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# IBTEX No. 1 of 2019 January 02, 2019

USD 69.66| EUR 79.81 | GBP 88.77 | JPY 0.64

| Cotton Market | | |
|---|---|---|
| **Spot Price ( Ex. Gin), 28.50-29 mm** | | |
| **Rs./Bale** | **Rs./Candy** | **USD Cent/lb** |
| 20813 | 43500 | **79.53** |
| **Domestic Futures Price (Ex. Warehouse Rajkot), January** | | |
| **Rs./Bale** | **Rs./Candy** | **USD Cent/lb** |
| 21100 | 44099 | **80.63** |
| **International Futures Price** | | |
| NY ICE USD Cents/lb ( March 2019) | 72.20 | |
| ZCE Cotton: Yuan/MT ( May 2019) | 14,830 | |
| ZCE Cotton: USD Cents/lb | **97.79** | |
| **Cotlook A Index – Physical** | **80.80** | |

**Cotton Guide:** ICE was closed yesterday due to the observance of the New Year Day. MCX was open only for the day session. The Indian domestic contracts have settled marginally higher on the first day of the year. MCX January settled at 21,100 Rs/Bale with a change of +10 Rs, MCX February settled at 21,350 Rs/Bale with a change of +20 Rs. The same amount of change +20 was witnessed for MCX March contract settling at 21,580 Rs/Bale.

Arrival figures of Cotton in India are estimated to be around 150,000 lint equivalent Bales. Prices of Shankar 6 are still hovering around 43,500 Rs/Candy. Cotlook Index A was unchanged due to a holiday. The figure was static at 80.80 CFR main Far Eastern ports.

A 3 month time period was agreed for negotiations between US and China when both the Presidents met at the G 20 summit at Argentina on December 1, 2018. It has been a month now and no positive news has come in. Talks between the two countries are scheduled on January 7, 2019. It is a complete wait and watch situation for the market participants. What bothers many is that in the Next month - February, it will be mostly a holiday laid season on the occasion of the Chinese New Year. Therefore whether a deal in such a short period of 2 months will be achieved or not is a matter of concern. In the meanwhile, while the negotiations continue, the imports of Australian cotton into China has been on the rise.

Here in India, a huge demand for US Cotton has been witnessed. The major reason for this rise is accounted to supply concerns as the Crop Figure in India is revised from 360 lakh bales to 340 lakh Bales (1 Bale = 170 Kg) and a further revision is probably expected. On one hand ICE futures have fallen substantially and on the other hand the rupee has appreciated by around 4 % in the past one month. This makes US cotton Lucrative as compared to Indian cottons' domestic prices. For this week we presume the markets to show consolidated sideways movement.

On the technical front, crucial support for ICE March future exists around 71.90 zone (76.4% Fibonacci level), only decline below could bring further selling towards 70.80 followed by 70 levels, else it looks price to retrace towards 74.00 zone as oversold RSI restricts the downside for the near term.

From the above it is expected that price could trade in the range of 74.50 to 71.90 with sideways to negative bias. On the higher side above 74.00, 75.50 is the crucial resistance zone followed by 76.20. In the domestic markets trading range for Jan future will be 20960-21220 Rs/Bale.

**Currency guide**

Indian rupee has opened weaker by 0.28% to trade near 69.62 levels against the US dollar. Rupee weakened amid weakness in Asian equity markets today amid disappointing Chinese PMI data.

The Caixin/Markit Manufacturing Purchasing Managers' index (PMI), a private survey, fell to 49.7 in December from 50.2 in November. A reading below 50 indicates contraction in the sector. Also supporting US dollar are reports that US President Donald Trump invited leaders for talks to end government shutdown.

As per reports, President Trump invited the top congressional leaders from both parties to a White House briefing on border security Wednesday and suggested he wants to "make a deal" to end the government shutdown. However, supporting rupee is weaker outlook for crude oil price and measures by government to support the economy. Brent crude trades weaker near $53 per barrel amid higher global supply and demand uncertainty amid slowdown in Chinese economy.

As per reports, Indian government may ease GST rules for small companies. Reports noted that Goods and Services Tax Council, headed by Finance Minister Arun Jaitley, will consider raising sales threshold for compulsory registration from 2 million rupees to anywhere between 5 million rupees to 7.5 million rupees. Rupee has appreciated sharply in last few days and we are seeing some correction amid weakness in equity market however overall bias is on the upside owing to weaker outlook for crude and US dollar in general. USDINR may trade in a range of 69.3-69.85 and bias may be on the downside.

**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

## Trump Expresses Optimism for China Deal With Ties at Crossroads

President Donald Trump reported "big progress" in trade talks with his Chinese counterpart Xi Jinping, providing an optimistic start to what could be a make-or-break year for ties between the world's two largest economies.

The two presidents spoke at length by telephone Saturday, with each expressing satisfaction with trade talks initiated after their meeting earlier this month in Argentina. Trump said in a tweet that negotiations were "moving along very well" toward a comprehensive deal, while Chinese state media said Xi believed both sides wanted "stable progress."

The call — coming just three days before the 40th anniversary of the U.S.'s establishment of formal ties with China — underscored the stakes for talks. Trump's efforts to challenge Beijing on trade over the past year have dredged up a wide range of grievances and fueled concerns that the relationship is heading into a prolonged period of confrontation.

Xi said ties had reached a "vital stage" on the anniversary and the world expected the two sides to work together, according to the official Xinhua News Agency. His remarks were followed up by a Chinese foreign ministry statement saying that the relationship had "traversed a tortuous journey" to the milestone and were "standing at a new historical starting point."

The two leaders spoke as a U.S. trade delegation prepares to travel to Beijing for talks slated for the week of Jan. 7, Bloomberg News reported Wednesday, citing two people familiar with the matter. The exchanges suggest that months of market-rattling brinkmanship may be easing, and that the two leaders are following through on pledges made at their Dec. 1 dinner meeting in Buenos Aires.

While China has recently taken steps that might help address U.S. complaints about trade barriers and intellectual property theft, there was little to suggest that Xi was considering fundamental changes along the lines demanded by the Trump administration.

China's defiant response last month to U.S. efforts to extradite Huawei Technologies Co. executive Meng Wanzhou from Canada have highlighted deeper strategic suspicions between the two sides.

Negotiators have begun fleshing out a possible deal that includes ensuring greater access for foreign firms to China's financial sector, but Trump may be overstating how close the countries are to agreement, the Wall Street Journal reported late Saturday, citing people familiar with the negotiations.

The U.S. formally established ties with the People's Republic of China on Jan. 1, 1979, cementing a rapprochement that began seven years earlier with President Richard Nixon's landmark visit to Beijing. Ties have endured several frosty periods, most notably when the U.S. tried to isolate China for its violent crackdown on Tiananmen Square protesters in 1989.

It was unclear who initiated the call between Trump and Xi. The White House, which typically doesn't release details of Trump's calls with foreign leaders beyond what the president reveals himself, didn't respond to a request for comment.

U.S. stocks, beaten down recently by concerns about an escalating tariff war, got a boost from news of the upcoming talks in Beijing. The gathering will be the first face-to-face discussion between the two sides since Trump and Xi agreed to a 90-day truce in Buenos Aires.

Deputy U.S. Trade Representative Jeffrey Gerrish will lead the delegation, which also will include Treasury Under Secretary for International Affairs David Malpass, according to the people, who spoke on the condition of anonymity. U.S. Trade Representative Robert Lighthizer, whom Trump named to be in charge of the China talks, wasn't scheduled to join the delegation.

Xi said Saturday that officials from both countries have been working actively and hopes the teams can meet each other halfway, Xinhua reported.

Data released Monday showed a key reading of factory health had slipped back into contractionary territory for the first time since 2016, illustrating China's need for a deal.

Beijing last week announced a third round of tariff cuts, saying it would lower import taxes on more than 700 goods from Jan. 1 as part of its efforts to open up the economy and lower costs for domestic consumers.

Trump, meanwhile, has agreed to put on hold a scheduled increase in tariffs on some $200 billion in annual imports from China while the negotiations take place. He's pushing the Asian nation to reduce trade barriers and stop the alleged theft of intellectual property. Beijing so far has pledged to resume buying U.S. soybeans and to at least temporarily lower retaliatory tariffs on U.S. autos.

The Global Times, a nationalist newspaper published by China's Communist Party, said in an editorial Sunday that the call between Trump and Xi was "good news for sure." Still, the paper sounded a note of caution.

"It is not clear whether the U.S. is positioning China as a strategic competitor or a fair trade partner," the newspaper said. "It is time for the U.S. government to realize that the negotiations with China should be based on reality. China will not accept any terms which are counter to the general direction of China's reform and opening up, or that impair China's national interests."

Source: sourcingjournal.com- Dec 31, 2018

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## CPTPP free-trade deal takes effect: What it means for Canada

Canadians can expect to see more foreign dairy products on store shelves under a new trade agreement that began to take effect Sunday, while the country's beef and pork producers are expected to make major inroads into new markets.

The deal, known as the Comprehensive and Progressive Agreement for Trans-Pacific Partnership, or CPTPP, was completed earlier this year. A previous version of the deal was agreed to in 2016 but later had to be reworked aft

The deal has been ratified in six countries, including Canada, and took effect Sunday in those nations – a list which also includes Australia, Japan, Mexico, New Zealand and Singapore. Vietnam will be added to the partnership Jan. 14, with Brunei, Chile, Malaysia and Peru to follow once their governments ratify CPTPP.

While Canada already had free trade agreements with Chile, Mexico and Peru, CPTPP represents the first such arrangements with Australia, New Zealand and the five Asian nations.

A federal analysis claims the deal will provide Canada with a net positive economic impact, largely because many of the countries in CPTPP have higher tariffs than Canada on average. This means the loss of government revenue by allowing those countries tariff-free access to the Canadian market will be more than offset by gains made by producers and consumers.

The overall impact to Canada's GDP has been estimated at $4.2 billion per year. More than three quarters of the estimated net annual savings is expected to come from Japan.

"Japan's one of the biggest markets in the world – a market we've been trying to get access to since the days of Pierre Trudeau," Colin Robertson, a former Canadian diplomat, said Sunday on CTV News Channel.

According to Global Affairs Canada, CPTPP is expected to lead to an annual increase of $1.8 billion in Canadian exports to Japan. That figure includes an additional $639 million in pork exports after 10 years, as well as beef exports nearly doubling after 15. Japan is also expected to welcome significant increases in wood, metal and chemical products from Canada.

Overall, Canadian pork exports are expected to increase by more than 10 per cent and beef exports by about 9.5 per cent. Sugar and leather exporters will also see significant access to new markets.

Canadian exports to Australia are expected to increase by about $690 million per year, or nearly 12 per cent of their current value. Transportation equipment and machinery account for about half of that figure.

On the other hand, exports to Mexico, Chile and Peru may fall because more countries now have access to the tariff-free status Canada already enjoyed.

Canadian dairy producers have criticized the deal for opening up 3.25 per cent of Canada's dairy market to CPTPP-signatory countries at the same time U.S. access to the market rises to 3.59 per cent under the CUSMA free-trade pact.

The tariff-free dairy imports permitted through CPTPP are expected to account for about $135 million per year in foreign product entering the Canadian market. New Zealand cheese could be one product showing up more often on Canadian shelves.

Total imports to Canada are expected to rise by nearly $7 billion per year. That increase will largely be driven by vehicles and chemical products from Japan, as well as clothing, textiles and leather products from Vietnam.

Robertson said Canada may benefit further from the "first-mover advantage" that comes with reaching a new market before other countries do.

"The big advantage for us is that the United States is not part of this," he said.

"It gives Canadian farmers a preferred access to this big market."

Labour groups including the United Steelworkers union have criticized a provision in the agreement which they say allows multinational corporations the ability to sue governments in Canada.

Prime Minister Justin Trudeau appears to be attempting to reach further free-trade agreements with Asian nations. He said last month that he wants to work toward one such deal with the ASEAN nations – a group which includes some CPTPP signatories as well as other countries including the Philippines, Singapore and Thailand.

Source: ctvnews.ca- Dec 31, 2018

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# Chinese textile firm wins acclaim for helping Ethiopia's export, employment

Chinese textile production firm Antex Group has won praise from among Ethiopians as the east African country moves to strengthen its export sector.

Antex on Sunday officially started the production of export-oriented textile items inside the premises of the Chinese-built Adama Industrial Park, some 100 km south of the Ethiopian capital, Addis Ababa.

The company, which was established with an initial investment of 10 million U.S. dollars, also received widespread acclaim from Ethiopian government officials and local community members for creating about 1,500 jobs.

The group's textile products exported from Ethiopia include sportswear, lingerie and casual wear.

Antex's plant inside the Adama Industrial Park, the firm's first production line in Africa, is expected to generate an estimated 110,000 dollars from the export of its first batch of products, Group Chairman Qian Anhua told Xinhua on Sunday.

"We expect to generate close to 50 million dollars from the export of our products to the international market next year," Qian said.

The CEO of Ethiopia Industrial Park Development Corporation (IPDC), Lelise Neme, praised Antex for its success and ambition.

"The Antex Group has achieved a milestone despite facing various challenges," Neme said. "We would like to see many international markets-bound containers from the company's production line."

Neme told Antex officials that the Ethiopian government in general and IPDC in particular are "ready to help you achieve your targets."

Ethiopians who have benefited from job opportunities inside the factory also spoke highly of the firm.

Tigist Gemechu, who is now a production line coordinator after receiving robust training for six months, recalled that "it was a proud moment for me and my colleagues to witness the official inauguration of the factory."

Gemechu, who commended the "valuable life skills and disciplined work ethics" that she received from the Chinese coworkers, said that the company's future targets are achievable given the "great ambition of the company."

"Discipline at work, efficient time management and diligent work ethic are the most important qualities that I learned over the past months," she told Xinhua.

The official inauguration of Antex on Sunday came amid strong engagement of Chinese companies in Ethiopia's manufacturing sector, which includes the construction of industrial parks across the east African country.

Ethiopia has so far commissioned six Chinese-built textile and garment-orientated industrial parks across the country, which is expected to help Ethiopia achieve its annual export target of 30 billion dollars by the year 2025. The Adama Industrial Park, which hosts the Antex Group, was built by China Civil Engineering Construction Company (CCECC). It was inaugurated by Ethiopian Prime Minister Abiy Ahmed in October this year.

Early December, Ethiopia also inaugurated the Jimma Industrial Park, which was built by China Communications Construction Company (CCCC). The Jimma Industrial Park is expected to host investors in light manufacturing sectors, mainly agro-processing, textile and apparel products, according to IPDC.

The two industrial parks alone are expected to create employment opportunitoes for more than 40,000 Ethiopian youth, according to figures from IPDC.

The construciton of industrial parks is part of the government's drive to transform Ethiopia into a manufacturing hub of Africa and to make it a middle-income economy by the year 2025.

Source: xinhuanet.com- Jan 01, 2019

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# China turns to Australian and US cotton

China has resumed cotton buying, shipments of Australian cotton into China are on the rise again.

Just over 50 per cent of the 2018 Australian cotton crop shipped to date was bound for China. Including the consumption of Chinese owned mills operating in Vietnam this figure rises to closer to 70 per cent of the crop.

China is very important to the Australian cotton industry. China's focus on depleting its strategic reserves of cotton dramatically reduced its imports of foreign cotton over the past few years. However, this may well be drawing to a close.

China is the second largest buyer of US cotton, making up 16 per cent of total recorded US sales to date. In addition to this China has purchased a further one million bales for shipment in the 2019/2020 crop year.

The spinning mills located in China free trade zones are exempt from paying import tariff on raw cotton. Total raw cotton consumption of these mills is estimated to be in the vicinity of two million bales a year. Shipments to these mills will account for some of the existing US sales of cotton to China.

Chinese free trade zones also contain an inordinate number of warehouses many of which are used to store foreign cotton.

Source: fashionatingworld.com- Dec 31, 2018

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# EU-Japan FTA clears hurdles for early 2019 start

Around 70 per cent of European Parliament lawmakers recently backed the European Union (EU)-Japan agreement that binds two economies accounting for about a third of global gross domestic product and signals their rejection of protectionism by launching the world's largest free trade zone early next year. Japan's parliament also approved it recently.

EU trade commissioner Cecilia Malmstrom said the deal would bring clear benefits to EU companies and farmers.

The EU-Japan agreement will remove EU tariffs of 10 per cent on Japanese cars and 3 per cent for most car parts. It will scrap Japanese duties of around 30 per cent on EU cheese and 15 per cent on wines as well as open access to public tenders in Japan. It will also open up services markets, such as financial services, telecoms, e-commerce and transport.

Critics, however, say the agreement will give too much power to multinationals and could undermine environmental and labour standards, according to a news agency report.

Both Brussels and Tokyo reportedly want it in place before Britain leaves the EU at the end of March.

Source: fibre2fashion.com- Dec 31, 2018

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# Bangladesh: Garment exporters keen on using Colombo port

Local garment exporters are keen on using the sea port in Colombo as it would save them time and money.

“In the era of fast fashion a shorter lead time gives you a competitive edge as there are so many competitors,” said Siddiqur Rahman, president of the Bangladesh Garment Manufacturers and Exporters Association (BGMEA).

In the absence of a deep sea port in Bangladesh, local exporters cannot send goods directly to the final destinations in Europe and the US. Vessels carry goods to Singapore, from where they are taken to their final destinations.

But the Port of Singapore is running past its capacity, so goods are stuck there for long, according to SK Mahfuz Hamid, vice-president of the Container Vessels Owners' Association of Bangladesh.

If the goods bound for Europe can be shipped via Sri Lanka instead of Singapore, exporters will be able to cut the lead time by 15 to 20 days.

“The cost of shipping would halve too,” Hamid said, adding that up to 30 days can be shaved from the lead time as well.

The Colombo port is running at only 30 percent of its capacity, he said. Using the Colombo port instead of the Port of Singapore is very much a practical choice for exporters now, Rahman said.

“The cost of doing business has increased a lot, but our profits are declining,” he said, adding that the BGMEA will send a team to Sri Lanka to discuss ways to use the country's port at a discounted rate.

The movement of goods from Bangladesh would be much easier and less expensive if they were shipped from Dhaka's Pangaon port and carried to India's Vishakhapatnam before they were sent to their end destinations, Hamid said.

The government needs to bring a little change to the Bangladesh India Coastal Shipping Line Agreement, he said, adding that the third-country containers are not allowed to carry goods between the ports in Bangladesh and India under the current law.

"We have been lobbying with the government to amend the law," he said.

Hamid said they had sent a letter to the BGMEA earlier last month, urging it to agree to ship goods using the Colombo port via Vishakhapatnam.

Source: thedailystar.net- Jan 02, 2019

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## Pakistan framing strategy to up cotton output: Minister

The Pakistan government is in the process of developing a long-term strategy to increase cotton production and thereby meet the raw material requirement of the textile industry, minister for national food security and research (NFSR) Mehboob Sultan has said. A team of experts is devising the details of the plan in consultation with stakeholders, he said.

"Cotton being the lifeline of Pakistan is of our prime focus," a NFSR press release said quoting the minister. "The government would mobilise all resources in collaboration with provinces to achieve the 15 million bales production goal set by the PM next year."

The Pakistan Central Cotton Committee, the apex cotton research and development organisation in the country, has developed good varieties and production technology that best suits with changing environment. In addition, provincial agriculture departments are also partnering in cotton development and achieving the target production of 15 million bales.

The main features of the plan would be availability of certified seeds, ready availability of pesticides and fertilisers, maintaining the plant population to maximum level and determination of indicative price, Sultan said.

"The NFSR is also focusing on horizontal expansion in KP and Balochistan, especially value-added cotton like Organic and BCI. All the scientists and field staff of agriculture department will be mobilised in capacity building of growers in various aspects of cotton production technology.

This year we will specially focus on contamination and quality improvement by properly implementing the Cotton Control Act and other regulations through respective forums," he added.

During the current year, cotton prices remained firm and farmers experienced good profit and that is expected to drive in getting extra area under the crop during the following season, the release said.

Source: fibre2fashion.com- Jan 01, 2019

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## Pakistan aims at PTA with Tunisia

Pakistan and Tunisia are working on a Preferential Trade Agreement.The two countries share warm, cordial and brotherly relations.

Tunisia is interested in exporting olive oil, dates and fertilizer to Pakistan. Pakistan desires to make Tunisia a hub for enhancing its exports to North Africa.

Both sides want to translate excellent brotherly relations into meaningful economic and trade cooperation. An early conclusion of the PTA and frequent engagements at the G2G and B2B levels coupled with trade promotional activities will be ensured. Both sides have also agreed on cultural exchanges/ participation of cultural troupes in major events in the near future.

The textile and clothing sector in Tunisia accounts for 35 per cent of the country's GDP and offers 161,425 jobs.

The textile and clothing industry in Tunisia plays a critical role in the socio-economic development of the country.

Tunisia is among the top 15 garment suppliers in the world, and has the advantage of being close to the European market. It is the fifth largest supplier to the European Union as well as the leading trouser supplier to the EU. Other important products are work wear and lingerie. The main foreign investors in the apparel sector in Tunisia are France, Germany, Belgium and Italy.

Source: fashionatingworld.com- Dec 31, 2018

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# NATIONAL NEWS

## India remains fastest growing economy ahead of China despite ups, downs

According to Niti Aayog Vice-Chairman Rajiv Kumar, the focus of the government in 2019 will be to expedite reforms with a view to accelerate growth

India remained ahead of China to retain the tag world's fastest growing large economy withstanding several ups and downs, spike in oil prices and global trade war like situation during 2018.

Indian economy's roller-coaster ride during the year gone by was best captured by the GDP growth. In the first quarter of 2018-19 ending June 30, it grew at an impressive 8.2 per cent, after 7.7 per cent in the first three months of the year.

Then it slipped to 7.1 per cent in the next quarter ending September 30. Fitch Ratings slashed India's GDP growth forecast to 7.2 per cent for the current fiscal, from 7.8 per cent projected in September, citing higher financing cost and reduced credit availability.

According to Niti Aayog Vice-Chairman Rajiv Kumar, the focus of the government in 2019 will be to expedite reforms with a view to accelerate growth.

"India will grow at around 7.8 per cent in the next calendar year and investment cycle that has already started picking-up will gather further strength and we will see more private investments," Kumar said.

Experts, however, expect that moderating growth can force the government to spend more before the next general elections and that could lead to fiscal pressures.

Global factors such as sudden zoom in crude prices (which are now easing), strengthening US dollar, slowing growth in the wake of US-China trade war and the US Federal Reserve hiking interest rate for the fourth time in a year did take the toll on India's economy.

The banking sector ruled the headlines in 2018. The year opened with India's biggest banking scam coming to light. On February 14, state-owned Punjab National Bank said it had detected a Rs 11,400 crore scam where billionaire-jeweller Nirav Modi allegedly acquired fraudulent letters of undertaking from a branch in Mumbai to secure overseas credit from other Indian lenders.

The case has gathered a long political traction, with the government making little progress in bringing back the absconding accused.

The year ended with a rare face-off between the Reserve Bank of India and the Central government. Urjit Patel's resignation a few weeks later was seen as a culmination of the tussle in December.

The main trigger was government's demand to relax restrictions on weak public-sector lenders, which slowed down credit growth. For the first time, the government threatened to use its special powers under Section 7 of the RBI Act. The cycle of events at the RBI brought to the fore concerns about the RBI's autonomy.

The RBI-government tussle sent shock waves far and wide. The country's leading infrastructure finance company IL&FS defaulted on payments to lenders. It triggered panic among a large number of investors, banks and mutual funds associated with the company.

The IL&FS defaults were even being seen as India's Lehman Brothers moment that had triggered the global financial crisis in 2008. The government wanted the RBI to provide relief to non-banking finance companies impacted by the IL&FS defaults.

However, the economy witnessed a big positive development — the progress made under the Insolvency and Bankruptcy Code. Tasked with helping recover unpaid corporate loans, the National Company Law Tribunal (NCLT) has helped resolve insolvency and bankruptcy proceedings involving more than Rs 60,000 crore (during Apirl-September 2018-19), and the kitty is expected to swell beyond Rs 1 lakh crore in 2019 with several big-ticket default cases pending.

A rapidly depreciating rupee and steeply rising petrol prices played havoc with India's current account deficit (CAD). It widened to 2.9 per cent of the GDP in the second quarter of the fiscal compared to 1.1 per cent in the year-ago period, mainly due to a large trade deficit.

"The widening of the current account deficit amidst tighter global financing conditions should put downward pressure on the currency, and we forecast the INR to weaken to 75 against the dollar by end-2019," said rating agency Fitch in a report.

A good news for the economy was India's improved ranking on the World Bank's 'ease of doing business' report for the second straight year, jumping 23 places to the 77th position on the back of reforms related to insolvency, taxation and other areas.

Collection of the Goods and Services Tax (GST) crossed the Rs 1 lakh crore mark in October, after a gap of five months, but again slipped below the mark to Rs 97,637 crore in November. Yet, it was higher than the average monthly collection in the year. Steady increase in average collection raised hopes of monthly collection to remain above Rs 1 lakh crore next year.

Inflation has remained well below the forecasts by the RBI, which targets to keep inflation at 4 per cent in the medium term. During the April-October period, industrial output grew 5.6 per cent as compared to 2.5 per cent in the same period of the previous fiscal. In October, it stood at a 11-month high of 8.1 per cent.

On inflation, Dun & Bradstreet in a report said: Going forward, there are concerns over fiscal slippage due to likely expenditure on pre-poll sops before the Lok Sabha elections next year. The Congress party's promise of universal farm loan waiver, if it comes to power is likely to force the hand of the BJP government, which has so far stuck to fiscal prudence.

Having witnessed controversy over host of issues like demonetisation, implementation of GST and the government's handling of banking sector woes, the year also witnessed political slugfest over revised GDP data, which showed that growth during the previous Congress-led UPA's regime was less than what was estimated earlier.

Recalibrating data of past years, using 2011-12 as the base year instead of 2004-05, the Central Statistics Office (CSO) lowered the country's economic growth rate during the previous Congress-led UPA's regime.

Economists, including former chief economic advisor Arvind Subramanian, had questioned the involvement of the Niti Aayog in release of GDP back series data and had also called for review by experts to clear doubts over the data.

Source: thehindubusinessline.com- Jan 01, 2019

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## For revving up exports, credit flow must rise

This is best done by prescribing a sub-target for export credit under the priority sector lending benchmarks of banks

Indian exports have witnessed a prolonged period of decline and stagnation, but there has been a pick-up in recent times on the back of a resurgence in global growth. Exports of non-petroleum, oil and lubricants witnessed a year-on-year (y-o-y) growth of 15.6 per cent during April-September 2018-19.

In order to sustain this resurgence in exports, a holistic framework is required which enhances trade competitiveness, promotes innovation, alleviates structural bottlenecks, bolsters availability of export finance, and strengthens the institutional capacity for exports. An important cog in the wheel of the growth continuum is a robust ecosystem for export financing.

Declining share

Traditionally, the Indian economy has been bank-dominated, and banks continue to be the primary source of credit. It is therefore a matter of concern that the growth in bank credit to the exports sector has been declining, and has been much lower than the growth in overall bank credit.

Resultantly, the share of outstanding credit extended by scheduled commercial banks to exporters in total non-food credit has almost halved — from 6.1 per cent as on end-June 2007 to 3.6 per cent as on end-June 2017.

Further, as on July 20, 2018, outstanding export credit extended under the priority sector by foreign banks amounted to ₹219 billion, witnessing a precipitous y-o-y decline of (-) 46.8 per cent.

The challenge is even more severe in the case of MSMEs, which account for about 45 per cent of manufacturing output and around 40 per cent of total exports of the country, and are now beset with financing bottlenecks.

The potential demand for India's MSME finance is estimated at $370 billion as against the current credit supply of $140 billion, resulting in a finance gap of $230 billion (equivalent to 11 per cent of GDP). Bolstering the availability of export finance, especially in key sectors such as MSMEs and agriculture, will therefore be critical for improving the competitiveness of India's exports and propelling exports on a higher growth trajectory. As commercial banks form the major source for export finance in India, an essential first step would be enhancing the quantum of finance being extended through the banking channels.

The fastest ,and perhaps the most effective mechanism to do so could be tweaking the priority sector lending norms so as to augment lending to the exports sector.

Export credit is currently eligible for inclusion in the priority sector lending targets of banks. However, there is no mandatory sub-target for export credit. Given a consistent decline in credit to exporters during recent times, as also the importance accorded to finance in driving export growth, the RBI could consider prescribing a sub-target for export credit within the existing 40 per cent target for priority sector lending (PSL).

As access to export credit might especially be a constraint in the agriculture and allied activities and MSME segments, a sub-target can be defined for export credit to these sectors within the existing PSL targets for these sectors.

Export credit is generally a more lucrative business proposition than other priority sector lending areas, and a flexibility in PSL norms can help commercial banks perform potentially better in terms of meeting their PSL targets.

While directed lending may solve the short term requirement for export finance, there is also a need for medium and long term financing of exports, as also for financing export capacity creation.

An Export Promotion Fund (EPF) could be established by the government to meet this need. Domestic commercial banks could contribute to the fund to the extent of their shortfall in stipulated priority sector lending to the exports sector.

As a disincentive for non-achievement of the target for priority sector lending to exports, the rate of interest for the contribution made by banks could be in inverse proportion to the extent of shortfall in the lending vis-à-vis the target. This structure could be similar to the structure of the Rural Infrastructure Development Fund currently maintained by NABARD.

The eligible activities that could be supported by the EPF should focus on capacity-building, product development, R&D promotion, creation of export infrastructure and other export support services. The projects typically should improve the competitiveness of Indian exporters while being consistent with the export growth strategy of the government.

Source: thehindubusinessline.com- Jan 01, 2019

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## ₹75-lakh threshold could help over 60 lakh MSMEs escape GST net

May cost exchequer ₹5,500 cr, but will boost small units by cutting compliance cost

Over 60 lakh assessees may come out from the Goods and Services Tax (GST) net if the threshold for micro, small and medium enterprises (MSMEs) is raised to ₹75 lakh.

A panel led by Minister of State for Finance Shiv Pratap Shukla will meet on January 10 to finalise the recommendations in this regard. “A higher threshold may result in a GST revenue loss of around ₹5,500 crore,” a senior government official told BusinessLine. But this will unshackle the MSMEs from various complexities and bring down their compliance cost.

## Under tax net

| | |
|---|---|
| **Total number of assessees** | **1.17 crore** |
| Assessees under composition scheme | 17.5 lakh |
| Remaining assessees | 99.5 lakh |
| Regular return filers | 87.3 lakh |
| Assessees with annual turnover of ₹20 lakh | 45 lakh |
| Assessees with annual turnover between ₹20 lakh and ₹70 lakh | 18.5 lakh |
| Assessees with annual turnover of more than ₹70 lakh | 23.8 lakh |

Finance Minister Arun Jaitley has already made it clear that the recommendations of the panel will be taken up during the next meeting of the GST Council, which is likely to take place by the third week of January. As of now, the threshold for mandatory registration under the GST is ₹20 lakh (₹10 lakh for some north-eastern and hilly states).

As on December 13, a total of 57,55,610 MSMEs were registered on the Udyog Aadhaar (UA) portal. Also, as per the 73rd round of the National Sample Survey (NSS) conducted by the National Sample Survey Office, the Ministry of Statistics & Programme Implementation, during 2015-16, there were 633.88 lakh unincorporated non-agriculture MSMEs in the country. These units are defined on the basis of investment made.

There are two sets of definitions, depending on whether the units produce goods or services. Under the goods category, the slabs are: up to ₹25 lakh – micro; ₹25 lakh to ₹5 crore – small; and ₹5-10 crore – medium. In the case of services, the slabs are: up to ₹10 lakh, ₹10 lakh to ₹2 crore and ₹2-5 crore.

There is a feeling that despite many concessions given since July 1, 2017, the MSME sector has continued to feel the pinch. In a letter to the Finance Minister Arun Jaitley, Manpreet Badal, Finance Minister of Punjab, said the cost of compliance should not be higher than a specified threshold of the net cash GST liabilities or average net profits.

“Personally, I feel, that the cost of compliance should not exceed 5 per cent of the net cash liability for an MSME unit with a turnover up to ₹5 crore,” he said, while adding that for a composition dealer with a turnover up to ₹1 crore, the cost of compliance should be less than ₹6,000 per annum.

In fact, most dealers should be able to comply on their own without availing any external help, he said.

Tax experts also feel that the compliance cost should be lowered and the threshold should be raised. Rajat Mohan, Partner at AMRG & Associates, said that the MSME sector is a pillar of the Indian economy, contributing about 45 per cent to manufacturing output and about 40 per cent of exports. In the last one year, the sector is on a downward spiral due to high compliance cost imposed by the rigours of the GST.

"A low threshold of ₹20 lakh is virtually dragging the MSMEs out of their comfort zone and harnessing them for an unknown GST battle without realising that the weight of the harness is sufficient enough to suffocate them," he said.

Source: thehindubusinessline.com- Dec 31, 2018

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## Why India should expose US hypocrisy on cotton subsidies at the WTO

Trade and World Trade Organisation (WTO) discussions thrive on perception. Recent actions by the US seek to portray India as flouting WTO rules and distorting the global market by providing huge subsidies to cotton.

Left unchallenged, the hypocrisy of the US narrative on cotton could sway WTO members, particularly the cotton-producing African countries.

So, what is the fracas on India's cotton subsidies all about? Shorn of legalese, the US has made a counter-notification at the WTO, alleging that India's subsidies to cotton have breached the limit of 10% of the value of cotton production, as stipulated in the WTO's Agreement on Agriculture.

The US contends that, during 2010-16, India's market price support to cotton was 53% to 81% of the value of the annual production. On the other hand, in its notifications, India has claimed that the market price support has rarely exceeded 1.4% of the value of production during 2010-16.

What explains the reality behind these sharply divergent statistics? The explanation lies in three variables used in calculating the domestic support for each product under the WTO's Agreement on Agriculture.

First, which currency to use in calculating the domestic support?

Second, what is the production eligible to benefit from the minimum price support?

Third, how many units of raw cotton are required for producing one unit of lint cotton?

While India has calculated the domestic support to cotton in terms of US dollars, the US insists that the calculations should be done in Indian rupee. Contrary to what the US insists, the methodology for calculating domestic support under the Agreement on Agriculture is not prescriptive. It provides a country the flexibility to choose the currency for calculating its domestic support.

The issue of "eligible production" is more complicated. India takes the volume of cotton procured at the minimum support price to be the eligible production. The US has argued that it should be the total production of cotton.

The US bases its arguments on the findings in a WTO dispute involving domestic support provided by South Korea to beef. However, the US contention is negated by the reality that the findings in a WTO dispute are specific to the facts of the case under consideration. What was relevant in the South Korea beef dispute may not necessarily apply in other situations, including India's minimum support price scheme.

On the point of conversion rate, the US contends that this figure is close to 3, while India has used a conversion rate of 2.35. The US appears to have ignored some key elements such as wastage, ginning and pressing cost, etc, that go into the calculation of the conversion rate.

In addition, what about the US's own subsidies to cotton? Historically, the US has provided extremely high subsidies to its cotton farmers, who are typically rich and also constitute a powerful political lobby. For instance, in 2001, the product-specific support to the American cotton farmers was as high as 74% of the value of cotton production in that year. The high cotton subsidies not only depressed the global prices, but also devastated the economies of some African countries—such as Chad and Mali—which are overwhelmingly dependent on cotton for their overall development.

The cost of production of cotton lint is much higher in the US ($1.88 per kg in 2015-16) than in India ($0.71 per kg in 2015-16). The US exports 80% of its cotton production and tops the list of the cotton-exporting countries, while India exported only about 16% of its cotton output in 2018.

Between 1995 and 2017, the US provided subsidy to cotton farmers worth $38 billion through several programmes, with the top 10% of the recipients guzzling 82% of the total amount of subsidy. To make matters worse, the US dumped its highly-subsidised cotton in the international market, thereby crowding out millions of poor farmers of developing countries from the international market and undermining their livelihoods.

It is no surprise, then, that in 2003, the African countries were up in arms against the US cotton subsidies. Some observers contend that the Cancun Ministerial Meeting of the WTO in 2003 collapsed because the US found it politically inconvenient to even discuss this issue.

However, given the economic devastation that the US subsidies had wrecked upon the African cotton producers, this issue unleashed strong emotions among many countries at the WTO.

In addition, during the Hong Kong Ministerial Meeting of the WTO held in 2005, the US was compelled to agree to cut its cotton subsidies “specifically, ambitiously and expeditiously.” However, the US dug its heels in, and 13 years have passed without any significant real reduction in the US cotton subsidies.

Here it is also relevant to mention that the rules under the Agreement on Agriculture are rigged heavily in the favour of developed countries, such as the US. While the rules constrain India to limit its cotton subsidies to 10% of its value of cotton production, the US is not constrained by any such limit.

The limit on the US is for its total subsidies to all agricultural products, without getting fettered by limits on subsidies to individual products.

As the limit on the total agricultural subsidies is very high for the US, effectively the US can concentrate its subsidies in just a handful of products and still continue to remain within the WTO rules.

In conclusion, the US's counter-notification against India's cotton subsidies is a thinly-veiled attempt at diverting attention away from its own market-distorting practices in this sector, and shifting the blame to other countries.

The Indian government, therefore, should expose the hypocrisy of the US on cotton subsidy, and must continue to demand, at the WTO, steep reduction in trade-distorting support provided to the farmers in developed countries.

Source: financialexpress.com- Jan 02, 2019

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## Textiles, clothing eye revival in 2019

Industry has been impacted by muted demand, both global and domestic

The textile and clothing industry will end the year 2018 on a mixed note in both exports and the domestic markets, while expecting a revival in 2019.

"The year 2018 has been better than 2017, but not so good," said Sanjay K. Jain, chairman, Confederation of Indian Textile Industry. International demand was largely muted because of the threat of U.S.-China trade war and uncertainties. The domestic market did not pick up as expected.

### Stagnation in exports

After almost four years of exports stagnating at about ₹37 billion, textile and clothing sector is looking forward to growth this financial year. Exports between April and November this fiscal grew 7% in rupee terms compared with the year-earlier period though the growth was almost nil in dollar terms.

"This financial year, maybe, we will cross it marginally. But, we need a push," he said. India's share in the global textile and clothing trade remains at 4%-5 %. It is all a matter of competitiveness. India's competitiveness should improve, he added.

Apparel exports so far this financial year is down 12%. Annual apparel exports from India is nearly ₹17 billion, said A. Sakthivel, vice-chairman, Apparel Export Promotion Council.

It is ₹34 billion from Bangladesh, ₹21 billion from Vietnam, and ₹11 billion from Cambodia.

“These countries have duty-free access to many markets. “We (apparel) are not able to give competitive prices in the international market. We have a price disadvantage. We are yet to come out of the GST effect. The rupee value fluctuation is also high. The government should consider increasing the ROSL (Rebate of State Levies) rate,” he says.

The overall growth could be about 5% for the year ending March 2019, said Siddhartha Rajagopal, executive director, Cotton Textiles Export Promotion Council.

Cotton textile exports are expected to be up 8% to 10%. Usually, shipments during January-March are high. Export demand was good in patches this year. Indications are that international demand will pick up next year and this will have a positive impact on exports, he said.

**Rising imports**

What is a matter of concern is increasing imports. Import of yarn, fabric and made-ups rose 13% in April-November this year, compared with the same period last year, Mr. Jain added. Imports are mainly in the man-made fibre segment and these come from countries such as China, Indonesia, and Korea.

Production of textiles and apparel in the country rose between April and October this year as against the same period last year according to IIP data. There was negative growth in 2017 because of GST and demonetisation. The domestic demand picked up in the first six months in 2018 but slowed down after that, Mr. Jain added.

With liquidity issues and stricter norms under Amended Technology Upgradation Fund Scheme (ATUFS), investments have been slow. Margins are under stress and bank finance is difficult to come. The ATUFS norms should be relaxed and liquidity should improve for investments to revive in the sector, say industry sources.

Source: thehindu.com- Dec 31, 2018

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## Maharashtra woos textile investors

Seeks to wean firms away from south

Maharashtra has stepped up efforts to woo investment in the textiles sector from Tamil Nadu and Karnataka where integrated textile chains are grappling with several problems, including power shortage and niggles from the pollution control boards.

Textiles Minister Subhash Deskmukh has urged investors to invest in Maharashtra, which is planning to make Solapur the uniform and textiles hub of India.

To showcase the potential, the State government, along with Solapur Garment Manufacturing Association, is organising a three-day uniform, garment and fabric manufacturers' fair in Bengaluru from January 8.

In the last three years, since Solapur was projected as uniform and textiles hub, about 400 textiles units have been set up in Solapur and the State government plans to raise this number to 2,000 by 2022.

"Our move is to give an equal opportunity to all stakeholders from the textiles industry to become a part of it," Mr. Deshmukh said in a statement.

Satish Pawar, director, Solapur garments manufacturers association, said the city was gaining significance for garments trade and the uniform & garment exhibition would help it further.

The uniform manufacturing industry in India has an aggregate revenue of ₹18,000 crore, out of which ₹10,000 crore is generated from the manufacturing Industry.

The rest ₹8,000 crore is through supplies to schools in the form of direct sales by local retailers.

"Solapur is witnessing higher demand for school uniforms, kids garments, gents and ladies dresses because of easy availability of transportation, labour and raw materials," Mr. Deshmukh noted.

The government, in its new textiles policy in February last, announced a power tariff of ₹3 per unit for cooperative cotton mills and ₹2 per unit for power looms, cloth processing garment and hosiery units. The State had earmarked ₹150 crore for this purpose.

Source: thehindu.com- Jan 01, 2019

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## 50% of cotton procured without bill

In Haryana, GST, market fees being evaded through non-existent firms

Market fees and GST worth over Rs 200 crore on cotton is being evaded in Haryana every year by hoodwinking the government through non-existent firms in connivance with some unscrupulous officials, it has come to light.

The unearthing of three non-existent firms by the Excise and Taxation Department last week has laid bare the modus operandi of evasion of market fees and GST in the procurement and trading of cotton.

Priya Industries, Meham; Pooja Industries, Mahendragarh; and Preeti Industries, Gurugram, duped the state exchequer of Rs 105.01 crore by issuing bills worth Rs 1,067.84 crore.

While the first two firms, though registered for musical instruments and wheat, issued invoices for Rs 689.56 crore for cotton that attracts 5 per cent GST, the third firm raised invoices for Rs 378.28 crore largely for commodities with GST tags of 18 and 28 per cent.

## How it happens

As per industry estimates, arrival of cotton in Haryana till December 31 was 12,54,500 bales, which converted into raw cotton becomes 54.45 lakh quintals (one bale of cotton is equal to 4.5 quintals of raw cotton).

However, the Haryana State Agriculture Marketing Board (HSAMB) collected market fees and Haryana Rural Development Fund (HRDF) merely on 31.29 lakh quintals, which means that more than 40 per cent of total cotton has been procured without paying taxes.

Further, going by the figures of the State Agriculture Department, Haryana produces a minimum of 1 crore to 1.25 crore quintals of cotton every year given the fact that the acreage of cotton hovers between 6 lakh and 6.5 lakh hectares and average yield is 20 quintals per hectare.

But the HSAMB records show that total arrival in the state is between 40 and 45 lakh quintals.

The "Cotton Production and Balance Sheet" of the Cotton Corporation of India shows that in 2016-17, Haryana produced 20 lakh bales (90 lakh quintals of raw cotton). However, the "arrival" of cotton as per HSAMB that year was 41.48 lakh quintals.

"Every year, more than half of cotton arriving in markets is procured without bills in connivance with HSAMB officials, thus hoodwinking the Board of 2 per cent market fees and 0.8 per cent Haryana Rural Development Fund (HRDF). Later, the cotton procured without bills is sold on bills to mills by bogus transaction through non-existent firms registered specially for this purpose," the sources revealed.

## Modus operandi

The non-existent firms, which exist in records of the Excise and Taxation Department but not on the ground, procure bills of items like cement and cigarettes, which carry a GST tag of 28 per cent, or items like batteries, TMT bars, etc, with a GST tag of 18 per cent.

The bills are easily available with the dealers for a small percentage of 1 to 2, as customers rarely demand bills for these items and even if they do, it is not entered in books by such dealers.

A bogus non-existent firm having "purchase" bill for cement worth Rs 10 crore is presumed to have paid Rs 2.8 crore of GST (rate is 28 per cent) without actually purchasing the commodity or paying the tax and the firm can claim input credits for this amount.

Now, cotton being a commodity with 5 per cent GST, the firm will not invite any GST liability even after selling cotton worth Rs 56 crore to mills, as the firm can adjust input credits.

The bogus firms close their business within a few months before the authorities can lay their hands on them. Raj Kumar Beniwal, Chief Marketing Executive Officer (CMEO) of HSAMB, however, said that cotton produced in the state sometime is sold in other states and hence figures of the Agriculture Department are no guarantee that all the stocks are purchased by dealers in the state.

**Black deeds on back of white gold**

- Cotton production in Haryana as per Agriculture Department is 1-1.25 crore quintals
- Arrival of cotton in Haryana as per HSAMB records is 40-45 lakh quintals
- Market fee/HRDF evasion is 2.8% of value
- Bogus firms procure bills of cement, etc, with 28% GST tag and manage to sell cotton worth 5.6 times the value of bills procured as the commodity has 5% GST tag
- There is GST evasion on the entire amount

Source: tribuneindia.com- Jan 02, 2019

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# China seeks talks with India on Asia trade pact: Report

The 16-country Regional Comprehensive Economic Agreement has been in the works for a while and China is keen to conclude it by end of 2019

China has sought talks with India to allay concerns on a regional free trade pact it is spearheading, two people familiar with the matter said, as Beijing seeks newer markets amid the ongoing trade war with the U.S. The 16-country Regional Comprehensive Economic Agreement has been in the works for a while and China is keen to conclude it by end of 2019, the people said, asking not to be identified as the matter is not public. India's wariness about a possible flood of Chinese goods, and its demand for looser immigration rules for its tech professionals remain sticking points.

China's inability to close the trade deal highlights the continuing suspicion among its Asian trading partners over Beijing's effort to increase its influence in the region. RCEP, along with the Belt and Road Initiative to build investment and trade links with countries along the old Silk Road to Europe, is a key element in China's efforts to seize the geopolitical advantage following what many in the region see as a U.S. retreat under President Donald Trump.

India's foreign ministry didn't immediately respond to a message seeking comments. China's commerce and foreign affairs ministries didn't immediately respond to a fax.

The meeting is likely to take place before the end of this month, and New Delhi has drawn up a list of issues it will take up with Asia's largest economy. That includes providing zero-duty access to fewer Chinese goods as opposed to those offered to other members of RCEP. It also will seek a longer period to phase out levies on Chinese goods compared to 20 years offered to the others.

India's imports from China have been rising for a while with the deficit reaching $55.6 billion in 2017 compared to $48.19 billion in 2015. A resolution of the stalemate appears unlikely any time soon as RCEP member countries like Australia, India and Indonesia go into elections in 2019.

Apart from China, India is planning to reach out to key players like Singapore and Australia to seek a consensus on these issues.

Source: livemint.com- Jan 01, 2019

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## Economy likely to do better in 2019

Even as consumer demand remains a constraint, investment is showing signs of revival. Lending by banks is set to improve

The new year for sure will be an interesting one for the country for several reasons. First, 2019 will be an election year where economics takes on a different face as promises are made and partly invoked when the new government is formed.

Second, farming is now the main burning issue not on account of a drought, but because it has been presumed that the recent State elections were decided on the basis of low farmer income. Therefore, agriculture focus will be a centrepiece of the government.

Third, this will be the year when the so-called unresolved issues between the RBI and the government will find utterance and a roadmap would be in place.

And, fourth, while there is a lot of comfort from oil prices coming down, it should be remembered that the US has given a six months reprieve and the oil economics can change, which can be the expected external shock.

### Monsoon effect

So, how is the economy likely to look in the coming year? To begin with it is always assumed that the monsoon will be normal. This is a precondition for the economy to be on the growth path because any failure will upset all calculations as 60-65 per cent of the kharif crop is rain-fed.

Econometricians would argue that the possibility of a sub-normal monsoon is high this time given that we have had successive good monsoons (though these have also been punctuated by drought conditions in certain parts of the country) in the last few years.

## Consumption, investment

Two things that one will look at closely are consumption and investment. Consumer demand is the driving force of any economy in the long run, and so far the picture has been quite mixed with consumption not really taking off. Demonetisation, GST and fall in agri prices (which gave the CPI inflation number the right push downwards) has come in the way of consumer demand, which is required to buoy the economy. Typically, this should grow at a higher rate than GDP and would depend on two factors.

The first is employment. While there have been differing views on job creation, at the end of the day this gets reflected in consumer demand. Demand for automobiles, consumer durable goods and better living services like travel and tourism cannot be sustained in the absence of new job creation or increase in spending power.

There is a degree of stagnation in consumption, with only high level goods and services witnessing continued momentum. It has to percolate downwards to work for the economy. With several industries going in for technology given the stringent labour laws, job creation will hold the clue.

The other factor is farm produce, and this is where there is is a conundrum. The solution so far has been to announce higher MSP (minimum support price) without paying much attention to the productivity part of the story which involves irrigation.

Hence, an adverse monsoon means lower output. A good monsoon and high production means lower prices and income and the MSP is quite meaningless unless there is a front-end procurement scheme in place. This will be crucial this year, too, in driving rural demand which is linked to demand for products like FMCG, white goods, tractors, two-wheelers, fertilisers, seeds, etc.

Investment is the other critical piece of the puzzle where manufacturing and infrastructure matter. For the former, it is expected that as consumption increases the capacity utilisation rates improve, which will lead to higher investment. The picture till the first quarter of 2018-19 is positive; capacity utilisation may move towards the 75 per cent mark and lead to higher investment in some sectors.

Infrastructure investment will still be driven largely by the government as the private sector may not come in a big way until the NPA (non-performing asset) issue is sorted out. Given the predilection to address the issues on agrarian stress, the Central and State governments may be constrained in such spending given the FRBM compulsions.

**Fillip for banking**

The new year will definitely be better for the banking system. It does appear that the recognition exercise is complete and new NPAs that emerge will be based on present performance of assets rather than legacy ones. The government has announced a large recap plan, which will place banks under PCA (prompt corrective action) in a better state to lend.

While the focus will be more on retail and SMEs to begin with, one may expect them to return to normal by the end of the year. Also, the mega merger of three public sector banks will be executed this year and will hold a clue to further such amalgamations as the areas of conflict are also resolved.

The interest rate scenario can be assumed to be tending downwards provided the assumptions of a normal monsoon and stable oil prices hold. However, one may not expect an accelerated lowering of rates as core inflation will continue to be firm, which will be positive for the corporate sector as it indicates regaining of pricing power.

A calibrated lowering of rates can be conjectured, which will probably not be more than 25-50 basis points (bps). This would still keep the 10-year yield above the 7 per cent mark and in the 7-7.25 per cent range.

**Currency movement**

Currency pressures will still be an unknown as it was observed in 2018 that a stronger dollar kept all currencies weak. With the US Fed likely to only increase rates even though the signal is that there would be fewer rate hikes, a stronger US economy will signal not just a stronger dollar but also guide foreign investment inflow, which is critical for the balance of payments situation and forex reserves. A range of 70-72 to a dollar looks likely and sustainable given these conditions.

On the whole, the economy seems poised for higher growth in 2019 notwithstanding the election results, as it can be largely assumed that the thrust on reforms and growth will continue as most of them are irreversible. This is definitely the good part of the story.

Source: thehindubusinessline.com- Dec 31, 2018

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## Cotton exports likely to decline to 53 lakh bales in FY19

Lower production coupled with currency fluctuations is likely to dent cotton exports from India. The cotton export is expected to decline by 20-23%, according to industry experts and there is strong possibility that it may hover around 51-53 lakh bales during 2018-19 season that started from October.

The fear of possible decline in cotton exports is not without reason. "Only 13-14 lakh bales (one bale weighing 170 kg) have been shipped so far. Going by the current trend, the exports may come down this year and it is unlikely to cross last year's figures," said an Ahmedabad-based cotton exporter.

India had exported 69 lakh bales of cotton in 2017-18. In its monthly estimate for November, Cotton Association of India (CAI), the apex cotton trade body in the country, has pegged the exports at 53 lakh bales. Gujarat accounts for around 40% of the cotton exported from the country, say market experts.

"Although it is too early to make any exact prediction at present as the season kicked off couple of months ago, the exports are likely to be around 51 lakh bales as the production of the natural fibre is going to be lower this year," said Arun Dalal, a cotton trader from the city.

"Indian cotton finds more takers in the global market if our prices are lower than the international prices.

Our prices have remained in the same trajectory of international prices so far," he added. Shanker-6 is fetching 79-79 cents per pound in the export market. Good quality Shanker-6 price in the local market was Rs 43,500 to Rs 43,700 per candy (356 kg) on Saturday.

Strengthening of rupee against dollar has also affected the exports prospects. After weakening for few months, rupee has again firmed up to Rs 69.93 per dollar from Rs 74 sometime back.

According to CAI, cotton production in India is estimated to be lower at 340 lakh bales in 2018-19 as compared to 365 lakh bales in 2017-18. Gujarat, the largest producer of the cotton, is expected to witness a production of 85 lakh bales as against 105 lakh bales last year.

Source: timesofindia.com- Dec 31, 2018

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## India needs to improve cotton yield: CAI

India needs to improve its cotton productivity drastically if it is to remain net cotton exporter, according to the Cotton Association of India (CAI). India's cotton yield is not increasing during the last few years. As against the world average over 770 kg per hectare, productivity of cotton in India is low at only about 500 kg per hectare.

"There is hardly any scope for further increase in the acreage under cotton in India and therefore, the only way to match the increasing consumption of cotton domestically is to increase productivity," CAI president Atul Ganatra said at the 96th AGM held in Mumbai.

"If the situation is not improved quickly, the day is not far off when the consumption of cotton in India will surpass production, and India, which is today a net cotton exporter country, will become a net cotton importer country," he added.

Cotton is an important cash crop in India which provides employment to over 60 million farmers and other connected with the production, processing and marketing of cotton in India.

India is playing an ever-important role in the world cotton market. It is the world leader in terms of the acreage under cotton.

Over one-third of the total cotton acreage in the world is in India. India is the largest cotton producer, the second largest exporter next only to US and the second largest consumer next only to China.

India also has a huge textile industry which is mainly cotton based and there is huge opportunity of value addition. India also has a large import market.

The world cotton production for 2018-19 season is projected at 26.12 million tons, which is lower by 0.63 million tons compared to the previous season, according to the latest estimate by the International Cotton Advisory Committee (ICAC). The dip in output is due to a reduction in planting area, water availability and limited improvement in yields.

The world cotton consumption estimated by ICAC at 26.8 million tons is likely to outpace production. Stock levels in China and elsewhere in the world are expected to decrease from 18.8 million tons to 18.2 million tons, due to the huge decrease in stocks held by China.

Source: fibre2fashion.com- Jan 01, 2019

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## New tariff rules are a lifeline to older BOT terminals

But 'prospective' application of new norms could be a sore point

Fifteen cargo terminals, run by private firms at Centreowned major port trusts under a rate regime finalised in 2005, are set to get a fresh lease of life with the Shipping Ministry drafting new tariff setting guidelines that addresses most of their concerns barring its 'prospective' application.

The changes proposed include allowing these older cargo terminals to set rates for services to meet their annual revenue requirement (ARR).

The ARR (a cap) will be the average of actual expenditure for the past three years, plus a 16-per cent return on capital employed (ROCE), which includes capital work in progress, according to the draft tariff policy circulated by the Ministry for stakeholders' comments.

The 16 per cent ROCE will be calculated on the gross fixed assets, which is followed for new public-private-partnership (PPP) projects, which operate under the rate frameworks finalised in 2008 and 2013. This is a significant departure from the current practice of computing the return on the net block of assets. The rate set by using the new guideline will be valid for three years, indexed annually to the wholesale price index (WPI), a measure of costs, to the extent of 60 per cent.

**‘Flawed’ clauses**

Terminal operators have hauled the government to courts over many “flawed” clauses in the 2005 rate regime— either individually or under the banner of their lobby group, the Indian Private Ports and Terminals Association (IPPTA)— after the rate regulator ordered rate cuts when the terminals asked for a raise.

The terminal operators say that the rate cuts, if implemented, would render their facilities commercially unviable, and have secured the Older cargo terminals may be able to reset rates to meet ARR

courts’backing to stay the rate reductions ordered by the Tariff Authority for Major Ports (TAMP), some as far back as 2012.

The Ministry draft says that the new rate setting norms will take effect prospectively, potentially creating a problem on treatment of past surplus if the courts rule in favour of the TAMP-ordered rate cuts. Yet, the draft provides a ray of hope to the beleaguered operators. “The scale of rates of some of the Build, Operate and Transfer (BOT) operators

have not been reviewed due to the litigations pending in the High Courts on the tariff orders passed by TAMP. The surplus/deficit over and above the admissible costs and permissible return, if any, arising during the period of litigation will be subject to the orders of the respective High Courts.

Alternatively, the Shipping Ministry, the Major Port Trust concerned, the BOT operator and TAMP may decide on the treatment of past period surplus arising during the period of litigation,” the Ministry wrote in the draft policy.

The rate setting norms are being re-written to give a “reasonable return” to the BOT operators on capital employed, a ministry official told BusinessLine.

“Under the 2005 rate guideline, the return diminished with each passing year due to depreciation since it was worked out on the net block of assets,” he said. “The BOT operators previously governed by the 2005 rate structure will be in a better position when the return is calculated on the gross assets,” he added.

Computing the return on gross assets was a major demand of the older terminal operators, including global giants such as DP World Ltd, PSA International Pte Ltd and APM Terminals Management BV. They argued that servicing the royalty/revenue share payout in the face of declining returns had rendered their facilities unviable.

The only sticking point between the government and the older terminals would be the royalty/revenue share payable to the landlord port by the BOT operator.

The draft reiterates the current position that royalty/revenue share will not be allowed as an admissible cost for tariff computation, citing a 29 July 2003 order issued by the Ministry.

In those BOT cases where bidding process was finalised before 29 July 2003, the tariff computation will take into account the royalty/revenue share as cost subject to the amount quoted by the second highest bidder.

IPPTA wants full royalty/revenue share to be treated as cost for tariff fixation.

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# Exporters look forward to online refund of input tax credit

Exporters can hope for speedier refund of input tax credit (ITC) from the next fiscal with the GST Council recommending online refund of the tax. Clearance of pending ITC refunds, estimated by exporters at around ₹10,000 crore, will also gain traction once the refund happens entirely online.

“It is very encouraging that the GST Council has also recommended online ITC refund mechanism for exports. We are hopeful that it may start from the next fiscal,” said Ajay Sahai, Secretary-General, FIEO. The process of ITC refund at present is partly online and partly manual. Exporters complain that the manual part not only adds to time and costs, but also places them at the mercy of tax officials who, at times, ask for irrelevant documents.

Commerce Ministry officials say that while some glitches still remained in the refund of ITC, especially due to some States reluctant in parting with their funds, the problems related to refund of IGST (Integrated GST) had been sorted out. “We are happy that because of our continued interaction with exporters and officials in the Finance Ministry, we were successfully able to identify all problems related to refund of IGST and refunds are happening smoothly now,” the official said.

Sahai said that IGST was now more or less streamlined except for ICD (inland container depot) shipments.

“Many of the hinterland exporters complain that when they are filing shipments, one or two cases out of ten remain pending because of fault of the shipping lines. These errors are not attributable to exporters,” he said.

## E-wallet system

Under the GST regime, exporters have to pay the tax upfront and then apply for a refund. The government is working on an e-wallet system under which a notional credit would be transferred to the exporters’ accounts based on their past record and the credit can be used to pay taxes on inputs.

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