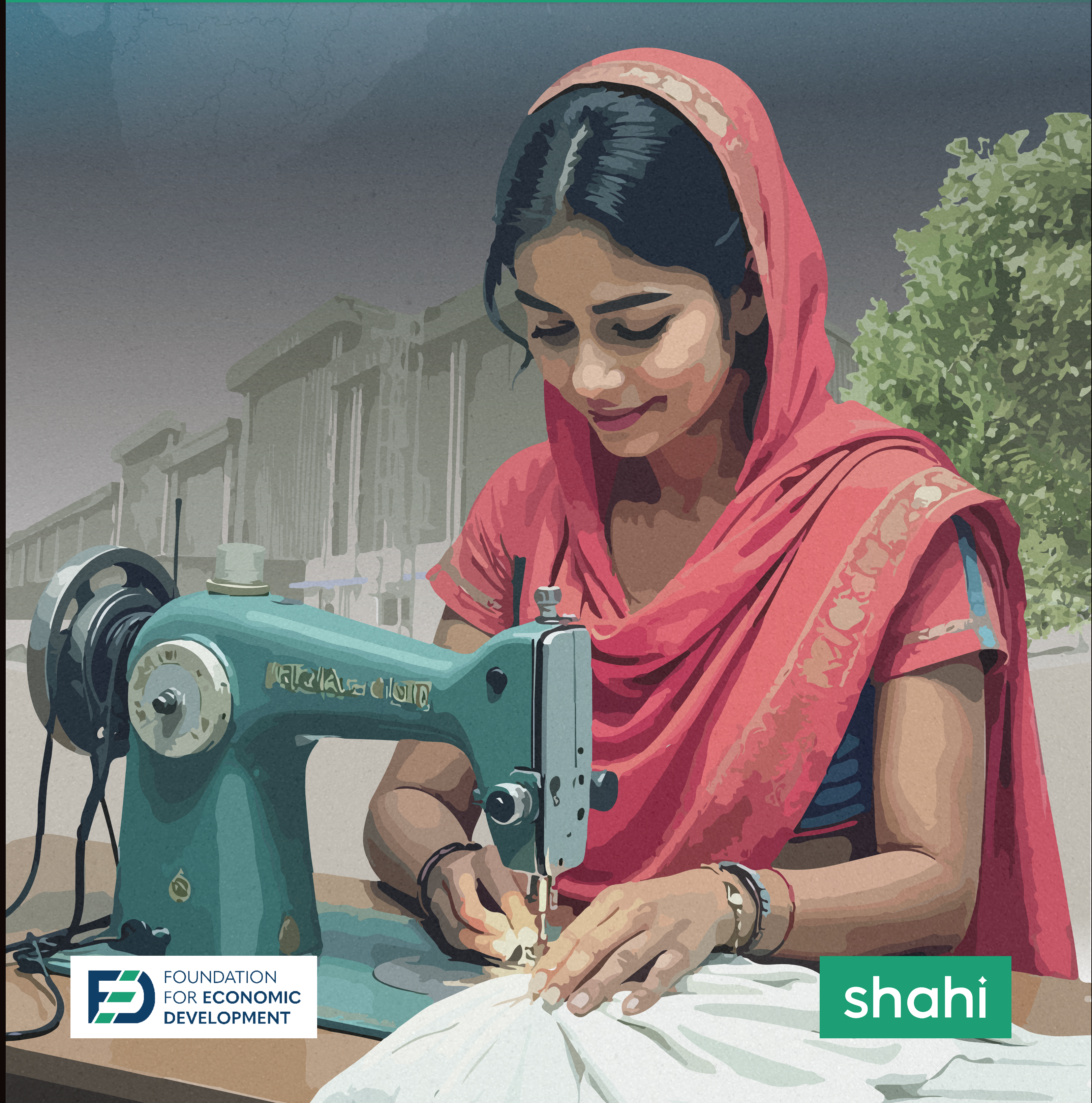
SHAHI EXPORTS

STITCHING INDIA'S MANUFACTURING SUCCESS STORY



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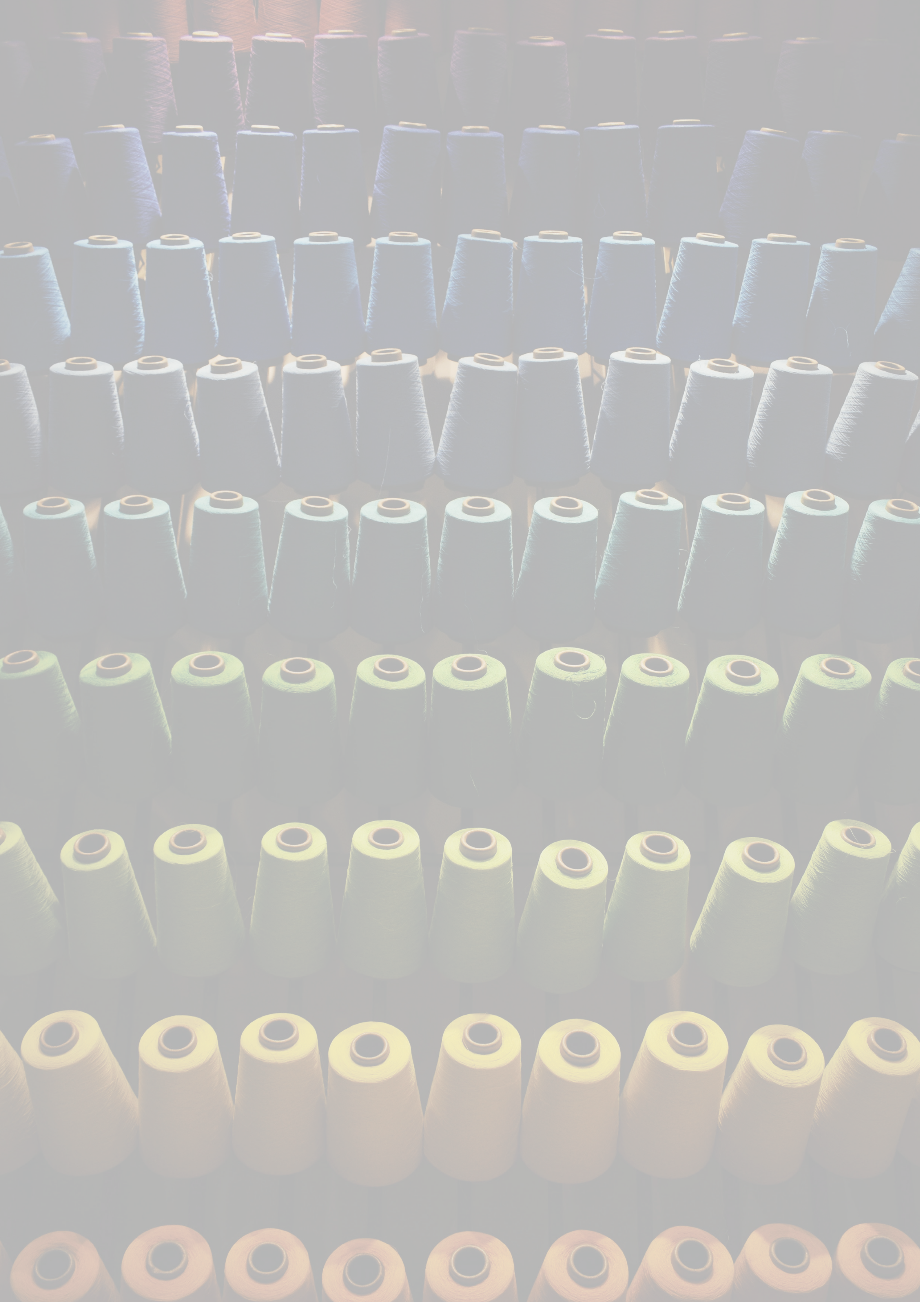

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1 Introduction

Saroj, Supervisor at the Shahi factory in Faridabad

1.1. The most important Indian firm you have probably not heard of

Eighteen years ago, when Saroj first visited the Shahi factory in Faridabad, it was the sight of an army of women briskly working their machines and moving about the vast shop floor self-assuredly that got her excited about the prospect of getting into formal employment, a 'job', something she'd never thought could be hers.

Married in Rohtak, Saroj and her husband eked out a living farming a small plot of land. There was never enough money for their family of six, including three daughters and a son. However, their lack of formal education meant that for Saroj and her husband, the aspiration of finding a better means of income never took root. Ultimately, adversity shattered that semblance of a cocoon – her two brothers-in-law passed away in an accident.

While the family grieved their loss, their dire financial situation compelled Saroj to look for jobs that would pay better than farm work. When her neighbour told her about openings for women at a garments manufacturing outlet in Faridabad, Saroj convinced her husband and in-laws to let her venture out of Rohtak and make her own way. "They only agreed because we needed the money," she remembers. There was no certainty about Saroj getting a job or being able to keep one, so to test the waters before making a permanent move, she moved to Faridabad with her neighbour.

Her first visit to the factory was overwhelming, the thought of failing unnerving. However, seeing hundreds of women performing their tasks with the utmost precision to keep the

Mrs. Sarla Ahuja receives the Highest Exports Performance (Women Entrepreneur) award for the year 2006-07 & 2007-08 by the Apparel Export Promotion Council (AEPC).

assembly line moving was a daily dose of inspiration. "If they can do it, so can I," Saroj, a newly joined operator at the factory, would tell herself.

It's been 18 years since her first day at the factory, and Saroj, now a supervisor, proudly manages 18 operators. Six months into her job, her husband and four children moved to Faridabad so the family could stay together. Today, Saroj and her husband are colleagues.

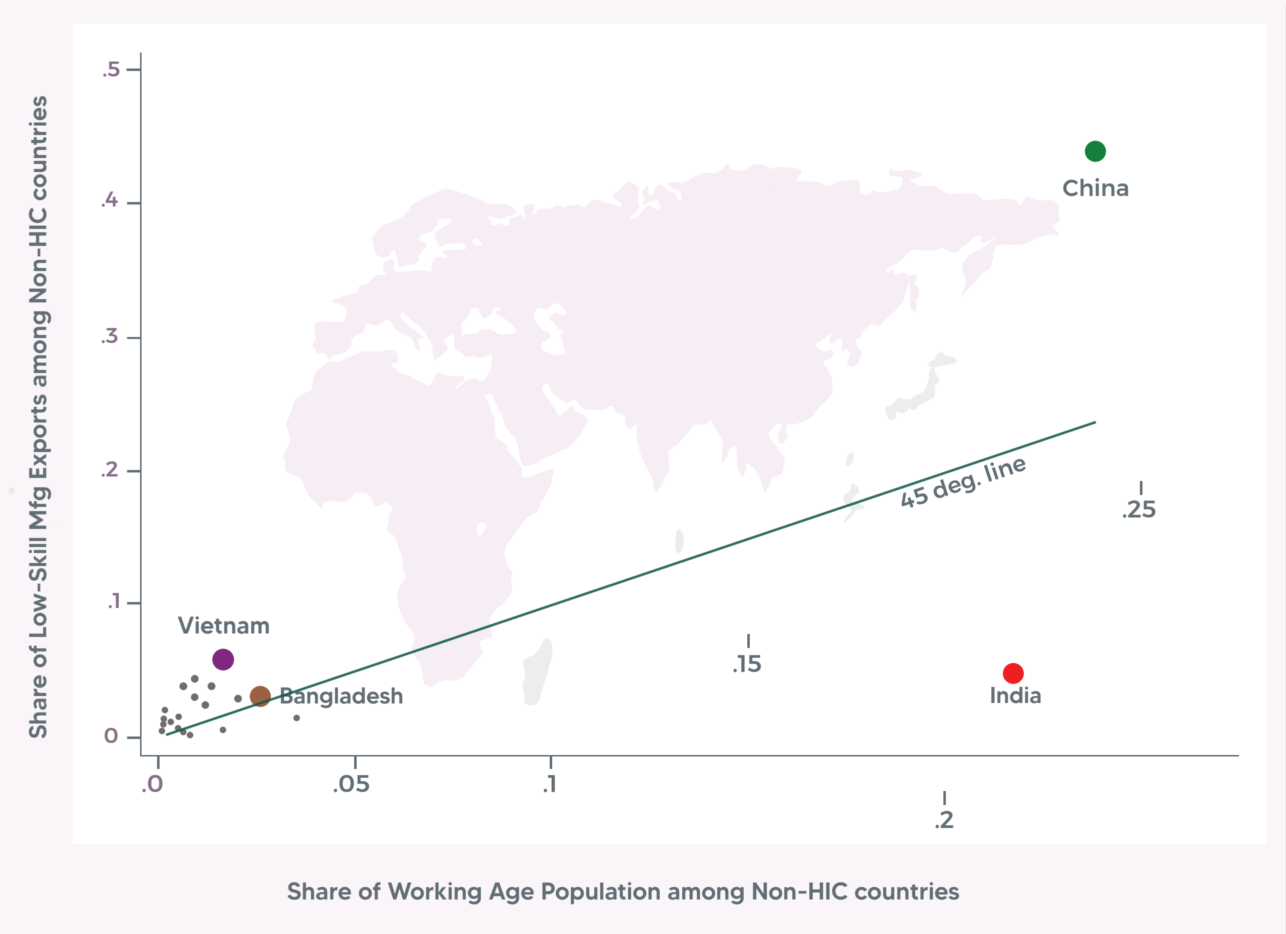
The factory in Faridabad is one of 54 that Shahi, India's largest apparel manufacturer and exporter, operates. Like the other 53, this one is also teeming with women. Besides the hundreds of young recruits, quite a few, such as Saroj, have spent the better part of the last two decades working, earning, and climbing the professional ladder here. Many have the quiet confidence that comes from being able to provide for one's family. Some dream of a life beyond the factory floor for their children. Some have children who've grown up in the factory's creche and are enamoured by the prospect of following in their mother's footsteps and managing the assembly line here.

1.2. Why is Shahi so important?

Though well-known in industry circles, particularly in the international apparel circuit, Shahi remains relatively unknown to the average Indian. Given our country's underperformance in employment-intensive manufacturing compared to other emerging Asian economies, it is critical that India celebrates Shahi and encourages more companies like it.

Manufacturing firms of Shahi's scale abound in China, Vietnam, and Bangladesh but are few and far between in India. This is puzzling, given the size of our working-age population — over 950 million people or roughly 67% of our total population — which should give us a natural edge over the world in employment-intensive manufacturing. However, the benefits that should accrue from this much-celebrated 'demographic dividend' are yet to be fully realised.

Figure 1: **Labour Endowment and Low-Skill Export Performance of Developing Countries in 2018**

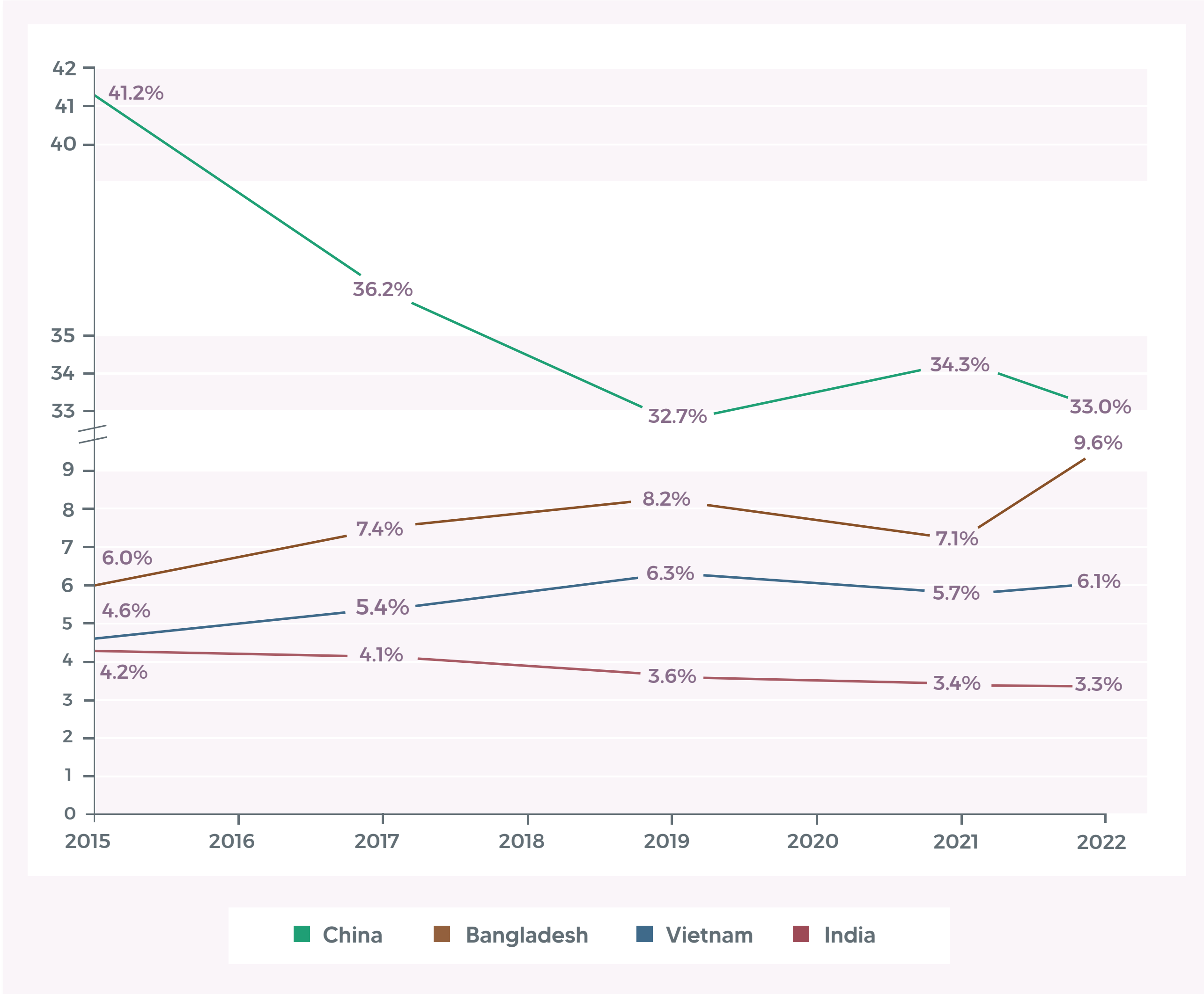


Source: India's Export-Led Growth: Exemplar and Exception

In Figure 1, a country's global share in low-skill employment-intensive exports is on the Y-axis and its share of global working-age population[1] is on the X-axis. If we were doing as well on exports as our population share (~22%), we would be on the 45 degree line. Instead, we see that we are well below that line because our export share is only 7% of global exports, and we are the only country underperforming to this extent.

[1] For non-high income countries - the ones that compete in this segment

Figure 2: **Share of Global Trade in the Apparel Sector, 2015 – 2022**



Source: UN Comtrade, FED Analysis

Also, as we can see in Fig. 2, in the last decade, China's global market share in labour-intensive products has declined[2]. This should have been an opportunity for India. However, our competitors Bangladesh and Vietnam have filled the vacated space. Between 2015 and 2022, China's global market share in apparel manufacturing declined from 41% to 33%, and Bangladesh's global market share increased from 6% to 9.6%. However, India's global market share declined - going from 4.2% to 3.3% [3]. Clearly, India must focus on enabling labour-intensive manufacturing, a fact also recognised by the government and echoed in the 2019-20 Economic Survey, which called for a "China-like labour-intensive export trajectory" that could help create "unparalleled job opportunities" for a rapidly increasing youth population[4].

[2] Who Will Fill China's Shoes? The Global Evolution of Labour-Intensive Manufacturing

[3] UN Comtrade

In this context, Shahi Exports' women-dominated shop floors are an exceptional success story. Its customers include much-vaunted clothing brands such as Walmart, Gap Inc., Abercrombie & Fitch, PVH, Uniqlo, H&M, and Nike. Today, Shahi has over 96,000+ full-time employees, ~70% of whom are women, with over 50 cut-to-pack production factories and three processing mills across eight states in India[5]. It is the biggest apparel manufacturer and exporter in India and is the only one with revenues in the order of a billion dollars.

Shahi's success is a testament to the potential in labour-intensive manufacturing of generating jobs at scale and provisioning of those jobs without bias, to underrepresented sections of the society, especially women.

1.3. Objectives of the case study

Given India's labour endowment and abundant natural resources, we should have had at least 10 Shahi-sized apparel manufacturers, each with a billion dollars in revenue and employing ~100,000 people. Instead, India's second-largest apparel manufacturer is less than half the size of Shahi, and the third-largest is around a third[6].

This case study aims to understand how Shahi became the only firm to grow significantly in this sector, and why there aren't many large apparel exporters in India. We also look at challenges in the Indian manufacturing ecosystem that must be addressed to prepare it for international competitiveness. We hope this deep-dive analysis will inspire all stakeholders - industry, government and civil society, to try to boost the garments manufacturing sector and other employment-intensive sectors such as leather, footwear, light manufacturing and electronics assembly by forging a more business-friendly climate that helps boost investments.

Broadly, the objectives of this study are:

- Analyse the factors that have contributed to Shahi Exports' success in the competitive garment export market.
- Understand the challenges faced by the Indian apparel manufacturing sector in attaining global competitiveness.
- Suggest a way forward for both government and industry to take Indian manufacturing to the next level.

[4] Economic Survey 2019-20

[5] Moving The Needle: Sustainability Report FY 2022-23

[6] Annual revenue of Pearl Global is USD 409 million, and Gokuldas is USD 283 Million[5]

2

Shahi stitches a huge market

Sarla Ahuja, at her Delhi residence. (2023)

2.1. Humble Beginnings - Sarla Ahuja 'works from home' (1974-1988)

Like Saroj and several other women who work at Shahi today, the need to supplement her family's income had compelled Sarla Ahuja to look for work. This was the 1950s – the first decade of India's independence and circumstances were dire for most.

Sarla was just a young girl when she got married[7]. She had only studied til Class 10 but knew how to work a sewing machine, which her mother had taught her. So, she started work as a seamstress at a factory. However, a year into her job, Sarla found it difficult to balance work and looking after her two sons, who were still very young[8]. She quit her job but negotiated an arrangement allowing her to fulfil export orders to the US through her small home-based operation.

The satisfaction of earning an income pushed Sarla to encourage women of lesser means to take up gainful employment in her nascent enterprise[9]. So, her team grew, comprising women from low-income families living in unauthorised squatter settlements who'd hitherto busy themselves with household chores all day.

[7] YourStory 2023
[8] Ibid.
[5] Ibid
[10] The Better India, 2023

> *I helped them learn turpai (hemming) and stitching. I asked them to work for at least a week to get an idea of how it feels to earn an income. They started enjoying the work and would be happy to buy books for their children and enrolling them in schools, but their families did not like this.*
>
> Sarla told The Better India[10]

The neighbours complained too, about workers coming in and out of Sarla's home and drinking tea outside her house. However, Sarla and her team persevered, even working beyond midnight on occasion to fulfill orders.

Over the years, the team started taking over different parts of the production process. In 1974, Sarla invested a sum of INR 5,000 to set up Shahi's first production unit, in Delhi's Ranjit Nagar, which had a capacity of manufacturing around 200 pieces a day. This team of 15 women began exporting directly to Europe and the USA through networks. Soon, Sarla's two sons – Harish and Sunil – who had been helping her out in the evenings after college, joined the company as full-time employees. Harish worked on the company's expansion in India, while Sunil moved to the United States to get a handle on the customer side of Shahi's business[11].

2.2. Shahi's entry and expansion in Karnataka, the cradle of Indian apparel manufacturing (1988-2014)

In 1988, Shahi expanded its operations to Karnataka. The state's capital, Bangalore (now Bengaluru), was the hotbed of Indian apparel manufacturing owing to the presence of firms such as Gokaldas Exports in the city. Karnataka provided a relatively business-friendly environment to Shahi, with a broadly facilitative approach towards investment. Crucially, the state's bureaucracy ensured stability in that approach even amidst political changes, inspiring confidence among businesses and encouraging further investment and expansion. Karnataka's relatively better infrastructure, proximity to ports, and incentives such as tax holidays and cheap electricity also encouraged many manufacturers to set up apparel clusters in the state[12].

Further, Bangalore had an educated workforce, which meant abundant middle management talent, and fewer constraints with regard to working women and trade unions. These factors converged to make Karnataka, mainly the outskirts of Bangalore, the destination of choice for Shahi's expansion. During this time, Shahi also witnessed two major liberalisations in the policy regime - the broader opening up of India's economy starting 1991, and the end of the Multi-Fiber-Agreement quota system in 2004. Both liberalisations were positive sig-

[11] Gauri Sharma & Anant Ahuja: On the past, present & future of Shahi Exports - Manufactured Podcast
[12] Interviews with Shahi management

nals, but Shahi was the only Indian apparel manufacturer that managed to capitalise and steadily drive expansion.

2.3. Expanding in a post-quota world and getting ready for the future (2014-Present)

Labour is abundant only in certain pockets of India, and often, there is a mismatch between demand and supply. In its initial days, even though Shahi's factories were concentrated in Karnataka, it had put up these factories in a relatively spread out fashion across various districts, enabling local workers to take up jobs there. Today, the company's management believes that Shahi's willingness in its early years to move out of its base in Karnataka and explore other locations has ensured the longevity of the enterprise[13]. Today, besides Karnataka, Shahi also has factories in Tamil Nadu, Andhra Pradesh, Telangana, Odisha, Delhi, Uttar Pradesh and Haryana. Although, Karnataka still makes up for the bulk of Shahi's presence, housing at least 40 of its 54 factories.

Shahi entered Odisha by setting up a unit in Bhubaneswar in 2014, as they were impressed with the government's efficiency and prompt decision-making. The unit was set up in the industrial estate of Mancheswar with an initial capacity of producing three lakh dresses per month and generating direct employment for ~2,500 workers[14]. The state government welcomed Shahi's entry, stressing the need to provide a stimulus to the textile industry owing to its potential for job creation. The state government had also announced plans to set up integrated textile parks at Chowdwar and Bhadrak, both of which are expected to turn functional in 2024-25[15].

The last decade witnessed a shift in the global export market for labour-intensive products, including apparel. China's global market share started declining because of various reasons, chief among them being a rise in workers' wages and a move up the value-chain to more high-tech manufacturing. India with its huge labour endowment, was primed to claim a significant share. However, a complex regulatory environment and various other ecosystem challenges (discussed later) meant that competitors such as Bangladesh raced ahead. As mentioned previously, between 2012-22, Bangladesh's global market share in apparel exports increased from 6% to 9.6%. Meanwhile, India's market share in this space has declined, from 4.2% to 3.3%, despite a new government at the Centre launching the 'Make in India' initiative in 2014 with the goal of creating 100 million jobs and increasing the GDP share of manufacturing to 25% by 2022. While the original stated goals remain unrealised, the initiative has brought about an appreciable focus on labour-intensive manufacturing in India's policy discourse, along with improvements in various parameters that contribute to a country's 'ease of doing business' and laws that govern the flow of FDI or foreign direct investment into the country[16].

The vagaries of competition in the global apparel export market meant that Shahi needed to further expand, this time beyond India, to diversify its supply chain and mitigate risk. So, in 2023, the company set up a factory in Dhaka, Bangladesh, where a number of its competitors had been operating.

As we'll explore in subsequent chapters, a willingness to hire and groom a cadre of professional managers, delegate authority to the middle management, great focus on driving operational efficiency, and continuous expansion to different locations to address ecosystem challenges have helped Shahi remain in pole position amongst Indian apparel manufacturers. The key to unlocking India's potential in this sector is to better understand the challenges faced by Shahi and how it overcame those, so that going forward, we can create better opportunities for new firms and entrepreneurs in this space.

[13] Ibid.

[14] Economic Times, 2015

[15] OdishaBytes, 2024

[16] India's Mid-2021 FDI "Miracle" Requires New Policy Momentum

3 What sets Shahi apart?

Weaving facility at Shahi Exports factory in Shivamogga

Shahi's humble beginnings as a home-based operation, the brainchild of first-generation entrepreneur Sarla Ahuja who was committed to building a principled enterprise and instilling pride in women for being gainfully employed and supporting their families, have been crucial to the company's success. These foundational principles remain an indelible aspect of the company's ethos. Today, the company's management is unequivocal in its commitment to building a profitable enterprise, only so far as it fulfils its other core objective – generating high-quality employment, especially for women, whilst reducing the environmental impact of production. This clarity of vision is the guiding star for the company's expansion.

3.1. Manufacturing at scale with professional management

Speaking to the Shahi leadership, it is clear that an important reason for the company's success is that it recognised the importance of professional teams and management. Most Indian apparel manufacturing businesses have traditionally been family or promoter-driven through and through. Shahi, while being promoter-led, has also ensured that the most qualified person is appointed as the decision-maker. Professionals with technical and business knowhow in apparel manufacturing and textile engineering were brought on board. These employees were then retained for years and given the space and opportunity to grow in confidence and competence.

Almost every senior management personnel in Shahi has been with the company for a couple of decades or more and in the apparel or textile sector for even longer. A strong organisational structure has been established whereby different divisions are run by different chief executive officers (CEOs) and/or chief operating officers (COOs) who enjoy complete autonomy in decision-making. These C-level executives, now years, even decades into their roles at Shahi, attest to the value that Shahi has derived from placing faith in a key set of employees who've stuck around to emerge as reliable and invested leaders and and have helped drive the company's expansion. Such effective delegation of responsibilities has been a key differentiator for Shahi[17]. It has helped build ownership and professional management, which translates to shorter lead times and agile project management, because authority is delegated to appropriate levels in the company hierarchy.

This culture extends through Shahi's rank and file, with employees such as Saroj also feeling empowered to speak candidly with their superiors.

[17] Interviews with Shahi management

"I've drawn so much courage from being able to talk about my financial worries or anything else with my managers. My three daughters enrolled in college around the same time and I was struggling to pay their tuition fees. Shahi helped with an interest-free loan. If not for such an enabling environment, I would have probably hesitated to open up and my daughters would have suffered for it. My relatives in Gorakhpur often ask me to get Shahi to set up a factory in their city, so the women there can also become financially independent."

3.2. Driving operational efficiency

Shahi Exports has invested heavily in vertical integration. Today, over 80% of the company's fabric requirement is being fulfilled in-house, through textile mills operated by Shahi.

This is significant from a cost perspective because ~50% of the cost of a garment is just the fabric[18]. Being vertically integrated in this way has helped Shahi overcome many supply chain challenges, a key advantage over competitors. Buyers also prefer suppliers that are vertically integrated because it is easier to implement innovative production methods and have traceability on the product down to the fibre level and beyond, if the supplier controls the entire supply chain. This in-house capacity in cotton and rayon is now extending to polyesters and synthetic fibres as well.

Starting 2006, Shahi split up its operations product-wise, into three separate divisions – 'Ladies', 'Knits', and 'Men & Bottoms'. The practice was unheard of amongst Indian apparel manufacturers but Shahi, with its capable middle management, felt comfortable in delegating authority to leaders across the value chain. Today, each division, with its own C-level executives and marketing heads, virtually functions as an independent company[19].

3.3. Unique people policies

Pushpa's initiation into the workforce was turbulent, more for want of money at home than because of a desire to be employed. Having grown up in Ballabgarh, a town near Faridabad, Pushpa was 'married off' soon after she passed her 12th standard examination, because of her family's poor financial situation. She moved to West Bengal to stay with her husband, where she was a homemaker and mother to her months-old son. However, strife at home with her husband, who wasn't earning enough to keep the family afloat, necessitated a move back to her natal home along with her son. Not familiar with the working landscape in

[18] Gauri Sharma & Anant Ahuja: On vertical integration and sourcing Indian cotton - Manufactured Pod

[19] Interviews with Shahi Management

Pushpa, Line Manager at the Shahi factory in Faridabad

Faridabad–near her home in Ballabgarh – Pushpa heard about Shahi from an acquaintance. A couple of decades and four promotions later, Pushpa, a bespectacled 47-year-old woman, is a benign line manager, directly supervising over 55 operators.

Pushpa fondly remembers her first interview at Shahi, the names of her first supervisors, and how, after working for four years as an operator, the company took note of her impressive performance and promoted her to the post of Assistant Supervisor. More promotions followed, helping Pushpa, the sole breadwinner for her family after her husband's demise, to do good for her two sons. Today, her elder son, who is 22 years old, works at a popular coffee chain outlet and is pursuing a distance MBA course, while the younger one, aged 15, is in school. The sense of having built a better life for her children and herself than what seemed possible in her early twenties as a stay-at-home mother with no work experience and in a difficult marriage lends to the immense satisfaction that Pushpa derives from her work today. She believes Shahi's focus on employee' well-being through dedicated programs has fostered a camaraderie that's woefully absent in other workplaces.

Since 2007, Shahi has been running the Gap Inc. Personal Advancement and Career Enhancement (P.A.C.E.) Program, a social benefit program that evaluates worker performance through randomised control trials based on two key aspects - attendance and productivity.

In recent times, the shift from just compliance to worker well-being in factories has attracted corporate social responsibility (CSR) initiatives. Shahi initially did not have systems in place to measure the impact of CSR programs for workers, leaving them unable to determine which programs were worthy of expansion. Preliminary results of the Gap Inc. P.A.C.E. program showed that there was a business case for developing worker well-being programs, thus incentivising businesses to invest in worker well-being beyond just compliance requirements. A randomised controlled trial experiment led by Professors Achyuta Adhvaryu and Anant Nyshadhyam found that Gap Inc. P.A.C.E. delivered significant social benefits for workers, resulting in a 250% ROI (return on investment) to the business through improvements in attendance and productivity. As of this year, Shahi has successfully trained over 90,000 workers under the Gap Inc. P.A.C.E Program.

A decade after starting the Gap Inc. P.A.C.E. Program, Shahi launched Good Business Lab (GBL) in 2017. GBL is a labour innovation organisation focused on using rigorous research to demonstrate that investing in worker well-being can boost productivity. GBL and Shahi have collaborated on various projects looking at four key aspects of a worker's employment journey:

1. **Unlocking female labour force participation** - addressing barriers women may face in entering the workforce
2. **Closing the skills gap** - training workers and managers in the skills they need to progress in their careers
3. **Improving the work environment** - designing a safe and supportive workplace to improve work experience
4. **Building holistic health** - addressing physical and mental health challenges to enable workers to thrive

Like Pushpa and Saroj, there are many employees who've completed at least a decade at Shahi. Their longevity here owes in no small measure to the sense of having been able to move ahead in their personal lives and tick off a few milestones. For Pushpa, it was educating her sons; for Sandeep, 36, it was clearing his 12th standard examinations after starting work at Shahi. Sandeep went on to "build his whole life around Shahi," as he puts it – from getting

Children in a creche at a Shahi factory in Karnataka

an interest-free loan of INR 50,000 to get married, to rising to his present rank of Supervisor. Like Pushpa, Sandeep credits the worker well-being programs for creating a healthy and amiable work environment at the factory.

Shahi's success in ensuring worker well-being also underscores the aspects of a worker's professional journey that play a crucial role in retention, especially the retention of women in the paid workforce. Pushpa and her colleagues speak highly of Shahi's support in helping them avail Employees State Insurance (ESI) benefits, which allow them to get treated at ESI-empanelled hospitals for free. There are various communication channels for grievances, including helplines workers can reach out to in case of an emergency, and committees for other kinds of grievances, including an internal complaints committee (ICC) for complaints of sexual harassment. Besides, there are regular sessions for workers on career advancement, personal finance, work-life balance and conflict-resolution. Most importantly, it's the senior management's promise to help their employees with interest-free loans for special occasions. Sandeep got married with the same; Saroj used the amount to fulfill her daughter's dream of studying engineering in college; someone else, motivated by the Gap Inc. P.A.C.E. training that talks about setting personal and professional goals, completed her law degree while working at Shahi.

Such healthy investments in employee retention, besides furthering a sense of kinship amongst colleagues, have also meant that those who've been at Shahi for long speak highly about their workplace to their friends and families. The staff word-of-mouth ensures a continual draw of applicants for shop floor positions at Shahi. Several Shahi employees have taken up these semi-skilled manufacturing jobs after leaving farm work, which ties into the long-held wisdom that India needs more people to graduate from low-productivity farming (agriculture accounts for 46% of India's labour force but contributes just about 18% to India's GDP) into labour-intensive manufacturing.

In the Indian context, Shahi is unique as it is among the very few firms to have grown big and 'formal', so much so that all its workers are permanent employees. As we will see in the following sections, a complex web of rules and regulations has disincentivised Indian manufacturers from scaling up and turning 'formal'. In fact, micro, small and medium enterprises (MSMEs) (98% of whom are micro-enterprises - with less than 10 employees) contribute over a third of India's manufacturing output, severely constraining the sector's potential to create jobs.

Sandeep, Supervisor at the Shahi factory in Faridabad

4

Ecosystem challenges preventing India from capitalising on inherent strengths

Until 1997, the government used to 'reserve' some products for exclusive manufacture by small-scale industrial units (SSIs)[20]. Apparel production (including knitting) was also 'reserved'. Hence, no large manufacturer could invest substantial amounts in plant and machinery in India under any one enterprise[21].

This policy exemplified a regulatory approach that limited scale and efficiency in India's manufacturing ecosystem, especially in employment-intensive sectors, all in the name of worker welfare and protecting small businesses. The approach was reflected in various regulatory aspects, including small-scale reservations, labour laws, tariffs, and the general ease of doing business. While ostensibly to protect labour and small enterprises, such regulations significantly hindered the growth of the apparel manufacturing sector.

De-reservation began in 1997, and by 2008, all products had been de-reserved; however, significant damage had already occurred. Further, regulations that make it difficult to employ labour and import inputs are still in effect. Consequently, there has been little investment in establishing large-scale apparel manufacturing capacities. In contrast, our competitor countries have successfully captured a significant share of the global apparel market by offering a more liberal regulatory environment for employment-intensive manufacturing focused on exports.

[20] In with the Big, Out with the Small: Removing Small-Scale Reservations in India

[21] Review of the list of items reserved for manufacture in the small scale sector

[22] Impact of labour regulations on Indian manufacturing sector

4.1. Labour regulations and administration

The extant labour law regime comprises as many as 52 Central Acts and several more state acts across buckets such as industrial relations, social security, and wages. This regime was put in place in the years after independence, with laws such as the Industrial Disputes Act of 1947 and the Factories Act of 1948, meant to ensure maximum protection for workers.

Over time, though, these laws came to be seen as major hindrances in unlocking the productivity of India's most abundant resource - labour[22]. For instance, the Industrial Disputes Act mandates that companies employing 100 or more workers must obtain government approval before laying off any employee. Such provisions act as strong disincentives for firms that want to scale up and hire more workers. Several other requirements that are meant to protect workers, take away the flexibility needed to employ Indian workers, compared to workers in Bangladesh or Vietnam. The result is that investors avoid employment-intensive sectors, leaving ~46%[23] of India's workforce trapped in low-productivity agriculture (only 18% of our GDP), characterised by low wages and under-unemployment.

The situation is starker for women. In 2019, only 25% of working-age women were actively participating in the labour market. By 2023, this figure rose to 37%, largely due to increased involvement in agricultural work.

The need for labour reforms has been intensely felt since the 1990s. The idea of consolidating India's multifarious labour laws into 3-4 'Codes' for different buckets was first put forth in 2002[24]. In 2019, the Central Government introduced four labour codes to consolidate 29 labour laws, aiming to enhance economic growth primarily through labour-intensive manufacturing led by MSMEs[25]. While these codes have not yet been implemented, they're helpful in nudging us in the right direction. For example, the Industrial Relations Code, 2020, subsumes three Central legislations—the Trade Unions Act, 1926, the Industrial Employment (Standing Orders) Act, 1946, and the Industrial Disputes Act, 1947—and states that only companies with over 300 workers would have to obtain government permission before laying off or retrenching workers, or closure of the factory/establishment[26]. It is a step in the right direction since the threshold is higher than the earlier threshold of 100 workers. Although, if we consider that a large apparel factory in China or Bangladesh can easily have more than 10,000 workers, we realise that perhaps even a compliance burden that kicks in once a factory has more than 300 workers is a limiting regulation to have, particularly for employment-intensive sectors such as apparel. Further, companies with 300 or more workers would still be required to establish standing orders that cover the following aspects:

1. Classification of workers
2. Methods for informing workers about

[23] In 2023

[24] Labour Codes – Three Bills on Occupational Safety and Health; Industrial Relations; and Social Security, 2020

[25] Ibid.

[26] The Hindu Explains | What does the new Industrial Relations Code say, and how does it affect the right to strike?

work hours, holidays, paydays, and wage rates

3. Procedures for termination of employment
4. Grievance redressal mechanisms for workers

Such requirements can lead to micromanagement of firms by the government[27].

The new labour codes also envisage removal of restrictions that bar women from working night shifts[28], and the introduction of a social security regime for all workers[29]. While Parliament has passed the four labour codes, with most state governments also having reportedly framed rules for their implementation[30], they are yet to be implemented. Nevertheless, since state assemblies can also enact legislation on labour, a few state governments such as Gujarat and Tamil Nadu have taken the lead in easing labour regulations via amendments [31]. In recent years, these states have also attracted significant foreign direct investment (FDI). Their new labour regulations are expected to help boost FDI inflows, ultimately providing more jobs and improving the workers' well-being

The increased focus on ramping up India's manufacturing capabilities follows from the government's commitment to increasing the share of manufacturing in our GDP, from the present ~14% to 25%. While concerns about workers' rights have been aired in response to states easing labour regulations, the country-wide focus on employment-intensive manufacturing is in tune with policy-level discourse that the need of the hour is to create jobs, and that the time is ripe for India to capitalise on the global geopolitical churn post-Covid and integrate itself into GVCs, leveraging global manufacturers' China+1 strategy[32]. Research showing how worker 'protecting' legislations actually reduce registered sector employment[33] validates this pro-reform stance of several state governments.

An example that should help us understand why reforms are needed, is how regulations that forbid workers from doing overtime in factories, actually end up hurting workers. Several workers we spoke to, in not just Shahi, but other employment-intensive industries would complain '*Hum aur kamaana chahte hain, par company overtime nahi rakhti*' (We want to work more but the company does not permit overtime work). Actually, it is our laws that do not permit overtime work, or rather restrict the number of hours per quarter, and insist that the pay for overtime hours be 2x of regular pay. Hence, it makes little financial sense for companies to allow overtime. While informal sector companies can get around this requirement, exporters, especially large ones, require very strict audit systems and hence, lose out compared to countries such as Bangladesh which allow more flexibility. As a result, the worker gets 'protected' from working. It is important to note that we have fewer jobs in India than our competitors, and even in the jobs we do have, workers work and earn less than they would like to!

[27] Ibid.

[28] The Shift In Working Women Shifts

[29] Labour Codes – Three Bills on Occupational Safety and Health; Industrial Relations; and Social Security, 2020

[30] 90% states publish draft rules on 4 labour codes, implementation imminent: Govt

[31] Three states ease labour laws to boost investment, jobs

[33] India IT ministry fears losing out to China, Vietnam in smartphone exports race

4.2. Ease of doing business

4.2.1. Compliances and Regulations

General ease of doing business remains a major challenge for firms in India. The World Bank Enterprise Surveys[34], which capture firms' experiences navigating their country's business environment, provide a glimpse into the dynamics of the Indian business landscape. For example, in Bangladesh, approximately 8% of exporters perceive licensing and permits as a significant constraint, whereas in India, this doubles to more than 17%.

Further, for exporters, the disparity in management time allocated to regulatory matters is even more conspicuous. In Bangladesh, 19% of the senior management's time is spent dealing with regulatory compliance, while Indian exporters spend a quarter of their senior management's time in dealing with government regulation.

Indian managers also face prolonged waiting periods for essential approvals. While both India and Bangladesh exhibit similar timelines for obtaining operating licenses - roughly 30 days - India lags significantly in the issuance of construction permits—35 days compared to 14 in Bangladesh. Such differences in the time and effort spent on getting basic approvals, imposes a significant financial burden on Indian companies.

4.2.2. Customs and trade facilitation

Exporters in both India and Bangladesh face challenges related to customs and trade-specific regulations, but the perceptions of firms in both countries differ significantly. In Bangladesh, less than 5% of manufacturing firms look at customs and trade regulations as a significant constraint. In contrast, approximately 28% of firms in India view these regulations as a major obstacle.

While some of these are legacy challenges, even recent changes have added to the confusion. For example, new rules pertaining to the duty-free import facility for trimmings and embellishments now require exporters to match each item with export consignments, leading to increased effort and paperwork. Further, Quality Control Orders (QCOs) have created complications for fabric imports, as these orders aim to encourage exporters to use locally produced fabrics. However, such regulations make it difficult for exporters to meet cost and timeline expectations, while adding no discernible benefits in terms of product quality. This leads to Indian garment producers being perceived as overpriced and less attractive by global buyers.

4.2.3. Logistics

India has a dispersed and fragmented textile supply chain, which leads to increased shipping costs and longer manufacturing lead

[33] Are All Labour Regulations Equal? Evidence From India Manufacturing

[34] World Bank Enterprise Survey

times, causing the industry to struggle in competing with countries such as Bangladesh and Vietnam. Indian manufacturers, according to industry experts, take 90-120 days to ship an order of 20,000-30,000 pieces. In Bangladesh and Vietnam, where supply chains are more concentrated, it only takes 14-21 days[35]. This is also caused by the lack of scale that has been enforced on the Indian ecosystem courtesy our laws. For instance, Bangladesh's Chaiti Group, a supplier for H&M, operates around 5,000 machines under one roof, compared to 300-500 machines in factories located in Delhi-NCR, Punjab, or Tirupur[36].

4.3. Trade barriers and protectionism

4.3.1 Tariffs and FTAs

Instead of striving to integrate into GVCs, India has historically, and even in the recent past, been an enthusiastic adopter of protectionist measures that limit its supply chain efficiencies. In a 2023 research paper, former Deputy Governor of the Reserve Bank of India (RBI) Viral Achariya highlighted that India is a contender for being the "tariff king," ranking fourth globally in 2021 with an average tariff rate of 18.3%[37]. Such import barriers are damaging as they increase input costs, ultimately raising the prices of downstream Indian exports in the international market, making them globally uncompetitive and discouraging efficient investments. Over the years, the use of imported raw materials and intermediaries for export production (import intensity of exports) has significantly increased, meaning that more import restrictions naturally limit our exports as well.

Notably, India does not have free trade agreements (FTAs) with its key apparel export markets such as the European Union, and the US. While India continues to be among the top exporters, it is also true that our apparel exports have stagnated[38], because of the reasons outlined above.

Measures that could offset our protectionist measures are being undertaken. India is currently negotiating with 37 countries/blocs and new Bilateral Investment Treaties (BITs)/ Investment Agreements have been signed with four[39]. Till 2015, India had BITs with 83 countries, of which 74 had been ratified[40]. However, the country decided to terminate BITs with 68 countries, leaving only six BITs still in effect[41]. Moreover, in the past, India chose to abstain from joining major trade blocs such as the Regional Comprehensive Economic Partnership (RCEP), the Indo-Pacific Economic Framework for Prosperity (IPEF), and the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), while Vietnam is a member of all three[42]. The decision of staying out of regional trade blocs may hinder India's prospects of becoming a top contender amidst the "China +1" moment, when manufacturers are relocating from China to Vietnam, Taiwan, Thailand, and other countries, with only a few choosing India. In fact, according to an article in Fortune India, the share of "active" foreign companies in India, i.e., companies regular in making statutory filings under the Companies Act and complying with various requirements decreased from 80% in FY14 to 66% in FY21[43].

[35] A logistics policy without a location policy? - Deccan Herald

[36] TEXPROCIL

4.3.2. Anti-dumping policies

Anti-dumping duties are tariffs on imports that are believed to be priced below the fair market value of that product in the importing country. While such duties are well-intentioned, aiming to protect domestic manufacturers from cheap imports and predatory pricing tactics, their unintended consequences are often severe. When levied on imports of raw materials, for example, such duties hurt local downstream manufacturers looking to integrate with GVCs and compete with their finished goods in international markets.

Starting in the 1990s and up until very recently, tariffs on synthetic fibre imports hindered the growth of the Indian synthetic textile industry, preventing it from becoming competitive on a global scale. As a result, even though synthetic apparel makes up over 60% of the global market, India has virtually no presence in this sector, putting Indian manufacturers at a significant disadvantage.

Lately, the Ministry of Finance has taken cognisance of the deleterious effects of such tariffs and has gone about revoking anti-dumping duties that it had originally imposed[44]. Given time, this will prove to be a positive move for the Indian synthetic apparel ecosystem.

However, calls for reintroducing such duties continue to resurface[45]. Their indiscriminate use risks concentrating the supply of crucial raw materials, such as Viscose Staple Fibre (VSF), in the hands of a few large manufacturers, making downstream Indian textile exports uncompetitive in international markets.

4.4. Challenges in accessing government schemes and incentives

4.4.1. Scheme for Integrated Textile Parks (SITP)

In 2005, the Indian government approved the Scheme for Integrated Textile Parks (SITP) with the goal of growing the textile sector[46]. However, in 2017, a government-commissioned report by Wazir Advisors declared these parks as highly unsuccessful[47]. Manufacturers found no incentives to relocate to these parks, mainly because they were located far from urban centres, posing significant workforce transportation challenges. Further, while international textile parks of this nature span over 150 acres, the Indian government only approved five parks of that scale, with most Indian parks being less than 75 acres[48].

4.4.2. Production-linked incentive for textiles

In 2019, the government introduced a pro-

[37] Research paper by Viral Acharya

[38] See Figure 2

[39] PRS India – Report summarising India and Bilateral Investment Treaties

[40] Ibid.

[41] Ibid.

duction-linked incentive (PLI) scheme with a budget of INR 10,683 crore for Textile and Apparel. This scheme is aimed at boosting the manufacture of (finished) Man-Made Fibre (MMF) products and technical textiles. The scheme has been divided into two parts - the first part requires a minimum investment of INR 300 crore and a minimum turnover of INR 600 crore per company, while the second part requires a minimum investment of INR 100 crore and a minimum turnover of INR 200 crore per company[49]. However, many manufacturers remain unconvinced of its benefits for two primary reasons. First, the scheme only covers a few HS codes (six-digit codes used to identify and classify products for international trade), and some key man-made textile categories are not included. Second, the investment and financial requirements of the scheme are seen as prohibitive. Some of the targets set by the scheme are not suitable for the technical textile sector, making it difficult for firms to make such investments and achieve the required turnovers unless they enter new segments or gain significant market share[50].

At the state level, the issues are primarily around implementation of incentives. Indian textile and apparel companies experience substantial delays in receiving any incentives from state governments, including capital, interest, wage, and power subsidies. Such delays create cash flow challenges, thus preventing companies from factoring these incentives into their investment decisions. To enhance the sector's international competitiveness, it is crucial to streamline the distribution of these incentives, as also, lower the investment and turnover criteria to allow more players to be eligible for the scheme[51].

4.5. Underachieved potential in clusters

One potential way out of these myriad challenges is to focus on clusters or rather, regions. To manufacture at scale, we need to develop ecosystems, of the right scale, with best-in-class infrastructure, and a regulatory environment that encourages investment.

However, India's fragmented approach to cluster development hampers its ability to achieve scale and competitiveness. In 2022, India had 272 operational Special Economic Zones (SEZs) that contributed USD 61 billion to merchandise exports[52]. In comparison, China has achieved ~5x in exports from just Shenzhen, which has China's largest SEZ and is approximately the same size as the combined area of all the Indian SEZs[53]. According to a Comptroller and Auditor General of India (CAG) report that evaluated the performance of SEZs in 2013, the actual employment in SEZs in 12 Indian states had fallen short by ~93%, and investments were ~60% less than the projected amounts. It was also noted that the level of exports, which is critical to the success of an SEZ, was 75% less than the projected amount[54]. We must think of clusters as regions or zones where we can develop an ecosystem, such as Tiruppur, not small, disconnected industrial parks.

[42] Is protectionism helping or harming India's exports?

[43] More foreign companies quitting India is bad news for 'Make in India'

[44] Viscose staple dumping duty. Viscose Staple Fibre: Finmin revokes anti-dumping duty on imports from China, Indonesia

[45] DGTR recommends anti-dumping duty on viscose fibre from Indonesia

The lack of planned infrastructure in Indian industrial regions is also a major hindrance to attracting large-scale manufacturing. To tackle this, we must focus on four key domains for infrastructure development: basic infrastructure (transportation, utilities such as water supply and sewage networks, and communications such as telephone and internet networks), common industrial infrastructure (industrial parks, warehousing, logistics and utilities for industries), export infrastructure (ports and harbours, customs facilities, export processing zones and logistics services), and social infrastructure (facilities for workers - housing, healthcare, education, public services and recreation). Private partnerships can play a crucial role in developing such infrastructure and operating it.

Finally, we need an approach to governance and regulations within industrial clusters that allows far greater flexibility. Reducing the regulatory burden and fostering a favourable business environment whilst ensuring labour well-being are essential for attracting international investors. Ease of doing business can be improved by streamlining compliance procedures and empowering an inter-agency authority to expedite decision-making and clearances[55]. Creating governance bodies to promote cluster-driven growth, such as the Philippine Economic Zone Authority or the Bangladesh Export Processing Zone Authority, with a strong representation of exporters on such bodies, can help fulfil investors' needs and address their concerns proactively.

Here, the PM MITRA (PM Mega Integrated Textile Region and Apparel) scheme is a promising path forward. Launched by the Ministry of Textiles in October 2021 with a total outlay of Rs 4,445 crore, the scheme aims to establish seven large textile parks across as many states in the country. These parks will integrate the entire textile value chain, from spinning and weaving to dyeing and printing, in one location, thus reducing logistical costs and enhancing competitiveness.

To fully realise the potential of these parks, we can enhance them by adopting a hub-and-spoke model. Larger "PM MITRA regions" can be established around each PM MITRA park, featuring distinct regulations, governance structures, and fiscal incentives for textile and apparel manufacturing. This way, the hub (textile) and spoke (apparel) model of development can very well act as a force multiplier.

[46] PIB - Scheme for Integrated Textile Park

[47] Here's what the Indian Textile Industry Wants

[48] Apparel parks in India: A look at their current state - Financial Express

[49] PIB - PLI for textiles

[50] Here's what the Indian Textile Industry Wants - Business Today

[51] PLI textiles review: Minimum investment, turnover criteria may be lowered

[52] EPCES Trade Bulletin

[53] What India needs to create successful economic zones - Live Mint

[54] Performance of Special Economic Zones - CAG Report

[55] (Un)ease of Exporting Merchandise from India - FED Blog

4.6. Bangladesh - an example of what can happen

On all the dimensions we have discussed above, our neighbour Bangladesh has done substantially better. They have lower tariffs, a true single window for ease of doing business, flexible labour regulations and a partnership mindset with the garment industry.

Bangladesh enjoys significant advantages in terms of flexible policies for hiring labour and minimum wages that are closer to the market wage, as compared to those mandated for Indian workers. While minimum wages are widely endorsed by some sections as an important mechanism to ensure the welfare of disadvantaged workers, the evidence shows that they actually worsen outcomes for the most disempowered workers[56] by preventing job creation and thus alternative employment opportunities[57].

Owing to these rigidities, the average Indian apparel factory that exports has a strength of 600-2,000 workers, with most being at the lower end of that range, whereas factories in Bangladesh can easily go up to 5,000 workers, with some even having over 10,000 workers, Many of these workers are also open to working for 10-12 hours a day courtesy of flexible rules on shift timings, as opposed to the mandated nine hours/day in India[58]. This allows factories in Bangladesh to accept larger orders[59].

Bangladesh has also implemented a truly 'single' window for ease of doing business. This single window, created in partnership with industry, facilitates all approvals for any apparel manufacturer, to the extent that even worker visas for management professionals can be obtained from the same office as the one granting all other approvals! Export facilitation is a key priority for all levels of government, and this shows when we compare ourselves with Bangladesh on important parameters. As mentioned earlier, less than 5% of firms in Bangladesh view customs and trade regulations as a major constraint. In India, this number increases to 28%.

Consequently, Bangladesh has performed exceedingly well, with apparel exports crossing $45 Bn in 2023. The industry provides direct employment to 45-50 lakh people in the country, 80% of them women, and generates a lot of indirect employment benefits as well. No surprise then that Bangladesh's female labour force participation rate (FLFPR) before the pandemic was 37%, well ahead of India's 26%, and that Bangladesh has surpassed India's GDP per capita.

[56] INeumark, David, and William L. Wascher. Minimum Wages. MIT Press, 2008.

[57] Worker protections must focus on expanding choice by increasing investment and employment creation. This can be achieved by using instruments like publicly funded unemployment insurance, employment subsidies, and social safety nets.

[58] FED research

[59] Ibid

A garments manufacturing outlet in Dhaka, Bangladesh. 2021.

5

Conclusion- The way ahead for the Indian apparel sector

5. Conclusion - The way ahead for the Indian apparel sector

Through this case study, we've delved into the unique factors that have propelled Shahi Exports to success in the fiercely competitive global apparel export market. Now 50 years old, Shahi has seen India's business landscape evolve from close quarters—from the '70s and '80s, when the government decided who would produce and how much would be produced, to today, when there's a broad consensus amongst industry and policymakers that ease of doing business must be furthered.

Parallelly, we've brought forth inspiring stories of employees who've helped build Shahi into the apparel manufacturing powerhouse that it is today.

> *"Shahi hain toh hum hain, (we are who we are because of Shahi)"*

Saroj and her colleagues would tell us when we'd ask them why they'd spent most of their working-life at a single workplace. In many ways, the company's founder Sarla Ahuja's inspiring story of finding gainful employment in sewing, then stitching together an export-driven enterprise by leveraging the skills of hundreds of women, replicates itself every day on Shahi's shop floor. Saroj, Pushpa, Sandeep, and many like them, who've each spent a couple of decades at Shahi and have risen through the ranks from operators to supervisors or line managers, see themselves not merely as employees but as stakeholders in the company's success – they disseminate positive word-of-mouth about their place of work, helping Shahi find reliable employees with ease. The positive employee experience is perhaps the most critical aspect of the virtuous circle that helps Shahi build on its success and grow bigger, without compromising on its core principle of being in business to generate employment in addition to profit. Here, Shahi's policy of delegating authority to its many C-level leaders heading different divisions, has helped them pick and execute the right strategies, which, besides ensuring employee welfare, includes tactically setting up factories across various states in India, and driving efficiencies through vertical integration.

In tracing Shahi's growth, we've also understood that entrepreneurs in the Indian apparel sector face long-standing structural bottlenecks — weak linkages to global value chains (GVCs), fragmented supply chains, a complex and burdensome regulatory and administrative ecosystem, and high logistical costs — that hamper productivity in the sector. Thus, many entrepreneurs are struggling or choosing other sectors or countries, which somewhat explains the rather puzzling status quo – a company of Shahi's scale is more an outlier than the norm, despite our demographic dividend affording us a very natural advantage in labour-intensive industries.

Taking off from the challenges faced by entrepreneurs in the apparel sector, the case study looks at the enabling conditions that the government must create for India to grow its apparel exports. These 'conditions' would cut across labour regulations, tariffs and trade, ease of doing business, and infrastructure. We've also assessed government schemes like PLI and other incentives for whether they're fulfilling their purpose.

A way forward for addressing these disabilities is a cluster, or region-led development model, where India can converge several improvements in a way that is politically acceptable and provide a world-class ecosystem for industry and employment.

Both the Centre and state governments are cognisant of the constraints outlined above and the immense importance of the textile and apparel industry, the country's biggest employer after farming, generating direct employment for over four crore people. It is our hope that this case study will further underline that importance and help us find a way forward for growing employment and productivity in this sector.

While prescriptions for what must be changed may differ between policymakers and the industry (even within the industry), we hope that this case study that looks at the example of Shahi Exports, India's north star for apparel manufacturing, will inspire all stakeholders to join forces and help India capitalise on its demographic dividend, to create jobs and improve lives.

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