

**IBTEX No. 143 of 2018**

**July 10, 2018**

USD 68.80 | EUR 80.77 | GBP 91.06 | JPY 0.62

<b>Cotton Market</b>		
<b>Spot Price ( Ex. Gin), 28.50-29 mm</b>		
<b>Rs./Bale</b>	<b>Rs./Candy</b>	<b>USD Cent/lb</b>
22278	46600	86.49
<b>Domestic Futures Price (Ex. Gin), July</b>		
<b>Rs./Bale</b>	<b>Rs./Candy</b>	<b>USD Cent/lb</b>
22730	47546	88.25
<b>International Futures Price</b>		
NY ICE USD Cents/lb ( Dec 2018)		85.36
ZCE Cotton: Yuan/MT ( Jan 2019)		15,650
ZCE Cotton: USD Cents/lb		<b>91.20</b>
<b>Cotlook A Index - Physical</b>		<b>92.85</b>
<p><b>Cotton guide:</b> Spot price of cotton in India remained steady on Monday at around Rs. 46,750-46,800 per candy ex-gin which translates to 86.85 cents per pound with the prevailing exchange rate. Likewise, Punjab J-34 variety remained steady at Rs. 4830 per maund. For the past one week Indian cotton price has been volatile and now moving gradually onto positive trend amid recent increase in the MSP, inadequate ending stock and improved demand.</p> <p>The arrivals are declining considerably and currently below 12K bales a day. Global Trend of Cotton: The ICE December future has advanced in last three trading sessions from 81.60+ cents to 85.50 cents per pound. Draught kind situation in most Texas region and insufficient rain fall over the weekend has not been so supportive for global cotton.</p>		

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Published after the close, was the USDA US Crop Progress report for the week ended July 8th. It showed cotton: 59 percent squaring (5-year average 55 percent); and 21 percent setting bolls (5-year average 15 percent). In the similar lines ZCE Cotton price has also advanced this morning on Tuesday. For detailed report please access Kotak Commodity Research Desk.

**Currency Guide:** Indian rupee has depreciated by 0.1% to trade near 68.8 levels against the US dollar. Rupee is supported by recovery in global equity market despite ongoing trade war worries and concerns about Brexit after resignation of key officials.

The US dollar is also choppy against major currencies as optimism about US economy is countered by Fed's concerns about inverting yield curve and trade war.

However, weighing on rupee is higher crude oil price. Brent crude holds above \$78 per barrel on supply worries. Rupee has seen some recovery after failing to sustain above 69 levels however we do not expect a sustained rise unless crude oil corrects or risk sentiment improves significantly. USDINR may trade in a range of 68.6-69 and bias may be on the upside.

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

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## INTERNATIONAL NEWS

### **Oct. 9 Deadline to Request Exclusions from 25 Percent Tariff on Imports from China**

The Office of the U.S. Trade Representative has set Oct. 9 as the deadline for submitting requests for exclusions from the additional 25 percent tariff being imposed as of July 6 on goods imported from China. This tariff, which affects 818 tariff lines, was levied in response to a Section 301 investigation determination that China's acts, policies, and practices related to technology transfer, intellectual property, and innovation are unreasonable and discriminatory. USTR states that any exclusions granted will be retroactive to July 6 and extend one year after the exclusion determination is published in the Federal Register.

(Click here for ST&R's new web page providing information on the U.S. tariffs imposed under Section 232 and Section 301 as well as the retaliatory tariffs trading partners are levying on U.S. goods.)

Unlike the process for requesting exclusions from the global Section 232 tariffs on steel and aluminum, USTR is allowing any interested person, including trade associations, to submit exclusion requests for the Section 301 tariffs. Each request must include the following information.

- identification of the product in terms of the physical characteristics that distinguish it from other products within the covered eight-digit HTSUS subheading (USTR will not consider requests that identify the product in terms of the identity of the producer, importer, or ultimate consumer; actual or chief use; or trademarks or trade names)
- applicable ten-digit HTSUS number
- annual quantity and value of Chinese-origin product the requester purchased in each of the last three years

In addition, each request should address the following factors.

- whether the product is available only from China and whether a comparable product is available from sources in the U.S. and/or third countries

- whether the additional tariff on the product would cause severe economic harm to the requester or other U.S. interests

- whether the product is strategically important or related to “Made in China 2025” or other Chinese industrial programs

Requesters may also submit information on the ability of U.S. Customs and Border Protection to administer the exclusion.

After an exclusion request is posted interested persons will have 14 days to respond indicating support or opposition. Any replies to such responses will be due within seven days of the close of the response period.

Source: strtrade.com- July 10, 2018

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## **WTO Says Rate of New Trade Restrictions Has Doubled in Less Than a Year**

The trade world is quickly growing more restricted.

So much so, in fact, that the World Trade Organization says new trade restrictive measures from G-20 economies doubled from mid-October to mid-May, compared to the previously comparable period.

In its latest monitoring report on G20 trade measures, WTO director-general Roberto Azevêdo said the findings should be of “real concern” for the international community.

A total of 39 new trade-restrictive measures were applied by G20 economies during the reporting period, including things like increases in tariffs, stricter customs procedures and imposing taxes and duties.

“This equates to an average of almost six restrictive measures per month, which is significantly higher than the three measures recorded during the previous review period,” the WTO report noted.

And the measures have served to ramp up since the reporting period, with the U.S. adding global steel and aluminum tariffs, plus tariffs on China for intellectual property missteps, and the European Union, Canada and Mexico adding their own retaliatory tariffs in response to the U.S. metal tariffs—just to name a few.

The 47 implemented measures aimed at facilitating trade were hardly enough to offset the far more sweeping restrictive ones. The trade coverage, or reach, of the import-restrictive measures is more than 1.5 times larger than it was in the same period between 2017 and 2018, WTO noted.

“The marked increase in new trade restrictive measures among G20 economies should be of real concern to the international community,” Azevêdo said. “Additional trade-restrictive measures have been announced in the weeks since this reporting period and therefore the deterioration in trade relations may be even worse than that recorded here.”

More and more, countries are enlisting the WTO’s aid in settling the disputes they haven’t been able to in round after round of fairly fruitless negotiations.

Initiations of trade remedy investigations represented 49 percent of the trade measures recorded, according to the WTO. This year alone—and within the reporting period—the United States filed a complaint against India for “export related measures,” and against China for measures concerning the protection of intellectual property rights. And just looking at the time between the end of the report and now, India, the EU, Canada, Mexico, Norway and Russia have all filed complaints with the WTO against the United States for its metal tariffs.

“At a juncture where the global economy is finally beginning to generate sustained economic momentum following the global financial crisis, the uncertainty created by a proliferation of trade restrictive actions could place economic recovery in jeopardy,” WTO noted. “The multilateral trading system was built to resolve such problems and it has the tools to do so again. However, further escalation could carry potentially large risks for the system itself.”

Those risks, it appears, have already begun to do their damage.

“This continued escalation poses a serious threat to growth and recovery in all countries, and we are beginning to see this reflected in some forward-looking indicators,” Azevêdo added. “I urge G20 leaders to show restraint in applying new measures and to urgently de-escalate the situation.”

Source: sourcingjournal.com- July 09, 2018

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## **Here’s How USTR Says US Companies Can Avoid Paying Tariffs on Chinese Imports**

The United States and China are locked in a tariff battle that seems to be just beginning, and companies with tariff lines on the target list are already shelling out for the new duties.

For some companies—if they’re able to get through what’s sure to be a long, long line of other similar appeals—they’ll be able to see their goods exempted from the tariffs, provided they meet certain criteria.

On Friday, the U.S. added 25 percent tariffs to 818 Chinese goods, including some machinery used on the fiber and textile making process, as well as molds for footwear machinery. China hit back with a matching \$34 billion in tariffs, but on 545 products, including uncombed cotton and cotton linters from the U.S.

The USTR said the U.S.-targeted tariff lines “contain products identified as benefiting from China’s industrial policies, including the ‘Made in China 2025’ program,” a policy it says “bolsters China’s stated intention of seizing economic leadership in advanced technology.”

As a follow to the official enforcement of the United States’ \$34 billion in tariffs on Chinese imports and China’s in-kind response, the Office of the United States Trade Representative released details Friday on the product exclusion process.

“USTR is providing an opportunity for the public to request exclusion of a particular product from the additional duties to address situations that warrant excluding a particular product within a subheading, but not the tariff subheading as a whole.”

From now until Oct. 9, 2018, companies can file an exclusion request with the USTR for goods that are only available from China, goods subject to new duties that would cause “severe harm” to the requester or other U.S. interests, or goods that are not strategically important to the “Made in China 2025” program.

No further details on what constitutes “severe harm” were made available in the Federal Register notice outlining the criteria and process for requesting exclusion.

If the exclusion is granted, it will apply retroactively to July 6 when the duties were imposed, but will only be effective for one year.

“Because exclusions will be made on a product basis, a particular exclusion will apply to all imports of the product, regardless of whether the importer filed a request. The U.S. Customs and Border Protection will apply the tariff exclusions based on the product,” USTR said.

Source: [sourcingjournal.com](http://sourcingjournal.com)- July 09, 2018

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## **Trade in the Time of Trump: Why Duty Preference is too Important to Ignore**

In today’s environment the opportunity to cut costs, without cheapening the product is too important an opportunity to miss out on.

Today’s apparel companies are certainly facing a slew of difficult choices. The industry is already subject to some of the highest duties charged in the U.S. (as high as 32 percent) for any imported products, and now it’s potentially facing the threat of further punitive tariffs for more than 42 percent of the products they source.

If President Trump carries through on his threat to extend duties to an additional \$200 billion (or more) worth of imports from China, it will be virtually impossible to do so without including apparel and textile products.

More than \$27 billion worth of apparel came into the U.S. from China in 2017, according to OTEXA, and despite the efforts of many brands and



retailers to reduce their dependence on China (China + 1 or 2 or more), it is still the largest supplier by far for most companies. In fact, in certain categories China's dominance is so overwhelming that it's hard to imagine the possibility of replacing the production for the foreseeable future.

As such, the only thing that a trade action of this nature could do is hurt sales at retail, which in turn, could devastate the U.S. economy.

In the U.S., retail sales account for upward of 25 percent of our GDP, so while the Trump administration can insist that punitive duties against China will hurt them more than it hurts us—because they export so much more to us than we do to them—it leaves out the considerable role that retail sales play in our economy.

To protect themselves and mitigate the possible risk; it is time for apparel brands, retailers and importers to take a second look at some of the free trade agreements and preference programs that are in place and unlikely to be threatened by the administration.

While we continue to hear threats that the U.S. will pull out of the North American Free Trade Agreement, which could further harm apparel companies, we don't hear such rhetoric about the Central America Free Trade Agreement, the U.S.-Jordan FTA, Haiti HOPE/HELP, the African Growth and Opportunity Act, or the Egyptian QIZ program.

These free trade agreements and preference programs are unlikely to be derailed by this administration for a variety of reasons, from geo-political concerns to the fact that we maintain a trade surplus with these partners. Both Haiti HOPE/HELP and AGOA do not expire until 2025 and the QIZ's from Egypt never expire, and goods enter the U.S. under the U.S.-Israel FTA.

While these agreements have been in place for some years, many companies have neglected the opportunities, considering the programs too onerous to comply with or not worth the additional effort required to make use of the potential savings. Given the present environment, however, it may be just the right time to reconsider these options.

Savings of up to 32 percent are too valuable right now for companies to overlook, and a strategy that incorporates some usage of duty free programs will be key.

It is time for a strategic analysis of sourcing that fully considers the tariff rates for each product; as well as lead times, fabric sources and delivery requirements.

To start, it's worth looking at the items with the highest duty rates and working backward from there.

Of note: Haiti, AGOA and the U.S.-Jordan FTA don't require the use of regional fabric, and they are not subject to the "yarn forward" rule of origin, so companies may even be able to continue using the same fabrics as what's currently in use and still save the duties.

Yes, there will be additional compliance issues, but none that really add significantly to your burden. U.S. Customs and Border Protection always has the right to request documentation on your imports going back five years, even if you are not claiming preference (duty savings).

So, in reality, a similar level of document verification and retention is required regardless.

It is necessary, however, to fully understand and comply with the rules of origin and other compliance requirements that may vary from program to program and be able to provide the necessary backup documentation.

All in all, this is an excellent time for companies to re-examine their sourcing protocols and consider initiating a more strategic plan.

Source: [sourcingjournal.com](http://sourcingjournal.com)- July 09, 2018

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## **Trade War Causes Price Instability in Cotton and Down the Supply Chain**

Chaotic trade policies and tight markets are resulting in global uncertainty for the cotton sector, according to a new report from the International Cotton Advisory Council (ICAC).

The organization's "Cotton This Month" digest for July said cotton demand is up, especially in Asia and South Asia, but drought conditions in the West Texas region of the U.S., plus the potential of new tariffs on cotton from trading partners like China are "serious concerns" and one of the reasons prices have dropped from a season-high of \$1.02 per pound.

According to the U.S. Department of Agriculture, spot prices averaged 81.98 cents per pound for the week ended June 28. The weekly average was down from 83.34 cents last week, but up from 66.85 cents a year earlier.

ICAC noted that trade relations between the world's largest cotton exporter, the U.S., and the world's largest consumer, China, have been tense. China's 25 percent tariff on U.S. uncombed was scheduled to go into effect on Friday, but it appears to have so far been omitted from the list of targeted tariff lines. Its tariffs came as an immediate response to U.S. tariffs on \$34 billion of Chinese goods that took effect Friday.

"With tariffs against China taking effect, American consumers are one step closer to feeling the full effects of a trade war," National Retail Federation president Matthew Shay said in a statement. "These tariffs will do nothing to protect U.S. jobs, but they will undermine the benefits of tax reform and drive up prices for a wide range of products."

The ICAC price forecast for cotton in 2017-18 is 86 cents per pound. For 2018-19, it is projecting the average price to end between 66 cents and \$1.07 per pound.

While production and consumption are projected to increase in current crop year, higher production will result in world stocks increasing 3 percent to 19.3 million tons, after two years of decreases in global stocks, according to ICAC. Consumption in 2018-19 is projected to grow 5 percent to 27.4 million tons, with production projected to increase to 25.9 million tons.

With consumption expected to outpace production in 2018-19, global stocks are expected to decrease to 17.8 million tons, ICAC added.

Source: sourcingjournal.com- July 09, 2018

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## **Flow of Chinese investment into Uzbek textile sector rises**

The flow of Chinese investment into Uzbekistan's textile industry has registered a rise and has exceeded \$200 million, according to the country's Association of Textile and Clothing and Textile Industries Enterprises, or Uztekstilprom, whose top executives recently met Chinese ambassador to Uzbekistan Jiang Yan.

Uztekstilprom offered the Chinese side information on completed and running projects in which Chinese companies like Jinsheng group, Nanyang Mulanhua, Marjan Investment Group, have participated, Uzbek media outlets reported.

The two sides also discussed bilateral cooperation in the textile sector, expansion of Chinese investment in Uzbekistan and increase in trade turnover between the two countries.

The Chinese side invited representatives of the Uzbek textile sector to participate in the 'Expo China 2018' scheduled in November and the Uzbek side invited the Chinese to take part in 'UzTextile Expo 2018' and 'Uzbekistan Textile Conference' in Tashkent in September.

Source: sourcingjournal.com- July 09, 2018

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## **Vietnam among top five global textile exporters**

Vietnam has made it onto the list of the world's five biggest textile exporters and producers, with textile and garment export turnover hitting 16 billion USD in the first half of 2018, up more than 14 percent year-on-year.

Experts said Vietnam has many opportunities to expand its markets in the field thanks to free trade agreements signed by the country with partners.

The signing of the European Union - Vietnam Free Trade Agreement (EVFTA) in 2018 is hoped to help Vietnam's textile and garment industry make deeper inroads into this market.

BESIDES, the US is likely to increase import tariffs on textiles and garments from China, and this will create favourable conditions for Vietnamese enterprises to expand and increase their export market share to the US - a key market for Vietnam's textile products.

According to Vu Duc Giang, President of the Vietnam Textile and Apparel Association (VITAS), thanks to the world economy in 2018 is expected to achieve higher growth than 2017, and the national macro economy remains stable, the textile industry reported positive results in the last two quarters.

In the period, the production of fabrics from natural yarn was estimated to reach 274.6 million sq.m, a year-on-year rise of 9.7 percent, while the production of synthetic fabrics and clothing were estimated at 525.9 million sq.m, and 2,305 million of clothing units, up 21.1 and 10.4 percent, respectively, over the same period last year, Giang said.

Exports to key markets such as the US, member countries of the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the EU, the Republic of Korea (RoK), China and ASEAN posted stronger growth than the Jan-June period of 2017.

However, Giang said the sector will still face many difficulties in the rest of 2018 and the next few years amid stagnant consumption demand and fierce competition in the global textile market.

Global textile and garment demand is forecast to increase only 1 - 2 percent, he noted.

Another difficulty is that the US and the EU still levy 17.5 percent and 9.6 percent duties on Vietnamese textile products, respectively, while those for other developing countries such Cambodia and Myanmar are zero percent.

Giang said to help textile and garment enterprises boost their exports, VITAS will continue to implement trade promotion programmes and introduce measures to take advantages of opportunities provided by the CPTPP and the EVFTA.

It will coordinate with the Ministry of Industry and Trade to hold training courses on how to respond to the 4th industrial revolution, helping enterprises devise plans to promote sustainable development, Giang added.

Enterprises should focus on training human resources to meet the digitalisation requirements of some stages in production, he noted.

Besides the main export markets such as the US, EU, Japan, and the RoK, Vietnamese textile and garment firms are also focusing on exploiting other markets like China and ASEAN.

In 2017, the garment-textile sector raked in 31.2 billion USD from exports, a year-on-year rise of 10.23 percent.

In the year, Vietnam's garment-textile exports to major markets like the US, the EU, Japan, the RoK and Russia increased by 7.2 percent, 9.23 percent, 6.1 percent, 11.8 percent and 56 percent, respectively.

Source: vietnamplus.vn- July 09, 2018

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## **Bangladesh exporters may face high tariffs**

Bangladesh exporters may face an average tariff of over 40 per cent if the global trade war intensifies. The US would impose average tariffs of 30 per cent vs. seven per cent now); the EU would increase its own average tariffs from three per cent to 35 per cent, Canada from three per cent to 53 per cent, Mexico from almost nil to 60 per cent.

Even a very open trading economy such as Singapore would increase its tariffs from two per cent to 33 per cent. By unilaterally introducing tariffs, a large country not only limits its imports from the rest of the world, but also reduces the price of its imports relative to its exports, thereby benefiting from an improvement in its terms of trade.

These unilateral tariffs can be calculated by estimating the leverage each country has on international markets, depending on whether its trade policies are able to influence international prices.

Tariffs applied on developing countries' exports could rise from three per cent to 37 per cent. But whereas average tariffs affecting countries like Nigeria and Zambia probably would not go above ten per cent, those against Mexico could reach as high as 60 per cent.

Source: fashionatingworld.com- July 09, 2018

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## **APTMA laments duty on cotton imports, urges govt to help increase exports**

The All Pakistan Textile Mills Association (APTMA) Senior Vice Chairman, Zahid Mazhar, while commenting on the issuance of SRO 847(I)/2018 dated 4 July 2018 rescinding the exemption of Customs Duty, Additional Customs Duty and Sales Tax granted by SRO 48(I)/2018 dated January 8, 2018 at 3 per cent, 1 per cent and 5 per cent respectively, and the re-imposing of customs duty and additional customs duty at 3 per cent and 2 per cent on the import of cotton with effect from July 15, 2018 said that this is the last nail in the coffin for the ailing textile industry.

Zahid Mazhar said that as per the final statistics of cotton arrival released by the Pakistan Cotton Ginners Association on 1 May 2018, only 11.58 million bales of 155 kg cotton were produced in the year 2017-18. He further said that 10.73 million bales and 9.79 million bales of 155 kgs of cotton were produced in 2016-17, and 2015-16 respectively. So three seasons in a row cotton crop has been below the target. This contradicts the claim of the cotton Commissioner that Pakistan produces 13 million bales of cotton annually on the basis of which the government has re-imposed custom duty and additional customs duty on the import of cotton.

He said that firstly, the area under cotton cultivation has witnessed a decline over the last few years since a high percentage of cotton growers have shifted to sugar cane. Secondly, the crop of cotton has declined due to the lowest yield of cotton farming achieved specially in Punjab which needs to be addressed on an urgent basis.

Moreover, as per Pakistan Central Cotton Committee's report this year, about 48 per cent of the area where cotton was to be cultivated in Sindh was missed due to scarcity and poor management of water, he added.

He reminded that four years ago, the country had achieved the highest cotton crop of 14.87 million bales. He further said that due to the imposition of customs duty and sales tax on import of raw cotton, import of finished cotton yarn has witnessed a 500 per cent increase in 2016-17 as compared to 2011-12. So this policy, instead of supporting manufacturing of cotton yarns in Pakistan is rather helping the yarn manufacturing industry of other countries competing with us.



He said that due to the high cost of doing business and inadequate supply of raw cotton almost 140 textile mills have already closed their operations resulting in a loss of one million jobs. Furthermore, around 75 to 80 mills are on the verge of closure which will add another 0.5 million to the unemployment figure. He pointed out that due to the closure of about 140 mills and the mills operating below capacity, Pakistan's textile export is suffering a loss of more than \$4 billion per annum which could have been a vital contribution in addressing the problem of the high trade deficit.

Zahid Mazhar said that the trade deficit for the fiscal year 2017-18 is an all-time high at \$36 billion, imports at \$60 billion while exports at around \$23.5 billion. He further said that the current account deficit for the year 2017-18 is at an all-time high at \$18 billion. In addition to the above, the government has to pay \$38.224 billion and Rs15.883 trillion against external and domestic public debt respectively including principal amount and interest in the next seven years.

He added that the cotton crop of the country is far behind the consumption requirement of 15 million bales, for the third consecutive year, as a result, the industry is compelled to import cotton from other countries to meet its annual consumption requirements.

He demanded the caretaker government save the export oriented textile industry and the economy of Pakistan from disaster by immediately withdrawing the imposition of customs duty and additional customs duty on the import of cotton.

He further demanded the government to make serious efforts in increasing the size of the annual cotton crop to 20 million bales following the example of India. This on the one hand will boost the income of the farmers, and on the other hand, reduce the input costs of all the segments of the textile economy which will facilitate high growth of exports.

Source: pakistantoday.com.pk- July 09, 2018

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## Vietnam FTA with EU almost ready

Up to 99 per cent of Vietnamese products exported to the EU would be free of tariffs once the EU-Vietnam Free Trade Agreement (EVFTA) goes into effect. Vietnam's exports to the bloc could rise by as much as four per cent to six per cent a year in the first ten years.

The deal would provide new opportunities for Vietnam to increase exports of clothing, seafood and agricultural products. The products Vietnam could not export before due to high tariffs can now be exported to the EU market with more competitive prices.

The deal would also benefit the EU, increasing the region's income. It provides a big opportunity for European exporters. The EU hopes to finish processing this free trade agreement quickly so that businesses, workers and consumers alike in the EU can reap benefits as soon as possible.

However, signing of the EVFTA can also give rise to several challenges. There will be competitive pressure in the farming and automobile sectors but that's not considered unusual.

The deal is expected to be signed at the end of this year. Vietnam is the second country in the southeast Asian region after Singapore with which the EU has reached a free trade agreement.

Source: fashionatingworld.com- July 09, 2018

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## NATIONAL NEWS

### **India, South Korea agree on early reduction of tariffs on 11 items**

#### ***Korean President says committed to raise ties with New Delhi to the next level***

India and South Korea have agreed to reduce tariffs on 11 items under an early harvest programme signed between the two sides as part of the on-going negotiations for upgrading the existing Comprehensive Economic Partnership Agreement (CEPA).

New Delhi, which is struggling against a growing trade deficit with Korea, managed to keep out certain sensitive items that Seoul had been pushing for such as automobiles, certain grades of steel and some categories of textiles, a government official told BusinessLine.

“The South Koreans had offered to include 17 items in the early harvest programme. India, however, was not keen on some items on the list as early lowering of tariffs on the items could hurt the domestic industry.

The two sides then settled on 11 items,” the official explained.

Addressing a joint business council meeting on Monday, South Korean President Moon Jae-in, who is on a four-day official visit to India, expressed hope that the on-going negotiations for expansion of the bilateral CEPA are concluded soon and stressed that free trade pacts are in the best interest of both India and his country.

“Right now, India and Korea are engaged in two negotiations — one on upgrading the CEPA and the other is the RCEP negotiation (with 14 other members including ASEAN and China).

Expansion (of trade pacts) is in the best interest of people. We hope the negotiations can be concluded soon,” Jae-in said at a meeting organised by industry body FICCI.

## **Growing trade deficit**

India, however, is more careful about expansion because of growing trade deficit with the country since the implementation of the CEPA in January 2010 and has stressed that the CEPA expansion should clearly benefit both countries.

India's trade deficit with South Korea in 2017-18 stood at \$12 billion. While India's exports to South Korea increased insignificantly from \$3.72 billion in 2010-11 to \$4.46 billion in 2017-18, its imports from South Korea jumped from \$10.47 billion in 2010-11 to \$16.36 billion in 2017-18.

Earlier this year, Commerce Secretary Rita Teotia had pointed out to a Korean team that widening trade deficit had aroused concern in many quarters and that for long-term sustainability "we will need to work towards a mutually beneficial and a more balanced trade".

"We are committed to raise Korea's relations with India to the level as those with four major powers around the Korean peninsula. This commitment is embodied in my new southern policy that aims to move beyond economic-cooperation to building prosperous people centric community of peace," he said.

Source: thehindubusinessline.com- July 10, 2018

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## **SGST compensation scheme for textile sector announced**

After a year of waiting, the Gujarat government finally announced a new scheme for the employment-intensive textile sector, under which a part of the SGST (state goods & services tax) will be reimbursed, in lieu of VAT incentives promised in the Textile Policy 2012.

The formal publication of the government resolution (GR) for the textile sector has made it more likely that similar SGST incentives will be announced for other sectors that used to get VAT sops. At present, 2.5% SGST is levied. The textile industry used to get 2.5% of VAT paid.

The state government a high-level committee to set incentives under the GST regime, to compensate for VAT incentives promised under the earlier textile policy.

A committee chaired by the principal secretary of the industries and mines department was constituted to suggest the modalities of the SGST incentives. The committee submitted its recommendations to the government.

After considering the recommendations and the provisions of the GGST Act, 2017 and the GGST Rules, 2017, the government decided to extend SGST incentives in the form of reimbursement under the Gujarat Textiles Policy 2012.

Eligible manufacturing units will be eligible for reimbursement of the aggregate of SGST amount paid through cash ledger against output liability of SGST on sale of eligible products/intermediates.

The reimbursement will be availed on inputs and input services except ITC (input tax credit) of capital goods. The manufacturing unit shall first have to utilize all the ITC available in its credit ledger maintained on the common portal.

Deduction of the incentive amount from the eligible amount granted by the industries commissioner shall be the aggregate of SGST paid through cash ledger against the output liability of SGST on sale of eligible products/intermediates; and SGST ITC of inputs and input services (except ITC of capital goods) used in the production of products/ intermediates sold by the industrial unit within the state and utilized for payment of output SGST liability.

Reimbursement will be made by the industries commissioner on a quarterly basis, or as may be otherwise prescribed.

Source: timesofindia.com- July 10, 2018

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## **No IGST reimbursements under textile policy: Gujarat govt**

Reimbursement of incentives under the Gujarat Textile Policy of 2012 will be limited to sales within the state, and will not cover those made outside, according to the state Industries and Mines Department.

A July 7 General Resolution (GR) of the Department said that units will be eligible to avail of reimbursement only for State Goods and Services Tax (SGST), and it will not include Integrated Goods and Services Tax (IGST), i.e. GST on inter-state sales.

Textile is the first industry for which the incentive has been announced, while amendment of other policies for replacing VAT incentives with SGST is under process, said a senior government official.

So far, eligible textile units were being given Value Added Tax (VAT) incentives. However, following introduction of GST from July 1, last year, the state government had formed a committee to suggest modalities for SGST incentives. After considering its recommendations, the government has decided to extend SGST incentives in the form of reimbursement under the Policy.

"The eligible manufacturing unit will get reimbursement of the aggregate of SGST paid through cash ledger against output liability of SGST on sale of eligible products / intermediates, and eligible SGST ITC (Input Tax Credit) of inputs and input services used in production," the GR states.

The GR also states that the unit shall not be entitled to reimbursement of IGST on inter-state supply, reimbursement of SGST input tax credit utilized for payment of IGST, and reimbursement of IGST input tax credit utilized for SGST payment.

Unlike VAT, where tax was received by the state where goods were manufactured, under GST, the tax goes to the state where goods or services are consumed. The tax collected is divided equally between the state and Centre.

This means units will get 50% of the tax paid on eligible products as reimbursement. In other words, the GR means the state government will refund to eligible textile units part of the tax that comes into its own coffers.

GST expert Monish Bhalla said that large textile process houses would not get any benefit of the policy because of the provision about SGST paid through cash ledger.

"In Ahmedabad, majority of the textile processors do not pay SGST in cash, as they have surplus Input Tax Credit. When tax is not paid in cash, even eligible units will not get any incentives according to the GR," Bhalla said.

He added that the ITC reimbursement is only in case of intra-state supply, which again goes against the ground reality as majority of the large units are either exporting or supplying pan-India.

Meena Kaviya, board member of Association of Apparel Manufacturers and Exporters of Gujarat, welcomed the incentives, but she too said that sops should also be given for sales outside the state.

"Most of the textile sector's sales are outside Gujarat. Orders from organised retailers are from other states," she added.

Textile products were put in the tax bracket of 12 and 18% originally, but majority of the items were moved to GST rate of 5% after several protests.

Source: dnaindia.com- July 10, 2018

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## **Reverse charge' made GST more complex, hit SMEs, and did little to add to tax**

It is true that, with multiple rates of taxation, and even with multiple rates of cesses, the GST introduced on July 1 was nowhere near the ideal GST recommended by tax experts and economists.

And, it did not help that there were huge glitches in the tax filings as a result of which both big and small taxpayers were unable to upload their documents—it is not clear if this was due to the faulty design of the system by the taxman or whether the software firm, Infosys, got it wrong—the finance secretary's latest comments suggest Infosys did not do as good a job as expected.

While a final view on who was to blame requires a more detailed and dispassionate exercise, this newspaper's view has been that while multiple rates were unfortunate, these were unavoidable in a federal set up where so many states were involved in every tax rate and in deciding which commodities should be taxed at what rate.

If this was not bad enough, powerful manufacturing states like Gujarat even pushed for a 1% compensation for CST-removal—and the prime minister was said to be backing this. Yet, this was, correctly, dismissed in the final GST structure.

And, when businesses, large and small, complained about the problems they were facing in the compliance required, several filing requirements were put off from time to time; several of these would have helped invoice-matching, and would therefore have checked tax-avoidance.

But, the GST Council wisely decided that it was more important that business not be unduly disrupted. To be sure, GST has disrupted business, but a lot of this is behind us—no solution on exporters' refunds, though, has been figured out as yet and this remains a big problem area.

During this period, Infosys chairman Nandan Nilekani has come up with another solution to make the process simpler and some version of this is going to be implemented.



Several applications, interestingly, have also been developed to detect tax avoidance—you can enter the GSTIN number and get a status of the GSTN filings made and, in some cases, this can be done by just photographing the bill—in a few months, once GSTN opens its database to invoice queries, you can even know if the tax you paid on that latte has been deposited.

As part of the attempt to make sure all states were on board—despite public protestations by a few state finance ministers, all GST Council decisions have been unanimous—the GST Council also set up smaller groups to do detailed analyses of complex issues.

One such Group of Ministers (GoM) headed by Bihar deputy chief minister Sushil Modi, was asked to look into the ‘reverse charge mechanism’ (RCM) as well as give sops—a lower GST—for payments made digitally, through debit/credit cards, for instance.

It has, rightly, rejected both for now. The RCM requires buyers to pay the GST on behalf of their suppliers if they are small—this, undoubtedly, betters compliance but, given that policing hundreds of suppliers is a chore, it would have resulted in large buyers preferring to deal with larger suppliers that pay GST instead of small ones who do not.

Given that just 5-10% of taxpayers contribute 80-90% of collections, dropping the RCM is a good idea as the hit to SMEs would be large.

Similarly, giving a lower GST rate for digital payments—and that too only up to a certain invoice value—would have further complicated an already complex tax system.

If the government wants to incentivise digital payments, it is much better to give them direct rebates or cash-backs instead of cluttering the GST system.

Source: [financialexpress.com](http://financialexpress.com)- July 10, 2018

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## **Focus on modernising existing businesses, developing new ones: Prabhu**

Union Commerce and Industry Minister Suresh Prabhu on Saturday said the focus of the new industrial policy would be on modernising existing businesses and developing new industries.

He said objective of the new industrial policy would be to align with the future trends of global industry.

"We want to ensure 20 per cent of the \$5 trillion GDP size (expected by 2025) to come from manufacturing. But to reach there, we are working on few strategies," he said.

"The focus would be on developing new industries and it does not mean that we will ignore old industry. We will look to modernise existing businesses," he said.

The government has appointed a parallel committee to review all regulations, he said at an event organised by Indian Chamber of Commerce.

"Idea is to review all regulatory policy; we are removing undue regulations in a big way," Prabhu said.

According to him, the focus should be on both macro and micro development in order to increase the country's GDP.

With this in mind, the government has undertaken a pilot in six districts across five states to push development.

"We want to see how we can increase the GDP of these districts by 3 percent and we have taken the state governments on board. While ease of doing business is being improved nationally unless we do it at the district level, it will not serve the purpose," he added.

Source: business-standard.com- July 07, 2018

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## **SAARC Development Fund plans cross-border e-commerce platform**

To fund start-ups in member states, says CEO

SAARC Development Fund (SDF), the cross-border umbrella financing institution for SAARC member states, is in the process of developing an e-commerce platform to enable seamless trade of goods and services across SAARC member states, a top official said.

It would also fund start-ups, giving a boost to budding entrepreneurs in the region, said Sunil Motiwal, Chief Executive Officer, SDF.

“A proposal to develop a cross-border e-commerce platform, along with a SAARC money card for the common people across the region, is under finalisation,” said Motiwal. The plastic SAARC money card can have denominations of all the currencies in the region.

Summarising the outcome of the recent two-day SAARC Development Fund Partnership Conclave, Motiwal said that the common e-commerce platform has a great potential for enhancing intra-SAARC trade and services.

For instance, consumers of Bangladesh textile – located anywhere in the region – can place orders on the e-commerce platform.

Likewise, a range of commodities, including fruits and vegetables grown in Bhutan, Pakistan and India, can be sold and bought online, which will immensely help the producers and consumers, he said

Currently, only 4 per cent of the total trade of SAARC member states takes place within the region. This can be increased significantly by initiatives such as e-commerce, a booming business across the world, according to Motiwal.

Motiwal said initiatives such as the e-commerce platform, along with the funding of start-ups, found instant support among the international funding organisations.

Source: thehindubusinessline.com- July 10, 2018

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## **A weak rupee won't boost our exports**

***Given the dependency of our exports on imported inputs, a falling rupee is unlikely to help***

A common belief while the rupee depreciates against the dollar is that it would help our exports. This 'weak rupee shall help exports' is shown as a positive over various negatives arising out of falling rupee. There is great attractiveness in this argument supported by textbook economics.

Undervalued or depreciated currency acts as a direct subsidy for exports while acting as a punitive tax on imports. China used the undervaluation of currency as an effective international trade tool for decades. The undervaluation doesn't fall foul with the regional or multilateral agreements in the way export subsidies do.

However, given India's situation, it is doubtful if we can have an effective control on the level of rupee any more given that the central bank's mandate is anchored to inflation control.

Till recently there were calls to depreciate the rupee through direct intervention to help exports. Thankfully the idea is now put on the back-burner as the rupee has slid on its own, mostly due to the factors originating abroad.

In addition, one can never predict an appropriate level. A rupee at the level of 60 against the dollar might be very competitive for services exports, while it may still be dear at 70 for manufacturing sector.

However, a mere weakening of the rupee might not be enough to boost exports, at least not in a significant way when it comes to the manufacturing sector due to three possible phenomena discussed here.

First, India is no longer an isolated market and our exports are tightly linked to imports through twin mechanisms of input import dependence and global value chains.

The inputs for two of our leading exports, petroleum and derived products and gems and jewellery, originate abroad. Crude, rough diamonds, and gold are imported to make these export products.

## Globally linked

A significant part of our non-petroleum, non-jewellery based manufacturing exports are tightly linked to the global value chains. We import various steel products, automobile parts, engineering and electronic components that are processed and assembled before getting exported.

Except raw material, primary forms and agricultural exports, we have few items where the origin is fully Indian. Given this scenario, any depreciation of our currency works both ways. The gain would be only to the extent of value addition that happens in India.

Second, there appears to exist a counter-intuitive effect of weak local currency not helping exports that arises due to the choice of invoicing currency (Gopinath, 2015).

Almost all our exports are invoiced in international currencies such as dollar, euro or pounds. Assume a case where the price of a certain export good is agreed at \$100 for the coming quarter.

The goods are invoiced at this price in dollars for all shipments for the quarter.

If the rupee weakens meanwhile, this invoicing method would lead to windfall profits for unhedged exporters during the period (and commensurate pain if it strengthens), but it does nothing to change the underlying competitiveness.

An item, which was invoiced at \$100 earlier, remains at that level in international markets even after the weakening of rupee, unless the terms are renegotiated between the exporter and buyer for the quarter.

It is seen from the study that the weak exchange rate effect may take up to two years (<http://www.nber.org/papers/w21646.pdf>) to trickle down into the local non-invoicing currency. This time zone while prices are renegotiated is the profit zone for Indian exporters.

The process of renegotiation and adjustments is a medium- to long-term process and therefore we don't see an immediate terms-of-trade advantage despite a fall in the rupee value.

There is no change in the level of attractiveness of sourcing from India for an international buyer. Therefore, it doesn't boost exports in terms of quantity or exports in dollar terms.

Only value of exports in terms of rupee shoots up to the extent of depreciation while the effect lasts.

### **Invoicing woes**

The invoicing of international trade in foreign currency is therefore a disadvantage for us, as it doesn't let our competitiveness improve automatically and immediately upon the depreciation of the rupee.

Unless the exporter consciously uses the windfall to mark down the prices, or uses it to boost productivity, there's not much hope.

However, arising out of the same study, there are further two negatives possible. First, the import costs shoot up almost immediately as the invoicing is done in foreign currency which now needs more rupees to buy. This leads to inflationary pressure arising out of inelastic imports such as crude for a country like India.

Second, it adds to the cost of inputs that go into export products in the value chain, thus eroding margins. There is nothing much we can do about the way the trade invoicing is done in foreign currency.

### **Weak correlation**

Third, there are also doubts about correlation between a weak rupee and manufacturing exports. It was found that a fall in the value of rupee didn't lead to an expected commensurate gain in manufacturing exports during the period 2004-2012

([http://www.nipfp.org.in/media/medialibrary/2013/04/WP\\_2013\\_115.pdf](http://www.nipfp.org.in/media/medialibrary/2013/04/WP_2013_115.pdf)).

This weakness in the correlation between a weakening rupee and increase in manufacturing exports may be an outcome of combination of factors, including the integration into global value chains which makes the exports dependent on imports.

As the sensitivity to exchange movement is faster on imports, and slower on exports, the weak correlation is not a surprise. At least the Indian experience attests to it.

In short, one cannot rely on a weak rupee alone to boost exports. We need to look beyond at structural factors and take a sectoral approach to boost competitiveness if the aim is to improve export performance.

The Centre has taken various steps in this direction, significant among them being the collaboration with the State governments in order to take a micro sectoral approach at the level of clusters and districts.

While the steps produce results, we may discount the expectation of a weak rupee boosting exports.

Source: thehindubusinessline.com- July 10, 2018

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## **GST discount on digital payments deferred**

Ministers' group also recommends provision relating to reverse charge mechanism be deleted

A Group of States' Finance Ministers on Sunday reached a consensus on putting off a GST discount on digital payments for the time being. It also decided to suggest empowering the GST Council to finalise goods for applicability of the Reverse Charge Mechanism (RCM).

“In principle, we support a GST discount in digital payment. However, considering the current revenue situation, it would be better to wait for some more time. Accordingly, we have proposed to defer this proposal,” Sushil Kumar Modi, Chairman of the State Finance Ministers' Group and Deputy Chief Minister of Bihar, told reporters here.

The proposal could be considered after one more year of revenue collection under GST, he added. Modi said one important reason for deferring the proposal is revenue implication of ₹14,000-15,000 crore.

These two recommendations — deferment of the GST discount on digital payment and RCM — will be placed before the 28th meeting of the GST Council, scheduled for July 21.

The proposal for a GST discount on digital payment envisages providing “a concession of 2 per cent in the GST rate on B2C (Business to Consumer) supplies, for which payment is made through digital mode [1 per cent each from the applicable CGST and SGST rates, if the applicable GST rate is 3 per cent or more] subject to a ceiling of ₹100 per transaction.” The scheme, however, will not be available to registered persons paying tax under the composition scheme.

With the incentive, the consumer will be offered two prices: one with normal GST rates for purchases made through cash payment and the other with a rate 2 per cent lower for digital payments. As a result, the consumer will see visible benefits of making payments through the digital mode.

For example, if the GST rate applicable to supply particular goods/services is 18 per cent, and if payment is made through digital means, then the applicable GST rate will be 16 per cent.

### **Reverse charge mechanism**

Earlier in the day, the Group finalised deleting sub-section (4) of section 9 of the CGST Act, 2017, and sub-section (4) of section 5 of the IGST Act, 2017, which prescribe a Reverse Charge Mechanism. “We have recommended omitting the present Section 9(4) and introducing a new Section 9(4), which will permit the government, on the recommendations of the GST Council, to notify a specific class of registered persons and goods who would be covered under the RCM provision,” Modi said, adding that the conditions and the date for levying of RCM will be decided by the council.

RCM is a mechanism where the buyer of the goods or service will have to pay GST, which is otherwise paid by the seller.

The charge is applicable on a registered dealer, if he buys goods from a dealer not registered under GST. However, the receiver of the goods is eligible for input tax credit, while the unregistered dealer is not.



Since introduction of GST, this scheme has generated a lot of debate because of which it was decided in the 22nd meeting of the GST Council, held on October 6, to defer it till March 31, 2018.

It was also decided that the scheme would be reviewed by a committee of experts.

The date for suspension has been extended twice and the new date that has now been fixed is September 30, 2018.

Source: thehindubusinessline.com- July 09, 2018

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