fairs. Majority of the firms typically outsource large part of their production to job workers, which often results in longer lead times and compliance issues.

*Limitations of Existing Clusters:* Majority of the apparel clusters work as informal production regimes in the country and display the highest levels of informality. Informality is paralleled by high labour-intensity, and structured around difficult relations of domination and subordination, based on several demographic and socio-economic factors, which considerably affects production process. The scattering of production across different centres in the country is accompanied by a different product specialisation dominating each centre. This dependency blocks diversification both in terms of product and markets and global integration. Locations of old apparel clusters in cities also offers limited scope for expansion and modernisation due to urban congestions.

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<sup>29</sup> It ranges between 0 and 1. If 0, then the two structures are completely different; if 1, then the two structures are identical. Both countries export the same products and with the same intensity

*Firm Level Despair:* Assumptions asserting sluggish growth in performance of the sector to policy challenges often fails to capture the complex dynamics of industrial labour relations in this sector. Low investments in quality upgradation (R&D) and skill development of workforce have been leading to low skills and quality in the sector. This coupled with cost-cutting strategy by the businesses has severely dented their prospects to integrate with GVCs due to diminished competitive efficiency.

*Productivity:* Indian apparel industry has the largest workforce in Asia and one of the lowest productivities largely due to lack of adequate operational skills, inadequate management skills, poor production planning, insufficient performance assessment, limited machine efficiency, poor conditions for workers, and focus on low value-added production.

*Labour Issues:* Presence of majorly migrant labours in the industry who often behaves seasonal leading to labour shortage in peak season for export deliveries has been one of the prime challenges for the Indian apparel industry. Shortage of labour results in considerable rise in production costs and delays in lead times. Additionally, lack of standardised labour norms across India also puts the apparel industry further into disadvantageous position.

*Buyer-Driven Supply Chain:* Globally, apparel sector is dominated by large retailers and trading companies with decentralised production networks located predominantly in the developing countries, such as India. Indian apparel industry, on the other hand, is dominated by manufacturers mostly acting as package suppliers for these foreign buyers, which often lowers the bargaining power that Indian apparel sector has on global cues in the industry, thus preventing its growth.

*Long Lead Times:* India's exports in apparel are also plagued by long lead time most often cited due to delays in availability of quality raw material, requisite accessories, labour productivity and operational efficiency. For. e.g., Lead times in case of Indian apparel industry for the USA, ranges between 85-100 days and for Europe it is around 70-80 days, while for Chinese apparel exports the lead time is less than 60 days, and for Sri Lankan apparel consignments it is 10-12

days lesser than that of India. The probability of on time delivery by the Indian apparel industry is around 75%<sup>30</sup> only.

*Challenges with the Availability of Raw Materials:* Inconsistency in fabric prices led by volatile domestic cotton prices often results in apparel manufacturers depending on import of cheap fabrics, subsequently affecting the quality of products. This volatility also leads to increase in prices of blended fabrics. In the absence of adequate production of man-made fibres in the country, MMF pricing and quality largely act as a deterrent to the competitiveness of apparel products made using MMFs or blends. Majority of the export oriented large apparel manufacturers import apparel accessories which considerably affects their profit margins due to import duties levied. SMEs in apparel manufacturing source majority of the accessories locally, which significantly fall short in quality required for exports. Machineries used in majority apparel manufacturing are predominantly low cost machineries sourced from China that are often poor in quality and performance considerably affecting quality of the intermediates and finished products. Import duty levied on machinery import is relatively high, which coupled with additional cess increases total landing costs. This is cited as the primary reason inhibiting sourcing of quality machineries and/or upgrading machineries by the SMEs.

*High Rejection and Rework:* Indian apparel sector is still struggling for “Right First Time” quality perspective. Rework and rejection rates are considerably high in Indian apparels compared to global standards and peers. E.g., in India, rejection percentage varies from 1.4% to around 5%; percentage of factory-wise internal failures ranges from 12% to 17.5% of the total SAM<sup>31</sup> of the garment.

## Recommendations

### Policy Recommendation

*Trade facilitation:* Policy reforms need to focus on WTO compliant export incentives to enhance integration of domestic value chains to global value chains, reduce distortions and aid exports. To minimise any supply side shocks,

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<sup>30</sup> IIFT study on Indian Textile and Allied Industry

<sup>31</sup> Standard Allowed Minutes (SAM)

trade policy in addition to downstream segment should also emphasise on upstream segment that include cotton, yarn, cotton blended yarn and fabric, in which India holds traditional comparative advantage and enjoys substantial integration with global clothing value chains. The options may include improving efficiency of the whole apparel value chain by undertaking comprehensive horizontal reforms, such as infrastructure development and promoting the ease of doing business. To enhance competitiveness of Indian apparel products, policy options should explore neutralizing the effects of duty paid on imported inputs. This may require policy makers to undertake a comprehensive mapping of imported inputs used in apparel exports. There is a need to consider revamping the Scheme for Integrated Textile Parks, to develop the SITPs in relevance to the global apparel value chains. Policy makers may consider linking the benefits availed under the scheme Mega Textile Regions and Parks scheme (MITRA) that was launched recently, with a set of performance parameters to ensure judicious use of the subsidies and funds, and with adequate assessment of WTO compatibility of such provisions. To enhance competitiveness of the SMEs in the industry a fund may be created for upgradation of production system and facilitating wider marketing. A Production Linked Incentive (PLI) scheme may also be extended to the apparel sector particularly to boost those segments that are at a disadvantageous position in global value chain and trade, such as the knitting segment.

*Revisiting FTAs:* Configuring any multilateral trade deals should undertake a prior review and assessment of existing FTAs in terms of benefits to various stakeholders, such as industry and consumers, trade complementarities and changing trade patterns in the past decade. Negotiating bilateral FTAs with countries where trade complementarities and margin of preference is high may benefit India in the long run. Reducing compliance cost and administrative delays is extremely critical to increase utilisation rate of FTAs. Further, adequate safety and quality standards should be set to avoid dumping of lower quality goods into the Indian markets, creating trade distortion and challenging competitiveness of Indian products. Expediting finalisation of pending FTAs, such as with the EU and the USA is critical for the apparel industry. Simultaneously, re-negotiating existing FTAs / partnership agreements exploring market entry mechanisms are also vital for mitigating market concentration risks. RoO under

SAFTA needs to be made dynamic to capture the modalities of value chain-led trade. It is imperative for member South Asian countries to renegotiate RoO and emphasize the inclusion of a 'Yarn Forwarding Rule' in the SAFTA.

*Reducing Lead Time:* To address the infrastructural bottlenecks that has been largely affecting lead time for the Indian apparel sector, policy makers may explore constituting special task force to review and address procedural and administrative complexities. Focus on infrastructural development may include creating adequate bonded warehousing facilities at the airports and ICDs, increasing cargo capacity for achieving competitive rates of freight and improving overall efficiencies of the ports. Capacities and efficiencies of ports with proximities to the clusters, such as JNPT Mumbai and Tuticorin Port needs to be improved significantly.

*Addressing Standards:* India's standard setting and monitoring institutions, such as Bureau of Indian Standards (BIS) need to work closely with institutions concerned with standards. Harmonization of regulatory standards through Mutual Recognition Arrangement (MRA) may be explored.

*Credit and Insurance Facilities:* Easy access to institutional credit for all manufacturers and fabricators is vital for the growth of the sector. Availability of working capital at a competitive interest rates to the export-oriented apparel manufacturers; making pre and post shipment credit availability more flexible for the manufacturers and exporters of apparels; and creation of special fund for small apparel manufacturers may help address financial risks in times of distress. To address payment risks with recent trend of reduced trade in apparel using Letters of Credit (LCs), particularly in the developing country markets in Africa, Asia and the CIS, exports of apparel may be considered under commercial Lines of Credit. Structuring policies to assist SME apparel exporters and manage risks arising due to currency fluctuations may also be explored.

*Streamlining Infrastructure and Logistics:* To compete efficiently in the global apparel value chain, the sector requires significant overhauling in terms of relocating clusters with provisions of adequate expansions, technology friendly upgradation, reduced dwell time, and offering ease of operations and

management. Creating GVC friendly infrastructural provisions, transportation infrastructure needs to be emphasised considerably by encouraging private investments in the sector.

*Rejig Labour Laws:* To enhance productivity and efficiency in the industry and improve competitiveness, there is a need to implement a uniform labour law across the country, with respect to wages and compensation, employment terms, working hours, and worker's conditions.

*Procedural Simplification and Incentivising sustainability:* For ease of regulatory compliance for the industry and to reduce compliance related lead time, there is a need to bring in clarity in compliance norms and simplify procedures. Encouraging self-regulation, inspection and certification may help in addressing delays in clearances and promote uninterrupted operations at the industry level.

*Productivity Improvement:* Considering working conditions and environmental practices, interventions should take an integrated approach targeting productivity improvements. Hence, interventions should be inclusive and ensure a wide reach, both horizontally and vertically. Interventions should also be scalable and go beyond the first tier of the supply chain to maximize impact.

*Cluster Development:* Interventions in the development of the apparel clusters should be structured in a way so that entrepreneurs in these clusters network can take best advantage of the growing markets, both domestic and international. Consortium-based approach should be explored in marketing, such as joint participation (cluster) in international trade fair, brand building. Strengthening linkages with the support organizations may be one of the important elements of cluster development programmes.

## **Recommendations for the Industry**

Indian apparel industry needs upgrading at three levels, viz., product, process, and functional. Process upgrading should be undertaken through the use of new production machinery, worker training, reduction in delivery time, inspection and total quality programs, introduction of new organizational approaches,



improvements in the production process, and increased use of artificial intelligence and computerisation in business. The product upgrading by the industry should necessarily involve upgrading product quality, introduction of new fabrics and raw materials, and reduction in reworking rates. Functional upgrading involves upgrading through design, marketing, and branding. Investing in functional upgrading can create valuable development options, especially for firms exploring diversification of markets.

The industry also needs to emphasise and invest significantly to adapt to Industry 4.0 requirements and migrate effectively to remain relevant in the global apparel value chain. Cluster development and productivity improvement may explore consortium-based initiatives.

### **Product Diversification and Product Champions**

Export competitiveness of India's apparel export was worked out in the study using Normalized Revealed Comparative Advantage (NRCA) for HS codes 61 and 62 at a six-digit level. Mapping of NRCA of India with the leading apparel exporting countries by value, across the top 15 apparel export items globally, indicated that India lacks comparative export advantage in 9 of them, while Bangladesh has a relative comparative advantage in all the 15 products. Based on this mapping, four categories of products have been identified viz, Product Champions, Underachievers, Declining Sectors and Achievers in Adversity. The products under the product champion group are those, where India can leverage the arising opportunities in the short to medium term. A total of 48 products have been classified as product champions, as export of these products from India is competitive, while the growth in import demand of these products has been higher than the overall growth of import demand. The combined export of these product champions from India was estimated at US\$ 8.3 billion during 2019, accounting for more than 51% of India's apparel trade. There are 15 underachievers in the apparel category, whose export from India was estimated at US\$ 717 million during 2019, accounting for 4.4% of India's apparel export. These are products that have a growing demand in the international market, but exports from India are currently not competitive. Total 50 products were identified as 'Achievers in Adversity', which are products where India has

competitive advantage but the global demand in these products has declined in the recent period. A diversification from these products could help in mitigating that risk. There are 17 products identified under 'Declining Sectors' with estimated export of US\$ 634 million from India during 2019, whose global import demand has been declining in the period under consideration and India also does not have competitiveness in exports. India could diversify away from exports of these products.

## Outlook

The global market for apparel was projected to grow over US\$ 2 trillion by 2025, which is reported to have shrunk by 22%<sup>32</sup> during 2020 due to the pandemic. Global consumption of apparels is expected to reach to pre-Covid levels over the next couple of years and then retrace its growth path to reach US\$ 2,007 billion by 2025. Strengthening of regional supply chains is forecast to remain the dominant factor in the global apparel value chain. While there are global cues of shift in China centric sourcing of apparels by most of the importing countries, Indian apparel industry is forecast to not gain much due to its prevalent challenges. Apparel retail in India is projected to have contracted by around US\$ 27 billion (INR 2,042 billion) in FY 2020-21 as compared to pre Covid-19 projections. The Government of India has initiated several policy interventions to support the growth of the textile and apparel sector in the near to long-term. As the Indian textile and apparel industry re-organizes itself to overcome the economic impact of the COVID pandemic, it will be imperative for the industry to uphold their social and environmental responsibilities going forward. With several trade arrangements, such as RCEP anticipated to increasingly influence international trade in apparels, India's apparel trade is forecast to largely depend on the industry's agility and ability to diversify both in terms of product offering and markets.

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<sup>32</sup> Wazir Advisors Analysis 2021

# 1. INTRODUCTION

With the history of natural fibre production and fine craftsmanship, Indian textile and apparel have always been an important sector in the Indian economy. The textile and apparel industry contributes up to 7% of industry output in value terms, 2% of India's GDP and to 10.8%<sup>33</sup> of the country's export earnings. The textile and apparel industry are one of the largest sources of employment generation in the country with over 45 million people employed directly, and another 60 million people in allied sectors, including a large number of women and rural population<sup>34</sup>. Given the share in exports and the number of people employed in the sector, the growth in the sector not only provides economic growth, but also inclusive growth and community development.

The Indian readymade garments/apparel industry is the largest segment in the Indian textile and apparel industry, accounting for almost 50% of the total industry. With the viability of garment manufacturing units, in terms of size and low cost of plant and machinery, the garment industry remains dominated by unorganized market players.

## Structure

The Indian apparel sector is characteristically unorganised and segmented. Apparel production is broadly segmented into production for domestic markets and for exports. Products in the domestic market are predominantly mass-produced items and are lower in quality compared to the products meant for exports. The domestic production is further divided into production for branded and non-branded segments, where the branded apparels and clothing are sold

<sup>33</sup> Ministry of Textiles, Government of India

<sup>34</sup> Annual Report 2019-20, Ministry of Textiles, Government of India

through organized retail. There is a visible pricing difference between the two, where the prices of the unbranded products are significantly low compared to the branded ones. Branded apparel products generally faces competition from the imported products from Vietnam and Indonesia, while the non-branded products have been increasingly facing competition from the low end products from Bangladesh and China.

As per the Annual Survey of Industries (ASI) 2017-18, there were 10,498 factories (factories registered under Sections 2m(i) and 2m(ii) of the Factories Act, 1948) in the manufacturing of apparel. These factories are divided into three categories, namely, manufacture of wearing apparel (except fur apparel), manufacture of fur apparel and manufacture of knitted and crocheted apparel<sup>35</sup>. The estimated number of factories in 2012-13 ASI were 9,275. However, there are huge number of small manufacturers in this sector, making it difficult to arrive at a formal size of apparel industry.

The process of manufacturing a garment comprises several steps: cutting, stitching, embroidery, fixing of accessories, dyeing etc. The maximum value addition to textiles is done by the apparel sector, which is the last stage of the textile value chain<sup>36</sup>. The industrial structure in the garment industry is rather complex: the bulk of the units are small and medium-sized firms. Most of the production is organized in clusters and major clusters are located in Bangalore, Delhi NCR, Kolkata, Ludhiana, Mumbai, Tirupur, and other cities. As per a study by Apparel Export Promotion Council (AEPC), 95% of the total apparel production takes place in the top 19 clusters.

## **Supply Chain and Integration to Global Value Chains**

In the past decade the Indian garment industry has sufficiently integrated with the global value chains. Since 2004, with the phasing out of the quota regime predominant in the textile and apparel industry, a host of major global apparel brands have entered the Indian market and have consolidated their sourcing operations. The last decade has seen deepening of the apparel supply chain

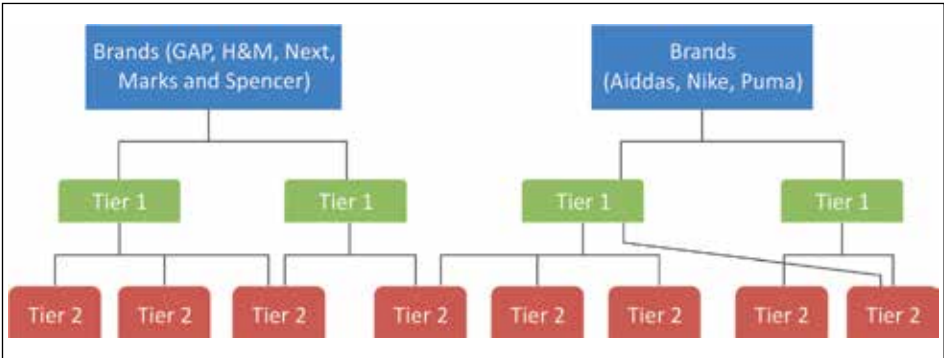
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<sup>35</sup> 3 digit NIC 2008 codes 141, 142 and 143, respectively

<sup>36</sup> Ray and Miglani 2018

through subcontracting job work by way of orders and consignments to other smaller factories. The hierarchical structure of the chain is presented in Exhibit 1.1.

**Exhibit 1.1. Structure of Apparel Value Chain in India**



*Source: Society for Labour and Development*

Apparel manufacturing in India is largely organised at three levels. The first level involves cutting of the fabric into patterns as specified by the buyers. This is typically done using power operated cutting machines, performed predominantly by the Tier 1 companies. The second level involves sewing the cut fabric using mostly foot operated sewing machines and sometimes with power operated ones. This is generally the most labour-intensive stage in the entire production process and is often outsourced or subcontracted to fabricators, which form the Tier 2 firms. The third stage pertains to operations involving the finishing stages that includes trimming, checking the dimensions, washing, ironing, and packaging<sup>37</sup>. The fourth and final level, which constitutes the Tier 3 and Tier 4 firms are composed of home-based workers or own account enterprises (OAEs) that service the outsourcing needs of the Tier 2 firms.

Tier 1 companies typically comprise those that source contracts from global brands or retailers and are mostly large enterprises, often having more than one industrial unit engaged in the production of garments. This is often assumed as a strategic move on the part of the large Tier 1 firms as distributing its workforce across several units allows them to register each unit as a small-scale

<sup>37</sup> Souza, 2003

business enterprise thereby benefiting from the policy incentives assigned for SSI enterprises<sup>38</sup>. It also allows them significant labour flexibility.

The second stage or the sewing operations are either performed in-house or is subcontracted by the Tier 1 firms to Tier 2 firms, which are often referred to as fabricators. Subcontracting to fabricators has become increasingly prevalent in the past decade with entry of large global brands, which is evident from the increase in number of Tier 2 firms in the clusters<sup>39</sup>. The final stage in garment production is mostly performed in-house in the production facilities of the Tier 1 Companies once the consignments are received from the Tier 2 firms post fabrications. Finished goods are then packed and sent to the global retailers or brands for distribution in global apparel markets by the Tier 1 firms. Tier 1 Companies are mostly restricted to export processing zones or 100% export-oriented units (EOUs) while the bulk of garment production takes place in the small-scale units (Tier 2 manufacturers) using manually operated machines.

The integration of the Indian apparel supply chain to the global value chain is of two types: supplying to the European Union (EU) and the United States (US); and supplying to the Middle East market (to cater to South America). Most of the medium-sized and large firms in India caters to the global value chains that supplies to the EU and the US. However, there are differences in the two value chains: while the products for the US market are low value added garments that are sold in bulk, the products sold in the EU are higher value added but are comparatively lower in quantities. In case of the value chain supplying to the EU and the US, the design, specification of inputs, standards of compliance, and the supply chain are largely determined by the buyer. The value chain catering to the Middle East market is different from the value chain in the EU and the US markets. The design, specification of inputs and the supply chain is collaborative

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<sup>38</sup> Import Substituting Industrialisation strategy since the Second Five-Year Plan (1956–61) enforced stringent regulation on investments in the apparel sector thereby mandating the role of employment generation and consumer goods manufacturing to Small-Scale Industries (SSI), which implied that most apparel industries were small and medium-scale enterprises (Uchikawa, 2012). Garment or apparel manufacturing, until very recently, has been restricted to small-scale industries that receive a host of benefits like preferential credit and investment subsidies from the States (Society for Labour and Development-SLD).

<sup>39</sup> SLD's Survey reveals that the number of subcontractors/fabricators in the Kapashera--Dundehera region has significantly increased from less than 5 fabricators in 2000 to more than 90 by 2012.

in this case and there is less importance attached to compliance. Producers in this value chain usually supply products under their own brand names.

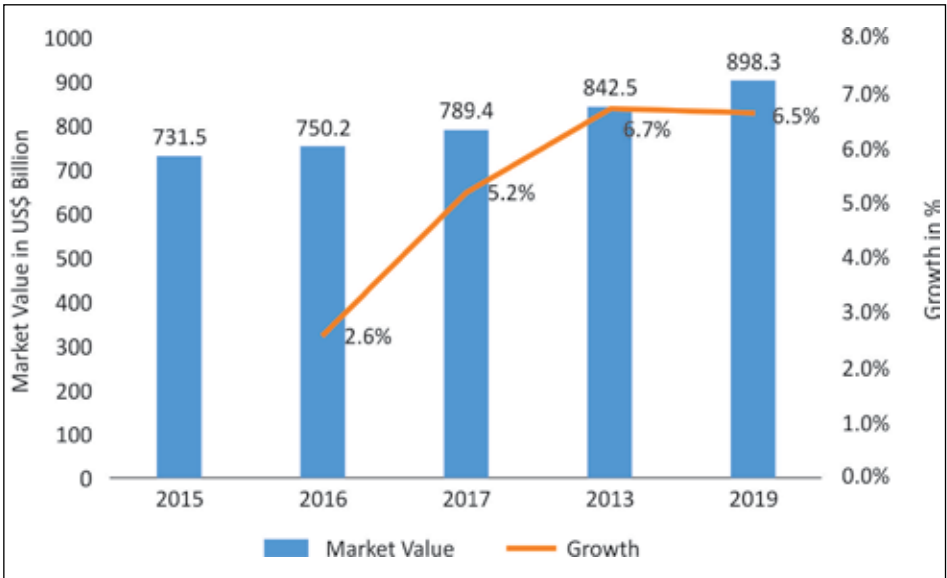
Besides, there are also integration with regional value chains, such as with Bangladesh. There are two segments of production in this regional value chain: own factory; and / or subcontracting. There are also two channels for distribution of the final output: directly exporting goods to the EU (taking benefits under Generalized Scheme of Preferences (GSP)); and importing to India for sale in the Indian domestic market. According to the industry sources, some of the advantages in the regional value chain are: lower labour costs, lower costs for sourcing inputs, lower energy costs, ease of availability of labour, and lax labour laws vis-à-vis that of India. Apparels produced in Bangladesh and then imported to India are 5%–7% cheaper than those produced domestically in India.

A highly diverse production landscape of the Indian apparel industry also corresponds to an equally or more diverse landscape of labour, which is often displayed in distinct regional labour regimes both in factory and in non-factory settings. The clusters and factories in the north and in the east, particularly Kolkata, are mostly dominated by male labours. The male labour force is mainly local. In other centres, tailors are mostly migrants from Uttar Pradesh and Bihar. In southern clusters, the labour force in the core garment factories are mostly women. In Bangalore and Chennai garment centres, women workers represent between 80% and 90% of the workforce, and mainly come from nearby areas and villages.

## 2. GLOBAL SCENARIO OF APPAREL INDUSTRY

The global market for Apparel manufacturing was estimated at around US\$ 898.3 billion during the year 2019<sup>40</sup>, which was expected to reach around US\$ 950 billion by 2020. Due to the global impact of COVID 19 pandemic, the expected market value is anticipated to have altered and the overall market for apparel is projected to witness a downward trend during 2020. The apparel manufacturing market grew at a CAGR of 5.3% during 2015 to 2019.

**Exhibit 2.1: Global Apparel Market**



Source: Market Line

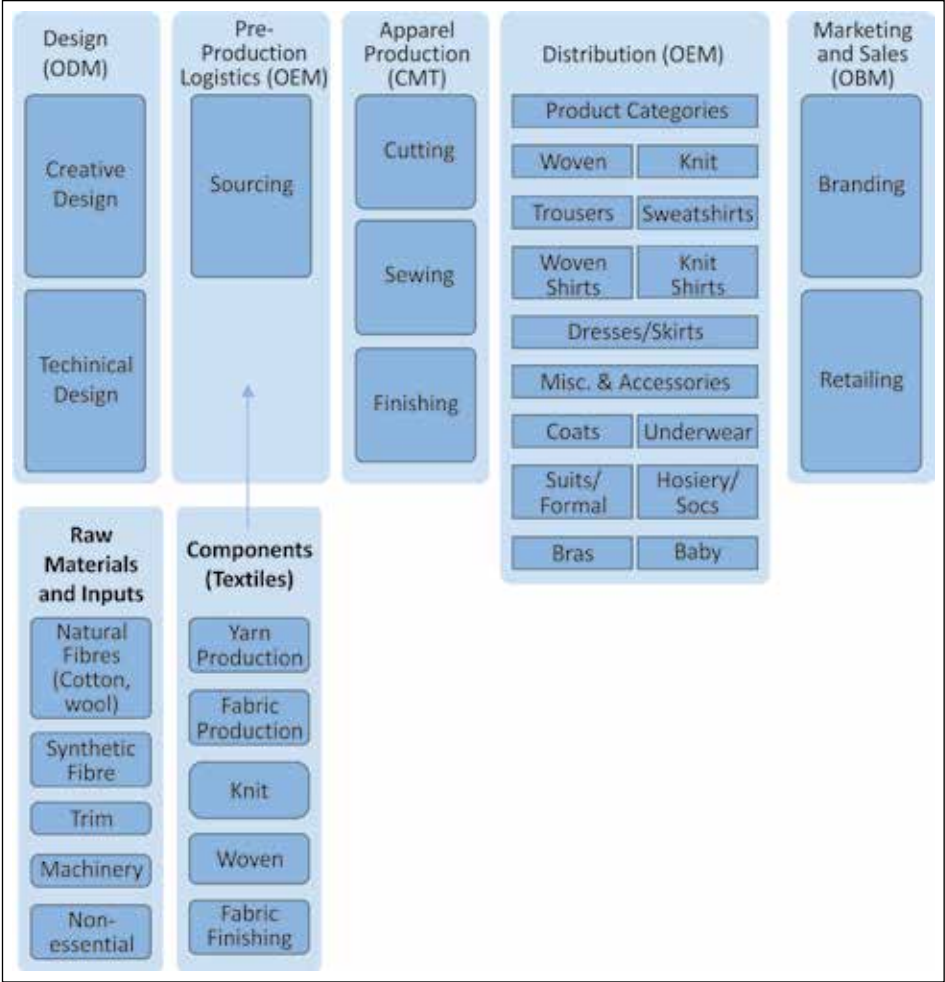
<sup>40</sup> Market Line



The Asia-Pacific region accounted for around 64% of the total market for apparel during 2019. European aggregation accounted for around 30% of the market. Western Europe, China, the USA and India were the top contributors to the revenue in the global apparel market during 2019.

The apparel manufacturing market covers all clothing except leather, footwear and knitted items as well as other technical, household, and made-up products. The market size is estimated based on the value of domestic production plus imports minus exports, all valued at manufacturer prices.

**Box 1: The Apparel Global Value Chain**



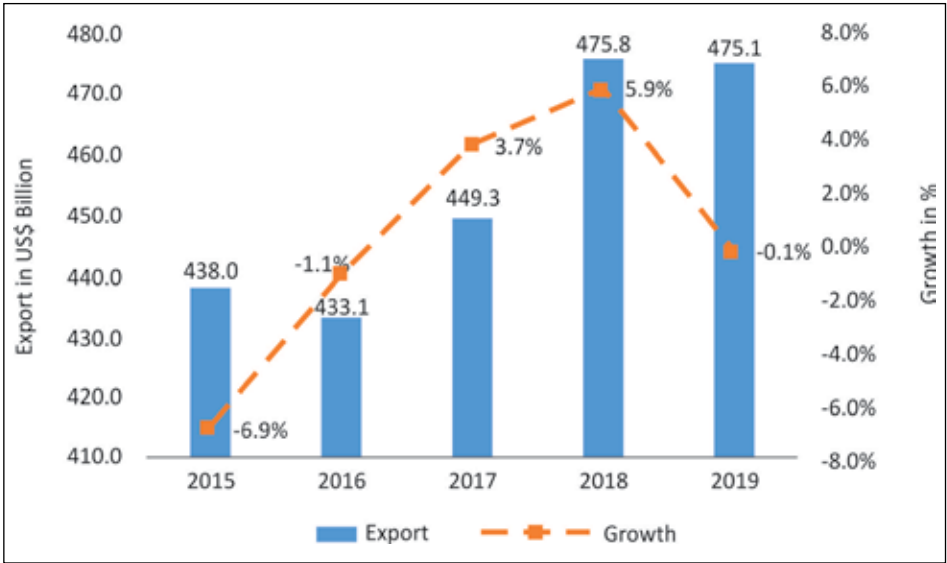
Source: Industry Sources

Trade

The global apparel<sup>41</sup> export was estimated at US\$ 475.1 billion in 2019. The export grew at a CAGR of 2.1% during 2015-2019. The total global export of apparel witnessed a decrease of 0.1% in 2019 from the previous year value of US\$ 475.8 billion.

The global textile and apparel<sup>42</sup> export was estimated at US\$ 821.3 billion in 2019<sup>43</sup>. The articles of apparel and clothing accessories (HS 61 and HS 62) had a combined share 57.8% in total textile and apparel exports during 2019.

Exhibit 2.2: Global Export of Apparel



Source: ITC Trade Map

China is the largest exporter in the Apparel segment with exports worth US\$ 138.2 billion in 2019, constituting a share of 29.1% in the total global apparel exports. China was followed by Bangladesh with exports worth US\$ 40.4 billion in 2019, which was equivalent to 8.5% of the total global apparel exports.

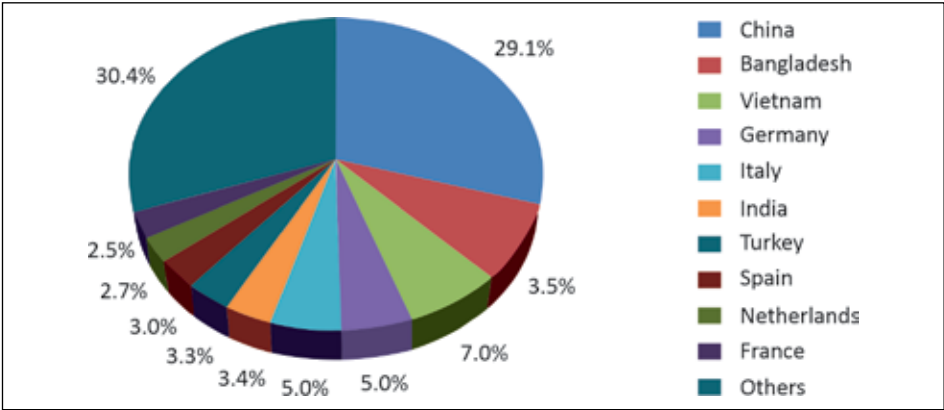
<sup>41</sup> This includes HS 61 and HS 62

<sup>42</sup> This includes HS 50 to HS 63

<sup>43</sup> ITC Trademap

Vietnam was the third largest exporter of apparels globally in 2019 with a value of US\$ 33.3 billion of apparel export, and a share of 7.0% in global apparel export. Other major apparel exporters during 2019 include Germany (5.0%), Italy (5.0%), India (3.4%) and Turkey (3.3%)<sup>44</sup>.

**Exhibit 2.3: Share in Global Apparel Exports (2019)**



Source: ITC Trade Map, Exim Bank Research

**Table 2.1: Major Exporters of Apparel (in US\$ billion)**

Country	2018	2019	Y-o-Y Growth
China	145.0	138.2	-4.6%
Bangladesh	39.5	40.4	2.3%
Viet Nam	28.2	33.3	18.2%
Germany	23.4	23.9	2.2%
Italy	23.4	23.8	1.4%
India	15.7	16.2	3.7%
Turkey	15.3	15.5	1.5%
Spain	14.1	14.3	1.0%
Netherlands	12.2	13.0	6.9%
France	12.0	12.0	0.0%
Total	475.8	475.1	-0.1%

Source: ITC Trade Map, Exim Bank Research

<sup>44</sup> ITC Trade Map Data accessed in September 2020

The major apparel exporting countries witnessed an upward trend, with nine out of the top ten exporters in 2019 witnessing a positive growth rate. Vietnam was an outlier, witnessing an increase of 18.2% of y-o-y growth during 2019 over 2018. This comes in the backdrop of increasing exports of apparel by Vietnam to the USA. The USA has been the largest export destination for Vietnam with a share of 48.4% in its total global apparel exports during 2018. The export of apparel by Vietnam to the USA registered a CAGR of 8.7% during 2015 to 2019. The export of apparel from China witnessed a decline of 4.6% during 2019. With the highest share in global apparel export, decline in China's export impacted the overall growth of global apparel export considerably during 2019.

China registered a CAGR of -3.9% during 2015 to 2019. The USA was the largest export destination for China, with a share of 21.9% in total apparel exported by China during 2019. Apparel export to the USA from China witnessed a decline of 6.2% in 2019 amid the trade war between the two countries.

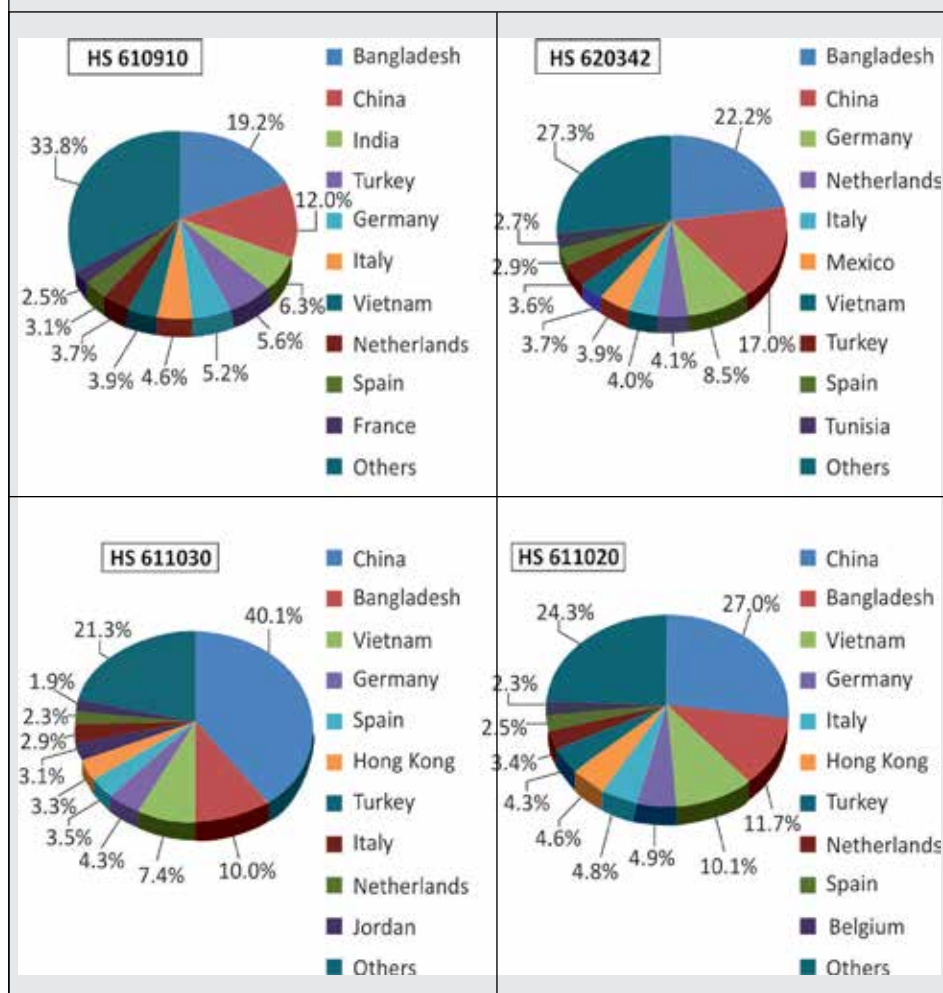
Globally, the HS code 610910 which includes T-shirts, singlets and other vests of cotton, knitted or crocheted, was the most exported item with exports worth US\$ 31.1 billion in 2019. Bangladesh is the top exporter in this segment (HS code 610910), with a share of 19.2% in total global exports in the segment during 2019. This was followed by China (12%) and India (6.3%). Other major segments in apparel exports include items grouped under HS code 620342 (Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear). The total global export of the apparels in this segment stood at US\$ 26.4 billion during 2019, closely followed by apparels grouped under HS code 611030 (Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats) with a value of US\$ 26.1 billion, and apparels grouped under HS code 611020 (Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats) with a value of US\$ 24.5 billion. The share of cotton based apparel in global apparel exports is gradually declining, while man-made fibres are gaining a larger share.

**Table 2.2: Top Ten Export items in the Apparel Segment (2019)**

HS Code	Description	Export (in US\$ Billion)	Share in Apparel Export
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	31.1	6.6%
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	26.4	5.6%
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	26.1	5.5%
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	24.5	5.2%
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted panties, and swimwear)	21.2	4.5%
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	15.0	3.2%
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	10.9	2.3%
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres (not knitted and crocheted and excluding suits, ensembles, jackets, blazer, trouser and tops of ski suits)	10.8	2.3%
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	10.7	2.3%
620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres (not knitted and crocheted and excluding suits, ensembles, jackets, blazer, trouser and tops of ski suits)	10.4	2.2%

Source: ITC Trade Map

### Box 2: Top Exporters in Top 4 Exported HS codes in Apparel (2019)<sup>45</sup>



Source: ITC Trade Map, Exim Bank Research

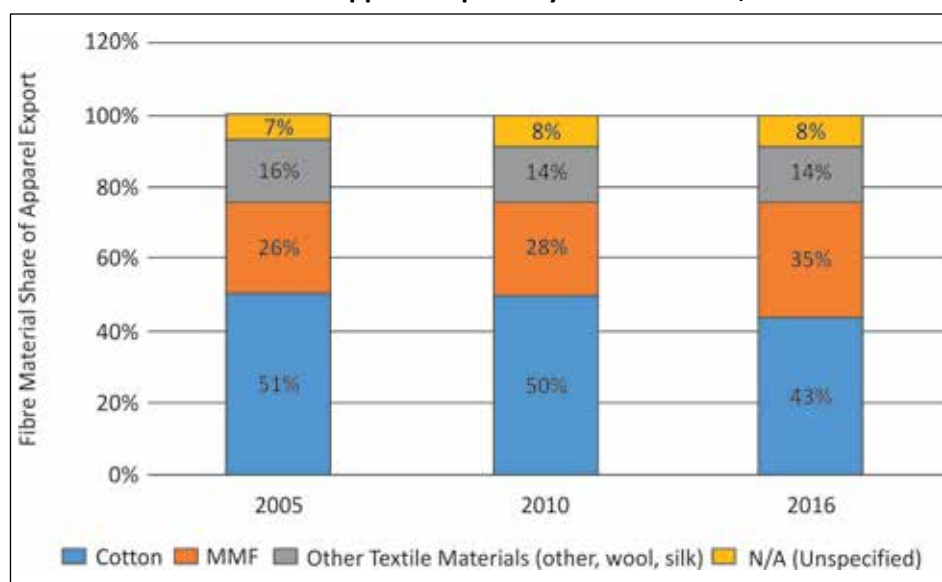
<sup>45</sup> HS 610910 T-shirts, singlets and other vests of cotton, knitted or crocheted

HS 620342 Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton

HS 611030 Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted

HS 611020 Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted

**Exhibit 2.4: Share of Apparel Exports by Fibre Material, 2005-2016**



Source: UN Comtrade 2002-2016

The global import of Apparel was estimated at US\$ 435.4 billion in 2019, witnessing an increase of 0.8% as compared to US\$ 432 billion in 2018<sup>46</sup>. The imports witnessed a CAGR of 2.5% during the period 2015 to 2019.

The global import of textile and apparel was estimated at US\$ 755 billion in 2019 and the items of apparel and clothing accessories listed under HS 61 and HS 62 had a combined share of 57.7% in total textile and apparel imports during 2019.

The US was the largest importer of apparel with estimated import of US\$ 87.5 billion in 2019 and a share of 20.1% in the total global import of apparel. China was the major source of import for the US with imports of around US\$ 26.4 billion in 2019. China accounted for 30.2% of apparel imports by the US in 2019. Share of China in the US's apparel import witnessed a decline from 33.2% in 2018 to 30.2% in 2019.

<sup>46</sup> As per data accessed in September 2020 from ITC Trade Map

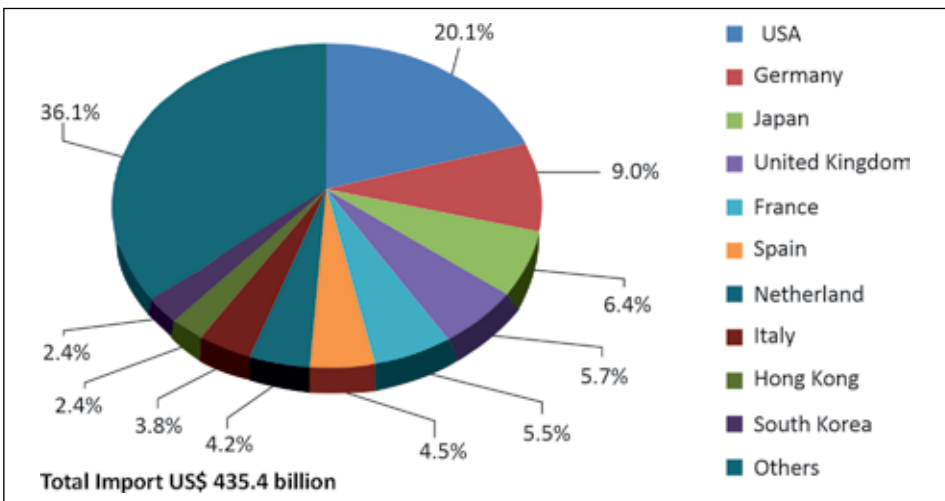
**Exhibit 2.5: Global Import of Apparel**



Source: ITC Trade Map, Exim Bank Research

The US was followed by Germany in the global import of apparel with estimated import of US\$ 39 billion in 2019, constituting 9% of the global apparel import. China was the major import source also for Germany, contributing 23.5% of total apparel imported by Germany. Other major apparel importing countries during 2019 included Japan (6.4%), the UK (5.7%), France (5.5%) and Spain (4.5%).

**Exhibit 2.6: Share in Global Apparel Imports (2019)**



Source: ITC Trade Map, Exim Bank Research



**Table 2.3: Major Importers of Apparel (in US\$ billion)**

Country	2018	2019	Growth
USA	86.7	87.5	0.9%
Germany	39.9	39.0	-2.4%
Japan	28.5	28.0	-1.8%
United Kingdom	25.0	24.9	-0.4%
France	24.3	23.9	-1.8%
Spain	19.3	19.5	0.9%
Netherlands	17.7	18.1	1.9%
Italy	16.8	16.6	-1.2%
Hong Kong	11.9	10.5	-12.3%
South Korea	10.2	10.4	2.2%
<b>Total</b>	<b>432.0</b>	<b>435.4</b>	<b>0.8%</b>

Source: ITC Trade Map, Exim Bank Research

The major apparel importing countries witnessed a downward trend, with six out of the top ten importers in 2019 witnessing a negative growth rate.

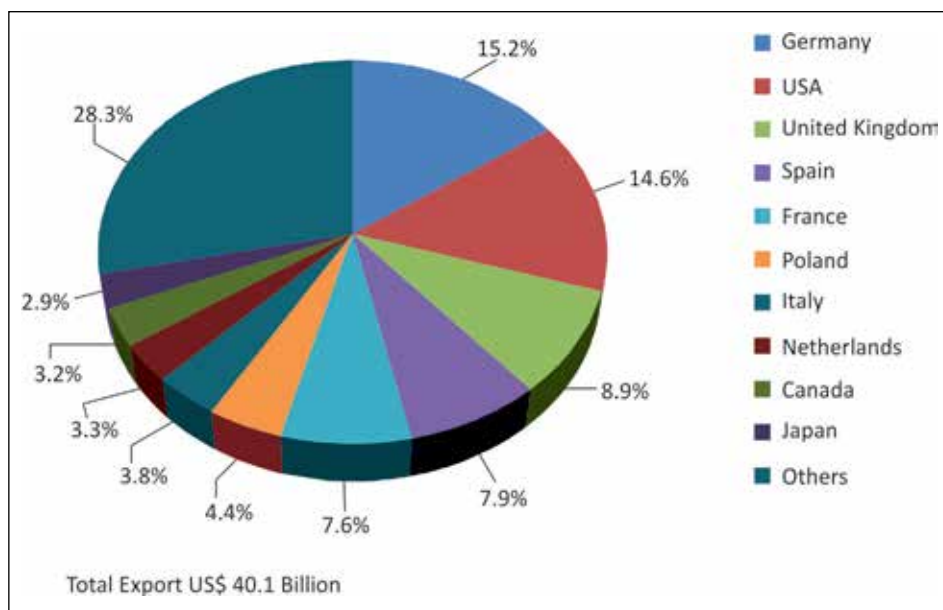
## Asia – The Apparel Supplier to the World

### *Bangladesh*

The export of apparel from Bangladesh was estimated at US\$ 40.1 billion in 2019, registering a CAGR of 11.1% during 2015 to 2019. Germany was the largest export destination for Bangladesh with a share of 15.2% in Bangladesh's total apparel export in 2019. Other largest markets for Bangladesh include the US (14.6%), the UK (8.9%), Spain (7.9%) and France (7.6%)<sup>47</sup>.

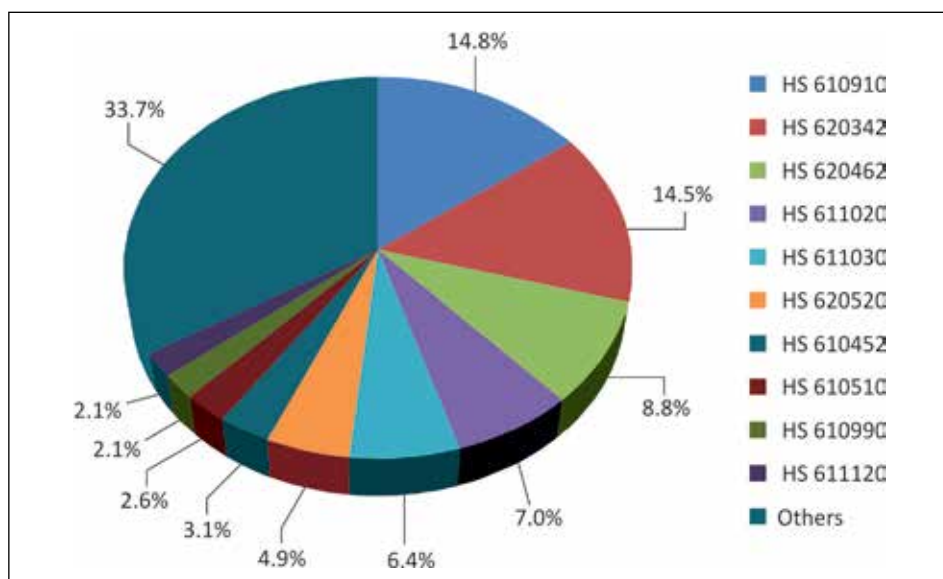
<sup>47</sup> Based on Mirror data accessed from ITC Trademap

**Exhibit 2.7: Top Ten Apparel Export Destinations for Bangladesh (2019)**



Source: ITC Trade Map, Exim Bank Research

**Exhibit 2.8: Major Apparel Products Exported from Bangladesh (2019)**



Source: ITC Trademap, Exim Bank Research

Bangladesh is the second largest apparel exporter in the world. Around 87% of total exports of Bangladesh come from the apparel sector, with the textile and apparel sector contributing around 20% to Bangladesh's GDP. The textile and apparel sector provides employment to around 20 million people in Bangladesh. The investors' confidence in the apparel sector in Bangladesh has been traditionally high as the return on investment is quick. The lower cost of labour and easy availability of skilled human resources adds to the advantages of the apparel sector in Bangladesh. The cost of labour is significantly low in Bangladesh as compared to its peers. More than 30 private and public universities conduct courses on textile and apparel, which adds significantly to the availability of skilled labour. Apparel trade of Bangladesh has the advantage of duty free access to large number of markets globally due to its Least Developed Country Status (LDC) that qualifies it for a duty-free market access or reduced tariff facilities to many developed and developing nations. Bangladesh enjoys duty-free access of many products including apparel to around 52 countries, including countries in the EU, the USA, Australia, Switzerland, Japan, Turkey, Russia, Norway, New Zealand, China, South Korea, Thailand, Malaysia, and India.

The number of factories in the apparel sector in Bangladesh grew from 384 in 1984-85 to 5876 during 2012-13, and stood at 4621 during 2018-19<sup>48</sup>. The rapid increase of the sector was largely due to favourable government policies supporting the sector as a focussed sector for export.

### *Vietnam*

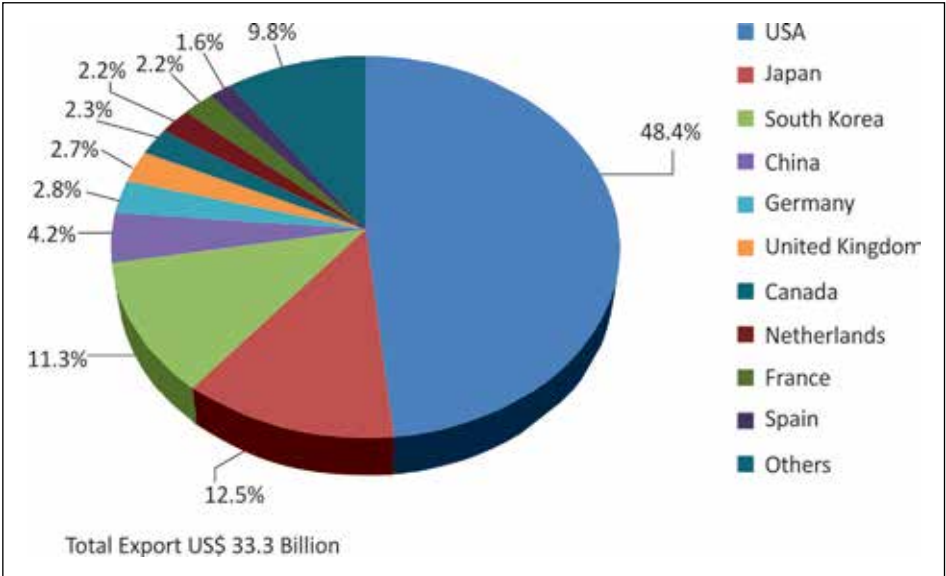
The export of apparel from Vietnam was estimated at US\$ 33.3 billion in 2019, registering a CAGR of 11.6% during 2015 to 2019. The USA is the largest export destination for Vietnam with a share of 48.4% in Vietnam's total apparel export in 2019. Other largest markets for Vietnam includes Japan (12.5%), South Korea (11.3%), China (4.2%), and Germany (2.8%).

In terms of product, apparels grouped under HS code 611020 was the most exported product from Vietnam during 2019, with estimated export of US\$ 2.5 billion, and a share of 7.4% in Vietnam's total apparel exports. Other major export items in the apparel segment includes apparels grouped under the HS codes 611030, 620193, 620293 and 620343.

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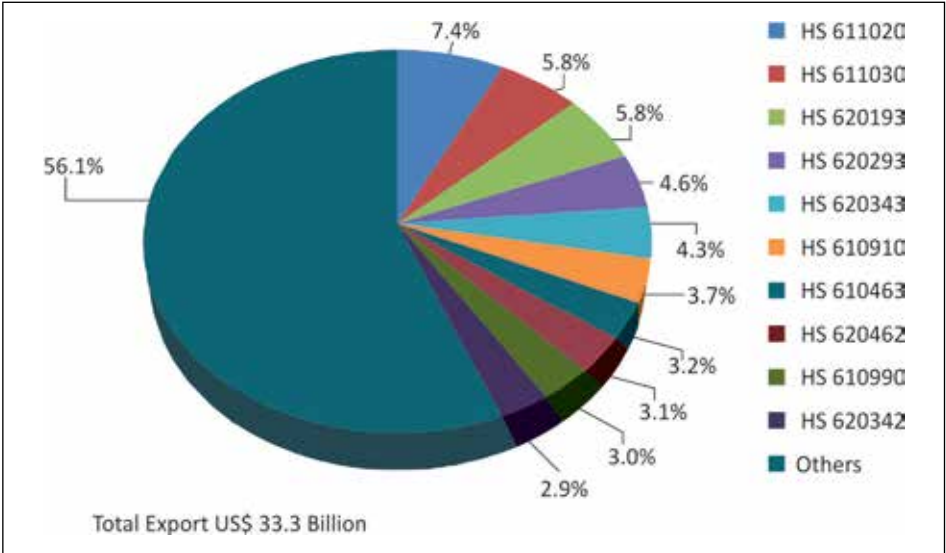
<sup>48</sup> Bangladesh Garment Manufacturers and Exporters Association (BGMEA)

**Exhibit 2.9: Top Ten Apparel Export Destination for Vietnam (2019)**



Source: ITC Trade Map, Exim Bank Research

**Exhibit 2.10: Major Export Products in Apparel Segment from Vietnam (2019)**



Source: ITC Trade Map, Exim Bank Research

Apparel manufacturing accounts for the majority (70%) of the businesses in Vietnam<sup>49</sup>. Vietnam's garment and textile industry consist of 3 sub-sectors: upstream sector (fiber production), midstream sector (fabric production and dyeing), and downstream sector (garment manufacturing). Sub-sectors producing fibres or fabric mainly supply for domestic consumption due to low quality of product. Downstream sector of garment manufacturing accounts for around 70% of the total apparel and textile sector in Vietnam with Cut-Make-Trim (CMT) models being the main activities. In 2019, CMT accounted for about 65% of total exports, while the more advanced business models, like Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM) accounted for around 35%. Vietnam has around 6000 textile and apparel manufacturing firms. The apparel industry imports most of the cotton inputs. In 2019, Vietnam imported up to 89% of fabrics, of which, 55% were from China, 16% from South Korea, 12% from Taiwan, and 6% from Japan.

Vietnam has emerged among the major exporters of apparel globally in the last 10 years. The export of apparel from Vietnam was estimated at US\$ 8.3 billion in 2009, which increased to US\$ 33.3 billion in 2019. Increased market access through Free Trade Agreements (FTAs) and technology has been the major growth drivers for the Vietnamese garment and textile industry. The bilateral and multilateral FTAs continue to provide apparel manufacturers in Vietnam access to new markets minimizing the effect of growing trade protectionism globally. With new FTAs in effect such as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and Vietnam-EU FTA (EVFTA), new markets are anticipated to open up leading to higher exports by Vietnam.

FDI in the Vietnamese apparel industry has been another major growth driver for exports. During 2019, FDI inflow to the garment and textile industry was estimated to be around US\$1.55 billion for 184 projects. Investments were mainly led by Hong Kong (US\$447 million), Singapore (US\$370 million), China (US\$270 million), and South Korea (US\$165 million). According to the industry reports, firms with FDI made up to 70% of total Vietnamese garment and textile exports in 2019. In the recent years, foreign investment has largely shifted from CMT activities to more upstream sectors, such as fabric productions and dyeing.

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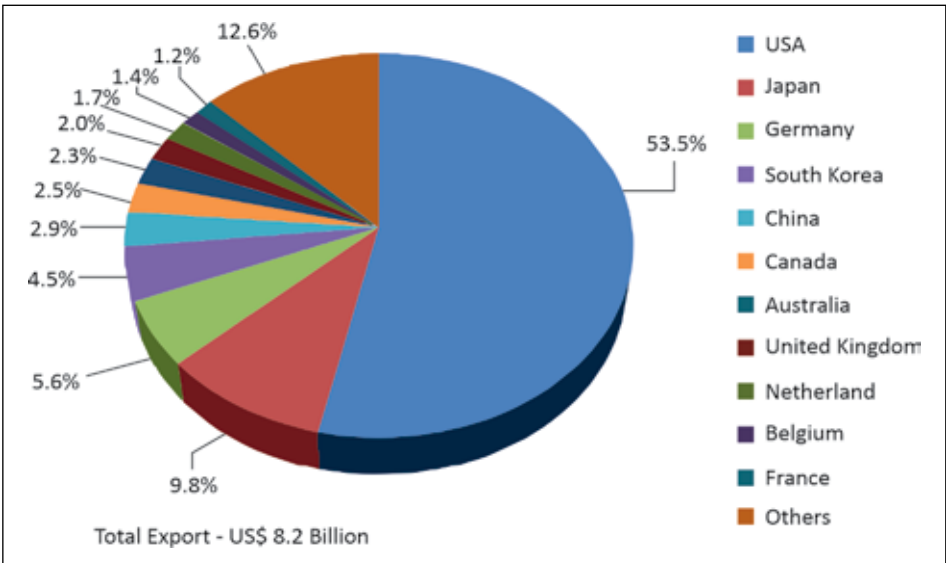
<sup>49</sup> Vietnam Briefing

In 2019, more than 80% of the firms receiving FDI catered to manufacturing of fabrics and raw materials for apparel. Low labour costs and proximity to key markets are the major growth drivers for foreign investment in the apparel industry of Vietnam making it a favourable hub for textile and apparel manufacturing.

*Indonesia*

The export of apparel from Indonesia was estimated at US\$ 8.2 billion in 2019, which witnessed a CAGR of 3.2% over 2015 to 2019. The USA was the largest export destination for Indonesia with a share of 53.5% in Indonesia’s apparel export in 2019. Other major markets for Indonesia include Japan (9.8%), Germany (5.6%), South Korea (4.5%) and China (2.9%).

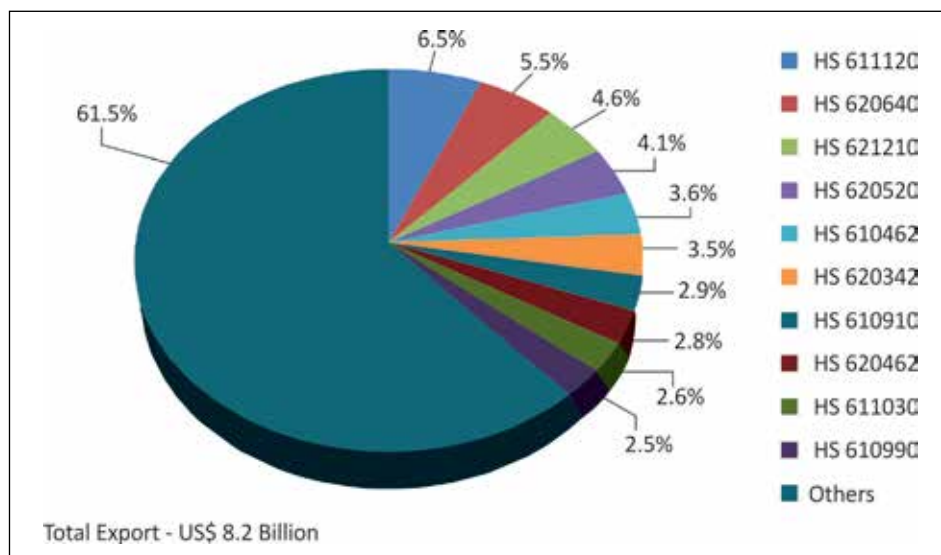
**Exhibit 2.11: Top Apparel Export Destinations for Indonesia (2019)**



Source: ITC Trade Map, Exim Bank Research

In terms of products, apparels grouped under HS code 611020 were the most exported products from Indonesia during 2019, with an estimated export of US\$ 0.5 billion, and a share of 6.5% in Indonesia’s total apparel exports. Other major export items in the apparel segment include apparels grouped under the HS codes 620462, 611020, 610990 and 620342.

**Exhibit 2.12: Major Export Products in the Apparel Segment from Indonesia (2019)**



Source: ITC Trade Map, Exim Bank Research

Indonesia is among the top 10 textile & apparel producing countries in the world and 3<sup>rd</sup> among the Association of Southeast Asian Nations (ASEAN) region. The textile and apparel industry is the fifth largest in terms of contribution to the Indonesian economy. According to Statistics Indonesia, there were as many as 4,972 large and medium enterprises and 538,656 small and micro enterprises involved in textile and garment production in 2015. The vast majority of textile and garment factories are located in the island of Java particularly concentrated in West Java, Central Java, East Java, and Banten. Together, these regions accounted for more than 85 % of all employment generated by the Indonesian garment and textile industry in 2016<sup>50</sup>. Together, the garment, textile and footwear industry are a major employer in Indonesia, accounting for around 27% of all employment in manufacturing in Indonesia of which over 58% is represented by women.

Currently, 30% of Indonesia's total apparel production is to meet the domestic demand with the remainder meant for exports, dominated by large manufacturers producing garments for global apparel brands. Prior to the

<sup>50</sup> Latest available data; Horne, R., & M. C. de Andrade, 2017; ILO

onset of the pandemic, the Indonesian Textile Association (API) forecasted the country's textile and garment industry to grow at a compound annual growth rate of 5% during 2019 to 2026.

In Indonesia, the exports of cotton and cotton products have been witnessing a downward trend caused by the persistent fall of the Indonesian Rupiah, competition among yarn spinners in both domestic and overseas markets and shutdown of some major retail markets. The changing dynamics due to the US-China trade war have resulted in more Indonesian garments being exported to the US and more cotton imported from the US. With the conclusion of the Indonesia-European Comprehensive Economic Partnership Agreement (IEU-CEPA) in 2019, and Indonesia-Australia Comprehensive Economic Partnership Agreement (IA-CEPA) in February 2020, apparel exports from Indonesia to the European markets and Australia is expected to increase. Other potential new markets arising out of trade agreements include New Zealand, South Korea, and Japan.

### *Cambodia*

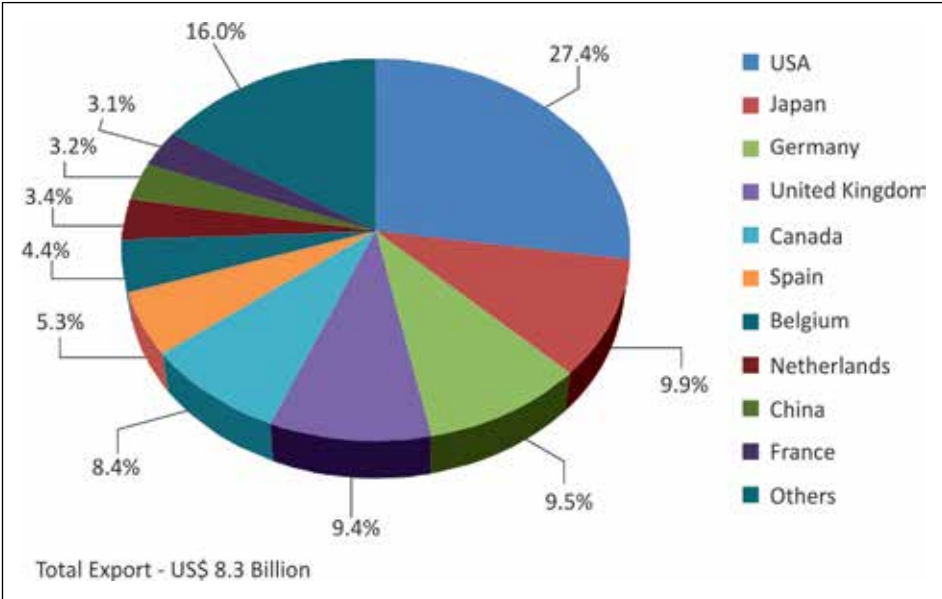
The export of apparel from Cambodia was estimated at US\$ 8.3 billion in 2019, registering a CAGR of 8.8% during 2015 to 2019. The USA was the largest export destination for Cambodia with a share of 27.4% in Cambodia's total apparel exports in 2019. Other major markets for Cambodia included Japan (9.9%), Germany (9.5%), the UK (9.4%), Canada (8.4%) and Spain (5.3%).

In terms of product, apparels grouped under the HS code 610910 was the most exported product from Indonesia during 2019, with estimated export of US\$ 0.6 billion, and a share of 7.7% in Cambodia's total apparel exports. Other major export items in the apparel segment include apparel grouped under the HS codes 611020, 610469, 611030 and 620462.

The apparel industry is highly significant to Cambodia as it is the major foreign exchange earner with around 56% of the total exports from Cambodia represented by the apparel segment (HS 61 and 62), during 2019. Likewise, around one-third of Cambodia's manufacturing output currently comes from the garment sector alone.

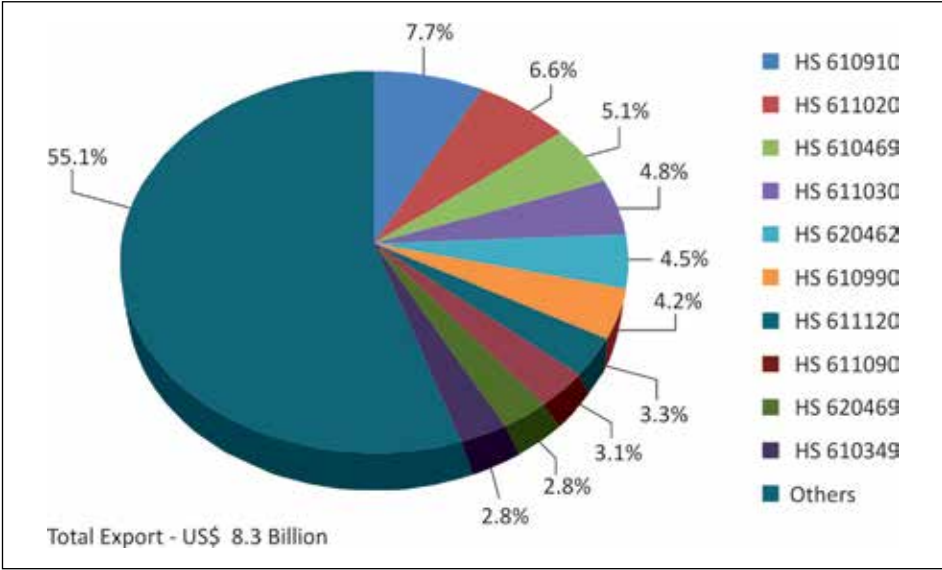


**Exhibit 2.13: Top Ten Apparel Export Destinations for Cambodia (2019)**



Source: ITC Trade Map, Exim Bank Research

**Exhibit 2.14: Major Export Products in Apparel Segment from Cambodia (2019)**



Source: ITC Trade Map, Exim Bank Research

Cambodia is a relatively new garment producer compared to its Asian neighbours but has grown considerably since the mid-1990s. It is characterised by a high presence of foreign firms. Around 90% of investment in the sector is from foreign firms. The industry employs an estimated 600,000 workers<sup>51</sup>. There are around 600 garment and textile factories, many of which are subsidiaries of other Asian companies<sup>52</sup>. The majority of these factories operate on a CMT basis, while a smaller number of firms operate on a free-on-board (FOB) basis and through subcontracting arrangements. The CMT sector relies almost exclusively on imported inputs. Hence, the lack of a domestic textile industry does not allow Cambodian apparel industry for more integrated production. Materials are mostly imported from countries in Asia, such as Hong Kong, Taiwan, China, and South Korea.

Like Bangladesh, Cambodia has also benefited significantly from the EU Everything But Arms (EBA) Program, which helps in providing LDCs like Cambodia, with duty-free and quota-free access to the vast EU market for all products except weapons and ammunition. However, in February 2020, European Commission withdrew part of the tariff preference granted to Cambodia under EBA program. The effect of EBA suspension could account for 15% of the apparel export by Cambodia to EU.

The Cambodian garment industry also benefitted considerably by the quotas placed by the US for Cambodia since 1997. The quotas imposed on China were another factor that influenced the growth of the Cambodian garment industry considerably. In 2005, the EU and the US re-imposed quotas on exports from China, during which many Chinese producers re-allocated part of their production to Cambodia<sup>53</sup>. Though quotas on China were lifted in 2008, the lifting has coincided with an increase in wages in China and Vietnam, which prompted the producers to continue choosing Cambodia for their production.

### *Pakistan*

Pakistan is one of the significant exporters of textile products in Asia. The textile and garment sector together contribute more than 8.5% of Pakistan's GDP. The

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<sup>51</sup> Kane, 2015a

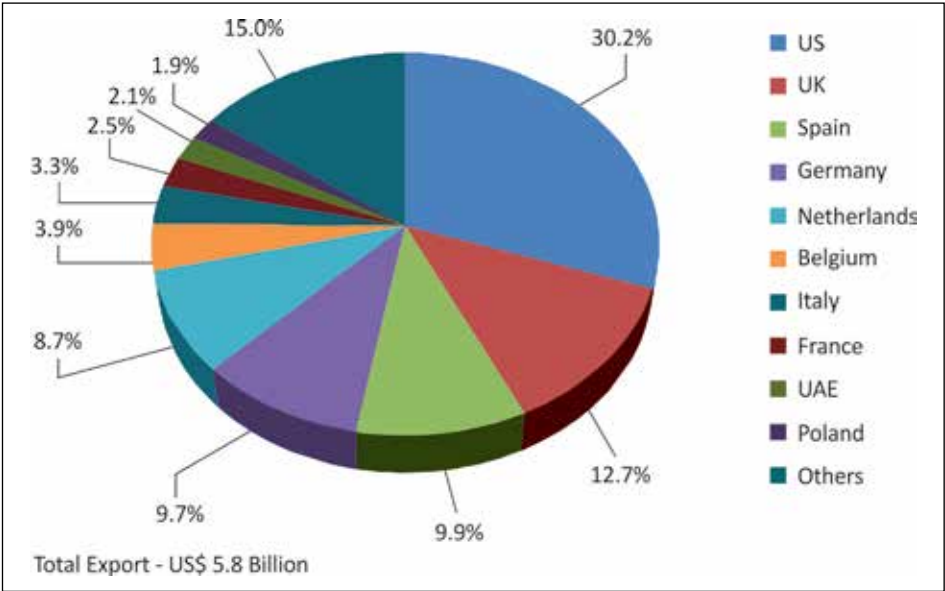
<sup>52</sup> *ibid*

<sup>53</sup> Asuyama and Neou, 2012

sector provides employment to about 15 million people, i.e., around 30% of the country’s workforce. Pakistan’s apparel industry is characterized by a few large companies and large number of smaller, local firms that access foreign markets in moderate to minimal volumes. Production is concentrated in or around the major cities of Karachi, Lahore, Faisalabad as well as Multan, Gujranwala, and Sialkot. The large companies represent less than 1% of total apparel exporters, however, generate over 30% of the exports. The large firms are integrated from fabric to apparel, and many have at least some internal yarn spinning capacity. The large companies mainly focus on exports.

The export of apparel from Pakistan was estimated at US\$ 5.8 billion in 2019, registering a CAGR of 6.8% during 2015 to 2019. The USA is the largest export destination for Pakistan with a share of 30.2% in Pakistan’s total apparel export in 2019. Other major markets for Pakistan include the UK (12.7%), Spain (9.9%), Germany (9.7%) and the Netherlands (8.7%).

**Exhibit 2.15: Top Ten Apparel Export Destinations for Pakistan (2019)**

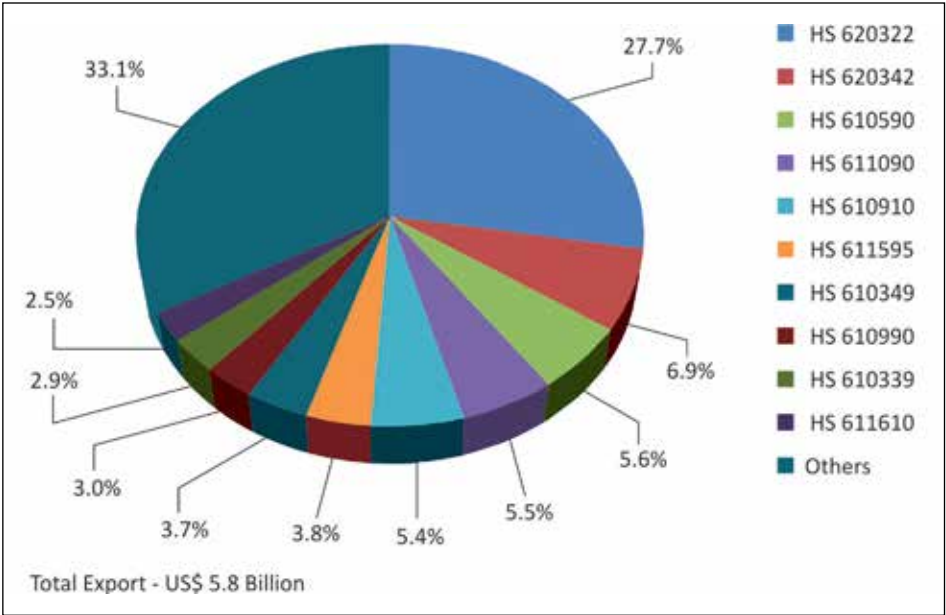


Source: ITC Trade Map, Exim Bank Research

Pakistan’s exports are concentrated mostly in three product categories: trousers, knit shirts and sweaters.

In terms of product, apparels grouped under HS code 620322 were the most exported products from Pakistan during 2019, with an estimated export of US\$ 1.6 billion, and a share of 27.7% in Pakistan’s total apparel exports. Other major export items in apparel segment included apparels grouped under the HS codes 620342, 610590, 611910 and 610910.

**Exhibit 2.16: Major Export Products in Apparel Segment from Pakistan (2019)**



Source: ITC Trade Map, Exim Bank Research

Pakistan’s apparel industry has largely benefitted from exports to EU-15 and the US. The US had been Pakistan’s top trading partner throughout the early 2000s. With Pakistan’s participation in the EU’s GSP+ program since 2014, the EU has emerged as the country’s largest trading partner in textile and apparels. GSP+ status allows more than 76% of Pakistan’s textile and apparel exports to enter the EU-15 without duties or quotas<sup>54</sup>. The GSP+ benefits for apparels require the products to have undergone double transformation i.e., the yarn, fabric and final garment originating from a beneficiary country. Pakistan is also a beneficiary of preferential market access under GSP to Canada, Japan, New Zealand, Norway, Russia, Switzerland, and Turkey, and it is also a signatory of

<sup>54</sup> EC, 2018b

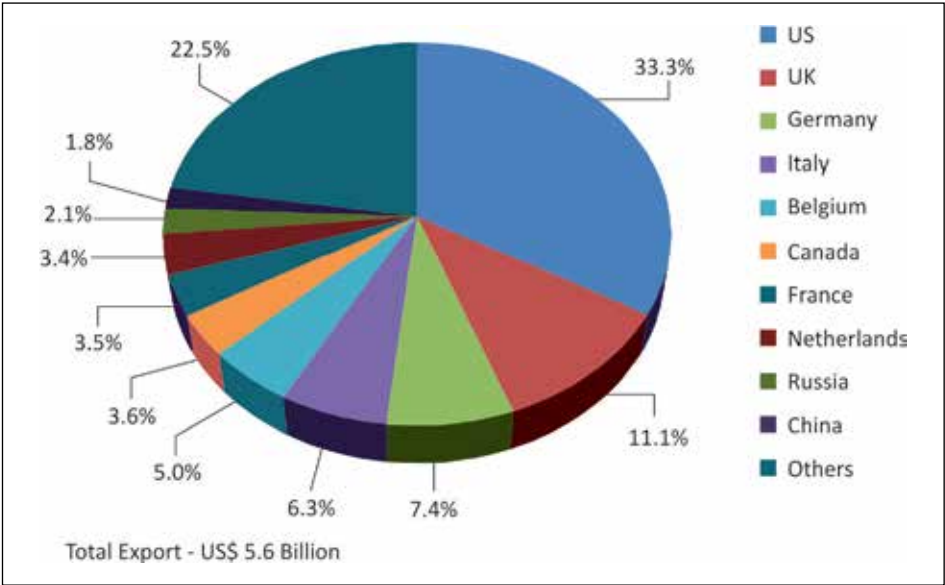
bilateral Free-Trade Agreements with countries, such as Indonesia, Malaysia, Sri Lanka, Iran and Mauritius.

*Sri Lanka*

The apparel industry of Sri Lanka is the primary foreign exchange earner and is vital to Sri Lankan economy. The industry contributed 32% to the country’s GDP and 48% to its total exports in 2019. It provides about 33% of the manufacturing employment in the country<sup>55</sup>. Sri Lanka recorded the highest apparel exports per capita among all exporting nation in the region in 2018.

The export of apparel from Sri Lanka was estimated at US\$ 5.6 billion in 2019, registering a CAGR of 5.5% during 2015 to 2019. The US is the largest export destination for Sri Lanka with a share of 33.3% in Sri Lanka’s total apparel exports in 2019. Other major markets for Sri Lanka include the UK (11.1%), Germany (7.4%), Italy (6.3%) and Belgium (5.0%).

**Exhibit 2.17: Top Ten Apparel Export Destinations for Sri Lanka (2019)**

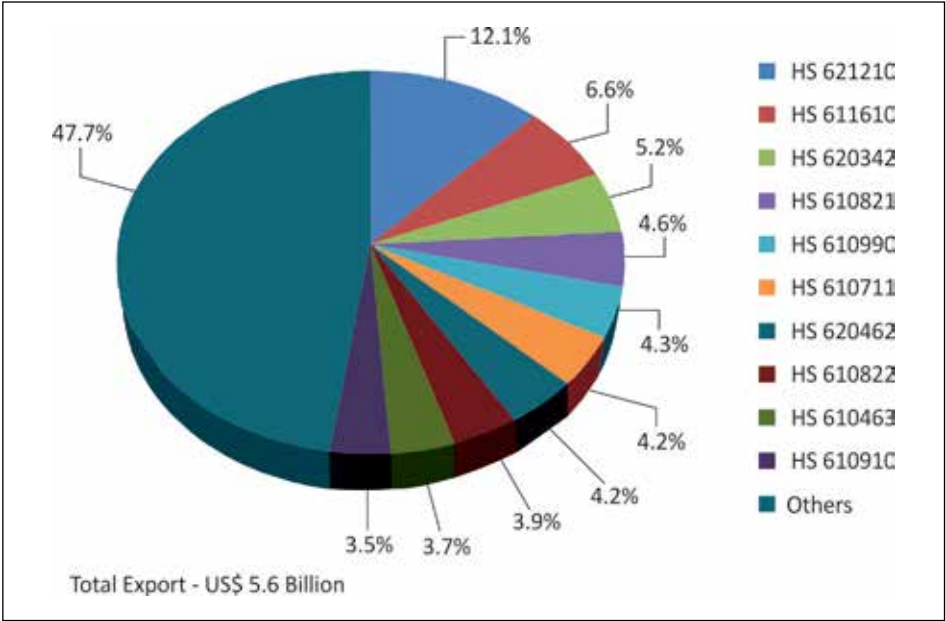


Source: ITC Trade Map, Exim Bank Research

<sup>55</sup> Sri Lanka export.gov

In terms of products, apparels grouped under HS code 621210 were the most exported products from Sri Lanka during 2019, with an estimated export of US\$ 0.7 billion, and a share of 12.1% in Sri Lanka’s total apparel exports. Other major export items in the apparel segment include apparels grouped under the HS codes 611610, 620342, 610821 and 610990.

**Exhibit 2.18: Major Export Products in the Apparel Segment from Sri Lanka (2019)**



Source: ITC Trade Map, Exim Bank Research

Few manufacturers and exporters of apparel are in the large-scale category. Most of the export-oriented clothing factories are SMEs and majority are located in the Western Province of the country. Key apparel products manufactured and exported by Sri Lanka include sportswear, lingerie, lounge wear, bridal wear, work wear, and swimwear and children’s wear. Sri Lankan apparel industry and exports historically benefitted from Multi-fibre Arrangement (MFA) since 1978 and then from restoration of the GSP+ facility by the EU in May 2017. Sri Lankan apparel manufacturers are more focused on a sustainable domestic fabric supply to benefit from the GSP scheme while exporting to the EU. However, in the recent years, the available domestic fabric has been limited to knitted fabric

and the fabric capacity available is not able to fulfil industry demands. Hence, the country's fabric imports have been consistently increasing. Nevertheless, the country projected a 6% year-on-year (YoY) export growth in 2020. The government of Sri Lanka is anticipating creating a textile development park in Eravur to attract investments from China and India. This is also anticipated to source fabrics from China and India and reduce the lead time of deliveries to its export markets, such as the US and the EU. Sri Lankan apparel industry, lately, has also been exploring the market potential of BRICS countries.

Sri Lanka has FTAs with Singapore, India and Pakistan. An FTA with China is underway. The country is also a member of the South Asian Free Trade Area and the Asia-Pacific Trade Agreement. With the US, Sri Lanka has a bilateral Trade and Investment Framework Agreement (TIFA).

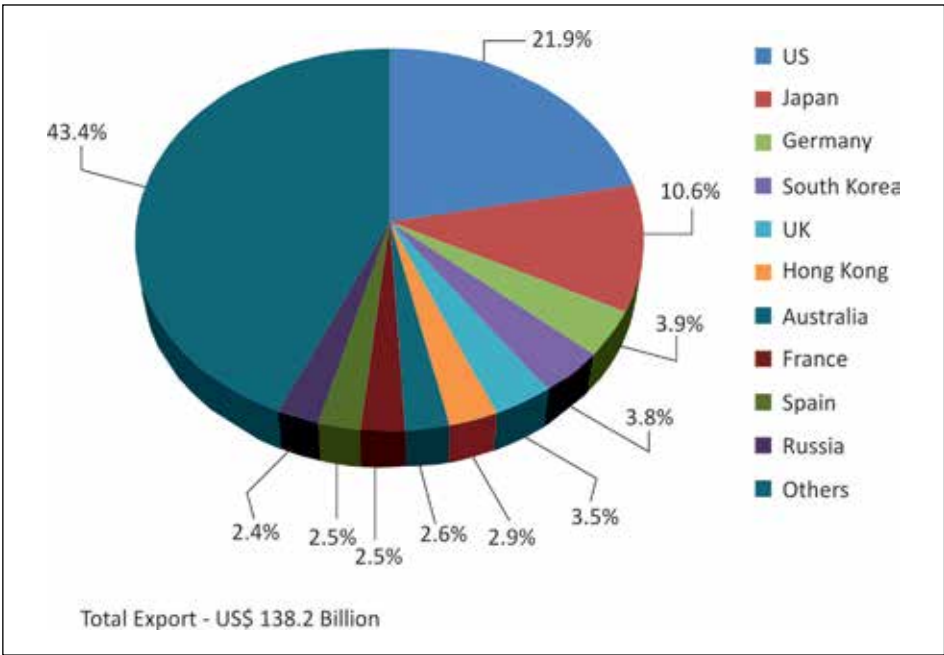
## *China*

China is the world's largest apparel exporter and market, with advanced manufacturing and large scale investments placed by Chinese companies around the world. China is also the largest chemical fibre producer. In 2018, China's chemical fiber production exceeded 50 million tons, making up over two thirds of global production. Textile exports from China reached 33.6% of the world's total in 2019, a 1.5% increase over the previous year, while apparel exports accounted for 29.4% of the world's total.

The export of apparel from China was estimated at US\$ 138.2 billion in 2019, registering a CAGR of (-) 3.9% during 2015 to 2019. The US is the largest export destination for China with a share of 21.9% in China's total apparel exports in 2019. Other major markets for China include Japan (10.6%), Germany (3.9%), South Korea (3.8%) and the UK (3.5%).

In terms of products, apparels grouped under HS code 611030 were the most exported products from China during 2019, with an estimated export of US\$ 10.5 billion, and a share of 7.6% in China's total apparel exports. Other major export items in the apparel segment includes items of apparels grouped under the HS codes 611020, 620462, 620342 and 620293.

**Exhibit 2.19: Top Ten Apparel Export Destinations for China (2019)**

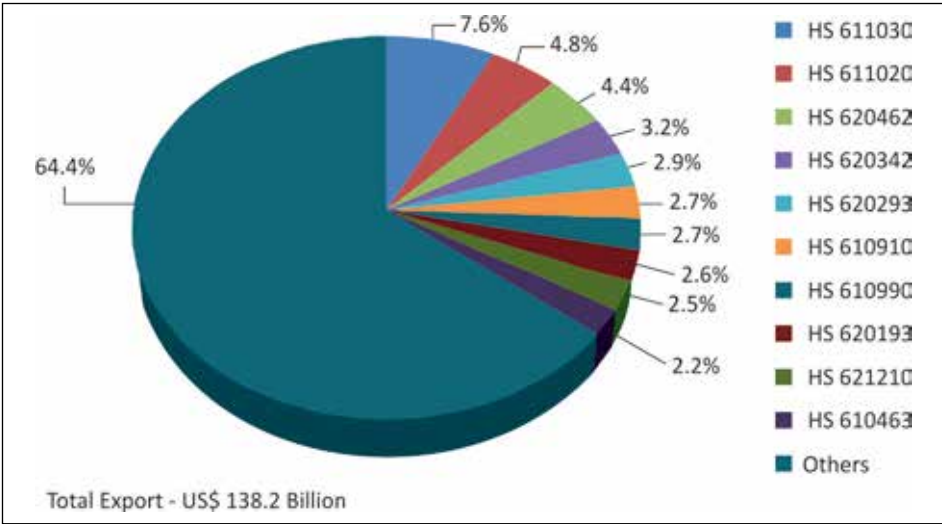


Source: ITC Trade Map, Exim Bank Research

China historically has enjoyed MFN status, which made China emerge as a giant player in the apparel trade globally. However, with its accession to WTO, removal of quotas by the developed markets like the US and the EU for China, WTO's anti-dumping implementations, Preferential Trade Agreements (PTAs) and implementation of safeguard mechanism by other developed markets on Chinese textile and apparel products have led to the emergence of competition for China from other Asian textile and apparel exporting economies. This has led China to invest in technology and upgradation of production quality and increase in focus on high end products. In the recent years, China's apparel industry is largely supported by domestic consumers with rising income levels.



**Exhibit 2.20: Major Export Products in the Apparel Segment from China (2019)**



Source: ITC Trade Map, Exim Bank Research

Investments in the Chinese textile and apparel industry, though have been reported to have slowed due to the ongoing US-China trade war, has witnessed an organic growth during the period. Investments in China’s textile industry’s fixed assets grew by 5% in 2018, before slowing in the first half of 2019. Investments have largely focused on technology and innovation, to boost the productivity.

The Belt and Road initiative was first proposed in 2013, and in 2014, the initiative became one of the three major national development strategies in China. As of July 2019, the Chinese government has signed co-operation agreements with 136 countries along the route, which runs through three continents. During the initiative’s first five years, the total trade volume between China and countries along the Belt and Road route has exceeded US\$ 6 trillion, accounting for nearly a third of China’s total trade in goods during the period. The textile industry is reported to have a large share of this trade. By 2018, the Chinese textile and apparel industry is reported to have invested US\$6.5 billion in countries along the Belt and Road route. China’s textile industry has steadily placed more investments further overseas, upstream and downstream by way of the initiative.

The investments under this initiative is reported to have two main directions, both domestic and overseas. First, to create a worldwide production capacity, by building efficient manufacturing bases in China, Africa and countries along the Belt and Road route. And second, to develop international co-operation to strengthen resources throughout the supply chain (raw materials, design, R&D and marketing). Between 2015 and 2018, Vietnam received the highest investment volume by far, followed by Ethiopia, Myanmar, Egypt, Cambodia, Malaysia, Pakistan and Tajikistan.

An estimated 21.9% of China's textile and apparel exports were exported to the USA, making China the largest source for textiles and apparels imports by the USA, accounting for 32.6% of the nation's total imports. The ongoing trade war between the two countries has opened up opportunities for other countries to step in, which has further opened up opportunities for investments by Chinese companies in these countries. For e.g., Indonesia textile and apparel industry has opened up for Chinese investments in developing local e-commerce and start-ups, while recognising a need for efficiency and marketing. Similarly, Thailand's textile and apparel industry have also been seeking Chinese cooperation to develop their agricultural fibre products, such as Thai silk, pineapple and banana yarns.

### *Emerging Africa in Textile and Apparels*

East Africa has emerged as the global apparel sourcing hub in Africa. In the recent years, increasingly global buyers have established regional sourcing offices in Kenya and Ethiopia. Sourcing of apparel from the region by major international brands has increased, and so has been the number of foreign apparel manufacturing companies, in particular, in Ethiopia and Kenya. Preferential market access to the USA has been the key factor for attracting export oriented FDI into the region.

Kenya is the largest apparel exporter for cut, make and trim in the region, with the highest level of productivity. Some of the foreign companies based in Kenya specialize in the production of higher- quality garments, while apparel production in Ethiopia is dominated by basic apparel items. However, apparel

industry in Ethiopia is on the rise due to upcoming industrial parks with available plug and play infrastructure, which is attracting a number of foreign investors.

Tanzania and Uganda are significant cotton producers and exporters; some of the very few integrated textile mills in the region are based in these two countries. Rwanda currently has two operating textile and apparel manufacturing units.

Textile production in the region is mostly for local apparel companies' serving domestic and regional markets in basic products. Export-oriented apparel manufacturers source their inputs internationally, predominantly from Asia. Backward integration in the East African apparel industry is in a very early stage.

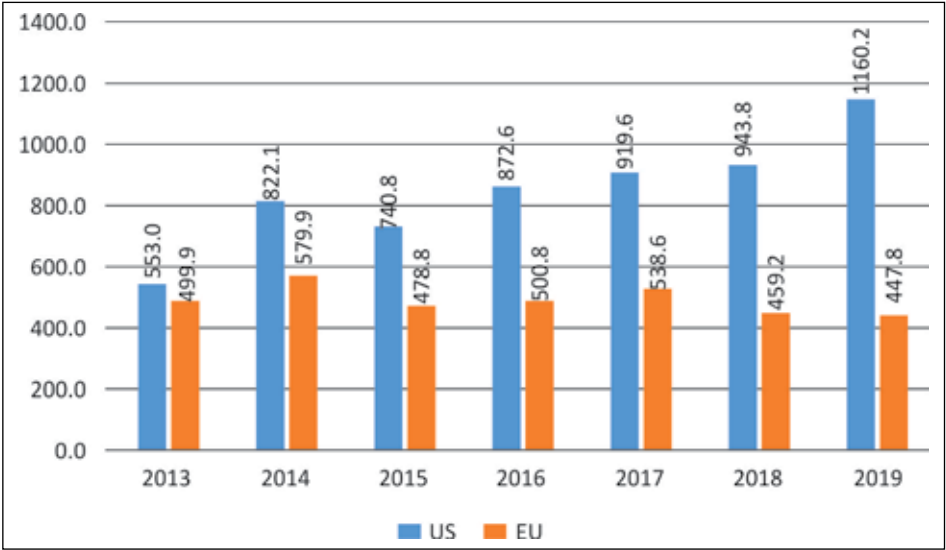
Apparel exports from Africa has largely benefitted from the African Growth and Opportunity Act (AGOA), which is a non-reciprocal preference programme extended by the Government of the United States to eligible African countries. Signed into law in 2000 and in effect until 2025, AGOA provides duty-free access to the markets of USA for apparel that is manufactured in an AGOA-eligible country using fabrics from anywhere in the world. The advent of AGOA led to investors globally setting up manufacturing units in export processing zones. It has been estimated that apparel products exported under AGOA effectively gain a tariff advantage, over its competitors, of between 16% (for cotton-based garments) and 32% (for synthetics and other man-made garments).

As a result of AGOA, the region has largely oriented its apparel production for exports, mostly in the cut, make and trim segment operating in export processing zones or industrial zones, specifically catering to the US markets. Since 2000, apparel exports from the AGOA-eligible countries to the US have increased exponentially until the 2009 financial crisis.

East Africa continues to remain the largest exporter of apparels to the US under AGOA with Kenya (US\$ 319 million in 2018), Madagascar (US\$142 million in 2018) and Mauritius (US\$137 million in 2018) being the largest suppliers to the US market (Table 2.4). Ethiopia has been fast-emerging as one of the significant apparel supplier (US\$32.5 million in 2018) and is forecast to join the "big three" East African apparel producers if the recent growth continues. But in spite of the

benefits accruing to African countries on account of programs such as AGOA, the exports by Africa to the rest of the world is significantly low.

**Exhibit 2.21: Export of Apparels from Sub-Saharan Africa to the USA and the European Union (US\$ million)**



Source: ITC Trade Map, Exim Bank Research

**Table 2.4: East African Apparel Exports to the US under AGOA (US\$ million)**

Year	Ethiopia	Kenya	Madagascar	Mauritius	Tanzania
2014	6.3	297.4	33.1	205.9	10.7
2015	8.0	270.7	45.0	195.3	9.6
2016	13.8	281.1	81.4	175.8	16.0
2017	25.7	292.1	113.1	141.4	22.7
2018	32.6	319.5	142.2	137.1	18.3

Source: ITC trade map, Exim Bank Research

AGOA is due for expiry in 2025. Over-reliance of the East African countries on the US markets could emerge as a considerable challenge for the apparel sector of the region, particularly Kenya, should the Agreement not be extended. In line with the USA’s current trade policy preference of bilateral trade agreements over multilateral and non-reciprocal agreements, a bilateral free trade agreement

between the US and Kenya is under consideration. As the only country in the East African Community (EAC) without LDC status, Kenya's apparel sector is anticipated to benefit considerably from the FTA.

Governments in East Africa have given priority status to the textiles and apparel sector. The East African Community (EAC) have also prioritized textiles and apparel sector. In November 2019, EAC launched its Cotton, Textiles and Apparel Strategy, which aims at an integrated and globally competitive cotton, textiles and apparel industry for its six member countries<sup>56</sup>. Technology upgradation of existing textiles mills and ginneries as well as to promote investments in integrated textile mills are some of the other key strategic objectives. The Governments envisage to increase the current spinning capacity of less than 500,000 spindles to at least 2.7 million spindles by 2029.

The establishment of the African Continental Free Trade Agreement (AfCFTA) in 2019 envisions the largest free trade area and economic zone in the world, which is anticipated to have considerable impact on trade of apparels. Many countries in Africa have experienced high economic growth rates. The income of middle class in Africa has also grown substantially during the past decade, which is expected to continue. Increased buying power has led to greater demand for quality garments, leading to diversification by apparel business entities and focus on higher and quality production.

According to the Ethiopian Textile Industry Development Institute (ETIDI), there are currently 110 companies operating in the textiles and apparel sector in Ethiopia, of which 59 companies are in apparel, 37 companies in textile and integrated textiles mills with sewing units constitute 14 companies. Almost all garment companies are exporting, while only 56% of the textile companies are exporting.

There are around 70 active textile and apparel manufacturing companies in Kenya focussing largely on the cut, make and trim production model. Kenya's apparel value chain is fragmented and uneven and heavily dependent on imports

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<sup>56</sup> Kenya, Rwanda, Tanzania, Uganda, Burundi and South Sudan.

of fabrics and other inputs. Kenya imports textiles primarily from China, India, Pakistan and Thailand. Export-oriented apparel factories import the majority of their fabrics. It is estimated that local textile manufacturers supply only 45% of the Kenyan textile requirements, which is mainly for the factories producing for domestic and regional markets. It is reported that the government of Kenya has not been able to garner large foreign investments in the apparel sector, as in case of Ethiopia; however, the country continues to be a preferred sourcing country for apparel manufacturers that require higher productivity and more skilled workers to handle more advanced garment production. This is reflected in the types of companies that have invested in the EPZs of Kenya.

In Tanzania, there are currently nine operating textile and apparel manufacturing companies, while nine other companies are non-operational. In both Rwanda and Uganda, there are currently two active textile and garment manufacturing companies operating in each country. Apparel exports by Tanzania, while larger than that of both Rwanda and Uganda, are below those of Kenya and Ethiopia. The majority of apparel exports from Tanzania are to the USA under AGOA. Other key export destinations include: Kenya, Mozambique and South Africa, influenced largely by Southern African Development Community (SADC) membership of Tanzania. Tanzania is Africa's fourth-largest producer of cotton after the Republic of Mali, Burkina Faso and the Arab Republic of Egypt. Tanzanian cotton production accounts for 28% of East African production and 7% of production in Sub-Saharan Africa<sup>57</sup>. Around 70% of the cotton produced by Tanzania is exported, and the remaining is utilised by a handful of textiles mills and apparel manufacturers to produce apparels for local and regional markets and for export markets, primarily to the USA under AGOA. More than half of the total exports in the apparel sector from Tanzania are of made-up textile articles and other products in HS Code 61. This includes products such as bed linens and mosquito nets, the latter of which, Tanzania is a major producer. The rest are articles of apparel and clothing, both knitted and woven (HS Codes 61 and 62), with higher volumes in knits. For EPZ-based factories in Tanzania, almost 100% of the apparel produced is exported. For factories outside of the EPZs, around 53% of the production is for export sales, with the balance sold to the local market.

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<sup>57</sup> Tanzania Cotton-to-Clothing Strategy, 2016/17–2020/21

The two operational spinning mills in Uganda are integrated textile plants producing yarn, fabric and garments. The majority of production is for domestic and regional markets and is concentrated in basic garments (T-shirts and uniforms). Fabrics are produced for in-house use as well as for regional exports. Majority of exports of apparel from Uganda are directed to Europe (31.2%). The two largest export markets in Europe currently are Germany (90%) and Denmark (10%). Most of the exported products by Uganda is of cotton (HS Chapter 52) and made-up textiles articles (HS Chapter 63). The balance is in apparel both knitted clothing and woven apparel. The value chain is still highly focused on local and regional markets mostly comprising basic products that use locally produced fabrics. However, in the recent years, there has been a surge in exports by Uganda to the European Union particularly for knits, such as T-shirts (85%), as well as sports pants, leggings and ladies' dresses.

Rwanda has a relatively small and underdeveloped textile and apparel value chain, with negligible cotton production and one fully integrated factory that largely serves the domestic and regional markets for uniforms.

### *Latin America in Textile and Apparels*

Latin American nations such as Peru, Brazil, Mexico, Argentina and Colombia are emerging as home for textile and garment manufacturing. The steady growth of the potential markets in the region is mostly driven by increasing domestic demand, economic growth, and purchasing power. Investment potential in the clothing and apparel sector has been also positive in the region in the recent years. The popularity of American lifestyle and the strong influence of the USA, on the culture and consumption patterns in Latin America have resulted in some of the global brands, such as Tommy Hilfiger and Nike launching their retail operations in the region. Some of the Spanish fashion verticals, such as Inditex and Mango have also started operations in the region. The textile and apparel industry in Latin America is estimated to register a CAGR of approximately 3.8%, over a forecast period (2019-2024)<sup>58</sup>.

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<sup>58</sup> Mordor Intelligence

**Table 2.5: Exports of Apparel from Latin America and Caribbean (2019)**

Country	Export (US\$ Bn)	Y-o-Y Growth
Peru	0.95	0.1%
Colombia	0.45	-0.3%
Brazil	0.15	8.6%
Mexico	4.1	1.9%
<b>Total (LAC)</b>	<b>12.1</b>	<b>0.0%</b>

Source: ITC Trade Map, Exim Bank Research

Peru: Peru has emerged as South America's largest clothing exporter due to its unique domestic raw materials, such as the Alpaca fibre and Tangüis cotton. The Peruvian textile and clothing sector is made up of two large sub-sectors:

- Yarn, fabrics, and garments: Covers the initial stage of cotton ginning to the production of finished fabrics and at the same time includes, spinning, weaving, and finishing dyeing activities.
- Clothing: Includes all activities related to clothing manufacturing.

Peruvian clothing sector includes growing quality cotton (Pima and Tangüis) and rearing of fine fibres from vicuñas and alpacas. This sector includes more than 46,000 companies, generates around 412,000 direct jobs, contributes 10% of the country's manufacturing and represents 1.9% of the national GDP. Clothing exports from Peru is estimated to be around US\$ 950.1 million. Clothing exports from Peru has exhibited steady growth in the recent years. However, the export growth and the clothing sector as whole have been affected by increasing imports of low grade products and the recent impact of the Covid-19. China represents 63.7% of textile imports by Peru followed by Bangladesh and Colombia. The Covid-19 pandemic has significantly affected the Peruvian clothing sector. While the imports have doubled, exports registered a 43% decline during the period January-May 2020 compared to the same period of 2019.

Brazil: Brazilian clothing sector perhaps is the only integrated sector in the region, from fibre production, such as cotton yarns, up through spinning mills, weaving mills, processors, apparel manufacturers, fashion shows and a strong



retail segment. With its self-sufficient cotton production, Brazil produces 9.4 billion pieces of manufactured textile items yearly, of these, around 5.3 billion are apparel items. Brazil has emerged as the reference internationally for beachwear, jeans-wear and home-wear, and also growing considerably in the fitness-wear and underwear segments. Brazil is the fourth largest apparel production complex in the world and is also fourth largest textile producer worldwide<sup>59</sup>. It is also the sixth largest producer and third largest consumer of denim in the world. The textile and apparel value chain generated a revenue of US\$ 48.3 billion during 2019 as against US\$ 52.2 billion in 2017. During 2019 the sector had an estimated investment of US\$ 894.4 million. Brazil has 25,000 legally registered clothing companies nationwide. The clothing sector is the 2<sup>nd</sup> largest employer in the manufacturing industry and is also the 2<sup>nd</sup> largest job creator. The sector provides direct employment to over 1.5 million people and over 8 million are indirectly employed, of which 75 percent are women. Brazil's exports of apparel were estimated to be around US\$150 million during 2019.

Columbia: The textile and apparel industry of Columbia accounts for around 7.5% of nation's manufacturing GDP, 0.8% of total GDP, 17% manufacturing sector employment and 2.4% of the total exports. With 23.6% share, the USA is the main destination of Colombian apparel exports, followed by Ecuador (22.2%), Mexico (16.3%) and Brazil (13%). Colombian apparel sector has 106 free-trade zones, of which 67 are permanent-single company zones. A status of free zone granted to a company to develop an investment project has a highly positive social and economic impact. These free-trade zones not only serve as an instrument to create more employment and attract capital investment to the country, but also promote competitiveness in the region. Colombian apparel sector also considerably benefits from the free trade agreements with large importing regions, such as the Europe and the USA. Colombia has 13 free trade agreements and 10 international investment agreements. Colombia is a member of the Andean Community (since 1969), which constitutes a free trade agreement with Bolivia, Ecuador, and Peru. The Andean Community has a free trade agreement with the Mercosur countries (Brazil, Argentina, Paraguay and Uruguay), which gives the Colombian apparel sector easy access to more markets in the region.

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<sup>59</sup> TexBrasil

The sector also has an advantage of Colombia's membership in Pacific Alliance (founding member), Caribbean Community (CARICOM) Agreement and Latin American Integration Association. Besides, the United States-Colombia Trade Promotion Agreement (CTPA) has aided Columbia to become one of the largest apparel sourcing destinations for the USA. This coupled with shorter delivery times and lesser logistical costs compared to China has been aiding Columbia to become a hub of apparel sourcing in the region and to the USA and Canada. The Government of Columbia runs 26 specialized programs for the textile and clothing sector with national coverage.

Mexico: The textile and apparel industries in Mexico account for 4.7% of Mexico's manufacturing GDP. The sector accounts for nearly 20% of all manufacturing employment in Mexico. Mexico is the number one Latin American supplier of apparel products to the USA and the 6<sup>th</sup> worldwide exporter of apparel to the USA after China, Vietnam, Bangladesh, Indonesia and India<sup>60</sup>. Mexican textile and apparel sector specialises in synthetic fibres mixed with rayon, and other artificial fibres, fabrics with textured polyester dyes, taffeta fabrics with discontinuous dyes made of polyester fibres, fabrics of upholstery, industrial fabrics for automotive industry, other fine wool fabrics, besides the manufacturing of silk and textile machinery and equipment. Mexico's proximity to the US and implementation of North American Free Trade Agreement (NAFTA) initially benefitted the apparel sector considerably; however, since 2004, relaxation of quotas by the US allowed larger access to Asian apparel exporters, particularly China, which emerged as primary competitor of Mexico in the US markets. Mexico's trade equation with China and heavy dependence on imported raw materials have been affecting the apparel industry considerably in the recent years, with exports declining significantly in comparison to the imports. However, the industry and export are set for a revival and stability in the traditional markets of the US and Canada, following the signing of the United States-Mexico-Canada Agreement (USMCA), which is expected to enter into force in 2020.

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<sup>60</sup> US Department of Commerce

## Impact of COVID 19 on Global Apparel Market

The short-term impact of COVID pandemic on the global apparel industry has been reflected in sharp decline in sales due to the economic lockdowns in many parts of the world, and subsequent disruptions in the supply chain and halt in international trade. Many physical apparel retail stores have closed down due to rising costs and fall in the revenue. The restrictions and isolations have resulted in consumer preference largely moving towards online buying, impacting the profitability of retail stores and employment in the sector. The export orders were also being cancelled or being postponed to a later date. Huge job cuts were witnessed in many developing and developed countries in the sector. Global stock markets have reacted strongly to the crisis in the face of a potential global recession. Stock prices of almost all major apparel brands have been dwindling during the year, which has affected the profitability and sustainability of the brand manufacturers. The value of the U.S. clothing and clothing accessories sales witnessed a year on year fall by 50.5% in March 2020<sup>61</sup>.

As the industry, globally, is largely dependent on China for raw materials, the peak of the outbreak in China, resulted in shortages of raw materials and inputs, which were considered to be the primary concerns for the garment producers, causing disruption to manufacturing across the world, and particularly in garment producing countries in the South-East Asia<sup>62</sup>.

The demand for garments fell drastically in major economies resulting in companies having huge stock of apparel. In the medium-term impact of the pandemic is forecast to be felt in the new production, which could be at much reduced levels.

In the longer-term, however, the pandemic is forecast to affect the composition of global textile industry with clothing supply chains and trade accelerating towards re- or nearshoring of production.

The apparel industry is expected to witness an estimated negative growth rate of 27% globally in 2020. However, the market is expected to revive during 2021 marginally.

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<sup>61</sup> US Census Bureau

<sup>62</sup> ILO

### 3. INDIAN APPAREL INDUSTRY

#### Production and Sales

The production of cloth in India was estimated at 70,070 million square meters in 2018-19, registering a year on year growth of 4.8% over the previous year value of 66,845 million square meters<sup>63</sup>. The cloth production grew at a CAGR of 2.3% during 2011-12 to 2018-19. The cloth production during April-Jan 2019-2020 was provisionally estimated at 63,348 million square meters, witnessing a y-o-y increase of 8.9% as compared to the corresponding period of previous year. The powerloom and hosiery sector have been the largest contributors to the cloth production, with more than 50% of the cloth production coming from the powerloom sector. The mill sector has been the source for 4%-5% of cloth production.

The Index of Industrial Production (IIP), with base year 2011-12, for wearing apparel having registered a positive y-o-y growth since January 2018, came in the negative growth territory during October 2019 with y-o-y growth of (-) 2.8%. The growth was again negative in December 2019 and continued to register a negative trend over several months thereafter.

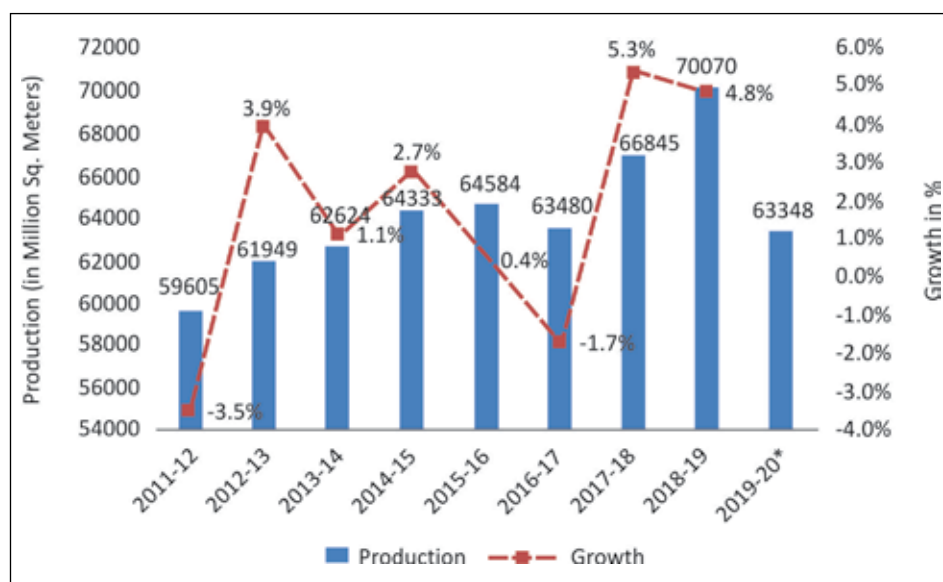
The IIP witnessed a y-o-y fall of 40% in March 2020, followed by 94% fall in April 2020. This dip was due to the imposition of stringent lockdown norms during the COVID 19 pandemic. The index slowly started picking up in the following months, with the ease in the lockdown norms.

The IIP index for wearing apparel was highest for the year 2019-20 as compared to the previous years, starting 2012-13. The index remained above 100 for all the years except 2012-13.

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<sup>63</sup> Ministry of Textiles

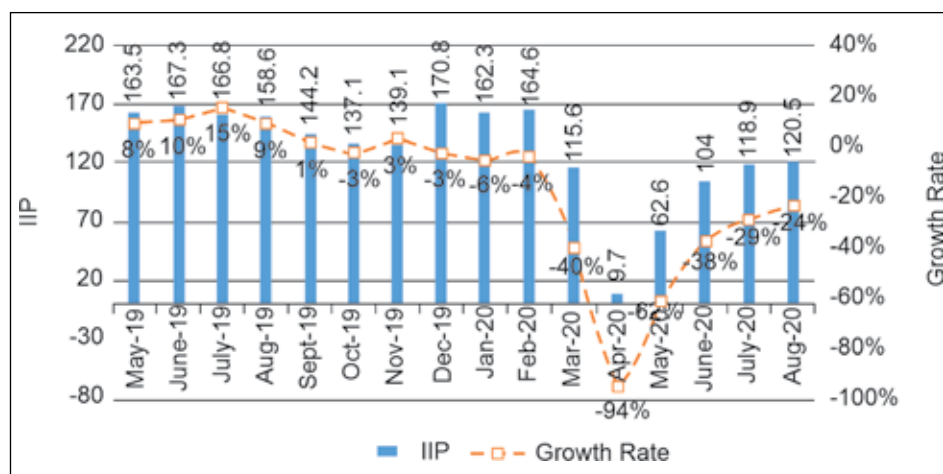
**Exhibit 3.1: Cloth Production in India**



\*provisionally estimated data for April-Jan 2019-20

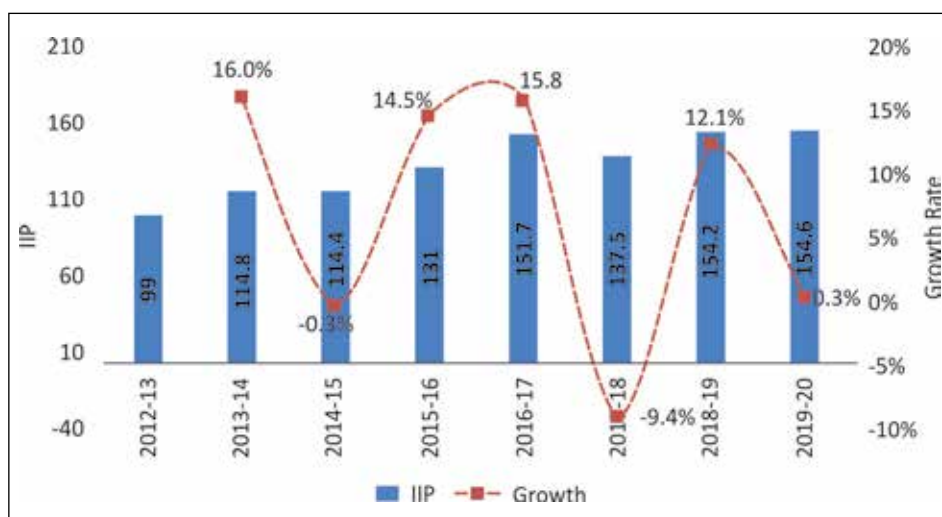
Source: Ministry of Textiles, Exim Bank Research

**Exhibit 3.2: Index of Industrial Production for Wearing Apparel  
(May 2019-August 2020)**



Source: Data accessed from CMIE Industry Outlook, October 2020, Exim Bank Research

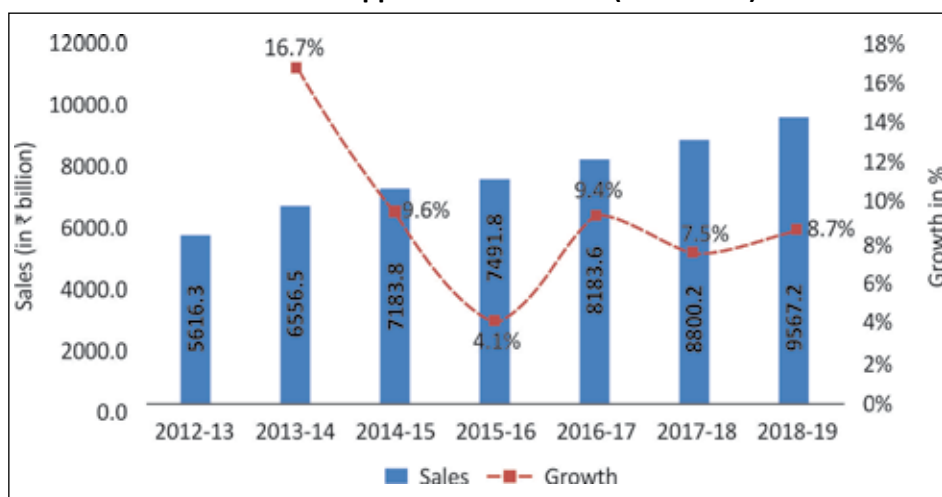
**Exhibit 3.3: Index of Industrial Production for Wearing Apparel (FY13-FY20)**



Source: Data accessed from CMIE Industry Outlook, October 2020, Exim Bank Research

The domestic sale of apparel industry was estimated at ₹ 9,567.2 billion in 2018-19, registering a y-o-y growth of 8.7%, as compared to the previous year's value of ₹ 8,800.2 billion. The domestic sales registered a robust CAGR of 9.3% during the period 2012-13 to 2018-19.

**Exhibit 3.4: Apparel Sales in India (in ₹ billion)**



Source: Data accessed from CMIE Industry Outlook, October 2020, Exim Bank Research

The Wholesale Price Index (WPI) has also been exhibiting an increasing trend for the apparel industry. The WPI was estimated at 138.3 for the year 2019-20, taking 2011-12 as the base year, registering a marginal drop during the year.

**Exhibit 3.5: Apparel Industry WPI (base year 2011-12)**



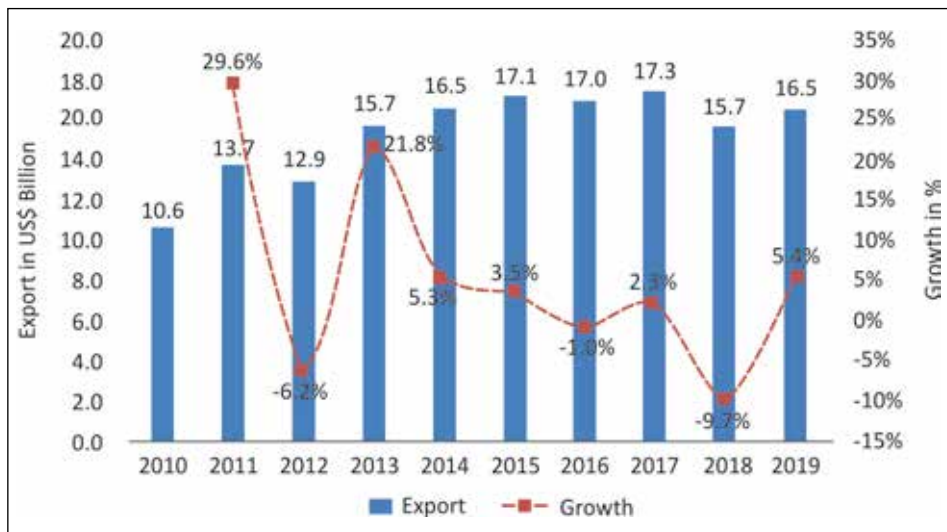
Source: Data accessed from CMIE Industry Outlook, October 2020, Exim Bank Research

## Trade

India has been a net exporter of apparel, having a trade surplus. The export of apparel<sup>64</sup> by India was estimated at US\$ 16.5 billion in 2019, registering a y-o-y growth of 5.4%, from the value of US\$ 15.7 billion in 2018. Past ten year export figures reveals that the exports of apparel was highest in 2017, with an estimated export of US\$ 17.3 billion. Apparel exports registered a CAGR of 5% during 2010 to 2019.

<sup>64</sup> HS code 61 (Articles of apparel and clothing accessories, knitted or crocheted) and 62 (Articles of apparel and clothing accessories, not knitted or crocheted)

**Exhibit 3.6: Export of Apparel from India (in US\$ Billion)**



Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research

In the readymade garments section, the garments of cotton incl. accessories are the highest exported item from India, with an estimated export of US\$ 8.6 billion in 2019-20. It was followed by readymade garments of manmade fibres with an estimated export of US\$ 3.5 billion in 2019-20.

**Table 3.1: India's Export of Readymade Garments (US\$ Million)**

Item	2018-19	2019-20	2020-21*
Readymade garments of cotton incl. accessories	8,694.7	8,643.0	3,904.3
Readymade garments of silk	170.3	119.1	50.3
Readymade garments of manmade fibres	3,853.0	3,506.0	1,536.6
Readymade garments of wool	197.7	155.0	68.0
Readymade garments of other textile materials	3,222.7	3,064.9	1,444.9
<b>Total</b>	<b>16,138.3</b>	<b>15,488.1</b>	<b>7,004.1</b>

\*April-Nov 2020

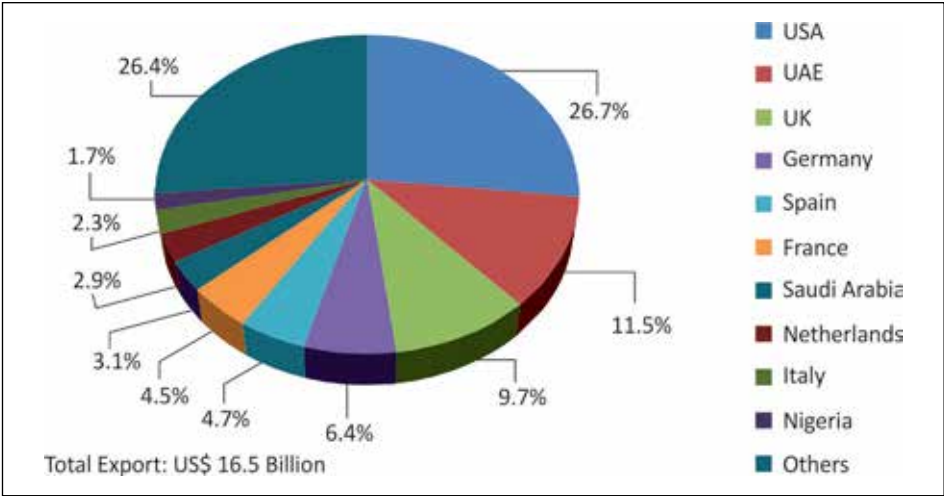
Source: Ministry of Commerce and Industry

With respect to the export destinations, the top five export destinations contributed to 59.1% of the apparel export from India in 2019. The US was the



largest export destination for Indian apparels, with an estimated export of US\$ 4.4 billion in 2019, accounting for a share of 26.7% in India’s apparel export. India’s export of apparel to the US have been steady in the past and the share has remained over 20%. Share of the US in India’s apparel export has increased from 21.7% in 2014 to 26.7% in 2019. Other major export destination includes the UAE (11.5%), the UK (9.7%), Germany (6.4%), Spain (4.7%), and France (4.5%).

**Exhibit 3.7: Top Export Destinations for Indian Apparel Export (2019)**



Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research

In the items exported from India, the HS code 610910 which is T-shirts, singlets and other vests of cotton, knitted or crocheted, was the most exported item with exports valued at approx. US\$ 2 billion in 2019, a share of 12.1% in India’s total apparel export. Other HS codes with major exports include HS 620520<sup>65</sup> with US\$ 0.8 billion, HS 611120<sup>66</sup> with US\$ 0.7 billion and HS 620443<sup>67</sup> with US\$ 0.7 billion.

<sup>65</sup> Men’s or boys’ shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)

<sup>66</sup> Babies’ garments and clothing accessories of cotton, knitted or crocheted (excluding hats)

<sup>67</sup> Women’s or girls’ dresses of synthetic fibres (excluding knitted or crocheted and petticoats)

**Table 3.2: Top Ten Exported Apparel Products from India (2019)**

HS Code	Description	Export (in US\$ Million)	Share in India's Apparel Export
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	1992.4	12.1%
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	836.8	5.1%
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	708.3	4.3%
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	679.3	4.1%
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	667.7	4.0%
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	609.3	3.7%
621443	Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres (excluding knitted or crocheted)	608.0	3.7%
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted and vests)	528.4	3.2%
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	517.2	3.1%
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)	510.3	3.1%

Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research

The import of apparel by India was estimated at US\$ 1.14 billion in 2019, registering a y-o-y growth of 7.5%, from the value of US\$ 1.07 billion in 2018. During 2018, the apparel import jumped 55.1% to reach US\$1.1 billion from US\$

0.69 billion in 2017. The apparel import was highest in 2019, as compared to all the previous years. Apparel import registered a CAGR of 23.2% during 2010 to 2019.

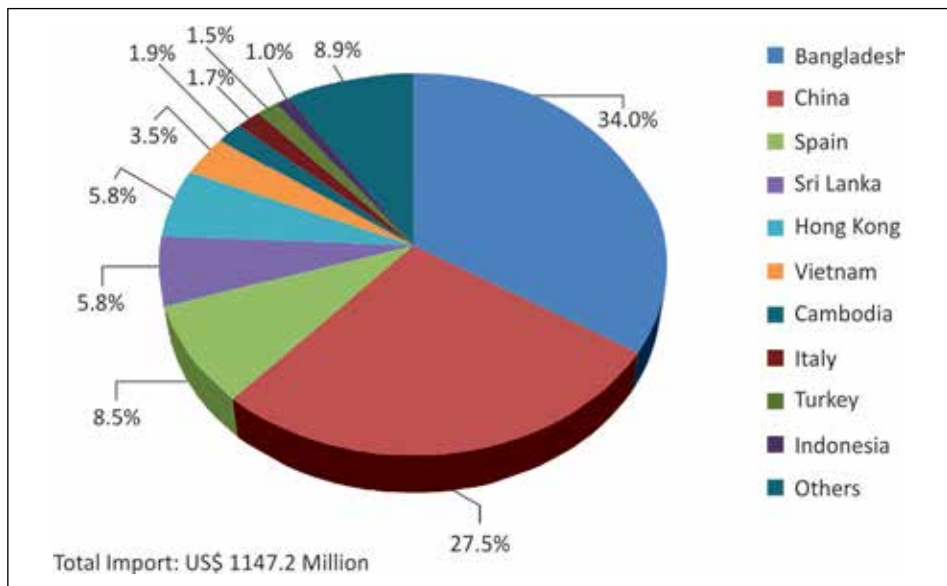
**Exhibit 3.8: Import of Apparel by India (in US\$ Million)**



Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research

With respect to source of imports, the top five source countries contributed upto 81.6% of the apparel import by India in 2019, of which the top two countries contributed around 61.5%. Bangladesh is the largest source of apparel imports by India, with an estimated import of US\$ 389.6 million in 2019, constituting a share of 34% in India’s apparel import. Import of apparel by India, from Bangladesh, has been increasing rapidly, registering a CAGR of 42.5% during 2010 to 2019. India’s apparel imports from Bangladesh registered a higher growth than overall growth in the country’s apparel imports of 23.2% during the same period. China is the other major import source, constituting a share of 27.5% in India’s apparel imports during 2019. The apparel import from China registered a CAGR of 20.2% during 2010 to 2019. Other major import source includes Spain (8.5%), Sri Lanka (5.8%), Hong Kong (5.8%) and Vietnam (3.5%).

**Exhibit 3.9: Top Import Source for Apparel Import by India**



Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research

In terms of the items imported by India, the HS code 620342, which include Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear), was the most imported item with imports worth approx. US\$ 125.7 million in 2019, accounting for a share of 11% in India's total apparel imports. Other major imports includes items in HS 620520<sup>68</sup> with imports of US\$ 90.1 million, HS 620462<sup>69</sup> with US\$ 50.3 million and HS 610910<sup>70</sup> with US\$ 49.7 million worth of imports.

<sup>68</sup> Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)

<sup>69</sup> Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)

<sup>70</sup> T-shirts, singlets and other vests of cotton, knitted or crocheted

**Table 3.3: Top Ten Imported Apparel Products by India (2019)**

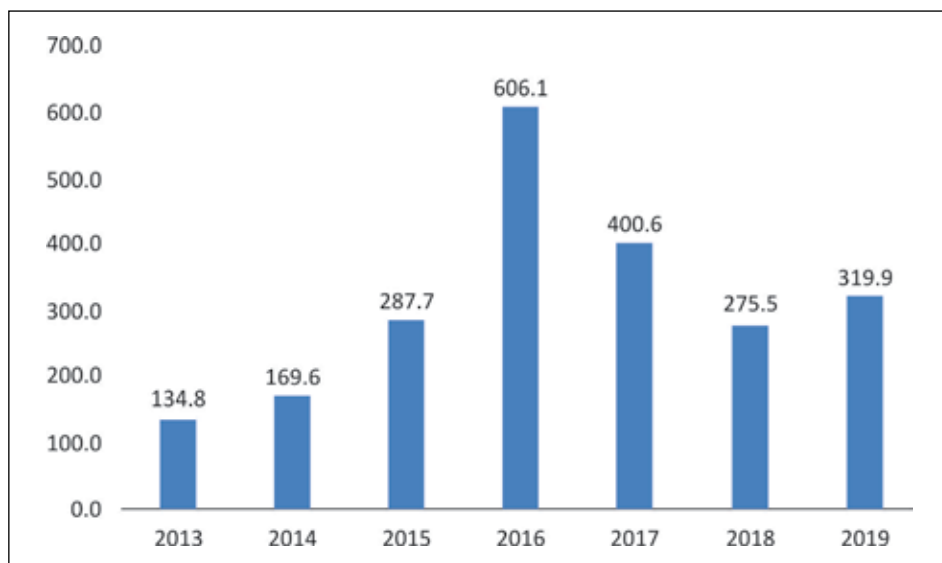
HS Code	Description	Import (in US\$ Million)	Share in India's Apparel Import
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	125.7	11.0%
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	90.1	7.9%
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	50.3	4.4%
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	49.7	4.3%
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	42.9	3.7%
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	37.4	3.3%
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	31.9	2.8%
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets and other vests)	27.5	2.4%
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	25.2	2.2%
620333	Men's or boys' jackets and blazers of synthetic fibres (excluding knitted or crocheted, and wind-jackets and similar items)	24.1	2.1%

Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research

## FDI in Textile and Apparel Sector<sup>71</sup>

The FDI equity inflow in the textile sector in India was estimated at US\$ 319.9 million in 2019, registering a year-on-year growth of 16.1% over the previous year. FDI in the sector during April 2000 to September 2020 is estimated at US\$ 3,464.1 million, which is 0.7% of the overall FDI equity inflow in India during the same period. The FDI equity inflow was highest during 2016, with estimated inflow of US\$ 606.1 million. However, the inflow declined for two consecutive years after achieving a peak.

**Exhibit 3.10: FDI Equity Inflow in Textiles (including dyed, printed) in India (in US\$ Million)**



Source: Department for Promotion of Industry and Internal Trade, Government of India, Exim Bank Research

## Operating Margin and Labor Cost

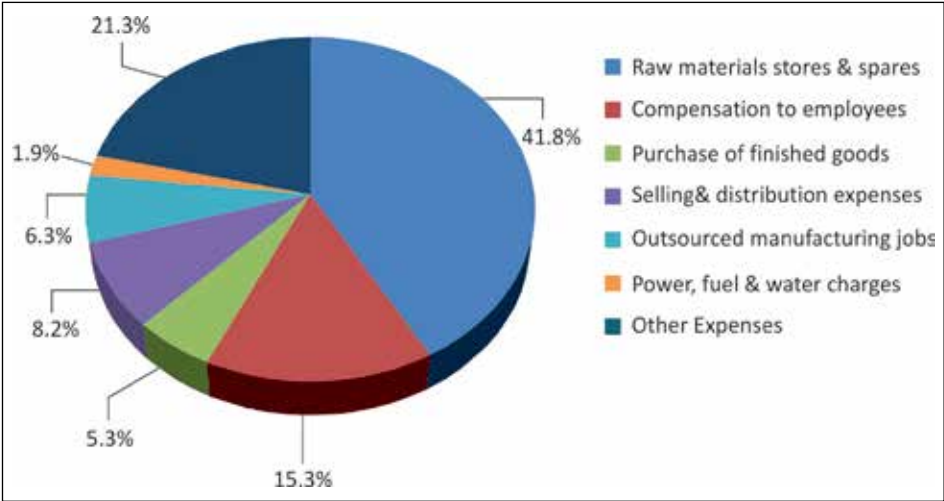
Raw materials dominate the overall operating cost for the Indian apparel industry. It constituted about 41.8% of the operating cost in 2018-19<sup>72</sup>. Compensation paid to employees remains other major constituent of overall

<sup>71</sup> FDI flow is estimated for the whole sector comprising both textile and apparel

<sup>72</sup> CMIE Industry Outlook

costs in the apparel industry, with an estimated share of 15.3% in the operating cost during 2018-19. These two factors have been the predominant influencer on the operating and net margin of the apparel industry in India, with rising expenditure creating downward pressure on the profitability.

**Exhibit 3.11: Expenses Breakup for Firms in Apparel Industry**



Source: CMIE Industry Outlook

### Credit Flow

Total outstanding credit from bank and financial institutions to the textile and apparel industry in India was estimated at ₹1924.2 billion at the end of financial year 2019-20, which equals to 6.6% of total outstanding credit to all industries for the year 2019-20. As on 31 August 2020, the total outstanding amount provided to the Textile sector by Exim Bank was ₹25.6 billion, 16.9% of the total outstanding credit given by the Bank.

### Export Competitiveness of Indian Apparel

India had a share of 3.5% in the global apparel export in 2019. For obtaining a wholesome picture of competition in the export of apparel by other countries, the method of Normalized Revealed Comparative Advantage (NRCA) was worked out.

The Revealed Comparative Advantage (RCA) index of country 'i' for product 'j' is measured by the product's share in the country's exports in relation to its share in world trade. It is 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. As per Balassa's (1965) measure, index for country 'i', commodity 'j'; is

$$RCA_{ij} = (x_{ij}/X_{it}) / (x_{wj}/X_{wt})$$

Where,

$x_{ij}$  : Total export value of good 'j' from country 'i'

$X_{it}$  : Total exports from country 'i'

$x_{wj}$  : Total export value of good 'j' in the world

$X_{wt}$  : Total exports in the world

The RCA index ranges from 0 to infinity, with 1 as the break-even point. That is, an RCA value of less than 1 means that the product does not have a comparative advantage, while a value above 1 indicates that the product has a comparative advantage.

**The Normalized Revealed Comparative Advantage** index has been used largely in studies for revealing the extent of comparative advantage that a country has in a commodity more precisely and consistently than other alternative RCA indices. NRCA can be defined in the following manner:

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

NRCA ranges from -1 to 1 with 0 as the breakeven point. That is, an NRCA value of less than 0 means that the product has no export comparative advantage, while a value above 0 indicates that the product has a comparative advantage. The extent of comparative advantage/disadvantage can be gauged from the proximity of the NRCA values to the extreme data points, viz. +1 and -1.



**Table 3.4: NRCA Indices for Top 25 Apparel Items Exported by India**

Code	Product Description	Export in US\$ Million		NRCA
		2010	2019	
6 Digit Code	Total	10604.0	16508.1	0.34
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	1472.5	1992.4	0.57
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	701.6	836.8	0.63
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	338.6	708.3	0.75
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	171.0	679.3	0.65
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	225.4	667.7	0.44
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	694.9	609.3	0.80
621143	Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres (excluding knitted or crocheted)	28.0	608.0	0.75
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted and vests)	212.5	528.4	0.63
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	368.6	517.2	0.07
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)	1150.4	510.3	0.78
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets and others vests)	351.3	487.1	0.66
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	60.6	372.0	0.84

Code	Product Description	Export in US\$ Million		NRCA
		2010	2019	
620349	Men's or boys' trousers, bib and brace overalls, breeches and shorts of textile materials (excluding of wool, fine animal hair, cotton or synthetic fibres, knitted or crocheted, underpants and swimwear)	62.3	296.1	0.81
611420	Special garments for professional, sporting or other purposes, n.e.s., of cotton, knitted or crocheted	112.7	293.2	0.68
620444	Women's or girls' dresses of artificial fibres (excluding knitted or crocheted and petticoats)	14.1	278.7	0.63
610831	Women's or girls' nightdresses and pyjamas of cotton, knitted or crocheted (excluding T-shirts, vests and negliges)	170.6	254.6	0.79
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials (excluding of silk, silk waste, wool, fine animal hair, or man-made fibre knitted or crocheted)	306.5	241.0	0.92
<b>620462</b>	<b>Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)</b>	<b>280.0</b>	<b>236.2</b>	<b>-0.20</b>
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	134.4	207.3	0.50
620590	Men's or boys' shirts of textile materials (excluding of cotton or man-made fibres, knitted or crocheted, night shirts, singlets or vests)	46.5	189.0	0.81
<b>611020</b>	<b>Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)</b>	<b>128.7</b>	<b>182.9</b>	<b>-0.38</b>
620920	Babies' garments and clothing accessories of cotton (excluding knitted or crocheted and hats (excluding knitted or crocheted hats, , napkins and napkin liners)	117.9	178.5	0.74
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	84.1	176.5	0.55

Code	Product Description	Export in US\$ Million		NRCA
		2010	2019	
611190	Babies' garments and clothing accessories of textile materials, knitted or crocheted (excluding of cotton or synthetic fibres, and hats)	25.9	162.8	0.89
610520	Men's or boys' shirts of man-made fibres, knitted or crocheted (excluding nightshirts, T-shirts, singlets and other vests)	143.4	151.8	0.63

*Note: Products in bold are those where India does not have a comparative advantage in exports.*

*Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research*

There are in total 245 categories at HS code 6 digit level for apparel (HS 61 and 62). In the basket of top 25 apparel items exported by India, it is observed that only two products, which are HS 620462 (Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)) and HS 611020 (Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)) have a negative NRCA, indicating that there is no export comparative advantage in the export of these two products. For all other products in the top 25 list the NRCA has been positive, indicating comparative advantage.

Table 3.5: Top 15 Apparel Items Exported Globally and the Corresponding NRCA for Top Apparel Exporters Globally

HS Code	Description	NRCA China	NRCA Bangladesh	NRCA Vietnam	NRCA Germany	NRCA Italy	NRCA India
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	-0.06	0.97	0.51	-0.22	0.22	0.57
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	0.13	0.98	0.35	0.04	0.17	0.07
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted	0.52	0.95	0.65	-0.28	0.04	-0.73
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	0.35	0.96	0.70	-0.22	0.27	-0.38
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	0.38	0.97	0.47	-0.25	0.03	-0.20
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	0.29	0.91	0.69	-0.20	-0.11	0.44
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	0.04	0.97	0.65	-0.17	0.21	0.63
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	0.43	0.91	0.69	-0.33	-0.12	-0.25
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres (not knitted or crocheted and excluding suits, ensembles, jackets, blazers, trousers and tops of ski suits)	0.46	0.92	0.83	-0.25	0.45	-0.95

HS Code	Description	NRCA China	NRCA Bangladesh	NRCA Vietnam	NRCA Germany	NRCA Italy	NRCA India
620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres (not knitted or crocheted and excluding suits, ensembles, jackets, blazers, trousers and tops of ski suits)	0.53	0.90	0.80	-0.01	0.33	-0.95
<b>620443</b>	<b>Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)</b>	<b>0.41</b>	<b>0.67</b>	<b>0.43</b>	<b>-0.05</b>	<b>0.22</b>	<b>0.65</b>
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excluding knitted or crocheted , underpants and swimwear)	0.31	0.95	0.85	-0.28	-0.29	-0.13
610463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted or crocheted (excluding panties and swimwear)	0.49	0.86	0.81	-0.10	-0.39	-0.71
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excluding panties and swimwear)	0.38	0.97	0.69	-0.11	-0.25	-0.11
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted and vests)	0.00	0.92	0.65	-0.02	0.07	0.63

*Note: Products in bold are those where India has a relative comparative advantage vis-à-vis its competitors (other than Bangladesh)*

*Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research*

While mapping the NRCA of India and leading apparel exporting countries<sup>73</sup> by value, across the top 15 apparel export items globally in 2019, it is observed that there is no comparative export advantage in 9 out of top 15 globally exported products, for India. On the other hand, Bangladesh has a relative comparative advantage in all the 15 products analysed. Leaving Bangladesh aside, if NRCA is compared with other four competitor countries, then India has relative comparative advantage in two product groups which are HS 610910 and HS 620443 (highlighted in table 3.5). The combined export of these two products, by India, was US\$ 2.7 billion in 2019, a share of approx. 16.3% in India's total apparel exports in 2019. India's share in global export for each of these two HS codes 610910 and 620443 stands at 6.3% and 8.1%, respectively. In products where India has a comparative advantage, there is a need to strengthen market access efforts in the top markets, many of which do not feature among top markets for India's exports (Table 3.6).

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<sup>73</sup> China, Bangladesh, Vietnam, Germany and Italy

**Table 3.6: Trade Indicators for Items with a Positive NRCA (2019)**

HS code	HS Description	India's Export (2019) (US\$ Mn)	CAGR of India's Export (2010-19)	Top Importers of the Product	India's Share in World Exports (2019)	Major Export Destinations for India
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	1992.4	3.4%	USA (15.8%), Germany (9.8%), UK (6.4%), Japan (5.8%) and France (5.7%)	6.3%	USA (19.8%), UAE (14.5%), Nigeria (7.9%), UK (6.9%) and Germany (6.7%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	517.2	3.8%	USA (22%), Germany (12.4%), France (5.6%), Netherlands (4.9%) and Spain (4.7%)	2.0%	USA (27.7%), UAE (8.1%), Netherlands (7.4%), Spain (6.7%) and UK (5.0%)
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	667.7	12.8%	USA (15.6%), Germany (10.5%), Japan (8.2%), UK (6.1%) and France (6.1%)	4.4%	USA (24.2%), UAE 23.4%), Germany (8.3%), UK (5.7%) and Spain (5.2%)

HS code	HS Description	India's Export (2019) (US\$ Mn)	CAGR of India's Export (2010-19)	Top Importers of the Product	India's Share in World Exports (2019)	Major Export Destinations for India
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	836.8	2.0%	USA (24.4%), Germany (8.6%), UK (5.5%), Japan (4.9%) and France (4.8%)	7.6%	USA (29.3%), Sudan (9.8%), UK (8.4%), UAE (7.2%) and Germany (6.1%)
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	679.3	16.6%	USA (16.5%), UK (9.7%), Germany (8.8%), France (6.7%) and Spain (5.8%)	8.1%	USA (23.8%), UK (18.2%), Spain (7.9%), Germany (6.7%) and UAE (6.5%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted and vests)	528.4	10.7%	USA (16.4%), Germany (10.8%), Spain (7.7%), UK (7.4%) and Japan (6.4%)	7.6%	USA (29.7%), Germany (14.3%), UK (11.2%), Spain (6.4%) and France (5.3%)

Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research



For India's top ten apparel export items in 2019, a cross-country analysis of competitiveness shows that India enjoys a relative comparative advantage in 6 of the top products when compared to China, Vietnam, Germany and Italy, while Bangladesh has higher NRCA for each of the ten products.

**Table 3.7: Competitiveness of India's Top Ten Apparel Export Items in 2019**

HS Code	NRCA India	NRCA China	NRCA Bangladesh	NRCA Vietnam	NRCA Germany	NRCA Italy
610910	0.57	-0.06	0.97	0.51	-0.22	0.22
620520	0.63	0.04	0.97	0.65	-0.17	0.21
611120	0.75	0.34	0.96	0.39	-0.51	-0.27
620443	0.65	0.41	0.67	0.43	-0.05	0.22
610990	0.44	0.29	0.91	0.69	-0.20	-0.11
620442	0.80	0.34	0.90	0.10	-0.26	0.33
621143	0.75	0.52	0.79	0.68	-0.32	-0.17
620640	0.63	0.00	0.92	0.65	-0.02	0.07
620342	0.07	0.13	0.98	0.35	0.04	0.17
620630	0.78	0.05	0.94	0.54	-0.11	0.33

*Source: Data accessed from ITC Trade Map, October 2020; Exim Bank Research*

## **4. MARKET ACCESS ARRANGEMENTS AND APPAREL TRADE**

Trade agreements provide preferential market access to countries leading to various economic and dynamic advantages ranging from trade creation, market expansion to capital accumulation and productivity improvement. Such market access has traditionally led to greater integration and increasing participation of developing and least developed countries in the world market. The implementation of the various market access arrangements has also been largely able to address the fragmentation challenge of the textile and apparel sector in the developing and least developed countries and integrated them to the value chains of the industrialised countries, giving rise to the concept of Global Value Chain (GVC). Different kinds of market access arrangements dominant globally are discussed in Annexure 1. These arrangements have also opened up opportunities for the global manufacturers of textile and apparels on choice of location for manufacturing activities and driven them to relocate to locations with low cost of production and preferential access to consumer markets.

### **Market Access Arrangements by Key Textile and Apparel Markets**

#### **The USA**

The USA is the largest market for textile and apparel products in the world with share of 10.3% in total global textile imports, and 20.4% share in total global apparel imports in 2019. To facilitate imports, the USA has in place several market access arrangements with countries, regions, and trading blocs. These arrangements involve elimination or reduction of tariff rates, providing access to government procurement opportunities and easing of investment regulations. Preference arrangements and trade agreements of the USA include:

- Programs - AGOA<sup>74</sup>, Caribbean Basin Initiative<sup>75</sup> (include CBERA, CBTPA and HOPE)
- FTAs - Australia, Singapore, Bahrain, Chile, Oman, Israel, S. Korea, Jordan, Morocco, NAFTA, CAFTA-DR<sup>76</sup>
- Trade Promotion Agreements - Colombia, Panama and Peru

## **The European Union (EU)**

With a share of 23.2% in total global imports of textile and 39.3% share in global apparel imports during 2019, the EU as a bloc was the largest importer of textile and apparel products globally. The EU has in place several market access arrangements covering almost all regions of the world. Key trade agreements and arrangements include:

- Economic Union (27 European countries)
- GSP, GSP + and EBA status - Several developing and least developed nations
- Customs Union – Turkey
- FTAs - South Korea and North Africa
- Trade Agreements - Latin American countries (Full-fledged agreements with two Latin American groupings (Cariforum and the Central America group), a multiparty trade agreement with three countries of the Andean Community (Colombia, Ecuador, and Peru), and agreements with Mexico and Chile underway; inter-regional and bilateral framework agreements with both Mercosur and its individual members)

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<sup>74</sup> The African Growth and Opportunity Act that covers 38 African countries.

<sup>75</sup> Caribbean Basin Initiative launched in 1983 through the Caribbean Basin Economic Recovery Act (CBERA) and expanded in 2000 by the U.S.-Caribbean Basin Trade Partnership Act (CBTPA). CBERA was implemented on January 1, 1984 and has no set expiration date. The CBTPA is scheduled to expire on September 30, 2020. Haitian Hemispheric Opportunity through Partnership Encouragement Act of 2006 (HOPE)/ 2008 (HOPE II) are additional benefits created for Haiti by amending CBERA. There are 17 CBERA beneficiary countries, 8 of which are beneficiaries under CBTPA.

<sup>76</sup> The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR FTA) entered into force for the United States, El Salvador, Guatemala, Honduras, and Nicaragua in 2006, for the Dominican Republic in 2007, and for Costa Rica in 2009.

## Japan

Japan, one of the major markets of textile and apparel products in the world. Japan, accounted for 2.9% share in total global textile imports, and 6.5% share in total global apparel imports in 2019. Japan has in place a network of bilateral agreements called Economic Partnership Agreements (EPAs) providing preferential duty structure for various textile and apparel articles that are traded among these countries and Japan. Japan has established 15 Economic Partnership Agreements (including with India). Besides, Japan has also implemented a GSP program granting preferential tariff advantage to 151 countries<sup>77</sup>.

## India's Market Access Arrangements and Implication on Apparel Trade in Key Markets

India has in place the following market access arrangements:

- FTA - South Asia Free Trade Area (SAFTA), Bhutan, Sri Lanka
- PTA - Asia Pacific Trade Agreement (APTA)<sup>78</sup>, Afghanistan, Chile and MERCOSUR
- CECA - Association of Southeast Asian Nations (ASEAN), Malaysia and Singapore
- CEPA - Japan and South Korea
- GSP – EU

Among these market access arrangements established by India, only a few are relevant with respect to trade in textile and apparel products as majority of the countries covered by these arrangements are not significant importers of textile and apparel products.

The key importers of apparel products globally are the USA, the EU, the UAE, South Korea, Japan and China. India's major trading partners in apparel products are the USA, the EU and the UAE. India does not have free trade agreements with its key apparel import markets. Though India has established trade agreements

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<sup>77</sup> United Nations Conference on Trade and Development (UNCTAD), Generalised System of Preferences- List of Beneficiaries

<sup>78</sup> APTA is an agreement between Bangladesh, China, Lao PDR, Republic of Korea and Sri Lanka

with South Korea and Japan but the gains have not been significant as they are competed by other bilateral and multilateral trade agreements by the two countries with other peer countries of India in the sector, such as with Vietnam, Turkey and China.

**Table 4.1: Select Free Trade Agreements (FTA) between Major Apparel Exporters and Importers**

<b>Importers Exporters</b>	<b>The USA</b>	<b>The EU</b>	<b>Japan</b>	<b>China</b>
China	No FTA	No FTA	<b>Concluded:</b> - China-Japan-Korea FTA - RCEP <sup>6</sup>	NA
India	No FTA	<b>Ongoing</b> - India-EU Broad-based Trade and Investment Agreement (Negotiations stalled)	<b>Enforced:</b> Japan-India Comprehensive Economic Partnership (CEPA) Agreement (August 1, 2011)	<b>Withdrew</b> -RCEP
Turkey	No FTA	<b>Enforced:</b> Turkey- EU Customs Union (December 31, 1995)	<b>Ongoing:</b> Japan- Turkey Economic Partnership Agreement	No FTA
Republic of Korea	<b>Enforced:</b> US-Korea FTA (March 15, 2012)	<b>Enforced:</b> EU- Republic of Korea FTA (December 13, 2015)	<b>Concluded:</b> - China-Japan-Korea FTA - RCEP	<b>Enforced:</b> China- Republic of Korea FTA (December 20, 2015)
Vietnam	<b>Enforced:</b> US-Vietnam Bilateral Trade Agreement (December 10, 2001).	<b>To be enforced:</b> Vietnam- EU FTA (awaiting approval from the EU Parliament)	<b>Enforced:</b> Japan-Vietnam Economic Partnership Agreement (October 1, 2009)	<b>Concluded:</b> RCEP

Source: Compiled from various government websites

<sup>79</sup> United Nations Conference on Trade and Development (UNCTAD), Generalised System of Preferences- List of Beneficiaries

As may be observed from the Table 4.1, unlike India, all major apparel exporting countries have trade agreements with the leading importing countries, particularly the US or the EU or with both. Apparel exports to the EU and the USA are subjected to high autonomous tariff; however, countries under the trade agreements have the benefit of zero or preferential tariffs, which are much lower.

Japan is also a major importer of apparel globally. However, Japan is not among India's top apparel export markets. Although India and Japan have reduced tariff on apparel sector to zero under the India-Japan Comprehensive Economic Partnership Agreement, apparel exports to Japan from India has not witnessed much gain. India is among the top ten sources of Japanese import of apparels, but its share in the Japanese market is only 1% as against China, Vietnam and Bangladesh with a share of 56.8%, 15.4% and 4.2%, respectively.

India's trade agreements with a number of other countries, such as Thailand, Republic of Korea, and Malaysia, and regional groups, such as Association of South East Asian Nations (ASEAN), also have not been able to render significant gains in apparel trade with member countries. Notably, India has not provided zero tariffs for apparel trade among the partner countries in the Agreements.

Performance of India's apparel trade with select partner countries with whom India has trade agreements are discussed below.

#### **Comprehensive Economic Partnership Agreement (CEPA) India – South Korea**

The CEPA between India and South Korea was signed on August 2009 and was made effective from January 2010. Under CEPA, tariff reductions were to be undertaken by the two sides based on an agreed schedule that divided all the tariff lines into six categories. For South Korea, the total number of tariff lines was 11,261 at 10-digit level and in the case of India they numbered around 11,710 at 8-digit level. The six categories used the base rate as the corresponding applied tariff prevailing in 2006 for each tariff line:

- E-0 - products in this category to have zero tariff from 1.1.2010, the date of commencement of implementation; there are 8 products under this category.

- E-5 - an annual tariff reduction of 20 percent with zero tariff by 1.1.2014; there are 294 products under this category.
- E-8 - an annual tariff reduction of 12.5 percent with zero tariff by 1.1.2017; there are 32 products under this category
- RED - tariff reductions in equal instalments in 8 years with the final tariff in the range of 1 to 5 percent, there are no products under this category.
- SEN - sensitive products with tariff reductions in equal instalments in 10 years (for Republic of Korea it is 8 years) with the final tariff being 50 percent of the base rate;
- EXC - excluded products that would not undergo any tariff reduction, there are no products under this category.

**Table 4.2: Tariff Reduction / Elimination under India-South Korea CEPA**

Category	1-Jan 10	1-Jan 11	1-Jan 12	1-Jan 13	1-Jan 14	1-Jan 15	1-Jan 16	1-Jan 17	1-Jan 18	1-Jan 19
E-0	100%									
E-5	20%	40%	60%	80%	100%					
E-8	12.5%	25%	37.5%	50%	62.5%	75%	87.5%	100%		
SEN.	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
EXC	Tariff lines not subjected to the reduction schedule									

Source: Wazir Advisors

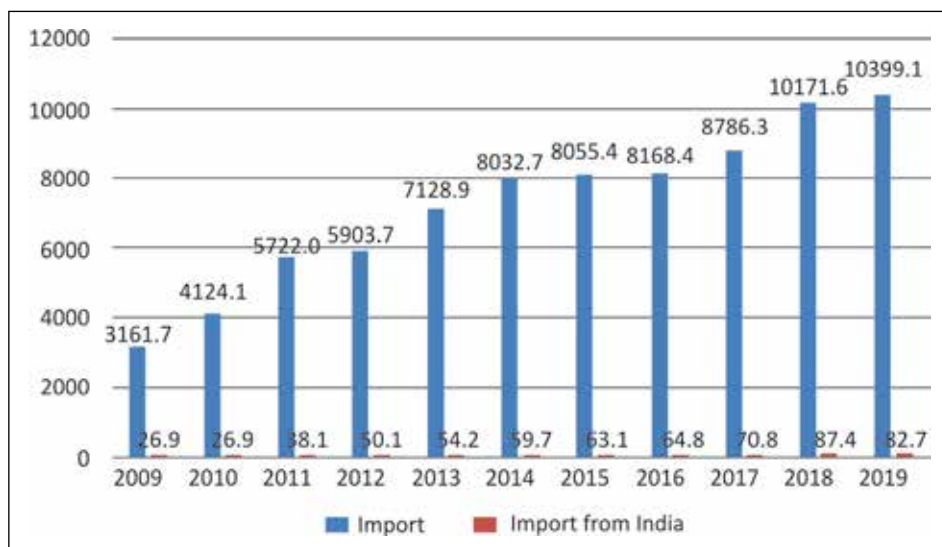
### *India's apparel trade with South Korea*

India's total apparel export to South Korea was estimated at US\$ 53.6 million in 2019. Export registered a CAGR of 15% over the period 2009 to 2019. India's export in HS 61<sup>80</sup> category was estimated at US\$ 25.4 million in 2019, registering a CAGR of 18% over 2009 to 2019, while the exports were estimated at US\$28.2 million in HS 62<sup>81</sup>, with a CAGR of 12.8% during 2009 to 2019. HS 610910 (T-shirts, singlets and other vests of cotton, knitted or crocheted) was the most exported commodity group in 2019, with estimated export of US\$10.5 million.

<sup>80</sup> Articles of apparel and clothing accessories, knitted or crocheted

<sup>81</sup> Articles of apparel and clothing accessories, not knitted or crocheted

**Exhibit 4.1: Republic of Korea's Total Apparel Imports and from India  
(In US\$ Million) (2009 to 2019)**



Source: ITC Trade Map, Exim Bank Research

Though there has been an organic increase in exports from India to the Republic of Korea since 2009, an analysis of Republic of Korea's total imports in apparel products shows that, India's share in Korea's import of apparel products has remained low at less than 1%, and has marginally declined in 2019 compared to 2009 and 2014. India also does not appear among top 5 suppliers of apparel products to Korea (Table 4.3). While China has been the leading supplier of apparel and clothing to the Republic of Korea, its share has significantly reduced during 2009 to 2019, and in some apparel categories it has been overtaken by Vietnam as the leading supplier. An analysis of the apparel suppliers to Korea further reveals that Asian apparel supplying nations have largely replaced USA since 2009, and countries, such as Indonesia, Myanmar, Cambodia and Bangladesh have made significant presence in the Korean apparel markets. Bangladesh emerged among the top five suppliers of apparel to Korea during 2019. Bangladesh's share in apparel imports by Korea rose from 0.6% in 2009 to 4.5% in 2019.



**Table 4.3: Republic of Korea's Category-wise Apparel Imports**

HS Code	2009			2014			2019		
	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)
<b>61</b>	1022.2	1	China (68.7%), Vietnam (6.3%), Italy (5.1%), Indonesia (2.6%), USA (2.4%)	2460.5	1	China (47.9%), Vietnam (18.8%), Indonesia (7.3%), Italy (4.5%), Cambodia (3%)	3909.4	0.9	China (34.7%), Vietnam (30.4%), Indonesia (6%), Italy (4.9%), Bangladesh (4.5%)
<b>62</b>	2139.4	0.8	China (76.9%), Vietnam (7.1%), Italy (7%), Myanmar (2.4%), USA (1.8%)	5572.2	0.6	China (41.4%), Vietnam (30.2%), Myanmar (7.3%), Indonesia (5.4%), Italy (4.4%)	6489.7	0.7	Vietnam (36.8%), China (32.8%), Indonesia (5.6%), Myanmar (5.5%), Italy (5.3%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.4: India's Apparel Trade with Republic of Korea (In US\$ Million)  
(2009/2014/2019)**

Category (HS Code)	2009			2014			2019		
	Export	Import	Trade Balance (export- import)	Export	Import	Trade Balance (export- import)	Export	Import	Trade Balance (export- import)
61	4.9	1.0	3.2	16.9	0.5	16.4	25.4	1.0	24.4
62	8.4	0.2	8.2	19.3	0.5	18.7	28.2	0.4	27.9

Source: ITC Trade Map, Exim Bank Research

A product-wise analysis of the top ten apparel products imported by Republic of Korea reveals that, except for HS 610910, where India has a share of little over 2%, rest in all other products India has a negligible share (Table 4.5). While India's share has been diminishing, Bangladesh's share in most of the categories has increased significantly since 2009.

A product-wise analysis of the top ten apparel products exported by India to the Republic of Korea reveals that, though India has been able to secure a position among the top 5 suppliers in 2019, share in imports of the products, however, remain significantly low compared to other Asian suppliers, such as Vietnam, Indonesia, Bangladesh and Myanmar (Table 4.6). Nevertheless, India has been able to increase its share considerably from 2% and below to 5% and above in four products category (HS Codes 610821<sup>82</sup>, 620520<sup>83</sup>, 620442<sup>84</sup> and 620630<sup>85</sup>) since 2009 to 2019.

<sup>82</sup> Women's or girls' briefs and panties of cotton, knitted or crocheted

<sup>83</sup> Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)

<sup>84</sup> Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)

<sup>85</sup> Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)

**Table 4.5: Top 10 Apparel Imports by Republic of Korea and the Leading Suppliers (in US\$ million)**

HS Code	Description	2009			HS Code	Description	2014			HS Code	Description	2009			HS Code	Description	2009		
		Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	125.0	1.1	China (64.6%), Vietnam (19.7%), Myanmar (8.1%), Bangladesh (2.5%), Indonesia (1.4%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	332.4	0.5	China (42%), Vietnam (15.7%), Myanmar (11%), Bangladesh (7.6%), Italy (6.8%)	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	426.4	0.1	China (49%), Vietnam (23.8%), Bangladesh (9.6%), Indonesia (5.7%), Myanmar (2.4%)					
620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	106.6	Neg	China (68.4%), Vietnam (15.7%), Myanmar (9.9%), Indonesia (1.9%), Italy (1.2%)	620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	328.6	0.7	Vietnam (48%), China (31.2%), Indonesia (11.8%), Myanmar (4.1%), Thailand (1.7%)	620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	419.7	0.3	Vietnam (65.9%), China (10.8%), Indonesia (9.8%), Myanmar (4.3%), Bangladesh (3.7%)					

HS Code	Description	2009			HS Code	Description	2014			HS Code	Description	2009			Description	2009		
		Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers		Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	90.8	1.1	China (75.4%), Italy (4.7%), Vietnam (3.7%), Indonesia (1.7%), Turkey (1.7%)	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	314.5	0.8	China (68.8%), Italy (6%), Vietnam (5.9%), Bangladesh (4.6%), Myanmar (3.1%)	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	385.7	0.1	Vietnam (42.3%), China (34%), Indonesia (6.3%), Cambodia (3%), Myanmar (2.9%)				
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted	77.2	Neg	China (74.7%), Vietnam (10.8%), Italy (5%), Japan (1.6%), Thailand (1.2%)	621040	Men's or boys' garments of textile fabrics, rubberised or impregnated, coated, covered or laminated	268.9	Neg	Vietnam (75.4%), China (12.3%), Indonesia (7.5%), Myanmar (2.6%), Bangladesh (1.5%)	611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	378.1	1.4	China (33.9%), Vietnam (21.8%), Italy (9.3%), Portugal (6.8%), Bangladesh (5.5%)				

HS Code	Description	2009			HS Code	Description	2014			HS Code	Description	2009			HS Code	Description	2009		
		Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	74.3	0.3	China (81.4%), Vietnam (10.6%), Indonesia (2.7%), Thailand (1.6%), Myanmar (1.1%)	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	268.1	0.1	China (49.6%), Vietnam (22.4%), Indonesia (9.9%), Bangladesh (3.2%), Myanmar (3%)	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	321.9	1.7	China (62.9%), Vietnam (12.9%), Bangladesh (6.8%), Italy (3.6%), Turkey (3.4%)					
621133	Men's or boys' track suits and other garments, n.e.s. of man-made fibres	72.9	0.1	China (80.3%), Vietnam (12.6%), Myanmar (5%), Indonesia (0.5%), Japan (0.3%)	620463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	231.4	0.1	China (44.9%), Vietnam (42.6%), Indonesia (5.8%), Myanmar (2.3%), Japan (0.5%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	291.2	0.9	China (30.3%), Vietnam (23.8%), Bangladesh (14.2%), Italy (6.9%), Myanmar (4.9%)					

HS Code	Description	2009			HS Code	Description	2014			HS Code	Description	2009			HS Code	Description	2014			HS Code	Description	2009		
		Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers			Total Import (in US\$ million)	India's share in imports (%)	Share of 5 leading suppliers
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	70.9	0.7	China (71%), Vietnam (4.4%), Italy (4.2%), Thailand (3.8%), Indonesia (2.2%)	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	222.8	0.3	China (60.8%), Vietnam (12.4%), Thailand (3.6%), Bangladesh (3.5%), Cambodia (3.3%)	620463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	263.9	0.1	Vietnam (47.7%), China (39.1%), Indonesia (4.6%), Myanmar (1.9%), Sri Lanka (1%)										

Source: ITC Trade Map, Exim Bank Research

**Table 4.6: India's Top 10 Exported Apparel products to Republic of Korea  
in US\$ Million in 2009/2014/2019**

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
<b>2009</b>				
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	10.5	2.1	China (75.7%), Vietnam (4.7%), Indonesia (3%), USA (2.3%), Italy (2.2%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	5.0	2.3	China (68.1%), Italy (7%), Turkey (3.1%), USA (2.7%), Hong Kong (2.4%)
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	3.2	1.1	China (75.4%), Italy (4.7%), Vietnam (3.7%), Indonesia (1.7%), Turkey (1.7%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)	3.1	2.1	China (79.2%), Italy (5.6%), India (2.1%), Vietnam (2.1%), Myanmar (1.3%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	2.5	4.5	China (68.6%), Italy (9.4%), India (4.5%), Japan (2.9%), Thailand (2.1%)



HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	2.3	1	China (63.5%), USA (6%), Italy (5.3%), Vietnam (5.3%), Myanmar (3.6%)
620590	Men's or boys' shirts of textile materials (excluding of cotton or man-made fibres, knitted or crocheted, night shirts, singlets or vests)	1.9	1.2	China (51.2%), USA (14.2%), Italy (7.6%), Philippines (3.9%), Indonesia (3.9%)
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	1.5	0.1	China (86.7%), Cambodia (5.8%), Myanmar (2.6%), Thailand (2.4%) and Indonesia (0.9%)
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets and others vests)	1.1	1.3	China (59.1%), Peru (5.5%), Vietnam (5.2%), Japan (4.7%), Sri Lanka (4.5%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted and vests)	1.1	0.4	China (80.1%), Japan (4.6%), Vietnam (3.9%), Italy (3.1%), Indonesia (2.9%)
<b>2014</b>				
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	7.7	2.7	China (45.4%), Vietnam (14.1%), Bangladesh (7.4%), Indonesia (6.9%), Myanmar (4.2%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	5.9	4.4	China (54.1%), Myanmar (10.7%), Vietnam (7.1%), Bangladesh (5.7%), India (4.4%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)	4.0	5.6	China (65.4%), Vietnam (6.6%), India (5.6%), Italy (4.6%), Indonesia (2.8%),

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	1.5	6.8	China (62.1%), Italy (7.7%) Vietnam (7.6%), India (6.8%), France (2.2%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	1.3	0.5	China (42%), Vietnam (15.7%), Myanmar (11%), Bangladesh (7.6%), Italy (6.8%),
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	1.2	2.3	China (56.7%), Italy (7.7%), Vietnam (6.3%), Bangladesh (3%), Indonesia (2.7%)
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets and others vests)	1.2	2.3	China (43.6%), Vietnam (17.3%), Bangladesh (7.3%), Myanmar (3.9%), Cambodia (3.9%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton	0.7	1.7	China (40.9%), Indonesia (15.4%), Vietnam (12%), Myanmar (8.6%), Cambodia (6.6%)
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	0.7	2.9	China (48.3%), Vietnam (14.4%), Indonesia (12.1%), Bangladesh (4.5%), Cambodia (4.5%)
621420	Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair	0.7	3	Italy (42.2%), China (32.1%), UK (14.8%), France (4.2%), India (3%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
<b>2019</b>				
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	10.5	2.4	China (28.5%), Vietnam (25.4%), Bangladesh (11.6%), Portugal (5.2%), Indonesia (5.1%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	5.0	4.6	Vietnam (35.5%), China (18.9%), Myanmar (11.7%), Italy (5.7%), India (4.6%)
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	3.2	1.4	China (33.9%), Vietnam (21.8%), Italy (9.3%), Portugal (6.8%), Bangladesh (5.5%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)	3.1	6.7	China (42.3%), Vietnam (18.4%), Italy (7.9%), India (6.7%), Indonesia (4.5%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	2.5	6.5	China (54%), Vietnam (12.7%), Italy (8.3%), India (6.5%), Turkey (2.1%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	2.3	0.9	China (30.3%), Vietnam (23.8%), Italy (14.2%), Bangladesh (6.9%), Myanmar (4.9%)
620590	Men's or boys' shirts of textile materials (excluding of cotton or man-made fibres, knitted or crocheted, night shirts, singlets or vests)	1.9	7	China (29.5%), Vietnam (19.1%), Myanmar (15.2%), India (7%), Italy (6.1%)
610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	1.5	4.9	China (44.3%), Indonesia (16.5%), Vietnam (15.2%), Cambodia (6.4%), India (4.9%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets and others vests)	1.1	4.1	Vietnam (32.7%), China (25.3%), Bangladesh (7.3%), Thailand (6.9%), Italy (4.5%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres	1.1	1.9	China (60.4%), Vietnam (22.9%), Indonesia (2.4%) Turkey (2.2%), India (1.9%)

Source: ITC Trade Map, Exim Bank Research

## Comprehensive Economic Partnership Agreement (CEPA) India-Japan

The CEPA between India and Japan was signed on February 2011 and was made effective from August 2011.

Tariff Reduction - Custom duties on all the originating textile and apparel products (except 5001.00 and 5002.00<sup>86</sup>) were eliminated from the date the CEPA was effective.

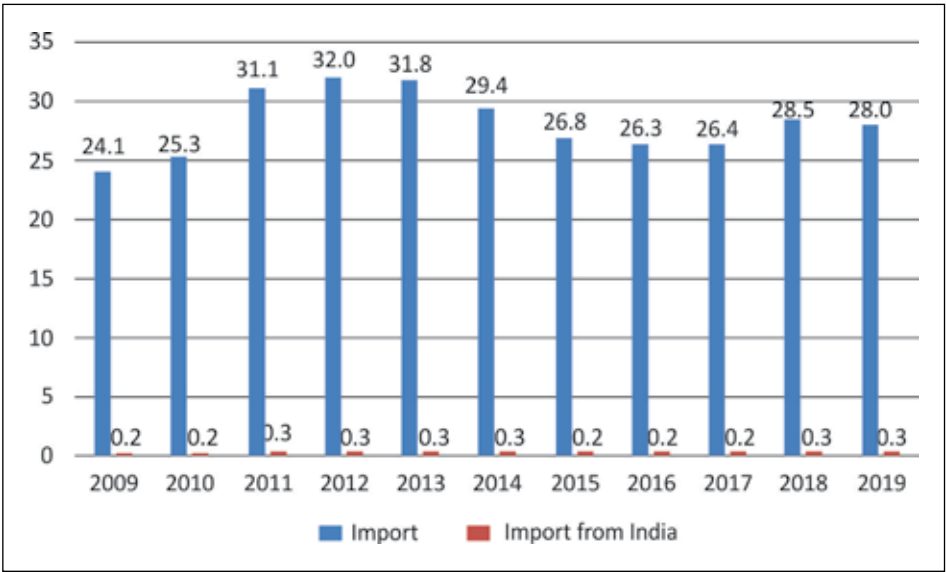
### India's Apparel Trade with Japan

India's total apparel export to Japan was estimated at US\$ 234.4 million in 2019. Exports registered a CAGR of 5.6% over the period 2009 to 2019. India's export in HS 61 category was estimated at US\$ 34.6 million, registering a CAGR of 12.5% over 2009 to 2019, while the exports were estimated at US\$ 199.8 million in HS 62, with a CAGR of 4.7% during 2009 to 2019. HS 620630 (Women's or girls'

<sup>86</sup> 5001.00 - Silk-worm cocoons suitable for reeling; 5002.00 - Raw silk (not thrown); Other

blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted and vests)) was the most exported commodity group in 2019, with estimated export of US\$ 40.6 million.

**Exhibit 4.2: Japan’s Total Apparel Imports and from India (In US\$ Billion)  
(2009 to 2019)**



Source: ITC Trade Map, Exim Bank Research



**Table 4.7: Japan's Category-wise Apparel Imports and the Leading Suppliers**

HS Code	2009			2014			2019		
	Total Imports (US\$ bn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ bn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ bn)	India's share (%)	Share of Leading Suppliers (%)
61	12.0	0.2	China (87.8%), Vietnam (2.7%), Italy (1.9%), Thailand (1.5%), South Korea (1.3%)	14.6	0.3	China (76.3%), Vietnam (8%), Indonesia (2.8%), Thailand (2.4%), Bangladesh (1.9%)	13.7	0.4	China (59%), Vietnam (16.2%), Bangladesh (4.6%), Cambodia (3.7%), Indonesia (3.5%)
62	12.1	1.4	China (80.3%), Vietnam (5.6%), Italy (3.9%), India (1.4%), Myanmar (1.2%)	14.8	1.4	China (67.1%), Vietnam (9.8%), Italy (3.7%), Myanmar (3.5%), Indonesia (3%)	14.3	1.6	China (54.7%), Vietnam (14.7%), Myanmar (5.5%), Cambodia (4.5%), Italy (4.1%)

Source: ITC Trade Map, Exim Bank Research

Despite having a duty free access, India's share in Japan's total apparel imports has been significantly low. India's share has been lower than even the new apparel exporting countries, such as Myanmar, Indonesia and Cambodia (Table 4.7).

**Table 4.8: India's Apparel Trade with Japan (In US\$ Million)**

Category (HS Code)	2009			2014			2019		
	Export	Import	Trade Balance (export- import)	Export	Import	Trade Balance (export- import)	Export	Import	Trade Balance (export- import)
61	10.7	0.1	10.6	32.5	0.1	32.4	34.6	0.1	34.5
62	125.8	0.1	125.7	178.4	0.1	178.3	199.8	0.3	199.5

Source: ITC Trade Map, Exim Bank Research

Product-wise analysis of top ten apparel products imported by Japan reveals that India's share in the imports has been significantly low at less than 1%. For HS 620342, the only product category where India's share in total imports by Japan was significant at 2.4% during 2014, the share reduced to 1.1% during 2019. The analysis also reveals that from 2014 to 2019, share of Vietnam and Bangladesh in Japan's top ten apparel imports have increased steadily (Table 4.9).

A product-wise analysis of top ten apparel products exported by India to Japan reveals that, for few product categories (HS code 620630<sup>87</sup>, 620442<sup>88</sup>, 621490<sup>89</sup>) India has been able to increase its share in the Japanese market from single digit during 2009 to double digit in 2019. For few product categories India's share in Japanese market has been dwindling, and for few others where India has potential, there has been a significant loss of market share in the Japanese market. For instance, in the case of HS 621420<sup>90</sup>, where India had significant exports to Japan during 2009 and 2014, the country lost market share in Japan significantly in 2019, to the extent that it no longer appears among the top ten exports to Japan from India (Table 4.10).

<sup>87</sup> Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)

<sup>88</sup> Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)

<sup>89</sup> Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials

<sup>90</sup> Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair

**Table 4.9: Top 10 Apparel Products Imported by Japan and the Leading Suppliers ( in US\$ million)**

2009					2014					2019				
HSH Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted	2,131.2	Neg	China (92.9%), South Korea (1.7%), Vietnam (1.5%), Italy (1%), Bangladesh (0.8%)	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	2,780.3	Neg	China (84.1%), Vietnam (5.8%), Indonesia (2.7%), Bangladesh (1.9%), Thailand (1%)	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	2,454.6	0.1	China (68.9%), Vietnam (11.4%), Bangladesh (6.7%), Cambodia (3.1%), Indonesia (3%),
	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	1,423.5	Neg	China (89.4%), Vietnam (2.9%), Italy (1.8%), Bangladesh (0.9%), Cambodia (0.6%)	611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	1,254.1	0.5	China (73.6%), Vietnam (9.1%), Bangladesh (2.7%), Italy (2.4%), Indonesia (2.3%)	611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	1,472.1	0.5	China (48.3%), Vietnam (22.3%), Bangladesh (5.9%), Indonesia (4.2%), Italy (3.1%)

2009			2014				2019		
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	1,295.9	0.5	China (85%), Vietnam (3.2%), Thailand (2.4%), USA (1.7%), Italy (1%)	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	1,111.4	0.1	China (68.8%), Vietnam (14.4%), Bangladesh (6.1%), Indonesia (4.2%), Thailand (1.8%)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	1,150.6	0.4	China (86.5%), Vietnam (3.8%), Italy (1.6%), USA (1.5%), Cambodia (1%)	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	1,089.6	0.8	China (61.5%), Vietnam (13.4%), Bangladesh (6.5%), Thailand (3%), Indonesia (1.9%)

2009			2014			2019			
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	729.0	0.8	China (71.5%), Vietnam (8.1%), Italy (5.1%), Bangladesh (4.2%), Philippines (1.6%)	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	1,068.7	0.7	China (68.3%), Cambodia (7.2%), Vietnam (6%), Bangladesh (4.9%), Myanmar (1.9%)
									China (46.3%), Vietnam (24.8%), Myanmar (9.4%), Romania (3.4%), Bangladesh (2.6%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	577.2	1.4	China (77.7%), Vietnam (5.1%), Italy (3.2%), Myanmar (2.1%), Thailand (1.8%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	962.5	0.8	China (52.6%), Bangladesh (11.6%), Vietnam (11.4%), Cambodia (5.3%), Italy (4.1%)
									China (44.4%), Vietnam (27.6%), Myanmar (9.5%), Indonesia (5.8%), Cambodia (5.7%)
					620193	Men's or boys' wind jackets and similar articles, of man-made fibres	929.0	0.1	
					620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	823.4	0.1	

2009					2014					2019				
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	563.1	Neg	China (80.4%), Vietnam (8.1%), Myanmar (3.5%), Italy (1.8%), Romania (1.2%)	620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	779.7	2.4	China (59.2%), Vietnam (8.2%), Bangladesh (8%), Indonesia (4.9%), Myanmar (3.7%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	801.6	1.1	China (37.7%), Bangladesh (18.6%), Vietnam (14.4%), Cambodia (7.4%), Indonesia (5%)
	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	503.5	0.1	China (88%), Vietnam (3.3%), Thailand (2.6%), South Korea (1.5%), Italy (0.7%)	620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	708.4	Neg	China (68.9%), Vietnam (11.2%), Myanmar (7.1%), Bangladesh (2%), Romania (1.8%)	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	765.7	1.7	China (52.5%), Cambodia (13.7%), Bangladesh (11.8%), Vietnam (4.6%), Indonesia (4.5%)

2009			2014			2019			
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
620311	Men's or boys' suits of wool or fine animal hair (excluding knitted or crocheted, tracksuits)	500.4	1	China (81.6%), Italy (6.2%), Vietnam (6.2%), Myanmar (1.5%), India (1%)	620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	694.7	0.1	China (60.7%), Vietnam (19.9%), Myanmar (7.6%), Indonesia (6.6%), Romania (1.5%)
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	470.9	0.2	China (82%), Vietnam (10.9%), Myanmar (3.6%), Indonesia (1.3%), Honduras (0.5%)	620213	Women's or girls' overcoats, raincoats, car coats, capes, cloaks and similar articles, of man-made	659.8	Neg	China (80.5%), Myanmar (6.3%), Vietnam (3.8%), Romania (2.3%), Italy (1.6%)
					620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	603.1	0.1	China (58.8%), Vietnam (13.4%), Myanmar (8.9%), Indonesia (4.6%), Romania (2.4%)
					620463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	587.5	0.2	China (60.6%), Vietnam (16.2%), Indonesia (6.9%), Cambodia (6%), Myanmar (4.2%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.10: India's Top 10 Exported Apparel Products to Japan in  
US\$ Million in 2009/2014/2019**

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
<b>2009</b>				
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	35.2	8.8	China (80.6%), India (8.8%), Italy (2.2%), Vietnam (1.2%), Thailand (1.2%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	21.6	9.4	China (81.1%), India (9.4%), Italy (2.2%), Vietnam (1.2%), France (0.8%)
620452	Women's or girls' skirts and divided skirts of cotton (excluding knitted or crocheted)	8.8	6.6	China (80%), India (6.6%), Italy (3.6%), Vietnam (2.2%), France (0.7%)
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	8.5	23.5	China (57%), India (23.9%), Italy (12.5%), South Korea (1.5%), France (1.3%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	6.0	1.4	China (77.7%), Vietnam (5.1%), Italy (3.2%), Myanmar (2.1%), Thailand (1.8%)
621420	Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair	5.1	10.4	China (50.8%), Italy (24.9%), India (10.4%), UK (8.5%), France (3%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	3.6	0.5	China (85%), Vietnam (3.2%), Thailand (2.4%), USA (1.7%), Italy (1%)



HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	3.4	0.4	China (86.5%), Vietnam (3.8%), Italy (1.6%), USA (1.5%), Cambodia (1%)
621410	Shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	3.2	8.2	Italy (38.5%), France (25.3%), China (23.9%), India (8.2%), S. Korea (0.7%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	3.1	1.8	China (86.4%), Vietnam (5.4%), India (1.8%), Italy (1.1%), Philippines (0.9%)
<b>2014</b>				
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	37.9	7.7	China (69%), India (7.7%), Indonesia (4.8%), Vietnam (3.6%), Cambodia (2.5%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	23.5	11.5	China (67.2%), India (11.5%), Italy (4.6%), Vietnam (3.1%), Indonesia (1.9%)
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	16.9	34.7	China (42.1%), India (34.7%), Italy (18.5%), France (1.3%), Thailand (0.5%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	13.6	2.4	China (59.2%), Vietnam (8.2%), Bangladesh (8%), Indonesia (4.9%), Myanmar (3.7%)
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	9.7	6.1	China (81.7%), India (6.1%), Vietnam (3.7%), Indonesia (2.7%), Myanmar (1.3%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
621420	Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair	8.7	7.5	China (40.2%), Italy (28.5%), UK (15.5%), India (7.5%), France (4.7%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	8.0	0.8	China (61.5%), Vietnam (13.4%), Bangladesh (6.5%), Thailand (3%), Indonesia (1.9%)
620452	Women's or girls' skirts and divided skirts of cotton (excluding knitted or crocheted)	7.2	3.8	China (40.9%), India (3.8%), Cambodia (3.5%), Vietnam (3.2%), Italy (2.4%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	5.8	2.2	China (76%), Vietnam (7.4%), Indonesia (3.2%), India (2.2%), Myanmar (2.1%)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	5.3	0.7	China (68.3%), Cambodia (7.2%), Vietnam (6%), Bangladesh (4.9%), Myanmar (1.9%)
<b>2019</b>				
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	40.6	12.0	China (58.1%), India (12%), Vietnam (7.7%), Cambodia (5.2%), Myanmar (3%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	40.4	16.1	China (62.7%), India (16.1%), Italy (3.6%), Vietnam (2.7%), Myanmar (2.6%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	14.1	1.3	China (44.6%), Vietnam (17.8%), Bangladesh (10.3%), Cambodia (4.9%), Thailand (2.7%)
620452	Women's or girls' skirts and divided skirts of cotton (excluding knitted or crocheted)	12.7	7.5	China (42.3%), India (7.5%), Cambodia (7.2%), Bangladesh (5%), Vietnam (4.5%)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	10.8	1.7	China (52.5%), Cambodia (13.7%), Bangladesh (11.8%), Vietnam (4.6%), Indonesia (4.5%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	9.0	2.5	China (39.9%), Vietnam (18.4%), Bangladesh (7.4%), Myanmar (6.9%), Indonesia (6.4%)
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	9.0	8.5	China (72.6%), India (8.5%), Vietnam (5.5%), Myanmar (2.8%), Indonesia (2.6%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	7.5	1.1	China (37.7%), Bangladesh (18.6%), Vietnam (14.4%), Cambodia (7.4%), Indonesia (5%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	7.5	34.0	India (34%), China (33.2%), Italy (26.7%), France (1.3%), Myanmar (0.6%)
620444	Women's or girls' dresses of artificial fibres (excluding knitted or crocheted and petticoats)	5.1	9.7	China (57%), India (9.7%), Vietnam (7.1%), Italy (6.9%), Morocco (4.1%)

Source: ITC Trade Map, Exim Bank Research

### Comprehensive Economic Cooperation Agreement (CECA) India – ASEAN

The CECA between India and ASEAN was signed on August 2009 and was made effective on different dates by different member countries. The schedule of the tariff reduction under the CECA also has been varying between the member countries.

To study the trade in apparels under India-ASEAN CECA, three countries, viz., Vietnam, Indonesia, and Malaysia, were selected among the ASEAN countries based on their quantum of trade in the segment with India and their global positions in the apparel value chain. Vietnam and Indonesia have emerged as the largest supplier of apparels to the world as well as to India, in the recent years. Malaysia is the top export destination for apparels for India.

## Vietnam:

The CECA between India and Vietnam came into force from June 2010.

**Table 4.11: Tariff Reduction Schedule for India-Vietnam under CECA ASEAN**

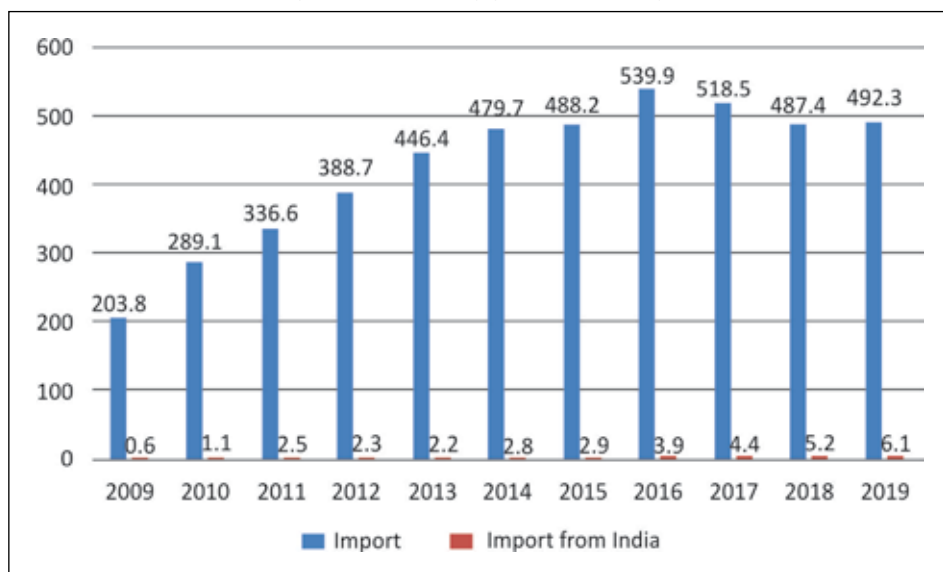
Category	Description	Tariff Reduction Schedule	No. Of Apparel Products
NT-1	Normal Track 1	Tariff to be reduced to zero percent by 31 <sup>st</sup> December 2018	208
NT-2	Normal Track 2	Tariff to be reduced to zero percent by 31 <sup>st</sup> December 2021	180
ST	Sensitive Track	<ul style="list-style-type: none"> <li>Tariff to be reduced to five percent by 31<sup>st</sup> December 2016.</li> <li>Applied MFN rates of 5 percent (beyond 50 tariff lines) to be reduced to 4.5 percent after five years from the time of entry into force and reduced to 4 percent by 31<sup>st</sup> December 2021.</li> <li>Applied MFN rates of 4 percent to be eliminated i.e. to be reduced to zero percent by 31<sup>st</sup> December 2024</li> </ul>	1
lessHSL B	Highly Sensitive List	Reduction of applied MFN tariff rates by 50 percent by 31 <sup>st</sup> December 2024	5
EL	Excluded	No reduction of tariff rates	0

Source: Wazir Advisors

## India's Apparel Trade with Vietnam

India's total apparel export to Vietnam was estimated at US\$ 1.8 million in 2019. Export registered a CAGR of 24.6% over the period 2009 to 2019. India's export in HS 61 category was estimated at US\$ 0.7 million while the exports were estimated at US\$ 1.1 million in HS 62. HS 620520 was the most exported commodity group in 2019, with estimated export of US\$ 0.3 million.

**Exhibit 4.3: Vietnam's Total Apparel Imports and Imports from India  
(In US\$ Million) (2009 to 2019)**



Source: ITC Trade Map, Exim Bank Research

**Table 4.12: Vietnam's Category-wise Apparel Imports**

HS Code	2009			2014			2019		
	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)
61	83.7	0.3	China (40.4%), Pakistan (21.4%), S. Korea (9.3%), Dominican Republic (6%), Ares Nes (4.6%)	273.3	0.3	China (80.2%), S. Korea (5.4%), Taiwan (2.9%), Thailand (2%), USA (1.5%)	223.6	1	China (54.8%), S. Korea (10.8%), Taiwan (3.9%), Bangladesh (3.5%), Italy (3.2%)
62	120.1	0.3	China (29.3%), Japan (26.5%), S. Korea (16.3%), Hong Kong (8.9%), Taiwan (8.5%)	206.4	1	China (36.8%), Japan (17.3%), S. Korea (13.4%), Taiwan (6.6%), Hong Kong (4.8%)	268.7	1.4	China (50.1%), S. Korea (8.3%), Italy (4.6%), Taiwan (4.3%), Japan (3.3%)

Source: ITC Trade Map, Exim Bank Research

An analysis of India's apparel trade with Vietnam reveals that Vietnam has been most non-yielding partner with regard to apparel trade under India's CECA with ASEAN. On the contrary, since the signing of the Agreement, apparel imports from Vietnam to India has risen significantly while the exports remain significantly low or unchanged (Table 4.13). The trade balance between the two countries has been increasing significantly in favour of Vietnam from 2009 to 2019.

**Table 4.13: India's Apparel Trade with Vietnam (In US\$ million)  
(2009/2014/2019)**

Category (HS Code)	2009			2014			2019		
	Export	Import	Trade Balance (export- import)	Export	Import	Trade Balance (export- import)	Export	Import	Trade Balance (export- import)
61	0.0	0.5	-0.4	0.2	4.1	-3.9	0.7	19.5	-18.8
62	0.2	0.2	-0.1	1.4	3.6	-2.2	1.1	20.1	-19.0

Source: ITC Trade Map, Exim Bank Research

A product-wise analysis of the apparel products imported by Vietnam reveals that only for two product categories India's share in imports are around 2-3% and for other products the shares are negligible. The analysis also reveals that, India does not appear in the top five suppliers of apparel products to Vietnam in any of the product categories. China by large is the dominant supplier followed by other ASEAN countries. Among Asian countries, other than ASEAN those that appears among top suppliers of apparel products to Vietnam are South Korea, Bangladesh and Pakistan (Table 4.14).



**Table 4.14: Top 10 Apparel Imports by Vietnam (in US\$ million)**

2009					2014					2019				
HS Code	Description	Total Imports	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers
621790	Parts of garments or clothing accessories, of all types of textile materials, n.e.s.	57.9	Neg	Japan (49.4%), South Korea (16.8%), China (16.5%), Taiwan (9.5%), Hong Kong (6.5%)	621790	Parts of garments or clothing accessories, of all types of textile materials, n.e.s.	99.1	Neg	China (37.1%), Japan (23.4%), South Korea (18.6%), Taiwan (10.8%), Hong Kong (6.5%)	621790	Parts of garments or clothing accessories, of all types of textile materials, n.e.s.	57.5	Neg	China (49.7%), South Korea (22.6%), Taiwan (12%), Japan (7.3%), Hong Kong (3.1%)
611790	Parts of garments or clothing accessories, knitted or crocheted, n.e.s.	54.9	Neg	China (43.2%), Pakistan (32.6%), Dominican Republic (9.2%), South Korea (5.6%), Taiwan (3.5%)	611790	Parts of garments or clothing accessories, knitted or crocheted, n.e.s.	205.5	Neg	China (92.3%), Taiwan (2.8%), South Korea (2.7%), Thailand (0.9%), Hong Kong (0.6%)	611790	Parts of garments or clothing accessories, knitted or crocheted, n.e.s.	56.8	Neg	China (67.2%), Taiwan (12%), South Korea (11.7%), Japan (2.7%), Hong Kong (2.2%)

2009					2014					2019				
HS Code	Description	Total Imports	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers
621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	35.4	Neg	China (35.7%), South Korea (24.9%), Hong Kong (17.5%), Taiwan (11.2%), Japan (6.2%)	621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	40.3	1.5	China (33%), Japan (26.9%), South Korea (20.3%), Hong Kong (6.8%), Taiwan (4.2%)	621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	38.8	0.1	China (50.2%), South Korea (17.9%), Taiwan (8.5%), Japan (8.1%), Hong Kong (7.5%)



2009				2014				2019						
HS Code	Description	Total Imports	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers
621290	Corsets, braces, garters, suspenders and similar articles and parts thereof	3.5	Neg	China (69.7%), Japan (12.8%), Taiwan (9.4%), Hong Kong (2.8%), South Korea (1.5%)	621290	Corsets, braces, garters, suspenders and similar articles and parts thereof	7.0	Neg	China (64.7%), Japan (13.8%), Taiwan (10.2%), Hong Kong (7.6%), South Korea (2.7%)	621290	Corsets, braces, garters, suspenders and similar articles and parts thereof	18.3	Neg	China (72.7%), USA (6%), Indonesia (6%), Thailand (4.9%), Taiwan (3%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	3.3	2.1	China (59.2%), Thailand (24.6%), Ares Nes (2.3%), India (2.1%), Malaysia (1.9%)	611780	Ties, bow ties, cravats and other made-up clothing accessories, knitted or crocheted, n.e.s.	11.1	Neg	China (51.6%), Taiwan (18.2%), South Korea (15%), Thailand (9.7%), Hong Kong (2.3%)	611780	Ties, bow ties, cravats and other made-up clothing accessories, knitted or crocheted, n.e.s.	16.1	Neg	China (66.9%), South Korea (15%), Taiwan (9.2%), Hong Kong (5.2%), France (1%)
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	3.2	Neg	Ares Nes (92.4%), China (3.8%), Malaysia (1.3%), Turkey (1.2%), Hong Kong (0.4%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	4.0	Neg	China (27.5%), Thailand (15.8%), Ares Nes (8%), Cambodia (7.7%), Bangladesh (5.4%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	10.2	3.6	China (31.5%), Bangladesh (18.1%), Turkey (10.2%), Pakistan (8.1%), Morocco (4.8%)

2009						2014					2019			
HS Code	Description	Total Imports	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import	India's share in imports (%)	Share of 5 leading suppliers
611490	Special garments for professional, sporting or other purposes, n.e.s., of textile materials	2.7	1.7	South Korea (40.7%), China (19.4%), Ukraine (7.1%), Italy (6%), Morocco (4.8%)	621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	4.9	Neg	Thailand (53.1%), China (27.9%), Malaysia (5%), Ares Nes (3.2%), Cambodia (2.8%)	621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	9.2	Neg	China (73%), Thailand (13.3%), Indonesia (4.3%), Hong Kong (2.4%), Bangladesh (1.5%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.15: India's Top 10 Exported Apparel Products to Vietnam in '000 US\$**

HS Code	Description	Exports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
<b>2009</b>				
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	28	2.1	China (59.2%), Thailand (24.6%), Area Nes (2.3%), India (2.1%), Malaysia (1.9%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	19	13.7	China (58.8%), India (13.7%), Thailand (6.9%), Romania (4.7%), Germany (3%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	18	2.3	Thailand (74.2%), Area Nes (12.4%), Malaysia (6%), China (3%), India (2.3%)
621790	Parts of garments or clothing accessories, of all types of textile materials, n.e.s.	16	Neg	Japan (49.4%), South Korea (16.8%), China (16.5%), Taiwan (9.5%), Hong Kong (6.5%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	14	29.2	China (45.3%), India (29.2%), Romania (4.7%), Germany (3.8%), Thailand (3.8%)
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	11	Neg	China (100%)
621420	Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair	8	neg	Italy (100%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	7	1.4	Area Nes (58.3%), Thailand (26.9%), China (6.2%), Indonesia (1.7%), Taiwan (1.7%)

HS Code	Description	Exports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
621040	Men's or boys' garments of textile fabrics, rubberised or impregnated, coated, covered or laminated	7	Neg	USA (37.5%), Australia (25%), Pakistan (25%), Japan (12.5%)
610610	Women's or girls' blouses, shirts and shirt-blouses of cotton, knitted or crocheted	6	Neg	China (89.4%), Thailand (6.3%), Romania (2.4%), Ares Nes (0.8%), Turkey (0.8%)
<b>2014</b>				
621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted))	693	1.5	China (33%), Japan (26.9%), S. Korea (20.3%), Taiwan (6.8%), Hong Kong (4.2%)
621410	Shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	141	0.5	Italy (45.1%), France (41.6%), UK (7.4%), China (4.2%), Belgium (0.7%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	137	1.5	China (27.5%), Thailand (15.8%), Area Nes (8%), Cambodia (7.7%), Bangladesh (5.4%)
621290	Corsets, braces, garters, suspenders and similar articles and parts thereof	70	Neg	China (64.7%), Japan (13.8%), Taiwan (10.2%), Hong Kong (7.6%), S. Korea (2.7%)
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	68	4.8	China (46%), Malaysia (13.6%), Thailand (10%), Ares Nes (6.4%), India (4.8%)
621420	Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair	63	Neg	Italy (100%)

HS Code	Description	Exports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets)	46	4.1	China (50.9%), Thailand (17.2%), Italy (15.3%), India (4.1%), Malaysia (2.9%)
621040	Men's or boys' garments of textile fabrics, rubberised or impregnated, coated, covered or laminated	44	Neg	Ares Nes (77.7%), China (11.2%), Sweden (4.3%), USA (2.3%), Thailand (1.8%)
620332	Men's or boys' jackets and blazers of cotton (excluding knitted or crocheted)	40	1.9	China (40.1%), Italy (15%), Thailand (6.3%), Indonesia (5.3%), Portugal (5.3%)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	32	1.7	China (34.5%), Ares Nes (19.4%), Thailand (8.5%), Italy (5.5%), Sri Lanka (4.7 %)
<b>2019</b>				
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	314	6.8	China (23.7%), Bangladesh (13.7%), Thailand (13.2%), Turkey (11.4%), Italy (11.1%)
621420	Shawls, scarves, mufflers, mantillas, veils and similar articles of wool or fine animal hair	67	0.6	Italy (44.4%), France (36.9%), UK (17.2%), China (0.8%), India (0.6%)
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets)	89	2	China (42.8%), Bangladesh (9.9%), Thailand (7.4%), Cambodia (7%), Turkey (6%)



HS Code	Description	Exports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	65	3.6	China (31.5%), Bangladesh (18.1%), Turkey (10.2%), Morocco (8.1%), Pakistan (4.8%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted))	84	6.9	China (27.6%), Morocco (21.8%), Turkey (18.3%), India (6.9%), Indonesia (4.7%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	47	21.9	India (21.9%), China (17%), Morocco (14.9%), Bangladesh (11.4%), Italy (8.7%)
610442	Women's or girls' dresses of cotton, knitted or crocheted (excluding petticoats)	39	9.4	China (25.8%), Bangladesh (21.7%), India (9.4%), Italy (7.4%), Turkey (7.4%)
620319	Men's or boys' suits of textile materials (excluding of wool, fine animal hair or synthetic)	13	5.8	Italy (62.2%), China (13.3%), Switzerland (6.2%), India (5.8%), Bulgaria (3.1%)
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	8	2.6	Italy (65.9%), China (19.7%), Belgium (3.3%), S. Korea (2.6%), India (2.6%)
621410	Shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	43	2.9	France (52.9%), Italy (38.9%), China (3.8%), India (2.9%), UK (0.9%)

*Note: Data on exports from India to Vietnam may differ from the data on imports from Vietnam to India due to difference in data reporting by the respective agencies in India and Vietnam.*

*Source: ITC Trade Map, Exim Bank Research*

Product-wise analysis of India's top ten apparel products exported to Vietnam reveals that for products, such as HS Code 620630<sup>91</sup> India has been able to increase its share considerably in Vietnamese market in 2019 from the levels in 2009 with an exception in 2014, where the item is not appearing among the top ten exported apparel products from India to Vietnam. However, the product had a high share in exports from India to Vietnam even before the ratification of CECA among the two countries. In case of other items, such as HS Code 620442<sup>92</sup> India's share in exports to Vietnam dropped drastically post ratification of CECA to the extent that it ceased to appear among the top ten exported items from India to Vietnam. Nonetheless, India has been able to register an over 5% share in exports for four other products categories besides HS Code 620630, among the top ten apparel products exported to Vietnam in 2019, viz., HS codes 610442<sup>93</sup>, 620520<sup>94</sup> 620640<sup>95</sup> 620319<sup>96</sup> (Table 4.15). However, for all these items except HS Code 620630, India's share in imports by Vietnam is much lower than the share of other leading suppliers, such as Bangladesh, Morocco, Turkey and Italy. China is the leading supplier in all the categories with exception of HS code 620630.

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<sup>91</sup> Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)

<sup>92</sup> Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)

<sup>93</sup> Women's or girls' dresses of cotton, knitted or crocheted (excluding petticoats)

<sup>94</sup> Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)

<sup>95</sup> Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)

<sup>96</sup> Men's or boys' suits of textile materials (excluding of wool, fine animal hair or synthetic)

## Indonesia:

The CECA-ASEAN between India and Indonesia was ratified in October 2010.

**Table 4.16: Tariff Reduction Schedule for India-Indonesia under CECA ASEAN**

Category	Description	Tariff Reduction Schedule	No of Apparel Products
NT-1	Normal Track 1	Tariff to be reduced to 0% by 31 <sup>st</sup> December 2013	0
NT-2	Normal Track 2	Tariff to be reduced to 0% by 31 <sup>st</sup> December 2016	0
ST	Sensitive Track	<ul style="list-style-type: none"> <li>Tariff to be reduced to 5% by 31<sup>st</sup> December 2016.</li> <li>Applied MFN rates of 5% (beyond 50 tariff lines) to be reduced to 4.5% at the time of entry into force and reduced to 4% by 31<sup>st</sup> December 2016.</li> <li>Applied MFN rates of 4% to be eliminated i.e. to be reduced to zero percent by 31<sup>st</sup> December 2019.</li> </ul>	49
HSL A	Highly Sensitive List A	Reduction of applied MFN tariff rates to 50% by 31 <sup>st</sup> December 2019	0
HSL B	Highly Sensitive List	Reduction of applied MFN tariff rates by 50% by 31 <sup>st</sup> December 2019	0
HSL C	Highly Sensitive List C	Reduction of applied MFN tariff rates by 25% by 31 <sup>st</sup> December 2019	75
EL	Excluded	No reduction of tariff rates	187

Source: Wazir Advisor, Exim Bank Research

## India's Apparel Trade with Indonesia

India's total apparel export to Indonesia was estimated at US\$ 9.4 million in 2019. Export registered a CAGR of 15.6% over the period 2009 to 2019. India's export in HS 61 category was estimated at US\$ 4.2 million, registering a CAGR of 12.4% over 2009 to 2019, while the exports were estimated at US\$ 5.2 million for HS 62, with a CAGR of 19.2% during 2009 to 2019. HS 610910 (T-shirts,

singlets and other vests of cotton, knitted or crocheted) was the most exported commodity group in 2019, with estimated export of US\$ 2.3 million.

A category-wise analysis of apparel products imported by Indonesia reveals that even in Indonesia, India has not been able to gain in the apparel segment with duty free access under the India-ASEAN CECA. The analysis, on the contrary, reveals a steady growth of imports of apparel products by India from Indonesia from 2009 to 2019, resulting in a trade deficit for India in the segment with Indonesia (Table 4.18).

An analysis of top ten apparel products imported by Indonesia during 2009, 2014 and 2019 reveals that India was among the top five suppliers of apparel products (HS code 62) to Indonesia in 2009, the position was, however, lost post ratification of India-ASEAN CECA (Table 4.17). While India's trade deficit with Indonesia in apparel trade increased post CECA, Bangladesh has emerged as the third largest supplier of apparel product (HS Code 61) and second largest supplier of HS code 62 to the Indonesian market followed by Turkey during 2014 and 2019.

**Exhibit 4.4: Indonesia's Total Apparel Imports and Imports from India (In US\$ Million) (2009 to 2019)**



Source: ITC Trade Map, Exim Bank Research

**Table 4.17: Indonesia's Category-wise Apparel Imports**

HS Code	2009			2014			2019		
	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)
61	108.0	1.8	China (41.6%), Singapore (13.4%), S. Korea (12.4%), Hong Kong (6.4%), Malaysia (3.6%)	197.7	2.5	China (45.2%), S. Korea (8.9%), Bangladesh (6.3%), Turkey (5.9%), Portugal (4.6%)	417.9	2.7	China (52.5%), Vietnam (8.6%), Bangladesh (8.4%), Turkey (4.1%), Singapore (3.4%)
62	105.8	3.6	China (48%), Hong Kong (16.7%), Morocco (4.2%), Singapore (3.7%), India (3.6%)	246.7	3.8	China (36.1%), Hong Kong (9.7%), Turkey (6.8%), Morocco (6%), Bangladesh (4.6%)	427.5	3.1	China (49.6%), Bangladesh (6.6%), Vietnam (6.3%), Turkey (5.2%), Hong Kong (4.1%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.18: India's Apparel Trade with Indonesia (In US\$ Million)  
(2009/2014/2019)**

Category (HS Code)	2009			2014			2019		
	Export	Import	Trade Balance (export-import)	Export	Import	Trade Balance (export-import)	Export	Import	Trade Balance (export-import)
61	1.3	0.5	0.8	1.2	1.2	0.0	4.2	5.3	-1.1
62	0.9	0.3	0.6	3.5	3.5	0.0	5.2	5.6	-0.4

Source: ITC Trade Map, Exim Bank Research

An analysis of the top ten apparel products imported by Indonesia reveals that India was second leading supplier to Indonesia for the product category with

HS codes 621430<sup>97</sup> and 620520<sup>98</sup> with a double digit share in total imports by Indonesia in 2009. It also emerged as fifth largest supplier of HS Code 610910<sup>99</sup> (Table 4.19). India also increased its share significantly in the HS Code 621490<sup>100</sup> and emerged as the second largest supplier of the item to Indonesia (Table 4.20). However, India lost its market in Indonesia in the HS Code 621430 during 2014.

An analysis of top ten products exported by India to Indonesia reveals that only two products (HS Codes 610910 and 620342<sup>101</sup>) among top products exported by India appeared among the top ten apparel items imported by Indonesia during 2019. India has been able to retain its position as fifth largest exporter of HS code 610910 to Indonesia in 2019, but its share in total imports is significantly lower than that of Bangladesh. Bangladesh was not among the top five suppliers of the product to Indonesia during 2009, but rose steadily to become the second largest supplier of the product and reach close to China, the top supplier, during 2014 and 2019. Among the ten apparel products exported by India to Indonesia, India is among the five top suppliers in eight of the products analysed; however, its share in the products is considerably low compared to other suppliers, such as Bangladesh, Vietnam, Turkey and Morocco, and China (Table 4.20).

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<sup>97</sup> Shawls, scarves, mufflers, mantillas, veils and similar articles of synthetic fibres (excluding knitted or Crocheted)

<sup>98</sup> Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)

<sup>99</sup> T-shirts, singlets and other vests of cotton (knitted or crocheted)

<sup>100</sup> Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials (excluding of silk, silk waste, wool, fine animal hair or man-made fibre, knitted or crocheted)

<sup>101</sup> Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)



2009					2014					2019				
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	9.1	2.1	China (70.9%), Turkey (6.5%), Morocco (3.9%), Pakistan (2.8%), Hong Kong (2.7%)	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	26.3	0.7	China (46.6%), Bangladesh (12.1%), Turkey (10.5%), Morocco (5.1%), Cambodia (5%)	621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	38.8	0.1	China (50.2%), South Korea (17.9%), Taiwan (8.5%), Japan (8.1%), Hong Kong (7.5%)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	10.4	0.7	China (75%), Turkey (7.4%), Egypt (3.4%), Morocco (3%), Hong Kong (1.4%)	621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	22.2	0.1	China (48.3%), Hong Kong (24.4%), Sri Lanka (17.9%), Singapore (2.4%), South Korea (2.2%)	621590	Ties, bow ties and cravats of textile materials (excluding of silk, silk waste or man-made)	26.8	Neg	China (96.4%), Taiwan (1.7%), South Korea (1.4%), Thailand (0.2%), Hong Kong (0.1%)
621430	Shawls, scarves, mufflers, mantillas, veils and similar articles of synthetic fibres	0.2	13.1	China (82.2%), India (13.1%), Italy (3.1%), Singapore (1.6%), Morocco (0.5%)	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	18.7	1	China (24.6%), Thailand (13.2%), Portugal (13.1%), Turkey (9.8%), Bangladesh (7.8%)	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	24.5	3.6	China (36.9%), Bangladesh (13.2%), Portugal (6.8%), Turkey (6.5%), Italy (6.4%)





2009					2014					2019				
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
610463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	2.1	Neg	China (95.3%), Thailand (1.3%), Vietnam (0.9%), Turkey (0.5%), Portugal (0.5%)	621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	14.6	0.1	China (33.3%), Hong Kong (30.5%), South Korea (25.6%), Japan (3.9%), Malaysia (1.4%)	620342	Men's or boys' trousers, bib overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	10.2	3.6	China (31.5%), Bangladesh (18.1%), Turkey (10.2%), Pakistan (8.1%), Morocco (4.8%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	4.9	11.4	China (47.2%), India (11.4%), Portugal (4.9%), Hong Kong (4.6%), Turkey (4.6%)	621790	Parts of garments or clothing accessories, of all types of textile materials, n.e.s.	13.3	0	Hong Kong (38.8%), South Korea (29.7%), Germany (14.1%), China (11.7%), Taiwan (1.7%)	621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	9.2	Neg	China (73%), Thailand (13.3%), Indonesia (4.3%), Hong Kong (2.4%), Bangladesh (1.5%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.20: India's Top 10 Exported Apparel Products to Indonesia in US\$ '000**

HS Code	Description	Imports from India ('000 US\$)	India's share in total apparel imports (%)	Share of 5 leading suppliers
<b>2009</b>				
611019	Jerseys, pullovers, cardigans, waistcoats and similar articles, of fine animal hair, knitted or crocheted	1,196	NA	NA
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	115	11.4	China (47.2%), India (11.4%), Portugal (4.9%), Hong Kong (4.6%), Turkey (4.6%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	76	14.1	China (51.6%), India (14.1%), Morocco (7.9%), Turkey (5.4%), Spain (5.4%)
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	75	10.6	China (41.6%), India (10.6%), Hong Kong (9.3%), Vietnam (8.3%), Thailand (6.7%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	74	17.2	China (49.6%), India (17.2%), Morocco (9.8%), Singapore (5%), Spain (3.8%)
621430	Shawls, scarves, mufflers, mantillas, veils and similar articles of synthetic fibres	72	13.1	China (82.2%), India (13.1%), Italy (3.1%), Singapore (1.6%), Morocco (0.5%)
620419	Women's or girls' suits of textile materials (excluding of wool, fine animal hair, cotton)	69	Neg	Singapore (43.9%), Malaysia (23.4%), China (21.7%), Italy (9%), USA (1.6%)
621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	63	0.1	S. Korea (30.6%), Hong Kong (27.7%), China (20%), Taiwan (9.5%), Germany (4.6%)

HS Code	Description	Imports from India ('000 US\$)	India's share in total apparel imports (%)	Share of 5 leading suppliers
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	53	4.4	China (34.1%), Portugal (12.3%), Singapore (9.2%), S. Korea (6.4%), Turkey (6%)
620530	Men's or boys' shirts of man-made fibres (excluding knitted or crocheted, nightshirts, singlets)	49	6.7	China (39.7%), Cambodia (18.1%), Bangladesh (14.9%), Morocco (10.3%), India (6.7%)
<b>2014</b>				
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	1,399	36.9	China (40.5%), India (36.9%), Singapore (9.8%), Italy (6.7%), Thailand (2.1%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	837	4.3	China (47%), Bangladesh (16.6%), Portugal (7.6%), Turkey (6.6%), India (4.3%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	466	12.4	China (36.7%), India (12.4%), Bangladesh (10%), Turkey (9.1%), Vietnam (6.3%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	333	3	China (25.9%), Bangladesh (12.4%), Turkey (9.7%), Vietnam (8.8%), Mexico (7.8%)
621410	Shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	136	4.7	Italy (82.6%), China (8.1%), India (4.7%), Belgium (2.4%), France (2.2%)

HS Code	Description	Imports from India ('000 US\$)	India's share in total apparel imports (%)	Share of 5 leading suppliers
621710	Made-up clothing accessories, of all types of textile materials, n.e.s. (excluding knitted or crocheted)	114	0.4	China (33.3%), Hong Kong (30.5%), S. Korea (25.6%), Japan (3.9%), Malaysia (1.4%)
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	99	1	China (24.6%), Thailand (13.2%), Portugal (13.1%), Turkey (9.8%), Bangladesh (7.8%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	93	10.6	China (38.6%), Morocco (14.7%), India (10.6%), Turkey (6.8%), Romania (4.6%)
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	92	5.8	China (46%), Morocco (13.9%), Romania (7.3%), Turkey (7%), India (5.8%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	90	9.8	Singapore (35.4%), China (22.8%), India (9.8%), Morocco (8%), Turkey (4.5%)
<b>2019</b>				
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	2,273	5.3	China (36%), Bangladesh (22.2%), Vietnam (11.1%), Turkey (5.9%), India (5.3%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	917	10.5	China (35.9%), Bangladesh (15.1%), Vietnam (13.5%), India (10.5%), Turkey (8.1%)

HS Code	Description	Imports from India ('000 US\$)	India's share in total apparel imports (%)	Share of 5 leading suppliers
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	758	4.7	China (68.3%), Morocco (8.1%), Turkey (5.7%), India (4.7%), Thailand (4.2%)
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	629	6	China (49.4%), Japan (11.6%), Singapore (10.4%), Italy (9.7%), India (6%)
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets)	531	5.2	China (43.8%), Vietnam (15.1%), , Bangladesh (9.5%), India (5.2%), Cambodia (4.9%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	338	7.4	China (57%), Turkey (11.1%), Morocco (9.6%), India (7.4%), Bangladesh (2.8%)
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	316	2.4	China (31.6%), Bangladesh (13.6%), Vietnam (12.1%), Turkey (9.5%), Pakistan (6.7%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	259	13.3	China (39%), India (13.3%), Morocco (10.5%), Vietnam (10.2%), Bangladesh (7.3%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	245	2.5	China (33.9%), Bangladesh (16.5%), Vietnam (12.9%), Pakistan (6.4%), Cambodia (6.3%)
620590	Men's or boys' shirts of textile materials (excluding of cotton or man-made fibres, knitted or crocheted)	200	11.8	Malaysia (26.4%), Vietnam (22.6%), China (17%), India (11.8%), Bangladesh (9.5%)

Source: ITC Trade Map, Exim Bank Research

## Malaysia:

The CECA ASEAN between India and Malaysia was made effective from January 2010

**Table 4.21: Tariff Reduction Schedule for India-Malaysia under CECA ASEAN**

Category	Description	Tariff Reduction Schedule	No. of Apparel Products
NT-1	Normal Track 1	Tariff to be reduced to 0% by 31 <sup>st</sup> December 2013	18
NT-2	Normal Track 2	Tariff to be reduced to 0% by 31 <sup>st</sup> December 2016	0
ST	Sensitive Track	<ul style="list-style-type: none"> <li>Tariff to be reduced to 5% by 31<sup>st</sup> December 2016.</li> <li>Applied MFN rates of 5% (beyond 50 tariff lines) to be reduced to 4.5% at the time of entry into force and reduced to 4% by 31<sup>st</sup> December 2016.</li> <li>Applied MFN rates of 4% to be eliminated i.e. to be reduced to zero percent by 31<sup>st</sup> December 2019.</li> </ul>	177
HSL A	Highly Sensitive List A	Reduction of applied MFN tariff rates to 50% by 31 <sup>st</sup> December 2019	0
HSL B	Highly Sensitive List	Reduction of applied MFN tariff rates by 50% by 31 <sup>st</sup> December 2019	0
HSL C	Highly Sensitive List C	Reduction of applied MFN tariff rates by 25% by 31 <sup>st</sup> December 2019	0
EL	Excluded	No reduction of tariff rates	26

Source: Wazir Advisor, Exim Bank Research

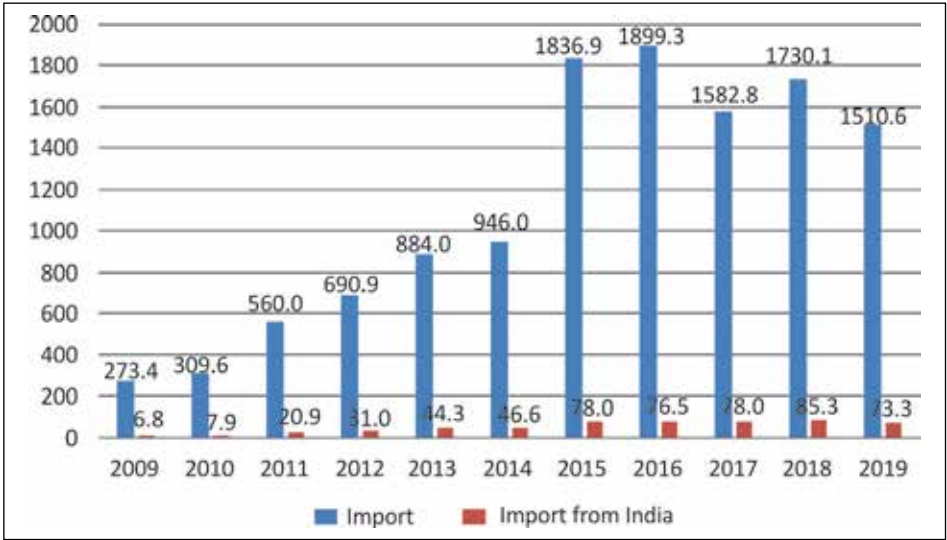
## India's Apparel Trade with Malaysia

India's total apparel export to Malaysia was estimated at US\$ 93.5 million in 2019. Export registered a CAGR of 4.1% over the period 2009 to 2019. India's export under HS 61 category was estimated at US\$ 19.4 million, registering a CAGR of 11.2% over 2009 to 2019, while the exports were estimated at US\$ 74.1 million under HS 62, with a CAGR of 2.9% during 2009 to 2019. HS 610910 (T-shirts, singlets and other vests of cotton, knitted or crocheted) was the most exported commodity group in 2019, with estimated export of US\$ 8.5 million.

An analysis of Malaysia’s imports of apparels reveals that India is not among the top five suppliers of apparels to Malaysia (Table 4.22). However, an analysis of India’s apparel trade with Malaysia reveals that India’s exports in the apparel segment has been reasonably positive over the period 2009 to 2019. There has been a steady increase in exports of apparel products from India to Malaysia during 2014 to 2019. However, there is a significant decline in exports of HS 62 from India to Malaysia during 2019 when compared to 2014. Nevertheless, India has a positive trade balance with Malaysia in apparel trade (Table 4.23).

China and prominent apparel supplying countries from ASEAN, such as Vietnam, Indonesia and Cambodia are dominant suppliers of apparel to Malaysia. It is noteworthy that Bangladesh was not among the five top suppliers of apparels to Malaysia during 2009 but increased its share significantly and has emerged as the second largest supplier of apparels to Malaysia in 2019 (Table 4.22).

**Exhibit 4.5: Malaysia’s Total Apparel Imports and Imports from India (In US\$ Million) (2009 to 2019)**



Source: ITC Trade Map, Exim Bank Research



**Table 4.22: Malaysia's Category-wise Apparel Imports**

HS Code	2009			2014			2019		
	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)	Total Imports (US\$ mn)	India's share (%)	Share of Leading Suppliers (%)
61	119.5	1.9	China (52.8%), Hong Kong (10.7%), Thailand (7.3%), Indonesia (3.4%), Singapore (3.4%)	486.4	4.1	China (31.1%), Vietnam (9.8%), Indonesia (8.6%), Cambodia (7.8%), Bangladesh (7.2%)	860.1	4.7	China (33.9%), Bangladesh (13.6%), Vietnam (10.1%), Indonesia (5%), Cambodia (4.7%)
62	154.0	2.9	China (51.4%), Hong Kong (8.3%), Thailand (7.1%), Indonesia (6.8%), Italy (3.2%)	459.6	5.8	China (29.3%), Indonesia (9.6%), Bangladesh (9.2%), Vietnam (7.8%), Hong Kong (6.4%)	650.5	5.1	China (38.9%), Bangladesh (9.7%), Singapore (7.8%), Vietnam (6.2%), Hong Kong (5.4%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.23: India's Apparel Trade with Malaysia (in US\$ Million)  
(2009/2014/2019)**

Category (HS Code)	2009			2014			2019		
	Export	Import	Trade Balance (export-import)	Export	Import	Trade Balance (export-import)	Export	Import	Trade Balance (export-import)
61	6.7	0.5	6.1	12.4	1.3	11.1	19.4	2.9	16.5
62	55.8	0.6	55.2	128.2	0.8	127.4	74.1	2.0	72.2

Source: ITC Trade Map, Exim Bank Research

A product-wise analysis of the top apparel items imported by Malaysia shows that for only two product categories (under HS codes 61 and 62) India appears among the top five suppliers to Malaysia (products varied over the years 2009/2014/2019); however, the share is much lower than that of Bangladesh and other Asian suppliers (Table 4.24). An analysis of the top ten apparel products exported from India to Malaysia reveals that only two product categories (HS Codes 610910<sup>102</sup> and 620342<sup>103</sup>) among India's top apparel exports to Malaysia appears among the top ten apparels imported by Malaysia from the world. The analysis also reveals that the apparel products exported by India to Malaysia largely varied by years. Hence, scope of assessment of the change in share of the products in Malaysian markets by years is limited (Table 4.25). While China is the largest supplier of several apparel products to Malaysia, India registered as the top supplier of only one apparel product (HS code 620442<sup>104</sup>) in 2019.

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<sup>102</sup> T-shirts, singlets and other vests of cotton, knitted or crocheted

<sup>103</sup> Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton

<sup>104</sup> Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)

**Table 4.24: Top 10 Apparel Products Imported by Malaysia and the Leading Suppliers 2009/2014/2019**  
(in US\$ million)

2009				2014				2019						
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	24.6	0.9	China (70.8%), Hong Kong (7.5%), Thailand (7%), UK (2.1%), Indonesia (1.4%)	611490	Special garments for professional, sporting or other purposes, n.e.s., of textile materials	166.3	6.6	China (22%), Indonesia (16.9%), Vietnam (15.1), India (6.6%), Bangladesh (6.4%)	611420	Special garments for professional, sporting or other purposes, n.e.s., of cotton, knitted or crocheted	179.5	10.9	Vietnam (17.6%), Indonesia (14.3%), Bangladesh (13.9%), India (10.9%), China (8.8%)
	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	22.8	1.3	China (87.9%), Hong Kong (8.1%), Thailand (1.5%), India (1.3%), Indonesia (0.7%)	621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	102.8	5.3	China (26.6%), Indonesia (17.9%), Vietnam (14%), India (5.3%), Thailand (5.1%)	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	136.3	6.2	China (29.2%), Bangladesh (28.2%), Vietnam (7.1%), India (6.2%), Hong Kong (5%)

2009					2014					2019				
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	20.2	1.5	China (48.1%), Thailand (21.3%), Vietnam (9.9%), Philippines (5.4%), Hong Kong (4.8%)	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	49.2	2.3	China (33.1%), Bangladesh (17.3%), Vietnam (9.3%), Cambodia (6.3%), Hong Kong (6.2%)	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	71.3	1.7	China (30.2%), Bangladesh (13.9%), Vietnam (13.4%), Thailand (10.6%), Cambodia (7.4%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	13.1	0.8	China (43.4%), Indonesia (15%), Hong Kong (9.9%), Thailand (8.9%), UK (6%)	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	41.2	2.1	China (34.1%), Thailand (15.8%), Bangladesh (9.9%), Indonesia (6.7%), Sri Lanka (5.4%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	47.4	2.9	China (28.9%), Bangladesh (25%), Vietnam (11.2%), Spain (4.6%), Cambodia (4.4%)

2009				2014			2019		
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	10.5	1.5	China (42%), Thailand (18.5%), Indonesia (9.2%), Japan (5.5%), Hong Kong (4.6%)	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	36.7	1.7	China (24.5%), Bangladesh (23.2%), Cambodia (8%), Hong Kong (7.4%), Turkey (5.5%)
					620349	Men's or boys' trousers, bib and brace overalls, breeches and shorts of textile materials (excluding of wool, fine animal hair, cotton or synthetic fibres, knitted or crocheted, underpants and swimwear)	47.1	1	China (72.3%), Myanmar (5.7%), Bangladesh (4.7%), Singapore (4.6%), Hong Kong (2.6%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	7.6	3.4	China (22.8%), Hong Kong (17.8%), Thailand (15.8%), Italy (7.3%), Indonesia (5.9%)	620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	32.7	4	China (28.8%), Hong Kong (16.7%), Cambodia (10.2%), Vietnam (7%), Bangladesh (7%)
						Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	45.5	0.3	China (52.7%), Vietnam (14.2%), Cambodia (5.8%), Bangladesh (4.6%), Indonesia (4.4%)

2009					2014					2019				
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	6.9	8.2	China (57%), Thailand (15.9%), India (8.2%), Indonesia (7.7%), USA (4.4%)	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	25.2	0.8	Bangladesh (31.5%), China (31.3%), Vietnam (6.7%), Hong Kong (6.2%), Turkey (5.1%)	620449	Women's or girls' dresses of textile materials (excluding of wool, fine animal hair, cotton)	43.4	3.8	China (38.2%), Singapore (29.5%), Hong Kong (7%), Spain (5.5%), Philippines (4.3%)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	6.2	0.1	China (71.7%), Hong Kong (16.3%), Thailand (2.7%), Italy (2.5%), UK (2.1%)	621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	23.6	0.1	China (43.1%), Thailand (14%), Japan (8.6%), Vietnam (7.4%), Taiwan (5.3%)	620690	Women's or girls' blouses, shirts and shirt-blouses of textile materials	38.2	3.5	China (29%), Singapore (28.3%), Spain (11.9%), Hong Kong (8.6%), Bangladesh (5%)

2009					2014					2019				
HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers	HS Code	Description	Total Import (US\$ mn)	India's share in imports (%)	Share of 5 leading suppliers
610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets)	5.8	4.5	China (31.9%), Hong Kong (25.8%), Thailand (6.7%), Vietnam (6.6%), Bangladesh (6.2%)	610510	Men's or boys' shirts of cotton, knitted or crocheted (excluding nightshirts, T-shirts, singlets and other vests)	22.6	2.1	China (46.7%), Bangladesh (7.5%), Cambodia (6.7%), Hong Kong (6.4%), Sri Lanka (4.9%)	620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	33.1	10.1	China (25%), Bangladesh (16.6%), India (10.1%), Vietnam (9.2%), Hong Kong (8%)
611790	Parts of garments or clothing accessories, knitted or crocheted, n.e.s.	5.5	1	China (49.1%), Hong Kong (15.3%), Singapore (12.9%), Taiwan (12.3%), Japan (8.1%)	611610	Gloves, mittens and mitts, impregnated, coated or covered with plastics or rubber, knitted or crocheted	16.2	1.6	Hong Kong (27.4%), China (23.2%), Italy (19.1%), Portugal (10%), USA (4.9%)	620469	Women's or girls' trousers, bib and brace overalls, breeches and shorts of textile materials	32.4	1.9	China (24.8%), Singapore (17.6%), Bangladesh (14.9%), Spain (7.1%), Vietnam (6.3%)

Source: ITC Trade Map, Exim Bank Research

**Table 4.25: India's Top 10 Apparel Products Exported to Malaysia in US\$ '000 in 2009, 2014, 2019**

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
<b>2009</b>				
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	10,545	28.1	India (28.1%), China (27.9%), Hong Kong (15.6%), Thailand (7.5%), Singapore (4.3%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	5,818	2.6	Indonesia (33.9%), UK (25.8%), Cambodia (14.8%), China (8.2%), Italy (4.1%)
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	4,287	8.2	China (57%), Thailand (15.9%), India (8.2%), Indonesia (7.7%), USA (4.4%)
620441	Women's or girls' dresses of wool or fine animal hair (excluding knitted or crocheted)	3,397	Neg	Hong Kong (30.6%), Italy (27.8%), France (16.7%), China (11.1%), South Korea (5.6%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	2,415	0.9	China (70.8%), Hong Kong (7.5%), Thailand (7%), UK (2.1%), Indonesia (1.4%)
620413	Women's or girls' suits of synthetic fibres (excluding knitted or crocheted, ski overalls)	2,393	11.4	China (84.1%), India (11.4%), Italy (4.5%)
620422	Women's or girls' ensembles of cotton (excluding knitted or crocheted, ski overalls and swimwear)	2,286	17.7	Pakistan (48.4%), India (17.7%), Hong Kong (12.9%), Indonesia (9.9%), Vietnam (9.9%)



HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
621430	Shawls, scarves, mufflers, mantillas, veils and similar articles of synthetic fibres	2,216	5	China (46.9%), Indonesia (20.2%), Hong Kong (9.4%), Cambodia (8.2%), Vietnam (5.9%)
620419	Women's or girls' suits of textile materials (excluding of wool, fine animal hair, cotton)	1,968	13.3	China (44.4%), India (13.3%), Indonesia (10.3%), Hong Kong (8.3%), Italy (7.8%)
621410	Shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	1,517	8.4	China (73.5%), India (8.4%), France (5.6%), Singapore (3.5%), Italy (3.4%)
<b>2014</b>				
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	24,612	3.1	Indonesia (28.6%), China (14.1%), Bangladesh (12.2%), Morocco (10.2%), Turkey (9.9%)
620453	Women's or girls' skirts and divided skirts of synthetic fibres (excluding knitted or crocheted)	19,856	0.9	China (33.3%), Bangladesh (20.8%), Vietnam (10.2%), Turkey (7.4%), S. Korea (5.3%)
621490	Shawls, scarves, mufflers, mantillas, veils and similar articles of textile materials	15,604	34.7	China (42.1%), India (34.7%), Italy (18.5%), France (1.3%), Thailand (0.5%)
621410	Shawls, scarves, mufflers, mantillas, veils and similar articles of silk or silk waste	7,575	18.8	China (44.2%), India (18.8%), France (11.9%), Italy (4.8%), Pakistan (4%)
620630	Women's or girls' blouses, shirts and shirt-blouses of cotton (excluding knitted or crocheted)	6,551	10	China (36%), Hong Kong (11.6%), Indonesia (11%), India (10%), Bangladesh (6.3%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620413	Women's or girls' suits of synthetic fibres (excluding knitted or crocheted, ski overalls)	6,040	10.9	China (31.3%), Syria (23.4%), UAE (12.5%), France (10.9%), India (10.9%)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	5,415	2.3	China (33.1%), Bangladesh (17.3%), Vietnam (9.3%), Cambodia (6.9%), Hong Kong (6.2%)
620441	Women's or girls' dresses of wool or fine animal hair (excluding knitted or crocheted)	3,930	3.7	China (22.7%), France (19%), Italy (14.4%), USA (11.1%), UK (10.6%)
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	3,430	5.3	China (26.6%), Indonesia (17.9%), Vietnam (14%), India (5.3%), Thailand (5.1%)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	2,895	4	China (28.8%), Hong Kong (16.7%), Cambodia (10.2%), Vietnam (7%), Bangladesh (7%)
<b>2019</b>				
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	8,459	6.2	China (29.2%), Bangladesh (28.2%), Vietnam (7.1%), India (6.2%), Hong Kong (5%)
621143	Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres (excluding knitted or crocheted)	7,199	14.1	China (61.3%), India (14.1%), Spain (7.2%), Thailand (3.8%), Indonesia (3.2%)
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excluding knitted or crocheted)	6,785	16.7	Indonesia (38.3%), Vietnam (21.5%), India (16.7%), China (11.3%), Spain (4.7%)

HS Code	Description	Imports from India	India's share in total apparel imports (%)	Share of 5 leading suppliers
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	4,774	10.1	China (25%), Bangladesh (16.6%), India (10.1%), Vietnam (9.2%), Hong Kong (8%)
620442	Women's or girls' dresses of cotton (excluding knitted or crocheted and petticoats)	4,601	44.5	India (44.5%), China (19.3%), Spain (6.8%), Italy (6.6%), Bangladesh (4.3%)
621133	Men's or boys' tracksuits and other garments, n.e.s. of man-made fibres (excluding knitted or crocheted)	4,500	8.7	China (52%), India (8.7%), Thailand (8.2%), Vietnam (5.2%), UK (5%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	4,004	2.8	China (28.9%), Bangladesh (25%), Vietnam (11.2%), Spain (4.6%), Cambodia (4.4%)
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	3,645	4.2	China (40.3%), Spain (17.3%), Hong Kong (6.2%), Bangladesh (6%), Cambodia (5.1%)
620444	Women's or girls' dresses of artificial fibres (excluding knitted or crocheted and petticoats)	3,582	3.0	China (39.3%), Spain (26.1%), Italy (9.2%), Turkey (4.9%), India (3%)
620590	Men's or boys' shirts of textile materials (excluding of cotton or man-made fibres, knitted or crocheted)	3,214	8.5	Hong Kong (29.3%), China (17.9%), Singapore (10.8%), Myanmar (9.4%), India (8.5%)

Source: ITC Trade Map, Exim Bank Research

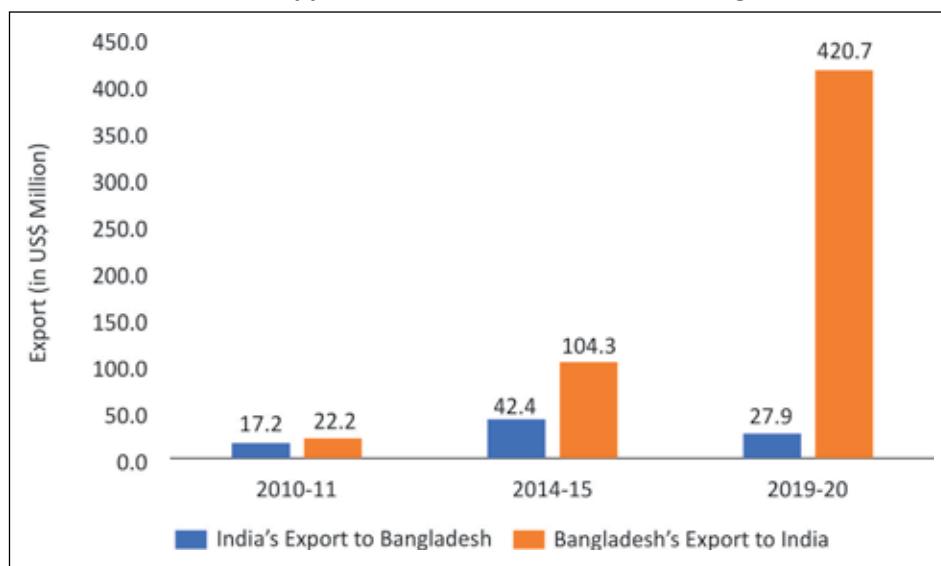
## **India-Bangladesh apparel trade under South Asian Free Trade Area (SAFTA)**

The South Asian Free Trade Area (SAFTA) is the free trade arrangement of the South Asian Association for Regional Cooperation (SAARC), which includes Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. The Agreement came into force in 2006, succeeding the 1993 SAARC Preferential Trading Arrangement. As per the Agreement, India, Pakistan and Sri Lanka were required to reduce their duties to 20 percent in the first phase of the two-year period ending in 2007. In the final five-year phase ending in 2012, the 20 percent duty was reduced to zero in a series of annual cuts. India ratified the Agreement in 2009. Under the SAFTA, India provides duty free and quota free facilities to other Least Developed Countries (LDC) in the Agreement.

According to the industry sources, SAFTA has not been successful in terms of facilitating the growth of regional textile and apparel value chains. Particularly in case of India, SAFTA has not been able to yield much for the Indian apparel industry but has yielded much in favour of Bangladesh apparel industry with respect to apparel trade between the two countries and have also established Bangladesh as a dominant garment exporter in the region.

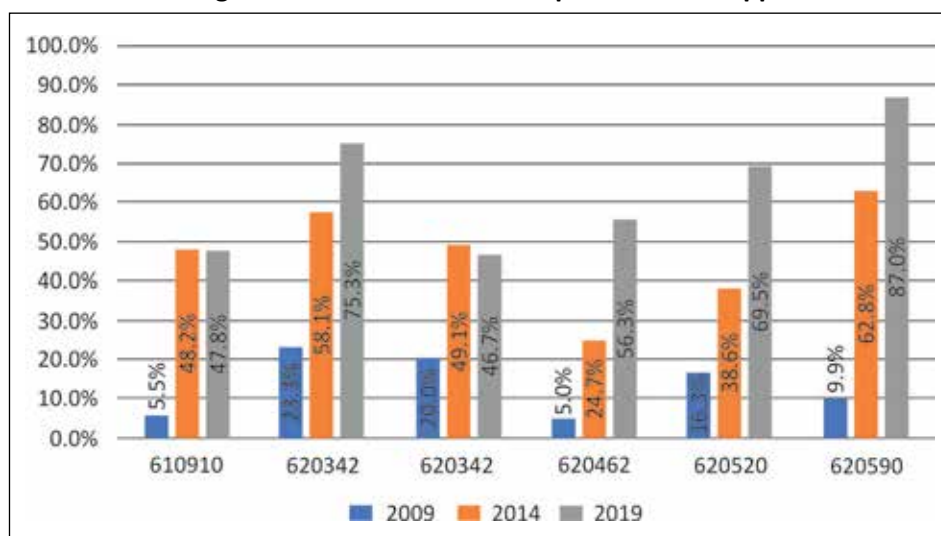
An analysis of trade in apparels between India and Bangladesh exhibits a steep and steady rise of exports from Bangladesh to India as against India's exports to Bangladesh during the period 2010-11 to 2019-20 (Exhibit 4.6). A product-wise analysis reveals significant increases in imports of apparel products to India from Bangladesh (Exhibit 4.7) in product groups 620342, 620462, 620520, and 620590.

**Exhibit 4.6: Apparel Trade between India and Bangladesh**



*Note 1: The yearly data for Bangladesh's Export is from July to June for 2014-15 and 2019-20. For 2010-11 it is July to March. Note 2: The Yearly data for India's export constitute data from January to December. Source: ITC Trade Map, Bangladesh Export Promotion Bureau, Exim Bank Research*

**Exhibit 4.7: Bangladesh's Share in India's Import of Select Apparel Products**

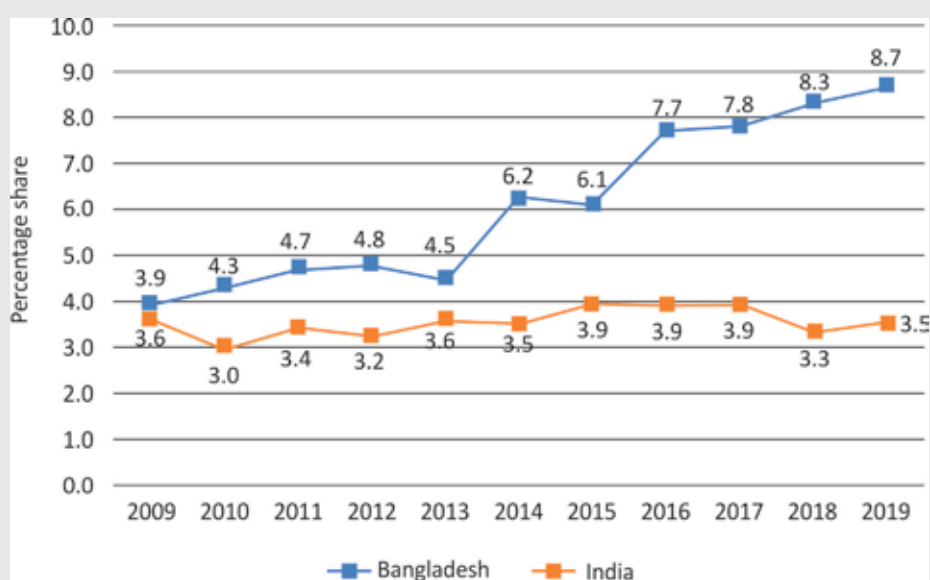


*Source: ITC Trade Map, Exim Bank Research*

### Box 3: Emergence of Bangladesh as Significant Apparel Exporter

During the pre-2005 quota period, as a developing country India was subjected to quotas under the Multi-Fibre Agreement (MFA) that restrained its textile and garments exports beyond a prescribed limit. The prevailing conditions resulted in an exodus of a large section of Indian apparel manufacturers and exporters into Bangladesh to access the quota-free global markets. This also enabled them to develop strong backward and forward linkages. This led to the garment manufacturers and exporters import cheap raw materials, such as yarn, fabric and denim fabric from India, process them in Bangladesh and export the finished products to the rest of the world, strengthening the garment sector of Bangladesh considerably. Further, being an LDC, Bangladesh enjoys better market access under the Generalized System of Preference (GSP) compared to India. Coupled with other structural advantages, such as lower labour costs compared to India, Bangladesh has emerged as a major supplier of apparel.

#### India and Bangladesh's Share in Global Apparel Export



Source: ITC Trade Map, Exim Bank Research

## **Duty Disadvantage in Leading Markets**

India's largest export destination in apparel products are the USA, the UAE and the EU as a bloc. India does not have any trade agreement with any of these key export markets and hence, subjected to unfavourable import duties pertaining to the apparel products in these markets.

Depending on the apparel products, India faces an import duty of up to 32% on its exports to the USA. Except India the other leading suppliers to the USA have benefitted traditionally from some kind of preferential tariff and market access under trade agreements that are in place between the supplier country and the USA. Despite not being a beneficiary of trade arrangements, Indian apparel exports to the USA has fared well; however, in the recent years it has been losing its share considerably to the rising apparel suppliers in Asia, such as Vietnam, Indonesia and Bangladesh, who have been benefitting from various trade arrangements with the USA. Further, in some product categories at the HS Code 8-digit level where India has significant potential, India faces high import duty in the US compared to other suppliers, who have a trade arrangement with the USA. For example, India has a strong comparative advantage in the export of silk shawls and scarves, but faces a high tariff rate of 11.3% in the USA, whereas the Republic of Korea, which has a trade agreement with the USA faces zero tariff for the product category under the US-Korea FTA.

**Table 4.26: Major Apparel Products Imported by the USA and Import Duty on the Product Category, 2019**

HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty (imposed at 8-digit level) <sup>(a)</sup>	Special Duty
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted)	7,925.1	6.3	China (25%), Vietnam (19.3%), Indonesia (6.9%), India (6.3%), Honduras (5.6%)	5%-16.5%	China (permanent MFN status) Vietnam (MFN)/FTA
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted)	6,501.8	0.5	China (25.3%), Vietnam (17.8%), Honduras (9.3%), Jordan (6.9%), Indonesia (5%)	6%-32%	Jordan (Free)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	5,316.3	2.9	Bangladesh (28.3%), Mexico (18.7%), China (11%), Vietnam (8.1%), Nicaragua (5%)	10.0% -16.6%	Mexico (Free) Bangladesh (GSP status until 2013)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	4,643.5	2.4	China (31.4%), Bangladesh (17.6%), Vietnam (16.3%), Pakistan (5.4%), Cambodia (4%)	0-16.6%	-
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	4,557.9	5.9	Honduras (12.9%), Nicaragua (10.3%), El Salvador (8.6%), China (7.8%), Mexico (6.6%)	16.5%	Mexico (Free)
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	2,582.7	9.5	Bangladesh (23.1%), China (14.9%), Vietnam (13.1%), India (9.5%), Indonesia (9.2%)	8.7%- 19.7%	-



HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty (imposed at 8-digit level) <sup>(a)</sup>	Special Duty
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted)	2,208.5	3.4	China (38%), Vietnam (14.9%), Sri Lanka (11.4%), Indonesia (7.7%), Thailand (4.8%)	2.7%-16.9%	-
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	2,029.2	1.1	China (14%), Honduras (11.2%), Nicaragua (9.6%), El Salvador (9.2%), Mexico (9.1%)	2.6%-32%	Mexico (Free)
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	1,733.2	0.8	China (45.8%), Vietnam (27.5%), Indonesia (5.7%), Bangladesh (5.6%), Canada (3.8%)	4.4%-27.7%	Canada (free)
610463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres	1,697.6	1.2	Vietnam (32%), China (19.2%), Indonesia (7.4%), Jordan (7.3%), Kenya (3.9%)	14.9%-28.2%	Jordan (Free)

<sup>(a)</sup> Range of import duty. Import duty is fixed at HS Code 8 digit levels.

Source: ITC Trade Map, Exim Bank Research

India as a developing country has been a beneficiary of preferential tariff under the EU's GSP, which however, has been quite shallow in case of labour intensive products which in most cases are listed as sensitive products, with a tariff advantage of 3.5 percentage points below the MFN rate. In respect of textiles and apparels, the admissible margin is even less at 20 percent of the MFN tariffs. In apparel products, which attracts an import duty of 12% in the EU, India under the GSP is subjected to 9.6% import duty, while Bangladesh and Turkey, two of the leading suppliers of apparel products face zero tariff. Pakistan is a beneficiary of the EU's GSP+ and faces preferential tariff in apparel products. Cambodia until August 2020 had a duty free access to the EU markets

for its apparel products, which has been withdrawn due to labour rights issues. Despite no existing trade agreements between the EU and Vietnam until 2019, Vietnam has been able to significantly increase its exports of apparels to the EU; in some product categories it has been able to increase its share considerably compared to India. With the new EU-Vietnam FTA in place, India is projected to face tough competition from Vietnam in apparel exports to the EU due to duty disadvantage.

**Table 4.27: Major Apparel Products Imported by the EU and Import Duty on the Product Category, 2019**

HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty <sup>(b)</sup>	Special Duty
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	12,521.5	7.2	Bangladesh (31.6%), Turkey (9.8%), India (7.2%), Germany (6.9%), China (5.3%)	12%	Bangladesh (duty free under EBA as LDC), Turkey (duty free), Germany (duty free), India (9.6%), China (12%)
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	11,171.8	2.2	Bangladesh (25.1%), Pakistan (10.4%), Turkey (8.7%), Germany (8.1%), China (7%)	12%	Bangladesh (duty free under EBA as LDC), Pakistan (GSP+ duty free), Turkey (duty free), Germany (duty free), India (9.6%), China (12%)
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted)	8,911.7	0.5	China (30.9%), Bangladesh (17.8%), Turkey (8.7%), Germany (5.4%), Cambodia (5.3%)	12%	China (12%), Bangladesh (0), Turkey (0), Germany (0), Cambodia (duty free under EBA)

HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty <sup>(b)</sup>	Special Duty
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	8,585.6	3.1	Bangladesh (19.2%), China (16.8%), Turkey (10.2%), Germany (6.8%), Cambodia (4.5%)	12%	China (12%), Bangladesh (0) Turkey (0), Germany (0), Cambodia (duty free under EBA)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	7,792.1	1.3	Bangladesh (21.1%), Turkey (15.2%), China (11.5%), Pakistan (7.1%), Spain (5.5%)	12%	China (12%), Bangladesh (0) Turkey (0), Germany (0), Pakistan (duty free GSP+)
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	5,360.2	2.1	China (16.4%), Turkey (14.2%), Bangladesh (9%), Germany (6.5%), Cambodia (5.5%)	12%	China (12%), Bangladesh (0) Turkey (0), Germany (0), Cambodia (duty free under EBA)
620293	Women's or girls' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	4,252.5	0.4	China (42.1%), Myanmar (10.6%), Vietnam (8%), Germany (7.7%), Bangladesh (5.6%)	12%	China (12%), Bangladesh (0) Turkey (0), Germany (0), Vietnam (11.5%), Myanmar (0)
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres	3,980.4	0.1	China (38.1%), Vietnam (9%), Bangladesh (7.2%), Myanmar (7.1%), Germany (5%)	12%	China (12%), Bangladesh (0) Turkey (0), Germany (0), Vietnam (11.5%), Myanmar (0)

HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty <sup>(b)</sup>	Special Duty
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	3,825.4	7.5%	Bangladesh (18.9%), China (10.7%), Turkey (9.5%), Germany (7.5%), India (7.5%)	12%	China (12%), Bangladesh (0), Turkey (0), Germany (0), Vietnam (11.5%), India (9.6%)
620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted)	3,744.1	10.6	China (21.7%), Turkey (11.3%), India (10.6%), Morocco (7.3%), Bangladesh (6.9%)	12%	China (12%), Bangladesh (0), Turkey (0), Germany (0), Myanmar (0)

<sup>(b)</sup> India faces an import duty of 9.6% under GSP

Source: ITC Trade Map, Exim Bank Research

The UAE has been one of the key export markets for apparels for India. The UAE has been the gateway for apparel shipment from India to the Middle Eastern countries, Africa and Europe. India's exports of apparel products to the UAE have been considerably affected since May 2019 with the UAE imposing a 5% duty on apparel products. India has been the leading supplier of apparel products to the UAE until 2019. Exports of apparel products from India to the UAE has been showing a declining trend post duty imposition.

**Table 4.28: Major Apparel Products Imported by the UAE and Import Duty on the Product Category, 2019**

HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty (as applicable in GCC)
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	464.8	35.5	India (35.5%), China (14.2%), Bangladesh (13.4%), Turkey (6.5%), Italy (4.8%)	5%
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton	213.5	16.9	Bangladesh (26.1%), Pakistan 18.4%), India (16.9%), China (16.8%), Italy (4.6%)	5%
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted	179.0	10.6	China (29.1%), Bangladesh (10.8%), India (10.6%), Vietnam (8.7%), Italy (7.8%)	5%
620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets)	154.7	34.2	India (34.2%), China (23.1%), Bangladesh (15.2%), Italy (5.7%), Vietnam (4.4%)	5%
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	137.3	29.5	India (29.5%), China (26%), Bangladesh (10.5%), Thailand (6.3%), Sri Lanka (4.7%)	5%
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	132.6	9.5	China (23.3%), India (11.4%), Cambodia 10.4%), Vietnam (9.7%), Turkey (6.6%)	5%

HS Code	Description	Total Import (US\$ million)	India's share in imports (%)	Share of 5 leading suppliers	Import Duty (as applicable in GCC)
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton	117.7	10.4	China (25.5%), Bangladesh (20.5%), Pakistan (14.2%), India (10.4%), Turkey (8.2%)	5%
621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted)	108.4	9.2	China (42%), Bangladesh (13.9%), Sri Lanka (11.4%), India (9.2%), Vietnam (7.5%)	5%
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted)	103.1	21.1	China (25.9%), India (21.1%), Bangladesh (9.4%), Cambodia (9%), Pakistan (8%)	5%
620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	100.7	16.1	China (37.9%), India (16.1%), Italy (7.1%), Turkey (6.7%), Indonesia (4.8%)	5%

Source: ITC Trade Map, Exim Bank Research

## 5. CHALLENGES AND STRATEGIES

India is a significant player in global garment value chain. Following a distinctive industrial trajectory based on small scale, regionally specialised production, the country has progressively emerged as a major garment exporter. However, in the recent years dwindling exports, underperformance of the garment industry, cut-throat competition from new and emerging garment manufacturing countries are some of the deep drawn challenges faced by the sector. The challenges are by and large attributed to the domestic and international policy baggage, the sector have been subjected to, slacking approach of the industry to keep pace with the changing needs and developments of the global garment value chain, and influences of changing dynamics of liberalised trade.

Some of the key challenges faced by the Indian garment sector are discussed in this Chapter.

### **Policy Implications**

#### **Multi Fibre Agreement and Quota regime**

Historically the Indian textile and garment sector has been subjected to restrictions and limits, mainly skewed towards trade. These restrictions have been largely responsible in shaping the structure and operations of the garment industry in India. The Multi Fibre Agreement has long governed the global textile and apparel industry from 1974 to 2004. Under this protectionist agreement, quotas on apparel trade were imposed on the developing countries, to limit their exports to the developed countries. However, certain LDCs were selectively preferred for overruling the agreement and providing them with considerable market advantages in the developed countries. For instance, the EU's preferential status granted to Bangladesh, of duty free and quota free

access to its markets under 'Everything But Arms', led to a massive expansion of the Bangladesh apparel industry, eventually making them a stronger competitor to India. The MFA was phased out during 2004. Since the elimination of quotas, trade in apparels from India to the EU, though grew at a steady rate, have not kept pace with other LDCs. The elimination of quotas resulted into heightening of protectionist measures in the developed countries, such as antidumping laws, countervailing duties, environmental and labour compliances, thereby restricting trade in apparels considerably.

## **Domestic Regulatory Frameworks**

### *The lasting SSI Structure*

The quota system encouraged the garment units in India to establish multiple units rather than expanding their capacity in the same unit. Besides, domestically the garment sector was regulated by a stream of import substituting industrial policies, such as the Monopolies and Restrictive Trade Practices Act (MRTP Act), and the Foreign Exchange Regulation Act (FERA). These policies enforced stringent regulation on investments in the apparel sector, mandating the role of employment generation and consumer goods manufacturing to Small-Scale Industries (SSI), and consequently, leading to the apparel industry operating as small and medium enterprises. The policy imperatives coupled with seasonal nature of demand for garments has been instrumental in the heavy dependence of the domestic apparel industry on the SSI sector. This has also rendered them with a host of benefits provided to the SSI sector, such as preferential credit and investment subsidies. These policy imperatives have largely restricted the garment sector to establish small scale units and also inhibited large size enterprises from entering the sector. The policies have also discouraged the small enterprises to grow and expand lest they lose the policy incentives reserved for the SSI sector. Though these policies have been phased out, and in the recent years, several large firms and foreign brands and manufacturers have entered the sector, the impact of the policies are still felt strong in terms of the sector's largely fragmented structure with limited economies of scale, which have been detrimental for the sector's overall growth and productivity.



### *Low FDI Inflow*

Despite a liberal investment regime, foreign capital inflows have remained minimal in the Indian apparel sector. The total FDI inflow in the textile and apparel sector during April 2000 to December 2020 stood at only 0.7% (US\$ 3,682.7 million) of the total FDI inflow in all industry<sup>105</sup>. The low level of FDI inflows in the sector is largely due to poor quality of infrastructure, fragmented structure of industry, lack of congenial business environment, complex regulatory environment, high transaction costs, stringency in labour rules, and sectoral caps on FDI in the retail sector. Besides, a lack of synergy between the National Manufacturing Policy (NMP) and FDI policy is also cited as one of the reasons for low FDI inflow in the sector and subsequent dampening of growth in the sector. The NMP<sup>106</sup> underpins the importance of large and thriving market of manufactured goods to benefit from FDI led technology transfer. Instead of aligning the FDI policy with the objective of NMP, the Government of India has allowed 100 percent FDI in all manufacturing sector under the automatic route. This has resulted in a mismatch between the objectives of the FDI policy, which is aimed at attractiveness for foreign investors, and the NMP, which aims to promote technology spill overs through joint ventures.

### *GST*

GST is a multi-stage tax levied on every value addition. By concept, it was designed to transform the previous indirect tax system of the country from the origin-based model to a consumption-based model. However, according to the industry sources, GST has created distortions in the apparel sector in India, impeding its competitiveness. Under the GST regime, the man-made fibre yarn is taxed at 18%, while the fabric is taxed at 5%. This imbalance in taxation has been directly affecting the SMEs, which purchases the yarn and produces the fabric, subsequently affecting their sustainability. Apart from the policy limitations, system errors, such as delay in reimbursement of input credit, and limited knowledge of GST has also been considerably impacting the sector in the country. Although in the long-term GST is envisaged to bring about positive

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<sup>105</sup> Department for Promotion of Industry and Internal Trade

<sup>106</sup> One of the instrumentalities of the NMP were fostering “joint ventures between foreign companies and Indian partners” (Rao and Dhar, 2018)

effect to the apparel sector, the short-term impact has been a deterrent for many small-scale businesses.

#### *Lack of Fibre Neutrality*

There is a steady trend in change in fibre mix in the textile and garment sector. The global trend in apparels has been a mix of 35:65 in favour of Manmade Fibre led by new developments and innovations in MMF and processing of MMF fabrics. In contrast with the world trends, India has only marginally moved up from 65:35 Cotton-MMF to 58:42 Cotton-MMF composition of its textile for garmenting. This sluggish adaptation of MMF in the Indian apparel industry has been largely due to limited availability of manmade fibres at competitive prices in the country. This is primarily because of the differential tax treatment of fibres. Hence, India's competitors in apparel markets, such as Pakistan, Sri Lanka, China, Thailand and Indonesia who follow fibre neutral policy are much more aligned to the global apparel consumption patterns. This has been considerably affecting India's trade in apparels in the global markets.

#### *Challenges with Credit and Insurance*

Letter of Credit (LC) is one of the significant components in credit mechanism of apparel trade. In the recent years there has been a considerable rise in non-LC buyers, and as a result the large and established apparel buying houses are exposed to significant risks, particularly when exporting to markets in Africa, CIS and certain Asian countries. Besides, the LCs opened by the banks in many LDCs are not being honoured by Indian banks, which need to be reconfirmed by another international bank, which adds to the transaction costs. A mechanism or a facilitative framework needs to be devised to trade with LDCs, so that Indian apparel exporters could diversify their exports.

#### *Exclusion of activities in SITPs*

In the current modalities of the Scheme for Integrated Textile Parks (SITPs), many of the key activities, such as knitting and dyeing, cannot be brought under the cluster format due to wet processing. The primary reason for which is procedural complexities associated with obtaining environmental clearances. Therefore, promoters and stakeholders prefer excluding wet processing inside the SITPs, which fails the whole concept of integrated textile parks.

## Market Access Arrangements

### *Viability of FTAs*

India has 15 trade pacts, which also covers trade in textile and apparel to the non-traditional markets. However, India's FTA engagement in terms of textiles and garments trade has not been encouraging under these market arrangements. These 15 FTAs cater to only around 7% of India's total apparel exports under the duty-free access in the global market, and the remaining products face higher duties. Conversely, China, Bangladesh and Vietnam have around 30% of their clothing exports traded under the duty-free access to the global markets<sup>107</sup>. Under the CEPA, India's trade deficit in apparels and ready-made garments with South Korea and ASEAN has significantly increased. Under CECA with Japan, bilateral trade in apparels has either stagnated or has declined. The FTAs lack balanced deals. Given higher margin of preference (MFN-preferential duty) offered by India under the FTAs, the surge in imports in apparels is much higher compared to surge in exports for India<sup>108</sup>.

Under the SAFTA, India provides duty-free and quota-free facility to other LDC countries without placing any sourcing restrictions. The current Rule of Origin (RoO) for apparel products under SAFTA stipulates differential RoO for the LDC and non-LDC members. Discriminatory RoO, and no restrictions on sourcing of raw materials is affecting the Indian apparel manufacturers considerably. For instance, majority of the garment manufacturers in Bangladesh source low-cost raw materials from China and export finished garment products to India at compromised quality and subsequent pricing of finished products. This is considerably affecting the entire apparel value chain of India comprising fibre, yarn, fabrics and garments.

Lack of uniformity in RoO across the trade agreements of India has emerged as a compelling factor for the garment manufacturers to set up separate production lines to cater to different markets, thereby, compromising on economies of scale. Further, the sensitive lists in the FTAs and the cost associated with RoO have been influencing the decision of apparel manufacturers with respect to sourcing to remain cost-competitive and diverting trade linked investment plans. Complexities in RoO has been persuading the manufacturers to locate

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<sup>107</sup> Adhikari and Yamamoto, 2007

<sup>108</sup> NITI Ayog

production centres in markets where it is easy to satisfy RoO, irrespective of the locations' economic viability.

### *Preferential Treatments*

Apparel trade from India is significantly affected by preferential treatments enjoyed by competing countries, such as Bangladesh, Pakistan and Vietnam. Bangladesh and Pakistan have been beneficiaries of EU's<sup>109</sup> preferential market access arrangements, which has been reflected considerably in their rising apparel exports to the EU. Bangladesh has had zero tariff duties to the EU under the EBA scheme. Pakistan is a beneficiary of GSP+ status with the EU and benefitted significantly until recently. Such preferential access coupled with increasing Non-Tariff Measures (NTM) imposed on imports by the EU and other countries are considerable deterrent to apparel trade for India. The US is an important trading partner of the EU, and apparel trade attracts an average tariff similar to that of India and Vietnam; however, the USA faces a higher non-tariff barrier (NTB) measure<sup>110</sup>. With the ratification of the EU-USA FTA and easing of NTMs for the USA, it is anticipated to have greater impact on apparel trade from developing countries including India.

### *GSP Utilization*

A comparison of rate of GSP<sup>111</sup> utilisation by Bangladesh, India, Pakistan and Vietnam in the EU market reveals that under GSP preference (non-zero), Pakistan's utilization rate has been considerably high compared to that of India and Vietnam. Though the GSP utilization rate by India under non-zero tariff is also significantly high, it has been lower than that of Pakistan till 2012.

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<sup>109</sup> EU is the largest market for apparels

<sup>110</sup> While the average tariff between the USA and EU stands 3-4 percent, non-tariff barriers are extremely high, ranging from 25.5 ~73.3 percent - ECORYS (2009), Non-Tariff Measures in EU-US Trade and Investment-An Economic Analysis.

<sup>111</sup> The EU's Generalized Scheme of Preferences (GSP) consists of **three arrangements**:

- Under the general GSP arrangement, the EU grants tariff reductions for products covered by around 66% of tariff lines and originating from low-income or lower-middle income countries, which do not benefit from other preferential access to the EU market.
- For countries benefiting from the **special incentive arrangement for sustainable development and good governance (GSP+)** the EU **eliminates** tariffs for products covered essentially by the same tariff lines
- Under the **Everything But Arms (EBA)** arrangement, the EU grants duty-free, quota-free access for all imported products except arms and ammunition from countries classified by the UN as Least Developed Countries (LDCs). Beneficiaries do not lose EBA status by entering into a free trade agreement (FTA) with the EU.

Pakistan's position in GSP utilization slid due to geopolitical issues as also due to issues related to environmental and social compliances including labour. According to the the EU, of the total EU imports (including non-preferential) in the years 2016-2018<sup>112</sup>, imports from the GSP beneficiaries increased by 16.2%. EBA countries saw their exports to the EU grow by 9.9%, GSP+ beneficiaries by 13.4%, and general GSP arrangement by 18.8%. In terms of product sections, the majority of imports under GSP (47.9% of €33 billion) remain in apparel and clothing. Though India has emerged as the largest beneficiary of the EU's GSP (non-zero) in the recent years, it still remains behind Bangladesh in trade with the EU. Pakistan revived its position as a significant supplier after graduating to EU's GSP plus and is currently the largest beneficiary of the EU's GSP plus.

**Box 4: Value of the EU's GSP Imports from Major Beneficiaries (million €) and their % Share in Overall Imports and Total EU GSP Imports in 2018**

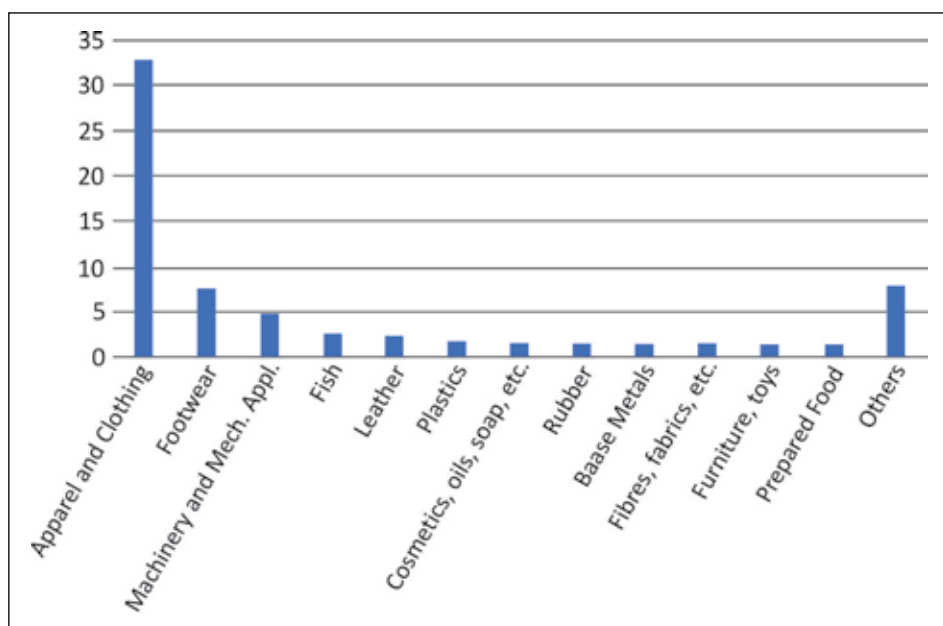
<b>GSP Beneficiary Country</b>	<b>Imports Under GSP (€ M)</b>	<b>Overall Imports by the EU (€ M)</b>	<b>Share of Country's GSP in Total Imports by the EU from the Country</b>	<b>Share of Country's GSP in Total GSP Imports to the EU</b>
Bangladesh	16,776	17401	96.4%	24.4%
India	16,378	43601	37.6%	23.8%
Vietnam	8,994	37531	24.0%	13.1%
Indonesia	6,616	15557	42.5%	9.6%
Pakistan	5,885	6740	87.3%	8.5%
Cambodia	4,987	5255	94.9%	7.2%
Myanmar	1,926	2189	88.0%	2.8%
Philippines	915	7490	25.6%	2.8%
Sri Lanka	1,365	2755	49.5%	2.0%
Mozambique	1,219	2840	66.3%	1.8%
Senegal	367	543	67.6%	0.5%
Mauritania	353	523	67.4%	0.5%
Malawi	260	301	86.6%	0.4%

<sup>112</sup> Report on the Generalised Scheme of Preferences covering the period 2018-2019, European Commission

GSP Beneficiary Country	Imports Under GSP (€ M)	Overall Imports by the EU (€ M)	Share of Country's GSP in Total Imports by the EU from the Country	Share of Country's GSP in Total GSP Imports to the EU
Tanzania	256	473	54.2%	0.4%
Ethiopia	236	642	36.8%	0.3%
Laos	182	251	72.6%	0.3%
Uganda	131	471	27.9%	0.2%
Nigeria	115	18715	0.6%	0.2%

*Source: Joint Report to the European Parliament and the Council, European Commission*

**Exhibit 5.1: Main Product Sections in EU's GSP Imports in 2018 (€ Bn)**



*Source: Joint Report to the European Parliament and the Council, European Commission 2020*

### *Non-Tariff Barriers (NTB)*

The expansion of global trade through Global Value Chains (GVCs) and cross-border investment has considerably given rise to NTBs. Different types of NTBs

exist at various stages of production, which impacts the supply chain efficiency. The cumulative effect of NTBs has been affecting the supply chains as they are leading to sizable trade distortions. Further, the regulatory effects of NTBs are also having a bearing on different stages of supply chain: (i) production stage (increases the cost of production due to higher product standards) (ii) emergence of different types of standards (environmental, labour and ethical standards), and (iii) export-import stage (inspection, testing and documentation adding to cost and time to goods). Apparel trade from India has been also subjected to a plethora of NTBs in various export markets, particularly on labour, making them challenging in terms of cost competitiveness and compliance. The textile and apparel sector accounts for around 4.1% of NTMs faced by all categories of exports in top destinations<sup>113</sup>. Besides NTMs, complex and cumbersome pre-shipment documentation, complex custom procedures, stringent standards, frequent changes in regulations, difficult inspection and testing process, complicated licensing, restrictions on redistribution within importer territory, and insufficient lead time, also affect the Indian apparel sector. Further, Indian exporters also face stringent compliance audits for ensuring maintenance of labour standards. The EU has a policy in place of granting special incentives for enforcing labour standards and environmental safeguards. Labelling requirements is emerging as a significant NTM in the importing countries. For example, the US imposes product characteristic requirements or labelling requirement in over 95% of apparel tariff lines; the EU's Agreement on Labelling provisions for the textile and clothing sector is a potential trade barrier; there are also labelling requirements for textile and clothing products imposed by the Mercosur Group of countries viz. Argentina, Brazil, Paraguay and Uruguay.

## **Industry Level Challenges**

### *Export Similarities*

Studies reveal that Bangladesh, Pakistan and Vietnam have significant overlaps with India in apparel products exported to the EU, which coupled with preferential treatments is also considerably affecting India's apparel trade to

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<sup>113</sup> Exim Bank Study on NTB

the EU<sup>114</sup> and to the world. The Finger Kreinin Index (FKI)<sup>115</sup>, which analyses similarities in exports shows considerable similarities in products exported by India and its Asian competitors. The similarities have been rising over the years from 17% during 2009 to over 50% in 2019. The analysis shows that Bangladesh is the leading competitor for India in apparel trade in EU as well as in the world markets, and Vietnam is emerging as a strong competitor to India in the EU.

**Table 5.1: FKI of India and Peer Countries for Apparel Trade with the World and the EU\***

Reporter 1	Reporter 2	Trading Partner	2009	2014	2019
India	Bangladesh	EU 27	0.17	0.47	0.50
India	Bangladesh	World	0.12	0.45	0.52
India	Vietnam	EU 27	0.23	0.38	0.37
India	Vietnam	World	0.41	0.46	0.44
India	Pakistan	EU 27	0.25	0.27	0.26
India	Pakistan	World	0.41	0.33	0.35

*\*products taken at 6-digit level.*

*# Mirror data for Bangladesh is taken. For Apparel world trade of Bangladesh, data for 2014 is not available, so data for 2015 is taken for calculation purpose.*

*Source: ITC Trademap Exim Bank Research*

### *Unit Price Realisation of Exports*

An analysis of unit export prices of apparel products from India and its competitors to the world market shows that the export unit prices of major export items from Bangladesh are lower compared to India's unit price in the markets. India despite establishing sustainable backward linkages in terms of achieving self-sufficiency in raw material production has not been able to enhance its export competitiveness and penetration. The labour cost in India is higher than that of Bangladesh and Vietnam and marginally lower than that of China (Exhibit 5.2). China, however, has been able to efficiently compensate for this disadvantage through its skill development infrastructure. Although

<sup>114</sup> Largest apparel market

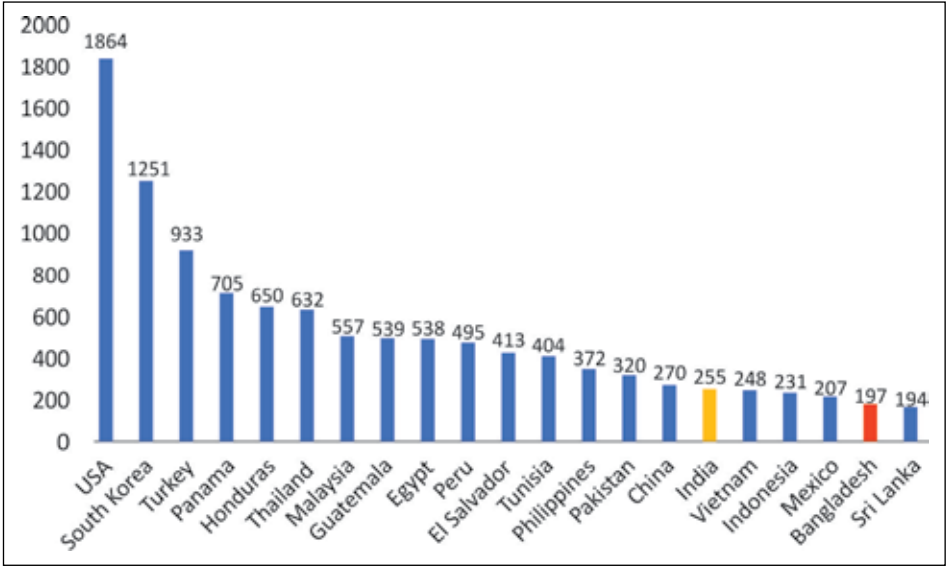
<sup>115</sup> It ranges between 0 and 1. If 0, then the two structures are completely different. The products that India exports are not exported by Bangladesh/Pakistan/Vietnam and vice versa. If 1, then the two structures are identical. Both countries export the same products and with the same intensity.



the Integrated Skill Development Scheme (ISDS) of the Government of India is focused on growing the pool of skilled labour in the country, the growing labour costs are impeding India’s competitive advantage in the apparel industry.

<div> <div>Box 5: Comparison of Export Unit Price Realisation in the EU for Apparels from India vs Competitors (2014)</div> <div>(in US\$/100kg)</div> </div>				
Product	Product Name	India	Vietnam	Bangladesh
610910	T-shirts, singlets & other vests,	2282	1638	1352
611020	Jerseys, pullovers, cardigans, waist-coats	2384	2206	1795
620342	Men’s/boys’ trousers, bib & brace overalls,	2518	2080	1666
611030	Jerseys, pullovers, cardigans, waist-coats	2072	1771	1585
620462	Women’s/girls’, trousers, bib & brace	2933	1868	1761
610510	Men’s/boys’ shirts, knitted/crocheted	2400	1927	1488
610462	Women’s/girls’ trousers, bib & brace	1918	1615	1429
611120	Babies garments, accessories	2499	3586	1988
Source: Mohammad Masudur Rahman, Cheong Inkyo; New Trade Policy for EU: Implications for LDCs				

Exhibit 5.2: Minimum Monthly Wage for Garment Workers in 2017 (US\$)



Source: Public Radio International (2017)

### *Structural Deficiencies*

Garment production in India is highly localised. Export production nodes are scattered across the country and take the form of industrial clusters, defined by dense agglomerations of SMEs. The average industrial size of garment factories is much smaller in comparison to other garment-exporting countries, with dominating industrial fragmentation. The small size of the units hinders investments in plants and machinery, technology upgradation, R&D, attractive packaging and effective international marketing, such as participation in international trade fairs. Majority of the firms typically outsource large part of their production to job workers, which often results in longer lead times and compliance issues.

### *Limitations of Existing Clusters*

Many clusters work as informal production regimes in the country and displays the highest levels of informality across the entire developing world garment industry. Informality is paralleled by high labour-intensity, and structured around difficult relations of domination and subordination, based on factors, such as caste, and other social institutions and structural differences, such as gender or mobility. The scattering of production across different centres in the country is accompanied by a different product specialisation dominating each centre. While the 'local content' in the Indian garments is emphasised, this dependency blocks diversification both in terms of product and markets and global integration.

Majority of the old apparel clusters are situated within the cities, which are usually congested with limited scopes for expansion and modernisation.

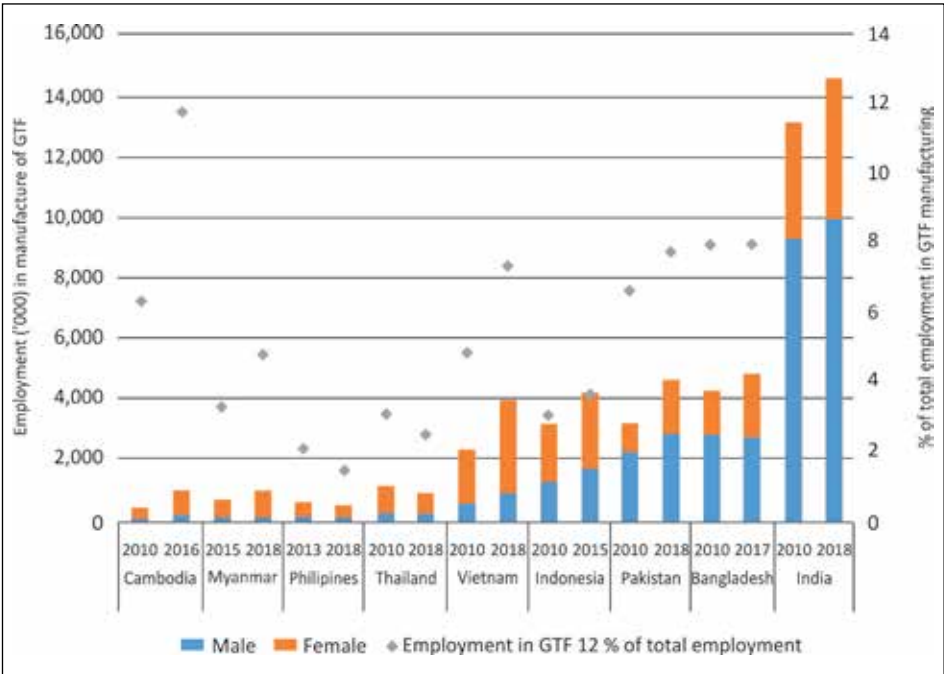
### *Firm Level Despair*

Assumptions asserting sluggish growth in performance of the sector to policy challenges often fails to capture the complex dynamics of industrial labour relations in this sector and the fact that firms have not invested amply in quality upgradation (R&D) and skill development of their workforce, leading to low skills and quality in the sector. Adoption of a cost-cutting strategy by the businesses has severely dented their prospects in terms of developing their core competencies, and thus competitive efficiency.

Productivity

With increasing globalisation and subsequent rise in competition in apparel trade, one of the major factors affecting the Indian apparel industry and its competitiveness in the global markets is lower productivity. Productivity levels of India’s apparel industry are relatively low compared to countries like Turkey, China and Bangladesh. Indian apparel industry has the largest workforce in Asia and one of the lowest productivities largely due to lack of adequate operational skills, inadequate management skills, poor production planning, insufficient performance assessment, limited machine efficiency, poor conditions for workers, and focus on low value-added production.

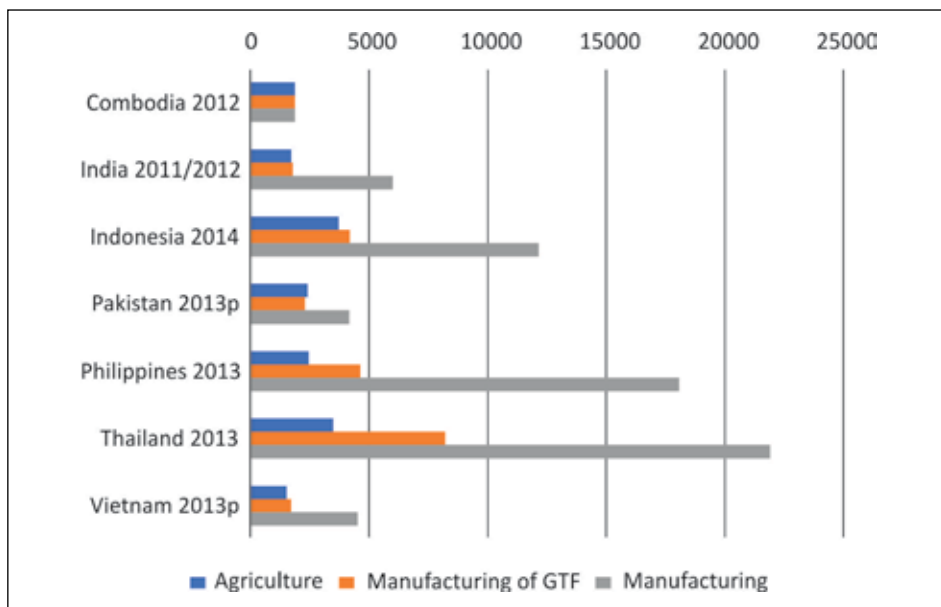
**Exhibit 5.3: Total Employment (thousands) in Manufacture of Garments, Textile and Footwear (GTF)<sup>116</sup> by Gender and Percentage of Total Employment in GTF Manufacturing, in Select Asian Countries, Latest Available Year**



Source: ILO

<sup>116</sup> Sectoral classification of WTO and other multilaterals classifies Garment, Textile and Footwear (GTF) under a single sector, with share of garments and textile being the dominating component.

**Exhibit 5.4: Labour Productivity in Select Labour Intensive Industries in Asia (current \$), Latest Available Year**



Source: Huynh, 2015

### *Labour Issues*

Availability of workers is one of the prime challenges of the apparel industry in India. Majority of the workers in the industry/clusters are migrants and are seasonal. During the various festive seasons, which are also the peak seasons for export deliveries, the worker migrates back to their hometowns leaving work midway. This shortage of labour results in considerable rise in production costs and delays in lead times. A similar situation arises in the event of a good monsoon, when apparel clusters across India faces heightened labour shortages due to reverse migration towards rural areas involving job shifts in agricultural activities.

Apparel manufacturing clusters across India also faces challenges with respect to availability of technically qualified manpower at the managerial levels. Additionally, states have different labour laws including overtime, minimum wages and other benefits. This lack of standardised labour norms across India also puts the apparel industry further into disadvantageous position.

Differential working hours of women and men workers, employment and contractual terms, differential wage mechanism in various Indian states and less overall working hours have been a significant constraint for the apparel industry. Complexities in labour laws have also been acting as a hindrance for foreign investments in the industry. Labour productivities and efficiencies are one of the lowest for India compared to its competitors such as China, Vietnam and Bangladesh.

### *Buyer-Driven Supply Chain*

Globally the sector is dominated by large retailers, big brand marketers, and trading companies developing decentralised production networks located predominantly in the developing countries, such as India. Indian apparel industry, on the other hand, is dominated by manufacturers mostly acting as package suppliers for these foreign buyers, which often lowers the bargaining power that Indian apparel sector has on global cues in the industry, thus preventing its growth.

### *Long Lead Times*

The apparel industry is time sensitive. Buyers often highlight longer delivery lead times for Indian apparel industry. Lead times in case of Indian apparel industry for the USA, ranges between 85-100 days and for Europe it is around 70-80 days, while for countries like China, the lead time is less than 60 days; even lead time for Sri Lankan apparel consignments are 10-12 days lesser than that of India. In addition to longer lead times, foreign buyers also often highlight non-reliability of Indian suppliers. The probability of on time delivery by the Indian apparel industry is around 75% only<sup>117</sup>. Besides infrastructural bottlenecks, reasons for the delays include supply constraints among the industrial constituents, such as unavailability or delays in availability of quality fabrics, delays in availability of requisite accessories, labour productivity and operational efficiency.

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<sup>117</sup> IIFT study on Indian Textile and Allied Industry

**Table 5.2: Average Number of Days Required in Apparel Manufacturing**

Activity/Process	Approximate number of days required
Fabric procurement, processing/ quality checking	30 days
Cutting and sewing, stitching	30 days
Embroidery work (if required)	6-10 days
Accessory fitting	5-7 days
Finishing and quality checking	5 days
Packaging	2 days
<b>Total</b>	<b>80-90 days</b>

Source: IIFT Survey

### *Challenges with the Availability of Raw Materials*

Availability and prices of fabric are prime constraints for the apparel industry. Inconsistency in fabric prices led by volatile domestic cotton prices often results in apparel manufacturers depending on import of cheap fabrics, subsequently affecting the quality of products. This volatility also leads to increase in prices of blended fabrics. In the absence of adequate production of man-made fibres in the country, MMF pricing and quality largely act as a deterrent to the competitiveness of apparel products made using MMFs or blends.

Majority of the export oriented large apparel manufacturers source apparel accessories from China, Japan Taiwan, and Singapore, which considerably affects their profit margins due to import duties levied. SMEs in apparel manufacturing source majority of the accessories locally, which significantly fall short in quality standards required for exports, making the whole value chain uncompetitive for exports.

Apparel industry in India is moderately modern in terms of technology. However, machineries used are often poor in quality and performance. Predominant tendency of the majority of the SMEs in the value chain is towards sourcing Chinese machines due to their low cost, as this works best for the industry due to its intrinsic nature of being more income driven than technology driven. According to the Indian SME manufacturers, import duty levied on machinery

import is relatively high, which coupled with additional cess increases total landing costs, and restrict upgrade of machinery in their units. In comparison, other Asian countries, such as China and Vietnam where investment on technology and machinery is very high, companies have an edge over Indian apparel manufacturers. Due to the availability of advance technology to produce innovative fabrics and apparels, overseas buying houses prefer sourcing from China and Vietnam over India. Interestingly, basic duties in Bangladesh on various textile and apparel machineries are around 1-2% and in Vietnam it is 0%. Even after adding domestic sales tax, apparel manufacturers in Bangladesh and Vietnam can still import machinery at a much competitive prices than India.

### *High Rejection and Rework*

Indian apparel sector is still struggling for “Right First Time” quality perspective. While substantial developments have taken place in manufacturing technology, industrial engineering and MIS, quality optimisation remains largely underdeveloped, resulting in productivity loss and lead time extension at the hands of manufacturers. Majority of the time and effort in the factories are consumed in inspecting the already produced merchandise than preventing the defects from arising. Defects per 100 units (DHU) level has never been stable due to a large variety of garmenting handled by single Indian garment units. Additionally, rework and rejection rates are also considerably high compared to global standards and peers. E.g., in India, the percentage of rework on total Standard Allowed Minutes (SAM) of garment varies between 8% to 14%; rejection percentage varies from 1.4% to around 5%; percentage of factory-wise internal failures ranges from 12% to 17.5% of the total SAM of the garment<sup>118</sup>.

## **Recommendations**

Despite the impediments the Indian apparel sector holds a distinct position in the global textile and clothing value chain and plays a crucial role in the growth of the economy. However, some of the key areas need concerted focus and

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<sup>118</sup> Kushagra Prakash and Vivek Agarwal – The Textile Journal; Nitesh Kumar Sahoo – IJERT

Rework % = Sewing rework % + Finishing rework %

Rejection % = (Total Pcs Rejected / Total Pcs Cut) x 100

Internal failure % = Rework % + Rejection %

streamlining for an unhindered growth. Some of the key recommendations include:

### **Policy Recommendation**

#### *Trade facilitation*

There is need to undertake policy reforms to gradually eliminate incentives and subsidies and improve efficiency and reduce distortions in the textile and apparel value chain. Introducing WTO compliant export incentives will enhance integration of domestic value chains to global value chains and aid exports.

The export promotion benefits in the trade policy, such as duty credit scrip are tilted much in favour of the downstream segment. In order to minimise any supply side shocks, trade policy should also emphasise on upstream segment that include cotton, yarn, cotton blended yarn and fabric, in which India holds traditional comparative advantage and enjoys substantial integration with global clothing value chains. This may also help in inducing a level playing field between the domestic and exporting firms. The options may include improving efficiency of the whole apparel value chain by undertaking comprehensive horizontal reforms, such as infrastructure development and promoting the ease of doing business. This will also help in boosting competitiveness of the end products.

The duty drawback scheme for the apparel industry needs to be overhauled in the view of Global Value Chain-led trade. In this context, it is important for the policy makers to undertake a comprehensive mapping of imported inputs used in apparel products used for manufacturing exports. Policy options should explore neutralizing the effects of duty paid on imported inputs, e.g., reducing the tariff to zero or provisioning for 100 percent drawback on imported inputs on those products, which are produced in value chain networks.

There is a need to consider revamping the Scheme for Integrated Textile Parks, in order to develop the SITPs in relevance to the global apparel value chains. It is important to make suitable changes to integrate the whole textile and apparel value chain in India by inclusion of wet processing and other similar activities by streamlining of procedural complexities. One of the options may include



mapping of the whole domestic textile and apparel value chain on the basis of comparative cost advantage of the States and identifying selective activities that can be clustered in one particular State. This may also help in achieving economies of scale and garnering higher benefits for the SITPs. In addition, the government needs to ensure single-window clearance for all kinds of legal and business-related procedures to avoid delays in getting clearances for setting up the textile parks. The Mega Textile Regions and Parks scheme (MITRA) launched recently, is expected to increase the scalability, capacity, productivity, skill development and innovation, and thereby provide better branding for Indian textile and apparel industry. However, policy makers may consider linking the benefits availed under the scheme with a set of performance parameters to ensure judicious use of the subsidies and funds, and with adequate assessment of WTO compatibility of such provisions.

To enhance competitiveness of the SMEs in the industry a fund may be created for upgradation of production system and facilitating wider marketing. Further, a Production Linked Incentive (PLI) scheme may also be extended to the apparel sector particularly to boost those segments that are at a disadvantageous position in global value chain and trade, such as the knitting segment.

### *Revisiting FTAs*

Rules of Origin (RoO) under SAFTA needs to be modified. It is imperative for member South Asian countries to renegotiate RoO and emphasize the inclusion of a 'Yarn Forwarding Rule' in the SAFTA. This is envisaged to place restriction on using intermediate inputs from non-FTA countries while incentivizing firms to source from SAFTA partner countries.

RoO under SAFTA needs to be made dynamic to capture the modalities of value chain-led trade. The existing RoO provision under SAFTA proposes different thresholds, which is a deterrent for apparel manufactures relying on imported intermediate inputs, leading apparel manufacturers to develop different production lines to cater to different markets in order to avail the benefits of preferential markets, thereby compromising on economies of scale. Therefore, negotiations among partner countries may consider uniform RoO across trade agreements to improve the utilization of trade agreements, while utilizing their

traditional comparative advantages in different segments of the value chain products and encourage deeper backward and forward linkages with global and regional apparel value chains.

Configuring any multilateral trade deals should undertake a prior review and assessment of existing FTAs in terms of benefits to various stakeholders, such as industry and consumers, trade complementarities and changing trade patterns in the past decade. Negotiating bilateral FTAs with countries where trade complementarities and margin of preference are high may benefit India in the long run. Reducing compliance cost and administrative delays is extremely critical to increase utilisation rate of FTAs<sup>119</sup>, which otherwise nullifies the benefits of margin of preference. Further, adequate safety and quality standards should be set to avoid dumping of lower quality goods into the Indian markets creating trade distortion and challenging competitiveness of Indian products.

Expediting finalisation of pending FTAs, such as with the EU and the USA is critical for the apparel industry. Simultaneously, re-negotiating existing FTAs / partnership agreements exploring market entry mechanisms are also vital for mitigating market concentration risks.

### *Reducing Lead Time*

Lead time is a critical parameter for apparel trade. To address the infrastructural bottlenecks that have been affecting lead time for the Indian apparel sector, policy makers may explore constituting special task force to review and address procedural and administrative complexities. Creating adequate bonded warehousing facilities at the airports and ICDs will go a long way in addressing the shortage and aiding overseas suppliers of accessories to stock their products without paying duties, thereby helping in reducing transit times. Cargo capacity also needs to be increased for achieving competitive rates of freight and improving overall efficiencies of the ports. The government should also allow more freight carriers to operate out of India. Facilities like integrated Cargo Villages at the airports and consolidation of inspection and customs clearance at one place may help in reducing the transit / dwell time and cost of compliance.

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<sup>119</sup> The utilisation rate of India's FTAs varies between 5% and 25%, which is one of the lowest in Asia – Asian Development Bank (ADB)/Niti Ayog

Delays in setting up of central facilities, such as Air Freight Stations should also be addressed competently.

Capacities and efficiencies of JNPT Mumbai and Tuticorin Port need to be improved significantly as these ports are most important given their proximities to apparel clusters and traffic handled with respect to apparel trade.

### *Addressing Standards*

A plethora of technical, private and voluntary standards act as major barrier to trade in global apparel value chains. Country's standard setting and monitoring institutions, such as Bureau of Indian Standards (BIS) need to work closely with institutions concerned with standards in the developed countries for harmonization of regulatory standards through Mutual Recognition Arrangement (MRA). Standards prescribed by lead apparel firms of the United States and the EU are divergent and create compliance related impediments for the domestic apparel firms. In this context, efforts should also be made to make them more streamlined and consistent across the value chain.

Standard setting institutions in India should also actively engage with institutions globally involved in framing private and voluntary standards, and efforts should be made to avail technical assistance from these institutions in understanding the intricacies of these standards. The BIS may approach multinational apparel buyers for conducting comprehensive technical capacity building programs for small apparel firms, financially supported by the government. This could help SME apparel manufacturers meet the challenges arising from private and voluntary standards and reduce the potential risk of moving out of global apparel value chains.

Additionally, the sector needs to work on the eco-system around the apparel manufacturing system. Accordingly, more investment and competition need to be encouraged in the accessory segment for production of intermediate goods that are conforming to international standards. The industry needs to focus more on fabric processing for uniformity in quality and on time availability. Increasing production of MMF is important for enhanced integration with global value chains, quality compliances and increasing trade in apparels. Further, increasing

investments in R&D and modernisation will go a long way in addressing quality issues in the apparel sector.

### *Credit and Insurance Facilities*

With payments involving long cycles, credit and insurance are crucial for trade in apparels. Hence, an efficient credit and insurance system is important to support the sector for enhancing trade. Easy access to institutional credit for all manufacturers and fabricators is vital for the growth of the sector. Availability of working capital at competitive interest rates to the export-oriented apparel manufacturers may help them compete efficiently in the global markets. In view of the increasing volatility in global trade, there is a need to make pre and post shipment credit availability more flexible for the manufacturers and exporters of apparels. Creation of special fund for small apparel manufacturers may help them address financial risks in times of distress.

To address payment risks with recent trend of reduced trade in apparel using Letters of Credit (LCs), particularly in the developing country markets in Africa, Asia and the CIS, exports of apparel may be considered under commercial Lines of Credit extended to these countries. Besides, the industry's demand of getting ECGC cover for pre-shipment risks (order cancellation) may also be explored particularly for the financially weaker exporters.

Additionally, the policy makers may also need to explore structuring policies to assist SME apparel exporters manage risks arising due to currency fluctuations. This may possibly involve integrating policies linking banks, insurance agency, managing competitiveness, and productivity enhancement. Extending trainings on dynamics of currency fluctuations to the SME exporters may also help in management of such risks.

### *Streamlining Infrastructure and Logistics*

In order to compete efficiently in the global apparel value chain, the sector requires significant overhauling in terms of relocating clusters with provisions of adequate expansions, technology friendly upgradation, reduced dwell

time, and offering ease of operations and management. Besides, creating GVC friendly infrastructural provisions, transportation infrastructure needs to be bolstered considerably by encouraging private investments in the sector. Power infrastructure and situations in the clusters need to be improved significantly to ensure unrestricted flow of power at competitive costs. Facilities, such as ZLD should be created in integrated garment clusters for effective implementation of the policy.

### *Rejig Labour Laws*

To enhance productivity and efficiency in the industry and improve competitiveness, there is a need to implement a uniform labour law across the country, with respect to wages and compensation, employment terms, working hours, and worker's conditions. The recent amendments to the laws by Government of India has been a step towards the much-needed reform, however, a uniform implementation of the amendments across the country needs to be emphasised.

### *Procedural Simplification and Incentivising Sustainability*

For ease of regulatory compliance for the industry and reducing compliance related lead time, there is a need to bring in clarity in compliance norms and simplify procedures. Encouraging self-regulation, inspection and certification may help in addressing delays in clearances and promote uninterrupted operations at the industry level.

Incentivising adaption of sustainable methods and green initiatives may improve export competitiveness of the industry in environment-conscious markets.

### **Recommendations for the Industry**

The Indian apparel industry needs upgrading at three levels, viz., product, process, and functional. The industry also needs to emphasise and invest significantly to adapt to Industry 4.0 requirements and migrate effectively in order to remain relevant in the global apparel value chain.

### *Process Upgrading*

Process upgrading is crucial for the industry in order to remain integrated with the global value chains sustainably. This is also important for the industry to adapt to the changing dynamics of the global apparel industry and enhance trade. Process upgrading should be undertaken through the use of new production machinery, worker training, reduction in delivery time, inspection and total quality programs, introduction of new organizational approaches, improvements in the production process, and increased use of artificial intelligence and computerisation in business.

### *Product Upgrading*

The product upgrading by the industry should necessarily involve upgrading product quality, introduction of new fabrics and raw materials, and reduction in reworking rates.

### *Functional Upgrading*

The Indian industry has to focus considerably on functional upgrading. Functional upgrading involves upgrading through design, marketing, and branding. Most value addition occurs in this stage of production. Investing in functional upgrading can create valuable development options, especially for firms exploring diversification of markets for survival.

### *Adapting to Industry 4.0*

In Indian apparel sector, Industry 4.0 is still in its infant stage. Though there has been initiation in adaption in a scattered manner, pace of adaption has been slower since the availability of required ecosystem including IT infrastructure, and skilled manpower is scarce. The Cobots (collaborative robots) are being extensively used in China and Sri Lanka in garment making and lately in the garment innovation centres in Bangladesh. With a fast penetration of automation and artificial intelligence in the industry globally, it is imperative for the Indian apparel industry to adopt industry 4.0 to remain relevant in the global apparel value chain.

While the migration to Industry 4.0 in apparel industry will throw new challenges for the industry, it would be necessary for the business leaders and the managers in the sector to develop understanding of its implications and prepare a roadmap to successfully integrate the manufacturing, supply chain, and marketing towards achieving Industry 4.0 compliance. This would also require different skill set for the managers and the operators and specialized trainings for an effective migration.

**Box 6: Adaption of Industry 4.0 and Rise of Smart Factories in  
Textile and Apparel Manufacturing**

The global textile and apparel industry is steadily adapting Industry 4.0 in their business models. Industry 4.0 offers a wide range of technology options throughout the manufacturing process and supply chain. A few significant developments are:

- By adopting IoT (internet of things), the decision-making process for the management has shortened significantly in view of availability of lot of value through information and analysis on real time basis. Initiatives of industry 4.0 through IoT are being driven by thousands of intelligent devices generating massive volume of data.
- BMS Vision, SPIDERweb, T-data and Spinconnect are some of the production monitoring softwares used extensively by the textile companies for optimising the manufacturing processes and improving the productivity, efficiency and quality.
- KARL MAYER, leading supplier of warp preparation and warp knitting machinery, has a new concept of digital factory called KMON which helps customers machine networking, data management, maintenance support etc. through an app, irrespective of the location.
- Artificial Intelligence is used in analysing large chunk of data collected from manufacturing, purchase, marketing and logistics etc. This is used by the textile and apparel companies for trend predictions and machine diagnosis.

- Robotics and automation are making faster inroads into the garment manufacturing. Sewbots (sewing robots) are extensively used in China in garment factories. Tianyuan Garments, China's largest vendor to Adidas and Reebok, has put up a factory to make 26 million T-shirts per annum with the use of 300 Sewbots. Automation is fast getting into textile and garmenting operations and with the help of automation, the textile and apparel producers are able to improve productivity, quality and reduce wastage.

### **Box 7: Requirements and Implications of Industry 4.0 on Textile and Apparel Sector**

Requirements for the Textile and Apparel Sector to be Industry 4.0 Compliant:

- Initiate experiments with technology through pilots;
- Upgrade the present IT infrastructure and technology platforms;
- Increase spending on R&D and innovation;
- Shift towards compliant and environment-friendly manufacturing;
- Create sustainable advantages in business leveraging the technologies;
- Re-train the work force with required skill sets for adopting new technologies;
- Satisfying social aspects with respect to workforce and consumers.

Implications on Textile and Apparel Industry with Adoption of Industry 4.0

- Shorten time and cost to market by at least 20%.
- Increase productivity and efficiency.
- Seamless information flow across the value chain.
- Enhance value addition by 10%.
- Reduce cost by 5% every year.
- Reduce rejection rate by 50% due to better control on quality.
- Improve competitiveness globally.

*Source: Mr. Gurudas V. Aras; Director, Textile Engineering Group; A.T.E. Enterprises Private Limited*



### *Productivity Improvement*

Designing effective productivity enhancing interventions is critical for the apparel sector to ensure improvement in overall operations. Considering working conditions and environmental practices, interventions should take an integrated approach targeting productivity improvements. Hence, interventions should be inclusive and ensure a wide reach, both horizontally and vertically. By focusing on management practices and skills, interventions should be adjusted to the current capacity of garment factories. Interventions should also be scalable and go beyond the first tier of the supply chain to maximize impact. Further, interventions should be designed in a way that ensures continuation of the intervention model and its sustainability in the long term.

### *Cluster Development*

Interventions in the development of the apparel clusters should be structured in a way so that entrepreneurs in these clusters network to take best advantage of the growing markets, both domestic and international. Diversification is one of the areas, potential of which is often not properly exploited by the entrepreneurs in the clusters. Therefore, efforts should be directed to improve market potential of apparel products manufactured in the clusters. Attempts may be made in making the individual enterprises and the cluster as a whole market worthy. Consortium based initiatives may be an option to take best advantage of the globalized economy. Possibilities of market development can be pursued in a strategic manner.

Further, it is imperative to understand pressure point along the value chain and take appropriate measures. The intervention points may not be concentrated on manufacturers of apparel products alone but should also encompass the suppliers of raw material, other inputs, and market drivers. Similarly, consortium-based approach should also be explored in marketing, such as joint participation (cluster) in international trade fair, brand building etc. The backward and forward linkages should be strengthened for overall benefit of the clusters. Strengthening linkages with the support organizations may be one of the important elements of cluster development programmes.

Quality Business Development Services (BDS) should be made available to ensure overall improvement of the enterprises in the cluster. Encouraging competition among the BDS may ensure that quality remains the prime driving force. Efforts may also be made to improve linkages with existing BDS and induce new BDS to cater to the changing requirements of the cluster.

Technological interventions in the cluster should be enterprise specific and sensitization should be conducted by competent agencies. Capacity building of the clusters should be structured to make them pro-active in addressing cluster specific issues.

#### *Product Diversification and Product Champions*

The export competitiveness of India's apparel export, 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 2015 to 2019 has shown growth, and India's exports of these products are competitive.
- *Underachievers – Exports not competitive (NRCA < 0); Growing Import Demand (Product Import AAGR > World Import AAGR):* These are the products where there is no comparative advantage while the global import demand for these products has shown positive growth over the period under consideration. Steps could be taken towards increasing competitiveness in these products.
- *Declining Sectors – Exports not competitive (NRCA < 0); Weak Import Demand (Product Import AAGR < World Import AAGR):* India does not enjoy comparative advantage in these products and the sector has also registered a negative global import growth trend during the period under consideration.

- *Achievers in Adversity – Competitive Exports (NRCA > 0); Weak Import Demand (Product Import AAGR < World Import AAGR)*: India has competitiveness in these products, but the world import demand for these products has been negative.

The products under the product champion group are those, where India can leverage the upcoming opportunities in the short to medium term, as these are the low hanging fruits.

For analysis purpose only those product groups are taken whose export share is minimum 0.1% in the overall apparel export from India during 2019, to ensure a minimum supply base. This leaves a total of 130 products for analysis at HS code 6 digit level.

A total of 48 products at HS code 6 digit have been classified as products champions, as export of these products from India is competitive, while the growth in import demand of these products has been higher than the overall growth of import demand. The combined export of these product champions from India was estimated at US\$ 8.3 billion during 2019, accounting for more than 51% of India's apparel trade. The global imports of these items was estimated at US\$ 123.5 billion during 2019, leaving abundant scope to increase the exports.

There are 15 underachievers in the apparel category, whose export from India was estimated at US\$ 717 million during 2019, accounting for 4.4% of India's apparel export. These are products that have a growing demand in the international market, but exports from India are currently not competitive. Global imports of these products stood at nearly US\$ 96 billion in 2019, presenting significant opportunities for exporters. Focus on these products could help in increasing the exports and tapping the export potential in the international market.

India also has high value of exports in the category of 'Achievers in Adversity', which are products where India has competitive advantage but the global demand in these products has declined in the recent period. Total 50 products fall under this category with combined export of US\$ 6.4 billion during 2019. These present vulnerabilities to the export basket of apparel export from India

as uncertainty of demand could grow for these products. A diversification away from these products could help in mitigating that risk.

Under the ‘Declining Sectors’, there are 17 products with estimated export of US\$ 634 million from India during 2019. Since the global import demand for the product has been declining in the period under consideration, India could diversify away from exports of these products.

#### **Exhibit 5.5: Product Identification for India’s Apparel Export**

<b>Product Champions (48 Products)</b> India’s Export: US\$ 8.3 billion Share in India’s Apparel Export: 51.2% World Imports: US\$ 123.5 billion	<b>Achievers in Adversity (50 products)</b> India’s Export: US\$ 6.4 billion Share in India’s Apparel Export: 39.1% World Imports: US\$ 103.4 billion
<b>Underachievers (15 products)</b> India’s Export: US\$ 717 million Share in India’s Apparel Export: 4.4% World Imports: US\$ 96 billion	<b>Declining Sectors (17 products)</b> India’s Export: US\$ 634 million Share in India’s Apparel Export: 3.9% World Imports: US\$ 69.4 billion

*Source: Exim Bank Research*

Out of the 48 Product Champions, there are 15 products which registered improvement in the competitiveness during 2015 to 2019, and thus may be attributed as super product champions. In terms of the export share, these 15 items (Table 5.2) contributed towards 8.5% of India’s apparel export.

**Table 5.3: Export Scenario of Super Product Champions**

<b>HS Code</b>	<b>Description</b>	<b>India’s Export (US\$ million)</b>	<b>Share in Global Export</b>
620349	Men’s or boys’ trousers, bib and brace overalls, breeches and shorts of textile materials	284.1	15.8%
620590	Men’s or boys’ shirts of textile materials (excluding of cotton or man-made fibres, knitted or crocheted)	180.6	16.2%
611190	Babies’ garments and clothing accessories of textile materials, knitted or crocheted	166.0	30.8%

HS Code	Description	India's Export (US\$ million)	Share in Global Export
620449	Women's or girls' dresses of textile materials (excluding of wool, fine animal hair, cotton)	130.9	5.7%
621149	Women's or girls' tracksuits and other garments, n.e.s. of textile materials	113.4	7.2%
610349	Men's or boys' trousers, bib and brace overalls, breeches and shorts of textile materials	97.4	10.2%
610719	Men's or boys' underpants and briefs of other textile materials, knitted or crocheted	83.6	38.4%
610729	Men's or boys' nightshirts and pyjamas of textile materials, knitted or crocheted	70.2	52.5%
610323	Men's or boys' ensembles of synthetic fibres, knitted or crocheted (excluding ski ensembles)	67.8	21.2%
611130	Babies' garments and clothing accessories of synthetic fibres, knitted or crocheted	52.9	5.6%
610333	Men's or boys' jackets and blazers of synthetic fibres, knitted or crocheted (excluding wind-jackets)	48.8	4.8%
610339	Men's or boys' jackets and blazers of textile materials (excluding of wool, fine animal hair)	27.2	7.7%
610712	Men's or boys' underpants and briefs of man-made fibres, knitted or crocheted	24.5	1.9%
621139	Men's or boys' tracksuits and other garments, n.e.s. of textile materials (excluding of cotton)	24.2	3.0%
620329	Men's or boys' ensembles of textile materials (excluding of cotton or synthetic fibres, knitted or crocheted)	10.1	4.3%

Source: ITC Trade Map, Exim Bank Research

### *Market Diversification*

The apparel export data was analyzed to check the market concentration of India's apparel exports. For the same, Market Concentration Index (MCI) is used as it provides an insight about the extent of market concentration. The index measures the degree of export market concentration by indicating if a large share of exports is accounted for by a small number of countries, or on the contrary, exports are well distributed among the export destinations.

The MCI can be defined as a normalized Herfindahl-Hirschmann index of the market concentration of exports at the country-level. It is calculated as per the following formula:

$$H_j = \frac{\sqrt{\sum_{i=1}^N \left(\frac{X_{ij}}{X_j}\right)^2} - \sqrt{\frac{1}{N}}}{1 - \sqrt{\frac{1}{N}}}$$

Where,  $H_j$  is the market concentration index of merchandise exports from country  $j$ ;

$X_{ij}$  is the value of merchandise exports of a product to country  $i$  by country  $j$ ;

$X_j$  is the total value of merchandise exports from country  $j$ ;

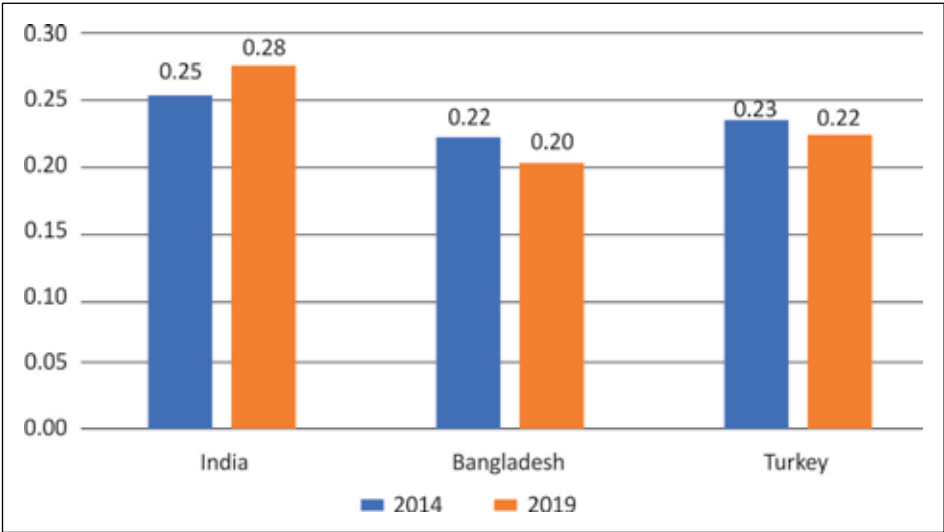
and  $N$  is the total number of destinations for merchandise exports from the country

This index ranges from zero to one, with a larger value denoting a higher concentration in the export markets; a value of  $H_j$  equal to one indicates a single country is the market for all merchandise exports by state  $j$ , while a value of zero means that the country's exports are homogeneously distributed among all countries in the world.

By taking a cross country analysis of India and Bangladesh, it is inferred that India has higher market concentration as compared to Bangladesh. In addition, the MCI index for Bangladesh witnessed a decrease over 2014-2019, while that of India witnessed an increase over the same period. Despite an increase of export

product basket similarity (FKI Index mentioned earlier in the chapter), there is difference in the market diversification as well as the change of diversification overtime (Exhibit 5.6). Turkey, which is a close competitor in terms of apparel export has also witnessed a fall in the value of MCI index from 2014 to 2019. Learning from the experience of Bangladesh and Turkey, India needs to diversify its market more in order to tap the potential in other emerging markets as well as to avoid the risk of over dependence on a set of market. Markets like Japan, Brazil and Russia are having gradual rise in demand, which can be tapped to increase the exports.

**Exhibit 5.6: Market Concentration Index for India and Bangladesh**



Source: Exim Bank Research

## 6. OUTLOOK

The widespread impact of the covid-19 pandemic has left no sectors unturned. The textile and apparel sector also has been significantly affected, decelerating the growth projection of the sector, both globally and in India.

The global market for apparel was projected to grow over US\$ 2 trillion by 2025, which is reported to have shrunk by 22%<sup>120</sup> during 2020 due to the pandemic. The Indian textile and apparel market, which was projected to register a CAGR of ~12% to reach US\$ 220 billion (INR 16,637 billion) by 2025-26<sup>121</sup> is reported to have shrunk by around 28% to 30% to become US\$ 61 billion (INR 4,163 billion), led by the decline in sales due the onset of the pandemic in 2020<sup>122</sup>.

Global consumption of apparels is expected to reach to pre-Covid levels over the next couple of years and then retrace its growth path to reach US\$ 2,007 billion by 2025<sup>123</sup>. Strengthening of regional supply chains is forecast to remain the dominant factor in the global apparel value chain. Increasing economic integration by signing of several mega free trade agreements among countries in the Asia-Pacific region, such as the Regional Comprehensive Economic Partnership (RCEP), and increased intra-Asian trade in textile and apparel products reflect the formation of an ever more integrated regional textile and apparel supply chain in Asia.

The EU intra-region trade pattern for textile and apparel is forecast to stay relatively strong and stable. Despite the reported increase in competition from Asian suppliers, the EU consumers' preferences for "slow fashion" i.e.,

<sup>120</sup> Wazir Advisors Analysis 2021

<sup>121</sup> Ministry of Textiles, Government of India

<sup>122</sup> Televisory Analytics

<sup>123</sup> Wazir Advisors Analysis 2021



purchasing less but for more durable products with higher quality, is forecast to contribute to the stable EU intra-region trade pattern. Hence, western EU countries such as Italy, Germany, and France will continue to rank as the top apparel producers and exporters in the EU region despite their high wage and production costs.

Despite the industry's seemingly growing affinity of "near-sourcing" apparel supply chains in the Latin American region, the LAC countries would continue to face increasing competition from the Asian apparel suppliers. The limited local textile production capacity and the high production cost are the two dominant factors that have been discouraging fashion brands and retailers in the US from committing to more "near-sourcing" from the Latin American apparel suppliers. Trends suggest that as the competitiveness of Asian apparel supply chain continues to improve, even the regional trade agreements, such as USMCA and CAFTA-DR and their restrictive "yarn-forward" rules of origin, will have limitations to protect the Latin American supply chain.

The US-China trade relation is forecast to remain the determining factor for sourcing of apparels by the USA. While the apparel companies in the USA will continue to treat China as an essential sourcing base, they will continue the emphasis on reducing their China exposure. Most apparel sourcing orders from the USA are forecast to diversify from China to Vietnam, Bangladesh and Cambodia. Globally, sourcing diversification is projected to slow down at the firm level, as more apparel companies are switching to consolidate their existing sourcing base. Trade policies and geopolitical developments are forecast to continue to influence the apparel trade. The CPTPP and RCEP is projected to largely shape the apparel trade architecture of the Asia-Pacific region. China will continue to be the leading supplier to the UK; however, its share has been reducing and is projected to further reduce and diversify to other suppliers from Asia, such as Bangladesh and Cambodia. With the Brexit, apparel products currently sourced from the EU countries and Turkey by the UK is forecast to lose the duty-free benefits and be subject to the MFN tariff rate. However, due to around 44% of tariff lines projected to become duty-free, the magnitude of tariff increase by the UK is forecast to be modest. Hence, impact on apparel sourcing from the EU by the UK is forecast to remain largely unaffected. The impending US-UK Trade Agreement is also projected to impact apparel trade in both the countries and their sourcing patterns.

According to the data released by the Confederation of Indian Textile Industry (CITI), the recovery for the domestic market for textile and apparel post pandemic is expected to be relatively steep and is estimated to reach US\$ 120 billion (INR 9,074 billion) by 2024. Apparel retail is however, projected to have contracted by around US\$ 27 billion (INR 2,042 billion) in FY 2020-21 as compared to pre Covid-19 projections.

While there are global cues of shift in China centric sourcing of apparels by most of the importing countries, Indian apparel industry is forecast to not gain much due to the prevalent higher production cost compared to the competing countries, mostly attributable to higher wages and fragmented structure. With several trade arrangements, such as RCEP anticipated to impact the current pattern of the global apparel trade, and India not being a signatory, India's apparel trade is forecast to largely depend on the industry's agility and ability to diversify both in terms of product offering and markets.

As the Indian textile and apparel industry re-organizes itself to overcome the economic impact of the COVID pandemic, it will be imperative for the industry to uphold its social and environmental responsibilities going forward. Traceability has emerged as a fast-moving trend in garmenting globally, in the recent years, and is much enforced by the pandemic. This will require the Indian apparel industry to push for a more transparent textile and apparel supply chain to enhance the quantum of trade.

The Government of India has initiated several policy interventions to support the growth of the textile and apparel sector in the long-term. With the allowance of 100% FDI in the sector, under the automatic route, it is expected to attract US\$ 140 billion (INR 10,485 billion) foreign investments in the coming years. The government has also earmarked considerable investments under various scheme's, such as Integrated Textile Parks (SITP) and Technology Upgradation Fund Scheme (TUFS) to encourage the flow of more private equity and skill development of workforce. For further accelerating the growth in the textile and apparel industry, the Ministry of Textiles, Government of India has assigned INR 6,900 Million (US\$ 106.58 million) for setting up of 21 readymade garment manufacturing units in seven states with an objective of development and modernization of the Indian textile and apparel sector (Box 8). India has also

emerged as the second largest manufacturer of PPE in the world with more than 600 companies in India certified to produce PPEs currently, whose global market is predicted to reach over US\$ 92.5 billion (INR 6,927 billion) by the end of 2025, as compared to US\$ 52.7 billion (INR 3,971 billion) during 2019, which is forecast to further enhance the demand for textile products in the medium to long term.

Being largely a consumer driven industry, the textile and apparel sector's growth and performance is majorly dependent on India's growing economy. The growth in the textile and apparel sector is sustained by the strong domestic consumption as well as export demand over the medium term. The abundance of raw material, particularly with respect to cotton, together with the fillip given to infrastructure and developing skilled labour force, are expected to provide support in expanding the country's share in the global textile and apparel market. Though in the short-term the ongoing Coronavirus pandemic is anticipated to result into contraction and lower the growth and market value for the next couple of quarters as compared to the historical average, it is estimated that India has the potential to reach US\$ 70 billion (INR 5,242 billion) in apparel exports and achieve much higher share of the global market by 2024.

**Box 8: Government of India's Recent Initiatives to Boost Exports from Textile and Garment Sector**

- Approval of scheme providing rebate for State and Central Embedded Taxes for apparels and made-ups exports.
- Interest Equalization Scheme (IES) to provide interest subsidy at 5% per annum on pre and post shipment export credit.
- Market Access Initiative (MAI) Scheme to extend assistance to exporters to participate in various international events and invite buyers to domestic events.
- IGST has been exempted on import under Advance Authorisation and Export Promotion Capital Goods Scheme (EPCG) for apparel products.
- Increase in the basic custom duty to 20% from 10% on over 500 textile products, to boost indigenous production and the Make in India program.

- Announcement of a Special Package to boost exports by US\$ 31 billion, create one crore job opportunity, and to attract investments worth INR 80,000 crore during 2018-2020.
- Amendment of the Technology Up-gradation Fund Scheme (A-TUFS), scheme, which is estimated to create employment for 35 lakh people and enable investments worth INR 95,000 crore by 2022.
- Integrated Wool Development Programme (IWDP) to support the entire wool sector value chain to enhance the quality and increase the production during the 2017-18 - 2019-20 period.
- Approval of a skill development scheme named 'Scheme for Capacity Building in Textile Sector (SCBTS)' with an outlay of INR 1,300 crore from 2017-18 to 2019-20.
- Jointly along with Energy Efficiency Services Ltd (EESL), launching of a technology upgradation scheme called SAATHI (Sustainable and Accelerated Adoption of Efficient Textile Technologies to Help Small Industries).
- National Technical Textiles Mission approved with a total outlay of INR 1480 Crore.
- Anti-Dumping duty on PTA and acrylic fibre removed.
- Brand Name and Logo for Indian Cotton launched as “KASTURI COTTON INDIA”.
- Announcement of Production Linked Incentive Scheme for promoting MMF and technical textile. The scheme is designed to provide incentive from 3% to 15% on stipulated incremental turnover for a period of five years after one year gestation period for brownfield investment and two years gestation period for greenfield investment.
- Mega Integrated Textile Regions and Parks scheme (MITRA) will be launched, with an aim to attract large investment and employment generation in the sector. A total of 7 mega textile parks to be launched in 3 years as part of the scheme.
- New Textile Policy announced.

*Source: Ministry of Textile, Govt; CARE Ratings*

**Box 9: Covid Relief Initiatives by the Government of India  
for Apparel Sector**

*Ministry of Textiles*

- Extension of ROSCTL scheme for Apparel and made ups beyond 31<sup>st</sup> March, 2020.
- Easing out the norms under ATUFS, which include ease in availing subsidy with provision of Bank Guarantee, and extension of all accounts beyond 31<sup>st</sup> March, 2021.
- Allocation of an amount of INR 464.13 crore for issuance of duty credit scrips in respect of pending claims under the ROSL Scheme.

*Reserve Bank of India*

- Moratorium of three months on payment of all instalments falling due between 1<sup>st</sup> March, 2020 and 31<sup>st</sup> August, 2020 with no interest on interest for the moratorium.
- Easing of Working Capital Financing.
- Time period for realization and repatriation of export proceeds for exports made up to or on 31<sup>st</sup> July, 2020, has been extended to 15 months from the date of export.
- Regulatory Package – Review of Resolution Timelines under the Prudential Framework on Resolution of Stressed Assets.
- Exemption for the exporters from enforcement of the provisions of automatic caution listing, for a further period of six months till 30<sup>th</sup> September, 2020.

*DGFT (Ministry of Commerce)*

- To provide continuity in the policy regime, the current FTP, valid till 31<sup>st</sup> March, has been extended.
- Validity period for making imports under various duty-free import authorizations (AA/DFIA/EPCG) expiring between 1<sup>st</sup> February, 2020 and 31<sup>st</sup> July, 2020, has been allowed automatic extension for another six months from the date of expiry, without requirement of obtaining such endorsement on these authorizations.

- Wherever the period to make export is expiring between 1<sup>st</sup> February, 2020 and 31<sup>st</sup> July, 2020 under various authorizations, automatic extension in the export obligation period is allowed for another six months from the date of expiry, without payment of any composition fee.
- Insertion of provision in the EPF scheme, 1952 to provide advance to the EPF members in the situation emerging due to COVID-19 pandemic.
- Retrospective Issuance of Certificates of Origin under India's various trading Agreements.
- Extension of validity of Registration cum Membership Certificate (RCMC) beyond 31<sup>st</sup> March 2020.
- Acceptance of scanned copies of pre-registration application and other documents by Local Users for registration under the European Union's Generalised System of Preferences (EU GSP).

#### *Customs (Department of Revenue)*

- CBIC Measure to facilitate trade during the lockdown period.
- Exemption from payment of IGST and Compensation Cess on the imports made under Advance/EPCG Authorisations and by EOUs etc. has been extended up to 31<sup>st</sup> March, 2021.

#### *ESCI & EOFO (Labour)*

- The ESIC contribution for the month of February, can be filed and paid upto 15<sup>th</sup> May, 2020 instead of earlier extended period of 15<sup>th</sup> April, 2020.
- EPFO announcement - Date of Filing Electronic Challan Cum Return (ECR) for Wage Month March, 2020 Extended Up to 15<sup>th</sup> May, 2020 from 15<sup>th</sup> April, 2020.

#### *Others*

- Shipping companies or carriers (and their agents by whatever name called) shall not charge, levy or recover any penal charges, demurrage, ground rent, storage charges in the port, detention charges, dwell time charges, additional anchorage charges, penal berth hire charges, vessel demurrage or any performance related penalties on cargo owners/consignees of noncontainerized cargo till 3<sup>rd</sup> May, 2020.

*Source: APEC*

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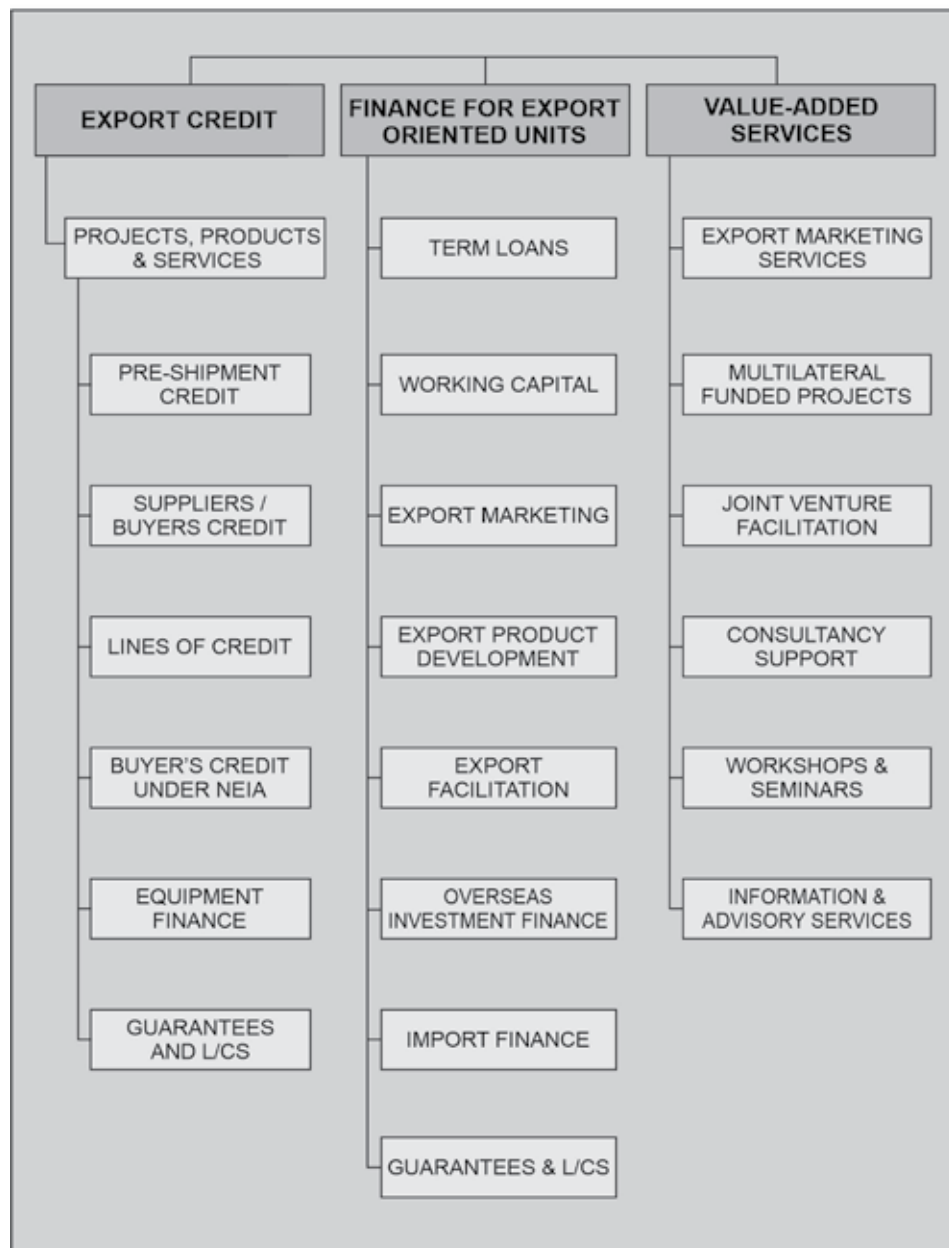
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