IBTEX No. 15 of 2025 January 21, 2025

| Currency Watch | | | |
|---|---|---|---|
| USD | EUR | GBP | JPY |
| 86.50 | 89.78 | 106.16 | 0.56 |

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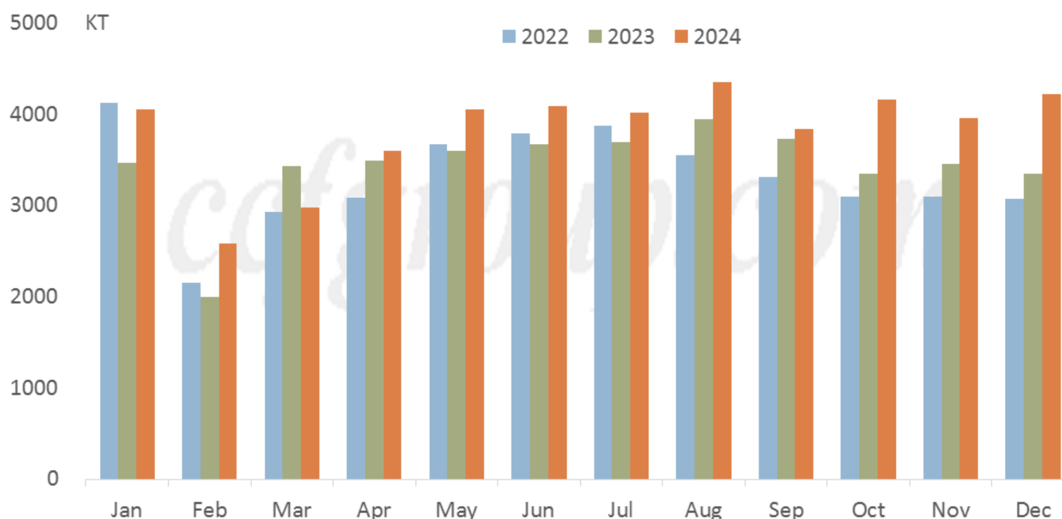
# INTERNATIONAL NEWS

## China: Double-digit growth in 2024 fiber-to-apparel industry chain exports

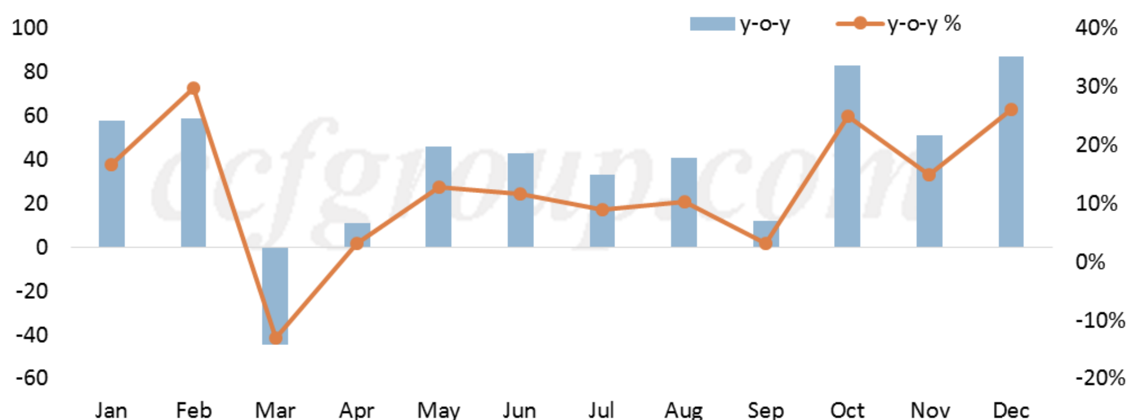
With the comprehensive release of December's trade data, the overall export landscape for 2024 has taken shape.

According to calculations, fiber-to-apparel exports under Chapters 50-63 grew by 26% year-on-year (YoY) and 7% month-on-month (MoM) in December 2024. Monthly trends reveal growth in most months, except for March.

Monthly export volume for Chapters 50-63




Y-o-y change on monthly export volume for Chapters 50-63



Notably, the year-on-year growth rate accelerated significantly in Q4, with December standing out for its strong performance across the three main segments of the industry chain. YoY growth exceeded 20% across the board, while MoM growth ranged from 5% to 7%.

The primary drivers of this growth are believed to include preemptive exports ahead of policy changes under the Trump administration and year-end restocking at low prices. Several product categories experienced YoY growth rates of 20-30%, indicating that this robust performance is part of a broader export market trend rather than isolated cases.

| | | Oct (y-o-y) | Oct (m-o-m) | Jan-Nov, 2024 (y-o-y) |
|---|---|---|---|---|
| 50-55 | Fiber and yarn | 28% | 5% | 2% |
| 56-60 | Fabric and other textiles | 29% | 8% | 13% |
| 61-63 | Garment | 23% | 7% | 11% |
| 50-63 | Total | 26% | 7% | 8% |

For the full year of 2024, the fiber-to-apparel industry chain posted an impressive YoY export growth rate of 12%, outperforming the previous year's figures.

| Chapter | Product | y-o-y 2024 |
|---|---|---|
| Chapter 50 | Silk | -13% |
| Chapter 51 | Wool, fine or coarse animal hair; horsehair yarn and woven fabric | -1% |
| Chapter 52 | Cotton | 11% |
| Chapter 53 | Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn | 8% |
| Chapter 54 | Man-made filaments; strip and the like of man-made textile materials | 6% |
| Chapter 55 | Man-made staple fibres | 9% |
| Chapter 56 | Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof | 16% |
| Chapter 57 | Carpets and other textile floor coverings | 19% |
| Chapter 58 | Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery | 17% |
| Chapter 59 | Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for Industrial use | 8% |
| Chapter 60 | Knitted or crocheted fabrics | 17% |
| Chapter 61 | Articles of apparel and clothing accessories, knitted or crocheted | 11% |
| Chapter 62 | Articles of apparel and clothing accessories, not knitted or crocheted | 10% |
| Chapter 63 | Other made-up textile articles; sets; worn clothing and worn textile articles; rags | 18% |

Source: ccfgroup.com– Jan 21, 2025

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## China's GDP up 5.4% YoY in Q4 2024; industrial output up 5.8% in 2024

China's gross domestic product (GDP) expanded by 5.4 per cent year on year (YoY) in the fourth quarter (Q4) last year, while its value-added industrial output went up by 5.8 per cent YoY in the year, according to data from the National Bureau of Statistics (NBS).

The GDP expansion pace accelerated from the 4.6-per cent growth in the previous quarter.

On a quarterly basis, the Chinese economy increased by 1.6 per cent during Q4 2024.

In December, the country's industrial output grew by 6.2 per cent YoY and by 0.64 per cent month on month, a state-controlled news agency reported.

The industrial output is used to measure the activity of large enterprises each with an annual main business turnover of at least 20 million yuan ($2.78 million).

Source: fibre2fashion.com– Jan 20, 2025

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## Global cotton faces 2025 challenges amid supply-demand gap

The global cotton sector may face notable challenges in 2025, as production continues to rise faster than demand. Economic forecasts suggest growth will match last year's pace, while oil prices are trading lower, and cotton futures indicate stability for the year ahead, as per the Centre for Advanced Studies on Applied Economics (CEPEA).

Brazil concluded 2024 as the world's major cotton exporter, shipping 2.77 million tons, overtaking the United States, which exported 2.37 million tons. A significant factor behind Brazil's record exports was China, which imported 924.7 thousand tons.

Cotton prices in Brazil are likely to face downward pressure due to high ending stocks, limited global demand, and marginal global economic growth. However, the Brazilian real's devaluation against the US dollar could enhance export competitiveness, potentially stabilizing prices.

Conab estimates that Brazil's 2024/25 cotton crop planted area may grow by 3 per cent, reaching 2 million hectares. Productivity is projected to decline by 3.1 per cent compared to the previous season, to 1,845 kilos per hectare. Total production for the 2024/25 crop is anticipated at 3.695 million tons, a slight decrease of 0.2 per cent from the prior season.

Globally, USDA data indicates a 3.9 per cent rise in supply for the 2024/25 season, totalling 25.558 million tons. World cotton consumption is projected to increase by 1.3 per cent in the same period, reaching 25.211 million tons.

Source: fibre2fashion.com – Jan 20, 2025

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# European Jeanswear showdown, a battle of the brands in 2024

The European jeanswear market is a fiercely competitive space, with numerous established manufacturers, brands and emerging contenders vying for the top spot. 2024 has seen some interesting shifts in market share, driven by evolving consumer preferences, sustainability concerns, and innovative marketing strategies.

Top players

While precise figures are still being compiled, preliminary data suggests the following brands are leading the pack in terms of market share in 2024.

Table: Top brands and their growth

Brand Estimated market share (%) Estimated revenue (€ bn) Retail presence (approx. points of sale) Levi's 22% €4.50 5,000+ Diesel 15% €3.10 3,000+ H&M 10% €2.10 4,000+ Zara 8% €1.70 2,500+ G-Star RAW 7% €1.40 1,500+ Pepe Jeans 6% €1.20 1,000+ Lee 5% €1.00 800+ Wrangler 4% €0.80 600+ Other brands 23% €4.70

Source: Euromonitor International, Statista, Company Annual Reports

What makes these brands leaders?

There are several reasons for the sustained success of these jeanswear giants.

Brand heritage and legacy: Levi's, Diesel, Lee, and Wrangler boast of a rich histories and strong brand identities that resonate with consumers seeking authenticity and timeless style.

Product innovation: These brands consistently invest in research and development, introducing new fits, washes, and fabric technologies to cater to evolving consumer demands.

Sustainability initiatives: With growing consumer awareness of environmental and social issues, leading brands have implemented sustainable practices throughout their supply chains, from sourcing raw

materials to reducing water and energy consumption. Marketing and distribution: Effective marketing campaigns, celebrity endorsements, and strategic collaborations have helped these brands maintain high visibility and reach a wider audience.

Omnichannel presence: A strong online presence coupled with a network of physical stores allows these brands to offer a seamless shopping experience across multiple channels.

Growth over the years

Most leading jeanswear brands have shown steady growth over the years, albeit with some fluctuations depending on economic conditions and fashion trends.

Levi's: Despite facing challenges in the early 2000s, Levi's has experienced a resurgence in recent years, driven by its focus on sustainability, product innovation, and collaborations with influential designers and celebrities. This is reflected in their steady revenue growth and expansion of their retail footprint across Europe.

Diesel: Known for its rebellious spirit and bold designs, Diesel has maintained a strong presence in the premium denim segment, consistently pushing boundaries and captivating a younger audience. Their focus on flagship stores and a strong online presence has contributed to their consistent growth.

H&M and Zara: These fast-fashion giants have captured a significant market share by offering trendy and affordable jeanswear, catering to a broad consumer base. Their extensive store network across Europe, and aggressive online marketing strategies have given a push to their rapid expansion.

Each brand has carved out its niche by focusing on specific differentiators and unique selling propositions. Levi's iconic 501s, commitment to sustainability for example, water

In 2025, the jeanswear market is expected to remain competitive, with several trends shaping its future. Sustainability will continue to be major focus for brands with consumers increasingly demanding sustainable and ethically produced jeanswear.

Brands will leverage technology to offer personalized experiences and customized products. Online channels and digital marketing will continue to play a crucial role in reaching and engaging consumers.

Comfort and performance will be priority for brands as jeanswear will incorporate innovative fabrics and technologies to enhance these qualities.

Source: fashionatingworld.com– Jan 20, 2025

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# Cambodia clocks impressive growth of 24% in garment exports in 2024

Cambodia's apparel exports surged by 24.44 per cent to $9.791 billion in the recently concluded year, 2024. Apparel exports contributed 37.37 per cent to the country's total foreign income, which amounted to $26.196 billion, according to the General Department of Customs and Excise (GDCE) under the Ministry of Economy and Finance. Trade data for December 2024 showed growth in garment exports, reflecting stronger demand in the global textile and clothing market.

During this period, Cambodia's exports of knitted apparel and clothing accessories (Chapter 61) totalled $6.638 billion, marking a 21.2 per cent increase from $5.478 billion in 2023. Likewise, exports of non-knitted apparel and clothing accessories (Chapter 62) rose by 31.9 per cent to $3.153 billion, up from $2.390 billion in 2023. In December 2024, apparel exports grew by 11.38 per cent to $849.567 million, compared to $762.723 million in the same month of 2023. Exports of knitted apparel and accessories increased by 6.4 per cent to $529.374 million, compared to $497.610 million in December 2023. Meanwhile, exports of non-knitted apparel and accessories rose by 20.8 per cent to $320.193 million in December 2024.

On the import side, Cambodia's imports of knitted or crocheted fabrics (Chapter 60) reached $3.081 billion during 2024, an increase of 18.6 per cent from $2.597 billion in 2023. Imports of man-made fibres (Chapter 55) rose by 22.8 per cent to $1.349 billion, compared to $1,098.843 million in the previous year. Imports of cotton and cotton yarn (Chapter 52) also grew by 36.3 per cent to $766.003 million, up from $561.991 million in 2023.

Cambodia's strong performance in the textile and garment trade is notable, especially given the global challenges facing the sector. The sustained high export volumes underline the country's resilience amid the current global economic scenario. In 2023, Cambodia's apparel exports declined by 12.91 per cent to $7.87 billion. This contrasts with a 12.69 per cent increase in apparel exports in 2022, when the total reached $9.04 billion.

Source: fibre2fashion.com– Jan 21, 2025

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## Pakistan: APTMA urges FBR to help rescue textile industry

All Pakistan Textile Mills Association (APTMA) has sought intervention of Federal Board of Revenue (FBR) to rescue textile industry by restoring a level playing field for local inputs, ensuring timely and full refunds.

In a letter to Chairman, FBR, Rashid Mahmood Langrial, Secretary General, APTMA, Shahid Sattar, has asked him to view the finding of an independent study on impact of withdrawal of zero-rating/sales tax exemption on local supplies for export manufacturing under the Export Facilitation Scheme (EFS), conducted by Chairman PIDE Dr Nadeemul Haque.

The study underscores the urgent need for policy intervention to restore a level playing field for local inputs in export manufacturing, in comparison to imported inputs. Such action is crucial to safeguarding Pakistan's textile sector and its significant contributions to the national economy.

APTMA, minister discuss issues facing textile industry

The study emphasizes that the current policy not only threatens the viability of the formal textile sector but also incentivizes the informal sector, which operates outside the tax net. This has led to widespread closures, job losses, and a decline in competitiveness, with ripple effects across other sectors, including agriculture and services.

The study estimates that the increased costs of local inputs could result in economic losses equivalent to 2 percent of GDP (over PKR 1.7 trillion).

To address these issues, it strongly recommends restoring the EFS to its pre-Finance Act 2024 form, reinstituting the zero-rating/sales tax exemption on local supplies for export manufacturing. This solution, considered the most effective, would require no adjustments, allowing business operations to continue as before.

Alternatively, the study suggests creating a level playing field by imposing an equal GST on imported inputs used in export manufacturing. However, this would require a comprehensive overhaul of the refund system to ensure timely and complete sales tax refunds to exporters, minimizing delays and partial reimbursements.

The study further reveals that misuse of the EFS regime is not widespread and could be controlled through targeted adjustments. These include enforcing eligibility conditions rigorously, imposing strict penalties for malfeasance, and reducing the audit/reconciliation period from five years to six months, with robust online monitoring and algorithmic checks on transactions and exports.

The full recommendations of the study are as follows:

Imposition of GST on Local Inputs: The imposition of an 18% sales tax on local inputs, combined with persistent delays in refund processing, has created a significant imbalance between domestic and imported inputs, negatively affecting local cotton producers and spinning units. This policy threatens the formal textile sector's viability while incentivizing the informal sector.

The resulting closures, job losses, and decline in competitiveness have broader implications for Pakistan's economy, including agriculture and services.

Costly Adjustments to the Local Value Chain: The imposition of GST on domestic inputs will force costly adjustments within the local value chain. Our findings suggest that these adjustments could result in an economic loss equivalent to two percent of GDP (over PKR 1.7 trillion).

The recent export gains may be at risk, and the erosion of trust between industry stakeholders and tax authorities further complicates reform efforts. A holistic approach is needed that balances exporters' needs, supports local industries, and ensures compliance through robust monitoring.

Impact on High-Value Producers: High-value-added producers will likely remain unaffected by the GST extension on domestic products, as imports remain tax-free. However, upstream producers will face competition from GST-free imports that are not subject to tariffs. This shift erodes the terms of trade for upstream sectors, potentially leading to short-term pressure on exports.

EFS and Policy Inefficiencies: The EFS and related fiscal policies affecting Pakistan's textile industry are characterized by inefficiencies that undermine sector performance. While the EFS aims to promote exports by enabling duty-free access to imported inputs, its misuse, including

diversion of inputs to the local market and inclusion of non-exporting entities, has diminished its effectiveness. Our investigation suggests that misuse is not excessive and could be controlled through simple system adjustments.

Strict Enforcement of Eligibility: Ensure rigorous application of eligibility conditions and harsh penalties for malfeasance.

Shortening Audit/Reconcilia-tion Period: Reduce the five-year audit/reconciliation period to six months, with enhanced online monitoring and algorithmic checks on transactions.

Policy Intervention in the Value Chain: Economic theory suggests that the value chain must evolve naturally, without policy intervention. The solution is clear.

Withdraw GST on Local Inputs: This would be the ideal solution, as it requires no adjustments and would allow business operations to continue as before.

Impose GST on Imports: From a GST perspective, imposing GST on both local and imported inputs would neutralize the tax's impact. However, this would require fixing the refund system, which has been a longstanding issue. Delays and incomplete refunds create cash flow problems for producers and need urgent attention.

Delays and Incomplete Refunds: Producers continue to face delays and incomplete refunds. To maintain the credibility and efficiency of the GST system, urgent action is needed to ensure timely and full refunds. International examples and FBR consultants suggest that digitization is key to addressing this issue. Using algorithms to reconcile inputs and outputs, and allowing instant refunds for select transactions, would improve liquidity while ensuring tax compliance.

Export Trends and Policy Stability: Data shows a concerning decline in exports as a percentage of GDP. Policy instability, especially changes in tariffs and taxes, negatively impacts exports. The Haque Tax Commission's report also emphasizes that stable tax policies are crucial for investment and growth. Policymakers must consider the long-term consequences of volatile policies, especially concerning taxes.

Importance of a Realistic Exchange Rate: Econometric results indicate that maintaining a realistic exchange rate is vital for export growth. A stable and competitive exchange rate significantly impacts export performance.

Low Tariffs and Global Integration: Low tariffs and trade openness can help integrate Pakistan's value chain into the global value chain, benefiting exporters and local industries.

"We urge you to carefully review the findings and take immediate steps to address the critical issues outlined. The viability of Pakistan's textile sector — and the livelihoods of millions — depends on swift and effective action. Restoring a level playing field for local inputs, ensuring timely and full refunds, and implementing the recommended reforms are essential to preventing further damage to the sector," Sattar added.

Source: brecorder.com – Jan 21, 2025

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# Pakistan: Textile exports growth slows down to 5.55% in December

Pakistan's textile sector, which had experienced double-digit growth for four consecutive months since August 2024, saw a slowdown in December, posting a modest 5.55 per cent increase. Exports for the month totalled $1.477 billion, up from $1.399 billion in December 2023.

The slowdown in growth follows a period of robust performance but still reflects ongoing challenges in the global and domestic market conditions. However, a key aspect of the growth was that all sub-sectors, mainly finished products, saw increases, while exports of unfinished or raw items declined. This signals a shift in the industry toward exporting finished goods rather than raw materials.

In textile sector, ready-made garments were the standout category, witnessing growth of 19.6 per cent to 357.2 million, according to the latest data from the Pakistan Bureau of Statistics (PBS).

In December 2024, cotton cloth exports increased by 3.64 per cent to $148.8 million, knitwear exports up by 6.8 per cent to $391.7 million, bedwear by 13.2 per cent to $256.2 million, and towels by 0.77 per cent to $88.3 million over December 2023.

Exports of unfinished products, primarily raw items, saw a notable decline. Cotton yarn exports dropped significantly by 34.1 per cent, falling to $62.8 million. Raw cotton exports dropped by 95.5 per cent to only $0.6 million against $13.69 million in December 2023. Pakistan's food exports saw a significant decline in December 2024, dropping 4.23 per cent to $804.8 million from $840.4 million in December 2023.

The most striking aspect of the decline was the sharp drop in rice exports, following the reopening of Indian rice exports. Rice exports fell by 30.6 per cent to $360 million, down from $518.6 million in December 2023.

Basmati rice exports plummeted by 40.9 per cent to $47.7 million, while exports of other rice varieties dropped 28.7 per cent to $312 million. Additionally, fruit exports decreased by 15.5 per cent to $36.5 million, and vegetable exports fell by 48.9 per cent totalling $20.64 million.

Among other food categories, fish and fish preparation exports increased by 6.98 per cent to $39.7 million, meat and meat preparation exports increased by 7.4 per cent to $47.3 million, and sugar exports stood at $145.85 million compared to zero sugar exports in the corresponding month of last year.

Exports of sports goods declined by 6.35 per cent to $32.26 million, with football exports contracting by 11.4 per cent to $19.6 million. However, surgical goods and medical instruments exports were up by 6.8 per cent to $39.3 million and cement exports up by 45.5 per cent to $31.9 million. Likewise, chemical and pharmaceutical exports also increased 31.2 per cent to $152.8 million in December 2024 compared to the same month last year, of which pharmaceutical products exports increased by 174 per cent to $63.4 million.

On the import side, Pakistan's petroleum imports in December 2024 increased by 0.85 per cent to $1.565 billion from $1.55 billion in December 2023. Crude oil imports declined by 5.8 per cent to $526.2 million and LNG import fell by 10.44 per cent to $346.2 million. Imports of petroleum products increased by 9.7 per cent to $584.2 million, and liquefied petroleum gas (LPG) increased by 46.4 per cent to $108.4 million.

Total imports of machinery in December 2024 increased by 28.1 per cent year-on-year to $857.9 million. In this group, textile machinery imports increased by 72.5 per cent to $20.9 million, power generation machinery by 165.7 per cent to $80.25 million, and agriculture machinery by 76.5 per cent to $8.5 million. Likewise, construction and mining machinery imports increased by 127 per cent to $14.65 million, and electrical machinery and apparatus saw an increase of 30.3 per cent to $292.3 million.

Telecom machinery imports, however, declined by 6.2 per cent to $202.7 million, with mobile phone imports declined by 7.3 per cent to $163.2 million.

Transport sector's total imports in December 2024 increased by 5.2 per cent to $191 million. In this group, spending on road motor vehicles (built units, CKD/SKD) stood at $183.4 million, 6.9 per cent more than the previous year. Imports of completely built units (CBU) for buses, trucks, and other heavy vehicles increased by 13.6 per cent to $31.76 million, with motor car imports falling by 14.9 per cent to $17.4 million. CKD/SKD imports for buses, trucks, and other heavy vehicles also increased by 1.98

per cent to $115 million, and motor car imports declined by 22.6 per cent to $76.2 million. Motorcycle imports increased by 40.8 per cent to $3.88 million, while parts and accessories imports increased by 13.7 per cent to $32.4 million.

Source: thenews.com.pk – Jan 21, 2025

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# NATIONAL NEWS

## India Budget 2025: Textile sector seeks GST cuts, sustainable growth

India's Finance Minister, Nirmala Sitharaman, will introduce the Union Budget 2025–26 on 1 February in Parliament in New Delhi. The retail sector, which is a core driver of the Indian textile industry, expects that the government will take steps to boost disposable income in consumers' pockets by providing more tax exemptions and reliefs. The industry also expects simplified compliance processes, incentives for sustainable and digital initiatives, and enhanced support for MSMEs and startups.

Deepak Bansal, Whole-time Director, Cantabil Retail India, commented, "The retail fashion industry eagerly anticipates the 2025 Union Budget, with key expectations including simplified compliance processes and incentives for sustainable and digital initiatives. The sector seeks enhanced support for MSMEs and startups to boost domestic production and exports. As consumer sentiment remains pivotal, tax reliefs to increase disposable income would drive demand. Overall, a progressive budget addressing these priorities can empower the industry and contribute significantly to economic growth."

Shriti Malhotra, Group CEO, Quest Retail, stated, "We look forward to policies that will uplift the retail sector, especially by fostering youth employment, sustainable practices, and inclusivity in hiring. Private consumption is the cornerstone of retail growth, and we look forward to government policies that open up the purse strings of consumers.

Higher tax exemption slabs and reducing GST on essential personal care products could provide much-needed relief to the middle class. This would not only boost disposable incomes but also enhance consumers' ability to purchase high-quality, ethical products that align with their growing preference for quality and sustainable choices."

He said that the government should also prioritise incentives for green initiatives, such as providing incentives to retailers for adopting sustainable packaging and energy-efficient retail operations. Furthermore, expediting the implementation of a National Retail Policy is critical. Simplifying compliance processes, improving logistics in Tier 2 and Tier 3 cities, driving ease of doing business, and providing targeted

incentives for small retailers can create a more level playing field. Investments in retail skill development programmes, especially in adopting digital marketing and technology, are also essential to building a future-ready retail sector capable of meeting evolving consumer expectations. A progressive budget that addresses these priorities can stimulate private consumption, strengthen retail, and create a resilient ecosystem that balances economic growth with environmental and social responsibility.

Ramesh Agarwal, Whole-time Director, Rupa & Co., said, “We eagerly anticipate the upcoming Union Budget, recognising the crucial role the textile industry plays in driving India’s economic growth. As one of the leading exporters in the sector, we expect the government to focus on measures that enhance both domestic and global competitiveness. We hope for the extension of the duty-free import facility for trimmings and enhancements to include made-ups, alleviating cost pressures and aligning us better with international market expectations.”

He added that the Government of India has set an ambitious target of achieving a $350 billion textile market size, including exports of $100 billion, by 2030. To reach this target, the country will need a boost in cotton and other types of fibres. Over the past decade, cotton production has declined by 18 per cent. In this context, we strongly support the launch of Technology Mission on Cotton II (TMC II), which will revitalise cotton production through investments in advanced seed technology and clean cotton initiatives. Additionally, we anticipate a phased implementation of Section 43B(h) of the Income Tax Act, which could disrupt the textile value chain due to rigid timelines. We also hope the government revives the Scheme for Integrated Textile Parks (SITP) and extends the PLI scheme to drive manufacturing and exports. We are confident these measures will support sustained growth and strengthen India’s global competitiveness in textiles.

According to Jaiwant Singh Dhingra, Director of Marketing and Business Development, Numero Uno, "For the textile and retail industries, Budget 2025 offers a crucial opportunity to encourage expansion and innovation. As a leading denim brand in India, we look forward to policies that prioritise lowering GST rates on clothing, as this will increase affordability and stimulate demand from consumers. We also hope for the government to implement policies that encourage domestic manufacturing through incentives and subsidies, especially for sustainable production methods.

This would not only strengthen India's standing as a world leader in the textile sector but also increase exports."

"Building infrastructure, simplifying e-commerce laws, and investing more in textile workforce skill development initiatives would enable firms to better satisfy changing consumer demands. We anticipate a budget that supports the goal of India becoming a centre for premium, eco-friendly fashion," says Dhingra.

Source: fibre2fashion.com – Jan 21, 2025

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# India to grow 6.7% in 2025, 2026; global economy to grow 2.7%: WB

India is set to maintain its status as the fastest-growing large economy for the next two years, with its economy projected to grow at a steady rate of 6.7 per cent in both 2025 and 2026, significantly outpacing global and regional peers, according to the January 2025 edition of the World Bank's (WB) Global Economic Prospects (GEP).

The global economy is projected to expand by 2.7 per cent in these years, the same pace as in 2024, as inflation and interest rates decline gradually.

Growth in developing economies is also expected to hold steady at about 4 per cent over the next two years. This, however, would be a weaker performance than before the pandemic—and insufficient to foster the progress necessary to alleviate poverty and achieve wider development goals, the report noted.

Developing economies—which fuel 60 percent of global growth—are projected to finish the first quarter of the 21st century with the weakest long-term growth outlook since 2000, the World Bank said.

Even as the global economy stabilizes in the next two years, developing economies are expected to make slower progress in catching up with the income levels of advanced economies.

Since 2014, with the exception of China and India, the average per capita growth rates of income in developing economies have been half a percentage point lower than that in wealthy economies, widening the rich-poor gap.

"The next 25 years will be a tougher slog for developing economies than the last 25," said Indermit Gill, the World Bank Group's chief economist and senior vice president for development economics.

"Most of the forces that once aided their rise have dissipated. In their place have come daunting headwinds: high debt burdens, weak investment and productivity growth, and the rising costs of climate change. In the coming years, developing economies will need a new playbook that emphasizes domestic reforms to quicken private investment, deepen trade relations, and promote more efficient use of capital, talent and energy," he noted in a press release from the bank.

Over the next two years, developing economies could face serious headwinds, the report noted. High global policy uncertainty could undercut investor confidence and constrain financing flows. Rising trade tensions could reduce global growth.

Persistent inflation could delay expected cuts in interest rates. Yet the global economy could also do better than expected—especially if its largest engines, the United States and China, manage to gain steam.

In China, additional stimulus measures could boost demand. In the United States, robust household spending could result in stronger-than-expected growth, with beneficial effects for developing economies.

Developing economies have many options to improve their growth prospects, despite the headwinds, the report argued. With the right policies, these economies can even transform some challenges into significant opportunities.

Addressing infrastructure needs, speeding up the climate transition, and improving human capital can improve growth prospects while also helping to achieve climate and development goals, it hoped.

Source: fibre2fashion.com– Jan 21, 2025

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## The rupee hasn't overly depreciated

Recent rupee depreciation has sparked a lot of interest and commentary. There are rumours of a change in regime facilitated by the change in management. This is unlikely, however, because the RBI's description of the Indian exchange rate regime has been unchanged since the liberalisation of the 1990s. It is said to be market-determined, with intervention only to prevent excess volatility.

Degrees of intervention

The basic exchange rate regime may have stayed the same but its implementation has varied over the years, due to policy choices as well as external conditions and objectives to deepen domestic foreign exchange (FX) markets. Volatility tends to be more in times of large net capital outflows, such as the current period. In the initial decade nominal depreciation compensated for higher Indian inflation and maintained a competitive real effective exchange rate (REER). FX markets were thin, with many restrictions. As the role of markets increased, volatility rose in the 2000s. The first time there was appreciation, it generated extensive market commentary and concern much like today.

Two-way nominal movement was established, however. Important lessons in the process must be hard-wired in the RBI. For example, in the volatility after the global financial crisis the management came to believe markets were too large for intervention and a deputy governor said so publicly. The rupee plunged. The RBI had to step in with multiple instruments and their success in stabilising the rupee led to too much intervention in the years that followed. As a result there was real appreciation and exports suffered.

Capital flow volatility

India's opening out has unfortunately coincided with many global crises. But foreign portfolio investment (FPI) outflows during global risk-off are invariably followed by inflows. Since India's inflation is higher than its trading partners, outflows are used as an opportunity to depreciate, moderated through sale of reserves. Inflows are an opportunity to rebuild reserves, there is less appreciation and the rupee tends to be more stable in such periods.

This is exactly what happened under the last governor. After sharp initial crisis-time depreciation and outflows, reserves were rebuilt during periods of large net inflows.

In the last two years high frequency two-way movements were lower as the RBI bought and sold dollars within a narrow band, perhaps because markets were fragile due to repeated global shocks and there were fears of over-shooting.

Although volatility was lower there was crawling depreciation still so that the export weighted REER stayed near equilibrium unlike the appreciation in the late 2000s. In FY24 it was at 101.2 and in September it was 102.7. The nominal value of rupee/dollar depreciated from 71.5 in February 2020 to 82.3 in October 2022. It did not change much after that and was 84.06 in October 2024, but the rupee was certainly not stable. Volatility was low in 2009 and 2016, also periods of capital flow surges.

After Trump's November re-election some real appreciation occurred due to dollar strength and yuan depreciation so faster nominal depreciation was required. But still, nominal depreciation was about 3 per cent compared to 12 per cent in 2022, the year the Ukraine war started.

So there is no over-depreciation and the RBI continues with its tried, tested and successful post-liberalisation policy of intervening to reduce excess volatility and as a consequence real misalignment. More daily volatility is, however, consistent with this.

Some volatility induces hedging and helps reduce nervousness after a sudden change. But it is better to moderate the market over-reaction that occurs in global risk-off periods. The rupee is still less volatile than many peer countries. The dollar has over-strengthened now and may reverse after Trump actually comes to power.

Volatility and risk

Volatility raises risk premia that typically exceed actual depreciation in emerging markets (EMs) — average estimated values are 3 per cent. In 2023, without intervention, inflows would have led to over-appreciation, raised expected depreciation and interest rate differentials. Risk premiums and interest rate spreads fell. One year forward premium was 5.19 per cent over 2014-19 but fell to 1.95 per cent in 2023.

Research as well as EM experience shows the importance of reserves and the intervention strategies they enable to sustain market confidence in EMs. Many of our neighbours suffered after their reserves fell to zero. Sri Lanka had 70 per cent inflation as the currency sank. EMs do not have access to Fed swaps or adequate international safety nets.

FPIs want less intervention and more freedoms. They contribute both foreign savings for growth and help deepen domestic markets, but are volatile. Administrative freedoms will grow on India's well-sequenced path to capital account convertibility even as foreign capital approaches a natural share of about 10 per cent in deep domestic markets that will be able to absorb volatility, so that the tail does not wag the dog. We already see how large domestic participation in the stock market has reduced volatility due to FPI entry and exit. The absolute amount of flows will rise anyway with domestic market size. Innovations in the domestic payments space can be extended to cross-border transactions.

Balancing interests

Volatility hurts the real sector and even markets do not like excessive volatility, although banks gain as they can charge more for hedging products.

Depreciation raises the cost of commodity imports immediately but exporters do not benefit much since they have to share gains in India's competitive product markets. But in the longer term they do need the REER to be competitive. Export competitiveness cannot be neglected when the trade deficit is large and exports are a potential source of employment. But depreciation tends to eventually cause the real exchange rate to appreciate through inflation, while nominal appreciation can sometimes help abort domestic pass through of oil price shocks.

Intervention to maintain an export weighted REER of about 100 in the long term balances the different interests well. As inflation falls and productivity rises this can be sustained with less nominal depreciation.

A managed but flexible nominal exchange rate can reduce volatility as well as misalignment from competitive real exchange rates without painful domestic deflation or inflation. It is consistent with adequate volatility to aid price discovery in FX markets and to prevent speculative one-way positions. Occasional nominal volatility within a 5-10 per cent band would suffice.

Most EM central banks attempt something like this in practice. But due to continuing global fragilities and volatile capital flows, implementing this requires multiple instruments such as large reserves, the absence of full capital account convertibility, prudential measures, signals and strategic intervention.

These tools are more successful if they work with markets. And are better alternatives to options of either living with overshooting exchange rates or raising interest rates and reducing domestic demand, which is a costly and inefficient way to respond to the threat of outflows. Volatilities fall also as markets deepen. FX market turnover has doubled from pre-pandemic levels and may partly explain lower volatility.

Therefore, while intervention may change to suit current conditions, the basic regime remains the best option and is unlikely to change.

Source: thehindubusinessline.com– Jan 20, 2025

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## India amends rules to boost use of ₹, other currencies in global trade

India's central bank last week announced changes to the Foreign Exchange Management Act (FEMA), 1999, to boost the use of Indian rupee and other national currencies in international trade.

The Reserve Bank of India (RBI) has signed memoranda of understanding with central banks in the United Arab Emirates, Indonesia and Maldives to encourage such efforts, it said in a press release.

This move comes after the Indian rupee hit a record low of 86.70 per US dollar.

The special rupee vostro account (SRVA) has gained traction since its introduction in July 2022, with multiple foreign banks establishing SRVAs in India.

The revamped regulations also enable non-resident Indians to engage in legitimate transactions using Indian rupee accounts and facilitate foreign direct investment in non-debt instruments.

Source: fibre2fashion.com– Jan 21, 2025

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## Chatroom: Clarity needed on Rodtep scheme extension for EOU/SEZ/AA exports

**We had supplied our manufactured goods to a merchant exporter on payment of 0.1 per cent IGST under the notification 41/2017-IT(Rate) dated 13th October 2017. Within 90 days of the supply, the merchant exporter had customs clear the goods and obtained the 'let export order'. He had also delivered the goods to the shipping line and obtained the 'on board' bill of lading dated before expiry of 90 days from the date of supply. However, the shipping line filed the EGM after 90 days. Now, the audit team demands full IGST from us on the grounds that the goods were not exported within 90 days from the date of supply. We seek your guidance on how to deal with such a patently unreasonable demand.**

I think the auditors are relying on Section 2(5) of the IGST Act, 2017 which says that 'export of goods' with its grammatical variations and cognate expressions, means taking goods out of India to a place outside India. Also, they are demanding the full IGST from you on the basis of Para 2 of the said notification 41/2017 which says that the registered supplier shall not be eligible for the above mentioned exemption if the registered recipient fails to export the said goods within a period of ninety days from the date of issue of tax invoice.

In my opinion, you may take a plea that date of exports is not defined in the GST laws and that as per Para 11.12 (i)(b) of HBP, for containerised cargo, the date of shipment/export is the date of 'on board bill of lading'. The GST department may not accept such a plea but it is likely that the Courts will give you suitable relief as the goods have, in fact, been exported and not filing EGM in time is not the fault of the exporter.

**We refer to your article titled 'unnecessary confusion on continuation of Rodtep scheme for exporters' (Business Standard – 13th January 2025). The ICEGATE is now carrying a message stating 'Rodtep Scheme for SEZ/EoU/AA exports has been extended until 29.01.2025 as an interim measure to facilitate trade'. We find no notification of such extension. Can you please clarify the correct position?**

The correct position is that till now the scheme is not extended for SEZ/EoU/AA exports beyond 31.12.2024. My guess is that the ICEGATE message is to enable you to opt for the scheme while filing the shipping bill. It is possible that clarity will emerge on extension of the scheme for such exporters in the next few days.

**We refer to the Notification No. FEMA 10(R)(5)/2025-RB dated January 14, 2025. Can you explain how it helps exporters?**

That notification now allows exporters to open foreign currency accounts outside India to receive export proceeds and utilise the funds for making payments for imports. Thus, the banking costs in making inward and outward remittances can be saved. More details on other procedural aspects such as how to generate e-BRC are awaited.

Source: business-standard.com– Jan 21, 2025

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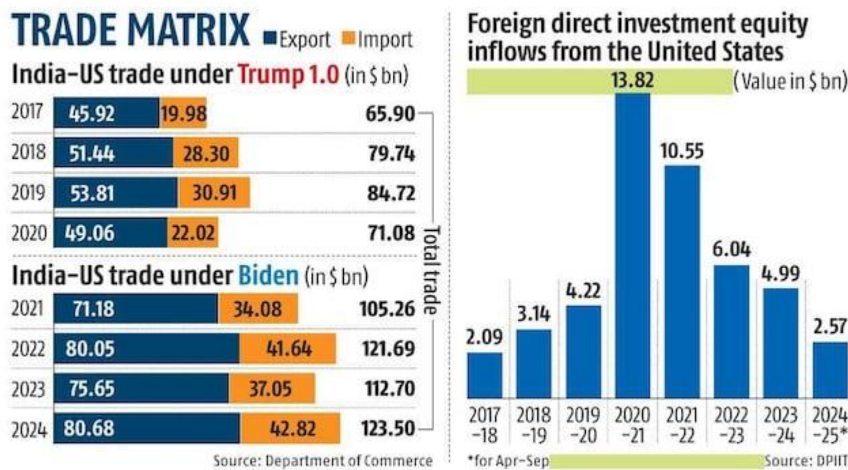
# How India's trade ties with US panned during past two administrations

Donald Trump takes over as the 47th US president on Monday. While India braces for volatility in trade ties with the new president, the previous two administrations saw its shares of ups and downs with India. Here's looking at how the last two terms panned out.




## KEY TRADE-RELATED DEVELOPMENTS DURING

### TRUMP 1.0

- India, US failed to conclude totalisation agreement to allow temporary Indian workers in the US to repatriate their social security contributions when they leave the country
- Washington withdrew Generalised System of Preferences or zero duty benefits to Indian exporters worth $5.6 bn
- India imposed higher import duty on 30 products. This came after the US decided not to go ahead with New Delhi's request for an exemption from higher duty announced by the US on steel and aluminium imports
- India and the US failed to finalise a mini trade deal since core demands were not met
- Trump has time and again criticised high Indian import tariffs

### BIDEN ADMINISTRATION

- Both India and the US revived the Trade Policy Forum in 2021 after a hiatus of 4 years to bolster trade and investment flow
- In a first, India and the US resolved seven pending disputes at the WTO
- India and the US became a part of groupings such as QUAD and Indo Pacific Economic Framework for Prosperity (IPEF)
- Both the countries signed a pact on establishing a semiconductor supply chain and innovation partnership
- They identified a few mutually beneficial areas such as critical minerals, supply chains, and trade in high tech products, to develop a forward looking roadmap for enhanced cooperation

Source: business-standard.com– Jan 19, 2025

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## North India cotton yarn prices stable amid cautious optimism

North India cotton yarn prices remained stable amid cautious optimism due to the falling Indian Rupee against the US Dollar. Cotton yarn was traded at previous levels in the Ludhiana and Delhi markets. Market experts noted that spinning mills are optimistic about better export demand amid the depreciating Indian currency. Currency fluctuations are expected to improve margins for cotton yarn exports. A trader mentioned that local demand is also consistent due to the seasonal effect. Cotton garment demand improves during the summer season. However, cotton arrivals will decrease in the coming months, which may drive the prices of cotton and its downstream products upward.

The Ludhiana market observed stability in cotton yarn prices. Spinning mills are receiving higher local as well as export demand. There was no pressure on mills to sell their production. A trader from the Ludhiana market told Fibre2Fashion, "Mills expect better demand from local and export markets. Local buyers are purchasing cotton yarn on a regular basis as current prices are hovering at comfortable levels. Export demand may also improve as the falling rupee provides a cushion to Indian mills."

In Ludhiana, 30-count cotton combed yarn was sold at ₹260-270 (approximately $3.00-3.12) per kg (inclusive of GST); 20 and 25-count combed yarn were traded at ₹250-260 (approximately $2.89-3.00) per kg and ₹255-265 (approximately $2.95-3.06) per kg, respectively; and carded yarn of 30-count was noted at ₹240-245 (approximately $2.77-2.83) per kg today, according to trade sources.

The Delhi market also saw steadiness in cotton yarn prices. There was a sense of optimism for better demand from the export market. Domestic demand was average in the market. According to market sources, Indian yarn was facing price disparity due to costlier cotton prices in the domestic market. However, the falling rupee may provide relief to Indian mills and exporters.

In this market, 30-count combed knitting yarn was traded at ₹260-262 (approximately $3.00-3.03) per kg (GST extra), 40-count combed at ₹282-290 (approximately $3.26-3.35) per kg, 30-count carded at ₹237-239 (approximately $2.74-2.76) per kg, and 40-count carded at ₹262-265 (approximately $3.03-3.06) per kg today.

India’s home textile hub, Panipat, was facing poor demand from the retail segment. Slow buying is discouraging consumption industries from purchasing raw materials. Recycled yarn prices remained stable in the market. Raw materials like polyester staple fibre and cotton combers were also traded steadily in the market.

A trader from Panipat mentioned that there was slightly higher buying of retail products due to the Maha Kumbh being held in north India’s Uttar Pradesh. The event generated demand for blankets and other winter clothing, but the demand is over now. This has led to slow buying for recycled yarn and its products.

In Panipat, 10s recycled PC yarn (grey) was traded at ₹78-82 (approximately $0.90-0.95) per kg (GST paid). Other varieties and counts were noted as follows: 10s recycled PC yarn (black) at ₹53-56 (approximately $0.61-0.65) per kg, 20s recycled PC yarn (grey) at ₹96-102 (approximately $1.11-1.18) per kg, and 30s recycled PC yarn (grey) at ₹130-135 (approximately $1.50-1.56) per kg. Cotton comber prices were noted at ₹102-108 (approximately $1.18-1.25) per kg, while recycled polyester fibre (PET bottle fibre) was noted at ₹79-84 (approximately $0.91-0.97) per kg today.

In North India, cotton prices increased further by ₹10 per maund of 37.2 kg over the last couple of days. However, prices remained stable on the first day of this week. Traders noted that ginners are actively buying seed cotton to build sufficient stocks for the coming off-peak arrival months. Seed cotton prices have been steady over the last couple of days. Farmers are able to sell their produce at current prices very quickly. Spinning mills are also purchasing cotton in preparation for the forthcoming seasonal demand.

North India’s cotton arrival was 9,500 bales of 170 kg, comprising 500 bales in Punjab, 2,500 bales in Haryana, 3,500 bales in upper Rajasthan, and 3,000 bales in lower Rajasthan. Cotton prices in Punjab ranged from ₹5,590 to ₹5,600 (approximately $64.58-64.69) per maund of 37.2 kg, while in Haryana, prices ranged from ₹5,580 to ₹5,600 (approximately $64.46-64.69). In upper Rajasthan, cotton was priced between ₹5,590 and ₹5,610 (approximately $64.58-64.81) per maund. In lower Rajasthan, it was priced at ₹53,300 to ₹54,400 (approximately $615.72-628.43) per candy of 356 kg. Seed cotton was priced at ₹7,200-7,600 (approximately $83.17-87.79) per quintal of 100 kg.

Source: fibre2fashion.com – Jan 20, 2025

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