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Stitching India's Apparel Export Competitiveness:

Insights from Global Leaders

Authors:

SULAKSHANA RAO
AYUSHI GUPTA
RIYA JAIN
ASHOK GULATI

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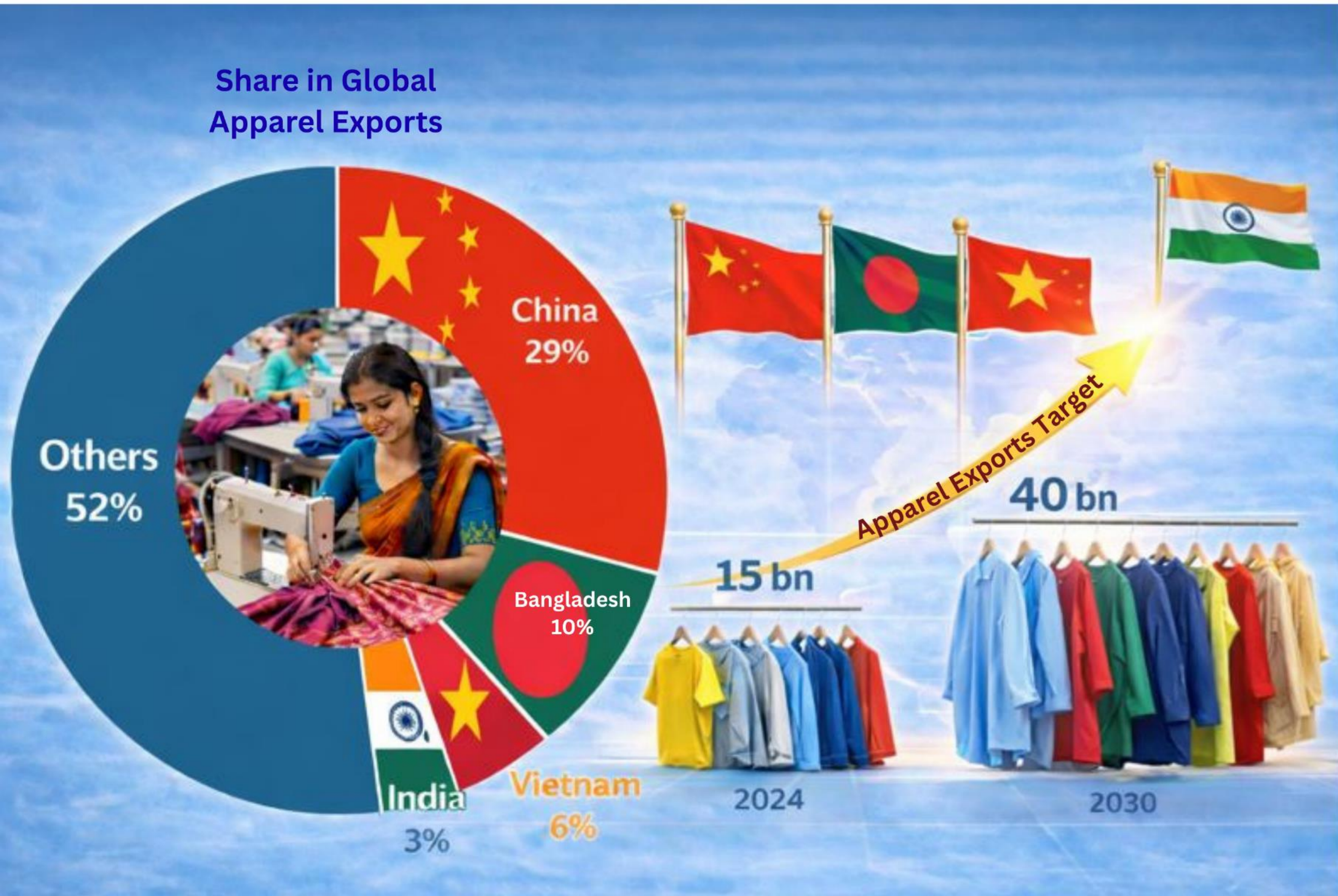

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Sulakshana Rao
Ayushi Gupta
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Ashok Gulati

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Abstract

The textiles and apparel (T&A) sector has historically served as the first step into industrialisation for labour-abundant economies. This pattern is reinforced by the flying geese trajectory that has shifted production from high- to lower-wage countries across East and Southeast Asia. Today, global apparel trade remains highly concentrated: the European Union (EU) and the United States (US) account for nearly 60 per cent of the global import demand, while China, Bangladesh, Vietnam and India collectively contribute about half of the world exports (ITC Trade Map, 2024). Between 2000 and 2024, China's global apparel share declined from 37 per cent to around 30 per cent, enabling new entrants to expand. For example, Bangladesh' share in global exports increased from 2 to 10 per cent and Vietnam from 1 to 6 per cent over the period 2000 to 2024. Notably, India's share during the same period, despite a fibre-to-fashion base, craft heritage and large workforce, has remained stagnant at approximately 3 per cent.

This policy brief examines the specific policy instruments, institutional arrangements and industrial strategies that enabled China, Bangladesh and Vietnam to build competitive apparel ecosystems across five pillars of competitiveness (scale, capital, labour, trade facilitation and institutional mechanisms). China's rise is driven by vertically integrated mega-clusters and predictable fiscal-financial systems; Bangladesh leveraged liquidity instruments such as back-to-back letter of credit and bonded warehouses to compress lead times; and Vietnam combined FDI-driven industrial parks with FTA access. We recommend a sequenced (short, medium and long-term) reform pathway that builds integrated fibre-to-fashion ecosystems, lowers the cost of capital, upgrades productivity and supervisory skills, embeds cluster-level governance and aligns trade policy with buyer demand. With sequenced reforms, immediate liquidity and policy certainty, medium-term diversification and cluster integration and long-term fibre-neutral, sustainability-led transformation, India can expand apparel exports from USD 15.7 billion (FY 2025) to the target of USD 40 billion by 2030, set by the Government of India.

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Author's email: srao@icrier.res.in, agupta@icrier.res.in, rjain@icrier.res.in
agulati115@gmail.com

List of Abbreviations

AA	Advance Authorisation
AEO	Authorised Economic Operator
AEPC	Apparel Export Promotion Council
ASEAN	Association of Southeast Asian Nations
BBLC	Back-to-Back Letter of Credit
BEPZA	Bangladesh Export Processing Zones Authority
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
CBZ	Comprehensive Bonded Zone
CETP	Common Effluent Treatment Plant
CGA	China Garment Association
CICC	China International Capital Corporation
CIT	Corporate Income Tax
CPI	Consumer Price Index
CNTAC	China National Textile and Apparel Council
DGFT	Directorate General of Foreign Trade
ECGC	Export Credit Guarantee Corporation of India
EPF/EPFO	Employees' Provident Fund / Employees' Provident Fund Organisation
EPZ	Export Processing Zone
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GST	Goods and Services Tax
HNTE	High and New Technology Enterprise
HSN	Harmonised System of Nomenclature
IDR	India Development Review
IES	Interest Equalisation Scheme

ILO	International Labour Organization
ITC	International Trade Centre
MMF	Manmade Fibre
MSME	Micro, Small and Medium Enterprise
NBS	National Bureau of Statistics
NSW	National Single Window
OBM	Own Brand Manufacturing
OEM	Original Equipment Manufacturing
PBoC	People’s Bank of China
PLI	Production Linked Incentive Scheme
PM MITRA	Mega Integrated Textile Region and Apparel
QCO	Quality Control Order
RBI	Reserve Bank of India
RoDTEP	Remission of Duties and Taxes on Exported Products
RoSCTL	Rebate of State and Central Taxes and Levies
SBW	Special Bonded Warehouse
SME	Small and Medium Enterprise
SOFR	Secured Overnight Financing Rate
T&A	Textile and Apparel
TE	Triennium Ending
TEA	Tiruppur Exporters’ Association
VAT	Value Added Tax
VITAS	Vietnam Textile and Apparel Association
WCO	World Customs Organization
WTO	World Trade Organization
ZLD	Zero Liquid Discharge

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1. Introduction

In labour abundant economies, the textiles and apparel (T&A) sector has often provided the initial foothold for industrialisation. As Nordås (2004) shows, the combination of modest start-up costs, standardised technology and strong export orientation of the sector has positioned it as the ‘first rung’ on the industrialisation ladder for many low-income countries. This pattern of development is consistent with the flying geese paradigm, in which labour-intensive industries such as textiles and apparel migrate from early industrialisers to increasingly lower-wage economies as relative factor costs shift. Successive waves of East and Southeast Asian economies have followed this trajectory, beginning with Japan, South Korea and Taiwan, followed by China and more recently Bangladesh and Vietnam (Akamatsu, 1962; Kojima, 2000). Globally, the sector remains significant: world apparel exports reached USD 526 billion in 2024, doubling from USD 269 billion in 2005 (ITC Trade Map, 2024), driven by rapid fashion cycles, urbanisation and rising consumer demand.

Global apparel import demand is highly concentrated, with the European Union (42 per cent) and the United States (18 per cent) accounting for nearly 60 per cent of global imports, followed by Japan (5 per cent), the United Kingdom (4 per cent) and Canada (2 per cent), which collectively take this share beyond 70 per cent. On the supply side, the export market is similarly concentrated, with China, Bangladesh, Vietnam and India contributing around 50 per cent of the world's apparel exports. China leads with 29 per cent of global exports (currently vacating the low value apparel market space as the share in 2015 was 37 per cent), which has been taken by Bangladesh (10 per cent in 2024 from 2 per cent in 2000) and similarly Vietnam (6 per cent share in 2024 from 1 per cent in 2000), while India’s share remains modest at about 3 per cent from 2000 to 2024 (ITC Trade map, 2024), all reflecting how ecosystems with strong scale, liquidity and institutional alignment can attract sustained buyer demand. Much of the global diversification of sourcing away from China has been absorbed by Bangladesh and Vietnam (**Figure 1**). **Figure 2** shows the link between top apparel importers and exporters and the flow of apparel between them for TE2023, which raises the question of why, then, has India, despite its full fibre-to-fashion value chain, abundant labour, and long manufacturing history, not been able to capture this ‘China+1’ opportunity?

Figure 1: Share of Key Apparel Exporters in the Global Apparel Market

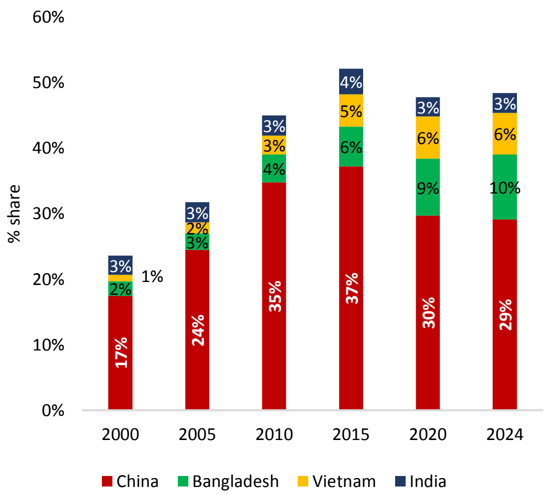
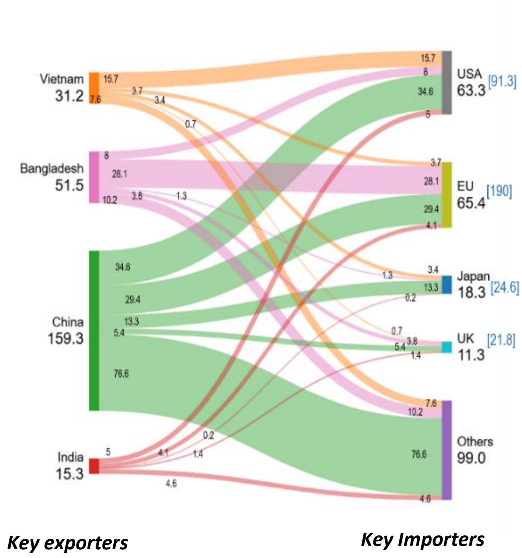


Figure 2: Key Apparel Importers and Suppliers, Trade Flows (TE2023, Value in USD billion)



Source: UN COMTRADE and ITC Trade map, 2024, compiled by authors

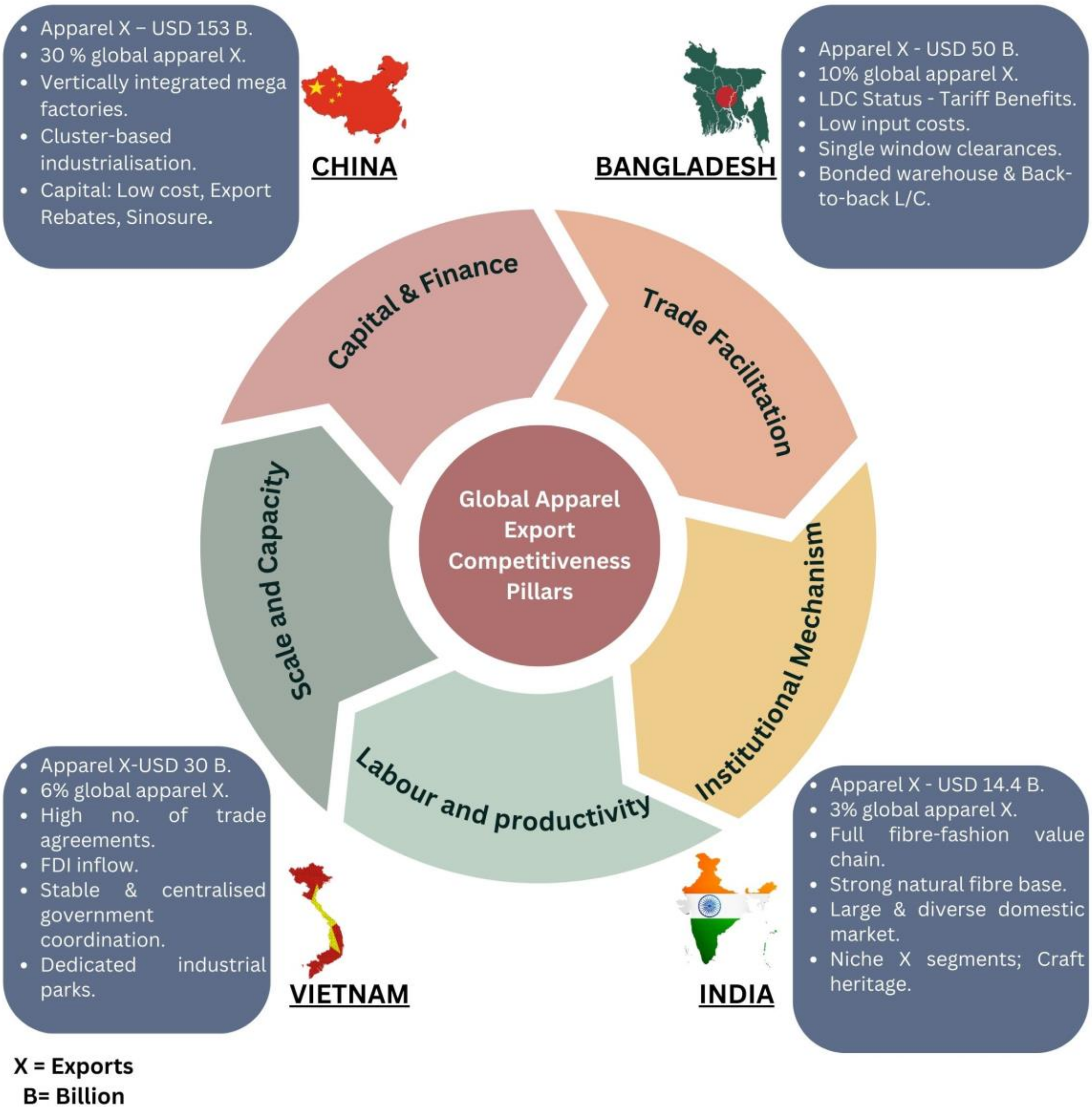
Note: Value in [] shows the total imports by the respective country for HSN 61&62

A brief look at global competitors makes this clear. China's dominance is built on unmatched scale, vertically integrated fibre-to-fashion mega-clusters and strong institutional governance. Bangladesh, despite limited domestic raw materials, expanded by keeping cost of production low. Vietnam utilised its extensive FTA network and leveraged FDI-led industrial parks that provided global brands with plug-and-play production environments and frictionless integration into global value chains.

Against this backdrop of shifting global demand and intensified sourcing requirements, this policy brief attempts to understand the structural foundations that determine a country's competitiveness in apparel exports. We identified five major interlinked pillars: (i) scale and integrated capacity, (ii) access to affordable capital, (iii) labour productivity and skilling systems, (iv) institutional mechanisms and governance, and (v) trade facilitation and overall ease of doing business (Figure 3). Together, these factors influence cost structures, determine delivery timelines, influence buyer confidence, and determine a country's position in the fast-evolving global value chains.

This policy brief assesses how these pillars enabled China, Bangladesh and Vietnam to emerge as global apparel exporters and aims to extract lessons for India. By comparing policy instruments, industrial structures and institutional mechanisms across China, Bangladesh and Vietnam, we identify what India must adapt to strengthen its apparel ecosystem. The goal is to offer a coherent roadmap that can help reposition India from a fallback sourcing country to a competitive and preferred partner in global apparel value chains. The policy brief is organised into three sections: a comparative assessment of leading global apparel exporters, an analysis of India's competitiveness gaps across the five pillars and a roadmap outlining actionable lessons for India.

Figure 3: Global Apparel Export Competitiveness Pillars Across Key Apparel Export Markets



Source: Author's Own
Note: Apparel export values are for 2023.

2. How Did Leading Exporters Build Competitive Apparel Ecosystems?

Building on the five-pillar framework, this section examines how China, Bangladesh and Vietnam aligned their industrial strategies, institutions and financial systems to become the world's most competitive apparel exporters. Understanding these trajectories is essential for identifying what elements of their success are relevant and adaptable to India's context.

2.1. China

China's sustained global competitiveness in T&A is not the result of any single policy or firm-level advantage, but of a systemic alignment of industrial, financial and institutional mechanisms that shaped a conducive growth ecosystem. What differentiates China from other Asian exporters is its ability to combine industrial scale, complete value chains, low transaction costs, predictable policy frameworks and accelerated automation creating an ecosystem that global buyers find exceptionally reliable, fast and cost-efficient. There is also a hidden factor of undervalued exchange rate of China (IMF, 2024), which in a way subsidises its exporting sectors.

- ***Scale and Integrated Capacity: China's Cluster-Based Industrialisation***

China's T&A success is built on specialised clusters that integrate spinning, weaving, knitting, dyeing, finishing, garmenting, packaging, logistics and wholesale markets within a 30-50 km radius. For example, Keqiao (Zhejiang) is the world's largest fabric hub; Shengze (Jiangsu) is a global centre for silk and synthetics; Nantong and Humen (Guangdong) are leading in home textiles and fast-fashion, respectively. Keqiao (Zhejiang), hosts the world's largest fabric distribution centre, trading over 50,000 varieties of textiles, while Shengze (Jiangsu) produces more than 40 billion metres of silk and synthetic fabrics annually (CGA, 2025). Mega-factories distinguish China from its competitors. Shenzhou International employs over 1 lakh workers and produces more than 550 million garments annually, supplying brands such as Nike and Uniqlo (Shenzhou International, 2024). Esquel Group employs 35,000 workers in China with an annual output exceeding 80 million shirts. These are vertically integrated firms that manage end-to-end operations, from fibre to branded apparel, offering unmatched cost control, quality assurance and value addition. This structural integration reduces input volatility, compresses lead times, ensures quality consistency and enables firms to move into high-value technical and functional textiles. It is also a core reason why China absorbed tariff shocks during the Trump era more effectively than fragmented competitors.

In the Chinese context, clusters are not simply agglomerations but policy-driven ecosystems, enabled by local entrepreneurship, targeted infrastructure investment, specialised production networks and layered governance architectures (Zhang and Cao, 2004). Institutional change was not a single policy but a multi-layered institutional framework combining (i) local and spatial governance, (ii) specialised commodity markets, (iii) shared infrastructure (CETPs, ZLDs[1]), (iv) financial instruments, innovations, and (v) embedded informal norms and networks (Wang, 2014). Cluster-based industrialisation has enabled firms to achieve economies of scale and enhanced capacity utilisation through spatial concentration, specialisation and inter-firm linkages that boost productivity and export competitiveness (Long and Zhang, 2009). This hybrid of industrial agglomeration and vertical integration has been core to maintaining China's competitiveness and export reliability (Lin et al., 2011; CGA, 2025).

[1] Common Effluent Treatment Plant (CETP) is a shared facility for collectively treating wastewater from multiple industrial units within a cluster and Zero Liquid Discharge (ZLD) is a wastewater system that ensures complete water recovery with no liquid effluent released into the environment.

- ***Capital Architecture: Low-Cost Credit, Export Rebates and Risk Cover***

China's financial ecosystem is one of the strongest enablers of its apparel competitiveness. Firms operate in a low-cost credit environment where real lending rates average 3.1 per cent (CEIC, 2024; People's Bank of China, 2025). China's fiscal instruments further accelerate cash-flow cycles. Value-added Tax (VAT) export rebates (11-16 per cent for T&A) neutralise input-stage taxation. Under the Authorised Economic Operator (AEO) Joint Incentive Programme, rebate-processing times have compressed from around 15 days to five days (World Customs Organisation, 2019), enabling exporters to recycle working capital faster and maintain higher capacity utilisation. Complementary incentives such as the historic '2+3' corporate income tax (CIT)[2] holiday in SEZs, duty-free imports of machinery and raw materials and the current 15 per cent preferential CIT rate for High and New Technology Enterprises (HNTEs) support continuous upgrading (China Briefing, 2025).

A distinctive component of China's capital framework is Sinosure, its state-backed export credit insurer, which covers 30-35 per cent of all merchandise exports (Sinosure, 2024; Trade Finance Global, 2025). Covering 90-95 per cent of commercial and political risks at premiums typically between 1-3 per cent, Sinosure acts as quasi-collateral for banks and enables even small firms to access credit. During global disruptions, from the 2008 crisis to COVID pandemic to Trump's tariff disruptions, Sinosure played a counter-cyclical role, ensuring uninterrupted liquidity to exporters when private credit risk tightened. In tandem with a stable, occasionally undervalued yuan that protects export earnings (IMF, 2023; Reuters, 2025), China's capital architecture lowers cost, compresses risk and delivers exceptional financial predictability.

2.2. Bangladesh

Bangladesh' rise as a dominant garment exporter illustrates how a low-income country can re-engineer its policy framework to overcome structural constraints that continue to bind Indian apparel producers. Its trajectory is about a coherent set of interventions that eased liquidity constraints and reduced transaction costs.

- ***Liquidity-Driven Competitiveness***

A central global benchmark emerging from Bangladesh is the systematic focus on working capital efficiency. The policy architecture of back-to-back letters of credit (BBLC)[3], the special bonded warehouse system (SBW) and a suite of concessional export financing instruments transformed export orders into bankable collateral and minimised tax-induced cash-flow blockages.

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2 China's earlier SEZ tax framework included a '2+3' CIT holiday: two tax-free years and three years at half rate, currently replaced by a unified corporate tax system.

3 The BBLC system, introduced in 1984, allows an exporter to pledge the export letter of credit received from a foreign buyer as collateral to open import letter of credits for fabrics and accessories. The export order, rather than land or plant, serves as security. Banks are repaid directly from export proceeds, creating a self-liquidating financing loop that is particularly powerful for small and medium firms with few tangible assets.

Under the SBW facility, export-oriented firms can import and store textiles, trims and accessories without paying customs duties or VAT, provided these inputs are used for export production. Inputs are effectively zero-rated, and no duty is paid upfront (Haider, 2007). This removes the need to finance large tax payments and then wait for duty drawbacks. It reduces production cost and lead time by eliminating cumbersome refund procedures.

Bangladesh has also built a dense architecture of export liquidity instruments that together compress the cost of capital for garment producers. The long-standing Export Development Fund, introduced in 1989 and managed by the Bangladesh Bank, provides short term foreign currency loans through authorised dealers to import raw materials under BBLCs, repayable in 180 days and extendable to 270 days, at Secured Overnight Financing Rate (SOFR) plus up to 4 percentage points, implying negative real rates in a 2024 inflation environment of 10.47 per cent (The Financial Express, 2024). Complementing this is a pre-shipment credit refinance scheme[4], which offers taka loans up to 10 per cent of the consignment value at 3.5 to 5 per cent interest rate. Packing credit finances domestic wages and inputs up to 10 per cent of free on Board (FOB) value at Six-Month Moving Average Rate of Treasury bill (SMART) plus a maximum margin of 2 per cent for standard lending (Dhaka Tribune, 2023). Both these loans are self-liquidated from export proceeds within 180 days. These facilities are de-risked by the Export Credit Guarantee Scheme, which insures up to 75 to 80 per cent commercial losses and 95 per cent of political risk, and by a broader Credit Guarantee Scheme, together easing banks' risk perceptions and crowding in working capital to the sector (Gereffi and Frederick, 2010).

Delayed refunds and high-cost credit increase the cost of capital, force underutilization of capacity, and push firms out of time-sensitive orders. Bangladesh has reduced some of this risk by shifting part of the liquidity burden onto the central bank and export credit guarantees, lowering the private cost of liquidity for exporters.

- ***Lead time, Logistics and Scale in Global Value Chains***

In buyer-driven global value chains (GVCs), competitiveness is based on the ability to deliver quickly, reliably and in compliance with increasingly stringent environmental and social standards. Bangladesh has responded by building dense garment clusters where many specialised cut-make-trim (CMT)[5] factories, which can operate with the functional advantages of scale. Within Export Processing Zones (EPZs), hundreds of export-oriented units operate under a quasi-free trade regime, benefitting from duty-free input imports, simplified clearance procedures and reduced interaction costs with state agencies. In 2020, the EPZ system hosted 456 operational units and 103 under implementation, generating exports

[4] The refinance scheme operates through a Bangladesh Bank–managed fund that provides subsidised *Taka* liquidity to banks, allowing them to extend lower-cost pre-shipment loans to exporters. The facility directly matches firms' need to finance raw materials and inputs before shipment, with refinancing available for up to 10 per cent of export value.

[5] CMT refers to a basic apparel manufacturing model in which manufacturers perform only assembly and finishing, while buyers retain control over design, fabric sourcing and most upstream functions.

worth about USD 110.8 billion and employing roughly 500 thousand workers within the zones alone (BEPZA, 2024). EPZ firms benefit from tax holidays, sharply reduced corporate tax rates for export-oriented and green factories (preferential corporate income tax rate of 12 per cent, or 10 per cent for certified green factories, compared with a national rate of 22.5 to 27.5 per cent), and duty-free import of capital goods and inputs. This allows even mid-sized garment-only units to meet large, time-sensitive orders.

2.3. Vietnam

Vietnam's competitiveness and strong presence in the GVCs are rooted in two mutually reinforcing policy channels: expansive FTA-driven global integration and FDI attraction, that rapidly expanded manufacturing capacity; and institutionally coordinated industrial geography, that reduced logistics cost and enhanced delivery reliability.

- ***FTA-driven global integration and FDI attraction***

Vietnam's trade strategy is built on an expansive network of FTAs, allowing firms to maximise preferential market access across major destinations. They have historically prioritised *breadth* over *depth* in their FTA approach and has leveraged this wide coverage effectively (World Bank, 2024). As of 2024, Vietnam concluded 17 FTAs spanning key demand centres, including the US, EU, Japan, Korea and ASEAN (Vietnam Briefing, 2024; WTO, 2023). Complementing this wide FTA architecture is Vietnam's strong performance in attracting FDI, which create a significant strategic advantage. Between 1988 and 2024, Vietnam registered roughly 3,500 licensed FDI projects in textiles and garments, totalling nearly USD 37 billion in committed investment (VITAS, 2024). These FDI enterprises in Vietnam contribute 58-62 per cent of the sector's export turnover (ILO, 2025). These FDI have been due to a tightly integrated ecosystem, which enables firms to localise production. These inflows have expanded manufacturing capacity while transferring critical capabilities such as managerial expertise, technical know-how, compliance systems, and lean manufacturing practices in the sector, that have enabled Vietnamese firms to meet the exacting demands of global buyers.

A key strength of Vietnam's model is the tight alignment between trade agreements and investor strategies. Global firms invest heavily to leverage the EU-Vietnam Free Trade Agreement (EVFTA) and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) tariff benefits, positioning the country as a preferred base for integrated, tariff-efficient production. For example, Nike sources over half of its global footwear from Vietnam and has expanded its supplier base in the country substantially to take advantage of these trade-induced competitive gains (The Investor, 2024).

- ***Institutional coordination and spatial planning as drivers of competitiveness***

Vietnam's strength in apparel exports comes from a coordinated, low-risk industrial ecosystem built on clear regulatory frameworks, high infrastructure readiness, and consistent, predictable policy incentives

A series of enabling laws, notably the Law on Investment (2015) and the legal framework governing, provide a stable institutional foundation for Vietnam's cluster-based industrialisation. These policies introduce fiscal incentives such as tax holidays, import duty exemptions, duty-free import of machinery and inputs for export production, uniform infrastructure standards across zones, and simplified administrative procedures, including reduced paperwork (National Assembly of Vietnam, 2014; Government of Vietnam, 2015; Government of Vietnam, 2018; AMRO, 2021). This legal architecture ensures that export-oriented firms receive legally guaranteed incentives, such as corporate income tax rates as low as 10-20 per cent for up to 15 years, multi-year land-rent exemptions, duty-free inputs, and the ability to deduct investments in worker housing and social infrastructure (ILO, 2025), that helps as a pull factor for foreign firms. These codified, rule-based benefits reduce operational costs, enhance investor confidence, and signal long-term policy stability, making Vietnam's industrial environment significantly lower-risk than competitor economies where incentives are discretionary, negotiable, or vary across states.

This institutional clarity has enabled the development of spatially concentrated T&A clusters that enhance scale efficiency and cut turnaround times. Industrial parks in Hai Phong, Da Nang, Binh Duong, and Ho Chi Minh City host concentrated industrial zones, are close to major ports, and benefit from concentrated labour and production clusters. This is also evident from the emerging Rang Dong Industrial Urban Seaport Complex in Nam Dinh, Vietnam, spanning 519.6 hectares, illustrating how zone-based governance is supporting higher-value segments of the textile value chain (Aurora, 2025). This coordinated, rules-based ecosystem is why Vietnam has emerged as a manufacturing hub for Nike, Adidas, Uniqlo, H&M, and other major global buyers.

3. India's competitiveness gaps

While global leaders demonstrate how policy coherence can transform apparel competitiveness, India's experience reveals persistent gaps. Mapping India's position against these five pillars highlight the misalignments that have constrained export growth despite strong endowments and manufacturing capabilities.

- ***Scale, Capacity and Cluster Fragmentation***

India's cluster landscape, including Panipat, Surat, Ludhiana, and the Delhi NCR, has grown organically rather than strategically. These clusters house thousands of units, but the majority are small and operate with inadequate processing capacity, limited mechanisation and outdated machinery. Even Tiruppur, despite being India's largest knitwear cluster, faces rising input costs, machinery ageing and insufficient CETP/testing infrastructure, all of which compress margins and slow turnaround (Tiruppur Exporter Association, 2025).

The absence of integrated fibre-fabric-garment ecosystems like those in China's Keqiao/Shengze or Vietnam's FDI-built textile parks means Indian exporters must coordinate production across multiple states, adding logistics costs and unpredictable delays. Competitor countries have shown that scale plus co-location helps in export agility. China's vertically integrated textile towns or Vietnam's plug-and-play industrial parks, and Bangladesh's large production units help compress lead times and improve reliability.

- ***Capital, Export Credit and Cost Disabilities***

Finance is one of India's most binding constraints. Working-capital loans cost 9-11 per cent, and term loans reach 12-15 per cent (real interest rates, after factoring in inflation, range from 6-8.5 per cent), far higher than Bangladesh (negative real rates), Vietnam (1-2 per cent) or China (3.1 per cent). These high costs affect technology upgrading, expanding price disadvantages and prevent firms from expanding capacity. Liquidity unpredictability, from delayed GST refunds and slow Rebate of State and Central Taxes and Levies/Remission of Duties and Taxes on Exported Products (RoSCTL/RoDTEP) disbursals, further tightens cash flows at crucial production peaks. Beyond high borrowing costs, India's financial system also lacks instruments aligned with apparel's cash-flow cycle; mainstreaming value-chain financing tools such as invoice discounting, factoring, receivables finance and equipment leasing would ease liquidity pressures and support modernisation.

India's export-credit architecture needs focused attention. Currently, 18-28 per cent of merchandise exports supported by ECGC (DGFT, 2024). MSMEs face challenges like low coverage of export risks, slow claim settlement and extensive documentation, pushing them into the informal credit market (Ojha et al., 2024).

- ***Labour Productivity, Skills and Workforce Stability***

World Bank Country Economic Memorandum emphasises that expanding labour-intensive industries such as T&A is critical for raising women's incomes and enhancing their economic agency. Women form 47.6 per cent of the apparel workforce (Goyal et al., 2025). Yet women remain concentrated in low-skill roles; in the unorganised manufacturing sector, 43 per cent of workers are women, but mostly in low-wage tasks (ThePrint, 2024). Without pathways into supervisory or technical roles, this numerical presence does not translate into competitiveness.

Labour productivity remains low. Value added per worker is only 30 per cent of India's factory-sector average (Johny and Thomas, 2024) due to limited mechanisation, generic skills and a thin supervisory layer. Only one-tenth of the garment workers are employed in registered factories (average of 131 workers; and around 400-600 in export-oriented factories), which mirrors the broader 'missing middle' problem[6] in Indian manufacturing.

[6] *Missing middle* refers to the structural gap where many firms remain small and very few grow to medium or large scale, due to high compliance costs, limited credit access and weak incentives for expansion (World Bank, 2020).

Training programmes such as SAMARTH[7] have trained 1.1 million workers, but skilling is still concentrated on basic stitching rather than product-specific needs (athleisure, winterwear). Compounding this is the apparel cluster's heavy reliance on interstate migrant labour, that leads to cyclical attrition and unstable supply. Unlike Bangladesh's compliance-linked dormitory systems or Vietnam's FDI-driven workforce pipelines, India lacks coordinated investments in worker housing, transport or childcare except in limited cluster-led initiatives like Tiruppur. These gaps weaken line efficiency and constrain the consolidation of large orders.

- ***Institutional Mechanisms and Trade Facilitation***

India's institutional landscape remains cumbersome, with multiple agencies governing inspection, customs, licensing, credit, labour and environmental compliance. The complexity begins even before production. Setting up an apparel unit requires separate approvals for labour, building plans, fire safety, pollution control, Employees' Provident Fund Organisation (EPFO) and Employees' State Insurance Corporation (ESIC) registration, electricity and water nominally routed through state single-window systems but, in practice, subject to repeated inspections, delays and informal payments (Industry interactions with authors). Export facilitation mechanisms such as Advance Authorisation[8] have rigid input-output norms, unlike Bangladesh, where only a 20 per cent domestic value addition requirement applies (Fibre2Fashion, 2022). Conflicting interpretational disputes between DGFT and customs often lead to duty demands on inputs already cleared, disproportionately burdening MSMEs. Discussions with apparel exporters reveal that multi-layered procedures and long approval times erode India's position in fast-response supply chains (World Bank, 2025). Indian exporters process 17-18 documents per shipment, versus just two in China (Business Today, 2025).

The Product Linked Incentive (PLI) scheme (MoT, 2025), while intended to catalyse investment in MMF and technical textiles, offered limited applicability to garment exporters. The original minimum thresholds of Rs. 100-300 crore excluded most firms whose typical factory capex is Rs. 40-50 crore, and although revised to Rs. 50-150 crore (October 9, 2025) with a 10 per cent annual turnover requirement, participation remains skewed toward upstream capital-intensive textile firms rather than labour-intensive garmenting. RoSCTL, while it improves liquidity through tradable scrips and has been extended to 2026, only partially offsets embedded state-level levies. RoDTEP provides more limited relief, and its non-tradable credits, which typically range from 0.3 per cent to about 4 per cent of FOB value, offer modest support and tend to be less beneficial for MSMEs with low import intensity (Financial Express, 2025). The lapse of the Interest Equalisation Scheme (IES) on 31 December

[7] Samarth (Scheme for Capacity Building In Textile Sector) is a flagship skill development scheme with an objective to provide demand-driven, placement oriented skilling programme to incentivize the efforts of the industry in creating jobs in the organized textile and related sectors to promote skilling and skill up-gradation in the traditional sectors; and to provide livelihood to all sections of the society across the country

[8] Advance Authorisation is issued to allow duty-free import of input, which is physically incorporated in the export product.

2024 removed the only nationwide tool that consistently reduced pre- and post-shipment credit costs (by 3-5 per cent), pushing exporters back into a high-interest environment where borrowing already costs 9-15 per cent. Collectively, these policy gaps reinforce the very constraints of high capital costs, thin margins and limited scale that India's garmenting ecosystem struggles with.

Table 1: Policy Matrix Across Key Apparel Exporters

PILLARS	CHINA	BANGLADESH	VIETNAM	INDIA
SCALE & CAPACITY	• T&A Exports USD 298.3 billion • Apparel exports USD 153 billion • No of firms- Textile-18,726 Apparel- 14,600	• T&A exports-USD 52.1 billion • Apparel exports USD 50 billion • No of firms-3,556 export-oriented factories	• T&A exports-USD 40 billion • Apparel exports USD 30 billion • No of firms-14,313 Textile-4,687 Apparel – 9,626	• T&A Exports- USD 34.8 billion. • Apparel exports USD 14.4 billion • No of firms- 9000-10,000 (ASI, 2022-23)
CAPITAL	• Nominal Lending rate 3.3% • Inflation 0.20% • Real interest rate is 3.1%	• Nominal lending rate maximum 9% • Inflation- 10% (2025) • Real interest rate is negative	• Nominal lending rate 3-5% • Inflation 3.4% (IMF, 2025) • Real interest rate 0-1%	• Nominal lending rate 9-11% • Inflation 2.8%, IMF, 2025 • Real lending rate- 6.2-8.2%
LABOUR	• Employment – 20 million • Female Workforce – 60% • Monthly Wage – USD 300-270 • Hours –40 hours/week • Overtime- monthly basic salary/21.75 ÷ 8 hours × overtime hours × 150 or 200 or 300%	• Employment – 3.01 million • Female Workforce – 57% • Monthly Wage – USD 113 • Hours – 8 hours/day +2 hours overtime (60 hours/week) at 2X rate.	• Employment – 3.4 million • Female Workforce – 74% • Monthly Wage USD 290-270 • Hours – 40 hours per week • Overtime- same as China	• Employment – 45 million • Female Workforce – 47.6% • Monthly Wage- USD 180 • Hours – 48 hours per week • Overtime at 2x rate
INSTITUTIONAL MECHANISM & TRADE FACILITATION	• 219 specialised clusters (including T&A). • Cluster-based industrialisation • NSW- 99.9% Coverage • Comprehensive bonded zones (CBZs) • Globally recognised AEO certifications • 23 FTAs	• Special bonded warehouse, Back-to-back L/C. • Export Processing Zones • Single window clearances • LDC preference - Duty free access to 52 countries	• Centralised Government coordination. • Dedicated industrial parks • FDI inflow (USD 35 billion cumulatively till now). • 17 FTAs	• Multiple national-level policy instruments RoSCTL (tradable), RoDTEP, PLI, SAMARTH. • Emerging cluster governance through PM MITRA parks (7 parks approved) • State governments actively competing for T&A investment • 20 trade agreements

Source: Authors Compilation

Note: T&A export data for China, Bangladesh and Vietnam is from ITC Trademap, 2023; for India DGFT, 2023-24.

4. Way forward: Lessons for India

India's comparative advantage in the T&A sector is its fibre-to-fashion base, deep craft heritage and large workforce. This can translate into global competitiveness if the policy ecosystem is realigned around the needs of apparel manufacturing. International experience shows that China, Bangladesh, and Vietnam did not succeed on cheaper labour costs alone, but on coherent policy execution, cluster governance, predictable finance, trade facilitation and institutional alignment. India, by contrast, continues to grapple with sub-scale firms, high finance costs, cotton-heavy product mix, slow trade systems and weak mid-level skills. Addressing these constraints requires not isolated reforms, but a sequenced and integrated strategy that addresses short-term liquidity constraints, medium-term structural gaps and long-term capability upgrading.

Selective adaptation of global models can accelerate this process. Bangladesh's liquidity-enabling mechanisms offer lessons for easing working-capital pressures; Vietnam's FDI-park model demonstrates how plug-and-play industrial environments attract investment; and China's cluster governance and export-credit architecture illustrate how institutional density reduces friction and builds resilience at scale.

Recent initiatives such as PM MITRA parks, the PLI revisions, and the emerging Export Promotion Mission, cluster-exchange mechanisms signal a shift toward integrated industrial planning. Yet there is a long way to go. PM MITRA sites are not operational yet and need forward-looking governance density characteristic of global manufacturing hubs – on-site empowered authorities, integrated customs desks, bonded logistics, CETPs, accredited labs, real-time digital compliance, worker housing and unified labour services. State textile policies, despite offering generous capital, power and payroll subsidies, are similarly subsidy-heavy but institution-light. They rarely replicate the cluster governance models seen in China's textile towns or Vietnam's industrial parks, where administrative consolidation sharply reduces transaction costs and accelerates investment.

The path ahead lies in adaptation rather than replication. Table 2 collates an integrated policy roadmap structured around the five pillars of competitiveness – capital, scale, clusters and institutions, labour and skills and market access. These short, medium, and long-term actions chart a coherent strategy for repositioning India from a fallback supplier to a competitive and reliable node in global apparel value chains.

India's policy architecture reflects strong fiscal intent, but procedural integration and institutional depth remain limited. Without streamlined clearances, predictable customs processes, harmonised remission systems and governance-rich cluster authorities, apparel manufacturers will continue to operate in a high-friction environment where institutional costs determine competitiveness. Strengthening these institutional mechanisms is foundational to India's aspiration of becoming a scale-ready, globally preferred partner in the textiles and apparel GVCs.

Table 2: Policy Roadmap for Enhancing India's Apparel Export Competitiveness

Pillars	Rationale	Short-Term	Medium-Term	Long-Term
Enhancing Access to Capital	High finance costs (9-11% working capital) and limited export credit coverage (ECGC) worsen stress, compounded by IES withdrawal and delayed GST refunds.	• Fast-track GST refunds and RoDTEP/RoSCTL disbursals. • Expand export credit via ECGC (short-term export credit cover for MSMEs) and simplify claim settlement. • Revive IES for MSMEs.	• Strengthen value chain financing through tailored instruments (invoice discounting, factoring, receivables financing, equipment leasing). • Improve banks' understanding of working capital cycles and seasonality.	• Strengthen the export-credit ecosystem by expanding ECGC's reach, lowering premiums for MSMEs and aligning credit insurance with peak export seasons. • Institutionalise value-chain finance as a mainstream banking product across textile clusters.
Scale & Capacity	India's apparel industry is fragmented, operating in sub-scale. It lacks economies of scale and faces huge logistical, documentation, and operational issues.	• Streamline AA/EPCG. • Financial incentives for firms which commit to scaling up the assembly line size comparable to global benchmarks. Provide machinery subsidy for garmenting. • Fast-track expansion approvals.	• Operationalise PM MITRA as fibre-to-fashion parks with differentiated regulations, fiscal incentives and plug-and-play units. • Promote co-location of spinning–processing–garmenting; incentivise MMF R&D.	• Develop MITRA parks into integrated global hubs with bonded warehousing, design/R&D centres, digital compliance, and park-level governance for plug-and-play and textile towns.
Cluster & Institutional Mechanisms	Clusters drive global competitiveness, and institutional mechanisms help facilitate trade and build an ecosystem with local governance, shared services, bonded yards, and commodity markets.	• Operationalise the Cluster Exchange Mechanism by first conducting a national baseline study of T&A clusters. • Risk-based inspection at ports and land ports; 24×7 single-window with pre-arrival processing and green channels for repeat compliant exporters. • Provide interim shared facilities (CETPs, testing labs, logistics centres).	• Allow in-park bonded warehouses and AEO support cells. • Make NSW functional; ensure guaranteed timelines. • Establish functional PM MITRA parks with differentiated governance and fiscal incentives.	• Global buyer facilitation platforms linking clusters with major brands • Ensure time-bound logistics and delivery time from MITRA parks; publish monthly dashboards
Labour, Skilling, Compliance and Tech-Upgrading	Low productivity, limited supervisory talent, high attrition, and weak social support for migrant workers.	• Upgrade SAMARTH to product-specific modules (MMF, winterwear, athleisure). • Set up supervisor-training institutes; scale worker housing/dormitories and creches to reduce attrition.	• Create cluster-level training academies in PM MITRA; incentivise retention of women supervisors; build digital compliance and ESG literacy. • Promote mid-management academies to strengthen factory productivity.	• Institutionalise continuous skilling systems across R&D, design, digital manufacturing, automation and ESG compliance. • Fully digitise social and environmental compliance through cluster-level traceability platforms.
Market Access and Trade Strategies	Limited penetration in Japan/Korea, cotton-heavy production, and low utilisation of FTAs.	• Map cluster-wise product specialisation for UK/EU fast-moving categories (MMF, athleisure, winterwear). • Expand brand visibility initiatives and sustainability-linked marketing.	• Leverage underutilised FTAs (Japan, Korea) via targeted product strategies. • Negotiate single-transformation or flexible de-minimis rules in FTAs.	• Strengthen digital sampling, predictive analytics and virtual design in clusters.

Source: Authors Compilation

It is time for India to adopt this comprehensive approach, encompassing all five pillars of competitiveness. The urgency of reform has intensified. Indian exporters were already operating at a cost disadvantage relative to key competitors, and recent President Trump's punitive tariffs imposed on Indian exports have further worsened this position. Inaction or delayed action on this front may cost India heavily. If the trade deal with US is delayed and punitive tariffs remain high, and the five pillars of competitiveness are not addressed decisively, then it won't be a surprise that this sector will face acute stress and even lay-offs in 2026. Thus, wisdom lies in quick and bold actions: making capital available at low real interest rates (below 3 per cent), incentivising and supporting employment, especially of women, ensuring ease of doing business and getting the PM MITRA parks off the ground as soon as possible.

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Indian Council for Research on International Economic Relations (ICRIER)

Our Offices:
4th Floor, Core 6A, India Habitat Centre, Lodhi Road, New Delhi-110003

The Isher Building, Plot No. 16-17, Pushp Vihar, Institutional Area, Sector 6, New Delhi-110017

O: +91 11 43112400, **F**: +91 11 24620180 | **W:** www.icrier.org | **E:** info@icrier.res.in