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US 70.94 | EUR 79.19 | GBP 91.92| JPY 0.66

Cotton Market

Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm

Rs./Bale	Rs./Candy	USD Cent/lb
19617	41000	**73.64**

Domestic Futures Price (Ex. Warehouse Rajkot), November

Rs./Bale	Rs./Candy	USD Cent/lb
19320	40379	**72.52**

International Futures Price

NY ICE USD Cents/lb (December 2019)	64.44
ZCE Cotton: Yuan/MT (January 2020)	13,130
ZCE Cotton: USD Cents/lb	84.61
Cotlook A Index – Physical	**76.45**

Cotton Guide: Yesterday, prices slumped down. Yes, the overall trend is positive, but yesterday was exceptional as it was the month end. In other words it was the time where positions are squared off, which caused the triple digit losses for the two most active contracts and double digit losses for the ICE contracts.

On the other hand, the export sales figures were lower than expected, well lower than the previous figures seen.

Let's have a look at the export sale figures:

Upland Sales- Net upland sales of 108,100 Running Bales (RB) for 2019/2020 emanated a decline of 23 percent as compared to the previous week.

Country	Increases in Running Bales
Turkey	60,500
Pakistan	60,500
Vietnam	31,400
South Korea	6,400
Bangladesh	5,600
Table 1: Upland Sales	

Reductions were noted for Indonesia 60,500 Running Bales, Philippines 4,400 RB, Hong Kong 1,100 RB, while the next marketing year 2020/2021 grabbed total net sales of 71,300 RB which was bagged by Indonesia.

Upland Export Shipments- The shipments saw a decline by 1 percent as compared to the previous week. Shipment figures were 149,000 RB.

Country	Upland Export Shipments
Vietnam	46,200
Indonesia	16,700
Mexico	15,800
Pakistan	11,200
China	9,900
Table 2: Upland Export Shipments	

Pima Sales -

Pima sales were seen to show figures of 21,700 RB.

Country	Increasers in Running Bales
India	9,000
Pakistan	6,400
China	1,800
Thailand	1,800
El Salvador	1,500
Table 3: Pima Sales	

Pima Shipments - Exports of 7,500 Running Bales were down 32 percent as compared to the previous week.

Country	Pima Export Shipments
India	6,300
Pakistan	400
Austria	300
Peru	200
Table 4: Pima shipments	

The ICE December contract settled at 64.44 cents per pound with a change of -126 points. The ICE March 2020 contract settled at 65.88 cents per pound with a change of -101 points. The ICE May 2020 contract settled at 66.87 cents per pound with a change of -82 points. What were of big importance were the volumes which were at 67,954 contracts. This is the highest figure seen after several months. Another factor that dragged the prices of Cotton was a slump seen in Crude Oil.

The MCX contracts on the other hand were seen to show declines of 3 digit figures as well. The MCX November contract settled at 19,320 Rs per Bale with a change of -120 Rs. The MCX December contract settled at 19,310 Rs per Bales with a change of -100 Rs. What was noteworthy were the volumes which were at 1675 lots.

With ICE increasing and MCX & Domestic Physical cotton prices, we can expect Indian exports to pick up pace. The Cotlook Index A has been updated a cent higher at 76.45 cents per pound with a change of +100 points. Old Shankar 6 prices are at 41,000 Rs per Candy whereas the new North Indian Crop is at 38,000 Rs per Candy.

On the fundamental front, we are of the strong view that ICE will keep on to be positive in the near term whereas the MCX prices will show a sideways movement.

On the Geopolitical front, if we hear the news of a meeting between US and Chinese delegates next month, then the ICE prices will immediately trade higher due to optimism.

On the technical front, In daily chart, ICE Cotton after giving an Inverse Head & shoulder pattern breakout, is trading within range in an upward sloping channel. However, price is having the immediate support of 61.8% Fibonacci extension at 63.80. Meanwhile, price is below the daily EMA (5, 9) at 64.76, 64.67 still having a positive crossover, implying some sideways to positive bias. The momentum indicator RSI is at 57, also indicating sideways bias for the price. The immediate resistance for the price would be at 66.40, 100% Fibonacci extension level. Thus for the day we expect price to trade in the range of 66.00-63.80 with positive bias. In MCX Nov Cotton, we expect the price to trade within the range of 19250-19500 with a sideways to bullish bias.

Compiled By Kotak Commodities Research Desk , contact us : mailto:research@kotakcommodities.com or can contact: allwyn.stewart@kotakcommodities.com, Source: Reuters, MCX, Market source

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INTERNATIONAL NEWS

U.S. Wins WTO Case Against India Over its $7 Billion in Export Subsidies

The U.S. won a case against India at the World Trade Organization alleging improper use of export subsidies valued at more than $7 billion.

The WTO's dispute-resolution panel agreed that "India gives prohibited subsidies to producers of steel products, pharmaceuticals, chemicals, information technology products, textiles, and apparel, to the detriment of American workers and manufacturers," the U.S. Trade Representative in Washington said in a statement Thursday.

WTO rules prohibit export subsidies, but makes exceptions for developing countries until they reach certain economic benchmarks. India's exemption expired, according to USTR, and the Geneva-based trade body rejected the country's position that it was entitled to more time even after hitting the threshold.

The case was filed in March 2018 by the U.S., challenging what it said were illegal export subsidies provided to Indian firms. The decision, which can be appealed, comes amid a broader deterioration in trade relations between the U.S. and India.

The Trump administration earlier this year canceled India's preferential access to the U.S. market under a scheme for developing countries and since then the two sides have been engaged in stop-start negotiations to resolve their differences.

Hopes were raised in September that a deal is close after President Donald Trump attended a rally for Indian-American voters in Texas with Narendra Modi, the Indian prime minister. But the deal has yet to materialize.

India, meanwhile, is engaged in negotiations with China and Southeast Asian nations over a new Regional Comprehensive Economic Partnership. The country, which is facing a political backlash at home, is driving a tough bargain. RCEP would create a vast free-trade bloc spanning the Indo-Pacific from New Zealand in the east to India in the west and China and Japan to the north.

Source: fortune.com- Oct 31, 2019

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Trump Advisor Contends US-China Trade War Has 'No Clear Outcome in Sight'

Painting a somewhat ominous picture of the potential for an agreement in the protracted trade talks between the U.S. and China to end their tariff-fueled trade war, Dr. Michael Pillsbury cast doubt on the possibility of the turmoil reaching a successful outcome.

At a speech Wednesday at New Jersey's Rider College, Pillsbury, director for the Center on Chinese Strategy at the Hudson Institute and the author of "The Hundred-Year Marathon: China's Secret Strategy to Replace America as the Global Superpower," gave his insight as an advisor to President Trump on China affairs and a long career in similar roles for several administrations.

Pillsbury contends that, for decades, the U.S. has played a vital role in helping the Chinese government build its economy in the belief that China's rise would bring bilateral cooperation, diplomacy and free trade. However, Pillsbury said his experience has him believing that the "China Dream" is to replace America as the world leader, not cooperate with it.

Contrary to popular belief over the years, China never intended to have a capitalist economy, Pillsbury told the audience. He said today "at best only half of China's economy is free market" and that is limited to sectors such as restaurants and deemed "not the commanding heights" of the economy, which include areas such as electrical power, electronics, control of the Internet and all vital business segments.

Pillsbury noted that the Chinese Communist Party runs the top companies in the Chinese economy, selecting the CEOs, subsidizing them, providing "stolen intellectual property and intelligence ideas," and creating what is called "national champion" companies.

"Now this is a violation of World Trade Organization rules," Pillsbury said. "One of the rules is 'no subsidies for your companies.' The very essence of the 'national champions' idea is subsidies."

A key problem in devising a strategy for dealing with China—for Trump or any president—is the dichotomy between what economists and political pundits have promulgated over the years. One is that China's economy is always on the verge of collapse for a variety of cultural, economic and political reasons that Pillsbury said that have been "secretly" pushed by China for decades to "deceive the world."

The other narrative is that China is on pace and perhaps already has surpassed the U.S. as the leading and most influential economy and country in the world.

"So, what's a president to do?" he asked.

Pillsbury believes the U.S.-China trade war was brought on in great part by China's commercial relationships with the world, which he contends are often not above board and meant to elevate only Chinese companies.

"The trade talks themselves are kind of a mystery," he said. "First of all, they're secret. Has anybody here seen a copy of the 150-page trade agreement? This is what's known about the trade agreement: it's a 150-page agreement, it has seven chapters, it has an enforcement mechanism, it has three layers of appeal and it's not signed. And the president revealed some level of anger that the Chinese had reneged on May 2 to some parts of the 150 pages. So, here are the two largest economies in the world…in this negotiation, with no clear outcome in sight."

Chinese leadership was ready to make the deal, he contended, but some hardliners in the Communist Party had vetoed it.

"I think the trade talks are terribly important," Pillsbury added. "I don't know the outcome." What he does know is that Trump has vowed that China will not surpass the U.S. economically "on my watch."

The bottom line for Pillsbury is that the U.S. does not have a strategy or government structure in place to deal with the Chinese geopolitical and economic threat, and without that, any trade deal might not be worth the paper it is written on.

Source: sourcingjournal.com- Oct 31, 2019

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Sri Lanka: Teejay's 6-month net profit surges 75% to Rs 1.24 bn

Sri Lanka's top textile manufacturer Teejay Lanka PLC has witnessed impressive top and bottom line growth in the first half of 2019-20, riding on robust second quarter growth. The company reported net profit of Rs 1.237 billion ($6.85 million) for the six months ending September 30, a growth of 75 per cent over the corresponding period of the previous year.

Investments in expansion and internal measures are continuing to generate anticipated improvements to net profit margins and other key performance indicators, Teejay Lanka said in a media release.

Teejay Lanka reported revenue of Rs 17.442 billion for the six months and Rs 9.317 billion for the second quarter, reflecting robust growth of 20 per cent and 22 per cent respectively. July-September 2019 turned out to be the eighth consecutive quarter of revenue and profit growth for the company.

Profit before tax at Rs 1.518 billion for the six months was up a notable 73 per cent, and increased by 82 per cent to Rs 935.99 million for the three months ending September 30, Teejay Lanka disclosed in a filing with the Colombo Stock Exchange (CSE). Net profit for the second quarter grew by 84 per cent to Rs 783.15 million.

“An improved product mix, internal efficiencies resulting from operational excellence initiatives and stabilisation of cotton prices can be attributed to the improvement of gross profit in the review period,” said Teejay Lanka chairman Wing Tak Bill Lam.

Teejay Lanka CEO Shrihan Perera said the Company maintained administration and distribution to a cost-constant framework and that the depreciation of the Sri Lankan rupee also contributed to keeping the rate of growth of expenses below the rate of sales growth.

“One of the highlights of the period under review was Teejay’s venture in to a new and exciting Lace fabric business by signing a memorandum of understanding with Luen Fung Textiles. This collaboration will significantly enhance our product portfolio, and enable us to offer a versatile product range to our customers,” Perera said.

Source: fibre2fashion.com - Oct 31, 2019

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China-Uzbekistan partnership to reach higher level

China-Uzbekistan relations have entered the fast lane of development and future prospects for bilateral ties remain gratifying.

China-Uzbekistan relations have been marked by a high level of mutual trust, Chinese Ambassador to Uzbekistan Jiang Yan told Xinhua in an interview ahead of Chinese Premier Li Keqiang's official visit to the central Asian country scheduled for early November at the invitation of Uzbek Prime Minister Abdulla Aripov.

The leaders of the two countries have met several times, reached a number of important agreements and set the course for the future direction of bilateral relations, Jiang said.

China is Uzbekistan's largest trading partner, largest source of imports and largest destination of exports. Last year, China-Uzbekistan trade surged 48.4 percent year-on-year, reaching 6.26 billion U.S. dollars.

According to data published by the State Committee of the Republic of Uzbekistan on Statistics, around 1,500 Chinese enterprises are operating in Uzbekistan.

Bilateral cooperation has surged in such areas as oil and gas exploration, pipeline transportation, infrastructure, telecommunications, textile, chemical industry, logistics and agriculture.

Breakthroughs have been made in cross-border railways and highways, which have greatly improved the efficiency of cross-border transportation. The China-Europe Railway Express links many major Chinese cities with Tashkent, while the Uzbekistan-Kyrgyzstan-China transport corridor has met the need of short-distance cross-border cargo transportation.

Uzbek agricultural products such as cherries and mung beans entered the Chinese market last year and are favored by Chinese consumers. Uzbekistan will participate in the second China International Import Expo in November as a guest country of honor, during which 12 Uzbek enterprises will exhibit their agricultural products.

The two countries have also witnessed closer people-to-people and cultural exchanges. More Uzbek students are studying at the Confucius Institutes in Tashkent and Samarkand, and more are coming to China to study Mandarin. Furthermore, Shanghai University established a center for Uzbek culture studies, while other Chinese universities started to offer Uzbek language courses.

In 2012, a joint international archaeological expedition of Chinese and Uzbek scientists began excavating the ancient settlement of Mingtepa, a "living fossil" of the Silk Road dating back 2,000 years in Uzbekistan's Andijan region.

Last year, Uzbekistan launched its e-tourism visa system and introduced five-day visa-free entry for Chinese tourists, resulting in an uptick in visitors. In September, the country issued a decree to allow Chinese nationals to visit the country for seven days visa-free starting from 2020, becoming the first Central Asian country to grant a visa exemption to Chinese citizens.

China has also introduced multiple measures to simplify visa procedures for Uzbek tourists.

During Aripov's visit to China in August, the two sides formally signed an agreement to provide certain business people from both countries with multiple entry visas for up to six months.

"With joint efforts, China-Uzbekistan cooperation within the framework of the Belt and Road Initiative will achieve more results, and our bilateral relations will rise to a new level," said Jiang.

Source: xinhuanet.com - Oct 31, 2019

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Vietnamese exports towards a record

Vietnam exported more than $ 217 billion from January to October and hopes to close the year with 263 billion, which would mark an unprecedented level in that section.

As indicated by the General Department of Statistics, during that period foreign sales marked a year-on-year increase of 7.42 percent, which allowed the trade balance to remain positive.

Until May, Vietnamese foreign trade fitted a deficit of more than 500 million dollars, but a rebound in the following five months not only managed to erase it, but also generated a surplus that at this point of the year amounts to seven billion dollars.

Achieving it was not easy because the expected income of some key products such as coffee and rice fit sensitive drops due to the drop in their prices in the international market.

Sales of seafood and some agricultural products that were very dependent on purchases by China were also lower because it hardened import standards.

The props of the recovery were five groups of products that in each case made shipments for more than 10 billion: cell phones and parts; electronics, computers and spare parts; clothing and textiles; footwear and leather goods; and machinery, equipment and spare parts.

An excellent sign about the health of the national economy was that in these 10 months foreign sales of companies backed only by national capitals (both state and private and cooperative) increased at a higher rate than those that use capital foreign.

Until October the exports of domestic entities grew 16.2 percent, by 3.9 percent companies operating under the foreign investment regime, and already contribute 30.7 percent of the income for that concept.

In that period, the United States established itself as the first major buyer of Vietnamese products when making invoices for almost 50 billion dollars, an inter-annual increase of 26.6 percent and much more than a fifth of the total.

It was followed by far, the European Union, the neighboring members of the Association of Southeast Asian Nations, Japan and South Korea.

In 2018, Vietnamese foreign trade reached an unprecedented level of 483 thousand 230 million dollars and left a surplus, also a record, of six thousand 800 million that already exceeded at this point of the year.

Source: plenglish.com - Oct 31, 2019

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"World's first clothes made from circular cotton"

Swedish company Re:newcell is aiming to disrupt the fashion industry and save natural resources by creating garments from Circulose – a new material made from recycled cotton clothes.

Circulose was developed in response to the issue of waste generated by the fashion industry, which sees the vast majority of unwanted or worn out garments end up in landfill or incineration plants.

According to the company, which has its main office in Stockholm and operates a chemical recycling plant for pre- and post-consumer textiles in Kristinehamn, Sweden, less than one per cent of clothes are currently recycled.

Circulose aims to reduce the fashion industry's reliance on virgin cotton, oil production and the harvesting of trees by reusing discarded textiles to create an innovative new material.

"Circulose was created with the ambition to shift the entire industry to circularity and to dramatically lower the impact fashion has on the environment," said Harald Cavalli-Björkman, head of brand for Circulose.

Re:newcell is preparing to launch a range of garments made using its recycled fabric early next year, through collaborations with selected retailers. The company described the garments as "the world's first clothes made from circular cotton", and suggested that "while there are several initiatives experimenting with new circular materials, this is the first solution that works on a larger scale".

Re:newcell joins many other brands seeking to adopt circular design processes within their business.

Adidas has produced a sneaker made from plastic that can be ground up and reused again, while IKEA's head of sustainability recently told Dezeen about the firm's plans to become a circular business by 2030.

The Re:newcell process begins with customers donating garments with a high cellulosic content (cotton and viscose) to the company, which reuses chemicals to dissolve the natural fibres.

The resulting mixture is dried to produce a new, biodegradable raw material called Circulose pulp, which is packaged into bales and fed back into the textile production cycle.

Re:newcell added that its recycling system is vastly more sustainable than existing processes used to manufacture clothing fibres, as it uses less water and chemicals, emits less CO_2 and helps to preserve the world's resources.

Currently, the plant in Kristinehamn produces around 7,000 tonnes of Circulose pulp per year. The material is certified, organic, biodegradable, recyclable and offers similar characteristics to conventional cotton fibres.

"As a new material, we knew Circulose had to do three things in order to make a real difference in the industry; it needed to be circular, it needed to be affordable, and it needed to deliver the quality that people expect," said Cavalli-Björkman.

"We're now incredibly excited about our upcoming collaborations with some of the world's leading brands to bring this material to the fashion runways and into the closets where it belongs," he added.

The new collection of Circulose clothing was presented at the recent Première Vision fashion and textiles fair in Paris, ahead of its distribution to stores early in 2020.

Source: dezeen.com - Oct 31, 2019

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Denim Export to US: Competing countries fare better than Bangladesh

The protracted US-China trade war has also become a boon for the economies, as import orders from the US are diverting to those countries more than what was expected for Bangladesh

Denim exporting nations like Vietnam, Pakistan Cambodia and Mexico are performing much better than their rival Bangladesh in the huge denim market in the US.

The improvement in doing business index by the emerging economies concerned, coupled with their currencies being devalued, have helped the competing economies surpass Bangladesh handsomely, economists and industrialists state.

The protracted US-China trade war has also become a boon for the economies, as import orders from the US are diverting to those countries more than what was expected for Bangladesh.

Bangladesh, being the second largest exporter of apparel goods in the US, it was expected that the country would gain more from the trade friction in capturing market share of denim products. But its competitors—Vietnam and Pakistan-- gained the highest growth in the first eight months of the current year.

According to the US Office of Textiles and Apparel (OTEXA) data, Bangladesh's denim exports to US market saw a 5.42% rise to $573.27 million during January-August period of 2019. It was $544 million during the same period last year.

Meanwhile, US total imports of denim products from the global markets recorded a 4.55% rise to $3.9 billion during the period of January-August.

Who gains most

As an exporting country, Vietnam has gained the most from the US -China trade war because of its capacity to capture business derived from the diverted trade.

Vietnam, a long competitor of Bangladesh in US market, has earned $346.27 million from exporting denim products during the period, up by 34.43% from the same period of last year.

On the other hand, overall export earnings from Vietnam to the US have jumped by 33%, in contrast to only 13% growth by Bangladesh until August.

Pakistan has earned $262 million from denim, up by 14.20% from a year earlier.

Mexico, the second largest exporter of denim goods in the US, has seen an 8.80% increase in export, from $793.22 million to $863 million.

China, the largest denim product exporter to the global markets, saw a 6.93% fall to $856.19 million, down from $920 million in the same period last year.

In 2018, the country exported denim goods worth $566.39 million to the US, up from $507 million in the previous year.

What restricts Bangladesh to gain more

“Bangladesh’s denim product exports to the US performed better than last year due to the US-China trade war. But the country has so far been able only to gain a very insignificant portion of market derived from the trade conflict opportunity, while it competitors such as Vietnam and Cambodia reaped the most benefits,” Sharif Zahir,Managing Director of Ananta Denim Technology Ltd, has told Dhaka Tribune.

Most of the diverted trade is going to Vietnam and Cambodia as the US retailers and investors feel comfortable due to their shorter lead times and better business enlivenment the countries have been offering to US importers, says Zahir, also a director of Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

Buyers are not willing to come to Bangladesh as the ease of doing business status of the country still lags behind to its competing countries, undermining the opportunity, Zahir adds.

" Although Bangladesh saw an eight point jump in ease of doing business index in the latest World Bank's ranking, the improvement is not enough to attract them," Zahir maintains.

According to Asian Development Outlook 2019, escalation of ongoing US-China trade conflicts will contribute 0.23% to Bangladesh GDP by next one to two years riding on exports, especially from apparel and leather goods.

How to gain from tariff tension

In reaping the most benefits from the trade tension, experts and manufacturers have called for trade liberalization, product diversification and making the exchange rate competitive.

"Vietnam and Pakistan gained as they have devalued their currencies, while the appreciation of Taka against US dollar is eroding Bangladesh's competitiveness in the global markets," Zahid Hussain, a consultant at the World Bank Dhaka office, has told Dhaka Tribune.

Even China has also devalued their currency to ward off the negative tariff implication imposed by the US government so that the exporters can remain competitive in the global markets, he adds.

As an immediate measure, he suggested making the exchange rate competitive and removing regulatory complexity in making the businesses more competitive and nvenient to both local and overseas investors, adds Zahid.

Vietnam has also gained the most because of its readiness to welcome the redirected trade as the country has diversified products that resulted in receiving a large amount of FDI relocated from China, he says further.

"Bangladesh has to offer better incentive such as quicker services by bringing about regulatory reforms and through improving infrastructure to attract FDI," Zahid asserts.

Source: dhakatribune.com- Oct 31, 2019

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Bangladesh seeks partnership with Nigeria on textile development

The Government of Bangladesh is seeking partnership with the Nigerian government in developing the Nigerian textile industry. Daily Trust reports the Central Bank of Nigeria (CBN) is championing textile reawakening in Nigeria with about N100bn investments down the textile value chain.

The High Commissioner of the People's Republic of Bangladesh to Nigeria Mr. Shameem Ahsan, made the call in an interactive session business and other journalists in Abuja yesterday.

He said Bangladesh with the second largest garment industry in the world, second to China with at least 5 million people working in the industry in that country, has useful experiences it can share in Nigeria. He also indicated that the textile industry can help Nigeria close gender parity gap as 80 percent of the 500 million textile workers in Bangladesh are women.

While making reference to the power sector of Bangladesh which had risen in recent times to 22, 000 megawatts from 5, 000 megawatts in 2009, he stressed that Bangladesh would support the Nigerian government in achieving its target.

Source: dailytrust.com.ng- Oct 31, 2019

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NATIONAL NEWS

India loses export incentive case filed by US at WTO

India has lost a case filed by the US at the WTO against domestic export incentives as the dispute settlement panel on Thursday concluded that these schemes are inconsistent with the international trade norms.

With this ruling, India will have to re-work these incentive schemes to comply with the WTO ruling. However, India will appeal against the ruling of WTO's dispute settlement panel, an official said.

On March 14 last year, the US had dragged India to the WTO's dispute settlement mechanism over New Delhi's export incentive schemes, including Merchandise Exports from India Scheme (MEIS); Export Oriented Units (EOUs) and Export Promotion Capital Goods (EPCG) Scheme; and duty free imports scheme.

The US had alleged that these schemes were harming American companies.

The dispute panel in its report has concluded that most of these schemes like EOU, Electronics Hardware Technology Parks Scheme; EPCG, and MEIS are inconsistent with certain provisions of WTO's Agreement on Subsidies and Countervailing Measures.

The dispute panel recommended that India should withdraw the prohibited subsidies under DFIS within 90 days from adoption of the report.

It should also withdraw the prohibited subsidies under the EOU/EHTP/BTP schemes, EPCG , and MEIS, within 120 days and SEZ scheme within 180 days.

The exemptions from customs duties on importation under the EOU/EHTP/BTP (Bio-Technology Parks) schemes are subsidies contingent upon export performance inconsistent with certain articles of the agreement, the ruling said.

"The duty credit scrips awarded under MEIS are subsidies contingent upon export performance, inconsistent with Articles 3.1(a) and 3.2 of the SCM Agreement," it added.

According to the procedure established by the WTO, the first step to resolve a trade dispute is engaging for consultation process. If two trading partners having dispute could not resolve at that level, one of them can ask for settlement of dispute panel for hearing. The panel's report or ruling can be challenged at the appellate body.

Source: timesofindia.com- Oct 31, 2019

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India needs $1 trillion exports to become a $5 trillion economy

India needs $1 trillion exports for a $5 trillion economy. But the pathway is bumpy and patchy.

High export growth rate is crucial for India's goal of becoming a $5 trillion economy by 2025. To achieve this objective, the economy will have to grow at an average rate of 8% during the next four years. India's exports will have to grow at an even higher rate.

The current slowdown has made the objective more challenging, with India's exports having shrunk 6.57% in September. Moreover, GoI has to take a call on whether to join the Regional Comprehensive Economic Partnership (RCEP), the free trade grouping of 10 Asean members and their six allies.

The group continues to pressure India on finalising the deal by November 4, even though several industry and trade organisations have increased the pitch of their opposition to the agreement.

Free Up Trade Agreements

In view of the stakes involved, the report of the high-level advisory group (HLAG) set up by the ministry of commerce could not have come at a more opportune time. The report presents a roadmap to double India's exports to $1 trillion by 2025 from about $500 billion at present.

To achieve this, it suggests a slew of measures, some of which have been much talked about in the past. These include reducing the cost of capital by further lowering repo rates.

However, the main focus is on raising competitiveness of Indian exports. Moreover, it makes bold recommendations on several issues traditionally considered to be risky economically and sensitive politically, such as free trade deals.

In principle, by promoting exports, free trade agreements (FTAs) can help the country move up the value chain. That, in turn, can provide India an edge vis-à-vis non-member countries. However, the fact remains that we have not gained from existing FTAs.

The main culprits are the non-tariff barriers and administrative hurdles faced by Indian exporters such as difficulty in quality and specification certificates, and time-consuming custom clearances, just to name a couple. They have prevented Indian exporters from exploiting markets of trading partners. Unsurprisingly, the partner countries have gained more.

Moreover, due to corruption and lax quality control, several cheap but poor quality goods, especially from China, have flooded the market. These are bad for India's health, environment and balance of trade.

The FTAs, in themselves, do not address these problems. For Indian exports, the logistical bottlenecks are other stumbling blocks. The turnaround time at the best of Indian ports like Kochi is two-three time longer than for Chinese ports. We come a cropper even compared to our Asian competitors like Vietnam and Bangladesh. Shipping of garments from point of origin to the nearest port can take as much as seven times longer in India than in Bangladesh, and as much as 20 times than in Vietnam.

Unsurprisingly, India falls well below its potential in attracting foreign direct investment (FDI), crucial for raising exports. To a large extent, China's spectacular performance on the export front is on account of FDI, whose share is estimated to be over 50% in China's manufactured exports.

Export Hard, Bargain Harder

Reportedly, many companies are considering moving out of China, since the start of the US-China trade war. However, not many are keen to relocate to India. To overcome this hurdle, the HLAG report proposes a centralised authority for issuing licences, and to empower it to grant incentives for companies meeting pre-defined criteria.

While the Insolvency and Bankruptcy Code (IBC) has helped fix part of the mess from the past, contract enforcement in India still leaves much to be desired. Judicial delays, coupled with the lack of appreciation of the economic consequences of delayed decisions, call for a clear and consistent legal and regulatory framework to guide judicial decision-making. Moreover, GoI would need to negotiate hard on non-tariff barriers that restrict Indian companies from accessing markets of trading partners, such as the requirement of local experience by China.

Addressing these issues, and having a staggered timeline, can reduce the risks of entering into an FTA. The proposal to fund infrastructure using long-term bond market, though spot on, will work only if the regulatory framework for grading of projects is in place beforehand. Several other measures will help.

Consider the issue of land. GoI owns large tracts of unused land. The ministries of railways and defence have upward of 43,000 and 33,000 hectares of idle land respectively. The case is similar for major airports, power plants and other public sector utilities (PSUs), a large part of which is in prime areas or near cities, such as the 31,886 hectares of idle land owned by special economic zones (SEZs). This land should be utilised for omnipresent infrastructural demands, investment projects and multi-model logistics hubs.

Creation of big data-driven prediction systems for Indian exports will help in identifying priority areas. In fact, big data and artificial intelligence (AI) also have the potential to serve as a source of new exports to the developed world. Councils along the lines of goods and services tax (GST) councils may be a good idea for developing logistical hubs and value added exports of agricultural products.

The pathway to $1trillion exports is bumpy. But the recommendations, backed by the above policy actions, will go a long way in promoting exports and increasing share of manufacturing in the GDP and total employment.

Source: economictimes.com- Nov 01, 2019

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Karnataka's New Textile & Garment Policy 2019-24 to attract ₹10,000 crore investments

₹2,282.86-crore govt support to create 5 lakh jobs

Karnataka 'New Textile & Garment Policy 2019-2024' aims to attract ₹10,000 crore investments and create over five lakhs jobs.

Briefing reporters after a cabinet meeting, the Minister for Law and Parliamentary Affairs, JC Madhuswamy said: "the Cabinet has cleared a new textile policy. The 'New Textile & Garment Policy 2019-2024' brings in few changes to the existing policy, to make the State a leading destination in textile and apparel sector and to make the textile value chain into a gold mine value chain."

The State has emerged as the garment capital of India with 20 per cent of the national garment production. Karnataka also contributes to almost two-thirds of the industrial output.

Madhuswamy said Karnataka's exports amounted to ₹5.48 lakh crore in 2016-17 which accounted to about 18.78 per cent of the country's exports. Also the State has a high impact on the production of raw materials and is one of the leading producers of silk. It contributes 49 per cent to mulberry silk, 12 per cent to wool and 6 per cent of cotton production in the country.

The Minister said, "The overall budget requirement for implementation of the policy is expected to be about ₹2,282.86 crore spread over the next eight to nine years. During the policy period (2019-24) the budget requirement is around ₹1,582.17 crore."

The new policy also provides for capacity building and vendor development, and envisages creation of centres of excellence for textiles/technical textiles.

For equitable investment flow into the State, the policy has come out with zonal classification. As per the classification: Zone 1 - Entire Hyderabad-Karnataka (HK) region, Zone 2 - all areas other than municipal corporations, district headquarters in non HK region. Zone 3 - all municipal corporations, district head quarters in non HK region and Zone 4 – Bengaluru urban and Bengaluru rural districts.

As for the incentives and subsidies, the policy has credit linked capital subsidy for MSMEs, large enterprises and interest subsidy for large enterprises, power subsidy for MSMEs and large enterprises.

The policy also aims to offer segment wise incentives like ginning, spinning, weaving (handloom and powerlooms), processing, integrated units, garmenting fashion/buying houses, technical textiles, silk and wool.

A special package is also available for mega units – for textiles this involves fixed investments above ₹300 crore and minimum employment of 350; for garments units it is for fixed investments above ₹200 crore and minimum employment of 3,000 people.

The new policy plans to offer cluster based development strategy for providing infrastructure development for greenfield textile parks, brownfield cluster development and common effluent treatment plant and hazardous waste disposal facility.

Source: thehindubusinessline.com- Oct 31, 2019

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India's economic crisis can bring about much needed reforms

The silver lining is that crises bring about reforms, and there is no reason not to be optimistic in this situation.

The Indian economy has been going through a very bad patch recently. Last quarter's GDP growth rate fell to 5%, the growth in the previous quarter being slightly higher at 5.8%. Many international organisations and private entities in the business of forecasting are projecting current fiscal year GDP growth at below 6%.

The private consumption expenditure growth rate saw a huge crash from 11% to 3% between the last two quarters. The manufacturing sector is stagnating, led by the dismal performance of the automobile industry. Construction and real estate are also in bad shape. The Periodic Labour Force Survey (PLFS) estimated India's unemployment rate in 2017-18 to be 6.1%, which is over double that in 2011-12 when the unemployment rate was 2.7%. The labour force participation rate is also abysmally low at 37%.

Many experts are calling this an aggregate demand problem. I don't disagree. However, it is quite likely that the current aggregate demand problem is a symptom or manifestation of a problem that is primarily structural. If India's manufacturing sector had been more competitive internationally, it wouldn't be so dependent on domestic demand. With a larger share in the world export market, it would also employ more people, and through them, domestic demand would also, in turn, be higher.

But why are India's manufactures performing so poorly?

Take automobiles. This sector is highly protected by tariff rates in the range of 60-125%, varying by automobile type and price.

Taking into account the fact that auto parts and components have a much lower import duty of 12.5% on average, the effective rate of protection could be well over 150%. Such high walls of protection would obviously make any industry lazy and inefficient. It is no surprise then that the Indian auto sector is so highly dependent on the domestic market.

Let's next take textiles and apparel. Here, of course, outdated labour regulations that put extreme restrictions on hiring, firing and task reassignment make this labour-intensive sector highly uncompetitive internationally. Add to it the high import tariffs on artificial fibre and fabrics made from it, making India's artificial fibrebased textiles, and apparel out of them, highly uncompetitive in the world market. Obviously, these high prices also constrain their domestic quantities demanded.

Import Walls Block Exports

Over the last five years, there has also been a hike in tariffs on electronic products, including parts and components. This hurts the activity of assembly and processing, one of the main engines of China's growth over the last three decades. Even though duties on imports of inputs into exports are reimbursed, they do hurt production for the domestic market, most often needed for reaching the minimum scale of production after which exports can begin.

Besides, high import tariffs increase the demand for domestic resources by import-competing industries, making them costlier to obtain for producers of exports. Thus, an import tax acts also like an export tax (Lerner symmetry theorem in international economics). Hence, it becomes impossible to push for exports, when there is apolicy of import protection in place.

So, it is essential to reverse the tariff increases of the last five years and continue with trade reforms beyond even those of the P V Narasimha Rao and Atal Bihari Vajpayee administrations. Labour law reforms have begun in a few states. But Prime Minister Narendra Modi needs to use his political capital to push even deeper labour reforms through. The problem of land acquisition also needs to be tackled skilfully.

There is a demand problem. Structural reforms mentioned above will take time to have an impact. So, something more needs to be done to immediately fix the short-term health of the economy. This is the right time to be a bit flexible about deficit targets. Also, the different types of government expenditures are not the same in terms of their impact. Expenditures on infrastructure, which improve private sector productivity and provide employment opportunities directly and indirectly, are easier for GoI to pay off than those on government subsidies that primarily benefit the middle class.

Thus, GoI can be more creative about the type of spending. It can also provide tax cuts to the middle class and the poor, thereby putting in their hands higher disposable incomes. At the same time, GoI can be more innovative in finding alternative sources of revenues that don’t represent reductions in real personal disposable incomes. For instance, privatisation can raise revenues from the sale of public sector enterprises.

The recent corporate tax cuts are an important reform in the right direction. This can stimulate both domestic and foreign investment. With relatively advanced technology coming with the latter, it can boost both export volume as well as the sophistication of Indian exports, both of which have been known to stimulate growth.

The immediate impact of these reforms would be an increase in aggregate spending by firms. Also, multiplier effects through consumption by workers should be expected.

Credit Where It's Due

While cleansing the banking sector was essential, it has made credit more difficult to obtain, thereby negatively affecting aggregate expenditure, especially on consumer durables. Creditworthy consumers and producers need to obtain credit more easily. GoI seems to be aware of this problem and is trying to come up with plans to deal with it.

The economy's temporary problems can easily become more permanent unless both long-term and short-term measures are taken simultaneously. The silver lining here is that crises bring about reforms, and there is no reason not to be optimistic in this regard in the case of the current economic crisis.

Source: economictimes.com- Oct 31, 2019

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WTO panel upholds US case, rules India's export subsidies illegal

Upholding a complaint brought by the United States, a World Trade Organization (WTO) panel ruled on Thursday that India's export subsidies were illegal and should be removed.

The panel largely agreed with US claims challenging export subsidies granted in the form of exemptions from customs duties and a national tax, while rejecting some US arguments. It called on India to withdraw the export-contingent subsidies within periods varying from 90 to 180 days.

The US Trade Representative's Office, in a statement, said that the panel had agreed that India provided prohibited subsidies to Indian exporters worth more than $7 billion (5.4 billion pounds) annually, including to producers of steel products, pharmaceuticals, chemicals, IT products and textiles.

India will now have to re-work these incentive schemes to comply with the WTO ruling. However, it can file appeal against it at an appellate body of the WTO through a dispute-settlement mechanism.

On March 14 last year, the US had taken India to WTO's dispute-settlement mechanism over New Delhi's export-incentive schemes, including the Merchandise Exports from India Scheme (MEIS); Export Oriented Units (EOUs) and Export Promotion Capital Goods (EPCG) scheme; and duty-free imports scheme.

The US had alleged that these schemes were harming American companies.

The dispute panel in its report has concluded that most of these schemes like EOU, Electronics Hardware Technology Parks Scheme, EPCG, and MEIS are inconsistent with certain provisions of WTO's Agreement on Subsidies and Countervailing Measures.

The dispute panel has recommended that India withdraw the prohibited subsidies under DFIS within 90 days from adoption of the report.

It should also withdraw the prohibited subsidies under the EOU/EHTP/BTP schemes, EPCG, and MEIS, within 120 days and SEZ scheme within 180 days.

The exemptions from customs duties on importation under the EOU/EHTP/BTP (Bio-Technology Parks) schemes were subsidies contingent upon export performance inconsistent with certain articles of the agreement, the ruling said.

"The duty credit scrips awarded under MEIS are subsidies contingent upon export performance, inconsistent with Articles 3.1(a) and 3.2 of the SCM Agreement," it added.

According to the procedure established by the WTO, the first step to resolve a trade dispute is engaging for consultation process. If two trading partners having dispute could not resolve at that level, one of them can ask for settlement of dispute panel for hearing. The panel's report or ruling can be challenged at the appellate body.

Source: business-standard.com- Oct 31, 2019

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Letter to BS: Augmenting exports can set our growth trajectory right

During the last decade or more, the government has forgotten that exports can play a very significant role and also that we have the potential to get back on track.

My compliments for your editorial “No real plan for exports” (October 31) pointedly commenting on the futility of the government’s approach towards our exports. In fact, the current economic slowdown makes this issue infinitely more important. Augmenting exports can, to a large extent, set right our growth trajectory and possibly put us back on track.

Unfortunately, we have always treated exports as an adjunct to overall economic activity and not as an essential component that merits as much attention as the domestic business and industry. During the last decade or more, the government has forgotten that exports can play a very significant role and also that we have the potential to get back on track.

For example, in the case of textiles and apparels, if we have lost out to Bangladesh and other South Asian countries, it is because we are not globally competitive like our neighbours.

Indeed, it’s mere lack of judgement and, more importantly, lack of political will. We need to urgently give a huge push to the factors mentioned above as well as fine-tune our logistics' turnaround time. We need to get our own house in order first.

Source: business-standard.com- Oct 31, 2019

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Bhalla panel favours India joining RCEP; supports FTAs with trade partners

The report said there is a need to correct the perception that Regional Trade Agreements (or FTAs) have not benefitted India and trade partners have grown at India's cost.

A High-Level Advisory Group (HLAG) headed by economist Surjit S. Bhalla, has favoured India signing free trade agreements (FTA) with trade partners. It called for a sustained medium-term advocacy programme to spread awareness about potential FTAs and opportunities for utilisation of FTAs among medium and small scale industries of the country.

The report will strengthen the Narendra Modi government's resolve to go ahead with negotiations for the proposed Regional Comprehensive Economic Partnership (RCEP).

HLAG, which submitted its report to the ministry of Commerce and Industry on October 30, was assigned the task of assessing the global environment and make recommendations for boosting India's share and importance in global merchandise and services trade; managing pressing bilateral trade relations, and mainstreaming new age policymaking.

The report said there is a need to correct the perception that Regional Trade Agreements (or FTAs) have not benefitted India and trade partners have grown at India's cost. "This needs to be tackled urgently. There is no doubt that in the short-run trade partners such as Korea and Japan have gained more than us. However, that speaks only half the truth", the report said.

According to HLAG, the role of FTAs has become crucial in foreign trade policy due to the stalemate in the multilateral trading system. "The role of global value chains in the economic development of a country, criticality of technology and investments in a developing economy and imperative of seeking market access by negotiating multi-layered regulatory environment in partner countries" have become very important it said.

The report listed out several actions to pursue gains from FTAs. "In order to expand markets, selection of appropriate trade partners is of critical value. Long term economic interest should drive the selection of a trade partner. Principle of complementarity is the bedrock for partner selection. India should launch a five-year program for negotiations of FTAs based on complementarity and long-term sustainability. Relevant segments of Industry must be associated with the process of negotiations", it said.

Emphasising the need for market access negotiations to go deeper than simple tariff negotiations, the report said aspiration to board regional value chains should determine the development of rest of the eco-systems between trade partners. "The negotiating architecture requires review to ensure availability of best knowledge and informed capacities for negotiations; this review process may be kick-started by identifying and resolving non-tariff barrier issues faced with India's major FTA partners", it said.

"A comprehensive yet selective and inclusive approach aiming India's interest in the long-term is required. Every FTA must be conceived with a view of achieving national objectives and not driven by narrow considerations, sometimes even driven by political expediency.

While negotiating market access for goods in FTAs, India should focus on both tariffs and non-tariff barriers in partner countries. In services, India should go beyond Mode 4 (movement of persons), and also focus on Mode 3 (commercial presence), as Indian investors have an interest in investing in the FTA partner country", it said.

The report called for the establishment of an institutional mechanism for seeking inputs from stakeholders prior to finalising an FTA, as well as informing industry well in time about any steps that they would like to take during the period of transition with the aim of minimising their adjustment costs. It also wanted the Government to undertake comprehensive outreach programs for explaining the opportunities for exports, particularly to MSMEs, in the markets of FTA countries.

The HLAG held 12 meetings during October 2018 and April 2019 and sat through detailed presentations by members, as well as by the industry and several departments of the Government of India. The report says while deliberations of HLAG focused on examining challenges and opportunities in different sectors and proposing policy and institutional changes to address them, "the Group recognised the primacy of the interplay between international and domestic developments in these domains".

The HLAG also looked at some sectors like pharmaceuticals, electronics, textiles etc., in detail to derive horizontal and sector-specific recommendations.

Source: businesstoday.in- Oct 31, 2019

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Labour productivity falls over the last eight years

Labour productivity in India has gone down significantly over the last eight years from the average of 7.4% between 2010-11 and 2014-15 to a low of average 3.7% during fiscal year 2015-16 to 2017-18, an analysis of India Ratings and Research said on Thursday.

"Labour productivity fell to 2.6% and 2.9% in FY17 and FY18 respectively compared to high growth phase of FY04-FY08 when it grew 14.2%," Ind-Ra analysis of data of Annual Survey of Industries (ASI) said on a slowdown in labour productivity growth in the Indian organised manufacturing sector.

According to Ind-Ra, longer and sustainable labour productivity growth is dependent on investments in innovation, knowledge, and intangible capital by businesses, and governments' commitments towards structural reforms.

"Therefore, a lot needs to be done quickly both on the policy front as well as companies' level because productivity is the most powerful engine of driving and sustaining manufacturing growth, and making the sector globally competitive," it said.

"Importance of labour productivity growth can also be gauged from the fact that globally labour productivity growth alone accounted for about two-thirds of the gross domestic product (GDP) growth during FY01-FY10, leaving only one-third to labour/employment growth," it added.

Source: economictimes.com- Oct 31, 2019

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Weavers stare at grim future as looms lie idle

They find government's aid of ₹24,000 each per year a solace

Tiruveedula Gantayya, a 46-year-old craftsman, bought 50 abandoned handlooms in the past three years from the weavers of Pedana and surrounding villages only to dismantle them to make interior decorative items.

He is one of the four handloom craftsmen engaged in making handlooms with an expensive teak wood in the textile belt of Pedana in Krishna district.

"Being a craftsman, I never expected that I would purchase handlooms, which I made earlier, to dismantle them. I could not resist myself from buying the abandoned handlooms as the weavers started selling them to be used for fixing bathroom doors which I cannot digest," says Mr. Gantayya.

In the past five years, hundreds of handlooms were sold by weavers to dismantle them for various purposes in and around Pedana town, with the advent of a screen printing method in the textile art of Kalamkari that attracted weavers with an offering of lucrative daily earning.

The technology has tempted hundreds of families to quit the traditional profession of weaving, and later pushed them to a state of unemployment as it began struggling to gain acceptance in the market.

There are only four handloom craftsmen who make the handlooms in and around Pedana town -- Gantayya, Veenam Venkanna, B. Shyamala Rao (Kappaladoddi) and Rahmatullah Khan.

"The least price at which I had bought each handloom is ₹1000, and this stands testimony to the declining art of weaving and the desperation of the weaver. I am using the teak wood of the dismantled loom for making chairs and tables. Much of the wood is used for making cots," says Mr. Gantayya. Now, the new handloom costs between ₹10,000 and ₹12,000.

Veenam Prasad, an assistant to craftsman Venkanna, has told The Hindu: "We have bought dozens of handlooms which are used to make windows, cots, and interior material. However, the stock is sold by September-end."

Stony silence

When asked, the families that had disposed of their handlooms in Pedana, Veerabhadrapuram and Brahmapuram areas declined to speak on it. On a condition of anonymity, some elders belonging to the weaving families have observed: “In our society, selling the handloom is considered a shame. No family wants to speak on it. In the past, the abandoned handlooms were either sold to the needy weavers or preserved.”

The ‘wooden beam’, a part of the handloom set, is being used as a ‘wrapper’ in the chemical printing units. The State government’s financial assistance of ₹24,000 per year for the family that works on the handloom makes weavers to stop selling handlooms as of now.

Source: thehindu.com- Nov 01, 2019

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Inter-ministerial group mulls easing FDI norms in India

An Indian inter-ministerial group recently discussed the scope of further easing foreign direct investment (FDI) norms to attract investors. The meeting was chaired by department for promotion of industry and internal trade (DPIIT) secretary Guruprasad Mohapatra. Officials from defence, home affairs, finance and information and broadcasting ministries attended.

DPIIT is mulling over relaxing norms in sectors where 100 per cent FDI is not permitted at present through automatic route, according to a news agency report.

FDI is allowed through automatic route in most of the sectors, but in areas like defence, telecom, media, pharmaceuticals and insurance, government approval is required. In some sectors like telecom, insurance, banking, and media, there is cap on FDI limit as well.

Under the government route, a foreign investor has to take prior approval of the concerned ministry or department, while through the automatic route, an investor just has to inform the Reserve Bank of India after the investment is made.

There are nine sectors where FDI is prohibited and that includes lottery business, gambling and betting, chit funds, Nidhi company, real estate business and manufacturing of cigars, cheroots, cigarillos and cigarettes using tobacco. Recently, the government relaxed FDI norms in several sectors like single brand retail trading, contract manufacturing and coal mining.

Currently, a standard operating procedure is laid out by the DPIIT through which foreign direct investment proposals are processed within a fixed time period of 8-10 weeks.

Source: fibre2fashion.com- Oct 31, 2019

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