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# IBTEX No. 90 of 2019 May 07, 2019

USD 69.38| EUR 77.79 | GBP 91.05 | JPY 0.63

## Cotton Market

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

| Rs./Bale | Rs./Candy | USD Cent/lb |
|---|---|---|
| 22010 | 46000 | **84.49** |

**Domestic Futures Price (Ex. Warehouse Rajkot), May**

| Rs./Bale | Rs./Candy | USD Cent/lb |
|---|---|---|
| 21880 | 45729 | **83.99** |

**International Futures Price**

| | |
|---|---|
| NY ICE USD Cents/lb (July 2019) | 73.55 |
| ZCE Cotton: Yuan/MT ( September 2019) | 15,345 |
| ZCE Cotton: USD Cents/lb | 102.89 |
| **Cotlook A Index – Physical** | **84.95** |

**Cotton Guide:** The markets are touching new lows - almost a classic instantaneous reaction by the market participants when the news turns out to be bearish. ICE July touched a 8 week low of 73.02 cents/lb. It settled at 73.55 cents/lb with a change of -213 points. Currently while we are writing this report at 8 am, we see the prices are showing a slight upward motion with a figure of 74.12 cent/lb.

The ICE December contract also settled lower with a change of -154 points at 72.91 cents/lb. The volumes were soaring with figures of 49,341 contracts which is almost threefold as compared to the volumes seen on Friday i.e. 16,910 contracts. The open interest increased by 689 contracts to 219,888. The ICE July and December interest increased by 528 and 95 contracts, respectively to 104,520 and 94,863 contracts.

Certified stocks were reported to be 71,509 bales which includes new certs of 2071 bales and decerts of 105 bales.

On the other hand the MCX contracts, were also drastically down. All the MCX contracts showed a change greater than -400 Rs/Bale. The MCX May contract settled at 21,880 Rs/Bale with a change of -420 Rs. The MCX June and MCX July contract settled at 22,100 Rs/Bale and 22,210 Rs/bale with a change of -430 and -480 Rs. Volumes were seen to be fine with figures of 7218 lots.

Cotlook Index A has remained unchanged at 84.95 cents/lb on account of a holiday in the UK. The average prices of Shankar 6 are around 46,000 Rs/Candy. We presume Indian Domestic prices will not decline much as the crop size is expected to be less. According to the recent crop Size revision by Cotton Association of India Yesterday, the figures have been trimmed down even further by 5 lakh bales to 315 lakh Bales. The total arrival figures have also been pegged at 278 lakh Bales.

Meanwhile in the United States for the week ending May 5, around 18% US Cotton crops have been planted, which is an increase by 7% from previous week, and down by 1% from a year ago. It is also down by 1% from the five year average.

We expect both the international and the domestic markets to continue with a bearish trend even today. Crude Oil prices are something that can indirectly lift the cotton market up. WTI Crude has gained almost 2 dollars per barrel and is trading mixed at 62.23 $ per barrel with sanctions on Iran & Venezuela and Trade dispute with China on the other hand.

On the technical front, ICE cotton futures witnessed sharp decline towards lower end of the swing. Prices are below its short term DEMA(9,13)=75.71,76.19 indicating the momentum on the downside. MACD trend following indicator is below its center line suggest the downside reversal in the prices. Immediate support is at 72.33 (intermediate bottom low) and the resistance is at the value zone of 75.71-76.19. Sell on rise strategy is recommended around 75.10-75.30 for the Target of 73/72.30 SL 76.30. MCX COTTON : Sell around 22060-22100 TP : 21800 SL 22200.

**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

## NRF, RILA Denounce Trump's Threat of 25 Percent Tariffs on $525B in Chinese Goods

*A 25 percent tariff on a total of $525 billion of goods imported from China?*

That's exactly what U.S. President Donald Trump threatened on Sunday as he exerted some pressure ahead of upcoming trade talks and escalated political tensions with China.

The threats, per two tweets on Sunday by Pres. Trump–a hike to 25 percent from 10 percent on $200 billion in goods from China by Friday, and 25 percent on another $325 billion in goods currently untaxed–created havoc in the financial markets as investors tried to sort through what the implications will be should those tariffs actually be applied.

On Monday, the U.S. equity markets fell in early morning trading after the opening of the day's trading sessions. The Dow Jones Industrial Average fell by as much as 471 points, but regained some of its earlier losses by noontime, falling instead by 247.20 points.

The Nasdaq Composite Index, which tracks many of the technology stocks of companies that would be impacted by any change in tariffs, fell by as much as 182.15 points in early trading, but regained some ground and instead declined by 87.08 points around noontime trading. Oil prices for Brent crude also slumped 2.1 percent initially in early trading in Asia, bounced back later in midday trading in London, only to slide again on fears that China was thinking about cancelling the next round of trade talks.

Representatives for the two countries are still slated to meet this week to continue the next round of talks. Negotiators from China, led by Vice Premier Liu He, are expected to arrive in Washington on Wednesday.

There's been talk in Washington before Sunday's tweet that the two countries are close to a resolution. Trump said on Friday in the Oval Office that the deal itself was "going along pretty well." A central issue in the negotiations concerned the protection of U.S. intellectual property interests.

According to Trump's two tweets on Sunday, China has been paying tariffs to the U.S. of "25 percent on $50 billion dollars of high tech," and 10 percent on $200 billion of other imported goods. He said the tariffs will go up to 25 percent for the $200 billion in imported goods on Friday. What he also threatened, but for which he didn't provide a timeframe, was the $325 billion of additional goods from China that "remain untaxed, but will be shortly, at a rate of 25 percent."

Trump also said, "These payments are partially responsible for our great economic results." He also gave his reason for upping the ante on tariffs: "The Trade Deal with China continues, but too slowly, as they attempt to renegotiate. No!"

Trump further noted that the tariffs paid to the U.S. "have had little impact on product cost, mostly borne by China."

Two retail industry trade organizations on Sunday were quick to denounce the planned tariff increase, noting that American families are the ones who eventually end up paying for the increases.

Hun Quach, vice president of international trade at the Retail Industry Leaders Association, said, "Tariffs are taxes American families pay–$24 billion and counting. Raising tariffs means raising taxes on millions of American families and inviting further retaliation on American farmers, which jeopardizes domestic jobs. We want President Trump to successfully reach a deal with China that puts a check on anti-competitive behavior. But a deal that increases tariffs on everyday goods will be a loser for middle class families."

Likewise, David French, National Retail Federation's senior vice president for government relations, said in response to Trump's threat: "Tariffs are taxes paid by American businesses and consumers, not by China. A sudden tariff increase with less than a week's notice would severely disrupt U.S. businesses, especially small companies that have limited resources to mitigate the impact."

Source: sourcingjournal.com- May 06, 2019

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# Turkey: Textile Exports Value Decreases while the Amount Increases

Textile exports value decreases while the amount increases. Turkish textile manufacturers were able to earn less compared to the same period of the previous year in the first quarter of the year. In the January-March period of 2019, textile exports declined by 7% on value basis and increased by 3.9% on quantity basis. The export unit value of the ready-to-wear industry declined by 10.1% to 14.4 dollars per kg.

According to Exporters' Associations figures, Turkish textile and raw materials industry was able to reach up to 2.5 billion dollars in exports in the first quarter of 2019 with a 7% shrinkage. On the other hand, ready-to-wear and apparel industry's exports amounted to 4.5 billion dollars with a very small growth rate of 0.1%.

Textile exports, which decreased by 7% in value terms in the first quarter of the year, increased by 3.9% to 583 thousand tons in terms of quantity. The export unit prices of the ready-to-wear industry declined by 10.1% to 14.4 dollars/kg. This shows a market situation in which we earn less by selling more in both industries.

Turkey's total exports increased by 3.3% to 44.6 billion dollars over January-March 2019 period in which textile exports have declined, while apparel exports made no headway.

In light of this data, the share of textiles and raw materials industry in Turkey's total exports, can be observed as decreasing to 5.6% from 6.3% compared to the same period of last year. The share of the ready-to-wear industry in total exports decreased from 10.5% to 10.1%.

**Textile exports value decreases while the amount increases: exports numbers decreased in major markets**

In the first 3 months of the year, the most exported market was the EU region, which covers 28 countries with a share of over 50%, as was the case for many years. However, exports to the largest market with a serious decline of 10.9% was able to reach the value of 1.3 billion dollars.

Exports to African countries, which have a share of 10% in textile exports, were realized as 252 million dollars with a decrease of 2.1%. Another serious decline was the decline of 10.4% in Middle Eastern countries. The export value in this market reached 235 million dollars. The most significant increase in the January-March period was in Asia and Oceania with 5.5%. Exports to this region amounted to 151 million dollars, while the second increase was 1% for the former Eastern Bloc countries.

In January-March 2019, the most textile and raw materials was exported to Italy. Exports to Italy, which has a share of 9.6% in our textile exports, declined by 11.9% to 216 million dollars. Germany, our second market, had a share of 8% in our textile exports; and exports to this country declined by 10.9% to 200 million dollars. Our textile exports to the US, which is in the third place decreased by 3.6%, while our exports to Bulgaria decreased by 19.6%. The only market with a net increase in the first 10 markets was the UK with an increase of 4.8%, while exports to Egypt increased by 0.1%.

The first quarter figures of the ready-to-wear and apparel industries confirm similar decreases. Exports to Germany, the largest market in the industry, decreased by 11.8% to 771 million dollars. Exports to Spain in the second row increased by 5.5% to 570 million dollars. Exports to the UK, which is in the third place, amounted to 464 million dollars, down 3.6%; while exports to the fourth placed Netherlands amounted to 464 million dollars, down by 0.05%.

**Woven fabric is the most important export product of textile**

The most important export product group of the textile industry consists of woven fabrics. In the first quarter of the year, 23% of total textile exports were created by this product. The woven fabric exports decreased by 10.5% to 593.6 million dollars. The second important product group of the sector is yarn with a share of 19.1%.

Yarn exports amounted to 478.6 million dollars with a 3.7% decline in this period. The third product group, the share of knitted fabrics in the total number of textile exports was 15.1%. Exports of knitted fabrics decreased by 5% to 379.3 dollars. Exports of fiber, which has a share of 7% in total textile exports, increased by 13.2% to 176.4 million dollars.

In the first quarter of 2019, knitted garments was the most important export product of ready-to-wear and apparel industries. This product group achieved 2.3 million dollars in exports with a loss of 0.9%.

Exports of woven apparel and accessories in the second row increased by 4.2% to 1.7 billion dollars. In the other ready-made goods group, including home textile products, exports decreased by 9.4% to 464 million dollars.

**Home textile industry also experienced a decline**

Turkey's home textile fabrics exports were valued at 107 million dollars with a 14.9% decline over the same period. In this group, the drapery was in the first place with a share of 70% and achieved a 16.6% decline in exports.

It was followed by upholstery with a 25.4% share and a 3% share of terrycloth. Meanwhile, the home textile industry's finished product exports decreased by 8% to 432 million dollars.

The main product group in home textile exports were towels and cleaning cloths with a share of 34.8%. This product group achieved a value of 150 million dollars with a 6.1% decline in exports. In the second row, the bed linen achieved a value of 110 million dollars with a 5.7% decline in exports.

Turkish textile industry's technical textiles export decreased by 3.9% to 438 million dollars.

According to the Republic of Turkey Central Bank data; the capacity utilization rate of the ready-to-wear and apparel industry was 82.9%; while the capacity utilization rate of the textile industry was around 77% during the January to March of 2019 period.

Source: textilegence.com- May 06, 2019

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# Shares hit by Trump tariff threat to China

Stock markets in China and Europe have been hit after US President Donald Trump threatened new tariffs on China, putting a trade deal in doubt.

He said on Twitter the US would more than double tariffs on $200bn (£152bn) of Chinese goods on Friday and would introduce fresh tariffs.

Recent comments had suggested both sides were nearing a trade deal.

A Chinese delegation is preparing to travel to Washington for negotiations aimed at ending the trade war.

It is not clear whether Beijing's top trade negotiator Vice-Premier Liu He will be part of those negotiations that are due to resume on Wednesday.

- US-China trade war in 300 words
- US and China agree to suspend new tariffs
- The next US-China battleground

"We are currently working on understanding the situation," foreign ministry spokesman Geng Shuang said during a regular news briefing.

Earlier, US media reported that Beijing was considering cancelling the talks. Reports said the Chinese were due to send a 100-person delegation to the negotiations.

## Shares stumble

In China, Hong Kong's Hang Seng index closed 2.9% lower, while the Shanghai Composite tumbled 5.6%.

European stock markets fell in early trading, with the main Paris and Frankfurt indexes down more than 2% by mid-morning. Particularly hard hit were the makers of cars, car parts and steel.

US stock futures pointed to a lower open on Wall Street. Markets in London are closed for a bank holiday.

Michael Hirson, Asia director at Eurasia Group, said: "His [Mr Trump's] move injects major uncertainty into negotiations, which now face a rising risk of an extended impasse - perhaps even through the US presidential election."

**What did Mr Trump say?**

The US president tweeted that tariffs of 10% on certain goods would rise to 25% on Friday, and $325bn of untaxed goods could face 25% duties "shortly".

"The Trade Deal with China continues, but too slowly, as they attempt to renegotiate. No!" he tweeted.

After imposing duties on billions of dollars worth of one another's goods last year, the US and China have been negotiating and in recent weeks, appeared to be close to striking a trade deal.

Last week US Treasury Secretary Steven Mnuchin described talks held in Beijing as "productive".

White House economic adviser Larry Kudlow told Fox News that the president's tweet was a warning.

"The president is, I think, issuing a warning here, that, you know, we bent over backwards earlier, we suspended the 25% tariff to 10 and then we've left it there.

"That may not be forever if the talks don't work out," he said.

**Is the deal over?**

So far, the US has imposed tariffs on $250bn of Chinese goods, having accused the country of unfair trade practices.

Beijing hit back with duties on $110bn of US goods, blaming the US for starting "the largest trade war in economic history".

According to reports, in recent days US officials have become frustrated by China seeking to row back on earlier commitments made over a deal.

Sticking points have included how to enforce a deal, whether and how fast to roll back tariffs already imposed and issues around intellectual property protection.

Tom Orlik, chief economist at Bloomberg Economics, said: "It's possible talks are breaking down, with China offering insufficient concessions, and an increase in tariffs a genuine prospect.

"More likely, in our view, is that this renewed threat is an attempt to extract a few more minor concessions in the final days of talks."

**What will the tariff rise affect?**

Mr Trump's latest move will raise duties on more than 5,000 products made by Chinese producers, ranging from chemicals to textiles and consumer goods.

The US president originally imposed a 10% tariff on these goods in September that was due to rise in January, but postponed this as negotiations advanced.

However, both US and international firms have said they are being harmed by the trade war.
Fears about a further escalation caused a slump in world stock markets towards the end of last year.

The IMF has warned a full-blown trade war would weaken the global economy.

Source: bbc.com- May 06, 2019

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# Trump's tariff threat to China pulls down global commodity prices

Jitters already felt in crude, farm goods and base metals; US aims at heart of chinese economy; Beijing's retaliation could have tailspin effect on global trade

**COMMODITY FUTURE**

| Base Metal(₹Kg) | 6 May, 2019 | % Chg* |
|---|---|---|
| Aluminium | 123 | -0.9 |
| Nickel | 837 | -1.2 |
| Zinc | 218 | -1.0 |
| Gold (₹ 10 gm) spot | 31,508 | 0.9 |
| Silver spot | 36,945 | 1.6 |
| Crude Oil (₹ BBL) | 4,275 | -0.7 |
| Natural Gas (₹ MMBtu) | 177 | -1.1 |
| Cotton (₹ Bales) | 21,930 | -1.7 |
| Ref. Soy Oil (₹ Qtl) | 729 | -0.9 |

*Change over previous day's close
Source: MCX, NCDEX ,IBJA
Compiled by BS Research Bureau

Prices of industrial, farm and energy commodities declined sharply on Monday, amid fears of resumption of the global trade war, after United States president Donald Trump talked of raising tariffs sharply on Chinese goods this week and derailed trade talks between the world's two largest economies. Commodity prices had fallen sharply last Friday as well.

After hitting a month's low of $68.79 a barrel, Brent crude recovered marginally to trade at $69.78 a barrel on Monday. US West Texas Intermediate (WTI) crude futures declined by $1.11 to trade at $60.83 a barrel in the opening session.

Apart from globally traded agricultural goods, industrial commodities, including base metals followed suit and declined by about one per cent on the Shanghai Futures Exchange other global exchanges today.

Precious metals should have risen in view of accelerated global economic risk following trade war fears but that didn't happen.

The increase in tariff by the US hurts China's economy where it hurts most, as it would either make Chinese goods more expensive and, therefore uncompetitive, or force manufacturers in that country to pare factory costs drastically. This, in turn, would have a tailspin effect on global commodities, of which China is the world's largest importer.

Experts, however, believe that commodities with strong fundamentals would bounce back in the near term on investors' shift from overvalued equity markets.

Commodity prices have remained subdued globally for a fairly long time despite strong fundamentals. The fall in energy prices was largely dominated by the US non-farm payroll data released on Friday.

"The renewed fear of a tariff war between the United States and China has created uncertainty in the market again, resulting in a decline in commodity prices," said Naveen Mathur, Director, Anand Rathi Shares and Stockbrokers Ltd.

The fall, which started in the beginning of the month, persists till date on the Multi Commodities Exchange of India (MCX). Crude oil prices have reported a decline of 4.7 per cent so far this month to trade at Rs 4,252 a barrel on Monday. Copper futures for near-month delivery shed 3.8 per cent to Rs 433 a kg.

"With global economies under pressure, the new round of US tariff on China would create more negativity in the market, and would impact consumption. There's a sense among investors that the equity market has been overvalued, and investors could possible shift from stocks equity to safe-haven asset classes. Investors may take a bet in gold and cotton," said Gnanasekar Thiagarajan, Director, Commtrendz Research.

President Trump tweeted on Sunday that his administration would hike tariffs on Chinese goods this week, sparking fears of retaliation by Beijing. Trump's twitter message also indicates talks between the US and China for easing the trade war have got derailed.

If imposed, goods worth $200 billion imported from China to the US would suffer a fresh hike in import duty, raising fears of repercussion on global demand and supply of such goods.

Industrial commodities and textile products. among others are likely to be hit with new US tariffs. In retaliation, China may curb imports of soybean and cotton from the US and buy these items from alternate sources.

"The escalating trade war news is expected to have a negative impact on the base metal complex going forward. Copper and nickel may be exceptions as there is a mismatch between supply and demand favouring price rise. Overall, we expect to see increased volatility going forward," said Pritam Patnaik, Business Head, Reliance Commodities Ltd.

Source: business-standard.com- May 06, 2019

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## Investment growing but at a slower pace: Garment Manufacturers Association in Cambodia (GMAC)

Investment in the garment and footwear sector, one of Cambodia's economic pillars, is growing at a slightly slower pace in 2019 compared to last year, according to an official from the Garment Manufacturers Association in Cambodia (GMAC).

The deceleration is likely the result of the European Union's decision to review Cambodia's Everything-but-arms (EBA) status as well as increases in the sector's minimum wage.

Some investors may start adopting a wait-and-see approach given these factors, Kaing Monika, GMAC deputy secretary-general, told Khmer Times yesterday.

He said the industry is still receiving foreign direct investment (FDI), but that investment growth has decelerated.

"Of course, we are facing a few major internal challenges, but there are also a few external factors that are helping Cambodia," Mr Monika said, bringing up the trade war between the US and China.

"The trade war is a global concern, but it turns out to be in favor of Cambodia as factories need to relocate out of China to avoid possible tariffs."

He said other factors leading firms to relocate out of China are wage increases and an insufficient labour supply, particularly in low-value industries like garment and shoes.

During the first four months of this year, 25 new factories joined the association, compared to about 40 during the same period in 2018. The number of members, including garment, footwear, and travel goods, is now close to 600, he said.

“While garments is still doing ok, the footwear sector is doing better with the local expansion of existing factories. Factories are recruiting more workers,” he said, adding that currently, and in the near future, the best performing sector is travel goods, which enjoys privileges under the US’s Generalised System of Preferences since 2016.

Mr Monika said exports of travel goods to the US under Chapter 42 were up 100 percent in the first two months of the year, compared with the same months in 2018. A total of $111 million were exported, he said.

During the whole of 2017, $186 million worth of travel goods were exported from Cambodia to the US, while in 2018 that number rose sharply to $416 million. Mr Monika said this year it could exceed $600 million.

He pointed out that the Trump administration has not taken any action to review Cambodia’s GSP status, adding that if India loses its own GSP with the US, firms will need to chain their supply chains, which could benefit Cambodia.

India shipped over $300 million worth of goods to the US under Chapter 42 of the GSP in 2018.

“The time period under which President Trump can withdraw GSP for India begins on Monday – so we will see if he follows through or delays the decision, but there is a period of uncertainty that is an opportunity for Cambodia to attract additional sourcing on travel goods, according to GMAC’s lobby firm based in Washington,” he added.

Van Sou Ieng, recently re-appointed as president of GMAC, said during the association’s annual meeting on Saturday that investment in the manufacture of travel goods will see double-digit growth in the next two years.

Source: khmertimeskh.com- May 06, 2019

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# Nepal builds special garment processing zones

Nepal is building garment processing zones and inviting investors to submit applications to install production plants at the zones.

A special economic zone (SEZ) will come up in each of the seven provinces.

The product specific industrial zones are expected to make the production process cost effective and help boost exports of Nepali readymade clothes.

The mandatory export provision has been reduced from 75 per cent to 60 per cent to ensure sustainability of the firms inside the SEZs while 40 per cent of their production will be allowed to be sold in the domestic market.

The country's earnings from readymade garment exports in the eight months of the current fiscal year grew 4.6 per cent compared to the same period of the previous year.

There are 52 readymade garment factories operating in Nepal with an annual production capacity of seven million pieces.

Nepal was shipping 87 per cent of its readymade garment production to the US till 2002. Following a dip in exports to the US, Europe emerged as a major buyer of Nepali readymade garments.

The readymade garment industry collapsed after the Multi Fiber Agreement expired in January 2005, which provided duty-free access for Nepali garments to the US. More than 85 per cent of the garment factories have shut down since then.

Source: fashionatingworld.com- May 06, 2019

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## Pakistan has to speed up work on SEZs

A renowned industrialist, Shahid Abdullah is a Director at the Sapphire Group of Companies. He has played an active role in overseeing the Group's diversification into various businesses such as electricity generation and dairy farming. He is also serving at the Boards of various companies within the Group.

BR Research recently had a sit-down with Shahid to discuss matters pertaining to the country's textile industry, and Sapphire Group's future plans. Below is an edited excerpt of the conversation.

BR Research: How have the business dynamics of the export-oriented textile industry changed ever since the new government came in?

Shahid Abdullah: On the positive side, the relief measures taken by this government offer greater opportunity for the market. Gas and electricity tariffs at $6.5 per MMBTU and 7.5 cents per unit, will provide much needed relief for growth in exports. Backdated refunds are also being cleared. The continuation of these policies is likely to have a positive impact.

The government's shift in focus from non-productive investments to productive investments such as manufacturing is also commendable.

The agriculture sector demands renewed focus. I would encourage immediate attention to cotton crop. The annual production has come down to 10 million bales from 14 million bales in a period of four years. While the discussions relating to the R&D and best practices for revival of agriculture sector are important, effective implementation will be key to success.

BRR: What is your outlook on dollar?

SA: It is an extremely difficult question to answer, as I would really be speculating. So far one can see that Pakistan rupee is weak due to a dual deficit problem that we have today. The IMF program is likely to improve the crises, however, one does not know the terms of IMF; therefore, I cannot comment on this at this point in time. Post IMF program, we are likely have more clarity.

BRR: You mentioned that the reduction in energy tariffs has given a boost to the textile export industry. How long before the boost starts reflecting in export numbers as well?

SA: It will definitely take two to three years for exports to grow. There are several other steps that need be taken to allow the industry to get back on its feet and start export orders.

BRR: But your costs did go down overnight.

SA: The immediate benefit of reduced energy cost is that the previously idle capacity is now operational; this will impact job creation favourably. It is now time to increase capacity and gear for growth.

BRR: So you don't see an immediate impact of these measures on overall exports?

SA: The industry is witnessing positive impacts as it has been able to capture new customers, who have committed new orders, closed garment factories are being revived, and new factories are being considered and setup as the cost of doing business is substantially reduced.

All of the above are necessary for growth. The results can be witnessed, provided we have consistency of policy and measures to give confidence to business community.

BRR: How will the expansion be financed in your opinion? Will it be more equity driven, as interest rates are at a multiyear high?

SA: Export based industry gets loan through LTF, where the interest rates are competitive and conducive for growth. We are pushing the government to increase the financing limit for textile industry.

Furthermore, the subsidized funding is only for imported machinery etc. For textile factories, the main cost these days is land and building. Land is now very expensive in textile clusters of manufacturing. Hence, the government needs to consider extending LTF facility or similar facility for land and buildings as well. This will definitely speed up the setting of new industry and current planned expansions.

BRR: What is Sapphire doing in terms of capacity expansion?

SA: We recently did expansion at our Denim plant to increase capacity from 12 to 16.8 million meters per annum.

BRR: Have there been or will there be any expansions by Sapphire as a result of the steps taken by the current government?

SA: The group's growth suffered for a while. We are now in process of adding capacities after business- friendly policies have been announced by the government. About 70 percent of our turnover is export based; we are confident of further increasing the exports.

BRR: There is an argument that the textile industry of Pakistan is fragmented. Economies of scale and efficiency are both found wanting. Mian Mansha had once pointed out that Pakistan processes around 4800 bales per factory, whereas Australia processes 43000 bales per factory. Do you really think fragmentation is a problem?

SA: Fragmentation is a problem. Scale is an issue for sure. Sapphire as a group has tried to scale up in home textiles and garment production.

The real problem is the lack of focus and research on the agriculture output, especially cotton. If you add one million bales of cotton, it adds a billion dollar of exports. The cotton research institutes are totally redundant. Cotton seeds have become obsolete; there is virtually no R&D being put in cotton crop. We do not follow best practices and the recoveries have gone down.

Our strength is our cotton. Until and unless we improve the recovery and quality of seeds, adopt best practices, increase yields - we will continue to struggle. If we adopt best practices and invest more in R&D, we can increase our cotton produce to 20 million bales.

BRR: What kind of policy measures would you recommend to tackle fragmentation and encourage consolidation within the industry?

SA: Both the larger and smaller capacity textile companies have their inherent strengths, and can coexist. Smaller niche industries complement the requirement of larger industries.

BRR: Don't you think there will be better patronage in case of smaller players coming under the wing of bigger players, in the context of access to finance and latest technology?

SA: It is already happening as exports are growing up. For example, fabric produced by sizeable units is used by smaller units to produce and export garments. This is what has happened across the world as well. It is very difficult for any textile industry to grow without a flourishing SME sector.

BRR: Manmade fiber was tipped to take over cotton based fiber almost a decade ago. Today, big textile importing markets have a larger chunk of fiber based textile. How the industry in Pakistan in general and Sapphire Group in particular is evolving to that reality. Will there be an end to the obsession with cotton?

SA: I have a different view on this, as I firmly believe that Pakistan's inherent strength is its cotton. As far as manmade fibers go, the cost in countries, like China, etc. is substantially lower, and we will always be dependent on imports for such materials. Some units in Pakistan produce manmade fiber, but it will take some time for Pakistan to build capacity.

BRR: Bangladesh has no cotton either, but they have advanced in this segment by leaps and bounds. What stops Pakistan to take the same route even if it takes fiber to be imported?

SA: Garments in Bangladesh did backward integration at the first stage. Koreans came there and trained the workers. Then they had this whole era of Special Economic Zones (SEZs), where everything was done through a one-window operation (with the SEZ CEO reporting to the Prime Minister's office.) SEZs across Pakistan are a prerequisite for development of industry. SEZs should work smoothly, where the industry does not have to worry about any operational glitches.

BRR: The unit price of our value added textile exports have tapered off in the past four to five months. Is it solely because of the rupee depreciation?

SA: The global market has become very competitive, and the unit prices keep on changing. And it varies from one segment to another. The way forward is to focus on value added segment.

BRR: Why the textile industry in Pakistan is so shy of spending on R&D? Is your company engaged in active R&D alone or in collaboration with other big players? There is hardly any presence of textile companies in the intellectual sphere, despite being the leading export earner and one of the leading employment generators.

SA: All big groups do engage in R&D activities, as value added sector cannot thrive without enough R&D investment. The orders that we end up securing from international brands are mostly due to R&D based product collection, presented to the brands.

BRR: Do you think it is time Pakistan's textile exporters start looking for new markets, other than the traditional US and EU markets?

SA: The market is driven by the brands, where you get the pricing. The products may be going to other markets as well, through their distribution channel.

BRR: What is your take on the revised FTA with China? Do you think your concerns have by and large been addressed?

SA: Since FTA is already signed with China, it could give a huge boost to the value-added segment. You may actually see the foreign companies setting up plants here.

BRR: Why haven't the Chinese come already? We have been hearing this story for quite some time now.

SA: For that to happen, the whole procedure has to be made easier and streamlined. The world has moved towards SEZs, and to attract Chinese textile manufacturers, Pakistan has to speed up work on SEZs to make them operational as soon as possible.

BRR: Do our export prices compete with those of China?

SA: If we produce efficiently, we will be more competitive than China because of the labour cost advantage. We are now competing with Bangladesh as well, which was not the case six months ago.

The business model around the world is rapidly changing. The big brands are now looking for one source. Hence, the focus area for Pakistan is the garment capacity, which is not sufficient at present. The global trade of garment is $785 billion with the Chinese share of 38 percent. Even if 1 to 2 percent of Chinese production is shifted to Pakistan, we will gain a lot, both in terms of export revenues and training of human resource.

And if they do not end up coming to Pakistan, they will become our competitors, because they eventually have to shift somewhere. China is already looking to shift its garment industry to its western part.

BRR: Are you actively seeking partnerships with big counterparts in China or elsewhere?

SA: We have sought, but we have not been very successful. This transition must happen so that our human resource benefits and we adopt best practices with much greater R&D focus.

BRR: An ADB study earlier conducted had noticed that the textile industry is not adequately represented. On the one hand there is the Ministry of Textile, TDAP, Commerce and others, while on the other, you have APTMA, PREGMA, hosiery associations and the list goes on. In other countries, there is a central unified body representing the entire industry. What is your view on industry's representation for advocacy?

SA: As far as associations go, presenting the case to the government is one aspect. Associations are for the purpose of setting the roadmap for the industry. Smaller companies cannot afford to invest in research, which is where the role of associations becomes vital. The important thing is to have experts within associations to set roadmaps for key topics such as energy, taxation, agriculture, etc., and the government has to play a leading role in changing the pattern through policy measures.

BRR: Do you see a billion dollar Textile Company in Pakistan in the next four to five years?

SA: You will see a billion dollar textile Group in Pakistan very soon.

BRR: What changes do you suggest in the policy?

SA: The facilitation for creating capacities is the need of the hour.

BRR: What kind of facilitation are we talking about here? The costs have been slashed, refunds being taken care of, SEZs are underway. Don't you think the ball is entirely in the textile industry's court now?

SA: If the SEZ implementation is fast tracked, I totally agree with you that it is the industry's job to work hard and show the results.

BRR: Are you specifically demanding or suggesting anything for the upcoming budget?

SA: Most issues have been taken care of. We would want the clearing of refunds of the exporters to be expedited.

BRR: Moving on, what are Sapphire's ambitions as regards expanding the footprint in the energy chain?

SA: We are planning to put up an LNG Terminal in collaboration with other groups such as Lucky and Halmore. We have a strategic partnership with ExxonMobil in developing a buyers' own LNG terminal.

In the broader scheme, Pakistan has to go for complete deregulation of the energy market, where the most important element is going to be encouraging competition in this sector. Our consortium aims to bring competition in the sector for the benefit of the manufacturing sector and the end consumers, who wish to cut the middlemen for competitive and reliable supplies.

BRR: Are you planning to diversify your business any further from the current set of textile, energy, and dairy?

SA: We will be launching our own brand in the dairy segment, to be started from Lahore. We will start very small, and build it slowly

Source: fp.brecorder.com- May 06, 2019

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# Pakistan making efforts to achieve target of 15 mn cotton bales

The Pakistani Government is making efforts to enhance cotton production and achieve the target of 15 million bales set for next year, according to Abdul Razak Dawood, advisor to the prime minister on commerce, textile, industry and production, and investment, who recently chaired a meeting during his visit to the Cotton Research Institute (CRI) in Punjab's Multan.

Urging farmers to produce contamination-free cotton that would fetch better prices in the international market, Dawood said policies are being revised so that growers do not shift to other crops.

CRI director Saghir Ahmed said high temperature and shortage of water are two main factors that reduced cotton produce.

Duties on raw material imports would be reduced in the upcoming national budget and more relief would be provided to farmers and the business community, Dawood said in the city while addressing a ceremony at the Industrial Estate Area.

Source: fibre2fashion.com- May 07, 2019

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# NATIONAL NEWS

## India, US pledge to boost bilateral trade

India and the US on Monday reiterated commitment to further boost bilateral trade and investments, as US commerce secretary Wilbur Ross met commerce and industry minister Suresh Prabhu here.

However, a source told FE that contentious issues – including India's concern about the extra tariff levied on steel and aluminium supplies and tightening of the US visa regime and the American demand for the removal of control on stent prices and duties on ICT products by New Delhi, apart from easier FDI rules for e-commerce and greater market access – didn't feature in discussion.

But one of the sources said such meetings are not the right platform for the two sides to rake up critical issues; instead these are usually discussed in the trade policy forum meetings, attended by the US Trade Representative's office.

Earlier in the day, after his meeting with finance minister Arun Jaitley, Ross said: "Premature to talk about FDI in e-commerce; will discuss the issue with Suresh Prabhu later." The issue assumes significance amid apprehensions that the draft e-commerce policy favours domestic players and does not provide level-playing field for foreign investors, such as Amazon and Walmart.

Ross is here to attend the 11th Trade Winds Business Forum and Mission hosted by the US Department of Commerce. Representatives of over 100 American companies are visiting India as part of this programme, which started on Monday.

"Both sides expressed satisfaction over the progress during the year 2018, with bilateral trade in Goods and Services registering a growth of 12.6% from $ 126 billion in 2017 to $142 billion in 2018," the commerce ministry said.

Source: financialexpress.com- May 06, 2019

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## Way forward for RCEP: Need to focus on eliminating problems plaguing manufacturing sector and exports

The Regional Comprehensive Economic Partnership (RCEP)—the proposed free trade agreement between 10 ASEAN member states and their six FTA partners, namely India, Australia, China, Japan, New Zealand and South Korea—talks have been under way for over six years now, with over 25 rounds of negotiations between all FTA partner countries.

The 16 member countries have now set a deadline of end-2019 to conclude the negotiations. The trade bloc comprising the ASEAN, Australia, China, India, Japan, South Korea and New Zealand accounts for 25% of global GDP, 30% of global trade, 26% of FDI flows, and 45% of the total population.

From India's point of view, RCEP is critical. RCEP countries account for almost 27% of India's total trade. Exports to RCEP countries account for about 15% of India's total exports, and imports from RCEP countries comprise 35% of India's total imports.

The negotiations, until now, have been fraught with difficulties, with India accused of being 'conservative' in its approach towards tariff negotiations, according to media reports. A final decision on RCEP is expected to come only post-elections under a new government at the Centre.

Both Indian negotiators and the domestic industry have been vocal about their discomfort with respect to opening up of the domestic market to Chinese exports.

This is understandable, given the massive Chinese overcapacity in key manufacturing industries, and major support programmes in the form of financial, non-financial and trade measures for the domestic industry, which give an edge to Chinese producers over other trade partners.

In order to do an independent assessment of the impact of RCEP on the Indian industry, the government has roped in three premier think tanks to prepare the way forward for RCEP negotiations, which is a step in the right direction.

A NITI Aayog note (A Note on Free Trade Agreements and Their Costs, Dr Saraswat, Priya, Ghosh 2018) co-authored by the writers of this article had earlier highlighted that India's combined trade deficit with FTA partners like the ASEAN, Japan and South Korea has almost doubled in the last eight years. India's trade deficit with the RCEP bloc of over $100 billion is almost 64% of its total trade deficit, of which China alone accounts for over 60% of the deficit.

The report also highlighted that the quality of trade has deteriorated under the ASEAN-India FTA. According to the UN's Harmonised system of product classification, products can be grouped into 99 chapters and further into 21 sections like textiles, chemicals, vegetable products, base metals, gems and jewellery, etc (similar to sector classification).

The analysis shows that trade balance has worsened (deficit increased or surplus reduced) for 13 out of 21 sectors. This also includes value-added sectors like chemicals and allied, plastics and rubber, minerals, leather, textiles, gems and jewellery, metals, vehicles, medical instruments and miscellaneous manufactured items. Sectors in which trade deficit has worsened account for about 75% of India's exports to the ASEAN.

Apart from this, we would like to highlight some issues that need consideration of the policymakers and independent agencies undertaking the assessment. First, China's manufacturing surplus and dumping of goods across the world is quite well known. China is the recipient of the highest number of Anti-Dumping Duty (ADD) measures in the world, with 926 ADD measures against it (1995-2017), which amounts to almost a quarter of all ADD measures globally. Most of these measures are concentrated in sectors where China has overcapacity, with more than a quarter of investigations in base metals (272), followed by chemicals (192), machinery and electric equipment (104), and textiles (75).

Concomitantly, China's penetration in the Indian market has been massive. China dominates both in terms of value-added import items as well as labour-intensive industry imports. Overall, India imports almost 20% of its non-oil imports from China. Almost 60% of India's electric machinery imports, 36% of machinery and equipment imports, and 37% of organic chemical imports are from China. Due to its massive overcapacity and financial and non-financial government support, China is able to create a significant edge over its trading partners.

A recent OECD report (2019) highlights that the Chinese aluminium industry received the highest amount of financial and non-financial support (from 2013-17), far ahead of its other global peers.

Against this backdrop, India must have a plan to deal with this massive support that China offers its industries, leading to overcapacity and price undercutting post-RCEP. Therefore, we suggest that appropriate safeguard clauses need to be put in place within RCEP in case injury to domestic industry is found.

A clause on provisional safeguard measures should also be introduced. Within the FTA, provision should be made for safeguard measures to be invoked if a volume or price trigger for the concerned products is reached.

Second, given the current state of Indian industry, phased elimination of tariffs is necessary, especially with respect to some key manufacturing industries that have long gestation periods until they start running on full capacity. An example of this kind of negotiation was the India-Japan FTA where India negotiated for most of its tariff lines under sensitive track (almost 63% under sensitive track, 14% under exclusion). This was in contrast to the ASEAN-India FTA wherein 76% of the tariff lines were opened up for complete duty elimination.

Therefore, at least a 15-25 years' tariff elimination schedule should be negotiated for key sectors like chemicals, metals, automobiles, machinery, food products and textiles, which individually contribute more than 5% to India's manufacturing GDP and employment, respectively. Thus, as suggested, phased elimination of few key manufacturing industries is absolutely essential with respect to China.

Third, policymakers should be cognisant of the use of non- tariff barriers (NTBs) by China. According to reports, even though China has agreed to open almost 92% of their tariff lines, expecting India to reciprocate in the same manner, India's concerns over China's NTBs merit serious attention. China's usage of NTBs like complex product certification process, labelling standards, custom clearance, pre-shipment inspection and import licensing has hindered India's access to their markets. Dealing with NTBs is costly and, therefore, we must factor in this associated barrier before we move ahead with trade pacts, RCEP in particular.

While our negotiators bargain hard for an inclusive and balanced RCEP, domestically we must fiercely focus on eliminating niggles our manufacturing sector and exports are facing. The first phase of 'Make in India' has been promising. We have seen eagerness from foreign companies setting up plants and assembly units in India, bringing in valuable foreign capital and technical know-how.

The next phase may well focus on transforming this initiative to 'Make for India' where the needs of the external market, but more importantly the domestic market, are met through production in India. Not only will this produce meaningful jobs, but also add to India's heft in trade treaties.

These transformational plans will require support in the form of a new industrial policy that creates the necessary incentives for MSMEs to be an active part of this process. These are necessary complements for ensuring maximum leverage out of our trade deals, especially RCEP.

Source: financialexpress.com- May 07, 2019

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## US Commerce Secretary leads business delegation to India for tie ups in multiple sectors

Around 100 corporates from sectors such as aviation, defence, energy, automotive to visit four Indian cities

Top US companies from diverse sectors such as aviation & defence, energy, healthcare, digital services, automotive, consumer goods and agribusiness will be in India this week offering ``fair and reciprocal" business opportunities to their counterparts in the country.

US Secretary for Commerce Wilbur Ross, who is leading the 100-member strong delegation of corporates to India as part of `Trade Winds Indo-Pacific Forum 2019', will also meet Finance Minister Arun Jaitley and Commerce & Industry Minister Suresh Prabhu on Monday to discuss outstanding trade issues and future prospects, a government official said.

Trade Winds Indo-Pacific features a three-day business forum in New Delhi, India, with additional trade mission stops in Ahmedabad, Chennai, Kolkata, Mumbai, Bengaluru, Hyderabad, and Bangladesh.

At each mission stop, attending companies will meet directly with government leaders, market experts, and pre-vetted potential business partners, according to an official release of the US Embassy, New Delhi.

“Our goal at the US Department of Commerce is to use every available resource to ensure fair and reciprocal trade for US businesses selling their products and services all over the world,” said Ross. “Trade Winds is an important component of these efforts.”

The potential for growth in US-India trade is enormous given the size of our economies, said Kenneth Juster, US Ambassador to India. “Exports of US goods and services to India reached $58.9 billion in 2018. I look forward to hearing of future successes from the companies taking part in Trade Winds,” he said.

Source: thehindubusinessline.com- May 06, 2019

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## Industry bodies list key issues for GST Council meet next month

Clarity on anti-profiteering, cross-charge of employee cost among issues that need faster resolution, say experts

Soon a new government will be in place and preparations for the next round of changes in the GST have begun. This exercise will be formalised when the GST Council meets next month.

Suggestions from various industries bodies have started pouring in. Based on them, officials will prepare a detailed note for the new government so that the matter could be taken up by the GST Council immediately.

“The Council is likely to meet before the General Budget, so that its views could be included in the Budget,” a senior Finance Ministry official told BusinessLine.

As of now, industry bodies have listed at least eight issues to be taken up by GST Council on the priority basis. These include lack of clarity in the concept of anti-profiteering, cross charge of employee cost such as salaries, overheads etc, levy of interest on wrong availment of Input Tax Credit (ITC), eligibility to avail ITC depends upon vendor’s compliance which in turn impacts working capital of the assessee, double taxation on ocean freight paid by the importers, ITC on services related to immovable property, beside others.

On anti-profiteering, industry bodies feel that little clarity over the clause has led to confusion over setting of selling prices for goods. The law doesn't clarify how the costs incurred on account of transition from GST to non-GST era are to be factored in. It also doesn’t specify the method of passing on the benefits by loss-making units.

Keeping this in mind, industries have suggested that provisions of the anti-profiteering clause should be elaborated to clarify the method of computing the benefit and mechanism for passing on the said benefit. This shall enable the industry to take up necessary changes wherever required and avoid unnecessary litigation.

Another important issue is cross charge of employee cost such as salaries and overheads. The issue became headline when an Authority for Advance Rulings (AAR) said that activities performed by employees based at corporate office for the branch office located in a different State (distinct person) shall be treated as a supply of service and thus would be subject to the levy of GST. It has also held that value for the purpose of such supply will include the cost of employees. Industry bodies have desired a clarification in this respect stating that employee cost will not be required to be cross charged from branches/ other units operating under a different GSTIN.

Harpreet Singh, Indirect Tax Partner at KPMG, felt that early resolution on issues such as cross charge of employee costs, double taxation on ocean freight, ambiguity on computation of profits for anti-profiteering etc. are some key issues, where early resolution would augur well for the industry. “Issuance of a Master Circular on all key open issues, similar to the one issued under the erstwhile service tax regime, perhaps could be a good idea for further streamlining the new regime,” he said.

Archit Gupta, Founder & CEO of ClearTax, said the new government must focus on stabilising the current GST structure. Changes announced must be notified and implemented within set timelines.

Source: thehindubusinessline.com- May 06, 2019

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## Steps to boost exports, startups part of 100-day program for new govt

Currently, there is a separate wing of logistics, headed by a special secretary in the commerce department

Measures to boost exports and promote start-ups are part of the 100-day programme prepared by the Commerce and Industry Ministry for the new government, an official said.

The new government is expected to assume office by the end of this month.

These proposals would be presented to the new government, the official added.

The ministry has proposed to set up a separate logistics department to be headed by a secretary with a view to enhancing growth of the sector, which is fundamental to boost exports, imports and overall economy.

Extensive coordination among different stakeholders of the logistics sector including roads, railways, shipping, civil aviation, and states is required.

Currently, there is a separate wing of logistics, headed by a special secretary in the commerce department.It has also proposed a new World Trade Organisation (WTO)-compliant export incentive scheme for goods shipments to replace the existing MEIS.

At present, exporters of goods avail incentives under the Merchandise Exports from India Scheme (MEIS). In this, the government provides duty benefits depending on product and country.

Since 2011-12, India's exports have been hovering at around USD 300 billion. During 2018-19, foreign shipments grew by 9 per cent to USD 331 billion.

Promoting exports helps a country to create jobs, boost manufacturing and earn more foreign exchange.

Similarly, the department for promotion of industry and internal trade has prepared a vision document to promote growth of start-ups and steps to further improve ease of doing business to attract both domestic and foreign investments.

During April-December 2018-19, foreign direct investment into India dipped by 7 per cent to USD 33.5 billion.

Source: business-standard.com- May 06, 2019

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## GSP fails to find a mention in India-US talks: Here're key facts from meet

*US Commerce Secretary Wilbur Ross and Suresh Prabhu discuss data localisation and e-commerce norms*

Divergent positions on data localisation and e-commerce norms, price caps on medical devices, and America's tariffs on steel and aluminium figured during Monday's meeting between US Commerce Secretary Wilbur Ross and Commerce and Industry minister Suresh Prabhu.

The hour-long meeting focused on a plethora of US concerns regarding India's stringent position on data and e-commerce, among other issues.

New Delhi has pushed for domestic legislation on both the issues and said no to global talks at the World Trade Organization on digital trade. But Washington DC has taken a strong stance against India's decision to force foreign companies to shift their servers to India, saying it lacked the necessary infrastructure, according to sources.

However, the talks did not touch upon two issues that New Delhi has been keen to resolve. This includes Washington DC axing India's duty-free access to the US market through the Generalised System of Preferences (GSP) trade scheme.

India is the largest beneficiary nation under the GSP, having exported goods worth $5.6 billion to the US in 2017-18. Last week, India — for an unprecedented seventh time — postponed the proposed higher tariffs on high-value goods from Washington, hoping to get a reversal on the US position. Officials argued the government decided to extend the deadline one last time as it awaits a final confirmation from the US, set to come in the form of a presidential decree.

Similarly, the US sanctions on Iran, that has cut off India's access to Iranian crude, found no mention in the talks. The waiver given to India to stop shipments from Iran ended on May 1. Washington DC has clarified it won't discuss the issue bilaterally.

**Trade package hopes**

Instead, both sides made a decision to discuss issues that have been part of a broad trade package, in the works for the past one year, sources said. Representatives have met as many as five times to hammer out a deal that provides an amicable solution to grouses from both sides.

There were repeated comments by US President Donald Trump calling India a 'tariff king', had put the proposal on hold, until now. As part of this, India had earlier hinted it was willing to dismantle its current price cap regime for coronary stents with a trade margin policy. It also suggested it may allow lower duties on import of certain information and communication technologies products such as high-end mobile phone and smart watches from the US.

In return, India on Monday requested waiver from higher tariffs on Indian steel and aluminium exports. Among major trade partners, India had been the only economy to not receive an exemption till now. But later, demands for greater market access for Indian products from sectors like agriculture, automobile, auto components and engineering were incorporated into the dialogue. Total bilateral trade in both goods and services hit $142 billion in 2018, a 12.6 per cent growth from $126 billion in the previous year.

## Issues galore

The talks also took into account the recent fight between the trade partners on ground handling operations at airports.

The US has threatened to prohibit Indian carriers from conducting ground handling in that country in retaliation to India not allowing foreign airlines similar operations in India. The US has sought detailed filing of all ground operations from Indian carriers by July 1.

US concerns on intellectual property right violations was also discussed. On Tuesday, Ross will be speaking at the US Trade Winds Indo-Pacific Business Forum and Mission initiative 2019 in Delhi. After an acrimonious end to 2018, marred by repeated disputes on multiple issues, both sides have also committed to discuss pending problems regularly.

## Key facts from the meet

- Issues not included in the talks
- Washington DC axing India’s duty-free access to the US market through the Generalised System of Preferences trade scheme
- The US sanctions on Iran, after which India's access to the country’s crude has been cut off

**$5.6 billion**: Worth of goods exported to the US in 2017-18. India is the largest beneficiary under the GSP

**$142 billion**: Total bilateral trade in goods and services in 2018, a 12.6% growth from the previous year

Source: business-standard.com- May 07, 2019

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# The exponential growth of organic apparels

Organic apparels have great potential as well and their exports have been slowly but steadily increasing.

With the increase in market awareness, this segment is expected to pick up quickly and grow in a big way. In the current age, global consumers have become nature and health conscious and looking to move away from traditional, chemical products.

Indian organic products have always been a preference by the global markets and there is definitely a huge market out there for organic apparels. There are companies in India which provide even the farm level traceability for their organic apparel products.

In conversation with Pawan Gupta, Founder, Connect2India, who are currently working to onboard more textiles, apparel, garments and customised products exporters as they feel that it's a huge global opportunity.

What are the sectors you're currently focusing on?

The sector Connect2India truly focuses on as a mission is the entirety of the MSME segment. We want to continue to serve the MSMEs on the whole and we're focusing on executing exports of multiple products in order to set an example for various industries that will ease the businesses around the nation regarding the possibility of their product to be globally tradable.

At the moment, we are focusing on Agro, textile and apparels, handicrafts, FMCG, Chemical and Polymers and Metal and Alloys etc. though we have customers from other industry sectors as well.

A good percentage of our current clients are in Agro and Textiles and Apparels sector. The Indian textile and apparel products, including cotton, silk and denim are highly popular worldwide, along with many other products.

What are the opportunities in the textile and apparel sector for Indian SMEs to export?

India is one of the largest exporters of textile and apparel products in the world, with USD 37.74 Billion exports in the year 2017-18. Further, the total value of Yarn, Fabrics and Made-ups exports of the country stood at US$ 14.33 billion during 2017-18.

India's share in the global trade of textiles and apparels is around 5 per cent. The main markets for Indian textile and apparel exports are US, European Union, Parts of Asia, Middle East etc. with Latin America and Africa also building up as significant markets for our products.

India is one of the world's largest producers of Jute, raw cotton, cotton yarn, silk, synthetic fibre and cellulosic fibre etc. This combined with demographics; highly skilled workforce in this sector and friendly export policies, the potential to increase our export of this sector is immense. The industry is getting bigger and better each year and India is currently one of the most preferred sourcing destinations for garments, textiles, accessories and finish.

This is also a sector where huge numbers of SMEs are involved. The SMEs in this segment are already globally competitive, we just need to make them globally aware and globally visible and partner with them for end-to-end export.

In the future, India's apparel exports are expected to increase considerably. Total exports of textiles and apparel are expected to touch US$ 82 billion by 2021 with CAGR of 12.06 per cent and we believe SMEs would contribute a large part of it.

Talk to us about your initiatives in order to increase textiles and apparels export from India?

We are taking a holistic approach. Thanks to our advanced analytics-based integrated trade platform we continuously monitor the global markets for opportunities for our customers and prospective customers. We know for a fact, that the market for textiles and garments is going to grow in the future, presenting a massive opportunity for Indian manufacturers and merchants.

The first step is to bridge the knowledge and information gap and make these SMEs globally aware. We are continuously using our extensive networks to get in touch with SMEs in the said sectors and talking to them about the massive opportunities that are available in the markets for them. Taking advantage of our talented, multi-channel marketing team, we plan on using our social media reach to spread information about the global market opportunities for the textile and garment industry.

We are also working at the grass root level by working with companies who are wholly (100%) owned by smallholder farmers' (through their cluster level cooperatives). These companies are ensuring fair supply chain and we are trying to promote the export of apparel companies directly buying raw materials from these cooperatives. We also highlight these SMEs on our platform, thereby giving them direct global visibility.

How can the garment industry SMEs, take advantage of your platform?

We are an end-to-end platform for global trade; our solution can help garment industry SMEs from getting ready for exports to finding target markets and trade counterparts to actually arranging and executing an order and turning those into repeat and recurring orders.

Our integrated trade platform helps an SME to enter the market. It processes billions of rows of data to come up with useful trade insights and intelligence for specific products, even at the lowest 8 digit HS Code level. In addition, with our advanced date sciences and Machine Learning Algorithms, we are able to make extremely accurate predictive analysis that helps the exporters in making the right decisions regarding market entry at the right time, country selection, trade counterpart selection etc.

It is important for an SME to choose the right market and invest its resources intelligently. On top of it, the SME needs to be intelligently cost-effective, which requires on point awareness of the prevailing prices to play at the best margins.

The SMEs needs to be aware of export duty, import duties in target countries, incentive and drawback schemes, real-time freight rates, standard and specifications requirements, compliance requirements etc. for the destination country. All of these are available on our platform.

What is the process of enabling and empowering these SMEs to start exporting?

To enable SMEs, especially in the said industries, the process needs to begin from the root levels. While the government has been working towards enabling exports, there has to be a change in the mentality of the SMEs as well.

Global trading is perceived to be complex by SMEs, discouraging a huge number of businesses from going global. However, the opportunities are huge out there and in recent times, the ways to make global trade easy and mitigate trade risks have increased as well.

To enable and empower an SME, it is important for the SME to know its potential global markets, which can be done through trade intelligence in the current, digital age.

Secondly, a business should have an adequate global presence to be considered or attract global buyers. A company with none or bad digital footprint is less likely to be considered as the potential supplier. Platforms such as Connect2India help SME with global visibility and our platform value also increases the trust in the SMEs capabilities to deliver.

After this, the SME needs to be export ready and be equipped with proper guidance and tools to communicate and arrange orders globally. Additionally, the execution of orders is the most important aspect of ensuring safer trade. Selecting the right payment terms, incoterms, logistics partners, service providers, financial body, T&Cs plays a vital role.

How vital you think is ‘Global Branding’ for SMEs in global business?

I would say, extreme! As I said earlier, if you don’t have an adequate online footprint, you won’t even be considered by new buyers. Having a good global presence and global visibility is one of the key pre-requisites of going global. An SME could be part of an export initiative in the non-branded, contract and branded exports.

Non-branded exports are more like commodity export where there is no differentiation of positioning. It’s good for a quick start and probably a good short term solution but it’s not sustainable and definitely not strategic. More importantly, non-branded exports are only a part of business growth. To be really able to grow your business globally, there is a need for making your product, your brand a global brand, which also means, ‘Branded-exports’.

This also enables the platform to help in recurring orders and better terms based on our network and our relationship with the overseas buyers.

For industries such as Apparels, Garments and Textiles, the scope of branded exports and global business expansions are huge, people are continuously looking to find ‘their brand’ of apparel & garments, a brand that would be relatively unique for them and suit them in style, and this is a global, upcoming phenomenon. We believe, the first movers today will be the big ones tomorrow.

How are you driving root-level change in this sector?

We’re making SMEs global enterprises, that are a root level change according to us. Only 1% of the SMEs in India participate in global trade. We are enabling SMEs to go global and go big, we’re opening a market that is multiple folds of their current potential market and the chances of realising that potential is immense.

Exporting in this sector is challenging for SMEs because of the number of steps involved but with our integrated trade platform, worldwide network and our trade experts, we are making it easy and effective for SMEs. Overseas buyers in this sector are generally sceptical to work with SMEs and first-time exporters, but with Connect2India as a conduit, they are now happy to work with this segment.

Source: asianage.com- May 06, 2019

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