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IBTEX No. 172 of 2019 September 03, 2019

US 72.28| EUR 79.06 | GBP 86.96| JPY 0.68

Cotton Market		
Spot Price - Shankar 6 (Ex. Gin), 28.50-29 mm		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
20239	42300	**74.56**
Domestic Futures Price (Ex. Warehouse Rajkot), October		
Rs./Bale	**Rs./Candy**	**USD Cent/lb**
19620	41006	**72.27**

International Futures Price

NY ICE USD Cents/lb (December 2019)	58.83
ZCE Cotton: Yuan/MT (January 2020)	12,515
ZCE Cotton: USD Cents/lb	79.04
Cotlook A Index – Physical	**70.15**

Cotton Guide: We have had a long weekend in India and the USA. The MCX contracts were closed due to Indian Festival of Ganesh Chaturthi (however the evening session was still on) and the ICE contracts were closed due to Labour day observed in the united states.

This morning while we see the prices of the ICE contracts we can witness a slump in ICE December contract. The contract settled at 58.83 cents per pound on Friday and now at 8 am in the morning the prices have taken a big nose dive and have touched a low of 57.93 cents per pound. The price slump was seen as the new tariffs imposed by US on Chinese goods have come into effect.

In retaliation China has also come up with additional tariffs on US goods. The scenario doesn't end here, China Further has lodged a case against USA at WTO. Therefore we do not foresee a trade agreement in the not-so-distant future.

ICE futures found support from expectations that the US crop had suffered some production loss due to the dry weather in West Texas, which was under threat from the first hurricane to hit the belt in 2019. However, we cannot rely completely on the weather development because very recently over the weekend the dry weather in the region is now getting ample thunder shower.

On the other side China's domestic cotton market is oversupplied in cotton, with a record inventory of unsold cotton as demand is continuing to shrink. China's commercial cotton sector is holding the largest unsold volume of cotton on record for September 1st. Approximately one million tons of the 2018-2019 Xinjiang crop is still held by ginners, and they are carrying heavy losses, having purchased the seed cotton at much higher prices and having failed to hedge the lint.

Further on the Chinese story, the situation is very bleak, with the domestic currency USD/RMB weakening to as low as 7.1822, the ZCE September contract and Cotlook-A Index adjusted for VAT and 1% import tax, are at par. This means there is no incentive to import. Then there is the fact that the domestic market is flooded with cotton. New crop harvest is beginning and will accelerate over the next 30 days, while fresh Chinese demand does not exist.

However, the market has discounted much of the bad news, and the next direction will depend on trade talks, and the performance of the Chinese market. If the Chinese domestic price continues to fall below the international price there would be no scope for exports. The size of the financial burden from the unsold stocks is now a problem that may be solved.

Looking at the current situation the ICE cotton is expected to remain defensive in the near term. On the price point of view, we see December future to again re-test the recent low of 56.59 cents and breach of which the price may fall below 55 cents.

While analysing other countries, according to Cotton Outlook, new registrations of Egyptian cotton for the last week of the 2018/2019 cotton year rose by a net total of 180 tonnes with Giza 86 at 115 cents per pound.

The shipments increased by 2,156 tonnes. India has been the largest buyer of Egyptian cotton this season at 52%, followed by Pakistan by 20%. The Egyptian Free Zone grabbed 7%. Bangladesh and China grabbed 6% and 7% respectively.

While speaking about the Domestic contracts, there was miniscule trading seen for the MCX October contract with tiny volumes of 78 lots. The MCX October contract settled at 19,620 Rs per bale with a change of +50 Rs. The October future is hovering around Rs. 19580 and is expected to remain under stress. This contract may trade in the range of Rs. 19350 to Rs. 19700 per bale.

The Cotlook index A has been adjusted at 70.15 cents per pound with a change of -0.20 cents per pound. Whereas the prices of Shankar 6 are at 42,300 Rs per candy.

Some key points:

Indian rupee is expected to remain weak: The trading range 71.20-72.70.

The US dollar Index is about to make century.

India's GDP growth rate is at 5%, cause of concern.

Chinese RMB is at 7.1935 against the US dollar.

On the technical front, ICE Cotton Dec future has failed to hold above the critical resistance zone of 59.50-60.00 and declined towards the supports near 58.00. Meanwhile price is still trading in the broader downward sloping channel with higher band of the channel resistance near 60.

In the daily charts price is trading below the DEMA (5 and 9) at 58.49/58.65, implying weakness in short term trend. Moreover, RSI is hovering below 40 levels which ruled out further bullish momentum in price. So form the above it is expected that price to move in the range of 59-57.40 for near term with sideways to downside bias. Close of the either side would bring further clarity in the trend.

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

In escalating trade war with China, U.S. consumers may see higher prices

The United States and China on Sunday put in place their latest tariff increases on each other's goods, potentially raising prices Americans pay for some clothes, shoes, sporting goods and other consumer items before the holiday shopping season.

President Trump said U.S.-China trade talks were still on for September. "We'll see what happens," he told reporters as he returned to the White House from the Camp David presidential retreat. "But we can't allow China to rip us off anymore as a country."

The 15% U.S. taxes apply to about $112 billion of Chinese imports. All told, more than two-thirds of the consumer goods the United States imports from China now face higher taxes. The administration had largely avoided hitting consumer items in its earlier rounds of tariff increases.

But with prices of many retail goods now likely to rise, the Trump administration's move threatens the U.S. economy's main driver: consumer spending. As businesses pull back on investment spending and exports slow in the face of weak global growth, American shoppers have been a key bright spot for the economy.

"We have got a great economy," said Sen. Pat Toomey, R-Pa. "But I do think that the uncertainty caused by volatile tariff situation and this developing trade war could jeopardize that strength, and that growth, and that is, I think, that's a legitimate concern," he told ABC's "This Week."

As a result of Trump's higher tariffs, many U.S. companies have warned that they will be forced to pass on to their customers the higher prices they will pay on Chinese imports. Some businesses, though, may decide in the end to absorb the higher costs rather than raise prices for their customers.

In China, authorities began charging higher duties on American imports at midday Sunday, according to employees who answered the phone at customs offices in Beijing and the southern port of Guangzhou.

Tariffs of 10% and 5% apply to items ranging from frozen sweet corn and pork liver to marble and bicycle tires, the government announced earlier.

After Sunday's move, 87% of textiles and clothing the United States buys from China and 52% of shoes will be subject to import taxes.

On Dec. 15, the Trump administration is scheduled to impose a second round of 15% tariffs — this time on roughly $160 billion of imports. If those duties take effect, virtually all goods imported from China will be covered.

Source: bostonherald.com- Sept 01, 2019

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ICE cotton falls for fifth straight month on trade woes

Prices have fallen nearly 8 per cent this month.

ICE cotton futures inched down on Friday in thin volume, due to lack of clarity in the US-China trade negotiations, sending the natural fiber down for a fifth straight month.

Cotton contracts for December settled down 0.17 cent, or 0.29 per cent, at 58.83 cents per lb. It traded within a range of 58.46 and 59.3 cents a lb. Prices have fallen nearly 8 per cent this month.

“"Cotton is falling because of lack of interest and trade (US-China negotiations) is not going anywhere,” said Sid Love, commodity trading adviser at Kansas-based Sid Love Consulting. “The trade war scenario is causing a lot of uncertainty and that is keeping speculative traders out,” Love said.

Prices had dropped to a 3-1/2 year low earlier this week and have declined nearly 20 per cent so far this year as the US-China trade war hurts demand. Recent rains in Texas, a major crop-producing state, are giving a boost to crop conditions previously impacted by extreme heat, traders said.

Source: economictimes.com- Sept 02, 2019

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Brazilian cotton expansion tempered by infrastructure bottlenecks

Cotton production in Brazil – the world's second largest cotton exporter – could rise by 40 per cent over the next decade, and exports could more than double, according to the latest report from Rabobank.

However, logistics remain a bottleneck for the future growth of the country's cotton exports.

In the report 'Infrastructural bottlenecks squeeze Brazilian cotton expansion', the bank says 99 per cent of Brazilian cotton exports are currently moving through the Port of Santos, located 2000 kilometres away from the key production regions.

With export capacity almost exhausted, Rabobank sees investment in new routes for cotton exports and the development of infrastructure within farms as critical for future growth.

The report author, Rabobank's Brazil-based senior grains and oilseeds analyst Victor Ikeda says: "In order to reach this production growth and export potential, investments need to take place mainly in the development of existing export capacity, 'new' export corridors and ginning capacity."

The history of cotton production in Brazil shows an industry that has overcome crisis.

From that crisis (resulting from pest pressure and poor economic competitiveness), Brazil emerged to become the world's second largest cotton exporter, increasing exports from 2.8 million bales in 2008/09 to 6.2 million bales in 2018/19.

Implications for Australia

Brazil's expansion into cotton is rightly considered a threat to the Australian industry, according to Rabobank's Australian cotton analyst Charles Clack, due to the competition in the same export season and to similar markets at a lower cost-of-production.

"For now, Brazil's influence has been somewhat muted as the US-China trade war, coupled with local drought, means Brazilian cotton has been able to replace bales others exporters simply couldn't supply," he said.

"Looking ahead, Rabobank anticipates Brazil to rise in terms of influence on both local and global markets – especially as it overcomes its current infrastructure constraints."

Rabobank forecasts Brazilian output to rise to 18 million bales by 2028/29, on par with the US.

However, Mr Clack said the Brazilian model was still vulnerable to risk – particularly the weather.

"The second-crop nature of cotton production, coupled with reliance on rainfall, means Brazilian output will remain vulnerable to 'mother nature' on a year-by-year basis. Any swings in production will have considerable influence on the global balance sheet," he said.

Source: graincentral.com- Sept 03, 2019

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Bangladesh: What does the future hold for our apparel industry?

Over recent weeks, as the world celebrated the achievements of Neil Armstrong and the crew of Apollo 11 50 years ago, and with Armstrong's immortal "one giant leap for mankind" statement—as he descended the steps of the Eagle lunar landing craft—being so widely repeated, my thoughts turned to another momentous event closer to home: the independence of Bangladesh, the fifty-year anniversary of which will be celebrated in 2021, and the changes that had taken place since.

Much has happened in the country since those fateful days in 1971. Free from the tyranny of centuries of colonialism and an oppressive controlling nation, Bangladesh has flourished and a significant contributor to this change in the nation's fortunes has been its ready-made garment (RMG) industry.

Since its inception in the early 1980's, the RMG industry has rapidly grown, accounting for some 83 percent of the nation's exports, contributing in excess of USD 36 billion to the economy and employing in excess of 4.4 million people, with over 65 percent of those being female.

Bangladesh is now one of the Asian region's most remarkable and unexpected success stories (the country was ranked 41st among the world's largest economies in a report published by the UK-based Centre for Economics and Business Research in December 2018)—an achievement that all of us involved in the RMG industry should be justifiably proud of.

Now, however, is not a time for us to rest on our laurels. With the nation gearing up for elevation from the Least Developed Country (LDC) status to that of the Developing Country in its 50th anniversary year, now is the time for us to consider what steps need to be taken to ensure the continuing success and longevity of the RMG sector.

The mass-volume business model that our RMG industry was both based on and thrived on, since its establishment, is slowly becoming a thing of the past. As the "Ten Trends for the Fashion Industry to Watch in 2019" report, issued by McKinsey & Company in January 2019, noted: "Automation and data analytics have enabled a new breed of start-ups to achieve agile made-to-order production. Mass players will begin to experiment next, responding more rapidly to trends and consumer demands, achieving just-in-time production and reducing overstock and making short, small-batch production cycles the new norm."

This poses an undeniable threat to an industry such as our RMG sector, which is finely tuned to service the needs of the mass volume and the commodity apparel market which, in itself, will soon be unrecognisable from its current format. Retailers and brands in Bangladesh's core markets of the USA and the EU are facing challenging and changing marketing conditions and the backlash from these will soon be fully felt by any apparel suppliers to those customers, not only in Bangladesh but globally.

Now is the time for Bangladesh's RMG industry to consider emerging markets and, as the nation gains the Developing Country status, to explore the potential for developing the apparel business domestically.

China, for example, once considered “the factory of the world”, is now recognised as the world’s fastest growing consumer market, accounting for 18 percent of all final goods consumed. With a rapidly expanding middle class with the ability to flex their purchasing muscle and a desire to express their own taste through fashion, the Chinese market is one that Bangladesh can look to develop.

The rise in fortunes of India is another case in point. “The Indian middle class is forecast to expand at 19.4 percent a year” between 2018 and 2022, according to the same McKinsey & Company, with India “set to move from being an increasingly important sourcing hub to being one of the most attractive consumer markets outside the Western world.”

Again, the growth of the Indian market and the booming middle classes offer alternative business opportunities for Bangladesh’s RMG sector, away from our traditional markets.

The current state of the apparel market in Bangladesh’s key export areas of the USA, EU and the United Kingdom is well-documented, but of no less importance is the shift in consumer awareness, demand for sustainable fashion product, the burgeoning growth of the circular fashion economy, and novel ways of accessing fashion product.

As the report from McKinsey & Company states: “The shift to new ownership models is driven by growing consumer desire for variety, sustainability and affordability and sources suggest that the resale market, for instance, could be bigger than fast fashion within ten years.”

This zeitgeist in consumer attitudes was echoed by an article in the UK’s Guardian newspaper, which noted that: “Even cleaning and mending services appear to be in vogue. Earlier this month (December 2018), H&M brought its free mending service to the UK, making it a key part of a store revamp in Hammersmith.”

Alongside this, garment recycling is also becoming mainstream, with mass market retailer Primark set to launch a clothing take-back scheme in 2019, joining similar efforts by companies including M&S and H&M that have been in operation for several years.

With this changing customer demand in mind, retailers are no longer content with just setting up a few racks of “eco-clothing” within their store but are re-evaluating their entire product offer and investigating ways to make it more sustainable. This is not something that Bangladesh’s RMG industry needs to fear; developments in the sector over the last five years have seen the industry grow into one of the safest, compliant and eco-friendly apparel sectors in the world.

Indeed, these changing market conditions can be seen as an opportunity for the sector as, with the decline in China’s powers as an apparel resource, Bangladesh along with Ethiopia, Myanmar and Vietnam emerged as the top countries that executive respondents to the McKinsey & Company report expect to increase sourcing from.

The key to taking advantage of this situation will be to embrace the change in customer demands and adapt to the smaller-volume production runs and improved speed to market through investment in the appropriate technology. The apparel value chain seems destined to be moving to a high-tech, fast-moving future and we, as an industry, need to be prepared.

Where do we go from here? What does the future hold? These are questions that we don’t have a definitive answer to, but given our resilience as a nation and as an industry, I am convinced that collectively we can find the key to enable the ongoing growth and success of the RMG sector and our nation as a whole.

Source: thedailystar.net- Sept 01, 2019

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Asian factories lashed by trade wars, slowing demand in August

Japan factory activity falls for fourth month

The bitter trade war between China and the United States kept Asian factory activity mostly in decline in August, business surveys showed, strengthening the case for policymakers to unleash fresh stimulus to fend off recession risks.

In a surprise development, China's factory activity unexpectedly expanded in August as output edged up, a private sector purchasing managers' index (PM) showed on Monday, but orders remained weak and business confidence faltered.

Export-reliant South Korea, Japan and Taiwan also saw factory activity shrink, underscoring the growing pain from the tit-for-tat tariff war between the world's two-largest economies. “The broader picture for Asian exports remains very weak because of the impact of the US-China trade war, which is continuing to escalate,” said Rajiv Biswas, Asia Pacific chief economist at IHS Markit.

In a fresh escalation of trade tensions, the United States began imposing 15 per cent tariffs on a variety of Chinese goods on Sunday. China reciprocated with new duties on US crude oil.

In China, the Caixin/Markit Manufacturing Purchasing Managers' Index (PMI) for August rose to a five-month high of 50.4 from 49.9 in July, beating a median market forecast and exceeding the 50-point level that separates contraction from growth on a monthly basis. The reading followed Beijing's official PMI that showed factory activity shrank in August for the fourth month in a row, pointing to a further slowdown in the world's second-largest economy.

India, another Asian economic power-house, saw the slowest expansion in its manufacturing sector in 15 months as demand and output grew at their weakest pace in a year.

Data on Friday showed India's economic growth hit a 6-year low in April-June, raising chances of the central bank cutting interest rates further at its next meeting.

Gloom may hit services

Elsewhere in Asia, Japanese manufacturing activity fell for a fourth straight month in August, underlining a darkening outlook for the world's third-largest economy. While Japan's exports slipped for an eighth month in July due to slumping China-bound sales, the economy has so far enjoyed steady growth thanks to robust domestic demand.

But there are signs the economy may start to lose the support from consumption and capital expenditure. Manufacturers surveyed in the PMI data said the end of a construction spike ahead of the 2020 Tokyo Olympic Games and a scheduled sales tax hike in October are expected to hurt output volumes the coming months.
Any further sign of weakness in domestic demand could add pressure on the Bank of Japan to ramp up stimulus at its rate review on Sept. 18-19, which follows the European Central Bank's rate decision and that of the US Federal Reserve.

“The US-China trade war is escalating and we're also seeing tensions heighten between Washington and Europe,” which could cause the global economy to falter, said Yoshimasa Maruyama, chief market economist at SMBC Nikko Securities. “Japan may slide into recession around the time the sales tax hike takes effect,” he added.

South Korean's factory activity also shrank as manufacturers felt the pinch not just from the US-China trade war but an escalating diplomatic dispute with Japan. The country's exports tumbled in August for a ninth straight month on sluggish demand from its biggest buyer, China, and depressed prices of computer chips globally.

The bleak data strengthened the case for additional policy easing by South Korea's central bank, following a surprise interest rate cut in July. “The simple message is number one, the US and China are at logger heads, and China is already proactively responding and basically started to divorce itself from the regional supply chain,” said Michael Every, senior Asia-Pacific strategist at Rabobank. “Eventually the service sector will be dragged down by the manufacturing sector.”

Source: thehindubusinessline.com- Sept 02, 2019

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Bangladesh: RMG, textile machinery imports fall by 11.04%

Absence of new investment, downtrend in private credit growth cited as reasons

Bangladesh’s garment and textile machinery imports registered an 11.04% fall to $1.43 billion in the last fiscal year for lack of new investment in the primary textile and clothing industry.

However, the overall imports of capital machinery in FY19 fell by 9.43% to $4.67 billion, which was $5.16 billion in the previous fiscal.
According to Bangladesh Bank (BB) data, in the fiscal year 2018-19, Bangladesh imported textile and garment machinery worth $1.42 billion, down by 11.04%, which was $1.60 billion in the previous year.

Imports of textile machinery saw an 18.40% decline to $663 million, while garment machinery imports plunged by 3.52% to $767.15 million.

Why this slowdown

Industry people and the economists think that absence of new investment and downtrend in private credit growth caused by crisis in the banking sector dragged down the imports of capital machinery.

On top of that, the national election at the end of 2018 was another reason for the down trend in imports as investors turned cautious at that time.

“The apparel industry has been at a matured stage for quite a few years and we should not expect the growth in capacity expansion like in a rising industry, unless a significant change takes place in innovation,” BGMEA President Rubana Huq told Dhaka Tribune.

"In addition, production cost has gone up significantly, especially after the increase in minimum wages in 2018. A reconsolidation of the industry can be noticed as SMEs are winding up while bigger factories are expanding," said Rubana.

According to BGMEA, the number of new factories registered with BGMEA in FY2017-18 was 82 which came down to 60 in 2018-19 fiscal.

On the other hand, economists mention the crisis in banking sector as another reason, which has created cash crunch hindering new investments.

“Individual credit flow, which means new investment or expansion of existing business has decreased. Moreover, problems in the country’s financial sector have deepened, which hindered private investment for new projects or expansion,” former World Bank Bangladesh lead economist Zahid Hussain told Dhaka Tribune.

As a result, capital machinery for the apparel and textile industry saw a downtrend in the last fiscal year, said the economist.
According to Bangladesh Bank (BB) data, private sector credit growth hit a six-year low to 11.29% in the last fiscal year.

Meanwhile, uneven competition by the illegal import of Indian and Pakistan products and rise in production cost discouraged new investment in the primary textile industry.

“A huge amount of fabrics and yarn has remained piled up at warehouses in the country's primary textile sector. But the manufacturers cannot sell them as illegal imports have taken lead over the local industry,” Khorshed Alam, a former director of Bangladesh Textile Mills Association, told Dhaka Tribune.

It became very difficult to compete with the Indian and Pakistani fashion goods, while for rise in production cost apparel makers were preferring to import yearn and fabrics, Alam observed.

As a result, he said, new investment in the sector were nor seen in the recent year, while existing businesses were wary about expanding business as they already had unused capacity and illegal imports were taking toll on the local industry.

Uncertainty over national election held in December last is also considered to be another reason for the slower private investment.

"Ahead of election there was uncertainty over the transition of power, which made the investors cautious about opening new letter of credit to import machinery for new investment as it may delay the implementation of project," Ahsan H Mansur, executive director of Policy Research Institute and chairperson of Brac Bank, told Dhaka Tribune .

As a result, the import of capital machinery for apparel and textile industry witnessed a decline, said Mansur.

How to boost investments

"The government has set a target to earn $50 billion from the clothing sector, and such a downtrend in imports of machinery, caused by slower investment, is a great concern for attaining the target," Envoy Textile Managing Director Abdus Salam Murshedy said.

On the other hand, in reaching the 8.2% GDP growth, Bangladesh needed to increase private investment, said Salam.

So, in the present context, the government should focus on increasing the cash flow to private sector and remove trade barriers, Salam suggested.

Private investment to GDP has been hovering between 22% and 23.4% for the last one decade.

Source: dhakatribune.com - Sept 01, 2019

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Bangladesh, India to form expert group to work out trade remedies

Bangladesh and India have agreed to establish an expert group on trade remedy measures to hold consultations on disputes related to anti-dumping duty, countervailing duty and safeguard measures before taking legal steps by any of the countries.

A memorandum of understanding on establishment of a framework of cooperation in the areas of trade remedial measures, under which the expert group will be formed, will be signed in this connection.

Bangladesh commerce ministry on July 11 forwarded a note verbale with its views on a draft MoU prepared by India on the issue and is now waiting for response from its Indian counterpart, commerce ministry additional secretary Sharifa Khan told New Age on August 29.

The ministry will also send the draft MoU to the Prime Minister's Office for considering signing the MoU during the prime minister Sheikh Hasina's upcoming visit to India, she said.

She said that establishing the expert group committee would create a platform for discussing trade remedy measures, known as anti-dumping duty, countervailing duty or anti-subsidy and safeguard measures, and solving many of those without legal steps.

The issues of imposition of such duty will come first at the expert group and both the sides will hold meetings to solve the issues before going direct legal action or imposition of the duty, she added.

Bangladesh so far faced the highest number of anti-dumping and related duties from India, said officials of the Bangladesh Tariff Commission, which is the designated authority to deal with such duties.

India first in 2002 imposed anti-dumping duty on the lead acid battery export from Bangladesh. Later in 2005, the country withdrew the duty after Bangladesh filed case with the dispute settlement body of the World Trade Organisation.

In last few years, India imposed the duty on Bangladesh's export of jute and jute goods, hydrogen peroxide and fishing net. The country also imposed duty for alleged circumvention of anti-dumping duty on export of jute sacking cloth from Bangladesh.

Besides, Pakistan imposed anti-dumping duty on import of hydrogen peroxide from Bangladesh and Turkey imposed the duty on import of synthetic yarn from Bangladesh.

Officials said that India included anti-dumping and countervailing duty as the areas of cooperation under the MoU but Bangladesh suggested inclusion of safeguard measures in the draft.

The commission officials have been struggling to deal with the issues due to lack of trainings and cooperation from stakeholders including other countries and local traders.

India has expertise on the issues as the country has on regular basis been imposing such duty on export of various goods by other countries and facing such duties imposed by other countries on exports from India.

According to the draft of MoU, the proposed expert group will undertake a number of activities including exchange of information, guidelines and laws and regulations, exchange of experts and organising trainings and seminars on trade remedial measures to enhance cooperation in the areas of trade remedial measures and in the areas of common interest.

The group will act in accordance with various provisions of the World Trade Organisation and relevant domestic laws in the areas of anti-dumping, countervailing duty and safeguard measures.

Both the parties will notify and invite each other well in advance as reasonably feasible before initiating investigations into the issues to clarify matters with the objective of arriving at a mutually agreed solution.

Under the MoU, cooperation between the two parties will be carried out without any infringement of the rights and obligations of the countries under the international agreements on trade remedies and domestic laws and regulations.

Source: newagebd.net- Sept 02, 2019

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Bangladesh: Reaching Europe through Delhi

If the recent delivery of garment shipment from Dhaka to Manchester via Indira Gandhi International Airport's newly-launched Transshipment Excellence Centre (TEC) is anything to go by, it could emerge as a boon for Bangladesh's textile and retail industry looking to reach markets in Europe and the US.

The shipment was unloaded from a recently-resumed Biman Bangladesh Airlines flight to Delhi and loaded again to a foreign airline.

The transfer process took just about half an hour, officials of Delhi International Airport Limited (DIAL) told The Daily Star.

The average time for reconnection of transshipment cargo is between 45 minutes and six hours, they said.

Until now, transshipment of garment from Bangladesh was solely through Dubai.

But with Delhi now serving as a transshipment point the time and cost of freight have come down, according to officials.

"TEC at Delhi airport will contribute significantly in promoting Bangladesh's textile and retail industry leveraging to carry and connect voluminous air cargo across the world," said Sanjiv Edward, chief commercial officer of DIAL.

Given the emergence of fast fashion in First World countries, there is a growing need of a transshipment hub to fast connect Bangladesh to the rest of the world, he added.

Delhi airport provides maximum airline connectivity to the world among all the Indian airports, serving around 145 destinations.

Since Bangladesh has no direct flights to various ports in Europe and the US, Delhi airport will serve as a transshipment hub providing tremendous opportunity and connectivity to cargo originating in Bangladesh, Edward said.

The TEC facility, which is a first-of-its-kind in any Indian airport, was created with the view to making the GMR Group-run Delhi airport a transshipment hub.

Spanning 6,500 square metre, TEC has round-the-clock operation to provide smooth and fast movement of transshipment cargo in a well-integrated facility equipped with all the required infrastructure and cargo handling equipment.

The customs and the Indian government have given their clearances to DIAL to operationalise the dedicated transshipment centre and charted out the Standing Operating Procedure (SOP) for handling transshipment cargo, DIAL officials said.

Delhi has India's largest and busiest airport having two state-of-art cargo terminals to handle all types of cargo, such as textile, retail, electronics, perishable, pharma, project cargo, live stocks, etc.

It has a cargo handling capacity of over 1.8 million tonnes annually, which can go up to 2.3 million tonnes. In financial year 2018-19, Delhi airport set a new milestone in India by recording the highest ever cargo handling of over one million tonnes in a year.

Delhi airport also has a dedicated temperature control facility with a capacity to handle around 1.5 lakh tonnes perishable and pharma cargo annually to ensure end-to-end temperature controlled supply chain, DIAL officials said.

Source: thedailystar.net- Sept 01, 2019

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Pakistan: Textiles: spinning threadbare yarn amid looming limbo

The second decade of this century saw a transformation in the efficiency of the textile industry with the advent of innovative equipment that consumes 60 percent less energy, produces more yarn/fabric per hour, and requires only 35 percent of the workforce; however, this kind of upgrade is still a long way from Pakistan.

Data from International Textile Manufacturers Federation reveals that in last decade (data available from 2008-09 till 2016-17) Pakistan during this period added 20 times less spindles than China, nine times less than India, and 1.2 times less than Bangladesh.

In the same way it installed 62 times less shuttle-less looms than China, 11.5 times less than India and 5.4 times less than Bangladesh.

We must keep in mind that this textile machinery continued increasing in efficiency almost every year.

According to the available data China added 6.1 million spindles in 2008-09, 3.7 million in 2009-10, 5 million in 2010-11, 7.9 million in 2011-12, 6.4 million in 2012-13, 6.2 million in 2013-14, 4.4 million in 2014-15, 3.3 million in 2015-16, and 3.9 million in 2016-17. India during the same period added 20.4 million new spindles and Bangladesh added 3.75 million spindles.

Pakistan on the other hand added only 2.45 million spindles. Regionally we are far behind our three competitors in modernisation of yarn machinery.

China in the meantime has also relocated sizable spinning equipment to Vietnam, which is incidentally outcompeting Pakistan yarn in global yarn markets.

The situation is far worse in weaving where China has added 427,000 shuttle-less looms during the period under discussion. India has added 89,000 shuttle-less looms and Bangladesh 41,000. Pakistan on the other hand has added only 7,600 modern shuttle-less looms.

We have much less capacity to produce fabric than even Bangladesh. It is pertinent to note that new spinning machines compared with those used in Pakistan are speedier (produce more yarn per hour), consume 60 percent less power and employ only one third of the workforce.

The chances for yarn markets are limited because the main yarn markets now are China, India, Bangladesh, and Vietnam.

Each of these countries has increased their yarn-making capacities and is an efficient producer of yarn.

Pakistani fabric producers have not introduced new varieties and are now limiting themselves to the huge domestic market. The new looms are not as efficient and limit the penetration of Pakistani fabric in the global markets.

In 2005, when the textile trade became quota-free, all the creditable institutions declared Pakistan's basic textiles the most efficient in the world.

The reason was that besides having competent skilled textile labor its machines were new and better than its global competitors. Even then the industry further upgraded its equipment in the next two years.

That was the last technology upgrade of basic textiles in Pakistan. Fourteen years onwards the basic textile industry of Pakistan is in shambles operating on 12-14 years old technology.

The new technology has also reduced the advantage of cheap labour that Pakistan currently enjoys. The new technology is automated and its labour requirements are 1/3rd that of new machines.

High power consumption of Pakistani textile machinery further erodes this advantage.

The inability to upgrade technology played havoc with the textile industry. Already 25 percent of the industry (over 100 mills) has closed down mainly due to obsolete and inefficient spindles and looms.

Some critics blame the textile entrepreneurs for their failure to upgrade technology when the going was good.

However, Gohar Ejaz, a top industry official at All Pakistan Textile Mills Association (APTMA), laments that it was not because of lack of resources that the technology upgrade was not undertaken but it's due to various problems industry faced because of inconsistent government policies.

Ejaz said this government had removed most of irritants.

The APTMA leader said the main irritant in the past one decade was the shortage of power and energy; though and a number of issues were resolved in last two years, the cost of energy for Punjab (where 70 percent industry is located) was very high.

He said the present regime immediately after assuming power assured that the power and energy rates would be resolved on long-term basis.

Ejaz said the power and energy prices had been reduced but the government notified these rates on six-monthly basis.

The industry, he said, needed long term 4-5 years stability in current rates, adding, to attract fresh investment long-term power and energy supply must be assured at regionally competitive rates as available currently.

Ejaz claimed that at least one hundred entrepreneurs in Pakistan were ready to invest $100 million each in new textile units if a long-term competitive energy/power tariff is announced.

Source: thenews.com.pk- Sept 03, 2019

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Pakistan: Quality concerns hit cotton buying

Selective buying from textile spinners restricted trading volume on the cotton market on Monday.

According to market sources buyers took cautious approach towards building up their cotton stocks and kept to the sidelines. The fresh spell of rains is feared to cause extensive damage to the crop besides affecting the quality of lint.

The world leading cotton markets also remained under pressure with New York cotton closed for labour day holiday, while Chinese and Indian markets posted losses.

Stagnant rain water in the fields is harmful for the crop. The higher moisture in the phutti (seed-cotton) will also affect the quality of lint, cotton analyst Naseem Usman said.

The polyester fibre prices were lowered by Rs2 to Rs180 per kg owing to lower demand.

The Karachi Cotton Association kept its spot rates unchanged at Rs8,000 per maund.

The following deals were reported to have changed hands on the ready counter: 1,200 bales, Shahdadpur, at Rs7,800 to Rs7,900; 1,800 bales, Tando Adam, at Rs7,750 to Rs7,900; 1,000 bales, Hyderabad, at Rs7,750 to Rs7,800; 1,400 bales, Sanghar, at Rs7,700 to Rs7,900; 1,000 bales, Vehari, at Rs8,365; 600 bales, Haroonabad, at Rs8,350; and 600 bales, Bahawalnagar, at Rs8,300.

Source: dawn.com - Sept 03, 2019

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NATIONAL NEWS

Cotton spinners bleed on falling realisation, several MSMEs shut shop

Pressure exacerbated by increasing labour costs, interest on working capital, land, plant and machinery

Thousands of cotton spinning mills have shut shop the past three months due to a sharp decline in realisations from both domestic and international markets, following weak global demand.

An Icra study said that the average realization from cotton yarn stood at Rs 212 a kg (for 30s carded) in July, a decline of around six per cent from Rs 225 a kg averaged in the quarter between April and June 2019. During the last one year, however, the average realization was recorded at Rs 220 a kg from cotton yarn of 30s carded variety. Similarly, realization from other varieties of cotton yarn also declined.

The decline in average realisation has put a question mark on the very survival of cotton spinning mills, with increasing fixed costs such as labour, interest on working capital, land, plant and machinery adding to their woes. Recovery in overall sentiment is not in sight resulting into closure of many small and medium size mills and rendering thousands of workers jobless.

"In view of the sharp decline in exports, the spinning sector is in a very critical situation as many production units are shutting down. The sector needs urgent policy support, including three per cent of interest equalization to cotton yarn. This will help the cotton yarn sector and the spinning industry at large to minimise losses and regain competitiveness," said K V Srinivasan, Chairman, The Cotton Textile Export Promotion Council (Texprocil).

With expectations of a better crop in the ongoing sowing kharif season, cotton fibre prices are likely to correct to a level lower than the average prices observed during the harvest season ended March 2019.

Exports of cotton textiles continued their downward spiral declining by 24.5 per cent during April-July. During the first three weeks of August, overall cotton textiles exports are seen declining by a staggering 25 per cent.

"A sharp and precipitous decline, especially in cotton yarn during the last four months, by about 35 per cent, has led to a crisis situation in the spinning industry. In fact, the monthly exports of cotton yarn are at a five-year low of 59-60 million kg. Exports to major markets like China have declined by 50 per cent and Bangladesh by 38 per cent and Korea by 45 per cent," said Srinivasan.

The spinning and weaving sector attracts 6-7 per cent of various state and central levies which works out to more than the average profit margins of 3-4 per cent in this industry. Hence, the refund on these levies would provide a breather for the industry, said an industry expert.

Meanwhile, the rating agency Icra forecasts performance of the domestic cotton spinners to weaken in FY2020, following a brief recovery in FY2019, as they are grappling with the twin challenges of weak export demand and uncompetitive cotton prices.

The de-growth in volumes due to lower export demand and a sharper decline in realisations vis-a-vis cotton prices because of higher minimum support price (MSP)-led floor price for cotton are expected to result in a decline in turnover and an estimated 1-1.5 per cent compression in operating profitability of domestic cotton spinners during the year FY2020.

"A large proportion of spinners have not undertaken capacity expansions in the recent years, given the discouraging demand trends during this period, coupled with the discontinuance of subsidy benefits under the government's Technology Upgradation Fund Scheme (TUFS) for the spinning segment.

This has resulted in a consistent decline in term borrowings for such companies in recent years with scheduled debt repayments, due to which the impact on their debt coverage metrics and liquidity could be lower, despite industry pressures," said Jayanta Roy, Senior Vice-President and Group Head, Corporate Sector Ratings, Icra.

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

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Terry towel makers use recycled PET bottles, hosiery waste to cut costs

Facing stiff competition from Pakistan, with its devalued currency, and Bangladesh, which has stronger export policies, terry towel manufacturers in India have started using blended yarn made from recycled PET bottles and hosiery waste to make cost-effective products and stay afloat in the business.

The withdrawal of the generalised system of preferences (GSP) in June 2019 has made India's terry towel exports to the United States 10 per cent costlier than similar products from Pakistan and Bangladesh. India's two neighbours, however, continue to enjoy GSP benefits.

"The industry has started using yarn made of PET bottles and hosiery waste to reduce input cost, which was the only way out to stay competitive in exports. By replacing a part of cotton yarn from the input, our terry towels are now 30 per cent cheaper than those made in Pakistan, making us competitive now in the US market despite GSP withdrawal," said Govind Zanwar of Beyond, a terry towel maker in Solapur, Maharashtra.

Fortunately, both cheap raw materials — PET bottles and hosiery waste -- are adequately available in India. Also, primary processors of these wastes in Tamil Nadu import these raw materials from abroad.

"There are four layers in terry towels. Of which both outer layers that are in touch with skin continue to be made of cotton yarn. But yarns used to make the two inside layers have been replaced with PET bottles and hosiery waste. We have even showcased these products for global players," said Rajesh Goski, Chief Executive Officer, Textile Development Foundation.

The overall home textile market in India is pegged at $5.6 billion of which exports contribute nearly 50 per cent. The US alone takes up 28 per cent of India's overall exports of $2.8 billion and hence, is significant for the domestic terry towel industry.

According to Siddheshwar Gaddam, Chairman, TDF, the terry towel industry in India was using 100 per cent of cotton until recently, but has been now resorted to blending with five per cent of polyester. This polyester blending may go upto 30 per cent with the emaining 70 per cent being cotton.

Cotton prices remained elevated in India over the past one year with the benchmark Shankar-6 variety quoting at Rs 12,300 a quintal in the spot market.

Zanwar said there is a big demand for terry towels made from blended raw materials in the US, as consumers go for cost-effective products with good quality control equivalent to 100 per cent cotton products.

Source: business-standard.com – Sept 02, 2019

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Chile wants to expand India trade ties, says Rodrigo Yanez, country's vice-minister of trade

Chile, India's sixth largest trade partner in the Latin American region, wants to expand relations with India. It is exploring avenues to increase knowledge sharing between the countries about each other's production structures as well as to identify value chains.

As Chile and India celebrate 70 years of establishment of diplomatic relations, its vice minister of trade, Rodrigo Yanez, who is on a visit to India, said in an interview with FE's Rishi Ranjan Kala that his country is interested in transforming the preferential trade agreement (PTA) into a more comprehensive accord. Excerpts:

How would you characterise the relationship between India and Chile?

This year (2019), Chile and India are celebrating 70 years of establishment of diplomatic relations, and I believe that our countries are currently under a unique position to further our bilateral economic relations.

I would also like to highlight the outstanding economic relationship between our countries, primarily achieved through the PTA, which came into force in August 2007 and the positive effects generated by the expansion of the PTA in May 2017, which has substantially increased our bilateral trade.

The India-Chile merchandise trade dropped to $2.2 billion in 2018-19 from around $2.9 billion in the previous fiscal. How do you propose to boost bilateral trade that is currently far below the potential?

So, in the context of room for expansion of PTA, the opportunities are enormous. Around 70% of our tariff lines are yet to be opened for India and 90% of Indian tariff lines are yet to be opened for Chile. What we have seen after the last expansion of the PTA is that regardless of how limited it was, it has boosted our trade with India. So, I think we have proof that PTA has been successful and as we have agreed with India to substantially increase the number of tariff lines so that trade is more comprehensive.

What items do you think can help expand trading relations between the countries?

We have our wine. Also, there is a whole industry of health foods in Chile that we believe has a lot of potential in India given the change in consumption patterns and a growing middle class who Chile can serve. For instance, oats can be a good product to expand trade.

We can also provide raw materials for making food products and also items like avocado and fish (salmon). Besides, something discussed by our President Sebastian Pinera and Prime Minister Narendra Modi which is to look at growth in services and investments (this will be dealt independently). Pharmaceuticals, especially high quality generic pharma (we have inked an MoU in this direction) and Chile is a big consumer of Pharma products.

Roughly a third of India's exports to Chile comprise only cars and other vehicles, while 70% of Chile's exports to India have been just ores, slag and ash. Do you think the lack of variety has hampered bilateral trade growth and how can the export product basket be widened to improve trade volumes?

We can help each other identify value chains on both sides. More knowledge of each other's production structures will help expand trade. So, we are increasing our trade commission here. So, probably, we will be opening a second trade commission office in a large Indian city because we have to increase and remain close to India and understand the opportunities here.

We are willing to make investment and efforts in Indian market and help India look at Chile as a gateway to Latin America.

Is Chile considering any free trade agreement with India?

Well, this is something which is part of our trade policy and we want and would like to see our trade relations from a more comprehensive manner. We want relations to expand and go deeper. After Brazil, we are the second largest importer in Latin America and India represents roughly 1% of our inputs so I think different opportunities can be explored to grasp that potential and must be accompanied by a proper framework.

Certainly, we would love to advance in the medium term to a comprehensive economic agreement with India or a Free Trade Area (FTA), but we don't want it in anyway to diminish the relevance of the steps we are taking today because I think both parties are determined to advance with an ambitious approach.

These are challenging times for global trade, given the US-China trade. How do you see the impact on Chile in particular and Chile-India trade in general?

Chile is highly exposed to international situations and like the one going on now because we are a very open economy. Our first and second trading partners are the China and the US.

Half of our exports go to these markets and therefore the situation is stressing our economy and exports. Price of copper has dropped nearly 12% this year and overall because mainly of the impact in copper our exports have decreased by about 6% during the first 6 months of this year.

So in this context what we look to make trade more resilient and stronger from this situation. In order to do so what we are doing is increasing our presence in markets like India, Southeast Asia and Asean countries. Besides, we will soon enter into an FTA with Indonesia and also the Comprehensive Economic Partnership Agreement. In India, we have started the process of modernisation of our PTA. This was discussed by our leaders at the G7 summit recently.

The US has been seeking reforms to the WTO. It has also complained that many countries are ‘self-designating’ themselves as developing nations at the WTO to enjoy special and preferential treatment. What is Chile’s views on these issues?

We are part of the countries, that according to the US, should waive their special and differential treatment because we are an OECD country and because we are a high income country according to the World Bank. But, we of course are not closed to the idea of further discussing this.

As given the context of the world scenario around the trade uncertainty and the future of WTO, all WTO members should be willing to discuss to improve and strengthen the WTO.

So in this particular case, I think as a developing country, we have a pragmatic approach in terms of being open to discuss and review and how we could improve the use of this special status, while at the same time not forgetting the need and purpose for this special and differentiated treatment.

Because it has rationale and simply it has to remain, but we are open to participate in a constructive manner to the discussion around these and the challenges of developing countries in trade.

But we have many tasks still pending. For instance for us being a small and highly competitive economy and so subsidies on fisheries and agriculture are relevant. We have a clear position and we are trying to participate in exploring a solution.

Source: financialexpress.com – Sept 03, 2019

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Manufacturing growth slows to 15-month low in August: PMI

Reflecting the slowdown in the economy, the results of a private survey presented a dismal picture of the manufacturing sector on Monday. Manufacturing has a 17 per cent share in GDP (Gross Domestic Product).

The survey, known as the Manufacturing Purchasing Sectors' Index (PMI), is conducted by IHS Markit. It slipped to 51.4 in August from 52.5 in July. Though still in expansion mode, the index has fallen to its lowest since May 2018.

This index is prepared on the basis of a survey which is conducted among purchasing executives in over 400 companies. These companies are divided into eight broad categories: basic metals, chemicals and plastics, electrical and optical, food and drink, mechanical engineering, textiles clothing, timber and paper, and transport.

An index of over 50 shows expansion, while an index below 50 means contraction. The index is prepared by IHS Markit and released along with a detailed report. This index is widely quoted to explain the latest industrial situation.

The PMI Survey report has been released three days after it was announced that GDP growth dropped to a 25-quarter low of 5 per cent during the April-June quarter (first quarter) of fiscal 2019-20.

At the same time, auto sales remained in reverse gear during August, when companies' domestic sales dropped by up to half when compared to sales during the same month last year. All these make a strong case for fiscal stimulus by the Government, apart from a policy rate reduction by the Monetary Policy Committee (MPC).

Commenting on the latest survey results, Pollyanna de Lima, Principal Economist at IHS Markit, said August saw an undesirable combination of slowing economic growth and greater cost inflationary pressures in the Indian manufacturing industry. Most PMI indices moved lower, including key health-check measures for new orders, output and employment. In the former two cases, rates of expansion were particularly weak when one looks at the survey history.

"Another worrying sign was the first drop in input buying for 15 months, which reflected a mixture of intentional reductions in stocks and shortages of available finance.

Until manufacturers are willing to loosen the purse strings, it is difficult to foresee a meaningful rebound in production growth on the horizon. Another factor restricting quantities of purchases was a pick-up in the rate of increase in input prices. While not alarming, the acceleration in cost inflation may restrict central bank stimulus to the economy in the near-term," she said,

The report accompanying the index said although economic growth in the Indian manufacturing industry was sustained in August, most survey indicators fell since July to signal a widespread loss of momentum. With sales expanding at the slowest rate in 15 months, production growth and job creation were tamed, while factories lowered input buying for the first time since May 2018.

One survey indicator that moved up was the measure of input costs. Inflation accelerated to a nine-month high, though it remained moderate and below its long-run average. The only other upward movement was seen for business confidence, which strengthened to a 16-month high.

Firms that noted sales growth commented on successful marketing and the receipt of orders in bulk. Anecdotal evidence indicated that competitive pressures and challenging market conditions restricted the upturn. New orders from overseas also increased at a slower rate in August, with growth the weakest seen since April 2018. Subdued sales to domestic and international clients in turn curbed output growth, which softened to the weakest in a year.

Some survey members also reported cash-flow problems and a lack of available finance. Despite remaining in expansion, employment rose only marginally, and to a lesser extent than in July. Some panelists indicated that weak sales prevented them from replacing retirees and voluntary leavers.

Source: thehindubusinessline.com - Sept 02, 2019

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Will US-China trade standoff benefit Tirupur garment industry?

While garment company owners seem to see benefits due to the sanctions, consultants are wary.

By the end of last week, Tamil Nadu's automobile sector had laid off 5,000 contract workers due to decrease in demand which reflects as a parallel decrease in production. While it was Chennai that was largely hit by the automotive sector's sudden layoffs, cities in western Tamil Nadu, such as Coimbatore and Tirupur which play a dominant role in the country's textile and garment sector, have also started to feel the pangs of an impending slowdown.

However, one silver lining seems to be the trade sanctions imposed by the United States on Chinese products, which has started showing its effect, however tiny, in the Indian textiles market. The US has imposed a 10% duty on Chinese products that are being imported into the country. This includes textiles – both cotton and synthetic fabrics.

The situation is not as bad as the automotive sector, says Arul Saravanan of Tirupur's SCM Garments, since the three months from June to August is generally a lean period for the industry.

Competition for India

China has around 33% market share in the US garment import industry while India's share hovers around 4%.

Speaking to TNM about the impact of the trade sanctions on the garment industry, Prabhu, Convener of the Indian Texpreneurs Federation (ITF), a collective of around 550 medium and large-scale textile companies in west Tamil Nadu, says that whatever growth the industry sees, it will happen slowly.

"The hike in import duty by the US is coming into effect from September 1. Though we have seen a slight increase in orders from the US, the change is extremely slow," he says. Adding that India has competitors in countries like Vietnam and Cambodia, he points out that more countries are waiting to share the spoils of the trade sanctions.

Sanctions might not affect China

Though India is a powerful player in cotton-based fabric, it loses out to China when it comes to man-made fabrics like polyester, says Vikranth Reddy, a textile sourcing consultant.

“Buyers in the US want more polyester fabrics and China is a monster in exporting them. Vietnam, Cambodia and countries like Egypt are also exporters of polyester-mix fabric,” he says. Adding that while the US imposing sanctions on China might seem like good news to India, he points out that the Chinese government has made necessary adjustments to keep the impact on their exporters to a minimum.

“China decreased their currency value and made the US dollar stronger. This means that those importing Chinese items into the US will have to pay less for it. In effect, US buyers will be paying the same price or even less due to this adjustment by the government of China,” he explains.

New jobs for India?

That said, the chances of creating new jobs in the garment and textile industry due to this opportunity is less because the growth due to the sanctions is very slow.

“In the first five months of this financial year, our US exports have grown by a little over 10%. This is the first time we have touched double-digit growth. If this growth hits 15%, I think that will be a good production volume for us,” says Prabhu.

Though yarn companies have cut down on production by 15-20%, Prabhu points out that spinning units in Coimbatore and Tirupur have been operating at lesser than normal capacity the past few weeks. Many companies have also reportedly cut down one shift and given an extra day’s leave to workers due to low demand.

“These are paid leaves. We have not retrenched workers because once we let them go, it is difficult to get resources back. Also, since the new cotton season begins every October, we expect the situation to get better soon,” Prabhu says. He adds that the industry is on a ‘wait and watch’ mode.

When asked to quantify the possible number of new jobs that could be created, Prabhu explains that if the increase in order value from the US due to the sanctions is worth Rs 7,000 crores, that will create around 1.5 lakh direct jobs in the industry. Till then, the units will be pushing to run in full installed capacity.

While the two sides of the industry differ in their opinions on the possible impact on revenue, they are one in their voice in demanding government intervention to revamp policies concerning the textile industry.

While Prabhu wants the government to intervene and address the GST issues (by introducing same rate for all raw materials) plaguing the industry, Vikranth says that the government must start incentivising stakeholders in the man-made fibres sector too, so that India can emerge as a competitor in the export of polyester fabrics.

Source: thenewsminute.com - Sept 01, 2019

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After taking steps to aid growth, govt must now work to rationalise GST rate

The release of the first quarter GDP growth estimate at 5% is the lowest seen in the last six years. The trend shows that the secular deceleration has continued from 8% in the first quarter of last year. Describing the trend as disappointing is an understatement; it is actually worrisome. We cannot afford to be in the denial mode any longer, and business as usual will worsen the situation.

Nor is it going to help us to claim that the slowdown is cyclical and a global phenomenon. While there is no denying the fact that cyclical factors have not helped matters, there are serious structural factors that need correctives.

While aspirational goals, like achieving a $5 trillion economy by 2024, sound well, the road to achieving them is paved with hard rocks. It is said, “crisis is the mother of reforms”, and hopefully, the government, with its overwhelming mandate, will wake up to undertake serious structural reforms.

Notably, the first quarter GDP growth estimate of 5%, and GVA estimate of 4.9% cast serious doubts on the economy's ability to grow at the projected 7% in the Economic Survey and 6.9% projected by the Monetary Policy Committee of RBI for the whole of FY20. In fact, RBI's estimate of 6.9% hinged on growth in the first half of the year being in the range of 5.8-6.6%, and that in the second half being in the range of 7.3-7.5%.

Now, these look like a distant dream. We have not had any better news in the two months of the second quarter on the domestic and exports fronts either, and the growth is unlikely to see much acceleration. With the growth in the first quarter plunging to 5%, and with no revival in sight, we may, at best, hope for the economy to grow at 5.5-6% in FY20 if significant structural reforms are carried through without much loss of time.

The sectoral break-up of the growth rates shows that except public administration, electricity, gas and water supply, and mining and quarrying, all other sectors have seen moderation in varying degrees. In fact, the manufacturing sector growth plummeted from 12.1% in the first quarter of last year to 0.6%.

In the previous quarter, the growth was 3.1%. Such poor manufacturing growth has not been seen for a long time. Curiously, the manufacturing sector growth, even at current prices, is 2%, which shows that price increase was just 1.4% over the year! Another sector where the slowdown is pronounced is construction. It has moderated from 9.6% in the first quarter of last year to 7.1% in the previous quarter, and further to 5.7% in the first quarter of FY20.

The growth of financial, real estate and professional services sectors at 5.9%, too, shows moderation, particularly when compared to the growth of 9.5% in the previous quarter. The growth of public administration and defence in the first quarter of the current year at 8.5% was higher than in the corresponding quarter last year by one percentage point.

On the expenditure side, much of the slowdown has happened in private consumer expenditure and gross domestic capital formation. The government expenditure has actually shown a marginal increase both at current and constant prices, and exports have maintained a constant share in GDP.

The disappointing growth estimate is clearly a wake-up call to fast track the reform process because the slowdown is much more than what is claimed as cyclical. Structural reforms have to be immediately unleashed. In the last couple of weeks, the government has taken some decisions which are helpful, such as scrapping the angel tax on start-ups, faster GST refunds to MSMEs, opening up some more sectors, such as single-brand retail and coal mining, for FDI, and allowing replacement of old cars.

More importantly, the finance minister announced the merger and consolidation of 10 public sector banks into four large banks, and their recapitalisation to take them to global scale in the hope that they will be too big to fail, and that this will help in reaping scale economies by rationalising branch spread, and result in productivity gains.

There have also been some governance reforms entrusting greater responsibility to the banks' Boards and permitting market remuneration to risk officers. Although customers may not see much disruption, the governance of the banks will take time to adjust to the consolidation process and, hopefully, this will not constrain lending.

Market remuneration to risk officers alone is not likely to fly unless the entire structure of the banks' top executives is looked into. Much more reform in the governance of PSBs is required, particularly to distance government from making decisions regarding PSUs on the lines recommended by the Nayak Committee. The reaction of the large number of employees involved in this massive reorganisation exercise, too, remains to be seen.

The problem is serious and much remains to be done. An important reason for the moderation in private consumption and capital formation, and decline in the growth of manufacturing, real estate and trade hotels is the high rate of GST. It may be noted that 28% tax on automobiles, consumer durables like refrigerators and air-conditioners, motor cars and their parts, and construction materials like cement and its products, marbles and paint, sanitary fittings, as well as those impacting tourism have had their impact on compressing demand. The FM should insist that the GST Council prune this list and, if this is done, expansion in the demand for these items could substantially offset the loss of revenue. This will also help simplify the structure of GST. It is also important to ensure that the GSTN places the technology platform on a firmer footing so that matching of input tax credit can be carried out systematically.

The government has already taken the decision to activate strategic disinvestment and, hopefully, this should be carried out on war footing to generate resources to stimulate public spending. Rationalisation of GST is only a short term measure. The time now is opportune to undertake major structural reforms in factor markets. Perhaps, the government should think of moving over to the negative list instead of continuing with the positive list for permitting FDI. It is known that the rupee is overvalued and RBI should move to peg it at a realistic level to promote exports. Hopefully, the coming weeks will see a flurry of activity on the reforms front, to reverse the trend of the slowing economy.

Source: financialexpress.com - Sept 03, 2019

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SOS: Textile industry in Rajasthan's Bhilwara bleeding and in dire need of help

India Today visited Rajasthan's Bhilwara, known as the textile hub of the country, to understand what has been plaguing this once flourishing sector of the Indian economy.

he textile industry is bleeding and the current economic slowdown has compounded the woes of scores of textile factory mill owners spread across the country.

India Today visited Rajasthan's Bhilwara, known as the textile hub of the country, to understand what has been plaguing this once flourishing sector of the Indian economy.

The Indian textile industry currently provides direct and indirect employment to more than nine crore people. It also accounts for 2 per cent of the GDP, which is why the slowdown in the industry, leading to a fall in production and job losses has made the situation extremely grim.

"In Bhilwara, the situation of textile is not good. A lot of slowdown is going on. Our production has gone down by 15 to 20 per cent. We often keep holidays on Saturdays and Sundays, do not operate the industry. Conditions are not good," Sanjay Periwal, president of Synthetic Weaving Mills Association, said.

The textile industry has been witnessing its worst phase in the last decade or so.

Consider the data for textile industry in Rajasthan's Bhilwara:

> Fall in Production in last six months: 15 per cent to 20 per cent

> Job losses in Textile industry: 15 per cent to 25 per cent

> As demand has fallen, several factory mill owners have been forced to give Saturdays, Sundays as offs to workers

> Drastic fall in salaries, wages for contractual and non-contractual workers due to lesser working man-hours required

> People being forced to shift out of textile profession, seek menial jobs in order to sustain livelihood

> At least 100 factory mills have either shut shop or taken over by banks due to non-payment of capital loans

> Fall in purchasing power across different economic strata

"Definitely, it has a major impact. The buying capacity of people is not in good conditions. People do not have money to buy cloth. You understand this thing in the manner that a person doing a job for a salary of Rs 20,000 and is given six offs in a month by us, then he is not drawing more than Rs 17,000 to Rs 18,000. In that, he has fixed expenditures. So, he is less interested in buying cloth," Periwal mentioned.

"Secondly, the globalisation situation that is there, China, Bangladesh, Indonesia and all these countries are giving better facilities than us. The textile clothing from Bangladesh has begun coming to India in huge quantity. So, this must be stopped," he added.

There are various reasons attributed to the downfall in the fortunes of textile industry, the major ones include: Exorbitant cost of power, huge influx of cheaper products from Bangladesh, China, Indonesia and some other countries.

The economic crisis is directly attributed to:

> Textile industry in Rajasthan has to buy electricity at exorbitant rates of Rs 7.5 to Rs 8 per unit. In comparison electricity is available in Maharashtra at Rs 4, in Punjab at Rs 5, and in Madhya Pradesh at Rs 3.5 per unit. Electricity forms 40 per cent to 50 per cent of production cost in textile industry.

> Influx of cheaper textile products in the market imported from Bangladesh, China, Indonesia where raw material is cheaper and labour available at lower costs.

> Government has not ensured timely payment of Technical Upgradation Fund (TUF) and capital subsidy to textile factory mills.

> Demonetisation and GST have hugely impacted textile industry, marring its growth. Textile industry has not been able to pick itself up since then and is still reeling under their impact.

A job broker Sudip Tahil said, "The situation is turning extremely bad day by day. Our payment is also sinking as factory is shutting down. [If] the party will fail, how will our payment be done?"

"I can tell you about the situation right now. We never even used to have the time to talk during this period. We used to sell 3 to 4 lakh metres of cloth in a month. We had good work of readymade.

As compared to 4 lakh, not more than around 1 lakh is getting sold. And even the payment situation in the market is not good," Periwal further said.

Source: indiatoday.in - Sept 01, 2019

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Maharashtra: Farmers' association urges Fadnavis to consider authorisation of HTBt cotton

Members of Shetkari Sanghatana met Chief Minister Devendra Fadnavis and demanded access to technology in a memorandum, highlighting the high cost of labour which makes the adoption of the unauthorised HTBt hybrid more profitable for the farmer.

The Sanghatana has embarked on a satyagraha to press for their demand. In the cotton zone of Vidarbha, the farmer's organisation has been asking for HT (herbicide tolerant) Bt (Bacillus thuringiensis) cotton as it is helped control labour cost. This June, the farmer's body had undertaken a satyagraha for mass plantation of this variant.

The cotton hybrid is obtained by introducing genes Cry1Ab and Cry1Ac from the soil bacterium Bt, aimed at making the crop immune to the attack of pink bollworm. The addition of another alien gene Cp4 Esps from another soil bacterium Agrobacterium tumefaciens allows the crop to develop a protein which protects itself from the application of popular herbicide glyphosate.

In the first generation or Bt cotton, the application of glyphosate results in destruction of both the crop as well as the weed as the chemical is unable to distinguish between the two.

HTBt cotton, however, allows farmers to apply this herbicide and thus reduces the cost of weeding. On an average, farmers spend Rs 10,000 to Rs 15,000 in the entire 180-day life cycle of the crop.

The cost of weeding is more than halved in case of HTBt cotton, which has led to farmers undertaking plantation of the crop although this variant is not authorised.

The Genetic Engineering Appraisal Committee (GEAC) is yet to authorise the release of this variant as in 2016, Bayer Monsanto had withdrawn its application submitted before the committee in 2013.

While it still remains unauthorised, farmers have continued to plant the variant relying on smuggled seeds. It is estimated that around 40 to 45 per cent of the state's 40 lakh hectares of cotton fields have gone under this unauthorised variant.

Laxmikant Kauthakar, spokesperson of the Sanghtana, said their memorandum had pointed out how farmers did not want to flout laws but economic distress was pushing them to do so.

"Prime Minister Narendra Modi has talked about doubling farmer's income and this technology can allow us to double our income," he pointed out.

Fadnavis leads a high-level national committee formed to study problems of agriculture.

Kauthakar has planted the variant on his field as well. The crop condition, he said, was excellent and many farmers had come to visit his field.

"This year, due to good rain, the growth of the crop as well as the weeds is lush and thus the cost of weeding has doubled," he said. Farmers who had gone in for HTBt, he said, were able to address the problem better.

Source: indianexpress.com- Sept 03, 2019

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