

## Tailoring Customs to Global Trade: Budget 2026 Reforms for Textile, Leather and Footwear

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The Union Budget 2026–27 marks a subtle but significant evolution in India’s approach to export facilitation. Rather than dispensing broad incentives or sweeping exemptions, the Budget adopts a targeted and sector-specific strategy, addressing structural inefficiencies that have historically obstructed export competitiveness. These sectors collectively represent a substantial share of India’s merchandise exports and constitute a major source of employment, particularly within the MSME sector. In FY 2024-25, India’s textile and apparel sector, one of the world’s top six exporters, contributed about 2.3 % to GDP, 13% to industrial output, and 12% to merchandise exports, while directly employing over 45 million people, largely through MSME clusters. During the first half of FY 2024-25, textile exports reached around USD 21.4 billion. At the same time, the labour-intensive leather and footwear industry saw exports rise by about 25% to USD 5.7 billion, supporting roughly 4.2 million jobs<sup>[1]</sup>. The reforms announced reflect a recognition that rigid procedural requirements under duty exemption schemes have often been uneven with the commercial realities of modern global supply chains.

### Textile and Leather Sectors: Rationalisation of Export Obligation Timelines

The textile, apparel, and leather sectors continue to occupy a position of strategic importance within India’s export economy. Textiles and apparel together account for around 11% of India’s total merchandise exports, supporting extensive employment and MSME-led manufacturing clusters. These sectors are inherently shaped by seasonal demand cycles, fashion-led product lifecycles and buyer-driven production schedules, production timing and predictability critical to export operations.

Under the existing customs framework, exporters were availing duty-free import benefits under [Notification No. 45/2025 – Customs](#) dated 24 October 2025 under which they were required to fulfil export obligations within a six-month period. In practice, this timeline has frequently proved divergent with the operational realities of the textile and leather sectors, which are shaped by seasonal demand patterns, fashion-driven product cycles, buyer-specific specifications and extended production lead times

This has often resulted in procedural lapses, leading to demands for customs duty, interest and penalties even in cases where export obligations were ultimately met. Such outcomes dilute the very objective of export promotion schemes and give rise to avoidable dispute

The extension of the export obligation period to one year represents a rationalisation rather than a relaxation being effective from 2 February 2026 and extending up to 31 March 2028[2]. The underlying intent is to correspond statutory timelines with commercial exigencies and to shift the focus from procedural rigidity to substantive export performance. This reform is expected to reduce litigation exposure, enhance compliance certainty and provide exporters with greater predictability in planning duty-free imports.

The effectiveness of these reforms is reinforced by policy initiatives such as the proposed National Fibre Scheme, aimed at strengthening self-reliance in natural fibres such as silk, wool and jute, alongside man-made and new-age fibres. The Textile Expansion and Employment Scheme, which seeks to modernise traditional clusters through capital support for machinery, technology upgradation and shared testing and certification facilities critical for MSME-led units seeking export compliance readiness. The Budget also focuses on artisan-focused interventions through a National Handloom and Handicraft Programme, integrating existing schemes to provide targeted support to weavers and artisans, while improving market access

Additionally, **Samarth 2.0**, which seeks to modernise and upgrade the textile skilling ecosystem through collaboration between industry and academic institutions, is expected to improve labour productivity and enable more effective utilisation of indirect tax incentives.

The development of Mega Textile Parks is a targeted intervention to accelerate large-scale, integrated textile manufacturing. Under this model, stakeholders are encouraged to compete on clearly defined parameters such as infrastructure readiness, land availability, plug-and-play facilities and policy support. The objective is to create end-to-end manufacturing ecosystems covering spinning, weaving, processing, garmenting and ancillary services within a single location. These parks are expected to reduce logistics costs, improve supply chain efficiency and enhance ease of compliance for exporters. A key emphasis is on promoting value addition in technical textiles, where India has significant growth potential. The challenge mode framework is also intended to ensure time-bound implementation and accountability. By clustering production, testing and certification facilities, the parks can support faster turnaround and quality consistency. Such integrated parks can facilitate smoother utilisation of customs duty exemptions. Overall, Mega Textile Parks are positioned as a cornerstone of infrastructure-led growth for the textile sector.

### **Footwear Sector: Inclusion of Shoe Uppers within Duty Exemption Framework**

The global footwear industry has evolved towards component-based manufacturing, with shoe uppers constituting a high-value segment often produced independently and exported to global assemblers. Shoe uppers typically account for 35% to 45% of the total FOB value of finished footwear, making them the single highest-value component in a shoe. The upper assembly (cutting, stitching, embellishment and finishing) contributes nearly 40% of total manufacturing cost, primarily due to higher material intensity (leather/synthetic uppers), skilled labour and design inputs.

Despite this, Indian exporters of shoe uppers had hitherto remained outside the ambit of customs duty exemption benefits which were otherwise available to exporters of finished leather or synthetic footwear, resulting in an artificial distinction within the same industry. The Union Budget has extended customs duty exemption benefits to imports used in the manufacture of shoe uppers and extended the time period of export of value-added products manufactured from specified inputs imported at concessional rate of duty from six months to twelve months. This exemption has been effective from **2 February 2026** and shall remain valid up to 31 March 2028.[3]

The Budget reflects a clear policy intent to recalibrate customs law in response to prevailing industry practices deepen the participation of component manufacturers within India's export framework and acknowledging the evolving nature of Global Supply chain.

The extension of duty exemption to shoe uppers is expected to yield tangible benefits. Exporters will be able to procure specialised inputs without the incidence of upfront customs duty, thereby improving working capital efficiency and reducing embedded tax costs within exports. Further, by eliminating ambiguity in the treatment of footwear components, the measure is likely to mitigate classification disputes and contribute to greater certainty and predictability in customs.

Lower tariffs under India's key trade agreements, particularly the India-EU Free Trade Agreement (FTA) and the current India-US trade understanding are expected to have a positive and meaningful impact on India's export performance, especially in labour-intensive sectors such as textiles, leather and footwear. Tariff liberalisation under the India-EU FTA enhances price competitiveness in a traditionally high-duty market, while improved market access under the India-US trade framework supports India's role as a preferred sourcing base for both finished goods and components.

## Conclusion

These reforms represent a deliberate and thoughtful recalibration of India's export facilitation framework. By addressing structural misalignments in customs law and administration, the Budget advances the objective of aligning indirect tax policy with the realities of global trade. The complementary initiatives such as the National Fibre Scheme, Samarth 2.0 and the development of Mega Textile Parks, the reforms form part of a coherent strategy to strengthen infrastructure, enhance productivity and reinforce India's competitiveness in labour-intensive export sectors. The principle that export promotion should be grounded in commercial practicality, with indirect tax policy functioning as a facilitative instrument rather than a source of procedural friction.

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[1] [economic survey 2024-25.pdf](#)

[2] Sr. No. 142 of [Notification No. 45/2025 - Customs](#) dated 24 October 2025 read with Notification No. 2/2026 – Customs dated 1 February 2026

[3] Sr. No. 143 of Notification No. 45/2025 – Customs dated 24 October 2025 read with Notification No. 2/2026 – Customs dated 1 February 2026