IBTEX No. 124 of 2024 **July 30, 2024**

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USD	EUR	GBP	JPY
83.73	90.59	107.55	0.54

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INTERNATIONAL NEWS

China's Share of the Sourcing Pie Is Up For Grabs

When it comes to sourcing and trade in 2024, U.S. brands and retailers are wringing their hands over issues new and old.

The U.S. Fashion Industry Association's (USFIA) newest Fashion Industry Benchmarking Study, conducted in collaboration with University of Delaware department of fashion and apparel studies professor Dr. Sheng Lu, surveyed executives from 30 leading U.S. brands and retailers from April through June.

Released Monday, the study revealed that a predictable set of issues are still on the minds of many—but fresh concerns are also emerging.

While more than half of those execs ranked familiar themes like "Inflation and economic outlook in the U.S." and "Managing the forced labor risks in the supply chain" as their most pressing business challenges this year, "Shipping delays and supply chain disruptions" and "Managing geopolitics and other political instability related to sourcing" are new sources of worry that have surfaced more recently.

As the U.S.-China trade relationship continues to simmer, many business leaders worry it's at risk of boiling over. About 45 percent listed the "Protectionist trade policy agenda in the United States" as a top-five business concern in 2024, up 15 percent from last year.

Risks of China sourcing

According to USFIA and Lu, companies are deeply concerned about the deterioration of the bilateral relationship and are putting plans in place to further "reduce China exposure" as a means of mitigating risk.

The study authors said a record 43 percent of survey-takers sourced less than 10 percent of apparel product from China this year, compared to just 18 percent of respondents in 2018. The change illustrates how far China has fallen in the sourcing portfolios of U.S. brands; almost 60 percent said the country is no longer their top apparel supplier, a huge difference from pre-pandemic, when 25 to 30 percent said the same.

China's still an economically competitive option, they believe—its vertical manufacturing capacity, relatively low MOQs, unmatched capabilities and agility, as well as costs and speed to market are definite upsides—but the risks are starting to outweigh the rewards. In the face of geopolitical tension (which could be exacerbated by the upcoming election) and the high risk of sourcing goods tainted by forced labor, U.S. companies are increasingly seeking out other alternatives—even those that sell goods in China.

The Uyghur Forced Labor Prevention Act (UFLPA) and the desire to comply is a big motivator for brands in 2024, the research showed.

Many U.S. companies have adopted proactive and comprehensive approaches to compliance, with over 90 percent reporting that they are "Making more efforts to map and understand our supply chain, including the sources of fibers and yarns contained in finished products." In fact, the same number said they had mapped their entire value chains, from Tier 1 to Tier 3, in 2024, representing 40-percent growth over the past few years. Diversifying and 'de-risking'

According to the survey, nearly 80 percent of brands will make more cuts to their China apparel sourcing over the next two years. Larger firms with more than 1,000 employees that source over 10 percent of their products from China are the most ambitious about "de-risking."

Diversification is the primary strategy for doing so. Nearly 70 percent of those large-scale companies said they are currently sourcing from 10 or more countries—a much larger contingent than the 45 percent to 55 percent seen in recent years. Small- and medium-size companies, too, are upping their mix, with many sourcing from six or more locales.

The vast majority (over 80 percent) of executives said they "intentionally reduce sourcing from high-risk countries" as a direct response to UFLPA. Another three-quarters of respondents said they flatly ban the use of Chinese cotton in their apparel offerings.

Almost half (45 percent) said they're looking to sourcing destinations beyond Asia to further distance themselves from forced-labor risks. Notably, though, under 10 percent said they would make further cuts to apparel sourcing from other Asian countries this year.

USFIA and Lu said “field experience” led them to the conclusion that respondents want greater transparency from U.S. Customs and Border Protection (CBP)’s UFLPA enforcement, especially when it comes to shipment detentions and targeted entities and commodities. Talking to respondents revealed a desire for CBP to focus more on “bad actors,” reduce repeat detentions and elucidate the rules for recycled cotton.

As companies seek greater compliance with the UFLPA, the trend toward diversification is also is poised to continue. About 80 percent of respondents said they plan to hold steady or broaden their sourcing portfolios from today through 2026. Some will do so by sourcing from more vendors, while some will seek to keep their supplier base manageable while opening up to more countries.

Who stands to benefit

As China continues to shed sourcing market share, other sourcing hubs are snatching it up.

Notably, more respondents reported sourcing from India (89 percent utilization) than Bangladesh (86 percent utilization) than any time since the survey began. But companies are looking to diversify further—almost 60 percent said they planned to expand beyond India over the next two years, topping planned expansion from any other Asian country.

The Western Hemisphere is also gaining ground. Mexico and Guatemala tied for 7th most utilized apparel sourcing destination this year, and a record 52 percent of companies said they plan to source more from Dominican Republic-Central America Free Trade Agreement (CAFTA-DR) countries over the next two years, up from 40 percent in 2023.

While that number is high, most companies looking to CAFTA-DR countries also plan to explore more global sourcing regions. Nearly all of those that said they would look to the Western Hemisphere over the next two years also said they were looking to countries in Asia, too.

That’s because raw material sourcing continues to present hurdles for brands looking to manufacture with nearshore neighbors; 75 percent said the issue was the primary block to sourcing more from CAFTA-DR. Yarns and fabrics made from fibers other than cotton and polyester—like nylon, viscose, rayon and wool—are in short supply.

Mexico, which benefits from the U.S.-Mexico-Canada Trade Agreement (USMCA), has seen a considerable lift, reinforcing the efficacy of trade legislation in shaping global trade patterns.

Among respondents that reported expanding nearshoring efforts in 2024, 65 percent said they brought in goods from Mexico or Canada—up from just 40 percent between 2019 and 2020. Over one-third of brands said the agreement played a part in their decisions to source apparel in the Americas.

Destination Africa

American brands and retailers are adamant that the Africa Growth and Opportunity Act (AGOA) must be renewed expeditiously—and for the long term.

The trade preference program, which covers three dozen Sub-Saharan African nations and thousands of products, expires in September 2025.

In 2024, companies reported sourcing from Lesotho, Kenya, Madagascar, Mauritius, Tanzania, Ghana and Ethiopia, which lost its AGOA eligibility two years ago. Most companies that reported buying apparel goods from Africa were larger in scale with robust international supply chains.

More than 86 percent of all survey-takers said they want to see AGOA renewed for at least another decade—and notably, not one objected to the proposal. According to USFIA and Lu, the U.S. fashion industry fully bought into the program—and they're relying on its renewal to continue doing business in Africa.

More than 70 percent of executives said a 10-year AGOA renewal is essential to their continued sourcing from the region. What's more, almost one-third (30 percent) said they're already pulling back on AGOA sourcing due to the uncertainty surrounding the program's renewal. That number could grow steadily the longer Congress delays reinstatement.

Source: sourcingjournal.com– July 29, 2024

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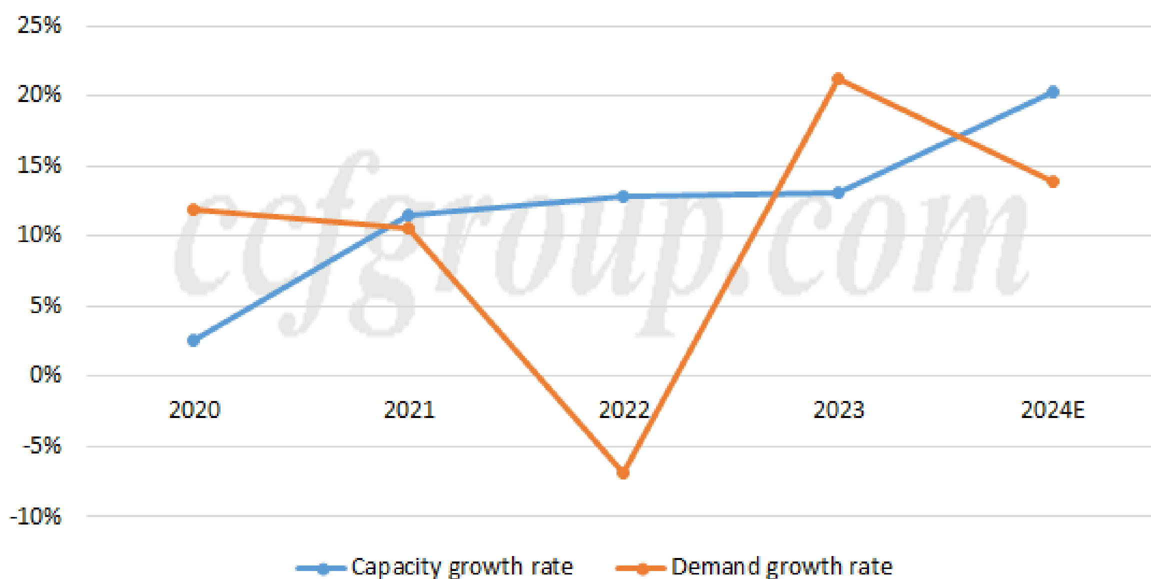
China: Spandex demand analysis from downstream operation in H1 2024

From 2021 to 2024, supply of spandex in Chinese mainland has maintained a continuous double-digit growth rate, and the growth of production capacity is still "climbing." In contrast, the growth rate of demand has shown significant fluctuations over the five-year period, resembling a deep "V" shape. Notably, substantial price declines and macroeconomic disturbances led to 2022 being a rare year of negative growth for spandex demand. Although demand for spandex still showed double-digit growth in 2023 and the first half of 2024, there remains a discrepancy between the average growth rates of demand and capacity over the past four years



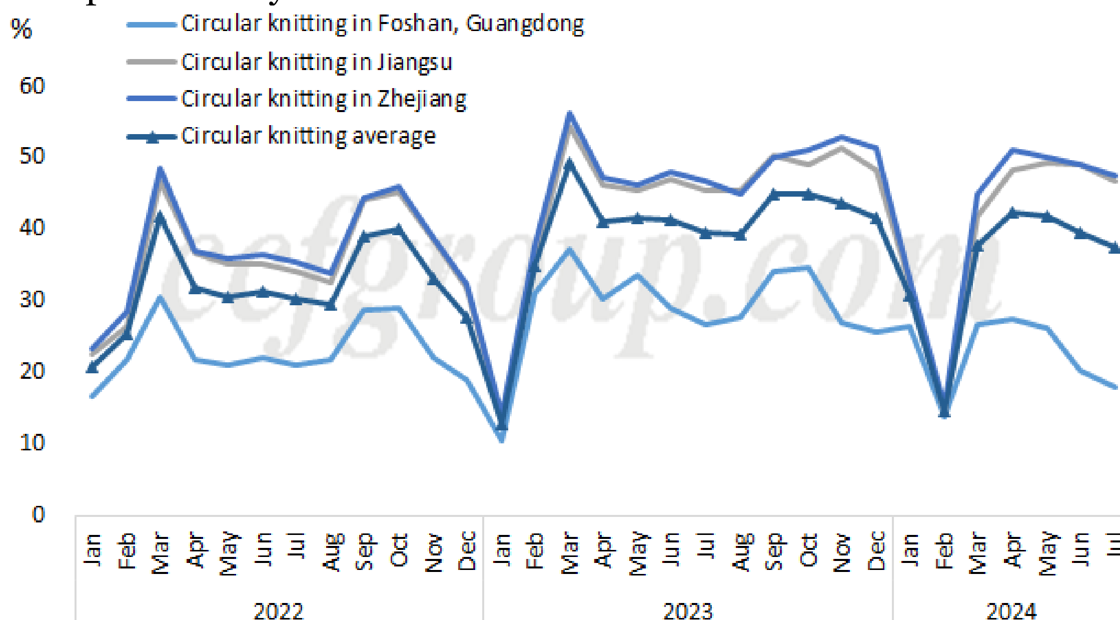
In the first half of 2024, words such as slow sales, poor domestic sales, and unsold inventory continued to be high-frequency terms in the spandex market. The spandex industry has undergone continuous adjustments for three years since the high prosperity cycle of 2021. For example, the price difference between spandex 40D, previously considered an upscale fiber, and nylon DTY or imported cotton yarn is now minimal. The mainstream price for 40D is around 25,500- 27,000yuan/mt, while a few differentiated products are slightly higher.

What is the operating rate of downstream weaving and knitting mills in the first half of 2024? At what level is the growth rate of domestic demand for spandex?

The operational trends of downstream weaving and knitting mills in the first half of this year have been around the median level of the past five years. The domestic sales performance from January to June 2024, while not as strong as in the same period last year, still shows positive year-on-year growth in categories like clothing, shoes, hats, knitwear, and textile.

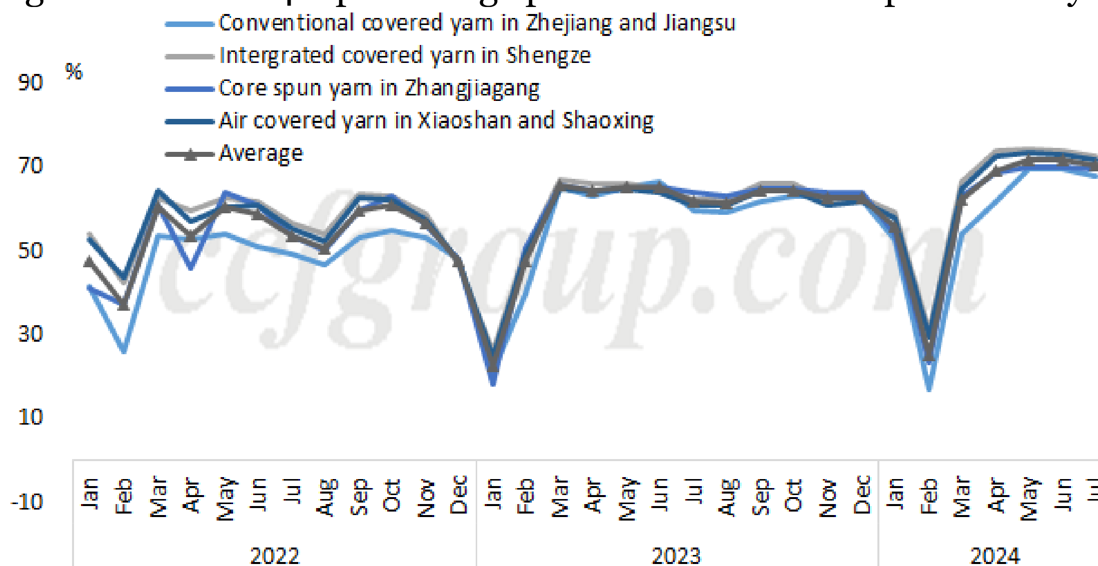
However, the cumulative year-on-year growth rate has declined sharply from 12.8% in the same period last year to just 1.3% in 2024. In terms of exports, while the total export value of textiles and apparel in the first half of this year shows positive growth, the cumulative year-on-year growth rate for textiles and clothing remains low. From January to June, the total export amount for textiles and clothing reaches $143.18 billion, a year-on-year growth of 1.5%, with textile exports at $69.35 billion (up 3.3% year-on-year) and clothing exports at $73.83 billion (flat year-on-year).

The demand increment contribution from circular knitting plants has been notably significant. In recent years, the number of machines in circular knitting plants has increased significantly in regions such as Chaozhou and Quanzhou in Guangdong and Fujian, as well as in inland areas like Shaoxing and Xinjiang. In some areas, the increase has mainly been in high-density needle machines, establishing a foundation for increased demand for spandex, but this has also intensified competition in the downstream circular knitting industry. Looking at the average operating rates for circular knitting plants in Jiangsu and Zhejiang, as well as in Foshan, it has been only 34.4%, down 2.4 percentage points from the same period last year.



High-density needle yoga wear, sun protection clothing, sports underwear, black stretch fabrics, sharkskin products, etc., have significantly driven spandex demand, as they not only have a high spandex content but also include many popular items from recent years, boosting the demand for spandex in this sector. Certain nodes have resulted in a tighter supply for spandex filament products in 20D and 30D high-density knitting. Traditional fabrics like milk-like filament and spandex sweat fabrics are facing fierce price competition.

Performance of the covered yarn sector has a slight growth. In the first half of this year indicates that the average operating rates for core spun yarn in Zhangjiagang, air covered yarn in Shengze and Xiaoshan and Shaoxing, and conventional covered yarn plants in Zhuji and Yiwu reached 59.3%, a slight increase of 4.2 percentage points from the same period last year.

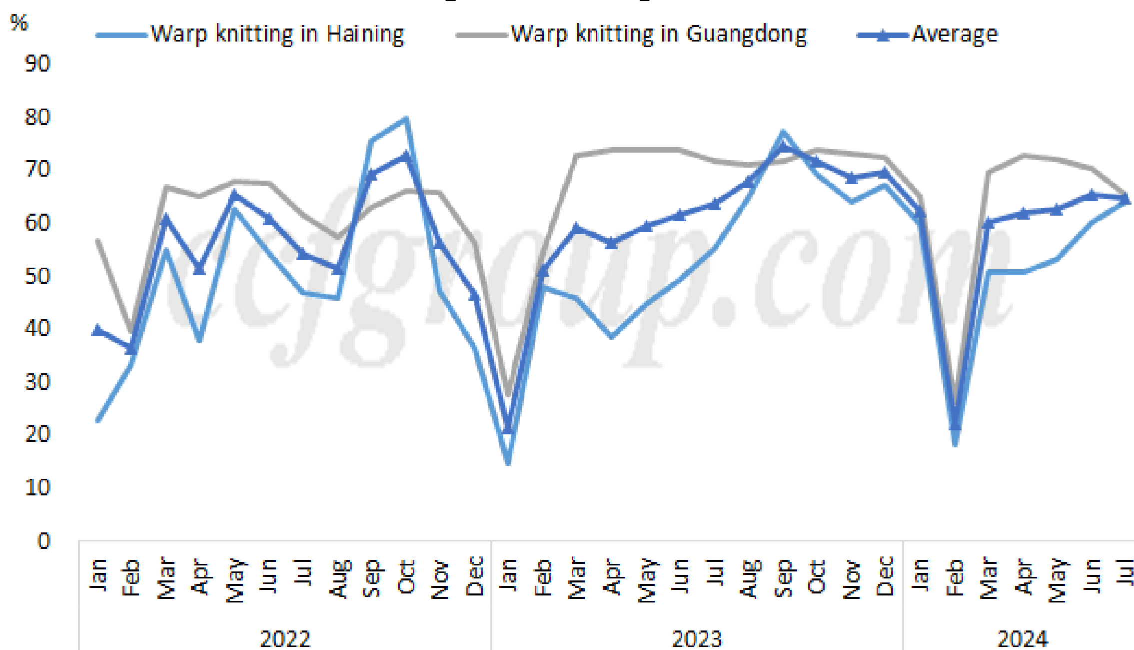


The performance of nylon/spandex covered yarn has been better than that of polyester/spandex and cotton/spandex core spun yarns. The downstream products of air covered yarn, such as four-way stretch woven fabrics, sun protection garments, and Roma fabrics, have shown decent performance, while conventional covered yarns for products like ice sleeves, underwear, and socks have also performed satisfactorily.

Similar narrow growth is seen in warp knitting sector. The average operating rates of warp knitting plants in Haining, Zhejiang, and Guangdong reached 55.9% in the first half of this year, up 4.3 percentage point year-on-year. The external orders for warp knitting in Guangdong

have remained relatively high, and the operating rates at warp knitting plants in Chaozhou and Shantou have also been high.

For most of the time, the operating rate in Guangdong's warp knitting plants has been above 70%, with noticeable reductions only around the Spring Festival. After late May, the operating rates for soft-touch and low-pile products in Haining increased. The price rise for polyester in late May led to a reduction in inventory for products like hyper stretch fabrics, boosting the operating rate in that area. Hot products in warp knitting, like single and double warp knit fabrics for sportswear, sun protection fabrics, and swimwear, have performed quite well.



Currently, the growth rate of China domestic spandex demand is slower compared to the continuous increase in supply. In the first half of 2024, spandex demand in Chinese mainland saw an approximate year-on-year growth of 12.6% reaching 471,000 tons, driven by outdoor, sun protection, leisure, and sports segments. This follows a remarkable 25% year-on-year growth in demand in the first half of 2023. However, the spandex industry is still digesting the continuously increasing supply from recent years, and the current situation of slow sales, stagnant prices, and significant losses for spandex continues to pose challenges.

Source: ccfgroup.com– July 26, 2024

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Global growth facing weakest prospects in medium term in decades: IMF

International Monetary Fund (IMF) managing director Kristalina Georgieva recently expressed concern over global growth, which at just over 3 per cent, is facing the weakest prospects in the medium term in decades.

"Interdependent challenges—high debt, fragmentation, and complexities in navigating the digital and green transitions—are holding back greater prosperity," she told addressing the concluding ceremony of the third meeting of the G20 finance ministers and central bank governors in Rio de Janeiro.

"The global economy must avoid getting stuck in low gear, which would lead to a more unequal and more unstable world," she said, calling on countries for a renewed effort to strengthen the foundation for robust growth and job creation: sound fiscal and monetary policies; a stable and inclusive financial system; progressive taxation; and boosting support for vulnerable countries.

New IMF analysis suggests that periods of stagnation lasting four years or more tend to push up income inequality within countries by almost 20 per cent, and that is a moral and ethical concern, she said.

"Central bankers must resist easing too early when price pressures remain persistent. They must also avoid waiting too long, and unnecessarily pouring cold water on economic activity. In this regard, preserving central bank independence is essential," she was quoted as saying by an IMF release.

She proposed a three-pronged approach to mobilise a range of existing and new tools to help vulnerable countries meet their development needs.

First, countries need to implement reforms that reinvigorate growth and jobs, develop domestic financial markets to improve access to finance and mobilise fiscal revenue in an equitable and sustainable manner, she said.

Second, debt vulnerabilities in low-income countries (LIC) must be resolutely addressed. The median LIC is spending over twice as much on external debt service as a share of revenue than it did 10 years ago.

Third, the international community must step up and the IMF will do its part, she said adding that the gobal financial institution is reviewing its policy for charges and surcharges.

Source: fibre2fashion.com– July 29, 2024

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Why the Industry Should Own Its Supply Chain

In light of upcoming legislation, soaring climate change, and revelations of inhumane working conditions, the fashion industry is under pressure. Structural change is needed—at its heart: the supply chain.

Out of sight, out of mind.

Over the last decades, fashion brands have been outsourcing whatever possible to wherever is cheapest, resulting in an opaque web of suppliers and sub-suppliers. Typically, a piece of clothing goes through many hands and countries before it ultimately lands in a warehouse from where it will be passed on to a customer.

This comes with a variety of concerns. From a climate perspective, long transportation routes cause high emissions. From a social and environmental perspective, it's impossible to document how employees and the local environment are burdened. And from a customer perspective, we leave them blindfolded disabling them from knowing how their products have been made.

Legislation enters the scene

Incidents are making headlines frequently and clashes between the authorities and brands include fast fashion players like Shein as well as luxury houses such as Loro Piana, indicating that misconduct in fashion's supply chain is not an exception.

Nonetheless, action has been limited. Faced with economic crises, inflation, and market shocks such as the global pandemic, the industry has struggled to maintain margins and, thus, prioritized the bottom line over sustainability initiatives. When malpractices are exposed, brands typically excuse themselves with a lack of oversight, pushing responsibility further down the supply chain.

But the pressure is on: upcoming legislation in the EU and the US will hold brands accountable for their supply chains. Traceability is to equal parts the buzzword of the hour as it is the elephant in the room. Achieving it within the prevalent structure is a massive challenge. But one that needs to be tackled.

Perhaps unintuitively, the easiest and most effective strategy is a 180-degree turn. After decades of outsourcing, it's time to insource. Taking control of their supply chains gives brands the necessary insight into what's produced where, and under what conditions. An argument that's often put forward: nice idea but impossible to execute. I argue it's not. How do I know? At Son of a Tailor, we've done it. A bit more than a year ago, we went live with our own production facility in Portugal.

Son of a Tailor specializes in custom-fit, made-to-order menswear. This means that each item is uniquely fitted to the person who has ordered it. Consequently, our supply chain setup differs from that of most brands. But ultimately, no matter what you produce and whether on-demand or for-stock, all brands will need to document a product's supply chain once the EU Product Passport is introduced.

Owning at least part of this supply chain makes this much easier as necessary information will be readily available and the brand can introduce processes and structures that serve its individual needs. Beyond compliance, vertical integration comes with three key advantages that apply to all types of brands.

More flexibility

Long lead times and high minimums force brands to take bets far in advance when it comes to what will sell. This guesswork typically leads to mountains of unsold stock which is obviously an issue from an environmental perspective but it doesn't make much business sense either. Insourcing production removes or at least reduces these constraints. As a result, brands can be more reactive to shifting demand, test new designs more easily, and ultimately, reduce overproduction.

Lower costs

While fashion brands typically have the upper hand in supplier relationships, increasing costs for raw materials and logistics among other factors have increased production costs. Add that with every layer in the supply chain, there's a profit margin, it becomes evident that by insourcing and consequently, cutting out middlemen, costs can be reduced significantly.

More innovation

Controlling your production allows you to tailor processes to your needs. You aren't bound by what might have worked in the past or for other clients. Instead, you can innovate new, more effective processes, leading to further cost savings as productivity increases. You start getting into a virtuous cycle because you can now export these process improvements to your suppliers (about 50% of our manufacturing is insourced), providing a positive feedback loop.

Higher product quality

When working with a long tail of suppliers and sub-suppliers, product quality can, at times, be hard to ensure. This leaves brands with two options: either invest in rigorous quality control to sort out everything that doesn't meet the standard and, therefore, goes to waste, or turn a blind eye and risk unsatisfied customers and potential returns that will, again, cause waste. Insourcing production and, thus, taking control of the manufacturing stage ensures that product quality is a priority from the get-go, leading to higher customer satisfaction and lower waste through defects.

As this shows, vertical integration doesn't only set brands up for compliance with upcoming legislation, as if that wasn't enough, it also comes with several benefits from a business perspective. The conclusion should be clear: the best time to get started was yesterday, the second best time is now.

Source: sourcingjournal.com– July 29, 2024

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Germany's price expectations rise in July, driven by manufacturing

The price expectations in Germany increased to 17.8 points in July 2024, up from 16.1 points in June, according to the latest data by the ifo Institute. The rise in price expectations was particularly notable in the manufacturing sector, where more companies intend to raise their prices compared to the previous month.

The manufacturing sector saw its price expectations climb to 7.3 points in July, up from 6.6 points in June.

However, consumer-related businesses are less inclined to increase their prices. In the retail sector, excluding food, the price expectations dropped slightly to 22.7 points in July from 23.3 points in June 2024, as per ifo.

Source: fibre2fashion.com– July 30, 2024

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1st round of negotiations on proposed GCC-Turkiye FTA begins

The first round of negotiations on a proposed free trade agreement (FTA) between Turkiye and the Gulf Cooperation Council (GCC) started today in Ankara.

Both sides had signed a deal in March this year to start the negotiations. GCC comprises Saudi Arabia, the United Arab Emirates (UAE), Qatar, Kuwait, Oman and Bahrain.

Nine Saudi government entities are participating in the three-day talks.

The first round will focus on key trade areas, including goods, services, investment, rules of origin, technical barriers to trade, and sanitary and phytosanitary measures.

The aim is to establish negotiation principles, outline the framework for subsequent rounds and set ambitious targets for finalising the agreement, a Saudi news agency reported.

The agreement is expected to grant preferential access to goods and services in all participating markets through extensive liberalisation and facilitate, encourage and protect investments.

Turkiye has mended ties with the Gulf countries, namely the UAE and Saudi Arabia, following years of tension. Since then, it has signed deals worth billions with them.

Source: fibre2fashion.com– July 29, 2024

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Vietnam achieves trade surplus of $14.08 bn in Jan-July 2024

Vietnam recorded a trade value of $439.88 billion in the first seven months of the year, achieving a trade surplus of $14.08 billion, according to data from the General Statistics Office. In July, the trade value was $69.72 billion, marking an 8.7 per cent increase from June and a 21.8 per cent rise year-on-year (YoY).

In July, exports reached $35.92 billion, reflecting a 19.1 per cent increase compared to the same period last year. Imports in July rose by 24.7 per cent to $33.8 billion.

Over the seven-month period, total exports amounted to $226.98 billion, an increase of 15.7 per cent. The domestic sector contributed 27.8 per cent of these exports, while the foreign-invested sector, including crude oil, accounted for 72.2 per cent, as per Vietnamese media reports.

Imports for the same period totalled $212.9 billion, up 18.5 per cent. The domestic sector's import value was $78 billion, up 21.5 per cent, whereas the foreign-invested sector's imports rose by 16.9 per cent to $134.9 billion.

The US emerged as Vietnam's largest importer with a revenue of $66.1 billion. Meanwhile, China remained the largest exporter to Vietnam, with a revenue of $79.2 billion.

Source: fibre2fashion.com– July 30, 2024

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Shutdown, internet blackout cost Bangladesh economy over $10 bn: FICCI

The recent curfew and internet blackout in Bangladesh due to a week of unrest arising out of protests against job quotas have significantly affected the domestic economy, with cumulative losses estimated to be over $10 billion, the Foreign Investors Chamber of Commerce & Industries (FICCI) has said.

FICCI president Zaved Akhtar recently met Salman F Rahman, prime minister's adviser on private industry and investment, with business leaders and stressed the need to resume full mobile data connectivity, saying it is critical for every sector.

"If we fail to prioritise the ease of doing business for our current investors, we will discourage potential investors from considering Bangladesh as a likely investment destination, especially when the investors are facing existential crises," he was quoted as saying by domestic media outlets.

Bangladesh has over 2,800 garment factories engaged in direct exports, that experienced production disruptions due to the quota reform protests since mid-July. Ahammed Ali Babu, director, marketing and merchandising, Blue Planet Group, told Fibre2Fashion that their factory remained closed for 2 days.

Tex Garment Zone, a major player in the apparel sector of Bangladesh, also had to suspend production due to the disruptions. Raihan Mahmud, the owner of the company, told F2F, “Two of our European customers have already cancelled several new orders because they couldn't communicate due to a lack of internet.”

Zaved, who is chairman and managing director of Unilever Bangladesh Ltd, also demanded faster release of goods from ports and shipments outwards. Smoothening the authorised economic operator approval process will also help a lot in reducing port congestion and demurrage impact, FICCI added.

Source: fibre2fashion.com– July 29, 2024

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Bangladesh: Apparel retailers express concern about shipment delay

International clothing retailers and brands yesterday expressed concern about the timely shipment of goods following the latest spell of violence stemming from the quota reform movement, imposition of curfew and five-day internet blackout, which crippled economic activities.

In light of the situation, retailers urged leaders of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA) to ensure timely shipment of goods to be sold during the Christmas season.

They also demanded that the government quickly restore high-speed internet and broadband services to allow quick communications with their headquarters abroad.

They made the demands at a meeting with BGMEA leaders at the trade body's office in the capital's Uttara.

Although it was a regularly scheduled meeting between the BGMEA and buyers, important issues came to the fore due to the recent crisis.

For example, buyers called for addressing the backlog and congestion of containers at the Chattogram and Benapole ports so that export activities could run smoothly, according to a senior BGMEA leader who was present at the meeting.

Their concerns had been compounded by the fact that factories faced a complete shutdown for four days, especially as the months of July, August and September are the peak time for the shipment of goods to be sold during Christmas, the biggest retail sales extravaganza in the Western world.

It is also the peak time to confirm the prices of goods to be shipped next summer and spring.

The disruption in production, delivery and shipment took place at a time when Bangladesh's exports were trending downwards.

Overall exports declined from $39.69 billion in the July-May period of FY23 to $37.35 billion in the same period of FY24, according to data from the Bangladesh Bank.

In the same period, Bangladesh's garment shipments fell 5.2 percent to $33.04 billion.

At present, many garment factories cannot continue timely production due to a lack of raw materials like yarn, which could not be transported to factories because of the volatile situation over the past week.

Furthermore, suppliers had to cancel hundreds of pre-scheduled meetings and factory inspections over the past week.

Almost all the major garment sourcing companies were present at the meeting, including representatives from retailers like H&M, M&S and Bestseller.

They expressed concern about difficulties transporting goods as well as shipments from Chattogram port while also lamenting the slow internet speed, which hindered communication with their headquarters.

After the meeting, BGMEA president SM Mannan Kochi said retailers and brands assured them that they would not seek discounts or air shipments or cancel work orders.

Kochi added that production had resumed at factories while internet services and port operations were restarted after meetings with the prime minister, ICT minister, home minister and shipping minister over the last few days.

The BGMEA chief also said retailers were a bit worried as they want fast internet and smooth operations in ports.

The garment sector incurred production losses amounting to Tk 6,400 crore during the four-day shutdown. Additionally, Tk 1,000 crore will have to be paid to workers although there was no production in the units.

Kochi urged the government to keep the garment sector out of the purview of curfews or any kind of political activity considering the importance of the sector.

Last week, Mohammad Ali Khokon, president of the Bangladesh Textile Mills Association, said the primary textile sector, which includes spinning, weaving, dyeing and finishing activities, lost $58.8 million in six days due to the shutdown and internet blackout, which is about $9.8 million per day.

Although buyers are not cancelling work orders or seeking discounts, they are putting a pause on work orders or delaying them, which is creating a stockpile of yarn and fabrics in mills.

Source: thedailystar.net– July 30, 2024

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NATIONAL NEWS

Negotiating teams to restart FTA talks with India as soon as possible: UK

The process of getting negotiating teams back in the room will kick-start soon to deliver a Free Trade Agreement (FTA) with India, the UK's newly elected Labour government announced on Monday as it set out its trading priorities.

Business and Trade Secretary Jonathan Reynolds spelt out his department's approach to international trade deals, which he said will put economic growth at the heart of the negotiations to achieve high-quality pacts that give British businesses access to international markets and boost jobs.

The Department for Business and Trade (DBT) said it also plans to publish a trade strategy which aligns with the government's industrial strategy, enhances economic security and supports net zero ambitions.

Boosting trade abroad is essential to deliver a strong economy at home. That's why I've wasted no time taking stock of progress and getting ready to press on with trade talks with our international partners, said Reynolds.

From the Gulf to India, our trade programme is ambitious and plays to the UK's strengths to give British businesses access to some of the most exciting economies in the world. Our teams will be entering negotiating rooms as soon as possible, laser-focused on creating new opportunities for UK firms so they can support jobs across the country and deliver the growth we desperately need, he said.

India and the UK began negotiating an FTA in January 2022 under the then Conservative Party government and 13 rounds of negotiations have been completed since then to enhance the GBP 38.1 billion a year bilateral partnership.

Reynolds has now set the tone for the new Labour government's plans to not only sign off on a deal, but also to carry on the process from where it was left off in the fourteenth round of discussions amid general elections in both countries.

India, with which the UK is negotiating a Free Trade Agreement and Bilateral Investment Treaty, is projected to be the world's third largest economy by 2027. A trade deal would give UK businesses better access to its burgeoning market of middle-class consumers, projected to grow to over a quarter of a billion consumers by 2050, notes the DBT. The announcement follows Foreign Secretary David Lammy's visit to India last week to discuss economic and global security. Chairman of Tata Sons Natarajan Chandrasekaran said in a statement: I am delighted that the new government has moved so quickly to restart trade negotiations with India.

As one of the largest international investors in the UK, the Tata Group supports any action that strengthens the British economy. And as two of the world's greatest trading nations with deep historical ties, India and the UK should be close economic partners, to the benefit of the citizens and businesses of both countries.

Besides India, the DBT wants to deliver trade deals with the Gulf Cooperation Council (GCC), Israel, South Korea, Switzerland and Turkey. Monday's announcement is intended to kick-start the process of getting negotiators back into the room with counterparts as soon as possible, with the first round of trade talks under the new British government expected to take place during the autumn period which begins towards the end of August. The DBT said its trade programme aims to deliver deals that will benefit the UK economy and boost trade with some of the most dynamic economies in the world.

Meanwhile, the department stressed that FTAs are not the only tool to drive economic growth through trade, with a proposed trade strategy aimed at helping reset the UK's relationship with the European Union (EU) to support more small businesses to export by tearing down unnecessary barriers to trade and jobs.

According to the DBT, UK exports totalled GBP 855 billion as the world's fourth-largest exporter in 2022 and high-quality British goods and services continue to be admired globally and the government is committed to using every lever available to help British businesses sell around the world.

Source: business-standard.com – July 29, 2024

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Spike in freight costs to hit exporters

A recent four-fold spike in container freight costs, could hit Indian exporters' profit margins and enhance their working capital requirements through 2024-25 if there is no respite soon, with smaller players likely to face a worse impact, India Ratings and Research (Ind-Ra) warned on Monday.

While freight rates had corrected significantly after the surge witnessed in 2022 after the COVID pandemic due to supply chain bottlenecks, the correction in freight and forwarding cost of Indian corporates was lower than that for international freight and forwarding cost, and is likely to inch up in this financial year, Ind-Ra noted. "After a brief lull period, the global trade is expected to gain traction, and for that undisrupted sea trade and conducive freight rate are essential.

The sharp rise in freight rate is more detrimental for the medium and small entities with thin margin," says Soumyajit Niyogi, Director, Ind-Ra, adding that the working capital cycle, which had peaked during the pandemic before reverting to the mean, is also showing signs of lengthening this year.

While part of the uptick in global freight rates could be a surge in Chinese exports seeking to beat the duty protections kicking in the U.S. from October 1, the firm said freight rates are still likely to rise further. It attributed this to the higher usage of fuel and rising insurance risk premia due to the disruptions in the Red Sea as well as a 24% drop in merchandise trade flowing through the Panama Canal this year.

"Increased travel time and expansion of trade routes are causing congestion at the main ports, thus increasing the turnaround time for ships and adding further to the cost," the rating agency observed. Its research note is based on an analysis of 102 listed corporates with 25% or more of revenues and/or raw materials sourced from foreign trade for the period 2018-19 to 2023-24. "If sustained, the surge in container freight rates could affect the business operations, EBITDA margins and working capital of exporters during FY25," Ind-Ra concluded.

Source: thehindu.com – July 29, 2024

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Surge in container freight rates poses challenges for Indian exporters

Indian exporters are facing potential disruptions in their business operations, EBITDA margins, and working capital due to a recent surge in container freight rates, which have increased fourfold year-on-year, according to credit rating agency India Ratings and Research (Ind-Ra). The agency cautions that if this surge persists, it could significantly affect the exporters throughout fiscal 2025 (FY25).

Freight rates had seen significant corrections through 2023 and the first nine months of 2024, following a post-COVID surge in 2022 due to supply chain bottlenecks. However, the reduction in freight and forwarding costs for Indian companies was less pronounced compared to international costs and is expected to rise again in FY25. Additionally, the working capital cycle, which had peaked during the pandemic before returning to normal levels, is now showing signs of lengthening in FY25, as per Ind-Ra.

This surge in freight rates could be temporary, influenced by the advance of Chinese exports ahead of impending US duty protections effective from 1 October 2024, and the re-stocking of products for Christmas. However, it highlights broader issues such as container shortages due to longer shipping routes avoiding the Red Sea channel. On the other hand, the Baltic Exchange Dry Index has doubled since July 2023 but remains below the high seen in December 2023, indicating that bulk container freight costs are likely to remain stable.

Ind-Ra believes the increased freight rates will result in higher working capital financing requirements. The agency analysed 102 listed companies with at least 25 per cent of their revenues and/or raw materials sourced from foreign trade over the period FY19-FY24. In its previous analysis of the Red Sea disruption, Ind-Ra highlighted the impact on working capital cycles and freight and forwarding costs for companies, which are likely to worsen if the disruption continues.

Factors contributing to the rising freight rates include increased fuel usage and higher insurance risk premiums, leading to higher transportation costs. The increased travel time and expanded trade routes are causing congestion at major ports, further increasing ship turnaround times and costs.

The revival of merchandise exports from Asian countries, which grew substantially in the first five months of 2024, has also contributed to higher freight costs. The increase in exports from China can be attributed to concerns over impending import duties and uncertainties surrounding new trade policies following the US election results. However, this strong momentum could be temporary, with export growth potentially flattening as more clarity emerges.

The disruption of sea routes, particularly through the Suez Canal, which has seen a 70 per cent decline in usage due to attacks on shipping vessels since mid-November 2023, has exacerbated the situation. The Freight Container Index has increased fourfold since July 2023, although the current scenario is not as severe as during the COVID-19 pandemic. Exporters are likely to struggle to pass on the recent rise in shipping costs to end-consumers due to weak global demand, providing resilience to inflation. There are no significant signs of a resolution to the ongoing disruption in the near future.

The Atlantic-Pacific trade exchange has also been affected by restricted ship movement through the Panama Canal, caused by a long-term El Nino dry season. This has led to a 24 per cent drop in the volume of merchandise traded through the canal compared to 2023, with the normalcy of operations dependent on climate change.

Source: fibre2fashion.com– July 30, 2024

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India's trade policy enhanced

At the outset of Modi 3.0, the vision for a self-reliant and globally competitive economy is at the forefront. The road map for growth is centred around key pillars of infrastructure development, digital transformation, skill enhancement, sustainable practices, and robust trade and product compliance policies. With the flagship programme of Make in India and a vision of becoming a $5-trillion economy by FY26, this Union Budget was poised to be a cornerstone in translating these into actionable policies and investments.

In the last decade, India has witnessed a paradigm shift in its approach towards trade policies, driven by a combination of regulatory reforms, technological advancements, and increased emphasis on quality and safety standards. The economic cycle of trade policies has taken a turn globally and for India also. As part of the change, trade policy seems to have shifted its focus from foreign exchange earnings to investment-led impetus to value-add manufacturing in India.

A sacrosanct IBC is unrealistic

In pursuit of GDP growth, industrial, trade, and tariff policies are coming together. The interplay between them is reflected in products or sectors focused schemes like phased manufacturing programme (PMP), production-linked incentive (PLI), public procurement policy, quality control orders (QCO) etc.

The implementation of QCOs in the last few years and an aim to create similar non-tariff barriers for over 2,500 products in the coming years is a gist of the transformative approach in trade policies, characterised by comprehensive tax reforms, technological integration, and a heightened focus on quality and safety. India's approach on negotiating trade agreements has also witnessed a change in the last few years. The focus has now been shifted to ink trade agreements with developed economies like the US, UK, and European Union, which shall provide these regions access to Indian goods.

Every developed economy is also looking forward to trade partnership with India to get access to the world's largest market and consumer base. The 2024 Budget introduces pivotal changes to self-certification for new trade agreements. This marks a strategic move to align with global trade

practices, thereby reducing the burden on businesses and streamlining trade operations.

The Budget has proposed rationalisation of customs duty across sectors, while extending the sunset clause of certain exemptions. This indicates the intent of the government to keep the dice rolling for hassle-free cross-border transactions. The proposal for comprehensive review of the customs duty rate structure, on the other hand, points to the earlier aim of streamlining exemptions provided since the inception of the Customs Act.

The road map for digitalisation of customs documents is another welcome step to align with global practices. Extending the period for re-export and re-import of goods and allowing acceptance of self-certification as a proof of origin, in addition to country of origin, are measures that shall streamline trade operations and address the common pain points of different industry players. Retrospective exemption from goods and services tax compensation cess on imports in special economic zones is another move to facilitate trade that is welcomed by industry.

The Budget has also proposed to reduce customs duty on mobile phones. This step can also be perceived as an indication of maturity for schemes like PMP, where the policy has come full circle and sufficient infrastructure has been created to make India the second largest manufacturer of mobile phones. That said, this Budget seems to take a conservative stance on tariff barriers, barring a few exceptions such as laboratory chemicals and e-bicycles.

India’s solar energy policy has also seen significant advancements, particularly with the amendments introduced in this Budget. Recognising the critical role of solar energy in achieving sustainable development goals, the government has made strategic policy adjustments to bolster domestic manufacturing of solar cells and panels. The reduction in duty on parts to foster manufacturing and customs duty cut on capital goods required for manufacturing these components, also hints at India’s commitment to achieving its ambitious renewable energy targets and fostering a green economy.

This Budget has focused on sunrise sectors for duty benefits, continuity of polices on smartphone manufacturing, setting up a Critical Mineral Mission for better access to minerals required for tech development, and

allocation of funds to toy and footwear PLI, which are significant steps to accelerate long-term GDP growth.

Budget 2024 lays out a comprehensive vision for enhancing India's trade policy framework. By rationalising customs duty rates and fostering a more transparent and efficient trade environment, it aims to improve India's position in the global marketplace. These initiatives, coupled with strategic investments in infrastructure and technology, are poised to drive export growth and attract foreign investments. As these measures take effect, they hold the potential to not only boost economic activity but also ensure that India remains a competitive and attractive destination for international trade.

The change in focus on production-driven trade policy continues to reflect in tariff policy changes. As these measures take effect, they will not only bolster India's position in the global trade arena but also contribute significantly to the country's overall economic growth.

Source: financialexpress.com– July 29, 2024

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CBIC chief advocates three rate structures under GST

Central Board of Indirect Taxes & Customs (CBIC) Chairman Sanjay Agarwal, in his ex-officio category, has pitched for three rate structures under Goods & Services Tax. While talking to businessline, he also advocated a graded approach to impose GST on crude and four petroleum products.

“As Chairman, I see the rates should move on a guiding principle to have one standard rate, one higher rate for items used by certain sections of the society and one lower rate,” Agarwal said while responding to the Budget announcement related with rate rationalisation where the final recommendations have to be given by the GST Council. In her Budget speech, Finance Minister, Nirmala Sitharaman had said: “To multiply the benefits of GST, we will strive to further simplify and rationalise the tax structure and endeavour to expand it to the remaining sectors.”

Agarwal said that GST rates were finalised on the basis of what was the rate in pre-GST era. Later, over seven years, some rates came down under GST. “The determining factor for deciding the GST rate is that all items which are subject to GST should be under the standard rate. There should be certain items concerning the societal obligation to provide, so may be food items should be on low oversight. Then there are items which are consumed mostly by affluent section of society. These should be at a higher rate,” he said.

‘Guiding principle’

Calling this is a “guiding principle”, he said that there should not be too many rates. For example, there are two rates – 12 per cent and 18 per cent – where there should be one. “We have to see individual items and see that if the items are of similar nature and similar type of consumption, then they should be subjected to one rate,” he said. As of now, there are four general rates – 5, 12, 18 and 28 per cent. Also, there are special rates of 0, 0.25, 1, 1.5 and 3 per cent.

A Group of States’ Ministers (GoM), under the convenorship of Deputy Chief Minister & Finance Minister Samrat Chaudhary, has been assigned to give suggestions for rate rationalisation. The group is expected to make a presentation before the next meeting of GST Council, following which discussion will be initiated for rate rejig.

GST on fuel

On the issue of imposing GST on petrol and diesel, Agarwal said that government can take a graded approach towards industrial-use petroleum products under GST. “In my personal opinion, crude and natural gas are more doable. Products used in transportation such as ATF, petrol and diesel are contentions items,” he said, adding that both the States and the Centre get high revenues and these have helped in times when extra revenues are needed. “Industry feedstock items look possible for consideration under GST,” he said.

Talking about comprehensive review of the customs duty rate structure, the CBIC chief said this exercise aims to encourage and give impetus to domestic players and export-oriented products, strengthening and diversification of supply chain and correction of real inversion. “We do need a separate committee to study this. We have a broad study ready. CBIC will now study real time granular data to give shape to new, revised Customs rates,” he said. The Budget has set a timeline of six months for revamp.

Source: thehindubusinessline.com– July 28, 2024

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Fake input tax credit detection surged 50% to over ₹36,000 crore in FY24

Fake input tax credit (ITC) detection surged 50 per cent in FY24 to over ₹36,000 crore, the Finance Ministry informed the Lok Sabha on Monday However, not even 10 per cent of the said amount has been deposited voluntarily.

According to data presented as part of written response to an un-starred question in the Lok Sabha by Minister of State in the Finance Ministry, Pankaj Chaudhary, over ₹36,000 crore worth of fake ITC detected during FY24 as against over ₹24,000 crore in FY22. Fake ITC refers to a mechanism where there is no real supply of goods or services but invoice issuance and such is used fraudulently to avail ITC.

Challenges

When asked about challenges being faced by the government in tracking the fake ITC fraudsters, Chaudhary said: "The challenges relate to masterminds who operate the fake ITC generation through control and management of a complex web of entities created across jurisdictions. Such challenges are being met through coordination with multiple stakeholders, including law enforcement agencies."

Unscrupulous elements misuse the identity of other persons to obtain fake/ bogus registration under GST to defraud the Government. Such fake/non-genuine registrations are used to fraudulently pass on input tax credits to unscrupulous recipients by issuing invoices without any underlying supply of goods or services or both.

Fake registrations and issuing bogus invoices for passing off fake ITC have become a serious problem, as fraudulent people engage in dubious and complex transactions, causing revenue loss to the government.

According to officials, in the current financial year, the Directorate General of GST Intelligence (DGGI) has emphasised identifying and apprehending the masterminds of fake ITC and disrupting syndicates, operating across the country.

12 steps

Chaudhary listed 12 steps taken by the government to curb the ITC frauds. These include risk based biometric-based Aadhaar authentication of registration applicants who appear to be risky based on data analytics beside physical verification in high-risk cases, even when Aadhaar has been authenticated restriction on availment of ITC to invoices and debit notes furnished by the supplier in their statement of outward supplies

Other measures include filing of FORM GSTR-1 made mandatory before filing of FORM GSTR-3B for a tax period and filing of FORM GSTR-1 made mandatorily sequential. Also, there is provision of making the beneficial owner liable for penal action and prosecution similar to that of actual supplier/recipient, in cases where a supply has been made without the issuance of an invoice, or invoice has been issued without supply, or excess ITC has been availed or distributed.

“Regular use of data analytics to identify or track risky GST registrations to detect tax evasion, all India drive to weed out fake/bogus registrations and sharing of data amongst enforcement agencies for targeted interventions on continuing basis,” Chaudhary mentioned.

In recent times, DGGI has unravelled cases using data analysis aided by advanced technical tools, which led to the arrest of tax evaders. These tax syndicates often use gullible persons and entice them with job/commission/bank loans, etc., to extract their Know Your Customers (KYC) documents, which were then used for the creation of fake / shell firms/companies without their knowledge and consent. In some cases, the KYC method was used with the knowledge of the concerned person by paying them small pecuniary benefits.

Source: thehindubusinessline.com– July 29, 2024

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Cotton prices slip below ₹60,000/candy on slack yarn, garment demand

Cotton prices in the Indian domestic market have slipped below ₹60,000 per candy (356 kg) on slack yarn and garment demand but the situation could improve a tad from around the second week of August, industry players said. The situation has been compounded by the recent student unrest in Bangladesh that killed about 150 people.

"Yarn movement is slow. Our small quantity of exports to Bangladesh has been halted due to riots there," said a Raichur-based sourcing agent for domestic mills and multinationals. He is also the vice president of All India Cotton Brokers Association.

CCI cuts prices

"We had increasing demand only from Bangladesh but that has been affected due to the Bangladesh unrest. The curfew has affected the movement of goods," said Anand Popat, a Rajkot-based cotton, yarn and cotton waste trader.

Given the slack demand, the Cotton Corporation of India (CCI), which has stocks of about 20 lakh bales (170 kg) procured as part of the minimum support price (MSP) scheme, cut its sale price by ₹1,800 per candy, said Das Boob.

On Monday, the price of Shankar-6, the benchmark for exports, was ruling at ₹56,800 a candy. On MCX, spot price for kapas (unprocessed cotton) was ruling at ₹1,506.50 per 20 kg, while in Rajakot Agricultural Produce Marketing Committee Yard (APMC), kapas was quoted at ₹7,505/quintal.

Globally, cotton prices have dropped below 70 cents a pound. On Monday, cotton for delivery in December on InterContinental Exchance, New York, was ruling at 69.01 cents (₹45,800/candy).

Import duty impact

"There is no parity for spinning mills in the domestic market. Imports of cotton attract 11 per cent Customs duty and they are ₹5,000-6,000 a candy costlier. It has also affected our competitiveness," said K Selvaraju, Secretary-General, Southern India Mills Association.

"Cotton prices have slipped to such lows after a long time. Buyers are not buying, while sellers too are not ready. Prices are below the MSP announced for the new seasons starting October," said Popat. The MSP for cotton for the 2024-25 crop year has been increased to ₹7,121 a quintal for the medium staple variety that is largely grown in the country. "Good monsoon rain and better crop prospects have also made the market slack," said Das Boob.

Turning cautious

"2023 was a bad year. Compared to that 2024 is not so bad," said Selvaraju, adding that the textile sector was unable to get back to the strong position witnessed during 2018-19. With only two months remaining for the season to end, all the stakeholders have turned cautious as they have ample demand to meet their requirements, said Das Boob.

"But I feel from August 15 to September-end, demand may improve and cotton could see some movement," he said. Popat said globally too demand for cotton has been affected as yarn and garment offtake has been hit. "Because of the high interest rates, no one wants to hold supplies in the pipeline. It is more of a hand-to-mouth situation currently," he said.

The sector has to gain confidence for prices to resume the uptrend, though they may have reached the bottom, Popat said.

Lower sowing

Das Boob said though sowing in cotton has been reported 5-7 per cent lower, ample rain and good harvest may witnessed better yield to make up the drop in acreage.

Poppat said the area in Gujarat and North India under cotton was low. However, it was better in Maharashtra, Madhya Pradesh, Andhra Pradesh and Telangana. "Overall, there could be a 2-3 per cent rise or fall in cotton area. A clear situation will emerge around the middle of August," he said. Going by the current trend, the Centre may have to ask CCI to procure cotton next season under the MSP programme, said Das Boob.

Source: thehindubusinessline.com– July 30, 2024

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Cotton exports up 68 per cent at 26 lakh bales till June-end

India's cotton exports in the first nine months of marketing year 2023-24 were up 68 per cent at 26 lakh bales of 170 kg each compared with 15.50 lakh bales during the same period a year ago. Higher surplus coupled with demand from countries such as Bangladesh and Vietnam among others has led to a surge in exports of the Indian fibre crop.

According to the Cotton Association of India (CAI)'s balance sheet as of end-June, the closing stocks at the end of the crop year 2023-24 are estimated to be 20 lakh bales against 28.90 lakh bales in the previous year.

CAI has estimated the demand at 317 lakh bales over 311 lakh bales last year. Supplies during the year are pegged at 363 lakh bales(355.40 lakh bales last year). The supplies of 363 lakh bales include the opening stock of 28.9 lakh bales and imports of 16.40 lakh bales. Imports during the previous year stood at 12.5 lakh bales.

CAI said cotton stocks at the end of June 2024 are estimated at 77.29 lakh bales of 170 kgs each including 40 lakh bales with textile mills which is about 46 days consumption. The remaining 37.29 lakh bales are with CCI, Maharashtra Federation and others (MNCs, MCX, traders, ginners, etc.) including cotton sold but not delivered. The CAI has retained its yearly balance sheet as estimated previously.

Source: thehindubusinessline.com– July 30, 2024

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