

January - March (Q4) FY25

TRADE WATCH QUARTERLY, Publication for FY25

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TRADE WATCH

QUARTERLY

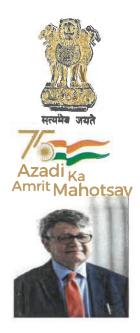
January - March (Q4) FY25

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Foreword

India's external sector has demonstrated remarkable resilience in a period of heightened global uncertainty and shifting trade patterns. As the global economy contends with geopolitical tensions, evolving tariff regimes and rapid technological change, it becomes imperative for us to identify new drivers of export growth and to strengthen the foundations of our trade competitiveness.

This edition of Trade Watch Quarterly highlights one such opportunity - the leather and footwear industry, a sector that combines deep artisanal traditions with the promise of modern, high-value manufacturing. Its evolution from raw-hide exports to value-added products mirrors the broader transformation of India's export profile. Yet the sector's global market share has remained modest, signalling untapped potential.

Seizing this opportunity calls for a multi-pronged strategy, easing input-cost disadvantages through tariff rationalisation, scaling design and branding capabilities, embedding sustainability standards that meet emerging green norms, and integrating more deeply with global value chains. Equally important is the strengthening of logistics and infrastructure so that clusters across the country can compete on quality and speed with the world's leading producers.

By presenting a rigorous, data-driven analysis of these challenges and opportunities, Trade Watch Quarterly provides policymakers, industry leaders, and researchers with insights needed to chart a clear path forward. I commend the Economics and Finance-I team at NITI Aayog for producing this timely and insightful publication, which will help inform strategies to strengthen India's position in global trade and to ensure that sectors like leather and footwear contribute more meaningfully to our long-term economic transformation.

New Delhi 3rd October, 2025

(Suman Bery)



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FOREWORD

India's evolving trade engagement reflects a deeper structural transformation anchored in competitiveness, innovation, and integration with global value chains. As global currents shift and uncertainties intensify, India is positioning itself not merely as a participant but as a shaping force in the emerging trade architecture. In this journey, policy instruments such as tariffs are being viewed as transitional tools meant to support domestic industries until they attain global competitiveness underscoring India's commitment to long-term trade maturity.

The fourth edition of Trade Watch Quarterly captures these dynamics with sharp analytical depth. Services continue to act as a strong pillar of resilience, while merchandise exports diversify into innovation-driven sectors. The thematic focus on the leather and footwear industry highlights its socio-economic importance and the reforms needed to enhance its global standing. The analysis provides a forward-looking perspective on opportunities and policy pathways that can strengthen India's role in international trade. The publication sets out a forward-looking agenda of tariff rationalization, MSME support, sustainability, and strategic trade agreements to unlock competitiveness and expand India's footprint in this labor-intensive sector.

I take this opportunity to acknowledge Shri B.V.R. Subrahmanyam, CEO of NITI Aayog, for his continued leadership and strategic guidance. I also extend my appreciation to the advisory board and the Economic & Finance-I team at NITI Aayog for their valuable contributions. Their work reflects a commitment to evidence-based policy and India's long-term objective of becoming a globally competitive, innovation-led export powerhouse.

New Delhi

October' 2025

(Arvind Virmani)

Hourd Vilnai

बी. वी. आर. सुब्रह्मण्यम B.V.R. Subrahmanyam मुख्य कार्यकारी अधिकारी Chief Executive Officer



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FOREWORD

India's trade performance this quarter reflects a dynamic recalibration in response to shifting global currents. As international trade grapples with volatility, from geopolitical tensions to evolving tariff regimes, India continues to navigate these complexities with agility and purpose. The Trade Watch Quarterly Q4 FY25 edition offers a comprehensive and timely analysis of merchandise and services trade, while spotlighting sectoral trends and policy levers that can shape India's export future.

The thematic focus of this edition on India's leather and footwear industry sheds light on a sector rich in heritage, employment potential, and export promise. While India demonstrates a revealed comparative advantage in select leather categories, its global footprint remains limited highlighting both the untapped opportunity and the need for strategic intervention.

In a rapidly evolving trade landscape, this edition offers targeted insights to help India scale its export strengths, deepen global value chain integration, and advance trade facilitation reforms.

I commend the team for their rigorous analysis and thoughtful commentary. I am confident that Trade Watch Q4 will continue to contribute meaningfully to India's evolving trade strategy.

[B.V.R. Subrahmanyam]

Dated: 29th September, 2025



डॉ. प्रभाकर साहू वरिष्ठ नेतृत्व (ई और एफ1) Dr. Pravakar Sahoo Senior Lead (E & F1)



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भारत सरकार



Acknowledgement

As global trade continues to grapple with heightened policy uncertainty, evolving tariff regimes and rapidly changing demand patterns, the need for real-time, evidence-based trade intelligence has only grown sharper. Trade Watch Quarterly (TWQ) is designed as a strategic knowledge product to meet this challenge by offering timely, data-driven insights into India's external sector performance.

With its thematic focus on India's leather and footwear industry, this quarter's edition highlights the sector's dual importance, as a source of livelihoods for over 4 million people and as a potential engine of high-value, globally competitive exports. The publication examines India's competitive strengths in processed leather and niche products, the opportunities in fast-growing non-leather footwear markets, and the policy priorities needed to strengthen MSMEs, reduce tariff disadvantages and align with sustainability and global value-chain trends.

I would like to take this opportunity to express my deep gratitude to Shri Suman Bery, Vice Chairman, NITI Aayog, for his encouragement and support in steering this initiative. I thank Hon'ble member, Dr. Arvind Virmani, for his continued support and guidance. I am immensely thankful to Shri B.V.R. Subrahmanyam, CEO, NITI Aayog, for his visionary leadership and steadfast commitment, which have been central to shaping this publication. His strategic guidance and unwavering focus on excellence continue to inspire our team.

I also extend my sincere appreciation to all members of NITI Aayog whose insights and collaboration have enriched this publication. The successful completion of this edition is a testament to the collective efforts of the Economics & Finance–I vertical. I would especially like to thank Shri Amit Verma, Ms. Jyotika Nagvanshi, Mala Parashar, Pooja Teotia, Apica Sharma, Abhilasha Manda, Shreya Anurakti, Salome Sara Philips, Riya Jindal, Kavya Raghuram Rao, Nikita Gondolay and Kruthi Raj for their dedication, hard work and collaborative spirit throughout the development of this edition.

It is our hope that this edition of Trade Watch serves as a valuable resource for policymakers, industry leaders and researchers seeking to navigate the shifting contours of global trade and to harness the opportunities in India's leather and footwear sector.

New Delhi October, 2025

(Dr. Pravakar Sahoo)

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EXECUTIVE SUMMARY

The World Trade Policy Uncertainty Index doubled to an average of 478 for the quarter Jan-March 2025¹ compared to the previous quarter of 237 (Oct-Dec' 24), primarily due to developments in trade and tariff-related policies across multiple countries. These developments have heightened trade-related risks, affecting global trade and investment flows. Since then, heightened trade uncertainty has persisted in international trade, primarily due to US trade policy and geopolitical developments. The continued policy uncertainty could trigger structural shifts in global value chains, alter manufacturing landscapes, reshape export capacities and drag down world trade.

\$1.73 trillion. Exports reached \$823 billion, supported by record services exports of \$387.5 billion and historic highs in non-petroleum merchandise exports at \$374.1 billion. Imports rose to \$908 billion, and the Q4 deficit moderated due to a strong performance of services exports. India's export growth has been driven by electrical machinery, pharmaceuticals, and cereals, with emerging sectors like aerospace showing high potential. For the year 2024, India has achieved competitiveness in select high-demand products, with strong CAGR growth in mineral fuels, electrical machinery, and nuclear reactors, and promising expansion in emerging areas such as aerospace and high-value manufacturing. The trade trajectory highlights the twin imperatives of deepening India's edge in knowledge-based services while diversifying the merchandise export base towards globally scalable sectors to strengthen its long-term trade resilience.

This edition focuses on the Indian leather and footwear exports, which plays a pivotal socio-economic role, employing 4.4 million people, with nearly half of them being women. India holds strong global positions in leather garments, saddlery, and leather goods, with Tamil Nadu leading the way in production and exports. However, despite strengths in processed leather and niche high-RCA products, **India's global leather and footwear export share remained less than 2% since 2004**, amounting to \$5.5 billion in 2024 out of a \$296.5 billion global market. While global demand increasingly favours non-leather footwear, India's focus on leather footwear, despite higher growth rates (~8%), has resulted in a largely stagnant overall market share. Although India has shifted from raw leather to higher value-added products, its export growth has only kept pace with global expansion, not surpassed it.

Globally, China dominates the mass footwear and travel goods market, Vietnam excels in textile- and leather-based footwear, and Italy leads in premium processed leather and apparel. India remains competitive in processed leathers (with a share of over 10%) and leather apparel, but its presence in footwear, especially in non-leather and high-demand categories, remains limited. India imposes ~10% tariffs on key footwear inputs, while Vietnam and Italy levy near-zero rates. With similar reliance on China for sourcing, Vietnam's lower duties give its producers a cost edge. For India, reducing tariffs, pursuing diversification, strengthening MSMEs, promoting sustainability, enhancing skills, improving infrastructure, implementing FTAs, investing in R&D, and enhancing branding are critical to boosting competitiveness.

¹ https://www.policyuncertainty.com/trade_cimpr.html

HIGHLIGHTS

- 1. India's total trade in FY25 stood at **\$1.73 trillion**, growing 6% y-o-y, with exports at \$823 bn and imports at \$908 bn, resulting in a trade deficit of \$84.8 bn.
- 2. **Services exports reached a record \$387.5 bn** in FY25, up 13.6% y-o-y, supported by IT, telecom, and business services, while services imports rose modestly, leading to a surplus of \$53 bn in Q4 FY25.
- 3. Merchandise exports contracted in Q4 FY25 (–4.3% y-o-y) due to declines in exports of mineral fuels (–37.8%) and organic chemicals (–14.5%). Imports, however, grew by 1.84% y-o-y, driven by higher demand for inorganic chemicals, nuclear reactors, and electrical machinery.
- 4. India's **merchandise export basket reflects a structural mismatch with global demand**, nearly 66% (\$15.8 trillion) of global imports are concentrated in products where India's share is only 0.2%, while just 3% (\$1.5 trillion) of global imports lie in products where India has high 18.2% share, showing a clear gap to address for aligning with global trade growth.
- 5. India's overall exports grew at 10% CAGR (2020–24), outpacing the world import CAGR of 6%; emerging sectors like aerospace (44% CAGR, \$7.4 bn) and electronics highlight India's evolving export sophistication.
- 6. Import patterns shifted as the **UAE overtook Russia** as India's second-largest source, driven by gold imports under CEPA duty benefits, while imports from China rose on strong demand for portable computers.
- 7. India's leather & footwear exports stood at **\$5.5 bn in 2024**, just **1.8% of global trade** worth \$296.5 bn, with exports concentrated in HS 4202 (travel goods) and HS 6403 (leather-upper footwear).
- 8. India shows **revealed comparative advantage** in leather apparel (RCA 5.35), saddlery (RCA 4.18), and prepared leathers (RCAs >6). However, these are niche, low-demand categories globally with a shrinking share in the world market.
- 9. India's footwear exports remain concentrated in leather products, while non-leather footwear exports are very low, despite strong global demand (USD 110 bn market). In 2024, the United States, Germany, France, and Italy together accounted for nearly 30% of global import demand for footwear, representing key markets where India has significant scope to expand its presence.
- 10. India has **aligned its shift toward value-added exports** (leather articles and footwear) with global trends but has not translated this into market share gains, pointing to the need for **competitiveness-enhancing strategies**.
- 11. India needs to strengthen skilling and technology adoption by expanding apprenticeship-based training, promoting R&D for design innovation, and bridging material gaps through domestic production of soles, moulds, and synthetic uppers.
- 12. India must modernise fragmented MSME clusters with vertical industrial complexes and plug-and-play parks offering shared testing, compliance, logistics, and machinery access to cut costs and boost competitiveness.

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A. INDIA'S TRADE ANALYSIS

A. India's Trade Analysis

Global trade expanded by approximately 1.5% in Jan-March 2025, driven primarily by price increases, as trade volume rose by only around 1%. Trade between developed countries outpaced developing economies reversing the recent trade in favour of developing countries.²

India's merchandise and services trade performance continued to remain steady between April-March 2024-25. During this period, total trade reached \$1731 billion, marking a y-o-y growth of approximately 6%. Both exports and imports also grew by around 6% each, with exports reaching \$823 billion and imports at \$908 billion during April-March 2025. (Figure 1).

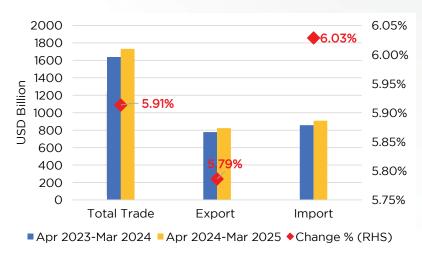
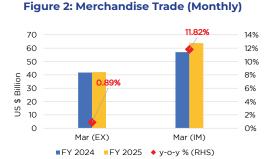


Figure 1: Trade performance in Apr-Mar FY25

Source: Department of Commerce, MoC&I, GOI

1. Merchandise and Services Analysis

India's total trade (merchandise + services) in Q4 FY25 stood at \$441 bn, up 2.2% y-o-y, with services trade growth (+12.6%) offsetting the contraction in merchandise trade (–1.1%). In Q4 FY25, merchandise exports declined by 4% y-o-y to \$115 bn, and imports rose marginally by ~2% reaching \$175 bn. (Figure 3). However, in March 2025, merchandise exports recorded a marginal increase, reaching \$42 bn, while imports witnessed a strong growth of ~12%, reaching \$63.7 bn (Figure 2). During Q4 FY25, monthly exports averaged \$38.4 bn, and imports averaged \$58.3 bn



200 4%
160 2%
120 0%
48 0 -4.31%
0 Q4 (EX) Q4 (IM)
FY 2024 FY 2025 \$ y-o-y % (RHS)

Figure 3: Merchandise Trade (Quarterly)

Source: Department of Commerce, MoC&I, GOI

² https://unctad.org/news/global-trade-grew-300-billion-first-half-2025-led-us-imports-and-eu-exports

India's services exports for March'25 stood at \$35.6 bn, registering a strong y-o-y growth of 19%, while services imports increased by 5.2% reaching \$17.5 bn. (Figure 4). During Q4 FY25, services exports witnessed a robust annual expansion of 14%, reaching \$102 bn. Services imports rose by 4.2% to \$49 bn during the same period, resulting in a net services trade surplus of \$53 bn. (Figure 5)

Figure 4: Services Trade (Monthly)

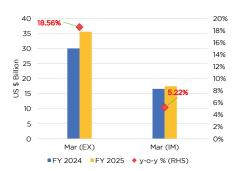
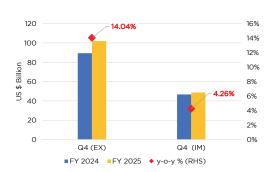


Figure 5: Services Trade (Quarterly)



Source: Department of Commerce, MoC&I, GOI

The combined balance of trade in goods and services registered a net deficit of \$51.4 bn for the quarter. This has been the lowest deficit across the four quarters, supported by robust services exports. Annually, services exports continued to power overall growth, reaching a record \$387.5 billion in 2024–25, a 13.6% increase over \$341.1 billion in the previous year. In the same period, non-petroleum merchandise exports also hit a historic high³ of \$374.1 billion, rising 6.0% from \$352.9 billion in 2023–24, marking the highest-ever annual exports in this category. For FY25, the combined deficit stands at \$84.8 bn up from \$78.2 bn in the previous year, registering a y-o-y growth in the deficit of 8% for the financial year.

2. Compositional Analysis

2.1 Merchandise Exports

In Q4 FY25, the leading⁴ exports amounted to \$73.4 bn marking a y-o-y decline of 3%. The leading commodities continued to be mineral fuels (12.6%), electrical machinery and equipment (12.2%), and nuclear reactors (7.7%). Among the top ten export categories, articles of apparel and clothing accessories entered the list, replacing aircraft, spacecraft, and related parts. However, significant y-o-y declines were observed in specific sectors; most notably, mineral fuels and related products, which fell by 37.8%, and organic chemicals, which dropped by 14.5%. (Figure 6)

Non-petroleum exports rose due to strong demand for electrical machinery, particularly smartphones, and pharmaceutical products in the US, likely driven by pre-deadline, tariff-related shipments. Cereal exports were supported by higher rice shipments, driven by a bumper Kharif crop and duty cuts⁵, especially to newer markets like Benin and Guinea, as well as traditional markets such as Bangladesh, Nepal, and

³ https://www.pib.gov.in/PressReleasePage.aspx?PRID=2126119#:~:text=Services%20exports%20continued%20to%20drive,%2430.0%20billion%20in%20March%202024.

⁴ Leading commodities are the top ten commodities with the highest value share in exports.

https://www.spglobal.com/commodity-insights/en/news-research/latest-news/agriculture/041725-be-nin-struggles-with-supply-glut-following-indias-export-surge

Yemen. In contrast, petroleum exports declined due to weakening demand in UAE, Netherlands, and Singapore due to transportation chokepoints constraining supply.⁶

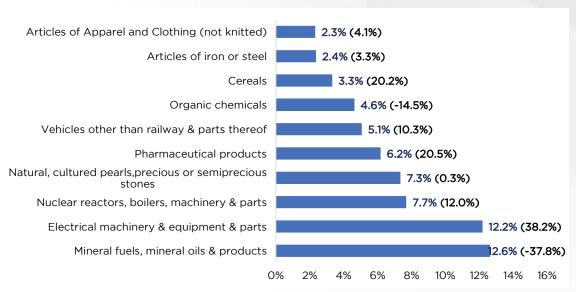


Figure 6: Composition and Growth of Exports

Note: Y-o-y growth of the commodity in India's export for this quarter is mentioned in parenthesis Source: Department of Commerce, MoC&I, GOI

2.2 Merchandise Imports

In Q4 FY25, the leading⁷ imports amounted to \$137.5 bn marking a y-o-y decline of 0.7%. The imports continue to be led by mineral fuels (29.5%), electrical machinery (13.8%), natural and cultured pearls (10.8%), and nuclear reactors (9.3%). Among the top ten import categories, inorganic chemicals and aircraft, spacecrafts, and their parts replaced optical, photographic, and cinematographic instruments and fertilisers, compared to the previous quarter. The overall increase in certain import segments was driven by significant y-o-y growth in inorganic chemicals, nuclear reactors, animal or vegetable fats, and electrical machinery. (Figure 7)

Imports of organic chemicals surged, rising from \$2 billion to \$3.5 billion, driven by higher demand for gold compounds, aluminium amalgams, and other compounds in countries such as Japan, Indonesia, and the UAE. On the other hand, the decline in imports of natural cultured pearls is attributed to reduced demand in markets like Switzerland, Russia, and Canada as well as a cut in prices of rough diamonds by 10-15%.8

⁶ https://www.eia.gov/todayinenergy/detail.php?id=65504

⁷ Leading commodities are the top ten commodities with the highest value share in imports.

⁸ https://www.theguardian.com/business/2025/jan/25/diamonds-lose-their-sparkle-as-prices-come-crashing-down

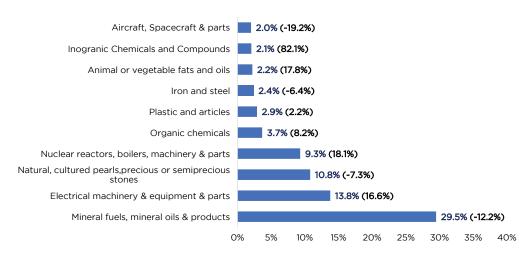


Figure 7: Composition and Growth of Imports

Note: y-o-y growth of the commodity in India's imports for this quarter is mentioned in parentheses Source: Department of Commerce, MoC&I, GOI

3. Trade Direction

3.1 Merchandise Exports

India's exports to its top markets⁹ including the USA, UAE, Netherlands, UK and China, remained steady, collectively contributing around 42% of total exports in Q4 FY25, amounting to ~\$48.5 bn, witnessed a marginal y-o-y decline of 1.23%. Among the top ten export destinations, with four countries India registered a positive growth. (Figure 8)

The overall export decline was mainly driven by the UAE, Netherlands, China and Singapore. Exports to China fell mainly due to reduced demand for Indian iron ore, impacted by China's steel production cuts¹⁰ and rising domestic demand in India for its increased steel production¹¹. Mineral fuel exports dropped significantly to the UAE, Netherlands, and Singapore due to disruptions in global shipping caused by the conflict in the Bab-el-Mandeb Strait¹², which increased costs even for unaffected routes. Exports of marine vessels, electrical machinery, and iron and steel articles to the UAE showed growth, driven by the India-UAE Comprehensive Economic Partnership Agreement (CEPA), which removed tariffs, streamlined customs, and enhanced the competitiveness of Indian engineering goods.

⁹ Top markets are those that account for the top 10 shares of total exports in Q4 FY25.

¹⁰ https://www.spglobal.com/commodity-insights/en/news-research/latest-news/metals/031725-chinas-potential-steel-output-cuts-supporting-iron-ore-steel-markets-sources

¹¹ https://www.hellenicshippingnews.com/indian-iron-ore-exports-face-downward-pressure/

¹² https://blogs.worldbank.org/en/developmenttalk/navigating-troubled-waters--the-red-sea-shipping-crisisand-its-

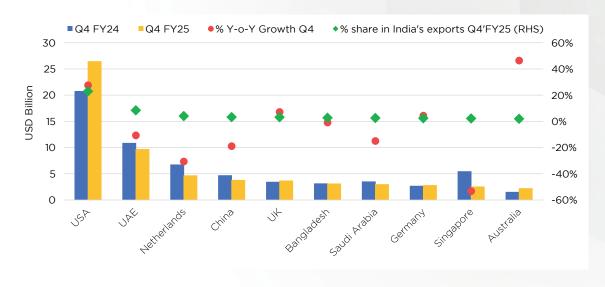


Figure 8: India's exports to major destinations

Source: Department of Commerce, MoC&I, GOI

3.2 Merchandise Imports

India's share of imports from its top¹³ markets - China, Russia, UAE, USA remained stable, contributing around 39% of total imports in Q4 FY25, amounting to ~\$71.4 billion. In Q4 FY25, India recorded significant y-o-y import growth, with notable increases from China (16.53%), the UAE (15.81%), and Singapore (15.56%). However, import growth declined with Iraq (-17.28%), Russia (-11.72%) and Saudi Arabia (-7.90%). (Figure 9)

While China remains India's largest import source, with a 16.5% y-o-y rise, UAE overtakes Russia as the second-largest, registering a 15.8% increase, as imports from Russia fell by 11.7%.

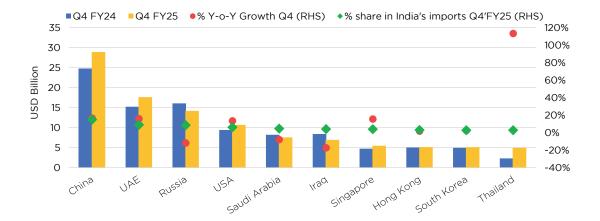


Figure 9: India's imports from major destinations

Source: Department of Commerce, MoC&I, GOI

¹³ Top markets are those that account for the top 10 shares of total imports in Q4 FY25.

The surge in UAE imports is driven by a massive y-o-y rise in gold compound imports as importers avoided a 6% duty by importing gold in compound form under the CEPA, which allows duty-free imports. Additionally, a 1% preferential duty reduction under the Tariff Rate Quota (TRQ) mechanism led to a sharp increase in unwrought gold (gold bars) imports from the UAE.

The rise in imports from China is fueled by a spike in portable computer imports due to the anticipation of import curbs similar to those imposed in 2023. On the other hand, the decline in imports from Russia is mainly due to reduced imports of mineral fuels, reflecting a shift in global trade patterns post the Russia-Ukraine conflict.

4. Regional Analysis

4.1 Merchandise Exports

India's exports to its top 10 export regions, accounting for a significant 89% of its total exports, show a y-o-y decline of 5%. North America remains India's largest export market, accounting for approximately a quarter of total exports during this quarter, with growth of around 25%. The USA contributes 90% to this growth. EU countries, another major export destination, experienced a decline of ~15%, primarily from the Netherlands, Italy, and Belgium. A similar decline was recorded in the GCC region, due to reduced exports to the UAE, Saudi Arabia, Qatar and Kuwait. The steepest drop came from ASEAN countries, driven by Singapore, Malaysia, Vietnam, and Indonesia. This is primarily due to a sharp fall in mineral fuel products and organic chemicals. Exports to Northeast Asia declined by 10.9%, led by China and Hong Kong, while Japan showed a nearly 31% rise, driven by increased demand for motor vehicles and electrical equipment. (Figure 10)

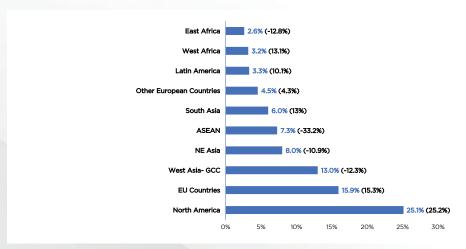


Figure 10: Region-Wise Export Composition and Growth

Note: y-o-y growth of the commodity in India's exports for this quarter is mentioned in parentheses Source: Department of Commerce, MoC&I, GOI

4.2 Merchandise Imports

India's Q4 FY25 imports registered an overall growth of 5% to the top ten regions, reaching \$163 bn this quarter. Six out of ten regions continue to experience positive y-o-y growth. India's imports mainly came from North East (NE) Asia, West Asia (GCC), ASEAN, accounting for 57.2% of total imports during the quarter. (Figure 11)

NE Asia, comprising 26% of total imports, registered a nearly 9% rise, primarily driven by higher imports of electrical equipment and industrial machinery. UAE, comprising 53.4% of regional imports, led the growth in West Asia-GCC. However, imports from Saudi Arabia, which contribute 22.9% of the region's trade, declined by 7.9%, largely due to reduced imports of mineral fuels, aircraft and their parts.

The EU accounting for 9% of India's total imports shows a 17.33% rise, primarily driven by an increase in imports of industrial machinery and electrical equipment. While most of the increase in the import of electrical equipment in the region comes from Ireland, increase in imports of industrial machinery came from France and Italy. Imports from Other CIS nations, making up 8.26% of total imports, fell by 11.7%, mainly from a decline in imports from Russia. Latin America, with a modest 3.38% share, grew by 4.95%, led by imports of fats, oils, ores, and slags mostly from Brazil, Chile, Peru and Argentina.

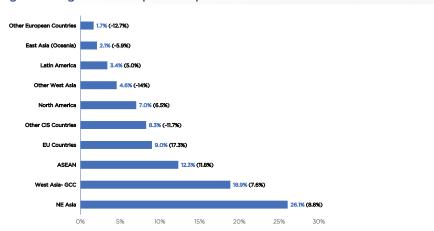


Figure 11: Region-Wise Import Composition and Growth

Note: y-o-y growth of the commodity in India's imports for this quarter is mentioned in parentheses Source: Department of Commerce, MoC&I, GOI

5. Merchandise Trade with FTA Partners

In Q4 FY25, exports to FTA countries totalled \$37.3 bn, reflecting a 20% y-o-y decline driven by a notable drop in exports to major FTA partners like ASEAN (-33.2%), UAE (-10.6%), SAFTA (-20.3%) and Singapore (-53.2%). (Figure 12)

Exports to ASEAN declined sharply, led by a steep drop in shipments to Singapore, which accounts for a significant share of the region's trade. Malaysia, Vietnam, and Indonesia also saw notable reductions. In Malaysia, the decline is mainly driven by mineral fuels and aluminium products, while in Vietnam, it is primarily driven by iron and steel, cotton, and meat products. The decline in exports to the UAE, a key FTA partner, is driven mainly by a decrease in mineral fuels, despite a notable increase in exports of electrical equipment, precious stones, metals, and jewellery. The sharp decline in exports to Singapore was driven by a reduction in shipments of mineral fuels, organic chemicals, marine vessels, and lead articles. In contrast, exports to Australia rose sharply, mainly due to higher mineral fuel exports.

Exports to major FTA partners show varying trajectories throughout the year. For

instance, exports to ASEAN, which stood at \$10 billion in the Q1 FY25 and rose to \$10.6 billion in the Q3 FY25, then registered a decline to \$8.4 billion in the Q4 FY25. In contrast, exports to the UAE have shown growth, increasing from \$7.5 billion in Q1 FY25 to \$9.7 billion in Q4 FY25.

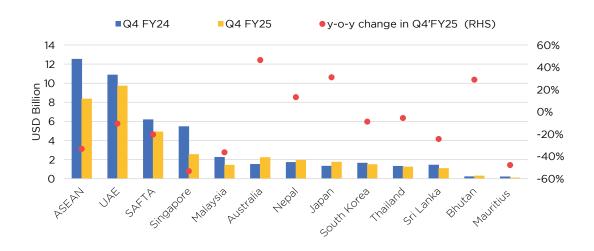


Figure 12: Exports- FTA Partners

Source: Department of Commerce, MoC&I, GOI

India's imports from its FTA partner countries totalled \$68.4 bn in Q4 FY25, recording a 10% y-o-y increase. The surge in imports is driven by ASEAN (11.8%), UAE (15.8%), Thailand (113.3%), Singapore (15.6%) and SAFTA (30.8%) countries. Imports from the UAE rose sharply, driven primarily by a mix of raw gold and gold compound imports. Thailand's surge was led by precious stones, metals, and jewellery. Imports from Singapore grew significantly, supported by industrial machinery, electronics, and electrical equipment. (Figure 13)

Imports from key FTA partners have trended upward over the year, with inflows from ASEAN increasing from \$20.4 billion in the first quarter to \$21.5 billion, while those from the UAE rose more sharply from \$10.3 billion to \$17.6 billion over the same period.

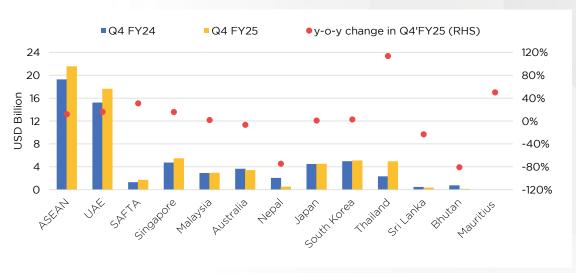


Figure 13: Imports- FTA Partners

Source: Department of Commerce, MoC&I, GOI

6. India's Merchandise Exports Presence Globally

India's export basket shows an apparent mismatch with global demand. Nearly two-thirds of global imports are concentrated in products where India's share is just 0.2% (Category 1). Yet, these account for only 8% of India's exports (\$36.9 billion), highlighting India's weak presence in demand-rich sectors. At the other end, just 3% of global imports lie in products where India has a strong presence (Category 4), here India commands an impressive 18.2% share (\$121.9 billion). This contrast shows that India is highly competitive in small, niche markets but underrepresented in the largest demand pools.

Table 1: India's Exports Presence in Global Demand

	Average Share % (2020-2024)		2024 (US\$ billion)		Share % in 2024		India's
Category	India's export share in World's import	Number of 6HS items	India's Exports	World's Imports	India's Export Basket	World's Import Basket	Export Share % in World's Import (2024)
Category 1	Less than 1%	4342	36.9	15863.9	8%	66%	0.2%
Category 2	Between 1% - 5%	1443	161.9	5961.3	34%	25%	2.7%
Category 3	Between 5% - 10%	393	121.0	1596.8	34%	7%	10.1%
Category 4	More than 10%	464	121.9	668.4	28%	3%	18.2%
	Total of the above	6642	441.7	24090.3			

Source: ITC Trade Map

Mid-range products (Categories 2 and 3, where India's share is between 1–10%) together contribute \$283 billion, or nearly two-thirds of India's export basket. Although they account for 32% of the global import basket, they generate a disproportionately large share of India's export earnings. Notably, in 2024, exports

in Category 2 rose to \$161.9 billion from \$136 billion in 2023, reflecting the upward movement of products from other categories. However, India's position remains very limited in large-demand items such as electronic circuits, petroleum oils, gold, and medicines, which together represent \$15.9 trillion of global demand. Diversifying into these high-demand sectors is essential to align India's exports with world trade patterns and scale them sustainably.

7. Mapping of India's export demand and identification of potential markets

Mapping India's exports against global import trends helps identify sectors where India is underrepresented despite high global demand. This analysis focuses on India's top export categories to target potential markets and better align the country's trade strategy with evolving global needs. The comparison of India's export CAGR with the World's import CAGR helps identify products where India is competitive and aligned with global demand, as well as sectors where opportunities need to be capitalised. For instance, where both India's exports and global imports are rising strongly (e.g., electrical machinery, mineral fuels), it signals that India has the capacity to capture a larger share of expanding markets. Conversely, where world demand is growing but India's exports are stagnant or declining (e.g., iron and steel), it highlights structural bottlenecks, competitiveness gaps, or trade barriers that require corrective policy action. (Figure 14)

Table 2: India's Top Export Sectors (accounting for 72% of India's total exports)

Top Export Sectors	World's imports (\$ bn)	India's exports to the world (\$ bn)	India's Contribution to Global Demand
Mineral fuels	3080.7	75.3	2.4%
Electrical machinery and equipment	3795.1	40.2	1.1%
Nuclear reactors & machinery	2880.3	32.5	1.1%
Pearls, stones, precious metals	958.8	29.9	3.1%
Pharma	953.0	23.3	2.4%
Vehicles except railway	1872.6	22.1	1.2%
Organic chemicals	519.8	21.0	4.0%
Cereals	164.4	12.1	7.4%
Iron and steel	467.8	10.3	2.2%
Articles of iron or steel	366.5	10.1	2.8%
Articles of apparel (not knitted)	220.9	8.2	3.7%
Plastics and articles thereof	738.9	8.1	1.1%
Articles of apparel (knitted)	241.6	7.5	3.1%
Aircraft, spacecraft, and parts thereof	239.7	7.4	3.1%
Aluminium and articles thereof	241.8	7.4	3.0%

Source: ITC Trade Map

India's export performance reveals strong potential across both traditional and emerging sectors, with its overall exports rising faster at 10% CAGR from 2020 to 2024 compared to the 6% CAGR of the world's imports. India's exports CAGR outperforms the World's imports across eight of the top fifteen products analysed, depicting

strong export demand. Mineral fuels remain the largest contributor, with exports reaching \$75.3 billion in 2024, growing at a rate of 22% annually compared to global import growth of 13%. Electrical machinery (\$40.2 billion) and nuclear reactors and machinery (\$32.5 billion) also stand out, with India's growth rates of 24% and 13% respectively, well above global demand, depicting the rising competitiveness in engineering and technology-linked sectors. Pharmaceuticals (\$23.3 billion) and vehicles (\$22.1 billion) continue to expand steadily, aligning with global demand trends, while organic chemicals (\$21 billion) and cereals (\$12.1 billion) reflect stable niches. Precious metals and apparel exports exhibit slower growth compared to global markets, indicating the need for diversification and value-added strategies.

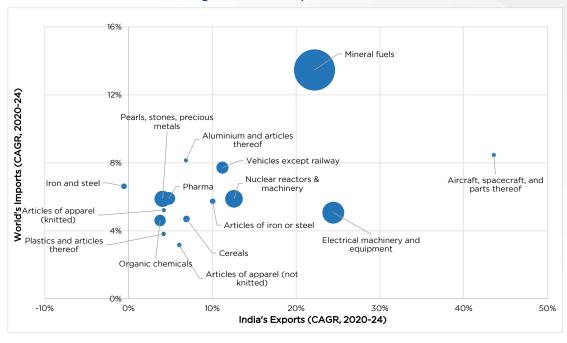


Figure 14: India's Export Potential

Note: Size of the circle represents volume of India's exports to the World Source: ITC Trade Map

At the same time, emerging segments like aircraft and spacecraft, though smaller in value at \$7.4 billion, are expanding rapidly at 44% CAGR, highlighting new frontiers for export expansion. Together, these patterns indicate India's potential to consolidate its position in energy and machinery, while scaling newer domains such as aerospace, electronics, and high-value manufacturing.

For market expansion and product diversification, the focus is on those chapters where India's export growth has outpaced global import growth, as these signal areas of relative competitiveness. China, Vietnam, and South Korea are considered as benchmarks given their expanding presence in global exports. Between 2005 and 2024, India's share in world merchandise exports has increased from 1% to 2%, while China's has more than doubled from 7% to 15%, Vietnam's has risen from less than 1% to 2%, and Korea's has remained broadly stable at 3%. The analysis compares India's performance with that of these competitors in the world's major importing markets. The objective is to identify opportunities for product and market expansion and diversification in these major markets that would allow India to capture a larger share. (Table 3)

Table 3: Strong Growth Sectors - Market Size and Competitor Presence, 2024

Product	Commodity share in India's exports	World Import Demand (\$ bn)	Top Importing Countries (\$ bn)	Top Importing Country Demand (\$ bn)	India's exports to top importing countries (\$ bn)	China's exports to top importing countries (\$ bn)	Vietnam's* exports to top importing countries (\$ bn)	S. Korea's exports to top importing countries (\$ bn)
			China	503	1.23	-	0.23	3.75
Mineral fuels	17%	3081	US	251	4.4	1.09	0.04	5.46
			India	220	-	0.38	0	1.23
Electrical			China	585	0.82	-	31.64	63.5
machinery and	9%	3795	US	486	12.58	126.09	35.96	20.9
equipment			Hong Kong	372	0.59	157.08	5.86	25.48
Nuclear reactors			US	531	6.58	92.56	9.65	26.7
& machinery	7%	2880	China	230	1.14	-	6.13	13.27
a macrimery			Germany	174	1.43	20.55	0.62	1.37
\/abialaa ayyaant		1873	US	391	2.66	20.37	0.83	42.97
Vehicles except railway	5%		Germany	147	0.59	6.35	0.15	1.85
Tanway			Canada	90	0.13	3.3	0.16	5.52
			China	15	0.06	-	0.53	0
Cereals	3%	164	Mexico	8	0	0	0	0
			Egypt	7	0.08	0.03	0	0
Articles of iron			US	53	2.97	14.04	1.16	3.08
or steel	2%	366	Germany	27	0.46	2.6	0.18	0.12
			France	13	0.15	1.03	0.02	0.04
Articles of			US	36	2.59	13.3	6.43	0.05
apparel (not	2%	221	Germany	20	0.36	2.17	0.5	0
knitted)			France	13	0.36	1.79	0.24	0.01
Aircraft,			US	36	0.48	1	0.18	1.01
spacecraft, and	2%	240	Ireland	20	0.14	0.01	0	0
parts thereof			UK	15	0.15	0.35	0.03	0.22

Note: i. Green highlights the country with the largest exports to the top importing country among the four listed economies.

ii.* indicates data for 2023 Source: ITC Trade Map

South Korea emerges as a consistent exporter across mineral fuels, electrical machinery, and vehicles, securing a notable presence in eight of the top importing destinations. China dominates electrical machinery exports to the US and Hong Kong, with a combined share of ~68% in the top markets. The US remains the largest export destination for nuclear reactors, machinery, and vehicles, accounting for a significant share of India's exports. Vietnam leverages its competitiveness in electrical machinery, apparel, and nuclear machinery, particularly in the US and EU markets. India, while demonstrating strength in mineral fuels and niche areas such as cereals and apparel, remains underrepresented in most top importing destinations compared to its competitors, with export shares often below 2%.

At the product level, in mineral fuels (HS 27), India's exports have grown at an annual rate of 22% compared to global demand growth of 13%. The Netherlands, UAE, and Singapore together account for about 40% of India's exports in this category, reflecting a concentrated market structure. While the US has emerged as the fourth-largest destination, with imports of \$0.4 billion, India's presence in China remains marginal, at \$0.1 billion, despite its position as the world's largest importer. Diversifying towards China and other high-demand Asian markets would reduce concentration risks and enable India to capture a larger share of global trade in this sector.

In electrical machinery (HS 85), India has grown at 24% against global demand of 5%, but its shares in key hubs such as China and Hong Kong are negligible compared to China's dominance of over 25%. The supply to US is relatively stronger at 2.6% with ~30% of its exports pertaining to the chapter directed here, pointing to the need for India to expand its supply chain integration in Asian and European markets.

In nuclear machinery (HS 84), India has expanded at 13% compared to 6% globally, but its presence in the US, China, and Germany remains under 1.2%, whereas China and Korea have double-digit shares, suggesting scope to strengthen integration into US and EU supply chains. Vehicles (HS 87) have grown at 11% compared to 8% globally, but India's share in the US, Germany, and Canada remains marginal, far behind Korea and China; this highlights alternate opportunities in Canada, Latin America, and emerging markets. Aircraft and parts (HS 88) are different: though smaller in value at \$7.4 billion, India's growth of 44% compared to 8% globally, coupled with relatively weak competition, indicates potential for deeper integration into aerospace supply chains in Ireland and the UK.

8. Services Export Performance

As of 2024, India's services export profile reveals a strong concentration in digitally delivered services, particularly in telecommunications, computer and information services (32.8% of India's service exports; 9.8% global share) and other business services (41.4%; 7.3% global share), together accounting for 74.2% of India's total services exports. (Figure 15)

In contrast, India's presence in contact-based services such as travel (2.0%), transport (2.3%), and financial services (1.0%) remains limited, despite these forming significant portions of global services trade at 19.7%, 16.8%, and 8.8%, respectively. Additionally, categories such as construction (4.6% global share) and personal, cultural, and recreational services (3.7%), which have moderate global shares, contribute minimally to India's own export basket (1.5% and 1.2%). This divergence highlights India's comparative advantage in knowledge-intensive, remote services, while also depicting the untapped opportunities in high-growth, contact-based global segments.

Developing economies that trade intensively in the knowledge-intensive services markets have been more successful in advancing their services exports. ¹⁴ Based on quarterly estimates released by UNCTAD for 2024, India is among the top ten service exporters in developing economies, second to China. ¹⁵

¹⁴ United Nations Conference on Trade and Development. (2024, September). Trade in services: Annual bulletin 2023

¹⁵ United Nations Conference on Trade and Development. (2024, July). Trade in services: Quarterly bulletin Q1 2024

9.8% IT and Telecom 3.7% Personal, cultural, and recreational Other business 1.0% Financial Insurance and pension 4.6% Construction 2.0% Travel Transport 5% 10% 15% 25% 30% 40% India's share in World Exports ■ Share in India's Exports Share in World Exports

Figure 15: Export Share of Services, 2024

Source: UNCTAD

India's total commercial services exports grew from approximately USD 155 billion in 2015 to around USD 374 billion in 2024, marking a more than two-fold increase over eight years. During the same period, global commercial services exports increased from USD 4.9 trillion to USD 8.8 trillion, reflecting a nearly twofold expansion. India's share in meeting global demand has increased steadily, rising from 3.1% to 4.3%. (Figure 16)



Figure 16: Export of Commercial Services¹⁶, 2015-2024

Note: Volume in billion dollars Source: UNCTAD

Amid rising global trade uncertainties, India's Global Capability Centres (GCCs) are emerging as resilient engines of services-led growth, anchoring the country's ascent as a global hub for enterprise innovation and operations. With over 1,700 GCCs employing 1.9 million professionals and generating \$64.6 billion in revenue as of 2024¹⁷, India leverages its unmatched edge in talent, technology adoption, and cost efficiency to attract multinational firms across sectors. Key hubs like Bengaluru, Hyderabad, Pune, Chennai, Mumbai, and NCR serve as nerve centres for high-value services in Al, cybersecurity, analytics, and digital transformation. GCCs now

¹⁶ Commercial services refer to all services except government services, comprising transport, travel, and other commercial services such as financial, insurance, telecom, construction, licensing, and business services.

¹⁷ https://www.pib.gov.in/PressReleasePage.aspx?PRID=2106222

contribute 23% of India's IT exports¹8 underscoring their strategic role in delivering high-value services. By 2030, the sector is projected to grow to \$105 billion, with 2,400 GCCs and 2.8 million employees¹9, aligning with India's \$1 trillion digital economy goal. India's surplus in services trade underscores the strategic importance of GCC-led exports in bolstering the balance of payments and creating high-quality domestic employment. To fully realize this potential, it is essential to expand the geographic footprint of GCCs beyond their current concentration in a few metropolitan hubs. As these cities approach saturation, Tier 2 and 3 cities present promising alternatives provided they are equipped with robust digital infrastructure, streamlined business regulations, and a skilled workforce.

¹⁸ EY- Global Capability Center (GCC) Pulse Survey 2024

¹⁹ EY- Global Capability Center (GCC) Pulse Survey 2024

B. THEMATIC ANALYSIS: LEATHER AND FOOTWEAR EXPORTS

B. Thematic Analysis: Leather and Footwear Industry

1. Overview of India's Footwear and Leather Exports

Amid evolving global trade dynamics, this quarter's thematic focus turns to India's leather and footwear industry, a sector that sits at the intersection of tradition, livelihoods, and global opportunity. This duality, of being both a key pillar of social and economic inclusion at home and a sector under pressure abroad, makes it a particularly compelling case for deeper exploration in this edition.

The Indian leather industry is one of the most significant contributors to employment, export earnings, and inclusive growth in the country. It supports approximately 4.4 million workers, mostly from the weaker sections of society, and 40% are women, highlighting its critical socio-economic role²⁰. With leading export positions, India ranks second globally in leather garments, third in saddlery & harness, and fourth in leather goods, demonstrating strong global competitiveness in design- and labour-intensive leather sectors.²¹

Tamil Nadu is a leader in the traditional leather sector and is now championing the growth of non-leather footwear. The state accounts for 38% of India's footwear and leather products output and nearly 47% of the country's total leather exports.²²

From 2004 to 2024, India's share in global leather and footwear exports has stayed modest at about 1.8%, showing a brief rise in 2014. During this period, India's export growth (CAGR 4.2%) trailed the global average of 4.7%. At the same time, the export basket has undergone a significant shift, with the country transitioning from raw leather to higher-value-added products, such as footwear and leather articles.

Global footwear demand between 2020 and 2024 has been driven by non-leather products, which now account for 61% of exports, while leather footwear is losing ground worldwide. In contrast, India's export growth has been stronger in leather footwear (~8%) than in non-leather (~5%), leaving its global share largely stagnant. India's footwear exports both leather and non-leather is estimated at \$2.5 billion, against the world market size of \$180 billion, in 2024²³. MSMEs make up over 95% of production units, contributing significantly to employment. With a workforce of approximately 1.10 million people in the footwear manufacturing industry, India is well-positioned as a global leader.²⁴

Overall, the leather and footwear products market is valued at \$296.5 billion as of 2024, and India has captured \$5.5 billion of this, which represents roughly 1.8% of the market share. India's leather and footwear exports across the top ten HS-4 products by value amount to USD 5.43 billion, accounting for 1.9% of global demand worth USD 281.76 billion. The largest segments by world demand are trunks and suitcases and footwear with leather uppers. High revealed comparative advantage is seen in leather apparel (HS 4203; RCA 5.35), saddlery (HS 4201; RCA 4.18), and certain prepared leather products (HS 4112, HS 4113; RCAs 7.57 and 6.02, respectively). However, these advantages have not translated into higher export shares for the respective products,

²⁰ https://leatherindia.org/wp-content/uploads/2024/08/overview-Indian-leather-industry-2024.pdf

²¹ https://leatherindia.org/wp-content/uploads/2024/08/overview-Indian-leather-industry-2024.pdf

²² https://www.indiabudget.gov.in/economicsurvey/doc/echapter.pdf

²³ ITC Trade Map

²⁴ https://www.maximizemarketresearch.com/market-report/india-footwear-market/20980/

as India's RCA remains much lower than that of its competitors, such as Vietnam, China, and Italy, which consistently register much stronger comparative advantages across major product categories. (Table 4)

Three major global players dominate most segments, with Vietnam and China leading in footwear and Italy in leather products. Overall, India's competitive strengths lie in niche, high-RCA leather goods, while market share remains low in large-demand footwear categories.

Table 4: India's Presence in Global Demand, 2024

HS 4	Product	World demand (USD bn)	Product Share in World Demand	India's exports to the world (USD bn)	India's export share in World demand	India's RCA ²⁵	Major Global Player
6403	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather	64.57	21.8%	1.80	2.8%	1.51	Vietnam (Share - 19%, RCA - 12.7)
4202	Trunks, suitcases, vanity cases, executive-cases, briefcases, school satchels, spectacle cases, etc	89.33	30.1%	1.58	1.8%	0.96	China (Share - 39%, RCA - 2.6)
4203	Articles of apparel and clothing accessories, of leather or composition leather	7.42	2.5%	0.73	9.9%	5.35	Italy (Share - 17%, RCA - 6.14)
4107	Leather further prepared after tanning or crusting of bovine or equine animals	7.32	2.5%	0.29	4.0%	2.15	Italy (Share - 31%, RCA - 10.8)
6406	Parts of footwear, incl. uppers whether or not attached to soles other than outer soles	9.64	3.2%	0.26	2.7%	1.48	China (Share - 43%, RCA - 2.85)
6402	Footwear with outer soles and uppers of rubber or plastics	49.62	16.7%	0.22	0.4%	0.24	China (Share - 50%, RCA - 3.3)
4201	Saddlery and harness for any animal	2.58	0.9%	0.20	7.7%	4.18	China (Share - 43%, RCA - 2.9)

²⁵ A country is said to have a revealed comparative advantage (RCA) in a given product i when its ratio of exports of product i to its total exports of all products exceeds the same ratio for the world as a whole. If RCA takes a value greater than unity, the country has a revealed comparative advantage in that product.

6404	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of textile materials	50.13	16.9%	0.19	0.4%	0.21	Vietnam (Share - 29%, RCA - 19.4)
4113	Leather further prepared after tanning or crusting "incl. parchment-dressed leather"	0.69	0.2%	0.08	11.1%	6.02	Italy (Share - 21%, RCA - 7.6)
4112	Leather further prepared after tanning or crusting of sheep or lambs	0.46	0.2%	0.06	14.0%	7.57	Italy (Share - 22%, RCA - 7.6)
	Total	281.76		5.43	1.9%		

Source: ITC Trade Map

2. Analyzing Peer Presence in Exports of Leather and Footwear

India's specialisation is relatively stronger in processed leathers (HS 4112, 4113), where it supplies over 10% of global demand, reflecting capabilities in semi-finished and treated leather. It also holds a modest but notable share in leather goods such as apparel (9.9%) and saddlery (7.7%), suggesting some presence in value-added downstream products. However, its role in footwear and components remains negligible, with under 3% share in most categories. (Figure 17)

In leather goods and accessories (HS 4201, 4202, 4203), sourcing reflects a more mixed structure with China as the leading competitor. China dominates in saddlery (43.3%) and travel goods like trunks and suitcases (38.7%), while also maintaining a comparatively lower share in leather apparel (12.1%) to Italy. Italy and France supply mid- to high-value segments, particularly in leather apparel (17.3% and 11% respectively) and travel goods (11.6% and 14.8%). India's role is relatively stronger here compared to footwear, although it is still far behind the selected competitors.

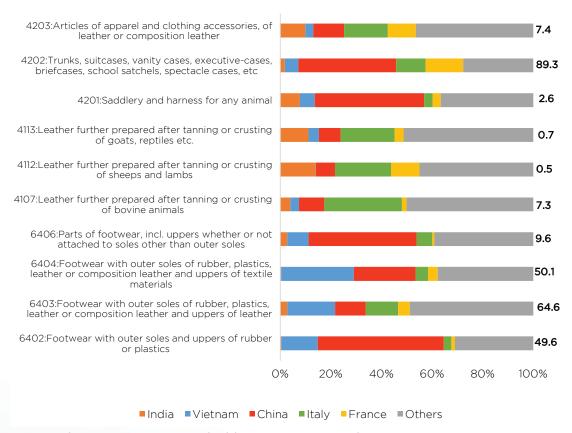


Figure 17: India's Share vs. Peers in Global Export Demand, 2024 (%)

Values mentioned refer to world exports in billion dollars of the respective product Source: ITC Trade Map

In the case of leather and semi-processed inputs (HS 4107, 4112, 4113), the sourcing pattern is more diversified across different countries, indicating a wider supplier base; however, Italy is the leading competitor. Italy's strong position in high-value processed leathers, supplying over 21–30% of imports, particularly in crust and parchment-dressed leather. India also has a mid-tier presence, contributing 14% in HS 4112 and 11.1% in HS 4113, though its share in finished leather (HS 4107) is smaller at 4%. Vietnam and China remain minor players in this segment.

Finally, in footwear and parts (HS 6402, 6403, 6404, 6406), China emerges as the dominant supplier, particularly in mass footwear and components. It accounts for nearly half of the world's imports of footwear made from rubber or plastics (49.8%) and footwear parts (42.7%). Vietnam has gained a strong position in textile-based footwear, supplying 28.7% of the world's imports, while also maintaining a sizeable share in leather-upper footwear (18.9%). Italy and France remain niche suppliers, contributing more significantly in premium segments. In contrast, India's presence is limited, with only a modest role in leather-upper footwear (2.8%) and negligible shares in other categories.

Overall, the structure suggests a clear segmentation in global value chains: China leads in mass footwear, parts, and leather and travel goods. Vietnam is an emerging competitor in textile and leather footwear; Italy retains dominance in premium processed leather and apparel; France plays a secondary but important role in leather goods; and India's share in processed leather remains a small to mid-level supplier. Vietnam paired deep FTAs with domestic reforms to boost export-oriented manufacturing and global value chain integration. India's FTAs have delivered limited gains due to cautious liberalisation, weaker logistics and compliance reforms, and low utilisation of preferential tariffs amid complex rules of origin.

The Emergence of Vietnam's Footwear Industry

Vietnam has emerged as the world's third-largest footwear producer and the second-largest exporter, trailing behind China. The industry exported about US\$23.2 billion worth of footwear in 2024, a 13% increase from the previous year. The footwear market is projected to hit US\$2.92 billion by 2028, reflecting a CAGR of 5.58% from 2024 to 2028.

- Dominated by textile and other footwear segments valued at US\$0.76 billion, the market also sees strong contributions from leather footwear and sneakers.
- A key driver of this expansion is Vietnam's pivot towards non-leather segments, particularly textile and synthetic footwear, which dominate export structures and reflect shifting global demand for sustainable and affordable fashion.
- Textile footwear alone contributed about US\$12.4 billion of exports in 2023, underscoring its growing weight in the sector.
- On the policy front, Vietnam is leveraging trade agreements such as the EVFTA and CPTPP to reduce tariffs and expand its reach in the EU and trans-Pacific markets. The government and industry associations are also prioritizing the development of supporting industries, including soles, fabrics, and accessories to reduce import dependence and enhance supply chain resilience.
- The industry is also shaped by its integration into global value chains. Vietnam hosts major manufacturing operations for global giants such as Nike, which operates 96 factories in the country, and Adidas, which sources around 40% of its global footwear from Vietnam.
- The industry is steering production towards eco-friendly lines, reflecting a shift in consumer trends. The local consumer base is expanding too, with Vietnam's middle class expected to grow by 23 million by 2030, creating rising demand for athletic, fashion, and sustainable footwear.

Reference: https://wtocenter.vn/chuyen-de/27919-vietnam-ranks-third-in-global-footwear-production-second-in-exports#:~:text=News-, News,which%20primarily%20serve%20domestic%20markets, https://asemconnectvietnam.gov.vn/default.aspx?ID1=2&ID8=140810&ZID1=8, https://vietnam.incorp.asia/footwear-market-vietnam/, https://oec.world/en/profile/bilateral-product/textile-footwear/reporter/vnm, https://vietnamnews.vn/economy/1690146/

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²⁶ China's leather goods market stood at USD 27.9 billion in 2023 and is projected to reach USD 47.8 billion by 2030 (8% CAGR), with synthetic and vegan segments emerging as key growth drivers. Its export dominance stems from FIE tax and land incentives, WTO tariff cuts, robust infrastructure, cluster-based manufacturing and support through the "Genuine Leather Mark" and SME programs - China Leather Goods Market Size & Outlook, 2030, https://www.dsir.gov.in/sites/default/files/2019-11/3_6.pdf

https://www.worldbank.org/en/news/press-release/2018/03/09/cptpp-brings-vietnam-direct-economic-benefits-and-stimulate-domestic-reforms-wb-report-says

Free Trade Agreements (FTAs) by India: Review and Implications for Future. Misra Centre for Financial Markets & Economy, IIM Ahmedabad

3. Mapping of India's Leather and Footwear Exports with Global Demand and Supply

This section analyses India's leather and footwear exports across key product categories and compares their positioning with global market leaders. While India maintains a foothold in traditional leather segments, it faces rising competition from Vietnam, China, and Italy, which benefit from scale, brand strength, and preferential market access. (Table 5)

The USA, Germany, and the UK remain India's leading destinations, yet increasing India's presence in Southeast Asia, Africa, and Eastern Europe can help diversify demand. Advancing FTAs and market-access negotiations can deliver the most significant long-term impact by reducing tariff and non-tariff barriers. Simultaneously, efforts to strengthen MSME participation, through capacity building, design improvements, and digital traceability, are showing early gains in product quality and buyer confidence. The transition towards sustainable leather processing and alignment with EU green norms is another high-impact area, as it directly influences India's ability to retain and grow in premium European markets.

Table 5: Mapping of India's leather and footwear Supply with Leading Exports and their Prime Destinations (2024)

Su	ipply Side		Demand Side
India's Top Export Destinations Share of Each Destination in India's Exports of the Product (%)		Leading Global Exporter in the Product Category (Share in World Exports %)	Top Export Destinations of the Leading Global Exporter (% share in its exports)
6403-	Footwear with outer soles of rubb	er, plastics, leather or compositio	n leather and uppers of leather
USA	20.9	Vietnam (18.9)	USA (40.1), China (9.7), Belgium (6.3)
UK	13.8	Italy (12.8)	Netherlands (14.4), Germany (9.6), France (9.3)
Germany	11.5	China (12.1)	USA (28.1), Russia (10.6), UK (4)
42	02- Trunks, suitcases, vanity cases,	executive-cases, briefcases, scho	ool satchels, spectacle cases
USA	29.5	China (38.7)	USA (16.8), Japan (6.1), Malaysia (4.6)
UK	9.7	France (14.8)	China (17.5), USA (13.3), Japan (11.5)
Germany	9.6	Italy (11.6)	China (17.5), France (13.3), Spain (11.5)
	4203- Articles of apparel and	clothing accessories, of leather or	composition leather
USA	29.8	Italy (17.3)	France (16.5), USA (15.1), Germany (9.2)
Germany	11.1	China (12.1)	Italy (60.9), France (10.3), Spain (7.4)
Spain	9.5	France (11)	USA (16.2), China (13.8), Itlay (9.3)
	4107- Leather fu	rther prepared after tanning or c	rusting
China	14.3	Italy (30.6)	France (9.8), Spain (6.7), USA (6.5)
Vietnam	13.5	China (10)	Vietnam (50.9), Indonesia (11.6), Hong Kong (11.2)
Italy	11.9	Brazil (7.7)	USA (27.4), China (16.7), Italy (10.3)
		406 - Parts of footwear	-
Germany	27.5	China (42.7)	Vietnam (31.6), Russia (5.6), Bangladesh (5.2)
Russia	11.5	Vietnam (8.5)	Cambodia (15.3), Indonesia (14.8), China (11.7)
Portugal	10.2	Italy (6.2)	USA (29.2), UK (12.4), Germany (7.5)

Source: ITC Trade Map

Footwear with Outer Soles of Rubber, Plastics, Leather or Composition Leather (HS Code 6403): Vietnam, Italy, and China dominate the market. Key destinations for these leading exporters include the USA, China, and European markets. India's exports remain price-sensitive and focused on mid-range products. To move up the value chain, India must invest in design and branding, while also tapping into emerging markets like Russia, Eastern Europe, and Africa. FTA-led preferential access to EU markets can enhance competitiveness.

Trunks, Suitcases, Vanity Cases, Briefcases, School Satchels, and Spectacle Cases (HS Code 4202): The USA, UK, and Germany account for nearly half of India's exports in this segment. With leading exporters such as China and France targeting the USA, Japan,

and the EU, India should also improve quality standards, design appeal, and packaging to enhance product visibility in these markets. Participation in global exhibitions and linking with premium brands will aid market expansion.

Articles of Apparel and Clothing Accessories of Leather (HS Code 4203): India's leather apparel exports rely on the USA, Germany, and Spain, but competitors like Italy and China are gaining ground. While India offers competitive pricing, global buyers seek design, craftsmanship, and sustainability. Strengthening artisan clusters, promoting eco-leather, and leveraging Geographical Indication (GI) tags can differentiate Indian products. Also, enhancing trade facilitation with the EU and Latin American countries will diversify demand.

Leather Further Prepared After Tanning or Crusting (HS Code 4107): India faces competition from Italy (30.6%) and China (10%), as they focus on high-value segments for developed markets such as the USA, France, and Spain. India must shift from raw leather exports to processed, finished leather products, supported by environmentally compliant tanneries. Collaboration with global leather designers and buyers can support the transition to finished exports.

Parts of Footwear (HS Code 6406): India exports primarily to Germany (27.5%), Russia (11.5%), and Portugal (10.2%). However, global exports are dominated by China (42.7%), Vietnam (8.5%), and Italy (6.2%), with Vietnam, Russia, and the USA emerging as the top export markets. This segment offers potential for MSME-led growth, especially in modular production, contract manufacturing, and aftermarket components. Building capacity in design prototyping, and integrating with global value chains (GVCs) will allow India to scale. Access to newer markets like Cambodia, Indonesia, and Africa can reduce dependence on traditional buyers.

Italy's Luxury Leather & Footwear Market: Global Prestige Built on Craft & Strategy

Italy's luxury leather goods market is a cornerstone of global fashion, with a projected revenue of US\$1.47 billion in 2025 and an expected annual growth rate of 1.20% (CAGR 2025–2030). Italy is the leading footwear producer in the EU, accounting for nearly 30% of total output, and ranks third globally in export value, particularly for leather-upper shoes. While the United States leads in overall revenue, Italy holds a unique position as the global benchmark for quality, craftsmanship, and heritage. Its reputation is built on centuries of artisanal tradition, particularly in regions like Florence and Tuscany, which are home to iconic brands such as Gucci, Prada, Fendi, and Bottega Veneta. The following initiatives showcase Italy's strategy to strengthen its global standing in luxury leather and footwear:

- Collaborative Industrial Clusters: The country has strategically developed industrial clusters where tanneries, designers, and suppliers collaborate closely, enhancing efficiency and innovation.
- Authenticity & Branding: Italy enforces strict "Made in Italy" labelling standards, ensuring authenticity and reinforcing consumer trust. Trade fairs like MICAM and Pitti Uomo further amplify Italy's brand presence.
- **Skill Preservation & Innovation:** Vocational training and apprenticeship programs sustain artisanal skills across generations.
- Sustainability & Tech Integration: Italy continues to elevate its standing through sustainable practices and technological advancement

Reference: https://www.statista.com/outlook/cmo/luxury-goods/luxury-leather-goods/italy, https://www.bonafideresearch.com/product/6304189612/italy-leather-goods-market, The Italian footwear sector - Assocalzaturifici

4. Evolving Trends in India's Leather and Footwear Exports

This section examines the trends in leather and footwear exports at both the aggregate level (HS-2) and the disaggregate level (HS-4). Between 2004 and 2024, raw leather exports have steadily declined, whereas footwear has emerged as the dominant segment and articles of leather have gained importance. However, India's ability to expand its global market share has remained limited across categories.

At the aggregate level, between 2004 and 2024, India's share in global leather and footwear exports remained modest, at around 2%, with a notable increase in 2014. India's compound annual growth rate (CAGR) of 4.2% has been slightly below the world average of 4.7%. Between 2004 and 2024, exports of raw hides, skins, and leather (HS 41) declined both in India and globally, reflecting a contraction in the raw leather trade²⁹. The share of this category in India's total leather and footwear exports fell sharply from 25% in 2004 to just 8% in 2024, while the global share also dropped from 22% to 5%. India's CAGR of -1.5% is weaker than the global average of -2.5%, indicating that world exports in this category are phasing out faster than those in India. (Table 5)

Table 6: Leather and Footwear Exports: Trend Comparison (India vs World, 2004–2024)

2004		2004			2014		2024		2004-24		
HS Chapter	Share in India's total leather and footwear exports	Share in World's total leather and footwear exports	World Demand Catered by India	Share in India's total leather and footwear exports	Share in World's total leather and footwear exports	World Demand Catered by India	Share in India's total leather and footwear exports	Share in World's total leather and footwear exports	World Demand Catered by India	CAGR (India)	CAGR (World)
Total	\$2.4	\$118.8	2%	\$6.9	\$253.8	3%	\$5.5	\$297.7	2%	4.2%	4.7%
41: Raw hides and skins (other than furskins) and leather	25% (\$0.60)	22% (\$26.6)	2.3%	20% (\$1.36)	14% (\$36.43)	3.7%	8% (\$0.44)	5% (\$15.93)	2.8%	-1.5	-2.5%
42: Articles of leather	42% (\$1.0)	27% (\$32.05)	3.4%	37% (\$2.55)	30% (\$76.04)	3.4%	46% (\$2.55)	34% (\$102.01)	2.5%	4.8%	6%
64: Footwear, gaiters and the like; parts of such articles	33% (\$0.84)	51% (\$60.12)	1.4%	43% (\$2.99)	56% (\$141.39)	2.1%	45% (\$2.50)	60% (\$179.78)	1.4%	5.6%	5.6%

Note: Volume of exports is mentioned in brackets and is denoted in \$ billion Source: Authors Calculations & ITC Trade Map

In contrast, articles of leather (HS 42) have gained prominence. In India's total leather and footwear exports the share of HS 42 rose from 42% in 2004 to 46% in 2024, in line with the global increase from 27% to 34%. Although this reflects a shift toward higher-value products, India's growth rate of 4.8% fell short of the global CAGR of 6%, reducing its share of global demand to 2.5%.

²⁹ This decline can be attributed to the rising concerns over declining prices particularly since the pandemic, unsustainable practices of leather extraction in the supply chain particularly due to issues such as animal cruelty and standards pertaining to extraction and disposal. Additionally, since small manufacturers dominate, compliance has always been a challenge. (https://www.mckinsey.com/~/media/mckinsey/industries/retail/our%20insights/state%20of%20fashion/2023/the-state-of-fashion-2023-holding-onto-growth-as-global-clouds-gathers-vf.pdf)

Footwear (HS 64) has become the dominant category, rising from 33% of India's total leather and footwear exports in 2004 to 45% in 2024. Globally, too, footwear strengthened its share from 51% to 60%. India's CAGR of 5.6% matched the global pace, but its share in world demand remained stagnant at 1.4%.

While global demand for raw leather skins has weakened, India is phasing it out at a slower pace than the global levels. In the leather industry, India's slower growth relative to the global average has further eroded its market share. While India has matched the global growth pace in footwear, its stagnant share in world demand signals limited competitiveness. (Table 6)

At the aggregate level, India's position has weakened, with its share in global leather and footwear exports declining from USD 6.2 billion in 2015 to USD 5.5 billion in 2024. During the same period, India's share in world exports fell from 3% to 2%, even as global exports expanded from USD 213 billion to USD 282 billion.

A similar pattern is seen at the disaggregate level, where India's leather and footwear exports are concentrated in HS 4202 and HS 6403. Together, these two categories account for more than half of global import demand in the sector. India's exports are led by HS 6403, whose share rose to 33.2%, followed by HS 4202 at 29.1%, indicating a shift toward value-added leather goods. Globally, however, HS 6403 lost ground, dropping to 22.9% (–8.1%), while HS 4202 gained to 31.7% (+11.7%), pointing to a reorientation in world demand. (Figure 18)

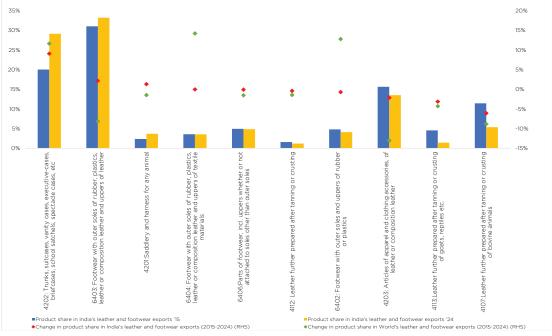


Figure 18: Change in India's share in the World trade (2015-2024)

Source: ITC Trade Map

Notable divergences appear in other segments, as HS 6404 (footwear with textile uppers) and HS 6402 (rubber/plastic footwear) expanded strongly in world trade. Still, India's shares in these segments remained stagnant or declined, indicating weaker competitiveness in non-leather footwear. Similarly, HS 4203 (leather apparel) and raw/prepared leather categories (HS 4107, HS 4112, HS 4113) lost weight in both India

and world baskets, but the contraction was sharper for India, with HS 4107 falling from 11% to 5.4% and HS 4113 from 5% to 1.4%. (Figure 18)

India has shifted toward value-added leather products and footwear in line with global trends; however, its share of the world market remains stagnant. Growth has matched, not exceeded, global expansion, highlighting the need for improved competitiveness. Tamil Nadu, with hubs like Chennai, Ambur, Ranipet, and Vellore, has become India's leading exporter of footwear and leather products by leveraging clustering strategies and supportive policies. Replicating such targeted approaches in other key centres, such as Uttar Pradesh, Maharashtra, and Haryana could diversify India's export base. Strengthening these clusters with integrated infrastructure, skill development, and policy incentives would not only boost competitiveness but also accelerate India's global market share in the sector.

Tamil Nadu's Policy on the Leather and Footwear Industry

Traditionally, the state has been a frontrunner in the leather industry. In recent years, its share in India's leather and leather products exports has steadily increased, now accounting for about 40%. It is the first state to have a separate policy for this sector, which was rolled out in 2022 and is operational until 2026. The ecosystem that has helped the state become the top exporter in India primarily follows the clustering approach.

The policy broadly covers three segments, namely footwear, leather products and footwear and leather design studios. It sets only two targets: attracting investments of $\stackrel{>}{\sim}$ 20,000 crore and creating 2,00,000 jobs in the footwear sector. Some major initiatives undertaken by the state are as follows:

- Development of greenfield and brownfield clusters: For non-leather footwear, the policy prioritises new clusters with plug-and-play facilities, supported by incentives for designing, stitching, warehousing, and related units. In contrast, for leather, the focus is on upgrading, consolidating, and scaling existing hubs like Chennai and Trichy.
- Attracting private investments through anchor investors: Tamil Nadu's investment
 promotion agency, guidance, engages with multiple agencies to strengthen ties with
 potential investors in the footwear sector. Each investor is supported by a dedicated
 facilitator who oversees clearances and operational issues post-production, enhancing
 the state's business-friendly image. Its External Engagement Cell also develops publicity
 material in foreign languages, including Mandarin, Japanese, Korean, German, and
 French, to ensure smooth communication with global investors.
- Skilling and Workforce Ecosystem: The state hosts several testing centres with international collaborations, including FDDI, CLRI, and Intertek, which offer training programs to build a skilled workforce. In addition, Industrial Training Institutes (ITIs) provide training at shop-floor, managerial, and supervisory levels, ensuring a steady talent pipeline for the sector.

Other incentives, such as capital subsidies, payroll subsidies, and land cost subsidies based on predefined criteria, also helped in the creation of a comprehensive ecosystem.

5. Footwear Trade: India's Performance and Tariff Disadvantage, 2024

The footwear market can be classified into two categories: leather and non-leather. Demand is rising for non-leather footwear, particularly due to its flexibility, warmth, support, waterproofing, and recyclability. Global demand for footwear has expanded steadily between 2020 and 2024, dominated by non-leather footwear, with 61% the world's footwear export market, i.e. USD 110 bn of USD 179 bn, constituting non-leather exports in 2024. Leather markets are being replaced by non-leather or synthetic

footwear, with some estimates suggesting the demand in terms of volume to be as high as 86%.³⁰ In 2024, the United States, Germany, France, and Italy collectively accounted for approximately 30% of global footwear import demand.

Table 7: Leather vs non-leather Footwear Performance

Segment	India Exports CAGR (2020-24)	World Exports CAGR (2020-24)	India's Export Share in Global Exports 2024	China's Export Share in Global Exports (2024)	Vietnam's Export Share in Global Exports (2024)	India Imports CAGR (2020-24)	World Imports CAGR (2020-24)	India's Import Share in Global Imports (2024)	China's Import Share in Global Imports (2024)	Vietnam's Import Share in Global Imports (2024)
Leather	7.8%	8.5%	2.6%	14%	18%	8.9%	6.2%	0.1%	4.7%	0.3%
Non-leather	4.6%	9.1%	0.6%	38%	20%	8.5%	7.3%	0.6%	3.3%	2.5%
Total Footwear	6.9%	8.9%	1.4%	29%	19%	8.6%	6.9%	0.4%	3.8%	1.6%

Source: ITC Trade Map

In India, the exports of leather footwear have grown stronger at ~8% between 2020 and 2024, reaching USD 1.82 billion, whereas non-leather footwear exports have grown at ~5%, reaching USD 0.68 billion. This is in contrast to the global market, where non-leather footwear has experienced stronger growth and constitutes a larger export market of USD 102 billion, as depicted in the table. Shares in the export market have remained stagnant across the years, with non-leather at 1% in world export demand and 3% in the leather market. (Table 7)

India has been unable to ramp up its exports in non-leather footwear due to its import dependence on Vietnam and China for uppers, EVA/PU soles, moulds, speciality fabrics, and chemicals. This can be seen through India's strong import growth over the past 4 years at ~8.5% for non-leather footwear, almost twice of the export growth. Multiple industry tallies show China as the dominant source of India's footwear and component imports.³¹ When we compare the shares in the global export market for 2024 across India, China, and Vietnam, Vietnam dominates in leather, whereas China dominates in non-leather footwear with a share of ~40%. Despite strong import growth in footwear compared to the world import growth, India's participation remains limited in terms of its share in imports.

The local industry faces the challenge of limited capacity utilisation, a lack of modernised training, leading to weak design-making capabilities, which is key for non-leather footwear. While countries like Vietnam has leveraged its collaboration with Italy through initiatives such as the Italy-Vietnam Footwear Technology Centre in Binh Duong that provides access to advanced European machinery and product development support, India has also taken steps to strengthen its position. Vietnam's integration of technology with a large, cost-competitive workforce has enabled it to become a major production hub for sports, canvas, and leather shoes across markets in the United States, Latin America, and Asia. In a similar direction, India's recent signing of the FTA with the United Kingdom offers new opportunities to expand its footwear exports, particularly by addressing tariff disadvantages that had previously constrained its competitiveness in key markets.

³⁰ https://www.dcmsme.gov.in/white_paper/11.%20Advance%20Technologies%20in%20non-leather%20footwear-Year%202.pdf

³¹ https://www.dcmsme.gov.in/white_paper/3.%20Whitepaper-Footwear%20Sector-Year%201.pdf

³² https://www.dcmsme.gov.in/tcsp/Program%20Overview/Agra_V2.pdf

³³ https://www.worldfootwear.com/news/new-italy-vietnam-footwear-technology-centre/2588.html

Impact of Input Tariffs on Footwear Competitiveness

India applies relatively higher tariffs on some of the key raw materials used in footwear production, which increases the cost of inputs for domestic manufacturers. For example, plastics (HS 3926) and vulcanised rubber sheets and plates (HS 4008) are among the most critical inputs in footwear production, attract Indian tariffs of around 10–10.2%, while Vietnam's average tariffs on the same products are much lower, ranging between 0–3%. In contrast, Italy also applies duties close to zero on these materials. This makes the cost structure for Indian footwear producers less favourable compared to competitors who benefit from cheaper access to imported inputs.

Table 8: Cross-Country Comparison of Raw Material Tariffs for Footwear Production

Product	Top country from which India Imports	Share of country in India Import of the Product (%)	Average tariff applied by India (%)	Share of country in Vietnam's Import of the Product (%)	Average tariff applied by Vietnam (%)	Share of country in Italy's Import of the Product (%)	Average tariff applied by Italy (%)
3926 - Other articles of		40.4	10.2	59	0.8	21	6.1
plastics and articles of other materials of headings 39.01 to	USA	8.6	10.2	1.3	12.6	2.1	6.1
39.14.	Germany	7.2	10.2	1.5	12.6	20.4	0
4008 - Plates, sheets,	China	34	10	56.7	0	5.8	2.6
strip, rods and profile shapes, of vulcanised rubber other than hard		11.5	10	3.3	3.3	24.7	0
rubber.	USA	8.7	10	1.4	3	2.7	2.6

Source: ITC Trade Map

Both India and Vietnam rely significantly on China for sourcing raw materials. In the case of vulcanised rubber sheets (HS 4008), about 34% of India's imports come from China, while Vietnam's dependence is higher, at 56.7%. Similarly, for plastic articles (HS 3926), 40.4% of India's imports are from China, compared to 59% for Vietnam. Despite this reliance on a common supplier, Vietnam applies near-zero tariffs on these imports, ensuring that its manufacturers have access to inputs at competitive prices. India's higher tariffs, on the other hand, add to input costs even though the sourcing pattern is broadly similar. (Table 8)

This difference in tariff treatment has implications for participation in global value chains (GVCs). Vietnam's relatively open import regime has enabled its footwear sector to integrate more smoothly into international production networks, attract investment, and expand its export base. India's higher input costs, by contrast, limit its ability to compete on both price and scale in the same international markets.

Reducing tariffs on critical raw materials could help Indian producers align more closely with global competitors, while also encouraging greater integration into international supply chains. By easing the cost burden on inputs, India would be better placed to improve the competitiveness of its footwear exports and strengthen its role in global trade.

5. Industry Insights³⁴ on Strengthening India's Leather and Footwear Sector

India's leather and footwear industry has strong potential but is constrained by challenges in raw materials, technology, skills, competitiveness, and market access. The following section summarizes the recommendations and key inputs provided by industry experts:

- i. Bridging the Credit Gap in India's Leather and Footwear MSMEs: India's leather and footwear industry, largely MSME-driven, faces a significant credit gap, with formal bank lending to the sector at only ₹1.3 lakh crore (≈USD 15.6 billion) as of March 2025.³5 This overall estimated gap for MSME stands at ₹30 lakh crore³6, leaving micro and small enterprises especially under-financed.³7 The challenge has intensified in 2025 with decelerating bank lending growth, expiry of the Interest Equalisation Scheme (which had lowered export borrowing costs), and policy programs like the Indian Footwear & Leather Development Programme³8 (IFLDP) with a ₹1700 crore outlay, focusing on infrastructure, skilling, and technology but not addressing working-capital needs. Bridging the credit gap requires reinstating interest subvention, expanding guarantee-backed credit lines, integrating digital supply-chain finance into schemes, and introducing MSME-focused credit guarantee cards for collateral-free working capital.
- ii. Addressing Skill, Machinery, and Material Gaps: Despite expanded initiatives by the Leather Sector Skill Council and CSIR-CLRI (through RPL certifications and short-term courses), much of the workforce remains under-trained or informal, with only ~15% of manufacturing units organized and likely semior fully mechanized; the rest about 85% operate as informal or cottage-level setups, limiting consistency and quality³⁹. High capital outlay and dependence on imported specialised machinery further constrain broader technology adoption. Global examples such as China's Shiling cluster illustrate how vocational training, automation, and proximity to raw material suppliers boost efficiency and trade linkages, while Italy's Santa Croce sull'Arno⁴⁰ and Marche regions showcase how skilled labour, sustainable manufacturing, and dense supplier networks foster high-quality production and globally competitive, innovation-driven clusters. Addressing these gaps requires scaling apprenticeship-linked skilling, channelling blended finance into machinery upgrades and domestic equipment manufacturing, and enhancing rawmaterial production and processing to align export growth with reliable local supply.

³⁴ A stakeholder knowledge-sharing session was held to gather industry insights on challenges and strategies for boosting India's global competitiveness in leather and footwear.

³⁵ https://www.ceicdata.com/en/india/scheduled-commercial-banks-credit-outstanding-by-sector/scb-credit-outstanding-non-food-industry-leather-and-leather-products#:~:text=Home%20%3E%20Countries/Regions%20%3E%20India;:%20Gross%20Outstanding;%20by%20Sector.

³⁶ https://www.sidbi.in/uploads/Understanding_Indian_MSME_sector_Progress_and_Challenges_13_05_25_ Final.pdf

Small footwear units in clusters like Agra, Kanpur, and Vellore remain reliant on informal credit due to collateral constraints, weak guarantee mechanisms, and limited recognition under the Insolvency and Bankruptcy Code which restrict access to formal finance.

 $^{^{38}\} https://www.pib.gov.in/PressReleaseIframePage.aspx$

³⁹ https://www.pib.gov.in/PressReleasePage.aspx

⁴⁰ https://www.unido.org/sites/default/files/2013-11/Cluster_Twinning_Final_0.pdf

- iii. Adopt Vertical (Multi-Storey) Industrial Complexes to Address Fragmentation and Infrastructure Gaps: India's leather and footwear sector is dominated by MSMEs that face constraints of scale, finance, and regulatory burdens, with only a few firms like Hidesign successfully overcoming them. In clusters such as Agra, fragmented raw material sourcing can raise costs by up to 40% and delay production, underscoring the need for integrated infrastructure. Scaling also remains risky as crossing regulatory thresholds adds high fixed costs that many firms cannot bear. Developing multi-storey industrial complexes and cluster-based models with shared facilities can reduce costs, improve efficiency, and ease compliance pressures. Global examples from Hong Kong and China show the benefits of vertically integrated ecosystems, while initiatives like Uttar Pradesh's flatted factory complexes point to a pathway for modernising Indian clusters and boosting global competitiveness.
- iv. Development of Plug-and-Play Parks: MSMEs in leather and footwear face high entry barriers from capital-intensive infrastructure, regulatory delays, and limited compliance facilities, hampering scale and exports. Plug-and-play parks address these challenges by offering ready-built factory shells with utilities, testing labs, and design support, reducing costs and setup time. Under the IFLDP, initiatives like the Mega Leather Footwear and Accessories Cluster Development (MLFACD) promote such models. Kanpur's upcoming UPSIDA-led Footwear Park exemplifies this approach by adopting a plug-and-play model with ready infrastructure, including electricity, water, sewerage, and factory sheds.
- v. Balancing Quality Control Order (QCO) Implementation with Fair Import Controls: The implementation of QCO requires manufacturers to obtain a BIS hallmark and license for input items. While this strengthens product quality standards, it risks disproportionately impacting smaller units, which may be unable to source components only from approved suppliers. To avoid closures and support industry continuity, the QCO should be implemented in phases with simpler compliance requirements and wider acceptance of accredited testing reports. Exemptions should particularly apply to inputs used in massmarket footwear, such as canvas shoes and rubber slippers. At the same time, stricter checks are needed on imports rerouted through FTAs such as the ASEAN and SAFTA partners to ensure adherence to rules of origin norms, as these trade routes are often used to channel Chinese imports.⁴¹
- vi. Strengthening R&D and Market Alignment in Footwear: Footwear manufacturers have limited exposure to international market fairs and often end up replicating existing trends rather than innovating. To boost competitiveness, dedicated R&D units in the footwear sector should be established to drive industry–academia collaboration and strengthen market research, enabling innovation, alignment with global trends, and deeper integration into international markets.

⁴¹ https://gtri.co.in/DisplayFlagshipReports.aspx?ID=28

6. Way Forward

The analysis highlights a steady but under-leveraged trajectory for India's leather and footwear exports. Despite having competitive advantages in select leather goods and processed leathers, India has not leveraged these strengths to achieve higher global market shares. The industry continues to trail global leaders due to structural gaps in productivity, technology adoption, integration into global value chains, and limited success in scaling non-leather footwear, which now dominates global demand. While clusters like Tamil Nadu illustrate how targeted industrial support can drive sectoral growth, the overall export basket remains mismatched with evolving global trends. Moving forward, aligning the sector with sustainability, product innovation, and cost competitiveness will be critical for India to regain momentum and strengthen its position in the global value chain. The following priority actions are recommended:

- a. **Boost Non-Leather Footwear Exports:** Target capacity expansion in the USD 110 billion global non-leather market, where India holds only a 1% share, by incentivising domestic input production and reducing reliance on imports.
- b. **R&D, Design, and Branding Push:** Establish cluster-based R&D hubs with industry-academia tie-ups to innovate beyond mid-range segments and increase global share in footwear (currently just 1.4% of world demand).
- c. Cluster and Infrastructure Modernisation: Scale the model of Tamil Nadu, which contributes 47% of India's leather exports, by replicating plug-and-play parks and vertical complexes in hubs like Agra and Kanpur to cut raw material sourcing costs (currently up to 40% higher for fragmented MSMEs).
- d. **Maximise Market Access via FTAs:** Leverage the recently signed UK FTA and negotiate EU access to overcome tariff disadvantages of 10%+ on inputs compared to near-zero tariffs for Vietnam and Italy, enabling deeper integration into global value chains.
- e. Adopt Sustainable Manufacturing and Compliance Leadership: Position ecoleather and compliant tanning as growth levers aligned to EU norms, where premium markets demand traceability. This is essential to transform India's RCA strengths into higher export shares.

C. POLICY HIGHLIGHTS

C. Policy Highlights

1. Global Trade-Related Policy Updates

a. Adjusted Reciprocal Tariffs announced by the US: A new Executive Order, effective August 7th, 2025, modifying tariff measures first imposed through Executive Order 14257 on April 2, 2025, was passed. Citing large and persistent U.S. trade deficits as a national emergency, the order modifies reciprocal ad valorem duties on goods from a wide range of trading partners. The order also sets penalties for transhipped goods to evade tariffs and directs U.S. agencies to monitor compliance, publish circumvention lists, and recommend further action if partners retaliate or fail to align with U.S. trade and security commitments on July 31, 2025.

An additional ad valorem duty of 25%, a penal charge for India's import of Russian crude oil or petroleum products came into effect on August 27, 2025. It would apply in addition to the duty imposed on April 2nd 2025. India now faces a tariff of 50% on all goods except those exempted in annexure II to Executive Order 14257 of April 2, 2025.

2. India's Trade Policy Developments

- a. India hosts the 10th review meeting with ASEAN on merchandise trade: Held between 10–14 August 2025, focused on the ongoing review to enhance trade facilitation, market access, and effectiveness of the pact. Seven subcommittees discussed issues ranging from customs procedures and rules of origin to SPS and trade remedies. With ASEAN accounting for 11% of India's global trade and bilateral trade at USD 123 billion in 2024–25, the review aims to strengthen economic ties further. The next meeting is scheduled between 6–7 October 2025 in Jakarta.
- b. India and Eurasian Economic Union launch FTA negotiations: India and the Eurasian Economic Union (EAEU), comprising Armenia, Belarus, Kazakhstan, Kyrgyz Republic, and Russia, have signed the Terms of Reference (ToR) in Moscow to launch negotiations for a Free Trade Agreement (FTA). With bilateral trade reaching USD 69 billion in 2024, the proposed pact aims to boost Indian exports, diversify market access, support MSMEs, and enhance competitiveness. The ToR provides the framework for negotiations, with both sides committed to an early conclusion and building a long-term economic partnership.

3. Commodity Price Trends (Jun 2024-25)

The All-Commodity Index showed a mild downward trend from June 2024 (166.79) to a low in May 2025 (160.92), before recovering slightly in June 2025 (165.79). Food prices remained relatively stable but showed a mild declining trend. From June 2024 (130.26), the index slightly fell to 124.84 by June 2025. The decline was sharper after February 2025, due to improved global food supply conditions and a easing of input costs, such as fertilisers and energy. Coal prices remained elevated in the first half of the period, with a temporary peak in August 2024 (197.07), followed by a steady decline to March 2025 (142.53). This trend likely reflects reduced winter demand and substitution effects as

renewable energy penetration increases. A modest recovery by June 2025 (146.02) may reflect seasonal industrial demand or supply tightening. Similarly, the crude oil index also depicts a declining trend due to the rapid adoption of electric vehicles in China, the world's largest automobile market, where more than 40% of new cars purchased last year were either battery-powered or hybrid vehicles.⁴² (Figure 19)

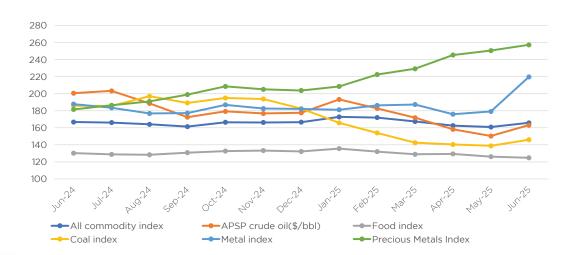


Figure 19: Price indices across key commodity indices

Source: IMF

Precious metals have also shown consistent and strong appreciation throughout the year, rising from 181.55 (June 2024) to 257.29 (June 2025) due to increased purchases of gold. This suggests rising safe-haven demand, due to elevated geopolitical uncertainty.

⁴² https://www.worldbank.org/en/news/press-release/2025/04/29/commodity-markets-out-look-april-2025-press-release

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