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IBTEX No. 91 of 2018 May 04, 2018

USD 66.68| EUR 79.95 | GBP 90.57 | JPY 0.61

Cotton Market

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

Rs./Bale	Rs./Candy	USD Cent/lb
19648	41100	**78.66**

Domestic Futures Price (Ex. Gin), May

Rs./Bale	Rs./Candy	USD Cent/lb
20750	43404	**83.07**

International Futures Price

NY ICE USD Cents/lb (July 2018)	84.50
ZCE Cotton: Yuan/MT (May 2018)	15,010
ZCE Cotton: USD Cents/lb	**91.39**
Cotlook A Index – Physical	**93.2**

Cotton guide: Market continued to move in the same range. Every time it had attempted to break 85 or around 85.10/85.20 cents has corrected back down to 84.50. The entire this week saw the same move. The most active July future ended at 84.50 cents down by 18 points from previous day. However the other months December and subsequent contracts were on the positive tone. December made contract high and settled at 79.59 up by 16 points from previous close.

The spread between July and December continues to be around 500 to 550 points. Around 20 to 25% of total trading volumes are from the spread trading. On an average daily volume this week has been between 20 to 25K contracts. The aggregate open interest is actually increasing. From the fundamental front no major development except that another weekly export report released from the US which showed robust increment by 500K bales in the total exports.

The total exports this year so far has been 16, 42, 9,800 bales up by 2.46 million bales from the same period last year. The major buyers have been Vietnam, Indonesia, China and Turkey. However we saw no major change in the market post the data was out. We still feel market require more unconventional bullish factors to break and sustain above 85 cents to move further north.

Currency Guide:

Indian rupee trades little changed near 66.65 levels against the US dollar. The US dollar index has come under pressure post FOMC decision as the central bank maintained gradual rate hike stance despite inflation nearing target levels. Also supporting rupee is RBI's move to widen the scope of investment for overseas investors. However, weighing on rupee are concerns about impact of higher crude oil price and worries about investor outflows.

As per Bloomberg data, overseas funds sold a net 16.1 billion rupees of local debt Wednesday, and cut holdings of stocks by 5.3 billion rupees. Rupee has turned range bound amid lack of clear cues but overall sentiment remains weak in lieu of higher crude price. USDINR may trade in a range of 66.45-66.85 and bias may be on the upside..

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

NEWS CLIPPINGS

INTERNATIONAL NEWS

Higher Cotton Prices Could Curtail Crop Growth Next Season, ICAC Report Warns

World Cotton prices have remained high in 2017/18 at an average of 84.63 cents per pound thus far over the course of the season. Higher prices are expected to impact planting decisions to expand area under Cotton for the 2018/19 season, the International Cotton Advisory Committee (ICAC) said in its latest report.

World area under Cotton has averaged 32.4 million hectares over the last ten years and is projected to grow moderately during the next season.

New support policies for Cotton in the United States were passed in February. Planted Cotton area is expected to increase in 2018/19 by 11% in the United States to 5.08 million hectares, however drought conditions remain a concern for the Cotton area in West Texas which represents approximately 25% of the US production.

Planted area in India is expected to decrease to 11.9 million hectares in 2018/19. Chinese planted area is expected to remain stable based on the continuation of Chinese support policies.

World Cotton consumption is expected to continue to grow steadily through 2018/19 to a projected 26.7 million tons from 25.5 million tons estimated in 2017/18.

Global imports are expected to increase to leading importers. Imports by China are projected to continue to increase for the fourth consecutive year to 1.5 million tons. While Chinese import figures continue to increase, Bangladesh remains the leading global importer.

The Chinese reserve auction to sell cotton stocks this year began in March and is expected to continue through September thus far releasing 30,000 tons per day for sale.

Daily sales through April have sold 100% of high quality Xinjiang quantities available, while lower grades have sold at 25% of available quantity. Import tariffs remain a potential concern in the global Cotton trade.

Despite lowered projections for 2017/18, the United States remains the leading global exporter and will likely remain so in the 2018/19 season with exports projected at 3.5 million tons.

Source: commodityonline.com- May 01, 2018

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Blue Jeans Go Green Programme gives new lease of life to used denim

When denim is worn out, consumers tend to dump old clothes but now denim makers have a new way of reusing used denim. The Blue Jeans Go Green denim recycling programme gives new purpose to old denim. Roian Atwood, Director – Sustainability, Wrangler points out that in 2017, the company contributed more than 43,000 pounds of denim, which produced over 80,000 sq. ft of insulation.

In 2006, Cotton Incorporated started the program to help divert denim from landfills. Since then, more than two million pieces including jeans, shorts, skirts, jackets, dresses, and shirts, have been collected and turned into housing insulation.

UltraTouch Denim Insulation is created through a partnership with Bonded Logic Inc. To create this insulation, denim garments are collected. Zippers, buttons and embellishments are removed. The denim is returned to its natural cotton fibre state and then it's upcycled into denim insulation. So far, more than 4 million sqft of insulation has been manufactured from the Blue Jeans Go Green programme.

With this initiative, more than 1,000 tons of denim garments have been kept from being sent to landfills. Looking at the success rate, big giants such as Holt Renfrew, Madewell, Rag & Bone, and J. Crew, have also partnered with the move. At each store, when used denim is dropped, the customer receives a dollar or a percentage towards buying something new from the denim range. So far, Madewell alone has collected close to 300,000 pairs of jeans, and as a result more than 300 Habitat for Humanity homes have been built with insulation made from the pre-worn denim. The homes were built in cities that included New Orleans, Charleston, and Los Angeles.

Wrangler is the recent partner to the program. Currently, the company collects denim scraps, material and products from its internal manufacturing, product development and distribution centres. Atwood observes if customers want to mail in their old denim to headquarters, the company will include it in its recycling programme. In 2018, Wrangler is working together with the Blue Jeans Go Green programme to provide 130,000 sqft of the sustainable denim insulation to All Hands and Hearts – Smart Response for its rebuild effort after Hurricane Harvey.

Upcycling & recycling

The Cotton Council International (CCI) and Cotton Incorporated Global Environment Survey, revealed about three out of four consumers or more say they recycle (82 per cent), use refillable bottles (74 per cent) and purchase energy-saving appliances (72 per cent) in an effort to protect the environment. That's followed by consumers who say they limit home water usage (69 per cent), recycle clothing or textiles (65 per cent), purchase local made products (62 per cent), and reduce overall consumption (55 per cent).

Besides retailers and manufacturers, Cotton Incorporated's Blue Jeans Go Green programme has partnered nearly 60 colleges and universities across the country and collected more than 200,000 pieces of denim along the way. Atwood says the company is excited for the possibilities of engaging consumers in the programme.

The company has already been insulating homes in Lumberton, NC, post-Hurricane Matthew, and All Hands has already been using the denim insulation for houses and schools in northeast Houston.

Source: fashionatingworld.com- May 03, 2018

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Russia to invest $250 million in technical textiles for defence

The Russian government plans to allocate up to US$ 250 million in the design and production of nonwovens and technical textiles for the needs of the Russian military forces during the next several years, according to recent statements of some senior officials of the Russian Ministry of Industry and Trade.

The production will begin following the special state orders, details of some of which will not be disclosed to the public. The majority of funding for the project will be provided from the Russian military budget, which is estimated at around US$ 70 billion for 2018 – the highest in the history of modern Russia.

It is planned that most of the funds will be invested in the design of special materials, based on technical textiles, which will be used in the production of military uniform clothing and other military equipage for Russian soldiers, including those, who are currently deployed in Syria and other Middle Eastern states.

The names of the enterprises that will participate in the project are currently not disclosed, however, according to sources close to the Russian Ministry of Defence, these will be Russia's largest producers of technical textiles and nonwovens, which have previously supplied their products to Western markets, European, in particular.

The project also involves acceleration of the R&D activities in the industry, involving some of Russia's leading research institutions in the field of technical textiles and nonwovens, as well as the country's leading technical universities, such as Bauman Moscow State Technical University – the Russia's oldest and largest technical university, which has been conducting R&D activities in the field of nonwovens and technical textiles since the 1990s.

According to an official spokesman of Denis Manturov, Russia's Minister of Industry and Trade, the majority of these R&D activities will be classified. As part of these plans, the Russian Defence Ministry plans to attract some well-known Western experts in the field of technical textiles that will participate in R&D activities in the industry.

In recent years, the demand for nonwovens and technical textiles from the Russian military and defence industries has significantly increased, which is also due to ongoing militarisation in the country. This has provided a significant impetus for the industry and created conditions for its further growth after stagnation, caused by the economic crisis in the country and Western sanctions.

According to Denis Manturov, in recent years, the Russian defence industry has become one of the largest consumers of nonwovens and technical textiles in Russia and it is expected that its share in the overall structure of consumption will continue to grow during the next several years at higher rates.

In the meantime, leading Russian producers have already welcomed the new state initiative, hoping that its implementation may result in the generation of additional profits, which is especially important due to ongoing stagnation of medical, construction and other sectors of the Russian economy, which to date, have accounted for the majority of technical textile and nonwovens' consumption in Russia.

Prior to 2017, the Russian technical textiles industry has experienced an acute shortage of funding, caused by a significant decline of investment attractiveness of the industry, however, thanks to the ever-growing demand from the defence industry, there is a possibility that such a situation will be significantly improved already in the coming years.

In the meantime, according to the Russian Association of Textile and Light Industry Producers, a public association, which unites Russia's leading technical textiles and nonwovens producers, the government's decision to invest funds in the development of technical textiles for the needs of defence will be a response to the recent announcement of the US to invest US$ 75 million in the design of new technical textile and nonwoven materials for military purposes.

Source: innovationintextiles.com- May 03, 2018

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US trade deficit drops 15 per cent

The trade deficit with China, as President Donald Trump says has benefited from bad US trade policy, fell 11 per cent to $25.9 billion in March.

The US trade deficit fell to a seasonally adjusted $49 billion in March, down 15 per cent from a month earlier and a six-month low, the Department of Commerce said on Thursday.

In March, exports rose 2 per cent to a record $208.5 billion, while imports dropped 1.8 per cent to $257.5 billion.

The government's figures closely matched analysts' expectations and represented the largest one-month decline in the trade deficit in two years, Efe reported.

The trade deficit with China, as President Donald Trump says has benefited from bad US trade policy, fell 11 per cent to $25.9 billion in March.

Trump announced new tariffs in March of up to 25 per cent on steel imports and 10 per cent on aluminum imports, and he later granted temporary exemptions to close trade partners, such as Canada, Mexico, Argentina, Brazil and the EU.

During the first quarter of the year, nevertheless, the US trade deficit grew 18 per cent from the same period in 2017, with exports rising 6.8 per cent and imports increasing 9.1 per cent.

Source: financialexpress.com - May 04, 2018

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Bangladesh outperforms China, India in ethical compliance

Ethical scores in Bangladesh rose by an average of 15% during the past 12 months, said the survey

Bangladesh, the second largest exporter of apparel products, has outperformed China and India in ethical compliance in the apparel segment in terms of workplace safety in the aftermath of the Rana Plaza collapse. Global retailers started pressuring Bangladesh to make safety improvements after the incident, a survey said.

“A look at ethical performance by region indicates little change for Chinese manufacturers, with average scores flat at 7.7 out of 10. By contrast, South and Southeast Asia are showing some much-needed improvement,” said Asianinspection (AI) in its first quarterly report of 2018.

AI is a quality control and compliance company that performs product inspections, supplier audit programs, and laboratory testing in Asia, Africa, Europe, North America, and South America. Its headquarters are located in Hong Kong.

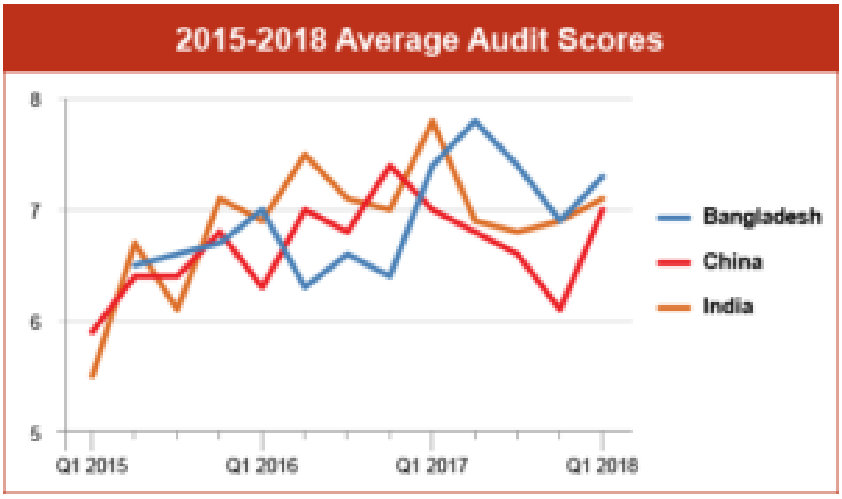
In particular, ethical scores in Bangladesh rose by an average of 15% during the past 12 months, said the survey.

This is likely reflecting the continuous pressure on Bangladesh to improve textile and apparel manufacturers by the industry groups formed after the 2013 Rana Plaza collapse, the finding showed.

After the Rana Plaza disaster, “Accord on Fire and Building Safety in Bangladesh” and “Alliance for Bangladesh Worker Safety” were formed to improve safety in the country’s apparel industry.

As of now, Alliance has completed nearly 90% remediation works, while the Accord has done 83% remediation. These two platforms are very close to ending the safety inspection by the end of June this year.

The survey by AI “Q2 2018 Barometer: China Unfazed by Global Trade Stand-Off, Supply Chains Face New Ethical Concerns” was released last month.



Nevertheless, AI data shows that factories are still plagued by health and safety issues, which were ranked the most pressing concern of Q1 2018, taking over working hours and wage compliance. Factory scores for health and safety are roughly 9% behind the aggregated average.

Growth remains robust in Southeast Asia, with Cambodia continuing to outpace its economic forecast for the second year running, the survey added.

Pakistan also maintains momentum gained during last year, with inspection volumes expanding 10.3% year over year in Q1 2018.

Ethical scores by industry remain disparate, with home ware in the lead (average scores of 8.3/10), and compliance in the body care and accessories sector continuing last year's downward trend, the survey findings showed.

Meanwhile, audit scores of textile and apparel manufacturers have been rising since mid-2017, indicating that long-term improvement efforts may be finally bearing fruit, it added.

According to the survey, the sourcing outside of Asia maintains an upward trajectory, reflecting the ever-increasing diversification of sourcing patterns.

The Latin American region serves as a prime example, with first-quarter demand for inspections and audits increasing 26% year on year.

Despite better ethical compliance in 2018, safety and environmental issues abound in global supply chains.

The survey also found a strong demand for environmental audits, especially in China where brands and manufacturers struggle to comply with the new anti-pollution laws.

Pollution and waste management accounted for over 80% of non-compliances found by AI in Q1 2018, with over two-thirds of them classified as major, it added.

This is consistent with the field data of AI structural safety audits, which indicate the percentage of factories at immediate risk, is steadily inching upwards.

In Q1 2018, some 23% of products failed in-factory inspection, leading to a 7% increase in quality failures – not surprising, considering that factories traditionally struggle with labor shortages around the Chinese New Year and may be forced to cut corners to meet delivery schedules.

Source: dhakatribune.com- May 03, 2018

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Pakistan: Textile and leather export sectors ignored in Budget 2018-19

No positive steps were taken in budget 2018-19 for providing incentives to prime export-oriented sectors of textile and leather.

Economists expressed their dismay over budget 2018-19 and lamented that no measures have been taken for industrialisation and extension in PM export packages. There is inability to improve growth rate of textile and leather sector exports under European Union's General System of Preferences plus status on lack of planning.

Pakistan Tanners Association Executive Member Agha Saiddain was of the opinion that no proper marketing plan was prepared to benefit from Generalised Scheme of Preferences Plus. There would be need for several amendments in the budget by National Assembly where documents would be put for debate and final approval.

All Pakistan Textile Mills Association Executive Member Gohar Ejaz said that the budget was not designed under the declining textile product exports that were constantly falling.

Non-allocation of funds for KBD was surprising as industrial and agriculture sector have been facing power and water problems.

Sanaullah Khan of onyx and marble sector, opined that this promising sector had been neglected and no funds for enhancing its working capacity have been allocated.

Food export sector people showing disappointment over not considering sector for zero-rating facility said that concession could enhance due share in international food trade but no incentive was announced in budget.

Promotion of halal products should be "our budget's major agenda, as it could give a quantum jump to declining exports. There is no Muslim country in list of top-10 halal meat exporters, although Pakistan has a big potential of exporting halal meat globally", they said. Dr Ashfaq Hassan Khan terming the budget as manipulation of numbers was of the opinion that the document was neither people nor businessman friendly. "The budget is a political statement of a political government without much economic vision," he said.

Though measures announced by the government seemed positive for the stock market but these measures could potentially be revisited by the new government after general elections.

Fazal Ahmad, an economist at Houston, said that Pakistan had to go for fresh international donors programme in mid-budget period to meet fiscal balance.

Lasbela Chamber of Commerce & Industry President Yakoob Karim said that under the given circumstances, withdrawal of discretionary powers given to Federal Board of Revenue's chief commissioner and commissioners which, what they claimed, was an old and major demand of country's chambers and trade bodies was a welcome sign.

Members of Federation of Pakistan Chambers of Commerce & Industry termed the federal budget as business and people friendly.

The people of Karachi Chamber of Commerce & Industry were of the opinion that overall, the budget was better.

They said the tax concessions to textile sector would help develop this leading export industry of the country.

However, they showed their apprehension about budget implementation if new government comes up with different economic and social priorities.

Limit enhancement for income tax exemption, removal of regulatory duty on important raw materials, increase in development budget, allocations for agriculture and livestock sectors and increase in pensions etc have been made in budget were positive but still there are some lacunas that should be tackled by National Assembly.

Ghulam Rabbani of the yarn and cotton sector said that Gross Domestic Products (GDP) growth target of 6.2 percent was ambitious.

The GDP will likely grow by 5 percent during next fiscal, he opined.

Continuation of Long Term Financing Facility and Export Refinance Facility at lower rates for textile sector is appreciable.

Reducing customs duty on dairy, livestock and seeds would help increase production.

Source: dailytimes.com.pk- May 04, 2018

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Who dominates the economies of south-east Asia?

Japan is region's biggest investor but data show Beijing's influence is growing fast

For countries across south-east Asia, China is becoming an increasingly important economic partner, raising questions about the region's direction and future.

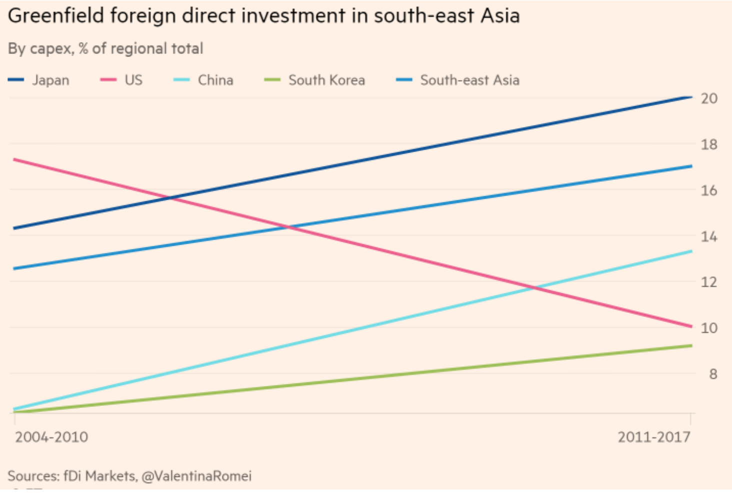
But FT research on data for trade, foreign direct investment and tourism in Asean countries has found that, while China's expanding influence is undeniable, Japan, South Korea, and other countries remain important players — and the region's countries still mostly trade with one another.

China's growing role in the region's economies comes at a time when it is also expanding its military presence in the South China Sea, raising concerns among countries in the region. Chinese influence is increasingly becoming a factor in the region's politics, including in Malaysia, where it has emerged as a campaign issue in the May 9 election.

"It's never going to be either-or, or binary — Japan, Korea, the EU will always be present in the Asean market," said Thitinan Pongsudhirak, a professor of political science at Bangkok's Chulalongkorn University. "But China has raised its investment, and over the decade it's going to go markedly up."

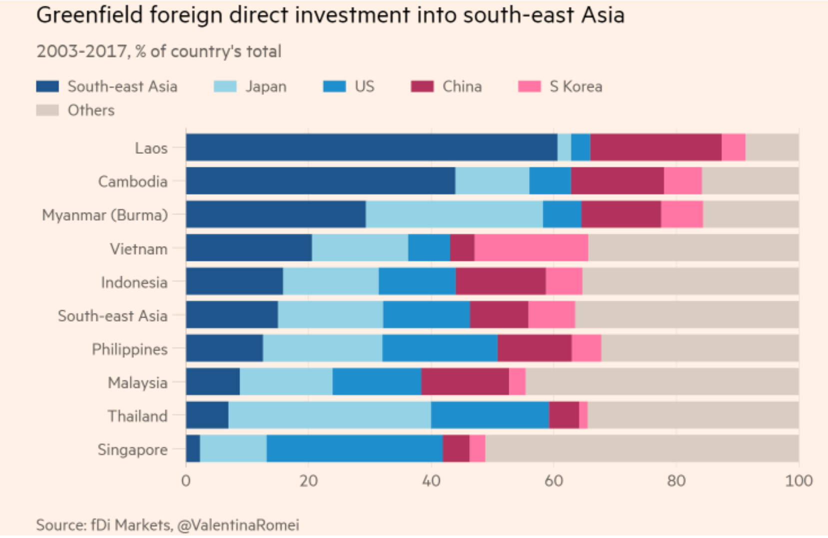
Japan is the main investor in south-east Asia

Japan remains the dominant foreign investor in south-east Asia. About 20 per cent of capital invested in the region in so-called greenfield projects — those that are being built from the ground up — in the past seven years originated from Japan, up 6 percentage points from 14 per cent in the seven years to 2010.



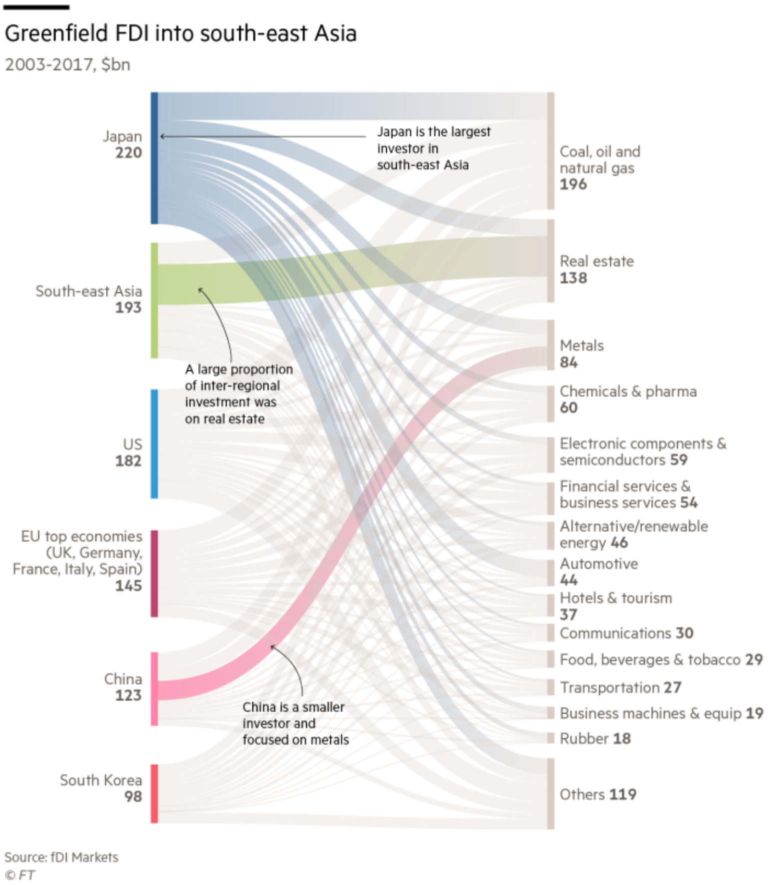
Chinese FDI in south-east Asia is growing faster, but only just, at nearly 7 percentage points over the same period, to a total of 14 per cent of capital invested in the region. “Because of rising labour costs in China, companies are moving labour-intensive assembly operations to Asian countries,” says Juzhong Zhuang, deputy chief economist with the Asian Development Bank. One example, he says, is Cambodia’s large garment industry, where Chinese companies are major investors.

Richer countries — including Thailand and Malaysia — show the highest rates of FDI from outside Asean; in Thailand, for example, over 50 per cent of capital invested came from Japan and the US (see chart below). China has invested more than Japan and the US in the region’s poorer economies, but its contribution was still dwarfed by the collective investment of the other countries in the region.



Where is the money going? Nearly half of Chinese FDI invested in the region since 2003 was in resources. Intra-Asean FDI leaned heavily toward real estate: Thailand’s biggest property company Central Group, for example, is building Cambodia’s biggest shopping mall.

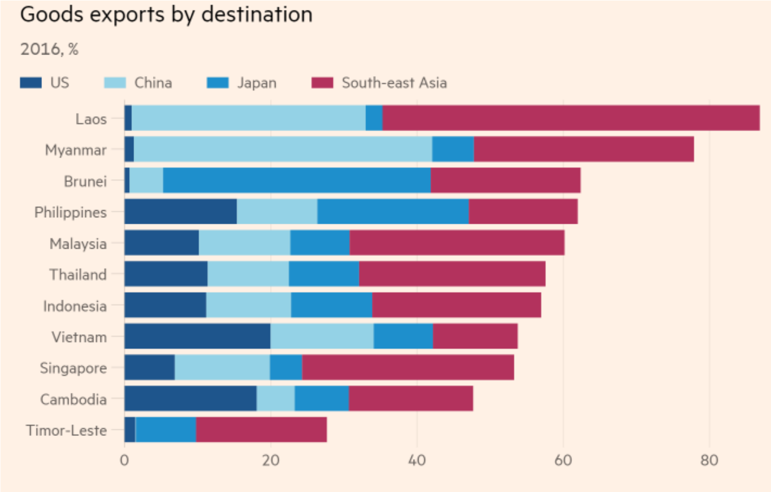
Asean countries mostly trade with each other



Trade is the area where China's rising influence is easiest to spot. In 2000, China was a less significant source of imports into south-east Asia than either Japan, the US, or the EU. Now it accounts for about 20 per cent of the value of all goods imported in the region, up from 5 per cent in 2000, making it the region's biggest and fastest-growing single source of imports. The value of the goods China exports to

However, the value of the region's exports to China is only half of what south-east Asian countries trade with one another.

About 25 per cent of Asean exports stay in the region — a proportion that has remained stable over the past 20 years.



The growth of south-east Asian exports to China largely reflects demand for basic materials. According to Unctad data, over two-thirds of Chinese imports from the region are raw materials and commodities. By contrast, intra-regional trade is more diversified — composed mostly of food and beverages, fuels, chemicals, and manufactured goods.

Regional differences are large. Most exports from Laos, for example, stay within Asean, while the US is the main export market for both Vietnam and Cambodia.

Chinese tourism is rising fast

Tourism is another sector where China's growing importance to the region can be tracked — particularly in Thailand and Vietnam in which tourism is a significant contributor to GDP.

The region has seen a surge in demand from upwardly mobile Chinese, who are served by a growing number of flights: AirAsia, the budget carrier, operates 274 weekly one-way flights between mainland China and Asean cities, up from 197 in 2013, according to AirAsia.

For China sceptics — the people who see only downside in the country's growing influence — the tourism surge is potentially ominous, as Beijing could tell tourists to stay away in the event of a political crisis, potentially using the industry as an economic weapon, as happened in 2012 when some groups cancelled tours to the Philippines amid a flaring of tension over the South China Sea.

Source: ft.com- May 01, 2018

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NATIONAL NEWS

Textiles, jewellery and other labour-intensive export sectors face slowdown

Successive economic surveys have stressed on the need for policy reforms in these sectors

Exports from key manufacturing sectors, including textiles, leather, and gems and jewellery, have continued to show low growth in 2017-18. The Centre is banking on these sectors to create a large number of jobs.

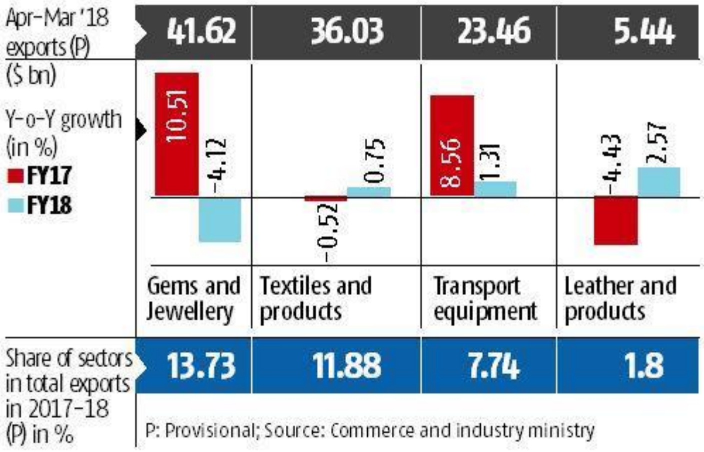
Even though such sectors have managed to recoup their losses from previous years, they continued to see a much lower export growth rate in a year when India's outbound trade managed to rise above the $300 billion target after two years, spurred by a rise in global demand, official data showed.

Successive economic surveys have stressed on the need for policy reforms in these sectors. According to rating agency CRISIL, comparative advantage (RCA), or the competitiveness of these labour intensive sectors, has been on a sequential decline. A case in point, the RCA witnessed a significant decline for three of these sectors during 2006 to 2016.

The textile tangle

The $36 billion textile export sector, the third largest foreign exchange earner for the country after petroleum products and gems and jewellery, clocked only 0.75 per cent growth in 2017-18, after a contraction in the past two years. In the last financial year, apparel manufacturing, the largest segment within textiles, registered a decline for the 11th straight month till March 2018.

“These figures indicate an ongoing shrinkage in the industry, which is a cause for concern. The sector currently employs 12.9 million workers, and the ongoing slide has hit several clusters. While India is struggling with the problem of stagnation in exports, countries such as Bangladesh and Vietnam are showing growth in apparel exports," said HKL Magu, chairman, Apparel Export Promotion Council.



Unresolved issues, including the reduction in duty drawback after the imposition of GST and capital blockage due to slow refunds have affected growth estimates, experts said.

"The labour-intensive apparel segment is doing quite badly. This is a very disturbing feature because despite the contraction in the sector, India's exports have grown. Currency has also been a big issue. The rupee was trading at around 68 per US dollar in March and then it came down to sub-64 levels," said Sanjay Jain, chairman, Confederation of Indian Textile Industry.

In fact, GST aftershocks have been felt across sectors.

The $23 billion transport equipment segment saw its growth rate plunging from more than 8 per cent in 2016-17 to 1.31 per cent in 2017-18. According to industry insiders, smaller firms reduced output to avoid defaulting on their loans, which hit the sector.

The GST has also affected the leather sector, where informal business chains have traditionally relied on cash transactions. Also, the crackdown on the cattle trade in Uttar Pradesh, the epicentre of the leather industry, has hit the sector hard.

Gold loses shine

In the gems and jewellery sector, the clampdown on loans by public sector banks following the Nirav Modi scam has affected the sector. "We are awaiting details on the gold policy," a senior functionary from the Gems and Jewellery Export Promotion Council said. The government last year banned the export of gold products with purity above 22 carats, to reduce irregularities in trade.

Source: business-standard.com- May 04, 2018

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Are FTAs termites in the trading system?

Thanks to steep fall in tariffs over the years and complex rules of origin, much of world trade is happening outside of FTAs

Eminent economist Jagdish Bhagwati in his 2008 book, Termites in the Trading System: How Preferential Agreements Undermine Free Trade, lamented how an ever-increasing number of free trade agreements (FTAs) are a threat to the world trading system. Ten years on we must know if the threat has materialised.

But why does Bhagwati consider FTAs to be bad? In an FTA, two or more countries agree to lower import tariffs and other trade barriers on each other's products. Good for them at one level but bad for the overall trade, because of the two effects that take place as a result.

Economists term these trade diversion and trade creation. Trade diversion favours less efficient producers while trade creation stresses local producers. To understand, let us take the example of a shirt.

Let's presume that all shirts are identical and have the same quality and a consumer will buy from the cheapest source. Cost of one shirt sold by the US is ₹1,000 and the EU, ₹1,100. If the import duty in India on the shirt is 20 per cent, cost of one shirt imported from the US will be ₹1,200 and that from the EU, ₹1,320.

Now, since the price of shirts from the US is lower, Indian consumers will prefer to buy them. The game changes if India signs an FTA with the EU and eliminates import duty on shirts from the EU.

So shirts from the EU can now enter India at ₹1100, while shirts from the US will continue to come at ₹1,200. So India will stop buying from the US and start buying from the EU. Notice that shirts from the EU cost more, but duty elimination through the FTA makes them less expensive.

Since the India-EU FTA diverted trade from the more efficient US to less efficient EU producer, the effect is termed trade diversion. Bhagwati considers it bad as the FTA rewards a less efficient producer.

Let us now understand the impact of an FTA on the local industry. Consider the shirt example again. A shirt produced in India sells at ₹1,150. Pre-FTA, no imports will take place as this price is lower than the duty paid price of shirts from the US (₹1,200) and EU (₹1,320).

But position changes after the FTA. Now the shirts from the EU (at ₹1,100 per piece) will cost less than the shirts produced in India (at ₹1,150 per piece). The phenomenon is called trade creation as the FTA created new trade in the form of imports from the EU. Earlier there was none.

Soon imports from the EU will replace locally produced shirts. After some time, Indian shirt makers would shut shop.

Bhagwati called FTAs bad mostly because of trade diversion and trade creation effects. The big question is to what extent these effects distort world trade . The answer lies in finding out how much of the world trade happens through the FTA route.

Not significant

Share of preferential trade

% share of trade with FTA partner countries in global trade (2016 data)

Country/region	Exports	Imports
EU	13.6	13.6
US	45.0	34.1
US (excluding NAFTA)	13.2	8.3
India	19.4	18.1
China	30.1	23.2
ASEAN	31.1	42.1
Japan	20.8	24.1
South Korea	76.9	76.1
Australia	71.1	68.1

Source: The World Integrated Trade Solution (WITS)

Since FTAs allow trade at zero import duty on most products and world over 280-plus FTAs are operational, it is widely believed that most world trade happens through the FTA route. We did a data check and the results surprised us.

Global and bilateral export-import data show that much of world trade takes place outside the FTAs (this excludes intra-EU trade as the EU is an integrated economic entity).

Only 13.6 per cent of EU's exports and imports take place through FTA partner countries. Most of its 41 FTA partners, except South Korea, supply raw-materials and low-end products.

For Japan, only 20.8 per cent exports and 24 per cent imports happen through the 17 FTA partner countries.

ASEAN and China are the centres of the East Asian International Production Network. But only 30.1 per cent of China's exports and 23.2 per cent of imports take place through the FTA partner countries. And for ASEAN, 31.1 per cent of exports and 42.1 per cent of imports takes place through six FTA partner countries.

In the case of India, 19.4 per cent of its exports and 18.1 per cent of its imports takes place through the FTA partner countries. We do not have a full FTA with China yet.

Australia and South Korea are two exceptions where share with FTA countries is high. Australia's 71 per cent and South Korea's 76.9 per cent of exports go to their FTA partner countries.

We also noticed that an FTA does not always lead to increase in share or growth of trade between the partners. North American FTA (NAFTA) signed in 1994 among the US-Canada-Mexico is an example.

NAFTA's share in US trade was 28.9 per cent just before the signing of NAFTA in 1994. Today it is 31.8 per cent. And if we take out the NAFTA, only 13.2 per cent of the US export and 8.3 per cent of its imports come from the remaining 18 FTA partners.

These examples highlight that the share of most countries' trade with their FTA partners is 20-40 per cent of their total global trade. But even most of this trade takes place outside of the FTA.

There are several reasons for this. FTAs lower the import duty, but if it is already zero, FTAs can offer no benefit. And the import duty on products covering about half the world trade is zero, courtesy negotiations at the WTO.

Other reasons for low use of the FTAs are complex rules of origin. Rules of origin impose conditions like minimum value addition that need to be met when an input from a non-FTA partner country is used for making a product.

Taking the trade between FTA partner countries and moderating the figure to count only preferential trade between them, we conclude that about 15-17 per cent of world trade is preferential.

The FTAs, in the early 1990s, became the central part of trade strategy of many countries, which believed that more the FTAs they sign, higher will be their trade.

The tariffs in most countries were high, and no business-relevant decisions were taken at the WTO. Quickly this led to most countries signing FTAs with others. Today we have 284 operational FTAs. And more than 200 FTAs under negotiation.

But we are in different time zone now. Average tariffs have come down from over 100 per cent in pre-1990s to 0-10 per cent now. For most developed countries these are just 2-4 per cent. Any country doing an FTA with them will not gain much market access in most products.

Also, the countries with high tariffs doing FTAs with those with low tariffs end up giving more benefits and market access to the FTA partners. The losses can hardly be balanced by gains in other areas like services or investments.

So while the alarm raised by Bhagwati was real and the FTAs had the potential to damage the multilateral trading system and world trade, they could not. Reason: Most (about 83-85 per cent) world trade takes place outside the FTAs.

Only 15-17 per cent of trade is on preferential terms. But as the US action of increasing the tariffs and China's response shows tariffs are still the central means of regulating imports.

And these should be reduced through the FTAs only when economic benefits can be clearly demonstrated.

Source: thehindubusinessline.com- May 04, 2018

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Suresh Prabhu to open textile summit in Ahmedabad

The Union minister of commerce and industry, Suresh Prabhu, will inaugurate a textile exhibition, Farm to Fashion: Indian Global Textile Summit 2018, on Friday.

The three-day exhibition, organized by the Gujarat Chamber of Commerce and Industry (GCCI) and the Maskati Cloth Merchants Association, will have 3,000 participants from the textile and apparel fraternity. The exhibition is supported by the ministry of textiles and the state government.

At the end of the summit, a white paper on the roadmap for Indian textiles will be submitted to the government, so a single textile policy for the country can be prepared.

Source: timesofindia.com- May 04, 2018

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ATIRA to help cut power consumption in cotton gins

The Ahmedabad Textile Industry's Research Association (ATIRA) is working towards developing a technology to help cotton gins cut their power consumption by up to 40 per cent.

This research and development project, spanning a year, was given to the association for the improvement of cotton ginning by the state government's industries and mines department.

The technology being used in cotton gins currently is over 30 years old and needs to be updated, said RM Sankar, ATIRA's principal scientific officer. He said that the complex ginning machinery has multiple moving parts and the association is working towards reducing the number of these parts to reduce power consumption by up to 40 per cent.

Sankar added that the decrease in moving parts will also reduce the number of spare parts used in the machinery, thus reducing the maintenance cost by close to 40 per cent.

ATIRA researchers are aiming to complete the project within 10 months, according to a leading daily. Besides making machinery maintenance relatively easy, the new upgrade will also help increase production, as per the scientists.

ATIRA officials estimate that the production speed of cotton gins will increase from 70 kg per hour currently to 90 kg per hour after installing the upgraded technology.

Source: fibre2fashion.com- May 03, 2018

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India needs labor reforms

There has been a contraction in the Indian workforce between 2013-14 and 2015-16.About 1.2 million jobs were lost and total employment was down from 483.9 million to 482.7 million.

This ties in with the poor growth in sectors such as exports during this period. Countries with more practical labor laws such as Bangladesh have been growing their share in the global textile market at India's cost.

India is fast losing its competitive edge in exports and enterprises at home are increasingly automating operations. But critical labor reforms are pending.

Companies, even smaller establishments, need to be able to hire and fire, or they will simply stop relying on permanent work-forces.

The crucial labor code on industrial relations—already diluted to pacify labor unions—is now unlikely to see the light of the day. Earlier it was said companies would be allowed to lay off 300 workers without approval but later the level of 100 workers was persisted with.

Instead the concept of a statutory minimum wage could soon become law. As would a universal social security scheme and changes that relate to more benefits for workers without hire-and-fire.

At a time when the economy has been slowing, business enterprises should be allowed to easily hire.

Source: fashionatingworld.com- May 03, 2018

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Cotton seed companies may cut foundation seed output

Cotton Seed companies are likely to cut down on the foundation seed production this kharif season following the Centre's announcement last month to cut seed prices by Rs 60 to Rs 740 per packet for the current year. "Right now the distribution of foundation seeds (parent seeds) is going on. The approach of seed companies now is to reduce production. The exact position will be known only after June end," MG Shembekar, vice president, National Seed Association of India (NSAI) said on Thursday.

Cotton seed producers claim that their production costs have risen by 15-20 % in the past three years, especially since the Bollgard II Bt cotton price was fixed at Rs 800 per packet (450 grams) two years ago. "The main reasons for the production cut are rising production costs, which have gone up by 15-20%, illegal menace of seed sale by the unorganised sector, the pink bollworm attack and approach of farmers towards the cotton crop," Shembekar said. The drop in prices will hurt the industry leaving little margins for growth, he pointed out.

"We had requested the government to raise seed prices after two years of stagnation at Rs 800 a packet (of Bolgard II) to accommodate increasing labour cost, fixed and other costs, including the research and development (R&D). Instead, the government reduced the prices.While the cost of production has gone up by nearly 20 % over the last three years, realisation slumped by 7.5 %.

This will result into lower production and investment capacity for the next season as the distribution of seed packets for the current season is almost over. The decision of the seed companies to reduce production is also likely to impact investment in the development of new geneplasms and hamper introduction of new seed varieties," Shembekar said.

Seed manufacturers normally prepare production and distribution plans of seed packets a year in advance to enable farmers to source high-yielding seed varieties.

The producers have to ensure the packet reaches distributors in North Indian states, such as Punjab and Haryana, by March, for early sowing by the month-end. The country usually produces around 4.5 crore seed packets of 450 grams each for around 80-85 lakh farmers to grow cotton in 122-123 lakh hectares annually.

The price cut was announced by the government at a time when the seed companies had approached it with proposals to hike prices citing rising cost of production.

In an earlier representation to the government, the National Seed Association had requested for enhancement of seed value component of the MSP citing rising cost of production , processing, testing and marketing of seeds.

This leads to financial difficulties to the members and reduce investments in R&D, leading to slowdown of development of new hybrids or varieties , decrease in seed production and ultimately shortage of seeds to farmers, Kalyan Goswami, director general, NSAI had stated in the representation.

Last season, several farmers in Maharashtra, Andhra Pradesh and Telangana reported huge cotton output loss due to pink bollworm attack on the standing crop.

More than one-third of the 42 lakh hectares under cotton in Maharashtra was hit by pink bollworm. Maharashtra requires around 1.6 crore seed packets annually for cotton.

Source: financialexpress.com- May 04, 2018

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Hedge against trade standoff?

Trade tensions have been the focus in 2018, with the US proposal to impose tariffs on $50 billion Chinese imports, followed by the subsequent reciprocal imposition from China on US imports in equal scale, creating near-term volatility in global financial markets.

At the current juncture, the ongoing trade tensions remain well within the realm of negotiation and we see limited economic impact from the resultant trade friction, remaining constructive on equity markets amid healthy economic growth and earnings momentum.

However, investors are likely to rotate into markets relatively less linked to global trade. In our opinion, India is a good hedge against a trade war given a strong domestic economy, lower trade dependency, minimal trade surplus with the US, and a domestic-oriented equity market.

Why India is a hedge against trade standoff?

First, India's macro story is a domestic story. Private consumption contributes about 59% to the country's overall GDP, much higher than its emerging market peers. India's reliance on global trade is also much lower than that of its peers, with exports about 19% of GDP and total trade (exports plus imports) about 41% of GDP.

Over the last one year, amid a synchronised global trade recovery, Indian exports have underperformed its Asian and emerging market peers, underlying the country's relatively lower beta to global trade.

India is a net importer, with approximately 85% of imports. This makes the country an attractive destination for global companies. In addition, the government's recent tax reforms and measures towards ease of doing business further add to its attractiveness.

Second, India's trade surplus with the US is minimal—India's trade surplus with the US was $23 billion in 2017, compared to China's trade surplus of $375 billion. In fact, the US is India's largest export market, but the dependency on this market has fallen over the years, with the US accounting for 15% of India's exports in 2017, down from 20% in 2012.

India's top-three exports to the US (approximately 50% of the total) are jewellery, pharmaceutical products and textiles. And except for the pharmaceutical industry, the other industries are unlikely to face tariffs, given the absence of a relevant US domestic industry.

Third, India's equity exposure to the US is lower than its peers. Indian equity markets derive 7% of its revenue from the US, compared to an average of 10% for the rest of Asia, excluding Japan. India's entire US revenue exposure is concentrated in software and healthcare, and both sectors' business model is already in transition because of US-related measures on outsourcing and FDA regulations, respectively, making them relatively more resilient to further trade friction.

Fourth, India's equity market is domestic-centric. The recent under-performance of Indian equities is largely on domestic worries with concerns regarding the banking sector after fraud allegations, the imposition of capital gains tax on equity, weakening of India's twin deficits, and rising political uncertainty dampening equity sentiment.

India's equity market derives over 60% of its revenue from the domestic market, higher than its peers. Rising disposable income, favourable demographics, and the government's focus on farm, rural and infrastructure sectors will continue to aid domestic consumption and infrastructure sectors.

However, India's trade protectionism, which ranks high globally and has seen some recent increases vis-a-vis import duties across a range of goods, could be a barrier to its trading partners. India ranks second after the US in taking protectionist measures since 2009, and in its latest Union Budget, the government hiked import duty by 10-15% on a range of goods.

Other concerns include a return of US concerns on outsourcing and its impact on Indian software companies and trade tensions resulting in higher-than-anticipated inflation from commodity prices, which could curtail consumption expenditure.

Overall, in our view, India's domestic-oriented economy and equity market with lower trade dependency would help support the country's performance if trade tensions escalate.

Source: financialexpress.com - May 04, 2018

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Prabhu asks DGFT officials to engage more with states to boost exports

Commerce and Industry Minister Suresh Prabhu today asked regional officials of foreign trade division DGFT to engage more with states and identify districts with export potential with a view to promoting foreign shipments.

Addressing regional officers of the Directorate General of Foreign Trade (DGFT) from across the country during a meeting, the minister asked them to act as facilitator and not a regulator, according to a release by the Commerce and Industry Ministry.

The minister also has asked the foreign trade division to set up panels headed by chief secretaries of states to discuss all export promotion related issues and boost the country's shipments.

The minister has asked regional officers to increase engagement with the states to boost exports.

"He urged DGFT to set up a committee headed by the chief secretary of states on all export promotion issues including logistics," the ministry said in a statement.

The minister has stated "that the regional officers have to take their job as a challenge and an opportunity as foreign trade is now a strategic issue for India as it not only benefits the domestic economy but also links the country with global trade," it said.

Further the minister added that officers of DGFT should identify districts with export potential of unique products.

India's exports dipped by 0.66 percent to USD 29.11 billion in March, even as they increased by 9.78 percent for the full 2017-18 fiscal.

Exports aggregated at USD 302.84 billion in 2017-18 as compared to USD 275.85 billion in the previous fiscal.

Source: timesofindia.com - May 03, 2018

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GST Council to decide on easing return filing on Friday

Availing of provision credit by businesses also on agenda

The main item on the agenda for the GST Council meeting on Friday is likely to be the simplification of the return filing system into a single form and a decision on whether businesses can avail of provision credit or not, according to tax analysts.

According to the GST law, the return filing process involves three forms — two of which have been kept in abeyance to ease the compliance process for businesses. The GST Council is to decide on how best to reduce these into a single form.

“Tomorrow’s [Friday] meeting will primarily deal with the revised returns issue,” said Pratik Jain, Indirect Tax Leader, PwC India. “The Sushil Modi-led Group of Ministers met with all the stakeholders over the last one month, such as CII, FICCI, and some select indirect tax experts, and received inputs from them. So that’s what the Council will discuss, which model of return filing to go for,” he added.

So far, there are two models of return filing under consideration, with the key difference between the two being whether businesses can avail of provisional credit when the supplier has not yet filed returns, or if they can only avail of the credit based on the returns filed.

“What we have been waiting to hear is what the Council wants to do regarding provisional credit,” said Archit Gupta, founder and CEO of Cleartax. “Once they put GSTR-2 and GSTR-3 on hold, what is the manner in which they want people to report their purchases and should people continue to claim provisional credit?”

"Right now, there are at least three return forms as prescribed by the law," said M.S. Mani, Partner at Deloitte India. "That three-stage process is going to be brought down to a one-stage process.

The debate over that one-stage process is whether the buyer will be able to take the credit irrespective of the seller's payment of the tax or should the buyer be able to take provisional credit, and later on if the seller does not pay, then the buyer reverses the credit."

'Advantage buyer'

"That is where there is a lot of debate," Mr. Mani added. "To me, it seems that they will settle on a system where the buyer can take the credit even if the seller does not pay, because it is unfair to blame the buyer for the seller's mistakes."

The other issue that could come up for discussion is the revival of the reverse charge mechanism, applicable for registered dealers doing businesses with unregistered dealers.

"There was one provision in the law that when a registered dealer bought from an unregistered dealer, then the registered dealer pays tax on behalf of the unregistered dealer and takes the input tax credit," Mr. Mani explained. "While this was revenue neutral for the buyer, it created a lot of compliance issues for the registered dealers. Therefore, the government kept this in abeyance. After discussion, this is expected to be revived."

Other issues that could come up for discussion include the delay among certain States in rolling out the e-waybill system for intra-state movement of goods.

While the e-waybill system was rolled out across the country for the inter-state movement of goods on April 1, the billing mechanism for the intra-state movement of goods was to be rolled out across States in a phased manner.

As of April 25, 17 States and Union Territories have implemented the system for intra-state movement, but the rest of the country, including manufacturing States such as Maharashtra and Tamil Nadu, have still not done so. The reasons behind the delay of the roll-out by these States could be a topic of discussion during the meeting, according to tax analysts.

Source: thehindu.com - May 03, 2018

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Form GST anti-profiteering authority, weavers demand in Surat

Weavers in Surat want the formation of an Anti-Profiteering Authority under Goods and Services Tax (GST). They claimed that their businesses are not passing the benefits of a reduced tax on them in absence of such an authority, thereby making their units unviable.

As the GST regime got rolled out on July 1, 2017, polyester yarn was subjected to 18% GST.

Later, after a series of representations, the tax was reduced to 12%. Spinners manufacture yarns and sell them to weavers, who claim that the benefit of reduced tax has not been passed on to them.

“There is a provision in GST that if the tax burden on the product is lowered, the seller has to pass on the benefit to the buyer. On the other hand, the cost of yarn has risen by Rs 100-150 per kg or about 35% in past four months. Most of the rise is in just over a month,” said Mayur Golwala, committee member of Federation of Gujarat Weavers Association (FOGWA).

The central government had earlier categorically stated that if the benefit of reduced taxation is not passed on to the buyer, actions can be taken against the sellers under Anti Profiteering Provisions.

But for that Anti Profiteering Authority needs to be created, which is not created so far.

Source: dnaindia.com - May 04, 2018

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Control on cloth output liberalised

A comprehensive short-term policy, which includes adjustments of pattern of production, marketing and excise duty on cotton textiles, was announced by the Commerce Minister, Mr. Dinesh Singh, in the Rajya Sabha to-day [May 1, New Delhi] to relieve the present difficulty faced by the textile industry.

Under the new scheme, the area of control has been reduced from 40 to 25 per cent. The controlled varieties will now consist of dhotis, saris long cloth, shirting and drill made in coarse and lower medium categories. The superfine, fine and higher medium categories have been taken off the control.

A two per cent increase in the ex-mill price of the controlled varieties has been allowed, but this will not affect the consumer price, because it will be absorbed by the reduction in excise duty from 3 paise to 1 ½ paise per square metre and abolition of processing surcharge.

In order to maintain the competitive position of decentralised sector vis-a-vis the mill sector, a corresponding reduction is being made in the processing surcharges applicable to coarse and medium handloom and power-loom cloth.

Source: thehindu.com - May 03, 2018

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Bombay Dyeing to re-enter readymade apparel segment with menswear products

After a long gap, Wadia group's textile company Bombay Dyeing is looking at entering readymade apparel once again with menswear products.

Earlier, it had an apparel brand, Vivaldi, which the company sold to Proline to manage.

"There is a huge demand from southern India for readymade apparel. We will test market it in South and take it to other markets over a period of time," said Aloke Banerjee, chief executive officer for retail at Bombay Dyeing.

The merchandise will be priced below Rs 1,000 apiece.

Currently, Louis Philippe, Allen Solly and other brands of Aditya Birla's Madura Fashion & Lifestyle are market leaders in menswear segment. Raymond has Color Plus, Park Avenue and Parx, and Arvind has brands, such as Arrow, in this segment.

RIL sold its iconic brand Only Vimal earlier to a Chinese company earlier.

Bombay Dyeing was also coming up with bedsheets on which customers can print digital prints like a home printer, Banerjee said. Customers can submit their photos in Bombay Dyeing stores or upload it on the company website. The company will charge charge Rs 1,999 and get it printed in 30 days.

It has started campaigning the new products this month. Banejeree said the company would also enter Central Asia, wherein it will sell its products in multi-brand stores.

The firm is looking at opening 100 franchisee stores this year, mainly in tier II and III cities. It has 200 franchisee stores, 27 company-owned stores and 3,000 multi-brand outlets. The company is growing 30-35 per cent in retail and textile segment, Banejee said.

Source: business-standard.com - May 04, 2018

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