

India-UK FTA: \$1.1-1.2 Billion Export Boost for India's RMG Sector

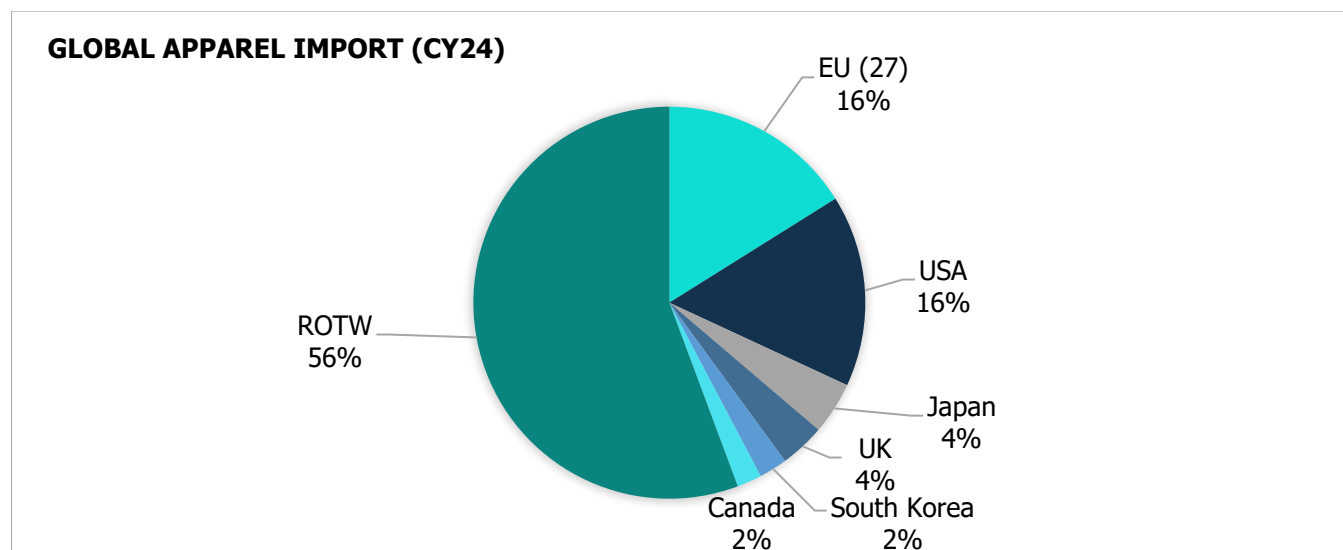
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Synopsis

- The ready-made Garment (RMG) sector accounted for a significant share of around US\$525 billion in the overall global textile and RMG trade. The UK is among the top five RMG markets, with imports of around US\$20 billion in CY24. India currently exports nearly US\$1.2 billion of RMG to the UK out of its total RMG exports of US\$15-16 billion.
- Countries such as Bangladesh, Turkey, Cambodia and Italy enjoy duty-free access to the UK market, while Vietnam and Pakistan benefit from lower to zero tariff.
- The India-UK FTA is a game changer for India's RMG sector, creating a level-playing field vis-à-vis key competing nations for accessing the nearly US\$20 billion RMG market of the UK.
- India now has a clear 12% duty advantage over China, which holds the largest market share in the UK's RMG imports.
- India is expected to double its market share from 6% in CY24 to 12% in the UK's RMG imports, translating into an incremental annual export opportunity of around US\$1.1-1.2 billion in the near to medium term.

Global RMG Industry Overview

The RMG industry accounted for a significant share of around US\$525 billion in the overall global textile and RMG trade, which stood at approximately US\$900 billion in CY24. Major markets include the European Union (EU), the United States of America (USA), the UK, Japan, Canada, and South Korea, which together accounted for nearly 44% of global imports in CY24.



Source: ITC Trade Map; Compiled by CareEdge Ratings

In CY22, the EU and the USA together accounted for nearly 40% of global RMG imports. However, their combined share declined in CY23 and CY24 due to the inflationary scenario and higher interest rates in these economies, impacting consumer discretionary spending.

The UK is among the top five RMG markets, with imports of around US\$20 billion in CY24 (compared to US\$24 billion in CY22).

Share in the UK's RMG Import (%)

Countries	CY20	CY21	CY22	CY23	CY24
China	28.11	21.73	25.73	24.34	25.59
Bangladesh	12.21	14.33	18.60	19.57	19.95
Turkey	7.08	8.17	9.20	8.64	7.91
India	4.25	5.19	5.82	6.14	6.09
Cambodia	3.25	2.92	4.66	4.85	5.51
Vietnam	2.22	2.20	4.89	5.03	5.42
Italy	6.56	7.95	4.60	5.25	5.20
Pakistan	3.05	4.40	4.44	4.68	4.81
Sri Lanka	2.07	2.17	2.90	2.68	2.59
Rest of the World (ROTW)	31.20	30.94	19.17	18.82	16.92

Source: ITC Trade Map; Compiled by CareEdge Ratings

Countries such as Bangladesh, Turkey, Cambodia and Italy enjoy duty-free access to the UK market, while Vietnam and Pakistan benefit from lower to zero tariff. Following the Vietnam-UK FTA (VUKFTA) effective from January 01, 2021, Vietnam's share in UK's RMG imports increased from 2.22% in CY20 to 5.42% in CY24.

Despite the applicability of a 12% tariff, China holds a dominant 26% share of RMG imports to the UK, supported by high labour productivity and competitiveness in man-made fibres. While China has lost market share over the past four years, India gained market share during the same period despite a similar 12% tariff on India.

RMG export opportunities for India due to the India-UK FTA

Currently, India holds a 6% market share in the UK's RMG imports, while Bangladesh, Turkey, Cambodia, Vietnam, and Italy enjoy duty-free access, giving them a 12% tariff advantage over India. The India-UK FTA is a game changer for India's RMG sector, creating a level playing field vis-à-vis key competing nations for accessing the nearly US\$20 billion RMG market of the UK.

India now has a clear 12% duty advantage over China, which holds the largest market share in the UK's RMG imports. China has lost its market share in the past few years, and it is expected to continue losing its share in the UK's RMG market due to its declining competitiveness, backed by rising labour costs and the 'China Plus One' sourcing strategy adopted by global apparel brands and retailers.

Additionally, socio-political uncertainties in Bangladesh may also lead apparel brands and retailers with a significant presence in the country to diversify their sourcing, thereby benefiting India, among others.

In such a scenario, India is expected to double its market share from 6% in CY24 to 12% in the UK's RMG imports, translating into an incremental annual export opportunity of around US\$1.1-1.2 billion in the near to medium term. Recovery in overall RMG demand from the UK, with moderating inflation and interest rates, along with India's increased competitiveness post-duty removal and continued favourable policy regimes in India, such as the PM Mega Integrated Textile Region and Apparel (PM MITRA) park and the Production Linked Incentive (PLI) scheme, is expected to aid the sector in grabbing these additional export opportunities.

CareEdge Ratings' View

Despite the applicability of a 12% tariff, India had gradually gained market share in the UK market over the past four years, while China had lost some ground during the same period. With the signing of the FTA with the UK, India now has a clear 12% duty advantage over China, the largest RMG exporter to the UK, with exports of US\$5 billion in CY24. Socio-political uncertainties in Bangladesh, which exported RMG of around US\$4 billion to the UK in CY24, may also lead apparel brands and retailers with a significant presence in Bangladesh to diversify their sourcing, amongst others, to India.

"Recovery in demand for RMG in the UK market, gain in market share from competing nations backed by increased competitiveness of Indian RMG exporters post duty removal and favourable policy regime in India are expected to create the incremental annual export opportunity of around US\$1.1-1.2 billion in the near to medium term. India's major dependency on cotton-based textiles as against the relatively higher share of man-made fibres in the global RMG market may restrict the overall opportunities from the India-UK FTA to an extent," stated Akshay Morbiya, Assistant Director at CareEdge Ratings.

He further added that Vietnam has demonstrated significant gains in its share of the UK's RMG market following the FTA with the UK. India's overall RMG exports, which grew by 10% to US\$16 billion in FY25, have sufficient headroom to increase RMG exports by another 10-15%, given the available capacities in the sector.

"With a clear 12% duty advantage over China and prevailing socio-political uncertainties in Bangladesh, which together account for nearly 45% of market share in UK's RMG imports, India is expected to double its share in this market from 6% in CY24 to 12% in the near to medium term. The India-UK FTA holds significant potential to boost investments across the textile value chain, generate employment, particularly for women in the labour-intensive RMG sector and increase foreign exchange earnings," said Krunal Modi, Director at CareEdge Ratings.

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