



Study of the Impact of U.S. TRADE TARIFFS ON INDIAN TEXTILE AND APPAREL SECTOR

Suggested Policy Interventions



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A wide-angle photograph of a textile factory interior. The scene is filled with rows of industrial spinning machines. Numerous spools of yarn in various colors, including red, blue, and green, are visible on the machines. The floor is a dark green, and the ceiling has exposed structural elements and lighting fixtures. The perspective is from a low angle, looking down the length of the factory floor.

Chapter 1

Textile Sector of India



Textile Sector of India

We are currently ranked as the 6th largest exporter of textiles and apparel in the world, with textile exports valued at approximately 3 lakh crore. Our goal moving forward is to triple this figure and achieve exports worth Rs.9 lakh crore.

- Prime Minister of India
(Announced in Bharat Tex, 2025)

Overview of Indian textile industry

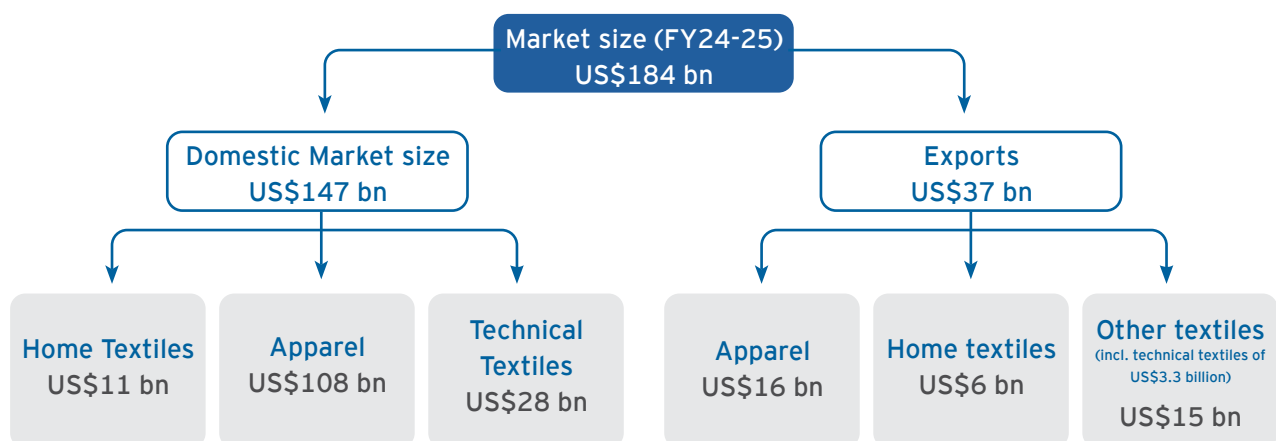
The textile and apparel sector occupies a pivotal place in India's economic and industrial landscape blending a rich heritage of traditional craftsmanship with a rapidly modernising manufacturing base. The textile sector is a significant contributor to the country's GDP, industrial output and export earnings while playing a decisive role in generating employment and supporting livelihoods of millions, just after the agriculture sector.

The textile sector derives its strength from the integrated value chain that has evolved over the years right from the abundance of raw material such as cotton, silk, jute, wool and man-made fibres to world-class spinning, weaving and other value addition processing capabilities. This combined with growing economy, urbanization and evolving fashion preferences is driving the growth of the sector, both domestically and at a global stage. The textiles and apparel sector further consists of a variety of products across home textiles (covering made-ups, textiles rugs and carpets, fashion bedding), technical textiles and Ready-made garments which are discussed below.



Segmentation of textile and apparel sector

In terms of market segmentation, the textile and apparel industry is broadly categorised as below¹:



The above-mentioned end products in the textile and apparel value chain can be described as:

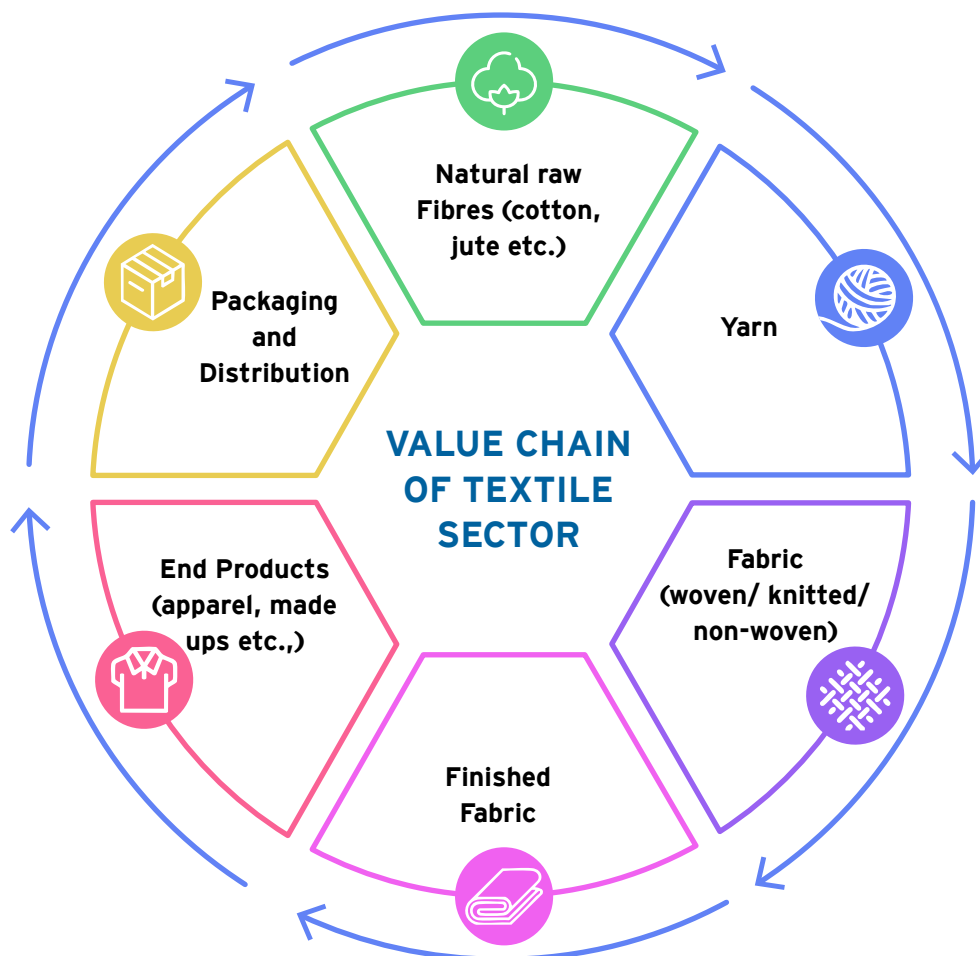
Apparel	Apparel encompasses all types of clothing including garments, fashion accessories and other items worn on the body. Apparel textiles can be made of cotton, silk, wool and man-made fabrics such as polyester.	
Home textiles / made ups	This includes a wide range of textiles used in home, offices and for other purpose which includes but not limited to made-ups (bedding, towels, curtains, kitchen linen), fashion bedding (Quilts, Comforters, Filled Pillows) and Textiles Rugs and Carpets.	
Technical Textiles	These are products manufactured for technical performance and functionality rather than aesthetics. Examples include products used in agriculture (agro-tech), healthcare (medi-tech), and protective gear (pro-tech).	

Over the years, owing to consistent participation by industry and government support, the industries in the textile and apparel sector of the country have developed a comprehensive textile value chain encompassing fibre production to finish goods manufacturing within the country².

¹ <https://wazir.in/wp-content/uploads/2025/01/Wazir-Advisors-Annual-TA-Industry-Report-2025.pdf>

² <https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1785516>

Value chain of the textile and apparel sector



Upstream (Raw Materials): The chain begins with the agriculture sector, which provides natural fibres like cotton, jute, and silk. India is the world's largest producer of cotton and jute. The chain also includes the manufacturing of man-made fibres and filaments provided by the chemical industry.

Midstream (Processing): Textile mills transform raw materials into yarn or thread, which serve as the foundation for most textile production. For natural fibres like cotton or wool, the material is first processed before being spun into yarn. This yarn is then converted into fabric through weaving, knitting or non-woven techniques. The fabrics often undergo additional finishing processes such as dyeing, bleaching, or stonewashing to produce the desired look and texture.

Downstream (Manufacturing & Export): The downstream industry encompasses the conversion of processed fabrics into finished products such as

apparel, home textiles, technical textiles, and other made ups like carpets, furnishings, and industrial textile goods. This segment plays a pivotal role by generating substantial value addition through design, branding, customization, and packaging.

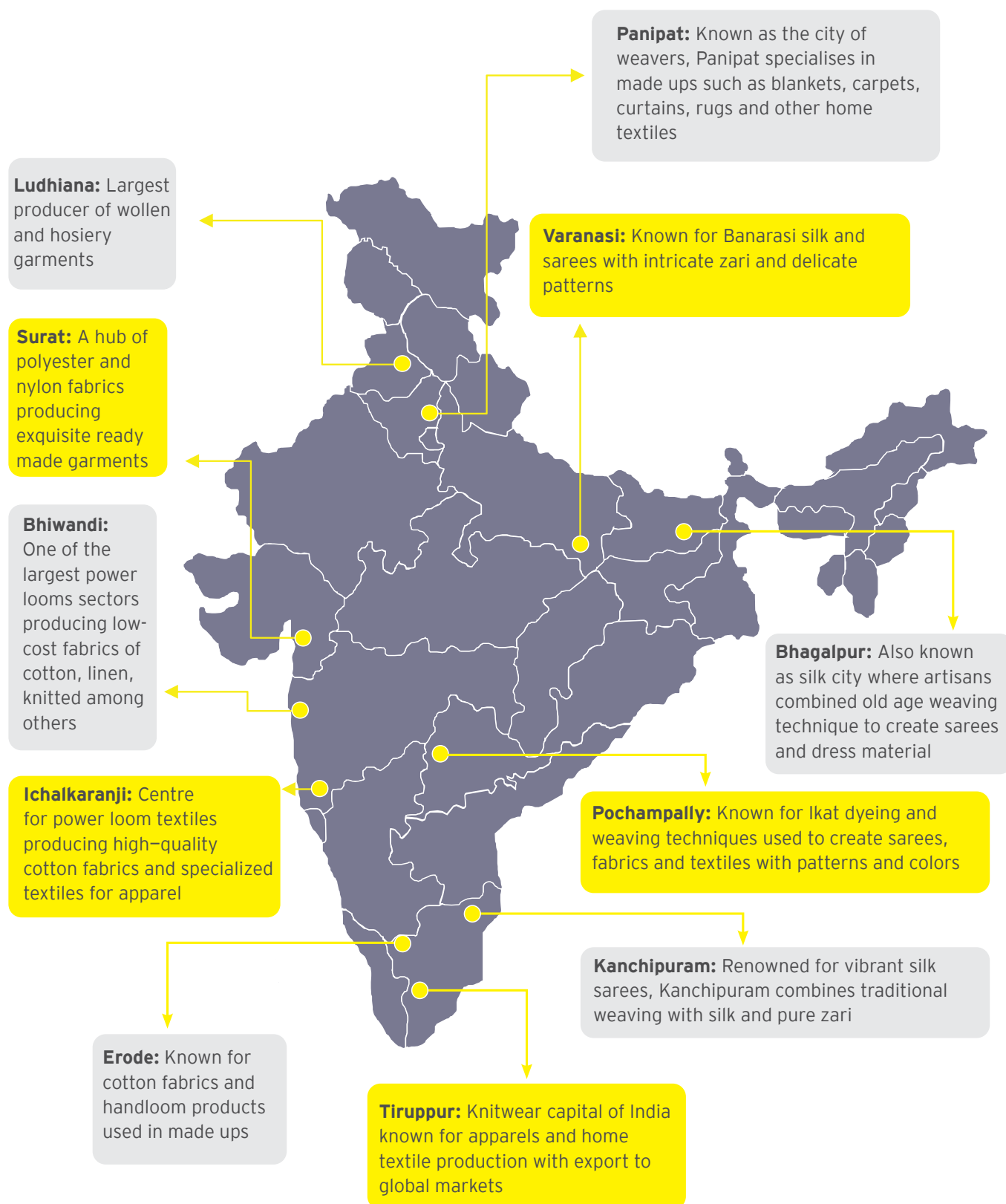
The majority of the nation's textile value chain resides in smaller cities (Tier-2 and Tier-3) and rural areas, thus having significant spillover impact on the local and national economy in terms of employment, development of ancillary industries, technological innovation, skill development among others, as will be discussed in the succeeding sections.

Geographical spread of textiles clusters in the country (indicative)³

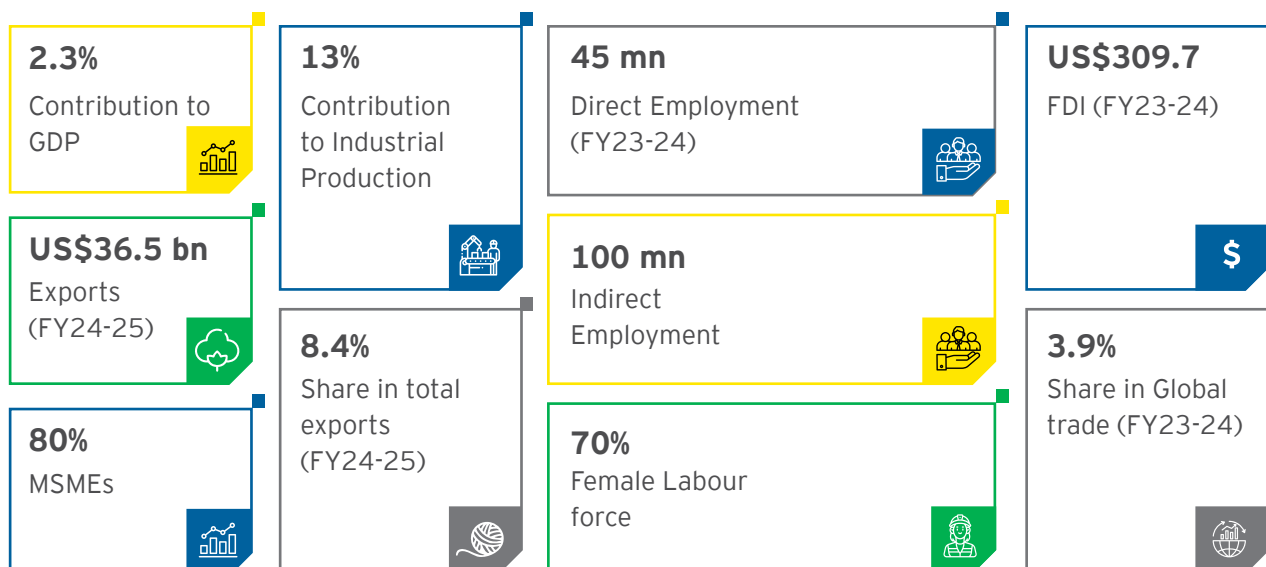
The industry is spread across the country with different geographical clusters having its own unique set of offerings in terms of textiles and apparels for both domestic and global consumers.

³ <https://www.textilesphere.com/2024/11/textile-clusters-in-india.html>

A graphic representation of some of such clusters is depicted below.



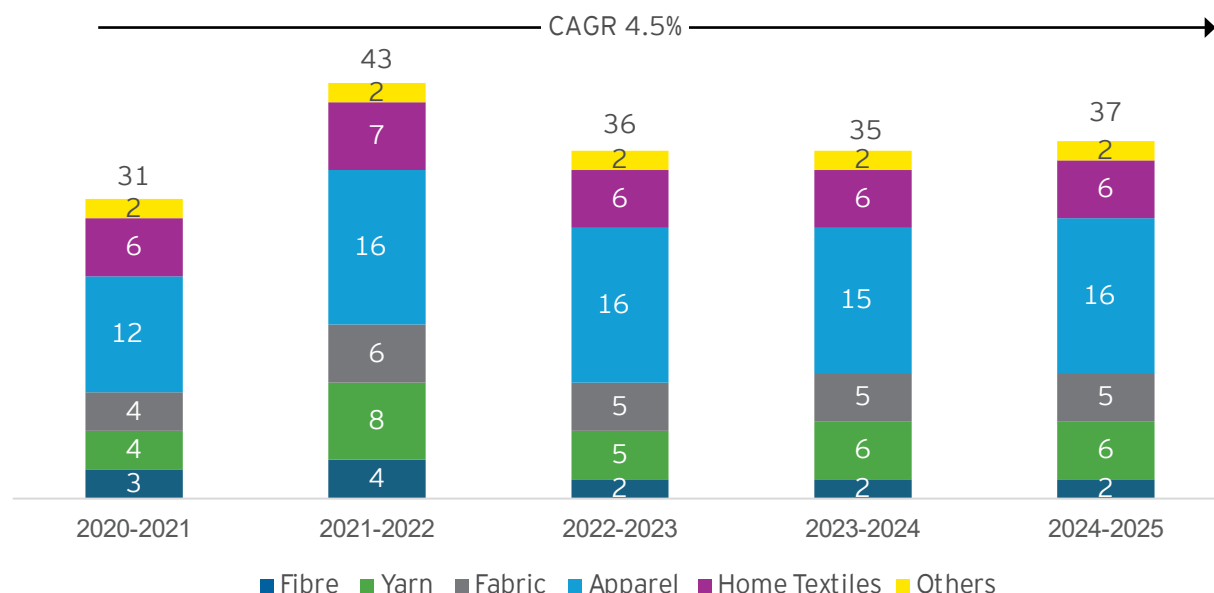
Economic Statistics of the Textile and Apparel Sector (as per PIB released on 1 April 2025)



Sources- Multiple⁴ (For figures of contribution to GDP and industrial production, share of MSMEs and FDI please refer to PIB announcement dated 01.04.2025; For figures of employment and share in global trade, please refer to Ministry of Textiles Report (2023-2024); For export figures please refer to Gol Niryat Portal)

Specifically, when it comes to exports, India is ranked as the 6th largest exporter of textiles and apparel. With a 3.9% share in global trade of textiles and apparel⁶, exports from the country have increased from about US\$31 bn in FY2020-2021 to US\$37 bn in FY2024-2025 (CAGR 4.5%)⁷ as depicted below in Table-1 (Values in US\$ billion)

Table-1: Values for export of textile and apparel from India in US\$ bn⁸



⁴ Contribution to GDP, Industrial Production, share of MSMEs <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2117470> ; Share in global trade, employment <https://texmin.nic.in/sites/default/files/MOT%20Annual%20Report%20English%20%2807.11.2024%29.pdf> ; Export figures https://niryat.gov.in/#?start_date=202404&end_date=202503&sort_table=export_achieved-sort-desc&table=region&view=pills-cdv-tab&commodity_group_id=9 ; garment pieces <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2117470>

⁵ https://niryat.gov.in/#?start_date=202404&end_date=202503&sort_table=export_achieved-sort-desc&table=region&view=pills-cdv-tab&commodity_group_id=9 ;

⁶ <https://texmin.nic.in/sites/default/files/MOT%20Annual%20Report%20English%20%2807.11.2024%29.pdf>

⁷ Industry data

⁸ Industry data

Beyond exports, industry plays a vital role in acting as a downstream industry for numerous supporting sectors such as:

Impact of Textile sector on other related sectors

Agriculture sector

The agricultural sector serves as the primary supporting sector for the textile and apparel industry by providing for the raw materials used extensively in manufacturing. This in turn provides and strengthens the livelihood of farmers and supports the agrarian economy which is the largest employer of labour force in the country. Some of the examples are as below⁹:

Cotton

Cotton, which is also termed as “white gold”, accounts for about 23% of the total fibre production. In the raw material consumption basket of the Indian textiles industry, cotton caters to about 60% of the total consumption. Cotton is also considered to be the largest contributor to forex for India through export of raw cotton, yarn, fabrics and finished goods.



Usage in textile & apparel industry - readymade garments, home textiles, medical industry

Jute

Jute termed as the “golden fibre”, is another raw material consumed by the textile and apparel industry. The jute industry provides direct employment to about 4 lakh workers in industrial units while supporting the livelihood of around 40 lakh farm families.



Usage - sack, coarse cloth, blankets, floor-coverings

Silk

With Silk being the “Queen of Textiles”, India is the second largest producer of silk and provides employment to more than 9.7 million people across more than 52,000 villages. Silk cultivation serves as an important linkage in manufacturing of garments, made-ups, high-end fashion accessories, home furnishings etc.,



Usage - readymade garments, home-furnishings

Wool

Wool is an essential fibre for winter clothing, suiting, floor coverings among others. The sector provides employment to about 12 lakh people in the organized sector with an additional 20 lakhs person associated in sheep rearing and farming sector.



Usage - readymade garments, home furnishings, carpets

⁹ <https://texmin.nic.in/sites/default/files/MOT%20Annual%20Report%20English%20%2807.11.2024%29.pdf> read with Silk <https://www.eoiparis.gov.in/content/at.pdf> ; Wool https://texmin.nic.in/sites/default/files/Wool_Sector.pdf

Chemical sector

The textile industry stands as one of the most important downstream segments for the chemical sector. A significant share of chemical industry output—including synthetic fibres, polymers, dyes, and finishing agents—is directly consumed by textile manufacturers. The growing use of man-made fibres such as polyester, nylon, acrylic, and viscose has further reinforced this link, as their production relies entirely on chemical processes involving petrochemicals, polymers, and specialised additives.

Beyond fibre production, the textile sector requires substantial volumes of chemicals for dyeing, printing, and finishing. Synthetic dyes, pigments, bleaching agents, softeners, and specialised finishes all stem from chemical innovation. Economically, the textile industry provides the chemical sector with a large, steady market that sustains demand through various business cycles. Moreover, the rising global demand for performance textiles, technical fabrics, and sustainable materials is spurring the development of eco-friendly dyes, bio-based polymers, and low-impact processing chemicals. This close interdependence positions the textile industry not just as a major consumer, but also as a catalyst for innovation and product diversification within the chemical sector.

Other ancillary sectors

In addition to supporting the agriculture and chemicals sector, textiles and apparel manufacturing industry also fuels expansion in sectors such as retail, e-commerce, fashion design, logistics, packaging, and even technical domains like automotive and medical industry. The industry's large employment base and procurement needs to generate a multiplier effect, stimulating MSMEs in accessories, trims, labels, zippers, and buttons, while also spurring innovations in IT solutions for supply chain management and manufacturing automation. As a result, the textiles sector functions not merely as a stand-alone industry, but also as a growth engine for a wide web of ancillary and service sectors, amplifying its economic footprint well beyond its direct output.

Employment

The textile industry ranks as the second most labour-intensive sector in India and employs a significant number of low-income workers. With the imposition of tariffs, this industry is impacted to a large extent and the same will ultimately affect jobs and result into livelihood losses. The situation raises concerns over potential factory closures and worker displacement, particularly affecting lower-income groups.¹⁰ Estimates indicate that a significant number of workers could be at immediate risk, with the textile sector likely to face notable job losses if the tariffs remain in effect for the next six months.

Vision of the Government of India

The Government of India recognises the potential and importance of the industry and envisions positioning India as a Global Textiles manufacturing hub by developing a US\$ 350 billion¹¹ Textile Industry and attaining US\$ 100 billion in Global Textile Exports by 2030 by focusing on high-tech & high-growth product segments, leveraging inherent strengths, developing large scale plug and play infrastructure, keeping sustainability at the core, while ensuring large-scale livelihood opportunities, providing impetus to traditional sectors and becoming Atmanirbhar in raw material value chain.¹²



¹⁰ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2089306>

¹¹ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2051849>

¹² <https://texmin.nic.in/sites/default/files/MOT%20Annual%20Report%20English%20%2807.11.2024%29.pdf>

In the fiercely competitive global textile export market, India's textiles and apparel sector has expanded at a slower pace than key rivals such as China, Bangladesh, and Vietnam, which have secured strong positions internationally by leveraging comparative advantages in product categories like apparel and made ups. Despite an extensive network of support schemes and a well-established industrial base, much of India's growth potential has been eroded by low-cost competitors such as Bangladesh, Vietnam. The sector continues to grapple with persistent challenges, including inadequate infrastructure, rising raw material costs etc. These issues have been compounded by the ongoing impact of U.S. reciprocal and additional

tariffs in one of India's most critical export markets for textiles and apparel (**30% share in India's total textile exports**)¹³, further intensifying the pressures on the industry.

Against this backdrop, the present study serves as a vital instrument for assessing the impact of U.S. reciprocal and additional tariffs and other cost disadvantages faced by India's textile sector in comparison with its competitors. It also offers targeted policy recommendations aimed at addressing these challenges swiftly, with the objective of strengthening the competitiveness of India's textiles and apparel industry in an increasingly challenging global environment.



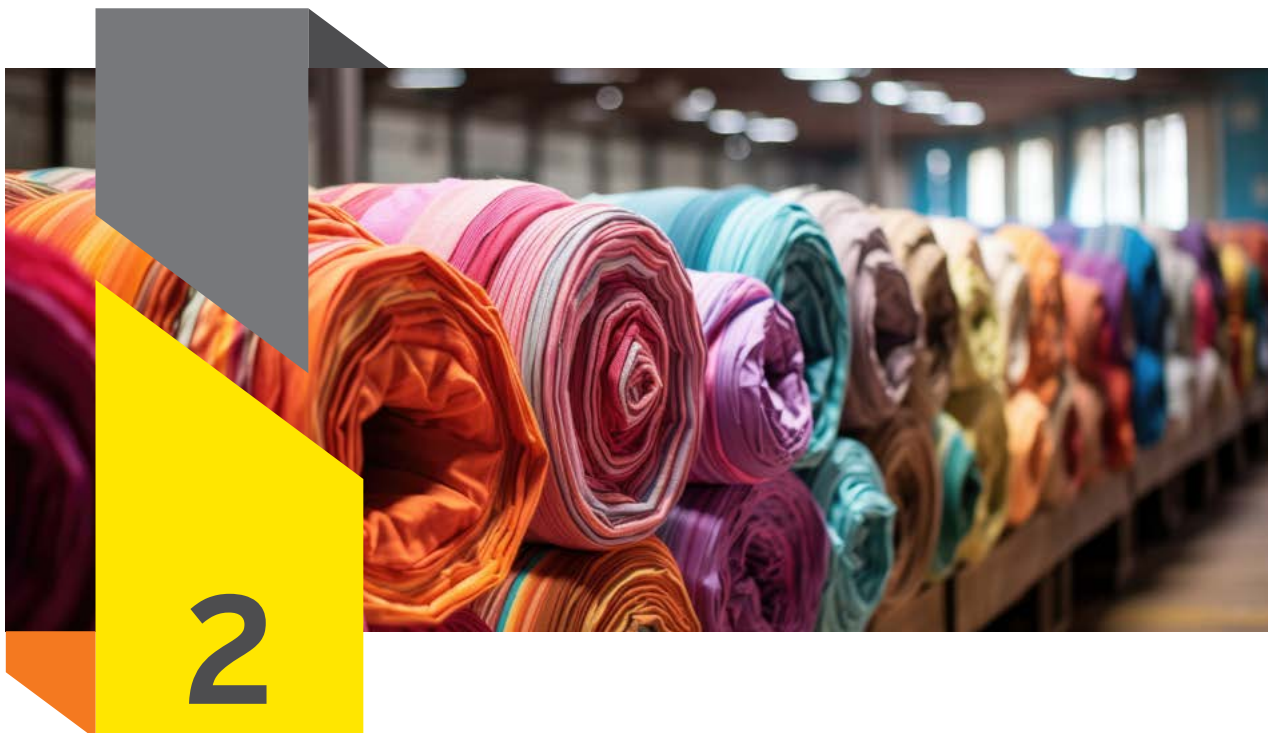
¹³ https://niryat.gov.in/#?start_date=202404&end_date=202503&sort_table=export_achieved-sort-desc&table=region&view=pills-cdv-tab&commodity_group_id=9



A background image of a textile mill with large spools of thread and machinery. A blue rectangular box with a yellow border is centered over the image, containing the chapter title.

Chapter 2

U.S. Tariffs on Indian Textile Exports: Comparative Impact Analysis

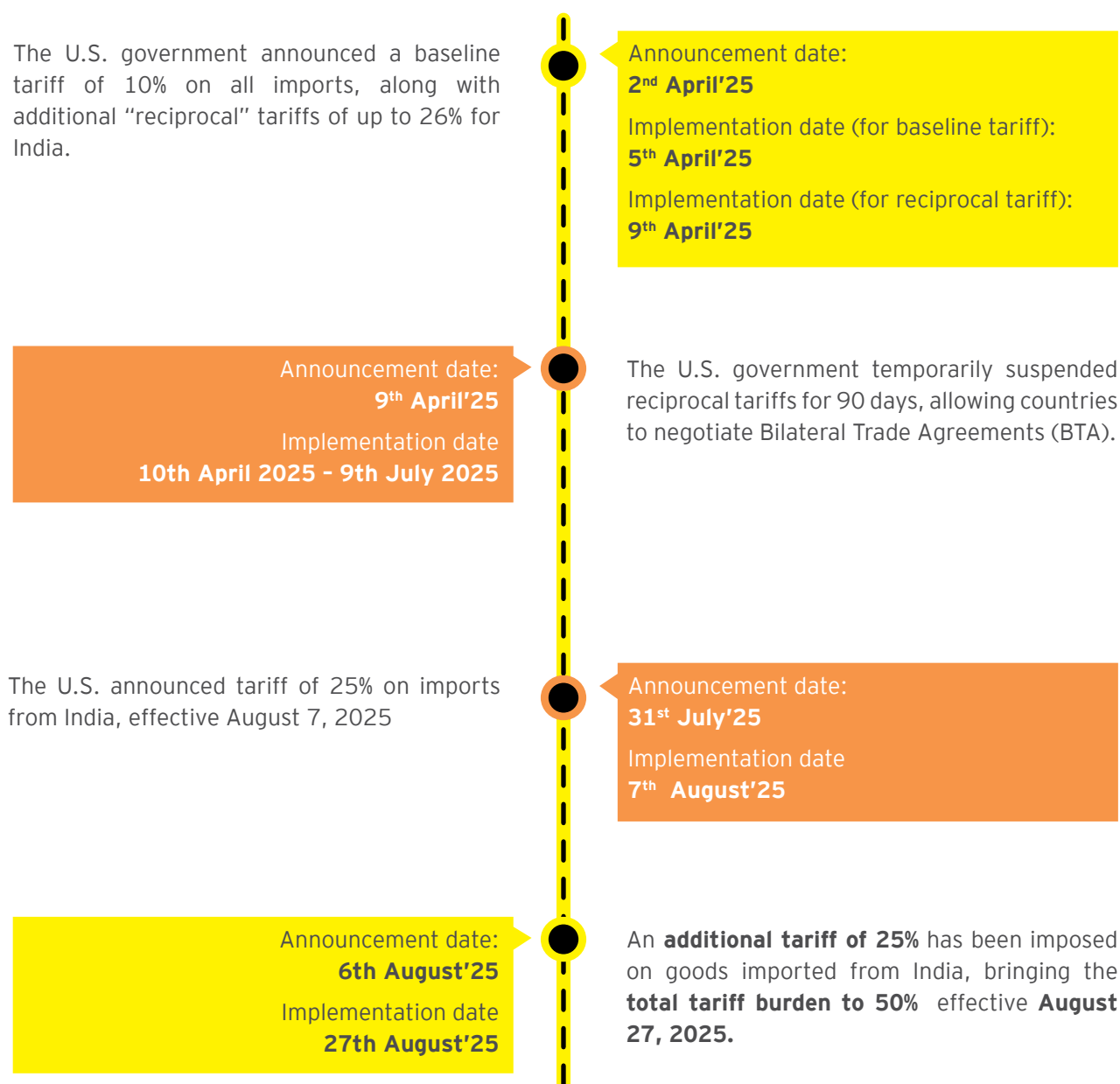


U.S. Tariffs on Indian Textile Exports: Comparative Impact Analysis

Starting FY 2025-26, the United States of America imposed reciprocal tariffs on trading partners that levy comparable tariffs on U.S. exports, matching or exceeding import duties on products exported by them, as a measure to address perceived trade imbalances and protect domestic industries.

Starting FY 2025-26, the United States of America imposed reciprocal tariffs on trading partners that levy comparable tariffs on U.S. exports, matching or exceeding import duties on products exported by them as a measure to address perceived trade imbalances and protect domestic industries. These tariffs, often announced with minimal lead time before implementation, leave exporters with little opportunity to adjust to the enhanced duties. While positioned as a tool to promote fairer trade, such measures frequently disrupt established supply chains, increase costs for consumers and manufacturers, and trigger retaliatory actions from affected nations. Their impact extends beyond bilateral trade, creating uncertainty in the global market, diverting trade flows, and dampening overall international trade momentum.

The timeline of events of proposed tariffs in India can be seen in the diagram below¹⁴:



Given these timelines, India and the U.S. are currently negotiating a Bilateral Trade Agreement (BTA) with the shared target of achieving US\$500 billion in bilateral trade. These discussions aim to enhance market access, reduce tariff barriers, and protect the competitiveness of India’s textile exports. Although a ‘mini-deal’ was proposed for September-November 2025, key issues such as U.S.

tariffs on Indian steel and aluminium and access to Indian agricultural markets remained unresolved.¹⁵

Before examining the impact of the increased U.S. reciprocal tariffs on India’s textile and apparel (T&A) exports, it is important to first understand the relevance of the U.S. as a key export destination for India, in order to fully appreciate the magnitude of the challenge currently the industry is facing.

¹⁴ <https://public-inspection.federalregister.gov/2025-06063.pdf>, <https://www.whitehouse.gov/presidential-actions/2025/04/modifying-reciprocal-tariff-rates-to-reflect-trading-partner-retaliation-and-alignment/>, <https://www.whitehouse.gov/presidential-actions/2025/07/further-modifying-the-reciprocal-tariff-rates/>, <https://www.whitehouse.gov/presidential-actions/2025/08/addressing-threats-to-the-united-states-by-the-government-of-the-russian-federation/>

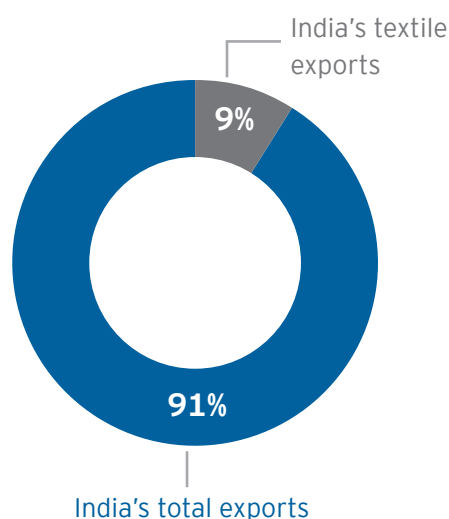
¹⁵ <https://indbiz.gov.in/india-u-s-trade-deal-likely-by-fall-despite-sticking-points-on-steel-tariffs-and-agriculture/>

Relevance of export of textile sector to U.S.¹⁶

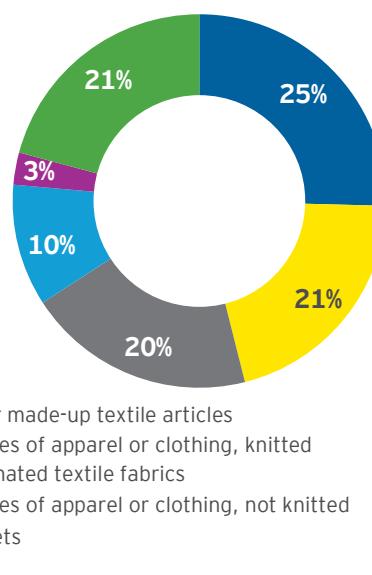
India's total exports to the world was US \$441.7 billion in 2024, out of which textile exports stood at US\$ 39.3 billion (computed at CY), contributing to a significant 9% share in India's export basket. The table below summarises these exported values from India with a special focus on the textile sector to United States of America in the year 2024.

Particulars	Value
India's total exports	US\$ 441.7 billion
India's textile exports	US\$ 39.3 billion ¹⁷ (9% of total exports)
India's total exports to U.S.	US\$ 80.78 billion (18% of total exports)
India's textile exports to U.S.	US\$ 11.6 billion (15% of total exports to U.S. and 30% of total textile exports)

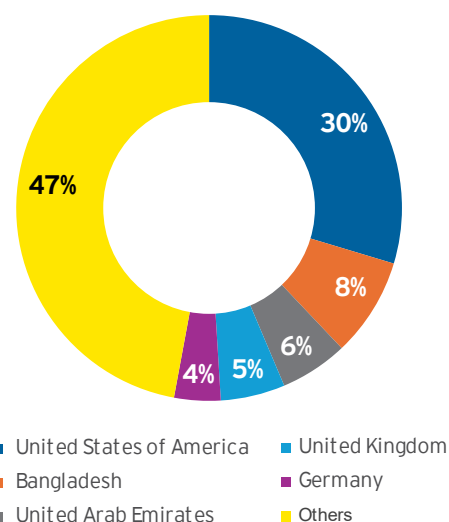
India's textile exports as a proportion of total exports



U.S. import basket of textiles from India (2024)



Share of India's textile exports to the world (2024)



► The United States of America emerged as the largest destination for Indian textiles, absorbing about 30% of total textile exports, far surpassing other markets such as Bangladesh, UAE, UK, Germany, and the Netherlands.

► For India's export basket to U.S., finished goods accounted for major share of exports to USA in comparison to raw materials and intermediaries.

¹⁶ All figures extracted from ITC trade map for CH50-63 and 94 computed at CY <https://www.trademap.org/Index.aspx>

¹⁷ Extracted from Trademap

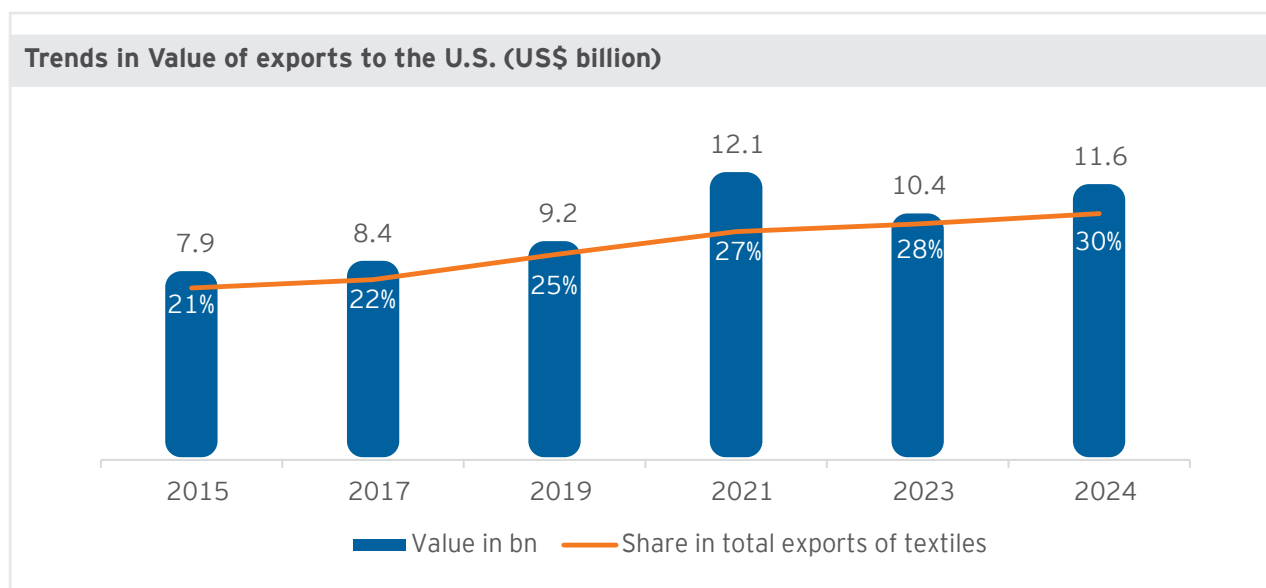
Hence, India's textile export performance is heavily reliant on the U.S. market. This dependence is even more pronounced in the case of finished goods, which form a substantially larger share of exports to the U.S., compared to raw materials and intermediates.

Trends in textile exports to the U.S. from India

India's total exports to the world have seen consistent growth over the past decade, reflecting the country's expanding, manufacturing and resource capabilities. Within this global trade, the U.S. stands out as a crucial market for India. India's

total exports to the U.S. rose from US\$ 7.9 billion in 2015 to US\$ 11.6 billion in 2024, registering a CAGR of 3.92%. This growth underscores the increasing importance of the U.S. as a destination for Indian goods across sectors.

Focusing specifically on textiles, India's exports to the world reached USD 39.3 billion in 2024, of which USD 11.62 billion¹⁸ were exports to the U.S.. This represents a substantial 30% share of India's total textile exports going to the U.S. market, up from 21% in 2015. This steady increase highlights the growing reliance of Indian textile exporters in the U.S. and the strong demand that continues to fuel this growth.^{19, 20}



US imports of textiles: Country-wise and product-wise basket

Country-wise import basket: From the U.S. market's perspective as well, India's significance is equally notable. Out of total U.S. textile imports worth US \$191 billion in 2024, imports from India accounted for US \$12.2 billion, giving India a 6.39% share. In terms of supplier ranking, India holds the **fourth-largest** share of the U.S. textile import market, following China (26.82%), Vietnam (16.54%) and Mexico (9.47%).

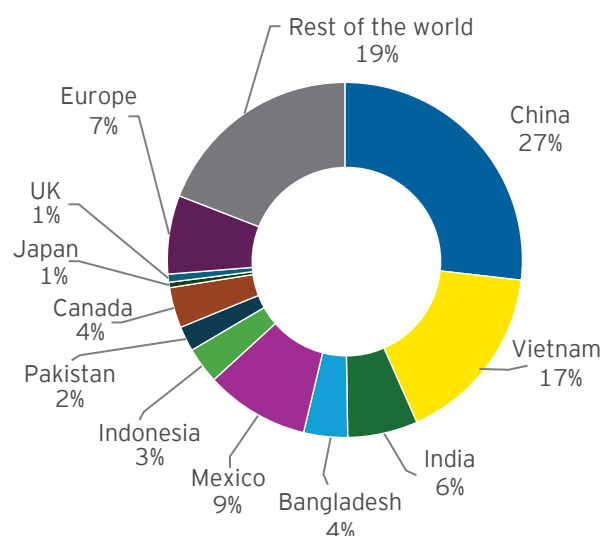


¹⁸ This calculation uses India's export data to the USA as the base, while the U.S. import basket is compiled using U.S. data on imports from various countries. The export value from India to the USA differs from the corresponding U.S. import value from India due to the difference in valuation methods—FOB (Free on Board) for exports and CIF (Cost, Insurance, and Freight) for imports.

¹⁹ All data has been analysed and extracted from <https://www.trademap.org/Index.aspx> for Chapters 50-63 + 94

²⁰ All data has been analysed and extracted from <https://www.trademap.org/Index.aspx> for Chapters 50-63 + 94

Country wise textile imports in U.S. (USD bn) in 2024

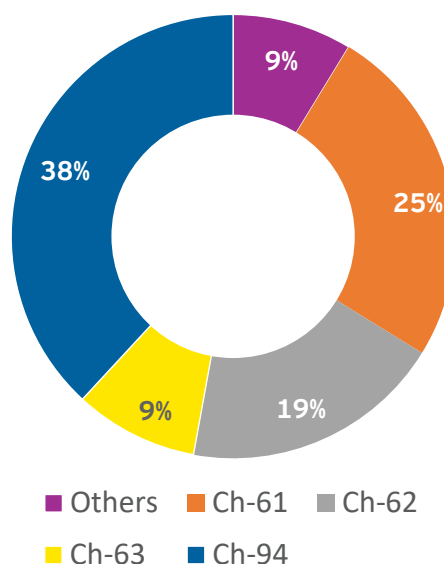


The textile trade between India and the U.S. remains one of the key sectors of collaboration. India holds an imminent position in imports of textiles by the U.S. and similarly, U.S. holds an imminent position in India's exports of textiles.

Product-wise import basket:

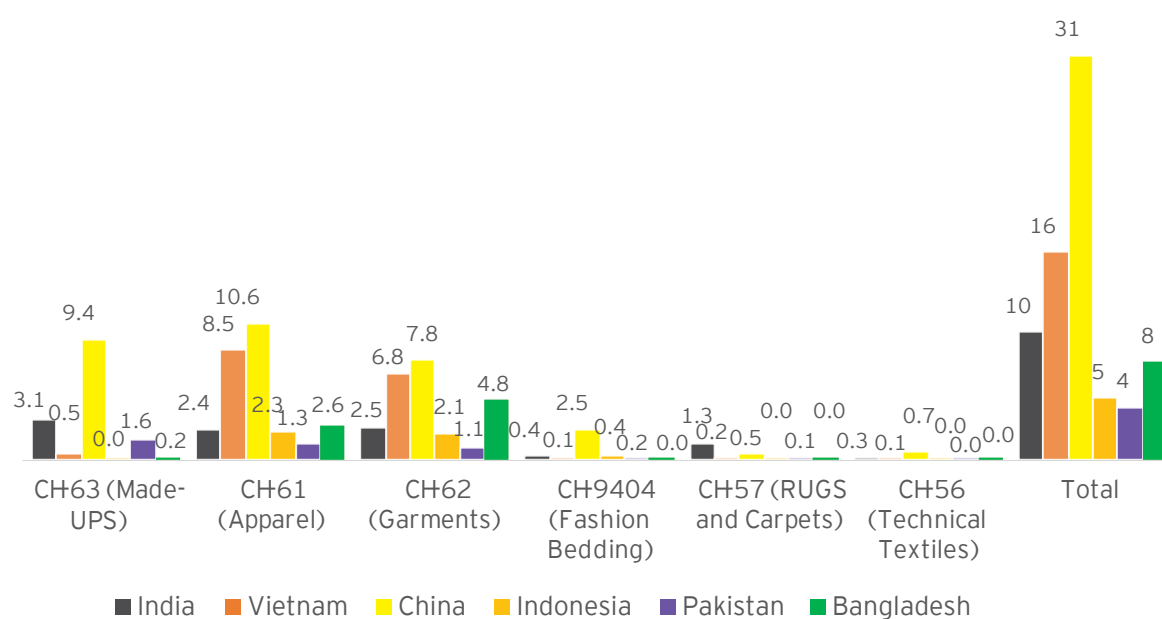
The graph below indicates share of product wise imports segmentation across U.S.'s import basket.

U.S. imports of textiles from the world, 2024 (US\$ mn)



The highest imported products are articles of apparel and clothing (Chapter 61 and 62 - 44%), Fashion Bedding (Chapter 94 - 38%) followed by made-up textile articles (Chapter 63 - 9%).

India vs Competitors: Textile Imports by U.S. by category (US\$ mn)



Within finished textile goods, India holds competitive potential in specific product categories compared to major exporting nations to the U.S.. India shows relative strength in Ch-63 (Made-ups) and Ch-57 (Rugs and Carpets), where its exports, though lower than China's, are ahead of or comparable to several other competitors such as Vietnam, Indonesia, and Pakistan. In Ch-9404 (Fashion Bedding), India's position is at par with smaller exporters but offers room for growth against dominant players.

The recent tariff announcements threaten to significantly disrupts the trade relation between two countries. The impact is likely to be most severe in the finished goods segment, where India holds a competitive portfolio in categories such as made-ups, rugs and carpets, and certain niche products. These tariffs risks are eroding the price advantage and market potentially allowing competitors such

as China, Vietnam, and Bangladesh to consolidate their positions. Without strategic interventions to enhance cost competitiveness and diversify export destinations, India's foothold in the U.S. textile market could be substantially weakened.

Existing cost disability across textile products

In order to ascertain as to what factors impede creation of a textile ecosystem in India, it becomes imperative to analyse the disabilities faced by Indian manufacturers vis-à-vis Bangladesh and Vietnam across these segments. For instance, Indian textile exporters face structural cost disadvantages stemming from higher input costs, logistics inefficiencies, and limited scale economies relative to competitors. For further details, please refer to the table below:

Representative relative cost disability across garment manufacturing value chain

(Manufacturing and Large-Scale Manufacturer)

Particulars	India	Vietnam	Bangladesh	Remarks
Cost of raw materials	56.0	52.8	52.8	The cost of raw materials includes costs incurred by manufacturers for imported and domestically procured raw materials including the respective import duties, taxes and other embedded taxes paid on such raw materials.
Logistics Cost	1.8	1.6	1.6	The same is high on account of reasons such as poor transport infrastructure, high internal freight costs, which increase the time and expense of moving goods.
Labor Cost	25.5	19.3	25.6	India has rigid labour laws lower overtime limits, higher overtime premium etc. which reduces flexibility thereby increasing per-unit labour cost.
SG&A Manpower	2.8	2.2	2.4	Higher supervisory manpower cost in India due to inflexible regulations.
Power Costs	1.4	1.3	1.1	Textile industries still rely heavily on expensive thermal power.
Other Miscellaneous costs	5.7	5.6	5.6	
Interest	3.8	4.5	3.1	India faces higher effective lending rates due to limited interest subsidies and high borrowing costs. Avg. debt cost in India (10%) is higher than in Vietnam (7%) for manufacturing.
Depreciation	1.2	1.2	1.2	
Tax	1.8	1.9	1.5	Taxes are in similar range across nations.
Total	100	90.4	95.1	
Disability		9.6%	4.9%	

Source - Industry data

The data compiled above is for synthetic garments, but is equally representative of the cost disabilities in cotton and other textile products as well.

Overall cost disability for made-ups

Indian manufacturers face a cost disadvantage when sourcing these materials domestically compared to importing them from global markets. The price of raw materials price gaps directly inflate the production cost. Further, the price of raw materials when coupled with elevated domestic power tariffs, labour expenses, and capital costs, exacerbates the competitive disadvantage in MMF industry. In such situations, the industry seeks support from the Government to reduce the gap of the cost differential. There are instances wherein globally, mature economies have extended support in the form of subsidies to enable the industry to flourish. For instance, Chinese government offers extensive state support across industries with public subsidies estimated at €221.3 billion (1.73% of GDP in 2019) which is significantly higher than many other jurisdictions such as France, Germany, USA, Japan, South Korea (in the range of 0.41%-0.67%)²¹. These subsidies span energy, finance, logistics, and infrastructure, reducing input costs across sectors. Such broad-based industrial subsidization competes with the export price for MMF **value chain** including PSF, spun yarn, filament yarn, VSF, and fabrics etc. in

the global markets allowing Chinese manufacturers offering prices far below those of Indian manufacturers. This structural cost disadvantage highlights the imperative for commensurate export policy measures for MMF value chain in India, to safeguard export competitiveness and support the growth of its textile industry.

Tariff Disability

With imposition of reciprocal tariff, the rates were increased to 10%, with effect from 9th April 2025. Following the tariff announcements on 7th August, the U.S. issued two notifications outlining further changes. For the purpose of assessment, we have undertaken analysis under two distinct scenarios. First, reflecting the impact of the reciprocal tariffs (effective from 7th August 2025), and second, factoring in the additional tariff effective from 27th August 2025.

- **Scenario 1:** Tariff imposition @ 25% (effective from 7th August 2025), and
- **Scenario 2:** Tariff Imposition @ 50% (effective from 27th August 2025).

A country-wise analysis on the disability caused to India on account of increased tariff is as follows:

Country	Reciprocal tariff imposed by U.S.	Tariff differential for India in Scenario 1 (25% tariff)	Tariff Differential India in Scenario 2 (50% tariff)	Value of exports to U.S. (USD bn) in 2024	Export share to U.S.
China	30%	5%	-20%	51.24	26.82%
Vietnam	20%	-5%	-30%	31.60	16.54%
Mexico	30%	5%	-20%	18.09	9.47%
EU	15%	-10%	-35%	13.67	7.16%
Bangladesh	20%	-5%	-30%	7.64	4%
Indonesia	19%	-6%	-31%	6.34	3.32%
Pakistan	19%	-6%	-31%	4.35	2.28%
Canada	35%	10%	-15%	7.05	3.69%
Japan	15%	-10%	-35%	0.94	0.49%
UK	10%	-15%	-40%	1.41	0.74%
Rest of the world				48.73	25.51%
U.S. Imports from the world				191.06	
Percentage of India's sector export to USA out of total sector exports to the world					30%
Total sector exports of India (USD bn) in FY 25					37bn

²¹ <https://global.oup.com/academic/product/subsidies-to-chinese-industry-9780199773749?cc=in&lang=en&#>



The impact of rising U.S. reciprocal and additional tariffs on India's textile and apparel exports varies significantly across competing nations, altering the relative competitiveness landscape. The following country-wise analysis outlines how India's position shifts under two possible tariff scenarios i.e., tariff imposition at 25% and tariff imposition at 50% and the implications for market share in the U.S.

Scenario 1 Analysis- Reciprocal tariff @ 25% with alignment at moderate levels

- ▶ With the increase in tariffs, India would be at marginal advantage when compared to countries such as China, Mexico and Canada and at a disadvantage when compared to major competing countries like Bangladesh, Vietnam, and Pakistan.
- ▶ Given the higher share of exports to the U.S. out of total textiles export basket, the increase in tariff is likely to have substantial impact on the exports from India to U.S.
- ▶ The initial cost advantage India held during the early phase of the tariff implementation in April 2025 has substantially eroded. China's current tariff rate of 30% is now only marginally higher than India's, narrowing the competitiveness gap between the two.
- ▶ India's cost advantage over Mexico and Canada remains uncertain, particularly in light of a potential U.S. trade agreement that could offer preferential access to these countries.
- ▶ India holds a disadvantage over many countries who have successfully concluded an FTA such as Indonesia (19%), Japan (15%), the UK (10%), the European Union (0-15%). Therefore, it is crucial for India to negotiate mutually beneficial trade

terms with the United States of America that promote fair access and strengthen economic ties.

Scenario 2: Potential Reciprocal tariff @ 50% effective 27 August 2025

- ▶ With this potential escalation, India loses the relative advantage it enjoyed with markets such as China, Mexico, and Canada in Scenario 1. Instead, these countries would then enjoy a significant tariff advantage over India, with China's tariff rate being 20 percentage lower, and Mexico and Canada at 20% and 15% respectively, creating strong competitive pressure. If the potential of 50% is imposed.
- ▶ India's disadvantage is even more pronounced against countries with preferential or lower tariff regimes through existing FTAs, such as Vietnam (20%), Bangladesh (20%), Indonesia (19%), Japan (15%), the UK (10%), and the EU (0-15%).
- ▶ These economies would expand their share in the U.S. market at India's expense resulting into a substantial loss for India. Given that the U.S. accounts for 30% of India's total textile exports, this steep tariff rise risks substantial export volume declines, erosion of market share, and displacement by lower-tariff competitors.

While the industry was still coping with the earlier increase in tariffs to 10%, the subsequent imposition of 25% tariff is already proving to be unsustainable for many players, severely impacting export viability. The escalation to a 50% tariff effective 27 August 2025 poses an even greater threat to the sector's survival, necessitating urgent policy intervention, proactive trade negotiations, and targeted cost-efficiency measures to shield the industry from the crippling impact of such exponential tariff hikes.

India maintains a notable share in key textile categories in the U.S. market, particularly in HS 63 (The combined effect of tariff disability, cost disadvantages, and the consequent loss of competitiveness in the U.S. market threatens India's textile exports, not only in terms of direct sales but also through ripple effects on allied and ancillary industries as detailed in the section below:

- **Agriculture Sector:** Agriculture supplies key raw materials such as cotton, jute, hemp, and silk to the T&A sector, supporting rural employment and farm incomes. (Refer to specific raw materials imported for specific chapter for finished goods). Given the reduced supply of exports to these sectors, the overall demand for agricultural products will also be impacted.



Chapter	Raw Materials procured
63 -made-ups	Cotton, Wool and Man Made Fibre
61 & 62 - garments & apparel	Cotton, Wool and Man Made Fibre silk
9404 - mattresses, beddings	Cotton, silk
57 - carpets	Cotton, MMF, Jute and Silk, Wool
56 - special yarns	Feathers, Plastic and Rubber, Wool, MMF, Jute and Cotton

- **Chemical Industry:** The chemical sector provides dyes, pigments, finishing agents, and raw materials for synthetic fibres used in textile manufacturing.

Chapter	Raw Materials procured
63 - Other made-up textile articles	Caustic soda, calcium bisulphate, Caustic soda, surfactants, HO, Reactive dyes, auxiliaries, NaOH (for mercerization), softeners
61 & 62 - articles of apparel and clothing	Bleach, dyes
9404 - mattresses, beddings	Bleach, dyes
57 - carpets	Alkaline detergents or caustic agents
56 - special yarns	Adhesives, glue spray

A slowdown in exports due to tariffs reduces orders for these inputs, especially speciality finishes aimed at overseas buyers, leading to lower utilisation rates and delayed investment in sustainable chemical innovations.



- ▶ **Logistics & Transport** - Logistics connects every stage of the textile value chain, moving raw materials, semi-finished goods, and finished products to domestic and export markets. Finished apparel (Ch. 61), bed linen (Ch. 63), nonwovens (Ch. 56), carpets (Ch. 57), and Fashion bedding (9404) are all moved from manufacturing hubs (Tiruppur, Panipat, Bhadohi, Morbi) to ports like Mundra, Nhava Sheva, and Chennai for export. Tariffs that shrink export volumes would lower container demand for these product categories, reducing throughput at ports, trucking activity on textile freight corridors, and warehouse turnover in logistics hubs like Bhiwandi.
- ▶ **Packaging Industry** - Packaging ensures safe transit, branding, and compliance for textile exports through cartons, polybags, and labelling. A drop in export orders due to tariffs

directly reduces demand for customised export packaging, with suppliers facing reduced batch sizes and lower production runs.

With competing nations poised to capture India's market share, the sustainability of trade under heightened tariff conditions becomes increasingly challenging. In these difficult times, there is an urgent need for Government intervention to shield the industry from both the immediate and long-term repercussions of this tariff disruption. Before presenting our recommendations in the next chapter, we will outline the incentives and policies currently in place to support the sector, followed by proposed additional measures such as targeted subsidies, concessions, and export incentives tailored to mitigate the impact of high tariffs on exports to the U.S.







Chapter 3

Policy Landscape: Existing Government Support and Schemes



Policy Landscape: Existing Government Support and Schemes

The chapter builds on the same to provide a detailed discussion on the support provided by the Government in the form of various fiscal and non-fiscal incentives (including schemes which are no longer in existence now)

Over the years, recognising the economic value of the textiles sector, the Government of India has promulgated several schemes to benefit the sector. The chapter builds on the same to provide a detailed discussion on the support provided by the Government in the form of various fiscal and non-fiscal incentives (including schemes which are no longer in existence now)

Schemes at the Central level

Rebate of State and Central Taxes and Levies (ROSCTL), Ministry of Textile

Ministry of Textile, Government of India notified a new scheme namely "Rebate of State and Central Taxes and Levies" in March 2019, to promote exports of apparel (under Chapter 61 and 62) and made-up articles (under Chapter 63). The objective of the scheme is to neutralize the non-creditable/refundable State and Central Taxes, Duties and Levies embedded in export goods viz. apparel/ garments and Made ups by way of issuance of duty credit scripts (rebate)²².

²² <https://texmin.nic.in/sites/default/files/RoSCTL%20extension%20notification%20dated%2008th%20February%202024.pdf>



Particulars	Description
Performance Years	The Scheme is effective until 31st March 2026.
Budget Outlay	The estimated budget outlay for ROSCTL in 2025-26 is approximately Rs. 10,170 crores by 9% from 2024-25 budget outlay.
Coverage of Products	Exporters of apparel (HS Chapters 61 & 62) and made ups (Chapter 63) ²³
Scope of Rebate	Rebate of State Taxes and Levies comprises²⁴ ▶ VAT on fuel used in transportation, captive power, farm sector, Mandi tax, Duty of electricity, Stamp duty on export documents, ▶ Embedded SGST paid on inputs such as pesticides, fertilizers etc. used in production of raw cotton, purchases from unregistered dealers, coal used in production of electricity and inputs for transport sector. ▶ Rebate of Central Taxes and Levies comprises central excise duty on fuel used in transportation. ▶ Embedded CGST paid on inputs such as pesticides, fertilizer etc. used in production of raw cotton, purchases from unregistered dealers, ▶ Inputs for transport sector and embedded CGST and Compensation Cess on coal used in production of electricity.
Range of rebate	Varies depending on product category and HS code; includes both state and central tax rebate component

Remission of Duties and Taxes on Exported Products (RODTEP), Ministry of Commerce and Industry²⁵

RODTEP Scheme was notified by the Government of India on 1st January 2021 and RoDTEP rates & value caps were notified vide DGFT Notification No. 19/2015-20 dated 17.08.2021. The scheme has been introduced with an objective to neutralize the

taxes and duties suffered on exported goods which are otherwise not credited or remitted or refunded in any manner and remain embedded in the export goods.

²³ <https://taxguru.in/wp-content/uploads/2019/08/Rates-of-rebate-under-RoSCTL-Notification.pdf>

²⁴ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2001049>

²⁵ <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2021/aug/doc202181701.pdf>

Particulars	Description
Performance Years	Effective from 1st January 2021 , and currently in operation for exports made from 1 st May 2025 onwards
Budget Outlay	The estimated budget outlay for RODTEP in 2025-26 is approximately Rs.18,233 crores ²⁶
Coverage of products	Covers products at 8-digit HSN rebate varying across tariff lines ²⁷
Scope of Rebate	The scheme intends to compensate the duties/taxes/levies at the Central, State and Local level borne on the exported product including prior stage cumulative indirect taxes on goods and services used in the production and distribution of the exported product. Illustrative taxes would be as follows: ²⁸ ▶ VAT and Excise duty on the fuel used in self-incurred transportation costs; on the fuel used in generation of electricity via power plants or DG Sets; on the fuel used in running of machineries/plant ▶ Electricity duty on purchase of electricity ▶ Mandi Tax/ Municipal Taxes/ Property Taxes ▶ Stamp duty on export documents
Range of rebate	Range of rebate depends on the percentage of FOB value varying across different product lines ²⁹

Production Linked Incentive (PLI) scheme of textiles, Ministry of Textiles

The PLI scheme for textiles was introduced in 2020-21 to encourage Man Made Fibers (MMF) covering Apparel, Fabrics and technical textiles manufacturing in the country³⁰.

Particulars	Description						
Performance years	FY 2024-25 to FY 2028-29						
Incentive claim years	FY 2025-26 to FY 2029-30						
Budget outlay	INR 10,683 crore						
Eligibility conditions	<table> <tr> <th>Scheme 1</th><th>Scheme 2</th></tr> <tr> <td>Minimum investment of 300 crore</td><td>Minimum investment of 100 crore</td></tr> <tr> <td>Minimum turnover to be achieved - ₹ 600 crore</td><td>Minimum turnover to be achieved - ₹ 200 crore</td></tr> </table>	Scheme 1	Scheme 2	Minimum investment of 300 crore	Minimum investment of 100 crore	Minimum turnover to be achieved - ₹ 600 crore	Minimum turnover to be achieved - ₹ 200 crore
Scheme 1	Scheme 2						
Minimum investment of 300 crore	Minimum investment of 100 crore						
Minimum turnover to be achieved - ₹ 600 crore	Minimum turnover to be achieved - ₹ 200 crore						

²⁶ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2131526>

²⁷ <https://content.dgft.gov.in/Website/Annexure%20to%20Notification%20No.%2039.pdf>

²⁸ <https://static.pib.gov.in/WriteReadData/specificdocs/documents/2021/aug/doc202181701.pdf>

²⁹ <https://www.dgft.gov.in/CP/?opt=RoDTEP>

³⁰ <https://pli.texmin.gov.in/Scheme-Notifications>



Particulars	Description	
Additional incremental turnover	Scheme 1 Minimum additional incremental turnover of 25% over previous year	Scheme 2 Minimum additional incremental turnover of 25% over previous year
Incentive	Scheme 1 Incentive of 15% in year 1 Deduction of incentive by 1% for the next 4 years to 11% in year 5	Scheme 2 Incentive of 11% in year 1 Deduction of incentive by 1% for the next 4 years to 7% in year 5
List of products	Textiles at 8-digit HSN under Ch-54,55,60,61 and 62 and technical textiles including but not limited to geo textiles, medical textiles, defense textiles among others	
Value addition	Minimum value addition of 60% in India for integrated or fiber/yarn to fabric or fabric to garment and technical textiles. For fabric processing industry, the required minimum value is 30%	

As per the latest data available in 2025, the PLI scheme for textiles has generated investments worth Rs.7,343 crore, turnover of Rs.4,4648 crore and exports of Rs.538 crore³¹.

Special Package for Employment Generation and Promotion of Exports, Ministry of Textiles

The Union Cabinet in 2016 approved a special package for employment generation and promotion of exports in Textile and Apparel sector. The package includes a slew of measures which are labour friendly and would promote employment generation, economies of scale and boost exports. The steps will lead to a cumulative increase of US\$30 bn. in exports and investment of Rs. 74,000 crores over next 3 years³².

³¹ https://sansad.in/getFile/annex/268/AU2399_eoGfjR.pdf?source=pqars

³² <https://www.pib.gov.in/newsite/PrintRelease.aspx?relid=146422>

Particulars	Description
Key Features of the Scheme	A. Increasing overtime caps ▶ Overtime hours for workers not to exceed 8 hours per week in line with ILO norms. B. Introduction of fixed term employment ▶ Looking to the seasonal nature of the industry, fixed term employment shall be introduced for the garment sector. ▶ A fixed term workman will be considered at par with permanent workman in terms of working hours, wages, allowed and other statutory dues. C. Enhanced duty drawback coverage ▶ In a first of its kind move, a new scheme will be introduced to refund the state levies which were not refunded so far. ▶ This move is expected to cost the exchequer Rs 5500 crores, but will greatly boost the competitiveness of Indian exports in foreign markets. ▶ Drawback at All Industries Rate to be given for domestic duty paid inputs even when fabrics are imported under Advance Authorization Scheme. D. Enhancing scope of Section 80JJAA of Income Tax Act ▶ Looking at the seasonal nature of garment industry, the provision of 240 days under Section 80JJAA of Income Tax Act would be relaxed to 150 days for garment industry.

Employment Linked Subsidy Scheme, Ministry of Labour and Employment³³

The Union Cabinet chaired by the Prime Minister, Shri Narendra Modi, has approved the Employment Linked Incentive (ELI) Scheme to support employment generation, enhance employability and social security across all sectors, with special focus on the manufacturing sector.

Particulars	Description
Budget Outlay	₹99,446 crore to incentivize creation of over 3.5 crore jobs from 1 August 2025 to 31 July 2027 .
Coverage of products	All establishments registered with EPFO that add new employees earning monthly wages below ₹15,000; eligible if such employees were not members of EPFO earlier.

³³ https://www.epfindia.gov.in/site_docs/PDFs/EPFO_PRESS_RELEASES/PressRelease_ELI.pdf

Particulars	Description
Scope of subsidy	First-Time Employees (Part A): Eligible employees (salary ≤ ₹1 lakh/month) receive one month's EPF wage (max ₹15,000) in two instalments – after 6- and 12-months of service, contingent on completing a financial literacy program and saving condition. Employers (Part B): Companies creating additional employment get monthly subsidies up to ₹ 3,000 per employee for 2 years for each additional employee with sustained employment for at least six months; manufacturing units can receive benefits extended up to 4 years.³⁴ Establishments, which are registered with EPFO, will be required to hire at least two additional employees (for employers with less than 50 employees) or five additional employees (for employers with 50 or more employees), on a sustained basis for at least six months.

Interest Equalization Schemes, Ministry of Commerce and Industry

The Interest Equalisation Scheme has been formulated to give the benefit in the interest rates being charged by the banks to the exporters on their

Pre and Post Shipment Rupee Export Credits. The scheme was launched w.e.f. 1.4.2015 for a period of 5 years and later extended till 31.03.2024. The broad objective of the scheme is to provide exporters a cheaper source of rupee credit for pre-shipment and post-shipment activities.

Particulars	Description
Performance Years	The duration of the scheme was five years with effect from 1.4.2015. The scheme was extended for three months (Apr-Jun 2024) at existing rates for MSMEs (3%) and eligible non-MSMEs (2%). From 1 July 2024, it was limited to MSME manufacturers only, with a 50 lakh cap per exporter till Dec 2024 ³⁵ .
Budget Outlay	Budgetary outlay of ₹ 9538 crore which was enhanced by Rs. 2,500 crore to cover the scheme upto its full period ³⁶ .
Eligibility criteria	The scheme covers mostly labour intensive and employment generating sectors like processed agriculture/food items, handicrafts, handmade carpet (including silk), handloom products, coir and coir manufactures, jute raw and yarn and other jute manufactures, readymade garments and made ups covered under Chapter 61-63, fabrics of all types ³⁷ .
Benefit Range	The rate of Interest Equalisation @3% per annum was available on Pre and Post Shipment Rupee Export Credit to all MSME manufacturer exporters and 2% is applicable to Merchant and other manufacturer exporters.

PM Mega Integrated Textile Region and Apparel (PM MITRA), Ministry of Textiles

The scheme aims to provide modern infrastructure for the entire value chain of textiles such as spinning, weaving, processing, garmenting, textile manufacturing etc. by setting up PM Mitra parks.

³⁴ <http://pib.gov.in/PressReleasePage.aspx?PRID=2141129>

³⁵ <https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=12610&Mode=0>

³⁶ https://dashboard.msme.gov.in/12_nnouncements.aspx

³⁷ <https://www.escindia.in/interest-equalisation-scheme/>

Particulars	Description
Eligibility	Special Purpose Vehicle (or SPV) - a legal entity set up by the State government for implementation of PM MITRA Park projects ³⁸ .
Budget outlay	₹ 4445 crores over 7 years upto FY2027-2028 ³⁹ .
Development Capital support (DCS)	Phase I - ₹ 300 Cr for Greenfield Park and ₹ 100 Cr for Brownfield Park, as per phasing of construction. Concession period will be 25 years till completion of Phase 1 Phase II - ₹ 200 Cr for Greenfield Park and ₹ 100 Cr for Brownfield Park.
Manufacturing incentives	Manufacturing incentives of ₹ 300 crore per park. Incentive @3% of total sales turnover of a unit established in the park.

National Technical Textiles Mission, Ministry of Textiles

The National Technical Textiles Mission aims to improve the penetration level of technical textiles in the country.⁴⁰

Key Components	Details
Budget Outlay	₹ 1,480 crore
Scheme Period	2020-21 to 2023-24
Scheme Components & Outlay Breakdown	1. Research, Innovation & Development: ₹ 1,000 crore. 2. Promotion & Market Development: ₹ 50 crore 3. Export Promotion: ₹ 10 crore 4. Education, Training & Skill Development: ₹ 400 crore ⁴¹

Amended Technology Upgradation Fund Scheme (ATUFS)⁴²

The scheme aims to promote ease of doing business in the country to enhance investment, productivity, quality, employment exports and import substitution in the textile industry.

Key Components	Details
Budget Outlay	₹ 17,822 crore
Scheme Period	13 January 2016 to 31 March 2022 (7 years) ⁴³

³⁸ https://www.texmin.nic.in/sites/default/files/PM_MITRA_Guidelines.pdf

³⁹ https://www.texmin.nic.in/sites/default/files/PM_MITRA_Guidelines.pdf

⁴⁰ NTTM_Gazette_Notification_0_0

⁴¹ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2115710#:~:text=Additionally%2C%20the%20budget%20boosts%20capital,costs%20and%20promote%20machinery%20upgrades.&text=India's%20journey%20to%20becoming%20a,technical%20textiles%20is%20well%20underway.>

⁴² Guidelines for ATUFS dated 29.02.2016 (2.33 MB)_0.pdf

⁴³ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2110117>

Key Components	Details
Incentives / Subsidy	Capital Investment Subsidy (CIS): i. 15% (max ₹ 30 crore) for garmenting, technical textiles, composite units where >50% of investments fall in these segments ii. 10% (max ₹ 20 crore) for weaving (shuttle-less looms), handloom, silk, jute, processing, or composite units where <50% investment in garments/tech textiles⁴⁴
Eligibility Criteria	Individual entities (not each unit), in sectors including handloom, silk, jute, technical textiles, garment/made-up manufacturing, weaving preparatory and knitting, processing of fibres/yarns/fabrics/made ups ⁴⁵
Products Covered/ Machinery	Subsidy available for eligible, new benchmarked machinery across segments noted above. (Second-hand machinery ineligible.) Accessories/spares up to 20% of machinery cost also eligible ⁴⁶

The above overview highlights the extensive framework of support currently/historically available to the Indian textile and apparel sector through central government schemes. While these initiatives have collectively contributed to enhancing competitiveness, capacity, and export potential, the evolving trade environment, particularly the recent imposition of reciprocal tariffs by the United States of America effective 27 August 2025, poses new

challenges that existing schemes in their current form are inadequate to address the impact. In light of the same, the next chapter sets out targeted recommendations to recalibrate and strengthen these schemes, ensuring that they not only offset the adverse impact of these tariffs but also position India's textile industry to maintain and expand its share in key global markets.



⁴⁴ https://texmin.nic.in/sites/default/files/Revised%20guidelines%20of%20ATUFS%20dated%2002.08.2018%20285.31%20MB%29_0.pdf

⁴⁵ https://texmin.nic.in/sites/default/files/Revised%20guidelines%20of%20ATUFS%20dated%2002.08.2018%20285.31%20MB%29_0.pdf

⁴⁶ https://texmin.nic.in/sites/default/files/Revised%20guidelines%20of%20ATUFS%20dated%2002.08.2018%20285.31%20MB%29_0.pdf





Chapter 4

Recommendations and Way Forward



Recommendations and Way Forward

With the current tariff of 50% (reciprocal tariff of 25% and additional tariff of 25%) imposed by U.S., India faces a direct disadvantage in terms of additional tariffs assuming that the Governments in competing jurisdictions would not provide any additional support to their textile exporters to tide over the impact of reciprocal tariff applicable on these countries.

At this critical juncture, while the industry is united in the spirit of Atmanirbhar Bharat and committed to national interest, extraordinary times call for timely and bold policy interventions to protect jobs, stabilize rural incomes and maintain India's export momentum. Given the same, it is essential that the Government supports the industry in the form of extending certain incentives/ concessions/ subsidies to the industry to overcome the impact of such reciprocal tariffs.

As one of the crucial steps, it is imperative to immediately accelerate the India-U.S. bilateral agreement to directly counter the 50% tariff on Indian textile and apparel exports. This agreement will enable tariff relief and preferential market access, restoring competitiveness against competitors like

Bangladesh and Vietnam, and safeguarding market share, orders, and jobs.

The India-UK Free Trade Agreement, once implemented, will eliminate the 12% Basic Customs Duty on apparel and provide Indian exporters with duty-free access to the UK market. While the agreement may take 6-9 months to come into effect, it presents a valuable opportunity for India to expand its market share in the UK. While competing countries also working to strengthen their position, Indian exporters can leverage this window to build deeper customer relationships. Furthermore, forthcoming FTAs with the EU, Oman, and EFTA, coupled with opportunities for trade diversification across Africa, ASEAN, the Middle East, and Latin America, will collectively strengthen India's global trade standing.

Given the above, report provides various recommendations on the measures that can be taken by the Government to help industry overcome the impact of the US reciprocal and additional tariff as well as provide an impetus for the industry to grow. Herein, we have categorised the recommendation into two buckets:

1. Immediate measures - The measures serve as immediate relief interventions to cushion exporters and textile industry from the adverse impact of additional reciprocal tariffs of 25% imposed in response to continued oil imports from Russia. Such immediate measures may be implemented on priority without any delay.

2. Essential measures - These measures serve as a relief measure to counter the impact of the reciprocal tariffs in the medium to long term. Such essential measures then may be implemented overtime to address the cost disabilities inbuilt in the sector specifically focussing on enhancing the sector's capacity.

IMMEDIATE MEASURES (On account of oil tariffs)

Focus Market Scheme for Textile Exports to the United States (Ministry of Commerce)

The earlier Focus Market Scheme (FMS) was designed to offset high freight costs and other external challenges faced by exporters by targeting select international markets, thereby enhancing India's export competitiveness in these countries. Under the scheme, exporters of all products to notified countries were entitled to Duty Credit Scrips equivalent to 3% of the FOB value of exports made in free foreign exchange. This incentive helped mitigate cost disadvantages and promote exports.

This reinstated Focus Market Scheme will directly alleviate the financial strain caused by the additional U.S. tariffs and help maintain the price competitiveness and market share of Indian textile exporters amid ongoing trade challenges.

In light of the current situation arising from the imposition of 50% tariff on textile products exported to the United States of America, it is recommended that the Focus Market Scheme be reintroduced specifically for textile exports to the U.S.. The proposed scheme should provide Incentive Scrips amounting to **25% of the FOB value of exports of textile products to the U.S. market.** These scrips should be freely transferable, allowing exporters flexibility to utilize them against customs duty payments on imports, thereby improving liquidity and easing business operations. The duration of the reintroduced scheme should be aligned with the period, during which the additional 25% tariff is applicable, ensuring targeted and timely relief to exporters, until the tariff impact subsides. Such incentive may be reassessed and reduced to 15% accordingly upon the elimination of additional 25% tariff.



⁴⁷ <https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1808759>

IMMEDIATE MEASURES (On account of reciprocal tariffs) -

Rationalize rebate rates and extension in scheme tenure for RoSCTL schemes to mitigate US Tariff burden (Ministry of Commerce)

In light of the evolving trade landscape and the imposition of the U.S. tariffs effective from 27th August 2025, on the Indian textile and apparel sector, a strategic enhancement in the rebate rates under RoSCTL schemes along with their extension in coming years is recommended. These measures are critical to sustaining export competitiveness and supporting the growth of this vital sector.

Noteworthy to mention that the current RoSCTL rates does not fully consider the embedded taxes/duties and levies and the rebate rates which have remained unchanged since inception. For instance, in the case of home textiles, embedded taxes ranges between approximately 10%-11% of the average export price, whereas the current RoSCTL benefits cap at 3.31% to 8.2%.⁴⁸

This discrepancy led exporters to bear considerable tax costs, rendering exports less competitive globally. Therefore, it is imperative to increase the rebate rates of RoSCTL to adequately compensate exporters for these embedded levies.

Moreover, the recently announced reciprocal U.S. tariff effectively acts as an additional embedded cost for Indian exporters, as it erodes price competitiveness and contracts the potential export market, particularly when competing countries such as China or Vietnam are able to supply at lower landed costs to U.S. importers.

In light of this, an additional rebate in the range of 5%-10% under RoSCTL schemes should be introduced for textile exporters, exporting goods to the U.S., to neutralise the adverse impact, preserve market share, and ensure Indian products remain competitive despite the new tariff barrier.

Further, Currently, the RoSCTL benefit is not available to companies operating under the Advance Authorization (AA) scheme, units in

Special Economic Zones (SEZ) and 100% Export Oriented Units (EOU). This exclusion results in embedded taxes becoming a cost component in the final products for these entities, increasing the overall cost of textile products and diminishing their market competitiveness. It would be unjust if the Advance Authorization Holders, SEZ units and 100% EOUs are denied the benefit of RoSCTL scheme, as they bear equivalent amount of taxes and levies in comparison with other exporters. Additionally, the Government of India has extended RoDTEP scheme benefits to exports made by Advance Authorization holders, EOU, and SEZ units to enhance India's competitiveness in global markets.⁴⁹ Hence, it is recommended to extend similar RoSCTL benefits to AA, SEZ & EOU entities to further support growth and competitiveness in the textile sector.

Also, given the WTO-compliant nature of the RoSCTL schemes and their fundamental role in remitting embedded duties and taxes on exports, extending these schemes by an additional five years is essential. The extension will offer policy certainty to the Indian textile sector, allowing businesses to confidently schedule orders, optimize supply chains, and invest in capacity enhancement. Given that both schemes are WTO-compliant and designed for duty/tax remission, their continuation aligns with India's global trade commitments.



⁴⁸ Industry Analysis

⁴⁹ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2012779>



Rationalize rebate rates and extension in scheme tenure for RoDTEP schemes (Ministry of Commerce)

RoDTEP is intended to reimburse embedded, unrebated taxes and duties not refunded by other schemes, thereby supporting export competitiveness. However, akin to RoSCTL scheme, current RoDTEP rates for textile products do not fully compensate exporters for these unadjusted taxes and levies.

Based on Annual RoDTEP Return (ARR) and supporting data, computations submitted by the industry clearly depicts that the embedded costs are much higher than the rebates granted. In view of the same, an upward revision of RoDTEP rates by 5%, without value cap restrictions, is recommended specifically for goods exported to the U.S. to enhance the global competitiveness of Indian textile products.

Furthermore, considering their export potential, products under HSN 9404, including mattress supports, quilts, duvets, bedspreads, and eiderdowns should be granted a level playing field. These products undergo a layered manufacturing process similar to made ups. It is therefore proposed that HSN 9404 items be included under the RoSCTL scheme, aligned with Chapter 63 rates of 7%-8%, to address this discrepancy and promote the export of value-added home textiles.

Currently, the RoDTEP scheme is valid until 30 September 2025. Given its WTO-compliant nature and alignment with the RoSCTL scheme, it is recommended that the RoDTEP scheme be extended for a further five years. This extension will provide policy stability, enabling exporters to

plan effectively, encourage product diversification, support MSMEs, and ultimately boost exports and employment in critical sectors such as textiles.

Market Access Initiative (Ministry of Commerce)

Market Access Initiative (MAI) Scheme is an export promotion scheme envisaged to act as a catalyst to promote India's exports on a sustained basis. The scheme is formulated on a product-focus country approach to evolve specific market and specific product through market studies/survey. The financial assistance under the Scheme is provided to develop new markets, to promote new products and new exporters as well as to consolidate the existing Indian exports markets. Government funding under the said scheme will be a maximum of 65% of the actual cost. However, the priority sectors will be eligible for enhanced assistance of 90% of the actual cost under the Scheme. Ceiling limit for MAI is 5 MAI assistance for exporters belonging to SC/ ST/ Women and the exporters having FOB value of exports of or less than Rs.50 crore in a year and 3 MAI for other exporters.

Given the steep 50% tariffs impact imposed by the U.S. on Indian textile and clothing exports, Indian exporters should focus on exploring new markets such as the EU, Middle East, Africa, Latin America, and Canada. This shift requires higher investment in promoting products through alternative trade fairs and exhibitions. Support for MSMEs should be provided on high participation charges at major international events. Export Promotion Councils should be allowed flexibility to reallocate under-utilized funds between approved events within the financial year. Timely approval of MAI events is necessary to organize participation in fairs during the first financial quarter, with an additional 10% allowance for currency fluctuations.

Therefore, it is recommended that the Government increase the Market Access Initiative subsidy on high participation charges by 50%-75%, allow Export Promotion Councils greater flexibility in fund utilization, expedite approvals for events, and raise the participation ceiling from 3 to 5 MAI events annually for all types of exporters, with the maximum number of participations in any single event. Given that the additional tariffs have already come into effect, it is further urged that these benefits be implemented and sanctioned with immediate effect starting FY 2025-26 to boost India's textile export diversification and competitiveness.

Reintroduction of interest equalization scheme for pre- and post-shipment credit (Ministry of Commerce)

Indian exporters in the textile and apparel sector face competitive disadvantages due to significantly higher borrowing costs in India (5.5% interest rate) compared to key competing countries with lower base lending rates.⁵⁰ For example, China has base rate of 3.45%, Singapore of 3.42%, South Korea of 3.5%, in 2024. With a higher spread, the credit cost in India is significantly higher as compared to such countries.⁵¹

In view of the heightened cost pressures arising from the U.S tariffs, it is recommended that the Government should reintroduce and reinforce the said scheme for textile exporters with the following amendments-

- ▶ Extend an interest subvention of 5% on pre-shipment and post-shipment export credit to all textile exporters, regardless of their size.
- ▶ Remove the earlier annual ceiling of INR 10 Crores per exporter to allow interest subvention on actuals, fully mitigating the financial burden caused by elevated credit costs.

The recommended measures are expected to reduce the overall cost of credit, enabling exporters to offer more competitive pricing in the global market.

They will also enhance liquidity and working capital availability for manufacturers, thereby supporting increased production capacity and higher shipment volumes. By lowering the credit expense component, these steps will help mitigate the financial impact of tariffs, partially offsetting the rise in landed export costs. Moreover, the initiative seeks to bridge the significant credit cost gap between India and competing Asian economies, where base lending rates are substantially lower.

Logistics support (Ministry of Commerce)

Exporters are burdened by elevated logistics costs and extended transit times. Currently, shipments primarily rely on transshipment hubs such as Colombo, Singapore, or Middle Eastern ports, resulting in freight rates that are 15%-25% higher and transit times that are 8-14 days longer than direct services offered by competing countries. This leads to delayed deliveries, increased working capital blockage, and loss of urgent orders.⁵²

To address these challenges, it is recommended to:

- ▶ Provide financial and operational incentives for global shipping lines to operate direct weekly services from key Indian ports (Nhava Sheva, Mundra, Chennai, Cochin) to the U.S., EU, UK, and Japan.
- ▶ Extend priority berthing rights and concessional port handling charges for direct-call vessels to reduce turnaround time and costs.
- ▶ Facilitate Public-Private Partnership (PPP) initiatives involving Export Promotion Councils (EPCs), shipping companies, and government agencies to secure base cargo volumes for these direct shipping services.
- ▶ Mandate the use of exchange rates published by the Central Board of Indirect Taxes and Customs (CBIC) by shipping agencies for the calculation of logistics costs, replacing currently inflated rates used by shipping companies.

⁵⁰ <https://www.pib.gov.in/PressNoteDetails.aspx?NotelId=154573&ModuleId=3>

⁵¹ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2019099>

⁵² Matexil report

Given the urgency created by the U.S. tariff and its impact on Indian exporters, these trade facilitation measures must be implemented on priority to bring down logistics costs, shorten delivery timelines etc.

It is further recommended that the Government establish advance agreements with major shipping lines to reserve container space, ensuring stable freight rates as per the above recommendations and availability for exporters, particularly MSMEs. This strategic reservation will reduce dependence on expensive spot bookings, improve shipping timelines, and enhance India's global trade competitiveness. Additionally, to increase transparency and lower logistics costs, direct vessel space access for exporters should be promoted by encouraging shipping lines to engage directly with exporters for vessel space sales.

Empowering E-Commerce Exporters for Global Competitiveness (Ministry of Commerce)

With the U.S. imposing tariffs as explained in detail above and eliminating the US\$ 800 de minimis exemption effective from 29th August 2025, Indian e-commerce textile exporters particularly small businesses and direct-to-consumer brands, will face significant challenges due to increased customs duties and compliance complexities. To safeguard and boost e-commerce exports to the U.S., the following measures are recommended:

- ▶ **Seamless EDI Integration and reduced paperwork:** Implement full EDI integration between ICEGATE, EDPMS, and banks to eliminate duplicate physical document submissions, reduce paperwork, expedite processes, and prevent misuse.
- ▶ **Dedicated RBI Purpose Code:** Create a specific RBI Purpose Code for e-commerce exports with suffix-based differentiation, to ensure accurate data capture and address WTO/GATT compliance.
- ▶ **Government-Borne Bank Charges:** Since bank submissions are mandatory, the government should bear the bank lodgement charges to prevent additional financial burden on exporters.

▶ Rationalized Courier Shipping Bill Charges:

Since e-commerce transactions are of low value, banks may please be directed to offer proportional or fixed fees for batch processing of CSB-V documents, such as a flat charge for every set number of documents or weekly lodgements, instead of per-transaction fees. Additionally, request RBI intervention to regulate these charges, ensuring fair pricing and protecting small exporters from excessive costs.

Implementing these steps will enhance operational efficiency, reduce compliance costs, and strengthen India's e-commerce export competitiveness in the evolving U.S. trade landscape.

Fast-track Implementation of the Export Promotion Mission (Ministry of Commerce along with the Ministry of MSME and Ministry of Finance)

The Government of India, in its 2025-26 Union Budget unveiled the Export Promotion Mission (EPM)—a flagship initiative to act as a catalyst to facilitate India's export competitiveness.⁵³ At present, it is anticipated that the mission will operate through two core sub-schemes: Niryat Protsahan (with over 10,000 crore) delivering trade-finance support such as interest equalisation, alternative financial instruments, and e-commerce export credit solutions; and Niryat Disha (with over 14,500 crore) focusing on market access and competitiveness through funding for export quality compliance, overseas market development, branding, warehousing, logistics, and capacity building.



⁵³ <https://www.indiabudget.gov.in/>

Herein, it is recommended that, given the volatile global trade situation, the Government should expedite the rollout of the EPM to ensure exporters especially MSMEs gain timely access to structured benefits and better prepare for external shocks, thereby bringing much-needed predictability to export policy in these uncertain times.

Additionally, the EPM shall also focus on incentivising incremental exports (over last FY) by textile exporters to encourage market diversification. Such incremental incentives may be provided in the form of issuance of scrips amounting to 7.5% of the FOB value.

Introducing Employment Stability Linked Support Scheme for safeguarding jobs across the Value Chain (Ministry of Finance)

The Textile industry is one of the largest sources of employment generation in the country with an estimated 45 million people directly engaged in this sector including a large number of women and rural population.⁵⁴

The recent imposition of reciprocal U.S. tariffs risks not only depressing demand in the U.S. market, but also triggering diversion and dumping of goods by competing countries into the UK, EU, and domestic markets at lower prices. This could lead to scaling down of operations, directly threatening employment stability and livelihoods across the textile value chain.

To mitigate these impacts and preserve jobs, it is proposed to introduce an **Employment Stability Linked Support Scheme**, modelled on the existing Employment Linked Incentive Scheme, specifically for textile exporters to the U.S. market. The scheme would provide a **monthly incentive of INR 6,000 for each female employee and INR 5,000 for each male employee registered under EPF, for a period of up to four years**. This should cover all segments of the textile value chain, ensuring employment continuity during the adjustment period post-tariff implementation. For introducing this scheme, a similar architecture of Employment Linked Incentive Scheme can be adopted.

Removal/extension of exemption of custom duty rates for Cotton (Ministry of Finance)

Historically, no customs duty was applicable on import of cotton till January 2021. It was only in February 2021 that a Customs duty of 11% was levied comprising of 5% Basic Customs Duty (BCD), 5% Agriculture Infrastructure and Development Cess (AIDC), and 1% Social Welfare Surcharge (SWS). Further, in February 2024, the customs duty on import of cotton with staple length exceeding 32 mm has been rescinded.

Furthermore, among the leading cotton producing nations, India imposes the highest import duty on cotton fiber. With farmers already shielded by the Minimum Support Price (MSP), the continued imposition of such duty risks distorting the raw material market without significantly enhancing farmer welfare.

Removing the custom duty/ extension of exemption as the case may be, would strengthen the competitiveness of downstream textile segments, reduce input costs for manufacturers, and align with India's broader objective of enhancing export readiness in global apparel and textile market.

In line with the above, the Government of India has recently exempted all customs duties as mentioned above on the import of raw cotton with effect from 19th August 2025 until 31st December 2025 to immediately lower input costs across the textile value chain (yarn, fabric, garments, and made ups).⁵⁵

Although the government has granted 4.5 months waiver of customs duty on cotton imports, it is recommended that this exemption be extended until a bilateral agreement is signed between India and the U.S., to counter the effect of U.S. tariffs.

Availability of major inputs/ raw materials at international price (Ministry of Finance)

To ensure Indian textile exporters have access to raw materials at globally competitive prices, it is imperative that the import duty structure on key inputs be benchmarked against international best practices. While cotton has been exempted, imports of raw jute (HSN 5303 10 10) have attracted a BCD of 5%, which continues to apply. Mulberry raw silk

⁵⁴ <https://www.pib.gov.in/Pressreleaseshare.aspx?PRID=1808759>

⁵⁵ <https://www.pib.gov.in/PressReleasePage.aspx?PRID=2158055>

(HSN 5002 00 10), which was earlier subject to 10% BCD, saw its rate increased to 15%. Additionally, Shorn wool (HSN 5101 11 00) carries a BCD of 2.5%, with no exemptions, making the tariff rates of the above products applicable in full.

Therefore, given the minimal fiscal implications, absence of adverse impact on domestic farmers, and the significant potential to boost export competitiveness, it is strongly recommended that imports of raw jute, raw silk, and shorn should be made available at international competitive prices.

Disbursement of outstanding State Industrial Policy benefits to improve liquidity (Ministry of Finance and State Governments)

A significant number of textile enterprises are facing working capital stress due to prolonged delays in receiving benefits committed under these state-level schemes, primarily arising from budgetary constraints faced by State Governments. Given the above, it is recommended that the Central

Government facilitate the timely disbursement of pending incentives under various State Industrial Policies to improve liquidity in the textile sector.

To address this, the Central Government may consider providing long-term, interest-free funding support to State Governments, with the explicit condition that such funds be utilised exclusively for clearing outstanding dues to the textile industry under State Industrial Policies. Disbursement to beneficiaries should be mandated within a defined time frame to ensure immediate liquidity relief.

By bridging the fiscal gaps at the state level, this measure will enable prompt incentive payouts, improving cash flow for textile players and sustaining employment and growth in one of India's key manufacturing and export sectors, especially in the context of additional cost pressures from recent U.S. tariff measures.

ESSENTIAL MEASURES -

Strengthening the PLI Scheme for Textile Industry (Ministry of Textile)

Wider Product Coverage Across the Textile Value Chain - The scheme should extend beyond MMF apparel, fabrics, and technical textiles to cover all major textile products, including natural fibres, yarns, trims, and accessories under Chapters 52-53 and Chapters 56-59. Broader inclusion will distribute benefits across the value chain, prevent market distortions, and promote balanced sectoral growth.

Eligibility for Existing Players Without Mandatory New Entity Creation - Existing manufacturers with proven capacity should be allowed to participate without forming new entities, provided they show incremental production and turnover.

Flexible and Tiered Investment Thresholds - Introduce flexible thresholds for investments based on company size and region to include MSMEs and mid-sized firms, especially in Tier-2 and Tier-3 cities, while keeping higher limits for large enterprises. This will broaden participation, encourage investment nationwide, and strengthen the manufacturing base.

Export- Focused Incentive - Provide additional incentive rates for firms achieving export performance targets, helping boost India's share in global textile trade and offsetting disadvantages in cost-competitiveness against major exporting nations.

Technology & Sustainability Incentives - Include additional incentives for adoption of advanced manufacturing technologies, sustainable processing (e.g., water recycling, renewable energy use), and compliance with international environmental and labour standards, to future-proof the industry.

The changes would boost India's export readiness by enabling existing and new manufacturers to quickly adapt to shifting demand. Leveraging established firms' infrastructure allows rapid scale-up, while broader coverage across products spreads risk and reduces reliance on single segments. This flexibility would help India stay competitive under reciprocal tariffs and capture market share from rivals like China and Vietnam.

Extending collateral free loan to the exporters to facilitate working capital support and market diversification (Ministry of Commerce)

Exporters hit by rising U.S. tariffs face margin pressures and working capital shortages, forcing them to absorb costs due to lesser margin or risk demand loss at current prices. Access to collateral-free credit, fund discounting, and timely bank financing for Letters of Credit, is essential to maintain cash flow and operational stability. Additionally, exploring market diversification is essential to reduce overreliance on the U.S.. However, support from banks for funding exports, especially to new markets like Bangladesh, remains limited.

Given the severe impact of 25% import duties especially for MSMEs and mid-sized exporters, a 20%-25% credit infusion under schemes like the Emergency Credit Line Guarantee Scheme (ECLGS)⁵⁶ is vital.

In light of the above, it is recommended to provide exporters with market diversification support, collateral-free credit at 20%-25% of working capital with 5% interest subvention under interest equalization scheme, fund discounting, and enhanced bank funding to sustain operations, enter new markets, and mitigate challenges from U.S. tariffs.

Further, the Central Government may advise State Governments to introduce or expand export incentive schemes at the state level. Such coordinated efforts will strengthen overall export competitiveness and extend benefits to a broader range of exporters across different regions.



⁵⁶ The Emergency Credit Line Guarantee Scheme (ECLGS) is a government-backed initiative launched as part of the Atma Nirbhar Bharat package in 2020 to support businesses, especially Micro, Small, and Medium Enterprises (MSMEs), facing liquidity challenges due to the COVID-19 pandemic. It provides collateral-free credit to eligible businesses to help them meet operational expenses and restart their operations. Under the scheme, loans up to 20-40% of the borrower's outstanding credit as of a specified date are guaranteed 100% by the government, with no guarantee fees or additional collateral required.

Proposal to establish National Unfair-trade Remedial Fund (NURF) (Ministry of Commerce)

It is proposed to establish a National Unfair-trade Remedial Fund (NURF) to provide WTO-compliant, sector-neutral assistance to exporters impacted by unfair foreign trade measures such as retaliatory tariffs or discriminatory regulations in the following manner:

- ▶ It may be based on legislation expanding the trade remedies related support that the Government now provides, to include injury to the domestic industry, basis action of foreign governments, such as reciprocal tariffs; export restrictions; etc.
- ▶ The fund may adequately be financed through budgetary support.
- ▶ Assistance should be extended on a sector-neutral and non-discriminatory basis to exporters who can demonstrate injury such as market share loss, revenue decline, or increased costs.
- ▶ Support can include technical or legal assistance for dispute resolution, market diversification grants, insurance or hedging instruments against tariff risks, and temporary working capital loans untied to export performance.
- ▶ Governance should be ensured through an independent multi-ministry committee including private sector advisory input, with annual public reporting and WTO notification under the Agreement on Subsidies and Countervailing Measures.
- ▶ Direct export-contingent subsidies should be excluded to maintain WTO compliance.

Such a mechanism can strengthen India's capacity to respond to hostile trade actions within a rules-based framework, safeguard the competitiveness of domestic exporters, and enhance long-term resilience in global markets. By combining targeted support with strict WTO compliance, it can serve as a credible and sustainable tool for mitigating the adverse impacts of unfair trade practices.

Proposal for Income Tax Relief (Ministry of Finance)

Section 10AA of the Income Tax Act, 1961 provided 100% tax exemption on profits and gains derived from export activities by a newly established Units in Special Economic Zones for the first five consecutive assessment years from the year the unit begins manufacturing or providing services, and subsequently by a 50% exemption for the next five years, subject to specified conditions.⁵⁷ Similarly, Section 10BA of the Income Tax Act, 1961 provides deductions on profits derived by an undertaking from the export out of India of eligible articles or things upon fulfilment of relevant conditions as laid down in the said Act.⁵⁸

To address the significant cost pressures arising from the imposition of additional U.S. tariffs, a comparable framework of income tax relief be extended to all Indian textile exporters for exports of textile products to the U.S. In below manner: -

- ▶ 100% tax exemption on profits derived from the export of finished textile goods [HS Chapters–Made-ups (Chapter 63), Apparel (Chapter 61), Garments (Chapter 62), Fashion Bedding (Chapter 9404), Rugs and Carpets (Chapter 57), and Technical Textiles (Chapter 56) for the first two consecutive years, followed by 50% exemption for the subsequent three years.
- ▶ Applicability to both existing and new exporters ensuring comprehensive sector-wide support.

Extending these incentives will directly improve post-tax margins, strengthen the sector's financial resilience, and enhance the global standing of the Indian textile sector by effectively compensating for tariff-induced landed cost disadvantages.

Labour Reforms (State Government)

As per a comparative analysis with the neighbouring competing countries such as China, India's labour productivity lags behind in the textile and manufacturing space through sustained investments

in capital goods, higher automation adoption, and the presence of a larger, more productive manufacturing base. Extending permissible working hours, when coupled with productivity-enhancing measures, could partially bridge this gap, enabling India's textile industry to match China's output efficiency and improve export competitiveness.⁵⁹

In order to improve competitiveness in the U.S. market, it is recommended that permissible working hours for textile sector workers be increased to 12 hours per day at normal wage rates. This change in working hours will allow Indian textile manufacturers to optimize production schedules, reduce per-unit fixed costs, and maintain price competitiveness essential for sustaining exports to the U.S. market during this challenging trade environment.



This change in working hours will allow Indian textile manufacturers to optimize production schedules, reduce per-unit fixed costs, and maintain price competitiveness, essential for sustaining exports to the U.S. market during this challenging trade environment.

Additionally, labour-intensive industries such as textiles, apparel, and leather, face high labour costs, partly due to India's overtime pay rate of 200% of the normal wage—one of the highest globally as compared to other competing nations like China, Vietnam and Cambodia. This makes it challenging for companies to afford extra work hours during seasonal peak periods, leading to underutilized capacity and reduced competitiveness. According to International Labor Organization (“ILO”) Hours of Work (Commerce and Offices) Convention, 1930 (No. 30), overtime pay should not be less than one-and-a-quarter times the regular rate i.e. 125% of the regular wage⁶⁰, and many competing countries like China and Vietnam cap it at 150%.

In alignment with ILO, it is recommended that Section 59 of the Factories Act, 1948 be amended to cap overtime wages at 150% of the normal wage.

⁵⁷ Section 10AA - Special provisions in respect of newly established Units in Special Economic Zones.

⁵⁸ Section 10BA - Special provisions in respect of export of certain articles or things.

⁵⁹ Unleashing China and India's growth potential (1): productivity growth - Rabobank

⁶⁰ https://normlex.ilo.org/dyn/nrmlx_en/f?p=1000:12100:::12100:P12100_INSTRUMENT_ID:312175

OPERATIONAL AND PROCEDURAL MEASURES -

Strengthening Export Finance and Banking Facilitation

Exporters, particularly MSMEs, face persistent challenges in accessing affordable and transparent finance. High borrowing costs, non-uniform banking practices, forex conversion losses, and procedural delays directly impact liquidity, competitiveness, and compliance. Addressing these issues through rationalised interest rates, streamlined guarantee schemes, fair forex policies, and stronger system integration is critical to ease financial stress and enable Indian exporters to compete globally.

- ▶ **Soft Loans linked to export ratio** - Exporters lose on forex deductions and face liquidity pressures. Soft loans linked to export-to-sales ratio and rationalisation of forex charges are needed to safeguard incentives and improve competitiveness.
- ▶ **Forex Conversion Margins for MSMEs** - MSMEs are disproportionately hit by high, opaque forex margins. RBI should cap conversion spreads at 2-3 paise/USD to ensure fair and uniform pricing.
- ▶ **Moratorium & Interest Subvention** - Exporters require a 2-year moratorium on loan repayments with interest subvention, along with extended timelines under EPCG and Advance Authorisation to ease cash flow stress.
- ▶ **Interest Rate Reduction** - Export credit rates in India (8-12%) are uncompetitive globally. A reduction to 4-5% is essential to align with peer countries.
- ▶ **Credit Access for New SMEs** - Strict collateral requirements, limited access to Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), and costly forex margins restrict new exporters. Easier loan policies, improved insurance/forfeiting, and reduced barriers are needed.
- ▶ **Guarantee Schemes (MCGS & CGTMSE)** - The Mutual Credit Guarantee Scheme (MCGS) currently provides 60% credit guarantee

coverage for collateral-free loans up to 100 crore but leaves 40% unsecured, discouraging private bank participation. Additionally, the scheme imposes high guarantee fees (5% in the first year, 1.5% for the next three years, and 1% thereafter), making it less attractive for both banks and MSMEs. Similarly, the CGTMSE faces challenges such as higher interest rates compared to competitors, heavy recurring guarantee fees of 1% at sanction and renewal, and the frequent requirement of personal guarantees despite being a collateral-free scheme. These factors increase the financial burden on MSMEs and limit their access to affordable credit.

Current credit guarantee coverage is low (60%), and fees are high. Coverage should be raised to 70-75% and reduction of both upfront and ongoing guarantee fees, making it more appealing to banks and MSMEs. For CGTMSE, a thorough review and rationalization are needed to reduce costs, eliminate unnecessary conditions like personal guarantees, and ease the financial strain on MSMEs, thereby improving their competitiveness and access to credit.

- ▶ **Banking Practices** - Exporters face high non-interest charges, inconsistent benchmarking of rates, steep penalties, and delayed loan processing. A transparent and uniform policy across banks is required.
- ▶ **EDPMS⁶¹ & e-BRC Issues** - Unresolved shipping bills, mismatches across RBI/DGFT/ICEGATE, and bank delays cause repeated compliance burdens. Stronger system integration and accountability of Authorized Dealer ("AD") banks are essential.
- ▶ **LC & Factoring Support** - Delayed LC realisations, lack of discounting for Bangladesh trade, and weak factoring support strain working capital. Policy push is needed for timely LC payments and wider factoring access.
- ▶ **Merchant Exporter Concerns** - Irrelevant stock audits, delays in crediting proceeds, and slow transmission of interest rate cuts add costs. Rationalisation of these practices will ease operations.

⁶¹ EDPMS (Electronic Declaration Processing and Monitoring System) is an online platform introduced by the Reserve Bank of India (RBI) to digitally track and manage export transactions in India.

Snapshot of recommendations is provided below

Immediate Measures on account of oil tariffs	Essential Measures
Ministry of Commerce ▶ Reintroduce the Focus Market Scheme to provide incentives equivalent to 25% of the FOB value of textile exports to the U.S. market.	Ministry of Textile ▶ Strengthen PLI scheme for textile exporters by providing incentives.
Immediate Measures on account of reciprocal tariffs	
Ministry of Commerce ▶ Increase RoSCTL and RoDTEP rates by 5% and extend both schemes for a five-year period to provide policy stability. ▶ Enhance Market Access Initiative (MAI) support by subsidizing 50%-75% of participation costs for up to five MAI events per year, effective FY 2025-26. ▶ Reintroduction of interest equalization scheme at 5% on pre-shipment and post-shipment export credit with no ceiling limits regardless of their sizes. ▶ Strengthen logistics infrastructure by reducing shipping costs and improving delivery timelines for exporters. ▶ Facilitate e-commerce exports by simplifying procedures and addressing regulatory complexities. Ministry of Commerce along with the Ministry of MSME and Ministry of Finance) ▶ Accelerate the rollout of the Export Promotion Mission to strengthen trade finance support and enhance global market access. Ministry of Finance ▶ Launch an Employment Stability Linked Support Scheme offering monthly incentives of INR 6,000 for female employees and INR 5,000 for male employees to ensure employment continuity. ▶ Extend the custom duty exemption on cotton to reduce input costs across the textile value chain. ▶ Benchmark raw material availability for Indian exporters at international prices to ensure cost parity with global competitors. Ministry of Finance and State Governments ▶ Central Government to provide long-term, interest-free funding support to State Governments for the outstanding State Industrial Policy benefits.	Ministry of Commerce ▶ Provide exporters with market diversification support, a collateral-free credit at 20%-25% of working capital with 5% interest subvention. ▶ Establish National Unfair-trade Remedial Fund to provide sector-neutral assistance to exporters impacted by unfair foreign trade measures. Ministry of Finance ▶ 100% Income tax exemption on profits derived from the export of finished textile goods. State Government ▶ Labour reforms to permit 12 hours per day normal working hours and overtime wages to cap at 150% of the normal wage.
	Operational & Procedural Measures
	▶ Strengthen export finance and bank related facilitation.

The recommendations outlined above are therefore designed as a comprehensive, multi-pronged policy response that addresses both the immediate shock of the tariffs and the structural vulnerabilities that make India's textile industry susceptible to external trade disruptions.

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